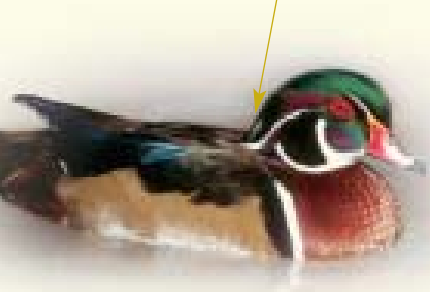




Annual Report 2003



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## Foundation Profile

### Our mission

The Fondation Hydro-Québec pour l'environnement (the Foundation) is a nonprofit organization whose mission is to contribute to the long-term enhancement and protection of the environment. It supports initiatives that generate significant environmental benefits and respond to local needs, in a spirit of conservation and sustainable development.

The Foundation funds nonprofit Canadian organizations involved in projects that benefit Québec communities.

### Our programs

In fulfilling its mission, the Foundation administers three programs:

- The **Nature Program** focuses on conserving and restoring natural ecosystems and improving conditions for flora and fauna in their natural habitats. It also supports conservation, restoration and protection of threatened or vulnerable species.
- The **Support for Local Environmental Initiatives Program** targets projects that address awareness and management of recognized local environmental issues and concerns. It also supports efforts to reconcile regional development with environmental protection.
- The **Enhancement of Hydro-Québec Properties Program** has a twofold objective: to enhance the distinctive environmental features of Hydro-Québec property and locations altered by the company's facilities or equipment and to protect biodiversity on Hydro-Québec property.

The Foundation has provided nearly \$2.5 million for 34 projects with a total value of \$9.8 million since its creation in 2000.

### For more information on the Foundation

For detailed information on the projects, mission, programs and operations of the Fondation Hydro-Québec pour l'environnement, please visit our Web site at [www.hydroquebec.com/fondation\\_environnement](http://www.hydroquebec.com/fondation_environnement) or call us at (514) 289-5384.



Horned grebe

## Message from Management

We are pleased to present our 2003 report on the projects supported by the Fondation Hydro-Québec pour l'environnement. In the third year of its existence, the Foundation consolidated and built on its achievements, particularly through the quality of the projects submitted and affirmation of its role as a partner to Québec's entire environmental community.

In 2003, the Foundation funded 10 initiatives proposed by environmental organizations, for a total value of \$1 million. In all, the Foundation received 55 requests for financial assistance from all regions of Québec, a volume that testifies to the dynamic efforts of the organizations working to improve our environment.

In line with its mission and underlying spirit, in 2003 the Foundation partnered with organizations whose initiatives offered significant, sustainable benefits. The projects involved objectives such as developing the private network of protected areas in high-quality biophysical habitats, restoring rivers whose wildlife potential had been neglected, protecting threatened species and reintroducing species that had disappeared from their original habitats. All of these projects demonstrate the commitment of local communities to preserve their environment. We can only applaud our partners' initiatives, since we share with them the conviction that current and future generations deserve a high-quality environment.

We would like to thank the members of the Board of Directors for their contribution to advancing the Foundation and their commitment to conserve and restore the environment. In closing, we also salute the remarkable work of our partner organizations and hope their initiatives will inspire you.

Marie-José Nadeau

President  
Fondation Hydro-Québec pour l'environnement

Martine Provost

Managing Director  
Fondation Hydro-Québec pour l'environnement

## Our Report Card

In 2003, the Foundation supported projects undertaken by 10 partner organizations whose constructive and strategic approaches reflect its vision. Through their initiatives, these organizations work to protect species and their habitats and to improve the well-being of society. The projects the Foundation supports fall into the following five categories.

### Working to protect and restore species that are threatened or vulnerable<sup>1</sup>

In 2003, the Foundation supported two major projects of this type. The first, led by the Fédération québécoise de la faune, aims to reintroduce an extirpated fish community, the striped bass, into the St. Lawrence River. The second, undertaken by Conservation Baie-Missisquoi with support from the Nature Conservancy of Canada, is intended to protect the spiny softshell turtle. Both projects call for major, long-term intervention.

A third project of the same type enabled Société Provancher d'histoire naturelle du Canada to purchase privately owned land on the edge of Léon Provancher Marsh to protect a threatened plant, Victorin's gentian.

The Foundation's contributions have led to direct action involving one community that has disappeared from the St. Lawrence River, six threatened or vulnerable species, and nine species likely to be designated threatened or vulnerable. The sidebar lists the species targeted by projects that received financial support from the Foundation.

Since 2001, the Foundation has enabled its partner organizations to take action involving several dozen plant and animal species.

### Number of species that are threatened or vulnerable – Total projects 2001–2003<sup>2</sup>

Extirpated community	1	
Threatened or vulnerable species	15	
Species likely to be designated threatened or vulnerable	33	



Cerulean warbler

Common map turtle



Pickerel frog

### Foundation's contribution to protection of plant and animal species – 2003

#### Extirpated community

##### Fish

Striped bass <sup>[1]</sup>

#### Threatened or vulnerable species

##### Amphibian

Western chorus frog (v) <sup>[3]</sup> \*

##### Bird

Horned grebe (t) <sup>[3]</sup> \*

##### Reptile

Spiny softshell turtle (t) <sup>[2]</sup> \*

##### Plants

Dwarf huckleberry (t) <sup>[4]</sup> \*

Victorin's gentian (t) <sup>[5]</sup>

False hop sedge (t) <sup>[3]</sup>

#### Species likely to be designated threatened or vulnerable

##### Amphibian

Pickerel frog <sup>[3]</sup> \*

##### Birds

Nelson's sparrow <sup>[4]</sup>

Bicknell's thrush <sup>[4]</sup>

Short-eared owl <sup>[3]</sup> \*

Cerulean warbler <sup>[3]</sup>

Least bittern <sup>[3]</sup>

Yellow rail <sup>[3,4]</sup> \*

##### Fish

Grass pickerel <sup>[3]</sup>

##### Reptile

Common map turtle <sup>[3]</sup> \*

(t): threatened

(v): vulnerable

\*: species targeted by a project carried out in 2001 or 2002

#### Partners

- [1] Fédération québécoise de la faune
- [2] Conservation Baie-Missisquoi and Nature Conservancy of Canada
- [3] Ducks Unlimited Canada
- [4] Club des ornithologues de la Gaspésie and Nature Conservancy of Canada
- [5] Société Provancher d'histoire naturelle du Canada

1. According to the classification of the Société de la faune et des parcs du Québec (FAPAQ), Québec's Ministère de l'Environnement and the Committee on the Status of Endangered Wildlife in Canada (COSEWIC).

2. Each species is counted once, although some have been affected by more than one project.

### Working to restore and enhance rivers

In 2003, two rivers were restored and enhanced by organizations supported by the Foundation: the Blanche River and the Rivière aux Pommes, both in the Québec City area. The potential of their flora and fauna had deteriorated in recent decades because of overuse.

Since 2001, the Foundation has helped restore nine rivers in the watersheds of the Sainte-Anne, Jacques-Cartier, Saint-François and Mitis rivers.

#### Number of rivers restored and enhanced – 2001–2003

2001	4	
2002	3	
2003	2	
<b>Total</b>	<b>9</b>	

### Working to protect wetlands

Two of the projects funded in 2003 had a double objective: to protect wetlands and to extend the network of protected areas.<sup>1</sup> With the Foundation's support, about 1,190 ha<sup>2</sup> was added to the network. This new land, consisting of submerged or emergent marsh and valuable woodlots, reinforced ecosystems vital for the survival of many species that are part of Québec's ecological heritage.

Since 2001, the Foundation has facilitated the acquisition and conservation of almost 2,000 ha of wetlands.

#### Area of wetlands protected – 2001–2003

2001	–	
2002	802 ha	
2003	1,190 ha	
<b>Total</b>	<b>1,992 ha</b>	

1. These projects are part of the *National Program for the Development of a Network of Protected Areas* of Québec's Ministère de l'Environnement.

2. 1 ha = 10,000 m<sup>2</sup>, or the equivalent of about two football fields.

### Working to protect and conserve habitats and ecosystems

In addition to the wetlands referred to above, the private network of protected areas increased by 140 ha of natural environment. These privately owned lands offer valuable habitat to many species.

#### Area of land dedicated to conservation of habitats and ecosystems – 2001–2003

2001	162 ha	
2002	550 ha	
2003	140 ha	
<b>Total</b>	<b>852 ha</b>	



## Working to promote awareness and education regarding local and regional environmental realities

This year the Foundation financed two educational projects. The first developed an educational kit and a program of activities on the life cycle of the Atlantic salmon in the Jacques-Cartier River for grade 5 students in the Portneuf and Québec City areas. The second involved a day camp where children from six to 12 benefit from an original teaching approach that draws on their natural curiosity and empirical learning ability in order to introduce them to the natural and environmental sciences. Since its creation, the Foundation has supported five environmental education projects.

### Number of educational projects – 2001–2003

2001	3
2002	–
2003	2
<b>Total</b>	<b>5</b>



### Our contribution since 2001

In 2003, the Foundation invested slightly more than \$1 million in environmental initiatives. Thus since 2001 it has contributed \$2.5 million to improving the environment throughout Québec. The projects are subject to the Foundation's internal auditing procedure. To date, 19 of the 34 projects have been audited, and all have been found to be in compliance with their initial plans.

### Financing by project category – 2001–2003

Project category	Number of projects		Grants awarded to partners (\$)	
	2003	Since 2001	2003	Since 2001
<b>Protection and restoration of species that are threatened or vulnerable</b>	3	6	691,000	819,500
<b>Restoration and enhancement of rivers</b>	2	9	107,285	336,867
<b>Protection of wetlands</b>	2	5	263,280	427,630
<b>Protection and conservation of habitats and ecosystems</b>	1	9	200,000	803,058
<b>Awareness and education</b>	2	5	60,140	107,711
<b>Total</b>	<b>10</b>	<b>34</b>	<b>1,321,705</b>	<b>2,494,766</b>

2003 Projects

2001 and 2002 Projects

## Overview of Current Projects







**Revitalization of the Banks and Protection of the Habitat of the Rivière aux Pommes and Its Affluents**



Gaspé

**Protection of the Barachois de Malbaie and Its Bay on the Gaspé Peninsula**



Rimouski

Rivière-du-Loup

**Reintroduction of Striped Bass in the St. Lawrence Estuary**



**Conservation of Rivière du Sud Wetlands**



## Reintroduction of **Striped Bass** in the St. Lawrence Estuary

### Fédération québécoise de la faune

Protection and restoration of species that are threatened or vulnerable  
Contribution of \$531,000 to a project with a budget of \$2,109,000

The striped bass, a member of the percichthyidae family, disappeared from the St. Lawrence River in the 1960s. Its extirpation was due to exceptional circumstances, including pressure from commercial and sport fishing, as well as destruction of rearing habitats during construction of the St. Lawrence Seaway. The Fédération québécoise de la faune, in cooperation with several partners, has launched an ambitious project to reintroduce the striped bass into the St. Lawrence River, between Lac Saint-Pierre and Kamouraska. If the project produces the desired results, it will help restore the river's original biodiversity.

One of the crucial stages of the project is to produce sufficient numbers of fry to create a critical mass that will maximize the community's survival rate. **The Baldwin Mills fish culture station** at Coaticook has been enlarged and renovated with the objective of producing fry by the thousands starting in 2004 and at the rate of 50,000 individuals a year from 2008 to 2018. In this way, the river can be stocked with enough juveniles to establish a new striped bass population. The project also calls for rigorous long-term monitoring of the stocked fish.



## Conservation of the Spiny Softshell Turtle on Protected Lake Champlain Sites

### Conservation Baie-Missisquoi and Nature Conservancy of Canada

Protection and restoration of species that are threatened or vulnerable  
Contribution of \$100,000 to a project with a budget of \$362,330

The spiny softshell turtle is a reptile whose only known habitat in Québec is Lake Champlain's Missisquoi Bay, although a few years ago it was still found in the Ottawa River and around Île Perrot. Its decline is due to deterioration of its reproduction sites and habitats. Several years ago, the spiny softshell turtle was designated a threatened species in Québec and Canada.

The project involves protecting and developing habitats suitable for the turtle, including egg-laying sites. Specifically, structures will be installed and maintained annually in areas used for feeding, basking and nesting to protect the turtles from human activity and natural predators. In this way, it is hoped that the turtles' numbers can be increased.

These activities are taking place on land belonging to the Nature Conservancy and are managed by members of Conservation Baie-Missisquoi, in cooperation with the Société de la faune et des parcs du Québec (FAPAQ), which is responsible for the implementation of plans to restore threatened species.



Spiny softshell turtle just after birth

## Acquisition of Land Adjoining Léon Provancher Marsh

### Société Provancher d'histoire naturelle du Canada

Protection and restoration of species  
that are threatened or vulnerable

Contribution of \$60,000 to a project  
with a budget of \$295,000

Léon Provancher Marsh, in Neuville, west of Québec City, belongs to Québec's network of protected areas. It covers 125 ha on the edge of the St. Lawrence River. It has been managed by Société Provancher d'histoire naturelle du Canada since 1996 and is reaching its full potential as a result of the development of a pond where waterfowl and other bird species can nest. To promote this exceptional site, Société Provancher has organized recreational and educational activities for the public for several years. Small enhancements and various facilities make bird-watching more enjoyable while enabling visitors to understand that wetlands play an essential role in ecosystems.

To carry out this project, Société Provancher acquired land adjoining the marsh, which was on the verge of being divided into residential lots. This additional 5-ha parcel consolidated the area and provided further protection for the environment and for species with a precarious status in an urban fringe area.

At the same time, the status of "waterfowl staging area" already given to the riparian portion of the purchased land was strengthened. Moreover, the project has enhanced protection of **Victorin's gentian**—a plant that has the status of "threatened species" in Québec and "species of special concern" in Canada.



American bittern



Wood duck





## Agro-Environmental Restoration of the Blanche River Watershed

### Corporation d'aménagement et de protection de la Sainte-Anne

Restoration and enhancement of rivers

Contribution of \$65,000 to a project with a budget of \$307,500

The Blanche River flows through the Portneuf region. A large portion of this tributary of the Sainte-Anne runs through farmland. Its water quality has therefore been affected by intensive agricultural activities and poorly monitored practices.

To correct this problem and revitalize the downstream portion of the Blanche, the local basin council made cleaning up the farmland portion of the watershed one of its priorities for 2003. The project proponent carried out several activities that involved a commitment by the farm producers and involvement by the local population. These initiatives will promote the emergence of habitats suitable for various plant and wildlife species.

Eight tonnes of waste was removed from the river and a vegetation jam extending 20 km was broken up to facilitate flow and improve water quality. The project also involved fencing off 12 km of banks and creating watering areas to prevent livestock from reaching the river, which solved the problem of animal excrement in the water and trampling on the banks. To stabilize the banks and to create buffer strips, 20,000 shrubs and 6,000 trees were planted over a distance of 20 km so as to restore the river's natural appearance. With the lower water temperature resulting from the restored vegetation as well as the creation of spawning beds, the brook trout population should increase.



## Revitalization of the Banks and Protection of the Habitat of the **Rivière aux Pommes** and Its Affluents

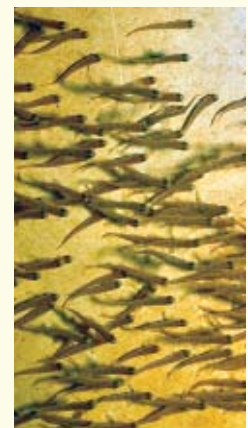
### Corporation de restauration de la Jacques-Cartier

Restoration and enhancement of rivers  
Contribution of \$42,285 to a project  
with a budget of \$76,181

The project is located in Portneuf County and involves the entire watershed of the Rivière aux Pommes, an important affluent of the Jacques-Cartier River. The Corporation has been working for more than 20 years to protect and restore the Atlantic salmon, which led it to take action to preserve the region's water quality. The Corporation naturally opted to revitalize the Rivière aux Pommes, a watercourse that plays a vital role in the achievement of its objectives.

In line with a strategy based on **community action** and awareness, the Corporation removed 25 cubic metres of waste from the riverbed. It added structures to prevent livestock from gaining access to the river and at certain locations work was carried out to facilitate fording. Moreover, it planted trees and shrubs to revitalize almost 20 km of banks.

These actions were rounded out by the conclusion of a moral contract binding the riparian landowners to protect the river's integrity. In the short term, the project will restore brook trout habitat, but over the longer term the objective is to return the Atlantic salmon to the Rivière aux Pommes.



Atlantic salmon fry

## Conservation of Rivière du Sud Wetlands

### Ducks Unlimited Canada

Protection of wetlands

Contribution of \$200,000 to a project with a budget of \$2,258,000



The watershed of the Rivière du Sud, located in Montérégie, in the regional county municipality of Haut-Richelieu, features a wetlands complex covering 1,160 ha. Its submerged and emergent marshland and riparian wet woodland form the last major ecological jewel that is still intact in the heart of the Richelieu Valley lowlands.

Owing to the diversity of its natural features, the watershed of the Rivière du Sud has high biological activity, as shown by its large variety of plant and animal species, some of which are threatened, vulnerable or likely to be given such status. Examples are the false hop sedge, the grass pickerel, the horned grebe, the least bittern, the short-eared owl and the cerulean warbler. The Rivière du Sud wetlands also provide a suitable habitat for the western chorus frog, the pickerel frog, the spiny softshell turtle and the common map turtle.



False hop sedge

The project is part of a broader program involving various measures—conservation servitudes, creation of voluntary natural reserves, donations and acquisitions of land, education and awareness, etc.—to conserve the watershed and its natural attributes as well as protect the ecological integrity of the river and the riparian wetlands.

It should be noted that this project is in the Richelieu–Lake Champlain corridor, which is covered by an international conservation project under the aegis of the North American Bird Conservation Initiative (NABCI).



Short-eared owl





## Development and Enhancement of the Saint-Prime Peat Bog

### Municipality of Saint-Prime

Protection of wetlands

Contribution of \$63,280 to a project with a budget of \$237,280

The Saint-Prime peat bog on the banks of Lac Saint-Jean is recognized as one of the region's important wetlands. It covers 69 ha and has features that are more characteristic of a marsh than a peat bog. In 1999, the municipality of Saint-Prime carried out feasibility studies and planning for a project to develop and enhance the peat bog. The project called for creation of a marsh on public and private land selected for its rich wildlife potential.

Dikes were built to create a permanent 30-ha marsh and to encourage the return of several species of birds, amphibians, reptiles and semi-aquatic mammals previously found in the area. The marsh will also be used by waterfowl during migration and nesting periods.

The site also has various small enhancements to facilitate bird-watching and make the local population and visitors aware of the vital importance of the marsh.



American black duck





## Protection of the Barachois de Malbaie and Its Bay on the Gaspé Peninsula

Club des ornithologues de la Gaspésie and Nature Conservancy of Canada

Protection and conservation of habitats and ecosystems

Contribution of \$200,000 to a project with a budget of \$380,000

Malbaie Bay, between Pointe-Saint-Pierre and Percé, plays an important role in maintaining the biodiversity of the St. Lawrence. It is surrounded by forests and mountains and is cut off from the sea almost completely by a 5-km sandbar. Four rivers, including a salmon river, flow into it. With its remarkable geomorphology, the area forms a large brackish lagoon—the Barachois de Malbaie—covering 10 square kilometres. It is home to 22 species of fish, almost 200 species of birds and a wide variety of plant life.

The project involves negotiations with the landowners to create a private natural reserve covering 140 ha. Traditional activities compatible with site protection and conservation objectives, such as clam digging and fishing, will be able to continue in the reserve.

The principle of conservation in perpetuity will make it possible to save the Barachois as well as the surrounding wetlands, aquatic habitats and forest ecosystems. This area is also home to the yellow rail and Bicknell's thrush, two species likely to be designated threatened or vulnerable.



Nelson's sparrow



Malbaie Bay and Barachois

## Educational Kit on the Biology of the Atlantic Salmon and Its Compatibility with Hydropower on a Salmon River

Corporation de restauration de la Jacques-Cartier

Awareness and education

Contribution of \$40,938 to a project with a budget of \$51,680



This educational project on the compatibility of hydroelectric generation and the Atlantic salmon is for primary schoolchildren in Portneuf and Québec City. It involves making grade 5 pupils aware of the Jacques-Cartier, an Atlantic salmon river in their region.

With an educational kit produced by the Corporation, the participating classes created artistic depictions of various aspects of the compatibility of two natural resources, hydropower and the Atlantic salmon. A panel of judges then selected the best creations.

Twenty classes were given an incubator and Atlantic salmon eggs. The pupils watched the eggs develop and become fry. The project will end in the spring of 2004 when the river is stocked with the fry. In this way, the pupils are involved in the first part of the life cycle of the Atlantic salmon in the Jacques-Cartier River.



## A Different Kind of Day Camp – A Science Kit for the Environment

**Groupe uni des éducateurs-naturalistes  
et professionnels en environnement**

Awareness and education

Contribution of \$19,202 to a project  
with a budget of \$33,900

This project involved designing six science kits for a day camp that focuses on natural science and the environment. The objective: to promote environmental education. Each kit involves 30 hours of activities for a specific age group. The content sparks children's scientific curiosity using concrete examples from current events. The following topics are covered:

- The natural environment within kids' reach
- A place for all in the ecosystem
- Water in all its states
- From a cell to a human being
- Conquering air through nature
- Humans and the Earth

The day camp is offered to children from six to 12 years of age, at Bois-de-Liesse nature park on the Island of Montréal.



Song sparrow



## Financial Statements

### Management's Report

The financial statements of the Fondation Hydro-Québec pour l'environnement as well as all information contained in this report fall under the responsibility of Management and are approved by the Board of Directors. This responsibility involves choosing the appropriate accounting conventions that comply with Canadian generally accepted accounting principles.

To fulfill these responsibilities, Management maintains a control system designed to provide reasonable assurance as to the protection of assets, the proper accounting of transactions and the reliability of the financial statements.

The Foundation acknowledges its responsibility in managing its affairs in accordance with the governing legislation.

The auditors of PricewaterhouseCoopers LLP audited the financial statements of the Foundation in accordance with Canadian generally accepted auditing standards. Their *Auditors' Report* discusses the nature and scope of this audit as well as their related opinion.



Martine Provost  
Managing Director

Montréal, April 2, 2004

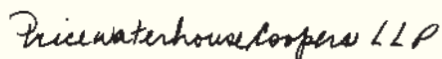
## Auditors' Report

### To the Directors of the Fondation Hydro-Québec pour l'environnement

We have audited the balance sheet of the *Fondation Hydro-Québec pour l'environnement* (the "Foundation") as at December 31, 2003, and the statements of operations and changes in net assets for the year then ended. These financial statements are the responsibility of the Foundation's Management. 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 Foundation as at December 31, 2003, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



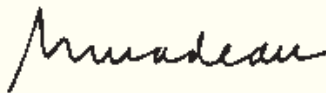
Chartered Accountants  
March 5, 2004

## Balance Sheet

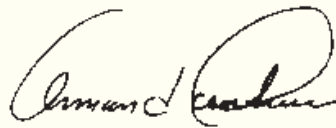
As at December 31, 2003

	2003	2002
	\$	\$
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	1,475,692	1,088,207
Contributions receivable from Hydro-Québec	26,000	23,735
	<b>1,501,692</b>	<b>1,111,942</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable	194,050	43,775
<b>Net Assets</b>		
Restricted to environmental projects	1,085,520	531,541
Unrestricted	222,122	536,626
	<b>1,307,642</b>	<b>1,068,167</b>
	<b>1,501,692</b>	<b>1,111,942</b>

Approved by the Board,



Marie-José Nadeau  
President



Armand Couture  
Director



## Statement of Operations

	2003	2002
	\$	\$
<b>Revenue</b>		
Hydro-Québec – Contributions from (Note 4)		
Divisions	850,000	850,000
Special fund	295,411	251,481
Interest income	38,433	18,906
	<b>1,183,844</b>	<b>1,120,387</b>
<b>Expenditure</b>		
Environmental projects (Note 3)		
Approved during the year	432,487	273,309
Approved during previous years	335,239	176,436
General overhead and project management	176,643	162,535
	<b>944,369</b>	<b>612,280</b>
<b>Excess of revenue over expenditure</b>	<b>239,475</b>	<b>508,107</b>

## Changes in Net Assets

	2003		2002	
	Restricted to environmental projects <sup>1</sup>	Unrestricted	Total	Total
	\$	\$	\$	\$
<b>Net assets at beginning of year</b>	531,541	536,626	1,068,167	560,060
Excess of revenue over expenditure (expenditure over revenue)	(335,239)	574,714	239,475	508,107
Internally restricted with respect to projects approved in 2003 (Note 3)	889,218	(889,218)	-	-
<b>Net assets at year-end</b>	<b>1,085,520</b>	<b>222,122</b>	<b>1,307,642</b>	<b>1,068,167</b>

1) As at December 31, net assets restricted to environmental projects were as follows:

	2003	2002
	\$	\$
Surplus restricted to projects:		
Approved during the year	889,218	531,541
Approved during previous years	196,302	-
	<b>1,085,520</b>	<b>531,541</b>

## Notes to the Financial Statements

December 31, 2003

### 1. Status and Nature of Activities

The Fondation Hydro-Québec pour l'environnement (the "Foundation") was constituted on January 19, 2001, under Division III of the *Québec Companies Act* and started its activities on that date. Its mission is to contribute to the long-term enhancement and protection of the environment; to promote the conservation, restoration and enhancement of fauna, flora and natural habitats; and to support local needs for stewardship of the environment. Almost half of the members of its Board of Directors are not Hydro-Québec employees. The Foundation is a nonprofit organization that is exempt from taxes within the meaning of the *Income Tax Act*.

### 2. Significant Accounting Policies

These financial statements for the Foundation were prepared by management in accordance with Canadian generally accepted accounting principles.

#### Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires the use of estimates that affect the assets and liabilities reported in the financial statements and the itemized revenues and expenditures for the periods presented. Actual amounts could differ from those estimates.

#### Revenue recognition

The Foundation uses the deferral method of accounting for contributions. Unrestricted contributions are recognized as revenue when they are received, or as receivables if the amount can be reasonably estimated and payment is reasonably assured. Restricted contributions are recognized as revenue in the fiscal year in which the related expenditures are incurred.

#### Expenditure recognition

Expenditures incurred for environmental projects are recorded when the reimbursement requests from organizations are approved by the Foundation. General overhead is recorded under the accrual accounting method.



### 3. Restrictions Affecting Net Assets

During the year, the Board of Directors of the Foundation approved financial support for 10 environmental projects (10 projects in 2002) for a total commitment of \$1,321,705 (\$804,850 in 2002), of which \$432,487 (\$273,309 in 2002) was paid out during the year. The balance of \$889,218 (\$531,541 in 2002) is internally restricted in order to reserve a portion of the unrestricted surplus in an amount corresponding to future reimbursement requests for approved environmental projects. The Foundation may not use this amount for other purposes without the prior consent of the Board of Directors.

	Total Commitment \$	Disbursement \$	Internally restricted \$
Nature Program	1,154,280	326,952	827,328
Support for Local Environmental Initiatives Program	167,425	105,535	61,890
<b>Total 2003</b>	<b>1,321,705</b>	<b>432,487</b>	<b>889,218</b>
<b>Total 2002</b>	<b>804,850</b>	<b>273,309</b>	<b>531,541</b>

### 4. Related Party Transactions

During the year, the Foundation received contributions from Hydro-Québec totaling \$1,145,411 (\$1,101,481 in 2002), including \$295,411 (\$251,481 in 2002) in annual interest generated by funds specially reserved by Hydro-Québec for the Foundation, and \$850,000 (\$850,000 in 2002) in contributions from Hydro-Québec Production, Hydro-Québec TransÉnergie, Hydro-Québec Distribution and the Environment branch. The Foundation incurred expenses of \$147,436 (\$140,895 in 2002) in relation to Hydro-Québec. These expenses consist mainly of charges related to services provided by employees of the Environment branch and other administrative units for the benefit of the Foundation. Charges are billed on the basis of real costs, with a supplement to cover general overhead, under an agreement between the Foundation and the Environment branch.

### 5. Statement of Cash Flows

No Statement of Cash Flows was prepared because it would not contain any relevant additional information.

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To contribute to the  
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and protection of  
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