

Hydro Quebec Trust for Management of Nuclear Fuel Waste

Financial Statements
December 31, 2008

March 10, 2009

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, 2008 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, 2008 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 LLP¹

¹ Chartered accountant auditor permit No. 8663

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Hydro Quebec Trust for Management of Nuclear Fuel Waste

Statement of Net Assets

As at December 31, 2008

	2008 \$	2007 \$
Assets		
Cash	6,869	2,869
Short-term investments (note 4)	50,188,246	44,358,699
Accrued interest	130,832	642,367
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	50,325,947	45,003,935
Liabilities		
Legal fees payable	17,861	-
Audit fees payable	6,998	6,998
Custodial and trustee fees payable	4,110	6,291
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	28,969	13,289
Net assets	<hr/>	<hr/>
	50,296,978	44,990,646

Hydro Quebec Trust for Management of Nuclear Fuel Waste

Statement of Operations

For the year ended December 31, 2008

	2008 \$	2007 \$
Income		
Interest	1,346,961	1,593,866
Expenses		
Legal fees	17,861	-
Audit fees	6,998	6,998
Custodial and trustee fees	15,770	6,291
	40,629	13,289
Net investment income	1,306,332	1,580,577

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Statement of Changes in Net Assets

For the year ended December 31, 2008

	2008 \$	2007 \$
Net assets – Beginning of year	44,990,646	36,000,000
Net investment income	1,306,332	1,580,577
Income distributions	-	(951,496)
	<u>1,306,332</u>	<u>629,081</u>
Capital contributions (note 6)	4,000,000	4,000,000
Reinvested distributions (note 7)	-	4,361,565
	<u>4,000,000</u>	<u>8,361,565</u>
Net assets – End of year	<u>50,296,978</u>	<u>44,990,646</u>

Hydro Quebec Trust for Management of Nuclear Fuel Waste

Notes to Financial Statements

December 31, 2008

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. 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 accepted the Adaptive Phased Management approach recommended by the NWMO, but this has not been formally adopted.

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”). The Trust agreement has been subject to amendment (note 5). The Trustee of the Trust is RBC Dexia Investor Services Trust. The Province of Quebec and Hydro-Québec are the beneficiaries of 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, and is currently under review. Each member’s share shall be established in keeping with the number of its irradiated nuclear fuel bundles produced 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 future 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 the Government of Canada formally adopts the approach determined by the NWMO, 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.

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2 Significant accounting policies

Basis of 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 income and expenses during the reporting period. Actual results could differ from those estimates.

Financial instruments

Under Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 3855, “Financial Instruments – Recognition and Measurement”, 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 or other financial liabilities.

Short-term investments have been classified as held-to-maturity investments and are accounted for at amortized cost unless they are subject to a permanent decline in value, in which case, they are reduced to their fair value.

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.

Interest income

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

The Trust is exempt from income tax in accordance with paragraph 149(1)(z.2) of Bill C-10, Income Tax Amendments Act. As a result, the Trust has not provided for any income taxes in these financial statements.

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3 Changes to accounting policies

On January 1, 2008, the Trust adopted CICA Handbook Section 3862, “Financial Instruments – Disclosures”, and Section 3863, “Financial Instruments – Presentation”. The new standards replaced Section 3861, “Financial Instruments – Disclosure and Presentation”. These sections establish standards for the comprehensive disclosure and presentation requirements for financial instruments. The standards include new requirements to quantify certain risk exposures and to provide sensitivity analysis for certain risks. Refer to discussion of financial risk management (note 5) for the new disclosures relating to the adoption of the new requirements. The adoption of these new standards had no effect on the Trust’s results or financial position.

On January 1, 2008 the Trust also adopted CICA Handbook Section 1535, “Capital Disclosures”, which requires that the Trust disclose information about its objectives, policies and processes for managing capital, including disclosures of any externally imposed capital requirements and the consequences of non-compliance (refer to note 1 for the Trust’s imposed requirements). This standard impacts the Trust’s disclosure provided but does not affect the Trust’s results or financial position.

4 Short-term investments

	2008			2007		
	Amortized cost \$	Average cost \$	Fair value \$	Amortized cost \$	Average cost \$	Fair value \$
Commercial paper						
Hydro-Québec, 2.03%, February 11, 2009	50,188,246	50,188,246	50,140,567 ¹	-	-	-
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
	<u>50,188,246</u>	<u>50,188,246</u>	<u>50,140,567</u>	<u>44,358,699</u>	<u>44,358,699</u>	<u>44,087,840</u>

¹ As at February 11, 2009, the investment was sold for its amortized cost value of \$50,188,246.

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5 Financial instruments

Investment objectives

The objective of the Trust is to finance the costs involved in the long-term management of Hydro Québec's nuclear fuel waste. For that purpose, the fund is wholly invested in high-quality Hydro-Québec commercial paper.

As of September 2008, an amendment to Addendum B of the Trust agreement allows the Trust to invest in a wider variety of investment vehicles. In addition to bonds issued by public bodies, the Trust can now invest in corporate bonds and notes, equities and derivatives. At present, there are no plans to change the investment objectives until a new investment policy for the Trust is approved by Hydro-Québec.

Financial risk management

The Trust's financial instruments consist mainly of short-term investments and accrued interest. As a result, the Trust is exposed to risks that are associated with its investment strategies and the markets in which it invests. The most important risks include interest rate risk and credit risk.

a) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the fair values or cash flows of financial instruments.

The table below summarizes the Trust's exposure to interest rate risk as of December 31, 2008, categorized by the earlier of contractual re-pricing or maturity dates.

	Less than 1 month	1 to 3 Months	3 Months to 1 year	1 to 5 Years	More than 5 years	Total
	\$	\$	\$	\$	\$	\$
Short-term investments	-	50,188,246	-	-	-	50,188,246

For the period ended December 31, 2008, had interest rates increased or decreased by 25 basis points, net investment income would have been \$99,664 higher or lower.

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b) Credit risk

Credit risk is the risk that one party to a financial instrument fails to discharge an obligation and causes financial loss to the other party. The Trust limits its exposure to credit loss by investing in Hydro-Québec commercial paper. Hydro-Québec is a Government of Quebec Crown corporation and carries the following credit ratings at December 31, 2008:

Moody's	P-1
Standards & Poor's	A-1+
DBRS	R-1

Fair value

As at December 31, 2008, the fair value of cash and accrued interest approximates the book value due to their short-term maturities. Refer to note 4 for the fair value of short-term investments.

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
November 2008	4,000,000
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	44,000,000

7 Related party transactions

Under an agreement established November 21, 2002, and amended on November 23, 2007, between Hydro-Québec and RBC Dexia Investor Services 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.