

A black and white photograph of two wind turbines. The turbines are positioned on the right side of the frame, with their towers and nacelles visible. The blades are spread out, and the background is a clear, light grey sky. The left side of the image is a solid white rectangle.

BORALEX

2009 Annual Report

PROFILE

Boralex is a major independent power producer whose core business is the development and operation of power stations that generate renewable energy.

Employing over 300 people, the Corporation operates 29 power stations with a total installed capacity of 417 megawatts (“MW”) in Canada, in the Northeastern United States and in France. In addition, the Corporation has, alone or with its European and Canadian partners, power projects under development that will add close to 300 MW of power, of which almost 100 MW will come online by the end of fiscal 2010. Boralex is distinguished by its diversified expertise and in-depth experience in three power generation segments – *wind, hydroelectric and thermal*.

Boralex also holds a 23% interest in Boralex Power Income Fund, which has ten power stations with a total installed capacity of 190 MW in Québec and the United States. These sites are managed by Boralex.

Boralex shares are listed on the Toronto Stock Exchange (TSX) under the ticker symbol BLX.

More information is available at www.boralex.com or www.sedar.com.

Financial Highlights

(in thousands of dollars, unless otherwise specified)	2009	2008 ⁽¹⁾	2007	2006
OPERATIONS				
Revenue from energy sales	184,779	197,246	163,338	120,002
Share in earnings of the Fund	(2,090)	7,826	6,830	10,023
EBITDA ⁽²⁾	57,325	68,835	61,284	42,822
Net earnings	24,439	20,410	21,607	14,765
Cash flows from operations ⁽²⁾	47,413	55,200	51,548	24,518
INVESTMENTS				
Additions to property, plant and equipment	84,532	44,577	22,478	19,201
Development projects	10,337	5,617	4,609	848
Business acquisitions	53,758	5,781	–	6,749
FINANCIAL POSITION				
Cash and cash equivalents	37,821	69,195	79,195	13,899
Property, plant and equipment	413,539	330,443	258,712	280,136
Investment ⁽³⁾	55,446	69,348	67,321	75,553
Total assets	663,767	622,954	514,212	475,675
Long-term debt	197,116	158,035	148,747	192,493
Shareholders' equity	340,030	362,720	284,421	181,795
CLASS A SHARE DATA				
Net earnings per share (basic – in dollars)	0.65	0.54	0.63	0.49
Shareholders' equity per share outstanding at the end of the period (in dollars)	9.01	9.61	7.60	6.06
Weighted average number of shares outstanding (in thousands)	37,741	37,740	34,403	30,034
Shares outstanding, end of period (in thousands)	37,741	37,741	37,455	30,050
RATIO				
Long-term debt/total capitalization	38.3%	25.2%	26.2%	55.7%

(1) Certain 2008 data have been reclassified to reflect the presentation adopted in 2009.

(2) Earnings before interest, taxes, depreciation and amortization (EBITDA), and cash flows from operations are not a measure of performance under Canadian generally accepted accounting principles. Refer to *Additional information about non-GAAP performance measures* on pages 15 and 16.

(3) The investment represents the Corporation's interest in the Fund.

STOCK DATA

As at December 31, 2009

Securities: Class A Shares

Symbol: BLX

Exchange: Toronto

Principal Shareholder: Cascades Inc. 34%

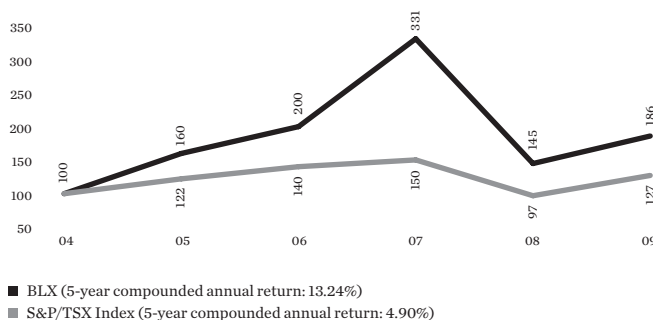
TRADING ON CLASS A SHARES

Fiscal year ended	Shares issued and outstanding	High *	Low	Closing price
December 31, 2009	37,740,921	\$ 9.96	\$ 5.00	\$ 9.70
December 31, 2008	37,740,921	\$ 18.00	\$ 6.22	\$ 7.55

* The highest closing price

GROWTH IN BLX STOCK PRICE (TSX)

\$100 investment made on Dec. 31, 2004



Overview of Fiscal 2009

The best word to describe the past year is EXPANSION. After the many development projects completed or initiated in 2009, by the end of 2010 Boralex's total installed capacity will increase by almost 50% over 2009. This growth, which took place during a worldwide economic crisis, shows the QUALITY of Boralex's project, the DYNAMISM of its employees and its CREDIBILITY with its financial and strategic partners.

DEVELOPMENT

- Investment of \$155 million to acquire and develop renewable power assets—primarily in wind power—and optimize existing assets
- Negotiation of \$68.7 million in new bank financing, despite extremely tight credit
- Conclusion of a financial and strategic partnership with European investment firm Cube Infrastructure Fund (“Cube”), to accelerate Boralex’s development and consolidate its leadership in renewable energy production in Europe
- From 351 MW on January 1, 2009, Boralex’s total installed capacity rose to 417 MW in March 2010 and will increase to 517 MW by late fiscal 2010, with more than 60% under indexed long-term power sales contracts

PERFORMANCE

- The total production volume diminished from 1 623 293 MWh in 2008 to 1 574 874 MWh in 2009, down 3% and the total revenue from energy sales decreased from 197.2 M\$ in 2008 to 184.8 M\$ in 2009, down 6%, due to the economic slowdown in the northeastern United States
- Excluding depreciation of the property, plant and equipment of one of Boralex Power Income Fund’s power stations, EBITDA of \$62.9 million compared to a record EBITDA of \$68.8 million 2008
- Gain on dilution of \$13.9 million, representing the added value of Cube’s initial investment in Boralex’s European operations, proving the excellent quality of the Corporation’s assets
- Net earnings of \$24.4 million in 2009 versus \$20.4 million in 2008
- Cash flow from operations of \$47.4 million or \$1.26 per share, down 14.1% year over year
- Maintenance of solid balance sheet: as at December 31, 2009, cash of \$37.8 million and ratio of total net debt to total capital on the books of 38.3%

In fiscal 2010, despite the challenges which will continue to face its power stations in the New England open market, Boralex will benefit from the operation and progressive start-up of an additional 170 MW (compared to early 2009) in Canada and Europe.

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WIND POWER

Investment of almost \$136 million to acquire and develop sites in Canada and Europe

- Increase of 10.9% and 11.8% respectively in this segment's overall revenue and EBITDA

EUROPE (additional 60 MW in 2010):

- Start-up of 4.6 MW at Cham Longe II wind farm in early February 2010
- Acquisition and development of Chasse-Marée wind farm, 9.2 MW (start-up scheduled for April 2010)
- Partnership with Cube, which could inject up to €33 million for a maximum interest of 30% in Boralex's European operations
- Acquisition of three wind farms for a total of 47 MW: the Bel Air wind farm with 7 MW (already operating) and the Le Grand Camp and Ronchois wind farms, with 10 MW and 30 MW respectively (start-ups scheduled for summer 2010)
- Continuation of development work in Italy

CANADA (additional 90 MW):

- Construction and start-up between December 2009 and February 2010 of Phase I of 40 MW of the Thames River site, Ontario
- Qualification of Thames River site (phases I and II) for the Advanced RESOP rate program
- Start of development of Phase II, 50 MW, of the Thames River site (start-up scheduled for fourth quarter 2010)
- Advancement and optimization of two projects totalling 272 MW at the Seigneurie de Beaupré in Québec (start-ups scheduled for late 2013)

In 2010, the wind power segment will become Boralex's biggest operating segment, with an installed and contracted capacity of 260 MW (which does not include possible European acquisitions). The higher contribution from this segment will increase overall profitability, stabilize the Corporation's cash flows and decrease risk.

HYDROELECTRIC POWER

Price weakness in the United States partially offset by positive contribution of new Canadian power station

- Decrease of 12.1% in revenue and 30.1% in EBITDA due to lower electricity prices on the New England open market
- Acquisition of the Canadian Ocean Falls power station in British Columbia, which has an installed capacity of 14.5 MW (2 MW currently in operation) and a long-term power sales contract
- Acquisition of the rights to develop two other projects in northern British Columbia, with a potential added capacity of 10 MW
- Continuation of efforts to develop hydroelectric projects in partnership with certain Québec municipalities

In the medium term, Boralex plans to increase the size of the hydroelectric segment in Canadian regions that have good hydrological potential, including British Columbia.

THERMAL POWER

Good performance sustained despite tough economic conditions in the United States

- Decrease of 9.2% in revenue from the wood-residue segment, stemming from lower REC sales, lower production volume and lower average selling prices due to the recession in the United States
- Decrease of only 1.2% in EBITDA for this segment, since the impact of the recession was offset by an effective forward sales and financial swaps strategy, lower fuel supply and maintenance costs, and the positive impact of currency fluctuations
- Positive impact of the 2006-2008 program to optimize overall performance in the wood-residue power stations
- Additional investment of more than \$13 million to upgrade production equipment and strengthen wood-residue supply agreements
- Expiry in December 2009 of the U.S. tax credit program for renewable energy generation (\$13.9 million credits received in 2009)
- In early 2010, six wood-residue power stations qualified for the U.S. Biomass Crop Assistance Program ("BCAP"), which provides subsidies for the harvesting and recovery of forest biomass; this will generate savings of US\$6 million for Boralex in coming quarters
- Firm agreements for forward sales contracts valued at 23.8 million in RECs by December 2012 (including 16.8 million in 2010) and financial swap contracts covering 65% of expected electricity generation for 2010
- Relative stability of EBITDA at the natural gas cogeneration plant in France; sharp drop in selling price offset by an equivalent decrease in natural gas costs

In response to its still difficult business environment, the wood-residue segment will, in addition to ongoing optimization efforts, continue to capitalize on its positioning and expertise in renewable power generation to take advantage of governments' increased openness to this type of energy production.

Message to Shareholders

Despite the world economic crisis, fiscal 2009 was one of the most constructive periods in Boralex's history. Not only did the Corporation weather the storm and maintain its good financial performance, it came out of the recession stronger than before. The assets acquired and developed in 2009, along with the completion of a number of projects in the next months, will boost Boralex's installed capacity to more than the planned 500 MW by the end of fiscal 2010. This is an increase of almost 50% over our installed capacity at the start of fiscal 2009. In a period when global capital markets were virtually paralyzed and new energy projects were almost nonexistent, we succeeded in raising close to \$92 million in new financing, including an injection of capital from our new European partner, Cube Infrastructure Fund ("Cube"). In 2009, Boralex invested close to \$155 million to expand its asset base, primarily in the wind power segment. In a few months this segment will become Boralex's largest segment.

FINANCIAL PERFORMANCE:

DESPITE THE ECONOMIC SITUATION, GOOD PROFITABILITY IN BORALEX'S OPERATIONS AND CREATION OF ADDED VALUE FOR SHAREHOLDERS

In fiscal 2009, Boralex generated operating income (or EBITDA) of \$57.3 million versus \$68.8 million in 2008. The decrease is primarily due to a \$10.2 million decrease in Boralex's share of the earnings of the Boralex Power Income Fund (the "Fund"). That decrease was caused by a significant deterioration in the business conditions of the Fund's Dolbeau thermal power station, which led to depreciation of Dolbeau's property, plant and equipment. The depreciation reduced Boralex's EBITDA in 2009 by \$5.6 million and its net earnings by \$4.1 million. Excluding the Fund's results, EBITDA for Boralex's operations amounted to \$58.3 million in 2009, down \$1.3 million from the record operating results of fiscal 2008. In the wind power segment EBITDA rose 11.8%, offsetting the decline in the profitability of the hydroelectric segment stemming from lower electricity prices in New England compared to high price levels in 2008. Despite this latter factor and the decrease in Connecticut's REC prices, operating income in the wood-residue segment was down only 1.2%. The decline was limited primarily by the impact of Boralex's strategy for electricity forward sale contracts and REC sales, lower fuel costs, optimization of operations over the past several years and the positive impact of currency fluctuations. With respect to the natural gas cogeneration plant in France, its operations are structured so that downward pressures on selling prices are counterbalanced by downward pressure on the cost of natural gas, which makes this facility a reasonably stable source of profits and cash flow for Boralex.

Boralex closed fiscal 2009 with net earnings of \$24.4 million or \$0.65 per share. This includes a gain of \$13.9 million on dilution of Boralex's interest in its European structure following the capital injection by Cube, its new European partner, of an initial amount of €15 million, equal to a 16% interest. Under the agreement between Boralex and Cube, Cube can invest up to €33 million to December 2012 for an interest of up to 30% in Boralex's European operations. We are very pleased with this partnership, which is flexible, advantageous for both parties and creates value for Boralex shareholders. Cube's capital injection creates immediate added value in relation to Boralex's investment in its European operations since 2002. But above all, the capital provided by Cube will make it possible to develop or acquire an additional 110 MW of capacity, without extra financing from Boralex. With this partnership Boralex will be able to accelerate its expansion in France and certain other European countries, and it will do so in solar power as well as wind power.

The timing of this transaction couldn't have been better. The global recession has created opportunities to acquire development projects or already-operational assets at a more affordable price than in the past; it has also put downward pressure on wind turbine prices because new projects are few and far between.

DEVELOPMENT:

CLOSE TO \$136 MILLION SPENT ON WIND POWER EXPANSION IN 2009

About 88% of Boralex's total investments in 2009 were allocated to entering the **wind power** market in Canada and expanding this segment in Europe. One of the year's milestones was the completion of 40 MW in Phase I of the Thames River site in Ontario, Canada. The four wind farms in this site were started up and run in December 2009 and January 2010; commercial production has been entirely completed in early February 2010. Not only is this the biggest wind power project built to date by Boralex in Canada, but it was successfully completed during a world economic and financial crisis. It is a true achievement, and the entire team merits congratulations. In addition to setting up the financing required, the team successfully negotiated with the Ontario Power Authority to ensure that rates in our 20-year power sales contract would be increased under the new Advanced RESOP program for the generation of renewable energy. This adjustment will have a positive impact of about \$15 per MWh, which will significantly increase the performance of these assets. Phase II, the 50 MW project at the Thames River site, which will be completed in the fourth quarter of fiscal 2010, will also be eligible for the Advanced RESOP program. Road building and excavation is underway at the site and Boralex has recently finalized an agreement with a lender that ensures financing for Phase II of the project and refinances Phase I.

Furthermore, the development, in partnership with Gaz Métro, of two wind farms with a total of 272 MW at the Seigneurie de Beauré in Québec is moving forward as planned. In 2009, in addition to obtaining the necessary environmental approvals from governments, we completed a fifth year of wind studies that confirm the excellent wind power potential of this site. Other in-depth analyses were also conducted in order to optimize these promising projects, which will start up at the end of 2013. In fiscal 2010 we will begin building the road network and will further our financing negotiations over the next 18 months. Note that almost all of the expenditures for the Seigneurie de Beauré projects will be in 2012 and 2013.

In our European operations, we acquired the Cham Longe II wind farm of an installed capacity of 4.6 MW, in operation since the beginning of February 2010, and the 9.2 MW Chasse-Marée wind farm, which will come online in the second quarter of 2010. On December 29, 2009, a few days after the Cube transaction, Boralex acquired three wind farms in France with a total installed capacity of 47 MW. The 7 MW wind farm has been in operation for almost four years. The other two, 10 MW and 30 MW, were already being built when acquired and will start up in the summer of 2010. This expansion will make Boralex one of the top five wind power producers—and the biggest independent producer—in France. This is a good illustration of the opportunities in the European market to acquire projects or existing energy assets, as well as the advantages of our partnership with Cube.

Given that the master financing agreement negotiated in France in 2007 expires in December 2010, we are now talking with the lender about expanding the scope of the financing in terms of duration, amount, geographic location and segment. We would like it to cover investment in other European countries, such as Italy, where we are now conducting a wind power project with a partner, and other segments, including **solar power**.

To that end, we are developing our first 4.5 MW solar park using photovoltaic technology on our Avignonet-Lauragais wind power site in southern France. Other projects totalling 40 MW are also being studied in France. We are also exploring the potential of this market in Spain. As Boralex has done since 2002 in wind power, we plan to develop expertise and leadership in solar power in Europe, where rates are particularly advantageous. Note that the economic slowdown and technological developments have pushed equipment prices down significantly in the past two years.

In the **hydroelectric** segment, the main milestone in 2009 was the acquisition of a power station at Ocean Falls, British Columbia, at a cost of \$19 million over three years. Ocean Falls is currently generating 2 MW of power and has an installed capacity of 14.5 MW. This facility has advantageous rates in its long-term power sales contract, and once its total installed capacity is upgraded (in accordance with possible business or interconnection opportunities), Ocean Falls will have a significant positive impact on average price and revenue stability in our hydroelectric segment. Moreover, the installed capacity at Ocean Falls could eventually be increased to more than 35 MW. In 2009, Boralex also acquired rights to two projects totalling 10 MW in the same area, which will be upgraded in the medium term.

Lastly, in 2009 more than \$13 million was invested in the wood-residue **thermal power** segment. This includes close to \$9 million to expand the purchase and lease of equipment, primarily chippers, to support the wood-residue supply strategy. Under this strategy, partnerships have been established with a growing number of suppliers and wood residues now account for more than 80% of the fuel used in the thermal power segment. This gives Boralex a considerable advantage under the Biomass Crop Assistance Program (“BCAP”) introduced in 2009 by the U.S. federal government to promote the development of green energy. Our six wood-residue power stations all qualify for BCAP, which provides subsidies to companies which harvest and process forest biomass used to generate electricity. We estimate that in future quarters this program will result in savings of US\$6 million on the cost of fuel supplies.

OUTLOOK:

PERFORMANCE SUPPORTED BY WIND POWER EXPANSION

In fiscal 2010 and subsequent years, the main driver of Boralex’s financial performance will be wind power. In December of 2009, at the very end of the fiscal year, the start-up of the first two wind farms at the Thames River site and the acquisition of an operational wind farm in France added 27 MW to our wind power portfolio. Then, in January 2010, an additional 25 MW of wind power came online in Phase I at the Thames River site and the Cham Longe II wind farm. This means that in Boralex’s wind power segment, installed capacity is now 160 MW, composed of 120 MW in France and 40 MW in Canada, which amounts to growth of 48% over the same date in 2009. These new facilities, all of which have advantageous long-term power sales contracts, will enhance Boralex’s results for periods of 11 to 12 months in 2010. Furthermore, the Chasse-Marée, Le Grand Camp and Ronchois wind farms will also add a total of 49 MW in the second and third quarters of 2010. This will make wind power Boralex’s largest operating segment. Lastly, by late 2010, the Phase II start-up at the Thames River site will add 50 MW. Boralex will thus start begin fiscal 2011 with an installed wind power capacity of 260 MW.

This expansion will have a significant beneficial effect on the mix of Boralex’s revenue streams. It will raise the percentage of the Corporation’s installed capacity governed by indexed long-term contracts from 55% at December 31, 2009 to 63.5% by the end of fiscal 2010. With start-up of the two Seigneurie de Beaupré wind farms in Québec in December 2013, this figure will rise to more than 70%, not including possible acquisitions, ensuring Boralex a higher source of revenue, with higher revenue margins and more stable and predictable cash flows.

However, the wood-residue segment will still face tough market conditions in 2010. These include an unfavourable exchange rate, a reduced benefit compared to 2009 with respect to forward power sales contracts and financial swaps, and the expiry of the tax credit program (although it is possible that the program will be re-introduced by the U.S. Congress). On the other hand, these conditions will be mitigated by the substantial savings generated by BCAP, which we expect to be combined with steadily increasing electricity prices and more stable REC prices. In the medium term, the wood-residue segment will continue to represent a significant source of profits and liquidity for Boralex given the segment’s positioning and expertise in the generation of renewable energy and in the REC market, and the growing openness of the U.S. government to this type of power generation.

Lastly, the Fund’s results in 2010 will likely continue to suffer from problems in the Québec forest industry and an unfavourable exchange rate for its U.S. operations. Given this, the Fund announced that distributions to unitholders will be reduced from \$0.70 to \$0.40 per trust unit on an annualized basis, starting with the distribution in February 2010. This will decrease our cash flow by \$3.8 million in 2010.

CONCLUSION:**ON TRACK TO REACH 1,000 MW IN CONTRACTED CAPACITY**

Over the next two to three years, our main goals are as follows:

- In Europe, to maximize the benefits of our partnership with Cube by acquiring other wind power facilities and by developing a foothold in solar power;
- In Canada, to optimize production in Phase I and start up Phase II at the Thames River site, and continue the development of the two Seigneurie de Beaupré projects in time for start-up in late 2013.

With the addition of the Seigneurie de Beaupré wind farms, our installed capacity will increase to over 650 MW, with more than 70% covered under long-term contracts, to support Boralex's financial growth to 2014. Moreover, we are already preparing the next cycle of development by identifying and initiating new projects, mainly in North America, that will start up in 2014. In Québec, in the spring of 2010, we will submit several wind and hydroelectric power projects to Hydro-Québec in response to its request for proposals to set up power generating operations in partnership with municipalities and First Nations communities. In particular, we will be studying the possibility of using the excellent potential of the Seigneurie de Beaupré site to build additional wind farms. In Ontario, we will, at the appropriate time, decide when to begin developing the rights we acquired to the Merlin-Buxton wind power project, which has a potential installed capacity of about 90 MW. Our medium and long-term projects also include developing the full potential of Ocean Falls and acquiring or developing other hydroelectric sites in British Columbia.

Given Boralex's 2009 performance and achievements amidst a worldwide recession, we can only be optimistic about Boralex's prospects in a recovering economy with abundant opportunities in the marketplace. Our disciplined approach and the prudent management to operations and of our investments has enabled us to achieve satisfactory profitability, significant cash flows, and a sound financial position. Above all, our success in obtaining financing and successfully completing projects despite tight capital markets speaks to the quality of Boralex's projects and its credibility with its financial and strategic partners.

These strengths augur well for the future success of Boralex, especially since they are based on our primary resource—the skills and knowledge of our dynamic, dedicated and extremely competent employees. We wish to express our sincere thanks to them, to the Boralex Board of Directors, and to our shareholders and partners.

(s) signed

BERNARD LEMAIRE
Executive Chairman of the Board

(s) signed

PATRICK LEMAIRE
President and Chief Executive Officer

March 2010

8 Management's Discussion and Analysis

for the year ended December 31, 2009

DESCRIPTION OF BUSINESS

Boralex Inc. ("Boralex" or the "Corporation") is a major private electricity producer whose core business is the development and operation of power stations that generate renewable energy. The Corporation employed over 300 people and operated 29 power stations with a total installed capacity of 417 megawatts ("MW") in Canada, in the Northeastern United States and in France.

Boralex stands out for its diversified expertise and in-depth experience in three power generation segments:

- Boralex currently operates a 160 MW wind power portfolio in Europe and Canada. In recent years, Boralex has become one of the biggest and most experienced wind power producers in France, where it currently operates 10 wind farms, including 73 wind generators, with a total installed capacity of 119 MW. In addition, the Corporation is currently developing three other wind farms in France, whose commissioning in 2010 will add 49 MW of installed capacity to its portfolio. Boralex has also entered the Canadian wind power market, with the commissioning in December 2009 and January 2010 of the 40 MW Phase I Thames River site in Ontario. The 50 MW Phase II of the Thames River project will be commissioned by the end of 2010. Boralex is also working with a partner on the development of two wind farms in Seigneurie de Beaupré, Québec, representing a total installed capacity of 272 MW, slated for commissioning at the end of 2013.
- Boralex has over 15 years of expertise as a hydroelectric power producer. It owns and operates eight hydroelectric power stations – five in the United States, two in Québec and one in British Columbia – with a total installed capacity of nearly 40 MW of which 27 MW are currently being generated.
- 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 renewable wood-residue energy, with six thermal power stations for a combined capacity of 204 MW. Boralex also operates a natural gas cogeneration power station, rated at 14 MW, located in France.

In addition to its own power stations, Boralex manages 10 power stations in Québec and the Northeastern U.S. with a total installed capacity of 190 MW owned by 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 Management's Discussion and Analysis ("MD&A") reviews the operating results and cash flows for the three- and twelve-month periods ended December 31, 2009, compared with the corresponding three- and twelve-month periods ended December 31, 2008, as well as the Corporation's financial position as at these dates. This report should be read in conjunction with the audited consolidated financial statements and related notes found in this Annual Report for the fiscal year ended December 31, 2009.

Additional information about the Corporation, including the annual information form, previous annual reports, MD&A and interim financial statements, as well as press releases, are published separately and are available on the SEDAR website (www.sedar.com).

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 MD&A reflects all material events up to February 24, 2010, the date on which the Board of Directors approved the consolidated financial statements and this MD&A.

Unless otherwise indicated, all financial information presented below, as well as tabular information, is in Canadian dollars.

NOTICE CONCERNING FORWARD-LOOKING STATEMENTS

The purpose of this MD&A is to help the reader understand the nature and importance of changes and trends as well as the risks and uncertainties that may affect Boralex's operating results and financial position. Accordingly, some of the statements contained in this analysis, including those regarding future results and performance, are forward-looking statements based on current expectations, within the meaning of securities legislation. These statements are characterized by the use of positive or negative verbs, such as plan, anticipate, evaluate, estimate, believe and other related expressions. They are based on Boralex management's expectations, estimates and assumptions as at February 24, 2010.

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.

The main factors that could lead to a material difference 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, raw material price increases and availability, currency fluctuations, volatility in the selling price of electricity, the Corporation's financing capacity, negative changes in general market and industry conditions, as well as other factors described later in *Outlook* and *Risk Factors and Uncertainties* in this MD&A. 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 are made.

There can be no assurance as to the materialization of the results, performance or achievements as expressed or implied by forward-looking statements. The reader is cautioned not to place undue reliance on such forward-looking statements. Unless required to do so under applicable securities legislation, Boralex management does not assume any 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 standardized measures according to GAAP. For management purposes, Boralex uses 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.

In addition, 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. Both management and investors use this indicator to measure the Corporation’s ability to finance its expansion projects through its operating activities.

Please see *Additional Information about Non-GAAP Performance Measures* in this MD&A for a reconciliation between EBITDA and cash flow from operations with certain line items in Boralex’s consolidated statements of earnings and consolidated statements of cash flows.

SEASONAL FACTORS

(in thousands of dollars, except per share amounts and number of shares)

2009

<i>Quarters ended</i>	<i>March 31</i>	<i>June 30</i>	<i>September 30</i>	<i>December 31</i>
REVENUES FROM ENERGY SALES				
Wind farms	9,083	8,018	5,797	10,974
Hydroelectric power stations	2,760	2,842	1,779	2,948
Wood-residue thermal power stations	38,181	28,338	29,841	27,031
Natural gas thermal power station	7,174	2,558	2,259	5,196
	57,198	41,756	39,676	46,149
EBITDA				
Wind farms	7,215	6,242	4,247	9,085
Hydroelectric power stations	1,709	1,785	301	1,743
Wood-residue thermal power stations	11,803	8,148	10,685	9,359
Natural gas thermal power station	1,511	(145)	(126)	915
Corporate and eliminations	(1,286)	(3,088)	(3,662)	(9,117)
	20,952	12,942	11,445	11,985
NET EARNINGS				
Per share, basic, in dollars	0.19	0.05	0.02	0.39
Per share, diluted, in dollars	0.19	0.05	0.02	0.39
Weighted average number of common shares outstanding (basic)	37,740,921	37,740,921	37,740,921	37,740,921

(in thousands of dollars, except per share amounts and number of shares)

2008

<i>Quarters ended</i>	<i>March 31</i>	<i>June 30</i>	<i>September 30</i>	<i>December 31</i>
REVENUES FROM ENERGY SALES				
Wind farms	10,065	6,677	5,859	7,942
Hydroelectric power stations	3,790	3,200	1,920	2,844
Wood-residue thermal power stations	33,877	27,113	37,866	37,040
Natural gas thermal power station	6,723	2,674	3,166	6,490
	54,455	39,664	48,811	54,316
EBITDA				
Wind farms	8,504	5,043	4,361	6,059
Hydroelectric power stations	3,034	2,391	847	1,647
Wood-residue thermal power stations	11,071	6,795	13,558	9,064
Natural gas thermal power station	1,321	(204)	(157)	1,378
Corporate and eliminations	(39)	(1,450)	(1,844)	(2,544)
	23,891	12,575	16,765	15,604
NET EARNINGS				
Per share, basic, in dollars	0.25	0.03	0.15	0.12
Per share, diluted, in dollars	0.24	0.03	0.15	0.12
Weighted average number of common shares outstanding (basic)	37,566,967	37,818,503	37,831,382	37,740,921

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 contracts.

For the 20 Boralex facilities that have long-term fixed-price power sales contracts, seasonal cycles mainly affect the volume of power generated. The nine 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 power generation volumes, also have an impact on prices obtained.

Further, the price of natural gas, which is highly volatile, has a significant influence on electricity selling prices in the Northeastern U.S. Generally, electricity consumption increases in the winter and summer, which corresponds to Boralex's first and third quarters. Historically, this means that, for those two periods, the power stations that do not have long-term power sales contracts obtain higher average prices. Because the wood-residue power stations can regulate their output level, they generate more power during such peak periods. For this reason, these power stations perform shutdowns for regular maintenance in spring or fall, which impacts their operating results for those periods. In addition, the Corporation uses financial instruments for periods

of up to three years for hedging purposes to fix part of the prices of power stations without long-term power sales contracts, which partially offsets the seasonal impact on prices.

In the wind power segment, wind conditions both in France and in Ontario (Canada) are usually more favourable in the winter, which falls during Boralex's first and fourth quarters. However, for the high-altitude wind farms in France, there is a greater risk of lower output caused by weather conditions, such as icing, in winter. In general, in view of weather conditions described above, management estimates that approximately 60% of annual output in its wind power segment is generated in the first and fourth quarters and 40% in the second and third quarters.

The impact of the seasonal cycle on Boralex's results will strengthen in coming years, as the Corporation's strategic plan positions the wind power segment to play an ever-greater role in its portfolio of energy assets and its revenue and operating income mix. In this regard, note that with the commissioning of the wind farms currently under development in France and in Canada, the wind power segment will represent close to 260 MW of installed capacity by the end of fiscal 2010, in which Boralex has a 230 MW share, making wind power the Corporation's key operating segment.

Hydroelectric generation depends on water flow, which in Canada and the Northeastern U.S. tends to be at a 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 facilities do not have reservoirs that would permit the regulation of water flow.

The natural gas cogeneration power station's long-term power sales contract with Électricité de France ("EDF") contains a clause that caps electricity prices from April to October. When the cost of natural gas is 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 client from an auxiliary boiler. Accordingly, since 2005, the power station operates its cogeneration equipment only during the five winter months.

Furthermore, Boralex's investment in the Fund is also subject to a seasonal cycle. Approximately 55% of the Fund's output is hydroelectric and is thus subject to the same effects on its volume as Boralex's hydroelectric power stations. However, as 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 higher profitability for the Fund in the first and fourth quarters.

To sum up, although Boralex's performance is affected by seasonal cycles, their impact is mitigated to some extent by the increasing proportion of revenues from fixed-price and price-indexed contracts, the growing diversification of its power generation sources, the partial use of financial instruments to hedge prices, and the diversified geographic positioning of its assets. The Corporation is also developing complementary revenue streams in order to increase and secure revenues or to reduce costs. It participates, for example, in the Renewable Energy Certificates ("RECs") market and the Forward Capacity Market in the Northeastern U.S., in the carbon dioxide ("CO₂") quota trading and green certificate markets in France and, since the beginning of fiscal 2010, in the U.S. Biomass Crop Assistance Program ("BCAP").

SUMMARY OF CONSOLIDATED INFORMATION FOR THE PAST THREE FISCAL YEARS

(in thousands of dollars, except per share amounts and number of shares)

OPERATING RESULTS DATA

	<i>Years ended</i>		
	<i>December 31,</i>	<i>December 31,</i>	<i>December 31,</i>
	2009	2008	2007
Revenues from energy sales	184,779	197,246	163,338
EBITDA	57,325	68,835	61,284
Net earnings	24,439	20,410	21,607
per share (basic – in dollars)	0.65	0.54	0.63
per share (diluted – in dollars)	0.65	0.54	0.62
Weighted average number of common shares outstanding (basic)	37,740,921	37,739,840	34,403,033

BALANCE SHEET DATA

<i>As at December 31,</i>	2009	2008	2007
Total assets	663,767	622,954	514,212
Total debt ⁽¹⁾	242,680	187,445	175,533
Shareholders' equity	340,030	362,720	284,421

(1) Including long-term debt and current maturities, as well as bank loans and advances, where applicable.

HIGHLIGHTS OF THE LAST THREE FISCAL YEARS**EXPANSION OF THE WIND POWER SEGMENT – EUROPE**

On June 25, 2007, Boralex entered into a €265 million master financing agreement with BNP Paribas for the development of its wind power projects in France. As at December 31, 2009, further to the completion of various projects discussed in this section, an undrawn balance of €156 million remained under this master financing agreement, which matures at the end of 2010. The Corporation is currently in discussion with the lender to extend the amount and term of this financing arrangement and review geographic and segment restrictions.

In July 2007, Boralex started up its seventh wind farm in France, La Citadelle in Ardèche. With an installed capacity of 14 MW, this wind farm raised Boralex's total installed capacity in wind power in France to over 100 MW. As with its other wind power assets in France, Boralex sells its entire production to EDF under 15-year long-term power purchase contracts.

In April 2008, the Corporation increased the installed capacity of its Avignonet-Lauragais wind farm by 5 MW to 13 MW.

During fiscal 2009, Boralex commenced work on its Cham Longe II facility in France, with 4.6 MW of installed capacity, and with the addition of two wind generators that were commissioned on February 1, 2010.

Also in France, in July 2009 the Corporation signed an acquisition contract for the construction and operation of the Chasse-Marée wind farm. This 9.2 MW site will be commissioned at the end of the second quarter of fiscal 2010.

On December 14, 2009, the Corporation entered into a partnership agreement with *Cube Infrastructure Fund* ("Cube"), a Luxembourg-based variable capital investment fund. Under the agreement, Cube may subscribe an amount up to €33 million, for a maximum 30% share in Boralex's European operations, up to December 2012. Of this amount, an initial tranche of €15 million was subscribed to by Cube on December 14, 2009 giving it a 16% share. This injection of funds generated a \$13.9 million net gain on dilution, representing the increase in value attributed by Cube to its 16% interest in the European operations compared with Boralex's initial investment.

This strategic partnership will allow Boralex to accelerate the expansion of its renewable energy production asset base in France, providing capital for the development or acquisition of additional capacity of 110 MW without additional capital investment by Boralex.

On December 29, 2009, Boralex and Cube announced the acquisition of three wind farms in France with a total installed capacity of 47 MW. One of these, Bel Air (7 MW) is located in Brittany and has been in operation since 2006. The other two, Le Grand Camp (10 MW) in the Centre region and Ronchois (30 MW) in the Picardy and Normandy regions, are under construction and slated for commissioning in summer 2010.

As at December 31, 2009, Boralex had 115 MW of installed capacity in the wind power segment in France. With the commissioning of projects currently underway, installed capacity will reach 170 MW in summer 2010, of which Boralex will have a 141 MW share.

EXPANSION OF WIND POWER SEGMENT – CANADA

Over the past two fiscal years, Boralex began importing into Canada its leading-edge expertise acquired in the wind power segment in France.

In July 2007, the Corporation purchased the rights to the Thames River wind power project, a 90 MW portfolio of wind farms in Southern Ontario. This strategically located region has good wind power potential, confirmed by more than three years of wind studies. Construction of the 40 MW Phase I of Thames River, comprising four 10 MW wind farms, began in 2008 and was completed in 2009. These wind farms were brought on stream and ramped up to commercial production levels between December 8, 2009 and January 29, 2010 – the first two began contributing to Boralex's results in December 2009.

Each of these farms has a 20-year power sales contract with the Ontario Power Authority, which will purchase their entire production under the Renewable Energy Standard Offer Program ("RESOP"). In addition, on October 21, 2009, the Corporation secured a better wind power rate for its projects that qualify for the RESOP program under new Ontario rules for the promotion of renewable energy. As a result, since becoming fully operational at the end of January 2010, the first four wind farms at the Thames River site are eligible for the Advanced RESOP program which provides for a rate of \$121 per MWh (compared with the initial rate of \$110 per MWh under the RESOP program). Further, new rules allow Boralex to recover 100% of the federal ecoEnergy program grant (rather than 50% under the original RESOP program), which represents an additional \$10 per MWh rather than \$5 per MWh over a ten-year period under the original program. This change will have a significant positive impact on the performance of these assets.

The 50 MW Phase II of the Thames River project, consisting of five 10 MW wind farms, will also qualify for the Advanced RESOP program provided that facilities are commissioned prior to December 31, 2010, which Boralex's intends to do.

In May 2008, following Hydro-Québec's request for proposals, a consortium consisting in equal parts of Boralex and Gaz Métro Limited Partnership (the "Consortium") was selected for two wind power projects, the Seigneurie de Beaupré wind farms, with capacities of 132.6 MW and 139.3 MW, respectively, for a total capacity of 272 MW (of which Boralex's share will be 136 MW). These projects which will be constructed on land owned by the Séminaire de Québec and commissioned at the end of 2013. The Seigneurie de Beaupré site offers a number of key advantages, including exceptional wind power potential due to excellent wind conditions, confirmed by five years of wind studies, and its proximity to Hydro-Québec TransÉnergie interconnection lines. As the site is located far from any urban or residential areas, the visual, sound and environmental impacts will be all but non-existent. The Seigneurie de Beaupré projects received environmental impact approval from government authorities in July 2009. The Consortium is working with internationally recognized wind power system manufacturer Enercon, which will set up a high-quality wind generator components plant in Québec.

In July 2008, Boralex purchased the rights to a second wind power project in Southern Ontario – Merlin-Buxton – with a potential installed capacity of approximately 90 MW. Management will take a medium-term approach to the development strategy for this site, with potential commissioning after 2013.

(For further details regarding wind power projects, please refer to *Analysis of Segmented Performance for Fiscal 2009 – Wind Farms*).

GLOBAL PERFORMANCE OPTIMIZATION PROGRAM FOR WOOD-RESIDUE POWER STATIONS (2006-2009)

To secure its supplies and better control raw material quality and cost, the segment has implemented an original strategy of partnership with local wood-residue harvesting businesses, which are now supplying more than 80% of U.S. thermal power stations.

Boralex implemented a major global performance improvement program for its wood-residue segment, mainly aimed at optimizing wood-residue thermal power station equipment and output, electricity and REC sales, and wood-residue supplies.

This initiative was accompanied by the implementation of a robust quality control program, a global performance optimization plan for the power stations supported by targeted investments and a series of other measures, particularly aimed at preventive maintenance. At the same time, Boralex has developed in-depth expertise and acquired sophisticated management tools for marketing electricity and RECs in the open market.

The global performance optimization program for wood-residue power stations was carried out primarily between 2006 and 2008 and finalized in 2009. These initiatives, particularly expertise acquired in forward electricity and REC sales combined with an overall improvement in its operations, allowed the wood-residue segment to maintain robust financial performance in 2009 despite the collapse in electricity prices resulting from the economic downturn.

WOOD-RESIDUE POWER STATIONS QUALIFY FOR THE NEW U.S. BIOMASS CROP ASSISTANCE PROGRAM ("BCAP")

At the end of 2009, heeding the call of the federal administration and the U.S. Congress to promote the development of green energy, the U.S. government introduced the Biomass Crop Assistance Program ("BCAP"). BCAP provides for subsidies to businesses that collect and convert forest residues, particularly for the production of electrical energy.

Boralex qualified its six wood-residue power stations under the BCAP program and also signed the necessary agreements with its American forest biomass suppliers to benefit fully from this new program. These agreements cover the supply of 1.4 million tonnes of wood residue a year, approximately 80% of Boralex's total wood-residue segment supply.

The United States Department of Agriculture ("USDA"), which manages the BCAP, undertook a review of its attribution rules on February 8, 2010. Boralex expects the USDA to announce new rules to take effect in September 2010. The Corporation will then reassess the impact of the new rules on its supply costs in coming fiscal years. The \$12 million annual reduction announced on February 2 is now expected to be approximately US\$6 million in 2010.

WOOD-RESIDUE SEGMENT PARTICIPATES IN CONNECTICUT AND NEW YORK STATE REC MARKETS

The REC program was introduced by the State of Connecticut in 2005. Under this program, the State requires electricity distributors to provide a minimum level of green energy, increasing annually to 20% in 2020. In 2009, the required level was 7%. Distributors obtain RECs from qualified producers of renewable energy, who then receive a premium over and above the base electricity price for each megawatthour (“MWh”) produced. RECs are officially awarded to qualified producers each quarter, at a rate of one certificate for each MWh produced, provided that the average level of atmospheric emissions is maintained below the quarterly regulatory limit.

Boralex qualified its Stratton (Maine) power station for the Connecticut REC program as of 2005. The Livermore Falls (Maine) power station qualified for the program on April 1, 2007. In early fiscal 2008, the Ashland (Maine) power station started participating in the program. In February 2006, the Chateaugay (New York) power station qualified for the REC program in New York State, which operates differently from the market in Connecticut. The Chateaugay facility negotiated and signed a ten year agreement with an agency in New York State that gives the facility an additional guarantee for the price at which it sells its electricity, effective April 1, 2006.

Boralex’s four wood-residue power stations currently selling RECs have a combined installed capacity of 150 MW, or 73.5% of the total capacity of the wood-residue segment. Boralex’s revenues from the REC market during fiscal 2007, 2008 and 2009 totalled, respectively, US\$23.1 million, US\$35.3 million and US\$27.5 million. Since 2008, REC demand and prices have weakened slightly.

Boralex has also taken steps for its wood-residue power stations, to participate in the Forward Capacity Market put in place by ISO New England for the benefit of New England energy producers. Over the past three fiscal years, this program boosted revenues and EBITDA of Boralex’s wood-residue segment by an additional \$5.8 million. An amount of \$0.3 million was also received by hydroelectric power stations under a similar program in New York State.

It should also be noted that in Europe there is a green credit trading system, in which certain Boralex wind farms in France participate. As the system operates on a voluntary basis, it does not generate significant revenue for the Corporation. However, if the program is made mandatory, Boralex wind farms would have a significant quantity of green certificates for trading.

U.S. TAX CREDIT PROGRAM FOR WOOD-RESIDUE POWER STATIONS

On December 31, 2009, the tax credit program for the production of renewable energy, established in 2005 on the adoption by the U.S. Congress of the *American Jobs Creation Act*, came to an end with respect to wood-residue power stations. Under this program, over a five-year period, Boralex’s wood-residue power stations benefited, based on their electricity production, from non-refundable tax credits that could be carried forward. During the program, in respect of these tax credits, Boralex recorded revenues of \$60.0 million, including \$13.9 million in 2009.

The arrangement for the monetization of U.S. renewable energy tax credits, entered into with financial investors on December 1, 2006, also came to an end on December 31, 2009. Note that Boralex transferred the tax credit to those investors by means of a temporary transfer of indirect equity interests in some of the U.S. wood-residue power stations, while retaining its rights to 100% of earnings and cash flows arising from the operation of these power stations and full authority over their management. Under the terms of the arrangement, Boralex also had call rights to buy back wood-residue assets. These buy back rights were exercised on January 4, 2010, with no impact on Boralex’s financial statements.

Boralex is an active member of the Biomass Power Association, which continues to lobby the U.S. government to reinstate the renewable energy tax credits program. This alternative is currently under consideration by government authorities. Given the current government’s favourable stance on renewable energy, reinstatement of the program in the not too distant future is not impossible.

EXPANSION IN THE HYDROELECTRIC SEGMENT

In April 2009, Boralex finalized the acquisition of the Ocean Falls hydroelectric power station in Northern British Columbia, with a total installed capacity of 14.5 MW of which 2 MW is currently being generated. At the same time, Boralex also acquired the development rights for two other hydroelectric projects in the same region, representing an additional 10 MW. The electricity generated by the Ocean Falls power station is sold to BC Hydro under a long-term energy sales contract for an initial period of 20 years ending in 2016. Since acquiring this power station, Boralex has been working on optimization of the 2 MW currently being generated. Over the longer term, it will bring the additional 12.5 MW on stream, studying various development alternatives with respect to market opportunities and interworking. Given its hydroelectric potential, the installed capacity of this power station could potentially be increased to more than 35 MW.

The upgrades required to develop this power station to its full potential and to execute the development rights for two other 10 MW hydroelectric projects acquired in 2009, are scheduled over a medium-term horizon.

CO₂ QUOTAS IN FRANCE

The European Union set up a mechanism in 2005 whereby companies that use fossil fuels are assigned a CO₂ emission quota. According to this user-pay mechanism, companies must show that their quota is sufficient to justify their atmospheric emissions during the previous year. To comply with regulations, companies that exceed their quota must buy additional quota from others who are in a surplus position because they have reduced their level of atmospheric emissions.

Because Boralex's natural gas-fired power station in Blendecques (France) interrupted its cogeneration activities for seven months in the past fiscal years due to the high cost of natural gas, the facility had excess CO₂ quota. Over the past three fiscal years, the sale of excess CO₂ quota by this power station generated revenues of \$2.2 million. Although potential sales of excess CO₂ quota by the station are limited by current economic conditions, Boralex management believes that the user-pay approach implemented by the European Union and the new mechanisms that will be introduced in future years could lead to higher electricity prices, which would be beneficial for energy producers, particularly those who generate green energy.

CORPORATE FINANCING

On June 7, 2007, the Corporation announced the closing of its public offering of 7,333,334 Class A shares for gross proceeds of \$110.0 million. The offering resulted in total net proceeds to Boralex of \$105.3 million, which were used to temporarily reduce the amount borrowed on Boralex's revolving credit. This additional capital significantly strengthened the Corporation's balance sheet. It should be noted that the Corporation has never been exposed to asset-backed commercial paper.

SELECTED CONSOLIDATED INFORMATION FOR THE QUARTERS AND YEARS ENDED DECEMBER 31, 2009 AND 2008

	Quarters ended		Years ended	
	December 31, 2009	December 31, 2008	December 31, 2009	December 31, 2008
(in thousands of dollars, except per share amounts and number of shares)				
REVENUES FROM ENERGY SALES				
Wind farm	10,974	7,942	33,872	30,543
Hydroelectric power stations	2,948	2,844	10,329	11,753
Wood-residue thermal power stations	27,031	37,040	123,391	135,897
Natural gas thermal power station	5,196	6,490	17,187	19,053
	46,149	54,316	184,779	197,246
EBITDA				
Wind farms	9,085	6,059	26,789	23,967
Hydroelectric power stations	1,743	1,647	5,538	7,919
Wood-residue thermal power stations	9,359	9,064	39,995	40,488
Natural gas thermal power station	915	1,378	2,155	2,338
Corporate and eliminations	(9,117)	(2,544)	(17,152)	(5,877)
	11,985	15,604	57,325	68,835
NET EARNINGS				
	14,712	4,398	24,439	20,410
Per share, basic, in dollars	\$0.39	\$0.12	\$0.65	\$0.54
Per share, diluted, in dollars	\$0.39	\$0.12	\$0.65	\$0.54
Weighted average number of common shares outstanding (basic)	37,740,921	37,740,921	37,740,921	37,739,840

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. Although not performance measures under GAAP, management believes that EBITDA and cash flows from operations are widely accepted financial measures used by investors to assess the performance of a company and its ability to generate cash through operations.

Nevertheless, since these measures are not defined 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 a measure of operating results or cash flows, or as a parameter for measuring liquidity. In Boralex's consolidated statement of earnings, EBITDA corresponds to *Operating income before amortization*.

The following table reconciles EBITDA to net earnings:

(in thousands of dollars)	<i>Quarters ended</i>		<i>Years ended</i>	
	<i>December 31,</i>	<i>December 31,</i>	<i>December 31,</i>	<i>December 31,</i>
	2009	2008	2009	2008
Net earnings	14,712	4,398	24,439	20,410
Non-controlling interests	46	34	102	146
Income taxes	(1,280)	1,833	4,470	11,329
Gain on dilution	(13,865)	–	(13,865)	–
Financing costs	3,497	3,836	13,727	13,806
Net loss on financial instruments	929	49	923	143
Foreign exchange loss (gain)	1,271	(834)	1,473	(1,437)
Amortization	6,675	6,288	26,056	24,438
Consolidated EBITDA	11,985	15,604	57,325	68,835

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

In addition, development activities result in significant changes 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. Accordingly, the Corporation deems it preferable not to integrate changes in working capital in this performance measure.

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:

(in thousands of dollars)	<i>Quarters ended</i>		<i>Years ended</i>	
	<i>December 31,</i>	<i>December 31,</i>	<i>December 31,</i>	<i>December 31,</i>
	2009	2008	2009	2008
Cash flows related to operating activities	24,589	17,424	60,786	54,196
Cash flows used in (generated from) change in non-cash working capital items	(13,259)	(6,287)	(13,373)	1,004
CASH FLOWS FROM OPERATIONS	11,330	11,137	47,413	55,200

ANALYSIS OF OPERATING RESULTS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2009

The following table shows major changes explaining the change in net earnings for fiscal 2008 and 2009:

	<i>Net earnings (in millions of dollars)</i>	<i>Per share (in \$) (basic)</i>
YEAR ENDED DECEMBER 31, 2008	20.4	0.54
Change in EBITDA	(11.5)	(0.30)
Amortization	(1.6)	(0.04)
Foreign exchange loss (gain)	(2.9)	(0.08)
Net loss on financial instruments	(0.8)	(0.02)
Financing costs	0.1	–
Gain on dilution	13.9	0.37
Income taxes	6.8	0.18
YEAR ENDED DECEMBER 31, 2009	24.4	0.65

Boralex generated net earnings of \$24.4 million or \$0.65 per share for fiscal 2009. This includes two key, non-recurring factors:

- A \$13.9 million gain on dilution (net of financing costs) on Boralex's interest in its European structure, following an initial capital injection of €15 million by its new European partner, Cube, giving it a 16% share; and
- Boralex's \$4.1 million share (net of income taxes) in the impairment charge recorded against property, plant and equipment at the Dolbeau (Québec) power station owned by the Fund, due to significant changes in this power station's operating environment.

Excluding these two factors, which are non-recurring and not related to Boralex's current operations, Boralex generated net earnings of \$14.7 million or \$0.39 per share (basic and diluted) in 2009, down \$5.7 million or \$0.15 per share from the previous year. This decrease stems in large part from a \$5.9 million decline in EBITDA (excluding Boralex's share in the Fund's property, plant and equipment impairment charge) due to the economic downturn that marked fiscal 2009. In addition to its impact on the Fund's earnings, the economic environment saw a marked pullback in electricity and REC prices in the United States.

Consolidated earnings for 2009 also reflect a negative variance of \$3.7 million under *Foreign exchange loss (gain)* and *Net loss on financial instruments*. Net earnings for 2009 were also negatively impacted by increases in amortization expense resulting from the expansion of the Corporation's asset base and by currency fluctuations. However, these unfavourable factors were partially offset by a decrease in income tax expense.

The following table shows major variances in consolidated revenues from energy sales and EBITDA for fiscal 2008 and 2009:

(in millions of dollars)	Revenues from energy sales	EBITDA
YEAR ENDED DECEMBER 31, 2008	197.2	68.8
Power stations commissioned ⁽¹⁾	2.6	1.7
Pricing	(10.2)	(10.2)
Volume	(7.9)	(2.4)
RECs and green certificates	(8.8)	(6.2)
Capacity premiums	0.3	0.3
Translation of self-sustaining subsidiaries	11.8	4.7
Renewable energy tax credits	–	0.5
Raw material costs	–	7.4
Maintenance	–	1.7
Development expenses – prospecting	–	(0.6)
Boralex Power Income Fund	–	(10.2)
Other	(0.2)	1.8
YEAR ENDED DECEMBER 31, 2009	184.8	57.3

(1) Expansion of the Avignonet-Lauragais wind farm, the Ocean Falls hydroelectric power station and the first two Thames River wind farms.

REVENUES FROM ENERGY SALES

Revenues from energy sales fell \$12.4 million or 6.3% to \$184.8 million in 2009 from \$197.2 million in 2008. This decline in revenues is attributable to three main factors:

- A \$10.2 million shortfall due to a decline in electricity selling prices at hydroelectric and thermal power stations in the United States combined with lower steam and electricity prices at the natural gas cogeneration power station in France. These declines were mitigated by various factors, including the use of financial swaps in the wood-residue segment and the indexation of electricity selling prices at Québec wind farms and hydroelectric power stations;
- An \$8.8 million decrease in sales of RECs and green certificates, mainly attributable to lower average REC prices on the Connecticut market combined with a voluntary reduction in output at certain wood-residue power stations in response to weak electricity selling prices; and
- A \$7.9 million shortfall caused by a net decrease in total electricity output, excluding the impact of the expansion of the Avignonet-Lauragais facility, the addition of the Ocean Falls hydroelectric power station and the commissioning of the first two Ontario wind farms. Boralex generated 1,574,874 MWh of electricity in fiscal 2009, a decline of 3.0% from 1,623,293 MWh in 2008. Excluding capacity additions, output generated by Boralex's existing asset base fell approximately 4.0%, mainly as a result of less favourable market conditions in the U.S. wood-residue segment, in response to which Boralex shut down or reduced output at certain power stations.

These negative factors were mitigated by an \$11.8 million favourable foreign currency effect arising from the weakening of the Canadian dollar against the US dollar and the euro in the first three quarters of 2009 compared with the first three quarters of 2008. However, the fourth quarter of 2009 saw a reversal of this favourable trend.

OTHER REVENUES

Boralex generated \$5.8 million in revenues other than revenues from energy sales in 2009 compared with \$16.1 million in 2008. The \$10.3 million decline stemmed primarily from a \$9.9 million decrease in Boralex's share of the Fund's earnings as a result of a difficulties experienced by its Dolbeau power station in the sourcing of raw materials and the AbitibiBowater ("ABI") insolvency. This deterioration in business conditions at the Dolbeau power station led the Fund to write down its property, plant and equipment, impacting Boralex's results by \$5.6 million before income taxes.

EBITDA

Consolidated EBITDA for 2009 totalled \$57.3 million (\$62.9 million excluding the write-down of property, plant and equipment at the Fund's power station) compared with \$68.8 million for 2008. The decline resulted primarily from the following factors:

- A \$10.2 million adverse effect of lower electricity and steam selling prices, which directly affected EBITDA. Note, however, that the marked decline in electricity prices on the U.S. market was significantly offset by the use of financial swaps in the wood-residue segment. With respect to the Blendecques (France) natural gas cogeneration power station, note that the impact of lower electricity and steam selling prices on EBITDA was offset by a comparable decline in its raw material costs;
- A \$10.2 million unfavourable effect owing to a decline in Boralex's share of the Fund's earnings, including \$5.6 million attributable to the property, plant and equipment write-down discussed above;
- A \$6.2 million decline attributable to lower REC sales. The decline was less marked for EBITDA than for earnings, due to lower selling expenses at Ashland, one of the wood-residue power stations that generate RECs;
- A \$0.7 million adverse effect attributable to lower electricity output (net of the Avignonet-Lauragais wind farm expansion, the addition of the Ocean Falls hydroelectric power station and the commissioning of the first two Thames River wind farms); and
- A \$0.6 million net increase in development project and prospecting costs.

On the upside, EBITDA for fiscal 2009 benefited from the following:

- A \$7.4 million reduction in raw material costs, arising from lower wood-residue costs combined with a better combustion rate at the U.S. thermal power stations and lower natural gas prices in France;
- A \$4.7 million net favourable effect due to the Canadian dollar's depreciation against the US dollar and the euro during the first nine months of the year;
- A \$1.7 million net decline in maintenance costs, owing primarily to the wood-residue segment;
- A \$0.5 million increase in renewable energy tax credits in the wood-residue segment due to the rise in the tax credit unit rate;
- A \$0.3 million increase in capacity premiums; and
- Various other favourable elements totalling \$1.8 million, including lower costs for certain chemicals used in the wood-residue segment, non-raw materials savings arising from the shutdown of the Stacyville and Chateaugay thermal power stations, a gain on the disposal of an investment in France, together with a decline in oil product prices, professional fees, variable wage costs and certain other costs.

(A more detailed analysis of changes in revenue and EBITDA of the various segments may be found under *Analysis of Segmented Performance for Fiscal 2009*.)

AMORTIZATION, FOREIGN EXCHANGE LOSS (GAIN), NET LOSS ON FINANCIAL INSTRUMENTS, FINANCING COSTS, GAIN ON DILUTION AND EARNINGS BEFORE INCOME TAXES

Boralex reported \$26.1 million in amortization expense for 2009 compared with \$24.4 million for 2008, due to investments over the past two years, including the Avignonet-Lauragais wind farm expansion in April 2008, the acquisition of the Ocean Falls power station in April 2009, ongoing equipment upgrades in the wood-residue segment and the commissioning of the first two Canadian wind farms in December 2009. Further, the strengthening of the US dollar and the euro against the Canadian dollar throughout most of the fiscal year pushed up the amortization expense on Boralex's assets in the United States and Europe. These factors were partially offset by reducing output in the wood-residue segment, as the calculation of amortization in this segment is based in part on its output.

Debt repayments over the past year contributed to a \$0.1 million reduction in financing costs, which totalled \$13.7 million for 2009, despite the addition of new debt related to the acquisition of the Ocean Falls hydroelectric power station, utilization of the bank loan and the unfavourable impact of currency fluctuations on the balance of debt contracted in foreign currencies, primarily in euros.

Boralex also reported a \$1.5 million foreign exchange loss in 2009, down \$2.9 million from a \$1.4 million foreign exchange gain in 2008. Boralex also reported a \$0.9 million loss on financial instruments for 2009 compared with a \$0.1 million loss for 2008. *Net loss on financial instruments* consists mainly of the ineffective portion of derivative financial instruments. Although all of the financial instruments used by Boralex are highly effective, they always include a small ineffective portion. Generally, if the change in derivative instruments is favourable to Boralex, it gives rise to a favourable ineffective amount. Conversely, when the change in derivative instruments is unfavourable to Boralex, it gives rise to an unfavourable ineffective amount.

Under the December 12, 2009 agreement entered into with Cube, under which Cube may subscribe up to €33 million for a 30% maximum share in all of Boralex's European operations, and concurrent with the acquisition of three wind farms with a capacity of 47 MW in France, Cube made an initial capital injection of €15 million in Boralex's European structure as at December 12, 2009, for an initial interest of 16%.

This capital injection generated a \$13.9 million gain on dilution (net of financing costs) for Boralex, representing the increase in value attributed by Cube over the carrying amount of the interest acquired.

In light of the foregoing, Boralex posted earnings before income taxes of \$29.0 million in 2009. Excluding the two non-recurring factors discussed above, earnings before income taxes totalled \$20.7 million compared with \$31.9 million in 2008.

INCOME TAXES

Boralex recorded \$4.5 million in income tax expense for fiscal 2009 compared with \$11.3 million for 2008. Excluding the gain on dilution and Boralex's share in the Fund's write-down of property, plant and equipment, the effective tax rate fell to 21.5% from 35.5% the previous year. This decline stems primarily from differences in the geographic revenue mix between the two fiscal years.

Given the various jurisdictions in which the Corporation currently operates and develops future power station projects, management estimates that Boralex's combined tax rate should range from 32% to 35% over a medium-term horizon.

In the short run, however, Boralex's consolidated income tax rate may vary significantly from one period to another in light of changes in its results according to its various operating jurisdictions and due to the fact that the ratio of dividends included in the Fund's distributions varies according to the amounts of US dollar cash resources that the Fund repatriates to Canada to fund its distributions and that the dividends received from the Fund are not taxable for Boralex.

NET EARNINGS

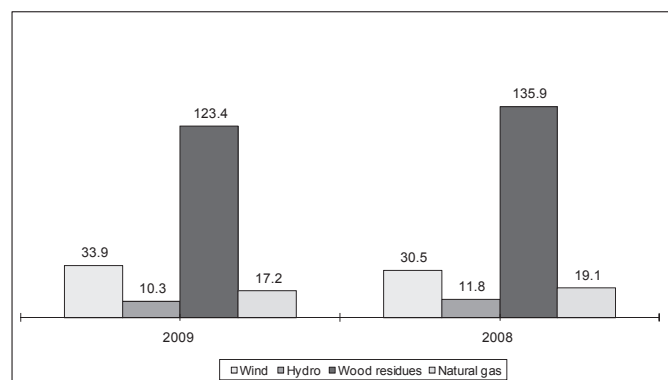
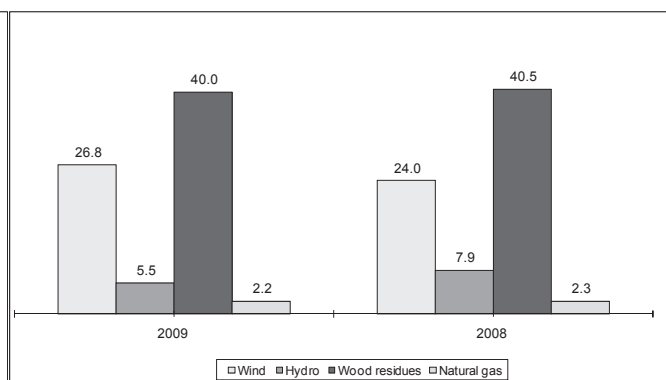
Boralex ended fiscal 2009 with \$24.4 million in net earnings or \$0.65 per share (basic and diluted) compared with \$20.4 million or \$0.54 per share (basic and diluted) in 2008.

The weighted average number of shares outstanding was unchanged at 37.7 million.

To sum up,	<p>the decline in Boralex's operating earnings reflects the difficult business environment for the Fund and the Corporation in the United States, whose economy has been particularly hard hit by the global economic downturn since Fall 2008. However, Boralex continued to see strong results in its wind power segment, while achieving significant value-added on the partnership agreement entered into in France to accelerate its expansion and strengthen its leadership position in this promising segment. In addition, despite the marked decline in electricity selling prices on the open market in the Northeastern United States compared with their high levels in 2008 and a pullback on REC prices in Connecticut, Boralex's most important segment in the United States - the wood-residue segment - maintained strong profitability due to effective strategies with respect to forward electricity sales (a form of hedging) and REC sales, reductions in raw material costs and maintenance expenses, combined with the favourable effect of currency fluctuations.</p>
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ANALYSIS OF SEGMENTED RESULTS FOR THE YEAR ENDED DECEMBER 31, 2009 SEGMENT BREAKDOWN

Revenues from energy sales (in millions of dollars)

EBITDA (in millions of dollars)⁽¹⁾

(1) Excluding corporate segment and eliminations

During fiscal 2009, the wind power segment contributed 18.3% of Boralex's consolidated revenues from energy sales compared with 15.4% in 2008. This improvement was attributable to an 11.1% increase in wind power segment revenues while the other segments posted lower revenues. Segment EBITDA rose 11.7%, generating 36.0% of consolidated EBITDA (before corporate expenses and intersegment eliminations) compared with 32.1% in 2008.

Lower electricity selling prices in the New York State open market had an adverse effect on hydroelectric segment revenues and EBITDA. The hydroelectric segment's contribution to Boralex's consolidated revenues fell from 6.0% in 2008 to 5.6% in 2009, while its share of consolidated EBITDA declined from 10.6% to 7.4%.

More difficult market conditions than in the previous year led to a 9.2% decline in wood-residue segment revenues in 2009, although the decline in EBITDA was contained at just 1.2%. The wood-residue segment's contribution to Boralex's consolidated revenues fell from 68.9% in 2008 to 66.8% in 2009, while its share of consolidated EBITDA fell from 54.2% to 53.7%. Lastly, the share of consolidated revenues posted by the natural gas power station for 2009 decreased to 9.3% from 9.7% in 2008, while its contribution to consolidated EBITDA declined from 3.1% in 2008 to 2.9% in 2009.

WIND POWER STATIONS

The following table shows major variances in revenues from energy sales and EBITDA for 2008 and 2009:

(in millions of dollars)	Revenues from energy sales	EBITDA
YEAR ENDED DECEMBER 31, 2008	30.5	24.0
Power stations commissioned ⁽¹⁾	0.8	0.7
Pricing	0.8	0.8
Volume	0.9	0.9
Translation of self-sustaining subsidiaries	0.8	0.7
Other	0.1	(0.3)
YEAR ENDED DECEMBER 31, 2009	33.9	26.8

(1) Expansion of the Avignonet-Lauragais facility and two Thames River wind farms

OPERATING RESULTS

Fiscal 2009 was a solid year for the wind power segment, highlighted by sound availability of equipment and increased profitability. Moreover, despite the global financial crisis, the segment completed its largest project to date – Phase I of the Thames River site in Canada.

In fiscal 2009, the wind power segment generated total electricity output of 235,418 MWh, up 6.8% from 220,500 MWh for the previous year. Revenues totalled \$33.9 million compared with \$30.5 million in 2008, an increase of \$3.4 million or 11.1%, attributable to the following main factors:

- The commissioning of the first two wind farms of Phase I of the Thames River project in Ontario and the full year's contribution of the Avignonet-Lauragais facility in France, which generated additional revenues of \$0.8 million. The two Thames River wind farms contributed \$0.5 million to this amount, although they operated only during the last few weeks of the fiscal year without benefiting from the full Advanced RESOP tariff;
- Additional revenues of \$0.8 million resulting from the contractual indexing of electricity selling prices and the fact that the two new wind turbines at the Avignonet-Lauragais facility enjoyed the full tariff during entire fiscal 2009;
- Additional revenues of \$0.9 million generated by improved productivity at existing sites, due primarily to better availability of equipment. During the entire year, average wind conditions were slightly better than in the previous year; and
- A \$0.8 million favourable impact resulting from the strengthening of the euro against the Canadian dollar.

The same favourable factors helped increase EBITDA by \$2.8 million or 11.7% to \$26.8 million in 2009 (profit margin of 79.1% of revenues) compared with \$24.0 million (78.7% margin) in 2008, and compared to an average EBITDA margin of 40.3% (37.9% in 2008) for all the Corporation's segments.

OUTLOOK FOR 2010

Boralex expects wind segment performance to improve significantly in 2010.

In Canada, the four wind farms of Phase I of the Thames River project with a total capacity of 40 MW are fully operational and are enjoying, since February 2010, the benefits of the Advanced RESOP program, including a basic rate of \$121/MWh. (This program is discussed in *Highlights of the Last Three Fiscal Years – Expansion of the Wind Power Segment*.)

In Europe, Boralex started fiscal 2010 with the commissioning of the new 7 MW Bel Air wind farm in Brittany. And, in the beginning of February 2010, it commissioned two additional wind generators at the Cham Longe II facility in France, with 4.6 MW of installed capacity. Moreover, construction of the new 9.2 MW Chasse-Marée wind farm will be completed soon for commissioning in April 2010. Last, following the acquisition in December 2009 of three development wind farms totalling 47 MW in France (including Bel Air), the Corporation took over the already commenced construction work at the Le Grand Camp and Ronchois wind farms with capacities of 10 MW and 30 MW, respectively. They are slated for commissioning in June and July 2010.

This means that Boralex will start the second half of fiscal 2010 with a total installed and contracted wind power capacity of 209 MW compared with an installed capacity of 135 MW as at January 1, 2010. All of the Corporation's wind power assets, in both Europe and Canada, benefit from long-term power sales contracts and favourable rates.

OBJECTIVES FOR 2010

The Boralex wind power segment's objectives for fiscal 2010 are discussed below.

In Europe:

- Commission and optimize facilities currently under development while continuing to improve availability and productivity of existing facilities;
- Seek acquisition opportunities for operational facilities or development projects created by difficult economic conditions of the past year in France as well as in other countries such as Italy; and
- Increase the amount and term of the master financing agreement and explore other financing options elsewhere in Europe and for segments other than wind power, particularly solar energy.

In July 2009, the Council of State, the final level of appeal in the French legal system, upheld the decision cancelling the building permit for the expansion of two wind generators at the Avignonnet-Lauragais facility commissioned in April 2008. This decision does not jeopardize the power sales contract with EDF nor operation of the expansion. At present, this situation does not place Boralex in default under any credit agreement. An application for an amended building permit will be filed in the near future with the competent authority. These wind turbines account for 3% of the Corporation's total installed wind power capacity.

In Canada:

- Continue optimizing the four wind farms of Phase I of the Thames River site. As these assets are connected to the Kingsey Falls remote control centre in Québec, its facilities were upgraded and its personnel provided with specialized training during the past year;
- Commission the 50 MW Phase II of the Thames River site in the fourth quarter of fiscal 2010. Development of these five new wind farms is going according to plan. Environmental permits have been obtained and construction work on roads and foundation have started. With regards to the financing, Boralex announced on March 15, 2010, that it has refinanced Phase I (40 MW) of the Thames River wind farms and obtained financing for Phase II (50 MW) at the same time; and
- Start construction work on roads at the Seigneurie de Beauré facility where a fifth year of wind studies carried out in 2009 confirmed its excellent potential utilization factor. These projects were further optimized through the drilling work, site analysis and data collection performed in 2009. A project team is being formed and management will continue efforts to finalize project financing within 12 to 18 months.

In management's opinion, the medium- and long-term outlooks for the Corporation's wind power segment are highly favourable given the scale and quality of its Canadian projects. In North America, in the next three fiscal years, Boralex will focus on completing and optimizing the Thames River project in Ontario and the Seigneurie de Beauré project in Québec. The Québec site also has high potential for subsequent development of additional wind farms that could generate significant synergies.

Accordingly, the Corporation continues to plan for long-term growth for its wind power segment by seeking projects to be developed from 2014 onwards, including the possible development of the Merlin-Buxton project in southern Ontario with a potential capacity of 90 MW, for which Boralex acquired the rights in 2008. In addition, in connection with Hydro-Québec's request for proposals for the development of municipal energy projects, Boralex will submit proposals in Spring 2010 for a potential additional wind power capacity of 50 to 100 MW, including a project at the Seigneurie de Beauré site. These projects could be commissioned starting in 2014.

HYDROELECTRIC POWER STATIONS

The following table shows major variances in revenues from energy sales and EBITDA for fiscal 2008 and 2009:

(in millions of dollars)	Revenues from energy sales	EBITDA	
YEAR ENDED DECEMBER 31, 2008	11.8	7.9	
Commissioning – Ocean Falls	1.8	1.0	
Pricing	(3.8)	(3.8)	
Volume	(0.6)	(0.6)	
RECs	0.2	0.2	
Translation of self-sustaining subsidiaries	1.1	0.9	
Maintenance	–	(0.3)	
Other	(0.2)	0.2	
YEAR ENDED DECEMBER 31, 2009	10.3	5.5	
HYDROELECTRIC OUTPUT (MWH)*	Actual 2009	Actual 2008	Historical averages
Quarter ended December 31	41,017	34,833	34,735
Twelve-month period ended December 31	145,303	132,057	128,501

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

OPERATING RESULTS

For the hydroelectric segment, fiscal 2009 was highlighted by the acquisition of the Ocean Falls power station in British Columbia together with a long-term power sales contract at a particularly favourable rate, allowing the segment to mitigate the impact of falling U.S. electricity prices on its results.

Revenues of the hydroelectric segment declined \$1.5 million or 12.7% to \$10.3 million in 2009, while EBITDA fell \$2.4 million or 30.4% to \$5.5 million from \$7.9 million in 2008.

These results are mainly attributable to the net unfavourable effect of \$3.8 million on both revenues and EBITDA arising from the 39.4% fall in electricity selling prices (in US\$) in the New York State open market due to the economic slowdown and lower natural gas prices. However, the decline in average selling prices across Boralex's North American hydroelectric segment was mitigated by currently higher contractual selling prices in Canada than in the U.S. open market, the contribution of the new Ocean Falls power station and the favourable impact of the C\$/US\$ exchange rate. As a result, the fall in average selling prices in Canadian dollars was 21.2%.

Lower selling prices were partly offset by other positive factors including:

- Favourable impacts of \$1.1 million and \$0.9 million on revenues and EBITDA, respectively, resulting from the strengthening of the US dollar against the Canadian currency;
- Additional revenues of \$1.8 million attributable to the Ocean Falls power station, acquired in April 2009. The contribution of this power station was bolstered by contractual selling prices higher than the industry average. The contribution of the new power station more than offset the \$0.6 million adverse impact arising from lower output at existing power stations. In total, the hydroelectric segment generated 145,303 MWh of electricity in 2009, exceeding 2008 output by 10.0% and surpassing the historical average by 13.1%; and
- A \$0.2 million increase in REC sales.

OUTLOOK AND OBJECTIVES FOR 2010

The hydroelectric segment output is difficult to forecast since it depends primarily on water flow conditions. Note however that the segment benefits from a low and generally fixed cost structure. Also, the segment is still affected by lower electricity prices in the State of New York open market but the gradual improvement in the U.S. economy should stabilize and strengthen prices somewhat during fiscal 2010. In addition, the segment will benefit from the Ocean Falls power station's contribution throughout 2010, compared with only nine months in 2009.

The main objectives for the segment in 2010 are the following:

- Continue to optimize the 2 MW Ocean Falls power station, whose performance to date meets management's expectations;
- Renegotiate the power sales contract at the Forces Motrices St-François power station entered into in 1991 under Hydro-Québec's APR (limited request for proposals) and which will expire at the end of 2010. This will be Boralex's first renegotiation of a long-term contract. This 2 MW power station located at East Angus accounted for 1% of the Corporation's consolidated revenues and 1% of EBITDA in 2009; and
- Proceed with the development of municipal projects resulting from Hydro-Québec's requests for proposals.

Boralex is seeking medium- and long-term opportunities to grow its hydroelectric segment, particularly in British Columbia where a new hire is prospecting this growing market. Despite delays in the follow-up of requests for proposals by the provincial government to create renewable energy facilities with a capacity of 3,000 gigawatt hours, management continues to believe in the region's potential for its hydroelectric segment. Moreover, hydroelectric assets and projects may become available for sale as a fallout of the 2008-2009 economic and financial crisis. Boralex is therefore seeking to identify and acquire operational assets and projects to be developed starting in 2014, in addition to planning to develop in the medium term the Ocean Falls power station's full potential and the rights acquired in the same region in 2009.

WOOD-RESIDUE THERMAL POWER STATIONS

The following table shows major variances in revenues from energy sales and EBITDA for fiscal 2008 and 2009:

(in millions of dollars)	Revenues from energy sales	EBITDA
YEAR ENDED DECEMBER 31, 2008	135.9	40.5
Pricing	(4.6)	(4.6)
Volume	(8.7)	(3.2)
RECs	(8.9)	(6.4)
Translation of self-sustaining subsidiaries	9.6	3.2
Capacity premiums	0.5	0.5
Renewable energy tax credits	–	0.5
Raw material costs	–	4.9
Maintenance	–	2.8
Other	(0.4)	1.8
YEAR ENDED DECEMBER 31, 2009	123.4	40.0

OPERATING RESULTS

In 2009, market conditions for the wood-residue segment were less favourable than in the previous year given the economic recession in the U.S. This led to a decline in natural gas prices to which electricity prices are closely linked as well as to lower REC prices in the Connecticut market. As a result, operations at Boralex's power stations were shut down or voluntarily slowed down during off-peak periods.

However, hedging contracts and mechanisms implemented in recent years allowed Boralex to lock in, for fiscal 2009, the equivalent of 65% of the expected output at the Ashland, Stratton and Livermore Falls power stations, all located in Maine, at set rates exceeding market prices. This strategy, coupled with the benefits of the global performance optimization program implemented in the segment since 2006 (See *Highlights of the Last Three Fiscal Years* in this MD&A) helped Boralex to maintain satisfactory operating profits, given the conditions.

Revenues decreased by \$12.5 million or 9.2% to \$123.4 million from \$135.9 million in 2008, due mainly due to the following three factors:

- An \$8.9 million decline in REC sales to US\$27.5 million in 2009 from US\$35.3 million in 2008 resulting from lower prices in the REC market due to economic conditions, combined with a 10.4% reduction in REC output. This is primarily attributable to the voluntary slowdown in operations at the Stratton, Livermore Falls and Chateaugay (New York), given low electricity selling prices;
- An \$8.7 million shortfall due to a 6.2% net decline in electricity output, which totalled 1,156,652 MWh in 2009 compared with 1,232,907 MWh in the previous year. This decline results from the shutdown of the Stacyville (Maine) power station from the end of February 2009 (it was in operation during the second half of fiscal 2008) as well as the shutdown of the Chateaugay power station for 60 days during the third quarter and 40 days during the fourth quarter, respectively, due to low electricity prices. Excluding these two power stations, combined output of the other wood-residue power stations increased 1.1%; and
- A \$4.6 million shortfall attributable to lower electricity selling prices. Average selling prices in US dollars in the New England open market fell by 40.1% compared with 2008. However, the decline of average selling prices at Boralex's power stations was limited to 8.1% (in US\$) mainly through forward sales (electricity price financial swaps) made in 2008. A new two-year power sales contract was also entered into on March 1, 2009 for the Fort Fairfield (Maine) power station at a rate above current market prices.

However, these unfavourable factors were partly offset by the \$9.6 million net favourable impact of the strengthening of the US dollar against the Canadian dollar during the first nine months of 2009, compared with the same period in 2008.

EBITDA for the wood-residue segment totalled \$40.0 million in 2009, down \$0.5 million or 1.2% from \$40.5 million in 2008. The same unfavourable factors affecting revenues also impacted EBITDA, although to a lesser extent, leading to the following:

- A \$6.4 million unfavourable effect owing to a drop in REC sales, whose effect on EBITDA was offset by lower selling expenses at the Ashland power station;
- A \$4.6 million adverse effect of lower average electricity selling prices, that is, the same impact as on revenues; and
- A \$3.2 million unfavourable effect owing to a drop in output. Lower output had a much lower unfavourable impact on EBITDA than on revenues largely due to savings on raw materials achieved by the shutdown or reduction of operations at certain power stations.

However, some favourable factors ensured profitability for the segment, including the following:

- A \$4.9 million decrease in raw materials resulting primarily from lower transportation costs following the drop in gas prices as well as a better combustion rate stemming from the use of superior quality residues;
- A \$3.2 million favourable effect attributable to the strengthening of the US dollar against the Canadian currency;
- A \$2.8 million reduction in maintenance costs, partly achieved by the benefits of the global performance optimization program for wood-residue power stations. The main thrust of this program was targeted investment in production equipment over the past three fiscal years and the development of solid internal expertise in preventive maintenance. Lower maintenance costs are also explained partly by idle periods of three and six months, respectively, for the two power stations;
- A combined \$1.0 million increase in capacity premiums and renewable energy tax credits; and
- Various other items, including non-raw materials savings arising from idle periods at the Stacyville and Chateaugay power stations, lower costs of chemicals used in the wood-residue segment, and decreases in professional fees and certain other costs.

OUTLOOK AND OBJECTIVES FOR 2010

Changes in market conditions in the wood-residue segment in 2010 will depend largely on the strength of the expected economic recovery in the U.S. Amidst encouraging signs in this respect, Boralex management expects electricity selling prices to initially stabilize and then to increase gradually. But, in the short term, prices are not expected to climb to the high levels reached in 2008.

Also, if the upward trend of the Canadian dollar against the US currency in recent months persists, segment results could be adversely impacted.

Although, in 2010, forward sales contracts and hedging mechanisms do not provide the same benefits as in 2009 for the wood-residue segment, the Corporation holds electricity contracts and swaps covering nearly 65% of expected 2010 output of its power stations. The Fort Fairfield power station's electricity sales contract, which is more favourable than current market conditions, is in force until 2011.

In line with its strategy, the Corporation will continue to adjust its wood-residue power output to market conditions, thereby ensuring some flexibility in managing costs. The Stacyville power station is expected to remain idle for an indefinite period. For the Chateaugay power station, which restarted operations in November 2009, management will assess its options based on market conditions.

In the REC market, prices depend not only on economic conditions but also on supply and demand for renewable energy. Boralex management expects prices to stabilize in fiscal 2010. As at February 9, 2009, Boralex had US\$23.8 million (\$24.9 million) in firm sales commitments for REC deliveries through December 31, 2012, covering approximately 61% of its potential output for 2010. Although REC market prices have fallen somewhat since the end of the third quarter of 2008 due to the economic slowdown, Boralex management is of the opinion that the REC market is a potentially attractive source of recurring revenues for its wood-residue segment until 2020. This is all the more beneficial as most of these revenues have a direct impact on operating earnings.

One of the highlights of fiscal 2010 is the coming into force of the U.S. federal government's BCAP, which offers financial incentives to companies operating in the collection and transformation of biomass mainly for the production of energy. The Corporation's six power stations have qualified for this program and will benefit from savings in wood-residue supply costs. The USDA, which manages the BCAP, started a review of its attribution rules on February 8, 2010. Boralex expects the USDA to announce new rules to take effect in September 2010. The Corporation will then reassess their impact on the cost of supplies for the next few fiscal years. The \$12 million annual reduction announced on February 2 is now expected to be approximately US\$6 million in 2010.

Note that the financial benefits of the BCAP should offset the end of the renewable energy tax credits offered by the U.S. government up to December 2009. However, the U.S. Congress is currently studying a proposal to renew this program.

Last, under the global performance optimization program completed in 2009, the segment succeeded in lowering its risks, reducing its costs, developing sources of recurring revenues and positioning itself proactively to capitalize on U.S. legislation that is increasingly favouring the production of renewable energy.

NATURAL GAS COGENERATION POWER STATION

The following table shows major variances in revenues from energy sales and EBITDA for fiscal 2008 and 2009:

(in millions of dollars)	Revenues from energy sales	EBITDA
YEAR ENDED DECEMBER 31, 2008	19.1	2.3
Pricing	(2.6)	(2.6)
Volume	0.4	0.4
CO ₂ quotas	–	(0.3)
Translation of self-sustaining subsidiaries	0.4	–
Natural gas costs	–	2.5
Other	(0.1)	(0.1)
YEAR ENDED DECEMBER 31, 2009	17.2	2.2

OPERATING RESULTS

The highlight of fiscal 2009 for this power station was the significant fall in natural gas prices and the resulting impact on electricity and steam selling prices which are indexed to natural gas prices in France.

Lower selling prices had a \$2.6 million unfavourable impact on the power station's revenues but the impact on EBITDA was almost entirely offset by a \$2.5 million decline in the cost of raw materials, namely natural gas. As a result, profitability remained comparable to the previous year, that is, \$2.2 million compared with \$2.3 million in 2008. But revenues were down \$1.9 million or 9.9% to \$17.2 million.

Although electricity output stayed relatively stable (37,501 MWh in 2009 compared with 37,829 MWh in 2008), steam output rose 6.0%, contributing an additional \$0.5 million to annual revenues and EBITDA. In terms of profitability, this contribution offset the \$0.3 million shortfall resulting from lower sales of CO₂ quotas.

Last, the strengthening of the euro against the Canadian currency had a favourable impact of \$0.4 million on revenues but the effect on EBITDA was nil.

In 2009, the power station gave its industrial client a \$0.6 million discount on steam deliveries in light of difficult economic conditions. Boralex recovered part of this discount in January 2010 and expects to recover the balance in the next few quarters.

Since 2005, due to market conditions, the power station has operated its cogeneration equipment for the five-month winter period only, that is, from November 1 to March 31. That is likely to be the case in 2010 as well.

The Blendecques natural gas power station is nonetheless a stable source of profits and cash flows for Boralex given that, among other factors, fluctuations in its selling prices are offset by opposite fluctuations in raw material costs, as experienced in 2009.

ANALYSIS OF OPERATING RESULTS FOR THE FOURTH QUARTER ENDED DECEMBER 31, 2008

The following table shows major changes in net earnings:

(in millions of dollars)	Net earnings (in millions of dollars)	Per share (in \$(basic))
THREE-MONTH PERIOD ENDED DECEMBER 31, 2008	4.4	0.12
Change in EBITDA	(3.6)	(0.10)
Amortization	(0.4)	(0.01)
Foreign exchange gain	(2.1)	(0.06)
Net loss on financial instruments	(0.9)	(0.02)
Financing costs	0.3	0.01
Gain on dilution	13.9	0.37
Income taxes	3.1	0.08
THREE-MONTH PERIOD ENDED DECEMBER 31, 2009	14.7	0.39

During the fourth quarter of fiscal 2009, Boralex generated net earnings of \$14.7 million or \$0.39 per share (basic and diluted) compared with \$4.4 million or \$0.12 per share (basic and diluted) for the same quarter in 2008. As discussed under the section on the analysis of annual performance, net earnings for the fourth quarter of fiscal 2009 includes two specific non-recurring items, including a gain on dilution of \$13.9 million and an impairment charge against property, plant and equipment of \$4.1 million (net of taxes) relating to one of the Fund's power stations.

Excluding these two factors, net earnings would have totalled \$5.0 million or \$0.13 per share (basic and diluted) for the fourth quarter of fiscal 2009, up \$0.6 million or \$0.01 per share from the fourth quarter of fiscal 2008. This improvement is attributable to a \$2.0 million increase in EBITDA (excluding the impairment charge against property, plant and equipment) coupled with a \$3.1 million reduction in the income tax expense and a \$0.3 million decrease in financing costs.

The combination of these positive items offset the total unfavourable variance of \$3.0 million in losses on foreign exchange and financial instruments and the \$0.4 million increase in amortization expense.

The following table shows major changes in revenues from energy sales and EBITDA:

(in millions of dollars)	Revenues from energy sales	EBITDA
THREE-MONTH PERIOD ENDED DECEMBER 31, 2008	54.3	15.6
Power stations commissioned ⁽¹⁾	1.3	0.9
Pricing	(3.6)	(3.6)
Volume	2.1	2.1
RECs and green certificates	(2.7)	(1.8)
Capacity premiums	0.1	0.1
Translation of self-sustaining subsidiaries	(5.4)	(1.5)
CO ₂ quotas	–	(0.8)
Renewable energy tax credits	–	0.4
Raw material costs	–	4.8
Maintenance	–	1.2
Development expenses – prospecting	–	0.1
Share in earnings of the Fund	–	(6.6)
Other	–	1.1
THREE-MONTH PERIOD ENDED DECEMBER 31, 2009	46.1	12.0

(1) Two wind farms at the Thames River site and the Ocean Falls power station.

REVENUES FROM ENERGY SALES

Revenues from energy sales totalled \$46.1 million during the three-month period ended December 31, 2009, down \$8.2 million or 15.1% from the same period of 2008. The sharp rise in the Canadian dollar had a unfavourable impact of \$5.4 million on quarterly revenues. At constant exchange rates, quarterly revenues would have decreased by about 5.2%.

Besides the fluctuations in exchange rates, the decline in revenues is attributable to lower selling prices for electricity and steam, and a decrease in sales of RECs and green certificates. These changes resulted in a total shortfall of \$6.3 million. But their impact was mitigated by the additional contribution of \$3.4 million generated by the expansion of the Corporation's installed capacity and higher output at existing power stations.

The changes in revenues from energy sales by segment were as follows:

- Revenues from energy sales in the wind power segment amounted to \$11.0 million, up \$3.1 million or 39.2% from \$7.9 million for the same quarter in 2008. In addition to the indexing of contractual selling prices, the growth in revenues stems from the 40.7% output increase that generated additional revenues of \$2.9 million, of which \$2.4 million is attributable to existing facilities and \$0.5 million to the commissioning of the first two wind farms at the Thames River (Ontario) site on December 8 and 17, 2009, respectively. All facilities in France increased their output, due to generally favourable wind conditions and a better availability of their equipment.
- Revenues of the hydroelectric segment rose \$0.1 million or 3.7% (15.6% increase at constant C\$/US\$ exchange rates) to \$2.9 million. This increase results primarily from the addition of the Ocean Falls power station acquired in April 2009 while the existing power station increased their output slightly. In total, the 17.8% increase in the segment's output generated additional revenues of \$0.8 million, which more than offset the \$0.4 million shortfall caused by lower selling prices. The U.S. power stations experienced a 18.9% (in US\$) decrease in selling prices while the average decline in Canadian dollars for the overall North American segment was 10.4%.
- Revenues from energy sales in the wood-residue segment totalled \$27.0 million, down \$10.0 million or 27.0% from the same quarter in 2008 (14.1% decrease at constant C\$/US\$ exchange rates). Other than the \$4.8 million unfavourable foreign exchange impact, the decline in revenues is attributable to a \$2.8 million decrease in REC sales resulting from the combined effect of weaker selling prices and lower output, and a \$2.1 million shortfall stemming from lower electricity selling prices in the New England market. But the fall in the average selling price in this segment was offset by electricity forward sales under contracts entered into during previous quarters. Also, the Stacyville power station was idle during the entire quarter while the Chateaugay power station did not operate during 40 days, resulting in an unfavourable volume effect of \$0.8 million on revenues.

However, excluding these two power stations, combined output of the other wood-residue power stations increased 18.8%.

- Revenues of the natural gas thermal power station declined \$1.3 million or 20.0% mainly due to lower selling prices for steam and electricity.

OTHER REVENUES

Boralex reported a negative amount of \$3.0 million in other revenues for the fourth quarter of 2009 compared with other revenues of \$4.7 million during the same period of 2008. This negative variance of \$7.7 million is explained by the \$6.7 million decrease in the Corporation's share in the Fund's results, largely attributable to the impairment charge against property, plant and equipment at the Dolbeau power station discussed under fiscal 2009 performance. In addition, *Other revenues* declined by \$1.4 million due primarily to lower sales of excess CO₂ quotas at the natural gas power station in France, compared with 2008.

EBITDA

Consolidated EBITDA for the fourth quarter of 2009 amounted to \$12.0 million or \$17.6 million excluding the impairment charge against the Fund's property, plant and equipment. Excluding this specific item, quarterly consolidated EBITDA rose \$2.0 million or 12.8% over the same quarter in 2008. Currency fluctuations had an unfavourable impact of \$1.5 million on quarterly consolidated EBITDA which, excluding this specific item, would have increased by more than 20%. This increase is attributable to a \$6.0 million decrease in the combined costs of raw materials and maintenance in the wood-residue segment and the \$3.0 million favourable impact resulting from higher output primarily in the wind power segment. These factors offset the total unfavourable impact of \$5.4 million stemming from lower selling prices for electricity and RECs in the U.S.

The changes in EBITDA by segment were as follows:

- EBITDA for the wind power segment increased by \$3.0 million or 49.9% (51.6% at constant exchange rates), to \$9.1 million. This performance is primarily attributable to higher output at existing power stations and the commissioning of the first two wind farms at the Thames River site. These two factors generated additional contributions of \$2.4 million and \$0.5 million, respectively, to EBITDA. Segment performance also benefited from the \$0.3 million favourable impact resulting from the indexing of electricity selling prices as well as the \$0.2 million reduction in maintenance costs.
- EBITDA for the hydroelectric segment increased by \$0.1 million or 5.8% (18.3% at constant exchange rates) to \$1.7 million due primarily to the contribution of the Ocean Falls power station. Segment profitability also benefited from a slight increase in output at existing power stations as well as reductions in maintenance costs and certain other costs. These factors offset the \$0.4 million shortfall caused by the decrease in the segment's average selling price.
- EBITDA for the wood-residue segment totalled \$9.4 million, up \$0.3 million or 3.3% (16.0% at constant exchange rates), from \$9.1 million in 2008. The decrease in its average electricity selling price, lower REC sales and reduced output had negative impacts of \$2.1 million, \$1.9 million and \$0.8 million, respectively, on the segment's EBITDA. However, these factors were more than offset by a combined reduction of \$4.3 million in raw material and maintenance costs, and by various favourable factors totalling \$1.9 million.
- Last, EBITDA for the natural gas thermal power station decreased by \$0.5 million or 33.6% (28.2% decrease at constant exchange rates), to \$0.9 million. The decrease is explained mainly by higher excess CO₂ quota sales in the last quarter of 2008 compared with the same period in 2009. Notwithstanding this situation, the lower selling prices for electricity and steam produced by this power station were more than offset by the reduction in its raw material costs.

AMORTIZATION, FOREIGN EXCHANGE LOSS (GAIN), NET LOSS ON FINANCIAL INSTRUMENTS, FINANCING COSTS AND EARNINGS BEFORE INCOME TAXES

The Corporation reported \$6.7 million in amortization expense for the fourth quarter compared with \$6.3 million in 2008. Given the additions to property, plant and equipment over the year, this decrease is explained by two main factors: (i) the significant rise in the Canadian dollar against the US dollar and the euro during the fourth quarter of 2009, which reduced the amortization expense of Boralex assets located in the U.S. and Europe; (ii) the decrease in the output of the wood-residue segment as its amortization expense is partly based on output.

Financing costs declined by \$0.3 million to \$3.5 million. In addition to debt repayments made during the past year, this decline is mainly attributable to the favourable impact of the strengthening of the Canadian dollar against the euro and resulting impact on the debt denominated in euros, which currently accounts for 72% of the Corporation's total debt.

Boralex reported a \$1.3 million foreign exchange loss in the fourth quarter of 2009, down \$2.1 million from a \$0.8 million foreign exchange gain in the previous year. Boralex also reported a \$0.9 million loss on financial instruments compared with an insignificant loss in 2008.

In light of the foregoing, Boralex recorded earnings before income taxes of \$13.5 million. Excluding the \$13.9 million gain on dilution and the \$5.6 million impairment charge against property, plant and equipment at one of the Fund's power stations, earnings before income taxes totalled \$5.2 million compared with \$6.3 million for the fourth quarter of 2008.

INCOME TAX RECOVERY

Boralex reported a \$1.3 million income tax recovery compared with \$1.8 million income tax expense for the previous year. The main reason is that the gain on dilution, excluding the related costs, is not a taxable item.

NET EARNINGS

Boralex ended the fourth quarter of fiscal 2009 with net earnings of \$14.7 million or \$0.39 per share (basic and diluted). Excluding the two items discussed previously, net of taxes, net earnings stood at \$5.0 million or \$0.13 per share (basic and diluted) compared with net earnings of \$4.4 million or \$0.12 per share (basic and diluted) for the same period of 2008.

To sum up,	excluding the two specific items in the fourth quarter of 2009, namely the gain on dilution and the impairment charge against property, plant and equipment at one of the Fund's power stations, and the impact of currency fluctuations, the Corporation's quarterly results show an improvement in operating profits, mainly attributable to growth in the wind power segment combined with a decrease in raw material supply costs and maintenance costs in the wood-residue segment. In light of the significant expansion in the wind power segment's installed capacity in 2010, an improvement in overall performance could be expected in the coming fiscal year.
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30 ANALYSIS OF MAJOR CASH FLOWS FOR THE QUARTER AND YEAR ENDED DECEMBER 31, 2009 OPERATING ACTIVITIES

During the fourth quarter of 2009, Boralex reported \$11.3 million or \$0.30 per share in cash flows from operations compared with \$11.1 million or \$0.30 per share in the same quarter of 2008. This variation is due to non-cash items used in calculating net earnings, mainly Boralex's share in the results of the Fund and in particular, its share in the impairment charge against property, plant and equipment at the Dolbeau power station and renewable energy tax credits. The change in non-cash working capital items generated \$13.3 million in cash inflows compared with \$6.3 million for the previous year. The cash flows generated in the fourth quarter of 2009 are mainly attributable to the increase in accounts payable and accrued liabilities between September 30 and December 31, 2009 in connection with transactions related to construction underway, year-end acquisitions, differences with respect to interest payments and the commissioning of wind farms in Ontario in the fourth quarter of 2009. As a result, operating activities in the last quarter of 2009 generated cash flows totalling \$24.6 million compared with \$17.4 million in the previous year.

For fiscal 2009, the Corporation reported \$47.4 million or \$1.26 per share in cash flows from operations compared with \$55.2 million or \$1.46 per share in 2008. This decrease of \$7.8 million is explained by the same factors mentioned above, which mitigated the unfavourable impact of the decline in annual EBITDA, lower distributions received from the Fund and the increase in current income taxes triggered by the depletion of tax loss carryforwards at U.S. power stations. The change in non-cash working capital items generated \$13.4 million in cash inflows compared with cash outflows of \$1.0 million in the previous year. The generation of cash flows in 2009 is explained in large part by lower accounts receivable resulting from lower REC output and prices and lower electricity selling prices in the wood-residue segment, together with higher accounts payable and accrued liabilities discussed above. Accordingly, operating activities for 2009 generated \$60.8 million in total cash flows compared with \$54.2 million in 2008.

INVESTING ACTIVITIES

In the fourth quarter of 2009, Boralex made net investments totalling \$74.2 million compared with \$14.0 million during the same period in 2008. Main investments during the quarter were as follows:

- An amount of \$47.3 million for the acquisition of businesses, solely in the wind power segment, including \$37.6 million for the Corporation's share in the Ronchois and Le Grand Camp wind farms, and the already operating Bel Air wind farm in France, \$6.6 million for the Chasse-Marée project currently under construction, also in France, and \$3.0 million for three of the five wind farms of Phase II of the Thames River site in Ontario to which Boralex held the rights;
- An amount of \$24.4 million was earmarked for the purchase of property, plant and equipment, including \$22.9 million mainly in the wind power segment for the commissioning of Phase I of the Thames River site and for the Cham Longe II wind farm in France, \$0.7 million for various investments in the wood-residue segment primarily to upgrade equipment at the Livermore Falls and Stratton power stations, \$0.2 million for optimizing the Ocean Falls hydroelectric power station and the balance for investments at the corporate level; and
- An amount of \$3.4 million invested in development projects, mostly to develop the wind power segment in Canada, mainly Phase II of the Thames River site and the Seigneurie de Beauré projects.

Conversely, Boralex received an amount of \$0.6 million in repayments made by wood-residue suppliers in respect of crushing equipment financed by the Corporation.

For fiscal 2009, Boralex made net total investments of \$156.1 million compared with \$59.6 million in 2008. Under the investment strategy implemented by the Corporation to deal with deteriorating global economic and financial conditions over the past 18 months, almost all investments for the year were allocated to projects likely to generate cash flows in the short term. Investments for fiscal 2009 were allocated as follows:

- \$84.5 million in additions to property, plant and equipment, including \$76.8 million in the wind power segment (primarily for Phase I of the Thames River site) \$4.8 million in the wood-residue segment, \$1.2 million in the hydroelectric segment and \$1.7 million at the corporate level;
- \$53.8 million in business acquisitions, including, in addition to the fourth quarter acquisitions discussed previously, the initial cash payment of \$4.5 million for the acquisition of the Ocean Falls hydroelectric power station and the \$1.7 million to acquire one of the five wind farms of Phase II of the Thames River site in Ontario. The total purchase price for Ocean Falls is \$19.0 million. In addition to the initial payment of \$4.5 million, an additional \$5.0 million will be paid on April 1, 2010 and the balance on April 1, 2011. Under the terms of the arrangement, if Boralex arranges financing for the project before April 1, 2011, the net proceeds of that financing, up to the balance of the purchase price, are payable to the seller;
- \$10.3 million for the Corporation's development projects, primarily for deposits on turbine purchases for the 50 MW Phase II of the Thames River wind farm as well as for developing the Seigneurie de Beauré site;
- \$6.4 million in other investments, consisting mainly of the acquisition cost for additions to crushing equipment, net of amounts received from leasing the equipment to wood-residue suppliers; and
- \$1.1 million in reserves set aside for upgrades at the Ocean Falls power station.

FINANCING ACTIVITIES

Financing activities in the fourth quarter generated net cash flows of \$50.6 million. The Corporation received an amount of \$23.2 million (€15.0 million) following the acquisition of a 16% interest by Cube in Boralex's European operations. The Corporation also entered into new long-term financing arrangements totalling \$35.1 million (net of financing costs of \$0.1 million) earmarked mostly for the development of its wind power segment, including \$18.0 million for the Ronchois and Le Grand Camp wind farms, \$14.4 million for Phase I of the Thames River site in Canada, \$2.3 million for the Chasse-Marée wind farm et \$0.2 million for the Cham Longe II wind farm in France. Moreover, Boralex repaid a total of \$7.7 million in existing debt, including \$6.8 million of long-term loans and \$0.9 million in bank borrowings.

For fiscal 2009, financing activities generated net cash flows of \$75.7 million. The Corporation entered into new long-term financing arrangements totalling \$68.7 million, net of financing costs of \$2.4 million. Boralex received a net amount of \$22.2 million from the acquisition of a 16% interest by Cube in Boralex's European operations for an amount of \$23.2 million, net of an amount of \$1.0 million paid for the acquisition of the remaining minority interest in the Forces Motrices St-François power station in Québec. The Corporation also increased its short-term bank borrowings by \$12.3 million and repaid an amount of \$27.5 million on its long-term debt. The main long-term financing operations were as follows:

- \$47.7 million for Phase I of the Thames River wind power site, drawn from the \$56.0 million facility arranged in October 2009. This amount corresponds to about 55% of the total cost of four wind farms and will be amortized over a 19-year period;
- \$18.0 million for the Ronchois and Le Grand Camp wind farms acquired on December 27, 2009;
- \$2.4 million for the Cham Longe II wind farm in France, for which new equipment was commissioned in early February 2010. A 15-year financing facility of \$8.7 million was arranged in September 2009 to cover more than 82% of the total investments required. Note that Boralex intends to exercise, during fiscal 2010, its purchase option to acquire the minority interest in Boralex Cham Longe II S.A.S.;
- \$2.3 million for the Chasse-Marée development wind farm, drawn from the 15-year financing facility of \$20.3 million arranged in October 2009 to cover more than 80% of the total investments required. This wind farm will be commissioned in the second quarter of 2010; and
- \$0.7 million for the expansion of our offices in Blendecques, France.

Further, since the beginning of fiscal 2009, fluctuations in the C\$/€ and the C\$/US\$ exchange rates curtailed cash and cash equivalents by \$11.8 million (including \$0.8 million in the fourth quarter of 2009). Total changes in cash and cash equivalents for fiscal 2009 represented a \$33.4 million cash outflow. As a result, cash and cash equivalents totalled \$37.8 million as at December 31, 2009 compared with \$69.2 million as at December 31, 2008.

To sum up,	<p>cash flows in fiscal 2009 particularly reflect Boralex's main achievements as follows:</p> <ul style="list-style-type: none"> – Maintaining significant cash flows from operations, even in an economic recession; – Complying with its goals of prudent management of its investments and capital structure under the economic conditions prevailing since fall 2008; – Demonstrating its capacity to create value for shareholders, particularly by entering into a strategic and financial partnership with Cube; and – Successfully securing financing and completing its projects despite a global credit crisis, which attests to the quality of the projects developed by Boralex. <p>These strengths will continue to enhance the Corporation's financial health and flexibility, allowing it to achieve its strategic objectives in Europe and North America.</p>
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FINANCIAL POSITION AS AT DECEMBER 31, 2009**ASSETS**

Changes in key balance sheet items between December 31, 2008 and 2009 primarily reflect investing and financing activities for the period, as well as the impact of fluctuations in the C\$/US\$ and C\$/€ exchange rates.

As at December 31, 2009, Boralex reported total assets of \$663.7 million compared with \$623.0 million as at December 31, 2008. The growth in assets is attributable to the increase in the value of long-term assets by \$80.9 million to \$574.6 million as at December 31, 2009, mainly as a result of the wind power segment's expansion in Canada and in Europe. In contrast, current assets decreased by \$40.0 million to \$89.1 million at fiscal year-end.

The growth in long-term assets can be broken down as follows:

- An increase of \$83.1 million in the value of property, plant and equipment, net of the amortization expense for the fiscal year of \$24.0 million, resulting from the construction and commissioning of Phase I of the Thames River site, the acquisition of the Ocean Falls hydroelectric power station and the four wind farms in France (Chasse-Marée, Ronchois, Le Grand Camp and Bel Air), the constructions underway in France and Ontario, and upgrades in the wood-residue segment. Also, the Canadian dollar's strengthening against the US dollar and the euro between December 31, 2008 and 2009 resulted in a reduction of the value of property, plant and equipment of \$38.3 million;
- A net increase of \$22.6 million stemming primarily from the acquisition of four new wind farms in France, three wind farms of Phase II of the Thames River site and the Ocean Falls site; and
- A net decrease of \$11.0 million in the value of other assets mainly attributable to a decline in fair value of derivative financial instruments, an \$8.8 million adverse effect due to foreign currency fluctuations, and a \$5.2 million amount related to the reclassification of development projects to property, plant and equipment in 2008. The impact of this decrease was partially offset by the Ocean Falls power station's water rights and investments made in leasing agreements for crushing equipment.

The \$13.9 million decrease in the investment is explained by the impairment charge against the Fund's property, plant and equipment and foreign currency fluctuations.

The decrease in current assets is due to the following key factors:

- A \$31.4 million decrease in cash and cash equivalents resulting from the use of a portion of the Corporation's cash resources to meet certain liquidity requirements for the period, combined with the \$11.8 million adverse effect of translation adjustments; and
- A \$9.2 million decrease in accounts receivable resulting primarily from lower REC output and prices, and a drop in electricity selling prices.

WORKING CAPITAL

As at December 31, 2009, the Corporation's working capital amounted to \$14.4 million with a ratio of 1.19:1, compared with \$70.2 million and a ratio of 2.19:1 as at December 31, 2008. This decrease is attributable to the following factors:

- The aforementioned decrease in cash and cash equivalents and accounts receivable; and
- The short-term bank loan contracted by the Corporation for a net amount of \$12.3 million.

TOTAL DEBT AND SHAREHOLDERS' EQUITY

As at December 31, 2009, the Corporation's total debt amounted to \$242.7 million compared with \$187.4 million as at December 31, 2008. This \$55.3 million increase resulted from the long-term financing secured discussed above (net of year-to-date repayments of existing long-term debt), the short-term bank loans contracted by the Corporation and new debt related to the acquisitions of Ocean Falls (\$14.0 million) and Bel Air (\$9.2 million). However, the euro's weakening against the Canadian dollar resulted in a decrease in long-term debt of approximately \$22.4 million. As at December 31, 2008, 97% of Boralex's long-term debt was in Europe but following the development of its wind power segment in Canada, this proportion was reduced to 72% as at December 31, 2009.

Net of cash and cash equivalents, excluding deferred financing costs, total net debt was \$204.9 million as at December 31, 2009 compared with \$118.2 million as at December 31, 2008.

Moreover, despite net earnings for fiscal 2009, shareholders' equity fell \$22.7 million or 6.3% to \$340.0 million as at December 31, 2009 from \$362.7 million as at December 31, 2008. This decline is due to the \$48.4 million reduction in accumulated other comprehensive income resulting from the weakening of the euro and the US dollar against the Canadian dollar and the change in the value of hedging instruments.

As a result, the total net debt to capitalization ratio (total net debt plus shareholders' equity) rose to 37.6% as at December 31, 2009 from 24.6% as at December 31, 2008.

Based on Boralex's share price of \$9.70 as at December 31, 2009, the net debt to enterprise value ratio was 36.5% as at that date compared with 30.1% as at December 31, 2008 when the share price stood at \$7.55.

OUTLOOK AND OBJECTIVES FOR 2010

Boralex management expects the Corporation's operating results to grow in 2010, driven by the recent and ongoing expansion of the wind power segment. The outlook for Boralex's different operating segments for fiscal 2010 are discussed in detail under *Analysis of Segmented Results for the year ended December 31, 2009*. The outlook by segment as well as for the Corporation as a whole is summarized below.

WIND POWER SEGMENT

The segment's installed capacity will reach nearly 260 MW in December 2010, thereby becoming the Corporation's largest operating segment in 2010. More specifically, in the coming fiscal year, segment revenues and EBITDA will benefit from additional contributions by the following assets:

- The 7 MW Bel Air wind farm in France – contribution during the 12 months of 2010;
- The 40 MW Phase I of the Thames River facility in Canada, operating under the terms and conditions of the Advanced RESOP program – contribution during 11 months;
- The 4.6 MW expansion of the Cham Longe II wind farm in France – contribution during 11 months;
- Commissioning of the new 9.2 MW Chasse-Marée wind farm in France – contribution during approximately nine months;
- Commissioning of the 10 MW Le Grand Camp wind farm in France – contribution during approximately six months; and
- Commissioning of the new 30 MW Ronchois wind farm in France – contribution during approximately five months.

Also, the 50 MW Phase II of the Thames River site will be completed by the end of fiscal 2010.

All these new facilities benefit from long-term power contracts at an average selling price higher than Boralex's current average price. As a result, the portion of Boralex's installed capacity under long-term contracts with indexed selling prices will rise to nearly 65% at the end of fiscal 2010 from 55% as at December 31, 2009. With the commissioning of the two Seigneurie de Beupré wind farms in Québec in 2013, this portion will increase to more than 70%, ensuring Boralex with a more stable source of revenues, earnings and cash flows, with higher added value.

In addition, the partnership entered into with Cube in December 2009 will be leveraged over the next three fiscal years to expand the Corporation's wind power operations in France and other European countries, including Italy, as well as to develop other renewable energy sources, primarily solar power.

WOOD-RESIDUE POWER SEGMENT

The segment's performance will be bolstered in 2010 as all of its power stations have qualified for the U.S. government's BCAP, a program that will generate savings of approximately US\$6 million in raw material costs over the coming quarters. Furthermore, there are encouraging signs of a rise in selling prices in the electricity market and a stabilization of REC selling prices. As at February 17, 2010, Boralex had \$24.9 million (US\$23.8 million) in firm sales commitments for REC deliveries through December 31, 2012, covering 61% of its potential output for fiscal 2010.

However, the segment's performance in 2010 will be affected by three adverse factors:

- Termination on December 31, 2009 of the U.S. renewable energy tax credits program, which contributed \$13.9 million to segment EBITDA in 2009. However, the U.S. Congress is currently studying a proposal to renew this program;
- Strengthening of the Canadian dollar against the US dollar in recent months; and
- Reduced benefits compared with 2009 from electricity forward sales and hedging mechanisms. However, Boralex has secured 65% of the segment's potential power output in 2010 at prices above current market levels.

In the medium term, although the Corporation's wood-residue segment is more exposed than the other segments to cyclical fluctuations in electricity demand and prices, management is of the opinion that the segment will remain a significant source of earnings and cash flows for Boralex. The segment's principal advantages are the following:

- Innovative strategy for sourcing wood residue that ensures optimal raw material availability;
- Investments earmarked for upgrading equipment since 2006, coupled with its internal expertise in preventive maintenance, which enhances availability and effectiveness of its production facilities;
- Highly developed expertise in forward electricity sales, REC sales and hedging mechanisms; and
- Leadership in production of RECs, a market with excellent outlook over the medium- and long-term, especially since the State of Connecticut has increased the minimum green energy portion requirement for distributors to 20% by 2020, compared with 1.5% when the program was launched in 2005 and 7% in 2010.

HYDROELECTRIC SEGMENT

Hydroelectric segment performance in 2010 will undoubtedly be impacted by the strength of the Canadian dollar, although this factor will be mitigated by the gradual improvement in selling prices on the Northeastern U.S. market and by the full contribution of the Ocean Falls (Canada) power station throughout 2010.

Boralex plans to grow its hydroelectric segment over the medium term, particularly in British Columbia.

NATURAL GAS COGENERATION POWER STATION

Regardless of market conditions, this facility is a relatively stable source of profits and cash flows for Boralex, as fluctuations in its selling prices are offset by opposite fluctuations in its raw material costs, as experienced in 2009.

SOLAR ENERGY

Boralex is currently working on the implementation of a solar energy generation facility in France.

In 2010, Boralex will move forward with the development of its first solar energy plant at the Avignonet-Lauragais wind farm it operates in southern France. New infrastructures with potential installed capacity of 4.6 MW should utilize photovoltaic technology panels and the electricity generated will be sold to Électricité de France under a 20-year contract.

Boralex is convinced of the potential of solar energy, particularly in Europe where this type of renewable power generation enjoys preferential sales rates. Furthermore, the economic downturn in 2008 and 2009 and the development of solar technologies have pushed the cost of solar technology equipment down over the past two years. For this reason, Boralex intends to capitalize on its strategic and financial partnership with Cube to replicate its success since 2002 in the European wind power segment. Projects representing a total of 40 MW in France are currently under consideration and market potential in Spain is also being assessed.

BORALEX'S INTEREST IN THE FUND

The Fund's earnings will likely continue to face, among other factors, the effects of difficulties in the forest industry and the impact of the continued appreciation of the Canadian dollar against its US counterpart. For this reason, on December 11, 2009, the Fund announced it was reducing distributions to unitholders from \$0.70 per trust unit to \$0.40 per trust unit on an annualized basis, starting with the distribution declared in January 2010 and paid in February 2010. The reduction will decrease cash flows to Boralex by \$3.8 million in 2010.

MEDIUM-TERM OBJECTIVE: OPERATE CONTRACTED CAPACITY OF 1000 MW

Boralex will close fiscal 2010 with an installed capacity of 516 MW, of which close to 65% is under indexed long-term sales contracts. With the commissioning of the Seigneurie de Beaupré wind farms in 2013, installed capacity will reach over 650 MW, of which over 70% is contracted.

The Corporation remains focused on its medium-term objective of building, alone or with partners, a renewable energy production asset base of 1,000 MW under long-term contracts. The cornerstone of this expansion will be the wind power segment, although Boralex also intends to grow its hydroelectric segment in Canada and to establish itself in the solar segment in Europe.

For this reason, while it is focused on the optimal execution of its current wind power segment projects, Boralex is already working on researching and setting up projects that will assure its growth after 2013, when the Seigneurie de Beaupré wind farms are commissioned. In particular, the world economic and financial crisis of the past year may lead some energy asset developers or operators to decide to sell a portion of their assets to finance other operations. As it recently did in France, the Corporation intends to capitalize on development project acquisition opportunities for which long-term power sales contracts and financing arrangements are already in place and/or where energy assets are already operational, both in Canada and in Europe.

Furthermore, declines in oil prices, prime rates and equipment prices, including wind generators, in the past year are beneficial to the operating profitability of certain power stations and to the Corporation's future development costs.

MANAGEMENT COMMENTARY ON THE CURRENT ECONOMIC SITUATION

Management believes that certain aspects inherent in the Corporation's operations, expertise and assets, as well as its capital structure and risk management mechanisms, and changes in its industry, help mitigate its business risks. Management would like to underscore the following main factors:

- Currently, more than 55% of the Corporation's total installed capacity is covered by long-term power sales contracts ranging from 12 months to 20 years. In particular, these contracts currently cover all the wind farms, as well as the natural gas thermal cogeneration power station in France, two hydroelectric power stations in Québec, the new hydroelectric power station in British Columbia, and a hydroelectric power station and a wood-residue power station in the United States. The clients served by these power stations are EDF, Hydro-Québec, BC Hydro and New Brunswick Power, which are regulated public utility companies with very high credit ratings. The portion of Boralex's installed and operating capacity under long-term contracts will rise to nearly 65% by the end of fiscal 2010. With respect to assets under long-term contracts primarily in the wind power and hydroelectric segments, current business risk exposures are mainly climate-related and depend little on prevailing economic conditions. The 45% of Boralex's current installed capacity not covered by long-term contracts consists primarily of the five thermal power stations in the wood-residue segment and four hydroelectric power stations, all of which are located in the Northeastern U.S. and sell their power in the open market.

- Unlike several global energy industry players operating mainly in project development, Boralex, which has some development expertise, specializes first and foremost in operating energy assets, with a near 20-year track record. Over the years, Boralex has built a 417 MW, 29-site portfolio whose performance and reliability it has tirelessly optimized by developing leading-edge expertise, high-performance management tools and effective operating strategies. Furthermore, the Corporation's assets are diversified both in terms of the types of renewable power generation and geographic dispersion, which mitigates operating risks. As a result, Boralex has a high-quality asset portfolio that generates significant and predictable operating profits and cash flows.
- Boralex's ability to raise substantial cash from operations is a major asset in managing its capital and planning its projects.
- Boralex operates in what is arguably the most promising energy market niche: renewable energy. Supporting and providing incentives for development in this niche is a common policy platform for governments of most industrialized nations, including European Union member states and the current U.S. administration.

To sum up, Boralex will continue, as always, to be rigorous and disciplined in investment projects and asset management in order to maximize the operating earnings generated by its power stations and its cash flows from operations. It will also continue to prudently capitalize on opportunities that arise in its fields of expertise, while keeping abreast of new technologies.

CAPITAL STOCK INFORMATION

As at December 31, 2009, Boralex's capital stock consisted of 37,740,921 Class A shares issued and outstanding, unchanged from December 31, 2008. There were 1,337,610 stock options outstanding as at December 31, 2009, of which 755,578 were exercisable.

Between December 31, 2009 and February 24, 2010, no new shares were issued on exercise of stock options and no shares were repurchased in the normal course of business.

FINANCIAL INSTRUMENTS

MARKET RISK

As at December 31, 2009, the Corporation had entered into two electricity price financial swaps for total deliveries of 429,600 MWh over periods of 12 to 14 months. All electricity price financial swaps as at December 31, 2009 were designated as hedges of future variable cash flows related to the delivery of electricity and their favourable fair value amounted to \$5.8 million (US\$5.5 million). These contracts qualify for hedge accounting.

INTEREST RATE RISK

The Corporation carries long-term debts bearing interest at variable rates. As at December 31, 2009, approximately 86% of long-term debt issued bore interest at variable rates. A sharp increase in interest rates in the future could affect the liquid assets available for the Corporation's development projects. However, since the Corporation uses interest rate swaps, its exposure to interest rate fluctuations is reduced to only 12% of total debt. As at December 31, 2009, the notional balance of these swaps stood at \$186.3 million (€93.0 million and \$46.8 million) while their unfavourable fair value was \$6.7 million (€4.3 million and \$0.3 million).

The Corporation does not plan to sell these instruments, since they were entered into in order to reduce the Corporation's risk related to interest rate fluctuations. Therefore, the fact that fair value is favourable only indicates that forward interest rates have fallen, and has no bearing on the effectiveness of the instrument as part of the Corporation's risk management strategy.

In connection with the refinancing of Phase I of the Thames River site as well as the financing of Phase II development, both concluded in March 2010, the Corporation entered into two interest rate forward contracts ("treasury locks") to offset changes in the expected proceeds of the future issue of this fixed rate debt arising from fluctuations in interest rates. As at December 31, 2009, the notional amount of these contracts stood at \$76.4 million with a weighted average contractual yield at maturity of 3.7637%. This notional amount covered approximately 60% of expected future debt servicing (principal and interest) as of that date. Two other forward contracts representing 30% of future debt servicing were entered into in the beginning of 2010 at a weighted average contractual yield at maturity of 3.7487%. Hedge accounting was used for these forward contracts. Accordingly, the effective portion of periodic changes in fair value of the hedging items is included in *Other comprehensive income* until the financing date. As from this date, the accumulated amount in *Other comprehensive income* is gradually reclassified to net earnings as an adjustment to the interest expense on the debt using the effective interest rate method of amortization. The interest expense therefore reflects the average interest rate of the hedging instruments adjusted for the corresponding credit facility. As at December 31, 2009, the favourable fair value of forward contracts totalled \$1.1 million and a pre-tax amount of \$1.0 million was credited to *Other comprehensive income*.

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 proportion of the raw materials used in the Corporation's wood-residue power stations in the United States are purchased with Canadian dollars. In this regard, in fiscal 2009, the Corporation entered into forward contracts to sell US\$0.2 million each for Canadian dollars with bi-weekly settlements at a weighted average rate of 1.1254 Canadian dollars for one US dollar up to February 17, 2011 to partially hedge purchases in Canadian dollars at its Fort Fairfield power station in the United States. The Corporation uses hedge accounting for these contracts such that the effective portion of gains and losses resulting from changes in fair value of these forward contracts is recognized in *Other comprehensive income*. Amounts are accumulated under *Other comprehensive income* until the hedged item is realized, namely the purchases of wood residue in Canadian dollars, at which date the amounts are transferred to net earnings by adjusting the carrying amount of purchases made in Canadian dollars during the period. As at December 31, 2009, a \$0.4 million gain before tax was recognized in *Other comprehensive income*. Except for raw material purchases in Canadian dollars by U.S. power stations, the majority of other operating, investing and financing transactions 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 focus rather on protecting returns on its development projects. Where firm commitments are made in connection with a project requiring future cash outlays in a foreign currency, the Corporation enters into hedging transactions to mitigate the risk of fluctuations in said currency.

With regard to the Ontario Thames River site, the turbine supplier is European, which means that purchases will be settled in euros, whereas the operation of these wind farms will generate cash flows in Canadian dollars. To protect the expected project return, the Corporation entered into forward contracts in 2008 and 2009, setting exchange rates of approximately C\$1.4702 per euro on all Phase I turbine purchases and approximately C\$1.5112 per euro on 67% of Phase II purchases. Hedging of Phase II purchases was completed in early 2010 at an average rate of C\$1.4798 per euro. Since the Corporation applied hedge accounting to

all foreign exchange contracts, gains and losses resulting from the change in fair value of the effective portion of these hedging items are included under *Other comprehensive income* until the date of purchase of the underlying capital assets. Their purchase cost is then adjusted for such amount. Accordingly, in fiscal 2009, a total foreign exchange gain of \$3.9 million was transferred from *Other comprehensive income* and set off against the cost of turbine purchases. As at December 31, 2009 a negligible balance was recognized under *Other comprehensive income*.

RELATED PARTY TRANSACTIONS

In addition to holding 23.3% of the Fund's trust units, and through one of its wholly-owned subsidiaries, the Corporation is linked to the Fund under long-term management and administration contracts. During fiscal 2009, these management and administration agreements generated \$5.9 million (\$5.4 million in 2008), while its share of the Fund's results amounted to negative \$2.1 million (positive \$7.8 million in 2008). Lastly, Boralex received Fund distributions totalling \$9.6 million in 2009 (\$10.3 million in 2008).

One of Boralex's power stations in France supplies steam to a French division of Cascades Inc., which has significant influence over Boralex since it holds 34% of the Corporation's share capital. For 2009, revenues from this agreement totalled \$10.1 million (\$11.8 million in 2008).

The Corporation also entered into a management agreement with an entity controlled by Bernard Lemaire, one of Boralex's directors and officers, and his family. For 2009, revenues from this agreement totalled \$0.5 million (\$0.5 million in 2008).

As part of the acquisition of minority interests in Forces Motrices St-François (see note 12 to the financial statements), a \$0.3 million (€0.2 million) interest was purchased from Bernard Lemaire, Executive Chairman of the Board of Boralex Inc. His interest in this company represented 8% of its capital stock. This transaction was carried out on the same basis as for the other arm's length shareholders. 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

CONTRACTUAL OBLIGATIONS

(in millions of dollars)	Payments					
	Total	2010	2011	2012	2013	2014+
Long-term debt and capital leases	236.2	24.3	31.3	20.2	19.8	140.6
Purchase obligations	127.8	127.8	–	–	–	–
Other obligations	67.6	3.8	3.5	3.6	5.0	51.7
Total	431.6	155.9	34.8	23.8	24.8	192.3

FUND-RELATED COMMITMENTS

- Under the terms of a management agreement ending February 19, 2022 with renewable successive five-year terms, subject to fulfillment of the manager's obligations, the Corporation has undertaken to provide operation, supervision, maintenance, security, management and administration services for seven power stations. These services cover all employee wages, salaries and benefits related to these facilities, as well as the use of the Corporation's centralized control system. The fee is indexed annually based on the Consumer Price Index for the preceding 12 months. For the 12 months ended December 31, 2009, the management fee under this agreement was \$5.0 million (\$5.0 million for 2008.)
- The Corporation has undertaken to provide, according to terms similar to those described in a), the complete management of two hydroelectric power stations located in the State of New York (the "Adirondack facilities") and owned by the Fund. More specifically, the amounts payable under this agreement are limited to operating expenses and annual compensation to the Corporation covering the employee wages, salaries and benefits related to the operation, supervision, maintenance, security, management and administration of the Adirondack facilities and of the overhead expenses thereof. Fees for this agreement were \$0.5 million for the 12 months ended December 31, 2009 (\$0.4 million for 2008.) This agreement will end in 2023 but is renewable for additional five-year terms at the option of the manager.
- Under an agreement, Boralex Power Limited Partnership ("BPLP") has entrusted the management and operation of the Dolbeau power station to Boralex. This service agreement is valid during the entire temporary period of operations at Dolbeau. Management fees under this agreement amounted to \$0.4 million for the year ended December 31, 2009 (nil in 2008).

OTHER COMMITMENTS AND CONTINGENCIES

- a) Under a long-term contract expiring in 2027, the Corporation is committed to selling 100% of its power output from a hydroelectric power station located in the United States. Long term contracts for the Fort Fairfield and Ashland wood-residue power stations expired on February 28, 2009. A new two-year power sales contract was entered into for the Fort Fairfield power station as of March 1, 2009. With respect to the Ashland power station contract, the Corporation decided to sell this facility's output on the open market and did not renew the long-term contract. Instead, Boralex entered into an electricity swap contract to set prices until February 28, 2011. Lastly, in Canada and France the Corporation is committed to selling 100% of its electricity and steam output under long-term contracts expiring as follows:

Source	Production type	Maturity
Canada	Electricity	Between 2010 and 2030
United States	Electricity	Between 2011 and 2027
France	Electricity	Between 2013 and 2025
France	Steam	2022

- b) To operate the Middle Falls power station in the United States, the Corporation leases the land where the facilities are situated from Niagara Mohawk Power Corporation under a lease that runs until 2027. Until 2013, the payment is a fixed amount indexed at 3% per year. In 2009, the rent amounted to \$0.4 million (\$0.4 million in 2008) and will be indexed at 3% per year until 2013. From 2014 onwards, the rent will vary at the rate of 30% of the power station's gross revenue.
- c) The Corporation is committed under forward contracts to sell the RECs earned by its U.S. power stations that have qualified as a renewable energy producer in Connecticut. As at February 24, 2010, the balance of these commitments totalled about \$24.9 million (US\$23.8 million) for periods between January 2010 and December 2012.
- d) Under the supply agreements for its wood-residue power stations, the Corporation is committed to take delivery of certain minimum quantities. According to production forecasts, the Corporation will purchase quantities greater than the contract minimums.
- e) Over the years, the Corporation has sold portions of its enterprises, including electrical power stations to the Fund. Under the agreements with respect to these sales, the Corporation could be required to indemnify the purchaser for liabilities arising from events prior to the sale, whether in connection with labour, tax, environmental, judicial or other matters, or arising from representations made by the Corporation. Indemnification guarantees of this type extend mainly over periods of less than ten years. The maximum amount associated with these guarantees may not exceed the proceeds from the sales in the amount of \$382.3 million. The Corporation deems that it has no liabilities under these guarantees.
- f) With respect to the wind power projects in France and in Canada, the Corporation signed a turnkey maintenance contract with Enercon, GE Wind Energy and Nordex. The initial contract periods are from 5 to 15 years, with anticipated annual expenditures of about \$2.8 million.
- g) With respect to the wind power projects in Ontario (Canada) and in France, the Corporation has signed equipment purchase agreements. The total cost of the commitments is \$127.8 million, or €84.2 million and \$1.5 million. Disbursements will take place mostly in 2010. A portion of the amount payable in euros was partially covered by foreign exchange forward contracts, as discussed under *Net loss on financial instruments*.
- h) On June 25, 2008, the Corporation signed two electricity supply contracts with Hydro-Québec for a total output of 272 MW for the Seigneurie de Beaupré wind farm project. The Corporation is cooperating with Gaz Métro on this project in which each party owns a 50% interest. These contracts obtained approval of the Régie de l'énergie du Québec on October 17, 2008 and the environmental green light in July 2009.
- i) On July 27, 2009, the Council of State, the final level of appeal in the French legal system, upheld the decision cancelling the building permit for the two-turbine expansion at the Avignonet-Lauragais facility. This decision does not jeopardize the power sales contract with EDF nor operation of the expansion. Furthermore, this situation does not place Boralex in default under any credit agreement. An application for an amended building permit will be made to the competent authority in the near future.
- j) When the Ocean Falls power station was acquired in April 2009, Boralex undertook to invest approximately \$3.0 million for the completion of maintenance work on the dam and the modernization of certain facilities. An amount of \$0.9 million had been disbursed as at December 31, 2009.
- k) For Thames River Phase I, the Corporation leases land on which wind generators are installed under ten lease agreements with 20-year terms, renewable at the Corporation's option for the same lease terms. The total lease amount under all these agreements is estimated at \$0.3 million, that is, approximately \$0.014 million per wind generator.
- l) The land on which the wind generators are installed in France is leased under emphyteutic leases with lease terms ranging from 30 to 99 years. Payments under these leases are due annually and are indexed each year, based on the Consumption Price Index and the Construction Cost Index published by the National Institute of Statistics and Economic Studies (INSEE) and represent an annual commitment of \$0.3 million (€0.2 million).

RISK FACTORS AND UNCERTAINTIES

EFFECTS OF WEATHER

By the nature of its business, the Corporation's earnings are sensitive to weather variations from period to period. Variations in winter weather affect the demand for electrical heating requirements. Variations in summer weather affect the demand for electrical cooling requirements. These variations in demand translate into spot market price volatility, which affects a portion of the Corporation's revenues in the Northeastern United States.

HYDROLOGY

The amount of electricity generated by the Corporation's hydroelectric assets is dependent upon available water flow. Accordingly, revenues and cash flows may be affected by low and high water flow in the watersheds. There can be no assurance that the long-term historical water flow will remain unchanged or that no material hydrologic event will impact the hydraulic conditions that exist within the watershed. Annual deviations from the long term average can be significant. The investment in the Fund is also exposed to this risk since the Fund owns nearly 55% of its production capacity in this sector.

WIND

Wind is naturally variable. Therefore, the level of electricity production from a wind power generation facility will also be variable. A reduced or increased amount of wind at the location of one of the wind farm sites over an extended period may reduce the production from such facility and may reduce the Corporation's revenues and profitability.

FUEL SUPPLY

The operation of wood-residue or natural gas thermal power facilities requires that fuel in the form of wood residue or natural gas be provided. If there is an interruption in the supply or a change in the price of wood residue or natural gas for the Corporation's facilities, the ability of such facilities to generate electricity or to generate it in a profitable manner will be adversely affected. In addition, some of the other suppliers of wood residue may benefit from increased competition for wood residue and sell their wood-residue supply to other clients or at higher prices. The Corporation reduces this risk by establishing partnerships with suppliers and by seeking out alternatives to virgin residue as fuel, as well as by adopting storage strategies that will help to avoid purchasing during times when raw materials are scarce and prices are therefore high.

PLANT PERFORMANCE AND EQUIPMENT FAILURE

The ability of the facilities to generate the maximum amount of power is a key determinant of the Corporation's profitability. To the extent that plant equipment requires longer than forecast downtime for maintenance and repair, or suffers disruptions of power generation for other reasons, the Corporation's profitability may be adversely affected.

DEVELOPMENT, CONSTRUCTION AND DESIGN

On occasion, the Corporation participates in the construction and development of new power generating facilities. The nature of some of these expenditures is inherently speculative. Delays and cost overruns may occur in completing the construction of projects. Even when complete, a facility may not operate as planned, or design and manufacturing flaws may occur, which could conceivably not be covered by warranty.

New power generating facilities have no operating history and may employ recently developed and technologically complex equipment. Moreover, power sales agreements entered into with a counterparty early in the development phase of a project may enable the counterparty to terminate the agreement, or to retain security posted as liquidated damages, if a project fails to achieve commercial operation or certain operating levels by specified dates or if the Corporation fails to make specified payments. As a result, a new facility may be unable to fund principal and interest payments under its financing obligations. A default under such a financing obligation could result in the Corporation losing its interest in a power generation facility.

DAM SAFETY

The occurrence of dam failures at any of the Corporation's hydroelectric generating stations could result in a loss of generating capacity, and repairing such failures could require the Corporation to incur significant expenditures of capital and other resources. Such failures could result in the Corporation being exposed to significant liability for damages. There can be no assurance that the Corporation's dam safety program will be able to detect potential dam failures prior to occurrence or eliminate all adverse consequences in the event of failure. Other safety regulations could change from time to time, potentially impacting the Corporation's costs and operations. Upgrading all dams to enable them to withstand all events could require the Corporation to incur significant expenditures of capital and other resources. The consequences of dam failures could have a material adverse effect on the Corporation's business, operating results, financial condition or prospects.

POWER SALES AGREEMENTS

Obtaining new power sales agreements, which is a key component for the sustainability of profits, is a risk factor in the competitive environment faced by the Corporation. In several instances, the Corporation obtains new power sales agreements by submitting offers in response to requests for proposals issued by large clients. There is no assurance that the Corporation will be selected as power supplier following requests for proposals in the future or that existing power sales agreements will be renewed or will be renewed upon equivalent terms and conditions upon the expiry of their term.

KEY EMPLOYEES

Holders of securities of the Corporation must rely upon the experience and expertise of several key employees of the Corporation. The Corporation's continued success is dependent upon its ability to attract and retain experienced Management.

NATURAL DISASTERS AND FORCE MAJEURE EVENTS

The Corporation's plants and operations are exposed to potential damage or destruction resulting from environmental disasters (for example, floods, high winds, fires, and earthquakes), equipment failure and the like. The occurrence of a significant event which disrupts the ability of the Corporation's generation assets to produce or sell power for an extended period, including events which preclude existing clients from purchasing electricity, could have a material adverse impact on the business of the Corporation. The Corporation's generation assets could be exposed to effects of severe weather conditions, natural disasters and potentially catastrophic events such as a major accident or incident at the Corporation's generation assets or a generating plant owned by a third party to which the transmission assets are connected. In certain cases, there is the potential that some events may not excuse the Corporation from performing its obligations pursuant to agreements with third parties. In addition, many of the Corporation's generation assets are located in remote areas, which makes access for repair of damage difficult.

INSURANCE LIMITS

While the Corporation believes that its insurance coverage addresses all material insurable risks, provides coverage that is similar to what would be maintained by a prudent owner/operator of similar facilities, and is subject to deductibles, limits and exclusions which are customary or reasonable given the cost of procuring insurance and current operating conditions, there can be no assurance that such insurance will continue to be offered on an economically affordable basis, nor that such insurance will cover all events which could give rise to a loss or claim involving the assets or operations of the Corporation.

COMMODITY PRICE

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 depending on supply, demand and certain external factors. As a result, prices may fall too low for the power stations to yield an operating profit. The Corporation has implemented hedging strategies to reduce some of this risk.

PERFORMANCE OF COUNTERPARTIES

The Corporation sells the majority of its power to a limited number of clients. The Corporation is exposed to credit-related losses in the event of the non-performance by counterparties to power purchase agreements and financial instruments. Credit risks arise from the potential for a counterparty to default on its contractual obligations and is limited to those contracts where the Corporation would incur a loss in replacing the defaulted transaction. The Corporation minimizes credit risk with counterparties to financial instruments and physical electricity and gas trades through the selection, monitoring and diversification of counterparties, use of standard trading contracts, collateral and other credit risk mitigation techniques. Further, the Corporation's power purchase agreements are almost exclusively with clients having longstanding credit histories or investment grade ratings. Where a client does not have a public credit rating, the Corporation assesses the credit risk and may require financial guarantees.

INDUSTRY RISK AND COMPETITION

The Corporation currently operates in the power segment in Canada, the United States and France. These areas of operation are affected by competition ranging from large utilities to small independent power producers. The Corporation may compete with other companies with significantly greater financial and other resources than itself for power generation contracts as well as for the recruitment of qualified personnel. There is no assurance that the Corporation would be able to effectively compete with its competitors in the long term.

INDEBTEDNESS

Since the Corporation's projects require significant capital, it uses a project-based financing approach to maximize its leverage. The cash flows from several of the facilities are subordinated to senior debt on each project. There is a risk that a loan may go into default if the Corporation does not fulfil its commitments and obligations, which may result in the lender realizing on its security and, indirectly, causing the Corporation to lose its ownership or possession of such facility.

INTEREST RATE AND REFINANCING RISK

Interest rate fluctuations may affect the profitability of the Corporation, given its project-based financing approach. The Corporation is carrying long-term debt bearing interest at variable rates. As at December 31, 2009, approximately 12% of long-term debt issued, taking into consideration financial swaps, bore interest at variable rates, as did the Corporation's bank loans and advances. A sharp increase in interest rates in the future could affect the liquid assets available for the Corporation's development projects. In addition, the ability of the Corporation to refinance debt when due is dependent on capital market conditions which can change over time.

ADDITIONAL FINANCING

To the extent that external sources of capital, including the issuance of additional securities of the Corporation, become limited or unavailable, the Corporation's ability to make the necessary capital investments to construct new plants or maintain its existing plants and remain in business will be impaired. There can be no assurance that additional financing will be available or that it will be available on reasonable terms. If financing is obtained by issuing additional Class A shares of the Corporation, investors may suffer dilution to their holdings of securities of the Corporation.

FOREIGN EXCHANGE RISK

The Corporation is exposed to foreign exchange risk through certain operations that require foreign currency translations. More specifically, a significant portion of the fuel consumed by its Maine and New York State wood-residue power stations is purchased in Canadian dollars. Apart from this item, most transactions are denominated in local currency. With respect to currency translation for its foreign subsidiaries, only seven of the Corporation's 29 power stations are located in Canada, whereas 11 are in the United States and 11 are in France. Since all subsidiaries are self-sustaining, the impact of exchange rate fluctuations reflects on the Corporation's net investment in its subsidiaries and variances are reported in shareholders' equity, not in the statement of earnings, until the Corporation repatriates the funds to Canada.

FOREIGN OPERATIONS

The Corporation currently has significant operations in the United States and France. Any changes in government policies could have a significant impact on the Corporation's business ventures in such jurisdictions. Risks of foreign operations include, but are not necessarily limited to, changes of laws affecting foreign ownership, government participation and regulation, taxation, royalties, duties, rates of exchange, inflation, foreign exchange controls, repatriation of earnings and civil unrest. There are no assurances that economic and political conditions, in the countries in which the Corporation operates or intends to operate, will continue as they are at present. The effect of these factors cannot be accurately predicted.

HEALTH, SAFETY AND ENVIRONMENTAL RISKS

The ownership and operation of the Corporation's generation assets carry an inherent risk of liability related to worker health and safety and the environment, including the risk of government imposed orders to remedy unsafe conditions and/or to remediate or otherwise address environmental contamination, potential penalties for contravention of health, safety and environmental laws, licenses, permits and other approvals, and potential civil liability. Compliance with health, safety and environmental laws (and any future changes to these laws) and the requirements of licenses, permits and other approvals will remain material to the Corporation's business.

REGULATORY AND POLITICAL ENVIRONMENT

The Corporation's operations are also subject to changes in governmental regulatory requirements or the applicable governing statutes, including regulations related to the environment, unforeseen environmental effects, general economic conditions and other matters beyond the control of the Corporation.

The operation of power generating facilities is subject to extensive regulation by various government agencies at the municipal, provincial and federal levels. There is always the risk of changes to government policies and laws, including changes to income tax, tax on capital and municipal tax rates.

Operations that are not currently regulated may become subject to regulation. Because legal requirements change frequently and are subject to interpretation, the Corporation is unable to predict the ultimate cost of compliance with these requirements or their effect on operations. Some of the Corporation's operations are regulated by government agencies that exercise discretionary power conferred by statutes. Because the scope of such authority is uncertain and may be inconsistently applied, the Corporation is unable to predict the ultimate cost of compliance with these requirements or their effect on operations. The failure of the Corporation to obtain or maintain all necessary licences, leases or permits, including renewals thereof or modifications thereto, may adversely affect its ability to generate revenues.

The Corporation holds permits and licenses from various regulatory authorities for the construction and operation of its facilities. These licenses and permits are critical to the operation of the Corporation's business. The majority of these permits and licenses are long term in nature, reflecting the anticipated useful life of the facilities. These permits and licenses are dependent upon the Corporation's compliance with the terms thereof. In addition, delays may occur in obtaining government approvals required for future power projects.

LITIGATION

In the normal course of its operations, the Corporation may become involved in various legal actions, typically involving claims relating to personal injuries, property damage, property taxes, land rights and contract disputes. The Corporation maintains adequate provisions for its outstanding claims. The final outcome with respect to outstanding or future disputes cannot be predicted with certainty, and therefore there can be no assurance that their resolution will not have an adverse effect on the financial position or operating results of the Corporation in a particular quarter or fiscal year. The Corporation believes that it is not currently involved in any litigation, claim or proceeding whose adverse outcome could have a material adverse effect on its consolidated financial position or results, but this could arise in the future.

USE OF ESTIMATES AND MEASUREMENT OF UNCERTAINTY

The preparation of financial statements in conformity with 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, as they become necessary, are recorded in the period in which they become known.

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

On a three-year horizon, there exists some liquidity in the electricity open market, making it possible to project the future realization price curve. 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 traded in an organized open 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 regarding wood-residue costs is based on the following year's negotiated contract prices, adjusted for the estimated Consumer Price Index ("CPI") in subsequent years.

Finally, the remaining useful life of the assets will vary with the amount of maintenance work realized each year. When the power stations are sufficiently well maintained, their useful life can be very long and limited only by changes in technology which could make their production method less competitive. Consequently, the forecasts consider sufficient maintenance expenses to ensure that the power stations' life will last, at a minimum, as long as the forecast period, namely 15 years.

Relating to its investment in the Fund, the Corporation plans to hold it on a long-term basis and continue to receive distributions of its taxable earnings. As a result, the future income tax liabilities related to this 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 operating results and future financial position of the Corporation.

CHANGES IN ACCOUNTING POLICIES

NEW ACCOUNTING POLICIES ADOPTED IN 2009

Goodwill and Intangible Assets

Effective January 1, 2009, Boralex adopted, with restatement of prior years, Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3064, *Goodwill and Intangible Assets*, which replaces Section 3062, *Goodwill and Other Intangible Assets*, and Section 3450, *Research and Development Costs*. Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The primary reason for the issuance of this new standard is to provide clarity on the recognition and measurement of internally developed intangible assets, including research and development costs. Section 3064 reinforces a principle-based approach whereby assets are only accounted for if they meet the definition of an asset and the criteria for such classification. As a result, Boralex had to write off start-up costs recognized in *Deferred costs* and included under *Other assets*. As a result of the application of this new standard, reported 2008 figures were restated as at January 1, 2009. More specifically, *Deferred costs*, *Future income tax liabilities* and *Retained earnings* were reduced by \$0.5 million, \$0.2 million and \$0.3 million, respectively. These restatements had no material impact on previously reported consolidated earnings or cash flows related to operating, investing or financing activities.

Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

In January 2009, the Emerging Issues Committee of the CICA issued EIC-173, *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*. EIC-173 provides guidance on determining the fair value of financial assets and financial liabilities, whereby the Corporation's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of derivative instruments. This standard applies retrospectively, without restatement of prior periods, to interim and annual financial statements for periods ended on or after January 20, 2009. As a result of the application of this new recommendation on January 1, 2009, the fair value of derivative financial instruments presented under Assets decreased by \$0.8 million, the fair value of derivative financial instruments presented under *Liabilities* decreased by \$0.1 million, the future income tax assets increased by \$0.2 million and *Accumulated other comprehensive income* decreased by \$0.5 million.

Improving Disclosures about Financial Instruments

In June 2009, the CICA amended Section 3862, *Financial Instruments – Disclosures* to introduce new financial disclosure requirements, particularly the requirement to classify financial instruments reported at fair value using a hierarchy that reflects the significance of the inputs used in making the measurements and the exposure of entities to liquidity risk. These amendments apply to annual financial statements for fiscal years ended after September 30, 2009. The Corporation applied the amendments to this standard in its annual financial statements as at December 31, 2009. For this first year of application, the Corporation is not required to provide comparatives to the information required by the amendments. Adoption of the amendments had no impact on the Corporation's earnings, balance sheet or cash flows. These amendments specifically concern disclosures and are presented in note 11 to the consolidated financial statements.

FUTURE CHANGES IN ACCOUNTING POLICIES

Business combinations, consolidated financial statements and non-controlling interests

In January 2009, the CICA issued three new accounting standards: Section 1582, *Business Combinations*, Section 1601, *Consolidated Financial Statements*, and Section 1602, *Non controlling Interests*. These new standards will be effective for financial statements for fiscal years beginning on or after January 1, 2011. The Corporation is currently assessing the requirements of these new standards.

Section 1582 replaces former Section 1581, *Business Combinations*, and establishes standards for the accounting of business combinations. The Section establishes principles and requirements for how the acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree; recognizes and measures the goodwill acquired in the business combination or the gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The Section is the Canadian equivalent of International Financial Reporting Standard IFRS 3, *Business Combinations*, and applies prospectively to business combinations for which the acquisition date occurs at the beginning of the first annual fiscal year beginning on or after January 1, 2011.

Sections 1601 and 1602 supersede former Section 1600, *Consolidated Financial Statements*. Section 1601 establishes the standards for the preparation of consolidated financial statements. It applies to interim and annual consolidated financial statements beginning on or after January 1, 2011. Section 1602 establishes standards for the accounting of a non controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. This Section is the equivalent of International Accounting Standard IAS 27, *Consolidated and Separate Financial Statements*, and is effective for interim and annual consolidated financial statements for periods beginning on or after January 1, 2011.

INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

In February 2008, Canada's Accounting Standards Board ("AcSB") confirmed that Canadian GAAP, as used by publicly accountable enterprises, will be superseded by IFRS for fiscal years beginning on or after January 1, 2011. IFRS use a conceptual framework similar to GAAP but there are significant differences on recognition, measurement and disclosures. In the year of adoption, companies will be required to provide comparative information as if the financial statements for the preceding year had been prepared in accordance with IFRS and to report supplementary information in the financial statements. Boralex will start applying IFRS in the first quarter ending March 31, 2011.

Boralex has established its conversion plan, including phases and timetables, for the conversion of its consolidated financial statements to IFRS, and has also set up and trained its project team and formally developed a project structure. A steering committee comprised of members of senior management and the Chairman of the Audit Committee will approve accounting policy choices recommended by the project team and ensure that IT, contractual and internal control adjustments are made. The external auditors will review the choices made by management, and Boralex's Audit Committee will ensure that management fulfills its responsibilities and achieves a successful IFRS conversion. Project status is reported to the Audit Committee every quarter.

The conversion plan has the following three phases:

- First phase: preliminary diagnostic review, scoping

The first phase, which included planning, analyzing current accounting standards and identifying major differences between GAAP and IFRS, has been completed. According to IFRS 1, *First-time adoption of International Financial Reporting Standards*, the key standards that could lead to significant differences in the financial statements are property, plant and equipment, consolidation, financial instruments, amortization of long-term assets and voluntary exemptions.

- Second phase: analyses and design

This phase consists in performing a detailed review of the differences between IFRS and Canadian GAAP, identifying supplementary information to be reported in the financial statements, quantifying the current and potential impacts on previously reported results, cash flows and financial position, recommending accounting policy choices, and identifying the impacts on other Fund operations, namely IT, internal control and contracts. This analysis includes the assessment of voluntary exemptions under IFRS 1. The second phase is currently underway and Boralex expects to complete this phase by the end of July 2010.

- Third phase: implementation and disclosure

This phase consists in approving the accounting policy choices, completing the collection of data required to prepare the financial statements, implementing changes to systems and business processes relating to financial reporting, key personnel training and the monitoring of standards currently being amended by the International Accounting Standard Board (IASB). The goal is to obtain final approval of the financial statements by the Audit Committee at the end of this phase.

Boralex retains the services of an external consulting firm for assistance with each phase of its conversion plan.

As the IASB intends to make a certain number of amendments to current IFRS, it is impossible to determine which IFRS will be applicable on the transition date or the impacts the revised standards will have on Boralex's financial statements.

It is currently not possible to determine the overall impact of the changes related to the transition to IFRS on Boralex's financial position and future results.

INTERNAL CONTROLS AND PROCEDURES

In accordance with National Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings*, disclosure controls and procedures have been designed to provide reasonable assurance that the information that must be presented in Boralex's interim and annual reports is accumulated and communicated to management on a timely basis, including the Chief Executive Officer and the Chief Financial Officer, so that appropriate decisions can be made regarding disclosure. Internal control over financial reporting has also been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian GAAP.

The Chief Executive Officer and the Chief Financial Officer have evaluated the effectiveness of Boralex's disclosure controls and procedures as of the date of the 2009 annual report as well as the effectiveness of Boralex's internal control over financial reporting as of the same date and have concluded that they are effective.

During fiscal 2009, no changes were made to internal control over financial reporting or disclosure controls and procedures that have materially affected, or are reasonably likely to materially affect, internal controls and procedures.

ADDITIONAL INFORMATION

Additional information about the Corporation, including its previous annual reports, annual information form, interim reports and press releases, is available on the SEDAR website (www.sedar.com).

Management's report

The consolidated financial statements and other financial information included in the Annual Report are the responsibility of, and have been prepared by, the management of Boralex Inc. within reasonable limits of materiality. To fulfill this responsibility, management maintains appropriate systems of internal control, policies, and procedures. These systems of internal control, policies and procedures help ensure that the Corporation's reporting practices and accounting and administrative procedures provide reasonable assurance that the financial information is relevant, reliable and accurate and that assets are safeguarded and transactions are executed in accordance with proper authorization. These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles, which are summarized in the consolidated financial statements. Where appropriate, these consolidated financial statements reflect estimates based on management's best judgment. Financial information presented elsewhere in this Annual Report is consistent, where applicable, with that reported in the accompanying consolidated financial statements.

The consolidated financial statements have been reviewed by the Board of Directors and by its Audit Committee. The Audit Committee is comprised exclusively of independent directors and meets periodically during the year with the independent auditors. The independent auditors have full access to and meet with the Audit Committee both in the presence and absence of management.

PricewaterhouseCoopers LLP, the independent auditors, have audited the consolidated financial statements of Boralex Inc. The independent auditors' responsibility is to express a professional opinion on the fairness of the consolidated financial statement presentation. The Auditors' Report outlines the scope of their audit and sets forth their opinion on the consolidated financial statements.

(s) signed

Patrick Lemaire

President and Chief Executive Officer

(s) signed

Jean-François Thibodeau

Vice-President and Chief Financial Officer

Montréal, Canada

February 24, 2010

Auditors' report

To the shareholders of Boralex Inc.

We have audited the consolidated balance sheets of Boralex Inc. as at December 31, 2009 and 2008 and the consolidated statements of earnings, retained earnings, comprehensive income (loss) and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. These standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(s) signed

PricewaterhouseCoopers LLP¹

¹ CA auditor permit no. 19653

Montréal, Canada

February 24, 2010

Consolidated Balance Sheets

As at December 31 (in thousands of dollars)	Note	2009	2008
			(Restated – Note 3)
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		37,821	69,195
Accounts receivable		39,632	48,812
Future income taxes	18	422	238
Inventories		8,726	8,833
Prepaid expenses		2,537	2,106
		89,138	129,184
Investment	5 a)	55,446	69,348
Property, plant and equipment	6	413,539	330,443
Power sales contracts	7	49,023	26,402
Other assets	8	56,621	67,577
		663,767	622,954
LIABILITIES			
CURRENT LIABILITIES			
Bank loans and advances	10	12,291	–
Accounts payable and accrued liabilities		28,913	22,113
Income taxes		283	1,716
Other liabilities	9	–	5,718
Current portion of long-term debt	10	24,273	29,410
		65,760	58,957
Long-term debt	10	206,116	158,035
Future income taxes	18	37,185	39,437
Fair value of derivative financial instruments	11	7,645	3,000
Non-controlling interests	12	7,031	805
		323,737	260,234
SHAREHOLDERS' EQUITY			
Capital stock	13	222,694	222,694
Contributed surplus	14	4,295	3,069
Retained earnings		159,900	135,461
Accumulated other comprehensive income (loss)	15	(46,859)	1,496
		340,030	362,720
		663,767	622,954

Approved by the Board of Directors,

(s) signed
Bernard Lemaire
 Director

(s) signed
Germain Benoit
 Director

Consolidated Statements of Earnings

For the years ended December 31

(in thousands of dollars, except per share amounts and number of shares)

	Note	2009	2008
			(Restated – Note 3)
Revenues from energy sales		184,779	197,246
Renewable energy tax credits		13,853	12,463
Operating costs		126,286	138,400
		72,346	71,309
Share in earnings of the Fund		(2,090)	7,826
Management revenues from the Fund	5 b)	5,876	5,395
Other income		2,061	2,849
		78,193	87,379
OTHER EXPENSES			
Management and operation of the Fund		4,789	4,065
Administrative		16,079	14,479
		20,868	18,544
OPERATING INCOME BEFORE AMORTIZATION		57,325	68,835
Amortization		26,056	24,438
Foreign exchange loss (gain)		1,473	(1,437)
Net loss on financial instruments	11	923	143
Financing costs	17	13,727	13,806
Gain on dilution	12	(13,865)	-
		28,314	36,950
EARNINGS BEFORE INCOME TAXES		29,011	31,885
Income taxes	18	4,470	11,329
		24,541	20,556
Non-controlling interests		(102)	(146)
NET EARNINGS		24,439	20,410
Net earnings per Class A share (basic)		\$0.65	\$0.54
Net earnings per Class A share (diluted)		\$0.65	\$0.54
Weighted average number of Class A shares outstanding (basic)	13	37,740,921	37,739,840

Consolidated Statements of Retained Earnings

For the years ended December 31 (in thousands of dollars)	Note	2009	2008
			(Restated – Note 3)
Balance – beginning of year		135,461	115,669
Application of Section 3064	3	–	(336)
Balance – beginning of year, restated		135,461	115,333
Share redemption premium		–	(282)
Net earnings for the year		24,439	20,410
Balance – end of year		159,900	135,461

Consolidated Statements of Comprehensive Income (Loss)

For the years ended December 31 (in thousands of dollars)	Note	2009	2008
			(Restated – Note 3)
Net earnings for the year		24,439	20,410
Other comprehensive income (loss)	15		
TRANSLATION ADJUSTMENTS			
Unrealized foreign exchange gain (loss) on translation of financial statements of self-sustaining foreign operations		(32,389)	40,994
Reclassification to net earnings of a realized foreign exchange loss (gain) related to the reduction of net investment in self-sustaining foreign operations		1,076	(1,285)
Share of cumulative translation adjustments of the Fund		(2,174)	4,297
Taxes		581	(1,012)
CASH FLOW HEDGES			
Change in fair value of financial instruments		7,140	23,542
Hedging items realized and recognized in net earnings		(22,608)	(5,485)
Hedging items realized and recognized in balance sheet		(3,884)	(673)
Taxes		4,383	(4,460)
		(47,875)	55,918
Comprehensive income (loss) for the year		(23,436)	76,328

Consolidated Statements of Cash Flows

For the years ended December 31 (in thousands of dollars)	Note	2009	2008
			(Restated – Note 3)
OPERATING ACTIVITIES			
Net earnings		24,439	20,410
Distributions received from the Fund	5 a)	9,638	10,326
Adjustments for non-cash items			
Net loss on financial instruments		1,253	143
Share in earnings of the Fund		2,090	(7,826)
Amortization		26,056	24,438
Amortization of financing costs and monetization program expenses		2,893	2,928
Renewable energy tax credits		(7,113)	(4,583)
Gain on dilution	12	(16,315)	–
Future income taxes	18	3,002	9,413
Other		1,470	(49)
		47,413	55,200
Change in non-cash working capital items	19	13,373	(1,004)
		60,786	54,196
INVESTING ACTIVITIES			
Business acquisitions	4	(53,758)	(5,781)
Additions to property, plant and equipment		(84,532)	(44,577)
Change in debt servicing reserves		(1,091)	21
Development projects		(10,337)	(5,617)
Other		(6,366)	(3,675)
		(156,084)	(59,629)
FINANCING ACTIVITIES			
Increase in bank loans and advances		12,291	–
Increase in long-term debt		68,714	126
Payments on long-term debt		(27,539)	(19,258)
Share repurchase		–	(859)
Net proceeds from share issuance		–	1,714
Change in non-controlling interests	12	22,213	–
Other		–	36
		75,679	(18,241)
TRANSLATION ADJUSTMENT ON CASH AND CASH EQUIVALENTS		(11,755)	13,674
NET CHANGE IN CASH AND CASH EQUIVALENTS		(31,374)	(10,000)
CASH AND CASH EQUIVALENTS – BEGINNING OF YEAR		69,195	79,195
CASH AND CASH EQUIVALENTS – END OF YEAR		37,821	69,195
SUPPLEMENTAL INFORMATION			
CASH AND CASH EQUIVALENTS PAID FOR:			
Interest		9,130	9,816
Income taxes		1,736	1,783

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

(tabular amounts are in thousands of dollars, unless otherwise specified)

Note 1.

NATURE OF OPERATIONS AND BASIS OF CONSOLIDATION

Boralex Inc. (“Boralex” or the “Corporation”) operates mainly as a private producer of energy. As at December 31, 2009, the Corporation had interests in 14 wind power stations, eight hydroelectric power stations, six wood-residue thermal power stations and one natural gas cogeneration power station for a total capacity of 417 megawatts (“MW”*) (351 MW in 2008). The Corporation also manages ten power stations (ten in 2008) owned by Boralex Power Income Fund (the “Fund”), in which the Corporation holds an interest, and two hydroelectric power stations on behalf of an entity controlled by a director and officer of the Corporation.

The consolidated financial statements include the accounts of the Corporation, its subsidiaries and variable interest entities for which it is the primary beneficiary. The investment in the Fund is recorded using the equity method.

*(*Data relating to MW have not been audited by the external auditors.)*

Note 2.

SIGNIFICANT ACCOUNTING POLICIES

USE OF ESTIMATES AND MEASUREMENT UNCERTAINTY

The preparation of financial statements in conformity 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 revenue and expenses during the reporting periods. Actual results could differ from these estimates. These estimates are reviewed periodically and adjustments, as they become necessary, are recorded in the period in which they become known.

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

On a three-year horizon, there exists some liquidity in the electricity open market, making it possible to project the future realization price curve. 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 traded in an organized open 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 regarding wood-residue costs is based on the following year’s negotiated contract prices, adjusted for the estimated Consumer Price Index (“CPI”) in subsequent years.

Finally, the remaining useful life of the assets will vary with the amount of maintenance work realized each year. When the power stations are sufficiently well maintained, their useful life can be very long and limited only by changes in technology which could make their production method less competitive. Consequently, the forecasts consider sufficient maintenance expenses to ensure that the power stations’ life will last, at a minimum, as long as the forecast period, namely 15 years.

Relating to its investment in the Fund, the Corporation plans to hold it on a long-term basis and continue to receive distributions of its taxable earnings. As a result, the future income tax liabilities related to this 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 operating results and future financial position of the Corporation.

Note 2. Significant accounting policies (Cont'd)

REVENUE RECOGNITION

The Corporation recognizes its energy revenue under the following policies:

Revenue from Electricity and Steam

The Corporation recognizes revenue from energy sales when the energy generated is received by the client and collection is considered likely.

Management Revenue

Management revenue from the Fund and other revenue are recognized when the service is provided and collection is considered likely.

Renewable Energy Certificates ("RECs")

Revenue from RECs is recognized when earned, i.e. when the Corporation has met the quarterly statutory requirements and the value of the RECs can be determined based on sufficient fixed-price and firm sales contracts with unrelated parties.

Renewable Energy Tax Credits

Renewable energy tax credits attributed on the basis of incurred operating expenses are recorded as a reduction of operating costs for the period in which the credits were earned, to the extent that it is more likely than not that they will be recoverable during their lifetime.

CASH AND CASH EQUIVALENTS

Cash includes cash on hand and bank balances. Cash equivalents include bankers' acceptances, deposit certificates guaranteed by banks or funds guaranteed by government bonds. These instruments must be readily convertible into known amounts of cash and initially mature within three months or less. These investments are recorded at cost plus accrued interest and their carrying value approximates their fair market value.

INVENTORIES

Inventories represent wood residue and are valued at the lower of cost and net realizable value. Cost is determined using the average cost method.

INVESTMENT

The investment represents the Corporation's share in the Fund and is recorded using the equity method.

PROPERTY, PLANT AND EQUIPMENT, AND AMORTIZATION

Property, plant and equipment, comprised mainly of power stations, are recorded at cost, including interest incurred during the period of construction of new power stations or wind farms. Amortization begins on the date the assets are put into service using the following methods:

Wind Power Stations

Amortization is calculated using the straight-line method by component over periods of 10 to 20 years.

Hydroelectric Power Stations

Amortization of power stations in the United States and British Columbia is calculated using the straight-line method over a period of approximately 40 years. Amortization of Québec power stations is calculated using the compound interest method at a rate of 3% over a similar period.

Wood-Residue Thermal Power Stations

Amortization is calculated using the production method based on electricity production. According to this method, the amortization expense recorded in earnings is based on actual production during the period in relation to anticipated long-term production. Assuming stable and continuous production, the amortization period of the equipment is approximately 20 years. Major recurring maintenance is capitalized and amortized over its specific estimated life, which can vary from 5 to 10 years.

Natural Gas Thermal Power Station

Amortization is calculated using the straight-line method over an average period of 15 years.

POWER SALES CONTRACTS

Power sales contract acquisition costs are amortized using the straight-line method over the remaining term of the contracts, ranging from 12 to 20 years.

IMPAIRMENT OF LONG-LIVED ASSETS

Long-lived assets are tested for recoverability when particular events or changes in circumstances indicate that their carrying value might not be recoverable. Recoverability is assessed by comparing the carrying value of assets with the estimated value of future cash flows directly associated with the use of the assets. Impaired assets are recorded at fair value, determined primarily by estimating the discounted future cash flows directly associated with their use and eventual disposal.

OTHER ASSETS**Net Investment in Finance Leases**

The Corporation entered into finance-lease transactions for crushing equipment to ensure a steady supply of wood-residue. Amounts receivable under these leases appear under *Other assets*. Repayments are based on a per-unit rate for the volume of raw material delivered to the Corporation's power stations by the leaseholders. In addition to capital repayments, the Corporation receives interest on amounts receivable; this interest income is recorded against *Financing costs in the statement of earnings*.

Restricted Funds

Restricted funds represent funds held in trust for the purpose of meeting the requirements of certain long-term debt agreements. The restricted funds, consisting of deposit certificates, are valued at the lower of cost and market value.

Development Projects

Project development costs include design and acquisition costs related to new projects. These costs are deferred until construction of the new power station begins, at which time they are included in the cost of the power station or recorded as intangible assets, as appropriate. The Corporation only defers costs for projects when it believes they are more likely than not of being completed. If this probability subsequently declines, the costs deferred to that date are expensed.

CO₂ Quota

The quota is recognized at its market value on the allocation date. The Corporation then records an asset and a liability for that same amount. The asset represents the allocated quota, while the liability represents the estimated cost of its consumption. There is no subsequent re-evaluation of the market value for either the asset or the liability. However, if estimated consumption exceeds the quota, the Corporation would recognize an additional liability based on market value at that date, which would affect the Corporation's results. On the other hand, if estimated consumption is less than the quota, the Corporation would be in a position to sell its excess quota. In that event, the Corporation must wait until the execution of a sale before it can reduce its assets and liabilities. Finally, if, subsequent to a sale, the Corporation determined that its consumption had increased and that it had insufficient residual quota, it would recognize an additional liability at market value at that date.

FINANCING COSTS

Deferred financing costs are amortized using the effective interest method over the expected useful life of the related liability and are deducted from financial liabilities.

CLASSIFICATION OF FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are initially recognized at fair value, and their subsequent measurement is dependent on their classification as discussed 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 asset between the trade date and the settlement date are reflected in earnings, except for gains and losses on AFS financial assets, which are reflected in other comprehensive income (loss), and gains and losses on derivative financial instruments designated within an effective hedging relationship, the effective portion of which is also reflected in other comprehensive income (loss).

Note 2. Significant accounting policies (Cont'd)

DEFINITION OF TYPES OF FINANCIAL INSTRUMENTS**Held for Trading**

HFT financial instruments 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.

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 December 31, 2009 and 2008, the Corporation did not hold any HTM financial assets.

Available for Sale

AFS financial assets are 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 (loss) until realized. At that time, the cumulative gain or loss is transferred to the consolidated statement of earnings and presented with gains or losses 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 or losses 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 December 31, 2009, the Corporation did not hold any AFS financial assets.

Loans and Receivables

Loans and receivables 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 Financial Liabilities

Bank loans and advances, accounts payable and accrued liabilities, other liabilities and long-term debt are recorded at amortized cost using the effective interest method.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

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

Derivative financial instruments are recorded at their estimated fair values under *Other assets* or, within the Corporation's liabilities, under *Fair value of derivative financial instruments*, depending on the favourable or unfavourable fair value. The estimated fair value is determined using pricing models that take into account current market prices and contract prices for the underlying instruments, the time value of money, counterparty credit risk and yield curves or future prices.

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 December 31, 2009, the Corporation did not hold any embedded derivatives that required separate presentation from the related host contract.

Derivative Financial Instruments Held for Trading

For these derivative financial instruments, changes in fair value and the final settlement would be immediately recognized in the Corporation's earnings under *Net loss on financial instruments*. As at December 31, 2009 and 2008, all derivative financial instruments held by the Corporation were designated as hedging items.

54 Note 2. Significant accounting policies (Cont'd)

Derivative Financial Instruments Designated as Hedges

As the Corporation uses hedge accounting for all derivative financial instruments held, the risk management objective and strategy for hedging transactions as well as all relationships between its hedging instruments and the hedged items are documented. This process involves associating specific balance sheet assets or liabilities, firm commitments or anticipated transactions with each derivative. 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. Throughout the hedging relationship, the Corporation must have assurance that the relationships remain highly effective and consistent with its risk management strategy.

If a hedging instrument ceases to exist or to be effective before maturing and is not replaced in accordance with the documented hedging strategy, the hedge is terminated and the accumulated amount of all gains or losses in other comprehensive income (loss) related to that hedging instrument as of that date are recognized in earnings over the period in which the underlying hedged transaction is recognized. Any subsequent changes in the fair value of the hedging instrument are charged directly to earnings. If the hedged item ceases to exist due to its maturity, expiry, cancellation or exercise, deferred gains or losses, as well as subsequent changes in the value of the hedging instrument, are charged to earnings.

Under hedge accounting, gains, losses, revenue and expenses arising from the derivative financial instrument designated in a hedging relationship must be recognized in the same period as those arising from the hedged item. Changes in fair value are recorded under *Accumulated other comprehensive income (loss)* until the settlement date of the derivative instrument, except for the ineffective portion of the derivative financial instruments, which is immediately included in earnings under *Net loss on financial instruments*. Payments made or received with respect to derivative financial instruments used for hedging are included in *Revenue from energy sales* for electricity-related financial swaps and under *Financing costs* for interest rate swaps and interest rate forward contracts. For derivative financial instruments designated as hedges of future capital asset purchases, payments are recorded against the capital asset hedged.

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 financial 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 (loss) immediately after capitalization.

INCOME TAXES

The Corporation uses the liability method in accounting for income taxes. Under this method, future income taxes are determined using the difference between the accounting and tax bases of assets and liabilities. The tax rate in effect when these differences will reverse is used to calculate future income taxes at the balance sheet date. Future income tax assets arising from tax loss carryforwards and temporary differences are recognized when it is more likely than not that such assets will be realized.

FOREIGN CURRENCY TRANSLATION

Foreign Currency Transactions

Transactions denominated in foreign currencies are recorded at the exchange rate prevailing at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into the local currency at the rate of exchange prevailing at the balance sheet date. Unrealized gains and losses on translation of monetary assets and liabilities are included in the determination of net earnings for the year.

Foreign Operations

The Corporation's foreign operations are defined as self-sustaining. The assets and liabilities of these operations are translated into Canadian dollars at the exchange rate prevailing at the balance sheet date. Revenues and expenses are translated at the average exchange rate for the year. Translation gains or losses are deferred and included in *Accumulated other comprehensive income (loss)*.

Note 2. Significant accounting policies (Cont'd)

STOCK-BASED COMPENSATION AND OTHER STOCK-BASED PAYMENTS

The Corporation uses the fair value method to record stock options issued to senior management and executives. According to this method, an amount is expensed based on the exercise conditions of the options awarded. Fair value is determined using the Black-Scholes option pricing model, which was designed to estimate the fair value of exchange traded options that have no restrictions as to vesting and are entirely transferable. Some of the outstanding options carry restrictions but, in the Corporation's opinion, the Black-Scholes model provides an appropriate estimate of fair value in these cases. Any consideration paid by employees on the exercise of stock options is credited to *Capital stock*.

Expenses related to stock options are recorded under *Administrative expenses* and the cumulative value of unexercised options outstanding is included under *Contributed surplus*.

PER SHARE AMOUNTS

Per share amounts are determined based on the weighted average number of Class A shares outstanding during the year. Diluted amounts per common share are calculated using the treasury stock method to determine the dilutive effect of the stock options. For options that have a dilutive effect, i.e. when the average share price for the period is higher than the exercise price of the options, this method assumes that the options have been exercised at the beginning of the period and that the resulting proceeds have been used to buy back common shares of the Corporation at their average price during the period.

ASSET RETIREMENT OBLIGATIONS

An asset retirement obligation is recognized at its fair value in the period in which the legal obligation is incurred. A conditional asset retirement obligation is recognized at its fair value when it can be reasonably estimated. The related costs are capitalized, which increases the value of the asset, and are depreciated over the asset's useful life. The obligation is discounted using a credit-adjusted risk-free rate.

The Corporation has no contractual asset retirement obligations. However, according to current regulations, the Corporation may be obliged to carry out certain work should it discontinue some of its activities. According to the regulations, lessees must leave property in the same condition as when they arrived. However, structures or buildings can normally be handed over to the lessor, without compensation, should it prove impossible to remove them. This is generally the case for hydroelectric facilities, whose presence modifies the ecosystem and economic life in surrounding areas. It is usually more beneficial for the environment, local residents and companies to keep the dam.

With respect to wind power stations, there is a French regulation that requires the owner to dismantle the facilities when deciding to discontinue operations. These dismantling costs are mostly related to the removal, transportation and disposal of the reinforced concrete bases that support the wind turbines. The estimated cost of this work varies from \$70,000 to \$130,000 per wind turbine. The current business plan does not anticipate that the Corporation will stop operating these sites.

Lastly, the Corporation has environmental obligations with respect to its wood-residue thermal power stations. If a power station were to be sold, the Corporation would be responsible for removing the piles of wood-residue and environmental protection membranes. The Corporation has determined that the wood-residue would be burned to produce electricity and that additional cleaning costs would be approximately \$100,000 to \$150,000 per site. However, since this obligation only applies when a site is sold and that the resulting costs would be negligible in relation to the value of the other assets in this type of power station, the costs would likely be included in the transaction and the Corporation would not have to pay anything.

In short, no liability was recorded because the Corporation plans to use these assets for an indefinite period. For these property, plant and equipment, the information available is insufficient to determine a realistic schedule for future asset retirement. A liability will be recorded in the period in which the Corporation obtains sufficient information to establish such a schedule.

COMPARATIVE FIGURES

Certain items of the prior year's consolidated financial statements have been reclassified to conform to the presentation adopted in 2009.

Note 3.

CHANGES IN ACCOUNTING POLICIES

NEW ACCOUNTING POLICIES ADOPTED IN 2009

Goodwill and intangible assets

Effective January 1, 2009, Boralex adopted, with restatement of prior years, CICA *Handbook* Section 3064, *Goodwill and Intangible Assets*, which replaces Section 3062, *Goodwill and Other Intangible Assets*, and Section 3450, *Research and Development Costs*. Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The primary reason for the issuance of this new standard is to provide clarity on the recognition and measurement of internally developed intangible assets, including research and development costs. Section 3064 reinforces a principle-based approach whereby assets are only accounted for if they meet the definition of an asset and the criteria for such classification. As a result, Boralex had to write off start-up costs recognized in *Deferred costs* and included under *Other assets*.

The impact of this change on previously issued financial statements is as follows:

	As at December 31, 2008		
	As reported	Section 3064	Restated
Deferred costs	544	(544)	–
Future income tax liabilities	39,616	(179)	39,437
Retained earnings	135,783	(322)	135,461
Other comprehensive income (loss)	1,539	(43)	1,496

These restatements had no material impact on previously reported consolidated earnings or cash flows related to operating, investing or financing activities.

Credit risk and the fair value of financial assets and financial liabilities

In January 2009, the Emerging Issues Committee of the CICA issued EIC-173, *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*. EIC-173 provides guidance on determining the fair value of financial assets and financial liabilities, whereby the Corporation's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of derivative instruments. This standard applies retroactively, without restatement of prior periods, to interim and annual financial statements for periods ended on or after January 20, 2009. As a result of the application of this new recommendation on January 1, 2009, the fair value of derivative financial instruments presented under *Assets* decreased by \$801,000, the fair value of derivative financial instruments presented under *Liabilities* decreased by \$96,000, the future income tax assets increased by \$225,000 and accumulated other comprehensive income (loss) decreased by \$480,000.

Improving disclosures about financial instruments

In June 2009, the CICA amended Section 3862, *Financial Instruments – Disclosures* to introduce new financial disclosure requirements, particularly the requirement to classify financial instruments reported at fair value using a hierarchy that reflects the significance of the inputs used in making the measurements and the exposure of entities to liquidity risk. These amendments apply to annual financial statements for fiscal years ended after September 30, 2009. The Corporation applied the amendments to this standard in its annual financial statements as at December 31, 2009. For this first year of application, the Corporation is not required to provide comparatives to the information required by the amendments. Adoption of the amendments had no impact on the Corporation's earnings, balance sheet or cash flows. These amendments specifically concern disclosures and are presented in note 11 to the consolidated financial statements.

Note 3. Changes in accounting policies (Cont'd)

FUTURE CHANGES IN ACCOUNTING POLICIES

Business combinations, consolidated financial statements and non-controlling interests

In January 2009, the CICA issued three new accounting standards: Section 1582, *Business Combinations*, Section 1601, *Consolidated Financial Statements*, and Section 1602, *Non-controlling Interests*. These new standards will be effective for financial statements for fiscal years beginning on or after January 1, 2011. The Corporation is currently assessing the requirements of these new standards.

Section 1582 replaces former Section 1581, *Business Combinations*, and establishes standards for the accounting of business combinations. The Section establishes principles and requirements for how the acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree; recognizes and measures the goodwill acquired in the business combination or the gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The Section is the Canadian equivalent of International Financial Reporting Standard IFRS 3, *Business Combinations*, and applies prospectively to business combinations for which the acquisition date occurs at the beginning of the first annual fiscal year beginning on or after January 1, 2011.

Sections 1601 and 1602 supersede former Section 1600, *Consolidated Financial Statements*. Section 1601 establishes the standards for the preparation of consolidated financial statements. It applies to interim and annual consolidated financial statements beginning on or after January 1, 2011. Section 1602 establishes standards for the accounting of a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. This Section is the equivalent of International Accounting Standard IAS 27, *Consolidated and Separate Financial Statements*, and is effective for interim and annual consolidated financial statements for periods beginning on or after January 1, 2011.

Note 4.

BUSINESS ACQUISITIONS

On April 6, 2009, the Corporation announced the completion of the acquisition of the Ocean Falls hydroelectric power station. This acquisition, announced in June 2008, was subject to certain suspensive conditions which were fulfilled at the end of March 2009. The purchase price amounts to \$19,000,000, of which \$4,500,000 was paid on the closing date, and \$500,000 in June 2008. The \$14,000,000 balance of the purchase price is payable over the next two years, with \$5,000,000 to be paid on April 1, 2010 and \$9,000,000 on April 1, 2011. Under the terms of the arrangement, if Boralex arranges financing for the project before April 1, 2011, the net proceeds of that financing, up to the balance of the purchase price, are payable to the seller. This loan bears interest at 6% per annum. The Corporation has also committed to invest approximately \$3,000,000 for the completion of maintenance work on the dam and the modernization of certain facilities.

On July 15, November 9 and December 7, 2009, Boralex exercised three of the nine options it acquired from Gengrowth LP in July 2007. The exercise of these options resulted in the acquisition of three companies with power sales contracts, wind measures, land lease options and the various permits required to build the wind farms. Each wind farm will have a 10 MW installed capacity and construction began in November 2009. Consideration consisted of \$4,728,000 in cash and was recognized under *Power sales contracts*.

On October 5, 2009, the Corporation announced the completion of the acquisition of the new 9.2 MW Chasse-Marée wind farm in France. This acquisition, announced last July, was subject to certain suspensive conditions which were fulfilled. The purchase price amounts to \$6,648,000 (€4,315,000).

On December 29, 2009, the Corporation announced the acquisition of three wind farms in France – Ronchois, Le Grand Camp and Bel Air – representing 47 MW, for a consideration of \$37,613,000 (€25,183,000), of which \$19,618,000 was paid in cash and \$17,995,000 (€11,700,000) was secured under the Boralex Massif Central master agreement for Ronchois and Le Grand Camp. Financing of \$9,214,000 (€5,991,000) was already in place for Bel Air at the time of the transaction.

Note 4. Business acquisitions (Cont'd)

The final allocation of the purchase price for these acquisitions is as follows:

	2009				
	<i>Ocean Falls</i>	<i>Thames River II</i>	<i>Chasse-Marée</i>	<i>Ronchois / Le Grand Camp / Bel Air</i>	<i>Total</i>
Working capital	–	–	600	3,037	3,637
Land	75	–	–	–	75
Building	1,136	–	–	–	1,136
Assets under construction	–	–	1,124	20,575	21,699
Equipment	14,038	–	–	11,249	25,287
Replacement parts	100	–	–	–	100
Rolling stock	109	–	–	–	109
Power sales contracts	614	4,728	4,924	12,612	22,878
Water rights	3,197	–	–	–	3,197
Fair value of derivative financial instruments	–	–	–	(646)	(646)
	19,269	4,728	6,648	46,827	77,472
Deposit paid in 2008	(500)	–	–	–	(500)
Selling price balance	(14,000)	–	–	(9,214)	(23,214)
Outlays during the year	4,769	4,728	6,648	37,613	53,758

On August 8, 2008, Boralex acquired Merlin Wind Farm Inc. for the purpose of building the 90 MW Merlin-Buxton wind power project in Southern Ontario. This company owned all the required options to lease the required farmland for the erection of wind turbines, as well as the wind data needed to validate the business case. Consideration consisted of \$1,250,000 in cash and was recognized in *Development projects*.

On September 29, 2008, Boralex exercised four of the nine options it acquired in July 2007. The exercise of these options resulted in the acquisition of four companies with power sales contracts, wind measures, land lease options and the various permits required to build the wind farms. Each wind farm will have a 10 MW installed capacity and construction began in October 2008. Consideration consisted of \$4,531,000 in cash and was recognized under *Power sales contracts*.

	2008		
	<i>Merlin</i>	<i>Thames River I</i>	<i>Total</i>
Power sales contracts	–	4,531	4,531
Development project	1,250	–	1,250
Outlays during the year	1,250	4,531	5,781

Note 5.

INVESTMENT

The Fund is an income trust in which the Corporation held a 23% interest as at December 31, 2009 and 2008.

a) Changes to the investment in the Fund consist of the following:

	2009	2008
Balance – beginning of year	69,348	67,321
Share in earnings (including Dolbeau impairment charge) ⁽¹⁾	(2,090)	7,826
Share in distributions	(9,638)	(10,096)
Share in cumulative translation adjustments	(2,174)	4,297
	55,446	69,348

(1) This includes Boralex's share in the Fund's property, plant and equipment impairment charge, amounting to \$5,624,000 as at December 31, 2009 as discussed in note 5 e).

Note 5. Investment (Cont'd)

b) In relation to the Fund:

- i) Under the terms of a management agreement ending February 19, 2022 with renewable successive five-year terms, subject to fulfillment of the manager's obligations, the Corporation has undertaken to provide operation, supervision, maintenance, security, management and administration services for seven power stations. These services cover all employee wages, salaries and benefits related to these facilities, as well as the use of the Corporation's centralized control system. The fee is indexed annually based on the Consumer Price Index for the preceding 12 months. For the year ended December 31, 2009, the management fee under this agreement was \$4,997,000 (\$4,961,000 for 2008);
 - ii) The Corporation has undertaken to provide, according to terms similar to those described in i), the complete management of two hydroelectric power stations located in the State of New York (the "Adirondack facilities") and owned by the Fund. More specifically, the amounts payable under this agreement are limited to operating expenses and annual compensation to the Corporation covering the employee wages, salaries and benefits related to the operation, supervision, maintenance, security, management and administration of the Adirondack facilities and of the overhead expenses thereof. The fees under this agreement amounted to \$452,000 for the year ended December 31, 2009 (\$434,000 in 2008). This agreement will end in 2023 but is renewable for additional five-year terms at the option of the manager.
 - iii) Under an agreement, Boralex Power Limited Partnership ("BPLP") has entrusted the management and operation of the Dolbeau power station to Boralex. This service agreement is valid during the entire temporary period of operations at Dolbeau and totalled \$427,000 in 2009.
- c) Management revenue from the Fund was generated in the normal course of business and is related to the commitments described in b) above. Furthermore, as at December 31, 2009, accounts receivable included an amount of \$1,705,000 receivable from the Fund (\$1,108,000 in 2008), of which \$803,000 was in the form of distributions receivable (\$803,000 in 2008).
- d) The table below contains financial information from the consolidated financial statements of the Fund as at December 31, 2009 and 2008 and for the years then ended:

	2009	2008
CONSOLIDATED BALANCE SHEETS		
Working capital, net	16,081	22,503
Intangible assets and goodwill	54,142	66,990
Property, plant and equipment and other long-lived assets	318,089	381,868
Long-term liabilities	(143,960)	(165,477)
Total net assets	244,352	305,884

	2009	2008
CONSOLIDATED STATEMENTS OF EARNINGS		
Revenues	102,196	109,343
Operating income before amortization	51,655	57,724
Net loss	(10,864)	(5,839)
CONSOLIDATED STATEMENTS OF CASH FLOWS		
Operating activities	41,478	53,900
Investing activities	(2,869)	(3,811)
Financing activities	(38,268)	(46,326)

- e) In 2009, a \$29,591,000 impairment charge was recorded against property, plant and equipment related to the Dolbeau power station subsequent to an annual impairment test carried out by the Fund jointly with independent valuation professionals. Due to significant changes in this power station's operating environment, the Fund concluded that the power station's aggregate value over a long-term horizon had declined. These factors include:
- Generally decreased availability of raw materials caused by economic conditions and reduced cutting rights in Québec,
 - Court consent granting AbitibiBowater ("ABI") protection from its creditors under the *Companies' Creditors Arrangement Act* ("C-36"),
 - Unilateral termination under C-36 by ABI of (i) service, (ii) steam and (iii) biomass supply agreements,
 - Shutdown of the Dolbeau pulp and paper mill by ABI for an unspecified period of time.

Note 5. Investment (Cont'd)

In light of these factors, the Fund has established various scenarios to assess the future profitability outlook of the power station. These scenarios incorporated different assumptions as to electricity and steam output as well as steam prices in the event the current contract is renegotiated. A complete shutdown of the ABI plant was also one of the scenarios considered. The reader is cautioned that the scenarios were not drawn up based on actual discussions with ABI but rather on a number of forecasts arising from reasonable assessments made by management as the Fund manager, jointly with independent valuation professionals.

Since the aggregate value of expected cash flows under the assumptions made did not match the carrying amount of the assets in question, the Fund recorded a partial write-down of property, plant and equipment in the amount of \$29,591,000. Since the Fund, under these scenarios, reduced its long-term forecasts of contractual volume and steam prices, and increased its potential operating cost forecasts, residual profitability was insufficient to support the existing carrying amount of property, plant and equipment. Boralex's share of this write-off is \$5,624,000.

However, the Fund continues to explore alternatives to ensure this power station's profitability. While the 2009 impairment charge reflects management's assumptions and estimates as at December 31, 2009, it should be borne in mind that the current economic environment entails a special series of combined adverse risks. Future changes in certain conditions would likely affect the power station's financial performance. Following this impairment, the carrying amount of the Dolbeau power station's property, plant and equipment amounts to \$32,832,000.

Note that in 2008, goodwill of \$16,243,000 related to the Dolbeau power station was written off subsequent to an annual impairment test carried out by the Fund jointly with independent valuation professionals. In addition, in connection with the impairment test of intangible assets, the Fund had written off all intangible assets, in the amount of \$17,724,000, related to its electricity and steam sales contracts, as the aggregate value of expected cash flows did not support the carrying amount of these assets. These write-offs did not have an impact on Boralex's share in the Fund.

- f) For the year ended December 31, 2009, 66% of the Fund's revenue was realized in Canada and 34% in the United States (72% and 28% in 2008). As at December 31, 2009, 67% of property, plant and equipment were located in Canada (67% in 2008) and 33% in the United States (33% in 2008).

Note 6.

PROPERTY, PLANT AND EQUIPMENT

2009			
	<i>Cost</i>	<i>Accumulated amortization</i>	<i>Net amount</i>
Wind farms	338,723	50,498	288,225
Hydroelectric power stations	29,759	4,001	25,758
Wood-residue thermal power stations	132,440	47,780	84,660
Natural gas thermal power station	15,749	8,599	7,150
Corporate and other	10,566	2,820	7,746
	527,237	113,698	413,539

2008			
	<i>Cost</i>	<i>Accumulated amortization</i>	<i>Net amount</i>
Wind farms	239,315	40,880	198,435
Hydroelectric power stations	14,677	3,350	11,327
Wood-residue thermal power stations	153,547	51,174	102,373
Natural gas thermal power station	17,867	8,491	9,376
Corporate and other	12,070	3,138	8,932
	437,476	107,033	330,443

Amortization of property, plant and equipment amounted to \$24,010,000 for the year ended December 31, 2009 (\$22,762,000 in 2008) including an amount of \$1,920,000 relating to capital leases (\$2,218,000 in 2008). Those amounts are presented under *Amortization*. Cost and accumulated amortization of assets under capital leases totalled \$32,130,000 and \$15,168,000, respectively, as at December 31, 2009 (\$36,391,000 and \$15,255,000 as at December 31, 2008).

Assets include replacement parts for an amount of \$2,502,000 (\$2,502,000 in 2008) and power stations under construction for an amount of \$44,694,000 (\$29,077,000 in 2008). These assets are not amortized until site commissioning.

As at December 31, 2009, interest in the amount of \$4,393,000 was capitalized to the cost of property, plant and equipment (\$3,837,000 as at December 31, 2008).

Note 7.

POWER SALES CONTRACTS

	2009	2008
Cost	55,250	31,363
Accumulated amortization	6,227	4,961
	49,023	26,402

Amortization of long-term power sales contracts amounted to \$1,992,000 for the year ended December 31, 2009 (\$1,683,000 for 2008) and is included in *Amortization*.

Note 8.

OTHER ASSETS

	Note	2009	2008
			(Restated – Note 3)
Renewable energy tax credits	a)	19,022	22,238
Restricted funds and other funds held in trust	b)	2,647	1,741
Net investments in finance leases	c)	15,146	10,738
Fair value of derivative financial instruments (note 11)		7,297	20,238
CO ₂ quota		382	367
Projects under development	d)	7,863	12,093
Other intangible assets	e)	4,264	162
		56,621	67,577

Amortization of other intangible assets was \$56,000 in 2009 (nil in 2008). Those amounts are presented under *Amortization*.

Notes:

- Renewable energy tax credits represent tax credits earned by the Corporation before it set up the monetization program, as well as tax credits attributable to subsequently acquired power stations that are not part of the monetization program. Tax credits earned will be used against the Corporation's future income taxes. Financial projections indicate that the amount recorded may be realized in the next five to six years.
- As at December 31, 2009, restricted funds for long-term debt servicing guaranteed financings in France and Canada. Restricted funds amounted to \$1,339,000 (€893,000) in France and \$208,000 in Canada. These restricted funds represent three to six months of debt servicing, depending on the project. This item also includes a cash amount of \$1,100,000 held in trust for refurbishment work at the Ocean Falls power station.
- Finance leases for equipment used in the wood-residue segment are entered into with U.S. and Canadian suppliers. As at December 31, 2009, foreign currency receivables were respectively US\$12,886,000 (\$13,486,000) and \$1,660,000.
- Development projects primarily consist of two wind power projects in Ontario, one wind power project in Québec, one solar power project in Spain and one wind power project in Italy.
- Other intangible assets* consist mainly of the value assigned to water rights held by the Ocean Falls power station (\$3,141,000) and licences and rights held by the Forces Motrices Saint-François power station (\$997,000).

Note 9.

MONETIZATION OF TAX CREDITS

To monetize the U.S. renewable energy production tax credits for which Boralex Industries Inc. ("Boralex Industries") qualifies during the period until the close of monetization on December 31, 2009 (end of the tax credits program), Boralex Industries entered into a purchase and sale agreement under which it transferred indirect equity interests in its five wood-residue thermal power stations in Maine and New York State in the United States (the "wood-residue power stations") to investors. In consideration for these interests, Boralex Industries received a cash payment of US\$14,500,000.

The agreement was entered into, and the closing of the transaction took place, on December 1, 2006. The agreement conferred buy back rights on Boralex Industries, which allowed it to buy back equity interests at certain times and for certain amounts after repayment of the contingent note. Boralex exercised these buy back rights on January 4, 2010, effectively ending the monetization program.

Note 10.

LONG-TERM DEBT

Long-term debt includes the following:

	Note	Maturity	Rate ⁽¹⁾	2009	2008
Bridge financing facility		2009	–	–	11,591
2007 master agreement – wind power projects (France)	a)	2017-2022	4.95	140,327	145,807
Term loan payable – Nibas wind farm	b)	2016	5.00	9,790	12,482
Term loan payable – Stratton power station	c)	2010	2.74	1,985	3,302
Capital leases (France)	d)	2012-2015	5.32	10,585	14,831
Term loan payable – Ocean Falls power station	e)	2011	6.00	14,000	–
Term loan payable – Ontario wind farms	f)	2014	6.34	47,700	–
Term loan payable – Bel Air wind farm	g)	2021	5.52	8,986	–
Other debts		–	–	2,814	3,725
				236,187	191,738
Current portion				(24,273)	(29,410)
Financing costs, net of accumulated amortization				(5,798)	(4,293)
				206,116	158,035

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

- a) This master agreement includes a maximum senior credit facility of €250,000,000 and a maximum junior credit facility of €15,000,000. The amounts can be drawn down until December 31, 2010 subject to certain suspensive conditions. As of December 31, 2009, €108,850,000 (\$163,275,000) (€94,150,000 as at December 31, 2008) had been drawn down and the Corporation had an unused balance of €156,150,000 (\$234,225,000).

To cover potential temporary working capital requirements for debt servicing, the lenders also granted two lines of credit for \$13,503,000 (€9,002,000) and \$1,488,000 (€992,000), respectively.

Financing issued under the master agreement is secured by the projects' assets. However, the junior 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 rate fluctuations as discussed below. Repayments are made on a semi-annual basis. The balance payable as at December 31, 2009 is €93,551,000 (\$140,327,000).

As at December 31, 2009, the following funds were available under the master credit agreement:

(in thousands of euros)	Credit limits	Amounts drawn	Available
Senior credit	250,000	101,800	148,200
Junior credit	15,000	7,050	7,950
	265,000	108,850	156,150

- b) This loan payable bears interest at a fixed rate of 5.00% and repayments are semi-annual. As at December 31, 2009, the balance stood at €6,527,000 (€7,322,000 as at December 31, 2008). All Nibas wind farm assets were pledged as collateral for this loan.
- c) 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 matures on July 31, 2010, is repayable in quarterly instalments. As at December 31, 2009, the balance stood at US\$1,896,000 (US\$2,696,000 as at December 31, 2008). All assets of the Stratton power station were pledged as collateral.
- d) The capital leases relate to assets located in France. The balance of the leases was €7,056,000 as at December 31, 2009 (€8,700,000 as at December 31, 2008). They bear interest at fixed and variable rates and are repayable on a quarterly basis. The net carrying value of associated capital assets was €11,309,000 (\$16,963,000) as at December 31, 2009 (€12,399,000 or \$21,136,000 as at December 31, 2008).
- e) This loan represents the balance of the purchase price of the power station and bears interest at a fixed rate of 6.00% per annum. The \$14,000,000 balance of the purchase price is payable over the next two years, with \$5,000,000 to be paid on April 1, 2010 and \$9,000,000 on April 1, 2011. Under the terms of the arrangement, if Boralex arranges financing for the project before April 1, 2011, the net proceeds of that financing, up to the balance of the purchase price, are payable to the seller.

Note 10. Long-term debt (Cont'd)

- f) This loan, secured by the project's assets, represents amounts drawn as at December 31, 2009 under a total financing facility of \$56,000,000. The balance of this facility should be utilized before the end of the first quarter of 2010. Boralex expects to make the first semi-annual repayment during the second quarter of 2010. The financing facility, which is repayable without penalty at Boralex's option, is amortized over a 19-year period, although it matures on September 4, 2014. Through the use of an interest rate swap, Boralex will benefit from a fixed interest rate of approximately 6.34%.
- g) This loan, secured by the project's assets and put in place by the former owner, was assumed by Boralex on December 29, 2009 as part of the acquisition of the project. Tranche A of this loan, with an outstanding balance of \$6,742,000 (€4,495,000) and tranche B, with an outstanding balance of \$2,244,000 (€1,496,000) mature on May 1, 2021. Both tranches are repayable in quarterly instalments.

Amortization of financing costs amounted to \$840,000 for the twelve-month period ended December 31, 2009 (\$1,009,000 for the twelve-month period ended December 31, 2008).

REVOLVING CREDIT FACILITY

In addition, Boralex has a revolving credit facility with an authorized maximum amount of \$55,000,000, 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: amounts advanced may not exceed 60% of the market value of the investment. If the market value of the investment were to drop below this limit, creditors would be entitled to demand repayment of a portion of the amounts advanced in order to re-establish the coverage ratio. As at December 31, 2009, the Corporation had issued letters of credit totalling \$9,656,000 and had drawn down an amount of \$9,927,000 from this credit facility. Lastly, the market value of one Fund unit was \$4.10 on December 31, 2009 and the repayment threshold was \$2.38 (including all outstanding letters of credit issued against the operating credit facility). The current expiry date of the revolving period is January 27, 2011.

INTEREST RATE SWAPS

The revolving credit facility, the master agreement, the term loan for the Stratton power station, a portion of certain capital leases, the term loan for the Ontario wind power projects, and the term loan for the Bel Air wind farm bear interest at a variable rate. To mitigate interest rate risk, the Corporation has entered into interest rate swaps to obtain a fixed interest expense on portions varying from 58% to 98% of the corresponding variable rate debt. These agreements involve the periodic exchange of interest payments without any exchange of the notional amount on which payments are calculated. Under these agreements, the Corporation receives a variable amount based on the EURIBOR or CDOR rate and pays fixed amounts based on rates of 2.83% to 5.16%.

Since the credit is drawn progressively 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 12%.

FINANCIAL RATIOS AND GUARANTEES

The debt agreements include certain restrictions governing the use of cash resources of the Corporation's subsidiaries. As well, certain financial ratios, such as debt service ratios, must meet designated levels on a quarterly, semi-annual or annual basis.

The senior and junior secured debt and certain other debts or interest rate swaps include requirements to establish and maintain restricted fund accounts to cover short-term debt service, equipment maintenance, and income taxes at various times during the terms of the agreements. As at December 31, 2009, an amount of \$1,547,000 (\$1,741,000 as at December 31, 2008) was kept in restricted fund accounts for this purpose. These amounts are included in *Other assets* on 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 French power stations, with a net carrying amount totalling \$186,469,000 as at December 31, 2009 (\$188,684,000 as at December 31, 2008), together with the related working capital items, have been pledged as collateral.

MINIMUM FUTURE PAYMENTS

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

2010	24,273
2011	31,327
2012	20,211
2013	19,751
2014	58,914
Thereafter	81,711

Note 11.

FINANCIAL INSTRUMENTS

CLASSIFICATION OF FINANCIAL INSTRUMENTS

The classification of financial instruments as at December 31, 2009 and 2008, complete with the respective carrying amounts and fair values, is as follows:

	2009		2008	
	<i>Carrying amount</i>	<i>Fair value</i>	<i>Carrying amount</i>	<i>Fair value</i>
FINANCIAL ASSETS HELD FOR TRADING				
Cash and cash equivalents	37,821	37,821	69,195	69,195
LOANS AND RECEIVABLES				
Accounts receivable	39,632	39,632	48,812	48,812
Restricted funds and other funds held in trust	2,647	2,647	1,741	1,741
OTHER FINANCIAL LIABILITIES				
Bank loans and advances	12,291	12,291	–	–
Accounts payable and accrued liabilities	28,913	28,913	22,113	22,113
Other liabilities	–	–	5,718	5,718
Long-term debt	236,187	236,247	191,738	191,081

The fair value of the derivative financial instruments designated as cash flow hedges as at December 31, 2009 and 2008 are detailed as follows:

	2009	2008
FINANCIAL ASSETS		
Foreign exchange forward contracts	422	–
Interest rate forward contracts	1,092	–
Financial swaps – interest rates	–	65
Financial swaps – electricity prices	5,783	20,173
	7,297	20,238
FINANCIAL LIABILITIES		
Foreign exchange forward contracts	896	–
Financial swaps – interest rates	6,749	3,000
	7,645	3,000

DETERMINING THE FAIR VALUE OF FINANCIAL INSTRUMENTS

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 values of cash and cash equivalents, accounts receivable, restricted funds and other funds held in trust, bank loans and advances, accounts payable and accrued liabilities and other liabilities approximate their carrying amounts due to their short-term maturities.

The fair value of long-term debt is essentially based on the calculation of discounted cash flows. Discount rates were determined based on local government bond yields adjusted for the risks specific to each of the borrowings and for the credit market liquidity conditions.

December 31, 2009	<i>Maturity</i>	<i>Rate ⁽¹⁾</i>	<i>Discount rate</i>	<i>Fair value</i>
2007 master agreement – wind power projects (France)	2017-2022	4.95	6-month EURIBOR	140,327
Term loan payable – Nibas wind farm	2016	5.00	5.60%	8,734
Term loan payable – Stratton power station	2010	2.74	3-month LIBOR	1,985
Capital leases (France) – fixed portion	2012-2015	5.32	4.76%	7,017
Capital leases (France) – variable portion	2012-2015	5.32	3-month EURIBOR	3,846
Term loan payable – Ocean Falls power station	2011	6.00	5.47%	14,689
Term loan payable – Ontario wind farms	2014	6.34	3-month CDOR	47,700
Term loan payable – Bel Air wind farm	2021	5.52	3-month EURIBOR	8,986
Other debts				2,963

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

Note 11. Financial instruments (Cont'd)

FOREIGN EXCHANGE FORWARD CONTRACTS

The fair values of foreign exchange forward contracts are determined using a generally accepted technique, namely the discounted value of the difference between the value of the contract at expiry calculated using the contracted exchange rate and the exchange rate the financial institution would use if it renegotiated the same contract under the same conditions as at the balance sheet date. The discount rates are adjusted for the credit risk of the Corporation or of the counterparty, as applicable. When determining credit risk adjustments, Boralex considers offsetting agreements, if any.

The following table summarizes the Corporation's commitments to buy or sell foreign currencies as at December 31, 2009:

December 31, 2009	Maturity	Exchange rate	Notional amount	Fair value
PURCHASE CONTRACTS				
Foreign exchange forward contracts (€ for C\$)	March 1, 2010	1.5370	€23,000	C\$(858)
Foreign exchange forward contracts (€ for C\$)	January 22, 2010	1.5305	€1,246	C\$(38)
SALES CONTRACTS				
Foreign exchange forward contracts (US\$ for C\$)	February 17, 2011	1.1254	US\$6,000	C\$422

ELECTRICITY PRICE FINANCIAL SWAPS

Boralex uses multiple data sources to determine forward pricing for power. Where possible, the Corporation relies on published bids and offers by active brokers as the best indicator of current market conditions. For terms where broker pricing is incomplete or insufficiently liquid, Boralex uses power settlement assessments from CME ClearPort. Where these prices are not specific enough for monthly valuations, Boralex establishes monthly pricing using management assumptions with respect to seasonal or annual prices. With respect to floating price swaps based on trading hubs deemed insufficiently active, adjustments are made for basis differentials. These adjustments are based on available historical data regarding location pricing differences arising from network congestion and electricity losses.

The following table summarizes the Corporation's commitments under electricity price financial swaps as at December 31, 2009:

December 31, 2009	Maturity	MWH Hedged	Fair value
Financial swaps – electricity prices	2010 – 2011	429,600	C\$5,783

INTEREST RATE FINANCIAL SWAPS

The fair value of interest rate financial swaps is established by mapping expected cash flows on a yield curve that reflects the underlying floating index. These cash flows are then discounted using a curve that reflects the credit risk of Boralex or of the counterparty, as applicable.

The following table summarizes the Corporation's commitments under interest rate swaps as at December 31, 2009:

December 31, 2009	Currencies	Fixed-rate payer	Floating-rate receiver	Maturity	Current notional	Fair value
Financial swaps – interest rates	€	3.295% to 5.155%	6-month EURIBOR	2010 – 2025	€93,011	C\$(6,490)
Financial swaps – interest rates	C\$	2.830%	3-month CDOR	2014	C\$46,800	C\$(259)

INTEREST RATE FORWARD CONTRACTS

The fair value of interest rate forward contracts is established by applying to the notional amount of the contract the result of the multiplication of the basis point value of the contract benchmark bond by the spread between the contractual rate and the expected benchmark bond yield at contract settlement, measured at the balance sheet date as the benchmark bond yield at contract settlement.

The following table summarizes the Corporation's commitments under interest rate forward contracts as at December 31, 2009:

December 31, 2009	Maturity	Contractual rate	Notional amount	Fair value
Interest rate forward contracts	March 1, 2010	3.7637	C\$76,400	C\$1,092

66 Note 11. Financial instruments (Cont'd)

HIERARCHY OF FINANCIAL ASSETS AND LIABILITIES MEASURED AT 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. Section 3862 of the CICA Handbook was amended in 2009 to include new requirements relating to the disclosure of inputs used to measure financial instruments at their fair value. These amendments mainly require the classification of financial instruments measured at fair value in the balance sheet according to the following hierarchy of levels:

- Level 1: Consists of measurements based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Consists of measurement techniques based mainly on inputs, other than quoted prices, that are observable either directly or indirectly in the market;
- Level 3: Consists of measurement techniques that are not based mainly on observable market data.

The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety shall be determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

For foreign exchange forward contracts, the Corporation classified the fair value measurements as Level 2 since they are based mainly on observable market data, namely interest rates and exchange rates.

For electricity price financial swaps, the Corporation classified the fair value measurements as Level 3 since although they are based mainly on observable market data, they are also determined by assumptions made by management.

For interest rate swaps and interest rate forward contracts, the Corporation classified the fair value measurements as Level 2 since they are based mainly on observable market data, namely interest rates.

The following table classifies the Corporation's financial instruments according to the hierarchical level of the fair value measurement:

	<i>Fair value measurement at end of period, according to the following levels:</i>			
	<i>December 31, 2009</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>
FINANCIAL ASSETS				
Cash and cash equivalents	37,821	37,821	-	-
Foreign exchange forward contracts	422	-	422	-
Interest rate forward contracts	1,092	-	1,092	-
Financial swaps – electricity prices	5,783	-	-	5,783
	45,118	37,821	1,514	5,783
FINANCIAL LIABILITIES				
Foreign exchange forward contracts	896	-	896	-
Financial swaps – interest rates	6,749	-	6,749	-
	7,645	-	7,645	-

Note 11. Financial instruments (Cont'd)

The table below reconciles the opening and closing balances for assets measured at fair value using a measurement technique where significant data are not observable market data (Level 3):

December 31, 2009	<i>Financial instruments measured at fair value (level 3 measurement)</i>
Balance – beginning of year, as previously reported	20,173
Application of EIC-173	(792)
Restated balance – beginning of year	19,381
Total gains (losses)	
In net earnings (loss)	
Net loss on financial instruments	(315)
In other comprehensive income (loss)	
Change in fair value of financial instruments	14,344
Unrealized foreign exchange gain (loss)	(3,023)
Settlements	(24,604)
Balance – end of year	5,783

MANAGEMENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

In the normal course of business, the Corporation is exposed to various financial risks: 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 proportion of the raw materials used in the Corporation's wood-residue power stations in the United States are purchased with Canadian dollars. In this regard, in fiscal 2009, the Corporation entered into forward contracts to sell US\$200,000 each for Canadian dollars with bi-weekly settlements at a weighted average rate of 1.1254 Canadian dollars for one US dollar up to February 17, 2011 to partially hedge purchases in Canadian dollars at its Fort Fairfield power station in the United States. The Corporation uses hedge accounting for these contracts such that the effective portion of gains and losses resulting from changes in fair value of these forward contracts is recognized in other comprehensive income (loss) while the ineffective portion is charged to net earnings (loss). Amounts are accumulated under other comprehensive income (loss) until the hedged item is realized, namely the purchases of wood residue in Canadian dollars, at which date the amounts are transferred to net earnings by adjusting the carrying amount of purchases made in Canadian dollars during the period. As at December 31, 2009, a \$415,000 gain before tax was recognized in other comprehensive income (loss). Of this amount, the Corporation intends to reclassify an estimated amount of \$345,000 over the next twelve months. Except for raw material purchases in Canadian dollars by U.S. power stations, the majority of other operating, investing and financing transactions 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 focuses on protecting returns on its development projects. Where firm commitments are made in connection with a project requiring future cash outlays in a foreign currency, the Corporation enters into hedging transactions to mitigate the risk of fluctuations in said currency.

With regard to the Ontario Thames River site, the turbine supplier is European, which means that purchases will be mainly settled in euros, whereas the operation of these wind farms will generate cash flows in Canadian dollars. To protect the expected project return, the Corporation entered into forward contracts in 2008 and 2009, setting exchange rates of approximately C\$1.4702 per euro on all Phase I turbine purchases and approximately C\$1.5112 per euro on 67% of Phase II purchases. Hedging of Phase II purchases was completed in early 2010 at an average rate of C\$1.4798 per euro. Since the Corporation applied hedge accounting to all foreign exchange contracts, gains and losses resulting from the change in fair value of the effective portion of these hedging items are included under Other comprehensive income (loss) until the date of purchase of the underlying capital assets. Their purchase cost is then adjusted for such amount. Accordingly, in fiscal 2009, a total foreign exchange gain of \$3,884,000 was transferred from other comprehensive income (loss) and set off against the cost of turbine purchases, while a debit balance of \$66,000 before tax (credit balance of \$6,738,000 in 2008) was recognized in other comprehensive income (loss) as at December 31, 2009. The cost of turbines at the time of purchase scheduled for 2010 will be adjusted for this full amount. Also, a pre-tax gain of \$16,000 (\$52,000 in 2008) related to the ineffective portion of these contracts was accounted for under *Net loss on financial instruments* in the consolidated statement of earnings.

On December 31, 2009, an additional \$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 \$580,000 (\$1,004,000 in 2008) increase or decrease, respectively, in the Corporation's net earnings for the year ended December 31, 2009, whereas other comprehensive income (loss) would have increased or decreased by \$6,716,000 (\$6,416,000 in 2008), respectively, net of taxes.

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 supply, 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 to partially set electricity prices and reduce some of these risks. In this regard, the Corporation uses various agreements including some that may 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 December 31, 2009, the Corporation had entered into two electricity financial swaps (six in 2008) for total deliveries of 429,600 MWh (750,120 MWh in 2008) over periods of 12 to 14 months. All electricity financial swaps as at December 31, 2009 were designated as variable cash flow hedges associated with future electricity deliveries and their favourable fair value amounted to \$5,783,000 (\$20,173,000 in 2008). Accordingly, unrealized gains and losses resulting from changes in fair value of the effective portion of these contracts are included in other comprehensive income (loss) until the corresponding hedged item is recognized in earnings; the change is then recognized in earnings under *Revenues from energy sales*. The Corporation expects that, over the coming 12 months, pre-tax revenue totalling approximately \$5,596,000 will be reclassified from other comprehensive income (loss) to the statement of earnings. For the year ended December 31, 2009, a pre-tax gain of \$14,000 (\$750,000 in 2008) related to the ineffective portion of these contracts was recognized under *Net loss on financial instruments* in the consolidated statement of earnings.

Our power stations in France and Canada, as well as that in Middle Falls, have long-term power sales contracts immune to fluctuations in electricity prices. Moreover, the Ashland power station will sell its power on the open market of NEPOOL with 96% of its planned output hedged by a swap maturing in February 2011. Also, a new two-year power sales contract was entered into for the Fort Fairfield power station as of March 1, 2009.

On December 31, 2009, an additional 5% rise or fall in electricity prices, assuming that all other variables had remained the same, would have resulted in a \$693,000 (\$1,564,000 in 2008) increase or decrease, respectively, in the Corporation's net earnings for the twelve-month period ended December 31, 2009, whereas other comprehensive income (loss) would have decreased or increased by \$746,000 (\$1,797,000 in 2008), respectively, net of taxes.

Interest Rate Risk

The revolving credit facility, bridge financing credit facility, master agreement, term loans payable at Stratton, Bel Air and Thames River, together with a portion of certain capital leases, bear interest at variable rates. To mitigate interest rate risk, the Corporation has entered into interest rate swaps to obtain a fixed interest expense on portions varying from 58% to 98% of the corresponding debt. These agreements involve the periodic exchange of interest payments without any exchange of the notional amount on which payments are calculated. Under these agreements, the Corporation receives a variable amount based on the EURIBOR rate and pays fixed amounts based on rates ranging from 2.83% to 5.16%. Since the credit is drawn progressively 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 12%. As at December 31, 2009, the notional balance of these swaps was \$186,317,000 (€93,011,000 and \$46,800,000) (\$133,731,000 in 2008 (€78,453,000)) and their unfavourable fair value amounted to \$6,749,000 (€4,326,000 and \$259,000) (\$2,935,000 in 2008 (€1,722,000)). These swaps mature between 2010 and 2025 and are all subject to cash flow hedge accounting. Accordingly, unrealized gains and losses resulting from changes in fair value of the effective portion of these contracts are included in other comprehensive income (loss) until the corresponding hedging item is recognized in earnings; the contracts are then recognized in earnings as an adjustment to *Financing costs*.

The Corporation expects that, over the coming 12 months, an expense totalling approximately \$4,140,000 before tax will be reclassified from other comprehensive income (loss) to the statement of earnings. For the year ended December 31, 2009, a pre-tax expense of \$213,000 (\$10,000 in 2008) related to the ineffective portion of these contracts was recognized under *Net loss on financial instruments* in the consolidated statement of earnings.

In connection with the refinancing of Phase I of the Thames River site slated for early 2010 as well as the scheduled financing of Phase II development, the Corporation entered into two interest rate forward contracts to offset changes in the expected proceeds of the future issue of this fixed-rate debt arising from fluctuations in interest rates. As at December 31, 2009, the notional amount of these contracts stood at \$76,400,000 with a weighted average contractual yield at maturity of 3.764%. This notional amount covered approximately 60% of expected future debt servicing (principal and interest) as of that date. Two other forward contracts representing 30% of future debt servicing were entered into in the beginning of 2010 at a weighted average contractual yield at maturity of 3.749%. Hedge accounting was used for these forward contracts.

Note 11. Financial instruments (Cont'd)

Accordingly, periodic changes in the cumulative ineffective portion are recognized in net earnings (loss) within Other income while the effective portion of periodic changes in fair value of the hedging items is included in other comprehensive income (loss) until the financing date. As from this date, the accumulated amount in other comprehensive income (loss) is gradually reclassified to net earnings (loss) as an adjustment to the interest rate expense on the debt using the effective interest rate method of amortization. As at December 31, 2009, the favourable fair value of forward contracts totalled \$1,092,000 and a pre-tax amount of \$959,000 was credited to other comprehensive income (loss). The Corporation expects that, over the next 12 months, a gain of approximately \$49,000 will be reclassified to net earnings (loss) as a reduction of interest expense. Last, for the year ended December 31, 2009, pre-tax income of \$133,000 related to the ineffective portion of these forward contracts was recognized under *Net loss on financial instruments* in the consolidated statement of earnings.

On December 31, 2009, a 5% rise or fall in interest rates, assuming that all other variables had remained the same, would have resulted in a \$40,000 (\$59,000 in 2008) decrease or increase, respectively, in the Corporation's net earnings for the 12 month period ended December 31, 2009, whereas other comprehensive income (loss) would have increased or decreased by \$1,459,000 (\$820,000 in 2008), respectively, net of taxes.

Credit Risk

Credit risk stems primarily from the potential inability of clients to meet their obligations. Given the nature of the Corporation's business, its clients are few in number and their credit ratings are generally high. The electricity markets in Québec and France are limited to monopolies. Steam generated in France is used in the papermaking process. Accordingly, Boralex's client is in the private sector, which makes for a higher credit risk. The U.S. market is more deregulated and a large proportion of the Corporation's business is done with regional producers' associations such as the NEPOOL for the New England market and the NYISO for the New York state market. Both organizations have very high credit ratings. The Corporation can also reach private agreements directly with energy marketers. These clients are usually very large corporations with investment grade credit ratings. The Corporation regularly monitors the financial condition of these clients.

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 weight 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.

Lastly, the Corporation is exposed to a credit risk with respect to its financing lease contracts for equipment used in the wood-residue segment. To reduce this risk, the Corporation regularly evaluates supplier performance to see if any measures are required. The Corporation also visits the woodchip production sites from time to time to check the condition of equipment. 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 be foreclosed by the Corporation or 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 the book value or fair market value.

During the 12 month period ended December 31, 2009, the Corporation had four clients (four in 2008) accounting for over 10% of its revenues. All these clients are well-established large corporations. Management considers that such a client concentration is characteristic within the power generation industry. See note 20 to the consolidated financial statements for more details.

As at December 31, 2009, approximately 2% of accounts receivable (3% in 2008) were over 90 days past due after being invoiced, while approximately 94% of accounts (93% in 2008) were current (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, of securing financing and meeting maturity obligations 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.

As at December 31, 2009, the Corporation also had an revolving credit facility with a maximum authorized amount of \$55,000,000, but letters of credit totalling \$9,656,000 had been issued against this operating credit facility.

70 Note 11. Financial instruments (Cont'd)

The contractual maturities of the Corporation's financial liabilities and derivative financial instruments as at December 31, 2009 and 2008 are summarized in the following tables:

December 31, 2009	Undiscounted cash flows (principal and interest)				
	<i>Under 1 year</i>	<i>From 1 to 2 years</i>	<i>From 2 to 5 years</i>	<i>Over 5 years</i>	<i>Total</i>
NON-DERIVATIVE FINANCIAL					
LIABILITIES:					
Bank loans and advances	12,291	–	–	–	12,291
Accounts payable and accrued liabilities	28,913	–	–	–	28,913
2007 master agreement – wind power projects (France)	16,798	25,332	72,798	195,615	310,543
Term loan payable – Nibas wind farm	1,720	1,720	4,974	3,215	11,629
Term loan payable – Stratton power station	2,014	–	–	–	2,014
Capital leases (France)	3,174	3,176	5,323	500	12,173
Term loan payable – Ocean Falls power station	5,623	9,137	–	–	14,760
Term loan payable – Ontario wind farms	2,462	4,778	60,304	–	67,544
Term loan payable – Bel Air wind farm	910	918	2,804	6,841	11,473
Other debts	1,389	86	258	601	2,334
DERIVATIVE FINANCIAL					
INSTRUMENTS:					
Foreign exchange forward contracts	898	–	–	–	898
Financial swaps – interest rates	5,045	3,686	2,106	(3,744)	7,093
	81,237	48,833	148,567	203,028	481,665

December 31, 2008	Undiscounted cash flows (principal and interest)				
	<i>Under 1 year</i>	<i>From 1 to 2 years</i>	<i>From 2 to 5 years</i>	<i>Over 5 years</i>	<i>Total</i>
NON-DERIVATIVE FINANCIAL					
LIABILITIES:					
Accounts payable and accrued liabilities	22,113	–	–	–	22,113
Other liabilities	5,718	–	–	–	5,718
Bridge financing facility	11,823	–	–	–	11,823
2007 master agreement – wind power projects (France)	17,330	18,680	47,904	111,683	195,597
Term loan payable – Nibas wind farm	1,955	1,955	5,757	5,504	15,171
Term loan payable – Stratton power station	1,066	1,030	1,389	–	3,485
Capital leases (France)	3,520	3,607	7,906	2,320	17,353
Other debts	1,429	1,303	–	–	2,732
DERIVATIVE FINANCIAL					
INSTRUMENTS:					
Financial swaps – interest rates	2,254	1,412	1,067	(285)	4,448
	67,208	27,987	64,023	119,222	278,440

Undiscounted cash flows of non-derivative financial liabilities are determined using expected principal repayments and interest payments. Undiscounted cash flows of derivatives are determined using the values of underlying indices at the balance sheet date. Since these indices are highly volatile, the non-discounted cash flows presented could vary significantly until realized.

Note 12.

ACQUISITION OF MINORITY INTEREST

On January 1, 2009, the Corporation acquired a 21% interest in the Forces Motrices Saint-François ("FMSF") hydroelectric power station for the price of \$753,000 (€446,000). The purchase price was settled by exchanging the Corporation's interest in Forces Motrices du Joudron ("FMJ"), a French company. On May 7, 2009, Boralex acquired 29% of the FMSF shares it did not own. The price per share paid for this second portion of the acquisition is the same as for the first. The purchase price was set at \$968,000 (€616,000). Boralex recorded a gain of \$720,000 (€437,000) on the disposal of FMJ.

On December 14, 2009, the Corporation entered into a European partnership agreement with Cube Infrastructure Fund ("CUBE") under which CUBE could subscribe to a capital increase up to €33,000,000. An initial amount of €15,000,000 (\$23,181,000) was released when the transaction was completed, resulting in a minority interest of €4,443,000 (\$6,866,000) and a gain on dilution of €10,557,000 (\$16,315,000 less costs of \$2,450,000).

Note 13.

CAPITAL STOCK

The Corporation's capital stock is composed of an unlimited number of Class A common shares.

The transactions relating to capital stock for the years ended December 31 are presented in the following table:

Note	2009		2008	
	<i>Number of shares (in thousands)</i>	<i>Amount</i>	<i>Number of shares (in thousands)</i>	<i>Amount</i>
Balance – beginning of year	37,741	222,694	37,455	221,557
Share repurchase a)	–	–	(97)	(577)
Options exercised b)	–	–	383	1,714
Balance – end of year	37,741	222,694	37,741	222,694

- a) In, 2008, Boralex announced plans to proceed with a normal course issuer bid. This twelve month bid opening on May 1, 2008 and closing on April 30, 2009 authorized Boralex to buy back up to 1,889,220 Class A shares, or 5% of the 37,784,405 issued and outstanding Boralex Class A shares. All buybacks were carried out via the Toronto Stock Exchange and the repurchased shares were cancelled. Boralex had repurchased nil shares as of December 31, 2009 (97,300 in 2008). The normal course issuer bid was not renewed in 2009.
- b) The Corporation has a stock option plan for the benefit of directors, senior management and certain key employees under which 2,500,000 Class A shares have been reserved for issuance. The exercise price equals the market value on the day preceding the option grant date. The options granted prior to May 19, 2004 may be exercised over a period of four years at 25% per year beginning at the grant date, with no restrictions. Options granted on or after May 19, 2004, may be exercised at 25% per year beginning the year after they are granted. Furthermore, these options cannot be exercised unless the market value of the stock is higher, for a minimum period, than the book value on the option grant date. All the options have a ten-year term.

The stock options are as follows for the years ended December 31:

	2009		2008	
	<i>Number of options</i>	<i>Weighted average exercise price</i>	<i>Number of options</i>	<i>Weighted average exercise price</i>
Outstanding – beginning of year	1,005,816	9.76	1,256,146	7.35
Granted	331,794	7.14	133,266	17.29
Exercised	–	–	(383,596)	4.47
Outstanding – end of year	1,337,610	9.11	1,005,816	9.76
Options exercisable – end of year	755,578	8.43	524,560	7.68

72 Note 13. Capital stock (Cont'd)

The following options were outstanding as at December 31, 2009:

Granted in	Options outstanding		Options exercisable		
	Number of options	Exercise price	Number of options	Exercise price	Year of expiry
2001	22,170	6.00	22,170	6.00	2011
2002	18,021	8.63	18,021	8.63	2012
2004	48,042	4.35	48,042	4.35	2014
2005	336,138	6.41	336,138	6.41	2015
2006	296,434	9.60	222,017	9.60	2016
2007	151,745	13.30	75,873	13.30	2017
2008	133,266	17.29	33,317	17.29	2018
2009	331,794	7.14	–	–	2019
	1,337,610	9.11	755,578	8.43	

Diluted per share amounts were calculated as follows:

	2009	2008
Weighted average number of shares outstanding	37,740,921	37,739,840
Dilutive effect of stock options	95,490	321,119
Weighted and diluted average number of shares outstanding	37,836,411	38,060,959
Net earnings	24,439	20,410
Net earnings per share (basic) (\$)	0.65	0.54
Net earnings per share (diluted) (\$)	0.65	0.54

The table below shows stock that could dilute basic earnings per share in the future but were not taken into account in the calculation of the diluted earnings per share due to their anti-dilutive effect:

	2009	2008
Number of anti-dilutive options	599,466	599,466

Note 14.

CONTRIBUTED SURPLUS

The Corporation applies the fair value method of accounting for options granted to officers and management. These amounts are recorded under administrative costs and contributed surplus.

The following table shows the change in the account:

(in thousands of dollars)	2009	2008
Balance – beginning of year	3,069	1,974
Fair value of options recorded during the year	1,226	1,095
Balance – end of year	4,295	3,069

The following assumptions were used to estimate the fair value, at the date of grant, of the options issued to officers and employees in the years ended December 31:

	2009	2008
Risk-free interest rate	3.04%	4.18%
Expected annual dividend	0.00%	0.00%
Expected useful life	7 years	7 years
Expected volatility	46%	39%
Weighted average fair value per option	\$3.48	\$9.44

Note 15.

ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

	2009				
	<i>Translation adjustments</i>	<i>Hedge electricity swaps</i>	<i>Hedge interest rates</i>	<i>Hedge currencies</i>	<i>Total</i>
Balance – beginning of year	(11,609)	12,990	(5,569)	5,684	1,496
Application of EIC-173 (note 3)	–	(539)	59	–	(480)
Balance – beginning of year, restated	(11,609)	12,451	(5,510)	5,684	1,016
Change in fair value	(32,389)	14,344	(3,958)	(3,246)	(25,249)
Share of cumulative translation adjustments of the Fund	(2,174)	–	–	–	(2,174)
Reclassification to net earnings	1,076	(24,604)	2,122	(126)	(21,532)
Balance sheet reclassification	–	–	–	(3,884)	(3,884)
Taxes	581	2,828	626	929	4,964
Balance – end of year	(44,515)	5,019	(6,720)	(643)	(46,859)

	2008				
	(Restated – Note 3)				
	<i>Translation adjustments</i>	<i>Hedge electricity swaps</i>	<i>Hedge interest rates</i>	<i>Hedge currencies</i>	<i>Total</i>
Balance – beginning of year, as previously reported	(54,612)	238	(683)	626	(54,431)
Application of Section 3064 (note 3)	9	–	–	–	9
Balance – beginning of year, restated	(54,603)	238	(683)	626	(54,422)
Change in fair value	40,994	22,772	(5,720)	6,490	64,536
Share of cumulative translation adjustments of the Fund	4,297	–	–	–	4,297
Reclassification to net earnings	(1,285)	(4,020)	(1,465)	–	(6,770)
Balance sheet reclassification	–	–	–	(673)	(673)
Taxes	(1,012)	(6,000)	2,299	(759)	(5,472)
Balance – end of year	(11,609)	12,990	(5,569)	5,684	1,496

Note 16.

CAPITAL MANAGEMENT

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

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

Note 16. Capital management (Cont'd)

The Corporation manages its capital structure and makes adjustments to it in 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 resources 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 is limited to investments with maturities of less than one year that are guaranteed by financial institutions. For instance, bankers' acceptances guaranteed by a Canadian chartered bank meet these criteria. The Corporation deems its current financing sources to be sufficient to support its plans and operating 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 measures specified in the respective credit agreements. As at December 31, 2009 and 2008, the Corporation was in compliance with its commitments with respect to the 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/total capitalization for capital management purposes. This ratio is a non-GAAP measure. For calculation purposes, net debt consists of long-term debt, including the current portion thereof, bank loans and advances, net of cash and cash equivalents and financing costs. Total capitalization is determined by adding net debt and capitalization. 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 December 31, 2009, the Corporation's performance with respect to its capital management objectives was as follows:

- Net debt/total capitalization ratio of 38.0% (25.2% as at December 31, 2008); and
- A balance of cash and cash equivalents of \$35,457,000 (\$69,195,000 as at December 31, 2008).

Although it currently has a net debt/total capitalization ratio of 38.0%, the Corporation's long-term goal consists in keeping this ratio below approximately 40%. Analysis of these ratios must take into account changes in items such as *Accumulated other comprehensive income (loss)*. 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 50% were a significant project deemed worth it, but would strive to reduce said ratio within a 24-month period.

Note 17.

FINANCING COSTS

	Note	2009	2008
Interest on long-term debt, net of the impact of interest rate swaps	a)	8,791	9,818
Interest income		(1,075)	(1,494)
Amortization of financing costs		841	1,009
Amortization of monetization program expenses		2,052	1,919
Financing costs related to renewable energy tax credits		2,376	2,109
Other interest and banking fees		1,298	500
		14,283	13,861
Interest capitalized to power stations under development		(556)	(55)
		13,727	13,806

a) Interest expense on capital lease contracts was \$738,000 in 2009 (\$874,000 in 2008).

Note 18.

INCOME TAXES

- a) The provision for income taxes is as follows:

	2009	2008
Income tax expense		(Restated – Note 3)
Current income taxes	1,468	1,916
Future income taxes	3,002	9,413
	4,470	11,329
Earnings before income taxes	29,011	31,885
Renewable energy tax credits included in pre-tax earnings *	(266)	(687)
	28,745	31,198
Combined basic Canadian and Québec income tax rate (%)	30.90	30.90
Income tax expense at statutory rate	8,882	9,640
Increase (decrease) in income taxes arising from the following:		
Non-taxable items	(8,700)	(46)
Difference in foreign operations' statutory income tax rates	1,906	2,488
Variation in valuation allowance	1,298	280
Reassessment of current and future income tax assets and liabilities	545	(289)
Other	539	(744)
	4,470	11,329

* Includes only renewable energy tax credits earned outside the monetization program.

- b) Future income taxes include the following items:

	2009	2008
Tax benefit arising from losses carried forward	50,154	56,888
Other assets	(4,877)	(1,382)
Provisions	621	736
Investment	(14,988)	(18,778)
Property, plant and equipment	(63,916)	(73,304)
Other liabilities	5	3,083
Financial instruments	(2,465)	(5,989)
Other	(1,297)	(453)
Future income taxes	(36,763)	(39,199)
Future income tax assets	422	238
Future income tax liabilities	(37,185)	(39,437)
	(36,763)	(39,199)

- c) The Corporation and its subsidiaries, particularly its French subsidiaries, have accumulated losses for income tax purposes amounting to approximately \$163,335,000, which may be carried forward to reduce taxable income in future years. The future tax benefit arising from these losses has been recognized as a future tax asset. These unused losses for income tax purposes may be claimed in future years, expiring as follows:

2013	2014	2025	2026	2027	2028	2029	UNLIMITED	TOTAL
2,803	498	537	3,883	5,222	2,695	514	147,183	163,335

- d) Renewable energy tax credits are allocated under the U.S. federal tax regime. With respect to Boralex power stations, this program was in force for a five-year period starting January 1, 2005 and came to an end on December 31, 2009. Tax credits are based on the power stations' actual production. While this credit is non-refundable, it can be carried forward for the next 20 taxation years.

Note 19.

CHANGE IN NON-CASH WORKING CAPITAL ITEMS

	2009	2008
Decrease (increase) in:		
Accounts receivable	5,084	(948)
Inventories	(1,476)	998
Prepaid expenses	(731)	579
Increase (decrease) in:		
Accounts payable and accrued liabilities	11,748	(1,712)
Income taxes	(1,252)	79
	13,373	(1,004)

Note 20.

SEGMENTED INFORMATION

The Corporation's power stations are grouped into four distinct segments: wind power, hydroelectric power, wood-residue thermal power and natural gas thermal power, and are engaged mainly in power generation. The classification of these segments is based on the different cost structures relating to each of the four types of power stations. The main accounting policies that apply to the individual segments are as described in note 2.

The Corporation analyzes the performance of its operating segments based on the earnings before interest, taxes, depreciation and amortization ("EBITDA"). EBITDA is not a measure of performance under Canadian GAAP; however, management uses this measure to assess the operating performance of its segments. Results for each segment are presented on the same basis as those of the Corporation.

The following table reconciles EBITDA with net earnings:

	2009	2008
		(Restated – Note 3)
Net earnings	24,439	20,410
Non-controlling interests	102	146
Income taxes	4,470	11,329
Gain on dilution	(13,865)	–
Financing costs	13,727	13,806
Net loss on financial instruments	923	143
Foreign exchange loss (gain)	1,473	(1,437)
Amortization	26,056	24,438
EBITDA	57,325	68,835

Revenue is allocated to the different countries based on the location of clients. In 2009, the Corporation had four clients (four clients in 2008) accounting for more than 10% of its revenue.

The tables below show the respective percentage of consolidated revenue from each client, as well as the segments in which they operate:

2009			2008		
% Sales due to one client	Segment		% Sales due to one client	Segment	
21	Wind power and natural gas		23	Wood-residue	
19	Wood-residue		20	Wood-residue	
19	Wood-residue		19	Wind power and natural gas	
16	Wood-residue		10	Hydroelectricity and wood-residue	

Note 20. Segmented information (Cont'd)

INFORMATION BY SEGMENT

	2009	2008	2009	2008
	<i>Power generation (MWH)</i>		<i>Revenues from energy sales</i>	
	<i>(Unaudited)</i>	<i>(Unaudited)</i>		
Wind farms	235,418	220,500	33,872	30,543
Hydroelectric power stations	145,303	132,057	10,329	11,753
Wood-residue thermal power stations	1,156,652	1,232,907	123,391	135,897
Natural gas thermal power station	37,501	37,829	17,187	19,053
	1,574,874	1,623,293	184,779	197,246
	<i>EBITDA</i>		<i>Additions to property, plant and equipment</i>	
	<i>(Restated – Note 3)</i>			
Wind farms	26,789	23,967	76,761	31,485
Hydroelectric power stations	5,538	7,919	1,184	89
Wood-residue thermal power stations	39,995	40,488	4,851	8,527
Natural gas thermal power station	2,155	2,338	28	81
Corporate and eliminations	(17,152)	(5,877)	1,708	4,395
	57,325	68,835	84,532	44,577

As at December 31,	2009	2008	2009	2008
	<i>Total assets</i>		<i>Property, plant and equipment</i>	
	<i>(Restated – Note 3)</i>			
Wind farms	363,644	242,944	288,225	198,435
Hydroelectric power stations	34,622	23,019	25,758	11,327
Wood-residue thermal power stations	138,014	183,881	84,660	102,373
Natural gas thermal power station	13,600	17,151	7,150	9,375
Corporate and eliminations	113,887	155,959	7,746	8,933
	663,767	622,954	413,539	330,443

INFORMATION BY GEOGRAPHIC SEGMENT

	2009	2008	2009	2008
	<i>Power generation (MWH)</i>		<i>Revenues from energy sales</i>	
	<i>(Unaudited)</i>	<i>(Unaudited)</i>		
United States	1,274,837	1,348,756	130,780	146,533
France	267,291	258,329	50,556	49,596
Canada	32,746	16,208	3,443	1,117
	1,574,874	1,623,293	184,779	197,246
	<i>EBITDA</i>		<i>Additions to property, plant and equipment</i>	
	<i>(Restated – Note 3)</i>			
United States	43,043	46,096	4,735	8,410
France	24,364	23,828	10,710	5,808
Canada	(10,082)	(1,089)	69,087	30,359
	57,325	68,835	84,532	44,577

As at December 31,	2009	2008	2009	2008
	<i>Total assets</i>		<i>Property, plant and equipment</i>	
	<i>(Restated – Note 3)</i>			
United States	179,494	220,310	89,889	110,830
France	254,142	229,053	190,797	182,271
Canada	230,131	173,591	132,853	37,342
	663,767	622,954	413,539	330,443

Note 21.

RELATED PARTY TRANSACTIONS

In addition to the transactions with the Fund (note 5), the Corporation entered into the following transactions with related parties:

	2009	2008
Company (and its subsidiaries) having significant influence on the Corporation		
Revenues from energy sales	10,087	11,757
Operating costs	1,734	1,767
Additions to property, plant and equipment	–	199
Entity controlled by a director and officer of the Corporation		
Other revenues	523	489
Interest income	32	61

As part of the acquisition of minority interests in Forces Motrices Saint-François, a \$300,000 (€200,000) interest was purchased from Bernard Lemaire, Executive Chairman of the Board of Boralex Inc. His interest in this company represented 8% of its capital stock. This transaction was carried out on the same basis as for the other arm's length shareholders.

These transactions occurred in the normal course of business and were measured at the exchange amount, which is the amount of the consideration established and agreed to by the related parties.

The balance sheets as at December 31, 2009 and 2008 included the following balances with related parties:

	2009	2008
Company (and its subsidiaries) having significant influence on the Corporation		
Accounts receivable	232	2,502
Accounts payable and accrued liabilities	1,532	845
Entity controlled by a director and officer of the Corporation		
Accounts receivable	549	697

Note 22.

COMMITMENTS AND CONTINGENCIES

In addition to the commitments related to the Fund (note 5 (b)), the Corporation is committed to the following:

- a) Under a long-term contract expiring in 2027, the Corporation is committed to selling 100% of its power output from a hydroelectric power station located in the United States. Long-term contracts for the Fort Fairfield and Ashland wood-residue power stations expired on February 28, 2009. A new two-year power sales contract was entered into for the Fort Fairfield power station as of March 1, 2009. With respect to the Ashland power station contract, the Corporation decided to sell this facility's output on the open market and did not renew the long-term contract. Instead, Boralex signed an electricity swap agreement to set prices up to February 28, 2011. Lastly, in Canada and France the Corporation is committed to selling 100% of its electricity and steam output under long-term contracts expiring as follows:

Source	Production type	Maturity
Canada	Electricity	Between 2010 and 2030
United States	Electricity	Between 2011 and 2027
France	Electricity	Between 2013 and 2025
France	Steam	2022

- b) To operate the Middle Falls power station in the United States, the Corporation leases the land where the facilities are situated from Niagara Mohawk Power Corporation under a lease that runs until 2027. Until 2013, the payment is a fixed amount indexed at 3% per year. In 2009, the rent amounted to \$364,000 (US\$348,000) (\$360,000 and US\$338,000 in 2008) and will be indexed at 3% per year until 2013. From 2014 onwards, the rent will vary at the rate of 30% of the power station's gross revenue.
- c) The Corporation is committed under forward contracts to sell the RECs earned by its U.S. power stations that have qualified as a renewable energy producer in Connecticut. As at February 24, 2010, the balance of these commitments totalled about \$24,863,000 (US\$23,756,000) (\$42,479,000 and US\$34,688,000 in 2008) for periods between January 2010 and December 2012.

Note 22. Commitments and contingencies (Cont'd)

- d) Under the supply agreements for its wood-residue power stations, the Corporation is committed to take delivery of certain minimum quantities. According to production forecasts, the Corporation will purchase quantities greater than the contract minimums.
- e) Over the years, the Corporation has sold portions of enterprises, including electrical power stations to the Fund. Under the agreements with respect to these sales, the Corporation could be required to indemnify the purchaser for liabilities arising from events prior to the sale, whether in connection with labour, tax, environmental, judicial or other matters, or arising from representations made by the Corporation. Indemnification guarantees of this type extend mainly over periods of less than ten years. The maximum amount associated with these guarantees may not exceed the proceeds from the sales in the amount of \$382,300,000. The Corporation deems that it has no liabilities under these guarantees.
- f) With respect to the wind power projects in France and in Canada, the Corporation signed a turnkey maintenance contract with Enercon, GE Wind Energy and Nordex. The initial contract period is five to 15 years, with anticipated annual expenditures of about \$2,800,000.
- g) With respect to the wind power projects in Ontario (Canada) and in France, the Corporation has signed equipment purchase agreements. The total cost of the commitments is \$127,789,000 (€84,213,000 and \$1,470,000). Disbursements will take place mostly in 2010. A portion of the amount payable in euros was partially covered by foreign exchange forward contracts, as discussed in note 11.
- h) On June 25, 2008, the Corporation signed two electricity supply contracts with Hydro-Québec for a total output of 272 MW for the Seigneurie de Beaupré wind farm project. The Corporation is cooperating with Gaz Métro on this project in which each party owns a 50% interest. These contracts obtained approval of the Régie de l'énergie du Québec on October 17, 2008 and the environmental green light in July 2009.
- i) On July 27, 2009, the Council of State, the final level of appeal in the French legal system, upheld the decision cancelling the building permit for the two-turbine expansion at the Avignonet-Lauragais facility. This decision does not jeopardize the power sales contract with EDF nor operation of the expansion. Furthermore, this situation does not place Boralex in default under any credit agreement. An application for an amended building permit will be made to the competent authority in the near future.
- j) When the Ocean Falls power station was acquired in April 2009, Boralex undertook to invest approximately \$3,000,000 for the completion of maintenance work on the dam and the modernization of certain facilities. An amount of \$900,000 had been disbursed as at December 31, 2009.
- k) For Thames River Phase I, the Corporation leases land on which wind generators are installed under ten lease agreements with 20-year terms, renewable at the Corporation's option for the same lease terms. The total lease amount under all these agreements is estimated at \$279,000, that is, approximately \$14,000 per wind generator.
- l) The land on which the wind generators are installed in France is leased under emphyteutic leases with lease terms ranging from 30 to 99 years. Payments under these leases are due annually and are indexed each year, based on the Consumption Price Index and the Construction Cost Index published by the National Institute of Statistics and Economic Studies (INSEE) and represent an annual commitment of \$323,000 (€215,000).

Board of directors

BERNARD LEMAIRE ⁽¹⁾

Executive Chairman of the Board
Boralex Inc.

Executive Vice-Chairman
of the Board
Cascades Inc.

PATRICK LEMAIRE ⁽¹⁾

President and
Chief Executive Officer
Boralex Inc.

GERMAIN BENOIT ^{(2) (5)}

President
Capital Benoit Inc.

ALLAN HOGG ⁽¹⁾

Vice-President, Finance
and Treasurer
Cascades Inc.

EDWARD H. KERNAGHAN ⁽⁴⁾

President
Principia Research Inc.
Executive Vice-President
Kernaghan Securities Ltd. and
Kernwood Ltd.

RICHARD LEMAIRE ⁽³⁾

President
Séchoirs Kingsey Falls Inc.

YVES RHEAULT ^{(3) (5)}

Corporate Director and
Consultant

MICHELLE SAMSON-DOEL ^{(2) (4)}

President
Samson-Doel Group Ltd.
Corporate Director

PIERRE SECCARECCIA ^{(2) (4) (5)}

Corporate Director

GILLES SHOONER ⁽³⁾

Environmental Consultant

(1) Member of the Administrative
Committee

(2) Member of the Audit Committee

(3) Member of the Environmental, Health
and Safety Committee

(4) Member of the Corporate Governance
Committee

(5) Member of the Nominating and
Compensation Committee

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Executive Chairman
of the Board

PATRICK LEMAIRE

President and
Chief Executive Officer

SYLVAIN AIRD

Vice-President, Legal Affairs
and Corporate Secretary

CLAUDE AUDET

Vice-President and Chief
Operating Officer, Biomass

JEAN-FRANÇOIS THIBODEAU

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Financial Officer

DENIS AUBUT

General Manager, Operations

GUY D'AOUST

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MARIO DUGAS

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Canada and Fuel Procurement

HUGUES GIRARDIN

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NATHAN HEBEL

Director, Energy Trading

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Director, Public Affairs and
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GABRIEL OUELLET

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using biogas energy.

GENERAL INFORMATION

Additional copies of the following documents and other information can also be obtained at the above address or on Boralex's and SEDAR's websites:

- Annual Report
- Interim Reports
- Annual Information Form
- Information Circular

TRANSFER AGENT AND REGISTRAR

Computershare Investor Services Inc.
1500 University Street, Suite 700
Montréal, Québec H3A 3S8 Canada
Telephone: 1-800-564-6253 / 514 982-7888
Fax: 1-888-453-0330 / 514 982-7635
service@computershare.com

SHAREHOLDER INFORMATION

The annual Meeting of Shareholders will be held on Tuesday, May 11, 2010 at 11:00 a.m., at the:

MONT-ROYAL CENTER
Room International I and II
2200, Mansfield Street
Montréal, Québec H3A 3R8 Canada
Telephone : 514 844-2000 / 1-888-844-2200

ADDITIONAL INFORMATION

MAY BE OBTAINED FROM:
Communications Department
Boralex Inc.
772 Sherbrooke Street West, Suite 200
Montréal, Québec H3A 1G1 Canada
Telephone: 514 985-1353
Fax: 514 284-9895

