

**Hydro Quebec Trust for
Management of Nuclear Fuel Waste**

Financial Statements
December 31, 2007

March 13, 2008

Auditors' Report

To the Trustee of Hydro Quebec Trust for Management of Nuclear Fuel Waste

We have audited the statement of net assets of the **Hydro Quebec Trust for Management of Nuclear Fuel Waste** (the "Trust") as at December 31, 2007 and the statements of operations and changes in net assets for the year then ended. These financial statements are the responsibility of the Trustee. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2007 and the results of its operations and the changes in its net assets for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Hydro Quebec Trust for Management of Nuclear Fuel Waste

Statement of Net Assets

As at December 31, 2007

	2007 \$	2006 \$
Assets		
Cash	2,869	-
Short-term investments (note 4)	44,358,699	36,000,000
Accrued interest	642,367	182,577
	<hr/>	<hr/>
	45,003,935	36,182,577
Liabilities		
Audit fees payable	6,998	-
Custodial and trustee fees payable	6,291	-
Income distributions payable	-	182,577
	<hr/>	<hr/>
	13,289	182,577
Net assets	<hr/> 44,990,646	<hr/> 36,000,000

Hydro Quebec Trust for Management of Nuclear Fuel Waste

Statement of Operations

For the year ended December 31, 2007

	2007 \$	2006 \$
Income		
Interest	1,593,866	1,273,806
Expenses		
Audit fees	6,998	-
Custodial and trustee fees	6,291	-
	13,289	-
Net investment income	1,580,577	1,273,806

Hydro Quebec Trust for Management of Nuclear Fuel Waste

Statement of Changes in Net Assets

For the year ended December 31, 2007

	2007 \$	2006 \$
Net assets – Beginning of year	36,000,000	32,000,000
Net investment income	1,580,577	1,273,806
Income distributions	(951,496)	(1,273,806)
	629,081	-
Capital contributions (note 6)	4,000,000	4,000,000
Reinvested distributions (note 7)	4,361,565	-
	8,361,565	4,000,000
Net assets – End of year	44,990,646	36,000,000

Hydro Quebec Trust for Management of Nuclear Fuel Waste

Notes to Financial Statements

December 31, 2007

1 Nature of the trust

The Act respecting the long-term management of nuclear fuel waste (the “Nuclear Fuel Waste Act” or “NFWA”) came into effect on November 15, 2002. The NFWA is a key component of the Government of Canada’s 1996 Policy Framework for Radioactive Waste. Under this policy, the federal government, through effective oversight, ensures that the long-term management of radioactive waste is carried out in a comprehensive, integrated and economically sound manner.

As required under the NFWA, owners of nuclear fuel waste established, by incorporation, the Nuclear Waste Management Organization (“NWMO”), whose purpose is to propose to the Government of Canada approaches for the long-term management of nuclear fuel waste, and to implement the approach that is selected by the federal government. In accordance with the NFWA, the NWMO submitted its recommendations for a long-term nuclear used-fuel management strategy to the federal government in November 2005. In June 2007, the Government of Canada adopted the approach recommended by the NWMO.

The NFWA also requires nuclear energy companies to set up a trust fund in Canada with a financial institution to finance the costs involved in the long-term management of their nuclear fuel waste. As a result, Hydro-Québec established the Hydro Quebec Trust for Management of Nuclear Fuel Waste (the “Trust”).

In October 2007, the members of the NWMO adopted an agreement that specifically provides a formula for financing the costs inherent in the long-term management of their nuclear fuel waste. This formula will be used to determine each member’s share for the next five years. It will only go into effect once it has been approved by the federal government, which should render its decision during 2008. Each member’s share shall be established in keeping with the number of its irradiated nuclear fuel bundles in storage as of June 30, 2006. It will also take into account the date on which each member plans to ship the fuel bundles to the national waste disposal site.

In order to fulfill its financial responsibilities, Hydro-Québec made an initial deposit of \$20 million to this trust fund, within ten days after the legislation came into effect. It is obligated to pay additional sums of \$4 million per year into this fund, until such time as the NWMO determines the new sums to be paid, in 2008, based on the approach adopted by the Government of Canada, in keeping with the long-term nuclear waste management strategy.

The sums deposited in the Trust can only be used to finance the implementation of the approach prescribed by the Government of Canada.

The Trustee of the Trust is RBC Dexia Investor Services Trust (as successor to Royal Trust). The Province of Quebec and Hydro-Québec are the beneficiaries of the Trust.

Hydro Quebec Trust for Management of Nuclear Fuel Waste

Notes to Financial Statements

December 31, 2007

2 Significant accounting policies

Presentation

The financial statements of the Trust were prepared by the Trustee in accordance with Canadian generally accepted accounting principles.

Use of estimates

The presentation of financial statements in accordance with Canadian generally accepted accounting principles requires the Trustee to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Financial instruments

Under Section 3855 (note 3), financial instruments, on initial recognition, must be measured at their fair value. Their valuation during subsequent periods and the accounting of fluctuations in their fair value depends on the category in which they are classified: held-to-maturity investments, loans and receivables, held for trading, available for sale and other financial liabilities.

Short-term investments have been classified as held-to-maturity investments and are accounted for at amortized cost using the effective interest rate method, including premiums, discounts and transaction costs, as the case may be, unless they are subject to a permanent decline in value, in which case, they are reduced to their fair value. Fair value is obtained by discounting future cash flows, based on the term interest rates evaluated from the closing rates as at the date of the financial statements of similar short-term traded investments. Gains and losses generated by the disposal of investments are calculated according to the amortized cost and have been recorded as interest in the results for the reporting period.

Accrued interest has been classified as loans and receivables, and liabilities have been classified as other liabilities. These financial instruments are evaluated at amortized cost and the proceeds or interest expense has also been recorded as interest in the results for the reporting period.

Interest

The Trust uses accrual accounting to record its interest, which involves recording the interest earned and receivable as at the balance sheet date.

Income taxes

A proposed modification that would allow the Trust to be exempt from income tax was included in the new paragraph 149(1)(z.2) of Bill C-10, Income Tax Amendments Act, and was adopted in a second reading by the Senate on December 4, 2007. As a result, the Trust has not provided for any income taxes in these financial statements.

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Comparative figures

Certain comparative figures have been reclassified to conform to the presentation adopted in the current year's financial statements.

3 Changes to accounting policies

On January 1, 2007, the Trust adopted Canadian Institute of Chartered Accountants Handbook Section 3855, "Financial Instruments – Recognition and Measurement", which presents the requirements concerning the accounting and valuation of financial instruments, and Section 3861, "Financial Instruments – Disclosure and Presentation".

The Trust's adoption of these new standards concerning financial instrument standards did not result in any transitional adjustments.

4 Short-term investments

	2007			2006		
	Amortized cost \$	Average cost \$	Fair value \$	Amortized cost \$	Average cost \$	Fair value \$
Commercial paper						
Hydro-Québec, 3.90%, February 15, 2008	4,358,699	4,358,699	4,332,084	-	-	-
Hydro-Québec, 4.10%, February 15, 2008	4,000,000	4,000,000	3,975,576	-	-	-
Hydro-Québec, 4.53%, February 15, 2008	36,000,000	36,000,000	35,780,180	-	-	-
Treasury bond						
Province of Quebec, January 26, 2007	-	-	-	36,000,000	36,000,000	36,000,000
	<u>44,358,699</u>	<u>44,358,699</u>	<u>44,087,840</u>	<u>36,000,000</u>	<u>36,000,000</u>	<u>36,000,000</u>

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5 Financial instruments

Financial risks

The Trust is exposed to financial risks associated with interest rate fluctuations and volatility.

Fair value

As at December 31, 2007, the fair value of all the financial instruments was approximately equal to their book value.

6 Contributions

Contributions by Hydro-Québec were as follows:

	\$
Initial contribution – November 2002	20,000,000
Annual contributions:	
November 2003	4,000,000
November 2004	4,000,000
November 2005	4,000,000
November 2006	4,000,000
November 2007	4,000,000
	<u>40,000,000</u>

7 Related party transactions

Under an agreement established on November 21, 2002 and amended on November 23, 2007 by Hydro-Québec and RBC Dexia Investor Services Trust (as successor to Royal Trust), all the income from investments made in the Trust through December 31, 2007 was initially distributed to Hydro-Québec. As at that date, these distributions of \$4,361,565 were returned to the Trust.

