Financial Statements **December 31, 2012 and 2011** (expressed in Canadian dollars)



March 26, 2013

Independent Auditor's Report

To the Trustee of Hydro-Québec Trust for Management of Nuclear Fuel Waste

We have audited the accompanying financial statements of Hydro-Québec Trust for Management of Nuclear Fuel Waste, which comprise the statements of financial position as at December 31, 2012 and 2011 and the statements of income and comprehensive income, changes in net assets and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Hydro-Québec Trust for Management of Nuclear Fuel Waste as at December 31, 2012 and 2011 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Pricewaterhouse Coopers LLP'

¹ CPA auditor, CA, public accountancy permit No. A123642

Statements of Financial Position

As at December 31,

(expressed in Canadian dollars)

	Note	2012 \$	2011 \$
Assets Cash Investments	4	49,972 92,547,596	38,562 80,160,897
		92,597,568	80,199,459
Liabilities Legal and other fees payable		19,045	15,500
Net assets		92,578,523	80,183,959

Statements of Income and Comprehensive Income

For the years ended December 31,

(expressed in Canadian dollars)

	2012 \$	2011 \$
Investment income Interest	4,174,320	3,726,154
Expenses Professional fees Custodial fees	13,420 26,634	15,699 24,616
	40,054	40,315
Net income and comprehensive income	4,134,266	3,685,839

Statements of Changes in Net Assets

For the years ended December 31,

(expressed in Canadian dollars)

	Note	2012 \$	2011 \$
Net assets – Beginning of period		80,183,959	69,562,539
Net income Contributions	6	4,134,266 8,260,298	3,685,839 6,935,581
Net assets – End of period		92,578,523	80,183,959

Statements of Cash Flows

For the years ended December 31,

(expressed in Canadian dollars)

	Note	2012 \$	2011 \$
Operating activities Net income Adjustment to reconcile net income to cash flows from		4,134,266	3,685,839
operating activities Accretion of zero-coupon bonds		(4,174,320)	(3,726,154)
Change in non-cash working capital Legal and other fees payable		3,545	2,718
		(36,509)	(37,597)
Investing activities Acquisition of investments		(8,212,379)	(6,935,155) (6,935,155)
		(0,212,379)	(0,955,155)
Financing activities Contributions	6	8,260,298	6,935,581
		8,260,298	6,935,581
Net increase (decrease) in cash during the period		11,410	(37,171)
Cash – Beginning of period		38,562	75,733
Cash – End of period		49,972	38,562

Notes to Financial Statements December 31, 2012 and 2011

(expressed in Canadian dollars)

1 Description 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, Canadian nuclear energy companies established by incorporation the Nuclear Waste Management Organization ("NWMO"), whose purpose was to propose approaches to the long-term management of nuclear fuel waste to the Government of Canada.

The NFWA also required nuclear energy companies to set up a trust fund with a financial institution to finance the costs involved in the long-term management of their nuclear fuel waste.

In October 2007, the NWMO members adopted the agreement providing a formula for financing the costs inherent in the long-term management of members' nuclear fuel waste. This formula, approved by Natural Resources Canada in April 2009, is used to determine each member's share in keeping with the number of its irradiated nuclear fuel bundles produced as of a given date.

Hydro-Québec established the Hydro-Québec Trust for Management of Nuclear Fuel Waste (the "Trust") of which the NWMO and Hydro-Québec are the beneficiaries.

The sums deposited in the Trust can only be used to finance the implementation of the approach prescribed by the Government of Canada. To fulfill its financial responsibilities, Hydro-Québec has made all payments required by the NFWA.

The trustee of the Trust is RBC Dexia Investor Services Trust. The address of the Trust's registered office is 1 Place Ville Marie, Montréal, Quebec, Canada. The financial statements were approved on March 26, 2013.

2 Significant accounting policies

Basis of presentation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

The functional and presentation currency of the financial statements is the Canadian dollar.

Financial instruments

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, if necessary, depend on the category in which they are classified: financial assets and financial liabilities classified as held for trading, held-to-maturity investments, loans and receivables, available for sale or other financial liabilities.

Notes to Financial Statements December 31, 2012 and 2011

(expressed in Canadian dollars)

Investments are classified as held-to-maturity investments and are accounted for at the amount required to be paid, less, when material, a discount to reduce the investments to fair value. Subsequently, investments are measured at amortized cost using the effective interest rate method. The fair value of zero-coupon bonds is discounted using the prevailing market rates of interest for similar instruments.

Cash is classified as a held-for-trading financial asset and accounted for at fair value. Cash includes cash on hand with original maturities of three months or less.

Legal and other fees payable are classified as other financial liabilities and accounted for at cost, which approximates fair value due to their short-term maturities.

Investment income

Income earned from investments recognized in net income represents the accretion of zero-coupon bonds and is calculated using the effective interest rate method.

Income tax

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 tax in these financial statements.

3 Changes in accounting policies

Standards not yet effective

Financial instruments

In November 2009, the IASB released IFRS 9, Financial Instruments, which is the first part of a three-part project to replace International Accounting Standard ("IAS") 39, Financial Instruments: Recognition and Measurement. IFRS 9 addresses the classification and measurement of financial assets and liabilities. It replaces the multiple category and measurement models for debt instruments of IAS 39 with a new mixed measurement model having two categories: amortized cost and fair value through profit or loss. Most of the requirements in IAS 39 for the classification and measurement of financial liabilities were carried forward in IFRS 9. IFRS 9 is effective for annual periods beginning on or after January 1, 2015, with earlier application permitted. The Trust is currently evaluating the impact of the standard on its financial statements.

Notes to Financial Statements December 31, 2012 and 2011

(expressed in Canadian dollars)

Fair value measurement

In May 2011, the IASB released IFRS 13, Fair Value Measurement. IFRS 13 will provide a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS. The standard is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. The Trust is currently evaluating the impact of the standard on its financial statements.

4 Investments

	2012			2011
	Amortized cost \$	Fair value \$	Amortized cost \$	Fair value \$
Zero-coupon bonds Hydro-Québec, face value of \$36,275,000 (2011 – \$27,000,000), effective interest				
rate of 3.7% (2011 – 4.2%), maturing April 15, 2017 Hydro-Québec, face value of \$49,200,000, effective interest rate of 5.2% (2011 –	30,974,813	33,169,135	21,702,165	24,413,000
5.3%), maturing April 15, 2022 Hydro-Québec, face value of \$65,450,000, effective interest rate of 5.3% (2011 –	30,577,046	37,128,780	29,045,114	35,915,225
5.0%), maturing April 15, 2027	30,995,737	37,966,206	29,413,618	38,922,411
	92,547,596	108,264,121	80,160,897	99,250,636

5 Financial instruments

Investment objective

The objective of the Trust is to finance the costs involved in the long-term management of Hydro-Québec's nuclear fuel waste. In addition to bonds issued by public bodies, the Trust may invest in corporate bonds and notes, equities and derivatives.

Notes to Financial Statements December 31, 2012 and 2011

(expressed in Canadian dollars)

Financial risk management

The Trust's financial instruments consist of zero-coupon bonds. The Trust is exposed to risks associated with its investment strategies, and the markets in which it invests.

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 Trust is not exposed to risk from changes in fair value or future cash flows because it holds investments in zero-coupon bonds accounted for at amortized cost. Changes in interest rates, therefore, had no impact on net income.

b) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause financial loss to the other party. As at December 31, 2012, the Trust limited its exposure to credit risk by investing in Hydro-Québec bonds, which is a related party. Hydro-Québec is a Government of Québec Crown corporation.

6 Contributions

Contributions by Hydro-Québec were as follows:

Initial contribution – 2002 Annual contributions:	20,000,000
2003	4,000,000
2004	4,000,000
2005	4,000,000
2006	4,000,000
2007	4,000,000
2008	4,000,000
2009	8,496,311
2010	6,703,515
2011	6,935,581
2012	8,260,298
	74,395,705