

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

Financial Statements
December 31, 2009

March 1, 2010

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, 2009 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, 2009 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. 8863

Hydro Quebec Trust for Management of Nuclear Fuel Waste

Statement of Net Assets

As at December 31, 2009

	2009 \$	2008 \$
Assets		
Cash	98,288	6,869
Investments (note 4)	59,585,898	50,188,246
Accrued interest	-	130,832
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	59,684,186	50,325,947
Liabilities		
Legal and other fees payable (note 7)	10,112	28,969
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Net Assets	<u>59,674,074</u>	<u>50,296,978</u>

Hydro Quebec Trust for Management of Nuclear Fuel Waste

Statement of Operations

For the year ended December 31, 2009

	2009 \$	2008 \$
Income		
Interest	894,024	1,346,961
Expenses		
Legal and other fees (note 7)	13,239	40,629
Net investment income	<u>880,785</u>	<u>1,306,332</u>

Hydro Quebec Trust for Management of Nuclear Fuel Waste

Statement of Changes in Net Assets

For the year ended December 31, 2009

	2009	2008
	\$	\$
Net assets – Beginning of year	50,296,978	44,990,646
Net investment income	880,785	1,306,332
Contributions (note 6)	8,496,311	4,000,000
Net assets – End of year	<u>59,674,074</u>	<u>50,296,978</u>

Hydro Quebec Trust for Management of Nuclear Fuel Waste

Notes to Financial Statements

December 31, 2009

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, nuclear energy companies, 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.

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 was amended in 2008 (note 5). The Trustee is RBC Dexia Investor Services Trust. The Province of Quebec and Hydro-Québec are the beneficiaries of the Trust.

In April 2009, the Government of Canada adopted the NWMO agreement providing a formula for financing the costs inherent in the long-term management of members’ nuclear fuel waste. This formula will be used to determine each member’s share commencing in 2009 with retroactive application (note 6), in keeping with the number of its irradiated nuclear fuel bundles produced as of a given date. It also takes 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 in the Trust within ten days after the legislation came into effect, as well as contributing additional sums of \$4 million per year in the Trust. In keeping with the long-term nuclear waste management strategy and the formula for financing the costs involved finalized by the Government of Canada, Hydro-Québec deposited approximately \$8.5 million in the Trust in 2009.

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

2 Changes in accounting policies

Credit risk and fair value of financial assets and financial liabilities

The Trust adopted EIC-173, “Credit Risk and Fair Value of Financial Assets and Financial Liabilities”. This Abstract stipulates that counterparties’ credit risk and an entity’s own credit risk should be taken into account when estimating the fair value of all financial assets and financial liabilities, including derivatives. The Trust does not have any financial instruments carried at fair value as at December 31, 2009, to take such risks into account. The application of EIC-173 did not have an impact on the financial statements of the Trust, except for the disclosure of the fair value of the zero-coupon bonds.

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Financial instruments

Effective January 1, 2009, the Trust adopted the recent amendments to Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 3862, “Financial Instruments – Disclosures”. Disclosures about fair value of financial instruments require the disclosure of the estimated fair value of financial instruments. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Amendments to Section 3862 establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurement). The three levels of fair value hierarchy are as follows:

- Level 1 Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the investment manager has the ability to access at the measurement date.
- Level 2 Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active.
- Level 3 Inputs that are unobservable. There is little if any market activity. Inputs into the determination of fair value require significant management judgment or estimation.

The Trust’s zero-coupon bonds are recorded at amortized cost, and the disclosure of fair value of these bonds is based on level 1 inputs.

Future changes to accounting standards

Business combinations, consolidated financial statements and non-controlling interests

In December 2008, the CICA approved three new accounting standards: Section 1582, “Business Combinations”; Section 1601, “Consolidated Financial Statements”; and Section 1602, “Non-Controlling Interests”; replacing Section 1581, “Business Combinations”; and Section 1600, “Consolidated Financial Statements”. The Trust is evaluating the impact of these new standards.

3 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.

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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

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 depend 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.

Investments are classified as held-to-maturity investments and are accounted for at amortized cost using the effective interest rate method unless they become subject to a permanent decline in value, in which case, they are reduced to their fair value. The zero-coupon bonds are accreted to their face value each period, with the resulting interest income included in net investment income for the period.

Accrued interest is classified as loans and receivables, and liabilities are classified as other liabilities. These financial instruments are evaluated at amortized cost.

Interest

The Trust uses accrual accounting to record its interest, whereby interest earned and receivable is recorded 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.

Hydro Quebec Trust for Management of Nuclear Fuel Waste

Notes to Financial Statements

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4 Investments

	2009			2008		
	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
Zero-coupon bonds						
Hydro-Québec, face value of \$27,000,000, effective interest rate of 4.22%, April 15, 2017	19,981,270	19,803,420	20,246,400	-	-	-
Hydro-Québec, face value of \$37,000,000, effective interest rate of 5.29%, April 15, 2022	19,624,484	19,406,500	20,705,000	-	-	-
Hydro-Québec, face value of \$50,500,000, effective interest rate of 5.51%, April 15, 2027	19,980,144	19,749,540	20,067,210	-	-	-
	<u>59,585,898</u>	<u>58,959,460</u>	<u>61,018,610</u>	<u>50,188,246</u>	<u>50,188,246</u>	<u>50,140,567</u>

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.

An amendment to Addendum B of the Trust agreement, which occurred in September 2008, allows the Trust to invest in a wider variety of investment vehicles. In addition to bonds issued by public bodies, the Trust may invest in corporate bonds and notes, equities and derivatives.

Financial risk management

As at December 31, 2009, the Trust's financial instruments consist mainly of bonds and accrued interest. As at December 31, 2008, they consisted of commercial paper and accrued interest. The Trust is exposed to risks, mainly interest rate and credit risks, that are associated with its investment strategies and the markets in which it invests.

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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.

As at December 31, 2009, the Trust had no interest rate exposure because it held investments in zero-coupon bonds accounted for at amortized cost. Changes in interest rates therefore have no impact on net investment income.

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 is exposed to credit risk mainly through its investments. As at December 31, 2009, the Trust limited its exposure to credit loss by investing in Hydro-Québec bonds, which is a related party. Hydro-Québec is a Government of Quebec Crown corporation and carries the following high credit ratings:

Moody's	Aa2
Standard & Poor's	A+
DBRS	A

Cash and accrued interest

The fair value of cash and accrued interest approximates the book value due to their short-term maturities.

6 Contributions

Contributions by Hydro-Québec were as follows:

	\$
Initial contribution – 2002	20,000,000
Annual contributions:	
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
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	52,496,311

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7 Related party transactions

Legal fees of \$17,861 billed to the Trust and accrued in 2008 were paid by Hydro-Québec in 2009. The legal and other fees expense is reduced by this recovery in 2009.