

# BORALEX



## POWER TO DO MORE

2018  
Annual Report

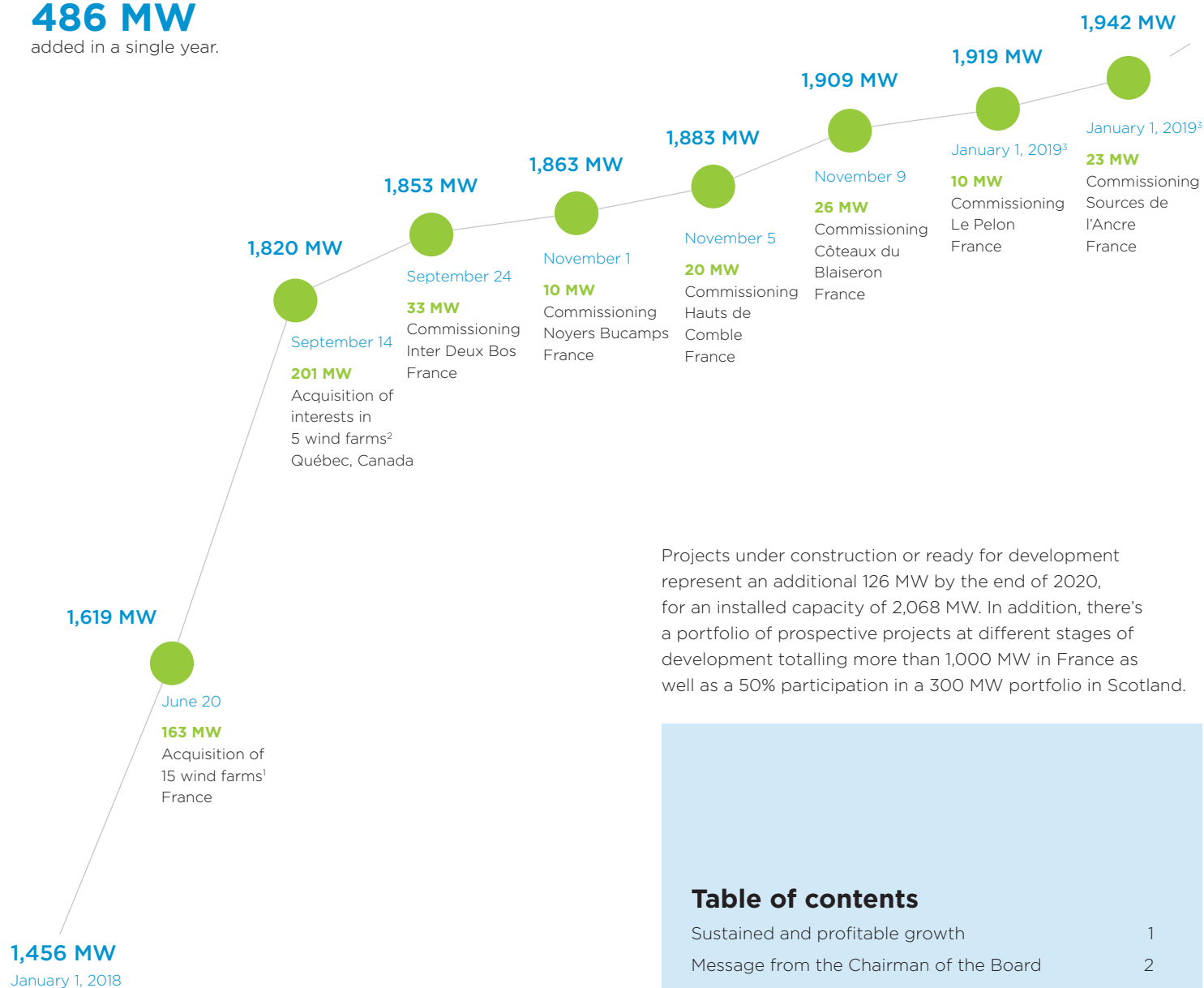


# A RECORD GAIN

Boralex installed capacity growth surpasses its all-time high, with a record

## 486 MW

added in a single year.



Projects under construction or ready for development represent an additional 126 MW by the end of 2020, for an installed capacity of 2,068 MW. In addition, there's a portfolio of prospective projects at different stages of development totalling more than 1,000 MW in France as well as a 50% participation in a 300 MW portfolio in Scotland.

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<sup>1</sup> Kallista Energy Investment SAS and KE Production SAS.

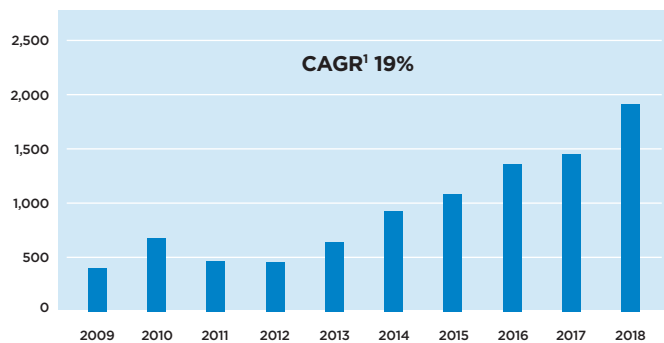
<sup>2</sup> Invenergy Renewables LLC.

<sup>3</sup> Owing to administrative restrictions, the energy sales contract entered into force on January 1, 2019. However, since the facility was operational in 2018, it is considered to have been commissioned in 2018.

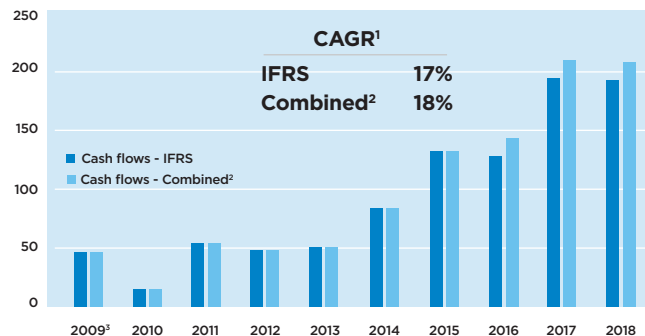
# SUSTAINED AND PROFITABLE GROWTH

Now more than ever, Boralex is becoming a leader in renewable energy.  
The year's results highlight the rewards of sustained growth in its operational base.

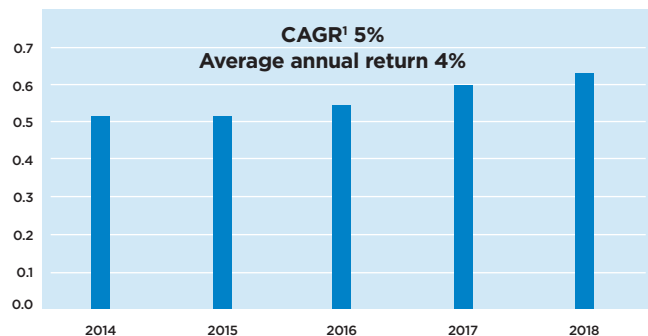
INSTALLED CAPACITY (MW)



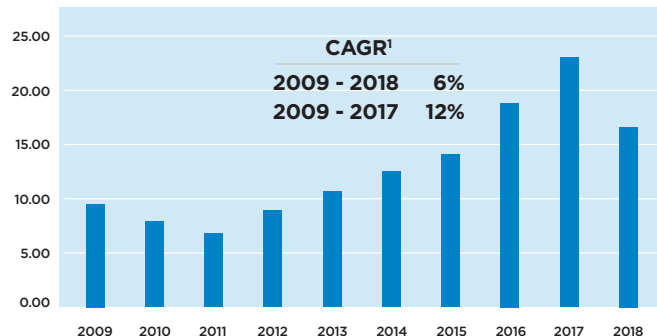
CASH FLOWS RELATED TO OPERATING ACTIVITIES (\$M)



DIVIDEND PER SHARE (\$)



STOCK PRICE FOR CATEGORY A SHARES (\$)



## FOR MORE INFORMATION

For detailed financial results for the past three years as well as market information, please refer to the *General Information and Selected Financial Data* section at the end of this report.

<sup>1</sup> CAGR: Compound annual growth rate.

<sup>2</sup> On a Combined basis, the results of the Seigneurie de Beaupré Wind Farms and Invenergy's interests were consolidated (based on Boralex's share ranging from 50% to 59.96%) instead of being accounted for using the equity method as required by IFRS. Please refer to the *Combined - Non-IFRS measure* section of the Management's Discussion and Analysis.

<sup>3</sup> According to Part V of Canadian GAAP.

# A STRONGER POSITION

## As an energy transition leader

At the end of fiscal 2018, Boralex is better positioned than ever as a leading player in renewable energy. The Corporation recorded its strongest ever annual growth in installed capacity, leveraging a business model that has proven its worth over the years – a profitable growth model based on a sound financial structure. Boralex now has the strength and credibility to participate fully in the energy transition underway.

Across the world, developed economies see renewable energy as an opportunity for a more responsible use of resources. Driven by technological advances that are making wind and solar energy increasingly attractive economically, the industry is diversifying its investor base and becoming highly competitive.

In this environment, Boralex's agility, adaptive strategy and business model are key to entering new markets, and capitalizing on technological advances and the growth opportunities they create. This is where Boralex's strengths shine. Its success is built on agile, expert teams, stakeholder credibility, the unfailing commitment of its skilled people, and the Corporation's integrated approach as a developer, prime contractor and power station operator.

The Board of Directors supports the efforts of Boralex's management team to strengthen the Corporation's position in the face of new challenges. Through our diverse expertise, we strive to guide Boralex with rigour and integrity. Over the past year, we continued to enhance corporate governance and adapt our control environment, particularly by putting in place the Board's new Investment and Risk Management Committee.

Boralex is already well positioned in renewable energy. Its reputation for successful project delivery is well known. By continuing to create shareholder value and advancing stakeholder interests while being responsive to their needs, Boralex is a leader in today's energy transition.



**Alain Rhéaume**  
Chairman of the Board  
Boralex Inc.





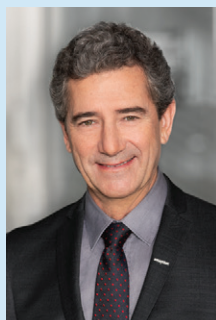
**Alain Rhéaume**

Chairman of the Board Boralex Inc.  
Corporate Director



**Patrick Lemaire**

President and Chief Executive Officer Boralex Inc.



**Alain Ducharme** <sup>(2)</sup> <sup>(4)</sup>

Consultant



**Edward H. Kernaghan** <sup>(1)</sup> <sup>(3)</sup>

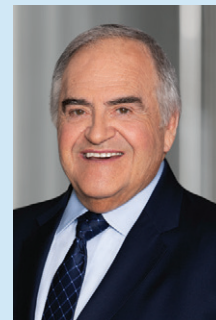
Senior Investment Advisor  
Kernaghan & Partners Ltd

President  
Principia Research Inc.  
and Kernwood Ltd



**Lise Croteau** <sup>(1)</sup> <sup>(5)</sup>

Corporate Director



**Yves Rheault** <sup>(4)</sup> <sup>(5)</sup>

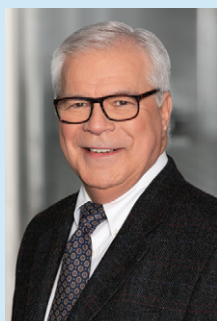
Corporate Director and Consultant



**Michelle Samson-Doel** <sup>(1)</sup> <sup>(4)</sup>

President  
Samson-Doel Group Limited

Corporate Director



**Pierre Seccareccia** <sup>(1)</sup>

Corporate Director



**Dany St-Pierre** <sup>(2)</sup> <sup>(3)</sup>

President  
Cleantech Expansion LLC



**Marie Giguère** <sup>(2)</sup> <sup>(3)</sup>

Corporate Director



**Ghyslaine Deschamps** <sup>(2)</sup> <sup>(5)</sup>

Executive Vice President  
Building EBC Inc.

<sup>(1)</sup> Member of the Audit Committee

<sup>(2)</sup> Member of the Environmental, Health and Safety Committee

<sup>(3)</sup> Member of the Nominating and Corporate Governance Committee

<sup>(4)</sup> Member of the Human Resources Committee

<sup>(5)</sup> Member of the Investment and Risk Management Committee



I would like to take this opportunity to thank Michelle Samson-Doel and Pierre Seccareccia who will step down from the Board on May 8, 2019 at Annual and Special Meeting of Shareholders. Their contributions were clearly decisive in supporting sustained business growth.

**Alain Rhéaume**





# VISION FULFILLED



## We will deliver on our target of **2,000 MW** a year earlier than planned

During fiscal 2018, Boralex made huge strides in implementing its growth strategy. We grew our installed capacity by nearly 500 MW, a record that translates into a 33% increase over last year. Of particular significance, this achievement included the integration of two major acquisitions, which will secure important operational synergies in both Québec and France. Moreover, given the commissioning of power stations we have planned over the coming months, we're now certain to reach our 2,000 MW target by the end of 2019, a year ahead of schedule.

This progress resulted in higher operating results than last year: 14% (16%)<sup>1</sup> for revenues and 8% (11%) for EBITDA(A). In other words, acquisitions and power stations commissioned largely offset the fact that weather conditions were not as favourable as we had expected, mainly at the French wind farms in Spring and Summer. However, the situation returned to more normal values in the last few months of the year, and according to the experts we consulted, the differences remain consistent with historical data. So, we remain confident that our French wind farm network will contribute to truly strengthening the Corporation's financial performance in the medium and long term.

In fact, France remains a favourable environment for Boralex's growth given the authorities' plans to increase the share of renewable energies in terms of overall power generation, which should result in calls for tenders equalling 3,400 MW by the end of 2020. Programs have also been launched with targets of 2,000 MW per year from 2021 to 2024. Our long-standing experience in this market and our leading position as an independent producer of renewable energy are important assets for capitalizing on this favourable environment. In Canada, the opportunities are at the time being fewer, except in Alberta, while the United States is becoming an increasingly attractive market, particularly in light of rapid technological improvements.



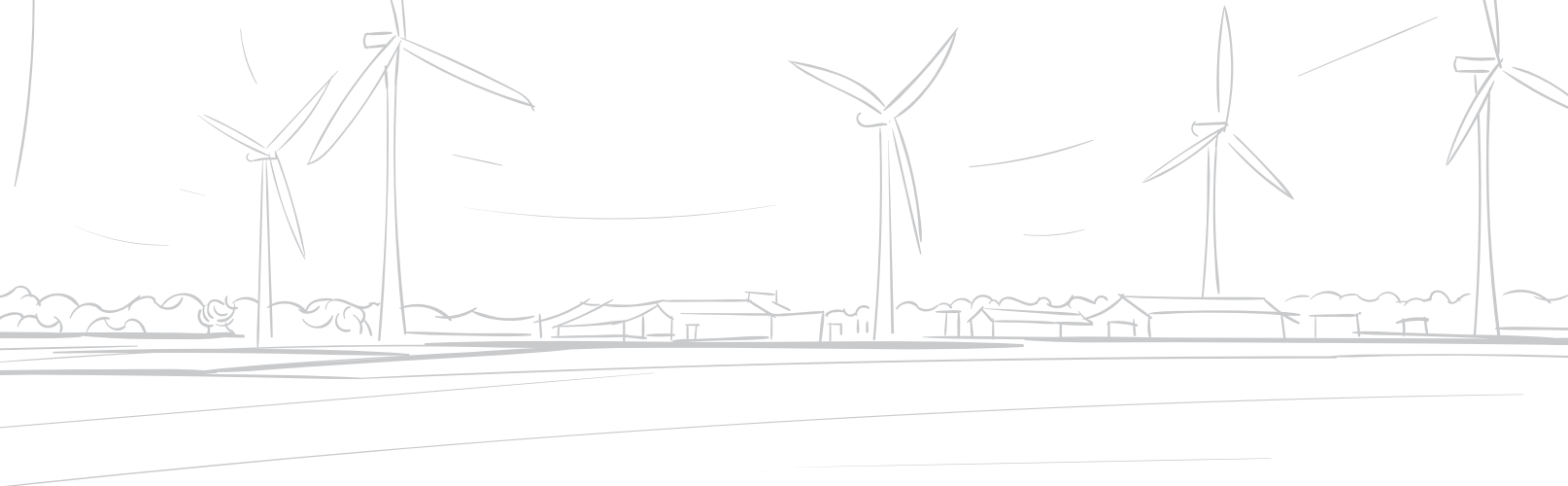
In the context where we will reach our target more quickly than expected and where development opportunities are rapidly evolving and highly favourable, we have started a process to update our strategic planning. We are considering both geographical and technological diversification and examining opportunities that are consistent with the experience we have gained to date. Once we have updated our strategy during fiscal 2019, we will be in a position to announce our next targets.

My review of fiscal 2018 would not be complete without recognizing the exceptional contribution of the teams who make sure our operations run smoothly. We have dedicated people we can count on to make sure our facilities in operation function efficiently, to develop and integrate new sites, to structure flexible financing that supports growth, and to be on the lookout for opportunities that come up in the market.

It is through these women and men that we have reached significant milestones once again this year. From the solid base we have gained, we will continue to be rigorous and agile to seize on opportunities that will sustain us on the path to growth and profitability.

**Patrick Lemaire**  
President and Chief Executive Officer

<sup>1</sup> The figures in brackets show the results on a Combined basis in comparison to those disclosed in accordance with IFRS. See the *Non-IFRS measure* section in Management's Discussion and Analysis.



**Guy D'Aoust**

Vice President,  
Finance

**Marie-Josée Arsenault**

Corporate  
Director,  
Human  
Resources

**Patrick Decostre**

Vice President  
and General  
Manager, Boralex  
Europe

**Alain Pouliot**

General  
Manager,  
Operations

**Gabriel Ouellet**

Director,  
Biomass

**Patrick Lemaire**

President and  
Chief Executive  
Officer

**Pierre Trahan**

IT Director

**Julie Cusson**

Director, Public  
Affairs and  
Communications

**Pascal Hurtubise**

Vice President,  
Chief Legal  
Officer and  
Corporate  
Secretary

**Hugues Girardin**

Vice President,  
Development

**Jean-François Thibodeau**

Vice President,  
Management Advisor



I have around me an extraordinary team to oversee and successfully deliver on our growth strategy. I would like to extend a warm welcome to **Bruno Guilmette** as Chief Financial Officer; his extensive experience in financial management and the acquisition and financing of infrastructure projects around the world will be instrumental in Boralex's growth. Bruno is taking over the reins from **Jean-François Thibodeau** who carried out such masterful financial management over the past 15 years. A heartfelt thank you Jean-François and a happy retirement.

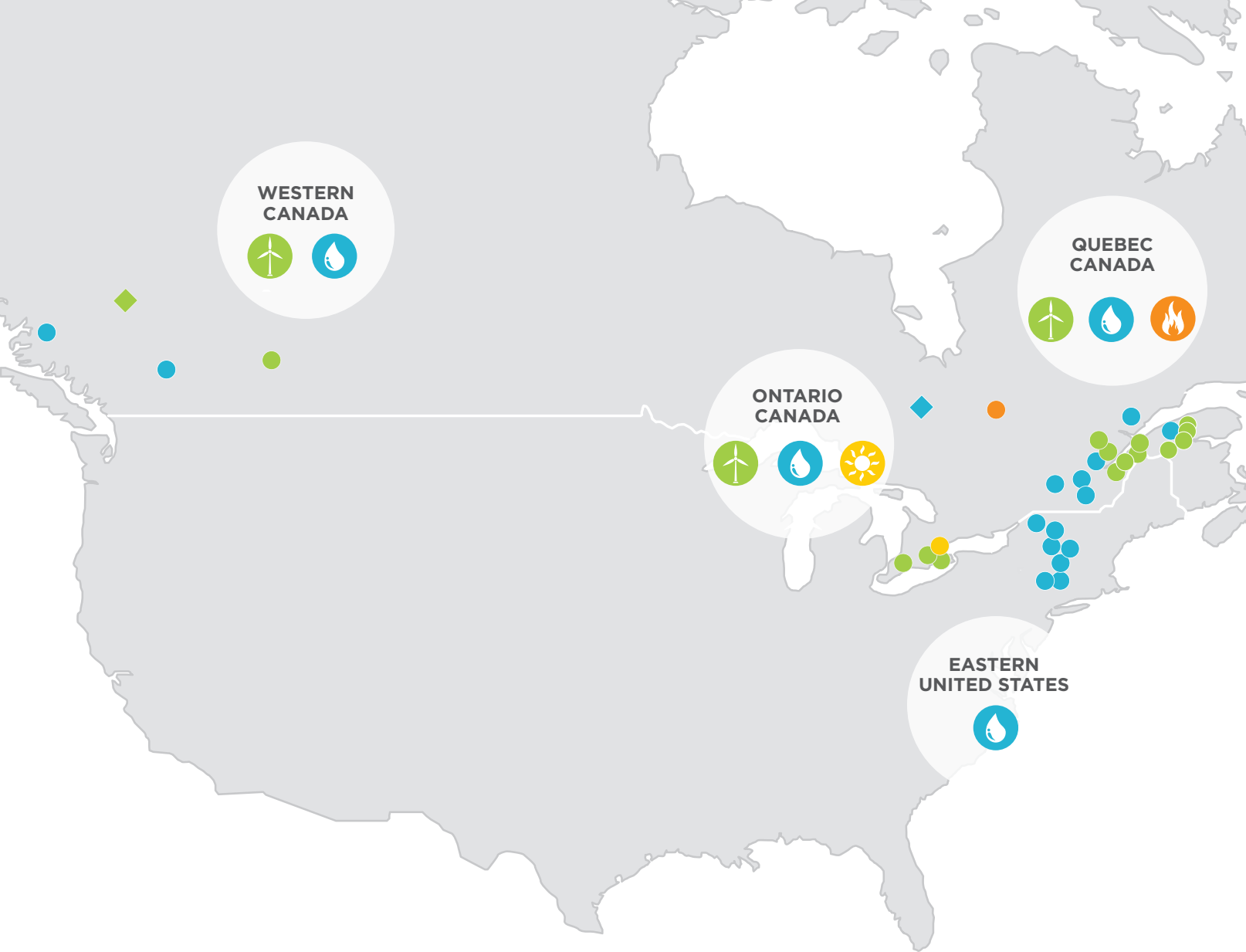


**Patrick Lemaire**



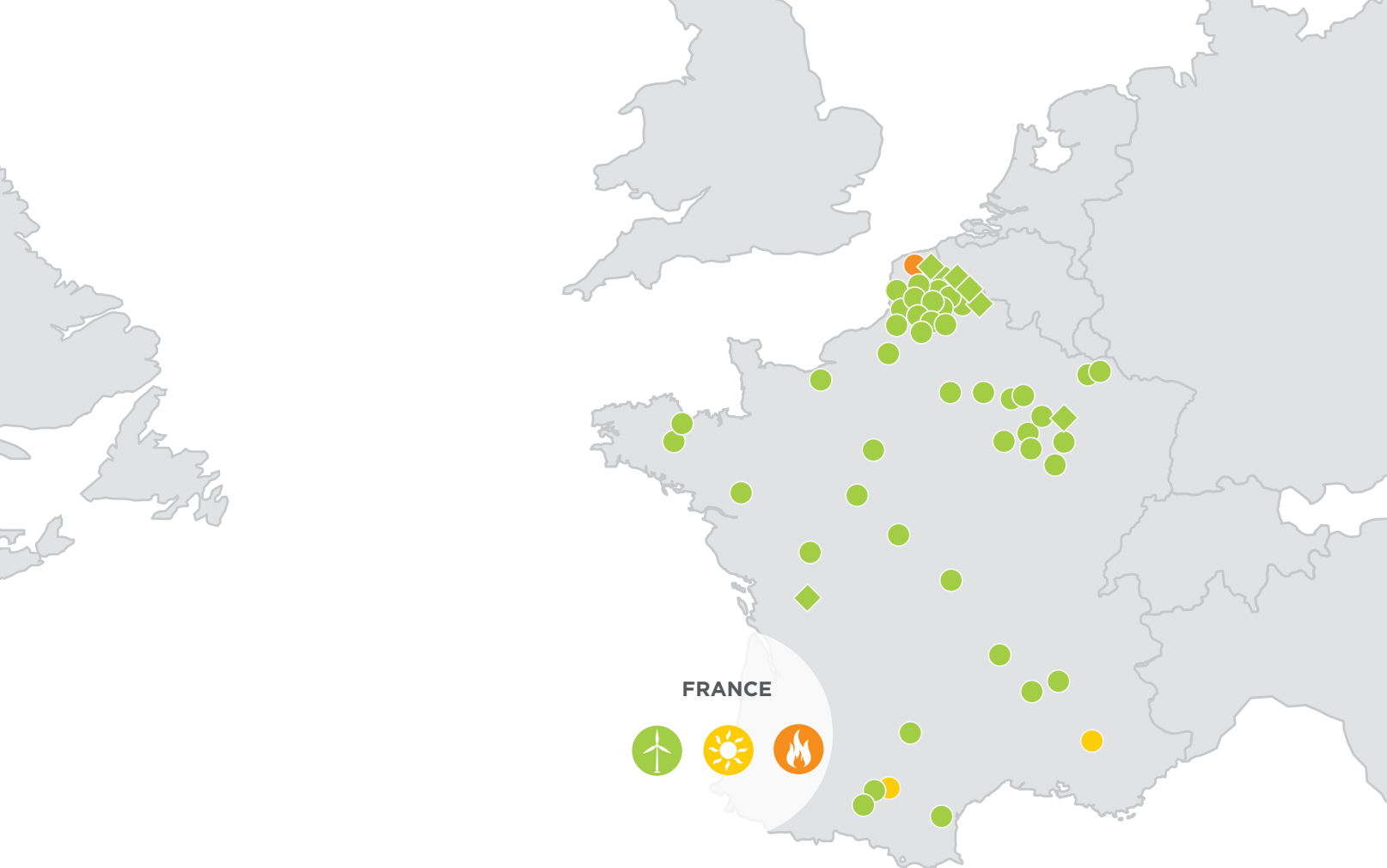
**Bruno Guilmette**

Vice President and  
Chief Financial Officer



**WE'RE DRIVING OUR  
COMPETITIVENESS  
BY LEVERAGING OUR  
GEOGRAPHIC AND  
SEGMENT SYNERGIES.**





## 2018 Power Production by country

In GWh

|               | IFRS  | COMBINED <sup>1</sup> |
|---------------|-------|-----------------------|
| Canada        | 1,497 | 2,234                 |
| France        | 1,530 | 1,530                 |
| United States | 388   | 388                   |

**Total**      **3,415**      **4,152**

- In operation
- ◆ In construction/development

<sup>1</sup> For the Combined information, see the *Non-IFRS measure* section in Management's Discussion and Analysis.



# Renewables, more than ever

## Operational Review

As the diagram on the back of the front cover shows, Boralex is firmly on track to its growth targets, adding 486 MW to installed capacity in fiscal 2018 for an increase of 33%. Additions and commissionings were all made in wind power, substantially increasing the Corporation's segment asset base to 89% of installed capacity as at December 31, 2018, compared with 85% a year earlier.

Given projects under construction or under development, the relative weight of the wind power segment should continue to grow over the next few years, with the majority of wind power projects on the Growth Path aiming to commission an additional 100 MW by late 2020. And that's not counting the portfolio of projects under development in France, Scotland and Denmark that represent a potential of more than 1,500 MW added to installed capacity.

But Boralex remains on the lookout for opportunities in its other operating segments. For instance, during the first half of 2019, we will commission our first hydroelectric power station in Ontario at Yellow Falls (16 MW), and we've started work on doubling the capacity of the Buckingham power station in Québec by adding 10 MW.

Solar power is also a segment that holds Boralex's focus for its potential as a source of renewable energy. As technology develops, the segment is becoming increasingly attractive and Boralex is building on the experience it has gained with sites already in its asset base to eventually consolidate its presence in the field.



## France, fertile ground for growth

As France's largest independent producer of onshore wind power, Boralex is solidly positioned to seize on growth opportunities in the country. Its long track record as a developer, prime contractor and operator of wind farms and its in-depth knowledge of the market enable it to capitalize on the favourable climate for renewables development.

In September 2018, following France's second RFP for onshore wind power generation, the Corporation won the largest share of allocated capacity, 49 MW for the Santerre and Cham Longe facilities.

In December 2018, the Corporation also entered into an agreement to acquire the last tranche of the Ecotera portfolio of projects, which includes eight wind farms in various stages of development for a total of over 100 MW.

## 2019-2020 GROWTH PATH



<sup>(1)</sup> This data, as well as all the data contained in the MD&A as at December 31, 2018, reflects 100% of Boralex subsidiaries in which the Corporation is the controlling shareholder. The data also reflects Boralex's share in entities over which it does not have control which are accounted for using the equity method in the 2018 Annual Report, consisting of 170 MW in the Joint Ventures operating the Seigneurie de Beaupré Wind Farms in Québec, representing 50% of the total installed capacity of 340 MW, plus 201 MW from five wind farms in Québec, following the acquisition of Invenergy's interests in these facilities which was completed on September 14, 2018.

<sup>(2)</sup> France 85 MW | Canada 41 MW

<sup>(3)</sup> Hydro 26 MW | Wind 69 MW

<sup>(4)</sup> Project whose current capacity of 10 MW is to increase to 20 MW.





<sup>(5)</sup> Project whose current capacity of 18 MW is to increase to 35 MW while the initial expiry date of 2020 is to be extended by 20 years.

## Power production: wind power as a growth driver

In fiscal 2018, with its expanded asset base, the wind power segment was Boralex's main driver of growth in power production. So the 9% increase over the previous year derives largely from the contribution of assets acquired and commissioned.

While better weather conditions compared with the previous year bolstered the wind power segment through the first quarter of 2018, they deteriorated somewhat over the next two quarters to return to more normal values at the end of the year. Overall, existing wind farms in both France and Canada had similar production volumes from one year to the next. The situation was different for Canadian and U.S. hydroelectric power stations, which experienced generally poorer water flow in 2018, and consequently ended the year with an 11% lower production volume compared with 2017. Year over year, revenues from energy sales were up slightly for the thermal power segment, while remaining stable for solar power. EBITDA(A) was similar for both segments from the year before.

### Power production (GWh)

|   | December 31<br>2018  | 2018 vs 2017        | December 31<br>2017  |
|---|----------------------|---------------------|----------------------|
|  Wind Power Stations           | 2,581 (3,318)        | + 17% (+ 21%)       | 2,204 (2,750)        |
|  Hydroelectric Power Stations | 648 (648)            | - 11% (- 11%)       | 729 (729)            |
|  Thermal Power Stations      | 166 (166)            | - 5% (- 5%)         | 173 (173)            |
|  Solar Power Stations        | 20 (20)              | - 10% (- 10%)       | 23 (23)              |
| <b>Total</b>  | <b>3,415 (4,152)</b> | <b>+ 9% (+ 13%)</b> | <b>3,129 (3,675)</b> |

Note: The figures in brackets show the results on a Combined basis in comparison to those disclosed in accordance with IFRS.  
For the Combined information, see the Non-IFRS measures section in Management's Discussion and Analysis.



### Sustainable development, a guiding principle

In choosing renewable energies as our preferred field, Boralex made a solid commitment to sustainability. The broader the scope of our operations, the more able we are to contribute to the energy transition underway, and particularly as regards to climate changes.

Boralex uses mainly wind, water and solar resources to produce electricity. So the approximately **3,415 GWh** (4,152 GWh)<sup>1</sup> of electricity we produced in 2018 significantly contributed to reducing greenhouse gas emissions since the equivalent power generated from fossil fuels would have meant 214,000 tonnes of CO<sub>2</sub> emissions<sup>2</sup>. Boralex also prefers run-of-river hydroelectric power plants because they operate without storing water, which minimizes environmental footprint.

Minimizing our operations' environmental impact is also a fundamental part of Boralex's approach. Protecting biodiversity, conserving habitats, using resources responsibly and managing residual materials begin with the earliest stages of developing new sites and remain a priority throughout their operating life.

### Our partnership with France's École nationale supérieure de paysage

On December 4, 2018 Boralex and the École nationale supérieure de paysage entered into a partnership in connection with the Landscape and Energy Business Chair. The aim of this partnership is to turn our energy projects into genuine local development projects in which landscape consultations are key to success. In particular, it will give rise to organized field experiments related to Boralex's operations, involving clinics, workshops, internships and public events.

### Sustainable Procurement Charter

Boralex has adopted a sustainable procurement charter that aims to establish innovative partnerships and mutually beneficial relationships with suppliers as well as contributing to local development.

### Compliance with laws and regulations

Boralex is vigilant in protecting the environment by complying with applicable laws and regulations and making any necessary corrections. In 2018, we received no notices of non-compliance and made the requested changes following reports of deficiencies at three of our sites.

### Sustainability reporting

For the sustainability portion of our annual report, Boralex applies the **GRI** (Global Reporting Initiative) and **SASB** (Sustainability Accounting Standard Board) criteria. A more detailed report, which references the GRI and SASB indicators used by the Corporation, will be posted on the new version of [www.boralex.com](http://www.boralex.com) currently in development.



### Our partnership with WWF France

Since 2011, Boralex has worked in collaboration with the World Wildlife Fund (France) to protect species and their habitats while developing the wind power segment. Our aim is to ensure that preventive measures are adopted at each new site well before work begins, so we achieve a responsible energy transition in the field.

<sup>1</sup> The figures in brackets show the results on a Combined basis in comparison to those disclosed in accordance with IFRS.  
See the *Non-IFRS measure* section in Management's Discussion and Analysis.

<sup>2</sup> Based on calculations and assumptions by the Chair in Energy Sector Management of HEC Montréal.



### **Social acceptability, an imperative**

Boralex's growth strategy cannot come to fruition without the commitment to ensure the social acceptability of its facilities, both in operation and under development. While the Corporation enjoys strong credibility given its track record as a leading player in the renewables sector, each site and project requires particular attention.

Nothing is left to chance. Boralex is diligent in using all avenues to establish and maintain the most cordial relationships possible with the communities where it has power generation sites in operation or planned for the future. For example, a monitoring committee keeps the Corporation and the community in touch at every wind farm in operation in Québec. In Ontario, Boralex uses community newspapers to make sure people know that a representative is available to receive comments and answer questions.

Additionally, Boralex undertakes a formal consultation process for each development project — from canvassing stakeholders at public information sessions, to individual conversations and mapping the different points of view. This is genuine grass roots work to make sure that each project is well accepted by its community, with full knowledge of the facts.

### **The acquisition of Invenergy's interests: a structured process**

When we acquired Invenergy's interests in five wind farms in Québec, Boralex first took steps to establish contact with the stakeholders at each location. As soon as the confidentiality restrictions around the transaction were lifted, meetings were held to provide information about the deal, the Corporation and our business vision. Since those meetings, several Boralex representatives have been available to answer any questions.

### **Consultation method designed 100% in-house**

Boralex's development teams in France have been working for several months on designing a consultation method 100% in-house based on the know-how of the North American development teams. Aiming to analyze a region to better understand its local context, its needs and its expectations regarding information and participation and then roll out a tailored communication and consultation process, the method has been in the go-live phase since spring 2018 on a pilot project in the Allier department. Deployment will continue throughout 2019.



### Benefits that grow community well-being

In carrying through on Boralex's growth strategy, we make sure that our operations also enhance the well-being of the communities we operate in. The benefits from our operations take various forms, including creating quality jobs through the construction and operation of our facilities, purchasing goods and services from local suppliers and, in some cases, paying royalties to the community.

Additionally, donations and sponsorships are an important way to step up our efforts to promote better quality of life within communities. Our policy is guided by four themes: community social activities, the environment, education and employee volunteerism. In 2018, Boralex supported a large number of organizations in Canada, France and the United States for a total contribution of \$883,000 (\$935,000)<sup>1</sup>, up nearly 52% (51%) from \$583,000 (\$620,000) in fiscal 2017.

### The economic returns of Boralex's operations (in millions of Canadian dollars)<sup>1</sup>

|  | 2018 | 2018 vs 2017 | 2017 |
|--|------|--------------|------|
| Salaries and benefits                        | 40   | + 17%        | 30   |
| Investments in property, plant and equipment | 282  | + 22%        | 231  |
| Tax payments                                 | 3    | + 47%        | 2    |

During 2018, there were no cancellations of wind turbine orders in France or Canada.

### Supporting knowledge development

In Québec, Boralex has entered into partnerships with different universities with a view to developing knowledge, particularly as relates to renewable energies. Each year, we award a scholarship to support a student project from the faculties of engineering at Université de Sherbrooke and the Université du Québec à Rimouski (UQAR). We also support *Leading the Way*, a sustainable development campaign at Bishop's University, and provide financial backing for the Eclipse solar vehicle club at École de technologie supérieure, and Université Laval's Structure Team. Not to mention our partnership with HEC Montréal's Chair in Energy Sector Management.

### Promoting rural living

In France, Boralex is associated with the Centre d'initiatives pour valoriser l'agriculture et le milieu rural (CIVAM) Ardèche, which brings together people who promote organic farming and a strong and close-knit rural way of life. We support its *Envie verte* initiative that encourages agricultural trades and local production, based on the principle that organic farming promotes rural renewal and regional revitalization.

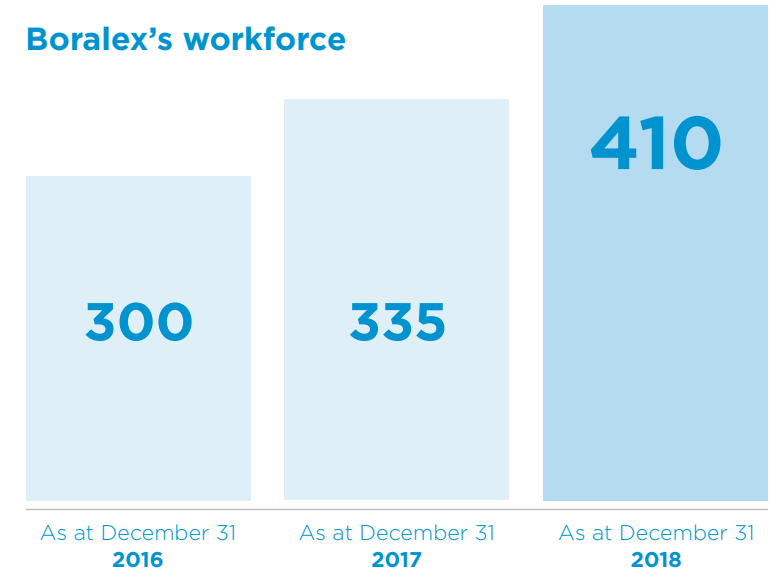
<sup>1</sup> The figures are on a Combined basis. See *Non-IFRS measure* section in Management's Discussion and Analysis.

**A strong team is key to success**

At Boralex, we recognize that employee know-how, expertise and commitment are our main strength as we continue to grow. Our different teams work constantly to fully capitalize on our unique and integrated model as a renewables developer, prime contractor and operator. They have a strong track record of maintaining solid relationships with communities, elected officials, financial institutions and other stakeholders, showing agility to seize opportunities for development, delivering a project according to plan or maximizing synergies in operating existing facilities.

Boralex has also adopted a **Code of Ethics** that sets out our standards and expectations for all employees, consultants and directors when they represent the Corporation. A telephone line and website have been set up and the appropriate audiences have been made aware of them via the different channels of communication.

The more we grow, the more Boralex can offer a stimulating work environment, and the more attractive we are as an employer of choice. That's what allows Boralex to recruit and retain the qualified people it needs to move forward.



**Equator Principles and the Universal Declaration of Human Rights**

By adhering to these globally recognized standards and principles, Boralex is committed to promoting a culture of inclusion and respect in the workplace. In doing so, we comply with and abide by all applicable laws and regulations to ensure that our people enjoy fair and equitable treatment in a work environment free of harassment, intimidation and discrimination.

**Health and safety: a constant concern**

Employee training and awareness around appropriate behaviours and measures to ensure safety in the workplace remain top of mind at Boralex. It's how we achieve occupational health and safety results that compare favourably with the industry average.

|                          | 2018    | 2017    |
|--------------------------|---------|---------|
| Hours worked             | 700,000 | 680,000 |
| Lost time incidents      | 1       | 1       |
| Lost time incident rate* | 3.0     | 10.0    |

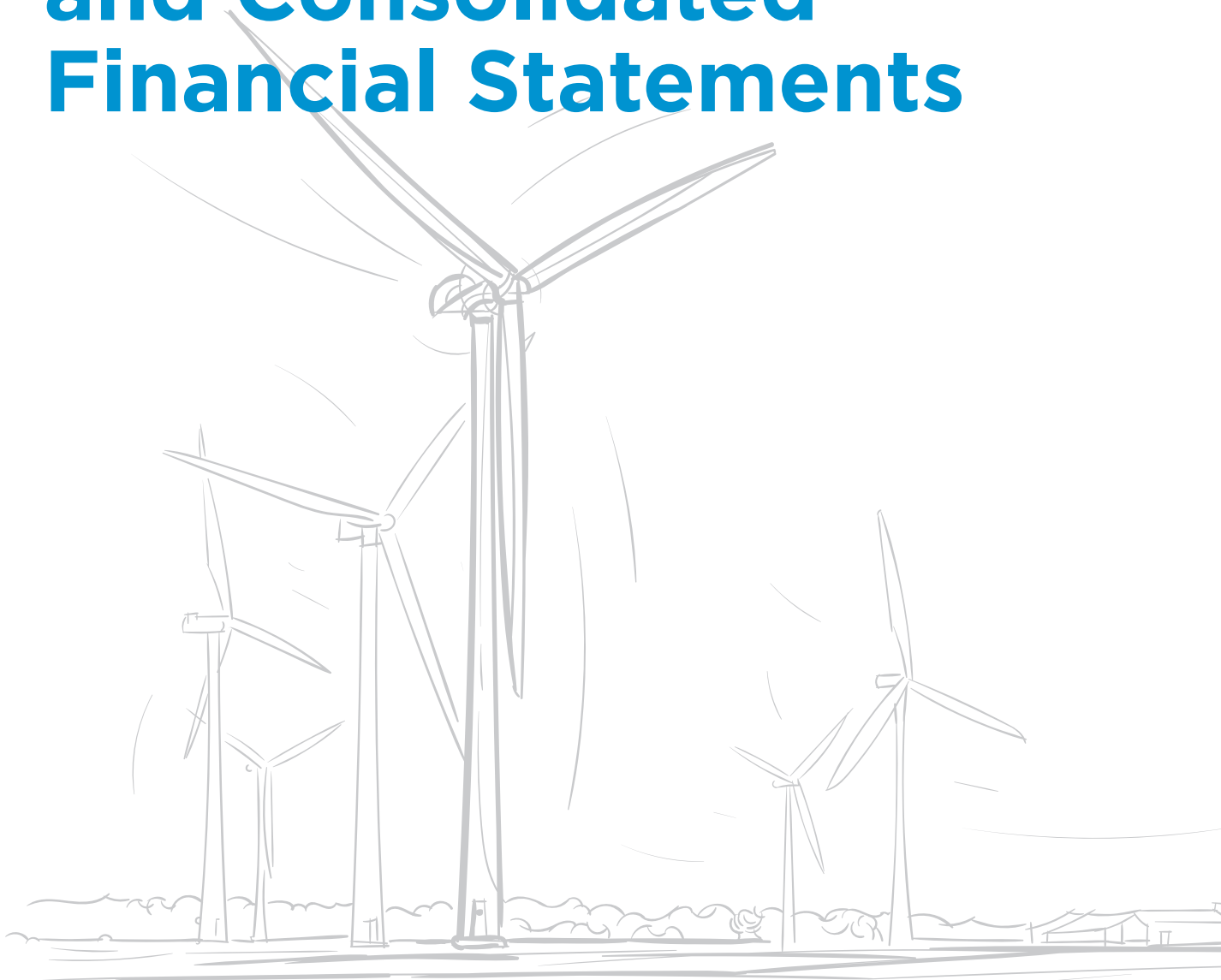
\*According to the U.S. OSHA 300 standard, the lost-time injury rate is the number of absences for each 200,000 hours worked, divided by the number of hours worked per 100 employees. For example, a rate of 1 means that one in 100 employees was involved in a lost time incident during the year.

In Québec, our six hydroelectric power stations recorded no lost-time incidents for a fourth consecutive year.



In May 2018, Boralex moved into new offices in Montréal: Maison Manuvie meets **LEED® Gold CS** Certification requirements – the North American real estate industry standard for environmental certification. Employees were actively involved in developing the plans to provide a stimulating and friendly work environment that promotes collaboration and well-being for all.

# Management's Discussion and Analysis and Consolidated Financial Statements



# Management's Discussion and Analysis

As at December 31, 2018

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# Profile

Boralex develops, builds and operates renewable energy power facilities in Canada, France, the United Kingdom and the United States. A leader in the Canadian market and France's largest independent producer of onshore wind power, the Corporation is recognized for its solid experience in optimizing its asset base in four power generation types – wind, hydroelectric, thermal and solar. Boralex has ensured sustained growth by leveraging the expertise and diversification developed for nearly 30 years.

Boralex's shares and convertible debentures are listed on the Toronto Stock Exchange under the ticker symbols BLX and BLX.DB.A. As at December 31, 2018, the Caisse de dépôt et placement du Québec, one of Canada's largest institutional investors, held 19.9% of Boralex's outstanding shares.

## Highlights

### For the three-month periods ended December 31

| (in millions of Canadian dollars, unless otherwise specified) | IFRS   |        | Combined <sup>(1)</sup> |        |
|---|--------|--------|-------------------------|--------|
|   | 2018   | 2017   | 2018                    | 2017   |
| Power production (GWh)  | 1,065  | 871    | 1,389                   | 1,042  |
| Revenues from energy sales                                    | 145    | 129    | 178                     | 147    |
| EBITDA(A) <sup>(1)</sup>                                      | 98     | 93     | 121                     | 104    |
| EBITDA(A) margin <sup>(1)</sup>                               | 68%    | 72%    | 68%                     | 70%    |
| Net earnings  | 6      | 28     | 6                       | 28     |
| Net earnings attributable to shareholders of Boralex          | 6      | 26     | 6                       | 26     |
| Per share (basic)   | \$0.06 | \$0.34 | \$0.06                  | \$0.34 |
| Per share (diluted)   | \$0.06 | \$0.32 | \$0.06                  | \$0.32 |
| Net cash flows related to operating activities                | 23     | 17     | 52                      | 27     |
| Cash flows from operations <sup>(1)</sup>                     | 71     | 69     | 84                      | 80     |

### For the years ended December 31

| (in millions of Canadian dollars, unless otherwise specified) | IFRS     |        | Combined <sup>(1)</sup> |        |
|---|----------|--------|-------------------------|--------|
|   | 2018     | 2017   | 2018                    | 2017   |
| Power production (GWh)  | 3,415    | 3,129  | 4,152                   | 3,675  |
| Revenues from energy sales                                    | 471      | 414    | 549                     | 473    |
| EBITDA(A) <sup>(1)</sup>                                      | 298      | 276    | 354                     | 319    |
| EBITDA(A) margin <sup>(1)</sup>                               | 63%      | 67%    | 64%                     | 67%    |
| Net earnings (loss)   | (44)     | 10     | (44)                    | 10     |
| Net earnings (loss) attributable to shareholders of Boralex   | (36)     | 22     | (36)                    | 22     |
| Per share (basic and diluted)                                 | (\$0.45) | \$0.29 | (\$0.45)                | \$0.29 |
| Net cash flows related to operating activities                | 202      | 145    | 235                     | 162    |
| Cash flows from operations <sup>(1)</sup>                     | 192      | 195    | 208                     | 210    |

<sup>(1)</sup> See the *Non-IFRS measures* section.

## Combined – Non-IFRS measure

The combined information ("Combined") presented above and elsewhere in this management's discussion and analysis ("MD&A") results from the combination of the financial information of Boralex Inc. ("Boralex" or the "Corporation") under IFRS and the share of the financial information of the *Interests*. The *Interests* represent significant investments by Boralex and although IFRS does not permit the consolidation of their financial information within that of Boralex, management considers that information on a Combined basis is useful data to assess the Corporation's performance. In order to prepare the Combined information, Boralex first prepared its financial statements and those of the *Interests* in accordance with IFRS. Then, the *Interests in the Joint Ventures and associates*, *Share in earnings (losses) of the Joint Ventures and associates* and *Distributions received from the Joint Ventures and associates* line items are replaced by Boralex's respective share (ranging from 50% to 59.96%) in the financial statement items of the *Interests* (revenues, expenses, assets, liabilities, etc.). We refer you to the *Non-IFRS measures* section for more information. It is important to note that the calculation method described here is identical to the method that was used as at December 31, 2017 and previously to establish the data identified as *Proportionate Consolidation* in previous MD&As.

# Abbreviations and definitions

In alphabetical order

|                        |   |
|------------------------|---|
| <b>2016 FiP</b>        | 2016 feed-in premium  |
| <b>AESO</b>            | Alberta Electricity System Operator   |
| <b>Caisse</b>          | Caisse de dépôt et placement du Québec  |
| <b>CPI</b>             | Consumer price index  |
| <b>Cube</b>            | Cube Energy SCA   |
| <b>DC&amp;P</b>        | Disclosure controls and procedures  |
| <b>DM I and DM II</b>  | Des Moulins Wind Power L.P.   |
| <b>EBITDA</b>          | Earnings before taxes, interest, depreciation and amortization  |
| <b>EBITDA(A)</b>       | Earnings before taxes, interest, depreciation and amortization adjusted to include other items  |
| <b>EDF</b>             | Électricité de France   |
| <b>FVOCI</b>           | Fair value through other comprehensive income (loss)  |
| <b>FVPL</b>            | Fair value through profit or loss   |
| <b>GAAP</b>            | Generally Accepted Accounting Principles  |
| <b>GWh</b>             | Gigawatt-hour   |
| <b>HQ</b>              | Hydro-Québec  |
| <b>ICFR</b>            | Internal control over financial reporting   |
| <b>IESO</b>            | Independent Electricity System Operator   |
| <b>IFER</b>            | Flat-rate tax on network businesses (France)  |
| <b>IFRS</b>            | International Financial Reporting Standards   |
| <b>Interests</b>       | Interests in the Joint Ventures and associates  |
| <b>Invenergy</b>       | Invenergy Renewables LLC  |
| <b>Kallista</b>        | Kallista Energy Investment SAS and KE production SAS  |
| <b>LP I</b>            | Le Plateau Wind Power L.P.  |
| <b>LP II</b>           | Le Plateau Community Wind Power L.P.  |
| <b>MW</b>              | Megawatt  |
| <b>MWh</b>             | Megawatt-hour   |
| <b>NMPC</b>            | Niagara Mohawk Power  |
| <b>NRWF</b>            | Niagara Region Wind Farm  |
| <b>REP</b>             | Renewable Electricity Program   |
| <b>Roncevaux</b>       | Roncevaux Wind Power L.P.   |
| <b>SDB I</b>           | Seigneurie de Beaupré Wind Farms 2 and 3  |
| <b>SDB II</b>          | Seigneurie de Beaupré Wind Farms 4  |
| <b>Six Nations</b>     | Six Nations of the Grand River  |
| <b>Target run rate</b> | Estimated EBITDA under the assumption that all of the assets in operation at the end of the year were in operation for the whole year |

# Introductory comments

## General

This MD&A reviews the operating results for the three-month period and fiscal year ended December 31, 2018, compared with the corresponding periods of 2017, and cash flows for the fiscal year ended December 31, 2018 compared with the fiscal year ended December 31, 2017 as well as the Corporation's financial position as at December 31, 2018 compared with December 31, 2017. This report should be read in conjunction with the audited consolidated financial statements and related notes found in this Annual Report for the fiscal year ended December 31, 2018.

Additional information about the Corporation, including the annual information form, previous annual reports, MD&As and audited consolidated financial statements, as well as press releases, is published separately and is available on the Boralex ([www.boralex.com](http://www.boralex.com)) and SEDAR ([www.sedar.com](http://www.sedar.com)) websites.

In this MD&A, Boralex or the Corporation means, as applicable, either Boralex and its subsidiaries and divisions or Boralex or one of its subsidiaries or divisions. The information contained in this MD&A reflects all material events up to February 28, 2019, the date on which the Board of Directors approved this annual MD&A and the consolidated financial statements. Unless otherwise indicated, the financial information presented in this MD&A, including tabular amounts, is prepared in accordance with IFRS which constitute Canadian GAAP under Part I of the *CPA Canada Handbook*. The financial statements included in this MD&A have been prepared according to IFRS applicable to the preparation of financial statements, IAS 1, *Presentation of Financial Statements*, and contain comparative figures for 2017.

As discussed under *Non-IFRS measures* section, this MD&A also contains information consisting of non-IFRS measures. The Corporation uses "EBITDA," "EBITDA(A)," "EBITDA(A) margin," "cash flows from operations," "ratio of net debt," "discretionary cash flows," "payout ratio" and "dividends paid per common share" to assess the operating performance of its facilities. As described above, the Corporation also presents Combined information that incorporates its share of the financial statements of the Interests. These terms are defined in the *Non-IFRS measures* section.

All financial information presented in this MD&A, as well as tabular information, is in Canadian dollars. It should also be noted that the data expressed as a percentage is calculated using amounts in thousands of dollars.

## Notice concerning forward-looking statements

The purpose of this MD&A is to help the reader understand the nature and importance of changes and trends as well as the risks and uncertainties that may affect Boralex's operating results and financial position. Accordingly, some of the statements contained in this analysis, including those regarding future results and performance, are forward-looking statements based on current expectations, within the meaning of securities legislation. Positive or negative verbs such as "will," "would," "forecast," "anticipate," "expect," "plan," "project," "continue," "intend," "assess," "estimate" or "believe," or expressions such as "toward," "about," "approximately," "to be of the opinion," "potential" or similar words or the negative thereof or other comparable terminology, are used to identify such statements. They are based on Boralex management's expectations, estimates and assumptions as at February 28, 2019.

This forward-looking information includes statements about the Corporation's business model and growth strategy, wind power and other renewable energy production projects in the pipeline and their expected performance, EBITDA(A), EBITDA(A) margins and discretionary cash flow targets of Boralex or those expected to be generated in the future, the Corporation's forecasted financial results, future financial position, installed capacity or megawatt growth objectives or targets, including those set in connection with the Corporation's *Growth path*, growth outlook, business strategies and plans and objectives of or relating to the Corporation, the expected timing of project commissioning, planned production, capital expenditure and investment programs, access to credit facilities and financing, capital tax, income tax, risk profile, cash flows and earnings and their components, the amount of distributions and dividends to be paid to securityholders, the anticipated distribution ratio, the dividend policy and the timing of such distributions and dividends. Actual events or results may differ materially from those expressed in such forward-looking statements.

Forward-looking information is based on significant assumptions, including assumptions about the performance of the Corporation's projects based on management estimates and expectations with respect to wind and other factors, assumptions about general industry and economic conditions and assumptions about EBITDA(A) margins. While the Corporation considers these factors and assumptions to be reasonable based on information currently available, they may prove to be incorrect.

Boralex wishes to point out that, by their very nature, forward-looking statements involve risks and uncertainties such that its results or the measures it adopts could differ materially from those indicated by or underlying these statements, or could have an impact on the degree of realization of a particular projection. The main factors that could lead to a material difference between the Corporation's actual results and the forward-looking financial information or expectations set forth in the forward-looking statements include, but are not limited to, the general impact of economic conditions, currency fluctuations, volatility in energy selling prices, the Corporation's financing capacity, competition, changes in general market conditions, the regulations governing the industry and raw material price increases and availability, regulatory disputes and other issues related to projects in operation or under development, as well as other factors described in the sections *Outlook and development objectives* and *Risk factors and uncertainties* of the Corporation's Annual Report for the year ended December 31, 2018.

Unless otherwise specified by the Corporation, the forward-looking statements do not take into account the possible impact on its activities, transactions, non-recurring items or other exceptional items announced or occurring after the statements are made. There can be no assurance as to the materialization of the results, performance or achievements as expressed or implied by forward-looking statements. The reader is cautioned not to place undue reliance on such forward-looking statements. Unless required to do so under applicable securities legislation, Boralex management does not assume any obligation to update or revise forward-looking statements to reflect new information, future events or other changes.



# Description of business

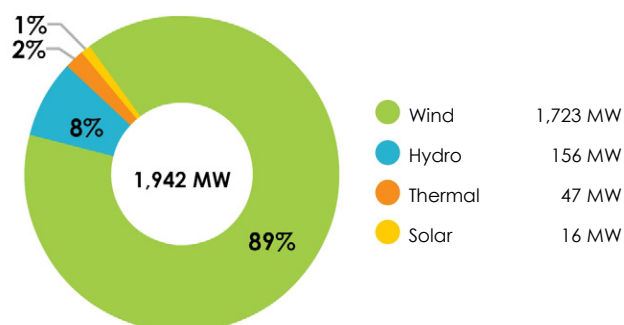
Boralex is a Canadian corporation operating in the renewable energy segment. It draws on a workforce of over 410 people to develop, build and operate power generating facilities in Canada, France, the United States and the United Kingdom. As at December 31, 2018, its asset base of installed capacity under its management comprised 1,942 MW.<sup>(1)</sup> Asset development projects in progress represent an additional 126 MW, to be commissioned by the end of 2020. The following charts provide information about the makeup of the Corporation's energy portfolio in operation as at December 31, 2018.

## Segment breakdown

The **wind** power segment accounts for a large majority (89%) of installed capacity. Projects under development and under construction will add 100 MW by the end of 2020.

The Corporation's 15 **hydroelectric** power stations make up 8% of installed capacity. A 16<sup>th</sup> power station (16 MW) is slated for commissioning in the first half of 2019 in Ontario while work is underway to increase capacity by 10 MW in 2019 at the Buckingham power station in Québec.

Two **thermal** power stations (2%) and three **solar** power facilities (1%) complete the Corporation's portfolio.

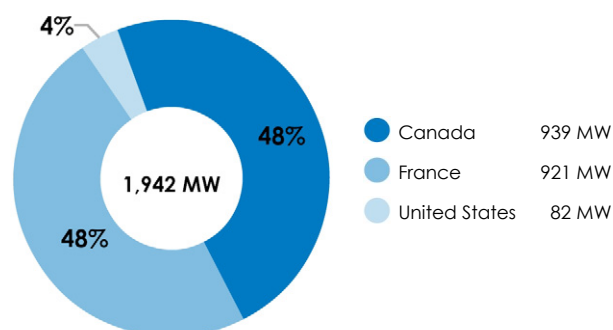


## Geographic breakdown

In **Canada**, Boralex is active in four power generation segments: wind, hydroelectric, thermal and solar. That being said, wind power accounts for the largest percentage of production with an installed capacity under its control of 829 MW; 15 MW is under development.

In **France**, a large portion of Boralex's installed capacity originates from wind farms, totalling 894 MW, making it France's largest independent producer of onshore wind power. The wind farms are complemented by a natural gas cogeneration power station and two solar energy facilities. Projects under development will add a total of 85 MW.

In the **United States**, the Corporation operates seven hydroelectric power stations in the Northeast.

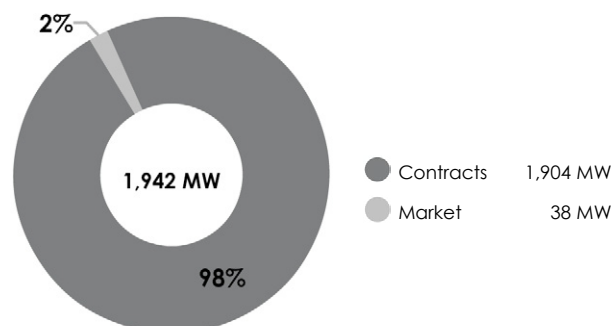


## Breakdown of sources of revenues from energy sales

Substantially all (98%) of GWh generated by Boralex are covered by long-term indexed, fixed-price energy sales contracts.

The Corporation estimates that facilities representing 212 MW (11% of installed capacity or 8% of annualized production) have contracts expiring through December 2023. If new contracts are not entered into prior to expiry, their energy will then be sold at market prices.

These contracts have a weighted average remaining contractual term of **13 years**.



<sup>(1)</sup> This data, as well as all of the data in this MD&A, reflects 100% of Boralex's subsidiaries in which the Corporation is the controlling shareholder. The data also reflects Boralex's share in entities over which it does not have control and which are accounted for using the equity method in this MD&A, consisting of 170 MW in the Joint Ventures operating the Seigneurie de Beauré Wind Farms in Québec, representing 50% of a total installed capacity of 340 MW, plus 201 MW from the acquisition of Invenergy's interests in five wind farms in Québec, out of the total installed capacity of 392 MW.

# Growth strategy and developments in the past three fiscal years

## Growth strategy

Boralex has adopted a strategy to drive above-average, balanced and sustainable financial growth. It entails developing its assets and generating higher revenue streams and cash flows, while mitigating its business risks.

The key components of this strategy are as follows:

- **Acquisition, development and operation of renewable energy assets covered by long-term indexed, fixed-price energy sales contracts or to be submitted in connection with competitive requests for proposals;**

Substantially all of Boralex's assets are covered by such contracts. With a weighted average remaining term to maturity of **13 years**, the Corporation has relatively predictable long-term cash inflows, excluding changes in weather conditions and other factors beyond its control.

In an increasingly competitive environment in France and in light of a transition from long-term, fixed-price contracts to a tendering system, Boralex's development team leveraged nearly 20 years of hands-on experience to proactively identify and secure excellent locations in terms of wind resources and land rights, representing a major competitive edge today.

- **Financial discipline to provide long-term returns exceeding the Corporation's cost of capital, particularly in its areas of expertise – wind, hydroelectric and solar power;**

Over the past decade, the relative weight of the wind, hydroelectric and solar power segments combined has doubled, accounting for 98% of Boralex's total installed capacity as at December 31, 2018. This strong growth in promising technologies in the renewable energy industry resulted from the deployment of capital raised from the sale of non-strategic assets and the use of the Corporation's financial leverage in these technologies offering more promising returns. The wind power segment has experienced particularly high growth in recent years, both in Canada and France, with the latter still offering significant development potential. Wind power now accounts for 89% of Boralex's installed capacity. With regard to solar energy production, Boralex has three facilities and remains attentive to development opportunities in this niche with fast-paced technological advancements; solar energy production costs are falling rapidly. In hydroelectricity, the Corporation remains vigilant for opportunities to develop new facilities and expand capacity at existing facilities.

- **Focus of development initiatives mainly in North America and Europe.**

With its initiatives of the past few years, the Corporation has expanded its presence in Canada and France, with each country accounting for 48% of installed capacity. With the partnership entered into in October 2017 with the UK company Infinergy, Boralex will also strengthen its presence in the United Kingdom, particularly in Scotland, which boasts favourable weather conditions for wind power and aggressive renewable energy development targets. This partnership is a boon to geographic diversification.

The Corporation sees the following key financial benefits of its growth strategy:

- Structural improvement in operating margins for the Corporation in light of the higher weights of more profitable segments;
- Greater medium- and long-term stability in operating results and cash flows from operations due to long-term sales contracts, matching the borrowing maturities for its various production facilities to their energy sales contract expiry dates and greater geographic diversification of the Corporation's assets;
- Maintaining a solid cash position and reasonable debt levels through significant cash flows from operations and a series of financial transactions providing the Corporation with greater financial flexibility and strength;
- The introduction of a dividend in 2014, which has since been increased four times, including an increase of about 10% in declared dividends since the beginning of fiscal 2018, which reflects the Corporation's solid growth in recent years and confidence in its development prospects.

With the dividend, total shareholder return on equity (assuming dividends are reinvested) since the beginning of 2013 stands at about 117%, which, together with issuance of new shares, helped increase the Corporation's market capitalization to \$1.5 billion as at December 31, 2018.

## Developments in the past three fiscal years

### Acquisitions and commissioning

The table below shows all of the **wind farms** acquired and commissioned by the Corporation over the past three fiscal years, for a total of 847 MW, which increased installed capacity to 1,942 MW as at December 31, 2018, up 77% from the beginning of fiscal 2016.

| Project name                                  | Date <sup>(1)</sup>            | Total capacity (MW) | Country                             | Energy contract term        | Ownership (%)       |
|---|--------------------------------|---------------------|-------------------------------------|-----------------------------|---------------------|
| <b>Touvent</b>                                | August 1                       | 14                  | France                              | 15 years/EDF                | 100                 |
| <b>Port Ryerse</b>                            | December 9                     | 10                  | Canada                              | 20 years/IESO               | 100                 |
| <b>Oldman</b>                                 | December 15                    | 4                   | Canada                              | Market                      | 52                  |
| <b>Plateau de Savernat</b>                    | December 23                    | 12                  | France                              | 15 years/EDF                | 100                 |
| <b>2016</b>                                   |                                | <b>+ 40 MW</b>      | Installed capacity: <b>1,135 MW</b> |                             |                     |
| <b>NRWF</b>                                   | January 18                     | 230                 | Canada                              | 20 years/IESO               | Note <sup>(2)</sup> |
| <b>Plateau de Savernat II</b>                 | March 21                       | 4                   | France                              | 15 years/EDF                | 100                 |
| <b>Voie des Monts</b>                         | July 10                        | 10                  | France                              | 15 years/EDF                | 100                 |
| <b>Mont de Bagny</b>                          | August 1                       | 24                  | France                              | 15 years/EDF                | 100                 |
| <b>Artois</b>                                 | November 21                    | 23                  | France                              | 15 years/EDF                | 100                 |
| <b>Chemin de Grès</b>                         | December 6                     | 30                  | France                              | 15 years/EDF                | 100                 |
| <b>2017</b>                                   |                                | <b>+ 321 MW</b>     | Installed capacity: <b>1,456 MW</b> |                             |                     |
| <b>Kallista<sup>(3)</sup></b>                 | June 20                        | 163                 | France                              | 15 years/EDF <sup>(4)</sup> | Note <sup>(5)</sup> |
| <b>DM I, DM II, LP I, LP II and Roncevaux</b> | September 14                   | 201                 | Canada                              | Note <sup>(6)</sup>         | Note <sup>(7)</sup> |
| <b>Inter Deux Bos</b>                         | September 24                   | 33                  | France                              | 15 years/EDF                | 100                 |
| <b>Noyers Bucamps</b>                         | November 1                     | 10                  | France                              | 15 years/EDF                | 100                 |
| <b>Hauts de Comble</b>                        | November 5                     | 20                  | France                              | 15 years/EDF                | 100                 |
| <b>Côteaux du Blaiseron</b>                   | November 9                     | 26                  | France                              | 15 years/EDF                | 100                 |
| <b>Le Pelon</b>                               | January 1, 2019 <sup>(8)</sup> | 10                  | France                              | 15 years/EDF                | 100                 |
| <b>Sources de l'Ancre</b>                     | January 1, 2019 <sup>(8)</sup> | 23                  | France                              | 15 years/EDF                | 100                 |
| <b>2018</b>                                   |                                | <b>+ 486 MW</b>     | Installed capacity: <b>1,942 MW</b> |                             |                     |

<sup>(1)</sup> Dates of acquisition and commissioning by Boralex.

<sup>(2)</sup> Boralex owns 50% of FWRN LP, which owns the intangible assets of the wind farm and 100% of NR Capital GP, which owns the property, plant and equipment and debt.

<sup>(3)</sup> See the *Business combinations* note in this Annual Report for more information on this Boralex subsidiary.

<sup>(4)</sup> These contracts have a weighted average remaining contractual term of eight years from the acquisition date.

<sup>(5)</sup> Boralex owns 100% of the shares of 14 wind farms and 65% of the 15 MW Val aux Moines SAS wind farm, all in operation.

<sup>(6)</sup> These contracts have a weighted average remaining contractual term of 16 years from the acquisition date.

<sup>(7)</sup> See the *Interests in the Joint Ventures and associates* note in this Annual Report.

<sup>(8)</sup> Owing to administrative restrictions, the energy sales contract entered into force on January 1, 2019. However, since the facility was already operational, it is therefore considered as a 2018 commissioning.

The **NRWF** acquisition was the key milestone of fiscal 2017. This facility was developed by Enercon and Boralex in conjunction with Six Nations.

On June 20, 2018, Boralex announced the closing of the transaction to acquire Kallista for a total cash consideration of \$121 million (€78 million) for the shares and the assumption of \$171 million (€111 million) of project debt. The Corporation also repaid a \$78 million (€51 million) due to a non-controlling shareholder granted by Ardian Infrastructure Holding S.à.r.l. to Kallista Energy Investment SAS and an \$8 million (€6 million) loan for a total of \$86 million (€56 million). More specifically, the acquisition involved:

- 15 wind farms in operation in France totalling 163 MW covered by contracts with weighted average remaining term of eight years.
- A 10 MW wind farm under construction, **Noyers Bucamps**, which was commissioned on November 1, 2018.
- A project portfolio representing a capacity of approximately 158 MW including opportunities for repowering and expansion at existing facilities.

On September 14, 2018, Boralex entered into transactions to acquire the interests of Invenergy in five wind farms in Québec for a total cash consideration of \$216 million. At the time, the Caisse held a 52.4% interest in Invenergy and consequently, the acquisition is considered as a related party transaction. The wind farms targeted by this acquisition are the **DM I** (136 MW), **DM II** (21 MW) and **LP I** (139 MW) wind farms, 49% owned by the Caisse, as well as two community wind farms, **Roncevaux** (75 MW) and **LP II** (21 MW), 50% and 40.04% of which are owned by municipal authorities, respectively. Boralex's interest in the projects is not consolidated under IFRS and was accounted for using the equity method. The information is presented on a Combined basis.

## Other developments

### 2016

On September 8, 2016, the Corporation entered into a partnership agreement for the construction of the 200 MW **Apuiat** wind farm in Port-Cartier, Québec, together with the Innu Nation and Renewable Energy Systems Canada Inc. This project will be put on hold for an indefinite period of time given the electricity surpluses expected by Hydro-Québec and the Government of Québec. However, Québec Premier François Legault has expressed a desire to complete this project once the surpluses are depleted.

On September 16, 2016, Boralex announced the acquisition for a net cash consideration of \$104 million (€70 million) of a portfolio of wind farm construction projects and land in France and Scotland (United Kingdom) for a capacity of around 200 MW. With this acquisition, the Corporation will make further inroads in France and secure a development base in Scotland, a region particularly favourable to the development of renewable energies, offering excellent wind potential.

On December 15, 2016, another agreement was entered to create Alberta Renewable Power Limited Partnership, owned by Boralex and Alberta Wind Energy Corporation. With this partnership, Boralex joins forces with a local partner to become a renewable energy development player in Alberta. As at December 31, 2018, Boralex held a 55% interest in this partnership.

### 2017

The Board of Directors of the Corporation green-lighted six ready-to-build projects totalling 142 MW: **Côteaux du Blaiseron** (26 MW), **Hauts de Comble** (20 MW), **Inter Deux Bos** (33 MW), **Sources de l'Ancre** (23 MW), **Seuil du Cambrésis** (20 MW) and **Basse Thiérache Nord** (20 MW). Except for the **Côteaux du Blaiseron** project from the 2014 Boralex Énergie Verte acquisition, the others all originated from the Ecotera portfolio acquired in 2015. In 2018, the capacity of the **Basse Thiérache Nord** project was increased by 8 MW to 20 MW upon approval of an amended licence. In addition, the capacity of the **Seuil du Cambrésis** project was increased 4 MW to 24 MW following the approval of an amended licence authorizing the addition of a turbine.

On October 17, 2017, Boralex and UK-based Infinergy entered into a 50/50 partnership agreement aimed at developing a pipeline of onshore wind power projects with an estimated capacity of 325 MW. Located primarily in Scotland, ten projects with capacities ranging from 4 MW to 80 MW are at different stages of development: from the prospecting phase to the final evaluation phases prior to full approval. For the development phase, Boralex and Infinergy have committed to invest a total amount of \$11 million (£7 million) initially until the end of 2019. As of the date hereof, the amount remaining to be invested by Boralex will total \$3 million (£2 million). The Corporation has control over these new entities under a casting vote over major decisions.

On July 7, 2017, the Administrative Tribunal of Rennes cancelled the construction permits for the 51 MW Moulins du Lohan project based on its subjective risk assessment of landscape damage to the Lanouée forest. As a result of these proceedings, construction of the project has halted. The Corporation appealed the decision and given the circumstances, legal precedents and the grounds stated by the Tribunal, the Corporation believes it to be more likely than not that its permits will be reinstated. For more information, see section III - *Other elements, Commitments and contingencies* in this MD&A and the note *Commitments and contingencies* in the financial statements for the year ended December 31, 2018.

### 2018

Boralex's Board of Directors green-lighted four new projects, three in France and one in Canada. These projects, all to be commissioned between 2019 and 2020 are as follows:

- **Catéris** (10 MW) and **Santerre** (14 MW), two projects acquired from Ecotera in 2015;
- **Buckingham**, a hydroelectric power station whose installed capacity of 10 MW will be increased to 20 MW;
- **Cham Longe I**, a wind power project whose installed capacity will increase from 17 MW to 35 MW upon installation of new wind turbines ("repowering").

Note that the **Santerre** and the repowering of **Cham Longe I** projects were selected under the most recent series of RFPs for onshore wind power and will be built under this scenario, which means that they will be covered by 20-year energy sales contracts.

On December 20, 2018, Boralex announced the closing of an agreement to acquire the last tranche of Ecotera's wind power project portfolio. Under this agreement, the Corporation acquired eight wind power projects at different stages of development, for a total capacity of more than 100 MW. This purchase agreement also includes the acquisition of the Ecotera entity whose multidisciplinary team has solid expertise in wind farm development.

## Significant financial transactions

### 2018

On March 29, 2018, Boralex announced it had obtained a one-year extension, until April 27, 2022, for its \$460 million revolving credit facility, as well as the addition of an accordion clause, potentially providing access to an additional \$100 million, on the same terms and conditions.

Also on March 29, 2018, the Corporation confirmed a joint investment totalling \$200 million by the Caisse, a shareholder of the Corporation, and Fonds de solidarité FTQ in the form of unsecured subordinated debt maturing on March 29, 2028, subject to certain conditions. This financing included a second \$100 million exercise option, which was drawn down on July 24, 2018 to provide partial long-term financing for the Kallista acquisition.

On June 20, 2018, the Corporation announced it had entered into agreements to acquire Invenergy's interests in five wind farms in Québec for \$216 million. The Corporation then completed a public offering of 10,247,650 subscription receipts on July 11, 2018 at a price of \$20.20 per subscription receipt for gross proceeds of \$207 million (including the exercise in full of the underwriters' over-allotment option). The Corporation also entered into a subscription agreement pursuant to which the Caisse acquired, by way of private placement, 2,562,200 subscription receipts at a price of \$20.20 per subscription receipt for gross proceeds of \$52 million, including the exercise in full of its option to acquire additional subscription receipts from the private placement simultaneously and proportionately with the exercise of the over-allotment option by the underwriters. The net proceeds of \$250 million from the share issuance were used primarily to finance the acquisition of wind farms and meet certain Corporation's general working capital requirements. On September 14, 2018, upon the closing of the acquisition of Invenergy's interest, the subscription receipts were exchanged in full for an equal number of common shares of Boralex.

## Dividend increase

A number of dividend increases have occurred since the dividend was introduced in 2014.

On February 24, 2016, the Corporation increased the annual dividend by 7.7%, to \$0.56 per share (\$0.14 per share on a quarterly basis). Following the NRW acquisition, another increase of 7.1% was announced on February 1, 2017, bringing the annual dividend to \$0.60 per share (\$0.15 per share on a quarterly basis).

On May 8, 2018, the Boralex Board of Directors authorized a 5% increase in the annualized dividend. Accordingly, the annual dividend increased from \$0.60 to \$0.63 per common share (from \$0.1500 to \$0.1575 on a quarterly basis).

Following the acquisition of Invenergy's interests in five wind farms in Québec and given the confidence inspired by the outlook for the Corporation, the Board of Directors authorized a second increase for the annual dividend in 2018, amounting to 4.8%, increasing the dividend from \$0.63 to \$0.66 per share (or from \$0.1575 to \$0.1650 per share on a quarterly basis) bringing the total increase in the declared dividend since the beginning of the fiscal year to 10%. This second increase was effective as of the closing of the acquisition of Invenergy's interests in the **DM I**, **DM II** and **LP I** wind farms on September 14, 2018.

Annual dividend payout rates per common share were as follows:

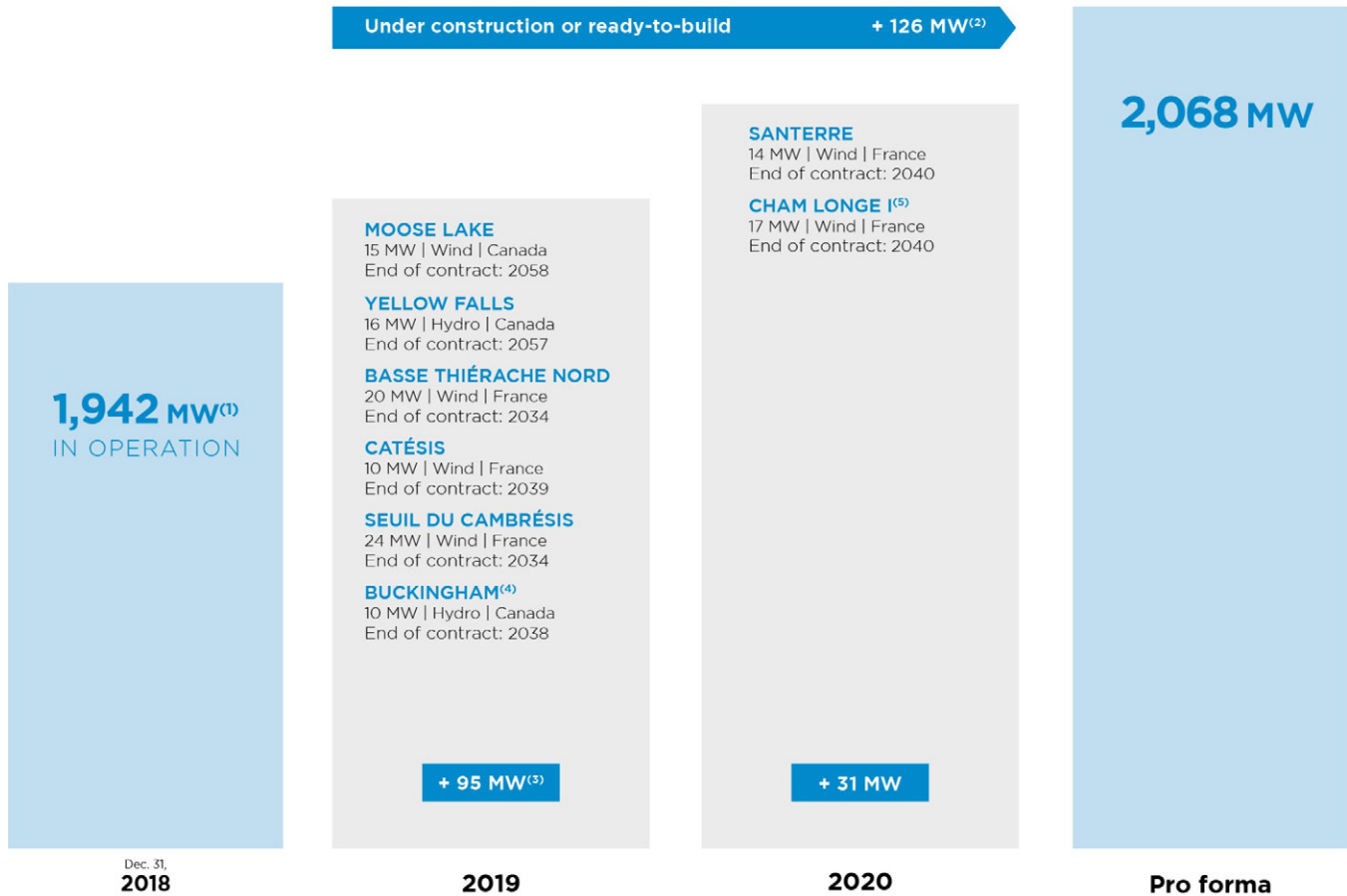
- \$0.55 in 2016;
- \$0.60 in 2017;
- \$0.63 in 2018.

The Corporation maintains its objective of paying an annual ordinary dividend equivalent to a dividend payout ratio of between 40% and 60% of discretionary cash flows. As at December 31, 2018, discretionary cash flows totalled \$60 million and the payout ratio stood at 85%.

For more information, see section II – Analysis of results and financial position – Non-IFRS measures.

# Outlook and development objectives

## Growth path<sup>(1)</sup>



<sup>(1)</sup> This data, as well as all the data contained in the MD&A as at December 31, 2018, reflects 100% of Boralex subsidiaries in which the Corporation is the controlling shareholder. The data also reflects Boralex's share in entities over which it does not have control which are accounted for using the equity method in the 2018 Annual Report, consisting of 170 MW in the Joint Ventures operating the Seigneurie de Beaupré Wind Farms in Québec, representing 50% of the total installed capacity of 340 MW, plus 201 MW from five wind farms in Québec, following the acquisition of Invenergy's interests in these facilities which was completed on September 14, 2018.

<sup>(2)</sup> France 85 MW | Canada 41 MW

<sup>(3)</sup> Hydro 26 MW | Wind 69 MW

<sup>(4)</sup> Project whose current capacity of 10 MW is to increase to 20 MW.

<sup>(5)</sup> Project whose current capacity of 18 MW is to increase to 35 MW while the initial expiry date of 2020 is to be extended by 20 years.

## Projects in development stage

### Wind

The wind power segment accounts for 89% of Boralex's total installed capacity and remains its top growth vector. Boralex has nearly doubled its wind power segment operating asset base over the past three years through both acquisitions and newly commissioned facilities.

A key factor in Boralex's success is the expertise and skill of its team in identifying, developing, financing, building and operating superior quality wind farms, including some very large-scale operations.

Boralex also has a unique development strategy based on two main geographic areas: Europe and North America. This strategy not only affords geographic and climate diversification that could have a smoothing effect on its results, but also provides access to a wider range of growth opportunities and the latitude to capitalize on differently evolving target markets.

## Fiscal 2019

Boralex's wind power segment began fiscal 2019 with 486 MW in additional installed capacity compared with a year earlier due to the prior year's commissioning and acquisitions. These wind farms will contribute to its operating and financial performance throughout fiscal 2019.

With this significant increase in installed capacity - a record for a single fiscal year - the Corporation will strengthen its position as industry leader, particularly in France. Building on existing recognition for its robust expertise in the development, financing, construction, commissioning and operation of wind farms, the Corporation will improve its credibility, which will stand it in good stead when setting up partnerships, negotiating loan terms and entering into agreements with equipment suppliers. Existing wind farms will also benefit from operational synergies.

Also, as set out in the *Growth path*, Boralex plans to add six new wind farms for an additional installed capacity of 69 MW in 2019 and 31 MW in 2020. All covered by long-term indexed, fixed-price energy sales contracts, these assets will contribute to the Corporation's results as they are commissioned (see the *Summary of projects in development stage table*).

## Medium- and long-term outlook

### Wind power sector developments

Technological advances in recent years have led to significant performance improvements for wind power equipment. Wind energy has thus joined the ranks of the other large-scale power generation alternatives - coal, hydroelectricity, natural gas and nuclear power - offering comparable operating costs.

A U.S. Department of Energy report titled *Wind Vision: A New Era for Wind Power in the United States* quantifies the economic, environmental, and social benefits of wind energy demonstrating that wind could be a viable source of renewable energy in each of the 50 states by 2050. According to this report, wind power is the fastest growing sources of new electricity supply in the United States since 2000.

There is another factor that is likely to drive wind power sector development. The development of technologies to store the energy produced will eliminate the problem of changing wind conditions to provide stable and reliable supply.

In addition, climate change issues are resulting in growing public support for a shift to clean energy and responsible consumption. As a result, a number of players, including governments and institutional investors, are more inclined to adopt measures in line with what is now known as the energy transition. Wind energy is considered one of the preferred options to make this transition reality.

However, as technology breakthroughs fuel greater accessibility, the wind power sector is maturing and offers a lower level of risk. As a result, investors are increasingly keen to capitalize on its financial benefits, including steady, predictable cash flows. The result is more and more intense competition. Governments are sensitive to this situation and are adopting the tendering approach for energy procurement, which is resulting in lower bid prices.

Despite a fiercely competitive environment, management believes Boralex is well placed to seize growth opportunities in the wind power sector. In moving forward, the Corporation intends to continue building on its recognized expertise and solid reputation in key markets, including Canada and France, as an effective developer and operator.

### Trends in Boralex's key markets

#### North America

In **Canada**, the main wind power development directions and action plans are developed by provincial governments. As a result, the type and details of wind power commitments and development prospects differ from province to province. Accordingly, the wind power sector in provinces such as Québec and Ontario has reached a certain degree of maturity with more limited short-term development prospects, while other provinces are continuing their transition to allocate a greater proportion of assets to renewable energy production.

Over the years, Boralex has capitalized on conditions in Canada to build a strong operational asset base of 1,190 MW in the wind power sector, establishing itself as one of the country's largest renewable energy producers. As a project developer, the Corporation has pioneered partnering with local communities in Québec and First Nations in Ontario.

**Alberta** is currently the market with the most promising growth prospects in Canada. The current provincial government intends to cease coal-fired power generation by 2030. Under the REP, AESO anticipates investments of more than \$10 billion for the development of 5,000 MW in installed capacity of renewable energy by 2030. To establish itself in Alberta's wind power market, Boralex continues to leverage its partnership with developer AWEC and participate in competitions called under the REP.



**British Columbia** also has long-term potential, given its abundant wind resources and proximity to Northwestern U.S. export markets. Boralex made its initial foray into the province's wind power sector with the **Moose Lake** facility. The commissioning of this wind farm, slated for the end of 2018, was postponed by several months due to a defective turbine, a situation beyond the Corporation's control.

In the **United States**, Boralex intends to step up efforts to seize opportunities arising from the energy transition. As energy policy is generally set at the state rather than federal level, the Corporation is focusing on the New England and East Coast states, where Boralex already has a hydroelectric power station presence. Moreover, these states are highly populated and open to renewable energy. Boralex is also exploring potential acquisitions or partnerships with local developers to get there faster.

#### Europe

In **Europe**, Boralex continues to leverage its long-term experience as a wind farm developer and operator to strengthen its presence. Boralex's proven expertise and its strong reputation among financial institutions, elected officials, suppliers, partners and local communities provide the Corporation with competitive strengths to bid for and carry out a wind power project.

For nearly 20 years, **France** has been fertile ground for Boralex with well-targeted acquisitions of wind farms in operation and facilities under construction and the development of greenfield projects. Management believes that the country continues to offer attractive growth opportunities, due to its commitment to increase the share of renewable energy in national power generation to 26% by 2020 and 32% by 2030. This is especially true since the government has announced it intends to implement measures to accelerate wind power development. These include promoting social acceptability through tax measures that will increase the financial benefits for communities and limiting, by eliminating one level of jurisdiction, the processing time for projects whose licences are contested. Boralex management considers that this measure alone could result in a two- to three-year reduction in the typical construction cycle for greenfield projects, which currently ranges from five to seven years.

There is another element that is likely to accelerate the transition to renewable energy, including wind energy. The government is evaluating various scenarios to reduce the share of nuclear facilities in its power generation, including the foreseeable shutdown over the next 10 to 15 years of about 18 reactors once they reach the 40-year operating threshold. Depending on the scenario chosen, this could result in a significant increase in renewable energy production, totalling up to three times the current level.

The Corporation has competitive strengths to leverage this favourable environment to bolster and build on its position as France's largest independent producer of onshore wind power. The recent Kallista acquisition and the commissioning of six wind farms in fiscal 2018 alone for an additional 285 MW are striking examples. The *Growth path* shows five wind power projects under development with commissioning slated for the end of fiscal 2020, representing an additional 85 MW.

The Corporation intends to participate in the tendering system, which anticipates the awarding of contracts of a cumulative installed capacity of onshore wind power totalling 3,400 MW by the end of 2020 that will benefit from 20-year contracts. Note that following the June 2018 RFP, only 118 MW was awarded out of a potential of 500 MW with Boralex winning the lion's share of a total of 49 MW for the **Santerre** and **Cham Longe I** projects.

Considering the low participation, the French government has relaxed the rules for the next period of RFPs scheduled for April 2019 by accepting projects that are yet to obtain all the required authorizations and licences. Three other RFP rounds are scheduled up to mid-2020. Boralex should be able to submit proposals for capacity of several hundreds of MW whether or not the relaxed rules are maintained for future periods.

During this time, Boralex could also focus on the bids filed under the 2016 FiP program, which have the advantage of a known and predictable fixed price, along with indexed contracts over a 15-year term.

Note that new rules have been introduced whereby the rates stipulated in future contracts will be set according to electricity market prices, plus a feed-in premium. However, under transition rules, applications filed before the end of 2016 that are approved will benefit from a rate equivalent to the rate applicable for fixed-rate power purchase agreements prior to this rule change whether or not relaxing of rules is maintained for future periods.

Lastly, in the first half of 2019, Boralex intends to submit a proposal in conjunction with partners in connection with an RFP in France for offshore wind turbines, given that the Dunkirk project was qualified previously.

In the **United Kingdom**, Boralex owns the rights to a large pipeline of projects, mainly in Scotland, which stands it in good stead to enter this wind power market. This positioning resulted from the acquisition of a portfolio of projects in September 2016 combined with the partnership entered into in October 2017 with Infinergy. Boralex continues to develop these projects with a view to capitalizing on new opportunities that meet its economic criteria.

### Competitive advantages

In summary, Boralex management considers that a number of factors make the wind power segment's development prospects conducive to corporate growth. These factors include:

- A solid financial position;
- Geographical diversification on two continents;
- The scope and quality of its facilities in operation and its projects under development, the lion's share of which are covered by long-term energy sales contracts;
- A significant pipeline of potential projects;
- A seasoned, multidisciplinary, entrepreneurial-minded team with the capacity to quickly adapt to changing market conditions, while keeping an eye out for the most promising development opportunities;
- Proven expertise in wind farm project development, finance structuring, construction and operation;
- A well-established reputation among international financial institutions;
- Strong credibility with local communities and First Nations as a responsible partner.

### Hydroelectric

Boralex earned its stripes as a renewable energy producer in the hydroelectric power industry some 25 years ago, initially with a network of power stations in Québec, then in the Northeastern United States and British Columbia.

On October 3, 2018, the Corporation has provided IESO with all the required documents for **Yellow Falls**, its first power station in Ontario, to be deemed commissioned under the terms of the power purchase agreement. It is currently in the final stages of the commissioning process. The Corporation expects the power station to be commissioned in the first half of 2019, which should generate annual EBITDA of approximately \$7 million and increase its installed capacity in the hydroelectric power segment to 172 MW. The energy produced will be sold under a contract with a total term of 40 years.

A project involving a number of turbine replacements is underway to increase the 10 MW **Buckingham** hydroelectric power station to 20 MW. This will add some \$5 million to the Corporation's annual EBITDA. This work will lead to minor structural changes and will have no impact on water levels either upstream or downstream. For construction purposes, all of the necessary certificates of authorization have been obtained from Québec's Ministry of the Environment and the Fight against Climate Change. For operation purposes, the certificate of authorization will be applied for shortly, as initially planned. Therefore, work began in the second quarter of 2018, with commissioning scheduled for the second half of 2019. As a result of this work, the power station was idle for four last months in 2018 and is expected to be idle for nearly ten months in 2019.

The Corporation remains on the watch for potential asset acquisition opportunities to drive hydroelectric power segment growth in its existing markets with a view to leveraging operational synergies. The Corporation brings its skilled team and lengthy hydroelectric experience to bear in pursuit of this goal.

Boralex also relies on the quality and geographic diversification of its hydroelectric power stations to generate favourable profit margins and significant cash flows. In particular, the Corporation strives to maintain a balanced profile to mitigate the impact of certain variables, such as water flow, U.S. open market selling prices and the U.S. dollar exchange rate.

### Thermal

While thermal power is not a preferred development target under its growth strategy, the Corporation is keeping watch for business opportunities that could arise in the sector, provided the assets are covered by long-term energy sales and raw material supply contracts, and are in line with Boralex's market position and performance objectives.

The Corporation is interested, in particular, in new green energy production technologies based on forest biomass. For example, in 2014, the Corporation acquired an interest in Cellufuel in Nova Scotia, Canada, which is developing a technology to produce renewable synthetic diesel fuel from wood fibre.

In April 2017, further to the energy policy launched in 2016, the Government of Québec announced several measures specifically aimed at renewable fuel and biofuel production within the province. In response, Cellufuel recently opted to transfer its operations to Québec to take advantage of its conducive conditions, while gaining proximity to the raw material sources (forest and sawmill residues) and the Université de Sherbrooke's Industrial Research Chair in Cellulosic Ethanol and Biocommodities.

Under an agreement with Hydro-Québec, renewed until 2027, the **Senneterre** power station in Québec typically generates electricity eight months of the year (December to March, then June to September). This agreement provides for financial compensation to maintain profitability akin to prior-year performance.

## Solar

The solar power industry has achieved remarkable technological advances in recent years, which has resulted in significantly more attractive productivity and profitability. We therefore expect to see steady growth in the use of this clean and abundant source of energy, which is why Boralex continues to make the necessary effort to capitalize on the potential of this sector.

It holds the rights to a number of development projects in France. The 15 MW **Cruis** solar power project was recently selected as part of the third round of RFPs for the construction and operation of solar power projects. However, there are still some steps to be completed before the project can be added to the *Growth path*. If chosen and approved, the facility, once commissioned, would nearly double the installed capacity of the solar power segment in France.

The Corporation is leveraging its existing facilities to strengthen its expertise in this area. Its three solar energy facilities—two in France, known as **Avignonet-Lauragais** (5 MW) and **Les Cigarettes** (10 MW), and one in Ontario, namely **Vaughan** (under 1 MW)—continue to generate results consistent with expectations.

## Summary of projects in development stage

Within the extensive pipeline of projects recently acquired or launched by the Corporation, primarily in the wind power segment, the projects listed below are in the advanced development stage and are to be commissioned by the end of 2020.

| Project name                 | Total capacity (MW) | Segment/Country | Energy contract term/Client  | Ownership (%) | Commissioning                | Total project investment <sup>(1)(2)</sup> | Estimated annual EBITDA <sup>(2)</sup> |
|------------------------------|---------------------|-----------------|------------------------------|---------------|------------------------------|--|--|
| Moose Lake                   | 15                  | Wind/Canada     | 40 years/BC Hydro            | 70            | 1 <sup>st</sup> half of 2019 | \$61 million                               | \$5 million                            |
| Yellow Falls                 | 16                  | Hydro/Canada    | 40 years/IESO <sup>(3)</sup> | 100           | 1 <sup>st</sup> half of 2019 | \$101 million                              | \$7 million                            |
| Basse Thiérache Nord         | 20                  | Wind/France     | 15 years/EDF                 | 100           | 1 <sup>st</sup> half of 2019 | €28 million                                | €4 million                             |
| Catésis                      | 10                  | Wind/ France    | 20 years/EDF                 | 100           | 1 <sup>st</sup> half of 2019 | €18 million                                | €2 million                             |
| Seuil du Cambrésis           | 24                  | Wind/France     | 15 years/EDF                 | 100           | 2 <sup>nd</sup> half of 2019 | €40 million                                | €5 million                             |
| Buckingham <sup>(4)</sup>    | 20                  | Hydro/Canada    | 25 years/HQ                  | 100           | 2 <sup>nd</sup> half of 2019 | \$50 million                               | \$8 million                            |
| Santerre                     | 14                  | Wind/ France    | 20 years/EDF                 | 100           | 1 <sup>st</sup> half of 2020 | €26 million                                | €3 million                             |
| Cham Longe II <sup>(5)</sup> | 35                  | Wind/ France    | 20 years/EDF                 | 100           | 2 <sup>nd</sup> half of 2020 | €45 million                                | €6 million                             |

<sup>(1)</sup> These amounts are estimated as of the date of this MD&A. However, actual results may differ from these estimates.

<sup>(2)</sup> See *Notice concerning forward-looking statements*.

<sup>(3)</sup> The total 40-year contract includes four renewal options, each for a five-year period, at Boralex's discretion.

<sup>(4)</sup> Management expects this 10 MW increase in installed capacity to result in the addition of \$5 million to current EBITDA.

<sup>(5)</sup> Management expects this 17 MW increase in installed capacity to result in the addition of €4 million to current EBITDA.

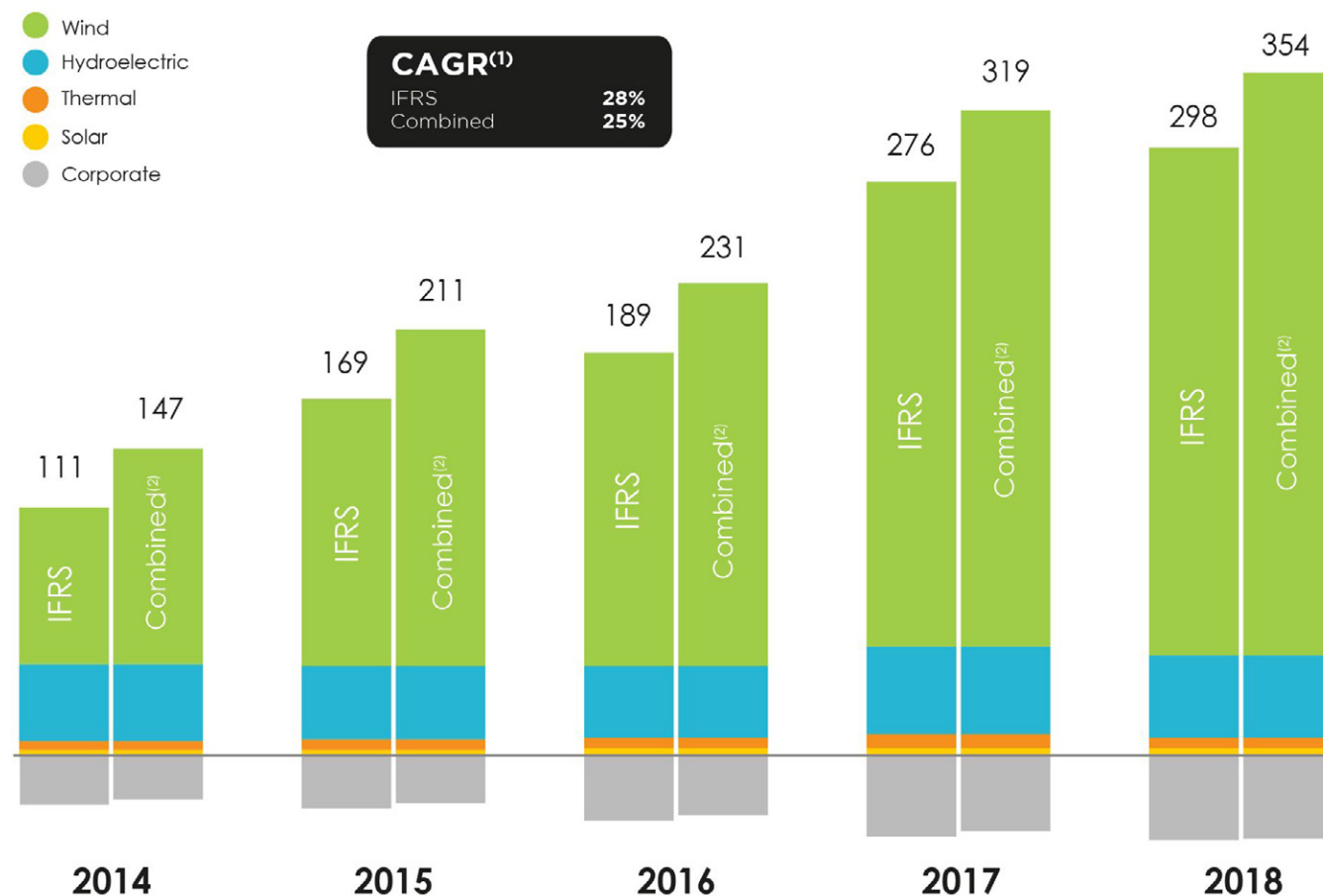
Overall, the projects included in the table above represent a total investment of \$457 million, with an estimated additional contribution to annual EBITDA of \$47 million, representing a 13% increase in Boralex's 2018 EBITDA(A) on a Combined basis. Note that as at December 31, 2018, \$208 million had been invested, with \$249 million remaining, to complete these projects, \$193 million or 78% of which will be by way of debt.

## Growth outlook

As shown in the *Growth path* chart above and the following *Historical data* chart, Boralex's outlook is closely linked to prospects in the wind power segment, given its dominant position in the Corporation's energy portfolio and the strong growth potential of its project portfolio. Since the beginning of 2014, the Corporation has generated sustained and strong EBITDA(A) growth, driven essentially by the significant development of its wind power assets, and supported by its sound and flexible financial position and the expertise of its teams. The initial target of 2,000 MW will be achieved in 2019, one year ahead of schedule.

### Historical data

EBITDA(A) (in millions of dollars)



<sup>(1)</sup> Compound annual growth rate for the 2014–2018 period.

<sup>(2)</sup> See the *Non-IFRS measures* section.

## 2019-2020 Outlook: Disciplined and profitable growth

During fiscal 2018, given the acquisition of Kallista (163 MW) in France and Invenergy's interests (201 MW) in Québec as well as the commissioning of **Sources de l'Ancre** (23 MW), **Le Pelon** (10 MW), **Côteaux du Blaiseron** (26 MW), **Hauts de Comble** (20 MW), **Noyers Bucamps** (10 MW) et **Inter Deux Bos** (33 MW) wind farms, Boralex's installed capacity increased by 486 MW, thereby bolstering operating income. Including the facilities slated for commissioning in the *Growth path*, the Corporation will achieve an installed capacity of 2,068 MW by the end of 2020, on a Combined basis, which exceeds the set target of 2,000 MW. In light of the above, its market analysis and the current status of the project portfolio, the Corporation's management will announce its new strategic plan in 2019.

Considering the Kallista acquisition, the contribution of the investments acquired from Invenergy, scheduled commissioning and a possible increase in corporate and development costs reflecting the Corporation's future growth, management set an annualized 2020 year-end EBITDA target ("target run rate") ranging from \$390 million to \$410 million under IFRS and \$480 million to \$500 million on a Combined basis on the assumption that all assets were to be operational for the full year.

To support execution of its various projects and drive shareholder value, Boralex enjoys a solid financial position strengthened by:

- The refinancing of the revolving credit facility to \$460 million and extension of its maturity by one year to April 27, 2022, including the option to draw down an additional \$100 million with the addition of an accordion clause;
- The joint investment totalling \$200 million by the Caisse and Fonds de solidarité FTQ in the form of unsecured subordinated debt with a ten-year maturity, which was increased by \$100 million in July 2018;
- Significant cash flows generated by operations;
- Protection against interest rate fluctuations as a result of the use of interest rate swaps or fixed-rate debt instruments, along with effective matching of borrowing terms and energy sales contracts.

## Priority objective: Creating value

Boralex's ultimate goal is to create growing and sustainable economic value for its shareholders and for other stakeholders including its employees, partners and the communities in which it operates. Boralex will continue to create value by providing the strategic, operating and financial conditions for growth in cash flows per share. This will enable it to ensure the Corporation's sustainability and development, continue expansion, support its dividend policy, promote share price growth and ensure permanent access to the capital markets under the most favourable conditions possible.

In line with these objectives, the Corporation prioritizes the addition of facilities in operation or projects covered by long-term energy sales contracts to secure significant and more stable cash flows, primarily in the wind, solar and hydroelectric power segments, while keeping an eye out for new technologies.

## Seasonal factors

| (in millions of Canadian dollars, unless otherwise specified)                                    | Three-month periods ended |                  |                       |                      | Year ended           |
|--|---------------------------|------------------|-----------------------|----------------------|----------------------|
|  | March 31,<br>2018         | June 30,<br>2018 | September 30,<br>2018 | December 31,<br>2018 | December 31,<br>2018 |
| <b>POWER PRODUCTION (GWh)</b>  |                           |                  |                       |                      |                      |
| Wind power stations  | 824                       | 490              | 415                   | 852                  | 2,581                |
| Hydroelectric power stations   | 166                       | 194              | 118                   | 170                  | 648                  |
| Thermal power stations   | 61                        | 57               | 8                     | 40                   | 166                  |
| Solar power stations   | 4                         | 6                | 7                     | 3                    | 20                   |
|  | 1,055                     | 747              | 548                   | 1,065                | 3,415                |
| <b>REVENUES FROM ENERGY SALES</b>  |                           |                  |                       |                      |                      |
| Wind power stations  | 125                       | 73               | 64                    | 123                  | 385                  |
| Hydroelectric power stations   | 14                        | 14               | 10                    | 11                   | 49                   |
| Thermal power stations   | 12                        | 7                | 3                     | 9                    | 31                   |
| Solar power stations   | 1                         | 1                | 2                     | 2                    | 6                    |
|  | 152                       | 95               | 79                    | 145                  | 471                  |
| <b>EBITDA(A)<sup>(1)</sup></b>   |                           |                  |                       |                      |                      |
| Wind power stations  | 101                       | 58               | 46                    | 105                  | 310                  |
| Hydroelectric power stations   | 10                        | 10               | 5                     | 8                    | 33                   |
| Thermal power stations   | 4                         | 1                | —                     | 2                    | 7                    |
| Solar power stations   | 1                         | 1                | 2                     | 1                    | 5                    |
|  | 116                       | 70               | 53                    | 116                  | 355                  |
| Corporate and eliminations   | (12)                      | (13)             | (14)                  | (18)                 | (57)                 |
|  | 104                       | 57               | 39                    | 98                   | 298                  |
| <b>NET EARNINGS (LOSS)</b>   | 23                        | (33)             | (40)                  | 6                    | (44)                 |
| <b>NET EARNINGS (LOSS) ATTRIBUTABLE TO SHAREHOLDERS OF BORALEX</b>                               | 20                        | (28)             | (34)                  | 6                    | (36)                 |
| <b>NET EARNINGS (LOSS) PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF BORALEX – BASIC AND DILUTED</b> | \$0.26                    | (\$0.36)         | (\$0.43)              | \$0.06               | (\$0.45)             |
| <b>NET CASH FLOWS RELATED TO OPERATING ACTIVITIES</b>  | 110                       | 52               | 17                    | 23                   | 202                  |
| <b>CASH FLOWS FROM OPERATIONS<sup>(1)</sup></b>  | 77                        | 21               | 23                    | 71                   | 192                  |
| Weighted average number of shares outstanding – basic  | 76,256,796                | 76,318,743       | 78,552,595            | 89,155,304           | 80,102,038           |

<sup>(1)</sup> See the *Non-IFRS measures* section.

## Seasonal factors

| (in millions of Canadian dollars, unless otherwise specified)                          | Three-month periods ended |                  |                       |                      | Year ended           |
|--|---------------------------|------------------|-----------------------|----------------------|----------------------|
|  | March 31,<br>2017         | June 30,<br>2017 | September 30,<br>2017 | December 31,<br>2017 | December 31,<br>2017 |
| <b>POWER PRODUCTION (GWh)</b>  |                           |                  |                       |                      |                      |
| Wind power stations  | 655                       | 488              | 385                   | 676                  | 2,204                |
| Hydroelectric power stations   | 173                       | 231              | 166                   | 159                  | 729                  |
| Thermal power stations   | 77                        | 18               | 47                    | 31                   | 173                  |
| Solar power stations   | 4                         | 7                | 7                     | 5                    | 23                   |
|  | 909                       | 744              | 605                   | 871                  | 3,129                |
| <b>REVENUES FROM ENERGY SALES</b>  |                           |                  |                       |                      |                      |
| Wind power stations  | 88                        | 68               | 52                    | 107                  | 315                  |
| Hydroelectric power stations   | 17                        | 19               | 15                    | 14                   | 65                   |
| Thermal power stations   | 13                        | 3                | 5                     | 7                    | 28                   |
| Solar power stations   | 1                         | 2                | 2                     | 1                    | 6                    |
|  | 119                       | 92               | 74                    | 129                  | 414                  |
| <b>EBITDA(A)<sup>(1)</sup></b>   |                           |                  |                       |                      |                      |
| Wind power stations  | 77                        | 53               | 36                    | 95                   | 261                  |
| Hydroelectric power stations   | 13                        | 15               | 11                    | 10                   | 49                   |
| Thermal power stations   | 6                         | (1)              | 1                     | 2                    | 8                    |
| Solar power stations   | 1                         | 1                | 1                     | 1                    | 4                    |
|  | 97                        | 68               | 49                    | 108                  | 322                  |
| Corporate and eliminations   | (10)                      | (11)             | (10)                  | (15)                 | (46)                 |
|  | 87                        | 57               | 39                    | 93                   | 276                  |
| <b>NET EARNINGS (LOSS)</b>   | 15                        | (7)              | (26)                  | 28                   | 10                   |
| <b>NET EARNINGS (LOSS) ATTRIBUTABLE TO SHAREHOLDERS OF BORALEX</b>                     | 15                        | (2)              | (17)                  | 26                   | 22                   |
| <b>NET EARNINGS (LOSS) PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF BORALEX – BASIC</b>   | \$0.21                    | (\$0.03)         | (\$0.23)              | \$0.34               | \$0.29               |
| <b>NET EARNINGS (LOSS) PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF BORALEX – DILUTED</b> | \$0.21                    | (\$0.03)         | (\$0.23)              | \$0.32               | \$0.29               |
| <b>NET CASH FLOWS RELATED TO OPERATING ACTIVITIES</b>                                  | 54                        | 38               | 36                    | 17                   | 145                  |
| <b>CASH FLOWS FROM OPERATIONS<sup>(1)</sup></b>  | 58                        | 44               | 24                    | 69                   | 195                  |
| Weighted average number of shares outstanding – basic                                  | 74,025,928                | 75,874,562       | 75,991,810            | 76,174,741           | 75,436,036           |

<sup>(1)</sup> See the Non-IFRS measures section.

The Corporation's operations and results are partly subject to seasonal cycles and other cyclical factors that vary by segment. Since nearly all of Boralex facilities have long-term indexed, fixed-price energy sales contracts, seasonal cycles mainly affect the total volume of power generated by the Corporation. In other words, while the Corporation's production in a given year is exposed to seasonal cycles and other cyclical factors, this is mitigated by diversifying its power generation sources and favourable geographic positioning.

Operating volumes at Boralex facilities are influenced by the following seasonal factors, depending on their specific power generation method.



## Wind

For the wind power assets in operation in which Boralex's share totals 1,723 MW, wind conditions both in France and Canada are usually more favourable in the winter, which falls during Boralex's first and fourth quarters. However, in winter there is a greater risk of lower production caused by weather conditions, such as icing. More specifically, management estimates the breakdown of wind power segment production at approximately 60% for the first and fourth quarters and 40% for the second and third quarters.

With the wind farms on the *Growth path* slated for commissioning by the end of 2020, which will add 100 MW to the wind power segment's installed capacity, it is expected that a growing portion of the Corporation's total revenues will be generated in the first and fourth quarters of the coming years.

## Hydroelectric

The hydroelectric assets have an installed capacity of 156 MW as at December 31, 2018 and will increase to 182 MW with the commissioning of the Yellow Falls project expected in the first half of 2019 and the increase in capacity at the Buckingham power station at the end of 2019. The energy produced depends on water flow, which in Canada and the Northeastern United States is typically at a maximum in spring and high in the fall, corresponding to Boralex's second and fourth quarters. Historically, water flow tends to decrease in winter and summer. However, over a long-term horizon, there may be variations from year to year due to short-term weather conditions. In general, management estimates the breakdown of annual hydroelectric power generated at approximately 60% for the second and fourth quarters and 40% for the first and third quarters. Note that apart from four hydroelectric power stations whose water flow is regulated upstream and is not under the Corporation's control, Boralex's other hydroelectric facilities do not have reservoirs that would permit water flow regulation during the year.

## Thermal

Boralex operates two thermal power stations with an aggregate 47 MW of installed capacity. The 35 MW Senneterre power station in Québec, Canada is fuelled by wood residues and is covered by an energy sales contract with Hydro-Québec expiring in 2027. The Corporation has entered into an agreement with Hydro-Québec which stipulates that until contract expiry, the Senneterre power station is limited to producing electricity eight months per year, from December to March and from June to September. During the term of this agreement, the Senneterre power station will receive financial compensation from Hydro-Québec, allowing Boralex to expect relatively stable profitability from year to year.

Boralex also operates a 12 MW natural gas power station in Blendecques, France. For the past several years, due to specific market conditions, this cogeneration plant produces electricity five months of the year, from November to March, which represents all of Boralex's first quarter and part of its fourth quarter. During the electricity production shutdown period, steam intended for an industrial client is produced using an auxiliary boiler. Given that electricity selling prices are tied to natural gas prices, they are also exposed to some volatility. However, any change in natural gas prices impacts the cost of this raw material which in turn offsets to a large extent the volatility of results.

## Solar

The solar power facilities representing an installed capacity of 16 MW are all covered by long-term energy sales contracts. They benefit from sunlight conditions that are typically more favourable in the spring and summer, which occur in Boralex's second and third quarters. In view of these weather conditions, management estimates that approximately 65% of solar energy will be produced in the second and third quarters each year.

## Selected annual information

### Operating results data

| (in millions of Canadian dollars, unless otherwise specified)                                    | Years ended December 31 |            |            |
|--|-------------------------|------------|------------|
|  | 2018                    | 2017       | 2016       |
| <b>POWER PRODUCTION (GWh)</b>  | 3,415                   | 3,129      | 2,441      |
| <b>REVENUES FROM ENERGY SALES</b>  | 471                     | 414        | 299        |
| <b>EBITDA(A)</b>   | 298                     | 276        | 189        |
| <b>NET EARNINGS (LOSS)</b>   | (44)                    | 10         | 2          |
| <b>NET EARNINGS (LOSS) ATTRIBUTABLE TO SHAREHOLDERS OF BORALEX</b>                               | (36)                    | 22         | (2)        |
| <b>NET EARNINGS (LOSS) PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF BORALEX – BASIC AND DILUTED</b> | (\$0.45)                | \$0.29     | (\$0.03)   |
| <b>NET CASH FLOWS RELATED TO OPERATING ACTIVITIES</b>  | 202                     | 145        | 148        |
| <b>CASH FLOWS FROM OPERATIONS<sup>(1)</sup></b>  | 192                     | 195        | 128        |
| <b>DIVIDENDS PAID ON COMMON SHARES</b>   | 50                      | 46         | 36         |
| <b>DIVIDENDS PAID PER COMMON SHARE<sup>(1)</sup></b>   | \$0.63                  | \$0.60     | \$0.55     |
| Weighted average number of shares outstanding – basic  | 80,102,038              | 75,436,036 | 65,199,024 |

### Statement of financial position data

| (in millions of Canadian dollars, unless otherwise specified) | As at<br>December 31,<br><b>2018</b> | As at<br>December 31,<br><b>2017</b> | As at<br>December 31,<br><b>2016</b> |
|---|--------------------------------------|--------------------------------------|--------------------------------------|
|   |                                      |                                      |                                      |
| Total cash, including restricted cash                         | 253                                  | 150                                  | 293                                  |
| Property, plant and equipment                                 | 2,941                                | 2,621                                | 1,668                                |
| Total assets  | 4,746                                | 3,926                                | 2,702                                |
| Subscription receipts   | —                                    | —                                    | 173                                  |
| Debt, including non-current debt and current portion of debt  | 3,271                                | 2,642                                | 1,540                                |
| Liability component of convertible debentures                 | 140                                  | 137                                  | 135                                  |
| Total liabilities   | 3,845                                | 3,197                                | 2,188                                |
| Total equity  | 901                                  | 729                                  | 514                                  |
| Net debt to market capitalization ratio <sup>(1)</sup> (%)    | 65                                   | 56                                   | 50                                   |

<sup>(1)</sup> See the *Non-IFRS measures* section.

# Financial highlights

| (in millions of Canadian dollars, unless otherwise specified)                          | Three-month periods<br>ended December 31 |            | Years ended<br>December 31 |            |
|--|--|------------|----------------------------|------------|
|  | 2018                                     | 2017       | 2018                       | 2017       |
| <b>POWER PRODUCTION (GWh)</b>  |  |            |                            |            |
| Wind power stations  | 852                                      | 676        | 2,581                      | 2,204      |
| Hydroelectric power stations   | 170                                      | 159        | 648                        | 729        |
| Thermal power stations   | 40                                       | 31         | 166                        | 173        |
| Solar power stations   | 3  | 5          | 20                         | 23         |
|  | 1,065                                    | 871        | 3,415                      | 3,129      |
| <b>REVENUES FROM ENERGY SALES</b>  |  |            |                            |            |
| Wind power stations  | 123                                      | 107        | 385                        | 315        |
| Hydroelectric power stations   | 11                                       | 14         | 49                         | 65         |
| Thermal power stations   | 9  | 7          | 31                         | 28         |
| Solar power stations   | 2  | 1          | 6                          | 6          |
|  | 145                                      | 129        | 471                        | 414        |
| <b>EBITDA(A)<sup>(1)</sup></b>   |  |            |                            |            |
| Wind power stations  | 105                                      | 95         | 310                        | 261        |
| Hydroelectric power stations   | 8  | 10         | 33                         | 49         |
| Thermal power stations   | 2  | 2          | 7                          | 8          |
| Solar power stations   | 1  | 1          | 5                          | 4          |
|  | 116                                      | 108        | 355                        | 322        |
| Corporate and eliminations   | (18)                                     | (15)       | (57)                       | (46)       |
|  | 98                                       | 93         | 298                        | 276        |
| <b>NET EARNINGS (LOSS)</b>   | 6  | 28         | (44)                       | 10         |
| <b>NET EARNINGS (LOSS) ATTRIBUTABLE TO SHAREHOLDERS OF BORALEX</b>                     | 6  | 26         | (36)                       | 22         |
| <b>NET EARNINGS (LOSS) PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF BORALEX – BASIC</b>   | \$0.06                                   | \$0.34     | (\$0.45)                   | \$0.29     |
| <b>NET EARNINGS (LOSS) PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF BORALEX – DILUTED</b> | \$0.06                                   | \$0.32     | (\$0.45)                   | \$0.29     |
| <b>NET CASH FLOWS RELATED TO OPERATING ACTIVITIES</b>                                  | 23                                       | 17         | 202                        | 145        |
| <b>CASH FLOWS FROM OPERATIONS<sup>(1)</sup></b>  | 71                                       | 69         | 192                        | 195        |
| <b>DIVIDENDS PAID ON COMMON SHARES</b>   | 15                                       | 11         | 50                         | 46         |
| <b>DIVIDENDS PAID PER COMMON SHARE<sup>(1)</sup></b>                                   | \$0.165                                  | \$0.150    | \$0.630                    | \$0.600    |
| Weighted average number of shares outstanding – basic                                  | 89,155,304                               | 76,174,741 | 80,102,038                 | 75,436,036 |

<sup>(1)</sup> See the Non-IFRS measures section.

## Analysis of consolidated operating results for the three-month period ended December 31, 2018

Revenues from energy sales up 13% mainly due to contributions from assets acquired and commissioned since the end of the third quarter of 2017.

### Main differences in revenues from energy sales and EBITDA(A)

| (in millions of Canadian dollars)                  | Revenues from energy sales | EBITDA(A) <sup>(1)</sup> |
|--|----------------------------|--------------------------|
| <b>THREE-MONTH PERIOD ENDED DECEMBER 31, 2017</b>  | 129                        | 93                       |
| Acquisitions/commissioning <sup>(2)</sup>          | 22                         | 18                       |
| Share of the Interests - five wind farms in Québec | —                          | 1                        |
| Volume   | (4)                        | (4)                      |
| IFER tax   | —                          | 2                        |
| Share of the Interests                             | —                          | (2)                      |
| Development  | —                          | (3)                      |
| Other  | (2)                        | (7)                      |
| Change   | 16                         | 5                        |
| <b>THREE-MONTH PERIOD ENDED DECEMBER 31, 2018</b>  | 145                        | 98                       |

<sup>(1)</sup> See the *Non-IFRS measures* section.

<sup>(2)</sup> Contributions from the Artois (23 MW) and Chemin de Grès (30 MW) facilities for a portion of the fourth quarter of 2017 and for the full 2018 fiscal year, the Kallista wind farms (163 MW) as of June 20, 2018, and the Inter Deux Bos (33 MW), Noyers Bucamps (10 MW), Hauts de Comble (20 MW) and Côteaux du Blaiseron (26 MW) facilities as they were commissioned in 2018. For greater detail, see the *Commissioning overview table* in section I - *Growth strategy* of this MD&A.

### Revenues from energy sales

For the three-month period ended December 31, 2018, revenues from energy sales totalled \$145 million, up \$16 million or 13% compared with the results of the corresponding quarter of 2017. This increase was mainly driven by the expansion of the Corporation's operating base in the wind power segment in France since the end of the third quarter of 2017.

The contributions from the Artois (23 MW) and Chemin de Grès (30 MW) wind farms for the full fourth quarter of 2018, compared with a portion of the corresponding quarter in 2017, plus the contributions from the assets acquired from Kallista and those commissioned during fiscal 2018 resulted in a favourable difference of \$22 million. This was partially offset by a \$4 million unfavourable volume effect related to the lower volume in Ontario, which could not be offset by a favourable difference at the French wind farms and U.S. hydroelectric power stations.

The **wind** power segment remains the Corporation's main growth segment, with revenues up 16% due largely to contributions from assets acquired and commissioned during the fourth quarter of 2017 and fiscal 2018. Overall, the wind power segment accounted for 85% of consolidated revenues in the fourth quarter of 2018.

The other operating segments reported varying degrees of revenue variability. Compared with the fourth quarter of 2017:

- **Hydroelectric** power segment revenues declined 16% to \$11 million, representing 8% of consolidated revenues for the last quarter. This decrease is attributable to lower production at the Canadian power stations, while the U.S. power stations experienced their best quarter of the year with a 17% increase in revenues.
- **Thermal** power segment revenues were up 26% to \$9 million for the fourth quarter of 2018, representing 6% of consolidated revenues.
- **Solar** power segment revenues were relatively stable.

In all, Borealex produced 1,065 GWh of electricity in the fourth quarter of 2018 compared with 871 GWh for the same period last year. Excluding contributions from newly acquired and commissioned power stations, production overall remained stable.

## EBITDA(A) and EBITDA(A) margin

Consolidated EBITDA(A) for the fourth quarter of 2018 amounted to \$98 million, up \$5 million or 5%, compared with the corresponding quarter of 2017. This increase was driven mainly by favourable differences resulting from the contribution of the facilities acquired and commissioned since the third quarter of 2017, plus the \$1 million share of the Interests acquired in 2018 from Invenergy in Québec and the \$2 million favourable difference in IFER taxes in France. Note that these taxes were fully recognized as at January 1, 2018, whereas they had been recognized using a time-based method in 2017. These items were partially offset by a \$4 million unfavourable volume difference, owing primarily to lower volumes in Ontario, which could not be offset by a favourable difference at the U.S. hydroelectric power stations and at the French wind farms. Finally, EBITDA(A) reflects the \$2 million decline in the share of existing Interests, a \$3 million increase in development costs related to the acquisition of Tranche C from Ecotera, and a \$7 million increase in miscellaneous expenses, including payroll and professional fees. The increase in miscellaneous expenses was driven primarily by the Corporation's growth.

Excluding \$7 million in non-recurring items recognized in the fourth quarter, representing costs incurred mainly for development rights and non-production penalties, EBITDA(A) for the fourth quarter of 2018 would have been \$105 million.

The **wind** power segment accounted for 91% of consolidated EBITDA(A) in the fourth quarter of 2018 (before the corporate segment and eliminations). Segment EBITDA(A) rose 9%, contributing \$10 million more to consolidated EBITDA(A) than in the fourth quarter of 2017.

Regarding the other operating segments:

- **Hydroelectric** power segment EBITDA(A) declined 20% to \$8 million, owing in particular to lower production and capacity premiums at Canadian power stations and lower prices for power produced by the U.S. power stations, which, however, posted an increase in production volume.
- **Thermal** power segment EBITDA(A) was \$2 million, a reading unchanged from a year earlier.
- **Solar** power segment EBITDA(A) remained stable.

With these results, EBITDA(A) margin as a percentage of revenues fell slightly to 68% in the fourth quarter of 2018 from 72% in the same period a year earlier.

## Main differences in net earnings (loss) attributable to shareholders of Boralex

(in millions of Canadian dollars)

| THREE-MONTH PERIOD ENDED DECEMBER 31, 2017 |  | 26   |
|--|--|------|
| EBITDA(A) <sup>(1)</sup>                   |  | 5    |
| Amortization                               |  | (15) |
| Impairment                                 |  | (3)  |
| Acquisition costs                          |  | 4    |
| Financing costs                            |  | (6)  |
| Income taxes                               |  | (8)  |
| Non-controlling shareholders               |  | 2    |
| Other                                      |  | 1    |
| Change                                     |  | (20) |
| THREE-MONTH PERIOD ENDED DECEMBER 31, 2018 |  | 6    |

<sup>(1)</sup> See the *Non-IFRS measures* section.

## Amortization

Amortization expense for the fourth quarter of 2018 was up \$15 million to \$61 million, owing primarily to commissioning and acquisitions in France in fiscal 2017 and 2018.

## Impairment

An adjustment of \$3 million was made with respect to the impairment loss on property, plant and equipment at the Cham Longe I wind farm to account for an additional decommissioning cost and a penalty for partial non-production in 2020, as stipulated by the power purchase agreement.

However, in its profitability analysis for the repowering, the Corporation took into account the loss of liquidity associated with the current contract. As the analysis established the case for significant long-term shareholder value creation, the repowering project was green-lighted.

## Financing costs

Financing costs for the fourth quarter of 2018 rose \$6 million to \$33 million, owing primarily to the financing arrangements made and the debts assumed by the Corporation following the acquisition and commissioning of assets over the past year.

## Income taxes

As a result of the loss before income taxes and the favourable rate change in 2017, the Corporation's income tax recovery decreased by \$8 million. Note that for the fourth quarter of 2017, the Corporation recorded a total gain of \$12 million related to future tax rate changes in the U.S. and France.

## Net earnings

For the three-month period ended December 31, 2018, Boralex recognized net earnings of \$6 million, compared with net earnings of \$28 million for the same period of 2017, resulting in net earnings attributable to shareholders of Boralex of \$6 million or \$0.06 per share (basic and diluted), compared with net earnings attributable to shareholders of Boralex of \$26 million or \$0.34 per share, basic, and \$0.32 per share, diluted, a year earlier. Earnings attributable to non-controlling shareholders are non-significant for the last quarter; accordingly, there is no difference between net earnings and net earnings attributable to shareholders of Boralex as at December 31, 2018.

The \$20 million (\$0.28 per share, basic, and \$0.26 per share, diluted), deterioration in net earnings attributable to shareholders of Boralex compared with the fourth quarter of 2017 stemmed from the items discussed above. More specifically, the \$5 million increase in EBITDA(A) and \$4 million in capitalization of acquisition costs were offset by increases of \$15 million in amortization expense and \$6 million in financing costs and an \$8 million decline in tax recovery.

## Contribution of the Interests on a Combined basis

For the three-month period ended December 31, 2018, the contribution of the Interests on a Combined basis amounted to 324 GWh, which is 153 GWh more than the 171 GWh recorded in the corresponding quarter of 2017, driven by the acquisition of the interests in five wind farms in Québec, which contributed 172 GWh, compared with a 19 GWh decrease for the SDB facilities. Accordingly, Boralex's share in the revenues of the Interests for the fourth quarter of 2018 amounted to \$33 million, up from \$18 million for the corresponding quarter of 2017.

For the three-month period ended December 31, 2018, the contribution of the Interests to EBITDA(A) on a Combined basis amounted to \$28 million, compared with \$16 million for the corresponding period of 2017 following the acquisition of interests in five wind farms in Québec. See the *Non-IFRS measures* section.

# Analysis of consolidated operating results for the year ended December 31, 2018

Revenues up 14% in 2018 compared with the previous year

## Main differences in revenues from energy sales and EBITDA(A)

| (in millions of Canadian dollars)                  | Revenues from energy sales | EBITDA(A) <sup>(1)</sup> |
|--|----------------------------|--------------------------|
| <b>YEAR ENDED DECEMBER 31, 2017</b>                | <b>414</b>                 | <b>276</b>               |
| Acquisitions/commissioning <sup>(2)</sup>          | 53                         | 42                       |
| Share of the Interests - five wind farms in Québec | —                          | 2                        |
| Pricing  | (1)                        | (1)                      |
| Volume   | 1                          | 1                        |
| Capacity premiums                                  | (1)                        | (1)                      |
| Foreign exchange effect                            | 7                          | 4                        |
| IFER tax   | —                          | (1)                      |
| Raw material costs                                 | —                          | (2)                      |
| Maintenance  | —                          | (2)                      |
| Development  | —                          | (10)                     |
| Share of the Interests                             | —                          | 1                        |
| Other <sup>(3)</sup>                               | (2)                        | (11)                     |
| Change   | 57                         | 22                       |
| <b>YEAR ENDED DECEMBER 31, 2018</b>                | <b>471</b>                 | <b>298</b>               |

<sup>(1)</sup> See the *Non-IFRS measures* section.

<sup>(2)</sup> Contributions from the facilities acquired and commissioned in 2017 for the full 2018 fiscal year (including 14 days in January 2018 for the NRWF facility), the Kallista wind farms (163 MW) starting June 20, 2018, and the Inter Deux Bos (33 MW), Noyers Bucamps (10 MW), Hauts de Comble (20 MW) and Côteaux du Blaiseron (26 MW) facilities as they were commissioned in 2018. For greater detail, see the *Commissioning overview table* in section I - *Growth strategy* of this MD&A.

<sup>(3)</sup> Comprises differences in property taxes, lease costs, salaries and professional fees.

## Revenues from energy sales

For the year ended December 31, 2018, revenues from energy sales totalled \$471 million, up \$57 million or 14% compared with the previous year. As shown in the accompanying table, this growth was mainly driven by a \$53 million increase resulting primarily from the contribution of the NRWF facility for the entire month of January 2018, compared with 14 days in January 2017, the new French wind farms as they were commissioned throughout fiscal 2017 and 2018 and the facilities acquired from Kallista starting June 20, 2018. Added to the above are a \$1 million favourable volume effect and a \$7 million favourable foreign exchange effect resulting primarily from fluctuations in the value of the euro against the Canadian dollar. Note that the \$1 million volume effect includes a \$9 million increase in the compensation paid by the IESO in fiscal 2018 compared with the previous fiscal year based on the power limitations imposed for the NRWF facility. Note that in 2017, the NRWF facility experienced power limitations amounting to \$8 million. This \$9 million increase from the compensation received was largely offset by declines in revenues of \$2 million at NRWF and \$6 million at the other existing facilities year over year.

The combination of these factors largely offset the unfavourable differences consisting of a \$1 million pricing effect, a \$1 million capacity premium effect and \$2 million in miscellaneous expenses.

In all, Boralex produced 3,415 GWh of electricity in fiscal 2018, up 9% from 3,129 GWh for the same period of 2017. Excluding contributions from newly acquired or commissioned power stations, production at existing power stations declined 4% during fiscal 2018 compared with last year. Overall, existing wind farms in France and Canada recorded stable production volume year over year. The decline was more pronounced for the Canadian and U.S. power stations, where combined production was down 11%.



## EBITDA(A) and EBITDA(A) margin

For fiscal 2018, consolidated EBITDA(A) totalled \$298 million, up \$22 million or 8% compared with the previous year, while EBITDA(A) margin as a percentage of revenues stood at 63% compared with 67% a year earlier.

EBITDA(A) growth was fuelled in large part by an additional \$42 million in EBITDA(A) from expansion in the operating base since the beginning of 2017, plus the \$2 million share of the Interests acquired from Invenergy in five wind farms in Québec, an additional \$1 million from existing Interests and a \$4 million foreign exchange effect resulting mainly from fluctuations in the euro against the Canadian dollar. Moreover, as mentioned above, a favourable volume effect of \$1 million resulted from an additional \$9 million received as compensation for power limitations, which offset the decline in production at existing sites.

Together, these items offset unfavourable differences resulting from changes in pricing and capacity changes of \$1 million each and raw material and maintenance costs of \$2 million each, plus a \$10 million increase in development costs for projects mainly in the United Kingdom in partnership with Infinergy and the acquisition of Ecotera Tranche C in France as well as an \$11 million increase in miscellaneous expenses related to payroll, professional fees, property taxes, the foregoing items reflect the Corporation's growth, which also gave rise to a \$1 million unfavourable difference in IFER taxes.

Excluding \$9 million in non-recurring items recognized in fiscal 2018, representing costs incurred mainly for development rights and non-production penalties, EBITDA(A) for fiscal 2018 would have been \$307 million.

### Main differences in net earnings (loss) attributable to shareholders of Boralex

(in millions of Canadian dollars)

| <b>YEAR ENDED DECEMBER 31, 2017</b> | <b>22</b>   |
|-------------------------------------|-------------|
| EBITDA(A) <sup>(1)</sup>            | 22          |
| Amortization                        | (44)        |
| Impairment                          | (15)        |
| Acquisition costs                   | (5)         |
| Financing costs                     | (19)        |
| Income taxes                        | 6           |
| Non-controlling shareholders        | (4)         |
| Other                               | 1           |
| Change                              | (58)        |
| <b>YEAR ENDED DECEMBER 31, 2018</b> | <b>(36)</b> |

<sup>(1)</sup> See the *Non-IFRS measures* section.

## Amortization

For fiscal 2018, amortization expense rose \$44 million to \$216 million, compared with the previous year. The NRWF and Kallista acquisitions and wind farms commissioned accounted for substantially all of the difference.

## Impairment

A \$9 million (€6 million) impairment loss on property, plant and equipment was recognized in France for assets that are being prematurely decommissioned at the Cham Longe I wind farm. The decision followed the Board of Directors' green light for repowering the wind farm. Note that despite the loss of liquidity associated with the current contract, the project generates long-term shareholder value.

A \$4 million impairment loss on property, plant and equipment and intangible assets was recognized in the second quarter for the Otter Creek, Ontario wind power project following the unilateral termination of the power purchase agreement by IESO.

On December 19, 2018, the Corporation sold the Lanouée forest assets in France for \$44 million (€30 million). A \$2 million (€1 million) impairment loss on property, plant and equipment was recognized in the second quarter of 2018 following execution of the promise to sell.

## Acquisition costs

Acquisition costs of \$5 million (€4 million) were incurred in France in connection with the Kallista acquisition.

## Financing costs

For fiscal 2018, financing costs rose \$19 million to \$123 million, compared with 2017. The increase resulted mainly from the new financing contracted to acquire or build facilities and debt assumed by the Corporation, such as in relation to the NRWF facility and the \$300 million new subordinated debt issued in 2018.

## Income taxes

As a result of fiscal 2018 earnings before income taxes, the Corporation's income tax recovery increased by \$6 million compared with fiscal 2017.

## Net earnings (loss)

For fiscal 2018, Boralex reported a net loss of \$44 million, compared with net earnings of \$10 million a year earlier. The net loss attributable to shareholders of Boralex amounted to \$36 million or \$0.45 per share (basic and diluted), compared with net earnings attributable to shareholders of Boralex of \$22 million or \$0.29 per share (basic and diluted).

The \$58 million or \$0.74 per share (basic and diluted) unfavourable difference in net loss attributable to shareholders of Boralex compared with fiscal 2017 resulted from the items discussed above. Accordingly, the \$22 million increase in EBITDA(A) and \$6 million increase in tax recovery were insufficient to offset increases of \$44 million in amortization expense, \$19 million in financing costs and \$5 million in acquisition costs in connection with expansion in the Corporation's operating base over the past year, as well as by a \$15 million impairment loss on property, plant and equipment and intangible assets.

## Contribution of the Interests on a Combined basis

For the year ended December 31, 2018, the Interests contributed 737 GWh to production volume on a Combined basis, up 35% from 546 GWh for fiscal 2017. This increase was mainly due to the interests in five wind farms in Québec for 197 GWh. Accordingly, Boralex's share in the revenues of the Interests for fiscal 2018 amounted to \$78 million, up \$19 million from \$59 million for 2017.

For the year ended December 31, 2018, the EBITDA(A) contribution of the Interests on a Combined basis amounted to \$66 million, up \$17 million from fiscal 2017, following the acquisition of wind farms in Québec which contributed \$14 million. For greater detail, see the *Non-IFRS measures* section.

# Review of operating segments for the year ended December 31, 2018

## Wind

Power production in 2018 up 17% from the previous year.

### Main differences in wind power segment revenues from energy sales and EBITDA(A)

| (in millions of Canadian dollars)                  | Revenues from energy sales | EBITDA(A) <sup>(1)</sup> |
|--|----------------------------|--------------------------|
| <b>YEAR ENDED DECEMBER 31, 2017</b>                | <b>315</b>                 | <b>261</b>               |
| Acquisitions/commissioning <sup>(2)</sup>          | 53                         | 42                       |
| Share of the Interests - five wind farms in Québec | —                          | 2                        |
| Pricing  | 2                          | 2                        |
| Volume   | 9                          | 9                        |
| Foreign exchange effect                            | 7                          | 5                        |
| Development  | —                          | (7)                      |
| Share of the Interests                             | —                          | 1                        |
| Other  | (1)                        | (5)                      |
| Change   | 70                         | 49                       |
| <b>YEAR ENDED DECEMBER 31, 2018</b>                | <b>385</b>                 | <b>310</b>               |

<sup>(1)</sup> See the *Non-IFRS measures* section.

<sup>(2)</sup> Contribution from the wind farms acquired and commissioned in 2017 for the full 2018 fiscal year (including 14 days in January 2018 for the NRWF facility), the Kallista wind farms (163 MW) starting June 20, 2018, and the Inter Deux Bos (33 MW), Noyers Bucamps (10 MW), Hauts de Comble (20 MW) and Côteaux du Blaiseron (26 MW) facilities as they were commissioned in 2018. For greater detail, see the *Commissioning overview table* in section I - Growth strategy of this MD&A.

### Recent and anticipated statistical data concerning wind power segment production

| IFRS                  | Years ended December 31 |       |  |          |   |
|-----------------------|-------------------------|-------|--|----------|---|
|                       | Actual                  |       | Change                                   |          |   |
| Wind production (GWh) | 2018                    | 2017  | Anticipated production <sup>(1)(2)</sup> | vs. 2017 | vs. anticipated production <sup>(2)</sup> |
| Canada                | 1,106                   | 1,096 | 1,293                                    | + 1%     | - 14%                                     |
| France                | 1,475                   | 1,108 | 1,635                                    | + 33%    | - 10%                                     |
|                       | 2,581                   | 2,204 | 2,928                                    | + 17%    | - 12%                                     |

<sup>(1)</sup> Anticipated production for 2018 is calculated using historical averages for some sites and realized wind forecasts for the other sites. See the *Notice concerning forward-looking statements*.

<sup>(2)</sup> In Canada, considering the 168 GWh for which NRWF was subject to a power limitation during fiscal 2018, actual production would have amounted to 1,274 GWh, or scarcely 2% below anticipated production, and total production would have amounted to 2,749 GWh, or 6% lower than anticipated production.

## Production

The wind power segment produced 2,581 GWh in fiscal 2018, up 17% from 2,204 GWh for 2017. This increase was mainly driven by the contributions of wind farms commissioned in France in 2017, for a total installed capacity of 91 MW, plus the contribution of the 230 MW NRWF facility for the first 14 days of 2018 (NRWF did not make a full contribution in the first quarter of 2017 as it was acquired on January 18) as well as the contributions of the Kallista facilities starting June 20, 2018 and four other French wind farms (89 MW) as they were commissioned in the third quarter of 2018. Excluding these items, overall production at existing power stations was relatively unchanged for 2018 compared with 2017.

- In **France**, weather conditions in the first quarter of 2018 were favourable compared with conditions well below normal levels in the same quarter of 2017, offsetting the less favourable wind conditions during the third quarter, while production volume in the fourth quarter of 2018 was favourable. As a result, production volume at existing wind farms was up 2% for fiscal 2018 compared with the previous year. Including the wind farms commissioned throughout fiscal 2017 and 2018 and the contribution of the Kallista facilities starting June 20, 2018, the wind power segment in France recorded a production volume of 1,475 GWh for 2018, up 33% from fiscal 2017.
- In **Canada**, existing wind farms recorded a 3% decrease in production volume, owing to the less favourable wind conditions during the second and fourth quarters of 2018. Considering that the NRWF facility made a contribution for the entire first quarter of 2018 compared with a 73-day contribution for the same period of 2017, wind power segment production in Canada for 2018 was relatively unchanged compared with the same period of last year, totalling 1,106 GWh.

Note, however, that the NRWF facility was subject to power limitations imposed by the IESO and/or Hydro One during each of the first three quarters of 2018, which resulted in a 168 GWh unfavourable effect on production for which the Corporation received financial compensation of \$24 million pertaining to 153 GWh from the IESO. In 2017, power limitations amounted to 143 GWh and the financial compensation of \$15 million received pertained to 89 GWh, given that the power limitations demanded by Hydro One are not covered by contractual compensation.

## Revenues from energy sales

Wind power segment revenues for fiscal 2018 totalled \$385 million, up \$70 million or 22% from 2017. This growth was driven by the \$53 million contribution from French wind farms as they were commissioned in 2017 and 2018, plus the contribution of the NRW facility for the first 14 days of 2018 and the facilities acquired from Kallista starting June 20, 2018. As production from existing sites remained stable year over year, the \$9 million favourable volume effect resulted mainly from there being no volume declines tied to a power limitation in 2018 for which no compensation was provided.

Other items that had a favourable effect on wind power segment revenues were the \$2 million due to higher average prices and \$7 million foreign exchange effect of the euro's strengthening against the Canadian dollar.

Broken down geographically, for fiscal 2018, 48% of wind power segment revenues were generated in Canada and 52% in France, compared with 54% and 46%, respectively, for the previous year. This change stemmed primarily from the commissioning of wind farms in France over the past year and a favourable foreign exchange effect, in all partly offset by the contribution of the NRW facility for the first 14 days of January 2018. Excluding the foreign exchange effect, revenues at French wind farms were up 35% while they grew 7% at the Canadian facilities.

## EBITDA(A) and EBITDA(A) margin

Wind power segment EBITDA(A) for the 2018 fiscal year totalled \$310 million, up \$49 million or 19%. This growth was to a large extent driven by Boralex's expansion strategy, with \$42 million in additional EBITDA(A) generated by the acquisitions and commissioning since the beginning of 2017 and the \$2 million share of the Interests acquired in five wind farms in Québec. As noted above, the favourable volume effect resulted mainly from the power limitations imposed by Hydro One in 2017 for which no compensation was provided. It also resulted from a \$5 million favourable foreign exchange effect owing to fluctuations in the euro against the Canadian dollar, \$2 million due to higher average prices and \$1 million owing to the increase in the share of existing Interests.

All of these items were largely offset by increases of \$7 million in development costs, primarily for projects in the United Kingdom and the Tranche C acquisition from Ecotera in France, and \$5 million in miscellaneous expenses including payroll and IFER tax.

Broken down geographically, EBITDA(A) at our French operations was up 30% in euros, while EBITDA(A) at Canadian operations grew 10%.

EBITDA(A) margin for fiscal 2018 was stable at 81% compared with 83% year over year.

## Contribution of the Interests on a Combined basis

As previously mentioned, the Interests contributed 737 GWh to production on a Combined basis for fiscal 2018, 35% higher than the 546 GWh recorded during 2017, owing mainly to the acquisition of the interests in five wind farms in Québec.

For the year ended December 31, 2018, the Interests contributed \$78 million and \$66 million to revenues from energy sales and EBITDA(A), respectively, on a Combined basis, compared with \$59 million and \$49 million for fiscal 2017, respectively. The changes in revenues stemmed primarily from the acquisition of the interests in five wind farms in Québec in September 2018. For greater detail, see the *Non-IFRS measures* section.

### Recent and anticipated statistical data concerning wind power segment production

Years ended December 31

| Combined basis <sup>(1)</sup> | Actual       |              | Change                                   |              |   |
|-------------------------------|--------------|--------------|--|--------------|---|
|                               | 2018         | 2017         | Anticipated production <sup>(1)(2)</sup> | vs. 2017     | vs. anticipated production <sup>(3)</sup> |
| <b>Wind production (GWh)</b>  |              |              |  |              |   |
| Canada                        | 1,843        | 1,642        | 1,801                                    | <b>+ 12%</b> | <b>+ 2%</b>                               |
| France                        | 1,475        | 1,108        | 1,635                                    | <b>+ 33%</b> | <b>- 10%</b>                              |
|                               | <b>3,318</b> | <b>2,750</b> | <b>3,436</b>                             | <b>+ 21%</b> | <b>- 3%</b>                               |

<sup>(1)</sup> See the *Non-IFRS measures* section.

<sup>(2)</sup> Anticipated production for 2018 is calculated using historical averages for some of the sites and using realized wind forecasts for the other sites. See the *Notice concerning forward-looking statements*.

<sup>(3)</sup> In Canada, considering the 168 GWh for which NRW was subject to a power limitation during fiscal 2018, actual production would have amounted to 2,011 GWh, or 12% above anticipated production, and total production would have amounted to 3,486 GWh, or 1% above anticipated production.

## Hydroelectric

Hydroelectric power production down 11% in fiscal 2018, compared with the same period of 2017.

### Main differences in hydroelectric power segment revenues from energy sales and EBITDA(A)

| (in millions of Canadian dollars)   | Revenues from energy sales | EBITDA(A) <sup>(1)</sup> |
|-------------------------------------|----------------------------|--------------------------|
| <b>YEAR ENDED DECEMBER 31, 2017</b> | 65                         | 49                       |
| Pricing                             | (6)                        | (6)                      |
| Volume                              | (7)                        | (7)                      |
| Capacity premiums                   | (1)                        | (1)                      |
| Other                               | (2)                        | (2)                      |
| Change                              | (16)                       | (16)                     |
| <b>YEAR ENDED DECEMBER 31, 2018</b> | 49                         | 33                       |

<sup>(1)</sup> See the *Non-IFRS measures* section.

### Recent and historical statistical data concerning hydroelectric power segment production

| Hydroelectric production (GWh) | Years ended December 31 |      |                                   |          |                        |
|--------------------------------|-------------------------|------|-----------------------------------|----------|------------------------|
|                                | Actual                  |      | Change                            |          |                        |
|                                | 2018                    | 2017 | Historical average <sup>(1)</sup> | vs. 2017 | vs. historical average |
| Canada                         | 260                     | 292  | 290                               | - 11%    | - 10%                  |
| United States                  | 388                     | 437  | 391                               | - 11%    | - 1%                   |
|                                | 648                     | 729  | 681                               | - 11%    | - 4%                   |

<sup>(1)</sup> Historical averages are calculated using all production data available for each power station up to the end of Boralex's previous fiscal year.

## Production

For fiscal 2018, hydroelectric power production was down 11% to 648 GWh, from 729 GWh year over year. This decline reflected the less favourable water flow conditions experienced at U.S. power stations in the first three quarters of 2018 compared with last year, despite considerable improvement during the fourth quarter. Production at Canadian hydroelectric power stations lagged 11% compared with last year, owing mainly to the production shutdown at the Buckingham power station in September 2018 for the duration of the work to upgrade capacity extending until October 2019.

As a result, hydroelectric power segment production for fiscal 2018 was 4% below the historical average of 681 GWh.

### Revenues from energy sales

For fiscal 2018, the hydroelectric power segment generated revenues of \$49 million, down \$16 million or 24% from fiscal 2017. Besides decreased production volume, a lower selling price compared with the same period a year ago for the power produced by the Hudson Falls power station was mostly responsible for the decline in revenues. Note that the energy sales contract at the Hudson Falls power station contained a significant downward adjustment. Starting in December 2017, the price decreased from US\$80.58/MWh to US\$48.27/MWh, resulting in an unfavorable effect of \$6 million on revenues. Accordingly, revenues at the U.S. power stations were down 30%, while revenues declined 15% at the Canadian power stations.

### EBITDA(A) and EBITDA(A) margin

In light of the above, hydroelectric power segment EBITDA(A) fell 32% to \$33 million for fiscal 2018 from \$49 million a year earlier. This decrease was attributable to the same unfavourable factors that impacted revenues. EBITDA(A) at the U.S. power stations was down 39% while Canadian power stations recorded a 21% decline in EBITDA(A).

Hydroelectric power segment EBITDA(A) margin for fiscal 2018 stood at 67%, compared with 75% a year earlier.

## Thermal and solar

Management remains satisfied with the performance of its thermal and solar segments. For fiscal 2018, revenues from energy sales were up slightly for the thermal segment and stable for the solar segment compared with the previous fiscal year. EBITDA(A) for both segments remained similar to their level a year earlier.

## Cash flows

Expansion in the operating asset base over the past fiscal year was a driving factor behind changes in cash flows and, in turn, resulted in an increase in cash flows related to operating activities for the fiscal 2018 compared with last year.

| (in millions of Canadian dollars)                        | 2018       | 2017       |
|--|------------|------------|
| Cash flows from operations <sup>(1)</sup>                | 192        | 195        |
| Change in non-cash items related to operating activities | 10         | (50)       |
| Net cash flows related to operating activities           | 202        | 145        |
| Net cash flows related to investing activities           | (641)      | (345)      |
| Net cash flows related to financing activities           | 475        | 214        |
| Translation adjustment on cash and cash equivalents      | 6          | 1          |
| <b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>           | <b>42</b>  | <b>15</b>  |
| <b>CASH AND CASH EQUIVALENTS – END OF YEAR</b>           | <b>157</b> | <b>115</b> |

<sup>(1)</sup> See the *Non-IFRS measures* section.

### Operating activities

For the year ended December 31, 2018, Boralex reported \$192 million in cash flows from operations, down \$3 million from \$195 million in 2017 owing to a \$4 million outlay to acquire projects. Accordingly, excluding non-cash items from net earnings (loss) for both years, the \$19 million increase in EBITDA(A) as described previously and the \$6 million increase in *Distributions received from Joint Ventures and associates* were largely offset by the payment of \$5 million in *Acquisition costs*, the \$23 million increase in *Interest paid* and the \$1 million increase in *Income taxes paid*.

The change in non-cash operating items for the fiscal year reflected cash inflows of \$10 million, compared with cash used of \$50 million last year. Cash generated in fiscal 2018 resulted primarily from an \$10 million decline in *Trade and other receivables*, following a return to a normal level of one month of sales in French receivables compared with two months for the same period in 2017.

In light of the foregoing, operating activities generated net cash flows totalling \$202 million for fiscal 2018, compared with \$145 million in 2017.

### Investing activities

During fiscal 2018, investing activities used \$641 million in cash, compared with \$345 million in fiscal 2017.

Investing activities for fiscal 2018 consisted in particular of the \$100 million paid out to acquire Kallista shares and \$220 million for the acquisition of Invenergy's interests in five wind farms in Québec. Contingent consideration of \$8 million was also paid for the Hauts de Comble and Sources de l'Ancre projects. Furthermore, during the fiscal year, Boralex also paid \$24 million for the acquisition of energy sales contracts related to Ecotera projects. The amounts paid related in particular to the Inter Deux Bos, Basse Thiérache Nord, Santerre and Catésis wind farms.

During the fiscal year, the Corporation sold the Lanouée forest property for a net amount of \$44 million (€30 million) as well as land in Scotland and other property, plant and equipment for an amount \$11 million.

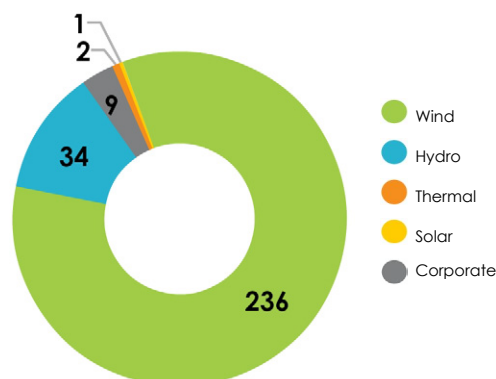
Note that the key investment transaction in 2017 was the acquisition of all of Enercon's economic interest in the 230 MW NRW facility in Ontario, Canada. The transaction was entered into for a cash consideration, net of cash acquired, amounting to \$230 million. In addition, Boralex assumed \$779 million in debt related to this asset. To fund a portion of the cash consideration for the transaction, Boralex completed an offering of subscription receipts amounting to \$173 million on December 23, 2016. The proceeds of \$170 million, net of transaction costs, were set aside as *Restricted cash* in 2016 in anticipation of the closing of the acquisition and was used as expected on January 18, 2017, thus explaining most of the \$234 million change in *Restricted cash* from fiscal 2017 to fiscal 2018. To a lesser extent, the change in *Restricted cash* also resulted from the commissioning of wind farms and funds set aside for the repayment of a French bridge financing facility scheduled in 2019, following the sale of the Lanouée forest property.

In fiscal 2018, the Corporation invested \$282 million in additions to property, plant and equipment, as follows:

- \$236 million in the wind power segment, substantially all of which to build various wind farms in Europe (\$224 million) and in Canada (\$8 million).
- \$34 million in the hydroelectric power segment, including \$22 million to complete construction at the Yellow Falls power station in Ontario, Canada and \$10 million for the upgrade and 10 MW capacity increase at the Buckingham power station in Québec, Canada.

#### Segment breakdown of additions to property, plant and equipment

(in millions of Canadian dollars)



## Financing activities

Financing activities for fiscal 2018 generated total net cash inflows of \$475 million.

### New financing arrangements and repayments on existing debt

One of the main financing activities for the fiscal year was the issuance of shares in connection with the acquisition of Invenergy's interests, as discussed above, for an amount of \$259 million. In connection with these transactions, the Corporation disbursed \$12 million in share issuance costs.

During fiscal 2018, new non-current debt contracted by Boralex totalled \$881 million (as well as \$7 million in financing costs), as follows:

- \$278 million drawn down from Boralex's revolving credit facility, in particular to acquire Kallista.
- \$300 million drawn from the subordinated debt resulting from the joint investment by the Caisse and the Fonds de solidarité FTQ.
- \$267 million from financing in place for the Sources de l'Ancre, Inter Deux Bos, Hauts de Comble, Le Pelon, Côteaux du Blaiseron, Catésis, Seuil du Cambrésis, Santerre and Basse Thiérache Nord wind power projects, plus \$18 million drawn down from the financing facility for the Noyers Bucamps wind project and \$15 million drawn on project financing for the Mont de Bagny, Artois, Voie des Monts and Chemin de Grès wind farms.
- \$3 million for the Moose Lake wind power project in Canada.

Conversely, the Corporation repaid a total of \$160 million in debt related to various assets in operation. Boralex also paid \$265 million on its revolving credit facility, \$86 million on debt assumed as part of the Kallista acquisition and \$34 million on the value added tax bridge financing facility.

## Dividends and other items

For fiscal 2018, the Corporation paid dividends to shareholders totalling \$50 million (or the equivalent of \$0.15 per share in the first quarter and \$0.1575 per share in the second and third quarters and \$0.1650 per share in the fourth quarter), compared with \$46 million (or the equivalent of \$0.15 per share for each quarter) in fiscal 2017.

During fiscal 2018, the Corporation disbursed \$44 million for the early redemption of financial instruments. Boralex also paid \$7 million to non-controlling shareholders, an amount similar to that for fiscal 2017.

## Net change in cash and cash equivalents

Total cash movements since the beginning of fiscal 2018 resulted in a \$42 million increase in *Cash and cash equivalents* to \$157 million as at December 31, 2018 compared with \$115 million as at December 31, 2017.

## Contribution of the Interests on a Combined basis

For fiscal 2018, the Interests contributed \$39 million to cash flows from operations on a Combined basis, compared with \$32 million for fiscal 2017. The contribution to net cash flows related to operating activities amounted to \$55 million, compared with \$33 million in 2017. The increase in cash flows from operations and cash flows is related to the acquisition in September of Invenergy's interests in five wind farms in Québec.

For more details, see the *Non-IFRS measures* section.



# Financial position

## Overview of the consolidated condensed statements of financial position

| (in millions of Canadian dollars)              | As at<br>December 31,<br><b>2018</b> | As at<br>December 31,<br><b>2017</b> |
|--|--------------------------------------|--------------------------------------|
|  |                                      |                                      |
| <b>ASSETS</b>                                  |                                      |                                      |
| Cash and cash equivalents                      | 157                                  | 115                                  |
| Restricted cash                                | 96                                   | 35                                   |
| Other current assets                           | 169                                  | 175                                  |
| <b>CURRENT ASSETS</b>                          | <b>422</b>                           | <b>325</b>                           |
| Property, plant and equipment                  | 2,941                                | 2,621                                |
| Intangible assets                              | 760                                  | 655                                  |
| Goodwill                                       | 201                                  | 182                                  |
| Interests in the Joint Ventures and associates | 270                                  | 26                                   |
| Other non-current assets                       | 152                                  | 117                                  |
| <b>NON-CURRENT ASSETS</b>                      | <b>4,324</b>                         | <b>3,601</b>                         |
| <b>TOTAL ASSETS</b>                            | <b>4,746</b>                         | <b>3,926</b>                         |
| <b>LIABILITIES</b>                             |                                      |                                      |
| <b>CURRENT LIABILITIES</b>                     | <b>564</b>                           | <b>429</b>                           |
| Non-current debt                               | 2,857                                | 2,418                                |
| Convertible debentures                         | 140                                  | 137                                  |
| Other non-current liabilities                  | 284                                  | 213                                  |
| <b>NON-CURRENT LIABILITIES</b>                 | <b>3,281</b>                         | <b>2,768</b>                         |
| <b>TOTAL LIABILITIES</b>                       | <b>3,845</b>                         | <b>3,197</b>                         |
| <b>EQUITY</b>                                  |                                      |                                      |
| <b>TOTAL EQUITY</b>                            | <b>901</b>                           | <b>729</b>                           |
| <b>TOTAL LIABILITIES AND EQUITY</b>            | <b>4,746</b>                         | <b>3,926</b>                         |

## Summary of significant changes

In addition to the impact of exchange rate fluctuations, the changes related to Boralex's statement of financial position between December 31, 2017 and December 31, 2018 reflect investments and financings related to the continued development of the Corporation's wind and hydroelectric power projects.

## Assets

As at December 31, 2018, Boralex's total assets amounted to \$4,746 million, up \$820 million from total assets of \$3,926 million as at December 31, 2017.

*Current assets* increased by \$97 million due to an increase of \$42 million in *Cash and cash equivalents* and \$61 million in *Restricted cash*, partially offset by the decline in *Other current assets*.

*Non-current assets* were up \$723 million, owing primarily to:

- A \$320 million increase in the value of *Property, plant and equipment* (net of amortization for the period) which breaks down as follows:
  - A \$230 million increase following the Kallista acquisition.
  - A \$14 million reduction mainly resulting from impairment losses at the Cham Longe I wind farm and the Otter Creek wind power project.
  - A \$54 million reduction resulting primarily from the sale of the Lanouée forest property (\$44 million) and land in Scotland (\$6 million).
  - A \$282 million increase in property, plant and equipment related to assets under construction (see the *Cash Flows* section), partly offset by \$167 million in amortization on assets in operation.
  - A \$60 million increase mostly related to the foreign exchange effect (\$50 million) and to the transfer of projects under development that qualified as assets under construction.
- A \$105 million increase in *Intangible assets* (net of amortization for the year of \$49 million):
  - A \$24 million increase in contingent consideration in connection with projects in the Ecotera portfolio for the Inter Deux Bos, Santerre, Basse Thiérache Nord and Catésis wind power projects and the acquisition of Tranche C from Ecotera.
  - A \$120 million increase in value related to Kallista based on the preliminary purchase price allocation.
  - A \$1 million reduction due to the impairment loss on the Otter Creek project *Intangible assets* in connection with the Ontario government's decision of June 2018.
  - A \$14 million increase related to the foreign exchange effect, partly offset by the transfer of \$4 million to property, plant and property for projects that qualified as assets under construction.

- A \$19 million increase in *Goodwill*, of which \$15 million resulted from the preliminary purchase price allocation for the Kallista shares and the difference, from exchange rate fluctuations.
- A \$244 million increase in *Interests*, stemming from the acquisition of Invenergy's interests in five wind farms in Québec and the related taxes.
- A \$35 million increase in *Non-current assets*, including \$12 million in reserve funds for servicing the *Non-current debt* acquired from Kallista, and \$18 million in *Other non-current financial assets*, mainly related to \$15 million in options to purchase a partner's interests following the acquisition of the DM I, DM II and LP I wind farms and \$4 million in long-term accounts receivable.

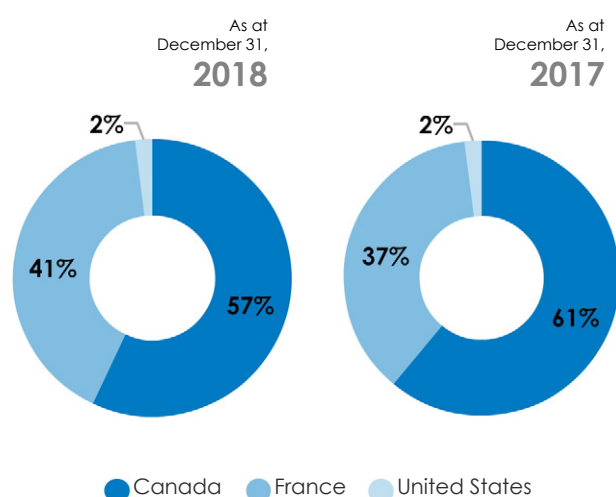
## Current liabilities

*Current liabilities* as at December 31, 2018 amounted to \$564 million, compared with \$429 million as at December 31, 2017. This \$135 million increase was due to the \$190 million increase in the *Current portion of debt* as a result of new financing, the short-term presentation of the \$63 million Cube term loan, the debts of the assets acquired from Kallista and \$89 million in loan reclassifications for the Fortel-Bonnières, St-François and Calmont wind farms as a result of ratios potentially not being met as at December 31, 2018, based on management's estimates. When the lenders provide their waivers, the balances of those two loans will be reclassified to *Non-current debt*. The increase in *Current liabilities* was partially offset by the \$11 million decrease in *Trade and other payables* and \$45 million in *Other current financial liabilities* as the Corporation unwound \$44 million of interest rate swaps during the year.

## Non-current liabilities

Total *Non-current liabilities* were up \$513 million, owing to the \$439 million increase in *Non-current debt* (net of repayments for the period and deferred financing costs) including \$144 million of non-current debt acquired from Kallista. Note also that the \$21 million increase in the *Decommissioning liability* was mainly related to the Kallista acquisition. In addition, a \$36 million increase in *Deferred tax liabilities* was recognized for the acquisition of Kallista and Invenergy's interests. The principal financing transactions are summarized in the *Analysis of results* and *Financial position* sections for the year ended December 31, 2018 (see the *Financing Activities* section). Also, as at December 31, 2018, Boralex had \$145 million in debt contracted but not yet drawn, excluding the \$100 million revolving credit accordion feature, and a total amount of \$116 million under the letter of credit and revolving credit facilities subject to meeting the financial ratios included in the various credit agreements.

### Geographic breakdown of non-current debt



## Contribution of the Interests on a Combined basis

The contribution of the Interests' assets as at December 31, 2018 amounted to \$871 million on a Combined basis, up from \$383 million as at the same date in 2017. The contribution of the Interests' liabilities totalled \$584 million, compared with \$312 million. These increases are directly related to the acquisition of Invenergy's interests in five wind farms. For more details, see the *Non-IFRS measures* section and the *Interests in the Joint Ventures and associates* note to the annual financial statements.

## Equity

Equity rose \$172 million during fiscal 2018 to \$901 million as at December 31, 2018. Equity growth resulted primarily from the \$251 million increase in capital stock resulting from the transaction to acquire interests from Invenergy, the \$20 million change in *Accumulated other comprehensive income* related to the translation of financial statements, offset in part by \$44 million in net loss, \$50 million in dividends paid to shareholders of Boralex and \$7 million distributions paid to non-controlling shareholders.

## Debt ratios

Net debt, as defined under *Non-IFRS measures*, amounted to \$3,048 million as at December 31, 2018 compared with \$2,519 million as at December 31, 2017.

As a result, the net debt ratio, based on market capitalization, as defined under *Non-IFRS measures*, rose to 56% as at December 31, 2017 from 65% as at December 31, 2018.

The increase in the debt ratio resulted primarily from the decline in the Boralex's share price from \$23.50 per share as at December 31, 2017 to \$16.84 per share as at December 31, 2018.

## Information about the Corporation's equity

As at December 31, 2018, Boralex's capital stock consisted of 89,184,175 Class A shares issued and outstanding (76,255,051 as at December 31, 2017). There were 605,065 outstanding stock options as at December 31, 2018, of which 480,338 were exercisable. Boralex had 1,437,070 issued and outstanding convertible debentures for an amount of \$144 million (1,437,400 as at December 31, 2017 for an amount of \$144 million).

From January 1 to February 28, 2019, no new shares were issued on exercise of stock options and in connection with the conversion of debentures.

## Transactions with related parties

The Corporation has entered into a management agreement with R.S.P. Énergie Inc., an entity in which Patrick Lemaire, President, Chief Executive Officer and a director of the Corporation, is one of three shareholders. For the year ended December 31, 2018, revenues from this agreement were \$1 million.

The Corporation has an office lease contract with Ivanhoé Cambridge, an entity in which the Caisse holds an interest as well. As at December 31, 2018, the amount of the lease expense was \$1 million.

On March 29, 2018, the Corporation entered into \$170 million in financing with the Caisse in the form of unsecured subordinated debt with a 10-year maturity. On July 24, 2018, Boralex drew down its \$80 million second tranche. As at December 31, 2018, the interest related to these transactions amounted to \$9 million.

The Six Nations' equity interest in FWRN LP was financed through a non-recourse loan initially provided by Enercon and which will be repaid, with interest, through Six Nations' share of the payouts that FWRN LP will make during the term of the feed-in tariff contract. For the year ended December 31, 2018, interest related to this advance amounted to \$2 million.

On June 20, 2018, the Corporation acquired the shares of Kallista, which owned a portfolio of 15 wind farms in operation. The 15 MW Val aux Moines wind farm is 35% owned by the shareholder Nordex Employee Holding GmbH. The non-controlling shareholder advanced \$6 million (€4 million) to the project to finance the construction of the facility. As at December 31, 2018, interest related to this amount owing to a non-controlling shareholder was not material.

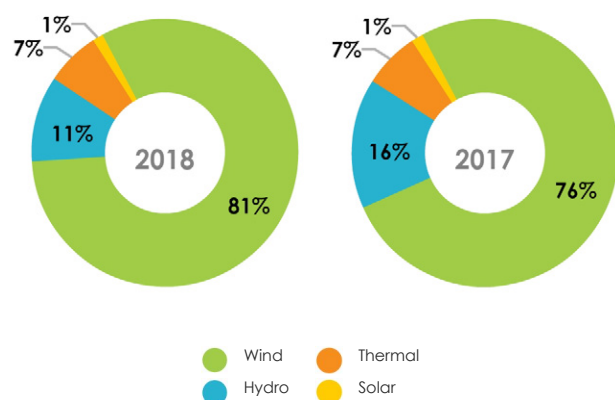
On September 14, 2018, the Corporation closed the acquisition of Invenenergy's interests in five wind farms. The acquisition is considered a related party transaction because the Caisse then held a 52.4% interest in Invenenergy and a 19.9% equity interest in Boralex.

# Segment and geographic breakdown of results for the years ended December 31, 2018 and 2017

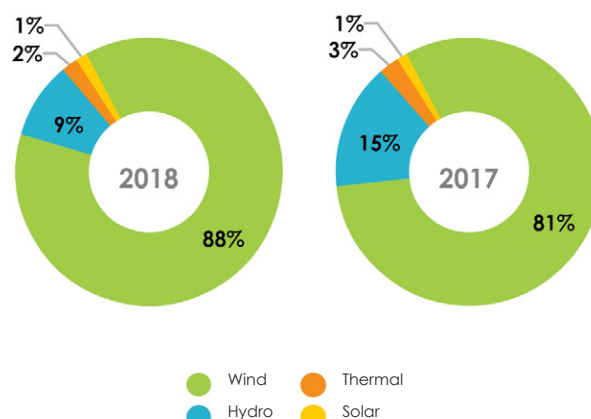
## Segment breakdown

The following is a discussion of changes in segment breakdown of revenues and EBITDA(A) for the year ended December 31, 2018 compared with fiscal 2017.

**Breakdown of revenues from energy sales**



**Breakdown of EBITDA(A)<sup>(1)</sup>**



<sup>(1)</sup> Excluding corporate segment and eliminations

## Wind

For fiscal 2018, wind power segment revenues rose 22% from fiscal 2017 and represented 81% of consolidated revenues, compared with 76% for fiscal 2017. This increase was due mainly to the addition of 91 MW to the segment's installed capacity in 2017, the contribution of the NRWF facility for the first 14 days of 2018, the acquisition of Kallista sites on June 20, 2018 and the commissioning of Inter Deux Bos on September 24, 2018, Noyers Bucamps on November 1, 2018, Hauts de Comble on November 5, 2018 and Côteaux du Blaiseron on November 9, 2018.

Wind power segment EBITDA(A) for fiscal 2018 rose 19% compared with fiscal 2017, representing 88% of consolidated EBITDA(A) (before the corporate segment and eliminations), exceeding the fiscal 2017 result of 81%. Not only is the wind power segment Boralex's most significant driver of EBITDA(A), but its EBITDA(A) margin is also higher than the average for Boralex's energy asset portfolio, i.e. 81% in fiscal 2018.

Given the anticipated commissioning of facilities by 2020 for 100 MW in additional capacity, as well as the large pipeline of potential projects Boralex has access to, this segment's contribution to the Corporation's operating profitability will increase over the coming quarters and years, helping to maintain a solid average profit margin.

## Hydroelectric

For fiscal 2018, hydroelectric power segment revenues and EBITDA(A) declined 24% and 32%, respectively, compared with fiscal 2017, owing primarily to less favourable water flow conditions and lower prices at the U.S. power stations. Given the growth in the wind power segment, the hydroelectric power segment's contribution to the Corporation's consolidated revenues eased to 11% for fiscal 2018 from 16% for fiscal 2017, while its contribution to EBITDA(A) (before the corporate segment and eliminations) declined to 9% from 15%. EBITDA(A) margin for this segment, as a percentage of revenues, decreased to 67% in 2018 from 75% in fiscal 2017.

## Thermal

Thermal power segment revenues were up 10% for fiscal 2018 compared with last year, owing to higher selling prices obtained at the Blendecques power station. Note that selling prices at this facility are tied to natural gas prices and when those prices increase, it typically results in higher costs. This segment accounted for 7% of consolidated revenues for fiscal 2018, the same percentage as the previous year. The thermal segment's contribution to consolidated EBITDA(A) (before the corporate segment and eliminations) also held steady at 2%. EBITDA(A) margin for this segment declined to 26% for fiscal 2018 from 29% for fiscal 2017.

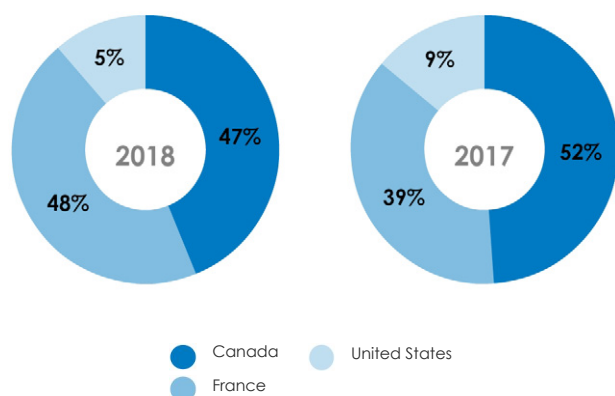
## Solar

For fiscal 2018, the solar power segment generated EBITDA(A) of \$5 million, or results similar to a year earlier. The solar power segment for the time being accounts for only a marginal share of Boralex's asset portfolio.

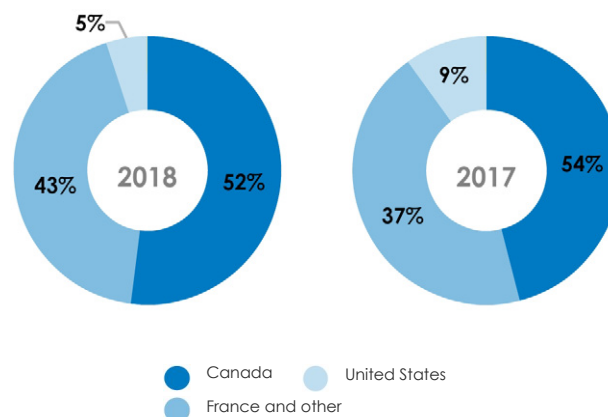
## Geographic breakdown

The following is a discussion of changes in geographic breakdown of revenues and EBITDA(A) for the year ended December 31, 2018 compared with fiscal 2017.

**Breakdown of revenues from energy sales**



**Breakdown of EBITDA(A)<sup>(1)</sup>**



<sup>(1)</sup> Excluding corporate segment and eliminations

For the year ended December 31, 2018, the geographic breakdown of revenues from energy sales was as follows:

- 47% in **Canada** compared with 52% in 2017.
- 48% in **France**, compared with 39% in 2017, given the contributions of wind farms commissioned in 2017, sites acquired from Kallista on June 20, 2018 and the Inter Deux Bos, Noyers Bucamps, Hauts de Comble and Côteaux du Blaiseron wind farms from the time of their commissioning during fiscal 2018.
- 5% in the **United States** compared with 9% in 2017, owing mainly to the lower production volume and the downward adjustment of the price per MWh at the Hudson Falls power station, which benefited from a contract price of US\$80.58 per MWh in 2017, whereas it is now US\$48.27 per MWh.

Note that the five wind farms acquired in Québec in September 2018 are accounted for using the equity method in accordance with IFRS. As a result, they have no impact on the revenue breakdown and very little impact on the EBITDA(A) breakdown.

## Non-IFRS measures

In order to assess the performance of its assets and reporting segments, Boralex uses EBITDA, EBITDA(A), EBITDA(A) margin, cash flows from operations, ratio of net debt, discretionary cash flows, payout ratio and dividends paid per common share as performance measures. Management believes that these measures are widely accepted financial indicators used by investors to assess the operational performance of a company and its ability to generate cash through operations. The non-IFRS measures also provide investors with insight into the Corporation's decision making as the Corporation uses these non-IFRS measures to make financial, strategic and operating decisions.

These non-IFRS measures are derived primarily from the unaudited consolidated financial statements, but do not have a standardized meaning under IFRS; accordingly, they may not be comparable to similarly named measures used by other companies. Non-IFRS measures are not audited. These non-IFRS measures have important limitations as analytical tools and investors are cautioned not to consider them in isolation or place undue reliance on ratios or percentages calculated using these non-IFRS measures.

This MD&A also shows a number of these measures on a Combined basis, where the results of the Interests in the Joint Ventures and associates are accounted for according to the ownership interest. Since they represent a significant investment for Boralex, management considers this information useful for investors. For more details, see the *Interests in the Joint Ventures and associates* note in the Interim Report and the Annual Report. Here are significant interests restated on a Combined basis:

| Boralex % of interests |        |
|------------------------|--------|
| SDB I and II           | 50.00% |
| DM I and DM II         | 51.00% |
| LP I                   | 51.00% |
| LP II                  | 59.96% |
| Roncevaux              | 50.00% |

## Reconciliation between IFRS and Combined information

The following tables reconcile IFRS data with data presented on a Combined basis:

### Consolidated

|  | 2018  |           |              |          |
|--|-------|-----------|--------------|----------|
| (in millions of Canadian dollars)                            | IFRS  | Interests | Eliminations | Combined |
| <b>Three-month period ended December 31:</b>                 |       |           |              |          |
| Power production (GWh)                                       | 1,065 | 324       | —            | 1,389    |
| Revenues from energy sales                                   | 145   | 33        | —            | 178      |
| EBITDA(A)  | 98    | 28        | (5)*         | 121      |
| Net earnings   | 6     | 5         | (5)*         | 6        |
| Net cash flows related to operating activities               | 23    | 33        | (4)          | 52       |
| Cash flows from operations                                   | 71    | 17        | (4)**        | 84       |
| <b>Year ended December 31:</b>                               |       |           |              |          |
| Power production (GWh)                                       | 3,415 | 737       | —            | 4,152    |
| Revenues from energy sales                                   | 471   | 78        | —            | 549      |
| EBITDA(A)  | 298   | 66        | (10)*        | 354      |
| Net earnings (loss)  | (44)  | 12        | (12)*        | (44)     |
| Net cash flows related to operating activities               | 202   | 55        | (22)         | 235      |
| Cash flows from operations                                   | 192   | 39        | (23)**       | 208      |
| <b>As at December 31:</b>                                    |       |           |              |          |
| Total assets   | 4,746 | 871       | (213)***     | 5,404    |
| Debt, including non-current debt and current portion of debt | 3,271 | 584       | —            | 3,855    |

\* Share in earnings of the Joint Ventures and associates.

\*\* Distributions received from the Joint Ventures and associates.

\*\*\* Interests in the Joint Ventures and associates.

## 2017

(in millions of Canadian dollars)

|  | IFRS  | SDB – I and II (50%) | Eliminations | Combined |
|--|-------|----------------------|--------------|----------|
| <b>Three-month period ended December 31:</b>                 |       |                      |              |          |
| Power production (GWh)                                       | 871   | 171                  | —            | 1,042    |
| Revenues from energy sales                                   | 129   | 18                   | —            | 147      |
| EBITDA(A)  | 93    | 16                   | (5)*         | 104      |
| Net earnings   | 28    | 6                    | (6)*         | 28       |
| Net cash flows related to operating activities               | 17    | 11                   | (1)          | 27       |
| Cash flows from operations                                   | 69    | 12                   | (1)**        | 80       |
| <b>Year ended December 31:</b>                               |       |                      |              |          |
| Power production (GWh)                                       | 3,129 | 546                  | —            | 3,675    |
| Revenues from energy sales                                   | 414   | 59                   | —            | 473      |
| EBITDA(A)  | 276   | 49                   | (6)*         | 319      |
| Net earnings   | 10    | 10                   | (10)*        | 10       |
| Net cash flows related to operating activities               | 145   | 33                   | (16)         | 162      |
| Cash flows from operations                                   | 195   | 32                   | (17)**       | 210      |
| <b>As at December 31:</b>                                    |       |                      |              |          |
| Total assets   | 3,926 | 383*                 | (21)***      | 4,288    |
| Debt, including non-current debt and current portion of debt | 2,642 | 312*                 | —            | 2,954    |

\* Share in earnings of the Joint Ventures and an associate.

\*\* Distributions received from the Joint Ventures and an associate.

\*\*\* Interests in the Joint Ventures and an associate.

## Wind

## 2018

(in millions of Canadian dollars)

|  | IFRS  | Interests | Eliminations | Combined |
|--|-------|-----------|--------------|----------|
| <b>Three-month period ended December 31:</b> |       |           |              |          |
| Power production (GWh)                       | 852   | 324       | —            | 1,176    |
| Revenues from energy sales                   | 123   | 33        | —            | 156      |
| EBITDA(A)                                    | 105   | 28        | (6)*         | 127      |
| <b>Year ended December 31:</b>               |       |           |              |          |
| Power production (GWh)                       | 2,581 | 737       | —            | 3,318    |
| Revenues from energy sales                   | 385   | 78        | —            | 463      |
| EBITDA(A)                                    | 310   | 66        | (13)*        | 363      |

\* Share in earnings of the Joint Ventures and associates

## 2017

(in millions of Canadian dollars)

|  | IFRS  | SDB – I and II (50%) | Eliminations | Combined |
|--|-------|----------------------|--------------|----------|
| <b>Three-month period ended December 31:</b> |       |                      |              |          |
| Power production (GWh)                       | 676   | 171                  | —            | 847      |
| Revenues from energy sales                   | 107   | 18                   | —            | 125      |
| EBITDA(A)                                    | 95    | 17                   | (6)*         | 106      |
| <b>Year ended December 31:</b>               |       |                      |              |          |
| Power production (GWh)                       | 2,204 | 546                  | —            | 2,750    |
| Revenues from energy sales                   | 315   | 59                   | —            | 374      |
| EBITDA(A)                                    | 261   | 49                   | (9)*         | 301      |

\* Share in earnings of the Joint Ventures and an associate



## EBITDA(A)

EBITDA(A) represents earnings before interest, taxes, depreciation and amortization, adjusted to include other items such as acquisition costs, net loss on financial instruments and foreign exchange gain, the last two items being included under *Other*. EBITDA(A) does not have a standardized meaning under IFRS; accordingly, it may not be comparable to similarly named measures used by other companies. Investors should not view EBITDA(A) as an alternative measure to, for example, net earnings (loss), or as a measure of operating results, which are IFRS measures.

EBITDA and EBITDA(A) are reconciled to the most comparable IFRS measure, namely, net earnings (loss), in the following table:

|   | <b>2018</b> |                  |                     |                 |
|---|-------------|------------------|---------------------|-----------------|
| (in millions of Canadian dollars)                                 | <b>IFRS</b> | <b>Interests</b> | <b>Eliminations</b> | <b>Combined</b> |
| <b>Three-month period ended December 31:</b>                      |             |                  |                     |                 |
| Net earnings  | 6           | 5                | (5)                 | 6               |
| Income tax recovery   | (1)         | —                | —                   | (1)             |
| Financing costs   | 33          | 8                | —                   | 41              |
| Impairment of property, plant and equipment and intangible assets | 3           | —                | —                   | 3               |
| Amortization  | 61          | 15               | —                   | 76              |
| <b>EBITDA</b>   | <b>102</b>  | <b>28</b>        | <b>(5)</b>          | <b>125</b>      |
| Adjustments:  |             |                  |                     |                 |
| Foreign exchange gain   | —           | —                | —                   | —               |
| Acquisition costs   | (4)         | —                | —                   | (4)             |
| <b>EBITDA(A)</b>  | <b>98</b>   | <b>28</b>        | <b>(5)</b>          | <b>121</b>      |
| <b>Year ended December 31:</b>                                    |             |                  |                     |                 |
| Net earnings (loss)   | (44)        | 12               | (12)                | (44)            |
| Income tax recovery   | (16)        | —                | —                   | (16)            |
| Financing costs   | 123         | 24               | 2                   | 149             |
| Amortization  | 216         | 32               | —                   | 248             |
| Impairment of property, plant and equipment and intangible assets | 15          | —                | —                   | 15              |
| <b>EBITDA</b>   | <b>294</b>  | <b>68</b>        | <b>(10)</b>         | <b>352</b>      |
| Adjustments:  |             |                  |                     |                 |
| Acquisition costs   | 5           | —                | —                   | 5               |
| Other gains   | (1)         | (2)              | —                   | (3)             |
| <b>EBITDA(A)</b>  | <b>298</b>  | <b>66</b>        | <b>(10)</b>         | <b>354</b>      |

## 2017

(in millions of Canadian dollars)

|  | IFRS       | SDB – I and II (50%) | Eliminations | Combined   |
|--|------------|----------------------|--------------|------------|
| <b>Three-month period ended December 31:</b> |            |                      |              |            |
| Net earnings                                 | 28         | 6                    | (6)          | 28         |
| Income tax recovery                          | (9)        | —                    | —            | (9)        |
| Financing costs                              | 27         | 5                    | 1            | 33         |
| Amortization                                 | 46         | 5                    | —            | 51         |
| <b>EBITDA</b>                                | <b>92</b>  | <b>16</b>            | <b>(5)</b>   | <b>103</b> |
| Adjustments:                                 |            |                      |              |            |
| Foreign exchange gains                       | 1          | —                    | —            | 1          |
| <b>EBITDA(A)</b>                             | <b>93</b>  | <b>16</b>            | <b>(5)</b>   | <b>104</b> |
| <b>Year ended December 31:</b>               |            |                      |              |            |
| Net earnings                                 | 10         | 9                    | (9)          | 10         |
| Income tax recovery                          | (10)       | —                    | —            | (10)       |
| Financing costs                              | 104        | 20                   | 3            | 127        |
| Amortization                                 | 172        | 22                   | —            | 194        |
| <b>EBITDA</b>                                | <b>276</b> | <b>51</b>            | <b>(6)</b>   | <b>321</b> |
| Adjustments:                                 |            |                      |              |            |
| Other gains                                  | (1)        | (2)                  | —            | (3)        |
| Other  | 1          | —                    | —            | 1          |
| <b>EBITDA(A)</b>                             | <b>276</b> | <b>49</b>            | <b>(6)</b>   | <b>319</b> |

## Cash flows from operations

Cash flows from operations under IFRS and on a Combined basis are equal to net cash flows related to operating activities before change in non-cash items. Management uses this measure to assess cash flows generated by the Corporation's operations and its capacity to finance its expansion through those funds. In light of the seasonal nature of the Corporation's operations and the volume of construction activity, changes in non-cash items can vary considerably, which affects the degree to which cash flows from operations are representative.

Investors should not consider cash flows from operations as an alternative measure to cash flows related to operating activities, which is an IFRS measure.

Cash flows from operations are reconciled to the most comparable IFRS measure, namely net cash flows related to operating activities, in the following table:

## 2018

(in millions of Canadian dollars)

|  | IFRS       | Interests | Eliminations | Combined   |
|--|------------|-----------|--------------|------------|
| <b>Three-month period ended December 31:</b>             |            |           |              |            |
| Net cash flows related to operating activities           | 23         | 33        | (4)          | 52         |
| Change in non-cash items related to operating activities | 48         | (16)      | —            | 32         |
| <b>CASH FLOWS FROM OPERATIONS</b>                        | <b>71</b>  | <b>17</b> | <b>(4)*</b>  | <b>84</b>  |
| <b>Year ended December 31:</b>                           |            |           |              |            |
| Net cash flows related to operating activities           | 202        | 55        | (22)         | 235        |
| Change in non-cash items related to operating activities | (10)       | (16)      | (1)          | (27)       |
| <b>CASH FLOWS FROM OPERATIONS</b>                        | <b>192</b> | <b>39</b> | <b>(23)*</b> | <b>208</b> |

\* Distributions received from the Joint Ventures and associates.

2017

| (in millions of Canadian dollars)                        | IFRS       | SDB – I and II (50%) | Eliminations | Combined   |
|--|------------|----------------------|--------------|------------|
| <b>Three-month period ended December 31:</b>             |            |                      |              |            |
| Net cash flows related to operating activities           | 17         | 11                   | (1)          | 27         |
| Change in non-cash items related to operating activities | 52         | 1                    | —            | 53         |
| <b>CASH FLOWS FROM OPERATIONS</b>                        | <b>69</b>  | <b>12</b>            | <b>(1)*</b>  | <b>80</b>  |
| <b>Year ended December 31:</b>                           |            |                      |              |            |
| Net cash flows related to operating activities           | 145        | 33                   | (16)         | 162        |
| Change in non-cash items related to operating activities | 50         | (1)                  | (1)          | 48         |
| <b>CASH FLOWS FROM OPERATIONS</b>                        | <b>195</b> | <b>32</b>            | <b>(17)*</b> | <b>210</b> |

\* Distributions received from the Joint Ventures and an associate.

## Net debt ratio

"Net debt ratio" represents the ratio of "net debt" over "total market capitalization," each calculated as described below.

The Corporation defines net debt as follows:

| (in millions of Canadian dollars)   | IFRS                                 |                                      |
|---|--------------------------------------|--------------------------------------|
|   | As at<br>December 31,<br><b>2018</b> | As at<br>December 31,<br><b>2017</b> |
| Non-current debt  | 2,857                                | 2,418                                |
| Current portion of debt   | 414                                  | 224                                  |
| Borrowing costs, net of accumulated amortization  | 30                                   | 27                                   |
| Less:   |                                      |                                      |
| Cash and cash equivalents   | 157                                  | 115                                  |
| Restricted cash   | 96                                   | 35                                   |
| <b>Net debt</b>   | <b>3,048</b>                         | <b>2,519</b>                         |
| Net debt, excluding non-current debt drawn down under financing for projects under construction | 2,707                                | 2,394                                |

The Corporation defines total market capitalization as follows:

| (in millions of Canadian dollars, unless otherwise specified) | IFRS                                 |                                      |
|---|--------------------------------------|--------------------------------------|
|   | As at<br>December 31,<br><b>2018</b> | As at<br>December 31,<br><b>2017</b> |
| Number of outstanding shares (in thousands)                   | 89,184                               | 76,255                               |
| Share market price (in \$ per share)                          | 16.84                                | 23.50                                |
| Market value of equity attributable to shareholders           | 1,502                                | 1,792                                |
| Non-controlling shareholders                                  | 31                                   | 44                                   |
| Net debt  | 3,048                                | 2,519                                |
| Convertible debentures, nominal value                         | 144                                  | 144                                  |
| <b>Total market capitalization</b>                            | <b>4,725</b>                         | <b>4,499</b>                         |

The Corporation computes the net debt ratio as follows:

|   | IFRS                                 |                                      |
|---|--------------------------------------|--------------------------------------|
|   | As at<br>December 31,<br><b>2018</b> | As at<br>December 31,<br><b>2017</b> |
| (in millions of Canadian dollars, unless otherwise specified)   |                                      |                                      |
| Net debt  | 3,048                                | 2,519                                |
| Total market capitalization   | 4,725                                | 4,499                                |
| <b>NET DEBT RATIO</b> (market capitalization)   | 65%                                  | 56%                                  |
| <b>NET DEBT RATIO</b> , market capitalization, excluding non-current debt drawn for projects under construction | 57%                                  | 53%                                  |

## Discretionary cash flows and payout ratio

### Discretionary cash flows

When evaluating its operating results, discretionary cash flows is a key performance indicator for the Corporation.

Discretionary cash flows represent the cash generated from operations that management believes is representative of the amount available for future development or to be paid as dividends to common shareholders while preserving the long-term value of the business.

It is important to note that discretionary cash flows are now calculated using data derived from the financial statements in accordance with IFRS, whereas previously they were calculated using Combined information. This change had no effect on discretionary cash flows or the payout ratio. Under IFRS, discretionary cash flows include the distributions from the Joint Ventures and associates whereas on a Combined basis, those distributions are eliminated and replaced by the contribution of the Joint Ventures and associates to EBITDA(A), net of the debt repayments made.

Investors should not consider discretionary cash flows as an alternative measure to "net cash flows related to operating activities," which is an IFRS measure. Discretionary cash flows are equal to *Net cash flows related to operating activities* before the change in "non-cash items related to operating activities," less (i) distributions paid to non-controlling shareholders, (ii) additions to property, plant and equipment (operational maintenance), and (iii) repayments on non-current debt (projects); plus (iv) development costs (from the statement of earnings).

### Payout ratio

The payout ratio is defined as dividends paid to shareholders of Boralex divided by discretionary cash flows, all of which is calculated based on the previous 12 months of operations. Boralex believes it is a measure of its ability to sustain current dividends as well as its ability to fund its future development. For an accurate representation of current operations, this calculation is adjusted to exclude non-recurring items listed in the notes to the table below.

In the medium-term, Boralex expects to pay common share dividends on an annual basis representing a ratio of approximately 40% to 60% of its discretionary cash flows. For the twelve-month period ended December 31, 2018, the dividends paid to shareholders by the Corporation corresponded to 85% of discretionary cash flows. The ratio above the target range for fiscal 2018 resulted primarily from the fact that wind power production volumes were 12% lower than anticipated.

Dividends per share paid to shareholders represent dividends paid to shareholders of Boralex divided by the average weighted number of outstanding shares.

The Corporation computes discretionary cash flows as follows:

|  | IFRS                        |                             |
|--|-----------------------------|-----------------------------|
|  | Years ended                 |                             |
|  | December 31,<br><b>2018</b> | December 31,<br><b>2017</b> |
| (in millions of Canadian dollars, unless otherwise specified)          |                             |                             |
| Cash flows from operations   | 192                         | 195                         |
| Adjustments <sup>(1)</sup>   | 6                           | —                           |
| Distributions paid to non-controlling shareholders                     | (7)                         | (8)                         |
| Additions to property, plant and equipment (maintenance of operations) | (8)                         | (8)                         |
| Repayments on non-current debt (projects) <sup>(2)(3)</sup>            | (150)                       | (125)                       |
| Development costs (from statement of loss)                             | 26                          | 17                          |
| <b>Discretionary cash flows</b>  | <b>59</b>                   | <b>71</b>                   |
| Discretionary cash flows per share                                     | \$0.74                      | \$0.94                      |
| Dividends paid to shareholders of Boralex                              | \$50                        | \$46                        |
| Weighted average number of outstanding shares – basic (in thousands)   | 80,102                      | 75,436                      |
| Dividends paid to shareholders of Boralex per share                    | \$0.63                      | \$0.60                      |
| <b>Payout ratio</b>  | <b>85%</b>                  | <b>64%</b>                  |

<sup>(1)</sup> Excluding primarily the acquisition costs incurred for Kallista.

<sup>(2)</sup> Adjustment of the March 2017 NRW debt repayment prorated to the number of days held since the acquisition (2017).

<sup>(3)</sup> Excluding the VAT bridge financing, repayment of borrowings assumed at the time of the Kallista acquisition (2018) and the early debt repayment.

## Financial instruments

### Foreign exchange risk

The Corporation generates foreign currency liquidity through the operation of its power stations in France and the United States. First, the Corporation benefits from partial natural coverage from this risk exposure, as revenues, expenses and financing are in the local currency. Accordingly, foreign exchange risk arises particularly from the residual liquidity that can be distributed to the parent company.

In France, given the above, the Corporation entered into foreign exchange forward contracts to hedge the exchange rate on a portion of the distributions it expects to repatriate from Europe up to 2025. Similar purchases will be made based on the growth in cash to be generated in France. The Corporation also entered into cross-currency swaps. These derivatives cover the Corporation's net investment in France, as they allow financing issued in Canada for investment in France to be synthetically translated into euros. In addition to mitigating the risk related to foreign currency fluctuations, these instruments also allow Boralex to currently benefit in part from interest rates lower than those prevailing in Europe. To measure the fair value of these instruments, the Corporation uses a technique that is a combination of the techniques used to measure interest rate swaps and foreign exchange forward contracts.

Management considers that the cash flows generated in the United States do not represent a significant risk at present. A hedging strategy could be developed in due course.

In connection with Canadian project development, certain future expenditures may be in foreign currencies. For example, certain equipment purchases in Canada are partly denominated in euros or U.S. dollars. Where applicable, the Corporation's objective is to protect its anticipated return on its investment by entering into hedging instruments to reduce volatility in expected expenditures and, in turn, stabilize significant costs such as those for turbines.

The following table summarizes the Corporation's derivative financial instruments as at December 31, 2018:

As at December 31,

**2018**

| (in millions of Canadian dollars)  | Currency    | Current notional     |       | Fair value           |       |
|------------------------------------|-------------|----------------------|-------|----------------------|-------|
|                                    |             | (currency of origin) | (CAD) | (currency of origin) | (CAD) |
| Interest rate swaps                | EUR         | 381                  | 595   | (21)                 | (32)  |
| Interest rate swaps                | CAD         | 787                  | 787   | 30                   | 30    |
| Foreign exchange forward contracts | EUR vs. CAD | 70                   | 108   | (7)                  | (7)   |
| Cross-currency swaps               | EUR vs. CAD | 165                  | 251   | (8)                  | (8)   |
|                                    |             |                      |       |                      | (17)  |

The Corporation does not plan to trade these instruments, since they were entered into to reduce the Corporation's risk related to interest rate and exchange rate fluctuations, and to protect, to all extent possible, the anticipated return on its projects. As a result, the fact that fair value is unfavourable only indicates that forward interest rates or exchange rates have fallen and has no bearing on the effectiveness of the instrument as part of the Corporation's risk management strategy.

### Price risk

In the Northeastern United States, a portion of the Corporation's power production is sold at market prices or under short-term contracts and is accordingly subject to fluctuations in energy prices. Energy prices vary according to supply, demand and certain external factors, including weather conditions, and the price of other sources of power. As a result, prices may fall too low for the power stations to yield an operating profit.

As at December 31, 2018, our power stations in France (except Avignonet I and Chépy) and Canada (except Oldman in Alberta), as well as those in Hudson Falls and South Glens Falls in the United States, have long-term energy sales contracts, the vast majority of which are subject to partial or full indexation clauses tied to inflation. Consequently, only 2% of Boralex's installed capacity is exposed to price risk at present.

### Interest rate risk

Under IFRS, as at December 31, 2018, approximately 54% of non-current debt issued bears interest at variable rates, excluding the revolving credit facility and the bridge financing facility. To protect itself against rate increases, the Corporation uses interest rate swaps. With these instruments, the Corporation's actual exposure to interest rate fluctuations is limited to only 6% of total debt under IFRS.

## Commitments and contingencies

| (in millions of Canadian dollars)   | Payments        |                   |              | Total |
|-------------------------------------|-----------------|-------------------|--------------|-------|
|                                     | Current portion | From 1 to 5 years | Over 5 years |       |
| Contingent consideration            | 19              | 9                 | —            | 28    |
| Purchase and construction contracts | 127             | —                 | —            | 127   |
| Maintenance contracts               | 28              | 98                | 124          | 250   |
| Operating lease contracts           | 15              | 52                | 142          | 209   |
| Other                               | 1               | 6                 | 19           | 26    |
|                                     | 190             | 165               | 285          | 640   |

### Contingent consideration

Upon completion of certain phases in the development of projects acquired, Boralex will be required to pay these amounts to the seller.

### Energy sales contracts – facilities in operation

#### Canada

For the Canadian power stations, the Corporation is committed to selling 100% of its power output (subject to certain minimum criteria) under long-term contracts maturing from 2019 to 2054 depending on the facility. These contracts provide for partial annual indexation based on the CPI. In Québec, one hydroelectric power station is covered by fixed indexation of the energy selling price, whereas for two others, indexation is linked to the CPI with a minimum threshold of 3% and a maximum threshold of 6%.

#### France

For the wind power stations, excluding **Avignonet I** and **Chépy**, thermal power station and solar power facilities in France, the Corporation is committed to selling 100% of its power output under long-term contracts maturing from 2019 to 2035 depending on the facility. These contracts provide for annual indexation based on changes in hourly labour costs and industry activity levels.

#### United States

In the United States, under a long-term contract expiring in 2029, the Corporation is committed to selling 100% of the power output of its **Middle Falls** hydroelectric power station. A price equal to 90% of the market price is stipulated in the contract.

For the **South Glens Falls** and **Hudson Falls** hydroelectric power stations in the United States, the Corporation is committed to selling the electricity it generates under long-term contracts expiring in 2034 and 2035, respectively. These contracts provide for contract payment rates for most of the electricity it generates. The price structure is as follows:

|                               | South Glens Falls<br>US\$/MWh   | Hudson Falls<br>US\$/MWh       |
|-------------------------------|---------------------------------|--------------------------------|
| January 2019 – November 2024  | 86.65                           | 48.27                          |
| December 2024 – November 2025 | 121.79 or market <sup>(1)</sup> | 48.27                          |
| December 2025 and thereafter  | 121.79 or market <sup>(1)</sup> | 56.28 or market <sup>(1)</sup> |

<sup>(1)</sup> The client has the option of replacing the contract price with the market price until the contract terminates in 2025 for the South Glens Falls facility and in 2026 for the Hudson Falls facility.

### Energy sales contracts – projects under development

#### Canada

- For the **Yellow Falls** hydroelectric power station, the Corporation has entered into an initial 20-year energy sales contract with four renewal options, each for a five-year period, at the Corporation's discretion. The contract will be effective when the power station is commissioned, and the selling price will be indexed annually.
- For the **Moose Lake** wind power project, the Corporation has entered into an initial 40-year energy sales contract. The contract will be effective when the wind farm is commissioned, and the selling price will be indexed annually.
- For the **Buckingham** hydroelectric power station's capacity upgrade project, the Corporation has entered into an energy sales contract that will be effective when the upgraded power station is commissioned and will expire at maturity in 2038.

#### France

For the **Seuil du Cambrésis**, **Basse Thiérache Nord**, and **Moulins du Lohan** wind power projects, the Corporation has entered into 15-year energy sales contracts, while it has entered into 20-year energy sales contracts for the **Catéris**, **Santerre** and **Cham Longe I** wind power projects. These contracts will be effective when the wind farms are commissioned, and the selling prices will be indexed annually.

## Purchase and construction contracts

### Canada

- (a) For the **Buckingham** hydroelectric power station's capacity increase project, the Corporation has entered into turbine purchase, construction and connection contracts.
- (b) For the **Moose Lake** wind power project, the Corporation has entered into a turbine purchase and construction contract.

### France

- (a) For the **Basse Thiérache Nord, Catésis** and **Seuil du Cambrésis** wind power projects, the Corporation has entered into a number of turbine purchase, construction and connection contracts.
- (b) For the **Sources de l'Ancre** wind farm, the Corporation has entered into a turbine purchase contract.
- (c) For the **Moulins du Lohan** wind power project, the Corporation has entered into a number of turbine purchase and construction contracts.
- (d) For the **Cham Longe I** wind farm repowering project, the Corporation entered into certain construction contracts in 2018.

## Maintenance contracts

### Canada

For its power stations in operation in Canada, the Corporation has entered into wind turbine maintenance contracts with initial terms of 15 years. The **Port Ryerse**, **Témiscouata I** and **Côte-de-Beaupré** wind farm contracts include a cancellation option at the Corporation's discretion, exercisable after the fifth year, while the cancellation option for the **Témiscouata II** and **Frampton** wind farms is exercisable after the seventh year. The **NRWF** maintenance contract contains no cancellation option.

### France

The Corporation has entered into wind turbine maintenance contracts for its power stations in operation in France. The contracts have initial terms of three to 20 years.

## Operating lease contracts

### Canada

- (a) For Canadian wind farms, the Corporation leases land on which wind turbines are installed under lease agreements with terms ranging from 14 to 22 years.
- (b) The Corporation leases the sites on which the six Canadian hydroelectric power stations are located, as well as the water rights over the hydraulic power required to operate them. Under the terms of these agreements, expiring from 2019 to 2022, depending on the power station, the Corporation's lease payments are based on power generation levels.
- (c) In connection with the move of the Montréal corporate office, the Corporation entered into an initial 16-year lease for office premises. This lease entered into with Ivanhoé Cambridge will result in related party transactions, as the Caisse also holds interests in Ivanhoé Cambridge.

### France

The land on which the French wind power stations and solar power facilities are located is leased under emphyteutic leases over terms ranging from 25 to 99 years. Royalties under these leases are due and indexed annually, based on the CPI and the Construction Cost Index published by the National Institute of Statistics and Economic Studies.

### United States

- (a) For its **Middle Falls** power station, the Corporation leases the land on which the power station is located from the NMPC under a lease expiring in 2029. Lease payments are variable, totalling 30% of the power station's gross revenue.
- (b) The land on which the Corporation's U.S. **South Glens Falls** and **Hudson Falls** hydroelectric power stations are located is leased from NMPC. The leases expire at the same time as the energy sales contracts, namely in 2034 and 2035, respectively. Rental expense for non-contingent lease payments is recognized in earnings (loss) on a straight-line basis based on the average rental payment over the lease terms. Total minimum future lease payments for the **South Glens Falls** power station in New York State do not include contingent lease payments for years 26 through 40, inclusively, of the lease agreement given the uncertainty surrounding the amounts. Lease expenses in those years are based on a percentage of gross revenues. In addition, the leases provide NMPC a right of first refusal to acquire the hydroelectric facilities at fair value at the end of the lease term. The leases also require the Corporation to convey title to the hydroelectric facilities if abandoned during the lease term and require NMPC to acquire, and the Corporation to sell, the hydroelectric facilities at the end of the lease term at the lower of fair value or US\$10 million (**Hudson Falls** power station) and US\$5 million (**South Glens Falls** power station).

## Other commitments

For the **NRWF** facility, the Corporation is bound by First Nations royalty and community agreements expiring in 2036. The community agreements include clauses relating to the preservation of the natural habitat, use of roads and the community fund.

The above commitments do not include conditional royalties which represent 8.3% of sales for the power produced over the term of the energy sales contract for the **Moose Lake** wind power project.



## Contingencies

### Canada

As of January 2011, O'Leary Funds Management LP *et al.* had been suing the Corporation in the Superior Court of Québec. The suit alleged that the November 1, 2010 business combination between Boralex and Boralex Power Income Fund was illegal and, accordingly, demanded payment of damages amounting to nearly \$7 million (the initial suit was for an amount of nearly \$14 million).

On March 2, 2018, the Superior Court of Québec dismissed the plaintiffs' lawsuit and affirmed that the business combination is, in fact, legal. The plaintiffs appealed the judgment. On January 21, 2019, the Québec Court of Appeal dismissed the appeal, reiterating that the business combination was legal. O'Leary Funds Management LP *et al.* has 60 days from the judgment date to file a motion for leave to appeal to the Supreme Court of Canada.

The Corporation considers that this procedure has no basis in fact or in law and is defending itself vigorously. Therefore, the Corporation has not recorded any provision in respect of this litigation. In its defence, the Corporation has filed a counterclaim for over \$1 million.

### France – Moulins du Lohan wind power project

On September 16, 2016, the Corporation completed the acquisition of a portfolio of wind power projects of about 200 MW in France and Scotland, including the 51 MW **Moulins du Lohan** project in Brittany, France. The building permits had been obtained in 2014 from the Morbihan department administrative authorities (the "Administration") and construction had already begun before the acquisition by the Corporation.

Local residents had filed an interim application against the project on April 14, 2017 seeking to halt construction pending a decision of the courts regarding the cancellation of the permits issued by the Préfet of Morbihan. An interim order was received on May 11, 2017 requiring a temporary suspension of the building permits and an immediate halt in work. At that time, a significant portion of the foundations and roads had been completed.

In a decision issued on July 7, 2017, the Administrative Tribunal of Rennes cancelled the project's building permits based on its subjective risk assessment of landscape damage to the Lanouée forest where the project was to be developed on land owned by the Corporation. The Tribunal did not find that the administrative authorities had made any errors in law. Project construction has been halted as result of these proceedings. Accordingly, as at December 31, 2017, the Corporation recorded an amount of \$1 million under *Operating expenses* for costs incurred to secure and halt work on the site.

The Corporation considers that the decisions of the Administrative Tribunal of Rennes have no basis in fact or in law. The **Moulins du Lohan** wind power project had been green-lighted by the specialized departments of the French government, and the Lanouée forest, where the **Moulins du Lohan** project is located, is subject to commercial logging and is therefore not, in our opinion, a protected or exceptional territory.

On September 11, 2017, Boralex appealed these decisions to the Administrative Court of Appeal of Nantes. This court reassessed the facts and all the evidence, which may lead to a decision contrary to that issued by the court of first instance. The appeal was heard by the Administrative Court of Appeal of Nantes on February 4, 2019. As of the hearing date, a judgment is typically rendered in one to three months.

The reasons cited by the Administrative Tribunal of Rennes that led to the cancellation of permits are not of a legal nature but rather subjective judgments. In accordance with legal advice, the Corporation is of the opinion that it is more likely than not that the outcome of the appeal of the decision will be favourable given the circumstances and legal precedents.

In the event the appeal is rejected, the Corporation could file an appeal in cassation to the Council of State. At this stage, the Council of State considers the grounds for the decision of the Administrative Court of Appeal but does not re-examine all the facts. Unless the decision contains a gross error, the chances of success at that stage are limited.

If all these procedures result in the permits being cancelled, the conclusion would be that the French government had committed an error in issuing the permits in the first place. Since the Corporation invested considerable amounts on the basis of valid permits declared invalid after the fact, Boralex would be automatically entitled to claim compensation for the prejudice suffered owing directly to a government error.

As at December 31, 2018, the costs incurred for this project amounted to \$60 million (€38 million), consisting of \$25 million (€16 million) in *Property, plant and equipment* and \$35 million (€22 million) in *Intangible assets*. This amount does not include certain contractual penalties related to the suspension of construction contracts, for which no supplier claims have yet been made. The Corporation is currently implementing mitigating actions for these impacts and considers that the net impact of these penalties would be insignificant.

After the Administrative Tribunal of Rennes ordered the cancellation of permits, the Corporation assessed the need for an impairment charge on the assets related to this project. In its impairment test, management made two significant assumptions, consisting of the discount rate and the commissioning date, which was deferred from 2018 to 2020. In the event of a material change in these assumptions, management may revise its impairment test. For example, a 0.25% rise in the discount rate, assuming that all other variables remain the same, would result in an impairment loss of approximately \$2 million on assets. As described above, the French legal system is made up of two completely independent levels of courts.

In our opinion, success for us at the second level is more likely than not owing to the facts set out above and the legal opinions received. As a result, management considers that the assets are not impaired, based on the facts set out above. If the appeal is rejected and given the limited chances of success of an appeal in cassation, the Corporation could be required to write down these assets in accordance with IFRS.

The Corporation would like to point out that the decision issued by the Administrative Tribunal of Rennes did not find Boralex guilty of any wrongdoing, but concluded that the Administration had made an error of assessment by ignoring the impact on the landscape of the construction of a wind farm in the forest in question. Needless to say, the Administration in question argues that it had properly assessed the impact on the landscape and has filed its own appeal against the decisions. Boralex and the Administration intend to form a common front and coordinate their efforts at the Administrative Court of Appeal of Nantes.

### Local and regional content

Under the energy sales agreements entered into with Hydro-Québec Distribution for its wind power projects, the Corporation must comply with certain regional content requirements regarding the costs associated with wind farm turbines (the "regional content requirements") and certain Québec content requirements regarding overall wind farm costs (collectively with the regional content requirements, the "local content requirements"). These requirements apply to all Québec wind power projects built by the Corporation or other producers under requests for proposals issued from 2005 to 2009. Failure to comply with these requirements may result in penalties being imposed under these energy sales contracts.

In accordance with customary practices, in circumstances where the Corporation's compliance or non-compliance with local content requirements under energy sales contracts depends primarily on the wind turbine manufacturer's compliance with these same requirements, in each of the Corporation's wind turbine purchase contracts with Enercon Canada for the Corporation's Québec wind farms, Enercon Canada has undertaken to the Corporation to comply with the regional content requirements and pay the associated penalties. Enercon Canada's obligations under the wind turbine purchase contracts are guaranteed by its parent company, Enercon GmbH, in favour of the Corporation.

An audit was initiated by Hydro-Québec Distribution to confirm compliance with local content requirements. As part of this audit, some discussions between Hydro-Québec, Enercon Canada and the relevant project entities include the costing calculation methodology for wind turbines or wind turbine components to be used to determine project compliance with regional content requirements. There is currently a dispute between the parties regarding this calculation methodology. To the extent that the final determination of the calculation methodology to be used resulted in non-compliance with local content requirements, the Corporation will require Enercon Canada and Enercon GmbH to pay the applicable penalties. The extent of a potential claim cannot currently be assessed with any reasonable certainty. In the event of non-payment, Hydro-Québec Distribution may exercise its right to offset any penalty against the amounts payable to the Corporation for the energy delivered by the wind farm in question, which would affect the revenues received by those wind farms until Enercon Canada has paid the penalties in full and could adversely affect the Corporation's financial position or operating results.

### Regulatory and political environment

The Corporation's operations are subject to regulatory requirements and applicable governing statutes, including environment and energy related regulations, market regulations and other matters or decisions by competent authorities. Although these requirements are generally stable and predictable in the markets in which Boralex operates, the Corporation remains exposed to potential changes to legislation or any interpretation by the authorities charged with their enforcement that may be contrary to the Corporation's interpretation. Regulatory changes, interpretations of the regulations in effect or delays in decision-making by authorities could result in potential adverse material effects on the Corporation and its projects under development or construction or in operation.

## Boralex's share of the commitments of the Joint Ventures and associate in Québec

| (in millions of Canadian dollars) | 2018<br>Payments |                   |              | Total |
|-----------------------------------|------------------|-------------------|--------------|-------|
|                                   | Current portion  | From 1 to 5 years | Over 5 years |       |
| Service contracts                 | 1                | 5                 | 17           | 23    |
| Maintenance contracts             | 11               | 6                 | —            | 17    |
| Lease contracts                   | 2                | 8                 | 24           | 34    |
| Total                             | 14               | 19                | 41           | 74    |

### Energy sales contracts

The Joint Ventures and associate are committed to selling 100% of their power output (subject to certain minimum criteria) under 20-year or 25-year contracts expiring from 2032 to 2041. A portion of the price stipulated by these contracts is covered by annual indexation based on the CPI.

### Service contracts

Pursuant to the service contracts entered into with the Joint Ventures, Boralex will be the operator of the wind farms and will be responsible for their operation, maintenance and administration. The 21-year term contracts expire in 2033 and 2034. The amounts payable under those agreements are limited to operating and maintenance expenses and include fixed and variable management fees. Fixed management fees are indexed annually based on the CPI.

The Joint Ventures and associate have entered into service agreements with municipalities under which royalties are payable in an amount determined per MW. These contracts provide for annual indexation based on the CPI.

### Maintenance contracts

The Joint Ventures and associate entered into 15-year wind turbine maintenance contracts expiring from 2027 to 2031. These contracts include a cancellation option at the Joint Ventures' discretion after seven years, that is, from 2019 to 2024.

### Land lease contracts

The Joint Ventures and associate are bound by land lease contracts expiring from 2032 to 2042, renewable each year at the lessee's option. The land on which the wind turbines are installed is leased for an annual amount of approximately \$2 million indexed annually. The above commitments do not include the additional pro rata share, representing 2.5% of revenues for the first 1% of the energy sold beyond the contractual energy and an amount equal to 0.5% of revenues for each additional 1% of the energy sold beyond the contractual energy of the **DM I** wind power project.

## Contingencies of Joint Ventures and Éoliennes Côte-de-Beaupré S.E.C.

### Joint ventures Phases I and II and Éoliennes Côte-de-Beaupré S.E.C.

A class action was brought by the plaintiffs due to the alleged inconvenience (in particular noise, dust, vibrations) caused by the construction of the **Seigneurie de Beaupré Wind Farms**. The defendants (Seigneurie de Beaupré Wind Farms 2 and 3 GP, Seigneurie de Beaupré Wind Farm 4 GP and Éoliennes Côte-de-Beaupré S.E.C.) have always been and are still of the opinion, as supported by expert opinions, that the members of the group have not suffered any abnormal inconvenience resulting from the construction work. The matter is scheduled to be heard before the Superior Court of Québec in April 2019. However, an agreement in principle was reached between the parties at a settlement meeting in fall 2018 without any admission of liability. The hearing to approve the transaction will take place on April 11, 2019. The insurers will cover the costs related to this transaction if approved.

### DM I Joint Venture

On March 31, 2016, an application for authorization of a class action against **DM I** and Hydro-Québec was granted.

According to the plaintiffs, the **DM I** project (i) causes abnormal neighbourhood disturbances during the construction and operation period, including traffic, dust, pollution, continuous noise, vibrations and strobe effects, presence of flashing and visible red lights from their residences, negative consequences on the landscape, moving shadows and health consequences, (ii) negatively affects the value of their properties and (iii) is an intentional infringement of their rights, including their right to property.

The plaintiffs, on behalf of the members of the class, are seeking (i) compensatory damages for the alleged abnormal annoyances suffered during the construction and operation period, (ii) punitive damages for the alleged intentional infringement of their rights, and (iii) the destruction of all wind turbines that have already been built less than three kilometres from a residence. Claims arising from an eventual judgment in favour of the plaintiffs could be paid in whole or in part by the insurers, depending on their nature and taking into account the exclusions set out in the insurance policy. Based on this information, the Corporation assessed that the outcome of this class action is not expected to have a material impact on the Corporation's financial position. Accordingly, no provision has been recorded for this contingency.

## Risk Factors

### Development, construction and design

The Corporation participates in the construction and development of new power generating facilities. Delays and cost overruns may occur during the construction phase of development projects, in particular delays in obtaining permits, increases in construction prices or changes in engineering design, labour conflicts, inclement weather and the availability of financing. Even when completed, a facility may not operate as planned, or design and manufacturing flaws may occur, which could conceivably not be covered by warranty, due in particular to poor equipment performance. Development projects have no operating history and may employ recently developed, technologically complex equipment. Moreover, energy sales contracts entered into with counterparties early in the development phase of a project may enable counterparties to terminate the agreement or retain security posted as liquidated damages, if a project fails to achieve commercial operation or certain operating levels by specified dates or if the Corporation fails to make specified payments. As a result, a new facility may be unable to fund principal and interest payments under its financing obligations. A default under such a financing obligation could result in the Corporation losing its interest in such a facility.

### Additional financing

While the Corporation expects to finance its current and future projects from cash flows from operating activities, the future development and construction of new facilities, as well as the growth of development and potential projects and other capital expenditures, will also be partly financed by borrowings or the issuance or sale of additional shares by the Corporation. To the extent that external sources of capital, including the issuance of additional securities of the Corporation, become limited or unavailable, the Corporation's ability to make the necessary capital investments to build new power stations or maintain its existing power stations and remain in business would be impaired. There can be no assurance that additional financing will be obtained or obtained under reasonable terms and conditions. If financing were to be obtained by issuing additional Class A shares of the Corporation, investors could suffer dilution to their holdings of securities of the Corporation.

### Seasonal factors

By the nature of its business, the Corporation's earnings are sensitive to changes in climate and weather conditions from period to period. Changes in winter weather affect demand for electrical heating requirements. Changes in summer weather affect demand for electrical cooling requirements. These fluctuations in demand, primarily in the Northeastern United States where the Corporation operates hydroelectric facilities, moreover translate into spot market price volatility, which has an impact, albeit limited, on approximately 2% of the Corporation's total installed capacity.

### Hydrology, wind and sunshine

The amount of power generated by the Corporation's hydroelectric power stations is dependent on available water flow. Accordingly, revenues and cash flows may be affected by low and high water flow in the watersheds. There can be no assurance that the long-term historical water availability will remain unchanged or that no material hydrologic event will impact water conditions in a particular watershed. Annual deviations from the long-term average are sometimes significant.

The amount of power generated by the Corporation's wind farms and solar power facilities is dependent on wind and sunlight, which are naturally variable. Decreases in the wind regime at the Corporation's different wind farms could reduce its revenues and profitability. For wind power, variations in the resource compared to long-term expectations can also be significant.

The hydroelectric, wind and solar resources of the Corporation's hydroelectric power stations, wind farms and solar power facilities will vary. Although the Company believes that past resource studies and production data collected demonstrate that the sites are economically viable, the climate regime may change or historical data and engineering forecasts may not accurately reflect the strength and consistency of resources in the future. If resources are insufficient, the assumptions underlying the financial projections for the volume of electricity to be produced by renewable energy facilities might not materialize, which could have a material adverse effect on the Corporation's cash flows and profitability.

## Raw material supply

The operation of thermal power stations, which represented 2% of the total installed capacity as at December 31, 2018, requires fuel in the form of wood residue or natural gas. In the event of an interruption in supplies, loss of significant supply contracts or the inability or failure of a supplier to meet its contractual commitments, or a change in the price of wood residue or natural gas for the Corporation's power stations, their ability to generate power or produce it in a profitable manner will be adversely affected. The Corporation mitigates this risk by establishing partnerships with suppliers and seeking alternatives to virgin residue as fuel, as well as by adopting storage strategies that help avoid purchasing during periods when raw materials are scarce and prices therefore are high. Upon expiry or termination of fuel supply contracts, the Corporation will have to either renegotiate them or obtain fuel from other suppliers. There can be no assurance that the Corporation will be able to renegotiate these contracts or enter into new contracts on similar or other desirable terms.

## Power station operation and equipment failure

The Corporation's facilities are subject to the risk of equipment failure due to deterioration of the asset resulting from wear and tear, age, hidden defects or design errors, among other things. The ability of the power stations to generate the maximum amount of power is a key determinant of the Corporation's profitability. If the power stations require longer downtime than expected for maintenance and repairs, or if power production is suspended for other reasons, it could adversely affect the Corporation's profitability.

## Dam safety

Hydroelectric power stations in Québec, which represented 2% of total installed capacity as at December 31, 2018, are subject to the *Dam Safety Act* and its regulation. Depending on the region where the power stations are located, dams must comply with some criteria defined in this Act. Generally speaking, once the Corporation's recommendations are accepted by the Ministère du Développement durable, de l'Environnement et de la Lutte contre les changements climatiques, an action plan is prepared reflecting the relative urgency of the work required. The Corporation is also subject to disclosure requirements and regulations relating to the monitoring of structural integrity of the power stations it operates in British Columbia and the United States.

The consequences of a dam breach at any of the Corporation's hydroelectric power stations could result in a loss of production capacity, and repairing such failures could require the Corporation to incur significant expenditures of capital and other resources. Such failures could expose the Corporation to significant liability for damages. Other dam safety regulations could change from time to time, potentially impacting the Corporation's costs and operations. Upgrading all dams to enable them to withstand all events could require the Corporation to incur significant expenditures of capital and other substantial resources, particularly on occurrence of an extraordinary event or a case of force majeure. In conclusion, a dam failure could have a material adverse effect on the Corporation's business, operating results, financial position and outlook. Compliance with dam safety laws (and any future changes to these laws) and the requirements of licences, permits and other approvals will remain material to the Corporation's business.

That being said, apart from the Buckingham power station where work will continue over the next year, all of Boralex's power stations meet the criteria defined in the Act and its regulation.

## Energy sales contracts

Obtaining new energy sales contracts is a key component for the sustainability of the Corporation's profits and cash resources. Winning new energy sales contracts involve certain risks owing to the competitive environment in which the Corporation operates. In several instances, the Corporation obtains new energy sales contracts by submitting offers in response to requests for proposals issued by large clients. During such processes, the Corporation faces competition from large utility companies and large independent power producers, some of which have greater resources, including financial resources, than the Corporation. There is no assurance that the Corporation will be able to effectively compete against its competitors over the long term or that it will be selected as energy supplier following such processes or that existing energy sales contracts will be renewed, or will be renewed under equivalent terms and conditions on expiry.

Power generated by the Corporation is largely sold under a number of long-term energy sales contracts. If, for any reason, any of the purchasers of power under these energy sales contracts are unable or unwilling to meet their contractual obligations under the relevant energy sales contract, or if they refuse to accept delivery of power under a relevant energy sales contract, the Corporation's business, results of operations, financial position or prospects may be adversely affected. If the projects under development are not commissioned within the timeframe specified in their respective energy sales contracts, the Corporation may be required to pay a penalty or the counterparty may have the right to terminate the energy sales contract concerned.

## Key employees

The Corporation's senior executives and other key employees play an important role in its success. The Corporation's performance and future growth depend in large part on the skills, experience and efforts of its management team members. The Corporation's continued success is dependent on its ability to attract and retain highly qualified and experienced officers. Should the Corporation prove unable to do so, such failure could have a material adverse effect on its business, operating results, operations and outlook.

## Natural disasters and force majeure events

The Corporation's power generation facilities and operations are exposed to damage and/or destruction resulting from environmental disasters (for example, floods, high winds, fires and earthquakes), equipment failure and the like. The occurrence of a significant event which disrupts the production capacity of the Corporation's assets or prevents it from selling its energy for an extended period, such as an event that precludes existing clients from purchasing energy, could have a material adverse impact on the Corporation. The Corporation's generation assets or a facility owned by a third party to which the transmission assets are connected, could be exposed to effects of severe weather conditions, natural disasters and unforeseen catastrophic events, major accidents, etc. In certain cases, there is the potential that some events may not excuse the Corporation from performing its obligations pursuant to agreements entered into with third parties. In addition, a number of the Corporation's generation assets are located in remote areas, which makes access for repair of damage difficult. Any such scenario could have a material adverse effect on the Corporation's business, operating results and financial position.

## Insurance limits

The Corporation believes that its insurance coverage addresses all material insurable risks, provides adequate coverage that is similar to what would be maintained by a prudent owner/operator of similar facilities, and is subject to deductibles, limits and exclusions which are customary or reasonable. However, given the cost of procuring insurance, current operating conditions and the credit quality of the different insurance companies on the market, there can be no assurance that such insurance will continue to be offered on an economically affordable basis, or that such insurance will cover all events which could give rise to a loss or claim involving the assets or operations of the Corporation.

## Non-performance by counterparties

The Corporation sells the majority of its energy to a limited number of clients. It is exposed to credit risk which stems primarily from the potential inability of clients to meet their obligations and their energy sales contracts. The inability of one or more of these clients to meet their commitments under their respective contracts could result in revenue losses, delays in construction and increased construction costs for the Corporation. The Corporation minimizes credit risk with counterparties to financial instruments, and physical energy and gas trades through the selection, monitoring and diversification of counterparties by regularly assessing credit risk exposure and changes in their financial position, use of standard trading contracts, collateral and other credit risk mitigation techniques.

Further, the Corporation's energy sales contracts are almost exclusively with clients with longstanding credit histories or investment grade ratings. Where a client does not have a public credit rating, the Corporation assesses risk exposure and may require financial guarantees.

## Industry risk and competition

The Corporation currently operates in the renewable energy segment in Canada, France and the United States. This area of operation is affected by competition from large utilities or large independent energy producers. Boralex competes with other companies with sometimes significantly greater financial and other resources in connection with the awarding of energy sales contracts, the acquiring of projects, the establishment of partnerships or the recruitment of qualified personnel. This can adversely affect implementation of the Corporation's long-term vision and prevent it from seizing opportunities available via its development projects.

## Debt

Since the Corporation's projects require significant capital, it uses a project-based financing approach to maximize its leverage. The cash flows from several of the power stations are subordinated to senior debt on each project. Such financing arrangements are typically secured by project assets and contracts, as well as Boralex's interests in the project operating entity. There is a risk that a loan may go into default if the Corporation does not fulfil its commitments and obligations or fails to meet the financial and other restrictive covenants contained in the instruments governing such loan, which may prevent cash distributions by the project or the project operating entity and result in the lender realizing on its security and, indirectly, causing the Corporation to lose its ownership or possession of such project, which could have a material adverse effect on the business, results of operations and financial position of the Corporation.

## Financial leverage and restrictive covenants

The Corporation has a significant amount of debt. The degree to which the Corporation is leveraged could have important consequences to shareholders, including: (i) the Corporation's ability to obtain additional financing for working capital, capital expenditures, acquisitions or other project developments in the future may be limited; (ii) a significant portion of the Corporation's cash flows from operations may be dedicated to the payment of the principal of and interest on indebtedness, thereby reducing funds available for future operations; (iii) exposing the Corporation to increased interest expense on borrowings at variable rates; and (iv) the Corporation may be more vulnerable to economic downturns and be limited in its ability to withstand competitive pressures.

The Corporation is subject to operating and financial restrictions through covenants in the instruments governing its indebtedness. These restrictions prohibit or limit the Corporation's operating flexibility and may limit the Corporation's ability to obtain additional financing, withstand downturns in the Corporation's business and take advantage of business opportunities. Moreover, the Corporation may be required to seek additional debt or equity financing on terms that include more restrictive covenants, require repayment on an accelerated schedule or impose other obligations that limit the Corporation's ability to grow the business, acquire projects and other assets or take other actions the Corporation might otherwise consider appropriate or desirable.

## Liquidity risks related to derivative financial instruments

Derivative financial instruments are entered into with major financial institutions and their effectiveness is dependent on the performance of these institutions. Failure by one of them to perform its obligations could involve a liquidity risk. Liquidity risks related to derivative financial instruments also include the settlement of forward contracts on their maturity dates and the early termination option included in some interest rate swap contracts and foreign exchange contracts. The Corporation uses derivative financial instruments to manage its exposure to the risk of an increase in interest rates on debt financing, of foreign currency variation. The Corporation does not own or issue financial instruments for speculation purposes.

## Interest rate and refinancing

Given the high-leverage financing strategy used by the Corporation, interest rate fluctuations are a factor which may materially affect its profitability. When a loan is taken on a variable rate basis, in order to limit the effect of changes in interest rates, the Corporation simultaneously arranges interest rate swaps covering a significant portion of the corresponding loan. The hedged portion is typically between 75% and 90% of anticipated variable interest cash flows. As at December 31, 2018, given the effect of the interest rate swaps in force, only about 6% of total debt was exposed to interest rate fluctuations under IFRS and on a Combined basis.

A sharp increase in interest rates in the future could affect the liquid assets available to fund the Corporation's projects. In addition, the ability of the Corporation to refinance debt when due is dependent on capital market conditions which change over time. A sharp increase in interest rates could reduce the anticipated profitability of projects won through calls for tenders or under feed-in-tariff programs below the return required by the Corporation. For larger scale projects, the Corporation could decide to arrange financial instruments to protect such return during the development period prior to the closing of financing for the project.

The ability to refinance, renew or extend debt instruments is dependent on capital markets up to their maturity, which may affect the availability, price or terms of alternative financing.

## Foreign exchange risk

The Corporation generates foreign currency liquidity through the operation of its facilities in France and the United States. As a result, it may be exposed to fluctuations in the Canadian dollar against the currencies of such countries. The Corporation initially reduces its risk exposure as revenues, expenses and financing are in the local currency. Accordingly, foreign exchange risk is related more to the residual liquidity that is available for distribution to the parent company.

In France, given the above and the size of the sector and that Boralex now pays a dividend in Canadian dollars, the Corporation entered into forward sales contracts to hedge the exchange rate on a portion of the distributions it expects to repatriate from Europe up to 2025. Similar purchases will be made based on the cash flows generated. During fiscal 2017, the Corporation also entered into cross-currency swaps. These derivative instruments serve to hedge the Corporation's net investment in France, allowing financing issued in Canada for investment in France to be synthetically translated into euros. In addition to reducing exposure to foreign currency risk, these instruments provide access to lower interest rates than those prevailing in Europe. The technique the Corporation uses to measure the fair value of these instruments is a combination of the techniques it uses to measure interest rate swaps and foreign exchange forward contracts.

Management considers that the cash flows generated in the United States do not represent a significant risk at present. A hedging strategy could be developed in due course.

In connection with Canadian project development, certain future expenditures may be in foreign currencies. For example, equipment purchases in Canada are partly denominated in euros or U.S. dollars. Where applicable, the Corporation's objective is to protect its anticipated return on its investment by entering into hedging instruments to eliminate volatility in expected expenditures and, in turn, stabilize significant costs such as turbines.

With respect to the translation of foreign subsidiaries into Canadian dollars, since all subsidiaries are self-sustaining, the impact of exchange rate fluctuations is reflected on the Corporation's net investment in its subsidiaries and variances are reported in *Accumulated other comprehensive income (loss)*, in equity, and not in the statement of earnings, until the Corporation disposes of its total net investment in the country concerned. With respect to currency translation for the Corporation's foreign subsidiaries, the 101 facilities are distributed as follows: 61 in Europe, 7 in the United States and 33 in Canada.

## Declaration of dividends at the discretion of the Board of Directors

The declaration of dividends is at the discretion of the Board of Directors regardless of whether the Corporation has sufficient funds, less indebtedness, to pay dividends. The Corporation may neither declare nor pay dividends if it has reasonable grounds to believe that (i) the Corporation cannot, or could not thereby, pay its liabilities as they become due; or (ii) the realizable value of the corporation's assets would thereby be less than the aggregate of its liabilities and stated outstanding share capital.

As a result, no assurance can be given as to whether Boralex will continue to declare and pay dividends in the future, or the frequency or amount of any such dividend.

## Health, safety and environmental risks

The ownership and operation of the Corporation's generation assets carry an inherent risk of liability related to worker health and safety and the environment, including the risk of government-imposed orders to remedy unsafe conditions and/or to remediate or otherwise address environmental contamination, potential penalties for contravention of health, safety and environmental laws, licences, permits and other approvals, and potential civil liability. Compliance with health, safety and environmental laws (and any future changes to these laws) and the requirements of licences, permits and other approvals will remain material to the Corporation's business. In addition, the Corporation may become subject to government orders, investigations, inquiries or civil suits relating to health, safety or environmental matters. Potential penalties or other remedy orders could have a material adverse effect on the Corporation's business and results of operations.



## Regulatory and political environment

The Corporation mainly operates in Canada, Europe and the United States. Moreover, the Corporation continuously assesses opportunities available in other regions. Any changes in government policies could have a significant impact on the Corporation's business ventures in such jurisdictions. Business risks include, but are not limited to, changes of laws affecting foreign ownership, government participation and regulation, taxation, royalties, duties, rates of exchange, inflation, repatriation of earnings and civil unrest.

There can be no assurance that economic and political conditions in the countries in which the Corporation operates or intends to operate will continue as they are at present. The effect of such factors is unpredictable.

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

The operation of power stations is subject to extensive regulation by various government agencies at the municipal, provincial and federal levels. There is always a risk of changes in government policies and laws, including the various taxes the Corporation is subject to.

Currently unregulated operations may become regulated. Because legal requirements change frequently and are subject to interpretation, the Corporation is unable to predict the ultimate cost of compliance with these requirements or their effect on operations. Some of the Corporation's operations are regulated by government agencies that exercise statutory discretion. Because the scope of such authority is uncertain and may be inconsistently applied, the Corporation is unable to predict the ultimate cost of compliance with such requirements or their effect on operations. Failure of the Corporation to obtain or maintain all necessary licences, leases or permits, including renewals thereof or modifications thereto, may adversely affect its ability to generate revenues.

The Corporation holds permits and licences from various regulatory authorities for the construction and operation of its power stations. These licences and permits are critical to the Corporation's operations. The majority of these permits and licences are long-term in nature, reflecting the anticipated useful life of the facilities. These permits and licences are dependent upon the Corporation's compliance with the terms thereof. If the Corporation is unable to renew its existing licences or obtain new licences, capital expenditures will be required to enable Boralex to continue operations over the long term, possibly under different operating conditions. In addition, delays may occur in obtaining government approvals required for future energy projects.

## Price risk

In Northeastern United States, a portion of the Corporation's power production is sold at market prices or under short-term contracts and is accordingly subject to fluctuations in energy prices. In addition, the Corporation estimates that 120 MW (8% of installed capacity) covered by contracts expiring through March 2023 will then be sold at market prices. In France, new rules have been introduced whereby the rates stipulated in future contracts will be set according to electricity market prices, plus a feed-in premium.

The market price of energy in individual jurisdictions can be volatile and may be incapable of being controlled. Energy prices vary according to supply, demand and certain external factors, including weather conditions, and the price of other sources of power. As a result, prices may drop significantly and fall too low for the power stations to yield an operating profit, and the economic prospects of the Corporation's operational projects that rely, in whole or in part, on market prices, or development projects in which the Corporation has an interest, could be significantly reduced or rendered uneconomic. If this pricing differential occurs or continues it could negatively impact the Corporation's financial results and cash flow. A material reduction in such prices could have a material adverse effect on the Corporation's financial position.

## Social acceptance of renewable energy projects

Social acceptance by local stakeholders, including local communities, First Nations and other aboriginal peoples, is critical to the Corporation's ability to find and develop new sites suitable for viable renewable energy projects. Failure to obtain proper social acceptance for a project may prevent the development and construction of a potential project, lead to the loss of all investments made in the development by the Corporation and require it to write off such a prospective project. In addition, any other allegations made by these local stakeholders related to the social acceptance of projects in operation or their expansion could adversely affect the operation of existing sites and their results.

## Relationships with stakeholders

The Corporation enters into various types of arrangements with communities or partners for the development of its projects. Certain of these partners may have or develop interests or objectives which are different from or even in conflict with the objectives of the Corporation. Any such differences could have a negative impact on the success of the Corporation's projects. The Corporation is sometimes required through the permitting and approval process to notify and consult with various stakeholder groups, including landowners, First Nations and municipalities. Any unforeseen delays in this process may negatively impact the ability of the Corporation to complete any given project on time and according to schedule or at all.

## Ability to secure appropriate land

There is significant competition for appropriate sites for new power generating facilities. Optimal sites are difficult to identify and obtain given that geographic features, legal restrictions and ownership rights naturally limit the areas available for site development. There can be no assurance that the Corporation will be successful in obtaining any particular desirable site.

## Availability and reliability of electric transmission systems

The Corporation's ability to sell electricity is impacted by the availability of the various power transmission systems in each jurisdiction in which it operates. The failure of existing transmission facilities or the lack of adequate transmission capacity would have a material adverse effect on the Corporation's ability to deliver electricity to its various counterparties, thereby unfavourably impacting the Corporation's operating results, financial position or prospects.

## Increase in water rental cost or changes to regulations on water use

The Corporation is required to make rental payments for water rights once its hydroelectric projects are in commercial operation. Significant increases in water rental costs in the future or changes in the way governments regulate water supply or apply such regulations could have a material adverse effect on the Corporation's business, operating results, financial position or prospects.

## Litigation

In the normal course of its operations, the Corporation may become involved in various legal actions, typically concerning claims relating to bodily injuries, financial losses, inconveniences, excess construction costs, damages related to the social acceptability of projects, noise, environmental compliance, property damage and disputes related to property taxes, land rights and contracts. The Corporation maintains adequate provisions for outstanding claims with merit. The final outcome with respect to outstanding or future disputes cannot be predicted with certainty, and therefore there can be no assurance that their resolution will not have an adverse effect on the financial position or operating results of the Corporation in a particular quarter or fiscal year.

## Segment and geographical diversification

The Corporation capitalizes on diversification in its power generation sources and geographies. This diversification is reflected in the Corporation's operating revenues and EBITDA(A). Given the size of some of its operating segments, the Corporation could however be exposed to significant financial consequences in the event of a substantial downturn in any of its areas of operation.

## Equipment supply

Development and operation of the Corporation's power stations are dependent on the supply of third-party equipment. Equipment prices can increase rapidly depending on, among other things, equipment availability, raw material prices and the market for such products. Any significant increase in equipment procurement prices could adversely affect the future profitability of the Corporation's power stations and the Corporation's ability to implement other projects. There can be no assurance that manufacturers will meet all of their contractual obligations. Any failure by a supplier to meet its commitments could adversely affect the Corporation's ability to complete projects on schedule and meet its commitments under the energy sales contracts.

## Cybersecurity

The Corporation relies on several information technologies to conduct many business operations. Successful cyber intrusion, including unauthorized access, malware or other violations of the system that controls production and transmission to our offices or central offices or facilities could seriously disrupt or otherwise affect business operations, affect our energy distribution networks or diminish competitive advantages. These attacks on the Corporation's computer systems could result in unanticipated expenses to investigate and repair security breaches or damage to the system and could result in litigation, fines or other corrective measures, increased regulatory review and damage to the Corporation's reputation. Breaches of our data security measures or cybersecurity could have a material adverse effect on the Corporation's operations, financial position and operating results.

## Acquisitions

The Corporation believes that the acquisitions recently completed and expected to be completed will have benefits for the Corporation. However, it is possible that all or some of the anticipated benefits, including financial benefits and those that are the subject of forward-looking financial information, may not materialize, particularly within the time frame set by the Corporation's management. The realization of such benefits may be affected by a number of factors, many of which are beyond the control of the Corporation.

It is also possible that the Corporation did not detect in its due diligence prior to the completion of the acquisitions any liabilities and contingencies for which the Corporation may not be indemnified. Discovery of any material liability or contingency with respect to shares, assets or businesses acquired following such acquisitions could have a material adverse effect on the Corporation's business, financial position and operating results.

Lastly, the integration of assets acquired or to be acquired as part of the Corporation's acquisitions could pose significant challenges, and the Corporation's management may be unable to complete the integration or succeed in doing so only by investing significant amounts of money. There can be no assurance that management will be able to successfully integrate the assets acquired or expected to be acquired pursuant to these acquisitions or to realize the full benefits expected from the acquisitions.

## Factors of uncertainty

The preparation of financial statements in conformity with IFRS requires management to make estimates and judgments that can materially affect the revenues, expenses, comprehensive income (loss), assets and liabilities, and the information reported in the consolidated financial statements.

The following items require management to make the most critical estimates and judgments:

### Main sources of uncertainty relating to management's estimates

Management determines its estimates based on a number of factors, namely its experience, current events and measures the Corporation could subsequently take, as well as other assumptions it deems reasonable given the circumstances. By their nature, these estimates are subject to measurement uncertainty and actual results may differ from them. Underlying estimates and assumptions are periodically reviewed and the impact of any changes is recognized immediately.

### Impairment of assets

Every year, on August 31, the Corporation tests its CGUs and groups of CGUs for impairment with respect to intangible assets with indefinite useful lives and goodwill. Also, at each reporting date, if any evidence of impairment exists, the Corporation must perform impairment tests on its assets with indefinite and finite useful lives and goodwill to assess whether their carrying amounts are recoverable. Impairment tests require the use of various assumptions based on management's best estimates.

### Recoverable amounts

Recoverable amounts are determined using value-in-use calculations based on cash flows discounted over the terms of projects that factor in current economic conditions and management's estimates based on past experience. Expected future cash flows are inherently uncertain and could materially change over time. They are significantly affected by a number of factors, including market and production estimates, together with economic factors such as selling prices and contract renewal prices, production cost estimates, future capital expenditure, after-tax discount rates, the growth rate and useful lives.

## Discount rate

The discount rate estimated and used by management represents the weighted average cost of capital determined for a group of CGUs.

## Growth rate

The growth rate is determined based on past experience, economic trends as well as market and industry trends.

## Useful lives of property, plant and equipment and intangible assets with finite useful lives

In determining the useful lives of property, plant and equipment and intangible assets with finite useful lives, management takes into account estimates of the expected use period of the asset. Such estimates are reviewed annually and the impacts of any changes are accounted for prospectively.

## Deferred taxes

Management is required to estimate the amounts to be recognized as deferred income tax assets and liabilities. In particular, management must assess the timing of the reversal of temporary differences to which future income tax rates are applied. Further, the amount of deferred tax assets, which is limited to the amount that is considered likely to be realized, is estimated by taking into account future taxable income.

## Decommissioning liability

Future remediation costs, whether required under contract or by law, are recognized based on management's best estimates. These estimates are calculated at the end of each period taking into account expected discounted outflows for each asset in question. Estimates depend on labour costs, efficiency of site restoration and remediation measures, inflation rates and pre-tax interest rates that reflect the risks specific to the liability. Management also estimates the timing of expenses, which may change depending on the type of continuing operations. Expected future costs are inherently uncertain and could materially change over time. Given current knowledge, it is reasonably possible that, in upcoming fiscal years, actual costs could differ from the assumptions, requiring significant adjustments to the related liability's carrying amount.

## Fair value of financial instruments

Fair value is determined using discounted cash flow models. Fair value determined using such valuation models requires the use of assumptions concerning the amount and timing of estimated future cash flows, as well as for numerous other variables. These assumptions are determined using external, readily observable market inputs. Since they are based on estimates, fair values may not be realized in an actual sale or immediate settlement of the instruments. See note 25 of this Annual Report for a more detailed explanation of the bases for the calculations and estimates used. Derivative financial instruments designated as cash flow hedges are accounted for at fair value in the statement of financial position and changes in fair value are reported in comprehensive income (loss).

## Fair value of business combinations

The Corporation makes a number of estimates when allocating fair values to the assets and liabilities acquired in a business acquisition. Fair values are estimated using valuation techniques that take into account several assumptions such as production, earnings and expenses, interest rate and discount rate.

## Production

For each facility, the Corporation determines long-term average annual energy production (LTAP) over the expected life of the facility, based on engineering studies that consider several important factors: in the wind power segment, past wind and weather conditions and turbine technology; in the hydroelectric power segment, historical water flow and head height, technology used and aesthetic and ecological instream flows; in the solar power segment, historical sunlight conditions, panel technology and expected degradation of solar panels. Other factors considered include site topography, installed capacity, energy losses, operational characteristics and maintenance. Although varying from year to year, production is expected to approximate LTAP over an extended period.

## Main sources of uncertainty relating to management's key judgments

### Evidence of asset impairment

At each reporting date, management is required to use its judgment to assess whether there is any evidence that property, plant and equipment and intangible assets may be impaired. If applicable, the Corporation performs impairment tests on its CGUs to assess whether the carrying amounts of assets are recoverable. As described in the previous section, various estimates made by management are used in the impairment tests.

Management is required to exercise judgment and assess whether any events or changes in circumstances could have affected the recoverability of the carrying amount of assets. In making these assessments, management uses various indicators including, but not limited to, adverse changes in the industry or economic conditions, changes in the degree or method of use of the asset, a lower-than-expected economic performance of the asset or a significant change in market returns or interest rates.

### Determining the development phase

The Corporation capitalizes project development costs during the period preceding commissioning. Recognition of an intangible asset resulting from the development phase starts when a given project meets IFRS capitalization criteria. This determination requires significant judgment by management. Deciding whether an event or a change in circumstances indicates that a project has reached the development phase depends on various factors, including the technical feasibility of completing the intangible asset, management's intention to complete the intangible asset and its ability to commission the project, how the intangible asset will generate probable future economic benefits, the availability of adequate technical and financial resources to complete the development, and management's ability to reliably measure the expenditures attributable to the project during its development.

### Business combination or asset acquisition

When a development project is acquired, management is required to exercise its judgment to determine whether the transaction constitutes a business combination under IFRS 3, *Business Combinations*, or an asset acquisition. Management determines that a transaction is defined as a business combination when an acquired development project has completed the key steps required to obtain construction permits, financing and an energy sales contract. Management must also use its judgment in determining the amount of contingent consideration to be recognized as part of the final allocation of a business combination. Management evaluates the future amounts to be paid to the seller under the terms of the agreements based on the likelihood that the milestones will be met for payment.

### Consolidation

Significant judgment is required to assess whether the structure of certain investments represents control or joint control of, or significant influence over, an investee. Management's assessment of control or joint control of, or significant influence over, an investee has a material impact on the accounting treatment required for our investment in the investee. Management is required to make significant judgments as to whether it has power over the relevant activities of an investee.

# Accounting policies

## Changes to accounting policies

### IFRS 9, *Financial Instruments*

In July 2014, IASB completed its three-phase project to replace IAS 39, *Financial instruments: Recognition and Measurement*, by issuing IFRS 9, *Financial Instruments*. IFRS 9 addresses the classification and measurement of financial assets and liabilities, and introduces a forward-looking expected credit loss impairment model and a substantially reformed hedge accounting model.

To determine whether a financial asset should be measured at amortized cost or at fair value, IFRS 9 uses a new approach that replaces the multiple rules of IAS 39. The approach recommended by IFRS 9 is based on how an entity manages its financial instruments and the contractual cash flow characteristics of financial assets. Most of the requirements of IAS 39 for the classification and measurement of financial liabilities are carried forward in IFRS 9. However, the portion of the changes in fair value related to the entity's own credit risk, in measuring a financial liability at fair value through profit or loss, will be presented in *Accumulated other comprehensive income (loss)* instead of in the statement of earnings (loss).

The Corporation completed a detailed assessment of its financial assets and liabilities as at January 1, 2018. The following table shows the original classification under IAS 39 and the new classification under IFRS 9:

| Financial assets and liabilities                   | Original classification under IAS 39         | New classification under IFRS 9 |
|--|--|---------------------------------|
| Cash and cash equivalents                          | Loans and receivables (amortized cost)       | Amortized cost                  |
| Restricted cash                                    | Loans and receivables (amortized cost)       | Amortized cost                  |
| Trade and other receivables                        | Loans and receivables (amortized cost)       | Amortized cost                  |
| Advance to a non-controlling shareholder           | Loans and receivables (amortized cost)       | Amortized cost                  |
| Other non-current financial assets <sup>(1)</sup>  | Derivatives used for hedging purposes (FVPL) | FVPL/FVOCI                      |
| Reserve funds <sup>(2)</sup>                       | Loans and receivables (amortized cost)       | Amortized cost                  |
| Trade and other payables                           | Other financial liabilities (amortized cost) | Amortized cost                  |
| Contingent consideration                           | Other financial liabilities (amortized cost) | Amortized cost                  |
| Other current financial liabilities <sup>(3)</sup> | Derivatives used for hedging purposes (FVPL) | FVPL/FVOCI                      |
| Current and non-current debt                       | Other financial liabilities (amortized cost) | Amortized cost                  |
| Convertible debentures                             | Other financial liabilities (amortized cost) | Amortized cost                  |
| Other non-current financial liabilities            | Derivatives used for hedging purposes (FVPL) | FVPL/FVOCI                      |

<sup>(1)</sup> Excluding the *Advance to a non-controlling shareholder* and *Options to purchase a partner's interests*.

<sup>(2)</sup> Included under *Other non-current assets*.

<sup>(3)</sup> Excluding *Contingent consideration*.

IFRS 9 also sets out an expected credit loss impairment model that will require more timely recognition of credit losses. More specifically, the new standard requires entities to account for expected credit losses upon initial recognition of financial instruments, and to recognize lifetime expected credit losses on a timely basis.

Lastly, IFRS 9 introduces a new hedge accounting model together with corresponding disclosure requirements about risk management activities. The new hedge accounting model represents a substantial overhaul of hedge accounting that will enable entities to better reflect their risk management activities in their financial statements.

The Corporation has adopted IFRS 9, *Financial Instruments*, as of January 1, 2018. The adoption of IFRS 9 resulted in changes in accounting policies, but in no adjustment to the amounts recognized in the consolidated financial statements.

## IFRS 15, Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*, a new standard that specifies the steps and timing for issuers to recognize revenue as well as requiring them to provide more informative, relevant disclosures. The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those services. This standard supersedes IAS 11, *Construction Contracts*, IAS 18, *Revenue*, as well as various interpretations regarding revenue.

The Corporation has adopted IFRS 15 as of January 1, 2018, which resulted in changes in accounting policies, but in no material adjustment to the amounts recognized in the consolidated financial statements. In accordance with the transition provisions in IFRS 15, the Corporation adopted the new standard retrospectively.

## Future changes in accounting policies

### IFRS 16, Leases

In January 2016, the IASB issued IFRS 16, *Leases*, which supersedes IAS 17, *Leases*, as well as several interpretations on leases. IFRS 16 is effective for fiscal years beginning on or after January 1, 2019, with earlier adoption permitted. The new standard requires the lessee to recognize a lease obligation for future lease payments and a right-of-use asset for most leases and report them on the statement of financial position, except for leases that meet limited exception criteria. As the Corporation is subject to significant contractual obligations in the form of operating leases (see note 28) in accordance with IAS 17, the adoption of IFRS 16 will result in a significant increase in assets and liabilities and, to a lesser extent, the timing of recognition.

The main areas of the Corporation affected by the adoption of IFRS 16 are presented in the following table:

#### Financial reporting

| Analysis   | Impact   |
|--|--|
| The purpose of the analysis is to determine which contracts will fall within the scope of the new standard as well as the options offered by it, such as early adoption, the exemptions from recognition and measurement and the requirement to apply it in full and retrospectively under IAS 8, <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> , or the option to apply a "modified retrospective approach." | The Corporation is currently assessing the impact of adopting IFRS 16 on its consolidated statements of financial position, its consolidated statement of earnings (loss) and its consolidated statements of comprehensive income (loss). As at February 28, 2019, the majority of the operating leases set out in note 28 to these audited consolidated financial statements would fall within the scope of IFRS 16. The Corporation expects to adopt IFRS 16 for the fiscal year beginning January 1, 2019 retrospectively without restatement of comparative figures and to use the exemptions for short-term leases and leases for which the underlying assets are of low value. |

#### IT systems

| Analysis   | Impact  |
|--|---|
| The Corporation is currently analyzing the changes needed to its computer systems to optimize management of over 2,000 leases that will fall within the scope of the new standard. | The Corporation has selected an IT solution for the recognition and eventual measurement of leases that fall within the scope of the new standard. The solution is being implemented. |

#### Internal controls and procedures

| Analysis  | Impact  |
|---|---|
| The Corporation will perform an analysis of changes to be made to the internal controls and procedures as a result of adopting IFRS 16. | The Corporation is currently assessing the impact of IFRS 16 on its internal controls and procedures. |

#### Stakeholders

| Analysis  | Impact  |
|---|---|
| The Corporation will perform an analysis of the impact of adopting IFRS 16 on its credit agreements and communication of information to its stakeholders. | The Corporation has begun the process of communicating the impact of IFRS 16 to its internal and external stakeholders. |

### **IFRS 3, Business Combinations**

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3, *Business Combinations*. The amendments are intended to assist entities in determining whether a transaction should be accounted for as a business combination or as a group of assets. The amendments are applicable prospectively to acquisitions made during annual periods beginning on or after January 1, 2020, with earlier application permitted.

### **IAS 1, Presentation of Financial Statements, and IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors**

In October 2018, the IASB issued amendments to IAS 1, *Presentation of Financial Statements*, and IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, to align the definition of “material” across the standards and to clarify certain aspects of the definition. The amendments are intended to improve financial reporting by promoting a better understanding of the existing requirements and should not significantly impact an entity’s materiality judgments. The amendments are applicable prospectively to annual periods beginning on or after January 1, 2020, with earlier application permitted. The Corporation is currently assessing the impact of these amendments.

### **Conceptual Framework for Financial Reporting**

In March 2018, the IASB issued a comprehensive set of concepts for financial reporting: the revised *Conceptual Framework for Financial Reporting* (“Conceptual Framework”), which replaces its previous version. It assists companies in developing accounting policies when no IFRS standard applies to a particular transaction and it helps stakeholders more broadly to better understand the standards. The revised Conceptual Framework’s effective date is January 1, 2020, with earlier application permitted. The Corporation does not expect any impact upon its adoption.

### **Uncertainty over Income Tax Treatments**

In June 2017, the IASB published IFRIC 23, *Uncertainty over Income Tax Treatments*. This interpretation specifies that if an entity concludes it is probable that the tax authority will accept an uncertain tax treatment, it is required to determine the taxable profit or loss consistently with the tax treatment used or planned to be used in its income tax filing. If it is not probable, the entity is required to reflect the effect of uncertainty for each uncertain tax treatment by using either of the following methods, depending on which method the entity expects to better predict the resolution of the uncertainty:

- Most likely amount: Single most likely amount in a range of possible outcomes;
- Expected value: Sum of the probability-weighted amounts in a range of possible outcomes.

An entity is required to apply IFRIC 23 for annual periods beginning on or after January 1, 2019, with early application permitted. The Corporation will not early adopt IFRIC 23 and does not expect a significant impact.



## Internal controls and procedures

In accordance with *Regulation 52-109 respecting certification of disclosure in issuers' annual and interim filings*, DC&P have been designed to provide reasonable assurance that the information that must be presented in Boralex's interim and annual reports is accumulated and communicated to management on a timely basis, including the Chief Executive Officer and the Chief Financial Officer, so that appropriate decisions can be made regarding disclosure. ICFR has also been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS.

During the three-month period ended December 31, 2018, no changes were made to ICFR that have materially affected, or are reasonably likely to materially affect, ICFR.

### Limitation on scope of design of DC&P and ICFR

The limitation on the scope and design of the Corporation's DC&P and ICFR as at December 31, 2018, did not cover the controls and procedures of the activities of Kallista, acquired on June 20, 2018, and which are included in the consolidated financial statements of December 31, 2018. The Corporation has elected to apply section 3.3(1)(b) of Regulation 52-109, which allows this acquisition to be excluded from the evaluation of the design of DC&P and ICFR for a maximum of 365 days from the acquisition date. The limitation on the scope is based primarily on the time required to assess DC&P and ICFR with respect to information relating to Kallista.

Since the acquisition date, Kallista has contributed revenues from energy sales of \$21 million (€14 million) and generated a net loss of \$9 million (€6 million). In addition, current assets and current liabilities represented 6% and 4% of consolidated current assets and liabilities, respectively. Non-current assets and non-current liabilities each represented 9% and 8% of consolidated non-current assets and liabilities, respectively.

# Consolidated financial statements

## Management's report

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

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

PricewaterhouseCoopers LLP has audited the consolidated financial statements of Boralex Inc. The independent auditor's responsibility is to express a professional opinion on the fairness of the consolidated financial statement presentation. The Independent Auditor's Report outlines the scope of its audits and sets forth its opinion on the consolidated financial statements.

(s) Patrick Lemaire

**Patrick Lemaire**

President and Chief Executive Officer

(s) Bruno Guilmette

**Bruno Guilmette**

Vice-President and Chief Financial Officer

Montréal, Canada

February 28, 2019

# Independent auditor's report

To the Shareholders of Boralex Inc.

## Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Boralex Inc. and its subsidiaries (together, the Corporation) as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

## What we have audited

The Corporation's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2018 and 2017;
- the consolidated statements of earnings (loss) for the years then ended;
- the consolidated statements of comprehensive income (loss) for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

## Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Independence

We are independent of the Corporation in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

## Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis, which we obtained prior to the date of this auditor's report and the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express an opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard. When we read the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

## Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

## Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Corporation to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Jean-François Lecours.

(s) PricewaterhouseCoopers LLP.<sup>1</sup>

Montréal, Québec  
February 28, 2019

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<sup>1</sup> CPA auditor, CA, public accountancy Permit No. A126402

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# Consolidated statements of financial position

| (in millions of Canadian dollars)              | Note | As at<br>December 31,<br><b>2018</b> | As at<br>December 31,<br><b>2017</b> |
|--|------|--------------------------------------|--------------------------------------|
| <b>ASSETS</b>                                  |      |                                      |                                      |
| Cash and cash equivalents                      |      | 157                                  | 115                                  |
| Restricted cash                                |      | 96                                   | 35                                   |
| Trade and other receivables                    | 6    | 142                                  | 134                                  |
| Other current assets                           |      | 27                                   | 41                                   |
| <b>CURRENT ASSETS</b>                          |      | <b>422</b>                           | <b>325</b>                           |
| Property, plant and equipment                  | 7    | 2,941                                | 2,621                                |
| Intangible assets                              | 8    | 760                                  | 655                                  |
| Goodwill                                       | 8    | 201                                  | 182                                  |
| Interests in the Joint Ventures and associates | 9    | 270                                  | 26                                   |
| Other non-current financial assets             | 25   | 80                                   | 62                                   |
| Other non-current assets                       | 10   | 72                                   | 55                                   |
| <b>NON-CURRENT ASSETS</b>                      |      | <b>4,324</b>                         | <b>3,601</b>                         |
| <b>TOTAL ASSETS</b>                            |      | <b>4,746</b>                         | <b>3,926</b>                         |
| <b>LIABILITIES</b>                             |      |                                      |                                      |
| Trade and other payables                       | 11   | 142                                  | 152                                  |
| Current portion of debt                        | 12   | 414                                  | 224                                  |
| Other current financial liabilities            | 25   | 8                                    | 53                                   |
| <b>CURRENT LIABILITIES</b>                     |      | <b>564</b>                           | <b>429</b>                           |
| Non-current debt                               | 12   | 2,857                                | 2,418                                |
| Convertible debentures                         | 13   | 140                                  | 137                                  |
| Deferred income tax liability                  | 14   | 146                                  | 110                                  |
| Decommissioning liability                      | 15   | 69                                   | 48                                   |
| Other non-current financial liabilities        | 25   | 45                                   | 30                                   |
| Other non-current liabilities                  |      | 24                                   | 25                                   |
| <b>NON-CURRENT LIABILITIES</b>                 |      | <b>3,281</b>                         | <b>2,768</b>                         |
| <b>TOTAL LIABILITIES</b>                       |      | <b>3,845</b>                         | <b>3,197</b>                         |
| <b>EQUITY</b>                                  |      |                                      |                                      |
| Equity attributable to shareholders            |      | 870                                  | 685                                  |
| Non-controlling shareholders                   |      | 31                                   | 44                                   |
| <b>TOTAL EQUITY</b>                            |      | <b>901</b>                           | <b>729</b>                           |
| <b>TOTAL LIABILITIES AND EQUITY</b>            |      | <b>4,746</b>                         | <b>3,926</b>                         |

The accompanying notes are an integral part of these consolidated financial statements.

The Board of Directors approved these audited annual consolidated financial statements on February 28, 2019.

(s) Alain Rhéaume

**Alain Rhéaume**, Director

(s) Pierre Seccareccia

**Pierre Seccareccia**, Director

# Consolidated statements of earnings (loss)

| (in millions of Canadian dollars, unless otherwise specified)                                    | Note | 2018     | 2017   |
|--|------|----------|--------|
| <b>REVENUES</b>  |      |          |        |
| Revenues from energy sales   |      | 471      | 414    |
| Other income   |      | 8        | 5      |
|  |      | 479      | 419    |
| <b>COSTS AND OTHER EXPENSES</b>  |      |          |        |
| Operating  | 19   | 133      | 108    |
| Administrative   | 19   | 31       | 25     |
| Development  |      | 26       | 17     |
| Amortization   |      | 216      | 172    |
| Impairment of property, plant and equipment and intangible assets                                | 20   | 15       | —      |
| Other gains  |      | (1)      | (1)    |
|  |      | 420      | 321    |
| <b>OPERATING INCOME</b>  |      | 59       | 98     |
| Acquisition costs  | 5    | 5        | —      |
| Financing costs  | 21   | 123      | 104    |
| Share in earnings of the Joint Ventures and associates   |      | 9        | 7      |
| Other  |      | —        | 1      |
| <b>EARNINGS (LOSS) BEFORE INCOME TAX</b>   |      | (60)     | —      |
| Income tax recovery  | 14   | (16)     | (10)   |
| <b>NET EARNINGS (LOSS)</b>   |      | (44)     | 10     |
| <b>NET EARNINGS (LOSS) ATTRIBUTABLE TO:</b>  |      |          |        |
| Shareholders of Boralex  |      | (36)     | 22     |
| Non-controlling shareholders   |      | (8)      | (12)   |
| <b>NET EARNINGS (LOSS)</b>   |      | (44)     | 10     |
| <b>NET EARNINGS (LOSS) PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF BORALEX – BASIC AND DILUTED</b> | 22   | (\$0.45) | \$0.29 |

The accompanying notes are an integral part of these consolidated financial statements.

# Consolidated statements of comprehensive income (loss)

| (in millions of Canadian dollars)   | 2018 | 2017 |
|---|------|------|
| <b>NET EARNINGS (LOSS)</b>  | (44) | 10   |
| <b>Other comprehensive income (loss) to be subsequently reclassified to net earnings (loss) when certain conditions are met</b> |      |      |
| Translation adjustments:  |      |      |
| Unrealized foreign exchange gain on translation of financial statements of self-sustaining foreign operations                   | 26   | 17   |
| Hedge of net investment:  |      |      |
| Change in fair value  | (8)  | (7)  |
| Cash flow hedges:   |      |      |
| Change in fair value  | (11) | 16   |
| Hedging items realized and recognized in net earnings (loss)  | 14   | 15   |
| Income taxes  | (1)  | (9)  |
| Cash flow hedges – Interests:   |      |      |
| Change in fair value  | (4)  | 4    |
| Hedging items realized and recognized in net earnings (loss)  | 4    | 6    |
| Income taxes  | —    | (3)  |
| Total other comprehensive income  | 20   | 39   |
| <b>COMPREHENSIVE INCOME (LOSS)</b>  | (24) | 49   |
| <b>COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:</b>   |      |      |
| Shareholders of Boralex   | (16) | 59   |
| Non-controlling shareholders  | (8)  | (10) |
| <b>COMPREHENSIVE INCOME (LOSS)</b>  | (24) | 49   |

The accompanying notes are an integral part of these consolidated financial statements.



# Consolidated statements of changes in equity

2018

| (in millions of Canadian dollars)                             | Equity attributable to shareholders |  |                     |                     |   | Total | Non-controlling shareholders | Total equity |
|---|-------------------------------------|--|---------------------|---------------------|---|-------|------------------------------|--------------|
|   | Capital stock                       | Equity component of convertible debentures | Contributed surplus | Accumulated deficit | Accumulated other comprehensive income (loss) |       |                              |              |
| <b>BALANCE AS AT JANUARY 1, 2018</b>                          | 733                                 | 4  | 9                   | (43)                | (18)  | 685   | 44                           | 729          |
| Net loss  | —                                   | —  | —                   | (36)                | —   | (36)  | (8)                          | (44)         |
| Other comprehensive income                                    | —                                   | —  | —                   | —                   | 20  | 20    | —                            | 20           |
| <b>COMPREHENSIVE INCOME (LOSS)</b>                            | —                                   | —  | —                   | (36)                | 20  | (16)  | (8)                          | (24)         |
| Dividends (note 16)   | —                                   | —  | —                   | (50)                | —   | (50)  | —                            | (50)         |
| Shares issuance (note 16)                                     | 250                                 | —  | —                   | —                   | —   | 250   | —                            | 250          |
| Exercise of options (note 16)                                 | 2                                   | —  | —                   | —                   | —   | 2     | —                            | 2            |
| Distributions paid to a non-controlling shareholder (note 18) | —                                   | —  | —                   | —                   | —   | —     | (7)                          | (7)          |
| Other (note 16)   | (1)                                 | —  | —                   | —                   | —   | (1)   | 2                            | 1            |
| <b>BALANCE AS AT DECEMBER 31, 2018</b>                        | 984                                 | 4  | 9                   | (129)               | 2   | 870   | 31                           | 901          |

2017

| (in millions of Canadian dollars)  | Equity attributable to shareholders |  |                     |                     |   | Total | Non-controlling shareholders | Total equity |
|--|-------------------------------------|--|---------------------|---------------------|---|-------|------------------------------|--------------|
|  | Capital stock                       | Equity component of convertible debentures | Contributed surplus | Accumulated deficit | Accumulated other comprehensive income (loss) |       |                              |              |
| <b>BALANCE AS AT JANUARY 1, 2017</b>   | 557                                 | 4  | 9                   | (19)                | (55)  | 496   | 18                           | 514          |
| Net earnings (loss)  | —                                   | —  | —                   | 22                  | —   | 22    | (12)                         | 10           |
| Other comprehensive income   | —                                   | —  | —                   | —                   | 37  | 37    | 2                            | 39           |
| <b>COMPREHENSIVE INCOME (LOSS)</b>   | —                                   | —  | —                   | 22                  | 37  | 59    | (10)                         | 49           |
| Dividends (note 16)  | —                                   | —  | —                   | (46)                | —   | (46)  | —                            | (46)         |
| Shares issuance (note 16)  | 170                                 | —  | —                   | —                   | —   | 170   | —                            | 170          |
| Exercise of options (note 16)  | 6                                   | —  | —                   | —                   | —   | 6     | —                            | 6            |
| Repurchase of a non-controlling shareholder (note 18)                        | —                                   | —  | —                   | —                   | —   | —     | (3)                          | (3)          |
| Share of a non-controlling shareholder resulting from a business combination | —                                   | —  | —                   | —                   | —   | —     | 47                           | 47           |
| Distributions paid to a non-controlling shareholder (note 18)                | —                                   | —  | —                   | —                   | —   | —     | (8)                          | (8)          |
| <b>BALANCE AS AT DECEMBER 31, 2017</b>                                       | 733                                 | 4  | 9                   | (43)                | (18)  | 685   | 44                           | 729          |

The accompanying notes are an integral part of these consolidated financial statements.

# Consolidated statements of cash flows

| (in millions of Canadian dollars)                                 | Note | 2018         | 2017         |
|---|------|--------------|--------------|
| Net earnings (loss)   |      | (44)         | 10           |
| Distributions received from the Joint Ventures and associates     |      | 23           | 17           |
| Financing costs   | 21   | 123          | 104          |
| Interest paid   |      | (115)        | (92)         |
| Income tax recovery   |      | (16)         | (10)         |
| Income taxes paid   |      | (3)          | (2)          |
| Non-cash items in earnings (loss)                                 |      |              |              |
| Amortization  |      | 216          | 172          |
| Share in earnings of the Joint Ventures and associates            |      | (9)          | (7)          |
| Impairment of property, plant and equipment and intangible assets | 20   | 15           | —            |
| Other   |      | 2            | 3            |
| Change in non-cash items related to operating activities          | 23   | 10           | (50)         |
| <b>NET CASH FLOWS RELATED TO OPERATING ACTIVITIES</b>             |      | <b>202</b>   | <b>145</b>   |
| Business acquisition, net of cash acquired                        | 5    | (108)        | (241)        |
| Increase in the interests in the Joint Ventures and associates    | 9    | (205)        | —            |
| Options to purchase a partner's interests                         | 9    | (15)         | —            |
| Additions to property, plant and equipment                        | 7    | (282)        | (231)        |
| Proceeds from disposal of assets                                  |      | 55           | 2            |
| Acquisition of energy sales contracts                             | 8    | (24)         | (40)         |
| Change in restricted cash   |      | (59)         | 175          |
| Other   |      | (3)          | (10)         |
| <b>NET CASH FLOWS RELATED TO INVESTING ACTIVITIES</b>             |      | <b>(641)</b> | <b>(345)</b> |
| Increase in non-current debt                                      |      | 881          | 421          |
| Repayments on non-current debt                                    |      | (459)        | (149)        |
| Repayment of loans assumed in a business acquisition              | 5    | (86)         | —            |
| Distributions paid to non-controlling shareholders                | 18   | (7)          | (8)          |
| Dividends paid to shareholders of Boralex                         | 16   | (50)         | (46)         |
| Share issuance and financing costs                                | 16   | (19)         | (10)         |
| Shares issued   | 16   | 259          | 6            |
| Redemption of financial instruments prior to maturity             | 25   | (44)         | —            |
| <b>NET CASH FLOWS RELATED TO FINANCING ACTIVITIES</b>             |      | <b>475</b>   | <b>214</b>   |
| <b>TRANSLATION ADJUSTMENT ON CASH AND CASH EQUIVALENTS</b>        |      | <b>6</b>     | <b>1</b>     |
| <b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>                    |      | <b>42</b>    | <b>15</b>    |
| <b>CASH AND CASH EQUIVALENTS – BEGINNING OF YEAR</b>              |      | <b>115</b>   | <b>100</b>   |
| <b>CASH AND CASH EQUIVALENTS – END OF YEAR</b>                    |      | <b>157</b>   | <b>115</b>   |

The accompanying notes are an integral part of these consolidated financial statements.

# Notes to consolidated financial statements

As at December 31, 2018

(Tabular amounts are in millions of Canadian dollars, unless otherwise specified.)

## Note 1. Incorporation and nature of business

Boralex Inc., its subsidiaries and its Joint Ventures ("Boralex" or the "Corporation") are dedicated to the development, construction and operation of renewable energy power facilities. As at December 31, 2018, the Corporation had interests in 81 wind power stations, 15 hydroelectric power stations, two thermal power stations and three solar power stations, representing an asset base with an installed capacity under its control totalling 1,942 megawatts ("MW"). In addition, Boralex currently has new projects under development, representing an additional 126 MW of power. The Corporation also operates two hydroelectric power stations on behalf of R.S.P. Énergie Inc., an entity of which one of the three shareholders is Patrick Lemaire, President, Chief Executive Officer and a director of the Corporation. Revenues from energy sales are generated mainly in Canada, France and the United States.

The Corporation is incorporated under the *Canada Business Corporations Act*. Boralex's head office is located at 36 Lajeunesse St., Kingsey Falls, Québec, Canada and its shares and convertible debentures are listed on the Toronto Stock Exchange ("TSX").

*(The data expressed in MW and GWh contained in notes 1, 5, 9, 20, 28 and 30 have not been audited by the auditor.)*

## Note 2. Basis of presentation

These audited consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as published by the International Accounting Standards Board ("IASB") and set out in the *CPA Canada Handbook*. The Corporation has consistently applied the same accounting policies for all of the periods presented except for the new standards adopted during the year.

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Corporation's accounting policies. These areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 4.

## Note 3. Significant accounting policies

The significant accounting policies used to prepare these audited consolidated financial statements are as follows:

### Measurement basis

The consolidated financial statements have been prepared on a going concern basis, under the historical cost method, except for certain financial assets and financial liabilities that are remeasured at fair value through profit or loss.

### Basis of consolidation

The consolidated financial statements include the accounts of the Corporation comprising:

#### Subsidiaries

The subsidiaries are entities over which the Corporation exercises control. The Corporation controls an entity when it has power to direct the relevant activities, when it is exposed, or has rights to variable returns, and when it has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date the Corporation acquires control and are deconsolidated on the date control ends. Intercompany transactions and balances as well as unrealized gains and losses on transactions between these entities are eliminated.

### Note 3. Significant accounting policies (cont'd)

The Corporation's main subsidiaries as at December 31, 2018 were as follows:

| Name of subsidiary                   | Voting rights held | Location       |
|--------------------------------------|--------------------|----------------|
| Borex Europe Sàrl                    | 100%               | Luxembourg     |
| Borex EnR S.A.S. <sup>(1)</sup>      | 100%               | France         |
| Borex Energie France S.A.S.          | 100%               | France         |
| Borex S.A.S.                         | 100%               | France         |
| Borex Energy Investment S.A.S.       | 100%               | France         |
| Borex Production S.A.S.              | 100%               | France         |
| Groupe Ressources Forestières SAS    | 100%               | France         |
| Borex Scotland LP                    | 100%               | United Kingdom |
| Borex US Energy Inc.                 | 100%               | United States  |
| Borex Ontario Energy Holdings L.P.   | 100%               | Canada         |
| Borex Ontario Energy Holdings 2 L.P. | 100%               | Canada         |
| Jamie Creek L.P.                     | 100%               | Canada         |
| Éoliennes Témiscouata S.E.C.         | 51%                | Canada         |
| Éoliennes Témiscouata II L.P.        | 100%               | Canada         |
| Frampton Wind Energy L.P.            | 67%                | Canada         |
| Éoliennes Côte-de-Beaupré S.E.C.     | 51%                | Canada         |
| Borex Power Limited Partnership      | 100%               | Canada         |
| Yellow Falls Power LP                | 100%               | Canada         |
| Moose Lake Wind LP                   | 70%                | Canada         |
| Port Ryerse Wind Farm LP             | 100%               | Canada         |
| FWRN LP                              | 50%                | Canada         |
| NR Capital                           | 100%               | Canada         |

<sup>(1)</sup> Borex Energie Verte S.A.S. ("BEV") is a subsidiary of Borex EnR S.A.S.

### Joint Ventures and associates

A Joint Venture is a joint arrangement in which the parties are bound by a contractual agreement that gives them joint control over the net assets. The decisions about the relevant activities of the joint arrangement require the unanimous consent of the parties that exercise joint control.

An associate is a joint arrangement in which the parties are bound by a contractual agreement that gives them significant control over the net assets. The Corporation's interests in the Joint Ventures and associates ("Interests") are accounted for using the equity method. Under the equity method, investments are initially recorded at cost and the carrying amount is adjusted thereafter to include the Corporation's pro rata share of post-acquisition earnings or losses of the investee in profit or loss and the Corporation's share of changes in other comprehensive income. Dividends received or receivable from associates and joint ventures reduce the carrying amount of the investment. The Corporation's *Share in earnings of the Joint Ventures and associates* is recorded as a separate line item in the consolidated statement of earnings (loss). Unrealized gains and losses on transactions between the Corporation and jointly controlled or significantly influenced entities are eliminated to the extent of the Corporation's interest in those entities.

If an interest in a Joint Venture or an associate becomes negative, the carrying amount of such interest is reduced to zero and the adjustment is recognized under *Excess of distributions received over the share of net earnings*. If the carrying amount of the interest in the Joint Venture or an associate becomes positive during the subsequent period, Borex will reverse such adjustment up to the accumulated amount previously recorded as excess of distributions received over the share of net earnings. The carrying amount of equity investments is tested for impairment in accordance with the policy described in the Impairment of assets section of this note.

### Note 3. Significant accounting policies (cont'd)

As at December 31, 2018, the Corporation's main Joint Ventures and associates were as follows:

| Name of entity  | Type of joint arrangement | Boralex % | Location |
|---|---------------------------|-----------|----------|
| Des Moulins Wind Power L.P. ("DM I" and "DM II")                      | Joint venture             | 51.00%    | Canada   |
| Le Plateau Wind Power L.P. ("LP I")                                   | Joint venture             | 51.00%    | Canada   |
| Le Plateau Community Wind Power L.P. ("LP II")                        | Joint venture             | 59.96%    | Canada   |
| Roncevaux Wind Power L.P. ("Roncevaux")                               | Associate                 | 50.00%    | Canada   |
| Seigneurie de Beupré Wind Farms 2 and 3 General Partnership ("SDB I") | Joint venture             | 50.00%    | Canada   |
| Seigneurie de Beupré Wind Farm 4 General Partnership ("SDB II")       | Joint venture             | 50.00%    | Canada   |
| Jammerland Bay Nearshore AIS ("Denmark")                              | Joint venture             | 50.00%    | Denmark  |

As at December 31, 2017, the Corporation's main Joint Ventures were as follows:

| Name of entity  | Type of joint arrangement | Boralex % | Location |
|---|---------------------------|-----------|----------|
| Seigneurie de Beupré Wind Farms 2 and 3 General Partnership ("SDB I") | Joint venture             | 50.00%    | Canada   |
| Seigneurie de Beupré Wind Farm 4 General Partnership ("SDB II")       | Joint venture             | 50.00%    | Canada   |
| Jammerland Bay Nearshore AIS ("Denmark")                              | Joint venture             | 50.00%    | Denmark  |

### Non-controlling shareholders

Non-controlling shareholders consist of interests held by third parties in the Corporation's subsidiaries. The net assets of the subsidiary attributable to non-controlling shareholders are reported as a component of equity. Their share in net earnings (loss) and comprehensive income (loss) is recognized directly in equity. Any change in the Corporation's interest in a subsidiary that does not result in an acquisition or a loss of control is accounted for as a capital transaction.

### Business combinations

Business combinations are accounted for using the acquisition method. The consideration transferred by the Corporation to obtain control of a subsidiary is calculated as the sum of the fair values of assets transferred, liabilities assumed and the equity instruments issued by the Corporation, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed to earnings as incurred.

The Corporation recognizes identifiable assets acquired and liabilities assumed in a business combination regardless of whether they have previously been recognized in the acquiree's financial statements prior to the acquisition. Assets acquired and liabilities assumed are measured at their acquisition-date fair values.

Goodwill is determined after separate recognition of identifiable assets acquired. It is calculated as the excess of the sum of the fair value of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of any existing equity interest in the acquiree over the acquisition-date fair value of identifiable net assets. If the fair values of identifiable net assets exceed the sum calculated above, the excess amount (gain on a bargain purchase) is recognized through earnings immediately.

### Foreign currency translation

#### Functional and reporting currency

Items included in the financial statements of each of the Corporation's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Canadian dollars, which is Boralex's functional currency.

The financial statements of entities with a different functional currency from that of Boralex (foreign companies) are translated into Canadian dollars as follows: the assets and liabilities are translated at the prevailing year-end exchange rate. Revenues and expenses are translated at the average exchange rate for each period. Translation gains or losses are deferred and included in *Accumulated other comprehensive income (loss)*. When a foreign company is disposed of, translation gains or losses accumulated in *Accumulated other comprehensive income (loss)* are maintained in comprehensive income (loss) until the Corporation's net investment in that country has been entirely sold. Where applicable, exchange differences are recognized under *Foreign exchange gain or loss* in net earnings (loss).

## Foreign currency transactions

Foreign currency transactions carried out by Canadian establishments are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate prevailing at the reporting date. Exchange differences resulting from transactions are recognized under *Foreign exchange gain (loss)* in net earnings (loss) except for those relating to qualifying cash flow hedges, which are deferred under *Accumulated other comprehensive income (loss)* in equity.

## Financial instruments

### Classification

The Corporation determines the classification of financial instruments at initial recognition and classifies its financial instruments in the following measurement categories:

- Those to be measured subsequently at fair value (either through profit or loss ("FVPL") or through other comprehensive income ("FVOCI"));
- Those to be measured at amortized cost.

The classification of debt instruments is driven by the Corporation's business model for managing the financial assets and their contractual cash flow characteristics. Assets that are held to collect contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Equity instruments that are held for trading (including all equity derivative instruments) are classified as FVPL. For other equity instruments, on the day of acquisition the Corporation can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVPL (such as instruments held for trading or derivatives) or the Corporation has opted to measure them at FVPL.

Financial instruments with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

### Measurement

#### Financial instruments at amortized cost

Financial instruments at amortized cost are initially recognized at fair value, and subsequently carried at amortized cost less any impairment.

Currently, the Corporation classifies cash and cash equivalents, restricted cash, trade and other receivables, advance to a non-controlling shareholder, options to purchase a partner's interests and reserve funds as financial assets measured at amortized cost and trade and other payables, contingent considerations, current and non-current debt and convertible debentures as financial liabilities measured at amortized cost.

#### Financial instruments at fair value

Financial instruments are initially recorded at fair value and transaction costs are expensed in the consolidated statements of net earnings (loss). The effective portion of gains and losses on financial instruments designated as hedges is included in the consolidated statements of comprehensive income (loss) in the period in which they arise. Where management has opted to recognize a financial liability at FVPL, any changes associated with the Corporation's own credit risk will be recognized in other comprehensive income (loss).

Currently, the Corporation classifies other non-current financial assets (excluding advance to non-controlling shareholders and options to purchase a partner's interests) as financial assets measured at amortized cost and other current financial liabilities (excluding contingent considerations) and non-current financial liabilities as financial liabilities measured at amortized cost.

### Impairment

From January 1, 2018, the Corporation assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortized cost or at FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Corporation applies the simplified approach permitted by IFRS 9, which requires lifetime expected losses to be recognized from initial recognition of the receivables.

## **Derecognition**

### **Financial assets**

The Corporation derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are generally recognized in the consolidated statements of comprehensive income (loss).

### **Financial liabilities**

The Corporation derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable, including any non-cash assets transferred or liabilities assumed, is recognized in the consolidated statements of net earnings (loss).

## **Accounting policy used before the application of the new standard**

Financial assets and liabilities are recognized when the Corporation becomes a party to the contractual provisions of the instrument. Financial assets are removed from the statement of financial position when the rights to receive cash flows from the assets have expired or have been transferred and the Corporation has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation specified in the contract is extinguished, cancelled or terminated.

### **Classification of financial instruments**

The Corporation classifies its financial instruments by category according to their nature and their characteristics. Management determines the classification of its financial assets and liabilities upon initial recognition. The Corporation classifies its financial assets and liabilities in the following categories:

#### **(a) Financial assets and liabilities at fair value through profit or loss**

Financial assets and liabilities at fair value through profit or loss are financial assets and liabilities held for trading. A financial asset or liability is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also classified as held for trading unless they are designated as hedges. Financial instruments classified in this category are reported under current assets or current liabilities. The financial instrument is recorded initially and subsequently at fair value determined using market prices. Directly attributable transaction costs and any changes in fair value are recognized in net earnings (loss).

#### **(b) Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are presented in current assets when recoverable within 12 months following the end of the reporting period. Otherwise, they are classified as non-current assets. Financial instruments classified in this category include *Cash and cash equivalents*, *Restricted cash*, *Trade and other receivables*, *Reserve funds* and *Advance to a non-controlling shareholder*. Such instruments are initially recognized at fair value plus directly attributable transaction costs. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less provisions for impairment.

#### **(c) Other liabilities at amortized cost**

Other liabilities are recognized initially at fair value and transaction costs are deducted from this fair value. Subsequently, other liabilities are measured at amortized cost. The difference between the initial carrying amount of other liabilities and their repayment value is recognized in net earnings (loss) over the term of the contract using the effective interest method. Other liabilities are presented in current liabilities when they are repayable within 12 months following the end of the reporting period. Otherwise, they are classified as non-current liabilities. This item includes *Trade and other payables*, *Non-current debt*, *Convertible debentures* and *Subscription receipts*.

#### **(d) Compound instruments**

Compound instruments issued by the Corporation, namely convertible debentures, are split into separate liability and equity components in accordance with the substance of the contractual arrangement. At the issue date, the fair value of the liability component was measured using the prevailing market interest rate for a similar non-convertible instrument. This amount is recognized as a liability at amortized cost using the effective interest method until conversion or maturity of the instrument. The equity component is determined by deducting the amount of the liability component from the total fair value of the compound instrument. This amount, less the tax impact, is accounted for in equity and is not subsequently remeasured.

## Hedge accounting

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently measured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The derivatives are designated as hedges of a particular risk associated with a recognized asset or liability or a highly probable forecasted transaction (cash flow hedge).

The Corporation documents at the inception of the transaction the relationship between the hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Corporation also documents its assessment, both at hedge inception and on an ongoing basis, as to whether the derivatives used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of the hedged items.

The full fair value of a derivative financial instrument is classified as a non-current asset or liability when the remaining life of the hedged item is more than 12 months and as a current asset or liability when the remaining life of the hedged item is less than 12 months. Held-for-trading derivative financial instruments are classified as current assets or liabilities.

## Cash flow hedges

In a cash flow hedge relationship, the change in value of the effective portion of the derivative is recognized in *Accumulated other comprehensive income (loss)*. The gain or loss relating to the ineffective portion is recognized immediately in the statement of earnings (loss) under *Net gain or loss on financial instruments*.

Amounts accumulated in equity are reclassified to net earnings (loss) in the periods in which the hedged item affects net earnings (loss) (for example, when a forecasted interest expense that is hedged occurs). The effective portion of the hedging derivative is recognized in the statement of earnings (loss) under *Financing costs*. The ineffective portion is recognized in the statement of earnings (loss) under *Net gain or loss on financial instruments*. However, when the forecasted transaction that is hedged results in the recognition of a non-financial asset (for example, *Property, plant and equipment*), the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are recognized as amortization of property, plant and equipment.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss in equity at that time remains in equity and is recognized when the forecasted transaction affects earnings (loss). When a forecasted transaction does not occur, the cumulative gain or loss that was reported in equity is immediately classified to the statement of earnings (loss) under *Net gain or loss on financial instruments*.

## Hedge of a net investment in self-sustaining foreign operations

The Corporation designates its foreign exchange forward contracts and cross-currency swaps as hedges of a net investment in self-sustaining foreign operations in foreign currency. In this hedge relationship of a net investment in foreign currency, the change in value of the effective portion of the derivative financial instrument is recognized in *Accumulated other comprehensive income (loss)* and the change in the ineffective portion is recorded in the statement of earnings (loss), under *Net gain or loss on financial instruments*.

The amounts recognized in *Accumulated other comprehensive income (loss)* are reclassified to net earnings (loss) when the corresponding foreign exchange gains or losses resulting from the translation of self-sustaining foreign operations are recognized in net earnings (loss).

## Cash and cash equivalents

Cash includes cash on hand and bank balances. Cash equivalents are short-term investments that mature within three months and comprise bankers' acceptances or deposit certificates guaranteed by banks. These instruments include highly liquid instruments that are readily convertible into known amounts of cash and subject to non-significant risk of changes in value.

## Restricted cash

Restricted cash comprises highly liquid investments in reserve to finance capital expenditures within a one-year period following each year-end and cash related to the partial repayment of the bridge financing facility upon a land sale in France.



## **Inventories**

Inventories are measured at the lower of cost or net realizable value. Cost is determined using the average cost method. Net realizable value corresponds to replacement cost in the normal course of business. Inventories mainly consist of replacement parts and wood residues.

## **Property, plant and equipment**

Property, plant and equipment, consisting mainly of power stations and earning production facilities, are recorded at cost, including interest incurred during the construction period of new power stations or facilities, less accumulated amortization and impairment losses. Amortization begins on the date the assets are commissioned using the following methods:

### **Wind power stations**

Wind power stations are amortized by component using the straight-line method over their useful life ranging from five to 40 years.

### **Hydroelectric power stations**

Hydroelectric power stations are amortized by component using the straight-line method over their useful lives ranging from 20 to 40 years.

### **Thermal power stations**

Thermal power stations are amortized by component using the straight-line method over their useful lives ranging from 20 to 25 years.

### **Solar power stations**

Solar power stations are amortized by component using the straight-line method over a useful life of 20 years.

### **Major maintenance**

Major maintenance work is capitalized and amortized using the straight-line method over the scheduled maintenance frequency, that is, a useful life of approximately five years.

Useful lives, residual values and amortization methods are reviewed every year according to asset type, expected usage and changes in technology. Impairment losses and reversals, if any, are recognized in net earnings (loss) under *Impairment of property, plant and equipment*.

## **Other intangible assets**

### **Energy sales contracts**

Acquisition costs for energy sales contracts and associated rights are amortized on a straight-line basis over the contract terms, including one renewal period, as applicable, which range from 15 to 40 years.

### **Water rights**

Water rights are amortized on a straight-line basis over the contract terms, including one renewal period, which range from 20 to 30 years. Assets with indefinite lives, consisting of the water rights at the Buckingham power station, are not amortized.

### **Development projects**

Project development costs include design and acquisition costs related to new projects. These costs are deferred until construction begins on the new power station or expansion of an existing power station, at which time they are transferred to property, plant and equipment and intangible assets, as appropriate. The Corporation defers costs for projects when it believes they are more likely than not to be completed. Where it is no longer probable that a project will be carried out, the costs deferred to that date are expensed.

## **Goodwill**

Goodwill, representing the excess of the consideration paid for entities acquired over the net amount allocated to assets acquired and liabilities assumed, is not amortized. Goodwill is tested for impairment annually on August 31. Tests are also carried out when events or circumstances indicate a possible impairment. Any impairment loss is charged to net earnings (loss) in the period in which it arises.

## Other non-current assets

### Reserve funds

Reserve funds represent funds held in trust for the purpose of meeting the requirements of certain non-current debt agreements including the maintenance of reserves for debt servicing and to maintain property, plant and equipment. The reserve funds, consist of deposit certificates, and are valued at amortized cost.

### Renewable energy tax credits

Renewable energy tax credits which were attributed on the basis of incurred operating expenses were recorded as a reduction of operating expenses for the period in which the credits were earned to the extent that it is more likely than not that they will be recoverable during their useful lives. This program came to an end on December 31, 2009.

## Borrowing costs

The Corporation capitalizes borrowing costs directly attributable to the acquisition, construction or production of qualifying assets during their active construction. Borrowing costs that are directly attributable to the acquisition, construction or production of an eligible asset are capitalized over the period of time necessary to complete and prepare the asset for the intended use or sale. Eligible assets are assets that necessarily take a substantial period of time to prepare for the intended use or sale. Other borrowing costs are expensed during the period in which they are incurred.

## Leases

Leases are classified as finance leases when the lease arrangement transfers substantially all the risks and rewards of ownership to the Corporation. Leases are classified as operating leases when the lease arrangement does not transfer substantially all the risks and rewards of ownership to the Corporation. Payments made under operating leases are charged to the statement of earnings (loss) on a straight-line basis over the lease term.

Finance leases are capitalized at the commencement of the lease term at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and financing costs so as to achieve a constant rate on the balance outstanding. Such lease obligations, net of financing costs, are included under *Other non-current liabilities*. The interest component of the financing costs is charged to earnings (loss) over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Property, plant and equipment acquired under finance leases are amortized over the shorter of the useful life of the asset and the lease term.

## Impairment of assets

Non-current assets with indefinite useful lives, specifically the goodwill and water rights of the Buckingham power station, as well as intangible assets that are not yet ready for use, are tested for impairment annually on August 31 or if trigger events occur. These assets are tested for impairment when particular events or changes in circumstances indicate that their carrying amount might not be recoverable. An impairment loss is recognized when the carrying amount exceeds the recoverable amount. The recoverable amount of an asset is the higher of that asset's fair value less costs of disposal and its value in use.

At the end of each reporting period, if there is any indication that an impairment loss recognized in a prior period that no longer exists or has decreased, the loss is reversed up to its recoverable amount. The carrying amount following the reversal must not be higher than the carrying amount that would have prevailed (net of amortization) had the original impairment not been recognized in prior periods. Goodwill impairment charges are not reversed.

Impairment testing of assets is conducted at the level of the cash-generating units ("CGUs"). A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The Corporation's assets are monitored separately by site, which corresponds to the CGUs of the smallest identifiable group.

### Note 3. Significant accounting policies (cont'd)

The recoverable amount of an asset or a CGU is the higher of its fair value less costs of disposal and its value in use. To calculate value in use, estimated future cash flows are discounted to their present value using a rate that reflects changes in the time value of money and the risks specific to the asset or the CGU. When determining fair value less costs of disposal, the Corporation considers whether there is a current market price for the asset. Otherwise, the Corporation uses an income approach, which is based on the present value of future cash flows generated by an asset or a CGU. The discounted cash flow method consists of projecting cash flows and converting them into present values by applying discount rates.

## Provisions

A provision is recognized in the statement of financial position when the Corporation has a legal or constructive obligation as a result of a past event and it is probable that the settlement of the obligation will require a financial payment or cause a financial loss, and a reliable estimate can be made of the amount of the obligation. Provisions are measured using the Corporation's management's best estimate as to the outcome based on known facts as at the reporting date.

## Contingent consideration

Contingent consideration accounted for upon asset acquisitions or business combinations consists of a contingent compensation agreement between the parties to the share sales contracts. Under the terms of the agreements, the Corporation will have future amounts payable to the seller based on the achievement of certain key milestones.

Contingent consideration relating to business combinations is measured at fair value at the acquisition date. Changes in fair value are recognized in net earnings (loss) under *Net gain or loss on financial instruments*.

Contingent consideration relating to the asset acquisitions is capitalized to intangible assets when incurred.

## Litigation provisions

Litigation is monitored regularly on a case-by-case basis by the legal department of the Corporation with the assistance of external legal advisors for major and complex litigation. A provision is recognized as soon as it becomes likely that a current obligation resulting from a past event will require a settlement whose amount can be reliably estimated.

## Decommissioning liability

A decommissioning liability is recognized at fair value in the period during which a legal or constructive obligation is incurred, when the amount of the liability can be reliably estimated and it is probable that the settlement of the obligation will require a financial payment. Decommissioning costs are capitalized into the value of the related asset and are amortized over the asset's remaining useful life. The liability is discounted using a pre-tax interest rate that reflects the assessment of the risks specific to the liability.

The Corporation has no obligation to decommission hydroelectric power stations located on public land. Under facility leases, these power stations must be handed back to the lessor at the end of the lease term without any decommissioning. For the other hydroelectric power stations located on private properties belonging to Boralex, the likelihood of such an obligation arising is low since the decommissioning of such facilities would have significant consequences on the ecosystem and economic life in surrounding areas. It is usually more beneficial for the environment, local residents and companies to keep the dam. Given this low likelihood, no provision has been recognized.

For the wind farms, the Corporation has a legal or contractual obligation to decommission its facilities when their commercial operations are discontinued. These costs are mostly related to the removal, transportation and disposal of the reinforced concrete bases that support the wind turbines, as well as revegetation.

The Corporation has environmental obligations with respect to its wood-residue thermal power station. If the power station were to be sold, the Corporation would be responsible for removing the piles of wood residue and environmental protection membranes. The Corporation has determined that the wood residue would be burned to produce electricity and that additional cleaning costs would not be material. Accordingly, the fair value of the liability is not material.

Lastly, the Corporation has an obligation to decommission its solar power stations at the end of the lease term. Decommissioning costs are non-significant.

## Income taxes

The Corporation accounts for its income taxes using the deferred tax assets and liabilities method. Deferred income tax assets and liabilities are determined based on the difference between the carrying amount and the tax basis of the assets and liabilities. Any change in the net amount of deferred income tax assets and liabilities is charged to earnings (loss). Deferred income tax assets and liabilities are determined based on enacted or substantively enacted tax rates and laws which are expected to apply to taxable income for the periods in which the assets and liabilities will be recovered or settled. Deferred income tax assets are recognized when it is likely they will be realized. Deferred tax assets and liabilities are reported under non-current assets and liabilities.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same tax authority. Current tax assets and liabilities are offset when the entity has a legally enforceable right to offset and intends to settle on a net basis or realize the asset and recognize the liability simultaneously.

The tax expense includes current and deferred taxes. This expense is recognized in net earnings (loss), except for income taxes related to the components of *Accumulated other comprehensive income (loss)* or in equity, in which case the tax expense is recognized in *Accumulated other comprehensive income (loss)* or in equity, respectively.

Current income tax assets or liabilities are obligations or claims for the current and prior periods to be recovered from (or paid to) taxation authorities that are still outstanding at the end of the reporting period and included under current assets or liabilities. Current tax is payable on taxable profit, which differs from net earnings (loss). This calculation is made using tax rates and laws enacted at the end of the reporting period.

The Corporation recognizes a deferred income tax asset or liability for all temporary differences generated by interests in subsidiaries and in the Joint Ventures, except where it is likely that the temporary difference will not reverse in the foreseeable future and the Corporation is able to control the date of the reversal of the temporary difference.

The Corporation has elected to recognize initial future income taxes on temporary differences between the carrying amount and the tax basis resulting from the acquisition of transparent companies. As a result, the consideration has been added to the cost of the acquired interests.

## Equity

Capital stock is presented at the value at which the shares were issued. Costs related to the issuance of stock, subscription receipts or stock options are presented in equity, net of taxes, as a deduction from issuance proceeds.

## Stock-based compensation

Stock options granted to senior management are measured at fair value. This fair value is then recognized in net earnings (loss) over the vesting period based on service conditions for senior management with an offsetting increase in *Contributed surplus*. Fair value is determined using the Black-Scholes option pricing model, which was designed to estimate the fair value of exchange-traded options that have no restrictions as to vesting and are entirely transferable. Some of the outstanding options carry restrictions but, in the Corporation's opinion, the Black-Scholes model provides an appropriate estimate of fair value in these cases. Any consideration paid by employees on the exercise of stock options is credited to *Capital stock*.

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

## Revenue recognition

The Corporation recognizes its revenue under the following policies:

### Revenues from energy sales

The Corporation recognizes its revenues, which consist of energy sales, when the energy is delivered at the buyer's substation, and there is no unfulfilled obligation that could affect the buyer's acceptance of the energy. Energy sales are billed and paid on a monthly basis.

### Variable consideration

Penalties for non-production of electricity are recorded at the time when it is highly probable that the amount will be payable as a reduction of revenues over the remaining term of the energy sales contract.

The Corporation recognizes deferred income for French wind farms whose energy selling prices vary according to the achievement of predetermined production levels under the rate order. The estimate is reviewed annually.

### Accounting policy used before the application of the new standard

The Corporation recognizes its revenues, which consist of energy sales, when persuasive evidence of an arrangement exists, the goods are delivered, the significant risks and benefits of ownership are transferred, the price is fixed or determinable and collection of the resulting receivable is reasonably assured.

### Other income

Other income is recognized when the service is provided and collection is considered likely.

### Net earnings (loss) per share

Net earnings (loss) per share (basic and diluted) is determined based on the weighted average number of Class A shares outstanding during the year. The calculation of diluted earnings (loss) per share takes into account the potential impact of the exercise of all dilutive instruments, i.e., stock options and the impact of convertible debentures on the theoretical number of shares. Diluted earnings (loss) per share is calculated using the treasury stock method to determine the dilutive effect of the stock options and the "if converted" method for convertible debentures. For options that have a dilutive effect, i.e., when the average share price for the period is higher than the exercise price of the options, these methods assume that the options have been exercised at the beginning of the period and that the resulting proceeds have been used to buy back common shares of the Corporation at their average price during the period.

## Changes to accounting policies

### IFRS 9, *Financial Instruments*

In July 2014, IASB completed its three-phase project to replace IAS 39, *Financial instruments: Recognition and Measurement*, by issuing IFRS 9, *Financial Instruments*. IFRS 9 addresses the classification and measurement of financial assets and liabilities, and introduces a forward-looking expected credit loss impairment model and a substantially reformed hedge accounting model.

To determine whether a financial asset should be measured at amortized cost or at fair value, IFRS 9 uses a new approach that replaces the multiple rules of IAS 39. The approach recommended by IFRS 9 is based on how an entity manages its financial instruments and the contractual cash flow characteristics of financial assets. Most of the requirements of IAS 39 for the classification and measurement of financial liabilities are carried forward in IFRS 9. However, the portion of the changes in fair value related to the entity's own credit risk, in measuring a financial liability at fair value through profit or loss, will be presented in *Accumulated other comprehensive income (loss)* instead of in the statement of earnings (loss).

IFRS 9 also sets out an expected credit loss impairment model that will require more timely recognition of credit losses. More specifically, the new standard requires entities to account for expected credit losses upon initial recognition of financial instruments, and to recognize lifetime expected credit losses on a timely basis.

Lastly, IFRS 9 introduces a new hedge accounting model together with corresponding disclosure requirements about risk management activities. The new hedge accounting model represents a substantial overhaul of hedge accounting that will enable entities to better reflect their risk management activities in their financial statements.

The Corporation has adopted IFRS 9, *Financial Instruments*, as of January 1, 2018. The adoption of IFRS 9 resulted in changes in accounting policies, but in no adjustment to the amounts recognized in the consolidated financial statements.

### Note 3. Significant accounting policies (cont'd)

The Corporation completed a detailed assessment of its financial assets and liabilities as at January 1, 2018. The following table shows the original classification under IAS 39 and the new classification under IFRS 9:

| Financial assets and liabilities                   | Original classification under IAS 39         | New classification under IFRS 9 |
|--|--|---------------------------------|
| Cash and cash equivalents                          | Loans and receivables (amortized cost)       | Amortized cost                  |
| Restricted cash                                    | Loans and receivables (amortized cost)       | Amortized cost                  |
| Trade and other receivables                        | Loans and receivables (amortized cost)       | Amortized cost                  |
| Advance to a non-controlling shareholder           | Loans and receivables (amortized cost)       | Amortized cost                  |
| Other non-current financial assets <sup>(1)</sup>  | Derivatives used for hedging purposes (FVPL) | FVPL/FVOCI                      |
| Reserve funds <sup>(2)</sup>                       | Loans and receivables (amortized cost)       | Amortized cost                  |
| Trade and other payables                           | Other financial liabilities (amortized cost) | Amortized cost                  |
| Contingent consideration                           | Other financial liabilities (amortized cost) | Amortized cost                  |
| Other current financial liabilities <sup>(3)</sup> | Derivatives used for hedging purposes (FVPL) | FVPL/FVOCI                      |
| Current and non-current debt                       | Other financial liabilities (amortized cost) | Amortized cost                  |
| Convertible debentures                             | Other financial liabilities (amortized cost) | Amortized cost                  |
| Other non-current financial liabilities            | Derivatives used for hedging purposes (FVPL) | FVPL/FVOCI                      |

<sup>(1)</sup> Excluding the *Advance to a non-controlling shareholder* and *Options to purchase a partner's interests*.

<sup>(2)</sup> Included under *Other non-current assets*.

<sup>(3)</sup> Excluding *Contingent consideration*.

### IFRS 15, Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*, a new standard that specifies the steps and timing for issuers to recognize revenue as well as requiring them to provide more informative, relevant disclosures. The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those services. This standard supersedes IAS 11, *Construction Contracts*, IAS 18, *Revenue*, as well as various interpretations regarding revenue.

The Corporation has adopted IFRS 15 as of January 1, 2018, which resulted in changes in accounting policies, but in no material adjustment to the amounts recognized in the consolidated financial statements. In accordance with the transition provisions in IFRS 15, the Corporation adopted the new standard retrospectively.

## Future changes in accounting policies

### IFRS 16, Leases

In January 2016, the IASB issued IFRS 16, *Leases*, which supersedes IAS 17, *Leases*, as well as several interpretations on leases. IFRS 16 is effective for fiscal years beginning on or after January 1, 2019, with earlier adoption permitted. The new standard requires the lessee to recognize a lease obligation for future lease payments and a right-of-use asset for most leases and report them on the statement of financial position, except for leases that meet limited exception criteria. As the Corporation is subject to significant contractual obligations in the form of operating leases (see note 28) in accordance with IAS 17, the adoption of IFRS 16 will result in a significant increase in assets and liabilities and, to a lesser extent, the timing of recognition.

The main areas of the Corporation affected by the adoption of IFRS 16 are presented in the following table:

### Financial reporting

| Analysis   | Impact   |
|--|--|
| The purpose of the analysis is to determine which contracts will fall within the scope of the new standard as well as the options offered by it, such as early adoption, the exemptions from recognition and measurement and the requirement to apply it in full and retrospectively under IAS 8, <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> , or the option to apply a "modified retrospective approach." | The Corporation is currently assessing the impact of adopting IFRS 16 on its consolidated statements of financial position, its consolidated statement of earnings (loss) and its consolidated statements of comprehensive income (loss). As at February 28, 2019, the majority of the operating leases set out in note 28 to these audited consolidated financial statements would fall within the scope of IFRS 16. The Corporation expects to adopt IFRS 16 for the fiscal year beginning January 1, 2019 retrospectively without restatement of comparative figures and to use the exemptions for short-term leases and leases for which the underlying assets are of low value. |

### **IFRS 3, Business Combinations**

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3, *Business Combinations*. The amendments are intended to assist entities in determining whether a transaction should be accounted for as a business combination or as a group of assets. The amendments are applicable prospectively to acquisitions made during annual periods beginning on or after January 1, 2020, with earlier application permitted.

### **IAS 1, Presentation of Financial Statements, and IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors**

In October 2018, the IASB issued amendments to IAS 1, *Presentation of Financial Statements*, and IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, to align the definition of "material" across the standards and to clarify certain aspects of the definition. The amendments are intended to improve financial reporting by promoting a better understanding of the existing requirements and should not significantly impact an entity's materiality judgments. The amendments are applicable prospectively to annual periods beginning on or after January 1, 2020, with earlier application permitted. The Corporation is currently assessing the impact of these amendments.

### **Conceptual Framework for Financial Reporting**

In March 2018, the IASB issued a comprehensive set of concepts for financial reporting: the revised *Conceptual Framework for Financial Reporting* ("Conceptual Framework"), which replaces its previous version. It assists companies in developing accounting policies when no IFRS standard applies to a particular transaction and it helps stakeholders more broadly to better understand the standards. The revised Conceptual Framework's effective date is January 1, 2020, with earlier application permitted. The Corporation does not expect any impact upon its adoption.

### **Uncertainty over Income Tax Treatments**

In June 2017, the IASB published IFRIC 23, *Uncertainty over Income Tax Treatments*. This interpretation specifies that if an entity concludes it is probable that the tax authority will accept an uncertain tax treatment, it is required to determine the taxable profit or loss consistently with the tax treatment used or planned to be used in its income tax filing. If it is not probable, the entity is required to reflect the effect of uncertainty for each uncertain tax treatment by using either of the following methods, depending on which method the entity expects to better predict the resolution of the uncertainty:

- Most likely amount: Single most likely amount in a range of possible outcomes;
- Expected value: Sum of the probability-weighted amounts in a range of possible outcomes.

An entity is required to apply IFRIC 23 for annual periods beginning on or after January 1, 2019, with early application permitted. The Corporation will not early adopt IFRIC 23 and does not expect a significant impact.

## **Note 4. Main sources of uncertainty**

The preparation of financial statements in conformity with IFRS requires management to make estimates and judgments that can materially affect the revenues, expenses, comprehensive income (loss), assets and liabilities, and the information reported in the consolidated financial statements.

The following items require management to make the most critical estimates and judgments:

### **Main sources of uncertainty relating to management's estimates**

Management determines its estimates based on a number of factors, namely its experience, current events and measures the Corporation could subsequently take, as well as other assumptions it deems reasonable given the circumstances. By their nature, these estimates are subject to measurement uncertainty and actual results may differ from them. Underlying estimates and assumptions are periodically reviewed and the impact of any changes is recognized immediately.

#### **Impairment of assets**

Every year, on August 31, the Corporation tests its CGUs and groups of CGUs for impairment with respect to intangible assets with indefinite useful lives and goodwill. Also, at each reporting date, if any evidence of impairment exists, the Corporation must perform impairment tests on its assets with indefinite and finite useful lives and goodwill to assess whether their carrying amounts are recoverable. Impairment tests require the use of various assumptions based on management's best estimates.

#### **Recoverable amounts**

Recoverable amounts are determined using value-in-use calculations based on cash flows discounted over the terms of projects that factor in current economic conditions and management's estimates based on past experience. Expected future cash flows are inherently uncertain and could materially change over time. They are significantly affected by a number of factors, including market and production estimates, together with economic factors such as selling prices and contract renewal prices, production cost estimates, future capital expenditure, after-tax discount rates, the growth rate and useful lives.

#### **Discount rate**

The discount rate estimated and used by management represents the weighted average cost of capital determined for a group of CGUs.

#### **Growth rate**

The growth rate is determined based on past experience, economic trends as well as market and industry trends.

#### **Useful lives of property, plant and equipment and intangible assets with finite useful lives**

In determining the useful lives of property, plant and equipment and intangible assets with finite useful lives, management takes into account estimates of the expected use period of the asset. Such estimates are reviewed annually and the impacts of any changes are accounted for prospectively.

#### **Deferred taxes**

Management is required to estimate the amounts to be recognized as deferred income tax assets and liabilities. In particular, management must assess the timing of the reversal of temporary differences to which future income tax rates are applied. Further, the amount of deferred tax assets, which is limited to the amount that is considered likely to be realized, is estimated by taking into account future taxable income.

#### **Decommissioning liability**

Future remediation costs, whether required under contract or by law, are recognized based on management's best estimates. These estimates are calculated at the end of each period taking into account expected discounted outflows for each asset in question. Estimates depend on labour costs, efficiency of site restoration and remediation measures, inflation rates and pre-tax interest rates that reflect the risks specific to the liability. Management also estimates the timing of expenses, which may change depending on the type of continuing operations. Expected future costs are inherently uncertain and could materially change over time. Given current knowledge, it is reasonably possible that, in upcoming fiscal years, actual costs could differ from the assumptions, requiring significant adjustments to the related liability's carrying amount.



### **Fair value of financial instruments**

Fair value is determined using discounted cash flow models. Fair value determined using such valuation models requires the use of assumptions concerning the amount and timing of estimated future cash flows, as well as for numerous other variables. These assumptions are determined using external, readily observable market inputs. Since they are based on estimates, fair values may not be realized in an actual sale or immediate settlement of the instruments. See note 25 of this Annual Report for a more detailed explanation of the bases for the calculations and estimates used. Derivative financial instruments designated as cash flow hedges are accounted for at fair value in the statement of financial position and changes in fair value are reported in comprehensive income (loss).

### **Fair value of business combinations**

The Corporation makes a number of estimates when allocating fair values to the assets and liabilities acquired in a business acquisition. Fair values are estimated using valuation techniques that take into account several assumptions such as production, earnings and expenses, interest rate and discount rate.

### **Production**

For each facility, the Corporation determines long-term average annual energy production (LTAP) over the expected life of the facility, based on engineering studies that consider several important factors: in the wind power segment, past wind and weather conditions and turbine technology; in the hydroelectric power segment, historical water flow and head height, technology used and aesthetic and ecological instream flows; in the solar power segment, historical sunlight conditions, panel technology and expected degradation of solar panels. Other factors considered include site topography, installed capacity, energy losses, operational characteristics and maintenance. Although varying from year to year, production is expected to approximate LTAP over an extended period.

## **Main sources of uncertainty relating to management's key judgments**

### **Evidence of asset impairment**

At each reporting date, management is required to use its judgment to assess whether there is any evidence that property, plant and equipment and intangible assets may be impaired. If applicable, the Corporation performs impairment tests on its CGUs to assess whether the carrying amounts of assets are recoverable. As described in the previous section, various estimates made by management are used in the impairment tests.

Management is required to exercise judgment and assess whether any events or changes in circumstances could have affected the recoverability of the carrying amount of assets. In making these assessments, management uses various indicators including, but not limited to, adverse changes in the industry or economic conditions, changes in the degree or method of use of the asset, a lower-than-expected economic performance of the asset or a significant change in market returns or interest rates.

### **Determining the development phase**

The Corporation capitalizes project development costs during the period preceding commissioning. Recognition of an intangible asset resulting from the development phase starts when a given project meets IFRS capitalization criteria. This determination requires significant judgment by management. Deciding whether an event or a change in circumstances indicates that a project has reached the development phase depends on various factors, including the technical feasibility of completing the intangible asset, management's intention to complete the intangible asset and its ability to commission the project, how the intangible asset will generate probable future economic benefits, the availability of adequate technical and financial resources to complete the development, and management's ability to reliably measure the expenditures attributable to the project during its development.

### **Business combination or asset acquisition**

When a development project is acquired, management is required to exercise its judgment to determine whether the transaction constitutes a business combination under IFRS 3, *Business Combinations*, or an asset acquisition. Management determines that a transaction is defined as a business combination when an acquired development project has completed the key steps required to obtain construction permits, financing and an energy sales contract. Management must also use its judgment in determining the amount of contingent consideration to be recognized as part of the final allocation of a business combination. Management evaluates the future amounts to be paid to the seller under the terms of the agreements based on the likelihood that the milestones will be met for payment.

### **Consolidation**

Significant judgment is required to assess whether the structure of certain investments represents control or joint control of, or significant influence over, an investee. Management's assessment of control or joint control of, or significant influence over, an investee has a material impact on the accounting treatment required for our investment in the investee. Management is required to make significant judgments as to whether it has power over the relevant activities of an investee.

## Note 5. Business combinations

### Kallista acquisition

On June 20, 2018, Boralex announced the signing of a purchase agreement with Ardian Infrastructure Holding S.à.r.l. to acquire all the shares outstanding of Kallista Energy Investment SAS and 10% of the shares of KE Production SAS, for a total cash consideration of \$121 million (€78 million) for the shares, subject to adjustments under the acquisition agreements and the assumption by Boralex of project debt amounting to \$171 million (€111 million). The Corporation also repaid \$78 million (€51 million) on a due to a non-controlling shareholder granted by Ardian Infrastructure Holding S.à.r.l. to Kallista Energy Investment SAS and \$8 million (€6 million) on a bridge loan included under assumed Non-current debt, for a total amount of \$86 million (€56 million).

The acquired portfolio comprises 15 wind farms in operation totalling 163 MW (unaudited) with a weighted average remaining life of eight years under contract, a 10 MW (unaudited) facility under construction which was commissioned on November 1, 2018 and a portfolio of projects totalling about 158 MW (unaudited). The consideration was paid by Boralex from its revolving credit facility.

This transaction gave rise to acquisition costs of \$5 million (€3 million), which were recognized under acquisition costs in the consolidated statement of earnings (loss). The acquisition was accounted for by the Corporation using the acquisition method set out in IFRS 3, *Business Combinations*. The statement of financial position and the results of this acquisition are consolidated as of June 20, 2018.

The following table shows the preliminary purchase price allocation of shares:

|   | Note | Preliminary allocation |        |
|---|------|------------------------|--------|
|   |      | (in \$)                | (in €) |
| Cash and cash equivalents                         |      | 21                     | 13     |
| Trade and other receivables                       |      | 4                      | 3      |
| Other current assets                              |      | 2                      | 1      |
| Property, plant and equipment                     |      | 230                    | 149    |
| Energy sales contracts                            |      | 120                    | 78     |
| Goodwill  |      | 15                     | 9      |
| Other non-current assets                          |      | 10                     | 6      |
| Current liabilities                               |      | (4)                    | (2)    |
| Assumed non-current debt                          |      | (171)                  | (111)  |
| Deferred income tax liabilities                   |      | (5)                    | (3)    |
| Other non-current financial liabilities           |      | (5)                    | (3)    |
| Decommissioning liability                         | 15   | (12)                   | (7)    |
| Due to a non-controlling shareholder              |      | (6)                    | (4)    |
|   |      | 199                    | 129    |
| Assumed loan to a shareholder                     |      | (78)                   | (51)   |
| <b>Net assets</b>                                 |      | 121                    | 78     |
| Less:   |      |                        |        |
| Cash and cash equivalents acquired                |      | 21                     | 13     |
| <b>Net consideration paid for the acquisition</b> |      | 100                    | 65     |

*Trade and other receivables* acquired at the time of the transaction had a fair value of \$4 million (€3 million), and the Corporation collected all amounts during 2018. Goodwill consists of deferred tax. Goodwill is not deductible for tax purposes.

The preliminary purchase price allocation was based on the fair value at the acquisition date. The purchase price of shares remains preliminary in order to satisfactorily evaluate fair value of the acquired deferred income tax assets and liabilities. Once the final purchase price has been determined, adjustments will be reflected in a number of line items, possibly *Property, plant and equipment*, *Energy sales contracts*, *Goodwill* and *Deferred income tax liabilities*.

Since the acquisition date, the acquired entity has contributed \$21 million (€14 million) to revenues from energy sales and generated a net loss of \$9 million (€6 million).

If the acquisition had occurred on January 1, 2018, management estimates that consolidated revenues from energy sales would have been \$22 million (€14 million) higher or \$493 million and net loss would have been \$55 million. These estimates are based on the assumption that the fair market value adjustments that were made on the date of acquisition would have been the same had the acquisition occurred on January 1, 2018.

## Acquisition of a Europe-based portfolio (Ecotera)

In 2015, Boralex acquired the Ecotera project for which contingent consideration amounting to \$33 million (€23 million) was recognized. In 2018, an outlay of \$8 million (€5 million) was made by Boralex.

## Note 6. Trade and other receivables

|                                  | Note | As at<br>December 31,<br><b>2018</b> | As at<br>December 31,<br><b>2017</b> |
|----------------------------------|------|--------------------------------------|--------------------------------------|
| Trade receivables                |      | 88                                   | 92                                   |
| Receivables from related parties | 29   | 1                                    | —                                    |
| Tax receivables                  |      | 49                                   | 38                                   |
| Other receivables                |      | 4                                    | 4                                    |
|                                  |      | <b>142</b>                           | <b>134</b>                           |

All these amounts have current maturities. Their net carrying amounts reasonably approximate their fair values.

The Corporation has not recorded a provision for the accounts in the above table given the clients' high credit ratings. As at December 31, 2018, approximately 3% of trade and other receivables (1% as at December 31, 2017) were more than 90 days past due from the invoice date, while approximately 95% (95% as at December 31, 2017) were current (under 30 days).

## Note 7. Property, plant and equipment

|  | Wind power stations | Hydroelectric power stations | Thermal power stations | Solar power stations | Corporate | Total |
|--|---------------------|------------------------------|------------------------|----------------------|-----------|-------|
| <b>Year ended December 31, 2017:</b>             |                     |                              |                        |                      |           |       |
| Balance – beginning of year                      | 1,304               | 297                          | 25                     | 31                   | 11        | 1,668 |
| Translation adjustments                          | 54                  | (7)                          | 1                      | 2                    | —         | 50    |
| Additions  | 190                 | 41                           | 1                      | —                    | 8         | 240   |
| Additions through business combinations          | 797                 | —                            | —                      | —                    | —         | 797   |
| Amortization                                     | (122)               | (9)                          | (4)                    | (2)                  | (2)       | (139) |
| Transfer of assets from development projects     | 4                   | 2                            | —                      | —                    | —         | 6     |
| Other  | (1)                 | —                            | —                      | —                    | —         | (1)   |
| Balance – end of year                            | 2,226               | 324                          | 23                     | 31                   | 17        | 2,621 |
| <b>As at December 31, 2017:</b>                  |                     |                              |                        |                      |           |       |
| Cost   | 2,697               | 394                          | 65                     | 40                   | 28        | 3,224 |
| Accumulated amortization                         | (471)               | (70)                         | (42)                   | (9)                  | (11)      | (603) |
| Net carrying amount                              | 2,226               | 324                          | 23                     | 31                   | 17        | 2,621 |
| <b>Year ended December 31, 2018:</b>             |                     |                              |                        |                      |           |       |
| Balance – beginning of year                      | 2,226               | 324                          | 23                     | 31                   | 17        | 2,621 |
| Translation adjustments                          | 40                  | 9                            | —                      | 1                    | —         | 50    |
| Additions  | 230                 | 23                           | 2                      | —                    | 9         | 264   |
| Additions through business combinations (note 5) | 230                 | —                            | —                      | —                    | —         | 230   |
| Disposal of assets (a)                           | (54)                | —                            | —                      | —                    | —         | (54)  |
| Impairment of assets (note 20)                   | (14)                | —                            | —                      | —                    | —         | (14)  |
| Amortization                                     | (147)               | (12)                         | (4)                    | (2)                  | (2)       | (167) |
| Other  | 14                  | 1                            | —                      | —                    | (4)       | 11    |
| Balance – end of year                            | 2,525               | 345                          | 21                     | 30                   | 20        | 2,941 |
| <b>As at December 31, 2018:</b>                  |                     |                              |                        |                      |           |       |
| Cost   | 3,163               | 433                          | 63                     | 41                   | 33        | 3,733 |
| Accumulated amortization                         | (638)               | (88)                         | (42)                   | (11)                 | (13)      | (792) |
| Net carrying amount                              | 2,525               | 345                          | 21                     | 30                   | 20        | 2,941 |

(a) The disposal of assets amount consisted primarily of the Lanouée forest (\$44 million) and a land sale in Scotland (\$6 million).

Amortization of property, plant and equipment is presented under *Amortization*.

Property, plant and equipment includes facilities under construction in an amount of \$307 million (\$201 million as at December 31, 2017).

An amount of \$44 million relating to additions to property, plant and equipment still unpaid as at December 31, 2018 (\$62 million in 2017) is included under *Trade and other payables*.

## Note 8. Intangible assets and goodwill

|   | Intangible assets      |              |                      |                         |       |          |
|---|------------------------|--------------|----------------------|-------------------------|-------|----------|
|   | Energy sales contracts | Water rights | Development projects | Other intangible assets | Total | Goodwill |
| <b>Year ended December 31, 2017:</b>                |                        |              |                      |                         |       |          |
| Balance – beginning of year                         | 313                    | 98           | 10                   | 5                       | 426   | 124      |
| Translation adjustments                             | 13                     | —            | —                    | —                       | 13    | 4        |
| Additions   | 40                     | —            | 4                    | —                       | 44    | —        |
| Additions through business combinations             | 210                    | —            | 1                    | —                       | 211   | 54       |
| Transfer of assets to property, plant and equipment | —                      | —            | (6)                  | —                       | (6)   | —        |
| Amortization  | (30)                   | (3)          | —                    | —                       | (33)  | —        |
| Balance – end of year                               | 546                    | 95           | 9                    | 5                       | 655   | 182      |
| <b>As at December 31, 2017:</b>                     |                        |              |                      |                         |       |          |
| Cost  | 657                    | 117          | 9                    | 8                       | 791   | 182      |
| Accumulated amortization                            | (111)                  | (22)         | —                    | (3)                     | (136) | —        |
| Net carrying amount                                 | 546                    | 95           | 9                    | 5                       | 655   | 182      |
| <b>Year ended December 31, 2018:</b>                |                        |              |                      |                         |       |          |
| Balance – beginning of year                         | 546                    | 95           | 9                    | 5                       | 655   | 182      |
| Translation adjustments                             | 13                     | —            | —                    | —                       | 13    | 4        |
| Additions (a)                                       | 24                     | —            | 3                    | 1                       | 28    | —        |
| Additions through business combinations (note 5)    | 120                    | —            | —                    | —                       | 120   | 15       |
| Impairment of assets (note 20)                      | (1)                    | —            | —                    | —                       | (1)   | —        |
| Amortization  | (46)                   | (3)          | —                    | —                       | (49)  | —        |
| Other   | 1                      | —            | (6)                  | (1)                     | (6)   | —        |
| Balance – end of year                               | 657                    | 92           | 6                    | 5                       | 760   | 201      |
| <b>As at December 31, 2018:</b>                     |                        |              |                      |                         |       |          |
| Cost  | 821                    | 117          | 6                    | 8                       | 952   | 201      |
| Accumulated amortization                            | (164)                  | (25)         | —                    | (3)                     | (192) | —        |
| Net carrying amount                                 | 657                    | 92           | 6                    | 5                       | 760   | 201      |

(a) In 2018, following the acquisition of Ecotera, the Corporation paid contingent consideration in a total amount of \$24 million (€15 million) for the **Basse Thiérache Nord** \$8 million (€5 million), **Inter Deux Bos** \$5 million (€3 million), **Catésis** \$5 million (€3 million), **Santerre** \$4 million (€3 million) and **Ecotera** Tranche C \$2 million (€1 million) projects.

The weighted average amortization period of intangible assets with finite useful lives is as follows:

|                        |          |
|------------------------|----------|
| Energy sales contracts | 16 years |
| Water rights           | 26 years |

*Water rights* of the Buckingham hydroelectric power station, which amounted to \$38 million in 2018 and 2017, are not amortized given their indefinite useful life. *Development projects* consist primarily of wind power projects in Europe. *Other intangible assets* consist primarily of an enterprise resource planning (ERP) system and licences for wind power projects under development.

## Note 8. Intangible assets and goodwill (cont'd)

The following table shows the allocation of goodwill by CGU:

|  | As at<br>December 31,<br><b>2018</b> | As at<br>December 31,<br><b>2017</b> |
|--|--------------------------------------|--------------------------------------|
| NRWF   | 54                                   | 54                                   |
| 11 BEV wind farms in operation and the Comes de l'Arce wind farm | 52                                   | 49                                   |
| Seven hydroelectric power stations                               | 38                                   | 38                                   |
| Ecotera wind power projects                                      | 26                                   | 25                                   |
| St-Patrick, Vron, Fortel-Bonnières and St-François wind farms    | 11                                   | 11                                   |
| Kallista   | 15                                   | —                                    |
| Other  | 5                                    | 5                                    |
|  | <b>201</b>                           | <b>182</b>                           |

As at August 31, 2018, goodwill and water rights with indefinite useful life relating to the Buckingham power station were tested for impairment. For all tests, the recoverable amounts of the cash-generating units determined using cash flow projections determined using the fair value less costs to sell method exceed the carrying amounts. A discount rate ranging from 4.53% to 5.63% and a growth rate ranging from 1.6% to 2% were used for these impairment tests.

## Note 9. Interests in the Joint Ventures and associates

### Joint Ventures Phases I and II

The Corporation entered into partnership agreements with a subsidiary of Energir, L.P. (formerly Gaz Métro L.P.) and Valener Inc. and created Seigneurie de Beaupré Wind Farms 2 and 3 General Partnership ("SDB I") and Seigneurie de Beaupré Wind Farm 4 General Partnership ("SDB II") located in Canada, of which each party owns 50%. The Corporation's interest in these Joint Ventures is accounted for using the equity method. The year-end date of these Joint Ventures is December 31.

### Joint Ventures and an associate in Québec

On September 14, 2018, the Corporation completed the acquisition of all of the interests in Invenergy Renewables LLC ("Invenergy") in four entities in Québec, one of which owns two wind farms, for a total of five wind farms in operation (Des Moulins Wind Power L.P. ("DM 1 and DM 2"), Le Plateau Wind Power L.P. ("LP I"), Le Plateau Community Wind Power L.P. ("LP II") and Roncevaux Wind Power L.P. ("Roncevaux")).

| Project name                  | Total capacity (MW) <sup>(1)</sup> | Borex % | Borex MW   | Type of partnership | PPA maturity <sup>(2)</sup> |
|-------------------------------|------------------------------------|---------|------------|---------------------|-----------------------------|
| DM I and DM II <sup>(3)</sup> | 157                                | 51.00%  | 80         | Joint venture       | 2033                        |
| LP I <sup>(3)</sup>           | 139                                | 51.00%  | 71         | Joint venture       | 2032                        |
| LP II                         | 21                                 | 59.96%  | 13         | Joint venture       | 2034                        |
| Roncevaux                     | 74                                 | 50.00%  | 37         | Associate           | 2041                        |
|                               | <b>391</b>                         |         | <b>201</b> |                     |                             |

<sup>(1)</sup> Unaudited.

<sup>(2)</sup> Power purchase agreement.

<sup>(3)</sup> The Caisse de dépôt et placement du Québec (the "Caisse") holds a 49% interest.

The Corporation's interest in these Joint Ventures and associate is accounted for using the equity method. The year-end date of these Joint Ventures and this associate is December 31.

These transactions gave rise to acquisition costs of \$4 million, which were capitalized in the interests in Joint Ventures and associates in the consolidated statements of financial position.

The acquisition is considered a transaction between related parties since the Caisse de dépôt et placement du Québec (the "Caisse") holds an interest in Invenergy and has significant influence over Borex.

## Options to purchase a partner's interests

The agreements to acquire Invenenergy's interest in DM I, DM II and LP I provide for purchase option rights that Boralex may exercise upon expiry of the initial term of the energy sales contracts to purchase the Caisse's minority interest in those facilities. Those assets have been recognized in *Other non-current financial assets* in the consolidated statements of financial position. The fair value of these financial instruments is determined based on the calculation of the facilities' future cash flows and discounted using a rate reflecting the risks specific to each facility. Changes in fair value are recognized in the consolidated statement of earnings (loss).

## Joint Venture in Denmark – Jammerland Bay

In July 2014, Boralex entered into a Joint Venture agreement with a Danish developer. The Joint Venture aims to develop nearshore wind power projects in Denmark.

## Note 10. Other non-current assets

|                              | Note | As at<br>December 31,<br><b>2018</b> | As at<br>December 31,<br><b>2017</b> |
|------------------------------|------|--------------------------------------|--------------------------------------|
| Reserve funds                | (a)  | 57                                   | 45                                   |
| Renewable energy tax credits |      | 7                                    | 6                                    |
| Other                        |      | 8                                    | 4                                    |
|                              |      | <b>72</b>                            | <b>55</b>                            |

(a) *Reserve funds* consist primarily of reserves for servicing non-current debt. The reserves guarantee financing arrangements in France, the United States and Canada and are sufficient to service the debt for three to nine months, depending on the project. These reserves amounted to \$52 million (€25 million, US\$7 million and \$4 million) as at December 31, 2018 and \$40 million (€18 million, US\$7 million and \$3 million) as at December 31, 2017. A reserve to fund maintenance of property, plant and equipment amounted to \$5 million (US\$3 million and \$1 million) as at December 31, 2018 and \$5 million (US\$3 million and \$1 million) as at December 31, 2017.

## Note 11. Trade and other payables

|                     | As at<br>December 31,<br><b>2018</b> | As at<br>December 31,<br><b>2017</b> |
|---------------------|--------------------------------------|--------------------------------------|
| Trade payables      | 48                                   | 41                                   |
| Accrued liabilities | 66                                   | 75                                   |
| Interest payable    | 13                                   | 14                                   |
| Other payables      | 15                                   | 22                                   |
|                     | <b>142</b>                           | <b>152</b>                           |



## Note 12. Non-current debt

|   | Note | Maturity  | Rate <sup>(1)</sup> | Currency of origin | As at December 31, 2018 | As at December 31, 2017 |
|---|------|-----------|---------------------|--------------------|-------------------------|-------------------------|
| Revolving credit facility   | (a)  | 2022      | 4.65                |                    | 277                     | 265                     |
| Subordinated debt   | (b)  | 2028      | 5.64                |                    | 300                     | —                       |
| Term loan payable:  |      |           |                     |                    |                         |                         |
| Ocean Falls power station   |      | 2024      | 6.55                |                    | 6                       | 7                       |
| Yellow Falls power station  |      | 2027-2056 | 4.86                |                    | 74                      | 74                      |
| Thames River wind farms   |      | 2031      | 7.05                |                    | 129                     | 138                     |
| Témiscouata I wind farm   |      | 2032      | 5.31                |                    | 44                      | 46                      |
| Témiscouata II wind farm  |      | 2033      | 5.66                |                    | 111                     | 114                     |
| Niagara Region Wind Farm (NRWF)   |      | 2034      | 3.78                |                    | 718                     | 750                     |
| Port Ryerse wind farm   |      | 2034      | 3.99                |                    | 29                      | 30                      |
| Frampton wind farm  |      | 2035      | 4.20                |                    | 66                      | 69                      |
| Côte-de-Beaupré wind farm   |      | 2035      | 4.26                |                    | 52                      | 52                      |
| Moose Lake wind power project   |      | 2043      | 4.88                |                    | 29                      | 26                      |
| Jamie Creek power station   |      | 2054      | 5.42                |                    | 55                      | 55                      |
| Other debt  |      | —         | —                   |                    | 4                       | 6                       |
| <b>CANADA</b>   |      |           |                     |                    | <b>1,894</b>            | <b>1,632</b>            |
| Master agreement – wind farms in France   |      | 2025      | 5.34                | 56                 | 88                      | 101                     |
| Bridge financing facility – France and Scotland   | (c)  | 2019      | 0.84                | 46                 | 72                      | 69                      |
| Term loan payable:  |      |           |                     |                    |                         |                         |
| Cube  |      | 2019      | 6.50                | 40                 | 63                      | 60                      |
| Kallista wind farms   | (d)  | 2021-2035 | 3.34                | 109                | 170                     | —                       |
| Avignonnet II wind farm   |      | 2025      | 1.72                | —                  | —                       | 3                       |
| Lauragais solar power facility  |      | 2028      | 3.96                | 7                  | 12                      | 13                      |
| Mont de Bagny, Voie des Monts, Artois and Chemin de Grès wind farms   |      | 2032      | 1.59                | 117                | 183                     | 199                     |
| St-Patrick wind farm  |      | 2027      | 1.64                | 29                 | 45                      | 50                      |
| La Vallée wind farm   |      | 2028      | 4.42                | 24                 | 37                      | 40                      |
| Fortel-Bonnières and St-François wind farms   |      | 2029      | 3.74                | 45                 | 70                      | 75                      |
| Vron wind farm  |      | 2030      | 3.38                | 8                  | 13                      | 13                      |
| Boralex Énergie Verte (BEV) wind farms  |      | 2030      | 2.37                | 150                | 235                     | 251                     |
| Calmont wind farm   |      | 2030      | 2.51                | 17                 | 27                      | 28                      |
| Plateau de Savernat wind farm   |      | 2031      | 2.37                | 15                 | 23                      | 24                      |
| Touvent wind farm   |      | 2031      | 2.15                | 16                 | 25                      | 28                      |
| Les Cigarettes solar power facility   |      | 2033      | 2.77                | 8                  | 12                      | 13                      |
| Inter Deux Bos, Côteaux du Blaiseron, Hauts de Comble, Sources de l'Ancre, Le Pelon, Basse Thiérache Nord, Catésis, Seuil du Cambrésis and Cham Longe I wind power projects | (e)  | 2033      | 2.19                | 170                | 266                     | 1                       |
| Other debt  |      | —         | —                   | 3                  | 5                       | 6                       |
| <b>FRANCE</b>   |      |           |                     | <b>860</b>         | <b>1,346</b>            | <b>974</b>              |
| Senior secured U.S. note  |      | 2026      | 3.51                | 45                 | 61                      | 63                      |
| <b>UNITED STATES</b>  |      |           |                     | <b>45</b>          | <b>61</b>               | <b>63</b>               |
|   |      |           | 3.90                |                    | 3,301                   | 2,669                   |
| Current portion of debt   |      |           |                     |                    | (414)                   | (224)                   |
| Borrowing costs, net of accumulated amortization  |      |           |                     |                    | (30)                    | (27)                    |
|   |      |           |                     |                    | <b>2,857</b>            | <b>2,418</b>            |

<sup>(1)</sup> Weighted average rates, adjusted to reflect the impact of interest rate swaps and calculated using the effective interest method, where applicable.

### (a) Refinancing of the revolving credit facility

On March 29, 2018, Boralex had the maturity of its \$460 million revolving credit facility extended by one year to April 27, 2022 and obtained a reduction of the interest rate on its line of credit. The agreement was also enhanced to include an accordion clause that provides Boralex with future access to an additional amount of \$100 million under the same terms and conditions as for the line of credit.

## **(b) Subordinated debt**

On March 29, 2018, Boralex entered into a \$200 million financing arrangement with the Caisse, shareholder of the Corporation, and Fonds de solidarité FTQ, in the form of unsecured subordinated debt with a ten-year term. This financing facility included an option for a second \$100 million tranche which was available for a 12-month period after the financial close, subject to certain conditions. On July 24, 2018, Boralex drew on the second \$100 million tranche to partly refinance the Kallista acquisition. Its terms and conditions are the same as for the first tranche, except for the interest rate of 5.72% which reflects the interest rate curve prevailing at the time funds are drawn. The first tranche bears interest at a fixed rate of 5.60%, payable semi-annually, and the loan agreement does not stipulate any principal payments before the March 29, 2028 maturity date.

## **(c) Bridge financing facility – France and Scotland**

On November 15, 2018, Boralex extended its bridge financing facility with BNP Paribas S.A., until May 18, 2019 for the first tranche and until November 18, 2019 for the second tranche. The first tranche, amounting to \$44 million (€29 million), was subsequently repaid early on January 7, 2019 following the sale of the underlying asset (Groupement forestier des bois de l'avenir), for which financing had been arranged in 2016.

## **(d) Kallista acquisition**

On June 20, 2018, Boralex completed the transaction, announced on April 20, 2018, to acquire Kallista Energy Investment SAS, consisting of 15 project financing facilities. These terms loans secured by the underlying assets of each of these projects are repayable on a quarterly or half-yearly basis over periods ranging from 2021 to 2035 and bearing interest at rates between 1.33% and 6.20% or a weighted average rate of 3.43% over the term of the loan, considering the impact of interest rate swaps.

## **(e) Basse Thiérache Nord, Catésis, Seuil du Cambrésis and Cham Longe I wind power projects**

On November 13, 2018, the Corporation closed long-term financing for the Basse Thiérache Nord, Catésis, Seuil du Cambrésis and Cham Longe I wind farms in France for a total amount of \$193 million (€124 million), including \$28 million (€18 million) for a value-added tax bridge financing facility. This long-term financing facility comprises variable-rate tranches of \$165 million (€106 million) and the loans will be amortized over a 15–20 year period. To reduce exposure to rate changes, interest rate swaps have been entered into for approximately 90% of long-term debt as required by the credit agreement. This facility is in addition to the credit facility closed in December 2017 for financing the Inter Deux Bos, Côteaux du Blaiseron, Hauts de Comble, Sources de l'Ancre and Le Pelon wind farms.

## **Financial ratios and guarantees**

The debt agreements include certain covenants restricting the use of cash resources of the Corporation's subsidiaries. As well, certain financial ratios, such as debt service ratios and debt/equity ratio, must be met on a quarterly, semi-annual or annual basis.

The carrying amount of assets pledged to secure the loans totalled \$3,504 million as at December 31, 2018. Project financing is non-recourse to the parent company.

Substantially all of the Boralex's debt includes requirements to establish and maintain reserve accounts or accounts for issuing letters of credit for current debt servicing, equipment maintenance or income taxes at various times over the terms of the debt. As at December 31, 2018, the amounts maintained in reserve accounts for that purpose stood at \$57 million (\$45 million as at December 31, 2017) (see note 10).

Under IFRS, at the statement of financial position date, if a subsidiary does not meet a financial ratio and has not received a waiver from lenders by that date, the debt is presented in the *Current portion of debt*. Since ratio covenants generally require ratios to be based on the audited financial statements and a period of up to 180 days is permissible for financial statement preparation, the Corporation considers the ratios to be met as at the statement of financial position date.

As at December 31, 2018, two debt-service coverage ratios were not met (Fortel-Bonnières and St-François wind farms) or would not meet their debt-service ratios based on estimates (Calmont wind farm). These potential defaults triggered the automatic reclassification of the loans to *Current liabilities*. The balances of these two debts will be reclassified to *Non-current debt* amounting to \$89 million (€57 million) when the lenders provide their waivers.

The lenders of the debt pertaining to the Fortel-Bonnières, St-François and Calmont wind farms have been notified of these circumstances and requests for waivers have been or will be made once the financial statements have been prepared and filed.

## Note 12. Non-current debt (cont'd)

The non-current debt pertaining to the Touvent wind farm, which had a 20-day grace period, would not meet its debt-service coverage ratio as at December 31, 2018 based on estimates. This debt has also been reclassified as current debt in the Corporation's 2019 financial statements.

Except as set out above, as at December 31, 2018 and 2017, Boralex and its subsidiaries were in compliance with all their ratios and financial commitments.

## Note 13. Convertible debentures

|            | Effective rate | Maturity  | Initial nominal value | Nominal value as at December 31, 2018 | As at December 31, 2018 | As at December 31, 2017 |
|------------|----------------|-----------|-----------------------|---------------------------------------|-------------------------|-------------------------|
| Debentures | 6.34%          | June 2020 | 144                   | 144                                   | 140                     | 137                     |

As at December 31, 2018, Boralex had 1,437,070 issued and outstanding convertible debentures with a nominal value of \$100 each (1,437,400 debentures as at December 31, 2017).

These debentures bear interest at an annual rate of 4.50% payable semi-annually, in arrears, on June 30 and December 31 of each year. In accordance with the trust indenture, each debenture is convertible into Class A common shares of Boralex at the option of the holder at any time prior to the close of business on the earlier of the business day immediately preceding the maturity date and the business day immediately preceding the date fixed for early redemption of the debentures at the initial conversion price of \$19.60 per common share, subject to adjustments. On November 30, 2018, the conversion price of the 2015 Debentures was adjusted from \$19.60 to \$19.5658 pursuant to the trust indenture as dividends paid by Boralex in 2018 exceeded the maximum (Dividend Threshold) stipulated in the trust indenture. Holders converting their debentures will receive accrued and unpaid interest for the period from the last interest payment date on their debentures, to, but not including, the date of conversion.

The Debentures may be early redeemed by Boralex after June 30, 2018. From July 1, 2018 to June 30, 2019, Boralex may, under certain circumstances, such as if Boralex's share price is trading at 125% of the conversion price, redeem these debentures at their principal amount plus accrued and unpaid interest. As of July 1, 2019, Boralex may redeem these debentures, without restrictions, at their principal amount plus accrued and unpaid interest.

## Note 14. Income taxes

The impact of income tax recovery is as follows:

|  | 2018 | 2017 |
|--|------|------|
| <b>Current taxes</b>   |      |      |
| Current income tax expense   | 4    | 6    |
| Income tax expense (recovery) recognized during the year for prior years | 1    | (1)  |
|  | 5    | 5    |
| <b>Deferred taxes</b>  |      |      |
| Differences between the current tax rate and deferred income tax rates   | 5    | —    |
| Deferred tax savings related to temporary differences                    | (25) | (4)  |
| Deferred tax savings recognized during the year for prior years          | (1)  | 1    |
| Decrease in deferred tax rates   | —    | (12) |
|  | (21) | (15) |
| Income tax recovery  | (16) | (10) |

The reconciliation of income tax recovery, calculated using the statutory income tax rates prevailing in Canada, with the income tax recovery reported in the financial statements is as follows:

|  | 2018   | 2017   |
|--|--------|--------|
| Net earnings (loss) before income taxes                                | (60)   | —      |
| Combined basic Canadian and provincial income tax rate                 | 26.59% | 26.59% |
| Income tax recovery at the statutory rate                              | (16)   | —      |
| Increase (decrease) in income taxes arising from the following:        |        |        |
| Non-taxable/non-deductible items                                       | (3)    | (1)    |
| Difference in foreign operations' statutory income tax rates           | (4)    | 1      |
| Decrease in deferred tax rates   | —      | (12)   |
| Differences between the current tax rate and deferred income tax rates | 5      | —      |
| Foreign income taxes payable on dividends and other items              | 2      | 2      |
| Effective income tax recovery  | (16)   | (10)   |

|                               | 2018  | 2017  |
|-------------------------------|-------|-------|
| Deferred income tax liability | (146) | (110) |

The changes in deferred taxes by nature are as follows:

|   | As at<br>January 1,<br>2018 | Recorded in<br>comprehensive<br>income (loss) | Recorded in<br>net earnings<br>(loss) | Business<br>acquisition<br>and Interests | Recorded in<br>capital stock | As at<br>December 31,<br>2018 |
|---|-----------------------------|---|---------------------------------------|--|------------------------------|-------------------------------|
| Deferred income tax asset related to loss carryforwards       | 152                         | —   | 16                                    | 43                                       | —                            | 211                           |
| Financial instruments   | 5                           | (1)   | 4                                     | 1  | —                            | 9                             |
| Provisions  | 14                          | —   | (13)                                  | —  | —                            | 1                             |
| Interests in the Joint Ventures and associates                | (62)                        | —   | (1)                                   | (50)*                                    | —                            | (113)                         |
| Temporary differences between accounting and tax amortization | (219)                       | —   | 17                                    | (50)                                     | —                            | (252)                         |
| Translation adjustments                                       | (1)                         | (3)   | 1                                     | —  | —                            | (3)                           |
| Financing and other costs                                     | 1                           | —   | (3)                                   | —  | 3                            | 1                             |
| Total deferred income tax liabilities                         | (110)                       | (4)   | 21                                    | (56)                                     | 3                            | (146)                         |

\* This \$50 million amount was added to *Interests in the Joint Ventures and associates*.

Note 14. Income taxes (cont'd)

|   | As at<br>January 1,<br><b>2017</b> | Recorded in<br>comprehensive<br>income (loss) | Recorded in<br>net earnings | Business<br>acquisition | Recorded in<br>capital stock | As at<br>December 31,<br><b>2017</b> |
|---|------------------------------------|---|-----------------------------|-------------------------|------------------------------|--------------------------------------|
| Deferred income tax asset related to loss carryforwards       | 146                                | —   | 6                           | —                       | —                            | 152                                  |
| Financial instruments   | 11                                 | (10)  | 8                           | (4)                     | —                            | 5                                    |
| Provisions  | 16                                 | —   | (2)                         | —                       | —                            | 14                                   |
| Interests in the Joint Ventures and associates                | (53)                               | (1)   | (8)                         | —                       | —                            | (62)                                 |
| Temporary differences between accounting and tax amortization | (170)                              | —   | 18                          | (67)                    | —                            | (219)                                |
| Translation adjustments                                       | 4                                  | (1)   | (4)                         | —                       | —                            | (1)                                  |
| Financing and other costs                                     | (3)                                | —   | (3)                         | 6                       | 1                            | 1                                    |
| Total deferred income tax liabilities                         | (49)                               | (12)  | 15                          | (65)                    | 1                            | (110)                                |

Given that future taxable income is expected to be sufficient, deductible temporary differences, unused loss carryforwards and tax credits have been recorded as a deferred tax asset in the statement of financial position. A deferred tax asset of \$2 million (\$2 million in 2017) in Canada was not recognized in respect of the \$16 million capital loss carryforwards, as no unrealized capital gain is expected. The capital losses have no expiry date.

## Note 15. Decommissioning liability

For the wind power sites, the Corporation has a legal or contractual obligation to decommission its facilities when their commercial operations are discontinued. The Corporation has considered the duration of the leases and of the energy sales contracts, as well as their renewal periods, if applicable, ranging from 22 to 80 years, to calculate the decommissioning liability. These costs are mostly related to the removal, transportation and disposal of the reinforced concrete bases that support the wind turbines, as well as the revegetation. No disbursements are expected before 2020. As at December 31, 2018 cash flows were discounted using pre-tax interest rates that reflect the assessment of the risks specific to the liability related to each wind power station, ranging from 1.53% to 7.05% to determine the non-current decommissioning liability.

The following table shows the changes in the liability during fiscal years:

|   | Note | <b>2018</b> | <b>2017</b> |
|---|------|-------------|-------------|
| Balance – beginning of year                           |      | 48          | 34          |
| Translation adjustments                               |      | 1           | 2           |
| Liability assumed as part of the business acquisition | 5    | 12          | 6           |
| Revised cash flow estimates                           |      | —           | (4)         |
| New obligations                                       |      | 6           | 9           |
| Accretion expense included in financing costs         | 21   | 2           | 1           |
| Balance – end of year                                 |      | 69          | 48          |

## Note 16. Capital stock, contributed surplus and dividends

Boralex's capital stock is composed of an unlimited number of Class A common shares and an unlimited number of preferred shares. The Class A shares have no par value and confer on each shareholder the right to vote at any meeting of shareholders, receive any dividends declared by the Corporation thereon and share in the residual property upon dissolution of the Corporation. The preferred shares have no par value and were created to provide the Corporation with additional flexibility with respect to future financing, strategic acquisitions and other transactions. The preferred shares are issuable in series with the number of shares in each series to be determined by the Board of Directors prior to issuance. No preferred shares had been issued as at December 31, 2018.

The Corporation's contributed surplus is equal to the cumulative value of unexercised stock options granted to senior management.

The following changes occurred in the Corporation's capital stock between December 31, 2017 and 2018:

|  | Note | Capital stock    |        |
|--|------|------------------|--------|
|  |      | Number of shares | Amount |
| <b>Balance as at January 1, 2017</b>   |      | 65,365,911       | 557    |
| Issuance of shares on subscription receipt conversion, net of share issuance costs |      | 10,361,500       | 170    |
| Issuance of shares on debenture conversions  | 13   | 510              | —      |
| Exercise of options  | 17   | 527,130          | 6      |
| <b>Balance as at December 31, 2017</b>   |      | 76,255,051       | 733    |
| Issuance of shares, net of share issuance costs                                    | (a)  | 12,809,850       | 250    |
| Issuance of shares on debenture conversions  | 13   | 1,683            | —      |
| Exercise of options  | 17   | 117,591          | 2      |
| Other  |      | —                | (1)    |
| <b>Balance as at December 31, 2018</b>   |      | 89,184,175       | 984    |

- (a) On September 14, 2018, the Corporation acquired all of the financial interests of Invenenergy in five wind farms in Québec for a total consideration of \$216 million financed using the net proceeds from the public offering of subscription receipts of the Corporation in the amount of \$207 million. This offering was made under a bought deal by a syndicate of underwriters and a concurrent private placement in the amount of \$52 million with the Caisse. Net proceeds of \$250 million were recognized in 2018 (net of issue costs and taxes of \$9 million). A number of 12,809,850 shares were issued. The holders of subscription receipts also received, for each subscription receipt, an amount equal to the dividend paid on September 18, 2018, totalling \$1 million presented under *Other*.

## Dividends

On March 15, June 15, September 18 and December 17, 2018, the Corporation paid dividends totalling \$50 million (\$46 million in 2017).

On February 8, 2019, a dividend of \$0.1650 per common share was declared, to be paid on March 15, 2019 to registered holders on February 28, 2019.

## Note 17. Stock-based compensation

The Corporation has a long-term incentive plan under which stock options are issuable to members of management and certain key employees of the Corporation. Under this plan, 4,500,000 Class A shares have been reserved for issuance. The exercise price of the options granted prior to March 2, 2017 is equal to the closing listed market price of the Class A shares on the day preceding the option grant date, whereas the exercise price for options granted on or after March 2, 2017 is equal to the average listed market price of Class A shares for the five days preceding the option grant date. Options vest at the rate of 25% per year beginning the year after they are granted. Options granted prior to May 2012 are not exercisable if the market value of the share is lower than its carrying amount on the grant date. All of the options have a ten-year term. This plan has been determined to be equity settled.

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

|                                   | 2018              |                                 | 2017              |                                 |
|-----------------------------------|-------------------|---------------------------------|-------------------|---------------------------------|
|                                   | Number of options | Weighted average exercise price | Number of options | Weighted average exercise price |
| Outstanding – beginning of year   | 689,223           | 12.73                           | 1,182,883         | 11.48                           |
| Granted                           | 45,232            | 18.94                           | 36,625            | 22.00                           |
| Exercised                         | (117,591)         | 15.15                           | (527,130)         | 10.55                           |
| Cancelled                         | (11,799)          | 18.42                           | (3,155)           | 14.94                           |
| Outstanding – end of year         | 605,065           | 12.61                           | 689,223           | 12.73                           |
| Options exercisable – end of year | 480,338           | 11.21                           | 511,598           | 11.45                           |

The following options were outstanding as at December 31, 2018:

| Granted in | Options outstanding |                | Options exercisable |                |                |
|------------|---------------------|----------------|---------------------|----------------|----------------|
|            | Number of options   | Exercise price | Number of options   | Exercise price | Year of expiry |
| 2010       | 58,500              | 9.20           | 58,500              | 9.20           | 2020           |
| 2011       | 64,694              | 8.50           | 64,694              | 8.50           | 2021           |
| 2012       | 71,043              | 7.96           | 71,043              | 7.96           | 2022           |
| 2013       | 91,578              | 10.29          | 91,578              | 10.29          | 2023           |
| 2014       | 86,681              | 12.90          | 86,681              | 12.90          | 2024           |
| 2015       | 82,307              | 13.87          | 61,566              | 13.87          | 2025           |
| 2016       | 74,213              | 16.65          | 37,692              | 16.65          | 2026           |
| 2017       | 32,978              | 22.00          | 8,584               | 22.00          | 2027           |
| 2018       | 43,071              | 18.94          | —                   | —              | 2028           |
|            | 605,065             | 12.61          | 480,338             | 11.21          |                |

The fair value of each option granted was determined using the Black-Scholes model. Options' weighted average exercise prices were calculated using the following assumptions:

|  | 2018     | 2017     |
|--|----------|----------|
| Share price on grant date              | 18.78    | 21.93    |
| Exercise price                         | 18.94    | 22.00    |
| Expected annual dividend rate          | 5.32%    | 3.08%    |
| Term                                   | 10 years | 10 years |
| Expected volatility                    | 15.98%   | 21.12%   |
| Risk-free interest rate                | 2.66%    | 2.15%    |
| Weighted average fair value per option | 2.28     | 4.43     |

Determination of the volatility assumption is based on a historic volatility analysis over a period equal to the options' lifetime.

## Note 18. Contribution of non-controlling shareholders

### Distributions paid

#### Côte-de-Beaupré wind farm

As at December 31, 2018, our partner Côte-de-Beaupré RCM, which holds a 49% interest in the wind farm, received a cash distribution of \$3 million from the Corporation (\$3 million in 2017).

#### Frampton wind farm

As at December 31, 2018, the Frampton municipality, which holds a 33% interest in the wind farm, received a distribution of \$1 million from the Corporation (\$3 million in 2017).

#### Témiscouata I wind farm

As at December 31, 2018, our partner Témiscouata RCM, which holds a 49% interest in the wind farm, received a distribution of \$3 million from the Corporation (\$2 million in 2017).

### Repurchase of a non-controlling shareholder

On February 7, 2017, following commissioning of the Port Ryerse wind power project in Ontario, Canada, Boralex Inc. acquired the remaining 25% of the partnership units of Port Ryerse Wind Farm Limited Partnership held by UDI Renewables Corporation for an amount of \$3 million. Boralex Inc. now holds all of the partnership units of Port Ryerse Wind Farm Limited Partnership.

## Note 19. Expenses by nature

### Operating and administrative

|                              | 2018 | 2017 |
|------------------------------|------|------|
| Raw material and consumables | 19   | 16   |
| Maintenance and repairs      | 41   | 33   |
| Employee benefits            | 40   | 30   |
| Rental expenses and permits  | 20   | 17   |
| Taxes                        | 20   | 14   |
| Other expenses               | 24   | 23   |
|                              | 164  | 133  |

### Employee benefits

|                               | 2018 | 2017 |
|-------------------------------|------|------|
| Current salaries and benefits | 39   | 26   |
| Other                         | 1    | 4    |
|                               | 40   | 30   |



## Note 20. Impairment of property, plant and equipment and intangible assets

### Cham Longe I wind farm

Boralex's Board of Directors has green-lighted the repowering of the Cham Longe I wind farm with a current capacity of 18 MW, to be increased to 35 MW, all covered by a new energy sales contract. To carry out the repowering, the Corporation has to wind up operations prematurely and decommission the current facility. The Corporation assessed the impact of premature decommissioning of the facility and recorded an impairment loss of \$9 million (€6 million) on property, plant and equipment to write down the carrying amount of these assets to their recovery amount.

### Otter Creek wind power project

On July 16, 2018, the Corporation received notice from IESO of the unilateral termination of the power purchase agreement for the 50 MW Otter Creek wind power project in Ontario. A \$4 million impairment loss on property, plant and equipment and intangible assets was recognized to write down the carrying amount of these assets to their recoverable amount.

### Lanouée forest

On December 19, 2018, the Corporation sold the 3,833-hectare Lanouée forest in France for a price of \$44 million (€30 million). The forest was acquired in September 2016 with a portfolio of wind power projects located in France and in Scotland. A \$2 million (€1 million) impairment loss on property, plant and equipment was recognized in connection with this disposal.

## Note 21. Financing costs

|  | Note | 2018 | 2017 |
|--|------|------|------|
| Interest on non-current debt, net of the impact of interest rate swaps |      | 114  | 95   |
| Interest on convertible debentures                                     |      | 7    | 7    |
| Interest and other interest income                                     |      | (3)  | (2)  |
| Amortization of borrowing costs  | 12   | 6    | 5    |
| Accretion expense  | 15   | 2    | 1    |
| Other interest and banking fees  | (a)  | 6    | 4    |
|  |      | 132  | 110  |
| Interest capitalized to qualifying assets                              | (b)  | (9)  | (6)  |
|  |      | 123  | 104  |

(a) *Other interest and banking fees* consist of financing costs on short-term borrowings.

(b) The weighted average rate for the capitalization of borrowing costs to qualifying assets was 3.73% per annum (4.03% per annum in 2017).

## Note 22. Net earnings (loss) per share

### (a) Net earnings (loss) per share – basic

| (in millions of Canadian dollars, unless otherwise specified)                 | 2018       | 2017       |
|---|------------|------------|
| Net earnings (loss) attributable to shareholders of Boralex                   | (36)       | 22         |
| Weighted average number of shares – basic                                     | 80,102,038 | 75,436,036 |
| Net earnings (loss) per share attributable to shareholders of Boralex – basic | (\$0.45)   | \$0.29     |

### (b) Net earnings (loss) per share – diluted

| (in millions of Canadian dollars, unless otherwise specified)                   | 2018       | 2017       |
|---|------------|------------|
| Net earnings (loss) attributable to shareholders of Boralex                     | (36)       | 22         |
| Weighted average number of shares outstanding – basic                           | 80,102,038 | 75,436,036 |
| Dilutive effect of stock options  | —          | 280,815    |
| Weighted average number of shares – diluted                                     | 80,102,038 | 75,716,851 |
| Net earnings (loss) per share attributable to shareholders of Boralex – diluted | (\$0.45)   | \$0.29     |

The table below shows the items that could dilute basic net earnings (loss) per common share in the future, but that were not reflected in the calculation of diluted net earnings (loss) per common share due to their anti-dilutive effect:

|   | 2018      | 2017      |
|---|-----------|-----------|
| Shares reserved for convertible debentures excluded due to their anti-dilutive effect | 7,332,554 | 7,333,950 |
| Stock options excluded due to their anti-dilutive effect                              | 605,065   | 36,625    |

## Note 23. Change in non-cash items related to operating activities

|                             | 2018 | 2017 |
|-----------------------------|------|------|
| Decrease (Increase) in:     |      |      |
| Trade and other receivables | 11   | (41) |
| Other current assets        | 3    | (17) |
| Increase (decrease) in:     |      |      |
| Trade and other payables    | (4)  | 8    |
|                             | 10   | (50) |

## Note 24. Statements of cash flows

|                        |                                   |      |                                     |                           |              |                     | As at<br>December 31,<br><b>2018</b> |
|------------------------|-----------------------------------|------|-------------------------------------|---------------------------|--------------|---------------------|--------------------------------------|
|                        | Balance –<br>beginning<br>of year | Cash | Business<br>acquisition (note<br>5) | Translation<br>adjustment | Amortization | Imputed<br>interest | Balance<br>end of year               |
| Non-current debt       | 2,642                             | 329  | 249                                 | 46                        | 4            | 1                   | 3,271                                |
| Convertible debentures | 137                               | —    | —                                   | —                         | 2            | 1                   | 140                                  |
|                        | 2,779                             | 329  | 249                                 | 46                        | 6            | 2                   | 3,411                                |

|                        |                                   |      |                         |                        |                           |              |                     | As at<br>December 31,<br><b>2017</b> |
|------------------------|-----------------------------------|------|-------------------------|------------------------|---------------------------|--------------|---------------------|--------------------------------------|
|                        | Balance –<br>beginning<br>of year | Cash | Business<br>acquisition | Securities<br>issuance | Translation<br>adjustment | Amortization | Imputed<br>interest | Balance<br>end of year               |
| Subscription receipts  | 173                               | —    | —                       | (173)                  | —                         | —            | —                   | —                                    |
| Non-current debt       | 1,540                             | 266  | 779                     | —                      | 50                        | 5            | 2                   | 2,642                                |
| Convertible debentures | 135                               | —    | —                       | —                      | —                         | 1            | 1                   | 137                                  |
|                        | 1,848                             | 266  | 779                     | (173)                  | 50                        | 6            | 3                   | 2,779                                |

## Note 25. Financial instruments

The table of financial instruments, complete with the respective carrying amounts and fair values, is as follows:

|  |      | As at<br>December 31,<br><b>2018</b> |               | As at<br>December 31,<br><b>2017</b> |               |
|--|------|--------------------------------------|---------------|--------------------------------------|---------------|
|  | Note | Carrying<br>amount                   | Fair<br>value | Carrying<br>amount                   | Fair<br>value |
| <b>OTHER NON-CURRENT FINANCIAL ASSETS</b>      |      |                                      |               |                                      |               |
| Advance to a non-controlling shareholder       |      | 35                                   | 34            | 32                                   | 31            |
| Interest rate swaps                            |      | 30                                   | 30            | 30                                   | 30            |
| Options to purchase a partner's interests      | 9    | 15                                   | 15            | —                                    | —             |
|  |      | 80                                   | 79            | 62                                   | 61            |
| <b>DEBT<sup>(1)</sup></b>                      | 12   | 3,271                                | 3,319         | 2,642                                | 2,732         |
| <b>CONVERTIBLE DEBENTURES<sup>(2)</sup></b>    | 13   | 144                                  | 147           | 141                                  | 178           |
| <b>OTHER CURRENT FINANCIAL LIABILITIES</b>     |      |                                      |               |                                      |               |
| Contingent consideration                       |      | —                                    | —             | 7                                    | 7             |
| Cross-currency swaps (EUR for CAD)             |      | 8                                    | 8             | 1                                    | 1             |
| Interest rate swaps                            |      | —                                    | —             | 45                                   | 45            |
|  |      | 8                                    | 8             | 53                                   | 53            |
| <b>OTHER NON-CURRENT FINANCIAL LIABILITIES</b> |      |                                      |               |                                      |               |
| Due to a non-controlling shareholder           | 5    | 6                                    | 7             | —                                    | —             |
| Foreign exchange forward contracts             |      | 7                                    | 7             | 6                                    | 6             |
| Interest rate swaps                            |      | 32                                   | 32            | 24                                   | 24            |
|  |      | 45                                   | 46            | 30                                   | 30            |

<sup>(1)</sup> Including Non-current debt and Current portion of debt.

<sup>(2)</sup> Including equity portion.

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

The fair values of cash and cash equivalents, restricted cash, trade and other receivables, reserve funds, and trade and other payables approximate their carrying amounts due to their short-term maturities and high liquidity.

The fair values of the advance to a non-controlling shareholder, options to purchase partner's interests, contingent consideration, non-current debt and the due to a non-controlling shareholder are essentially based on discounted cash flows. Discount rates, ranging from 1.09% to 8.08%, were determined based on local government bond yields adjusted for the risks specific to each of the borrowings and for credit market liquidity conditions. The convertible debentures are traded on the stock exchange and their fair values are based on the prices as at December 31, 2018.

### Interest rate swaps

Cash flows are discounted using a curve that reflects the credit risk of the Corporation or the counterparty, as applicable. The following table summarizes the Corporation's commitments under interest rate swaps as at December 31, 2018:

| As at December 31,<br><b>2018</b> |          |                  |                        |           |                              |                        |
|-----------------------------------|----------|------------------|------------------------|-----------|------------------------------|------------------------|
|                                   | Currency | Fixed-rate payer | Floating-rate receiver | Maturity  | Current notional<br>(in CAD) | Fair value<br>(in CAD) |
| Interest rate swaps               | EUR      | 0.38% to 5.16%   | 3-6 month EURIBOR      | 2019-2041 | 595                          | (32)                   |
| Interest rate swaps               | CAD      | 1.81% to 2.68%   | 3-month CDOR           | 2034-2043 | 787                          | 30                     |

## Note 25. Financial instruments (cont'd)

As at December 31,

**2017**

|                     | Currency | Fixed-rate payer | Floating-rate receiver | Maturity  | Current notional<br>(in CAD) | Fair value<br>(in CAD) |
|---------------------|----------|------------------|------------------------|-----------|------------------------------|------------------------|
| Interest rate swaps | EUR      | 0.38% to 5.16%   | 6-month EURIBOR        | 2019-2033 | 446                          | (24)                   |
| Interest rate swaps | CAD      | 1.81% to 7.90%   | 3-month CDOR           | 2034-2043 | 932                          | (15)                   |

Swaps in the amounts of \$10 million, \$7 million and \$27 million were unwound in January 2018, May 2018 and October 2018, respectively.

### Foreign exchange forward contracts

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

As at December 31,

**2018**

|  | Exchange rate | Maturity  | Current notional<br>(in CAD) | Fair value<br>(in CAD) |
|--|---------------|-----------|------------------------------|------------------------|
| Foreign exchange forward contracts (EUR for CAD) | 1.5475        | 2019-2025 | 108                          | (7)                    |

As at December 31,

**2017**

|  | Exchange rate | Maturity  | Current notional<br>(in CAD) | Fair value<br>(in CAD) |
|--|---------------|-----------|------------------------------|------------------------|
| Foreign exchange forward contracts (EUR for CAD) | 1.5475        | 2018-2025 | 121                          | (6)                    |

### Cross-currency swaps

The Corporation also entered into cross-currency swaps. These derivatives cover the Corporation's net investment in France, as they allow financing issued in Canada for investment in France to be synthetically translated into euros. In addition to mitigating the risk related to foreign currency fluctuations, these instruments also allow Boralex to currently benefit in part from interest rates lower than those prevailing in Europe. To measure the fair value of these instruments, the Corporation uses a technique that is a combination of the techniques used to measure interest rate swaps and foreign exchange forward contracts.

As at December 31,

**2018**

|                                    | Exchange rate | Maturity | Current notional<br>(in CAD) | Fair value<br>(in CAD) |
|------------------------------------|---------------|----------|------------------------------|------------------------|
| Cross-currency swaps (EUR for CAD) | 1.5185        | 2019     | 251                          | (8)                    |

As at December 31,

**2017**

|                                    | Exchange rate | Maturity | Current notional<br>(in CAD) | Fair value<br>(in CAD) |
|------------------------------------|---------------|----------|------------------------------|------------------------|
| Cross-currency swaps (EUR for CAD) | 1.4734        | 2018     | 41                           | (1)                    |

### Hierarchy of financial assets and liabilities measured at fair value

Financial instruments measured at fair value in the financial statements are classified according to the following hierarchy of levels:

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

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

Note 25. Financial instruments (cont'd)

The Corporation classified convertible debentures as Level 1, as their fair value is determined using quoted market prices.

Non-current debt, interest rate swaps, foreign exchange forward contracts and the cross-currency swaps, the Corporation classified the fair value measurements as Level 2, as they are based mainly on observable market data, namely government bond yields, interest rates and exchange rates.

For contingent consideration and the advance and due to a non-controlling shareholder, the Corporation has classified fair value measurements within Level 3 because they are based on unobservable market data, namely the probability of achieving certain project development or cash flow milestones determined using project entity data.

For the options to purchase a partner's interests, the Corporation has classified fair value measurements within Level 3 because they are primarily based on power production and selling prices upon expiry of the energy sales contract and other unobservable market data. The fair value of these options was determined based on the future cash flows generated by the projects to which a Monte Carlo simulation was applied to factor in the uncertainty pertaining to production.

The following table classifies the Corporation's financial instruments by level in the fair value hierarchy:

|   | As at<br>December 31,<br><b>2018</b> | Fair value hierarchy levels |         |         |
|---|--------------------------------------|-----------------------------|---------|---------|
|   |                                      | Level 1                     | Level 2 | Level 3 |
| <b>NON-DERIVATIVE FINANCIAL ASSETS</b>      |                                      |                             |         |         |
| Advance to a non-controlling shareholder    | 34                                   | —                           | —       | 34      |
| <b>DERIVATIVE FINANCIAL ASSETS</b>          |                                      |                             |         |         |
| Interest rate swaps                         | 30                                   | —                           | 30      | —       |
| Options to purchase a partner's interests   | 15                                   | —                           | —       | 15      |
|   | 45                                   | —                           | 30      | 15      |
| <b>NON-DERIVATIVE FINANCIAL LIABILITIES</b> |                                      |                             |         |         |
| Debt <sup>(1)</sup>                         | 3,319                                | —                           | 3,319   | —       |
| Convertible debentures <sup>(2)</sup>       | 147                                  | 147                         | —       | —       |
| Due to a non-controlling shareholder        | 7                                    | —                           | —       | 7       |
|   | 3,473                                | 147                         | 3,319   | 7       |
| <b>DERIVATIVE FINANCIAL LIABILITIES</b>     |                                      |                             |         |         |
| Foreign exchange forward contracts          | 7                                    | —                           | 7       | —       |
| Cross-currency swaps (EUR for CAD)          | 8                                    | —                           | 8       | —       |
| Interest rate swaps                         | 32                                   | —                           | 32      | —       |
|   | 47                                   | —                           | 47      | —       |

<sup>(1)</sup> Including Non-current debt and Current portion of debt.

<sup>(2)</sup> Including equity portion.

Note 25. Financial instruments (cont'd)

|   | Fair value hierarchy levels          |         |         |         |
|---|--------------------------------------|---------|---------|---------|
|   | As at<br>December 31,<br><b>2017</b> | Level 1 | Level 2 | Level 3 |
| <b>NON-DERIVATIVE FINANCIAL ASSETS</b>      |                                      |         |         |         |
| Advance to a non-controlling shareholder    | 31                                   | —       | —       | 31      |
| <b>DERIVATIVE FINANCIAL ASSETS</b>          |                                      |         |         |         |
| Interest rate swaps                         | 30                                   | —       | 30      | —       |
| <b>NON-DERIVATIVE FINANCIAL LIABILITIES</b> |                                      |         |         |         |
| Debt <sup>(1)</sup>                         | 2,732                                | —       | 2,732   | —       |
| Convertible debentures <sup>(2)</sup>       | 178                                  | 178     | —       | —       |
| Contingent consideration                    | 7                                    | —       | —       | 7       |
|   | 2,917                                | 178     | 2,732   | 7       |
| <b>DERIVATIVE FINANCIAL LIABILITIES</b>     |                                      |         |         |         |
| Foreign exchange forward contracts          | 6                                    | —       | 6       | —       |
| Cross-currency swaps (EUR for CAD)          | 1                                    | —       | 1       | —       |
| Interest rate swaps                         | 69                                   | —       | 69      | —       |
|   | 76                                   | —       | 76      | —       |

<sup>(1)</sup> Including Non-current debt and Current portion of debt

<sup>(2)</sup> Including equity portion

The financial instruments classified in Level 3 have changed as follows:

| As at December 31,          |      |  |   |  |                             |
|-----------------------------|------|--|---|--|-----------------------------|
| <b>2018</b>                 | Note | Advance to a<br>non-controlling<br>shareholder | Options to<br>purchase a<br>partner's interests | Due to a<br>non-controlling<br>shareholder | Contingent<br>consideration |
| Balance – beginning of year |      | 31   | —   | —  | 7                           |
| Business combinations       | 5    | —  | —   | 6  | —                           |
| Additions                   |      | 3  | 15  | —  | —                           |
| Translation adjustments     |      | —  | —   | 1  | 1                           |
| Payments                    |      | —  | —   | —  | (8)                         |
| Balance – end of year       |      | 34   | 15  | 7  | —                           |

| As at December 31,              |  |  |                             |
|---------------------------------|--|--|-----------------------------|
| <b>2017</b>                     |  | Advance to a<br>non-controlling<br>shareholder | Contingent<br>consideration |
| Balance – beginning of year     |  | —  | 15                          |
| Business combinations           |  | 30   | —                           |
| Additions                       |  | 1  | —                           |
| Loss recognized in net earnings |  | —  | 2                           |
| Payments                        |  | —  | (10)                        |
| Balance – end of year           |  | 31   | 7                           |

## Note 26. Financial risks

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

### Market risk

#### Foreign exchange risk

The Corporation generates foreign currency liquidity through the operation of its power stations in France and the United States. First, the Corporation benefits from partial natural coverage from this risk exposure, as revenues, expenses and financing are in the local currency. Accordingly, foreign exchange risk arises particularly from the residual liquidity that can be distributed to the parent company.

In France, given the above, the Corporation entered into foreign exchange forward contracts to hedge the exchange rate on a portion of the distributions it expects to repatriate from Europe up to 2025. Similar purchases will be made based on the growth in cash to be generated in France. During 2018, the Corporation entered into cross-currency swaps. These derivatives cover the Corporation's net investment in France, as they allow financing issued in Canada for investment in France to be synthetically translated into euros. In addition, to mitigate the risk related to foreign currency fluctuations, these instruments also allow Borex to benefit in part from lower interest rates prevailing in Europe. To measure the fair value of these instruments, the Corporation uses a technique that is a combination of the techniques used to measure interest rate swaps and foreign exchange forward contracts.

Management considers that the cash flows generated in the United States do not represent a significant risk at present. A hedging strategy could be developed in due course.

In connection with Canadian project development, certain future expenditures may be in foreign currencies. For example, certain equipment purchases in Canada are partly denominated in euros or U.S. dollars. Where applicable, the Corporation's objective is to protect its anticipated return on its investment by entering into hedging instruments to reduce volatility in expected expenditures and, in turn, stabilize significant costs such as those for turbines.

On December 31, 2018, a \$0.05 fall in the Canadian dollar against the U.S. dollar, assuming that all other variables had remained the same, would have been lower by \$0.1 million (lower by \$0.5 million in 2017) in the Corporation's net loss for the year ended December 31, 2018, whereas *Accumulated other comprehensive income (loss)* would have decreased by an after-tax amount of \$3.9 million (lower by \$3.8 million in 2017).

On December 31, 2018, a \$0.05 fall in the Canadian dollar against the euro, assuming that all other variables had remained the same, would have been higher by \$0.6 million (higher by \$0.2 million in 2017) in the Corporation's net loss for the year ended December 31, 2018, whereas *Accumulated other comprehensive income (loss)* would have deteriorated by an after-tax amount of \$3.4 million (lower by \$3.1 million in 2017).

#### Price risk

As at December 31, 2018, our power stations in France (excluding **Avignonet I** and **Chépy**) and Canada, as well as those in Hudson Falls and South Glens Falls, had long-term energy sales contracts, the vast majority of which are subject to partial or full indexation clauses tied to inflation. Approximately 2% of the Corporation's power production is sold at market prices or under short-term contracts and is accordingly subject to fluctuations in energy prices. Energy prices vary according to supply, demand and certain external factors, including weather conditions, and the price from other sources of power. As a result, prices may fall too low for the power stations to yield an operating profit.

On December 31, 2018, a 5% fall in the price of energy, assuming that all other variables had remained the same, the Corporation's net loss for the year ended December 31, 2018 would have been lower by \$0.3 million (lower by \$0.1 million in 2017) and *Accumulated other comprehensive income (loss)* would have remained unchanged (nil in 2017).

#### Interest rate risk

##### Europe

In Europe, the large portion of non-current debt bears interest at variable rates. To mitigate interest rate risk, the Corporation has entered into interest rate swaps to fix the interest rate on 85%–100% of the corresponding variable rate debt. These agreements involve the periodic exchange of interest payments without any exchange of the notional amount on which payments are calculated. Under these agreements, the Corporation receives a variable amount based on EURIBOR and pays fixed amounts at rates ranging from 0.38% to 5.16%. Since the credit is drawn gradually 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 the arrangements.



## Canada

For its non-current debt bearing interest at variable rates, the Corporation has entered into interest rate swaps to set a fixed interest rate expense on 85%-95% without any exchange of the notional amount on which payments are calculated. Under these agreements, the Corporation receives a variable amount based on the CDOR and pays fixed amounts based on rates ranging from 1.81% to 2.68%. Since the credit is drawn gradually 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 the arrangements.

As at December 31, 2018, all of these financial instruments were subject to hedge accounting.

## Aggregate

These instruments have allowed the Corporation to reduce the percentage of variable rate debt from 54% to 6%. As at December 31, 2018, the notional balance of these swaps stood at \$1,382 million (€381 million and \$787 million) (\$1,378 million (€296 million and \$932 million) in 2017), while their negative fair value was \$2 million (negative value of €20 million and positive value of \$30 million) (\$39 million (€16 million and \$15 million) in 2017). These swaps mature between 2019 and 2043 and are all subject to cash flow hedge accounting. Accordingly, unrealized gains and losses resulting from changes in fair value of the effective portion of these contracts are included in *Accumulated other comprehensive income (loss)* until the corresponding hedged item is recognized in earnings. They are then recognized in earnings as an adjustment to *Financing costs*. As at December 31, 2018, the Corporation expected to reclassify, over the next 12 months, a pre-tax expense of approximately \$8 million from *Accumulated other comprehensive income (loss)* to loss (\$11 million as at December 31, 2017).

On December 31, 2018, a 0.25% rise in the variable interest rates, assuming that all other variables had remained the same, would have resulted in a less than \$1 million (less than \$1 million decrease in 2017) decrease in the Corporation's net loss for the year ended December 31, 2018, whereas *Accumulated other comprehensive income (loss)* would have improved by an after-tax amount of \$16 million (\$17 million in 2017).

## Credit risk

Credit risk stems primarily from the potential inability of clients to meet their obligations. Given the nature of the Corporation's business, its clients are few in number. However, they generally have high credit ratings. The electricity markets that the Corporation serves in Canada and France are limited to very large corporations or monopolies. Steam generated in France is used in the paper making process. Accordingly, the Corporation's client is in the private sector, which makes for a higher credit risk. The U.S. market is more deregulated, and the Corporation transacts some business through the New York State regional producers' association, NYISO, which enjoys a very high credit rating. In the U.S. market, the Corporation can also negotiate private agreements directly with electricity distributors, usually large corporations which typically have investment grade credit ratings. The Corporation regularly monitors the financial position of these clients.

The Corporation's counterparties for derivative financial instruments, as well as cash and cash equivalents and restricted cash, consist mainly of 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 in the Corporation's portfolio.

Where these analyses produce unfavourable results because the partner's credit rating has changed significantly or its portfolio weighting has become too high, the Corporation does not pursue the transaction. Furthermore, if a company does not have a public credit rating, the Corporation assesses the risk and may require financial guarantees.

## 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 expected cash flows.

Note 26. Financial risks (cont'd)

The contractual maturities of the Corporation's non-derivative financial liabilities and derivative financial instruments as at December 31, 2018 and 2017 are detailed in the following tables:

| As at December 31,                           |                 | Undiscounted cash flows (principal and interest) |                   |                   |              |       |
|--|-----------------|--|-------------------|-------------------|--------------|-------|
|  | Carrying amount | Current portion                                  | From 1 to 2 years | From 2 to 5 years | Over 5 years | Total |
| <b>2018</b>                                  |                 |  |                   |                   |              |       |
| <b>Non-derivative financial liabilities:</b> |                 |  |                   |                   |              |       |
| Trade and other payables                     | 142             | 142  | —                 | —                 | —            | 142   |
| Non-current debt                             | 3,271           | 494  | 383               | 1,411             | 3,365        | 5,653 |
| Convertible debentures                       | 140             | 6  | 147               | —                 | —            | 153   |
| <b>Derivative financial instruments:</b>     |                 |  |                   |                   |              |       |
| Cross-currency swaps (EUR for CAD)           | 8               | 1  | —                 | —                 | —            | 1     |
| Interest rate swaps                          | 32              | 10   | 9                 | 16                | (1)          | 34    |
| Foreign exchange forward contracts           | 7               | 8  | 1                 | 5                 | 3            | 17    |
|  | 3,600           | 661  | 540               | 1,432             | 3,367        | 6,000 |
| <b>2017</b>                                  |                 |  |                   |                   |              |       |
| <b>Non-derivative financial liabilities:</b> |                 |  |                   |                   |              |       |
| Trade and other payables                     | 152             | 152  | —                 | —                 | —            | 152   |
| Non-current debt                             | 2,642           | 311  | 291               | 940               | 2,049        | 3,591 |
| Convertible debentures                       | 137             | 6  | 6                 | 147               | —            | 159   |
| Contingent consideration                     | 7               | 7  | —                 | —                 | —            | 7     |
| <b>Derivative financial instruments:</b>     |                 |  |                   |                   |              |       |
| Cross-currency swaps (EUR for CAD)           | 1               | —  | —                 | —                 | —            | —     |
| Interest rate swaps                          | 69              | 10   | 8                 | 24                | 39           | 81    |
| Foreign exchange forward contracts           | 6               | 1  | —                 | 2                 | 5            | 8     |
|  | 3,014           | 487  | 305               | 1,113             | 2,093        | 3,998 |

Undiscounted cash flows of non-derivative financial liabilities are determined using expected principal repayments and interest payments and a redemption of convertible debentures in 2020 at maturity. Undiscounted cash flows of derivatives are determined using the values of underlying indices at the reporting date. Since these indices are highly volatile, the undiscounted cash flows presented could vary significantly until realized.

## Note 27. Capital management

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

- Safeguard the Corporation's ability to pursue its operations and development;
- Maintain financial flexibility to enable the Corporation to seize opportunities when they arise;
- Safeguard the Corporation's financial flexibility with a view to offsetting the seasonal nature of its operations primarily for the cyclical variations in hydroelectric and wind power generation;
- Maximize the terms of borrowings in line with the useful lives of its assets or underlying contracts;
- Ensure continuous access to capital markets; and
- Diversify its financing sources to optimize its capital cost.

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, borrowings, hybrid instruments such as convertible debentures, equity issuance and, as a last resort, the sale of assets. In managing liquidity, the Corporation's policy is to earmark in priority its available cash resources for (i) growth projects and (ii) the payment of a quarterly dividend. Generally, Boralex expects to pay common share dividends on an annual basis representing a ratio of 40% to 60% of its discretionary cash flows (defined as "net cash flows related to operating activities" before changes in "non-cash items related to operating activities," less (i) distributions paid to non-controlling interests, (ii) additions to property, plant and equipment (maintaining operations), and (iii) repayments on non-current debt (projects); plus (iv) development costs (from the statement of earnings (loss)). Boralex reserves the right to adjust this calculation for any special items unrelated to current operations to ensure comparable ratios between periods.

The Corporation's investment policy governing cash resources is limited to investments with maturities of less than one year that are guaranteed by financial institutions. For instance, bankers' acceptances guaranteed by a Canadian chartered bank meet these criteria. The Corporation deems its current financing sources to be sufficient to support its plans and its 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 ratios under its non-current 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.

Except as set out in Note 12 as at December 31, 2018 and 2017, Boralex and its subsidiaries were in compliance with all their ratios and financial commitments.

The Corporation's capital management objectives have remained unchanged from the previous year. The Corporation relies mainly on the net debt ratio for capital management purposes. 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.

Note 27. Capital management (cont'd)

For calculation purposes, net debt is defined as follows:

|  | As at<br>December 31,<br><b>2018</b> | As at<br>December 31,<br><b>2017</b> |
|--|--------------------------------------|--------------------------------------|
| Non-current debt                                 | 2,857                                | 2,418                                |
| Current portion of debt                          | 414                                  | 224                                  |
| Borrowing costs, net of accumulated amortization | 30                                   | 27                                   |
| Less:  |                                      |                                      |
| Cash and cash equivalents                        | 157                                  | 115                                  |
| Restricted cash                                  | 96                                   | 35                                   |
| Net debt   | 3,048                                | 2,519                                |

The Corporation defines total market capitalization as follows:

| (in millions of Canadian dollars, unless otherwise specified) | As at<br>December 31,<br><b>2018</b> | As at<br>December 31,<br><b>2017</b> |
|---|--------------------------------------|--------------------------------------|
| Number of outstanding shares (in thousands)                   | 89,184                               | 76,255                               |
| Share market price (in \$ per share)                          | 16.84                                | 23.50                                |
| Market value of equity attributable to shareholders           | 1,502                                | 1,792                                |
| Non-controlling shareholders                                  | 31                                   | 44                                   |
| Net debt  | 3,048                                | 2,519                                |
| Convertible debentures, nominal value                         | 144                                  | 144                                  |
| Total market capitalization                                   | 4,725                                | 4,499                                |

The Corporation computes the net debt to market capitalization ratio as follows:

| (in millions of Canadian dollars)            | As at<br>December 31,<br><b>2018</b> | As at<br>December 31,<br><b>2017</b> |
|--|--------------------------------------|--------------------------------------|
| Net debt                                     | 3,048                                | 2,519                                |
| Total market capitalization                  | 4,725                                | 4,499                                |
| <b>NET DEBT RATIO, market capitalization</b> | <b>65%</b>                           | <b>56%</b>                           |

At present, the net debt to capitalization ratio stands at 65%, and the Corporation wishes to maintain this ratio below 65%. It is important to specify that the Corporation uses a project-based financing approach whereby each project leverage is maximized up to nearly 80% of amounts invested. However, those financing arrangements are generally repayable over the life of the contract. Consequently, as many projects or large projects are added, the debt level could increase above this limit but the Corporation would ensure to reduce the ratio below the limit within a reasonable time frame.

## Note 28. Commitments and contingencies

|                                     | Payments        |                   |              | Total |
|-------------------------------------|-----------------|-------------------|--------------|-------|
|                                     | Current portion | From 1 to 5 years | Over 5 years |       |
| Contingent consideration            | 19              | 9                 | —            | 28    |
| Purchase and construction contracts | 127             | —                 | —            | 127   |
| Maintenance contracts               | 28              | 98                | 124          | 250   |
| Operating lease contracts           | 15              | 52                | 142          | 209   |
| Other                               | 1               | 6                 | 19           | 26    |
|                                     | 190             | 165               | 285          | 640   |

### Contingent consideration

Upon completion of certain phases in the development of projects acquired, Borealex will be required to pay these amounts to the seller.

### Energy sales contracts – facilities in operation

#### Canada

For the Canadian power stations, the Corporation is committed to selling 100% of its power output (subject to certain minimum criteria) under long-term contracts maturing from 2019 to 2054 depending on the facility. These contracts provide for partial annual indexation based on the CPI. In Québec, one hydroelectric power station is covered by fixed indexation of the energy selling price, whereas for two others, indexation is linked to the CPI with a minimum threshold of 3% and a maximum threshold of 6%.

#### France

For the wind power stations, excluding **Avignonet I** and **Chépy**, thermal power station and solar power facilities in France, the Corporation is committed to selling 100% of its power output under long-term contracts maturing from 2019 to 2035 depending on the facility. These contracts provide for annual indexation based on changes in hourly labour costs and industry activity levels.

#### United States

In the United States, under a long-term contract expiring in 2029, the Corporation is committed to selling 100% of the power output of its **Middle Falls** hydroelectric power station. A price equal to 90% of the market price is stipulated in the contract.

For the **South Glens Falls** and **Hudson Falls** hydroelectric power stations in the United States, the Corporation is committed to selling the electricity it generates under long-term contracts expiring in 2034 and 2035, respectively. These contracts provide for contract payment rates for most of the electricity it generates. The price structure is as follows:

|                               | South Glens Falls<br>US\$/MWh   | Hudson Falls<br>US\$/MWh       |
|-------------------------------|---------------------------------|--------------------------------|
| January 2019 – November 2024  | 86.65                           | 48.27                          |
| December 2024 – November 2025 | 121.79 or market <sup>(1)</sup> | 48.27                          |
| December 2025 and thereafter  | 121.79 or market <sup>(1)</sup> | 56.28 or market <sup>(1)</sup> |

<sup>(1)</sup> The client has the option of replacing the contract price with the market price until the contract terminates in 2025 for the South Glens Falls facility and in 2026 for the Hudson Falls facility.

### Energy sales contracts – projects under development

#### Canada

- For the **Yellow Falls** hydroelectric power station, the Corporation has entered into an initial 20-year energy sales contract with four renewal options, each for a five-year period, at the Corporation's discretion. The contract will be effective when the power station is commissioned, and the selling price will be indexed annually.
- For the **Moose Lake** wind power project, the Corporation has entered into an initial 40-year energy sales contract. The contract will be effective when the wind farm is commissioned, and the selling price will be indexed annually.
- For the **Buckingham** hydroelectric power station's capacity upgrade project, the Corporation has entered into an energy sales contract that will be effective when the upgraded power station is commissioned and will expire at maturity in 2038.

## France

For the **Seuil du Cambrésis**, **Basse Thiérache Nord**, and **Moulins du Lohan** wind power projects, the Corporation has entered into 15-year energy sales contracts, while it has entered into 20-year energy sales contracts for the **Catésis**, **Santerre** and **Cham Longe I** wind power projects. These contracts will be effective when the wind farms are commissioned, and the selling prices will be indexed annually.

## Purchase and construction contracts

### Canada

- (a) For the **Buckingham** hydroelectric power station's capacity increase project, the Corporation has entered into turbine purchase, construction and connection contracts.
- (b) For the **Moose Lake** wind power project, the Corporation has entered into a turbine purchase and construction contract.

### France

- (a) For the **Basse Thiérache Nord**, **Catésis** and **Seuil du Cambrésis** wind power projects, the Corporation has entered into a number of turbine purchase, construction and connection contracts.
- (b) For the **Sources de l'Ancre** wind farm, the Corporation has entered into a turbine purchase contract.
- (c) For the **Moulins du Lohan** wind power project, the Corporation has entered into a number of turbine purchase and construction contracts.
- (d) For the **Cham Longe I** wind farm repowering project, the Corporation entered into certain construction contracts in 2018.

## Maintenance contracts

### Canada

For its power stations in operation in Canada, the Corporation has entered into wind turbine maintenance contracts with initial terms of 15 years. The **Port Ryerse**, **Témiscouata I** and **Côte-de-Beaupré** wind farm contracts include a cancellation option at the Corporation's discretion, exercisable after the fifth year, while the cancellation option for the **Témiscouata II** and **Frampton** wind farms is exercisable after the seventh year. The **NRWF** maintenance contract contains no cancellation option.

### France

The Corporation has entered into wind turbine maintenance contracts for its power stations in operation in France. The contracts have initial terms of three to 20 years.

## Operating lease contracts

### Canada

- (a) For Canadian wind farms, the Corporation leases land on which wind turbines are installed under lease agreements with terms ranging from 14 to 22 years.
- (b) The Corporation leases the sites on which the six Canadian hydroelectric power stations are located, as well as the water rights over the hydraulic power required to operate them. Under the terms of these agreements, expiring from 2019 to 2022, depending on the power station, the Corporation's lease payments are based on power generation levels.
- (c) In connection with the move of the Montréal corporate office, the Corporation entered into an initial 16-year lease for office premises. This lease entered into with Ivanhoé Cambridge will result in related party transactions, as the Caisse also holds interests in Ivanhoé Cambridge.

### France

The land on which the French wind power stations and solar power facilities are located is leased under emphyteutic leases over terms ranging from 25 to 99 years. Royalties under these leases are due and indexed annually, based on the CPI and the Construction Cost Index published by the National Institute of Statistics and Economic Studies.

## United States

- (a) For its **Middle Falls** power station, the Corporation leases the land on which the power station is located from the NMPC under a lease expiring in 2029. Lease payments are variable, totalling 30% of the power station's gross revenue.
- (b) The land on which the Corporation's U.S. **South Glens Falls** and **Hudson Falls** hydroelectric power stations are located is leased from NMPC. The leases expire at the same time as the energy sales contracts, namely in 2034 and 2035, respectively. Rental expense for non-contingent lease payments is recognized in earnings (loss) on a straight-line basis based on the average rental payment over the lease terms. Total minimum future lease payments for the **South Glens Falls** power station in New York State do not include contingent lease payments for years 26 through 40, inclusively, of the lease agreement given the uncertainty surrounding the amounts. Lease expenses in those years are based on a percentage of gross revenues. In addition, the leases provide NMPC a right of first refusal to acquire the hydroelectric facilities at fair value at the end of the lease term. The leases also require the Corporation to convey title to the hydroelectric facilities if abandoned during the lease term and require NMPC to acquire, and the Corporation to sell, the hydroelectric facilities at the end of the lease term at the lower of fair value or US\$10 million (**Hudson Falls** power station) and US\$5 million (**South Glens Falls** power station).

## Other commitments

For the **NRWF** facility, the Corporation is bound by First Nations royalty and community agreements expiring in 2036. The community agreements include clauses relating to the preservation of the natural habitat, use of roads and the community fund.

The above commitments do not include conditional royalties which represent 8.3% of sales for the power produced over the term of the energy sales contract for the **Moose Lake** wind power project.

## Contingencies

### Canada

As of January 2011, O'Leary Funds Management LP *et al.* had been suing the Corporation in the Superior Court of Québec. The suit alleged that the November 1, 2010 business combination between Boralex and Boralex Power Income Fund was illegal and, accordingly, demanded payment of damages amounting to nearly \$7 million (the initial suit was for an amount of nearly \$14 million).

On March 2, 2018, the Superior Court of Québec dismissed the plaintiffs' lawsuit and affirmed that the business combination is, in fact, legal. The plaintiffs appealed the judgment. On January 21, 2019, the Québec Court of Appeal dismissed the appeal, reiterating that the business combination was legal. O'Leary Funds Management LP *et al.* has 60 days from the judgment date to file a motion for leave to appeal to the Supreme Court of Canada.

The Corporation considers that this procedure has no basis in fact or in law and is defending itself vigorously. Therefore, the Corporation has not recorded any provision in respect of this litigation. In its defence, the Corporation has filed a counterclaim for over \$1 million.

### France – Moulins du Lohan wind power project

On September 16, 2016, the Corporation completed the acquisition of a portfolio of wind power projects of about 200 MW in France and Scotland, including the 51 MW **Moulins du Lohan** project in Brittany, France. The building permits had been obtained in 2014 from the Morbihan department administrative authorities (the "Administration") and construction had already begun before the acquisition by the Corporation.

Local residents had filed an interim application against the project on April 14, 2017 seeking to halt construction pending a decision of the courts regarding the cancellation of the permits issued by the Préfet of Morbihan. An interim order was received on May 11, 2017 requiring a temporary suspension of the building permits and an immediate halt in work. At that time, a significant portion of the foundations and roads had been completed.

In a decision issued on July 7, 2017, the Administrative Tribunal of Rennes cancelled the project's building permits based on its subjective risk assessment of landscape damage to the Lanouée forest where the project was to be developed on land owned by the Corporation. The Tribunal did not find that the administrative authorities had made any errors in law. Project construction has been halted as result of these proceedings. Accordingly, as at December 31, 2017, the Corporation recorded an amount of \$1 million under *Operating expenses* for costs incurred to secure and halt work on the site.

The Corporation considers that the decisions of the Administrative Tribunal of Rennes have no basis in fact or in law. The **Moulins du Lohan** wind power project had been green-lighted by the specialized departments of the French government, and the Lanouée forest, where the **Moulins du Lohan** project is located, is subject to commercial logging and is therefore not, in our opinion, a protected or exceptional territory.

## Note 28. Commitments and contingencies (cont'd)

On September 11, 2017, Boralex appealed these decisions to the Administrative Court of Appeal of Nantes. This court reassessed the facts and all the evidence, which may lead to a decision contrary to that issued by the court of first instance. The appeal was heard by the Administrative Court of Appeal of Nantes on February 4, 2019. As of the hearing date, a judgment is typically rendered in one to three months.

The reasons cited by the Administrative Tribunal of Rennes that led to the cancellation of permits are not of a legal nature but rather subjective judgments. In accordance with legal advice, the Corporation is of the opinion that it is more likely than not that the outcome of the appeal of the decision will be favourable given the circumstances and legal precedents.

In the event the appeal is rejected, the Corporation could file an appeal in cassation to the Council of State. At this stage, the Council of State considers the grounds for the decision of the Administrative Court of Appeal but does not re-examine all the facts. Unless the decision contains a gross error, the chances of success at that stage are limited.

If all these procedures result in the permits being cancelled, the conclusion would be that the French government had committed an error in issuing the permits in the first place. Since the Corporation invested considerable amounts on the basis of valid permits declared invalid after the fact, Boralex would be automatically entitled to claim compensation for the prejudice suffered owing directly to a government error.

As at December 31, 2018, the costs incurred for this project amounted to \$60 million (€38 million), consisting of \$25 million (€16 million) in *Property, plant and equipment* and \$35 million (€22 million) in *Intangible assets*. This amount does not include certain contractual penalties related to the suspension of construction contracts, for which no supplier claims have yet been made. The Corporation is currently implementing mitigating actions for these impacts and considers that the net impact of these penalties would be insignificant.

After the Administrative Tribunal of Rennes ordered the cancellation of permits, the Corporation assessed the need for an impairment charge on the assets related to this project. In its impairment test, management made two significant assumptions, consisting of the discount rate and the commissioning date, which was deferred from 2018 to 2020. In the event of a material change in these assumptions, management may revise its impairment test. For example, a 0.25% rise in the discount rate, assuming that all other variables remain the same, would result in an impairment loss of approximately \$2 million on assets. As described above, the French legal system is made up of two completely independent levels of courts.

In our opinion, success for us at the second level is more likely than not owing to the facts set out above and the legal opinions received. As a result, management considers that the assets are not impaired, based on the facts set out above. If the appeal is rejected and given the limited chances of success of an appeal in cassation, the Corporation could be required to write down these assets in accordance with IFRS.

The Corporation would like to point out that the decision issued by the Administrative Tribunal of Rennes did not find Boralex guilty of any wrongdoing, but concluded that the Administration had made an error of assessment by ignoring the impact on the landscape of the construction of a wind farm in the forest in question. Needless to say, the Administration in question argues that it had properly assessed the impact on the landscape and has filed its own appeal against the decisions. Boralex and the Administration intend to form a common front and coordinate their efforts at the Administrative Court of Appeal of Nantes.

### Local and regional content

Under the energy sales agreements entered into with Hydro-Québec Distribution for its wind power projects, the Corporation must comply with certain regional content requirements regarding the costs associated with wind farm turbines (the "regional content requirements") and certain Québec content requirements regarding overall wind farm costs (collectively with the regional content requirements, the "local content requirements"). These requirements apply to all Québec wind power projects built by the Corporation or other producers under requests for proposals issued from 2005 to 2009. Failure to comply with these requirements may result in penalties being imposed under these energy sales contracts.

In accordance with customary practices, in circumstances where the Corporation's compliance or non-compliance with local content requirements under energy sales contracts depends primarily on the wind turbine manufacturer's compliance with these same requirements, in each of the Corporation's wind turbine purchase contracts with Enercon Canada for the Corporation's Québec wind farms, Enercon Canada has undertaken to the Corporation to comply with the regional content requirements and pay the associated penalties. Enercon Canada's obligations under the wind turbine purchase contracts are guaranteed by its parent company, Enercon GmbH, in favour of the Corporation.



## Note 28. Commitments and contingencies (cont'd)

An audit was initiated by Hydro-Québec Distribution to confirm compliance with local content requirements. As part of this audit, some discussions between Hydro-Québec, Enercon Canada and the relevant project entities include the costing calculation methodology for wind turbines or wind turbine components to be used to determine project compliance with regional content requirements. There is currently a dispute between the parties regarding this calculation methodology. To the extent that the final determination of the calculation methodology to be used resulted in non-compliance with local content requirements, the Corporation will require Enercon Canada and Enercon GmbH to pay the applicable penalties. The extent of a potential claim cannot currently be assessed with any reasonable certainty. In the event of non-payment, Hydro-Québec Distribution may exercise its right to offset any penalty against the amounts payable to the Corporation for the energy delivered by the wind farm in question, which would affect the revenues received by those wind farms until Enercon Canada has paid the penalties in full and could adversely affect the Corporation's financial position or operating results.

### Regulatory and political environment

The Corporation's operations are subject to regulatory requirements and applicable governing statutes, including environment and energy related regulations, market regulations and other matters or decisions by competent authorities. Although these requirements are generally stable and predictable in the markets in which Boralex operates, the Corporation remains exposed to potential changes to legislation or any interpretation by the authorities charged with their enforcement that may be contrary to the Corporation's interpretation. Regulatory changes, interpretations of the regulations in effect or delays in decision-making by authorities could result in potential adverse material effects on the Corporation and its projects under development or construction or in operation.

### Boralex's share of the commitments of the Joint Ventures and associate in Québec

|                       | 2018            |                   |              |       |
|-----------------------|-----------------|-------------------|--------------|-------|
|                       | Payments        |                   |              |       |
|                       | Current portion | From 1 to 5 years | Over 5 years | Total |
| Service contracts     | 1               | 5                 | 17           | 23    |
| Maintenance contracts | 11              | 6                 | —            | 17    |
| Land lease contracts  | 2               | 8                 | 24           | 34    |
| Total                 | 14              | 19                | 41           | 74    |

### Energy sales contracts

The Joint Ventures and associate are committed to selling 100% of their power output (subject to certain minimum criteria) under 20-year or 25-year contracts expiring from 2032 to 2041. A portion of the price stipulated by these contracts is covered by annual indexation based on the CPI.

### Service contracts

Pursuant to the service contracts entered into with the Joint Ventures, Boralex will be the operator of the wind farms and will be responsible for their operation, maintenance and administration. The 21-year term contracts expire in 2033 and 2034. The amounts payable under those agreements are limited to operating and maintenance expenses and include fixed and variable management fees. Fixed management fees are indexed annually based on the CPI.

The Joint Ventures and associate have entered into service agreements with municipalities under which royalties are payable in an amount determined per MW. These contracts provide for annual indexation based on the CPI.

### Maintenance contracts

The Joint Ventures and associate entered into 15-year wind turbine maintenance contracts expiring from 2027 to 2031. These contracts include a cancellation option at the Joint Ventures' discretion after seven years, that is, from 2019 to 2024.

### Land lease contracts

The Joint Ventures and associate are bound by land lease contracts expiring from 2032 to 2042, renewable each year at the lessee's option. The land on which the wind turbines are installed is leased for an annual amount of approximately \$2 million indexed annually. The above commitments do not include the additional pro rata share, representing 2.5% of revenues for the first 1% of the energy sold beyond the contractual energy and an amount equal to 0.5% of revenues for each additional 1% of the energy sold beyond the contractual energy of the **DM I** wind power project.

## Contingencies of Joint Ventures and Éoliennes Côte-de-Beaupré S.E.C.

### Joint ventures Phases I and II and Éoliennes Côte-de-Beaupré S.E.C.

A class action was brought by the plaintiffs due to the alleged inconvenience (in particular noise, dust, vibrations) caused by the construction of the **Seigneurie de Beaupré Wind Farms**. The defendants (Seigneurie de Beaupré Wind Farms 2 and 3 GP, Seigneurie de Beaupré Wind Farm 4 GP and Éoliennes Côte-de-Beaupré S.E.C.) have always been and are still of the opinion, as supported by expert opinions, that the members of the group have not suffered any abnormal inconvenience resulting from the construction work. The matter is scheduled to be heard before the Superior Court of Québec in April 2019. However, an agreement in principle was reached between the parties at a settlement meeting in fall 2018 without any admission of liability. The hearing to approve the transaction will take place on April 11, 2019. The insurers will cover the costs related to this transaction if approved.

### DM I Joint Venture

On March 31, 2016, an application for authorization of a class action against **DM I** and Hydro-Québec was granted.

According to the plaintiffs, the **DM I** project (i) causes abnormal neighbourhood disturbances during the construction and operation period, including traffic, dust, pollution, continuous noise, vibrations and strobe effects, presence of flashing and visible red lights from their residences, negative consequences on the landscape, moving shadows and health consequences, (ii) negatively affects the value of their properties and (iii) is an intentional infringement of their rights, including their right to property.

The plaintiffs, on behalf of the members of the class, are seeking (i) compensatory damages for the alleged abnormal annoyances suffered during the construction and operation period, (ii) punitive damages for the alleged intentional infringement of their rights, and (iii) the destruction of all wind turbines that have already been built less than three kilometres from a residence. Claims arising from an eventual judgment in favour of the plaintiffs could be paid in whole or in part by the insurers, depending on their nature and taking into account the exclusions set out in the insurance policy. Based on this information, the Corporation assessed that the outcome of this class action is not expected to have a material impact on the Corporation's financial position. Accordingly, no provision has been recorded for this contingency.

## Note 29. Related party transactions

Related parties include the Corporation's subsidiaries, affiliates, Joint Ventures, key management personal and principal shareholders. Excluding the acquisition of Invenergy's interest in five entities in Québec (note 9), related party transactions were as follows:

|  | 2018 | 2017 |
|--|------|------|
| <b>OTHER REVENUES</b>  |      |      |
| R.S.P. Énergie Inc. – Entity for which one of three shareholders is Patrick Lemaire, President and Chief Executive Officer and a director of the Corporation | 1    | 1    |
| Joint Ventures ("SDB I" and "SDB II")  | 1    | 1    |
| Joint Ventures ("DM I and DM II," "LP 1," "LP 2" and "Roncevaux")  | 2    | —    |
| <b>INTEREST INCOME</b>   |      |      |
| 9710612 Canada Inc. (Six Nations) – Minority shareholder of a subsidiary   | 2    | 2    |
| <b>INTEREST EXPENSE</b>  |      |      |
| La Caisse – Main shareholder of the Corporation  | 9    | —    |
| <b>RENTAL EXPENSE</b>  |      |      |
| Ivanhoé Cambridge – Subsidiary of the Caisse   | 1    | —    |

These transactions were made on terms equivalent to those that prevail under normal terms in arm's length transactions.

Receivables and payables arising from the above transactions at the end of the fiscal year were as follows:

|  | As at<br>December 31,<br>2018 | As at<br>December 31,<br>2017 |
|--|-------------------------------|-------------------------------|
| <b>RELATED PARTY RECEIVABLES</b>   |                               |                               |
| 9710612 Canada Inc. (Six Nations) – Minority shareholder of a subsidiary | 35                            | 32                            |
| Joint Ventures ("DM I and DM II," "LP 1," "LP 2" and "Roncevaux")        | 1                             | —                             |
| <b>RELATED PARTY PAYABLES</b>  |                               |                               |
| Nordex Employee Holding GmbH – Minority shareholder of a subsidiary      | 6                             | —                             |
| La Caisse – Main shareholder of the Corporation                          | 250                           | —                             |

## Executive Compensation

Compensation allocated to senior executives and to members of the Board of Directors is detailed in the following table:

|                               | 2018 | 2017 |
|-------------------------------|------|------|
| Current salaries and benefits | 2    | 2    |
| Other long-term benefits      | 2    | 2    |
|                               | 4    | 4    |

## Note 30. Segmented information

The Corporation's power stations are grouped into four distinct operating segments—wind, hydroelectric, thermal and solar power. The Corporation operates under one identifiable industry sector: power generation. The classification of these segments is based on the different cost structures relating to each of the four types of power stations. The same accounting rules are used for segmented information as for the consolidated accounts.

The operating segments are presented according to the same criteria used to prepare the internal report submitted to the segment leader who allocates resources and assesses operating segment performance. The President and Chief Executive Officer is considered the segment leader, who assesses segment performance based on power production, revenues from energy sales and EBITDA(A).

EBITDA(A) represents earnings before interest, taxes, depreciation and amortization, adjusted to include other items such as acquisition costs, net loss on financial instruments and foreign exchange gain, the last two items being included under *Other gains*. EBITDA(A) does not have a standardized meaning under IFRS; accordingly, it may not be comparable to similarly named measures used by other companies. Investors should not view EBITDA(A) as an alternative measure to, for example, net earnings (loss), or as a measure of operating results, which are IFRS measures.

A reconciliation of IFRS data with data compiled on a Combined basis is also presented where the results of the Interests in the Joint Ventures and associates are accounted for according to the ownership interest. Management considers this information to be useful information for investors, as it is used to assess the Corporation's performance. This information was added upon the acquisition of Invenergy's interests in four entities in Québec on September 14, 2018. For more details, see note 9, *Interests in the Joint Ventures and associates*.

EBITDA and EBITDA(A) are reconciled to the most comparable IFRS measure, namely, net earnings (loss), in the following table:

| 2018  |            |           |              |            |
|---|------------|-----------|--------------|------------|
|   | IFRS       | Interests | Eliminations | Combined   |
| Net loss  | (44)       | 12        | (12)         | (44)       |
| Income tax recovery   | (16)       | —         | —            | (16)       |
| Financing costs   | 123        | 24        | 2            | 149        |
| Amortization  | 216        | 32        | —            | 248        |
| Impairment of property, plant and equipment and intangible assets | 15         | —         | —            | 15         |
| <b>EBITDA</b>   | <b>294</b> | <b>68</b> | <b>(10)</b>  | <b>352</b> |
| Adjustments:  |            |           |              |            |
| Acquisition costs   | 5          | —         | —            | 5          |
| Other gains   | (1)        | (2)       | —            | (3)        |
| <b>EBITDA(A)</b>  | <b>298</b> | <b>66</b> | <b>(10)</b>  | <b>354</b> |

| 2017                |            |                      |              |            |
|---------------------|------------|----------------------|--------------|------------|
|                     | IFRS       | SDB - I and II (50%) | Eliminations | Combined   |
| Net earnings        | 10         | 9                    | (9)          | 10         |
| Income tax recovery | (10)       | —                    | —            | (10)       |
| Financing costs     | 104        | 20                   | 3            | 127        |
| Amortization        | 172        | 22                   | —            | 194        |
| <b>EBITDA</b>       | <b>276</b> | <b>51</b>            | <b>(6)</b>   | <b>321</b> |
| Adjustments:        |            |                      |              |            |
| Other gains         | (1)        | (2)                  | —            | (3)        |
| Other               | 1          | —                    | —            | 1          |
| <b>EBITDA(A)</b>    | <b>276</b> | <b>49</b>            | <b>(6)</b>   | <b>319</b> |

## Information on principal clients

Revenues are allocated according to the client's country of domicile. In 2018, the Corporation had three clients accounting for 10% or more of its revenues (three clients in 2017).

The tables below show the respective percentage of consolidated revenues from each of these clients as well as the segments in which they operate:

| 2018                                  |                                 | 2017                                  |                                 |
|---------------------------------------|---------------------------------|---------------------------------------|---------------------------------|
| % of sales attributable to one client | Segments                        | % of sales attributable to one client | Segments                        |
| 44                                    | Wind, thermal and solar         | 36                                    | Wind, thermal and solar         |
| 17                                    | Wind, hydroelectric and thermal | 20                                    | Wind, hydroelectric and thermal |
| 22                                    | Wind                            | 21                                    | Wind                            |

Only the energy produced by five hydroelectric power stations in the United States, one wind farm in Alberta and two others in France, which account for 2% of Boralex's total installed capacity, is sold at market prices which are more volatile. For the year ended December 31, 2018, revenues from energy sales for facilities not covered by energy sales contracts amounted to \$6 million (\$5 million for the same period of 2017). Furthermore, the Corporation estimates that only 212 MW (11% of installed capacity or 8% of annualized production) covered by contracts expiring within five years will then be sold on the market.

## Information by operating segment

|   | 2018  |           |              |          |
|---|-------|-----------|--------------|----------|
|   | IFRS  | Interests | Eliminations | Combined |
| <b>Power production (GWh)<sup>(1)</sup></b>       |       |           |              |          |
| Wind power stations                               | 2,581 | 737       | —            | 3,318    |
| Hydroelectric power stations                      | 648   | —         | —            | 648      |
| Thermal power stations                            | 166   | —         | —            | 166      |
| Solar power stations                              | 20    | —         | —            | 20       |
|   | 3,415 | 737       | —            | 4,152    |
| <b>Revenues from energy sales</b>                 |       |           |              |          |
| Wind power stations                               | 385   | 78        | —            | 463      |
| Hydroelectric power stations                      | 49    | —         | —            | 49       |
| Thermal power stations                            | 31    | —         | —            | 31       |
| Solar power stations                              | 6     | —         | —            | 6        |
|   | 471   | 78        | —            | 549      |
| <b>EBITDA(A)</b>                                  |       |           |              |          |
| Wind power stations                               | 310   | 66        | (13)         | 363      |
| Hydroelectric power stations                      | 33    | —         | —            | 33       |
| Thermal power stations                            | 7     | —         | —            | 7        |
| Solar power stations                              | 5     | —         | —            | 5        |
| Corporate and eliminations                        | (57)  | —         | 3            | (54)     |
|   | 298   | 66        | (10)         | 354      |
| <b>Additions to property, plant and equipment</b> |       |           |              |          |
| Wind power stations                               | 236   | —         | —            | 236      |
| Hydroelectric power stations                      | 34    | —         | —            | 34       |
| Thermal power stations                            | 2     | —         | —            | 2        |
| Solar power stations                              | 1     | —         | —            | 1        |
| Corporate   | 9     | —         | —            | 9        |
|   | 282   | —         | —            | 282      |

<sup>(1)</sup> Unaudited.

2017

|   | IFRS  | SDB - I and II (50%) | Eliminations | Combined |
|---|-------|----------------------|--------------|----------|
| <b>Power production (GWh)<sup>(1)</sup></b>       |       |                      |              |          |
| Wind power stations                               | 2,204 | 546                  | —            | 2,750    |
| Hydroelectric power stations                      | 729   | —                    | —            | 729      |
| Thermal power stations                            | 173   | —                    | —            | 173      |
| Solar power stations                              | 23    | —                    | —            | 23       |
|   | 3,129 | 546                  | —            | 3,675    |
| <b>Revenues from energy sales</b>                 |       |                      |              |          |
| Wind power stations                               | 315   | 59                   | —            | 374      |
| Hydroelectric power stations                      | 65    | —                    | —            | 65       |
| Thermal power stations                            | 28    | —                    | —            | 28       |
| Solar power stations                              | 6     | —                    | —            | 6        |
|   | 414   | 59                   | —            | 473      |
| <b>EBITDA(A)</b>                                  |       |                      |              |          |
| Wind power stations                               | 261   | 49                   | (9)          | 301      |
| Hydroelectric power stations                      | 49    | —                    | —            | 49       |
| Thermal power stations                            | 8     | —                    | —            | 8        |
| Solar power stations                              | 4     | —                    | —            | 4        |
| Corporate and eliminations                        | (46)  | —                    | 3            | (43)     |
|   | 276   | 49                   | (6)          | 319      |
| <b>Additions to property, plant and equipment</b> |       |                      |              |          |
| Wind power stations                               | 184   | —                    | —            | 184      |
| Hydroelectric power stations                      | 40    | —                    | —            | 40       |
| Thermal power stations                            | 1     | —                    | —            | 1        |
| Corporate   | 6     | —                    | —            | 6        |
|   | 231   | —                    | —            | 231      |

<sup>(1)</sup> Unaudited.

Note 30. Segmented information (cont'd)

|                              | As at<br>December 31,<br><b>2018</b> | As at<br>December 31,<br><b>2017</b> |
|------------------------------|--------------------------------------|--------------------------------------|
| <b>Total assets</b>          |                                      |                                      |
| Wind power stations          | 4,056                                | 3,264                                |
| Hydroelectric power stations | 553                                  | 557                                  |
| Thermal power stations       | 37                                   | 36                                   |
| Solar power stations         | 38                                   | 38                                   |
| Corporate                    | 62                                   | 31                                   |
|                              | <b>4,746</b>                         | <b>3,926</b>                         |
| <b>Total liabilities</b>     |                                      |                                      |
| Wind power stations          | 2,807                                | 2,449                                |
| Hydroelectric power stations | 237                                  | 249                                  |
| Thermal power stations       | 9                                    | 11                                   |
| Solar power stations         | 26                                   | 27                                   |
| Corporate                    | 766                                  | 461                                  |
|                              | <b>3,845</b>                         | <b>3,197</b>                         |

## Information by geographic segment

|   | <b>2018</b>  |            |              |              |
|---|--------------|------------|--------------|--------------|
|   | IFRS         | Interests  | Eliminations | Combined     |
| <b>Power production (GWh)<sup>(1)</sup></b>       |              |            |              |              |
| Canada  | 1,497        | 737        | —            | 2,234        |
| France  | 1,530        | —          | —            | 1,530        |
| United States                                     | 388          | —          | —            | 388          |
|   | <b>3,415</b> | <b>737</b> | <b>—</b>     | <b>4,152</b> |
| <b>Revenues from energy sales</b>                 |              |            |              |              |
| Canada  | 221          | 78         | —            | 299          |
| France  | 224          | —          | —            | 224          |
| United States                                     | 26           | —          | —            | 26           |
|   | <b>471</b>   | <b>78</b>  | <b>—</b>     | <b>549</b>   |
| <b>EBITDA(A)</b>                                  |              |            |              |              |
| Canada  | 158          | 66         | (10)         | 214          |
| France  | 129          | —          | —            | 129          |
| United States                                     | 16           | —          | —            | 16           |
| Other <sup>(1)</sup>                              | (5)          | —          | —            | (5)          |
|   | <b>298</b>   | <b>66</b>  | <b>(10)</b>  | <b>354</b>   |
| <b>Additions to property, plant and equipment</b> |              |            |              |              |
| Canada  | 49           | —          | —            | 49           |
| France  | 232          | —          | —            | 232          |
| United States                                     | 1            | —          | —            | 1            |
|   | <b>282</b>   | <b>—</b>   | <b>—</b>     | <b>282</b>   |

<sup>(1)</sup> Unaudited.

Note 30. Segmented information (cont'd)

2017

|   | IFRS  | SDB - I and II (50%) | Eliminations | Combined |
|---|-------|----------------------|--------------|----------|
| <b>Power production (GWh)<sup>(1)</sup></b>       |       |                      |              |          |
| Canada  | 1,529 | 546                  | —            | 2,075    |
| France  | 1,163 | —                    | —            | 1,163    |
| United States                                     | 437   | —                    | —            | 437      |
|   | 3,129 | 546                  | —            | 3,675    |
| <b>Revenues from energy sales</b>                 |       |                      |              |          |
| Canada  | 213   | 59                   | —            | 272      |
| France  | 163   | —                    | —            | 163      |
| United States                                     | 38    | —                    | —            | 38       |
|   | 414   | 59                   | —            | 473      |
| <b>EBITDA(A)</b>                                  |       |                      |              |          |
| Canada  | 154   | 49                   | (6)          | 197      |
| France  | 97    | —                    | —            | 97       |
| United States                                     | 28    | —                    | —            | 28       |
| Other <sup>(1)</sup>                              | (3)   | —                    | —            | (3)      |
|   | 276   | 49                   | (6)          | 319      |
| <b>Additions to property, plant and equipment</b> |       |                      |              |          |
| Canada  | 74    | —                    | —            | 74       |
| France  | 155   | —                    | —            | 155      |
| United States                                     | 2     | —                    | —            | 2        |
|   | 231   | —                    | —            | 231      |

<sup>(1)</sup> Unaudited.

|   | As at<br>December 31,<br><b>2018</b> | As at<br>December 31,<br><b>2017</b> |
|---|--------------------------------------|--------------------------------------|
| <b>Total assets</b>                     |                                      |                                      |
| Canada                                  | 2,376                                | 2,183                                |
| France                                  | 2,174                                | 1,549                                |
| United States                           | 184                                  | 175                                  |
| Other <sup>(1)</sup>                    | 12                                   | 19                                   |
|   | 4,746                                | 3,926                                |
| <b>Non-current assets<sup>(2)</sup></b> |                                      |                                      |
| Canada                                  | 2,002                                | 2,037                                |
| France                                  | 1,879                                | 1,364                                |
| United States                           | 166                                  | 160                                  |
| Other <sup>(1)</sup>                    | 7                                    | 14                                   |
|   | 4,054                                | 3,575                                |
| <b>Total liabilities</b>                |                                      |                                      |
| Canada                                  | 2,211                                | 1,938                                |
| France                                  | 1,543                                | 1,169                                |
| United States                           | 91                                   | 90                                   |
|   | 3,845                                | 3,197                                |

<sup>(1)</sup> United Kingdom and Denmark.

<sup>(2)</sup> Excluding *Interests in the Joint Ventures and associates* and *Deferred income tax asset*.



## 2016-2018 Financial and Market Highlights

|   | IFRS             |              |                 | Combined <sup>1</sup> |              |                 |
|---|------------------|--------------|-----------------|-----------------------|--------------|-----------------|
| (in millions of Canadian dollars, unless otherwise specified)         | 2018             | 2017         | 2016            | 2018                  | 2017         | 2016            |
| <b>OPERATING RESULTS</b>  |                  |              |                 |                       |              |                 |
| Power production (GWh)  | 3,415            | 3,129        | 2,441           | 4,152                 | 3,675        | 2,953           |
| Revenues from energy sales  |                  |              |                 |                       |              |                 |
| Wind power stations   | 385              | 315          | 212             | 463                   | 374          | 267             |
| Hydroelectric power stations  | 49               | 65           | 57              | 49                    | 65           | 57              |
| Thermal power stations  | 31               | 28           | 25              | 31                    | 28           | 25              |
| Solar power stations  | 6                | 6            | 5               | 6                     | 6            | 5               |
| <b>Total</b>  | <b>471</b>       | <b>414</b>   | <b>299</b>      | <b>549</b>            | <b>473</b>   | <b>354</b>      |
| EBITDA(A)   |                  |              |                 |                       |              |                 |
| Wind power stations   | 310              | 261          | 176             | 363                   | 301          | 215             |
| Hydroelectric power stations  | 33               | 49           | 40              | 33                    | 49           | 40              |
| Thermal power stations  | 7                | 8            | 6               | 7                     | 8            | 6               |
| Solar power stations  | 5                | 4            | 4               | 5                     | 4            | 4               |
| Corporate and eliminations  | (57)             | (46)         | (37)            | (54)                  | (43)         | (34)            |
| <b>Total</b>  | <b>298</b>       | <b>276</b>   | <b>189</b>      | <b>354</b>            | <b>319</b>   | <b>231</b>      |
| Net earnings (loss)   | (44)             | 10           | 2               | (44)                  | 10           | 2               |
| Net earnings (loss) attributable to shareholders of Boralex per share | (36)<br>(\$0.45) | 22<br>\$0.29 | (2)<br>(\$0.03) | (36)<br>(\$0.45)      | 22<br>\$0.29 | (2)<br>(\$0.03) |
| Net cash flows related to operating activities                        | 202              | 145          | 148             | 235                   | 162          | 162             |
| Cash flows from operations <sup>1</sup>                               | 192              | 195          | 128             | 208                   | 210          | 144             |
| Discretionary cash flows <sup>1</sup>                                 | 59               | 71           | 42              | -                     | -            | -               |
| <b>CASH FLOWS</b>   |                  |              |                 |                       |              |                 |
| Business acquisitions, net of cash acquired                           | 108              | 241          | 16              |                       |              |                 |
| Increase in the interests in Joint Ventures and associates            | 205              | -            | -               |                       |              |                 |
| Proceeds from disposal of assets                                      | 55               | 2            | -               |                       |              |                 |
| Acquisition of energy sales contracts                                 | 24               | 40           | 32              |                       |              |                 |
| Addition to property, plant and equipment                             | 282              | 231          | 223             | 282                   | 231          | 223             |
| <b>FINANCIAL POSITION</b>   |                  |              |                 |                       |              |                 |
| Total assets  | 4,746            | 3,926        | 2,702           | 5,404                 | 4,288        | 3,084           |
| Debt, including current portion of debt                               | 3,271            | 2,642        | 1,540           | 3,855                 | 2,954        | 1,865           |
| <b>CLASS A SHARES INFORMATION (As of December 31, 2018)</b>           |                  |              |                 |                       |              |                 |
| Stock price   | \$16.84          | \$23.50      | \$19.15         | \$16.84               | \$23.50      | \$19.15         |
| Return  | (28%)            | 23%          | 32%             | (28%)                 | 23%          | 32%             |
| Market capitalization (in billions)                                   | 1.5              | 1.8          | 1.3             | 1.5                   | 1.8          | 1.3             |
| Shares outstanding (in thousands)                                     | 89,184           | 76,255       | 65,366          | 89,184                | 76,255       | 65,366          |
| Average shares outstanding (in thousands)                             | 80,102           | 75,436       | 65,199          | 80,102                | 75,436       | 65,199          |
| Dividends per share   | 50<br>\$0.63     | 46<br>\$0.60 | 36<br>\$0.55    | 50<br>\$0.63          | 46<br>\$0.60 | 36<br>\$0.55    |
| Dividend yield  | 2.7%             | 3.1%         | 3.8%            | 2.7%                  | 3.1%         | 3.8%            |
| Payout ratio <sup>1</sup>   | 85%              | 64%          | 85%             |                       |              |                 |
| Total return  | (26%)            | 26%          | 36%             | (26%)                 | 26%          | 36%             |
| <b>CONVERTIBLE DEBENTURES INFORMATION</b>                             |                  |              |                 |                       |              |                 |
| Market price  | \$102.00         | \$124.00     | \$114.40        | \$102.00              | \$124.00     | \$114.40        |
| Return  | (18%)            | 8%           | 13%             | (18%)                 | 8%           | 13%             |
| Shares outstanding (in thousands)                                     | 1,437            | 1,437        | 1,438           | 1,437                 | 1,437        | 1,438           |
| <b>KEY RATIOS</b>   |                  |              |                 |                       |              |                 |
| Net debt to market capitalization ratio <sup>1</sup>                  | 65%              | 56%          | 50%             |                       |              |                 |

<sup>1</sup> See the *Non-IFRS measure* section in Management's Discussion and Analysis.

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

- » Annual Report
- » Interim Reports
- » Annual Information Form
- » Management Proxy Circular

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Telephone: 514-982-7555 | 1-800-564-6253  
www.centreinvestisseurs.com/service

## SHAREHOLDER INFORMATION

The **Annual Meeting of Shareholders** will be held on Thursday, May 8, 2019, at 11 a.m., at the following address:

**Maison Manuvie**  
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