

interim report **1**  
as at March 31,

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## Profile

Boralex Inc. (“Boralex” or the “Corporation”) is one of Canada’s largest and most experienced private corporations in the development and production of renewable energy.

The Corporation currently operates 21 power generation sites with a total installed capacity of 351 megawatts (“MW”). Boralex was a pioneer in the production of renewable energy, which is the core business of almost all of its operations. It has facilities in Québec, the northeastern United States and France, in three different types of electricity generation: **wind** power (7 sites, 108 MW), **hydroelectric** power (7 power stations, 25 MW) and **thermal** power (7 power stations, 218 MW).

Boralex’s growth strategy is based on diversification by segment and by geography, and on its state-of-the-art expertise in the development, acquisition, operation and maintenance of power stations. It employs some 300 highly qualified employees whose energy, talent and innovative spirit constitute its primary asset and assurance of success.

Boralex also holds a 23% interest in the Boralex Power Income Fund (the “Fund”), for which the Corporation manages 10 power stations with a total installed capacity of 190 MW.

Boralex is a public corporation listed on the Toronto Stock Exchange under the ticker symbol BLX. A growth company, it is distinguished by its commitment to the environment and communities, its rigorous asset management and its transparent corporate governance practices.

# Interim Management's Discussion and Analysis 1

as at March 31, 2008

## DESCRIPTION OF BUSINESS

Boralex Inc. ("Boralex" or the "Corporation") is a private electricity producer whose core business is the development and operation of power stations that produce on renewable energy. With nearly 300 employees in Québec, the Northeastern U.S. and France, the Corporation owns and operates 21 power generations sites with a combined total installed capacity of 351 megawatts ("MW").

Boralex is distinguished by its diversified expertise and in-depth experience in three types of power generation:

- In recent years, Boralex has become one of the biggest and most experienced wind power producers in France, where it currently operates seven wind farms, including 68 wind generators, with a total installed capacity of 108 MW. In addition, Boralex is currently developing major wind power projects in Canada, including two wind farms in Québec with a total capacity of 272 MW to be commissioned in 2013, as well as a portfolio of sites in Ontario with a total potential capacity of 90 MW, which the Corporation expects to bring online between 2008 and 2010.
- Boralex has more than 15 years' experience generating **hydroelectric power** and owns seven hydroelectric power stations, of which five are in the U.S. and two in Québec, with a total installed capacity of 25 MW.
- Boralex owns and operates seven **thermal power** stations, with a total installed capacity of 218 MW. The Corporation is North America's largest producer of wood-residue energy, with six thermal power stations located in the U.S. with a combined installed capacity of 204 MW. Furthermore, Boralex operates a 14 MW natural gas cogeneration power station in France.

In addition to its own power stations, Boralex manages ten power stations in Québec and the Northeastern U.S. with a total installed capacity of 190 MW for the Boralex Power Income Fund (the "Fund"), in which it holds a 23% interest.

Boralex's stock, in which Cascades Inc. holds a 34% interest, trades on the Toronto Stock Exchange under the ticker symbol BLX.

## INTRODUCTORY COMMENTS

### GENERAL

This interim management's discussion and analysis ("MD&A") reviews the operating results and cash flows for the three months ended March 31, 2008, compared with the corresponding three-month period ended March 31, 2007, as well as the Corporation's financial position at such dates. It should be read in conjunction with the unaudited interim consolidated financial statements and the accompanying notes contained in this interim report, as well as with the audited consolidated financial statements and accompanying notes in the Corporation's most recent Annual Report, that is, for the fiscal year ended December 31, 2007.

Additional information about the Corporation, including the annual information form, previous annual reports, management's discussion and analysis and interim financial statements, as well as press releases, are issued separately and are also available on the SEDAR website ([www.sedar.com](http://www.sedar.com)).

The consolidated interim financial statements have not been audited or reviewed by the Corporation's external auditors.

In this MD&A, "Boralex" or the "Corporation" means, as applicable, either Boralex Inc. and its subsidiaries and divisions or Boralex Inc. or one of its subsidiaries or divisions, as well as the variable interest entities of which it is the primary beneficiary.

The information contained in this interim MD&A reflects all material events up to May 9, 2008, the date on which the Board of Directors approved the interim financial statements and this MD&A.

Unless otherwise indicated, all financial information contained herein, including tabular amounts, is expressed in Canadian dollars.

### NOTICE CONCERNING FORWARD-LOOKING STATEMENTS

This MD&A is intended to help the reader understand the nature and significance of changes and trends, as well as the risks and uncertainties that may affect Boralex's operating results and financial position. Accordingly, some statements, including those relating to the results and performance for future periods, constitute forward-looking statements based on current forecasts, within the meaning of securities legislation. Forward-looking statements can be identified by the use of words such as "plan", "anticipate", "evaluate", "estimate", "believe", or the negative thereof, and other related expressions. They are based on the expectations, estimates and assumptions of Boralex's management as at May 9, 2008.

Boralex would like to point out that, by their very nature, forward-looking statements involve risks and uncertainties such that its results or the measures it adopts could differ materially from those indicated by or underlying these statements or could have an impact on the degree of realization of a particular projection.

Key factors that may result in material differences between the Corporation's actual results and the projections or expectations set forth in the forward-looking statements include, but are not limited to, the general impact of economic conditions, increases in raw material costs, currency fluctuations, volatility in electricity selling prices, the Corporation's financing capacity, adverse changes in general market and industry conditions, as well as other factors described in *Risks and Uncertainties* in the MD&A contained in the Corporation's Annual Report for the fiscal year ended December 31, 2007. Unless otherwise specified by the Corporation, the forward-looking statements do not take into account the possible impact on its activities of transactions, non-recurring items or exceptional items announced or occurring after the statements were issued.

There can be no assurance as to the materialization of the results, performance or achievements as expressed or implied by the forward-looking statements; readers are cautioned not to place undue reliance on such forward-looking statements. Unless required to do so under applicable securities legislation, Boralex's management assumes no obligation to update or revise forward-looking statements to reflect new information, future events or other changes.

#### COMPLIANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

Unless otherwise indicated, the financial information presented in this MD&A, including tabular amounts, is prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). This MD&A also contains measures that are not recognized performance measures under GAAP. Thus, Boralex uses, for management purposes, earnings before interest, taxes, depreciation and amortization ("EBITDA"), as this method allows management to assess the operating and financial performance of the Corporation's various segments. Moreover, in analyzing changes in its financial position, the Corporation uses cash flows from operations, which is equal to cash flows related to operating activities before change in non-cash working capital items in the consolidated statement of cash flows. Both management and investors use this measure to assess the Corporation's ability to finance its expansion projects from its operating activities.

Please see *Additional Information about Non-GAAP Performance Measures* in this MD&A for a reconciliation between EBITDA and certain line items in Boralex's consolidated statement of earnings.

#### EFFECTIVENESS OF DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

In accordance with Canadian Securities Administrators Multilateral Instrument 52-109, the Corporation has filed certificates signed by the Chief Executive Officer and the Chief Financial officer who, among other things, report on the design of disclosure controls and procedures and the design of internal control over financial reporting.

Management has established and maintained disclosure controls and procedures in order to provide reasonable assurance that material information relating to the Corporation is made known to them in a timely manner. Management, including the Chief Executive Officer and the Chief Financial Officer, assessed the effectiveness of the Corporation's disclosure controls and procedures as at the date of the 2007 Annual Report and is of the view that they are effective. Management also assessed the effectiveness of disclosure controls and procedures as at March 31, 2008, the date of the interim report, to determine whether any changes had been made to internal control over financial reporting since the 2007 year-end, and was unaware of any significant changes to such controls and procedures.

Management is also responsible for the design of the Corporation's internal control over financial reporting in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. Management, including the Chief Executive Officer and the Chief Financial Officer, evaluated the design of the Corporation's internal controls and procedures over financial reporting as of the end of fiscal 2007 and believes the design to be sufficient to provide such reasonable assurance. As at the date of this interim MD&A, management had no knowledge of any change to the Corporation's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Corporation's internal control over financial reporting.

**SEASONAL FACTORS**

	JUNE 30,	SEPTEMBER 30,	DECEMBER 31,	MARCH 31,
(in thousands of dollars, except amounts per share and number of shares)	2007	2007	2007	2008
<b>REVENUES FROM ENERGY SALES</b>				
Wind power stations	4,934	5,974	8,034	10,170
Hydroelectric power stations	2,857	681	2,520	3,790
Wood-residue thermal power stations	22,839	25,688	29,973	34,337
Natural gas thermal power station	1,724	1,933	4,857	6,722
	32,354	34,276	45,384	55,019
<b>EBITDA</b>				
Wind power stations	3,867	4,876	7,020	8,516
Hydroelectric power stations	2,203	(485)	1,640	3,047
Wood-residue thermal power stations	2,709	7,469	10,673	11,083
Natural gas thermal power station	(329)	(219)	714	1,319
Corporate and eliminations	(1,764)	(1,997)	(1,421)	400
	6,686	9,644	18,626	24,365
<b>NET EARNINGS</b>	4,838	1,017	5,913	9,221
per share (basic)	\$0.15	\$0.03	\$0.16	\$0.25
per share (diluted)	\$0.15	\$0.03	\$0.15	\$0.24
Weighted average number of common shares outstanding (basic)	32,526,623	37,454,625	37,454,625	37,566,967

	JUNE 30,	SEPTEMBER 30,	DECEMBER 31,	MARCH 31,
(in thousands of dollars, except amounts per share and number of shares)	2006	2006	2006	2007
<b>REVENUES FROM ENERGY SALES</b>				
Wind power stations	5,191	4,652	7,757	8,268
Hydroelectric power stations	2,693	1,785	2,867	3,079
Wood-residue thermal power stations	11,001	17,986	19,891	33,360
Natural gas thermal power station	1,904	2,220	4,954	6,095
	20,789	26,643	35,469	50,802
<b>EBITDA</b>				
Wind power stations	4,457	4,016	6,782	7,070
Hydroelectric power stations	2,129	815	1,974	2,066
Wood-residue thermal power stations	(2,767)	2,939	1,167	12,175
Natural gas thermal power station	344	236	1,322	2,105
Corporate and eliminations	746	366	715	2,381
	4,909	8,372	11,960	25,797
<b>NET EARNINGS</b>	1,411	1,140	4,636	9,777
per share (basic)	\$0.05	\$0.04	\$0.15	\$0.33
per share (diluted)	\$0.05	\$0.04	\$0.15	\$0.32
Weighted average number of common shares outstanding (basic)	30,038,064	30,049,586	30,049,586	30,061,484

Operations and results for some of the Corporation's power stations are subject to seasonal cycles that vary by segment. Moreover, the impact of seasonal variations differs, depending on whether or not the power stations have power sales agreements.

For the Boralex's 13 power stations that have long-term fixed-price power sales agreements, seasonal cycles mainly affect the volume of power generated. The eight power stations that do not have long-term contracts and that sell their power on the open market in the Northeastern U.S. are more vulnerable to seasonal fluctuations which, in addition to influencing production

volumes, also have an impact on prices obtained in the electricity market. Generally, power consumption increases in the winter and summer, which represent Boralex's first and third quarters. This means that, for those two periods, the power stations that sell on the open market usually have higher average electricity sales prices. Because the wood-residue thermal power stations can control their level of power generation, they generate more power during such high-demand periods. Given this, these power stations perform regular maintenance in the spring or fall, which impacts their operating results for those periods.

Hydroelectric generation depends on water flow, which in Québec and the Northeastern U.S. tends to be at its maximum in spring and generally good in the fall, which represents Boralex's second and fourth quarters. Historically, water flow tends to decrease in winter and summer. Note that Boralex's hydroelectric power stations do not have reservoirs with which they could regulate water flow.

In the wind power segment, where Boralex's activities are currently focused in France, wind conditions are usually more favourable in the winter, which falls during Boralex's first and fourth quarters. However, in winter there is a higher risk of downtime caused by weather conditions, such as icing on high-altitude sites.

The natural gas cogeneration plant's long-term power sales contract with Électricité de France ("EDF") contains a clause that limits electricity prices from April to October. When natural gas

prices are high, the profit margin for this period is not sufficient to offset the ceiling on electricity prices. The cogeneration equipment may therefore be shut down, in which case the Corporation supplies its steam customer from an auxiliary boiler. Accordingly, in the past three fiscal years, the Corporation operated its cogeneration equipment only during the five winter months, which will also be the case in 2008.

Furthermore, Boralex's investment in the Fund is also subject to a seasonal cycle. Around 50% of the Fund's output is hydroelectric and thus subject to the same effects on volumes as Boralex's hydroelectric power stations. However, since all of the Fund's power stations have long-term power sales contracts, they are not subject to a seasonal price cycle. Nevertheless, some of the Fund's power stations receive a premium for power generated from December to March, which typically results in the Fund's increased profitability in the first and fourth quarters.

In short, although Boralex's performance is affected by seasonal cycles, the Corporation attenuates their impact by diversifying its power generation sources. The Corporation is also developing complementary revenue streams in order to increase and secure sales. It participates, for example, in the Renewable Energy Certificates ("RECs") market and the Forward Capacity Market in the Northeastern U.S., as well as in the carbon dioxide ("CO<sub>2</sub>") quota market and green credits in France.

## FINANCIAL HIGHLIGHTS

	THREE-MONTH PERIODS ENDED MARCH 31,	
	2008	2007
<i>(in thousands of dollars, unless otherwise specified)</i>		
<b>REVENUES FROM ENERGY SALES</b>		
Wind power stations	10,170	8,268
Hydroelectric power stations	3,790	3,079
Wood-residue thermal power stations	34,337	33,360
Natural gas thermal power station	6,722	6,095
	<b>55,019</b>	50,802
<b>EBITDA</b>		
Wind power stations	8,516	7,070
Hydroelectric power stations	3,047	2,066
Wood-residue thermal power stations	11,083	12,175
Natural gas thermal power station	1,319	2,105
Corporate and eliminations	400	2,381
	<b>24,365</b>	25,797
<b>NET EARNINGS</b>	<b>9,221</b>	9,777
per share (basic)	<b>\$0.25</b>	\$0.33
per share (diluted)	<b>\$0.24</b>	\$0.32
Weighted average number of common shares outstanding (basic)	<b>37,566,967</b>	30,061,484

**FINANCIAL HIGHLIGHTS (CONTINUED)**

	MARCH 31, 2008	DECEMBER 31, 2007
<b>FINANCIAL POSITION</b>		
Total assets	552,586	514,731
Total debt <sup>(1)</sup>	187,716	175,533
Shareholders' equity	304,921	284,769

(1) Including long-term debt and its current portion.

**ADDITIONAL INFORMATION ABOUT NON-GAAP PERFORMANCE MEASURES**

In order to assess the performance of its assets and reporting segments, Boralex uses EBITDA and cash flows from operations as performance measures. Although EBITDA and cash flows from operations are non-GAAP performance measures, management believes these financial indicators to be widely used by investors to assess operational performance and the ability of a company to generate cash through its operations. Nevertheless,

The following table reconciles EBITDA to net earnings:

	THREE-MONTH PERIODS ENDED MARCH 31,	
(in thousands of dollars)	2008	2007
Net earnings	9,221	9,777
Non-controlling interest	94	57
Income tax expense	5,438	5,433
Financial costs	3,465	4,548
Financial instruments	319	-
Amortization	5,828	5,982
<b>EBITDA</b>	<b>24,365</b>	<b>25,797</b>

Cash flows from operations are equal to cash flows related to operating activities before change in non-cash working capital items. Management and investors use this measure to assess cash flows generated by the Corporation's operations and its ability to finance its expansion from those assets. In light of the seasonal nature of the Corporation's operations and development activities, changes in non-cash working capital balances can vary considerably. Development activities can result in changes

since these measures are not established under GAAP, they may not be comparable to similarly named measures used by other companies.

Investors should not view EBITDA as an alternative measure to, for example, net earnings or as an indicator of operating results or cash flows, or as a parameter for measuring liquidity. In Boralex's consolidated statement of earnings, EBITDA is equal to *Earnings before amortization*.

in accounts payable during the construction period, as well as an initial injection of working capital at project start-up. Trade accounts receivable can also vary significantly when the Corporation qualifies for entry into new renewable energy markets. However, investors should not consider cash flows from operations as an alternative measure to cash flows related to operating activities, a measure consistent with GAAP.

The following table reconciles cash flows from operations to cash flows related to operating activities:

	THREE-MONTH PERIODS ENDED MARCH 31,	
(in thousands of dollars)	2008	2007
Cash flows related to operating activities	15,206	12,897
Change in non-cash working capital items	5,542	7,195
<b>Cash flows from operations</b>	<b>20,748</b>	<b>20,092</b>

## ANALYSIS OF OPERATING RESULTS FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2008

The main favourable and unfavourable variances explaining the change in net earnings between the three-month periods ended March 31, 2008 and 2007 are shown in the following table:

	NET EARNINGS (IN MILLIONS OF \$)	PER SHARE (BASIC) (IN \$)
<b>QUARTER ENDED MARCH 31, 2007</b>	<b>9.8</b>	<b>0.33</b>
Change in EBITDA	(1.4)	(0.05)
Amortization	0.2	0.01
Financial instruments	(0.3)	(0.01)
Financial costs	1.0	0.03
Other	(0.1)	–
Impact of the June 2007 share issue	–	(0.06)
<b>QUARTER ENDED MARCH 31, 2008</b>	<b>9.2</b>	<b>0.25</b>

During the first quarter of fiscal 2008, Boralex generated net earnings of \$9.2 million or \$0.25 per share (\$0.24 diluted), compared with \$9.8 million or \$0.33 per share (\$0.32 diluted) in the corresponding quarter of 2007. As shown in the above table and discussed in greater detail below, the \$0.6 million decline in quarterly net earnings was mainly due to the \$1.4 million decrease in EBITDA. EBITDA was lower in part as a result of the recognition of \$1.0 million in non-recurring revenues in the first quarter of

2007. Furthermore, fluctuations in foreign exchange rates had a \$2.2 million adverse impact on EBITDA. Excluding these last two items, Boralex reported an improvement in operating income, in addition to lower financing costs.

Excluding the previously mentioned items, the \$0.06 decline in earnings per share was attributable to the increase in the weighted average number of shares outstanding resulting from the June 2007 issuance of 7.3 million shares.

### Analysis of Key Variances in Consolidated Revenues from Energy Sales and EBITDA:

(in millions of \$)	REVENUES FROM ENERGY SALES	EBITDA
<b>QUARTER ENDED MARCH 31, 2007</b>	<b>50.8</b>	<b>25.8</b>
Commissioning – La Citadelle	1.2	1.0
Shutdown – Stacyville	(1.9)	(0.2)
Volume	1.8	1.6
Price	2.0	2.0
RECs and green credits	6.1	4.4
CO <sub>2</sub> quotas	–	(0.3)
Translation of self-sustaining operations	(5.1)	(2.2)
Raw material costs	–	(5.4)
Administrative expenses	–	(0.3)
Development expenses	–	(0.4)
Sale of wind power site development rights in 2007	–	(1.0)
Other	0.1	(0.6)
<b>QUARTER ENDED MARCH 31, 2008</b>	<b>55.0</b>	<b>24.4</b>

#### REVENUES FROM ENERGY SALES

For the quarter ended March 31, 2008, revenues from energy sales totalled \$55.0 million, up \$4.2 million or 8% from \$50.8 million for the same quarter of 2007. The fluctuation in exchange rates, primarily between the Canadian and U.S. dollars, had a \$5.1 million adverse impact on revenues from energy sales, without which these revenues would have grown over 18%. All operating segments contributed to revenue growth, particularly the wind power segment, which got a particular boost from the commissioning of its seventh wind farm in summer 2007. The key factors behind the change in consolidated revenues from energy sales for the first quarter of fiscal 2008 were as follows:

- A \$6.1 million increase in revenues from sales of RECs in the Northeastern U.S. and, to a lesser extent, from sales of green credits in France. Wood-residue thermal power stations sold \$10.6 million worth of RECs in the first quarter of 2008, compared with \$5.4 million in the same quarter of the previous year, due to the qualification of two additional power stations for the Connecticut REC program in the second quarter of 2007 and early in 2008: Livermore Falls and Ashland.



- A 2% increase in total power generation to 469,603 MWh in the first quarter of 2008 from 459,111 MWh in the same quarter of 2007. The increase of approximately 5% in the output of existing power stations in the hydroelectric, wind power and wood-residue segments generated \$1.8 million in additional revenues, while the July 2007 commissioning of La Citadelle wind farm contributed an additional \$1.2 million. However, the Stacyville, Maine wood-residue power station was inoperative in the first quarter of 2008, whereas it operated for two months in the first quarter of 2007, which translated into a revenue shortfall of nearly \$1.9 million. This facility is still undergoing strategic analyses with a view to potentially bringing it back online under business conditions more conducive to profitable operations.
- An overall increase in electricity and steam selling prices, which generated \$2.0 million in additional revenues. The U.S. thermal and hydroelectric power stations benefited in particular from a 10% increase (in U.S. dollar terms) in the average selling price on the open market in the Northeastern U.S. compared with the first quarter of 2007. Market prices remained at a slightly higher level than in the fourth quarter of fiscal 2007. Moreover, the Blencques, France natural gas power station also benefited from higher electricity and steam selling prices, as these prices are partially indexed to natural gas prices in France.

Finally, the Corporation recorded \$2.9 million in revenues from capacity premiums, a level in keeping with premiums for the same quarter of the previous year.

#### OTHER REVENUES

Borex earned \$4.6 million in revenues other than revenues from energy sales in the first quarter of 2008, compared with \$6.4 million in the corresponding period of 2007. This \$1.8 million or 28% decline was largely due to the recognition in the first quarter of 2007 of \$1.0 million in non-recurring revenues from the sale of the rights on a wind power site under development in France. In addition, the French natural gas power station did not record any sales of excess CO<sub>2</sub> emission quotas for the quarter, compared with sales totalling \$0.3 million for the corresponding period of 2007. Borex's share in the Fund's earnings was slightly lower, down \$0.2 million despite the Fund's increase in net earnings. The Fund's improvement in net earnings was mainly related to an adjustment in future income taxes related to the taxation of public trusts. Since Borex does not hold units of the Fund directly, but rather shares of a subsidiary of the Fund, the tax adjustments related to this legislative amendment has no impact on its share of the Fund's earnings.

#### EBITDA

Consolidated EBITDA for the first quarter of 2008 was \$24.4 million, compared with \$25.8 million for the same period last year. This \$1.4 million or approximately 5% decrease was mainly due to two items not directly related to operations: the \$2.2 million

unfavourable effect of the fluctuation in exchange rates, which particularly affected the wood-residue segment, and the recognition of \$1.0 million in non-recurring revenues as at March 31, 2007, as discussed in *Other revenues*. In addition, it is worth noting that for the three-month period ended March 31, 2007, Borex earned \$1.6 million in revenues from RECs issued in 2006 but sold in the first quarter of 2007 at a time when the market was rebounding. Excluding these three items, EBITDA would have grown approximately \$3.4 million or approximately 13%.

Growth in quarterly EBITDA was influenced by the following key favourable factors:

- A \$6.1 million increase in sales of RECs and green credits, contributing an additional \$4.4 million in consolidated EBITDA, primarily from the wood-residue segment. The \$1.7 million difference between the revenues and EBITDA generated by the RECs stemmed from the expenses incurred by the Ashland power station, recently qualified for the Connecticut REC program, to transport its electricity into the NEPOOL grid. Although the sale of RECs by the Ashland power station is relatively less profitable than such sales by our Stratton and Livermore Falls facilities, this transaction improves the bottom line nonetheless. Borex's management believes that the Ashland power station could develop certain alternatives to reduce its transmission costs.
- The increase in total power generation had a \$2.4 million favourable effect on EBITDA, of which \$1.6 million was attributable to existing power stations. Furthermore, the commissioning of La Citadelle wind farm readily offset the cost of maintaining the Stacyville wood-residue power station inoperative.
- The increase in average electricity prices had a \$2.0 million direct favourable effect on consolidated EBITDA for the quarter.

However, excluding the effect of the fluctuation in exchange rates and the sale of wind power site development rights as at March 31, 2007, the key factors that had an adverse effect on consolidated EBITDA were as follows:

- A \$5.4 million increase in raw material costs, of which \$3.8 million was attributable to the wood-residue segment. This segment was hit by price increases in the three-month period ended March 31, 2007 due to increased transportation costs caused by rising prices for oil and oil derivatives, and the use of higher quality forest residues stemming partly from the Corporation's strategy to step up output at its power stations. However, in the first quarter of 2008, forest residue prices were virtually unchanged from the fourth quarter of 2007, increasing less than 1%. Furthermore, the thermal power station in France incurred a \$1.6 million increase in raw material costs, for procurement of natural gas.
- The increase in the Corporation's development initiatives in Europe and Canada dampened EBITDA by \$0.4 million.

- Administrative expenses were up \$0.3 million due in particular to new hires to carry out a number of the Corporation's development projects and a rise in stock-based compensation expense resulting from the increase in Boralex's share price.
- The aforementioned \$0.3 million revenue shortfall on the sale of excess CO<sub>2</sub> emission quotas by the natural gas power station in France had an equivalent adverse effect on EBITDA.
- Among the other unfavourable factors, the increase in variable compensation resulting from the higher profitability of certain power stations in 2008 and the slight decline in Boralex's share of the Fund's earnings.

(A more detailed analysis of changes in revenue and EBITDA for each segment is presented in *Analysis of Segmented Results for the Three-Month Period Ended March 31, 2008*.)

#### AMORTIZATION, FINANCIAL INSTRUMENTS, FINANCING COSTS AND EARNINGS BEFORE INCOME TAXES

Amortization expense in the first quarter of 2008 totalled \$5.8 million, compared with \$6.0 million in the corresponding quarter of 2007. This slight decline was mainly due to the favorable effect of the fluctuation in exchange rates on the amortization of assets in the U.S. and Europe. The foreign exchange effect readily offset the additional amortization resulting from the Corporation's recent investments, including the commissioning of its La Citadelle site and the other investments in 2007.

Financing expenses totalled \$3.5 million, compared with \$4.5 million for the same quarter in 2007. This 22% decline resulted from the decrease in interest paid on the line of credit subsequent to the June 2007 repayment of said line of credit from the proceeds of the share issuance, coupled with the collection of interest income on the excess cash resources arising from said issuance. These two items largely offset the additional interest on the debt contracted in 2007 to commission the La Citadelle wind farm.

The \$0.3 million loss on financial instruments recorded by Boralex consisted mainly of the ineffective portion of the financial electricity swaps for the period. It should be noted that all of these swaps qualify for hedge accounting and are highly effective for managing exposure to electricity market prices.

As a result, Boralex recorded \$14.8 million in earnings before income taxes for the first quarter of 2008, compared with \$15.3 million for the same period in 2007.

#### INCOME TAX EXPENSE

Boralex's income tax expense, amounting to \$5.4 million, was unchanged for the first quarters of 2008 and 2007. The effective tax rate was 36.9% in the first quarter of 2008, compared with 35.6% for the corresponding period of 2007. This rate increase stems from the greater share of taxable revenues in the U.S. where the tax rate is higher.

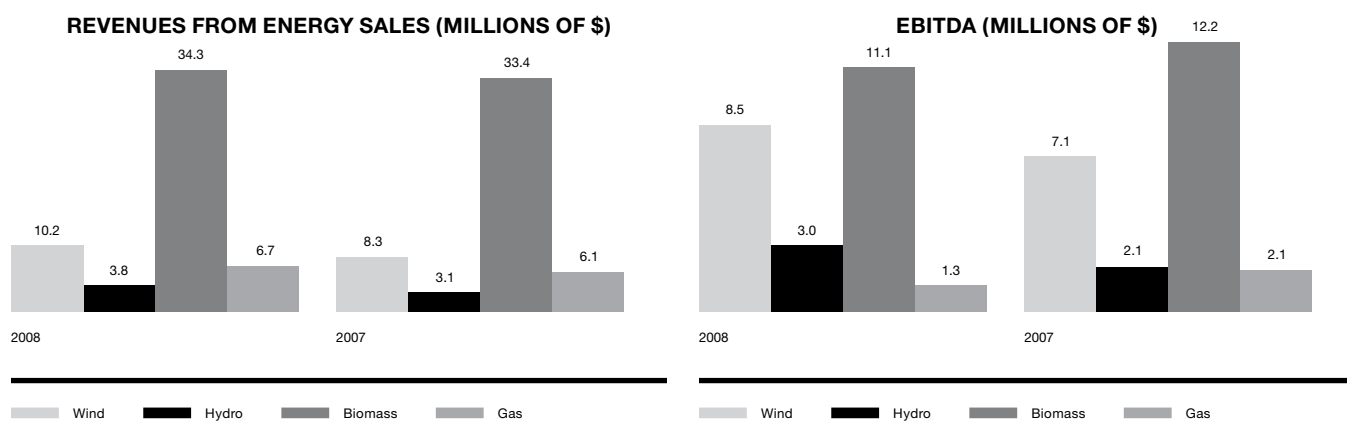
Taking all jurisdictions into account, Boralex's combined statutory income tax rate should be approximately 35%. However, since the ratio of dividends included in the Fund's distributions varies according to the amounts of U.S. dollar cash resources that the Fund repatriates to Canada to fund its distributions, and since the dividends received from the Fund are not taxable for Boralex, the Corporation's consolidated income tax rate can vary significantly.

#### NET EARNINGS

In light of the foregoing, Boralex ended the first quarter of fiscal 2008 with \$9.2 million in net earnings or \$0.25 per share (\$0.24 diluted), compared with \$9.8 million or \$0.33 per share (\$0.32 diluted) for the corresponding quarter of 2007. The weighted average number of shares outstanding was 37.6 million for the quarter, compared with 30.1 million for the same period in 2007, due to the June 7, 2007 issuance.

In short, excluding the non-recurring item in 2007 and the fluctuation in exchange rates, Boralex reported earnings growth for the first quarter of 2008. Despite the pressure on its EBITDA from the rise in raw material costs, the key drivers behind the Corporation's performance were as follows:

- The strength of the REC market, supported by three of the wood-residue power stations in the first quarter of 2008, compared with a single power station in 2007;
- Higher electricity and steam selling prices;
- The improved productivity of the existing wind farms, hydroelectric power stations and wood-residue power stations; and
- The commissioning of a seventh wind farm in France.

**ANALYSIS OF SEGMENTED RESULTS FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2008**
**BREAKDOWN BY SEGMENT**


During the first quarter of fiscal 2008, the contribution of the La Citadelle wind farm, coupled with productivity gains at the existing wind farms, increased the wind power segment's share of consolidated revenues to 18.5% from 16.3% for the corresponding period of 2007. The hydroelectric segment also stepped up its contribution, as more favourable water flow conditions and higher selling prices pushed up its share to 6.9% for the quarter, from 6.1% for the same period in 2007. Conversely, despite the REC sales increase and the higher selling prices at the wood-residue power stations, the wind power segments' share of consolidated revenues decreased to 62.4% from 65.7% due to the unfavourable impact of the currency fluctuation and due to the fact that the Stacyville power station was inoperative so far this year. The contribution of the natural gas power station held relatively steady at approximately 12%.

In light of the same factors outlined above, the wind power segment's contribution as a percentage of consolidated EBITDA (excluding the corporate and eliminations segment) increased to 35.5% for the quarter from 30.2% for the same period in 2007, while the hydroelectric segment's contribution grew to 12.7% from 8.8% over the same horizon. Conversely, the wood-residue segment's contribution decreased to 46.3% for the quarter from 52.0% for the same period in 2007. Excluding earnings growth from the wind power and hydroelectric segments, the decrease in wood-residue share of earnings was due in particular to the higher raw material costs and the adverse impact of the fluctuation in exchange rates. Rising natural gas prices also played a role in reducing the EBITDA contribution of the French thermal power station to 5.5% for the quarter from 9.0% for the corresponding period of 2007.

**WIND POWER STATIONS**
**Analysis of Key Variances in Revenues from Energy Sales and EBITDA:**

(in millions of \$)	REVENUES FROM ENERGY SALES	EBITDA
<b>QUARTER ENDED MARCH 31, 2007</b>	<b>8.3</b>	<b>7.1</b>
Commissioning – La Citadelle	1.2	1.0
Volume	0.6	0.6
Price	0.1	0.1
Green credits	0.2	0.2
Translation of self-sustaining operations	(0.2)	(0.2)
Other	–	(0.3)
<b>QUARTER ENDED MARCH 31, 2008</b>	<b>10.2</b>	<b>8.5</b>

During the first quarter of fiscal 2008, the wind power segment's revenues from electricity sales rose \$1.9 million or 23% to \$10.2 million. The segment generated 75,822 MWh of electricity over the quarter, compared with 61,976 MWh during the same period in 2007, a 22% increase responsible for \$1.8 million in

additional revenues. The key source behind this increase was the July 18, 2007 commissioning of the La Citadelle wind farm, which drove an additional \$1.2 million in revenues for the quarter. Moreover, substantially all of the existing wind power stations increased their output in the first quarter of 2008, compared

with the same period in 2007, as a result of generally favourable wind conditions and equipment availability. This productivity gain generated \$0.6 million in additional revenues. Lastly, wind power revenue growth was also driven by \$0.2 million in green credit sales and \$0.1 million from the indexation of electricity selling prices. However, the fluctuation of the Canadian dollar against the euro had a \$0.2 million adverse effect on the wind power segment revenues.

EBITDA for the wind power segment grew \$1.4 million, or 20%, to \$8.5 million for the first quarter of 2008. The wind power segment's margin of EBITDA versus total revenues was 83.3% for the quarter (85.5% for the same period in 2007), compared with an overall EBITDA margin of 43.6% for the quarter (46.1% for the same period of 2007) for all of Boralex's segments (excluding the corporate and eliminations segment). The increase in the wind power segment's EBITDA in the first quarter of 2008 was mainly due to the commissioning of the La Citadelle power station and productivity gains at the existing power stations, which boosted EBITDA by \$1.0 million and \$0.6 million, respectively. The combined effect of electricity price indexing and green credit sales generated

an additional \$0.3 million. All of these positive factors offset the \$0.2 million adverse effect of the fluctuation in exchange rates and the increase in certain expenses, such as taxes and rents.

By the end of the first quarter of fiscal 2008, work to increase the installed capacity of the Avignonet-Lauragais wind farm by 5 MW was nearly completed. The new equipment was commercially commissioned on April 1, 2008. In addition, while continuing to promote development in France, Boralex is currently working on major wind power development projects in Canada. On May 5, 2008, the consortium consisting of the Corporation and its partners bid on Hydro-Québec's call for proposals for the implementation of 2,000 MW of wind power capacity in Québec and was selected for two wind farm projects with a total capacity of 272 MW to be commissioned in 2013. The Corporation also holds the development rights on a portfolio of wind power sites in Ontario with a potential total capacity of 90 MW, which it expects to bring online between 2008 and 2010. (For further details on the wind power projects, please refer to *Significant Subsequent Event and Outlook* in this interim MD&A.)

#### HYDROELECTRIC POWER STATIONS

##### Analysis of Key Variances in Revenues from Energy Sales and EBITDA:

(in millions of \$)	REVENUES FROM ENERGY SALES	EBITDA
<b>QUARTER ENDED MARCH 31, 2007</b>	<b>3.1</b>	<b>2.1</b>
Volume	0.8	0.8
Price	0.3	0.3
Translation of self-sustaining operations	(0.4)	(0.2)
<b>QUARTER ENDED MARCH 31, 2008</b>	<b>3.8</b>	<b>3.0</b>
<b>AVERAGE OF HISTORICAL HYDROELECTRIC GENERATION (MWH)*</b>		
Quarters ended March 31		33,198
Annual average		114,394

\* The historical average is determined using all production data available for each power station for the closing of Boralex's previous fiscal year.

The hydroelectric power stations generated \$3.8 million in revenues in the first quarter of 2008, up \$0.7 million or 23% from \$3.1 million for the same period in 2007. The Canadian dollar's appreciation against its U.S. counterpart had a \$0.4 million adverse effect on revenues in this segment, without which revenues would have grown \$1.1 million or over 35%. The increase in revenues is attributable to higher output, which generated \$0.8 million in additional revenues, and a growth in the power stations' average selling prices, which had a \$0.3 million favourable effect on revenues. The hydroelectric power stations generated a total of 43,380 MWh, compared with 33,581 MWh in the first quarter

of 2007, due to more favourable water flow conditions than in corresponding period of 2007. Indeed, whereas water flow in the first quarter of 2007 was comparable to historical averages for the period, it was 31% higher than historical averages in the first quarter of 2008.

Despite the \$0.2 million adverse effect of the fluctuation in exchange rates, the increase in power generation volumes and electricity selling prices in the New England market translated into a \$0.9 million or 43% positive contribution to EBITDA by the hydroelectric segment. This segment reported \$3.0 million in EBITDA for the first quarter of 2008.

## WOOD-RESIDUE THERMAL POWER STATIONS

**Analysis of Key Variances in Revenues from Energy Sales and EBITDA:**

(in millions of dollars)	REVENUES FROM ENERGY SALES	EBITDA
<b>QUARTER ENDED MARCH 31, 2007</b>	<b>33.4</b>	<b>12.2</b>
Shutdown – Stacyville	(1.9)	(0.2)
Volume	0.6	0.1
Price	0.8	0.8
RECs	6.0	4.3
Translation of self-sustaining operations	(4.7)	(1.7)
Costs of raw material	–	(3.8)
Other	0.1	(0.6)
<b>QUARTER ENDED MARCH 31, 2008</b>	<b>34.3</b>	<b>11.1</b>

For the first quarter, the wood-residue power stations recorded revenues totalling \$34.3 million, up \$0.9 million or 3%, from \$33.4 million in 2007. It should be noted that the strengthening of the Canadian dollar against the US dollar had an adverse impact of \$4.7 million on segment revenues, which would otherwise have grown by more than 17% thanks to the increase in sales of RECs in the Connecticut market, the higher average selling price of the electricity produced by the segment and the growth in the production volume of the existing power stations.

– The wood-residue segment recorded revenues of US\$10.6 million from the sale of RECs, compared with US\$4.6 million for the same quarter of 2007, an increase of US\$6.0 million, or 130%, which also translates into an increase of \$6.0 million in Canadian dollars since the exchange rate was close to par for the first quarter of 2008. The rise is even more marked in that sales of RECs for the first quarter of 2007 included the amount of US\$1.4 million related to RECs produced in 2006 that Boralex had decided not to sell at the end of that fiscal year due to soft market conditions. As Boralex had expected, the market strengthened in 2007 and all RECs remaining from 2006 were sold in the first six months of fiscal 2007. REC sales for the first quarter of 2008 include approximately \$0.6 million in RECs produced in 2007. Increased REC sales in the first quarter of 2008 result from the qualification of two additional power stations for the Connecticut REC program: Livermore Falls at the beginning of the second quarter of 2007 and Ashland early in the first quarter of 2008. Sales of RECs by the Stratton power station, which also qualifies for the Connecticut program, and by the Chateaugay power station, which trades in the New York market, were relatively stable compared with the first quarter of 2007.

As at March 31, 2008, in the Connecticut market, Boralex had firm sales commitments of \$51.9 million (US\$50.5 million) for REC deliveries between April 1, 2008 and December 31, 2012

confirming the solidity of this market over the medium- and long-term horizon. Note that the State of Connecticut announced last year that the REC program would be extended to 2020, while the minimum green energy proportion imposed on distributors by the State of Connecticut will rise to 20% in 2020 (compared with 1.5% as the program began in 2005, and 7% in 2010).

- Second, wood-residue power segment revenues benefited from a 9% increase (in US \$) in the average price of electricity on the Northeastern U.S. open market over the same period in 2007, which resulted in additional revenues of \$0.8 million. Open market selling prices were slightly higher relative to levels in the fourth quarter of 2007, and management expects this situation to continue throughout 2008, given the current high prices of natural gas, which is the main driver of the electricity selling price in Northeastern U.S.
- On the other hand, the segment recorded a \$1.3 million decrease in revenues due to a reduction in total production. It produced 327,908 MWh of electricity in 2008 compared with 341,380 MWh in 2007 as the Stacyville (Maine) power station was inoperative through the first quarter of 2008, whereas it operated for two months in 2007. Excluding that power station, which is responsible for a \$1.9 million revenue shortfall, existing facilities increased combined production by 2%, generating additional revenues of \$0.6 million. Aside from continued favourable market conditions, this performance is due in part to larger raw materials inventories created during the preceding quarters by the expansion of supply agreements and the addition of storage areas in the power stations. The higher availability of raw materials allowed the power stations to increase production over the same period of 2007. Beyond that, the strengthening of the preventive maintenance practices in the segment led to a reduction in machine downtime due to unexpected breakdowns and regular maintenance.

The wood-residue power segment's annual EBITDA decreased \$1.1 million, 9%, from \$12.2 million in 2007 to \$11.1 million in 2008. The strength of the Canadian dollar relative to the U.S. dollar had an adverse impact of \$1.7 million on segment EBITDA, which would otherwise have advanced by 5%. The main factors that contributed positively to EBITDA are as follows:

- The designation of the Livermore Falls and Ashland power stations for the Connecticut REC program had a direct impact of \$4.3 million on EBITDA. As stated above, the \$1.7 million difference between the revenues and EBITDA generated by the RECs stemmed from the expenses incurred by the Ashland power station to transport its electricity through an intermediary since the power station is not connected directly to the NEPOOL grid. Boralex's management is studying alternatives for the Ashland power station to reduce its future transportation costs.
- The increase in average electricity selling prices had a \$0.8 million direct favourable effect on EBITDA.
- The increase in the production volume of existing power stations contributed an additional amount of \$0.1 million to segment EBITDA. However, the expenses incurred to maintain the idle Stacyville power station had a negative impact of \$0.2 million on profitability.

Conversely, in addition to the unfavourable impact of currency fluctuation, the main factor affecting wood-residue segment EBITDA was the \$3.8 million rise in the cost of raw materials. The price hikes that Boralex experienced in 2007 due to growth in transportation costs caused by rising prices for oil and oil derivatives, and the use of higher quality forest residues under the Corporation's strategy to step up output at its power stations continued during the first quarter of 2008. However, growth of costs compared with the last quarter of 2007 was less than 1%. On the other hand, the wood-residue power segment saw a temporary increase in the average combustion rate of its power stations in the first quarter of 2008, due primarily to humidity caused by the harsh climate conditions of last winter. Boralex works continuously to optimize the composition of its wood residues to meet its quality, productivity and cost criteria. Management is of the opinion that the cost of wood residues could continue to face upward pressure in the medium and long terms due mainly to high transportation costs.

Among the other factors that had an unfavourable effect on EBITDA was the increase in variable compensation resulting from the profitability improvement of certain power stations.

#### NATURAL GAS THERMAL POWER STATION

##### Analysis of Key Variances in Revenues from Energy Sales and EBITDA:

(in millions of dollars)	REVENUES FROM ENERGY SALES	EBITDA
<b>QUARTER ENDED MARCH 31, 2007</b>	<b>6.1</b>	<b>2.1</b>
Volume	(0.2)	0.1
Price	0.8	0.8
CO <sub>2</sub> Quotas	–	(0.3)
Translation of self-sustaining operations	(0.1)	–
Natural gas cost	–	(1.6)
Other	0.1	0.2
<b>QUARTER ENDED MARCH 31, 2008</b>	<b>6.7</b>	<b>1.3</b>

For the three months ended March 31, 2008, revenue from energy sales by the natural gas thermal power station in France amounted to \$6.7 million, up 10%, or \$0.6 million, over revenue of \$6.1 million for the same period in 2007. This growth resulted mainly from the increases in the selling price of electricity and steam, indexed to the price of natural gas in France, which generated additional revenues of \$0.8 million. The segment also benefited from capacity premiums of \$0.1 million. These factors offset the \$0.2 million adverse effect on revenues of the decline in steam production and the \$0.1 million negative impact of the fluctuation of the Canadian dollar compared with the euro.

However, EBITDA for this power station was down \$0.8 million, or 38%, to \$1.3 million in the first quarter of 2008 due primarily to the sharp increase in the cost of natural gas, which had an unfavourable

effect of \$1.6 million on the power station's profitability. In addition, the power station did not record any sales of excess CO<sub>2</sub> emission quotas in 2008, compared with sales totalling \$0.3 million for the first quarter of 2007. These unfavourable factors were offset in part by higher selling prices for the power station combine with a decline in variable compensation.

Since natural gas costs have increased further and management expects the situation to continue in the coming months, the cogeneration equipment will be shut down again this year from April to October 2008. The client will continue to be supplied with steam from the auxiliary boiler. This decision will be reviewed if natural gas prices drop significantly and if the plant's marginal profitability becomes strongly positive.

## ANALYSIS OF MAJOR CASH FLOWS FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2008

### OPERATING ACTIVITIES

During the first quarter of 2008, cash flows from operating activities rose 3% to reach \$20.7 million, compared with \$20.1 million for the same quarter in 2007. Changes in non-cash working capital items required \$5.5 million in funds (\$7.2 million in 2007), due mainly to increased accounts receivable. This is the result of increased REC sales, which will be paid during upcoming quarters under the rules governing this market, as well as by funds advanced for the development of Boralex's wind power projects in Ontario to ensure interconnection of the wind turbines with the distribution network. Consequently, operating activities for the first quarter of 2008 generated net cash flows of \$15.2 million, compared with \$12.9 million for the same quarter of 2007.

### INVESTING ACTIVITIES

Boralex made investments of \$18.7 million in the first quarter of 2008, compared with \$1.6 million for the same period last year. An amount of \$14.6 million was allocated to development projects (compared with \$0.1 million in 2007), primarily constituted of deposits for the purchase of equipment intended for the three first wind power sites that will be built in Ontario during this fiscal year. The Corporation also acquired new additions to property, plant and equipment totalling \$4.0 million (compared with \$0.5 million

in 2007), mainly for expansion of the capacity of the wind power site in Avignonet-Lauragais, France, and routine maintenance of the infrastructure. Last, the additional \$0.2 million invested in other assets (compared with \$1.0 million in 2007) was primarily for the net amount of the lease agreements for crushing equipments with wood-residue suppliers to ensure supplies for the segment.

### FINANCING ACTIVITIES

During the first quarter, the Corporation repaid \$9.0 million in long-term debt and received \$1.5 million on the issue of Class A shares as officers and directors exercised stock options held by them. The increase in long-term debt repayment is primarily caused by two elements. First, the senior and junior French credit repayment schedule was amended when French debt was refinanced on June 25, 2007 (previously, payments were made at the end of the second and fourth quarters while, since then, payments are made at the beginning of the first and third quarters). Second, Boralex also repaid an amount of €2.6 million (\$4.0 million), which had been advanced temporarily to cover refundable sales taxes ("VAT credit") for its La Citadelle project in France. As a result, financing activities required a net amount of \$7.5 million in the first quarter of 2008, compared with a slight cash inflow in 2007.

To summarize, also factoring in the favourable effect of \$2.4 million attributable to translation adjustment, total cash flows for the three-month period ended March 31, 2008 decreased cash and cash equivalents of \$8.7 million from \$79.2 million as at December 31, 2007 to \$70.5 million as at March 31, 2008, due primarily to investments allocated to the expansion of Boralex and to debt repayment.

## FINANCIAL POSITION AS AT MARCH 31, 2008

### GENERAL COMMENTS

Aside from net earnings and investments for the period, the balance sheet of Boralex as at March 31, 2008 compared with December 31, 2007 reflects the significant impact of the strengthening of the euro and the U.S. dollar against the Canadian dollar during the first quarter. Fluctuations in the exchange rate had a particularly marked impact on the value of property, plant and equipment, and on other assets as well as on long-term debt.

### ASSETS

As at March 31, 2008, Boralex's total assets amounted to \$552.6 million, compared to \$514.7 million as at December 31, 2007. This \$37.9 million increase is primarily due to the rise in long-lived assets. Among others, the value of property, plant and equipment increased \$22.4 million to reach \$281.1 million at the end of the first quarter due mainly to the rise of the euro and the U.S. dollar. The amounts invested in development projects during the first quarter, combined with currency fluctuations, also raised other assets of \$17.2 million to total \$56.4 million as at March 31, 2008.

### WORKING CAPITAL

As at December 31, 2008, Boralex's working capital was of \$77.8 million, compared with \$81.8 million as at December 31, 2007, due mainly to the use of \$8.7 million in cash and cash equivalents. Accounts receivable rose \$5.9 million for the reasons stated in the analysis of cash flows related to operating activities. Inventory was down \$1.4 million, primarily due to the seasonal nature of the wood-residue thermal power stations. Short-term liabilities also decreased slightly.

### TOTAL DEBT AND SHAREHOLDERS' EQUITY

As at March 31, 2008, the Corporation's total debt amounted to \$187.7 million, compared to \$175.5 million as at December 31, 2007. This \$12.2 million increase, in spite of debt repayments of \$9.0 million during the quarter, is due to the significant strengthening of the euro over the last few months, given that the greater part of Boralex's debt is in Europe. Net of cash and cash equivalents, total net debt was \$117.2 million at the end of the first quarter, compared with \$96.3 million as at December 31, 2007.

Shareholders' equity rose \$20.1 million, or 7%, between December 31, 2007 and March 31, 2008, from \$284.8 million to \$304.9 million. The change is the result of the reduction in accumulated other comprehensive income due to exchange rate fluctuation, first quarter net earnings, the share issue pursuant to the exercise of stock options and the value of the stock options earned during the quarter. Consequently, the ratio of total net debt to invested capital (total net debt plus shareholders' equity) rose from 25.3% as at December 31, 2007 to 27.8% as at March 31, 2008. Given Boralex's share price, which was \$17.74 as at March 31, 2008, the net debt to enterprise value ratio was 14.9% as at that date, compared to 13.0% as at December 31, 2007, when the share price was \$17.25.

As at March 31, 2008, the Corporation had an unused balance of approximately €170.8 million (\$277.4 million) under the €265.0 million master credit agreement entered into in Europe in June 2007, giving Boralex considerable latitude to initiate new wind power projects in France by 2010. Taking into account letters of credit already issued, the Corporation has borrowing capacity of around \$27.6 million under the revolving credit facility.

#### **SIGNIFICANT SUBSEQUENT EVENT**

On May 5, 2008, the consortium consisting of the Corporation and Gaz Métro Limited Partnership (the "Consortium") bid on Hydro-Québec's call for proposals for the implementation of 2,000 MW of wind power capacity in Québec, Canada. This Consortium was selected for two of three wind farm project proposals that it worked closely with the Séminaire de Québec and that they developed and filed in September 2007. The selected projects, with a combined installed capacity of 272 MW, are to be commissioned in December 2013. These two wind farms, with respective capacities of 132.6 MW and 139.3 MW, will be built on land located on the Seigneurie de Beaupré, owned by the Séminaire de Québec. The site offers a number of key advantages, including exceptional wind power potential due to excellent wind conditions and its proximity to Hydro-Québec TransÉnergie interconnection lines. In addition, since the site is located far away from any urban or residential areas, the visual, sound and environmental impacts will be all but non-existent. Lastly, the necessary access roads are already in place. The consortium is working with internationally recognized wind power system manufacturer Enercon, which plans to set up a high-quality wind power components plant in Québec. Given that the Consortium has already completed and filed its environmental impact study with the Québec Ministère du développement durable, de l'environnement et des parcs, the report is expected to be released to the public shortly.

#### **OUTLOOK**

Boralex's management believes that the Corporation will perform well in 2008 because it is likely to continue to benefit from the following main positive factors:

- The increased contribution from the wind power segment results due to the full operation of the La Citadelle site and the expanded capacity at Avignonet-Lauragais. Ongoing development of the wind power segment will be even more of a financial advantage since wind power assets are associated with long-term sales agreements and high profit margins;
- Connecticut's robust REC market, in which three of Boralex's wood-residue power stations are now participating;
- The higher electricity prices in the U.S. open market than during the last years, given current and forecast natural gas price levels;
- The continually improving efficiency of the wood-residue power stations and the optimization of their supply and use of raw materials;
- Access to recurring revenue and profit streams such as the Forward Capacity Market; and
- The reduction in financing expenses stemming from the Corporation's solid financial position.

From a longer-term perspective, the Corporation is currently working on a variety of major projects, including two recently announced projects totalling 272 MW in Québec, 90 MW in wind power projects under development in Ontario and other projects that could arise in the coming months, which will significantly increase our installed capacity and revenue streams, in keeping with Boralex's objective to reach an installed capacity of 1,000 MW within the next five years.

#### **WIND POWER**

During fiscal 2008, the La Citadelle in France wind farm will be contributing fully to the wind power segment's results, as opposed to less than five months in 2007. In addition, at the beginning of the second quarter, Boralex commissioned new equipment installed at the Avignonet-Lauragais farm to increase capacity by 5 MW. In 2007, Boralex reinforced its development team in France in a bid to acquire or undertake new wind farm projects, which is why the Corporation has a \$277.4 million credit facility available.

Boralex is also working to establish a significant presence in the wind power market in Canada. Apart from the two Québec projects totalling 272 MW announced on May 5, 2008 and discussed in the previous section, the Corporation signed a memorandum of agreement with a private developer of renewable energy projects in Ontario, Canada, in order to acquire the rights to a portfolio of sites totalling 90 MW and proceed with the construction of nine wind farms, each with an installed capacity of 10 MW near Lake Erie in the Windsor area of Southern Ontario. Each farm has a 20-year power sales agreement with the Ontario Power Authority,



which will purchase their entire production under the *Renewable Energy Standard Offer Program*. This will enable Boralex to obtain an indexed rate of slightly over \$110/MWh for its wind power production. The acquisition of each project and the start of construction work are subject to the fulfilment of certain conditions. The Corporation has completed more than a year of on-site wind studies and is working to obtain all of the necessary permits to be in a position to commission the first three sites with a total of 30 MW toward the end of 2008. The turbines required to carry out these three projects have been ordered, and deposits of nearly \$14.0 million have been paid to Enercon. Boralex is currently in negotiations to purchase the turbines required to complete the six additional projects for the end of 2009 and during fiscal 2010.

Upon completion by 2013, these projects will increase the Corporation's total installed capacity in the wind power segment almost fourfold and double its total installed capacity. Moreover, since these projects benefit from long-term power sales contracts, their completion will mean that a major portion of Boralex's revenues, accounting for 79% of its total capacity, will be secured by fixed agreements. Lastly, these projects dovetail with Boralex's geographical and segment diversification strategy.

#### HYDROELECTRIC POWER

After reporting significantly less favourable than historically average water flows throughout 2007, Boralex's hydroelectric facilities enjoyed decidedly better conditions over the first quarter of 2008, although it cannot be predicted whether those trends will be maintained. Nevertheless, Boralex's hydroelectric segment has traditionally been a reliable profit and cash flow generator.

Boralex's management anticipates growth opportunities in Canada over the next few years, particularly in British Columbia, where the provincial government has announced plans to launch calls for tenders in 2008 to develop renewable energy infrastructures capable of producing 5,000 gigawatthours. This decision is designed to increase British Columbia's energy autonomy by 2016 and potentially meet a portion of California's green energy needs. In this context, Boralex has emerged as a solid partner on the strength of its extensive experience in developing and acquiring hydroelectric power stations and ensuring optimal operation. It is on this basis that the Corporation is currently pursuing leads to expand its business opportunities in the region.

#### THERMAL POWER

As at March 31, 2008, the Stratton, Livermore Falls and Ashland power stations had firm commitments of \$51.9 million (US\$50.5 million) for REC deliveries between April 1, 2008 and December 31, 2012 in the Connecticut market. Note that, among others, the State of Connecticut in 2007 moved to extend the REC program for an additional 10-year period, i.e., until 2020. Moreover, the minimum green energy proportion imposed on distributors by the State will rise to 20% in 2020, compared with less than 2% when the program was launched in 2005 and 7% in 2010. This tends to confirm the solid uptrend in this market over the medium and long-term horizons.

In addition, the Corporation plans to claim U.S. renewable energy tax credits until the program's anticipated end date of December 31, 2009; these credits totalled \$12.0 million in 2007.

However, the high cost per ton of wood-residue will continue to affect this segment. Wood-residue costs have risen sharply in recent years, primarily due to increased transportation costs stemming from higher oil prices and to a change in the composition of the raw materials that favour more extensive use of forest residues used by Boralex. In 2004 Boralex implemented and continues to implement solutions aimed at controlling these costs, including strategies aimed at stabilizing its wood-residue supply and optimizing the efficiency of its facilities. Boralex will continue its optimization efforts to improve profitability in the segment.

In France, the cogeneration equipment at the Blendecques natural gas power station was brought back into operation in November 2007 for the winter season. However, due to continued high natural gas prices, management currently anticipates that the station's cogeneration equipment will be shut down again this year from April to October and that the station's industrial client will continue to be supplied with steam from an auxiliary boiler, unless natural gas costs drop significantly and marginal operating profitability increases sufficiently to justify these costs.

#### FUND DISTRIBUTIONS

On February 22, 2008, the Fund announced that it was reducing its distributions to \$0.70 per trust unit on an annualized basis. This will reduce Boralex's annual cash flows by \$2.4 million, net of income taxes.

To summarize, thanks to expansion in the wind power segment, the robust REC market, the continued lift in electricity selling prices in the U.S. open market and normal climate conditions, management anticipates that revenues, earnings and cash flows from operations will grow in the coming quarters, thereby enabling Boralex to provide for its normal cash requirements. In addition, the recent share issue and the new master financing agreement in France in 2007 significantly strengthened the Corporation's financial position, allowing it to pursue its current and future expansion projects. In the short term, Boralex does not plan to pay dividends on its Class A shares, in keeping with its policy to reserve its cash assets for growth projects.

Boralex's outlook is also positive in the longer term, thanks to the quality and diversification of its assets and its expertise in the area of green and renewable power generation, reflecting a growing worldwide trend. In addition to promoting its expertise in developing and producing wind, hydroelectric and thermal power, Boralex is currently examining potential development projects in new non-fuel renewable energy sectors such as solar energy. Boralex is also particularly interested in new technologies such as the processes of gasification and methanization. In general, Boralex will continue to prudently capitalize on opportunities that arise in its fields of expertise while remaining on the lookout for new technologies and paying close attention to the responsible management of its operating costs, business risks and capital structure.

## **CAPITAL STOCK INFORMATION**

As at March 31, 2008, and May 9, 2008, Boralex's capital stock consisted of 37,784,405 Class A shares issued and outstanding, up from 37,454,625 as at December 31, 2007 due to the issue of 329,780 new shares in the first quarter as its officers and directors exercised stock options. As at May 9, 2008, there were 926,366 stock options outstanding, of which 353,761 were exercisable.

On April 29, 2008, Boralex announced plans to make a normal course issuer bid. Under this 12-month bid opening on May 1, 2008 and closing on April 30, 2009, Boralex may buy back up to 1,889,220 Class A shares, or 5% of the 37,784,405 Boralex Class A shares issued and outstanding as at April 21, 2008. All redemptions will be carried out through the Toronto Stock Exchange and the redeemed shares will be retired. As at May 9, 2008, Boralex had redeemed none of the shares. Copies of the notice of intention to proceed with a normal course issuer bid may be obtained free of charge from Boralex.

## **FINANCIAL INSTRUMENTS**

### **MARKET RISK**

As at March 31, 2008, the Corporation had entered into five electricity swaps for total quantity of 375,000 MWh over periods varying from 6 to 21 months. All financial electricity swaps as at March 31, 2008 were designated as hedges of future variable cash flows related to the delivery of electricity and their unfavourable fair value amounted to \$2.8 million (US\$2.7 million). These contracts qualify for hedge accounting.

### **INTEREST RATE RISK**

Boralex carries long-term debts that bear interest at variable rates. As at March 31, 2008, approximately 86% of long-term debt issued bore interest at a variable rate. The revolving credit facility also bears interest at a variable rate. As at March 31, 2008, the Corporation had issued letters of credit totalling \$13.2 million, although it had drawn no funds from this credit facility. If the Corporation uses this credit and interest rates rise sharply in the future, the liquid assets available for the Corporation's development projects could

be affected. As discussed in Note 10 to the consolidated financial statements, since the Corporation uses interest rate swaps, its exposure to interest rate fluctuations is reduced to 17% of total debt. As at March 31, 2008, the notional amount of those swaps was \$133.0 million (€81.9 million) and their favourable fair value stood at \$2.1 million (€1.3 million).

### **FOREIGN EXCHANGE RISK**

In the normal course of business, Boralex is not significantly exposed to currency fluctuations because its foreign operations are self-sustaining and the Corporation prefers to retain its liquid assets to develop these subsidiaries. However, the turbine supplier for the initial 30 MW phase of the Ontario wind power project is European, which means that purchases will be paid in euros, whereas site operations will generate cash flows in Canadian dollars. To protect the expected project return, the Corporation used collars that allow it to put a ceiling and floor on the exchange rate for the purchases. Using such options, the foreign exchange rate should be about \$1.4180 per euro. These options were entered into to hedge the purchase of 15 turbines for delivery in 2008. As at March 31, 2008, the favourable fair value of these options was \$5.6 million.

### **RELATED-PARTY TRANSACTIONS**

In addition to holding 23.3% of the Fund's trust units, the Corporation, through one of its wholly owned subsidiaries, is linked to the Fund under long-term management and administration agreements. For the quarter ended March 31, 2008, these agreements generated 2% of Boralex's total revenues (2% in 2007), while its share of the Fund's results was 5% (6% in 2007). Boralex received Fund distributions totalling \$3.1 million (\$3.1 million in 2007).

One of Boralex's power stations in France supplies steam to a French division of Cascades Inc., a corporation that has significant influence over Boralex since it holds 34% of its share capital. For the first quarter of 2008, revenues from this division totalled \$2.8 million (\$2.5 million in 2007).

The Corporation also entered into a management agreement with an entity controlled by Bernard Lemaire, a director and officer of Boralex, and his family. For the first quarter of 2008, revenues from this division totalled \$0.1 million (\$0.1 million in 2007).

Related-party transactions are recorded at the exchange value, which corresponds to the amount negotiated and agreed to by the related parties in the normal course of business. The terms and conditions are comparable to those that would have been established by non-related parties.

### COMMITMENTS AND CONTINGENCIES

The Corporation has not observed any major change with respect to the commitments and contingencies set out under *Risks and Uncertainties* in Management's Discussion and Analysis in the Annual Report for the fiscal year ended December 31, 2007.

### NEW ACCOUNTING STANDARDS IN 2008

#### FINANCIAL INSTRUMENTS – DISCLOSURE AND PRESENTATION

On January 1, 2008, Boralex adopted the following new sections of the Handbook of the Canadian Institute of Chartered Accountants ("CICA"):

Section 3862, *Financial instruments – Disclosures* changes the requirements for disclosures on financial instruments that were included in Section 3861, *Financial instruments – Disclosure and Presentation*. The new standard requires entities to provide disclosures in their financial statements to enable users to evaluate:

- The significance of financial instruments for the entity's financial position and performance; and
- The nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the reporting date, and how the entity manages those risks.

Boralex is not required to present comparative information concerning the nature and extent of risks related to financial instruments for the reporting period in which it adopts Section 3862.

Section 3863, *Financial instruments – Presentation*, does not change the requirements for disclosures on financial instruments that were included in Section 3861, *Financial instruments – Disclosure and Presentation*.

The adoption of these sections had no impact on the Boralex's earnings, balance sheet or cash flows. The impact of these changes is set out in Note 10 to the consolidated interim financial statements.

### CAPITAL DISCLOSURES

On January 1, 2008, Boralex adopted Section 1535, *Capital Disclosures of the CICA Handbook*. The standards set out therein require an entity to disclose the following:

- Its objectives, policies and processes for managing capital;
- Summary quantitative data about what it manages as capital;
- Whether during the period it complied with any externally imposed capital requirements to which it is subject;
- When the entity has not complied with such requirements, the consequences of such non-compliance.

Adoption of this section had no impact on the Boralex's earnings, balance sheets, or cash flows. The impact of these changes is disclosed in Note 11 to the consolidated interim financial statements.

### INVENTORIES

In June 2007, the CICA issued Section 3031, *Inventories*, which provides guidance on the method for determining the cost of inventories. The new accounting standard recommends that inventories be valued at the lower of cost and net realizable value. The standard further requires the reversal of previously recorded writedowns to net realizable value when there is clear evidence that net realizable value has increased. The adoption of this standard had no impact on Boralex's financial statements.

### RISK FACTORS AND UNCERTAINTIES

The Corporation has not observed any major change with respect to the risks and uncertainties to which it is subject, which are described under *Risks and Uncertainties* in Management's Discussion and Analysis contained in the Annual Report for the fiscal year ended December 31, 2007.

### ADDITIONAL INFORMATION

Additional information about the Corporation, including its previous annual reports, annual information forms, quarterly reports and press releases, is available on the SEDAR website ([www.sedar.com](http://www.sedar.com)).

## Notice to shareholders

The interim financial statements as at March 31, 2008 and 2007 have not been reviewed by our auditors PricewaterhouseCoopers LLP. The financial statements are the responsibility of the Management of Boralex Inc. They have been reviewed and approved by its Board of Directors, as recommended by its Audit Committee.

## Consolidated Balance Sheets

(in thousands of dollars) (unaudited)	NOTE	AS AT MARCH 31, 2008	AS AT DECEMBER 31, 2007
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		70,495	79,195
Accounts receivable		45,089	39,200
Future income taxes		1,437	2,394
Inventories		6,582	8,002
Prepaid expenses		2,824	2,171
		<b>126,427</b>	130,962
<b>Investment</b>		<b>68,292</b>	67,321
<b>Property, plant and equipment</b>		<b>281,086</b>	258,712
<b>Electricity sales contracts</b>		<b>20,365</b>	18,527
<b>Other assets</b>	6	<b>56,416</b>	39,209
		<b>552,586</b>	514,731
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable and accrued liabilities		19,324	20,869
Income taxes payable		1,769	1,481
Current portion of long-term debt	7	27,573	26,786
		<b>48,666</b>	49,136
<b>Long-term debt</b>	7	<b>160,143</b>	148,747
<b>Future income taxes</b>		<b>28,759</b>	23,430
<b>Fair value of derivative financial instruments</b>		<b>3,130</b>	1,400
<b>Other liabilities</b>	9	<b>6,253</b>	6,642
<b>Non-controlling interests</b>		<b>714</b>	607
		<b>247,665</b>	229,962
<b>SHAREHOLDERS' EQUITY</b>			
Capital stock		223,023	221,557
Contributed surplus		2,232	1,974
Retained earnings		124,890	115,669
Accumulated other comprehensive income	8	(45,224)	(54,431)
		<b>304,921</b>	284,769
		<b>552,586</b>	514,731

See accompanying notes

## Consolidated Statements of Earnings

(in thousands of dollars, except per-share amounts and number of shares) (unaudited)	NOTE	FOR THE QUARTERS ENDED MARCH 31,	
		2008	2007
Revenue from energy sales		55,019	50,802
Renewable energy tax credits	9	3,122	3,755
Operating costs		34,460	31,213
		23,681	23,344
Share in earnings of the Fund		3,248	3,478
Management revenue from the Fund		1,341	1,406
Other revenue		31	1,519
		28,301	29,747
<b>OTHER EXPENSES</b>			
Management and operation of the Fund		938	1,161
Administration costs		2,998	2,789
		3,936	3,950
<b>OPERATING EARNINGS BEFORE AMORTIZATION</b>		24,365	25,797
Amortization		5,828	5,982
Financial instruments	10	319	–
Financing costs	9	3,465	4,548
		9,612	10,530
<b>EARNINGS BEFORE INCOME TAXES</b>		14,753	15,267
Income tax expense		5,438	5,433
		9,315	9,834
Non-controlling interests		94	57
<b>NET EARNINGS</b>		9,221	9,777
Net earnings per Class A share (basic) (in dollars)		0.25	0.33
Net earnings per Class A share (diluted) (in dollars)		0.24	0.32
Weighted average number of Class A shares outstanding (basic)		37,566,967	30,061,484

See accompanying notes

## Consolidated Statements of Retained Earnings

(in thousands of dollars) (unaudited)	FOR THE QUARTERS ENDED MARCH 31,	
	2008	2007
<b>Balance – beginning of period</b>	<b>115,669</b>	97,649
Net earnings for the period	<b>9,221</b>	9,777
<b>Balance – end of period</b>	<b>124,890</b>	107,426

See accompanying notes

## Consolidated Statements of Comprehensive Income

(in thousands of dollars) (unaudited)	FOR THE QUARTERS ENDED MARCH 31,	
	2008	2007
<b>Net earnings for the period</b>	<b>9,221</b>	9,777
<b>Other comprehensive income:</b>		
<b>TRANSLATION ADJUSTMENTS</b>		
Unrealized foreign exchange gains (losses) on translation of financial statements of self-sustaining foreign operations	<b>9,091</b>	(1,528)
Share of cumulative translation adjustments of the Fund	<b>591</b>	351
Taxes	<b>(78)</b>	(112)
<b>CASH FLOW HEDGES</b>		
Change in fair value of financial instruments	<b>(463)</b>	(2,091)
Realized losses on hedging items recognized in net earnings	<b>(121)</b>	–
Taxes	<b>187</b>	668
	<b>9,207</b>	(2,712)
<b>Comprehensive income for the period</b>	<b>18,428</b>	7,065

See accompanying notes

## Consolidated Statements of Cash Flows

(in thousands of dollars) (unaudited)	NOTE	FOR THE QUARTERS ENDED MARCH 31,	
		2008	2007
<b>OPERATING ACTIVITIES</b>			
Net earnings		9,221	9,777
Distributions received from the Fund		3,098	3,098
Adjustments for non-cash items			
Share in earnings of the Fund		(3,248)	(3,478)
Amortization		5,828	5,982
Amortization of financing costs		708	648
Renewable energy tax credits		(1,093)	(1,330)
Future income taxes		5,436	5,018
Financial instruments	10	319	-
Other		479	377
		20,748	20,092
Change in non-cash working capital balances		(5,542)	(7,195)
		15,206	12,897
<b>INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment		(3,997)	(499)
Change in debt servicing reserves		(29)	(21)
Development projects		(14,557)	(82)
Other		(150)	(1,039)
		(18,733)	(1,641)
<b>FINANCING ACTIVITIES</b>			
Increase in long-term debt		-	2,529
Payments on long-term debt		(9,000)	(2,340)
Financing costs		-	(5)
Net proceeds from share issuance		1,466	127
Other		-	(254)
		(7,534)	57
<b>TRANSLATION ADJUSTMENT ON CASH AND CASH EQUIVALENTS</b>		2,361	(96)
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>		(8,700)	11,217
<b>CASH AND CASH EQUIVALENTS – BEGINNING OF PERIOD</b>		79,195	13,899
<b>CASH AND CASH EQUIVALENTS – END OF PERIOD</b>		70,495	25,116
<b>SUPPLEMENTAL INFORMATION</b>			
<b>CASH AND CASH EQUIVALENTS PAID FOR:</b>			
Interest		3,004	3,309
Income taxes		303	862

See accompanying notes

## Notes to Interim Consolidated Financial Statements

as at March 31, 2008  
(tabular amounts in thousands of dollars, unless otherwise specified)  
(unaudited)

### Note 1. Accounting policies

These unaudited interim consolidated financial statements and the accompanying notes have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") with the exception that they do not conform in all material respects to the requirements of GAAP for annual financial statements.

The unaudited interim consolidated financial statements have been prepared in accordance with the same accounting policies as those used in the latest audited consolidated financial statements, except for the new policies described in Note 2. The unaudited interim consolidated financial statements and accompanying notes should be read in conjunction with the audited consolidated financial statements of Boralex Inc. ("Boralex" or the "Corporation") for the year ended December 31, 2007.

### Note 2. Changes in accounting policies and new accounting policies adopted in 2008

#### FINANCIAL INSTRUMENTS – DISCLOSURE AND PRESENTATION

On January 1, 2008, the Corporation adopted the following new sections of the Canadian Institute of Chartered Accountants ("CICA") *Handbook*:

Section 3862, *Financial instruments – Disclosures*, modifies the disclosure requirements for financial instruments that were included in Section 3861, *Financial Instruments – Disclosure and Presentation*. The new standards require entities to provide disclosures in their financial statements that enable users to evaluate:

- the significance of financial instruments for the entity's financial position and performance; and
- the nature and extent of risks arising from financial instruments to which the entity was exposed during the period and at the reporting date, and how the entity manages those risks.

The Corporation is not required to present comparative information concerning the nature and extent of risks related to financial instruments for the reporting period in which it adopts Section 3862.

Section 3863, *Financial instruments – Presentation*, changes the disclosure requirements for financial instruments that were included in Section 3861, *Financial instruments – Disclosure and Presentation*.

The adoption of these sections had no impact on the Corporation's earnings, balance sheet and cash flows. The impact of these changes is set out in Note 10 to the consolidated interim financial statements.

#### CAPITAL DISCLOSURES

On January 1, 2008, the Corporation adopted Section 1535, *Capital Disclosures* of the CICA *Handbook*. These standards require an entity to disclose the following:

- its objectives, policies and processes for managing capital;
- summary quantitative data about what it manages as capital;
- whether during the period it complied with any externally imposed capital requirements to which it is subject;
- when the entity has not complied with such requirements, the consequences of such non-compliance.

The adoption of this section had no impact on the Corporation's earnings, balance sheet and cash flows. The impact of these changes is disclosed in Note 11, *Capital management*.



## **Note 2. Changes in accounting policies and new accounting policies adopted in 2008 (continued)**

### **INVENTORIES**

In June 2007, the CICA issued Section 3031, *Inventories*, which provides guidance on the method for determining the cost of inventories. The new accounting standard recommends that inventories be valued at the lower of cost and net realizable value. The standard further requires the reversal of previously recorded writedowns to net realizable value when there is clear evidence that net realizable value has increased. The adoption of this standard had no impact on the Corporation's interim consolidated financial statements.

## **Note 3.** **Use of estimates and measurement uncertainty**

The preparation of financial statements in accordance with Canadian generally accepted accounting principles ("GAAP") requires management to make estimates that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the balance sheet dates, as well as the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates. These estimates are reviewed periodically and adjustments, when necessary, are recorded in the period in which they become known.

The key estimates used by the Corporation relate mainly to the assumptions used in the impairment tests of long-lived assets and the recoverability of renewable energy tax credits. These key assumptions pertain in particular to the future price of electricity and its associated products, the price of other energy sources, particularly those of oil and natural gas, future costs of wood-residue procurement, and finally, the remaining useful life of the energy producing assets, considering the maintenance planned over the period.

Over a three-year horizon, there is some liquidity in the electricity market, making it possible to project selling price curves. Beyond that horizon, prices can be negotiated, but often at a significant discount in light of a lack of liquidity in that market. Therefore, the assumption used for pricing beyond the third year consists in adding a reasonable inflation rate to the third year price. Assumptions related to the other sources of energy are made using a similar method since there is a correlation between their price and that of electricity.

With regard to wood-residue costs, this raw material is not part of an organized market. Purchases are made based on specific agreements negotiated with each supplier. As most agreements are renewable annually, prices are subject to change. The assumption for wood-residue costs used in our models is based on next year's contractual prices, adjusted using the forecasted CPI for the subsequent years.

Finally, the remaining useful life of the assets varies according to the amounts earmarked for maintenance. When the power stations are sufficiently well maintained, their useful lives can be very long, limited only by technological advancements that could render their generation method less competitive. Accordingly, the forecasts have factored in sufficient maintenance expenses to ensure that the power stations' estimated useful lives will be at least equal to the forecast horizon of 15 years.

With regard to its investment in the Fund, the Corporation plans to maintain its ownership interest over the long term and thus expects to continue receiving distributions, either through its taxable earnings or through dividends. As a result, the future income tax liabilities related to the investment have been calculated using the taxation rate applicable to business income, which is higher than the rate applicable to capital gains that would apply if Boralex were to dispose of its investment. These estimates could have a significant impact on the Corporation's operating results and future financial position.

## **Note 4.** **Share information**

As at March 31, 2008 and May 9, 2008, the capital stock issued and outstanding consisted of 37,784,405 Class A shares (37,454,625 as at December 31, 2007). During the three-month period ended March 31, 2008, 329,780 stock options were exercised. As at May 9, 2008, there were 926,366 stock options, of which 353,761 were exercisable.

## **Note 5.** **Stock option plan**

The Corporation applies the fair value method of accounting for options granted to executives and managers. The Corporation recorded \$258,000 in administrative expenses in respect of the options granted for the three-month period ended March 31, 2008 (\$202,000 for the three-month period ended March 31, 2007).

No options were granted for the three-month period ended March 31, 2008.

## Note 6. Other assets

		MARCH 31,	DECEMBER 31,
	NOTE	2008	2007
Renewable energy tax credits	(a)	<b>18,280</b>	17,573
Restricted funds and other funds held in trust	(b)	<b>1,721</b>	1,519
Net investment in direct financing leases	(c)	<b>7,007</b>	6,669
Fair value of derivative financial instruments		<b>8,025</b>	6,863
Deferred costs		<b>554</b>	519
Investments		<b>92</b>	78
Development projects	(d)	<b>20,737</b>	5,988
		<b>56,416</b>	39,209

Amortization of deferred costs amounted to \$19,000 for the three-month period ended March 31, 2008 (\$11,000 for the three-month period ended March 31, 2007). The other items are not subject to amortization.

(a) Renewable energy tax credits represent tax credits earned by the Corporation before it set up the monetization program (see Note 9), as well as tax credits attributable to subsequently acquired power stations. Tax credits earned will be used by the Corporation against future payable income tax. Financial projections indicate that the amount recorded may be realized in the next three to five years.

(b) Under the financing agreements for the Massif Central and Plouguin wind power projects, the Corporation had established cash reserves for debt servicing in 2006. As part of the June 25, 2007 refinancing (see Note 7), some of the reserves were released. Since then, the Corporation has a new master agreement that contains additional credits against which the Corporation can withdraw the amounts required should reserves become necessary to ensure debt servicing.

As at March 31, 2008, reserves for long-term debt servicing guaranteed financing in France and Canada. In France, reserves amounted to \$1,532,000 or €943,000 (\$1,382,000 or €958,000 in 2007) whereas in Canada they totalled \$189,000 (\$137,000 in 2007). These reserves represent from three to six months of debt servicing, depending on the project.

(c) Direct financing leases are entered into with U.S. and Canadian suppliers. As at March 31, 2008, foreign currency receivables were as follows: US\$4,514,000 (\$4,640,000) (US\$5,147,000 and \$5,086,000 in 2007) and \$2,367,000 (\$1,583,000 in 2007), respectively.

(d) Development projects primarily consist of one wind power project in Québec, one wind power project in Ontario and one solar power project in Spain.

## Note 7. Long-term debt

				MARCH 31,	DECEMBER 31,
	NOTE	MATURITY	RATE <sup>(1)</sup>	2008	2007
Bridge financing credit facility	(a)	2008	4.78%	<b>11,046</b>	9,811
Master agreement – wind power projects	(b)	2017-2022	4.99%	<b>145,050</b>	135,839
Term loan – Nibas wind farm	(c)	2016	5.00%	<b>12,823</b>	11,657
Term loan – Stratton power station	(d)	2010	6.34%	<b>3,388</b>	3,455
Capital leases	(e)	2012-2015	5.72%	<b>16,158</b>	14,943
Other debt				<b>4,152</b>	4,450
				<b>192,617</b>	180,155
Less:					
Current portion of long-term debt				<b>(27,573)</b>	(26,786)
Financing costs				<b>(4,901)</b>	(4,622)
				<b>160,143</b>	148,747

(1) Weighted average rates, adjusted to reflect the impact of interest rate swaps.

### Note 7. Long-term debt (continued)

- (a) The €6,800,000 bridge financing credit facility (€6,800,000 as at December 31, 2007) bears interest at a variable rate based on EURIBOR rates plus a margin. To secure this credit facility, Boralex issued an \$11,046,000 letter of credit as at March 31, 2008 (\$9,811,000 in 2007) drawn down from its revolving credit facility. As discussed below, the Corporation undertook a major refinancing of its master agreement in June 2007. That transaction enabled the Corporation to partially repay the bridge financing credit facility, thereby reducing the letter of credit pledged as security for said credit facility. The term credit facility currently matures on June 30, 2008, but the Corporation expects it to be renewed.
- (b) In the second quarter of 2007, the Corporation refinanced its master agreement and the senior and junior credit facilities linked to the Ally, Cham de Cham Longe, Plouguin and La Citadelle wind power sites. This refinancing was carried out under a new master agreement with a maximum senior credit facility of €250,000,000 and a maximum junior credit facility of €15,000,000. The previous credit facilities, including the previous master financing agreement, were repaid with amounts drawn down under the new agreement. The creation of a new master agreement also enabled the Corporation to extend the term of scheduled drawdowns under the agreement until December 31, 2010. As of March 31, 2008, €89,295,000 (€94,150,000 as at December 31, 2007) had been drawn and the Corporation had an unused balance of approximately €170,800,000 (\$277,400,000).
- Due to the increased diversification of the guarantee portfolio, the Corporation was able to increase its borrowing capacity, while reducing the amount of cash reserves required to guarantee debt servicing. As a result, the Corporation negotiated two new lines of credit to cover potential temporary working capital requirements for debt servicing. These lines of credit are for \$8,174,000 (€5,032,000) and \$913,000 (€562,000), respectively.
- Financing issued under the master agreement is secured by the projects' assets; however, the junior credit facility is subordinated to the senior facility. The variable interest rate is based on the EURIBOR rate, plus a margin, but the Corporation used interest rate swaps to reduce its exposure to interest rate fluctuations as discussed below. Repayments are made on a semi-annual basis.
- (c) This loan payable bears interest at a fixed rate of 5.00% and repayments are semi-annual. As at March 31, 2008, the balance was €7,894,000 (€8,079,000 as at December 31, 2007). All Nibas wind farm assets were pledged as collateral for this loan.
- (d) This loan payable bears interest at a variable rate based on U.S. prime rates or money market rates, plus a margin. The loan, which matured in 2007, was extended for an additional three years until July 31, 2010 under the same terms and conditions, with quarterly repayments. As at March 31, 2008, the balance was US\$3,296,000 (US\$3,496,000 as at December 31, 2007). All Stratton power station assets were pledged as collateral for this loan.
- (e) The financing leases consist of capital leases on assets located in France. The balance of the leases was €9,947,000 as at March 31, 2008 (€10,357,000 as at December 31, 2007). They bear interest at fixed and variable rates and provide for repayment in quarterly instalments. The net carrying amount of the associated assets was €14,058,000 (\$22,836,000) as at March 31, 2008 (€14,403,000 or \$20,780,000 as at December 31, 2007).

In addition, Boralex has a revolving credit facility with an authorized maximum amount of \$85,000,000, bearing interest at a variable rate based on Canada's prime rates or money market rates, plus a margin. This credit facility is secured by Boralex's investment in the Fund, based on the following formula: drawdowns must not exceed 60% of the market value of the investment. If the market value of the investment were to drop below this limit, the creditors would be entitled to demand repayment of a portion of the amounts drawn down to re-establish the coverage ratio. As at March 31, 2008, this operating credit facility was undrawn, but letters of credit totalling \$13,245,000 (including the letter of credit discussed in (a)) were issued against said facility. Lastly, the market value of a unit was \$4.95 and the repayment threshold was \$1.61 (including all outstanding letters of credit issued against the operating credit facility). Toward the end of 2007, the revolving period was extended to January 27, 2011.

Amortization of financing costs amounted to \$258,000 for the period ended March 31, 2008 (\$145,000 for the three-month period ended March 31, 2007).

### FINANCIAL RATIOS AND GUARANTEES

The debt agreements include certain restrictions governing the use of cash resources of the Corporation's subsidiaries. Certain financial ratios, such as debt service ratios, must also be met on a quarterly, semi-annual or annual basis.

The senior and junior credit facilities and certain other debts or interest rate swaps include requirements to establish and maintain reserve accounts to cover short-term debt servicing, equipment maintenance, and income taxes at various times over the term of the loan. As at March 31, 2008, \$1,721,000 (\$1,519,000 as at December 31, 2007) was kept in reserve accounts. These amounts have been included in *Other assets* in the Corporation's consolidated balance sheet.

In addition to assets under capital leases and the investment in the Fund pledged as collateral for the revolving credit facility, the property, plant and equipment of the Stratton power station, one Canadian power station and the French power stations, with a net carrying amount totalling \$189,619,000 as at March 31, 2008 (\$167,790,000 in 2007), together with the related working capital items, have been pledged as collateral.

**Note 7. Long-term debt (continued)**

**MINIMUM FUTURE PAYMENTS**

The estimated aggregate amount of repayments on long-term debt in each of the next five years is as follows:

2008	27,573
2009	17,156
2010	18,383
2011	13,664
2012	12,708

**Note 8.  
 Accumulated other comprehensive income**

	FOR THE QUARTERS ENDED MARCH 31,	
	2008	2007
Balance – beginning of period	(54,431)	(24,482)
Other comprehensive income for the period	9,207	(2,712)
Balance – end of period	(45,224)	(27,194)

**Note 9.  
 Renewable energy tax credit monetization program**

As at March 31, 2008, *Other liabilities* represented the balance of the Corporation's obligation related to the initial payment received upon implementing the monetization program, amounting to \$9,487,000 (US\$9,229,000) (\$10,195,000 and US\$10,318,000 in 2007) less monetization program expenses of \$3,234,000 (US\$3,146,000) (\$3,553,000 and US\$3,596,000 in 2007) for a net amount of \$6,253,000 (US\$6,083,000) (\$6,642,000 and US\$6,722,000 in 2007).

Amortization of monetization program expenses amounted to \$450,000 in 2008 (\$503,000 for the three-month period ended March 31, 2007).

**DESCRIPTION OF THE TRANSACTION**

In December 2006, the Corporation entered into a transaction enabling it to expedite collection of the value of the renewable energy tax credits to be earned by some of its U.S. wood-residue thermal power stations. The investor must be the legal owner of the power stations in order to take advantage of these credits. Accordingly, the transaction also included the transfer of power station ownership. However, the Corporation continues to consolidate these facilities under AcG-15, which sets out the rules for consolidating variable interest entities. Although the Corporation no longer holds majority voting rights for these operations, it is still the primary beneficiary since it will receive all of the cash flows generated by these power stations and absorb any operating losses.

In addition, the Corporation continues to operate these facilities under a service agreement that allows it to define strategic and operating parameters. Furthermore, the Corporation can recover its ownership interests in the power stations in the event of default by the investor in relation to the collateral security guaranteeing receipt by the Corporation of payment for the claimed tax credits and the cash flows generated by the power stations.

On December 1, 2006, the Corporation received \$16,719,000 (US\$14,500,000), or about 50% of the value of the tax credits that will be generated between the transaction date and the program end-date of December 31, 2009. The balance of the credits receivable will be received as the credits are claimed. If the Corporation cannot generate enough energy to cover the value of the amount initially paid by the investor, the contract requires the Corporation to repay that portion. The Corporation believes that future power generation will be sufficient to cover all its commitments. The agreements state that by the end of the program, the Corporation's share of the profits generated by the power stations will automatically be adjusted to a minimum of 80% and that it will have the obligation to buy back the assets for an amount that, based on current estimates, will total approximately US\$5,000,000.

**RECLASSIFICATION OF MONETIZATION PROGRAM ITEMS**

The main objective of the monetization transaction was to strengthen the working capital of Boralex's U.S. subsidiary to give it greater financial flexibility to pursue its day-to-day operations and investment projects. The transaction also enabled the subsidiary to benefit from the time value of money and maximize the realizable value of tax credits.

## Note 9. Renewable energy tax credit monetization program (continued)

Since this is actually a financing transaction, management deemed it appropriate to modify the presentation of the transaction in the fourth quarter of 2007. Amounts previously presented under *Deferred revenues* have been included in *Other liabilities*. In the statement of earnings, *Renewable energy tax credits* were presented net of the discount and financing costs, but it was deemed more appropriate to present the gross amount of renewable energy tax credits and include the discount and financing costs in *Financing costs*. Accordingly, these changes were made to the financial statements for the three-month period ended March 31, 2007. These reclassifications had no impact on the Corporation's cash flows.

## Note 10. Financial instruments

Financial assets and financial liabilities are initially recognized at fair value, and their subsequent measurement is dependent on their classification as described below. The classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and the Corporation's designation of such instruments. The standards require that all financial assets be classified as held for trading ("HFT"), available for sale ("AFS"), held to maturity ("HTM") or loans and receivables. Financial liabilities should be classified as HFT or other liabilities. Derivative instruments are classified as HFT unless they are designated within an effective hedging relationship. The standards further require that all financial assets and liabilities, including all derivatives, be measured at fair value on initial recognition, with the exception of certain related party transactions, and subsequently accounted for based on their classification. The Corporation continues to use settlement date accounting for all financial assets. Changes in fair value of the acquired assets between the trade date and the settlement date are reflected in earnings, other than gains and losses on AFS financial assets, which are reflected in other comprehensive income.

### CLASSIFICATION OF FINANCIAL INSTRUMENTS

The classification of financial instruments as at March 31, 2008, complete with the respective carrying amounts and fair values, is as follows:

MARCH 31, 2008	ASSETS HELD FOR TRADING	LOANS AND RECEIVABLES	OTHER LIABILITIES	CARRYING AMOUNT	FAIR VALUE
Cash and cash equivalents	70,495			70,495	70,495
Accounts receivable		45,089		45,089	45,089
Restricted funds and other funds held in trust		1,721		1,721	1,721
Investments		92		92	92
Accounts payable and accrued liabilities			19,324	19,324	19,324
Long-term debt			192,617	192,617	191,486
Other liabilities			6,253	6,253	6,253

The carrying amount, as well as the fair value, of the derivative financial instruments designated as cash flow hedges as at March 31, 2008 is detailed as follows:

MARCH 31, 2008	ASSETS	LIABILITIES
Financial swaps – interest rate	2,404	329
Foreign exchange options	5,621	50
Financial swaps – electricity prices	–	2,751
<b>Total</b>	<b>8,025</b>	<b>3,130</b>

### DEFINITION OF TYPES OF FINANCIAL INSTRUMENTS

#### Held for trading

HFT financial instruments, as shown in the above table, are financial assets and financial liabilities typically acquired or assumed for the purpose of selling or repurchasing the instrument in the near term. The financial instrument is recorded at fair market value determined using market prices. Interest earned, gains and losses realized on disposal and unrealized gains and losses from the change in fair value are reflected in consolidated earnings.

## **Note 10. Financial instruments (continued)**

### Held to maturity

HTM financial assets are non-derivative financial assets with fixed or determinable payments and a fixed maturity, other than loans and receivables, that an entity has the positive intention and ability to hold to maturity. These financial assets are measured at amortized cost. As at March 31, 2008, the Corporation did not hold any HTM financial assets.

### Available for sale

AFS financial assets are those non-derivative financial assets that are designated as AFS or that are not classified as loans and receivables, HTM investments or HFT financial assets. AFS financial assets are carried at fair value with unrealized gains and losses included in other comprehensive income until realized, when the cumulative gain or loss is transferred to the consolidated statement of earnings and presented within loss or gain on financial instruments. When losses on AFS securities are determined to be other than temporary, the cost of the financial asset is written down to fair value with the change recorded in net gains on investments in the consolidated statement of earnings. Securities that are classified as AFS and that do not have a readily available market value are recorded at cost. Dividends and interest income from AFS instruments are recorded in earnings. As at March 31, 2008, the Corporation did not hold any AFS financial assets.

### Loans and receivables

Loans and receivables, as shown in the above table, are non-derivative financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for a promise to repay on a specified date, or on demand, usually with interest. Loans and receivables are recorded at amortized cost using the effective interest method.

### Other liabilities

Accounts payable and accrued liabilities, other liabilities and long-term debt, as shown in the above table, are recorded at amortized cost using the effective interest method.

### Derivative financial instruments

The Corporation uses derivative financial instruments, as shown in the above table, to manage its market risk with respect to the selling price of electricity, its interest rate exposure and its exchange rate risks. As a matter of policy, the Corporation does not use derivative instruments for trading or speculative purposes.

Estimated fair value is determined using pricing models that take into account current market prices and contractual prices for the underlying instruments, the time value of money and yield curves or future prices.

Derivatives are measured at fair value and reported as assets where they have a positive fair value and as liabilities where they have a negative fair value. The change in fair value during the year is recorded in earnings unless the instrument is part of a hedging relationship.

### Embedded derivatives

Derivatives embedded in other financial instruments or contracts are separated from their host contracts and accounted for as derivatives when their economic characteristics and risks are not closely related to those of the host contract. Embedded derivatives are measured at fair value with changes in fair value recognized in earnings. As at March 31, 2008, the Corporation did not hold any embedded derivatives.

### Transaction costs

Transaction costs related to HFT financial assets and liabilities are expensed as incurred. Transaction costs related to HTM financial assets, loans and receivables and other liabilities are reflected in the carrying amount of the asset or liability and are then amortized over the estimated useful life of the instrument using the effective interest method. Transaction costs related to AFS assets are capitalized on initial recognition and transferred to other comprehensive income immediately after capitalization.

### Determination of fair value

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable willing parties who are under no compulsion to act. The fair value of a financial instrument on initial recognition is the transaction price, which is the fair value of the consideration given or received. Subsequent to initial recognition, the fair values of financial instruments that are quoted in active markets are based on bid prices for financial assets held and offer prices for financial liabilities. When independent prices are not available, fair value is determined using valuation techniques based on observable market data. These include comparisons with similar instruments where observable market prices exist, discounted cash flow analyses, option pricing models and other valuation techniques commonly used by market participants. For certain derivatives, fair value may be determined in whole or in part from valuation techniques using non-observable market data or transaction prices. A number of factors such as bid-offer spread, credit profile and model uncertainty are taken into account, as appropriate, when values are calculated using valuation techniques.

## **Note 10. Financial instruments (continued)**

The carrying amount of certain financial instruments with short-term maturities approximates their fair value. These financial instruments consist of cash and cash equivalents, accounts receivable, restricted funds and other funds held in trust, investments, accounts payable and accrued liabilities and other liabilities.

The fair value of long-term debt is essentially established based on the calculation of discounted cash flows, calculated based on current borrowing rates for debts with similar features, or with market prices. The fair value of derivative financial instruments corresponds approximately to the amounts which could be exchanged between two consenting parties, based on current market prices for similar instruments. Consequently, the estimated fair value must not be interpreted as realizable following the immediate settlement of instruments.

The fair value of electricity price hedging instruments is established by discounting the cash flows related to such contracts and factoring in future electricity selling prices. Over a three-year horizon, there is some liquidity in the electricity market, making it possible to project selling price curves. Beyond that horizon, prices can be negotiated, but often at a significant discount in light of a lack of liquidity in that market. Therefore, the assumption used for pricing beyond the third year consists in adding a reasonable inflation rate to the third year price.

With regard to interest rate swaps, such instruments are measured by discounting the anticipated cash flows using future interest rate curves. The market for interest rate swaps is very active and liquid, and Boralex uses interest rate curves published by recognized market participants.

### Hedges

When the Corporation uses derivatives in hedge accounting relationships, it formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking derivatives to specific assets and liabilities in the balance sheet or to specific firm commitments or forecasted transactions. The Corporation also determines whether the derivatives used for hedging are effective in achieving offsetting changes in the fair value or cash flows of the hedged items. When hedging instruments become ineffective before their maturity or the hedging relationship is terminated, deferred gains or losses on such instruments continue to be deferred and charged to earnings in the same period as the corresponding gains or losses for the hedged items. Gains and losses realized subsequently as a result of marking to market are charged directly to earnings. If the hedged item ceases to exist due to its maturity, expiry, cancellation or exercise, deferred gains or losses are charged to earnings.

### MANAGEMENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The Corporation is exposed to various financial risks in the normal course of business: market risk (including foreign exchange risk, price risk and interest rate risk), credit risk and liquidity risk.

#### Market risk

##### Foreign exchange risk

In the normal course of business, the Corporation is not significantly exposed to currency fluctuations because its foreign operations are self-sustaining and it generally retains liquid assets in the country in which they are generated to continue developing such foreign operations in their country of origin. The Corporation is exposed, however, to a foreign exchange risk relating to certain transactions entered into in foreign currencies. Specifically, a portion of the raw materials used in the Corporation's wood-residue power stations in the United States is denominated in Canadian dollars. Excluding this item, the majority of the other operating, investing and financing activities are carried out in the power stations' local currencies.

Given that the Corporation is not significantly exposed to foreign exchange risk in its regular operating activities, its foreign exchange risk management is based instead on safeguarding its returns on its development projects. Where firm commitments are discharged in connection with a project requiring future cash outlays in a foreign currency, the Corporation acquires hedging instruments to mitigate the risk of fluctuations in said currency.

With regard to the Ontario wind power project's initial 30 MW phase, the turbine supplier is European, which means that purchases will be settled in euros, whereas the operation of these power stations will generate cash flows in Canadian dollars. To protect the expected project return, the Corporation used collars that allow it to put a ceiling and floor on the exchange rate for the purchases. Using such collars, the foreign exchange rate should be about C\$1.42 per euro. These options were entered into to hedge the purchase of 15 turbines for delivery in 2008.

**Note 10. Financial instruments (continued)**

The following table summarizes the Corporation's commitment to purchase foreign currencies as at March 31, 2008:

AS AT MARCH 31, 2008	FOREIGN EXCHANGE RATE	NOTIONAL AMOUNT	FAIR VALUE
Purchase contracts (€ for CA\$)			
June 11, 2008	1.4175	€13,077,750	\$2,652,248
August 13, 2008	1.4185	€9,341,250	\$1,842,319
October 10, 2008	1.4195	€3,736,500	\$717,669
October 10, 2008	1.4195	€1,868,250	\$358,835

On March 31, 2008, a \$0.05 rise or fall in the Canadian dollar against the other currencies, assuming that all other variables had remained the same, would have resulted in a \$368,000 increase or decrease, respectively, in the Corporation's net earnings for the three-month period ended March 31, 2008, whereas other comprehensive income would have increased or decreased by \$6,436,000, respectively.

**Price risk**

In the Northeastern United States, a large portion of the Corporation's power generation is sold on the spot market or under short-term contracts and is accordingly subject to fluctuations in electricity prices. Electricity prices vary according to offer, demand and certain external factors, including weather conditions, the price of power from other sources and the cost of the raw materials needed to generate electricity. As a result, prices may fall too low for the power stations to yield an operating profit. The Corporation has implemented hedging strategies for electricity prices to fix some prices and mitigate certain risks. To do so, the Corporation uses various agreements, some of which involve the physical delivery of electricity.

For pricing reasons, it can be advantageous under certain conditions to use financial swaps to exchange the variable market price for a fixed price agreed upon with a counterparty. As at March 31, 2008, the Corporation had entered into five electricity financial swaps for total deliveries of 375,000 MWh over periods of six to 21 months. All electricity financial swaps as at March 31, 2008 were designated as variable cash flow hedges associated with future electricity deliveries and their unfavourable fair value amounted to \$2,751,000. These contracts qualify for hedge accounting.

Our power stations in France, Canada, as well as Middle Falls, Ashland and Fort Fairfield in the U.S., have long-term electricity sales contracts immune to fluctuations in electricity prices.

On March 31, 2008, a 5% rise or fall in electricity prices, assuming that all other variables had remained the same, would have resulted in a \$371,000 increase or decrease, respectively, in the Corporation's net earnings for the three-month period ended March 31, 2008, whereas other comprehensive income would have increased or decreased by \$1,032,000, respectively.

**Interest rate risk**

The revolving credit facility, bridge financing credit facility, master agreement, term loan payable of the Stratton power station, together with a portion of certain financing leases, bear interest at variable rates. With a view to mitigating its interest rate exposure, the Corporation has entered into interest rate swaps to obtain a fixed interest expense on portions ranging from 58% to 89% of the corresponding variable rate debt. These agreements involve the periodic exchange of interest payments without any exchange of the principal on which such payments are calculated. Under these agreements, the Corporation receives a variable amount based on the EURIBOR rate and pays fixed amounts based on rates of 3.30% to 5.16%. Since the drawdowns are gradual and the loans are periodically repaid when sites are commissioned, the swaps have been structured to mirror the terms of the underlying credit arrangements and to always cover a significant portion of these arrangements. By using these instruments, the Corporation has reduced the proportion of its variable rate debt from 86% to 17%. As at March 31, 2008, the notional amount of those swaps was \$133,048,000 (€81,906,000) and their favourable fair value amounted to \$2,075,000 (€1,277,000). These swaps mature from 2015 to 2021.

On March 31, 2008, a 5% rise or fall in interest rates, assuming that all other variables had remained the same, would have resulted in a \$22,000 increase or decrease, respectively, in the Corporation's net earnings for the three-month period ended March 31, 2008, whereas other comprehensive income would have increased or decreased by \$2,098,000, respectively.

**Credit risk**

Credit risk stems primarily from the potential inability of clients to discharge their obligations. Given the nature of the Corporation's business, its clients are few in number, but their credit ratings are in general very high, given that in Québec and France, the electricity market is limited to public monopolies. With respect to the steam sales in France, where this energy is used in the papermaking process, Boralex's client is in the private sector, which makes the credit risk higher. In the U.S., the market is more deregulated and a large proportion of the Corporation's business is done with regional producers' associations such as NEPOOL for New England and NYISO for New York State. Both organizations have very strong credit ratings. The Corporation can also reach private agreements directly with energy marketers. These customers are usually very large corporations with investment grade credit ratings. The Corporation regularly monitors the financial condition of these customers.



**Note 10. Financial instruments (continued)**

The Corporation's counterparties for derivative financial instruments are also large corporations. Before entering into a derivative transaction, the Corporation analyzes the counterparty's credit rating and assesses the overall risk based on the counterparty's weighting within the Corporation's portfolio. Should a significant credit rating downgrade or overly heavy weighting make this analysis unfavourable, the transaction is not completed. Furthermore, if a company does not have a public credit rating, the Corporation assesses the risk and may require financial guarantees.

The Corporation is also exposed to a credit risk with respect to its direct financing lease contracts. To reduce this risk, the Corporation regularly evaluates supplier performance to determine whether any action is required. The Corporation also visits the woodchip production sites from time to time to perform equipment checks. If a supplier's credit were to become questionable and an acceptable plan of action could not be arranged, the Corporation would have access to the underlying assets, which could then be transferred to another supplier with a better credit rating. In such a case, the Corporation would re-measure the assets based on the lower of their carrying amount and fair market value.

During the three-month period ended March 31, 2008, the Corporation's revenues were generated by 4 clients accounting for over 10% of its revenues. All these clients are well-established large corporations. Management considers that such a customer concentration is characteristic within the power generation industry.

As at March 31, 2008, approximately 3% of accounts receivable were over 90 days past due after being invoiced, while approximately 89% of accounts were up to date (under 30 days).

Liquidity risk

Liquidity risk is the risk that the Corporation will experience difficulty meeting its obligations as they fall due.

The Corporation has a Treasury Department in charge, among other things, of ensuring sound management of available cash resources, financing and compliance with deadlines for all of the Corporation's activities. With senior management oversight, the Treasury Department manages the Corporation's cash resources based on financial forecasts and anticipated cash flows.

The contractual maturities of the Corporation's financial liabilities as at March 31, 2008 are summarized in the following table:

	CARRYING AMOUNT	CONTRACTUAL CASH FLOWS	UNDER 1 YEAR	FROM 1 TO 2 YEARS	FROM 2 TO 5 YEARS	OVER 5 YEARS
<b>Non-derivative financial liabilities:</b>						
Accounts payable and accrued liabilities	19,324	19,324	19,324			
Bridge financing credit facility	11,046	11,046	11,046			
Master agreement – wind power projects	145,050	145,050	10,504	11,079	30,457	93,010
Term loan payable – Nibas wind farm	12,823	12,823	1,245	1,308	4,311	5,959
Term loan payable – Stratton power station	3,388	3,388	822	822	1,744	
Financing leases	16,158	16,158	2,678	2,709	7,438	3,333
Other debt	4,152	4,152	1,278	1,237	805	832
Other liabilities	6,253	6,253	6,253			
<b>Derivative financial instruments:</b>						
Financial swaps – electricity prices	2,751	2,751	2,579	172		
Financial swaps – interest rates	329	329				329
Foreign exchange options	50	50	50			
	221,324	221,324	55,779	17,327	44,755	103,463

As at March 31, 2008, the revolving credit facility with an authorized amount of \$85,000,000 was undrawn, but letters of credit totalling \$13,245,000 were issued against this operating credit facility.

## Note 11. Capital management

The Corporation's objectives when managing capital are as follows:

- Safeguard the Corporation's ability to pursue its operations and development;
- Maintain its financial flexibility to enable the Corporation to seize opportunities when they arise;
- Ensure continuous access to capital markets;
- Safeguard the Corporation's financial flexibility with a view to offsetting the seasonal nature of its operations as well as cyclical variations in hydroelectric and wind power generation;
- Diversify the project risks in its portfolio through project-specific financing packages without calling on the parent company to maximize its financial leverage in light of the significant capital requirements for project delivery in the energy sector.

The Corporation manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain its capital structure, the Corporation prioritizes the use of less costly financing sources, such as cash flows from operations, debt, equity issuance and, as a last resort, the sale of assets. The Corporation's policy is to earmark its available cash assets for growth projects; to this end, the Corporation does not expect to pay out any dividends on Class A shares in the short term. The Corporation's investment policy governing cash resources requires it to use only investments with current maturities guaranteed by financial institutions. For instance, bankers' acceptances guaranteed by a Canadian chartered bank meet these criteria. The Corporation deems its current financing sources will be sufficient to support its operating plans and activities.

The Corporation monitors its capital on a quarterly and annual basis based on various financial ratios and non-financial performance indicators. It is also required to meet certain financial ratios under its long-term financial commitments. More specifically, the Corporation must meet ratios pertaining to debt coverage, debt service and interest coverage in relation to the performance measures defined in the respective credit agreements. As at March 31, 2008 and December 31, 2007, the Fund was in compliance with its commitments and had significant leeway with respect to the required minimum ratios. The Corporation is not subject to any regulatory capital requirements.

The Corporation's capital management objectives have remained unchanged from the previous year. The Corporation relies mainly on the ratio of net debt/enterprise value for capital management purposes. For calculation purposes, net debt consists of long-term debt, including the current portion thereof, net of cash on hand. Enterprise value is determined by adding net debt and market capitalization, which is calculated by multiplying the number of outstanding shares by the closing price of the Corporation's stock. Cash and cash equivalents available are also a key factor in capital management, as the Corporation must retain sufficient flexibility to seize potential growth opportunities. To achieve this objective, the Corporation establishes long-term financial forecasts to determine future financing requirements in line with its strategic business development plans.

As at March 31, 2008, the Corporation's performance with respect to its capital management objectives was as follows:

- Net debt/enterprise value ratio of 14.9% (13.0% as at December 31, 2007);
- A balance of cash and cash equivalents of \$70,495,000 (\$79,195,000 as at December 31, 2007).

Although it currently has a net debt/enterprise value ratio of 14.9%, the Corporation's long-term goal consists in keeping this ratio below approximately 65%. Once the Québec and Ontario wind power projects are deployed, the Corporation's ratio is expected to be close to that mark. Furthermore, the Corporation would tolerate a ratio of up to 80% were a significant project deemed worth it, but it would strive to reduce said ratio over a 24-month period.

## Note 12. Seasonal factors

Operations and results for some of the Corporation's power stations are subject to seasonal cycles that vary by segment. Moreover, the impact of seasonal variations differs, depending on whether or not the power stations have power sales agreements.

For the 13 Boralex power stations that have long-term fixed-price power sales agreements, seasonal cycles mainly affect the volume of power generated. The eight power stations that do not have long-term contracts and that sell their power on the open market in the Northeastern U.S. are more vulnerable to seasonal fluctuations which, in addition to influencing generation volumes, also have an impact on prices obtained in the electricity market. Generally, power consumption increases in the winter and summer, which represent Boralex's first and third quarters. This means that, for those two periods, the power stations that sell on the open market usually have higher average electricity sales prices.

Because the wood-residue thermal power stations can control their level of power generation, they generate more power during such high-demand periods. Given this, these power stations perform regular maintenance in the spring or fall, which impacts their operating results for those periods.

## Note 12. Seasonal factors (continued)

Hydroelectric generation depends on water flow, which in Québec and the Northeastern U.S. tends to be at its maximum in spring and generally good in the fall, which represents Boralex's second and fourth quarters. Historically, water flow tends to decrease in winter and summer. Note that Boralex's hydroelectric power stations do not have reservoirs with which they could regulate water flow.

In the wind power segment, where Boralex's activities are currently focused in France, wind conditions are usually more favourable in the winter, which falls during Boralex's first and fourth quarters. However, in winter there is a higher risk of downtime caused by weather conditions, such as icing at high-altitude sites.

The natural gas cogeneration plant's long-term power sales contract with Électricité de France ("EDF") contains a clause that limits electricity prices from April to October. When natural gas prices are high, the profit margin for this period is not sufficient to offset the ceiling on electricity prices. The cogeneration equipment may therefore be shut down, in which case the Corporation supplies its steam customer from an auxiliary boiler. Accordingly, in the past three fiscal years, the Corporation operated its cogeneration equipment only during the five winter months, which will also be the case in 2008.

Furthermore, Boralex's investment in the Fund is also subject to a seasonal cycle. Around 50% of the Fund's output is hydroelectric and thus subject to the same water flow fluctuations as Boralex's hydroelectric power stations. However, since all of the Fund's power stations have long-term power sales contracts, they are not subject to a seasonal price cycle. Nevertheless, some power stations receive a premium for power generated from December to March, which typically results in the Fund's increased profitability in the first and fourth quarters.

In short, although Boralex's performance is affected by seasonal cycles, the Corporation attenuates their impact by diversifying its power generation sources. The Corporation is also developing complementary revenue streams in order to increase and secure sales. It participates, for example, in the Renewable Energy Certificates ("RECs") market and the Forward Capacity Market in the Northeastern U.S., as well as in the carbon dioxide ("CO<sub>2</sub>") quota market in France.

## Note 13. Segmented information

The Corporation's power stations are grouped under four distinct segments: wind power, hydroelectric power, wood-residue thermal power and natural gas cogeneration power, and are engaged mainly in power generation. The classification of these segments is based on the different cost structures relating to each type of power station.

The Corporation analyzes the performance of its operating segments based on their EBITDA, which is defined as earnings before interest, taxes, depreciation and amortization. EBITDA is not a measure of performance under Canadian generally accepted accounting principles; however, management uses this measure to assess the operating performance of its segments. Earnings for each segment are presented on the same basis as those of the Corporation.

The following table reconciles EBITDA to net earnings:

	FOR THE QUARTERS ENDED MARCH 31,	
	2008	2007
Net earnings	9,221	9,777
Non-controlling interests	94	57
Income tax expense	5,438	5,433
Financing costs	3,465	4,548
Financial instruments	319	–
Amortization	5,828	5,982
<b>EBITDA</b>	<b>24,365</b>	<b>25,797</b>

**Note 13. Segmented information (continued)**

INFORMATION BY SEGMENT

	FOR THE QUARTERS ENDED MARCH 31,	
	2008	2007
<b>GENERATION (in MWh)</b>		
Wind power stations	75,822	61,976
Hydroelectric power stations	43,380	33,581
Wood-residue thermal power stations	327,908	341,380
Natural gas thermal power station	22,493	22,174
	<b>469,603</b>	<b>459,111</b>
<b>REVENUES FROM ENERGY SALES</b>		
Wind power stations	10,170	8,268
Hydroelectric power stations	3,790	3,079
Wood-residue thermal power stations	34,337	33,360
Natural gas thermal power station	6,722	6,095
	<b>55,019</b>	<b>50,802</b>
<b>EBITDA</b>		
Wind power stations	8,516	7,070
Hydroelectric power stations	3,047	2,066
Wood-residue thermal power stations	11,083	12,175
Natural gas thermal power station	1,319	2,105
Corporate and eliminations	400	2,381
	<b>24,365</b>	<b>25,797</b>
<b>ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT</b>		
Wind power stations	2,686	197
Hydroelectric power stations	6	118
Wood-residue thermal power stations	1,200	45
Natural gas thermal power station	–	2
Corporate and eliminations	105	137
	<b>3,997</b>	<b>499</b>
	AS AT MARCH 31,	AS AT DECEMBER 31,
	<b>2008</b>	<b>2007</b>
<b>ASSETS</b>		
Wind power stations	219,012	196,816
Hydroelectric power stations	15,570	12,434
Wood-residue thermal power stations	133,104	130,715
Natural gas thermal power station	18,921	16,132
Corporate and eliminations	165,979	158,634
	<b>552,586</b>	<b>514,731</b>

**Note 14.**  
**Comparative figures**

Certain figures from the prior year's consolidated financial statements have been reclassified to conform to current period presentation.