Interim Report 3

# As at September 30

# 08

Boralex

## Profile

Boralex is a major private electricity producer whose core business is the development and operation of power stations that run on renewable energy. Employing close to 300 people, the Corporation owns and operates 21 power stations with an installed capacity of 351 MW in Québec, in the Northeastern United States and in France. In addition, the Corporation has 228 MW in contracted capacity for future generation sites. Boralex is distinguished by its diversified expertise and in-depth experience in three power generation segments: wind, hydroelectric and thermal. The shares of Boralex are listed on the Toronto Stock Exchange under the ticker symbol BLX. (boralex.com)

Boralex also holds a 23% interest in Boralex Power Income Fund, which has 10 power stations with a total installed capacity of 190 MW in Québec and the U.S. These sites are managed by Boralex.

# Interim Management's Discussion and Analysis 3

as at September 30, 2008

## DESCRIPTION OF BUSINESS

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

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

– In recent years, Boralex has become one of the biggest and most experienced wind power producers in France, where it currently operates seven wind farms, including 68 wind generators, with a total installed capacity of 108 MW. In addition, Boralex is currently developing major wind power projects in Canada, including two wind farms in Québec with a total capacity of 272 MW to be commissioned in 2013, as well as one wind farm in Ontario with a total potential capacity of 90 MW, which the Corporation expects to bring online beginning in 2009. On October 28, 2008, the Corporation also filed a proposal in connection with the Ontario RES III Request for Proposals. The proposed wind power project has 90 MW of installed capacity. The results of this request for proposals are expected to be announced in early 2009.

– Boralex has more than 15 years' experience generating hydroelectric power, and owns seven hydroelectric power stations, of which five are in the U.S. and two in Québec, with a total installed capacity of 25 MW. In addition, the Corporation recently entered into a purchase agreement for a hydroelectric power station with an installed capacity of 14.5 MW in British Columbia, as well as for two projects under development in the same region representing an additional 10 MW.

– Boralex owns and operates seven thermal power stations, with a total installed capacity of 218 MW. The Corporation is North America's largest producer of wood-residue energy, with six thermal power stations located in the U.S. with a combined installed capacity of 204 MW. Furthermore, Boralex operates a 14 MW natural gas cogeneration power station in France.

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

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

## INTRODUCTORY COMMENTS

### GENERAL

This interim management's discussion and analysis ("MD&A") reviews the operating results and cash flows for the three- and nine-month periods ended September 30, 2008, compared with the corresponding three- and nine-month periods ended September 30, 2007, as well as the Corporation's financial position as at such dates. It should be read in conjunction with the interim unaudited consolidated financial statements and the accompanying notes contained in this interim report, as well as with the audited consolidated financial statements and accompanying notes in the Corporation's most recent Annual Report, that is, for the fiscal year ended December 31, 2007.

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

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

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

The information contained in this interim MD&A reflects all material events up to November 11, 2008, the date on which the Board of Directors approved the interim financial statements and this MD&A.

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

## NOTICE CONCERNING FORWARD-LOOKING STATEMENTS

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. Therefore, some statements, including those regarding future results and performance, may constitute forward-looking statements within the meaning of securities legislation; they are based on current expectations.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 the expectations, estimates and assumptions of Boralex's management as at November 11, 2008.

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

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

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

## COMPLIANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

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

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

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

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

Management has established and maintained disclosure controls and procedures in order to provide reasonable assurance that material information relating to the Corporation is made known to them in a timely manner. Management, including the Chief Executive Officer and the Chief Financial Officer, assessed the effectiveness of the Corporation's disclosure controls and procedures as at the date of the 2007 Annual Report and is of the view that they are effective. Since there have been no significant changes since December 31, 2007, management believes that these disclosure controls and procedures are still effective as at September 30, 2008.

Management is also responsible for the design of the Corporation's internal control over financial reporting in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. During the second and third quarters of 2008, Boralex implemented a new consolidation information system. This change did not stem from a failure of controls existing prior to implementation, but rather from the need to enhance the effectiveness of consolidation processes. As this system was being brought online, additional controls were executed to ensure continuing effectiveness of control procedures. Furthermore, management ensured that the reorganization of consolidation processes did not bear on overall control effectiveness, despite the fact that certain key controls were optimized subsequent to the new system's implementation. Management, including the Chief Executive Officer and the Chief Financial Officer, evaluated the design of the Corporation's internal controls over financial reporting at the end of fiscal 2007 and believes the design to be sufficient to provide such reasonable assurance. As at the date of this interim MD&A, management had no knowledge of any other change to the Corporation's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Corporation's internal control over financial reporting.

## SEASONAL FACTORS

| (in thousands of dollars, except amounts per share and number of shares) | DECEMBER 31,[1] 2007 | MARCH 31,[1] 2008 | JUNE 30,[1] 2008 | **SEPTEMBER 30, 2008** |
|---|---|---|---|---|
| **REVENUES FROM ENERGY SALES** | | | | |
| Wind power stations | 8,554 | 10,065 | 6,677 | **5,859** |
| Hydroelectric power stations | 2,524 | 3,790 | 3,200 | **1,920** |
| Wood-residue thermal power stations[2] | 29,973 | 33,877 | 27,113 | **37,866** |
| Natural gas thermal power stations | 4,857 | 6,723 | 2,675 | **3,165** |
| Corporate and eliminations | (1) | – | (1) | **1** |
| | 45,907 | 54,455 | 39,664 | **48,811** |
| **EBITDA** | | | | |
| Wind power stations | 7,021 | 8,504 | 5,117 | **4,361** |
| Hydroelectric power stations | 1,651 | 3,034 | 2,391 | **847** |
| Wood-residue thermal power stations | 10,674 | 11,071 | 6,795 | **13,558** |
| Natural gas thermal power station | 717 | 1,321 | (204) | **(157)** |
| Corporate and eliminations | (1,388) | (39) | (1,450) | **(1,844)** |
| | 18,675 | 23,891 | 12,649 | **16,765** |
| **NET EARNINGS** | 5,913 | 9,221 | 1,135 | **5,657** |
| Per share (basic) | $0.16 | $0.25 | $0.03 | **$0.15** |
| Per share (diluted) | $0.15 | $0.24 | $0.03 | **$0.15** |
| Weighted average number of common shares outstanding (basic) | 37,454,625 | 37,566,967 | 37,818,503 | **38,247,112** |

| (in thousands of dollars, except amounts per share and number of shares) | DECEMBER 31, 2006 | MARCH 31,[1] 2007 | JUNE 30,[1] 2007 | SEPTEMBER 30,[1] 2007 |
|---|---|---|---|---|
| **REVENUES FROM ENERGY SALES** | | | | |
| Wind power stations | 7,757 | 8,269 | 4,930 | 5,977 |
| Hydroelectric power stations | 2,867 | 3,079 | 2,859 | 677 |
| Wood-residue thermal power stations | 19,891 | 33,360 | 22,839 | 25,689 |
| Natural gas thermal power station | 4,954 | 6,094 | 1,725 | 1,933 |
| | 35,469 | 50,802 | 32,353 | 34,276 |
| **EBITDA** | | | | |
| Wind power stations | 6,782 | 7,059 | 3,863 | 4,883 |
| Hydroelectric power stations | 1,974 | 2,082 | 2,191 | (489) |
| Wood-residue thermal power stations | 1,167 | 12,185 | 2,741 | 7,452 |
| Natural gas thermal power station | 1,322 | 2,101 | (321) | (225) |
| Corporate and eliminations | 715 | 2,209 | (1,425) | (1,697) |
| | 11,960 | 25,636 | 7,049 | 9,924 |
| **NET EARNINGS** | 4,636 | 9,776 | 4,839 | 1,017 |
| Per share (basic) | $0.15 | $0.33 | $0.15 | $0.03 |
| Per share (diluted) | $0.15 | $0.32 | $0.15 | $0.03 |
| Weighted average number of common shares outstanding (basic) | 30,049,586 | 30,061,484 | 32,526,623 | 37,454,625 |

(1) Certain figures from the prior year's consolidated financial statements have been reclassified to conform to current period presentation.
(2) In order to comply with the presentation adopted in the third quarter of 2008,$459,000 and $698,000 related to energy replacement costs formerly reported in operating expenses have been reclassified to revenues from energy sales for the first and second quarters of 2008.

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

For the 14 Boralex power stations that have long-term fixed-price power sales agreements, seasonal cycles mainly affect the volume of power generated. The eight power stations that do not have long-term contracts and that sell their power on the open market in the Northeastern U.S. are more vulnerable to seasonal fluctuations which, in addition to influencing generation volumes, also have an impact on prices obtained. Generally, power consumption increases in the winter and summer, which represent Boralex's first and third quarters. This means that, for those two periods, the power stations that sell on the open market usually have higher average prices. Because the wood-residue thermal power stations can control their level of power generation, they generate more power during such high-demand periods. Given this, these power stations perform regular maintenance in the spring or fall, which impacts their operating results for those periods.

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

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

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

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

In short, although Boralex's performance is affected by seasonal cycles, the Corporation attenuates their impact by diversifying its power generation sources and the geographic positioning of its assets. The Corporation is also developing complementary revenue streams in order to increase and secure sales. It participates, for example, in the Renewable Energy Certificates ("RECs") market and the Forward Capacity Market in the Northeastern U.S., as well as in the carbon dioxide ("$CO_2$") quota market and green credits in France.

## FINANCIAL HIGHLIGHTS

| | THREE-MONTH PERIODS ENDED SEPTEMBER 30, | | NINE-MONTH PERIODS ENDED SEPTEMBER 30, | |
|---|---|---|---|---|
| (in thousands of dollars, unless otherwise specified) | **2008** | 2007 | **2008** | 2007 |
| **REVENUES FROM ENERGY SALES** | | | | |
| Wind power stations | **5,859** | 5,977 | **22,601** | 19,176 |
| Hydroelectric power stations | **1,920** | 677 | **8,909** | 6,615 |
| Wood-residue thermal power stations(1) | **37,866** | 25,689 | **98,856** | 81,888 |
| Natural gas thermal power stations | **3,165** | 1,933 | **12,564** | 9,752 |
| Corporate and eliminations | **1** | – | **1** | – |
| | **48,811** | 34,276 | **142,931** | 117,431 |
| **EBITDA** | | | | |
| Wind power stations | **4,361** | 4,883 | **17,982** | 15,805 |
| Hydroelectric power stations | **847** | (489) | **6,272** | 3,784 |
| Wood-residue thermal power stations | **13,558** | 7,452 | **31,424** | 22,378 |
| Natural gas thermal power station | **(157)** | (225) | **960** | 1,555 |
| Corporate and eliminations | **(1,844)** | (1,697) | **(3,333)** | (913) |
| | **16,765** | 9,924 | **53,305** | 42,609 |
| **NET EARNINGS** | **5,657** | 1,017 | **16,014** | 15,632 |
| Per share (basic) | **$0.15** | $0.03 | **$0.42** | $0.47 |
| Per share (diluted) | **$0.15** | $0.03 | **$0.42** | $0.46 |
| Weighted average number of common shares outstanding | **38,247,112** | 37,454,625 | **37,739,288** | 33,374,658 |

| | SEPTEMBER 30, **2008** | DECEMBER 31, 2007 |
|---|---|---|
| **FINANCIAL POSITION** | | |
| Total assets | **548,278** | 514,731 |
| Total debt(2) | **165,315** | 175,533 |
| Shareholders' equity | **321,771** | 284,769 |

(1) In order to comply with the presentation adopted in the third quarter of 2008, $459,000 and $698,000 related to energy replacement costs formerly reported in operating expenses have been reclassified to revenues from energy sales for the first and second quarters of 2008.
(2) Including long-term debt and its current portion.

## ADDITIONAL INFORMATION ABOUT NON-GAAP PERFORMANCE MEASURES

In order to assess the performance of its assets and reporting segments, Boralex uses EBITDA and cash flows from operations as performance measures. Although EBITDA and cash flows from operations are non-GAAP performance measures, management believes these financial indicators to be widely used by investors to assess operational performance and the ability of a company to generate cash through its operations. Nevertheless, since these measures are not established under GAAP, they may not be comparable to similarly named measures used by other companies.

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

The following table reconciles EBITDA to net earnings:

| | THREE-MONTH PERIODS ENDED SEPTEMBER 30, | | NINE-MONTH PERIODS ENDED SEPTEMBER 30, | |
|---|---|---|---|---|
| (in thousands of dollars) | **2008** | 2007 | **2008** | 2007 |
| Net earnings | **5,657** | 1,017 | **16,014** | 15,632 |
| Non-controlling interests | **(5)** | (158) | **112** | (104) |
| Income tax expense (recovery) | **2,416** | (146) | **9,496** | 4,674 |
| Financing costs | **3,515** | 3,389 | **9,971** | 11,903 |
| Financial instruments | **(1,010)** | (369) | **94** | (6,243) |
| Foreign exchange loss (gain) | **(185)** | 296 | **(603)** | 604 |
| Amortization | **6,377** | 5,895 | **18,221** | 16,143 |
| **EBITDA** | **16,765** | 9,924 | **53,305** | 42,609 |

Cash flows from operations are equal to cash flows related to operating activities before change in non-cash working capital items. Management and investors use this measure to assess cash flows generated by the Corporation's operations and its ability to finance its expansion from those assets. In light of the seasonal nature of the Corporation's operations and development activities, changes in non-cash working capital 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 to not factor changes in working capital into 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:

| | THREE-MONTH PERIODS ENDED SEPTEMBER 30, | | NINE-MONTH PERIODS ENDED SEPTEMBER 30, | |
|---|---|---|---|---|
| (in thousands of dollars) | **2008** | 2007 | **2008** | 2007 |
| Cash flows related to operating activities | **3,067** | 6,045 | **36,740** | 29,036 |
| Change in non-cash working capital items | **10,820** | 2,707 | **7,396** | 6,496 |
| **Cash flows from operations** | **13,887** | 8,752 | **44,136** | 35,532 |

## ANALYSIS OF OPERATING RESULTS FOR THE THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2008

The main favourable and unfavourable variances explaining the change in net earnings between the three-month periods ended September 30, 2008 and 2007 are shown in the following table:

| | NET EARNINGS (IN MILLIONS OF DOLLARS) | PER SHARE (BASIC) (IN $) |
|---|---|---|
| **THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2007** | **1.0** | **0.03** |
| Change in EBITDA | 6.9 | 0.18 |
| Amortization | (0.5) | (0.01) |
| Foreign exchange adjustment | 0.5 | 0.01 |
| Financial instruments | 0.6 | 0.02 |
| Financing costs | (0.1) | – |
| Income taxes | (2.5) | (0.07) |
| Other | (0.2) | (0.01) |
| **THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2008** | **5.7** | **0.15** |

During the third quarter of fiscal 2008, Boralex generated net earnings of \$5.7 million or \$0.15 per share (basic and diluted) compared with net earnings of \$1.0 million or \$0.03 per share (basic and diluted) in the corresponding quarter of 2007. As shown in the above table, the \$4.7 million increase in net earnings for the quarter was largely due to \$6.9 million in EBITDA growth, stemming mainly from the wood-residue segment. This improvement readily offset the \$2.5 million increase in income tax expense.

### Analysis of significant variances in consolidated revenues from energy sales and EBITDA:

| (in millions of dollars) | REVENUES FROM ENERGY SALES | EBITDA |
|---|---|---|
| **THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2007** | **34.3** | **9.9** |
| Commissioning – Avignonet-Lauragais II | 0.3 | 0.2 |
| Price | 2.9 | 2.9 |
| Volume | 3.8 | 1.4 |
| RECs and green credits | 6.1 | 5.1 |
| Capacity premiums | 0.5 | 0.5 |
| Translation of self-sustaining operations | 0.8 | 0.5 |
| Renewable energy tax credits | - | 0.4 |
| $CO_2$ quotas | - | 0.1 |
| Cost of raw materials | - | (3.1) |
| Maintenance | - | (0.1) |
| Development expenses | - | (0.5) |
| Boralex Power Income Fund | - | 0.2 |
| Other | 0.1 | (0.7) |
| **THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2008** | **48.8** | **16.8** |

REVENUES FROM ENERGY SALES

For the quarter ended September 30, 2008, revenues from energy sales totalled $48.8 million, up $14.5 million or 42.3%, from $34.3 million for the same quarter in 2007. This performance was primarily driven by the wood-residue segment and, to a lesser extent, the hydroelectric segment. The key factors behind the change in consolidated revenues from energy sales for the third quarter were as follows:

– A $5.9 million increase in revenues from sales of RECs in the Northeastern U.S. and $0.2 million increase in revenues from sales of green credits in France, for a total of $6.1 million;
– Additional revenues of $4.1 million attributable to higher output volume, of which $3.8 million stemmed from higher output in the wood-residue and hydroelectric segments, and $0.3 million from expanded wind power capacity at the Avignonet-Lauragais site in France in early April 2008; Boralex generated a total of 416,747 MWh of electricity in the third quarter of fiscal 2008, up 11.3% from 374,441 MWh for the same period in 2007;
– Additional revenues of $2.9 million driven by a rise in electricity selling prices, particularly at our wood-residue and U.S. hydroelectric power stations, which saw their average selling price soar 26.2% (in U.S. dollar terms) in the Northeastern U.S. open market compared with the same quarter of 2007; whereas the price of steam generated at our Blendecques, France natural gas-fired power station also tracked higher (due to partial indexation to natural gas prices in France);
– A $0.8 million favourable effect due to exchange rate fluctuations, mainly between the Canadian dollar and the euro; and
– Additional capacity premiums of $0.5 million in the wood-residue segment.

OTHER REVENUES

Boralex earned $3.0 million in revenues other than from energy sales in the third quarter of 2008 compared with $2.4 million in the corresponding period of 2007. This $0.6 million or 25.0% increase was due in large part to a $0.3 million rise in Boralex's share of the Fund's results, owing to the Fund's strong performance. In addition, the Corporation earned $0.4 million in other revenues, particularly from various management fees and sales of excess $CO_2$ quotas.

EBITDA

The Corporation reported $16.8 million in consolidated EBITDA for the third quarter of 2008 compared with $9.9 million for the same period last year. This sharp 69.7% or $6.9 million improvement was primarily driven by the wood-residue segment and, to a lesser extent, the hydroelectric segment. However, operational profitability in the wind power segment was down for the period.

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

- An additional $5.1 million contribution from sales of RECs and green credits, mainly from the wood-residue segment;
- A $2.9 million direct contribution to EBITDA owing to higher selling prices;
- Additional operating income of $1.6 million generated by higher a output volume, of which $0.2 million stemmed from the expansion of Avignonet-Lauragais wind power site, and $1.4 million from organic growth;
- A $0.5 million contribution from capacity premiums;
- The $0.5 million favourable effect of currency fluctuations, due primarily to the euro's strengthening against the Canadian dollar;
- A $0.4 million increase in renewable energy tax credits triggered by re-firing the Stacyville wood-residue power station; and
- An additional $0.2 million contribution related to the Corporation's investment in the Fund.

On the other hand, the key factors that had an adverse impact on consolidated EBITDA for the quarter were as follows:

- A $3.1 million increase in raw material costs, of which $2.2 million was attributable the wood-residue segment and $0.9 million to higher natural gas prices at the natural gas-fired Blendecques, France thermal power station;
- An additional $0.5 million expense resulting from the Corporation's stepped-up development and prospecting initiatives; and
- Various other factors, including the higher cost of chemicals used to comply with REC production standards, increased operating expenses (other than raw material costs) resulting from bringing the Stacyville power station back online and a slight increase in maintenance expenses.

(A more detailed analysis of changes in revenues and EBITDA for each segment is presented in *Analysis of Segmented Results for the Three- and Nine-Month Periods Ended September 30, 2008*.)

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

Amortization expense totalled $6.4 million in the third quarter of 2008 compared with $5.9 million in the corresponding quarter of 2007. This $0.5 million or 8.5% increase resulted primarily from development in the wind power segment in France, particularly with the recent expansion of the Avignonet-Lauragais site.

Financing costs amounted to $3.5 million compared with $3.4 million for the corresponding quarter in 2007. This slight 2.9% increase was mainly due to the lower rates of return on bank deposits due to the very conservative investment approach in response to the current financial crisis.

The $1.0 million gain on financial instruments compared with $0.4 million for the corresponding period of 2007 consisted mainly of the ineffective portion of the financial electricity swaps for the period. It should be noted that all of these swaps qualify for hedge accounting and are highly effective for managing exposure to electricity market prices. However, since the swaps are not 100% efficient, a portion of gains or losses arising from their measurement at fair value must be recognized in earnings under accounting standards. For the quarter ended September 30, 2008, the change in fair value of these instruments amounted to $33.0 million and the ineffective portion represented $1.2 million thereof, or approximately 4%.

Accordingly, and owing further to the recognition of a $0.2 million foreign exchange gain compared with a $0.3 million foreign exchange loss for the corresponding period of 2007, the Corporation saw earnings before income taxes increase to $8.1 million in the third quarter of 2008 from $0.7 million for the comparative period of 2007.

INCOME TAX EXPENSE

Boralex reported $2.4 million in income tax expense for the third quarter of 2008 compared with $0.1 million in income tax recovery for the comparable quarter of 2007, representing a $2.5 million unfavourable variance. The income tax recovery in the third quarter of 2007 resulted in large part from favourable tax adjustments triggered by the recognition of non-taxable items in Canada. In addition, the increase in the 2008 tax rate was triggered by the higher percentage of taxable income from the U.S. where the tax rate is higher.

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

NET EARNINGS

In light of the foregoing, Boralex ended the third quarter of fiscal 2008 with $5.7 million in net earnings or $0.15 per share (basic and diluted) compared with $1.0 million in net earnings or $0.03 per share (basic and diluted) for the corresponding period of 2007. The weighted average number of shares outstanding was 38.2 million for the third quarter of 2008 compared with 37.5 million for the same period in 2007, due to the gradual effect of the June 2007 public share offering, as well as the 383,596 stock options exercised since the beginning of fiscal 2008.

In short, Boralex reported a significant improvement in operating income in the third quarter of 2008, due primarily to the following:

- Its expanded participation in the Connecticut REC market, supported by three of the wood-residue power stations in the third quarter of 2008 compared with a single such power station in 2007;
- Stepped up output due mainly to re-firing the Stacyville wood-residue power station and significantly improved water flows compared with the same period of 2007;
- Higher electricity selling prices; and
- The improvement in the Fund's earnings.

## ANALYSIS OF CONSOLIDATED OPERATING RESULTS FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2008

The main favourable and unfavourable variances explaining the change in net earnings between the nine-month periods ended September 30, 2008 and 2007 are shown in the following table:

| | NET EARNINGS (IN MILLIONS OF DOLLARS) | PER SHARE (BASIC) (IN $) |
|---|---|---|
| **NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2007** | **15.6** | **0.47** |
| Change in EBITDA | 10.7 | 0.28 |
| Amortization | (2.1) | (0.06) |
| Foreign exchange adjustment | 1.2 | 0.03 |
| Financial instruments | (0.4) | (0.01) |
| Termination of hedging | (5.9) | (0.16) |
| Financing costs | 1.9 | 0.05 |
| Taxes | (4.8) | (0.13) |
| Other | (0.2) | – |
| Share issuance | – | (0.05) |
| **NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2008** | **16.0** | **0.42** |

During the first nine months of fiscal 2008, Boralex generated cumulative net earnings of $16.0 million or $0.42 per share (basic and diluted) compared with net earnings of $15.6 million or $0.47 per share ($0.46 diluted) in the same period of 2007.

The favourable impact attributable to the solid $10.7 million improvement in EBITDA (to which all segments contributed except the natural gas co-generation power station) was unfortunately offset by a $11.1 million unfavourable change in financial instruments and income taxes compared with the corresponding period of 2007.

Excluding the effect of terminating the hedging of interest rate swaps in 2007, the Corporation would have reported a $4.4 million or 28% increase in net earnings for the nine-month period compared with the same period of the previous year.

Moreover, Boralex's year-to-date profitability for fiscal 2008 has been bolstered by a $1.9 million decrease in financing costs arising from the June 2007 share offering, as well as the $1.2 million favourable translation adjustment. These items offset the increase in amortization expense resulting mainly from expansion in the wind power segment and the euro's appreciation.

Our 2007 results included a $1.0 million non-recurring gain on the sale of wind power site development rights.

Excluding the above-mentioned non-recurring items, the $0.05 decline in earnings per share was partially attributable to the increase in the weighted average number of shares outstanding resulting from the June 2007 issuance of 7.3 million shares.

### Analysis of significant variances in consolidated revenues from energy sales and EBITDA:

| (in millions of dollars) | REVENUES FROM ENERGY SALES | EBITDA |
|---|---|---|
| **NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2007** | **117.4** | **42.6** |
| Commissioning – La Citadelle and Avignonet-Lauragais II | 2.6 | 2.2 |
| Operational shutdown – Stacyville power station | (1.7) | (0.2) |
| Price | 7.3 | 7.3 |
| Volume | 6.0 | 2.9 |
| RECs and green credits | 15.9 | 13.2 |
| Capacity premiums | 1.4 | 1.4 |
| Translation of self-sustaining operations | (5.9) | (1.5) |
| Renewable energy tax credits | - | 0.2 |
| $CO_2$ quota | - | (0.2) |
| Cost of raw materials | - | (9.3) |
| Maintenance | - | (1.0) |
| Development expenses | - | (1.3) |
| Boralex Power Income Fund | - | 0.9 |
| Sale of rights on a site under development in 2007 | - | (1.0) |
| Other | (0.1) | (2.9) |
| **NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2008** | **142.9** | **53.3** |

REVENUES FROM ENERGY SALES

For the nine-month period ended September 30, 2008, revenues from energy sales totalled $142.9 million, up $25.5 million or 21.7% from $117.4 million for the corresponding period of 2007. All operating segments helped drive revenue growth, particularly the wood-residue segment. The growth in consolidated revenues from energy sales since the beginning of fiscal 2008 stemmed mainly from the following key factors:

– Increases in revenues from sales of RECs in the Northeastern U.S. and green credits in France amounting to $15.4 million and $0.5 million, respectively;
– A $7.3 million addition contribution resulting from the higher prices for energy generated by Boralex compared with the same period of 2007, related mainly to the price of electricity sold by the wood-residue and hydroelectric segments on the Northeastern U.S. open market and steam generated by the French natural gas co-generation power station;
– An $8.6 million total net additional contribution due to the higher energy output, of which $2.6 million stemmed from the commissioning of the Corporation's new La Citadelle wind power site in July 2007, as well as additional equipment brought online at the Avignonet-Lauragais site in April 2008, and $6.0 million generated by organic growth, mainly in the wood-residue segment. However, the benefit of this additional output was mitigated, as the wood-residue Stacyville power station was inoperative until the end of the second quarter, giving rise to $1.7 million revenue shortfall. In light of the foregoing, Boralex has generated a total of 1,221,305 MWh of electricity year-to-date, up 5.2% compared with the first nine months of 2007; and
– $1.4 million in additional capacity premiums.

On the other hand, currency fluctuations, particularly the Canadian dollar's appreciation against the U.S. unit had a $5.9 million adverse effect on revenues for the period, barring which the Corporation would have posted growth of nearly 27%.

OTHER REVENUES

Boralex earned $11.4 million in revenues other than from energy sales for the first nine months of 2008, which approximated the revenue growth reported in the corresponding period of 2007. The Corporation saw its share of the Fund's results increase $0.7 million and earned approximately $0.5 million in revenues in the third quarter for management of a construction site sold to a third party in France in 2007. However, these additional revenues were dampened by the recognition in the first quarter of 2007 of $1.0 million in non-recurring revenues from the aforementioned sale of wind power site development rights. In addition, the French natural gas-fired power station recorded less than $0.1 million in sales of excess $CO_2$ emission quotas year-to-date compared with $0.3 million for the first nine months of 2007.

EBITDA

The Corporation reported $53.3 million in cumulative consolidated EBITDA for the first nine months of 2008, up $10.7 million or 25.1% from $42.6 million for the same period last year. Real growth would have been $13.2 million or nearly 31% were it not for the aforementioned two items not directly related to day-to-day operations: the $1.5 million adverse effect of exchange rate fluctuations, which weighed particularly on the wood-residue segment, and the recognition of $1.0 million in non-recurring revenues from the 2007 sale of wind power site development rights.

Excluding these items, cumulative EBITDA was improved by the following key items:

– An additional $13.2 million contribution from sales of RECs and green credits, primarily from the wood-residue segment. The $2.7 million difference between the additional revenues and EBITDA generated by the RECs stemmed mainly from the electricity transmission costs incurred by the Ashland power station;
– The $7.3 million direct favourable impact on EBITDA from higher selling prices;
– An additional $4.9 million in operating income attributable to higher output, of which $2.2 million stemmed from the commissioning of the Corporation's La Citadelle site and expanded capacity at the Avignonet-Lauragais site, and $2.7 million drive by organic growth in output at the other power stations (net of $0.2 million in additional costs incurred for the upkeep of the Stacyville power station during its inoperative period);
– An additional $1.4 million in capacity premiums;
– An additional $0.9 million contribution from the Corporation's investment in the Fund; and
– An additional $0.2 million in renewable energy tax credits triggered by the re-firing of the Stacyville power station.

Conversely, excluding the adverse effect of the fluctuation in exchanges rates and the non-recurring gain in 2007, the key factors that had an adverse effect on cumulative consolidated EBITDA were as follows:

– A $9.3 million aggregate increase in raw material costs, of which $6.3 million stemmed from the wood-residue segment and $3.0 million from higher natural gas prices at the natural gas-fired Blendecques, France thermal power station;
– An additional $1.3 million expense resulting from the Corporation's stepped-up development and prospecting initiatives;
– A $1.0 million increase in maintenance costs arising mainly from the wood-residue segment;
– A $0.2 million decline in sales of excess $CO_2$ quotas by the Corporation's natural gas-fired power station in France; and
– Various other adverse factors, including the increase in chemical costs, the increase in payroll to support operational growth and pursue development projects, as well as the increase in variable compensation triggered by the enhanced profitability of certain power stations.

(A more detailed analysis of changes in revenues and EBITDA for each segment is presented in *Analysis of Segmented Results for the Three- and Nine-Month Periods Ended September 30, 2008*.)

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

Amortization expense totalled $18.2 million year-to-date, up $2.1 million or 13.0% from $16.1 million for the first nine months of 2007. During fiscal 2007, the Corporation remeasured the estimated useful lives of certain intangible assets, which reduced the amortization expense for that period. Apart from that item, the additional amortization expense resulted from the Corporation's recent investments, including the site commissioning in La Citadelle and expansion at its Avignonet-Lauragais site, in addition to other investments in 2007 and 2008.

Financial costs totalled $10.0 million for the first nine months of 2008 compared with $11.9 million for the same period in 2007. This $1.9 million or 16.0% decline resulted mainly from the June 2007 share offering. More particularly, the decrease stemmed from lower interest paid on the line of credit subsequent to the June 2007 reduction of said line of credit using proceeds from the share issuance carried out a few days prior, coupled with the collection of interest income on the excess cash resources arising from said issuance. These two items largely offset the additional interest on the debt contracted to commission the wind power farm in La Citadelle.

In the second quarter of 2007, the Corporation recognized a $6.2 million gain in fair market value of interest rate swaps resulting from the accounting rules governing documentation at the time of refinancing arrangements. The swaps were subsequently re-designated as hedges of the new financing arrangement.

Boralex recorded a $0.1 million loss on financial instruments in 2008 compared with no gain or loss in 2007 (excluding the $6.2 million non-recurring gain). As discussed in the quarterly analysis, these amounts are mainly related to the ineffective portion of the hedging instruments.

With respect to the foreign exchange losses (gains), the Corporation recognized a $0.6 million gain year-to-date compared with a $0.6 million loss for the first nine months of 2007. These amounts resulted from fluctuations in the euro or U.S. dollar against the Canadian dollar and the effect of such fluctuations on the foreign currency cash balances and net working capital held in Canada. Generally, the Corporation is a net asset position and since the euro and U.S. dollar have appreciated since the outset of 2008, the Corporation recognized gains. In contrast, the euro and U.S. dollar depreciated against the Canadian dollar during the same period in 2007.

In light of the foregoing, Boralex recorded $25.6 million in earnings before income taxes year-to-date compared with $20.2 million for the first nine months of 2007.

INCOME TAX EXPENSE

Boralex reported $9.5 million in income tax expense year-to-date compared with $4.7 million for the first nine months of 2007 owing in particular to favourable income tax adjustments in 2007. In addition, Boralex's effective tax rate increased due to growth in taxable income earned in the U.S. where the tax rate is relatively higher.

NET EARNINGS

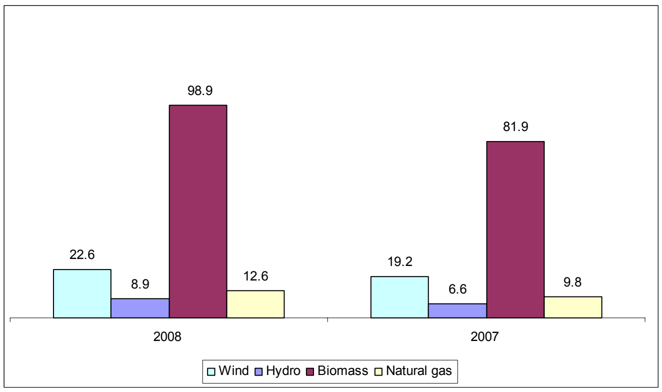
Boralex generated net earnings of $16.0 million or $0.42 per share (basic and diluted) year-to-date, up $0.4 million or 2.6% from $15.6 million or $0.47 per share ($0.46 diluted) for the first nine months of 2007. Excluding the effect of the gain recorded in 2007 subsequent to the termination of the hedge relationship pertaining to interest rate swaps, net earnings grew $4.4 million or 28% year-to-date compared with the first nine months of 2007. The weighted average number of shares outstanding was 37.7 million year-to-date compared with 33.4 million for the first nine-months of 2007, due to the June 7, 2007 issuance.

In short, excluding the favourable non-recurring items recognized in 2007 (including the $6.2 million non-recurring gain on financial instruments, the $1.0 million sale of wind power site development rights and $2.3 million in tax adjustments), as well as the $1.5 million adverse effect of foreign currency fluctuations, Boralex sharply improved its year-to-date operational profitability despite higher raw material costs. This robust performance was mainly driven by the Corporation's participation in the REC market, selling price increases, expansion in its wind power segment and improved productivity at its wood-residue power stations and favourable water flow conditions for its hydroelectric power stations.

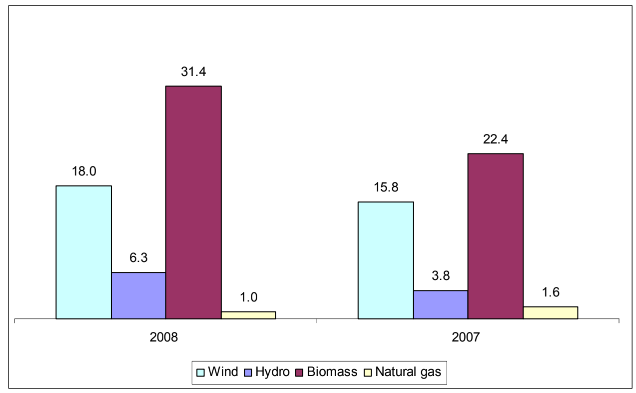
## ANALYSIS OF SEGMENTED PERFORMANCE FOR THE THREE- AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2008

BREAKDOWN BY SEGMENT
(cumulative results of the first nine months of 2008)

Revenues from energy sales (in $ million)(1)




EBITDA (in $ million)(1)




(1) Excluding the corporate and eliminations segment.

Year-to-date, despite revenue growth of 20.8% in the wood-residue segment resulting from increased REC sales, higher selling prices and expanded output, the wood-residue segment's share of consolidated revenues eased slightly to 69.2% from 69.7% for the first nine-months of 2007, due to faster revenue growth in our other segments.

In the wind power segment, the full contribution from the Corporation's La Citadelle wind farm and expanded capacity at the Avignonet-Lauragais site accounted for 17.7% of growth in revenues from electricity sales. However, the drop in productivity at existing wind farms in the third quarter due to less favourable wind conditions than in 2007 reduced the wind power segment's share of consolidated earnings year-to-date to 15.8% from 16.3% for the first nine months of the previous year.

The hydroelectric segment posted revenue growth of 34.8% year-to-date, driven by selling price increases and significantly higher water flows than in the first nine months of the previous year. The hydroelectric segment's share of consolidated revenues increased to 6.2% from 5.6% for the first nine months of 2007.

Lastly, the natural gas-fired power station stepped up its contribution to 8.8% year-to-date from 8.3% for the first nine months of the previous year, owing primarily to a 28.6% revenue boost from selling price increases.

In light of the same factors outlined above, the wood-residue segment's EBITDA increased by 40.2%, while its share of consolidated EBITDA (excluding the corporate and eliminations segment) increased to 55.4% year-to-date from 51.4% for the first nine months of 2007.

Conversely, the wind power's share of EBITDA decreased to 31.7% for the third quarter of 2008 from 36.2% for the corresponding period of 2007, due to the lower profitability in the third quarter owing to less favourable wind conditions. However, the wind power segment's year-to-date EBITDA rose 13.9%. The hydroelectric segment's share of EBITDA rose to 11.1% year-to-date from 8.7% for the first nine months of 2007, lifted by a 65.8% increase in its cumulative EBITDA. Conversely, rising natural gas prices also played a role in reducing EBITDA at the French thermal power station by 37.5% year-to-date, lowering its contribution to consolidated EBITDA to 1.8% year-to-date from 3.7% for the first nine months of 2007.

## WIND POWER STATIONS
### Analysis of significant variances in revenues from energy sales and EBITDA

| | THREE-MONTH PERIODS | | NINE-MONTH PERIO0DS | |
|---|---|---|---|---|
| (in millions of dollars) | REVENUES FROM ENERGY SALES | EBITDA | REVENUES FROM ENERGY SALES | EBITDA |
| **AS AT SEPTEMBER 30, 2007** | **6.0** | **4.9** | **19.2** | **15.8** |
| Commissioning – La Citadelle and Avignonet-Lauragais | 0.3 | 0.2 | 2.6 | 2.2 |
| Price | 0.1 | 0.1 | 0.2 | 0.2 |
| Volume | (1.2) | (1.2) | (0.5) | (0.5) |
| Green credits | 0.2 | 0.2 | 0.6 | 0.5 |
| Translation of self-sustaining operations | 0.5 | 0.4 | 0.7 | 0.6 |
| Maintenance | – | (0.1) | – | (0.3) |
| Other | – | (0.1) | (0.2) | (0.5) |
| **AS AT SEPTEMBER 30, 2008** | **5.9** | **4.4** | **22.6** | **18.0** |

The wind power segment experienced less favourable wind conditions during the third quarter of 2008 than during the same period in 2007, which resulted in a slight decline of 1.7% in its revenues from energy sales. Segment revenues totalled $5.9 million compared with $6.0 million for the corresponding period of the previous year.

The $1.2 million shortfall arising from lower production levels at existing wind farms was partially offset by additional revenues of $0.3 million generated by new equipment brought online on April 1, 2008 at the Avignonet-Lauragais site, to step up capacity by nearly 5 MW. The segment generated aggregate output of 40,665 MWh compared with 47,413 MWh for the same period in 2007, down 14.2%. The drop in production was partially offset by additional revenues of $0.1 million from the indexation of electricity selling prices, additional green credit sales of $0.2 million and the favourable impact of $0.5 million attributable to currency fluctuations between the euro and the Canadian dollar.

EBITDA for the wind power segment fell by $0.5 million, or 10.2%, to $4.4 million in the third quarter of 2008. The wind power segment's EBITDA/revenues margin was 74.6% for the third quarter of 2008 (81.7% for the same period in 2007), compared with an average EBITDA margin of 38.1% (33.9% in 2007) for all of Boralex's segments (excluding the corporate and eliminations segment). The decrease in quarterly EBITDA for the segment is attributable mainly to lower production at existing wind farms and a slight increase in certain other costs. These factors are partially offset by the commissioning of new wind turbines, the appreciation of the euro, the sale of green credits and price indexation.

For the first nine months of fiscal 2008, the wind power segment nonetheless boasts a 17.7% increase in electricity sales revenues and 13.9% growth in cumulative EBITDA. Aside from the favourable impact of currency fluctuations, this performance stems mainly from the full contribution of the new La Citadelle site commissioned in July 2007, the 2008 expansion of the Avignonet-Lauragais site, green credit sales and electricity price indexing.

In addition to ongoing development initiatives in France, Boralex is currently working on major wind power development projects in Canada.

(For further details on the Corporation's wind power projects, please refer to *Outlook* in this interim MD&A.)

## HYDROELECTRIC POWER STATIONS

### Analysis of significant variances in revenues from energy sales and EBITDA

| (in millions of dollars) | THREE-MONTH PERIODS REVENUES FROM ENERGY SALES | THREE-MONTH PERIODS EBITDA | NINE-MONTH PERIODS REVENUES FROM ENERGY SALES | NINE-MONTH PERIODS EBITDA |
|---|---|---|---|---|
| **AS AT SEPTEMBER 30, 2007** | **0.7** | **(0.5)** | **6.6** | **3.8** |
| Price | 0.1 | 0.1 | 1.0 | 1.0 |
| Volume | 1.1 | 1.1 | 1.9 | 1.9 |
| Capacity premiums | – | – | (0.1) | (0.1) |
| Translation of self-sustaining operations | 0.1 | 0.1 | (0.5) | (0.4) |
| Maintenance | – | 0.1 | – | 0.3 |
| Other | (0.1) | (0.1) | – | (0.2) |
| **AS AT SEPTEMBER 30, 2008** | **1.9** | **0.8** | **8.9** | **6.3** |

| **AVERAGE OF HISTORICAL HYDROELECTRIC GENERATION (MWH)*** | |
|---|---|
| Three-month periods ended September 30 | 15,500 |
| Nine-month periods ended September 30 | 83,422 |
| Annual average | 114,394 |

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

The hydroelectric power stations generated $1.9 million in revenues in the third quarter of 2008 compared with $0.7 million for the same period in 2007. This sharp increase of 171.4% is attributable in large part to a 147.2% surge in production volume. Markedly better water flow conditions boosted hydroelectric output to 21,522 MWh in the third quarter of 2008 compared with 8,705 MWh in the corresponding quarter of 2007. While segment output trailed historical averages by 43.8% for the three-month period ended September 30, 2007, it outpaced historical averages by 38.9% for the same period in 2008. The recent rise in the U.S. dollar against the Canadian dollar and the 19.3% increase (in $US) in average selling prices for this segment over the same period in 2007 also generated $0.2 million in additional revenues.

Higher revenues strongly improved operating profitability for the hydroelectric segment, which posted $0.8 million in EBITDA for the third quarter of 2008 compared with a $0.5 million EBITDA loss for the same period in 2007. This $1.3 million improvement is largely due to the growth in production volume, together with increased electricity selling prices, the favourable impact of currency fluctuations and a slight drop in maintenance expenses.

Since the beginning of fiscal 2008, despite currency fluctuations which had an adverse impact of $0.5 million, segment revenues have risen 34.8% due to a 29.8% increase in production and a cumulative increase of 19.1% (in $US) in average selling prices. The same factors contributed to a 65.8% increase in EBITDA for the period.

(For further details on growth projects in the hydroelectric segment, please refer to *Outlook* in this interim MD& A.)

## WOOD-RESIDUE THERMAL POWER STATIONS
**Analysis of significant variances in revenues from energy sales and EBITDA**

| | THREE-MONTH PERIODS | | NINE-MONTH PERIODS | |
|---|---|---|---|---|
| (in millions of dollars) | REVENUES FROM ENERGY SALES | EBITDA | REVENUES FROM ENERGY SALES | EBITDA |
| **AS AT SEPTEMBER 30, 2007** | **25.7** | **7.5** | **81.9** | **22.4** |
| Operational shutdown – Stacyville power station | – | – | (1.7) | (0.2) |
| Price | 1.8 | 1.8 | 4.1 | 4.1 |
| Volume | 3.9 | 1.6 | 4.7 | 1.6 |
| RECs | 5.9 | 5.1 | 15.4 | 12.8 |
| Capacity premiums | 0.5 | 0.5 | 0.9 | 0.9 |
| Translation of self-sustaining operations | (0.1) | (0.1) | (6.4) | (1.7) |
| Renewable energy tax credits | – | 0.4 | – | 0.2 |
| Cost of raw materials | – | (2.2) | – | (6.3) |
| Maintenance | – | (0.2) | – | (1.0) |
| Other | 0.2 | (0.8) | – | (1.4) |
| **AS AT SEPTEMBER 30, 2008** | **37.9** | **13.6** | **98.9** | **31.4** |

During the third quarter of 2008, the wood-residue power stations recorded revenues totalling $37.9 million, up 47.5% from $25.7 million for the same quarter in 2007. In contrast to previous quarters, the strength of the Canadian dollar against its U.S. counterpart had only a slight negative impact on segment revenues. Key factors that contributed to revenue growth are as follows:

– A $5.9 million increase in revenues from REC sales, to US$9.4 million for the third quarter of 2008 from US$3.7 million for the same period in 2007 owing to the qualification of the Livermore Falls and Ashland power stations for the Connecticut REC program over the past year. REC sales at the Stratton power station, which is a qualified Connecticut program participant, also reported significant growth, while REC sales at the Chateaugay power station, which trades in the New York market, were relatively unchanged from third-quarter 2007 levels;

– An 11.4% increase in aggregate output to 354,560 MWh, contributing an additional $3.9 million in revenues. This increase stems primarily from bringing the Stacyville (Maine) power station back online at the end of the second quarter to capitalize on high electricity selling prices on the market and support the optimization strategy for the sale of RECs by the Ashland power station, also located in Maine;

– A 26% increase (in $US) in the average electricity selling price on the open market in the Northeastern United States for the third quarter of 2008 compared with the average selling price in the same period of 2007, which generated $1.8 million in additional revenues. Nonetheless, while they remain higher than in previous years, electricity prices softened toward the end of the third quarter of 2008 and in the weeks that followed compared with high levels during the first six months of 2008, as the U.S. economic slowdown dropped oil and natural gas prices. (There is a significant correlation between the pricing of fossil fuels and electricity selling prices in Northeastern U.S. markets.); and

– $0.5 million in additional capacity premiums.

Wood residue segment EBITDA surged $6.1 million or 81.3% to $13.6 million in the third quarter of 2008, from $7.5 million in the comparable period of 2007, due to the following key favourable factors:

– Higher REC sales, which contributed an additional $5.1 million to EBITDA. The $0.8 million difference between additional revenues and EBITDA generated by the RECs stemmed primarily from expenses incurred by the Ashland power station, which qualified for the Connecticut REC program in 2008, to transport its electricity into the New England Power Pool ("NEPOOL") grid while still supplying its Maine client. In the third quarter, Boralex was nonetheless able to cut electricity transmission costs at the Ashland power station nearly in half, by bringing the Stacyville, Maine power station back online;
– The increase in average electricity selling prices, which directly contributed an additional $1.8 million in EBITDA;
– The increase in production volume which added $1.6 million to EBITDA; and
– The direct positive impact of $0.5 million in capacity premiums.

Conversely, certain items adversely affected wood-residue segment EBITDA in the third quarter:

– A $2.2 million increase in cost of raw materials caused mainly by a temporary deterioration in combustion rates due to very humid weather over the period and higher transportation costs resulting from higher oil and oil derivatives prices as compared with 2007. On the other hand, wood-residue prices have risen very little since the beginning of the current fiscal year;
– An increase of $0.2 million in maintenance costs; and
– Various other cost increases, including the cost of chemicals used to comply with REC production standards, together with operating expenses (other than the cost of raw materials) associated with bringing the Stacyville power station back online.

Since the start of fiscal 2008, cumulative revenues at wood-residue power stations rose 20.8% due primarily to $15.4 million in additional REC sales, a 2.5% increase in total power output in MWh (factoring in the period during which the Stacyville power station was inoperative) and an 8.9% increase (in $US) in average electricity selling prices and capacity premiums. On the other hand, the Canadian dollar's appreciation against the U.S. dollar throughout the nine-month period had a negative effect of $6.4 million on revenues, without which they would have posted real growth of over 28%.

Despite the adverse impact of currency fluctuations, cumulative EBITDA for the segment rose $9.0 million or 40,2% to a total of $31.4 million due to the same factors that contributed to revenue growth, in particular REC sales and higher selling prices. These favourable factors offset increases in cost of raw materials, and maintenance and certain other expenses.

As of September 30, 2008, Boralex held US$37.0 million in firm sales commitments for future REC deliveries ranging from October 1, 2008 to December 31, 2012 in the Connecticut market. While REC prices have recently declined on small volume transactions, Boralex expects this situation to be temporary and the REC market outlook to remain positive over the medium and long term. Furthermore, Boralex has already secured the selling prices of its RECs for the bulk of its anticipated 2009 output through forward contracts.

(For further details regarding RECs, please refer to *Outlook* in this interim MD&A.)

## NATURAL GAS THERMAL POWER STATION
**Analysis of significant variances in revenues from energy sales and EBITDA**

| | THREE-MONTH PERIODS | | NINE-MONTH PERIODS | |
|---|---|---|---|---|
| (in millions of dollars) | REVENUESFROM ENERGY SALES | EBITDA | REVENUES FROM ENERGY SALES | EBITDA |
| **AS AT SEPTEMBER 30, 2007** | **1.9** | **(0.2)** | **9.8** | **1.6** |
| Price | 0.9 | 0.9 | 2.0 | 2.0 |
| Volume | 0.1 | – | (0.1) | (0.1) |
| Capacity premiums | – | – | 0.6 | 0.6 |
| $CO_2$ Quotas | – | 0.1 | – | (0.2) |
| Translation of self-sustaining operations | 0.2 | – | 0.3 | – |
| Natural gas costs | – | (0.9) | – | (3.0) |
| Other | 0.1 | (0.1) | – | 0.1 |
| **AS AT SEPTEMBER 30, 2008** | **3.2** | **(0.2)** | **12.6** | **1.0** |

For the three-month period ended September 30, 2008, revenues from energy sales by the natural gas thermal power station in France totalled $3.2 million, up $1.3 million or 68.4%, over revenues for the same period in 2007. This growth stemmed mainly from the increase in the selling price of steam, indexed to the price of natural gas in France, which generated additional revenues of $0.9 million. Segment revenues also benefited from the favourable impact of $0.2 million attributable to the rise in the euro and to a slight increase in steam production.

The power station reported negative EBITDA of $0.2 million, relatively unchanged from the previous year. The benefit created by higher selling prices was offset by an equivalent increase of $0.9 million in its natural gas supply costs.

It should be noted that, as was the case in previous years, cogeneration equipment was brought back into operation in November 2008.

For the nine-month period ended September 30, 2008, cumulative revenues from energy sales by the natural gas thermal power station rose 28.6% owing to higher selling prices, capacity premium growth and the appreciation of the euro. On the other hand, the significant increase in natural gas costs reduced EBITDA by 37.5% or $0.6 million. A slight decline in production and lower excess $CO_2$ emission quota sales also contributed to this decrease.

## ANALYSIS OF SIGNIFICANT CASH FLOWS FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2008

OPERATING ACTIVITIES

Since the beginning of fiscal 2008, cash flows from operations totalled $44.1 million (including $13.9 million in the third quarter), up 24.2% compared with $35.5 million for the same nine-month period in 2007. This improvement is attributable mainly to the increase in the Corporation's EBITDA and lower interest on the revolving credit facility. Nonetheless, certain items had a negative impact on cash flows from operations, in particular the reduction in distributions received from the Fund since April 2008.

Changes in non-cash working capital items required funds of $7.4 million in 2008 (compared with $6.5 million in 2007), including $10.8 million used in the third quarter, arising in large part from higher accounts receivable due to higher revenues from energy sales.

Consequently, operating activities for the first nine months of 2008 generated net cash flows of $36.7 million, up 26.6% over the same period in the previous year.

INVESTING ACTIVITIES

Boralex made investments of $45.7 million since the beginning of fiscal 2008 (compared with $15.4 million in 2007), including $15.0 million in the third quarter. Investments for the current year are allocated as follows:

- $5.8 million for the acquisition of five wind power sites in Ontario, including $1.3 million for the project filed on October 28, 2008 under the Ontario RES III request for proposals and $4.5 million for the exercise of four options acquired in July 2007 from developer Gengrowth LP. Construction of these four 10 MW sites began in early October 2008 and commercial start-up should be at the end of the second quarter of 2009. Boralex still holds five other options acquired from the same developer in July 2007 for sites of 10 MW each in the same region. The Corporation expects to exercise these options and proceed with construction in 2009 and 2010;
- $16.4 million in additions to property, plant and equipment, related in large part to expansion of the wind power segment and renovation of certain wood-burning power station equipment. Boralex also purchased property, plant and equipment during the third quarter as part of a gasification pilot project;
- $22.3 million allocated to various development projects (compared with $2.6 million in 2007), including $7.2 million in the third quarter. These amounts are related to the Seigneurie de Beaupré development project in Québec and to two wind power projects in Ontario, together with activities to expand the hydroelectric segment in British Columbia; and
- A $1.2 million investment consisting primarily of the net amount of lease agreements for crushing equipment with wood-residue suppliers to ensure supplies for the segment.

FINANCING ACTIVITIES

Financing activities used $15.7 million in cash since the beginning of fiscal 2008 (including $7.2 million in the third quarter), while they had produced $57.2 million in 2007. The Corporation repaid nearly $17.7 million of its long-term debt in 2008, including $7.5 million in the third quarter, and received $1.7 million on the issue of Class A shares as its officers and directors exercised stock options. During the third quarter, the Corporation also repurchased shares for a total of $0.2 million under its normal course issuer bid program. In addition, it increased bank indebtedness by $0.4 million. Financing activities for the same period in 2007 reflect mainly the $105.3 million share issue and refinancing of the long-term debt.

Note that first quarter long-term debt repayments included an amount of €2.6 million ($4.0 million) which had been advanced to Boralex temporarily to cover refundable sales taxes (VAT credit) for its La Citadelle project in France.

To summarize, factoring in the favourable effect of $4.2 million attributable to translation adjustment, total cash flows for the nine-month period ended September 30, 2008 decreased cash and cash equivalents by $20.5 million from $79.2 million as at December 31, 2007 to $58.7 million as at September 30, 2008, due primarily to investments allocated to the expansion and development of Boralex.

## FINANCIAL POSITION AS AT SEPTEMBER 30, 2008

### GENERAL COMMENTS

Aside from net earnings, investments and debt repayment for the period, the balance sheet of Boralex as at September 30, 2008 compared with December 31, 2007 reflects the impact of the strengthening of the euro and the U.S. dollar against the Canadian dollar since the beginning of fiscal 2008. This also played a key role in increasing the value of property, plant and equipment and other assets, as well as on long-term debt.

### ASSETS

As at September 30, 2008, Boralex's total assets amounted to $548.3 million compared to $514.7 million as at December 31, 2007. This $33.6 million increase is primarily due to the rise in long-lived assets and, more specifically, to:

- The increase of $28.4 million in the value of property, plant and equipment which reached $287.1 million due to the strengthening of the euro and the U.S. dollar, the commissioning of new wind turbines at the Avignonet-Lauragais site, the start of construction on 40 MW of wind power in Ontario, and other additions to property, plant and equipment during the period, net of amortization; and
- The amounts invested in development projects, which, combined with currency fluctuations and the increase in fair value of derivative financial instruments, raised other assets by $17.7 million to $56.9 million as at September 30, 2008.

### WORKING CAPITAL

Boralex's working capital was $67.2 million as at September 30, 2008 compared with $81.8 million as at December 31, 2007, due mainly to the use of an amount of $20.5 million in cash and cash equivalents to finance growth in the Corporation's activities. The decrease in cash and cash equivalents was partially offset by the increase in accounts receivable due to revenue growth.

### LIABILITIES AND SHAREHOLDERS' EQUITY

As at September 30, 2008, the Corporation's total debt amounted to $165.3 million compared to $175.5 million as at December 31, 2007. This $10.2 million decrease arises from the repayment of $17.7 million in long-term debt, which was offset by the significant strengthening of the euro over the last few months given that the greater part of Boralex's debt is in Europe. Net of cash and cash equivalents, excluding financing costs and considering bank loans and advances, total net debt was $111.0 million as at September 30, 2008 compared with $101.0 million as at December 31, 2007.

Shareholders' equity rose $37.0 million or 13.0% between December 31, 2007 and September 30, 2008, from $284.8 million to $321.8 million. This variance is the result of net earnings for the first nine months of 2008, the share issue pursuant to the exercise of stock options, the value of stock options earned during the period and the decrease in accumulated other comprehensive income. Consequently, the ratio of total net debt to invested capital (total net debt plus shareholders' equity) rose from 26.2% as at December 31, 2007 to 25.7% as at September 30, 2008. Given Boralex's share price, which was $8.58 as at September 30, 2008, the net debt to enterprise value ratio was 25.5% as at that date, compared to 13.5% as at December 31, 2007 when the share price was $17.25.

As at September 30, 2008, the Corporation had an unused balance of approximately €170.8 million ($255.0 million) under the €265.0 million master credit agreement entered into in Europe in June 2007, giving Boralex considerable latitude to initiate new wind power projects in France by 2010. Taking into account letters of credit already issued, the Corporation has borrowing capacity of around $20.3 million under the revolving credit facility. On October 23, 2008, Boralex requested a reduction of the authorized amount, initially set at $85 million, to $55 million. Given that the fair value of the Fund's trust units has significantly decreased since the implementation of the revolving credit facility, Boralex was no longer in a position to draw down the full amount but was nonetheless required to pay standby fees on the credit facility's total amount.

With respect to the Ontario wind farms with total capacity of 40 MW, the Corporation is currently working with financial institutions to complete project financing for a minimum of $50 million. The entire project will require outlays of approximately $100 million, of which Boralex has already disbursed $25 million. Given cash on hand and expected financing, Boralex does not foresee any obstacle to the completion of this project.

## MANAGEMENT COMMENTARY ON THE CURRENT ECONOMIC SITUATION

The financial crisis currently shaking the world economy, the extreme volatility of the financial markets and the economic slowdown in the United States and certain other countries are of serious concern to Boralex. Tightened credit conditions, in particular, could slow Boralex's development if this economic conjuncture persists, particularly given that a portion of its credit facilities is based on the market value of Fund units. This situation could cause governments to delay some projects or requests for proposal.

Nonetheless, the current crisis could also offer some benefits and create opportunities for Boralex. Among other things, more difficult access to financing could dampen new REC supply in the United States and thereby contribute to maintaining favourable selling prices. In addition, the financial crisis will likely give rise to sales of energy assets built at great cost, which Boralex could purchase at attractive prices, capitalizing on its strong financial situation and extensive operating expertise.

In general, Boralex will continue to take a rigourous and highly disciplined approach to its investment projects and to the management of its assets. In view of tightened credit conditions, the Corporation is currently assessing shorter term financing options; these could be refinanced over longer terms when the crisis is resolved.

## OUTLOOK

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

- The participation of three wood-residue power stations in the Connecticut REC market which, for several quarters running, thanks to forward sales contracts, has enjoyed attractive prices relative to current conditions;
- Despite the recent drop in electricity selling prices on the U.S. open market due to the economic slowdown and the drop in oil and natural gas prices, management believes that demand should remain sufficiently strong to maintain electricity prices at a level above that of previous years. In addition, the Corporation enters into forward sales contracts when market prices exceed a threshold that ensures a viable level of profitability and greater predictability;
- The increased contribution of the wind power segment to the full operation of Boralex's La Citadelle site and the expanded capacity of the Avignonet-Lauragais site. The ongoing development of the wind power segment will be even more of a financial benefit since wind power assets are associated with long-term sales agreements and high profit margins;
- The re-firing of the Stacyville wood-residue power station, which was made possible in spring 2008 when market prices allowed the Corporation to set them at higher than current levels, while reducing the electricity transmission costs of the Ashland power station;
- The implementation of ongoing measures to improve the efficiency of the wood-residue power stations and the optimization of their supply and their use of raw materials;
- The downward trend which has continued to mark oil prices will have a positive impact on our wood-residue supply; and
- The reduction in financial costs due to the Corporation's solid financial position.

From a longer term perspective, the Corporation is currently working on a variety of major projects, including two Seigneurie de Beaupré, Québec wind farms totalling 272 MW, of which 136 MW will be owned by Boralex, the 90 MW farm in Ontario, of which 40 MW is currently under construction and will be in operation by the end of the second quarter of 2009, the potential grant by the Government of Ontario of 90 MW of installed capacity following the October 28, 2008 tender submission for a project in the Windsor region slated for start-up in 2012, the purchase agreement for a hydroelectric power station in British Columbia and other projects which could arise in coming months, will significantly increase its installed capacity and revenue streams, in keeping with Boralex's objective to reach an installed capacity of 1,000 MW within the next five years.

### WIND POWER

During fiscal 2008, the wind farm at La Citadelle, France will be contributing fully to the wind power segment's results, as opposed to less than five months in 2007. In addition, at the beginning of the second quarter, Boralex commissioned new equipment at the Avignonet-Lauragais wind farm to increase capacity by close to 5 MW. In 2007, Boralex reinforced its development team in France in a bid to acquire or undertake new wind farm projects, which is why the Corporation has a $255.0 million credit facility available.

Boralex is also working to establish a significant presence in the wind power market in Canada.

On May 5, 2008, the consortium consisting of the Corporation and Gaz Métro Limited Partnership (the Consortium) bid on Hydro-Québec's request for proposals for the implementation of 2,000 MW of wind power capacity in Québec, Canada. The Consortium was selected for two of three wind farm project proposals that they had developed, working closely with the Séminaire de Québec, and filed in September 2007. The selected projects, with a combined installed capacity of 272 MW, are to be commissioned in December 2013. The two wind farms, with respective capacities of 132.6 MW and 139.3 MW, will be built on the privately owned land of the Séminaire du Québec. The Seigneurie de Beaupré site offers a number of key advantages, including exceptional wind power potential due to excellent wind conditions and its proximity to Hydro-Québec TransÉnergie interconnection lines. As the site is located far from any urban or residential areas, the visual, sound and environmental impacts will be all but non-existent. In addition, the necessary access roads are already in place. It is important to note that the Consortium recently learned that no request had been filed concerning the environmental aspects of the Seigneurie de Beaupré wind farms during the consultation period carried out by the *Bureau d'audiences publiques sur l'environnement* (BAPE). As a result, it will not be necessary to hold public hearings. Lastly, the Consortium is working with internationally recognized wind power system manufacturer Enercon, which will set up a high-quality wind power components plant in Québec.

In July 2007, the Corporation entered into an alliance with Genworth, a private developer of renewable energy projects based in Ontario, Canada, in order to acquire the rights to a portfolio of sites totalling 90 MW and thus to proceed with the construction of nine wind farms in Southeastern Ontario, each with an installed capacity of 10 MW. Each farm has a 20-year power sales agreement with the Ontario Power Authority, which will purchase their entire production under the Renewable Energy Standard Offer Program. This will enable Boralex to obtain an indexed rate of slightly over $110/MWh for its wind power production. The acquisition of each project and the start of construction work are subject to the fulfilment of certain conditions. The Corporation has completed more than a year of on-site wind studies and is in the process of obtaining its environmental and construction permits. Boralex expects to commission the first four sites in the portfolio, with a total of 40 MW, at the end of the second quarter of 2009. The turbines required to complete these four projects will be delivered by Enercon, with whom Boralex has also signed agreements for the purchase of turbines required for the completion of two other projects, expected for the end of 2009. The Corporation intends to complete the other projects during 2010.

On July 9, 2008, Boralex announced that it had acquired the rights for a wind project with a potential installed capacity of 90 MW in Ontario. This project was submitted on October 28, 2008, pursuant to the Ontario Power Authority's request for proposal for 500 MW of renewable energy supply, one of the measures taken by the Government of Ontario in view of obtaining 2,000 MW of renewable energy. This strategic acquisition allows Boralex to reinforce its presence in Canada, mainly in a region favourable to the production of renewable energy, and in a sector where its expertise is recognized. This wind power site was developed by Gengrowth, with whom Boralex has collaborated over the past year on the development of other wind power sites with a total capacity of 90 MW in the same area of Southwestern Ontario, as described above.

Upon completion, these projects will quadruple installed wind power capacity under the Corporation's management and double its total installed capacity. Moreover, since these projects benefit from long-term power sales contracts, their completion will mean that a major portion of Boralex's revenues, equivalent to 65% of its total installed capacity, will be secured by fixed agreements. Lastly, these projects dovetail with Boralex's geographical and segment diversification strategy.

HYDROELECTRIC POWER

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

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

For this reason, on June 11, 2008, Boralex signed a purchase agreement for the acquisition of a power station with an installed capacity of 14.5 MW, of which 2 MW are currently in operation, in northern British Columbia, a transaction that management hopes to conclude in coming months upon obtaining regulatory approvals and consents routinely required for a transaction of this type. A portion of the output of this power station is sold to BC Hydro under a long-term energy sale contract within the Remote Community Electrification Program. Given its hydroelectric potential, the installed capacity of this power station could potentially be increased to 37 MW. At the same time, Boralex also acquired the development rights for two other hydroelectric projects in the same region, representing an additional 10 MW.

THERMAL POWER

As at September 30, 2008, the Stratton, Livermore Falls and Ashland power stations had firm commitments of US$37.0 million for REC deliveries between October 1, 2008 and December 31, 2012 in the Connecticut market. While REC prices have recently declined on small volume transactions, Boralex believes that this will be a temporary situation and that the REC market outlook remains positive over the medium and long term, particularly as Connecticut has not only extended the REC program to 2020, but announced that the minimum green energy proportion imposed on distributors will reach 20% by 2020 (compared with 1.5% when the program was launched in 2005 and 7% in 2010). Among other things, the current financial crisis could reduce REC supply over coming quarters and thus contribute to maintaining prices. Lastly, Boralex has already secured the selling prices of its RECs for all of its eligible 2008 production and the bulk of its expected 2009 production, through forward contracts.

In the fourth quarter of 2007, the Livermore Falls power station qualified for the REC program in Connecticut. As this qualification was retroactive to April 1, 2007, Boralex posted approximately US$7 million in revenues in the fourth quarter of 2007, of which close to US$4.3 million was attributable to the second and third quarters.

On June 27, 2008, Boralex brought its Stacyville wood-residue power station in Northern Maine back online, in order, on the one hand to capitalize on high electricity prices in the New England market and, on the other hand, to help the Ashland power station improve the profitability of its REC production and reduce its electricity transmission costs to the NEPOOL grid.

In addition, the Corporation plans to claim U.S. renewable energy tax credits until the program's anticipated end date of December 31, 2009, which generated revenue of $12.0 million in 2007 and $9.1 million as at September 30, 2008.

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

The price of diesel fuel, which is tied to the price of oil, has been extremely volatile for a number of months. If the recent downward trend continues, it should exert downward pressure on Boralex's wood-residue supply costs, as nearly 70% of the cost of this raw material are tied to the cost of transport. For example, a 5¢ change in the price of diesel fuel at the pump has a $300,000 impact on Boralex. Boralex will continue its optimization efforts to improve profitability in the segment.

In France, in view of the significant increase in the cost of natural gas, the cogeneration equipment at the Blendecques power station was brought back into operation in November 2007 for the winter season, and then shut down again in April, to remain idle until October 2008. During the shutdown period, the industrial client continued to be supplied with steam using an auxiliary boiler. The power station was brought back online on November 1, 2008.

## FUND DISTRIBUTIONS

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

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

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

## CAPITAL STOCK INFORMATION

As at September 30, 2008 and November 11, 2008, Boralex's capital stock consisted of 37,819,421 and 37,740,921 Class A shares issued and outstanding, up from 37,454,625 as at December 31, 2007. As at November 11, 2008, Boralex had issued 383,596 new shares as its officers and directors exercised stock options and repurchased 97,300 shares under its normal course issuer bid program since the beginning of the fiscal year. There were 1,005,816 stock options outstanding as at November 11, 2008, of which 524,560 were exercisable.

On April 29, 2008, Boralex announced plans to make a normal course issuer bid. Under this 12-month bid opening on May 1, 2008 and closing on April 30, 2009, Boralex may buy back up to 1,889,220 Class A shares, or 5% of the 37,784,405 Boralex Class A shares issued and outstanding as at April 21, 2008. All redemptions will be carried out through the Toronto Stock Exchange and the redeemed shares will be cancelled. As previously indicated, Boralex had repurchased 97,300 shares as of November 11, 2008. Copies of the notice of intention to proceed with a normal course issuer bid may be obtained free of charge from Boralex.

## FINANCIAL INSTRUMENTS

### MARKET RISK

As at September 30, 2008, the Corporation had entered into eight electricity swaps for total quantity of 881,784 MWh over periods varying from 3 to 29 months. All financial electricity swaps as at September 30, 2008 were designated as hedges of future variable cash flows related to the delivery of electricity and their favourable fair value amounted to $10.4 million (US$9.8 million). These contracts qualify for hedge accounting.

### INTEREST RATE RISK

Boralex carries long-term debts that bear interest at variable rates. As at September 30, 2008, approximately 86% of long-term debt issued bore interest at variable rates. The revolving credit facility also bears interest at a variable rate. As at September 30, 2008, the Corporation had issued letters of credit totalling $13.8 million, and had drawn down funds of $0.4 million from this credit facility. If the Corporation uses a significant portion of the credit facility and there is a marked rise in interest rates in the future, the liquid assets available for its development projects could be affected. As outlined in Note 10 to the interim consolidated financial statements, the Corporation's use of interest rate swaps reduces its exposure to interest rate fluctuations to 16.8% of total debt. As at September 30, 2008, the notional amount of those swaps was $117.1 million (€78.5 million) and their favourable fair value stood at $3.6 million (€2.4 million).

### FOREIGN EXCHANGE RISK

In the normal course of business, Boralex is not significantly exposed to currency fluctuations because its foreign operations are self-sustaining and the Corporation prefers to retain its liquid assets to develop these subsidiaries. On the other hand, the turbine supplier for the initial 40 MW phase of the Ontario wind power project is European, which means that these purchases will be paid in euros, whereas site operations will generate cash flows in Canadian dollars. To protect the expected project return, the Corporation has entered into forward foreign exchange contracts enabling it to set an exchange rate of approximately 1.4145 Canadian dollar per euro purchased. These contracts were entered into to hedge the purchase of 15 turbines for delivery in 2009. As at September 30, 2008, the favourable fair value of these contracts was $0.4 million. With respect to the other 10 MW projects expected in 2009, the Corporation signed contracts for the purchase of another lot of 15 turbines during the second quarter of 2008 with the same supplier. The Corporation decided not to immediately hedge these purchases due to the current strength of the euro against the Canadian dollar. Exchange rate developments are assessed on a regular basis with a view to entering into forward contracts once rates fall within a pre-determined range.

## RELATED PARTY TRANSACTIONS

In addition to holding 23.3% of the Fund's trust units, the Corporation, through one of its wholly owned subsidiaries, is linked to the Fund under long-term management and administration agreements. For the nine-month period ended September 30, 2008, these management and administration agreements generated $4.0 million ($4.2 million for the nine-month period ended September 30, 2007), while its share of the Fund's results was $6.2 million ($5.5 million for the first nine months of 2007). In the first nine months of 2008 Boralex received Fund distributions totalling $7.9 million ($9.3 million in the first nine months of 2007).

One of Boralex's power stations in France supplies steam to a French division of Cascades Inc., a corporation that has significant influence over Boralex since it holds 34% of its share capital. For the first nine months of 2008, revenues from this division totalled $8.6 million ($6.3 million for the same period in 2007).

The Corporation also entered into a management agreement with an entity controlled by Bernard Lemaire, a director and officer of Boralex, and his family. For the first nine months of 2008, revenue from this agreement amounted to $0.3 million ($0.3 million for the same period in 2007).

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

## COMMITMENTS AND CONTINGENCIES

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

In addition to a commitment for the purchase of 15 turbines already disclosed in the 2007 Annual Report, the Corporation also committed in May 2008 to purchase 15 additional 2 MW turbines from its supplier Enercon, in order to complete three other 10 MW wind power projects in Ontario during 2009. The total commitment under these agreements entered into in 2008 is approximately $59 million, or €38 million plus $2 million.

On June 25, 2008, the Corporation signed two electricity supply contracts with Hydro-Québec for the Seigneurie de Beaupré projects. These contracts were approved by the *Régie de l'énergie du Québec* on October 17, 2008.

## NEW ACCOUNTING STANDARDS IN 2008

### FINANCIAL INSTRUMENTS – DISCLOSURE AND PRESENTATION

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

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

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

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

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

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

CAPITAL DISCLOSURES

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

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

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

INVENTORIES

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

## FUTURE CHANGES IN ACCOUNTING STANDARDS

GOODWILL AND OTHER INTANGIBLE ASSETS

In February 2008, the CICA issued 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.

The standard is effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008 and will be applied to Boralex retrospectively as of January 1, 2009 with restatement of prior periods. The Corporation is currently assessing the impact of this new standard on the consolidated financial statements.

## RISK FACTORS AND UNCERTAINTIES

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

The general credit market downturn and its potential impacts on the world economy could dampen demand for electricity in the United States. Prices in the deregulated Northeastern U.S. market reflect the supply-demand balance; this could result in lower prices for Boralex's U.S. plants Nonetheless, forward sales agreements entered into to set the price for a portion of U.S. sales volume will help to keep prices at satisfactory levels for an average period of approximately 20 months.

On the other hand, credit and capital market conditions are exerting upward pressure on project financing costs. If the Corporation is not able to negotiate price cuts with promoters and manufacturers, it may be forced to review its growth forecasts.

## ADDITIONAL INFORMATION

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

## Notice to shareholders

These interim financial statements as at September 30, 2008 and 2007 have not been reviewed by our auditors PricewaterhouseCoopers LLP. These financial statements are the responsibility of the management of Boralex Inc. They have been reviewed and approved by its Board of Directors, as recommended by its Audit Committee.

## Consolidated Balance Sheets

| (in thousands of dollars) (unaudited) | NOTE | AS AT SEPTEMBER 30, 2008 | AS AT DECEMBER 31, 2007 |
|---|---|---|---|
| **ASSETS** | | | |
| **CURRENT ASSETS** | | | |
| Cash and cash equivalents | | **58,711** | 79,195 |
| Accounts receivable | | **42,658** | 39,200 |
| Future income taxes | | **850** | 2,394 |
| Inventories | | **8,491** | 8,002 |
| Prepaid expenses | | **2,852** | 2,171 |
| | | **113,562** | 130,962 |
| **Investment** | | **66,722** | 67,321 |
| **Property, plant and equipment** | | **287,149** | 258,712 |
| **Power sales contracts** | | **23,917** | 18,527 |
| **Other assets** | 6 | **56,928** | 39,209 |
| | | **548,278** | 514,731 |
| **LIABILITIES** | | | |
| **CURRENT LIABILITIES** | | | |
| Bank loans and advances | 7 | **448** | – |
| Accounts payable and accrued liabilities | | **18,952** | 20,869 |
| Income taxes | | **1,215** | 1,481 |
| Current portion of long-term debt | 7 | **25,761** | 26,786 |
| | | **46,376** | 49,136 |
| **Long-term debt** | 7 | **139,554** | 148,747 |
| **Future income taxes** | | **34,186** | 23,430 |
| **Fair value of derivative financial instruments** | | **256** | 1,400 |
| **Other liabilities** | 9 | **5,406** | 6,642 |
| **Non-controlling interests** | | **729** | 607 |
| | | **226,507** | 229,962 |
| **SHAREHOLDERS' EQUITY** | | | |
| Capital stock | | **223,160** | 221,557 |
| Contributed surplus | | **2,746** | 1,974 |
| Retained earnings | | **131,600** | 115,669 |
| Accumulated other comprehensive loss | 8 | **(35,735)** | (54,431) |
| | | **321,771** | 284,769 |
| | | **548,278** | 514,731 |

See accompanying notes.

# Consolidated Statements of Earnings

| (in thousands of dollars, except per-share amounts and number of shares) (unaudited) | NOTE | FOR THE THREE-MONTH PERIODS ENDED SEPTEMBER 30, 2008 | 2007 | FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2008 | 2007 |
|---|---|---|---|---|---|
| Revenues from energy sales | | **48,811** | 34,276 | **142,931** | 117,431 |
| Renewable energy tax credits | 9 | **3,532** | 3,134 | **9,063** | 9,533 |
| Operating costs | | **34,079** | 25,463 | **96,644** | 82,792 |
| | | **18,264** | 11,947 | **55,350** | 44,172 |
| Share of earnings of the Fund | | **1,180** | 878 | **6,218** | 5,537 |
| Management revenues from the Fund | | **1,349** | 1,427 | **4,042** | 4,208 |
| Other revenues | | **514** | 110 | **1,159** | 1,668 |
| | | **21,307** | 14,362 | **66,769** | 55,585 |
| **OTHER EXPENSES** | | | | | |
| Management and operation of the Fund | | **1,073** | 1,094 | **3,050** | 3,407 |
| Administrative expenses | | **3,469** | 3,344 | **10,414** | 9,569 |
| | | **4,542** | 4,438 | **13,464** | 12,976 |
| **OPERATING INCOME BEFORE AMORTIZATION** | | **16,765** | 9,924 | **53,305** | 42,609 |
| Amortization | | **6,377** | 5,895 | **18,221** | 16,143 |
| Foreign exchange loss (gain) | | **(185)** | 296 | **(603)** | 604 |
| Financial instruments | 10 | **(1,010)** | (369) | **94** | (6,243) |
| Financing costs | 9 | **3,515** | 3,389 | **9,971** | 11,903 |
| | | **8,697** | 9,211 | **27,683** | 22,407 |
| **EARNINGS BEFORE INCOME TAXES** | | **8,068** | 713 | **25,622** | 20,202 |
| Income tax expense (recovery) | | **2,416** | (146) | **9,496** | 4,674 |
| | | **5,652** | 859 | **16,126** | 15,528 |
| Non-controlling interests | | **5** | 158 | **(112)** | 104 |
| **NET EARNINGS** | | **5,657** | 1,017 | **16,014** | 15,632 |
| Net earnings per Class A share – basic (in dollars) | | **0.15** | 0.03 | **0.42** | 0.47 |
| Net earnings per Class A share – diluted (in dollars) | | **0.15** | 0.03 | **0.42** | 0.46 |
| Weighted average number of Class A shares outstanding (basic) | | **38,247,112** | 37,454,625 | **37,739,288** | 33,374,658 |

See accompanying notes.

# Consolidated Statements of Retained Earnings

| (in thousands of dollars) (unaudited) | FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2008 | 2007 |
|---|---|---|
| **Balance – beginning of period** | **115,669** | 97,649 |
| Issuance costs, net of related taxes | **–** | (3,407) |
| Share redemption premium | **(83)** | – |
| Net earnings for the period | **16,014** | 15,632 |
| **Balance – end of period** | **131,600** | 109,874 |

See accompanying notes.

# Consolidated Statements of Comprehensive Income

| (in thousands of dollars) (unaudited) | FOR THE THREE-MONTH PERIODS ENDED SEPTEMBER 30, 2008 | 2007 | FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2008 | 2007 |
|---|---|---|---|---|
| **Net earnings for the period** | **5,657** | 1,017 | **16,014** | 15,632 |
| **Other comprehensive income (loss):** | | | | |
| **TRANSLATION ADJUSTMENTS** | | | | |
| Unrealized translation gains (losses) on translation of financial statements of self-sustaining foreign operations | **3,066** | (9,087) | **10,475** | (23,912) |
| Share of cumulative translation adjustments of the Fund | **699** | (744) | **868** | (2,831) |
| Taxes | **(224)** | 321 | **(228)** | 1,241 |
| **CASH FLOW HEDGES** | | | | |
| Change in fair value of financial instruments | **27,421** | (847) | **11,084** | 1,944 |
| Hedging instruments realized and recognized in net earnings | **(49)** | (580) | **1,170** | (1,704) |
| Hedging instruments realized and recognized in balance sheet | **(1,106)** | – | **(1,106)** | – |
| Termination of hedging relationships | **–** | – | **–** | (5,874) |
| Taxes | **(8,405)** | 457 | **(3,567)** | 1,804 |
| | **21,402** | (10,480) | **18,696** | (29,332) |
| **Comprehensive income (loss) for the period** | **27,059** | (9,463) | **34,710** | (13,700) |

See accompanying notes.

# Consolidated Statements of Cash Flows

| (in thousands of dollars) (unaudited) | NOTE | FOR THE THREE-MONTH PERIODS ENDED SEPTEMBER 30, 2008 | 2007 | FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2008 | 2007 |
|---|---|---|---|---|---|
| **OPERATING ACTIVITIES** | | | | | |
| Net earnings | | **5,657** | 1,017 | **16,014** | 15,632 |
| Distributions received from the Fund | | **2,410** | 3,097 | **7,917** | 9,293 |
| Adjustments for non-cash items | | | | | |
| Share of earnings of the Fund | | **(1,180)** | (878) | **(6,218)** | (5,537) |
| Amortization | | **6,377** | 5,895 | **18,221** | 16,143 |
| Amortization of financing costs | | **712** | 639 | **2,144** | 2,058 |
| Renewable energy tax credits | | **(1,507)** | (1,078) | **(2,996)** | (3,361) |
| Future income taxes | | **2,108** | 1 | **8,075** | 5,958 |
| Financial instruments | 10 | **(1,010)** | (369) | **94** | (6,243) |
| Other | | **320** | 428 | **885** | 1,589 |
| | | **13,887** | 8,752 | **44,136** | 35,532 |
| Change in non-cash working capital items | | **(10,820)** | (2,707) | **(7,396)** | (6,496) |
| | | **3,067** | 6,045 | **36,740** | 29,036 |
| **INVESTING ACTIVITIES** | | | | | |
| Business acquisitions | 14 | **(5,156)** | – | **(5,781)** | – |
| Additions to property, plant and equipment | | **(3,048)** | (4,081) | **(16,412)** | (16,273) |
| Change in debt servicing reserves | | **26** | 1 | **(28)** | 6,216 |
| Development projects | | **(7,236)** | (2,346) | **(22,319)** | (2,615) |
| Other | | **372** | 267 | **(1,197)** | (2,681) |
| | | **(15,042)** | (6,159) | **(45,737)** | (15,353) |
| **FINANCING ACTIVITIES** | | | | | |
| Net change in bank loans and advances | | **448** | – | **448** | – |
| Increase in long-term debt | | **–** | – | **–** | 151,437 |
| Payments on long-term debt | | **(7,462)** | (1,427) | **(17,657)** | (196,986) |
| Financing costs | | **–** | (145) | **–** | (2,011) |
| Net proceeds from share issuance | | **11** | – | **1,716** | 105,307 |
| Share redemption | | **(194)** | – | **(194)** | – |
| Other | | **3** | (97) | **5** | (591) |
| | | **(7,194)** | (1,669) | **(15,682)** | 57,156 |
| **TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS** | | **(23)** | (826) | **4,195** | (2,854) |
| **NET CHANGE IN CASH AND CASH EQUIVALENTS** | | **(19,192)** | (2,609) | **(20,484)** | 67,985 |
| **CASH AND CASH EQUIVALENTS – BEGINNING OF PERIOD** | | **77,903** | 84,493 | **79,195** | 13,899 |
| **CASH AND CASH EQUIVALENTS – END OF PERIOD** | | **58,711** | 81,884 | **58,711** | 81,884 |

| | | | | |
|---|---|---|---|---|
| **SUPPLEMENTAL INFORMATION** | | | | |
| **CASH AND CASH EQUIVALENTS PAID FOR:** | | | | |
| Interest | **2,413** | 3,113 | **7,273** | 9,116 |
| Income taxes | **373** | 398 | **1,321** | 1,006 |

See accompanying notes.

# Note 1.
# Accounting policies

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

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

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

**FINANCIAL INSTRUMENTS – DISCLOSURE AND PRESENTATION**

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

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

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

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

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

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

**CAPITAL DISCLOSURES**

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

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

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

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

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

# Note 3.
# Use of estimates and measurement uncertainty

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

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

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

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

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

# Note 3.
# Use of estimates and measurement uncertainty (continued)

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

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

# Note 4.
# Share information

As at September 30, 2008, the capital stock issued and outstanding consisted of 37,819,421 Class A shares (37,454,625 as at December 31, 2007). During the nine-month period ended September 30, 2008, 383,596 stock options were exercised, 18,800 shares were repurchased and 133,266 options were granted.

As at September 30, 2008, there were 1,005,816 stock options, of which 524,560 were exercisable.

# Note 5.
# Stock option plan

The Corporation applies the fair value method of accounting for options granted to executives and managers. The Corporation recorded $772,000 in administrative expenses in respect of the options granted for the nine-month period ended September 30, 2008 ($603,000 for the nine-month period ended September 30, 2007).

The following assumptions were used to determine the fair value, at the date of grant, of the options issued to executives and managers in 2008 and 2007:

| | **2008** | 2007 |
|---|---|---|
| Risk-free interest rate | **4.18%** | 4.16% |
| Expected dividend yield | **0%** | 0% |
| Expected life of options | **7 years** | 7 years |
| Expected volatility | **56%** | 37% |
| Weighted average fair value per option | **$9.44** | $5.99 |

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

# Note 6.
# Other assets

| | NOTE | 2008 | 2007 |
|---|---|---|---|
| Renewable energy tax credits | (a) | **18,802** | 17,573 |
| Restricted funds and other funds held in trust | (b) | **1,595** | 1,519 |
| Net investment in direct financing leases | (c) | **8,241** | 6,669 |
| Fair value of derivative financial instruments | 10 | **14,593** | 6,863 |
| Deferred costs | | **504** | 519 |
| $CO_2$ quotas | | **1,705** | – |
| Investments | | **156** | 78 |
| Development projects | (d) | **11,332** | 5,988 |
| | | **56,928** | 39,209 |

Amortization of deferred costs amounted to $70,000 for the nine-month period ended September 30, 2008 ($72,000 for the nine-month period ended September 30, 2007). The other items are not subject to amortization.

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

(b) As at September 30, 2008, reserves for long-term debt servicing guaranteed financing in France and Canada. In France, reserves amounted to $1,405,000 or €941,000 ($1,382,000 or €958,000 as at December 31, 2007) whereas in Canada they totalled $190,000 ($137,000 as at December 31, 2007). These reserves represent from three to six months of debt servicing.

(c) Direct financing leases are entered into with U.S. and Canadian suppliers. As at September 30, 2008, foreign currency receivables were as follows: US$5,410,000 ($5,735,000) (US$5,148,000 and $5,086,000 as at December 31, 2007) and $2,506,000 ($1,583,000 as at December 31, 2007), respectively.

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

# Note 7.
# Long-term debt

| | NOTE | MATURITY | RATE[1] | 2008 | 2007 |
|---|---|---|---|---|---|
| Bridge financing credit facility | (a) | 2008 | 4.90% | **10,148** | 9,811 |
| Master agreement – wind power projects | (b) | 2017-2022 | 4.99% | **127,661** | 135,839 |
| Term loan payable – Nibas wind farm | (c) | 2016 | 5.00% | **11,218** | 11,657 |
| Term loan payable – Stratton power station | (d) | 2010 | 5.32% | **3,069** | 3,455 |
| Capital leases | (e) | 2012-2015 | 5.74% | **13,597** | 14,943 |
| Other debt | | | | **3,608** | 4,450 |
| | | | | **169,301** | 180,155 |
| Less: | | | | | |
| Current portion of long-term debt | | | | **(25,761)** | (26,786) |
| Financing costs | | | | **(3,986)** | (4,622) |
| | | | | **139,554** | 148,747 |

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

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

(a) The €6,800,000 bridge financing credit facility (€6,800,000 as at December 31, 2007) bears interest at a variable rate based on EURIBOR rates plus a margin. To secure this credit facility, Boralex issued a $10,148,000 letter of credit as at September 30, 2008 ($9,811,000 as at December 31, 2007) drawn down from its revolving credit facility. The bridge credit facility currently matures on December 31, 2008, but the Corporation expects it to be renewed.

(b) 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 September 30, 2008, €94,150,000 (€94,150,000 as at December 31, 2007) had been drawn down, and the Corporation had an unused balance of approximately €170,850,000 ($255,000,000).

To cover potential temporary working capital requirements for debt servicing, the lenders also granted two lines of credit for $7,509,000 (€5,032,000) and $839,000 (€562,000), respectively. As at September 30, 2008, these lines of credit were undrawn.

Financing issued under the master agreement is secured by the projects' assets. However, the junior credit facility is subordinated to the senior facility. The variable interest rate is based on the EURIBOR rate, plus a margin, but the Corporation used interest rate swaps to reduce its exposure to interest rate fluctuations as discussed below. Repayments are made on a semi-annual basis.

(c) This loan payable bears interest at a fixed rate and repayments are semi-annual. As at September 30, 2008, the balance was €7,517,000 (€8,079,000 as at December 31, 2007). All Nibas wind farm assets were pledged as collateral for this loan.

(d) This loan payable bears interest at a variable rate based on U.S. prime rates or money market rates, plus a margin, and has quarterly repayments. As at September 30, 2008, the balance was US$2,896,000 (US$3,496,000 as at December 31, 2007). All Stratton power station assets were pledged as collateral for this loan.

(e) The capital leases were issued against assets located in France. The balance of the leases was €9,111,000 as at September 30, 2008 (€10,357,000 as at December 31, 2007). They bear interest at fixed and variable rates and provide for repayment in quarterly instalments. The net carrying amount of the related assets was €13,325,000 ($19,883,000) as at September 30, 2008 (€14,403,000 or $20,780,000 as at December 31, 2007).

In addition, Boralex has a revolving credit facility with an authorized maximum amount of $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: drawdowns must not exceed 60% of the market value of the investment. If the market value of the investment were to drop below this limit, the creditors would be entitled to demand repayment of a portion of the amounts drawn down to re-establish the coverage ratio. On October 23, 2008, Boralex requested a reduction in the authorized amount, initially set at $85,000,000. Given that the fair value of the Fund's trust units has significantly decreased since the implementation of the revolving credit facility, Boralex was no longer in a position to draw down the full amount but was nonetheless required to pay standby fees on the credit facility's total amount. As at September 30, 2008, $448,000 had been drawn down and the Corporation had issued letters of credit totalling $13,770,000 (including the letter of credit discussed in (a)). Lastly, the market value of one unit was $4.19 and the repayment threshold was $1.72 (including all outstanding letters of credit issued against the operating credit facility). Toward the end of 2007, the revolving period was extended to January 27, 2011.

Amortization of deferred costs amounted to $770,000 for the nine-month period ended September 30, 2008 ($563,000 for the nine-month period ended September 30, 2007).

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

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

FINANCIAL RATIOS AND GUARANTEES

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

The senior and junior credit facilities and certain other debts or interest rate swaps include requirements to establish and maintain reserve accounts to cover short-term debt servicing, equipment maintenance, and income taxes at various times over the term of the loan. As at September 30, 2008, $1,595,000 ($1,519,000 as at December 31, 2007) was kept in reserve accounts. These amounts have been included in Other assets in the Corporation's consolidated balance sheet.

In addition to assets under capital leases and the investment in the Fund pledged as collateral for the revolving credit facility, the property, plant and equipment of the Stratton power station, one Canadian power station and French power stations, with a net carrying amount totalling $167,716,000 as at September 30, 2008 ($167,790,000 as at December 31, 2007), 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:

| | |
|---|---|
| 2009 | 25,761 |
| 2010 | 17,766 |
| 2011 | 13,896 |
| 2012 | 12,002 |
| 2013 | 11,927 |

# Note 8.
# Accumulated other comprehensive income (loss)

| | FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, | |
|---|---|---|
| | **2008** | 2007 |
| Balance – beginning of period | **(54,431)** | (24,482) |
| Other comprehensive income (loss) for the period | **18,696** | (29,332) |
| Balance – end of period | **(35,735)** | (53,814) |

# Note 9.
# Renewable energy tax credit monetization program

As at September 30, 2008, other liabilities represented the balance of the Corporation's obligation related to the initial payment received upon implementing the monetization program, amounting to $7,788,000 (US$7,347,000) ($10,195,000 and US$10,318,000 as at December 31, 2007) less monetization program expenses of $2,382,000 (US$2,247,000) ($3,553,000 and US$3,596,000 as at December 31, 2007) for a net amount of $5,406,000 (US$5,100,000) ($6,642,000 and US$6,722,000 as at December 31, 2007).

Amortization of monetization program expenses was $1,374,000 for the period ended September 30, 2008 ($1,348,000 for the nine-month period ended September 30, 2007).

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

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

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

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

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

Since this is in essence a financing transaction, management deemed it appropriate to modify the presentation of the transaction in the fourth quarter of 2007. Amounts previously presented under *Deferred revenues* have been included in *Other liabilities*. In the statement of earnings, *Renewable energy tax credits* were presented net of the discount and financing costs, but it was deemed more appropriate to present the gross amount of renewable energy tax credits and include the discount and financing costs in *Financing costs*. Accordingly, these changes were made to the financial statements for the three- and nine-month periods ended September 30, 2007. These reclassifications had no impact on the Corporation's cash flows.

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

# Note 10.
# Financial instruments

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

CLASSIFICATION OF FINANCIAL INSTRUMENTS

The classification of financial instruments as at September 30, 2008, complete with the respective carrying amounts and fair values, is as follows:

| SEPTEMBER 30, 2008 | ASSETS HELD FOR TRADING | LOANS AND RECEIVABLES | OTHER LIABILITIES | CARRYING AMOUNT | FAIR VALUE |
|---|---|---|---|---|---|
| Cash and cash equivalents | 58,711 | | | 58,711 | 58,711 |
| Accounts receivable | | 42,658 | | 42,658 | 42,658 |
| Restricted funds and other funds held in trust | | 1,595 | | 1,595 | 1,595 |
| Investments | | 156 | | 156 | 156 |
| Bank loans and advances | | | 448 | 448 | 448 |
| Accounts payable and accrued liabilities | | | 18,952 | 18,952 | 18,952 |
| Long-term debt | | | 169,301 | 169,301 | 168,145 |
| Other liabilities | | | 5,406 | 5,406 | 5,406 |

The carrying amount and fair value of the derivative financial instruments designated as cash flow hedges as at September 30, 2008 are detailed as follows:

| SEPTEMBER 30, 2008 | ASSETS | LIABILITIES |
|---|---|---|
| Financial swaps – interest rates | 3,831 | 256 |
| Foreign exchange options | 403 | – |
| Financial swaps – electricity prices | 10,359 | – |
| Total | 14,593 | 256 |

DEFINITIONS OF TYPES OF FINANCIAL INSTRUMENTS

Held for trading

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

# Note 10.
# Financial instruments (continued)

Held to maturity
HTM financial assets are non-derivative financial assets with fixed or determinable payments and a fixed maturity, other than loans and receivables, that an entity has the positive intention and ability to hold to maturity. These financial assets are measured at amortized cost. As at September 30, 2008, the Corporation did not hold any HTM financial assets.

Available for sale
AFS financial assets are those non-derivative financial assets that are designated as AFS or that are not classified as loans and receivables, HTM investments or HFT financial assets. AFS financial assets are carried at fair value with unrealized gains and losses included in other comprehensive income until realized, at which time the cumulative gain or loss is transferred to the consolidated statement of earnings and presented within loss or gain on financial instruments. When losses on AFS securities are determined to be other than temporary, the cost of the financial asset is written down to fair value with the change recorded in net gains 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 September 30, 2008, the Corporation did not hold any AFS financial assets.

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

Other liabilities
Bank loans and advances, accounts payable and accrued liabilities, other liabilities and long-term debt, as shown in the above table, are recorded at amortized cost using the effective interest rate method.

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

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

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

# Note 10.
# Financial instruments (continued)

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 September 30, 2008, the Corporation did not hold any embedded derivatives.

Transaction costs
Transaction costs related to HFT financial assets and liabilities are expensed as incurred. Transaction costs related to HTM financial assets, loans and receivables and other 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 immediately after capitalization.

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

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

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

# Note 10.
# Financial instruments (continued)

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

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

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

MANAGEMENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS
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.

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

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

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

# Note 10.
# Financial instruments (continued)

With regard to the Ontario wind power project's initial 40 MW phase, the turbine supplier is European, which means that purchases will be settled in euros, whereas the operation of these power stations will generate cash flows in Canadian dollars. To protect the expected project return, the Corporation has entered into forward contracts enabling it to set an exchange rate of C$1.42 per euro on 75% of its purchases. These contracts were entered into to hedge the purchase of 15 turbines.

During the second quarter of 2008, the Corporation undertook to purchase 15 additional turbines in 2009 from the same supplier to carry out another three 10 MW wind power projects in Ontario. The Corporation decided not to immediately hedge the required euro purchases for payment of these turbines due to the strength of the euro against the Canadian dollar. The Corporation will enter into forward contracts once exchange rates fall within a pre-determined range.

The following table summarizes the Corporation's commitment to purchase foreign currencies as at September 30, 2008:

| SEPTEMBER 30, 2008 | FOREIGN EXCHANGE RATE | NOTIONAL AMOUNT | FAIR VALUE |
|---|---|---|---|
| Purchase contracts (€ for C$) | | | |
| October 10, 2008 | 1.4195 | €3,736,500 | $268,436 |
| October 10, 2008 | 1.4195 | €1,868,250 | $134,218 |

On September 30, 2008, 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 $776,000 increase or decrease, respectively, in the Corporation's net earnings for the nine-month period ended September 30, 2008, whereas other comprehensive income would have increased or decreased by $6,866,000, respectively.

Price risk

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

For pricing reasons, it can be advantageous under certain conditions to use financial swaps to exchange the variable market price for a fixed price agreed upon with a counterparty. As at September 30, 2008, the Corporation had entered into eight electricity financial swaps for total deliveries of 881,784 MWh over periods of 3 to 29 months. All electricity financial swaps as at September 30, 2008 were designated as variable cash flow hedges associated with future electricity deliveries and their favourable fair value amounted to $10,359,000. These contracts qualify for hedge accounting.

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. However, the contracts for the Ashland and Fort Fairfield power stations terminate in February 2009.

# Note 10.
# Financial instruments (continued)

On September 30, 2008, an additional 5% rise or fall in electricity prices, assuming that all other variables had remained the same, would have resulted in a $1,021,000 increase or decrease, respectively, in the Corporation's net earnings for the nine-month period ended September 30, 2008, whereas other comprehensive income would have decreased or increased by $2,199,000, respectively.

Interest rate risk
The revolving credit facility, bridge financing credit facility, master agreement, term loan payable of the Stratton power station, together with a portion of certain capital leases, bear interest at variable rates. With a view to mitigating its interest rate exposure, the Corporation has entered into interest rate swaps to obtain a fixed interest expense on portions ranging from 56% to 89% of the corresponding variable rate debt. These agreements involve the periodic exchange of interest payments without any exchange of the principal on which such payments are calculated. Under these agreements, the Corporation receives a variable amount based on the EURIBOR rate and pays fixed amounts based on rates of 3.30% to 5.16%. Since the drawdowns are gradual and the loans are periodically repaid when sites are commissioned, the swaps have been structured to mirror the terms of the underlying credit arrangements and to always cover a significant portion of these arrangements. By using these instruments, the Corporation has reduced the proportion of its variable rate debt from 86% to 17%. As at September 30, 2008, the notional amount of those swaps was $117,074,000 (€78,452,000) and their favourable fair value amounted to $3,576,000 (€2,396,000). These swaps mature from 2010 to 2021.

On September 30, 2008, a 5% rise or fall in interest rates, assuming that all other variables had remained the same, would have resulted in a $49,000 decrease or increase, respectively, in the Corporation's net earnings for the nine-month period ended September 30, 2008, whereas other comprehensive income would have increased or decreased by $1,853,000, respectively.

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

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

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

# Note 10.
# Financial instruments (continued)

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

During the nine-month period ended September 30, 2008, the Corporation had four clients accounting for over 10% of its revenues. All these clients are well-established large corporations. Management considers that such a customer concentration is characteristic within the power generation industry.

As at September 30, 2008, approximately 5% of accounts receivable were over 90 days past due after being invoiced, while approximately 92% of accounts 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.

The contractual maturities of the Corporation's financial liabilities as at September 30, 2008 are summarized in the following table:

| SEPTEMBER 30, 2008 | CARRYING AMOUNT | CONTRACTUAL CASH FLOWS | UNDER 1 YEAR | FROM 1 TO 2 YEARS | FROM 2 TO 5 YEARS | OVER 5 YEARS |
|---|---|---|---|---|---|---|
| **Non-derivative financial liabilities:** | | | | | | |
| Bank loans and advances | 448 | 448 | 448 | | | |
| Accounts payable and accrued liabilities | 18,952 | 18,952 | 18,952 | | | |
| Bridge financing credit facility | 10,148 | 10,148 | 10,148 | | | |
| Master agreement – wind power projects | 127,661 | 127,661 | 9,849 | 10,540 | 27,287 | 79,985 |
| Term loan payable – Nibas wind farm | 11,218 | 11,218 | 1,172 | 1,232 | 4,014 | 4,800 |
| Term loan payable – Stratton power station | 3,069 | 3,069 | 848 | 2,221 | – | – |
| Capital leases | 13,597 | 13,597 | 2,439 | 2,561 | 6,321 | 2,276 |
| Other debt | 3,608 | 3,608 | 1,305 | 1,212 | 203 | 888 |
| Other liabilities | 5,406 | 5,406 | 5,406 | | | |
| **Derivative financial instruments:** | | | | | | |
| Financial swaps – interest rates | 256 | 256 | | | | 256 |
| **Total** | 194,363 | 194,363 | 50,567 | 17,766 | 37,825 | 88,205 |

As at September 30, 2008, $448,000 had been drawn down from the revolving credit facility with an authorized amount of $55,000,000 and letters of credit totalling $13,770,000 had been issued.

# Note 11.
# Capital management

The Corporation's objectives when managing capital are as follows:
- Safeguard the Corporation's ability to pursue its operations and development;
- Maintain its financial flexibility to enable the Corporation to seize opportunities when they arise;
- 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 parent company to maximize its financial leverage in light of the significant capital requirements for project completion in the energy sector.

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 will 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 September 30, 2008 and December 31, 2007, the Corporation was in compliance with its commitments and had significant leeway with respect to the required minimum ratios. The Corporation is not subject to any regulatory capital requirements.

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

As at September 30, 2008, the Corporation's performance with respect to its capital management objectives was as follows:
- Net debt/enterprise value ratio of 25.5% (13.5% as at December 31, 2007); and
- A balance of cash and cash equivalents of $58,711,000 ($79,195,000 as at December 31, 2007).

Although it currently has a net debt/enterprise value ratio of 25.5%, the Corporation's long-term goal consists in keeping this ratio below approximately 65%. Once the Québec and Ontario wind power projects are deployed, the Corporation's ratio is expected to be close to that mark. Furthermore, the Corporation would tolerate a ratio of up to 80% were a significant project deemed worth it, but would strive to reduce said ratio within a 24-month period.

# Note 12.
# Seasonal factors

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

For the 14 Boralex power stations that have long-term fixed-price power sales contracts, seasonal cycles mainly affect the volume of power generated. The eight power stations that do not have long-term contracts and that sell their power on the open market in the Northeastern U.S. are more vulnerable to seasonal fluctuations which, in addition to influencing generation volumes, also have an impact on prices obtained. Generally, power consumption increases in the winter and summer, which represent Boralex's first and third quarters. This means that, for those two periods, the power stations that sell on the open market usually have higher average prices.

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

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

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

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

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

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

# Note 12.
# Seasonal factors (continued)

In short, although Boralex's performance is affected by seasonal cycles, the Corporation attenuates their impact by diversifying its power generation sources. The Corporation is also developing complementary revenue streams in order to increase and secure revenues. It participates, for example, in the Renewable Energy Certificates ("RECs") market and the Forward Capacity Market in the Northeastern U.S., as well as in the carbon dioxide ("$CO_2$") quota market in France.

# Note 13.
# Segmented information

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

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

The following table reconciles EBITDA to net earnings:

| | FOR THE THREE-MONTH PERIODS ENDED SEPTEMBER 30, | | FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| Net earnings | **5,657** | 1,017 | **16,014** | 15,632 |
| Non-controlling interests | **(5)** | (158) | **112** | (104) |
| Income tax expense (recovery) | **2,416** | (146) | **9,496** | 4,674 |
| Financing costs | **3,515** | 3,389 | **9,971** | 11,903 |
| Financial instruments | **(1,010)** | (369) | **94** | (6,243) |
| Foreign exchange (gain) loss | **(185)** | 296 | **(603)** | 604 |
| Amortization | **6,377** | 5,895 | **18,221** | 16,143 |
| **EBITDA** | **16,765** | 9,924 | **53,305** | 42,609 |

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

# Note 13.
# Segmented information (continued)

INFORMATION BY OPERATING SEGMENT

| | FOR THE THREE-MONTH PERIODS ENDED SEPTEMBER 30, | | FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| **PRODUCTION (in MWh)** | | | | |
| Wind power stations | **40,665** | 47,413 | **163,818** | 148,118 |
| Hydroelectric power stations | **21,522** | 8,705 | **97,224** | 74,875 |
| Wood-residue thermal power stations | **354,560** | 318,323 | **937,694** | 915,206 |
| Natural gas thermal power station | **–** | – | **22,569** | 22,202 |
| | **416,747** | 374,441 | **1,221,305** | 1,160,401 |
| **REVENUES FROM ENERGY SALES** | | | | |
| Wind power stations | **5,859** | 5,977 | **22,601** | 19,176 |
| Hydroelectric power stations | **1,920** | 677 | **8,909** | 6,615 |
| Wood-residue thermal power stations | **37,866** | 25,689 | **98,856** | 81,888 |
| Natural gas thermal power station | **3,165** | 1,933 | **12,564** | 9,752 |
| Corporate and eliminations | **1** | – | **1** | – |
| | **48,811** | 34,276 | **142,931** | 117,431 |
| **EBITDA** | | | | |
| Wind power stations | **4,361** | 4,883 | **17,982** | 15,805 |
| Hydroelectric power stations | **847** | (489) | **6,272** | 3,784 |
| Wood-residue thermal power stations | **13,558** | 7,452 | **31,424** | 22,378 |
| Natural gas thermal power station | **(157)** | (225) | **960** | 1,555 |
| Corporate and eliminations | **(1,844)** | (1,697) | **(3,333)** | (913) |
| | **16,765** | 9,924 | **53,305** | 42,609 |
| **ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT** | | | | |
| Wind power stations | **155** | 2,330 | **5,260** | 12,858 |
| Hydroelectric power stations | **48** | 688 | **56** | 817 |
| Wood-residue thermal power stations | **228** | 1,014 | **7,236** | 2,340 |
| Natural gas thermal power station | **53** | – | **69** | 2 |
| Corporate and eliminations | **2,564** | 49 | **3,791** | 256 |
| | **3,048** | 4,081 | **16,412** | 16,273 |

| | AS AT SEPTEMBER 30, | AS AT DECEMBER 31, |
|---|---|---|
| | **2008** | 2007 |
| **ASSETS** | | |
| Wind power stations | **209,758** | 196,814 |
| Hydroelectric power stations | **18,893** | 12,427 |
| Wood-residue thermal power stations | **154,951** | 130,728 |
| Natural gas thermal power station | **14,469** | 16,132 |
| Corporate and eliminations | **150,207** | 158,630 |
| | **548,278** | 514,731 |

# Note 14.
# Business acquisitions

On August 8, 2008, Boralex acquired Merlin Wind Farm Inc. for the purpose of building a 90 MW wind power project in Southern Ontario. This project was filed as part of the Ontario RES III Request for Proposals on October 28, 2008. This company owned all the required options to lease the required farmland for construction of the wind power 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 bought from Gengrowth LP 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 power sites. Each site will have a 10 MW installed capacity, and construction got underway in October 2008. Consideration consisted of $4,531,000 in cash and was recognized in *Power sales contracts*.

# Note 15.
# Comparative figures

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

Boralex