

Consolidated financial statements

For the fiscal years ended September 30, 2009 and 2008

The consolidated financial statements present the financial situation of the Partnership at the end of fiscal year 2009 in a formal manner and include notes that serve to interpret the data presented in the consolidated tables. It is advisable to read them in parallel with the preceding management discussion & analysis so as to obtain a complete picture of the situation of the Partnership.

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Management's report


ON THE CONSOLIDATED FINANCIAL STATEMENTS OF GAZ MÉTRO LIMITED PARTNERSHIP

The consolidated financial statements of Gaz Métro Limited Partnership and all of the information in this report are the responsibility of the management of Gaz Métro inc., acting in its capacity as General Partner of Gaz Métro Limited Partnership. It is management's responsibility to select the appropriate accounting policies and to exercise its best judgement in determining reasonable and fair estimates based on Canadian generally accepted accounting principles and decisions by bodies that govern the various regulated activities of the Partnership. Financial information found elsewhere in this report is consistent with the consolidated financial statements. This information and the consolidated financial statements are published with the GMI's Board of Directors' approval.

Management maintains accounting and internal control systems that are designed to provide reasonable assurance that accounting records are reliable and assets are safeguarded.

GMI's Board of Directors assumes its responsibilities for the financial statements primarily through the Audit Committee, made up solely of outside directors. The Audit Committee has reviewed all of the information in this report as well as the annual financial statements and has recommended they be approved by the Board. The Audit Committee also examines on a continuous basis the quarterly financial results and the results of internal and external independent audits of accounting methods and the system of internal controls. The Audit Committee also recommends to the Board the choice of external auditors. The external and internal auditors are free to communicate with the Audit Committee.

The following consolidated financial statements of Gaz Métro Limited Partnership have been audited by Raymond Chabot Grant Thornton LLP, Chartered Accountants, in accordance with Canadian generally accepted auditing standards. Their audit included the tests and other procedures they deemed necessary under the circumstances. Their independent opinion on the financial statements is presented hereinafter.



SOPHIE BROCHU
President and
Chief Executive Officer
Gaz Métro inc.



PIERRE DESPARS, CA
Executive Vice President
and Chief Financial Officer
Gaz Métro inc.

Montréal, Canada
November 17, 2009

Auditors' report

TO THE PARTNERS OF GAZ MÉTRO LIMITED PARTNERSHIP

We have audited the consolidated balance sheets of Gaz Métro Limited Partnership as at September 30, 2009 and 2008, and the consolidated statements of income, comprehensive income, Partners' equity and cash flows for the years then ended. These financial statements are the responsibility of the management of Gaz Métro inc., acting in its capacity as General Partner of the Partnership. 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 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 consolidated financial statements present fairly, in all material respects, the financial position of the Partnership as at September 30, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Raymond Chabot Grant Thornton LLP¹

Montréal, Canada, November 17, 2009

¹ Chartered accountant auditor permit No. 20154

Consolidated income

YEARS ENDED SEPTEMBER 30, (IN THOUSANDS OF DOLLARS AND THOUSANDS OF UNITS)	2009	2008
REVENUES	\$2,250,433	\$2,171,919
DIRECT COSTS	1,479,246	1,461,948
GROSS MARGIN	771,187	709,971
EXPENSES		
Operating and maintenance	312,259	283,750
Amortization (Notes 7, 9 and 20)	192,545	171,184
Interest on long-term debt	113,331	110,992
Financial expenses and other	4,289	4,259
	622,424	570,185
INCOME BEFORE SHARE IN EARNINGS OF COMPANIES SUBJECT TO SIGNIFICANT INFLUENCE AND INCOME TAXES	148,763	139,786
Share in earnings of companies subject to significant influence	23,366	25,925
INCOME BEFORE INCOME TAXES	172,129	165,711
Income taxes (Note 19)	13,677	11,272
NET INCOME	\$ 158,452	\$ 154,439
BASIC AND DILUTED NET INCOME PER UNIT (in dollars)	\$ 1.32	\$ 1.28
BASIC AND DILUTED WEIGHTED AVERAGE NUMBER OF UNITS OUTSTANDING	120,452	120,451

The accompanying notes to the consolidated financial statements are an integral part of these statements.

Consolidated comprehensive income

YEARS ENDED SEPTEMBER 30, (IN THOUSANDS OF DOLLARS)	2009	2008
NET INCOME	\$158,452	\$154,439
OTHER COMPREHENSIVE INCOME		
Unrealized exchange gains (losses) on translation of financial statements of self-sustaining foreign operations and other	(1,514)	14,832
COMPREHENSIVE INCOME	\$156,938	\$169,271

Consolidated Partners' equity

YEARS ENDED SEPTEMBER 30, 2009 AND 2008 (IN THOUSANDS OF DOLLARS)	CAPITAL	DEFICIT	ACCUMULATED OTHER COMPREHENSIVE INCOME	PARTNERS' EQUITY
Balance as at September 30, 2007	\$1,011,737	\$ (35,306)	\$ (54,539)	\$921,892
Net income	-	154,439	-	154,439
Unrealized exchange gains on translation of financial statements of self-sustaining foreign operations and other	-	-	14,832	14,832
Unit issues	168	-	-	168
Distributions to Partners	-	(149,356)	-	(149,356)
Balance as at September 30, 2008 – as previously reported	1,011,905	(30,223)	(39,707)	941,975
Impact of a change in accounting policy (Note 3C)	-	-	63	63
Restated balance as at September 30, 2008	1,011,905	(30,223)	(39,644)	942,038
Net income	-	158,452	-	158,452
Unrealized exchange losses on translation of financial statements of self-sustaining foreign operations and other	-	-	(1,577)	(1,577)
Distributions to Partners	-	(149,361)	-	(149,361)
Balance as at September 30, 2009	\$1,011,905	\$ (21,132)	\$ (41,221)	\$949,552

The accompanying notes to the consolidated financial statements are an integral part of these statements.

Consolidated balance sheets

AS AT SEPTEMBER 30,
(IN THOUSANDS OF DOLLARS)

	2009	2008
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 48,994	\$ 31,984
Trade and other receivables (Notes 6 and 24)	112,291	133,359
Income taxes receivable	1,838	15,335
Inventories	189,245	235,127
Prepaid expenses	7,650	8,773
	360,018	424,578
PROPERTY, PLANT AND EQUIPMENT (Note 7)	2,209,016	2,194,746
OTHER ITEMS		
Investments and other (Note 8)	195,013	179,577
Deferred charges (Note 9)	413,024	347,602
Intangible assets (Note 11)	9,845	10,404
Goodwill (Notes 11 and 20)	114,214	115,970
Derivative financial instruments (Notes 3C) and 23)	5,634	13,601
	737,730	667,154
	\$ 3,306,764	\$ 3,286,478
LIABILITIES		
CURRENT LIABILITIES		
Bank overdraft	\$ 4,630	\$ 7,244
Bank loans (Note 12)	47,722	54,451
Accounts payable and accrued liabilities	240,525	265,128
Current portion of long-term debt (Note 13)	218,542	152,664
	511,419	479,487
LONG-TERM DEBT (Note 13)	1,512,174	1,622,138
DEFERRED CREDITS (Note 14)	29,355	20,812
OTHER LIABILITIES (Note 15)	71,520	55,010
FUTURE INCOME TAXES (Note 19)	129,931	120,357
DERIVATIVE FINANCIAL INSTRUMENTS (Notes 3C) and 23)	102,813	46,699
	2,357,212	2,344,503
PARTNERS' EQUITY		
CAPITAL (Note 16)	1,011,905	1,011,905
DEFICIT	(21,132)	(30,223)
ACCUMULATED OTHER COMPREHENSIVE INCOME	(41,221)	(39,707)
	(62,353)	(69,930)
	949,552	941,975
	\$ 3,306,764	\$ 3,286,478

Subsequent events (Note 27)

The accompanying notes to the consolidated financial statements are an integral part of these statements.

On behalf of the Board of Directors of Gaz Métro inc.
in its capacity as General Partner,


SOPHIE BROCHU
Director


RÉAL SUREAU, FCA
Director

Consolidated cash flows

YEARS ENDED SEPTEMBER 30, (IN THOUSANDS OF DOLLARS)	2009	2008
OPERATING ACTIVITIES		
Net income	\$ 158,452	\$ 154,439
Distributions received from companies subject to significant influence	14,255	50,674
Non-cash items:		
Amortization of property, plant and equipment (Note 7)	130,571	121,133
Amortization of deferred charges and credits, financing costs and intangible assets	62,845	51,065
Reduction in deferred charges related to energy cost	86,843	70,994
Rate stabilization accounts	(13,241)	(15,930)
Share in earnings of companies subject to significant influence	(23,366)	(25,925)
Gain on sale of investment (Note 10(a))	(1,991)	(2,040)
Loss on the sale of a subsidiary (Note 5)	142	-
Write down of goodwill (Notes 11 and 20(d))	1,572	2,856
Future income taxes	9,329	5,751
	425,411	413,017
Change in non-cash working capital items (Note 17a))	57,059	(47,263)
CASH FLOWS RELATED TO OPERATING ACTIVITIES	482,470	365,754
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(151,852)	(135,511)
Changes in deferred charges and credits	(129,567)	(179,232)
Increase in interest in a company subject to significant influence (Note 8(d))	(8,768)	(46,087)
Sale of a subsidiary (Note 5)	7,428	-
Increase in interest in a subsidiary and other	907	(1,488)
CASH FLOWS RELATED TO INVESTING ACTIVITIES	(281,852)	(362,318)
FINANCING ACTIVITIES		
Change in bank loans	(6,943)	13,891
Increase in term loans	36,683	212,639
Repayment of term loans	(243,389)	(129,009)
Other long-term debts:		
Issues	317,660	17,218
Repayments	(150,850)	(388)
Change in other liabilities	16,592	25,848
Unit issues	-	168
Distributions to Partners	(149,361)	(149,356)
CASH FLOWS RELATED TO FINANCING ACTIVITIES	(179,608)	(8,989)
IMPACT OF EXCHANGE RATE FLUCTUATIONS ON CASH AND CASH EQUIVALENTS	(73)	660
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	20,937	(4,893)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	24,740	30,489
RECLASSIFICATION OF THE ASSET-BACKED COMMERCIAL PAPER INVESTMENTS	(1,313)	(856)
CASH AND CASH EQUIVALENTS, END OF YEAR ⁽¹⁾	\$ 44,364	\$ 24,740

⁽¹⁾ Cash and cash equivalents consist of \$37,652 in cash, \$11,342 in short-term investments, and \$4,630 in bank overdrafts. As at September 30, 2008, these amounts were, respectively, \$19,596, \$12,388 and \$7,244.

The accompanying notes to the consolidated financial statements are an integral part of these statements.

Notes to the consolidated financial statements

(all tabular amounts are in thousands of dollars)

Note 1. Nature of operations

Gaz Métro Limited Partnership (the Partnership or Gaz Métro) is a company whose core business is the distribution of natural gas in Quebec (Gaz Métro-QDA). Gaz Métro is also, indirectly, the sole shareholder of Vermont Gas Systems, Inc. (VGS), the sole gas distributor in Vermont (U.S.A.), and of Green Mountain Power Corporation (GMP), the second largest electricity distributor in Vermont. In addition, through its subsidiaries, joint ventures and companies subject to significant influence, Gaz Métro is active in other, mostly regulated activities relating to the transportation and storage of natural gas as well as energy and other services.

Note 2. Significant accounting policies

FINANCIAL STATEMENT PRESENTATION

The consolidated financial statements of Gaz Métro are prepared in accordance with Canadian generally accepted accounting principles (GAAP).

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements of the Partnership include the accounts of Gaz Métro and all its subsidiaries. All intercompany transactions and balances have been eliminated. The Partnership's investments in jointly controlled enterprises (joint ventures) are accounted for under the proportionate consolidation method.

USE OF ESTIMATES

In preparing the consolidated financial statements, the Partnership's management has to make estimates and assumptions that have an impact on the assets and liabilities shown in the balance sheet, the contingent liabilities noted as at the date of the consolidated financial statements and the revenues and expenses presented in the Statement of Consolidated Income for the year. Actual results may differ from these estimates. Financial statement items requiring greater use of management estimates include liabilities and costs arising from employee pension plans and other postretirement benefits, key economic assumptions used in determining the allowance for doubtful accounts, the useful life of assets for amortization, the evaluation of future cash flows expected to be generated by assets, estimated unbilled deliveries for revenue recognition purposes, the determination of the fair value of assets and liabilities in business combinations, the effects of rate regulation on regulatory assets and liabilities, the future cost of retiring property, plant and equipment, goodwill for impairment testing purposes, provisions for income taxes, the determination of future income tax assets and liabilities, and the determination of fair value of financial instruments.

REGULATION

Gaz Métro's core business is the distribution of natural gas by pipeline in Quebec, an activity that is regulated by the Régie de l'énergie (the Régie).

Also, through subsidiaries, joint ventures and companies subject to significant influence, it is active in other activities that are regulated by other bodies. Trans Québec & Maritimes Pipeline Inc. (TQM) and Champion Pipe Line Corporation Limited (Champion) are regulated by the National Energy Board (NEB). Portland Natural Gas Transmission System (PNGTS) is regulated by the Federal Energy Regulatory Commission (FERC), and VGS and GMP are regulated by the Vermont Public Service Board (VPSB).

Note 2. Significant accounting policies (cont'd)

In exercising their authority, these regulatory bodies render decisions on, among other things, system development, rate setting and the use of certain underlying accounting policies that differ from those applied by non-regulated enterprises. The impacts of rate regulation on the Partnership, including the carrying amounts of regulatory assets and liabilities, are presented in Note 4.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash and very liquid investments with an initial maturity of three months or less from the date of acquisition.

ASSIGNMENT OF CLAIMS

The Partnership's claims securitization program meets sale-of-assets criteria and is therefore not recognized on the balance sheet. The excess of claims assigned over the amounts received in cash is the amount of subordinated interests retained by the Partnership, which are accounted for under *Trade and other receivables* in the balance sheet. The fair value of these subordinated interests approximates the book value given that the claims sold will be recovered over a short period of time.

INVENTORIES

Inventories consist mainly of natural gas used by Gaz Métro-QDA. They are recorded at a price equal to the supply rate approved by the Régie. The rate is adjusted monthly using a method approved by the Régie. Materials and supplies inventories are valued using the weighted average cost method.

Natural gas, materials and supplies and various combustibles used by VGS and GMP for electricity production are recorded at the lower of cost or fair value, with cost being determined using the weighted average cost method.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist mainly of assets used in regulated activities. Acquisitions, replacements and improvements are recorded at cost, including direct costs and overhead, and a return on funds used for certain construction projects that includes both an interest and an equity component, as accepted by the various regulatory authorities. When property, plant and equipment related to the system is retired, the cost and retirement cost are charged to accumulated amortization. Under this method, no gain or loss on disposal of assets is recognized in income.

Amortization is calculated using mainly the straight-line method based on the estimated remaining lives of the existing assets. The amortization rates used are periodically revised and approved by the various regulatory bodies and take into account the recovery of the unamortized cost of existing assets, estimates of the future retirement costs in certain cases, and the gain and loss upon disposal of properties already retired.

Property, plant and equipment used in non-regulated activities are recorded at cost and amortized using the straight-line method over their useful lives (see Note 7).

The amortization rates range from 1.43% to 33.33%.

OBLIGATIONS ASSOCIATED WITH THE RETIREMENT OF PROPERTY, PLANT AND EQUIPMENT

The Partnership records the fair value of an obligation associated with the retirement of property, plant and equipment, when a legal obligation exists, as a liability in the period in which it is incurred, provided that a reasonable estimate of fair value can be made. The obligation is initially measured at fair value using the expected present value technique and is subsequently adjusted to reflect any change resulting from the passage of time and any change in the timing of payment or in the amount of the initial estimate. The liability, presented in accumulated amortization, accretes over the useful life of the related asset.

In most cases, it is impossible to determine the scope of the legal obligations of Gaz Métro-QDA and TQM or when they would have to incur the cost of meeting such obligations. Consequently, a reasonable estimate of the fair value of the related liability cannot be made without undue effort. The Partnership has therefore not recognized any obligations associated with the retirement of property, plant and equipment of Gaz Métro-QDA and TQM. The portion of obligations associated with the retirement of property, plant and equipment recognized by the Partnership in respect of Gaz Métro-QDA is considered in the amortization rates of property, plant and equipment. Management considers it reasonable to expect that the unrecognized portion of the costs associated with the retirement of property, plant and equipment related to the regulated activities of Gaz Métro-QDA and TQM will be recovered from the rates of future fiscal years.

INVESTMENTS AND OTHER

The Partnership accounts for its interests in companies subject to significant influence using the equity method. Other investments are recorded at fair value.

DEFERRED CHARGES AND CREDITS

Deferred charges and credits consist mostly of the costs to be recovered from or revenues to be returned to customers through future rates subject to regulatory treatment.

These charges and credits are deferred and then amortized and returned to or recovered from customers in rates over various periods not exceeding 30 years, depending on their nature (see Note 4).

Deferred charges related to the *Development of information technology* are amortizable intangible assets and include costs incurred by the Partnership to develop information systems and the cost of software and licenses acquired. The Partnership amortizes these costs on a straight-line basis over the estimated useful life of each asset, which range from five to ten years.

Other deferred charges consist of numerous items of lesser monetary value and are amortized on a straight-line basis over a weighted average period of two years.

INTANGIBLE ASSETS

Intangible assets represent almost entirely the value of the clientele acquired on the acquisition of an interest in a joint venture. They are recorded at cost and amortized on a straight-line basis over 25 years. They are tested for impairment annually or more often if events or changes in circumstances indicate their carrying amount might not be recoverable. This test involves comparing the carrying value and the fair value of the Partnership's intangible assets. If the carrying value exceeds the fair value, the intangible asset is written down by an amount equal to the excess of the carrying value over the fair value.

During the first quarter of fiscal 2009, the Partnership changed the date of its annual impairment test for intangible assets from September 30 to April 1.

GOODWILL

Goodwill is the excess of the acquisition cost over the net amount of the values assigned to the assets acquired and liabilities assumed when an enterprise is acquired. Goodwill, which is not amortized, is tested for impairment annually or more frequently if events or changes in circumstances indicate that goodwill might not be recoverable. The impairment test compares the carrying amount and the fair value of the Partnership's reporting units. If the carrying amount of a reporting unit is greater than its fair value, the goodwill is written down by an amount equal to the excess of the carrying amount over the fair value. The fair value of a reporting unit is calculated based on the discounted cash flow method or using external valuations.

During the first quarter of fiscal 2009, the Partnership changed the date of its annual impairment test for goodwill from September 30 to April 1.

IMPAIRMENT OF LONG-TERM ASSETS

The Partnership's long-term assets are tested for impairment if an event or changes in circumstances indicate their carrying amount might not be recoverable. The carrying amount of a long-term asset is not recoverable if it exceeds its fair value, in which case an impairment loss is recorded in income and is equal to the amount by which the carrying amount exceeds fair value. Fair value is determined using valuation techniques, such as market price, if available, or the discounted future cash flow method.

DEVELOPMENT ACTIVITIES

The costs related to development activities are capitalized as of the moment when Gaz Métro has reasonable assurance that these costs will be recovered in the future.

Note 2. Significant accounting policies (cont'd)

FOREIGN CURRENCY TRANSLATION

Foreign currency monetary assets and liabilities of Canadian enterprises are translated into Canadian dollars at the rate of exchange prevailing on the balance sheet date; other assets and liabilities are translated at the rate of exchange prevailing on the transaction date. Foreign currency revenues and expenses are translated into Canadian dollars at the average rate prevailing during the fiscal year, except revenues and expenses related to non-monetary assets and liabilities, which are translated at historical exchange rates. Exchange gains and losses arising from translation are carried to income for the current year.

The assets and liabilities of a foreign company subject to significant influence and foreign subsidiaries that are considered self-sustaining with respect to financing and operations are translated into Canadian dollars at the rate of exchange prevailing on the balance sheet date. Revenues and expenses are translated at the average rate prevailing during the fiscal year. The resulting gains and losses are presented in accumulated other comprehensive income.

REVENUE RECOGNITION

Most of the Partnership's revenues are attributable to regulated activities, and to a lesser extent, non-regulated activities.

Revenues from regulated activities are derived primarily from natural gas and electricity distribution and transportation activities in Canada and the United States. These revenues are recognized in accordance with underlying agreements approved by the various regulatory bodies. Differences between recorded and billed revenues result in regulatory assets and liabilities that are presented as deferred charges and deferred credits.

Revenues from non-regulated activities are derived from services, consulting and equipment sales. These revenues are recognized when they are earned, that is, when the following conditions have been met:

- services have been provided or products delivered to customers;
- persuasive evidence of an arrangement exists;
- amounts are fixed or determinable; and
- collection is reasonably assured.

GOVERNMENT ASSISTANCE

Government assistance is recognized when it is more likely than not that it will be realized and is recorded using the cost reduction method. Under this method, government assistance is applied against the related expense or asset.

INCOME TAXES

For income derived from regulated activities, the Partnership has elected to recognize income taxes using the taxes payable method, as described in Section 3465 of the Handbook of the Canadian Institute of Chartered Accountants (the Handbook). The future income tax assets and liabilities relating to differences between the tax value and the carrying amount of assets and liabilities are not recorded because it is expected that future income taxes will be considered in setting the rates approved by Canadian regulatory bodies and billed to customers in future rates. Accordingly, Gaz Métro has not recognized any future income taxes in respect of its regulated activities but has reported the value of such future taxes using the tax liability method in Note 4.

Gaz Métro and its subsidiaries and joint ventures formed as limited partnerships do not show current income tax expenses, since under existing tax legislation, it is the Partners who are taxable.

On June 22, 2007, the House of Commons adopted Bill C-52 implementing the proposed amendments to the *Income Tax Act* in the Minister of Finance's Tax Fairness Plan tabled on October 31, 2006 and affecting certain public income trusts and limited partnerships (specified investment flow-through entities). On October 1, 2007, the Canadian Institute of Chartered Accountants (CICA) issued EIC-167 requiring specified investment flow-through entities such as Gaz Métro to recognize the impacts of amendments to the *Income Tax Act* when the legislative provisions are substantively enacted. Since fiscal 2007, the application of those amendments has resulted in the recording of a future income tax liability related to the activities of Gaz Métro and its subsidiaries and joint ventures formed as limited partnerships that do not meet the definition of "rate regulated" within the meaning of the Handbook (see Note 19).

Subsidiaries and joint ventures formed as corporations use the tax liability method to recognize income taxes. Under this method, future income tax assets and liabilities are determined according to differences between the carrying amount and the tax value of assets and liabilities. They are measured by using enacted or substantively enacted tax rates and laws at the date of the financial statements for the years in which the temporary differences are expected to reverse.

EMPLOYEE FUTURE BENEFITS

Gaz Métro-QDA recognizes the costs related to pension benefits and other postretirement benefits in its income as the amounts are disbursed in accordance with the actuarial valuations based on long-term assumptions on the expected return on the plan assets, salary increases and retirement age.

Gaz Métro's subsidiaries and joint ventures account for employee future benefits in accordance with the accounting practices prescribed by the CICA. The pension costs for defined contribution plans correspond to the amount of contributions paid. The costs for defined benefit plans and other postretirement benefits are actuarially determined based on a projected benefit method prorated according to eligible years of service and are recognized as the services are rendered by the employees.

The assets of the pension plans are measured at fair value, which is based on market values on the measurement date. The fair value method is used to calculate the expected return on plan assets.

VGS and GMP use a regulatory treatment to account for unamortized actuarial losses, unamortized past service costs and unamortized transitional obligations (refer to Note 4 for more details).

Actuarial gains and losses that exceed 10% of the maximum between the accrued benefit obligation and the fair value of the assets at the beginning of the period are amortized over the remaining estimated working career of the group of employees, which is 11 years for employees covered by the pension plans and other postretirement benefits. Actuarial gains and losses that are less than the 10% corridor are not amortized.

The past service cost arising from changes to the plans is deferred and amortized on a straight-line basis over the remaining estimated working career of the group of employees at the date of the changes.

The transitional assets and liabilities are amortized using the straight-line method over 14 years, which corresponds to the remaining estimated working career of the group of employees that should receive benefits under the plans.

FINANCIAL INSTRUMENTS

A financial instrument is a contract that gives rise to a financial asset for one party to the contract and to a financial liability or equity instrument for another party. Financial instruments are recognized on the balance sheet when the Partnership becomes party to the contractual obligations of the instrument.

Financial instruments are measured at their fair value upon initial recognition. The measurement of financial instruments in subsequent periods and recognition of changes in fair value depend on their classification.

The classification of the Partnership's financial instruments in the various categories is presented in the following table:

CATEGORIES	FINANCIAL INSTRUMENTS
Financial assets and liabilities held for trading	Cash and cash equivalents Grants receivable Surrender value of life insurance policies Investments in asset-backed commercial paper Derivative financial instruments that do not qualify as hedging items
Loans and receivables	Trade and other receivables
Financial liabilities not held for trading	Bank overdraft Bank loans Accounts payable and accrued liabilities Long-term debt

Assets and liabilities held for trading are recognized at their fair value on the balance sheet. Gains and losses arising from changes in fair value are recognized in income for the period in which they arise, except for the consideration for derivative financial instruments relating to regulated activities, which is recognized in deferred charges (see Note 4).

Loans and receivables and financial liabilities not held for trading are recognized at amortized cost in accordance with the effective interest rate method, which, upon initial recognition, equals their fair value.

DERIVATIVE FINANCIAL INSTRUMENTS

The Partnership uses derivative financial instruments to reduce or eliminate the risks inherent in certain transactions and identifiable balances that arise in the normal course of business. Such risks arise from fluctuations in natural gas and electricity prices, interest rates and foreign exchange rates. The Partnership therefore uses derivative financial instruments to ensure that unfavourable fluctuations in cash flows as a result of those transactions and balances are offset by changes in cash flows from derivative financial instruments. The Partnership does not hold or issue any derivative financial instruments for speculative purposes.

Note 2. Significant accounting policies (cont'd)

The Partnership uses energy derivative financial instruments to manage its exposure to the volatility of natural gas prices such as fixed-price swaps, maximum payout swaps, collars and three-way collars. The prices paid are based on indices and are therefore variable. The tools used make it possible to fix or contain prices in accordance with temporal, volumetric and financial limits approved by the Régie in connection with Gaz Métro-QDA or by management in the case of VGS. GMP uses fixed-price swaps to manage its risk related to the option in the 9701 Agreement with Hydro-Québec, under which Hydro-Québec may purchase certain quantities of electricity at a fixed price. Energy derivative financial instruments are classified as held for trading and, accordingly, are not designated as hedging instruments that meet the requirements for hedge accounting.

In the case of energy distribution utilities, changes in the fair value of derivative financial instruments that are not designated in a hedging relationship, excluding embedded derivatives, are recognized in a deferred charges account as required by the Régie and the VPSB (see Note 4) since they are reimbursed or recovered through energy supply rates.

The Partnership also uses forwards to manage its exchange risk exposure with respect to a significant portion of Canadian dollar natural gas purchases for VGS and interest rate swaps to fix the interest rate on a portion of the floating rate borrowings of VGS. These derivative financial instruments are not designated as hedging instruments that meet the requirements for hedge accounting. Accordingly, changes in fair value of these held-for-trading derivative financial instruments are recorded in a deferred charges account under a regulatory mechanism (see Note 4).

HEDGING RELATIONSHIPS

Designation as a hedge is only permitted, if, at the inception and throughout the term of the hedge, it is expected that changes in the fair value of the derivative financial instruments, will offset all changes in the fair value of the hedged item attributable to the hedged risk.

One of the Partnership's joint ventures uses interest rate swaps to fix interest rates on a portion of its floating rate borrowings. This joint venture applies cash flow hedge accounting.

The Partnership formally documents all relationships between hedging instruments and hedged items as well as the risk management objectives and strategy behind its hedging activities. This process involves matching all derivative financial instruments with cash flows related to a specific liability. The Partnership also formally documents and measures, at the inception of the hedge and continuously thereafter, whether the derivative financial instruments used as a hedge are effective to offset changes in the fair value or the cash flows of the hedged items.

The effective portion of changes in the fair value of a financial instrument designated as a hedge is recognized in other comprehensive income, and the gains and losses related to the ineffective portion are immediately recognized in income. Amounts charged to accumulated other comprehensive income are reclassified in income in the period during which the changes in cash flow of the hedged item impact income. Hedge accounting is discontinued prospectively when a derivative instrument ceases to satisfy the conditions for hedge accounting, when it is sold or liquidated, or when the Partnership terminates its designation as a hedge. If the hedged item ceases to exist, the unrealized gains or losses recognized in other comprehensive income relating to this item are immediately reclassified in income.

EMBEDDED DERIVATIVES

An embedded derivative that is not closely related to the host contract must be separated and classified as a financial instrument held for trading. It should therefore be accounted for at fair value by recognizing the changes in fair value in income. The transaction costs related to the embedded derivative must also be recognized in income. As at September 30, 2009 and 2008, the Partnership does not have any hybrid instrument that includes an embedded derivative to be separated from the host contract.

COMPREHENSIVE INCOME

Comprehensive income is the change in equity or net assets of an enterprise during a period caused by factors from non-owner sources and comprises the Partnership's net income and other comprehensive income. Other comprehensive income comprises the revenues, expenses, gains and losses that are recognized in comprehensive income but excluded from net income and includes exchange gains and losses on net investments in self-sustaining foreign operations and changes in the fair value of derivative financial instruments designated as cash flow hedges, net of income taxes in all cases. The components of comprehensive income are presented in the Consolidated Statement of Comprehensive Income.

TRANSACTION COSTS

Transaction costs relating to the long-term debt of the regulated activities are presented as deferred charges and amortized on a straight-line basis in accordance with regulatory requirements (see Note 4). Transaction costs with respect to financial instruments related to activities not subject to rate regulation and that are not classified as held for trading are recognized as an adjustment to the cost of the underlying financial instrument in the balance sheet upon recognition and are amortized using the effective interest rate method.

UNIT OPTION PLAN

Up to December 31, 2008, Gaz Métro was offering a unit option plan to named senior executives. The Partnership was accounting for awards of options using the fair value method, whereby the compensation cost is measured on the award date at fair value and is expensed over the option vesting period.

NET INCOME PER UNIT

Net income per unit is calculated on the basis of the weighted average number of units outstanding. The treasury stock method is used to determine the dilutive effect of unit options outstanding.

Note 3. Accounting changes

A) INVENTORIES

In June 2007, the CICA issued Handbook Section 3031, *Inventories*, which replaces Section 3030 of the same title. The new section provides further guidance on the measurement of inventories and disclosures to be provided. In particular, the section requires inventories to be measured at the lower of cost and net realizable value and that fixed and variable production overheads be systematically allocated to the carrying amount of inventory. This new section applies to financial statements relating to fiscal years beginning on or after January 1, 2008. Accordingly, Gaz Métro adopted these new standards during its fiscal year beginning October 1, 2008.

However, since the main activities of Gaz Métro are rate-regulated and the Partnership measures its inventories using a method approved by the Régie and the VPSB, the application of the new section will not have any impact on Gaz Métro's net income. If Gaz Métro had not had rate-regulated activities, this section would have resulted in an inventory write down of \$1,840,000 as at September 30, 2009. However, the impact would have been included in a rate application such that the write down could be recovered from customers. Moreover, it would not have had a deferred credits account in the amount of \$60,356,000 related to energy price differences or a deferred charges account in the amount of \$19,919,000 related to inventory revaluation, both as at September 30, 2009, and an amount of \$8,232,000 would have been reclassified from inventories to property, plant and equipment. For inventories related to non-regulated activities, Gaz Métro did not recognize any significant impact on its consolidated financial statements.

B) GOODWILL AND INTANGIBLE ASSETS

In February 2008, the CICA issued Section 3064, *Goodwill and Intangible Assets*, which replaces Section 3062, *Goodwill and Other Intangible Assets*, and Section 3450, *Research and Development Costs*. This section establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets in order to align GAAP with international financial reporting standards (IFRS). This new section applies to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Partnership adopted these new recommendations during its fiscal year commencing on October 1, 2008. This section did not have an impact on the Partnership's consolidated financial statements. Management is assessing the impacts of the scope of this section following the elimination of the temporary exemption in Section 1100, *Generally Accepted Accounting Principles*, as described in D).

C) FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

On January 20, 2009, the CICA issued EIC-173, *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*, which provides further clarification on the determination of the fair value of financial assets and financial liabilities under Section 3855, *Financial Instruments - Recognition and Measurement*. EIC-173 states that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative financial instruments. This recommendation is to be applied retroactively, without restatement of prior period financial statements, to all financial assets and financial liabilities measured at fair value in the interim and annual financial statements for periods ending on or after January 20, 2009. This abstract came into effect for Gaz Métro on October 1, 2008.

Gaz Métro's method of measuring derivative financial instruments has been changed to comply with this abstract. Before EIC-173 was issued, Gaz Métro would obtain confirmation from counterparties of the fair value of most of its derivative financial instruments. For preparation of the financial statements for the year ended September 30, 2009, the fair value of swaps, forwards and fixed-price swaps was calculated on a future cash flow basis. The fair value of options is calculated using the Black-Scholes pricing model recognized by the financial markets. To comply with EIC-173, a risk premium is added to the risk-free interest rate in estimating fair value to reflect the credit risk of both the Partnership and each counterparty (refer to Note 23).

Note 3. Accounting changes (cont'd)

The fair value of derivative financial instruments generally reflects the estimated amounts the Partnership would receive on settlement of favourable contracts or would be obliged to pay to terminate unfavourable contracts on the balance sheet date. Furthermore, the fair value of derivative financial instruments is determined using the spot rates or forward prices or rates at the close of markets on the balance sheet date. If this information is not available for a specific instrument, the Partnership uses the forward rate or price of an equivalent instrument.

As at October 1, 2008, the new method used to measure the fair value of derivative financial instruments had the following impact on the consolidated balance sheet:

	PRESENTED SEPTEMBER 30, 2008	IMPACT OF EIC-173	RESTATED OCTOBER 1, 2008
ASSETS			
Derivative financial instruments	\$13,601	\$ 374	\$13,975
Deferred charges related to financial instruments	32,930	(2,280)	30,650
	<u>\$46,531</u>	<u>\$(1,906)</u>	<u>\$44,625</u>
LIABILITIES			
Derivative financial instruments	\$46,699	\$(1,969)	\$44,730
	<u>\$46,699</u>	<u>\$(1,969)</u>	<u>\$44,730</u>
PARTNERS' EQUITY			
Retained earnings	\$ 140	\$ -	\$ 140
Accumulated other comprehensive income	(308)	63	(245)
	<u>\$ (168)</u>	<u>\$ 63</u>	<u>\$ (105)</u>

FUTURE ACCOUNTING CHANGES**D) RATE-REGULATED ACTIVITIES**

In August 2007, the CICA eliminated the temporary exemption in Section 1100, *Generally Accepted Accounting Principles*, which permitted assets and liabilities arising from rate regulation to be recognized and measured on a basis other than in accordance with primary sources of Canadian GAAP. Additionally, Section 3465, *Income Taxes*, was amended to require recognition of future income tax assets and liabilities related to entities subject to rate regulation. These accounting changes apply prospectively to interim and annual financial statements for fiscal years beginning on or after January 1, 2009, without restatement of prior periods. Accordingly, the Partnership will adopt these new standards during its fiscal year commencing on October 1, 2009.

Income taxes

In accordance with the amendment to Section 3465, the Partnership will be required to recognize a future income tax liability and an offsetting regulatory asset corresponding to the amount of future income taxes that are expected to be returned to or recovered from customers in rates, for entities subject to rate regulation. The Partnership currently uses the taxes payable method to account for the income taxes of its regulated activities. If the new requirements of Section 3465 had been applied for the year ended September 30, 2009, the Partnership would have recognized an additional future income tax liability of \$86,496,000, related primarily to property, plant and equipment, and an equivalent offsetting regulatory asset. This change will not have any impact on the Partnership's net income.

Employee future benefits

The Partnership recognizes the costs of pension and other postretirement benefits of Gaz Métro-QDA, VGS and GMP in accordance with regulatory treatments, as described in Note 4. In accordance with the amendment to Section 1100, the Partnership will be required to determine the cost of defined benefit plans and other postretirement benefits using an actuarial calculation based on a projected benefit method prorated according to eligible years of service.

For Gaz Métro-QDA, had the Partnership applied the new Section 1100 requirements for the fiscal year ended September 30, 2009, it would have recorded an additional employee future benefits liability of \$21,000,000. An offsetting regulatory asset equal to this change would have been recognized due to Gaz Métro-QDA's regulatory mechanism. This change will not have any impact on the Partnership's net income.

In addition, for VGS and GMP, if the Partnership had applied the Section 1100 requirements for the fiscal year ended September 30, 2009, the regulatory asset and the employee future benefits liability would have been reduced by the amount of the unamortized balances, i.e., by \$30,714,000. This change will not have any impact on the Partnership's net income.

Allowance for vacation

The Partnership recognizes the cost of vacation granted to Gaz Métro-QDA employees in income when such costs are disbursed, in accordance with the method of recovering costs in rates. In accordance with the amendment to Section 1100, the Partnership will be required to use accrual accounting to recognize vacation payable. Had the Partnership applied the new Section 1100 requirements for the fiscal year ended September 30, 2009, it would have recorded a vacation payable liability in the amount of \$6,450,000 and an equivalent offsetting regulatory asset. This change will not have any impact on the Partnership's net income.

Transaction costs

Transaction costs relating to long-term debt with respect to regulated activities are presented as deferred charges and are amortized on a straight-line basis in accordance with regulatory requirements (see Note 4). In accordance with the change made to Section 1100, the Partnership will be required to apply transaction costs against its debt and amortize them using the effective interest rate method. Had the Partnership applied the new requirements in Section 1100 for its fiscal year ended September 30, 2009, it would have reduced its debt by \$8,602,000 and its deferred charges by the same amount. This change will have no impact on the Partnership's net income or on its debt/total capitalization ratio.

Deferred charges related to the development of information technology

The Partnership presents capitalized costs relating to the development of information technology as deferred charges, as is accepted by the Régie. In accordance with the change to Section 1100, the Partnership will be required to present capitalized costs relating to the development of information technology as intangible assets. Had the Partnership applied the new requirements in Section 1100 for its fiscal year ended September 30, 2009, it would have increased its intangible assets by \$38,520,000 and reduced its deferred charges by the same amount as an offset. This change will have no impact on the Partnership's net income.

The Partnership is currently evaluating the additional impact on its consolidated financial statements, if any, of applying these new standards.

E) INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

In February 2008, the Accounting Standards Board (AcSB) announced that publicly-accountable enterprises will be required to adopt IFRS for interim and annual financial statements of fiscal years beginning on or after January 1, 2011. Accordingly, the Partnership will adopt these new standards starting in its 2012 fiscal year and will present restated information in accordance with IFRS for the prior year. IFRS will require additional financial statement disclosures, and while IFRS use a conceptual framework similar to GAAP, enterprises will have to take the differences in accounting principles into account.

Under GAAP, Gaz Métro currently uses certain accounting policies specific to rate-regulated activities that allow for the recognition of regulatory assets and liabilities, among other things. This concept of rate regulated activities do not exist under current IFRS, unlike GAAP currently in effect. However, the International Accounting Standards Board (IASB) issued the exposure draft in July 2009 clarifying the application of some of these accounting policies under IFRS. It plans to publish the final standard, which would apply on or after January 1, 2011, in June 2010.

Under this exposure draft, entities with rate-regulated activities that meet the criteria in its scope of application may account for regulatory assets and liabilities in their IFRS financial statements. The draft also provides specific information regarding the fact that entities subject to rate regulation must meet the requirements of all other IFRS, in addition to those proposed in the exposure draft. These assets and liabilities would be valued at the current value expected for cash flows to be recovered or reimbursed due to regulations, adjusted to take into account their likelihood of being realized. The Partnership is actively monitoring these discussions and developments regarding this matter and is analyzing the impacts of this potential new standard on the IFRS transition project.

Based on the current project status, it is impossible to quantify how the future transition to IFRS will impact the consolidated financial statements and the notes thereto as well as the rate setting process. Considering the current differences between GAAP and IFRS, the impacts may be material. Additional information will be disclosed during the course of the project.

F) CONSOLIDATED FINANCIAL STATEMENTS AND NON-CONTROLLING INTERESTS

In January 2009, the AcSB issued Section 1601, *Consolidated Financial Statements*, and Section 1602, *Non-controlling Interests*, which replace Section 1600, *Consolidated Financial Statements*. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary subsequent to a business combination in the consolidated financial statements of a parent company. Section 1602 is the equivalent of the corresponding provisions of International Accounting Standard (IAS) 27, *Consolidated and Separate Financial Statements*. These sections apply to the consolidated interim and annual financial statements for fiscal periods beginning on or after January 1, 2011. Accordingly, Gaz Métro is assessing any impacts resulting from the application of these new standards on its consolidated financial statements and plans to adopt them starting October 1, 2011.

Note 3. Accounting changes (cont'd)

These sections, as well as Section 1582, *Business Combinations*, must be applied simultaneously if adopted by Gaz Métro for a fiscal year beginning before October 1, 2011.

G) BUSINESS COMBINATIONS

In January 2009, the AcSB also issued Section 1582, which replaces Section 1581, *Business Combinations*. This standard is meant to be the Canadian equivalent of IFRS 3, *Business Combinations*. This section applies prospectively to business combinations with an acquisition date falling in a fiscal period beginning on or after January 1, 2011. Gaz Métro plans to apply this section to business combinations with an acquisition date falling after September 30, 2011, although it is assessing the impact that applying these new standards will have on its consolidated financial statements. Section 1582 must be applied simultaneously with sections 1601 and 1602 if adopted by Gaz Métro for a fiscal year beginning before October 1, 2011.

H) FINANCIAL INSTRUMENTS – DISCLOSURES

In June 2009, the CICA amended Section 3862, *Financial Instruments – Disclosures*. This section has been amended to introduce new financial disclosure requirements, particularly with respect to fair value measurement of financial instruments and entity exposure to liquidity risk. The amendments to this section apply to annual financial statements for years ending after September 30, 2009. Accordingly, the Partnership will adopt the new financial disclosure requirements during its fiscal year beginning October 1, 2009. The Partnership does not expect there to be any impact on its consolidated net income resulting from the adoption of this section.

Note 4. Rate regulation

APPROVAL OF RATES

The Partnership operates in various regulated sectors where the cost of energy and providing services are recovered in rates charged to customers. The following information presents the Partnership's main regulated enterprises and the impact of regulations on the resulting accounting treatment.

Establishments regulated in Quebec**QUEBEC DISTRIBUTION ACTIVITY**

The activities of Gaz Métro-QDA are regulated by the *Act respecting the Régie de l'énergie*. Rates are established primarily on a cost-of-service-based method, which allows Gaz Métro-QDA to fix its revenues each year so as to recover the costs it expects to incur to serve its customers and earn a reasonable base return on deemed Partners' equity allocated to this activity. In addition, an incentive return can be earned for improving financial performance. The incentive return stems from a performance incentive mechanism that was implemented in October 2000, subsequently amended and due to expire in September 2012.

For regulatory purposes, cost of service includes deemed income and capital taxes. The deemed income and other taxes are computed as though Gaz Métro was a taxable Canadian corporation, notwithstanding the tax status and the tax rate of the Partners.

The Régie has established that the rate of return on the rate base is to be fixed using a "deemed" capital structure, in which Partners' deemed equity is in the order of 46.0%, including 38.5% that is compensated as if it were common shares and 7.5% as if it were preferred shares.

The authorized base rates of return are determined using formulas approved by the Régie. For the year ended September 30, 2009, they were 8.76% on Partners' deemed common share equity and 5.25% on deemed preferred share equity compared to 9.05% and 5.38% respectively, for the preceding year. An incentive return of 0.18% has also been authorized on Partners' deemed common share equity based on anticipated productivity gains for the 2009 fiscal year compared to 0.47% the preceding year.

With respect to supply service, i.e., supplying natural gas, the *Act respecting the Régie de l'énergie* states that the distributor shall sell natural gas at its actual purchase cost.

Establishments regulated elsewhere in Canada**TQM AND CHAMPION**

The main activity of TQM, in which Gaz Métro owns a 50.0% interest, and Champion, which is wholly owned by Gaz Métro, is the transportation of natural gas. These activities are regulated by the NEB, an independent federal organization that regulates the international and inter-provincial aspects of the petroleum, natural gas and electricity industries with respect to revenue determination, tolls, construction and operations.

This organization approves the tolls based on the annual cost of service, which includes a specified annual return on equity as well as operating expenses, taxes and amortization. A toll schedule based on the estimated cost of service is applied for the current year, and the difference between the estimated and actual cost of service is included in the tolls for the following year.

The current rate of return on equity is based on the rate-of-return formula approved by the NEB and adopted during hearing RH-2-94 on the cost of capital of a number of pipeline companies. The deemed equity ratio is set at 30.0% of the rate base, on a temporary basis, in the case of TQM, and at 46.0% in the case of Champion. The return authorized for TQM on an interim basis was 8.71% for its fiscal year ending December 31, 2009. On December 17, 2007, TQM filed a rate application seeking an increase in its authorized rate of return with the NEB for fiscal years 2007 and 2008. The application was for the approval of an 11.0% return on deemed common equity of 40.0%. The NEB held hearings on the matter in September and October 2008 and rendered a decision on March 19, 2009. In its decision, the NEB agreed to waive its usual formula and adopted a new methodology to establish TQM's 2007 and 2008 return on equity and rates, namely, an after-tax weighted average cost of capital (ATWACC) set at 6.4%, giving TQM the latitude to determine its optimal capital structure.

Following this decision, TQM was able to recover the additional amounts arising from the new return granted, which corresponds to 11.86% on a deemed common equity of 30.0% for the years 2007 and 2008.

On October 8, 2009, the NEB ruled that its 1994 formula used to calculate the return on share capital of pipeline companies and used to determine the capital cost of these companies shall cease to be in effect. Instead, capital cost will be determined in negotiations among pipeline companies and companies making shipments, or by the NEB if the pipeline company so requests.

On September 15, 2009, TQM filed a provisional rate application for fiscal 2009 and used the same approach as for the 2007 and 2008 fiscal years. The NEB rendered a favourable decision to this application on October 29, 2009. TQM's interim rates, adjusted upward to reflect a rate of return equivalent to an ATWACC of 6.4%, came into effect on November 1, 2009. Until this date, TQM had established interim rates for fiscal 2009 using the old formula adopted by the NEB.

For Champion, the authorized rate of return was 8.76% for its fiscal year ended September 30, 2009, compared to 9.05% for its previous fiscal year.

Establishments regulated in the United States

VGS AND GMP

VGS and GMP, two indirectly wholly owned subsidiaries of Gaz Métro, are regulated by the VPSB. Rates for their activities are established using a cost-of-service-based method, which enables them to fix their revenues so as to recover the costs they expect to incur to serve their clientele and earn a reasonable base return on deemed shareholder's equity. Deemed shareholder's equity was 55.0% of the rate base for the 2009 and 2008 fiscal years for VGS and 51.4% and 52.2% in 2009 and 2008 respectively for GMP. The authorized base rate of return on common equity, which is set by the VPSB, has been 10.50% since October 1, 2006 for VGS and has been 9.81% for GMP since January 1, 2009, but covering, exceptionally, a period of nine months ended September 30, 2009, compared with 10.21% from January 1 to December 31, 2008. This change in period for GMP will enable it to align the period covered by its rate case with its fiscal year, which ends on September 30.

A rate agreement was approved by the VPSB on September 21, 2006 and came into force on October 1 of that year. It includes a quarterly natural gas price adjustment formula for VGS and the ability to submit an annual rate application for the other items, excluding gas costs. GMP has had a similar quarterly and annual adjustment mechanism for the price of electricity and rates for other items since February 1, 2007.

PNGTS

PNGTS, in which Gaz Métro owns a 38.3% indirect interest, operates a gas pipeline in the northeastern United States. It is regulated by the FERC in accordance with the terms and conditions of the *Natural Gas Act* for the regulation of natural gas transportation rates.

The objective of the FERC regulations is to ensure the recovery of costs in rates that also include a reasonable base return on Partners' equity. On April 1, 2008, PNGTS filed a rate case renewal application under Section 4 of the *Natural Gas Act*. A decision has not yet been rendered. The hearings, which were originally scheduled for March, began on July 13, 2009 and ended on July 28, 2009. A FERC decision is expected in the fall of 2009.

IMPACT OF RATE REGULATION ON CONSOLIDATED FINANCIAL STATEMENTS

To reflect current or expected regulatory body measures, the accounting policies adopted by the Partnership may differ from the policies that would normally be adopted by a non-regulated enterprise. Set out below is a description of these differences and their impacts on the financial statements.

Note 4. Rate regulation (cont'd)

REVENUE RECOGNITION

The accounting policies are described under *Revenue Recognition* in Note 2 and the impacts of these policies are described under *Regulatory Assets and Liabilities* of this note.

PROPERTY, PLANT AND EQUIPMENT AND AMORTIZATION

The impact of rate regulation on the accounting treatment of these assets is described under *Property, Plant and Equipment* in Note 2.

Without the accounting treatment applicable to rate-regulated entities, the capitalized equity component of the return for certain construction projects, the corresponding income and the subsequent amortization of these items would not be recognized.

Realized gains and losses on the disposal of retired properties are, as prescribed by current regulations, recorded mainly as adjustments to accumulated amortization related to property, plant and equipment instead of being included directly in income.

Without the accounting treatment applicable to rate-regulated entities, the costs of retiring property, plant and equipment that are capable of being estimated would result in liabilities in the balance sheet. The offset would be recorded as an increase in the costs of property, plant and equipment. The Partnership recognizes these liabilities as an increase to accumulated amortization as the amortization expense, which includes a retirement cost component, is recorded.

The Partnership is unable to make a reasonable estimate of the monetary impact of these practices, related to rate regulation, on the value of property, plant and equipment, amortization expense or other components of the financial statements.

Finally, according to a regulatory treatment, Gaz Métro-QDA begins amortizing capital assets at the start of the year following the commissioning of these assets and ceases on the last day of the year in which the assets are disposed of or decommissioned. Without the accounting treatment applicable to rate-regulated entities, the amortization of capital assets would have begun when the assets were commissioned and would have ceased upon their disposal or decommissioning. According to this practice, amortization expenses would have been \$2,286,000 and \$2,790,000 higher for 2009 and 2008 respectively. However, these additional expenditures would have been recovered from customers through the rate setting process, thereby cancelling the impact on income.

EMPLOYEE FUTURE BENEFITS

Gaz Métro-QDA recognizes the costs of pension benefits and other postretirement benefits in income when they are disbursed in accordance with the method of recovering costs in rates. Further details about the impact of rate regulation on the accounting treatment of these items are provided under *Employee Future Benefits* in Notes 2 and 18 and under *Regulatory Assets and Liabilities* of this note.

Without the accounting treatment applicable to rate-regulated entities, the cost of defined benefit pension plans and other postretirement benefits would be determined using an actuarial calculation based on a projected benefit method prorated according to eligible years of service and recognized in income as the services were rendered by the employees. If this practice had been applied, an additional pension plan and other postretirement benefit liability of \$21,000,000 and \$9,993,000 would have been presented in the balance sheet as at September 30, 2009 and 2008, and the costs recorded would have been higher by \$7,664,000 and \$3,790,000, respectively, during fiscal years 2009 and 2008. However, these costs would have been included in a rate application so they could be recovered from customers, thereby eliminating the impact on income.

INCOME TAXES

For income derived from its regulated activities in Quebec, the Partnership has elected to account for income taxes using the taxes payable method as described in Handbook Section 3465. Future income tax assets and liabilities relating to differences between the tax value and the carrying amount of assets and liabilities are not recorded because it is expected that future income taxes will be included in rates approved by Canadian regulatory bodies and billed to customers in future rates. Without the accounting treatment applicable to rate-regulated entities, the Partnership would have adopted the tax liability method and would have recognized future income tax assets and liabilities.

Future income tax assets and liabilities are measured as at the date of the financial statements using enacted or substantively enacted tax rates and laws for the years in which the temporary differences are expected to reverse. As at September 30, 2009, adoption of the tax liability method would have led to the recognition of an additional future income tax liability on the balance sheet of \$86,496,000 compared to \$92,516,000 as at September 30, 2008.

ACQUISITION OF A SUBSIDIARY

In connection with the acquisition of a rate-regulated enterprise, the Partnership used the carrying amount of assets acquired and liabilities assumed in the purchase price allocation and attributed the full amount of the excess purchase price to goodwill. Under regulated accounting, assets included in the rate base generate a return through cash flows. Since these future cash flows are regulated, the fair value of assets is equal to their cost. Without the accounting treatment applicable to rate-regulated entities, the purchase price allocation would have differed, since the Partnership would have remeasured the assets and liabilities at their fair value. The Partnership is unable to reasonably determine the monetary impact of these practices on the purchase price allocation, value of intangible assets or other accounts.

ALLOWANCE FOR VACATION

The Partnership recognizes the cost of vacation granted to employees in income when such costs are disbursed, in accordance with the method of recovering costs through Gaz Métro-QDA rates.

Without the accounting treatment applicable to rate-regulated entities, the Partnership would have to use accrual accounting to recognize vacation payable. If the Partnership had applied this practice, it would have recognized a liability equal to the amount of vacation payable as at September 30, 2009, i.e., \$6,450,000. The allowance would have been \$6,128,000 as at September 30, 2008, and the impact on fiscal 2009 income would be the difference between the allowance for fiscal 2009 and fiscal 2008.

REGULATORY ASSETS AND LIABILITIES

Regulatory assets represent the costs the Partnership expects to recover from the customers of Gaz Métro-QDA and the VGS and GMP subsidiaries in future years through the rate setting process, as approved by the various regulatory bodies. Regulatory liabilities represent revenues the Partnership expects to return to its customers in future years through the rate setting process.

Regulatory assets and liabilities would not be accounted for in the same manner if the rates were not regulated. They arise from amounts that were not considered in the initial annual rate application or that represent actual differences in revenues or costs from estimates initially presented when the application was filed.

In accordance with the current regulations, interest is generally accumulated on the regulatory asset and liability account balances, which will be recovered or returned through rates charged to customers in the future.

Regulatory assets are reported in the balance sheet under *Deferred charges* (see Note 9) and regulatory liabilities are reported under *Accounts payable and accrued liabilities* and *Deferred credits* (see Note 14). The following table presents the net carrying amount of the regulatory assets and liabilities as at September 30, 2009 and 2008:

	YEAR OF EXPECTED RECOVERY OR SETTLEMENT	2009	2008
REGULATORY ASSETS (LIABILITIES)			
Rate stabilization account related to temperature and wind velocity (a)	2010-2015	\$ 49,983	\$ 61,930
Rate stabilization account related to inventory variances (a)	2010-2011	\$ 13,268	\$ 1,429
Expenses related to energy costs (b)	2010	\$ 4,912	\$ 20,348
Grants paid (c)	2010-2019	\$ 106,297	\$ 105,821
Expenses related to financial instruments (d)	2010-2016	\$ 96,471	\$ 32,930
Expenses related to the Global Energy Efficiency Plan (GEEP) (e)	2010-2011	\$ 4,171	\$ 5,259
Expenses related to funding of pension plans and other postretirement benefits (f)	2010-2027	\$ 42,728	\$ 20,092
Expenses related to Green Fund duty (g)	2010-2015	\$ 8,129	\$ 14,106
Customers' share of overearnings (h)	2010-2011	\$ (29,355)	\$ (18,756)
Reserve related to Energy Efficiency Fund (h)	2010-2015	\$ (18,673)	\$ (17,254)
Financing costs (i)	2010-2038	\$ 8,602	\$ 8,767
Site decontamination costs in the U.S. (j)	2010-2029	\$ 13,326	\$ 13,297

Note 4. Rate regulation (cont'd)

(a) To alleviate the unpredictable and uncontrollable impacts of certain events on its activities, the Régie has authorized Gaz Métro-QDA to use various rate stabilization accounts. The unpredictable impacts for which the Régie authorizes stabilization accounts include mainly the impact of temperature fluctuations and wind velocities on revenues, as well as the impact on income of natural gas inventory variances recorded during the year. The annual variations are amortized so as to be recovered from or returned in rates starting in the second subsequent year over periods of five years for temperature and wind and over one year for inventory variances.

With respect to temperature and wind variances, a net amount of \$1,484,000 to be recovered from customers was recorded in the rate stabilization accounts during the current fiscal year, due to warmer-than-normal temperature and partly offset by stronger-than-normal wind velocity during the year. During fiscal 2008, a net amount of \$14,427,000 to be recovered from customers had been recorded in the rate stabilization accounts related to temperature and wind velocity, due to a warmer-than-normal temperature, partly offset by a stronger-than-normal wind velocity.

The amortization expense for the stabilization account related to temperature and wind velocity was \$13,430,000 in 2009 and \$7,130,000 in 2008.

Adjustments for inventory variances totalling \$11,758,000 in 2009 and \$1,504,000 in 2008 have been deferred to fiscal years 2011 and 2010, respectively, instead of being expensed immediately in income under *Direct costs*. Revenue from amortization with respect to the rate stabilization account for inventory variances of \$81,000 was recorded during fiscal 2009 compared to an expense of \$8,901,000 for fiscal 2008.

Without the accounting treatment applicable to rate-regulated entities, income for fiscal 2009 would have been affected through the use of a different approach for setting rates. The impacts of a different approach are impossible to determine a priori.

(b) The impact of rate regulation on the accounting treatment of these assets is described under *Inventories* in Note 2. The expenses (credits) related to energy costs (natural gas and electricity), are composed of offsets related to inventory revaluations and other adjustments to the cost of energy distributed that are necessary to eliminate the impacts from the sale of energy on income, as prescribed by the Régie and the VPSB. These amounts are then returned to or recovered from customers in the form of a rate adjustment, over a period of three months for electricity and over a period of 12 months for natural gas. Without the regulatory treatment applicable to this situation, a customer account receivable or account payable would have been recorded in the balance sheet in place of the deferred charges or credits because these costs are, by law, fully borne by customers who must ultimately pay for the costs incurred. In substance, these accounts only represent differences in billings to customers that are corrected within a period of three months for electricity and within a period of 12 months for natural gas.

(c) Grants paid are mainly amounts given to Gaz Métro-QDA customers to convert their equipment so they can sign a service contract with Gaz Métro. These amounts are deferred and then amortized over the periods covered by the contracts (generally five years) or longer (ten years) when the customers in question do not have the flexibility to switch to an alternative energy source without making a substantial investment. Under the regulatory treatment used, the Partnership begins amortization in the year following the inception of the contract. Had it not been for the application of this regulatory treatment, the amortization period for grants would have been matched to the periods covered by the underlying service contracts, generally five years, and amortization would have commenced at the inception of the contract. In light of these differences, an additional amortization of deferred charges of \$5,889,000 in 2009 and \$6,656,000 in 2008 would have been recorded and included in a rate application.

(d) The expenses related to financial instruments represent the net impacts of remeasurements of the derivative financial instruments of companies in the energy distribution segment. These financial instruments mature over seven years. Since October 1, 2006, derivative financial instruments must be presented in the balance sheet and remeasured at their fair value. Without the regulatory treatment applicable to this situation, the offset of these remeasurements, which is presently included in the deferred charges accounts, should be recorded directly in income. If regulatory treatment had not been applied, the Partnership would have modified its hedge strategies so that the change in fair value of the financial instruments related to businesses in this sector, which were \$63,541,000 and \$(41,690,000) during fiscal years 2009 and 2008, respectively, would not affect income. It is therefore impossible to determine what the impact would have been on income.

(e) The deferred charges related to the GEEP are composed of the differences between the actual net impact on income and the amount projected at the beginning of the year in Gaz Métro-QDA's rate case. These amounts are deferred and then completely amortized in the second fiscal year following the year they were incurred. If regulatory treatment had not been applied, these differences would have been included in income when incurred, and no subsequent amortization expense would have been recorded. Without this regulatory treatment, income before income taxes would have been \$1,088,000 higher in 2009 and \$2,002,000 higher in 2008.

- (f) According to regulatory treatment, VGS and GMP recognize, in deferred charges, the unamortized balances of their pension plans and other postretirement benefits, i.e., the unamortized net actuarial losses, the unamortized past service costs and the unamortized transitional obligation. These deferred charges are composed of an amount resulting from a regulatory treatment applied for the recognition of the costs of pensions and other postretirement benefits of \$30,714,000 and \$5,235,000 as at September 30, 2009 and 2008 and an amount resulting from the acquisition of GMP of \$12,014,000 and \$14,857,000 as at September 30, 2009 and 2008. Without the regulatory treatment applied for the recognition of retirement and other postretirement benefit costs, deferred charges and accrued benefit liability would have been reduced by \$30,714,000 in 2009 and by \$5,235,000 in 2008, without affecting income. Deferred charges resulting from the acquisition of GMP would have affected the purchase price allocation of the subsidiary. The Partnership is unable to make a reasonable estimate of the impacts of these practices on the purchase price allocation.
- (g) Since October 1, 2007, the Partnership has been subject to the annual Green Fund duty for Gaz Métro-QDA. Deferred charges related to the Green Fund duty correspond to the difference between the duty amount paid and the amount billed to customers and comprise two components. The first, recorded in the first quarter of the fiscal year, is related to the late implementation of the new applicable annual rates. It totalled \$3,652,000 for fiscal 2009 and will be fully amortized during fiscal 2010 (\$13,271,000 in 2008, fully amortized in 2009) so it can be recovered in rates. The second component is related to volumes and results from the difference between volumes actually distributed and the projected volumes and the difference between the actual duty and the projected duty used to set the rate. It totalled \$3,579,000 for 2009 (\$835,000 in 2008) and will be amortized, over a period of five years, so it can be recovered in rates as of fiscal 2011 (this item for fiscal 2008 will be amortized as of fiscal 2010).
- If regulatory treatment had not been applied, these differences would have been included in income when incurred, and no subsequent amortization expense of these charges would have been recorded.
- (h) The customers' share of overearnings is composed of amounts relating to Gaz Métro-QDA and GMP. The performance incentive mechanism relating to Gaz Métro-QDA is explained in the *Results and Balance Sheet* section. Under that mechanism, the Régie requires overearnings attributable to customers to be returned to them, primarily in the form of rate reductions in the year following the approval of such overearnings. Part of the customers' share of the overearnings is also transferred to a fund for energy efficiency projects. These funds will be used in accordance with the plans submitted to the Régie. No date is provided for their use. As for GMP, the excess return attributable to customers is returned to them in the form of a rate reduction over 12 months after the excess is approved by the VPSB. These liabilities are recorded in the years they arise.
- (i) Financing costs are transaction costs relating to long-term debt for regulated activities of Gaz Métro-QDA. They are amortized on a straight-line basis in accordance with regulatory requirements. Without the accounting treatment applicable to rate-regulated entities, these transaction costs would have been applied against long-term debt and amortized using the effective interest rate method. Deferred charges and long-term debt would have been reduced by \$8,602,000 as at September 30, 2009 and by \$8,767,000 as at September 30, 2008. The impact of using a different expensing method is negligible.
- (j) Site decontamination costs in the U.S. represent costs incurred in the amount of \$5,775,000 as at September 30, 2009 and \$5,573,000 as at September 30, 2008 as well as estimated future costs totalling \$7,551,000 as at September 30, 2009 and \$7,724,000 as at September 30, 2008 to eventually be paid out by VGS and GMP to decontaminate land on which a manufactured gas plant that ceased operations in 1966 was located. VGS and GMP, together with other enterprises, were held potentially liable for pollution on this site. The costs incurred and future estimated costs for VGS and GMP have been deferred and are amortized over 10 to 20 years. As an offset to the regulatory asset, a liability of \$7,551,000 as at September 30, 2009 and \$7,724,000 as at September 30, 2008 has been recognized to reflect estimated future disbursements. As approved by the VPSB, costs are amortized to be recovered from future rates without a return on invested capital. Without the regulatory treatment, past costs would have been recorded in income when incurred. Moreover, the consideration for the provision for future costs was apparently recognized in income instead of a regulatory asset.

RISKS AND UNCERTAINTIES

The risks and uncertainties related to the aforementioned regulatory assets and liabilities are periodically monitored and assessed. If the Partnership considered that certain amounts would probably not be recovered or returned through future rate adjustments, following interventions by the Régie or the VPSB, the value of the underlying asset or liability would be adjusted accordingly.

RESULTS AND BALANCE SHEET

The incentive return was \$11,180,000 for Gaz Métro-QDA in 2009 compared to \$13,900,000 in 2008 and for the current year includes:

- productivity gains of \$1,779,000 included in authorized rate of return;
- Gaz Métro's \$5,401,000 share in the overearnings of \$21,970,000 in excess of the return authorized by the Régie; and
- the performance incentive of \$4,000,000 related to achieving the GEEP.

Note 4. Rate regulation (cont'd)

In accordance with the sharing arrangement established in Decision D-2007-47 with respect to the performance incentive mechanism, Gaz Métro included all of these incentive return components in its income for the year. This incentive return is subject to the final approval of the Régie based on its review of the regulatory report that should be submitted in December 2009. The \$16,569,000 overearnings balance was included in *Deferred credits* and will be returned to customers in the form of a rate reduction in fiscal 2011. No contribution was applied to the Energy Efficiency Fund in 2009.

Following the review of the regulatory report for the fiscal year ended September 30, 2008, the Régie issued a ruling in July 2009 and did not approve the additional \$2,900,000 contribution to the pension plans recorded in 2008. As a result, the Régie approved overearnings of \$20,379,000 compared with the amount of \$17,449,000 recorded in fiscal 2008 and authorized Gaz Métro to retain its \$5,061,000 share compared with the amount of \$4,336,000 which had been recorded in fiscal 2008 and which makes it possible to recognize the reversal of the contribution to the pension plans in a deferred charges account that will be recovered in rates during fiscal 2011. Of the \$15,318,000 overearnings balance, \$13,404,000 has been included in *Deferred credits* and will be returned to customers in the form of a rate reduction in fiscal 2010, and \$1,914,000 was contributed to the Energy Efficiency Fund.

Note 5. Sale of a subsidiary

On August 11, 2009, Gaz Métro concluded the sale of all shares issued and outstanding of Aqua-Rehab Inc. (Aqua-Rehab) for a total cash consideration of \$7,428,000, net of related costs. This transaction took effect on June 1, 2009. This subsidiary was previously included in the Energy Services and Other segment.

The sold assets and liabilities of Aqua-Rehab, as reflected in the Partnership's balance sheet, are as follows:

	2009
Current assets	\$ 9,825
Long-term assets (including goodwill of \$683)	6,589
	<u>16,414</u>
Current liabilities	6,094
Long-term liabilities	2,750
	<u>8,844</u>
Net value of assets sold	7,570
Net consideration	7,428
Loss on sale	\$ 142

Note 6. Trade and other receivables

ASSIGNMENT OF CLAIMS

The Partnership has an agreement that ends on September 30, 2010 for the regular assignment, with limited recourse, of claims to a securitization trust. The securitization trust has no recourse against the other assets of the Partnership in the event debtors fail to pay amounts owing when they become due.

Gaz Métro retained responsibility for the management, administration and collection of the claims sold. No asset or liability with respect to the management of the claims has been recorded, given that the monetary benefits that the Partnership derives in this regard are almost equal to the value of the services provided.

The excess of claims assigned over cash amounts received is the amount of subordinated interests retained by the Partnership that are recorded and included on the balance sheet under *Trade and other receivables*. The fair value of these subordinated interests approximates the carrying amount since the claims sold will be recovered over a short period of time.

As at September 30, 2009 and 2008, the amount of the claims derecognized, net of the subordinated interests retained by the Partnership, amounted to \$35,000,000, the maximum authorized amount negotiated with the securitization trust being \$85,000,000.

The expense recorded as a sale of claims was \$837,000 in 2009 and \$1,676,000 in 2008.

No net cash consideration received or paid relating to the assignments and sales of claims has been presented as a change in trade and other receivables in the Consolidated Cash Flows Statement in 2009 and 2008.

Note 7. Property, plant and equipment

2009					
	AVERAGE AMORTIZATION RATE	COST	ACCUMULATED AMORTIZATION (a)	CONSTRUCTION IN PROGRESS	TOTAL (b)
Storage	2.96%	\$ 166,020	\$ 40,198	\$ 341	\$ 126,163
Transportation	4.00%	765,007	507,508	573	258,072
Distribution	3.05%	2,703,941	1,074,705	28,114	1,657,350
General plant	10.48%	329,581	123,064	7,458	213,975
Production	2.44%	69,506	15,008	-	54,498
		4,034,055	1,760,483	36,486	2,310,058
Government grants	3.50%	[452,964]	[351,922]	-	[101,042]
		\$3,581,091	\$1,408,561	\$36,486	\$2,209,016

2008					
	AVERAGE AMORTIZATION RATE	COST	ACCUMULATED AMORTIZATION (a)	CONSTRUCTION IN PROGRESS	TOTAL (b)
Storage	2.90%	\$ 164,524	\$ 38,213	\$ 1,537	\$ 127,848
Transportation	4.00%	769,943	490,771	378	279,550
Distribution	3.05%	2,622,676	1,010,695	21,669	1,633,650
General plant	9.54%	333,768	119,613	5,706	219,861
Production	2.44%	62,012	11,257	-	50,755
		3,952,923	1,670,549	29,290	2,311,664
Government grants	3.50%	[452,964]	[336,046]	-	[116,918]
		\$3,499,959	\$1,334,503	\$29,290	\$2,194,746

Amortization expense was \$130,571,000 in 2009 and \$121,133,000 in 2008.

(a) An amount of \$25,258,000 and \$23,799,000 related to the cost of retiring property, plant and equipment of GMP and VGS was included in accumulated amortization as at September 30, 2009 and 2008.

(b) The net carrying amount of property, plant and equipment not subject to amortization, excluding construction in progress, as at September 30, 2009 and 2008 was \$72,584,000 and \$71,920,000, respectively, and is primarily the cost of cushion gas in storage facilities and land.

Note 8. Investments and other

	OWNERSHIP INTEREST	2009	2008
Interest in companies subject to significant influence			
PNGTS (a)	38.3%	\$ 80,660	\$ 79,835
Vermont Transco LLC (36.9% in 2008) (b), (d)	34.1%	87,799	73,302
Vermont Electric Power Company, Inc. (b)	29.2%	7,830	7,561
Other (b)		2,656	2,846
		178,945	163,544
Surrender value of life insurance policies (b), (c)		10,017	10,107
Grants receivable in three equal payments up to 2012		2,973	3,880
Other (b), (e)		3,078	2,046
		\$195,013	\$179,577

Note 8. Investments and other [cont'd]

(a) The investment in PNGTS has been pledged as security for senior notes in the amount of \$197,119,000 (US\$184,103,000) of this company.

As a part of the legal proceedings involving the Calpine Corporation (Calpine) bankruptcy and the termination of the contractual agreements between this large customer and PNGTS, Gaz Métro wrote off, in 2008, a pre-tax amount of \$34,869,000 of regulatory assets included in its investment relating to deferred cost of service and reversed a \$2,953,000 provision relating to these contracts. Gaz Métro recognized a \$38,857,000 gain (its share of a total pre-tax gain of US\$103,089,000 for PNGTS) during the second quarter of 2008. This gain is attributable to the sale, by PNGTS, of the 6,107,000 Calpine shares obtained from the new entity resulting from the bankruptcy as a result of the settlement granted by the Courts. These shares represent approximately 85% of the court-recognized claims.

(b) This item includes investments owned through GMP that directly or indirectly own and operate a transmission system in Vermont that supplies all power plants in that state.

(c) These are life insurance policies on the lives of active and retired officers of GMP.

(d) During the year, through GMP, the Partnership invested an additional \$8,768,000 (\$46,087,000 in 2008) in Vermont Transco LLC (Transco), a company subject to significant influence. Despite this investment, the total interest decreased from 36.9% to 34.1% (30.9% to 36.9% in 2008) because the other Transco partners invested the maximum amount allowed under the partner agreement in 2009 whereas they had not done this in 2008. GMP, for its part, has always invested the maximum allowable amount.

(e) This item includes asset-backed commercial paper investments.

Note 9. Deferred charges

	2009	2008
Rate stabilization account related to temperature and wind velocity (b)	\$ 49,983	\$ 61,930
Rate stabilization account related to inventory variances (b)	13,268	1,429
Expenses related to energy costs (b)	4,912	20,348
Grants paid (b)	106,297	105,821
Expenses related to financial instruments (Note 23)	96,471	32,930
Expenses related to GEEP	4,171	5,259
Expenses related to funding of pension plans and other postretirement benefits	42,728	20,092
Expenses related to Green Fund duty	8,129	14,106
Financing costs (b)	8,602	8,767
Development of information technology (a), (b)	38,520	46,266
Site decontamination costs in the U.S.	13,326	13,297
Other (b)	26,617	17,357
	\$413,024	\$347,602

(a) As at September 30, 2009, the cost and accumulated amortization of deferred charges for development of information technology were respectively \$94,395,000 and \$55,875,000 compared to \$100,263,000 and \$53,997,000 in 2008. During fiscal 2009, the Partnership capitalized \$3,903,000 in information technology development costs compared to \$5,541,000 in 2008.

(b) Amortization of deferred charges including development of information technology was \$59,843,000 in 2009 and \$46,636,000 in 2008, and the amortization of financing costs included in interest on long-term debt was \$2,443,000 in 2009 and \$3,870,000 in 2008. The reduction in deferred charges related to energy costs, including natural gas supply, transportation and storage, was \$86,843,000 in 2009 and \$70,994,000 in 2008.

Note 10. Interests in joint ventures

	2009	2008
TQM	50.0%	50.0%
TQM Services Inc.	50.0%	50.0%
Rabaska Limited Partnership (Rabaska)	33.3%	33.3%
CDH Solutions & Operations Inc. (CDH) (a)	50.0%	50.0%
MTO Telecom Inc. ⁽¹⁾	49.8%	49.8%
Intragaz Group	40.0 to 60.0%	40.0 to 60.0%
HydroSolution, L.P.	51.0%	51.0%

⁽¹⁾ Representing 48.8% of this company's participating shares

The share of the joint ventures' items included in the consolidated financial statement was as follows:

	2009	2008
INCOME		
Revenues	\$ 89,859	\$ 80,337
Expenses	61,227	65,073
Net income	\$ 28,632	\$ 15,264
BALANCE SHEET		
Current assets	\$ 23,800	\$ 26,472
Long-term assets	382,643	393,063
Current liabilities	(37,762)	(60,174)
Long-term liabilities	(170,268)	(166,687)
Net assets	\$ 198,413	\$ 192,674
CASH FLOWS RELATED TO:		
Operating activities	\$ 49,295	\$ 40,199
Investing activities	(9,331)	(6,626)
Financing activities	(40,821)	(46,932)
Decrease in cash and cash equivalents	\$ (857)	\$ (13,359)

(a) On February 14, 2006, the Partnership transferred the units it was holding in Climatisation et Chauffage Urbains de Montréal, s.e.c. (CCUM) in a newly formed joint venture, CDH, jointly controlled by the Partnership and a new partner, for cash. Since that date, Gaz Métro has therefore been exercising joint control over CCUM's activities and using the proportionate consolidation method to account for its investment interest.

This transaction generated a \$6,098,000 gain on the transfer for the Partnership, the full amount of which was deferred and recognized in deferred credits on the balance sheet. The Partnership did not include the gain in income when the units were transferred because the cash consideration remained in the newly formed joint venture. The gain has been deferred and taken into income on a pro rata basis as the net cash consideration for the transfer is received by the Partnership. During fiscal 2009, the remainder of the gain on this sale, \$1,991,000, was included in income, while an amount of \$2,040,000 was included in income in 2008.

Note 11. Goodwill and intangible assets

The Partnership tested goodwill and intangible assets for impairment on April 1, 2009 and concluded that these assets did not have to be written down, except for the goodwill relating to Aqua-Rehab for an amount of \$1,572,000. In 2008, the Partnership wrote down a portion of the goodwill relating to HydroSolution, L.P. for an amount of \$2,856,000.

Note 12. Bank loans

	MAXIMUM AUTHORIZED AMOUNTS	INTEREST RATE (d)	MATURITY	2009	2008
GAZ MÉTRO (a) (3.25% in 2008)	\$100,000	0.50%	2010	\$27,700	\$29,000
GMP (a), (b)	534	-	2010	-	-
VGS (a), (c) (3.86% in 2008)	40,687	1.20%	2010	20,022	25,451
OTHER	4,566	-	2010	-	-
	\$145,787			\$47,722	\$54,451

(a) The loans are unsecured.

(b) The maximum authorized amount under the short-term credit facilities of GMP is US\$499,000.

(c) The maximum authorized amount under the short-term credit facilities of VGS is US\$38,000,000.

An interest rate swap covering an average borrowing of \$11,514,000 (US\$10,754,000) fixes the rate at 3.58% until October 1, 2009. On August 18, 2009, VGS concluded an interest rate swap covering an average borrowing of \$8,467,000 (US\$7,908,000) setting the rate at 0.86% for the period of October 1, 2009 to October 1, 2010.

(d) The short-term credit facilities bear interest at variable rates based on bankers' acceptance rates, prime rates or LIBOR, adjusted according to the credit facility terms.

Under the terms of the various short-term credit facilities, the Partnership and certain of its subsidiaries and joint ventures must comply with restrictive covenants concerning certain financial ratios or other conditions at all times. As at September 30, 2009, the Partnership and these subsidiaries and joint ventures were in compliance with all of the conditions relating to their short-term credit facilities.

Note 13. Long-term debt

	INTEREST RATE	MATURITY	2009	2008
GAZ MÉTRO				
First mortgage bonds (a), (b)				
Series "D"	10.45%	2017	\$ 125,000	\$ 125,000
Series "E"	9.00%	2025	100,000	100,000
Series "F"	7.20%	2028	50,000	50,000
Series "H"	6.05%	2009	-	100,000
Series "H"	6.95%	2010	100,000	100,000
Series "I"	7.05%	2031	125,000	125,000
Series "I"	6.30%	2034	125,000	125,000
Series "J"	5.45%	2021	150,000	150,000
Series "J"	5.70%	2036	150,000	150,000
Series "L"	5.40%	2013	150,000	-
Series "L"	4.93%	2019	100,000	-
			1,175,000	1,025,000
Term loans				
[3.57% in 2008] (c), (h)	0.26%	2013	39,609	236,918
Other (4.35% in 2008)	4.35%	2011	807	1,458
			1,215,416	1,263,376
NNEEC				
Unsecured senior notes				
Series "A" (US\$50,000)	5.93%	2017	53,535	53,210
Series "B" (US\$50,000)	6.12%	2022	53,535	53,210
			107,070	106,420
VGS				
Unsecured senior notes (d)				
Series 7.62% (US\$10,000)	7.62%	2028	10,707	10,642
Series 6.44% (US\$10,000)	6.44%	2036	10,707	10,642
Series 7.00% (US\$10,000)	7.00%	2014	10,707	-
			32,121	21,284
GMP				
First mortgage bonds (e)				
Series 6.04% (US\$42,000)	6.04%	2018	44,969	44,696
Series 6.70% (US\$15,000)	6.70%	2019	16,061	15,963
Series 9.64% (US\$9,000)	9.64%	2020	9,636	9,578
Series 8.65% (US\$13,000)	8.65%	2022	13,919	13,835
Series 6.53% (US\$30,000)	6.53%	2036	32,121	31,926
Series 6.17% (US\$16,000)	6.17%	2038	17,131	17,027
Series 5.98% (US\$15,000)	5.98%	2019	16,061	-
			149,898	133,025
Unsecured term loan (US\$14,000)				
[3.00% in 2008] (e), (h)	0.60%	2011	14,990	19,368
Other (US\$2,723)		2017	2,915	3,096
			167,803	155,489
TOM				
Unsecured bonds (f)				
Series "H"	6.50%	2009	-	50,000
Series "I"	7.05%	2010	50,000	50,000
Series "J"	3.91%	2010	37,500	37,500
Series "K"	4.05%	2014	37,500	-
			125,000	137,500
Unsecured term loan (3.40% in 2008) (f), (h)				
	0.79%	2011	17,000	21,400
			142,000	158,900
OTHER				
Term loans and other				
[5.54% in 2008] (g), (h)	4.74%	2010 to 2017	66,306	69,333
			1,730,716	1,774,802
CURRENT PORTION				
			218,542	152,664
			\$1,512,174	\$1,622,138

Note 13. Long-term debt (cont'd)

CAPITAL REPAYMENTS

Capital repayments required over the next five years to meet maturities and sinking fund requirements, excluding redemptions before maturity at the Partnership's option, are:

2010: \$218,542,000 2011: \$52,178,000 2012: \$13,846,000 2013: \$204,944,000 2014: \$62,180,000

(a) The first mortgage bonds and the authorized \$400,000,000 term loan are secured under trust deeds which contain a hypothec on the universality of present and future movable and immovable property of Gaz Métro situated in the province of Quebec. The creditors are also covered by a first immovable hypothec on the Partnership's present and future pipelines and gas system.

The agreements relating to the various long-term debt trust deeds provide that Gaz Métro will not issue any new long-term debt if such debt would increase the long-term debt ratio to more than 65% of the Partnership's total capitalization and reduce the long-term debt interest coverage ratio to less than 1.5, both calculated on a non-consolidated financial statements basis. The trust deeds also provide that the Partnership will not make a distribution to its Partners if, taking the distribution into account, long-term debt would exceed 75% of the total capitalization on a non-consolidated financial statements basis.

Gaz Métro and Gaz Métro inc. (GMI), its General Partner, have jointly and severally undertaken, pursuant to trust deeds, not to increase Gaz Métro's interests in non-regulated activities, both related and unrelated to the energy sector, above 10% of Gaz Métro's total non-consolidated assets, or above 5% in the case of non-regulated activities that are not related to the energy sector. As at September 30, 2009 and 2008, interests in non-regulated activities, both related and unrelated to the energy sector, owned by Gaz Métro represent respectively 3.0% and 3.3% of its total non-consolidated assets. Of these investments, 0.7% of its total non-consolidated assets as at September 30, 2009 and 1.2% as at September 30, 2008 relates to non-regulated activities that are unrelated to the energy sector.

(b) On June 18, 2009, the Partnership issued, through GMI, \$100,000,000 of Series L First Mortgage Bonds. The proceeds were used to prepay the unpaid balance of the bridge loan obtained by the Partnership as part of the acquisition of GMP, which would have matured on October 9, 2009, and for the general purposes of the business.

On October 14, 2008, the Partnership issued, through GMI, \$150,000,000 of Series L First Mortgage Bonds. It used the proceeds to repay the 6.05% Series H First Mortgage Bonds in the amount of \$100,000,000 which matured on November 10, 2008 and a portion of the borrowings incurred under the terms of the revolving credit facility, as well as for the general purposes of the business.

Gaz Métro first mortgage bonds are redeemable at the Partnership's option at face value or a value reflecting market conditions, whichever is higher.

(c) On December 21, 2004, the Partnership, through its General Partner, signed a credit agreement providing a term loan of \$400,000,000 maturing on December 21, 2012. A portion of this term loan is in U.S. dollars, i.e., \$24,626,000 (US\$23,000,000) as at September 30, 2009 and \$24,477,000 (US\$23,000,000) as at September 30, 2008.

(d) On February 3, 2009, VGS issued unsecured senior notes for an amount of \$10,707,000 (US\$10,000,000) in order to repay short-term bank loans.

(e) On April 16, 2009, GMP issued \$16,061,000 (US\$15,000,000) in first mortgage bonds in order to repay a portion of its short-term debt.

On December 13, 2007, GMP issued \$17,131,000 (US\$16,000,000) in first mortgage bonds to finance an additional investment in Transco (See Note 8(d)).

Substantially all of GMP's assets are subject to the lien in the deed of trust under which the first mortgage bonds were issued. Starting in 2011, it must set up a sinking fund of US\$6,000,000 annually and an additional US\$500,000 annually as of 2012. The first mortgage bonds include restrictions on the payment of dividends by GMP. Under the most restrictive of these covenants, about US\$15,800,000 in retained earnings were unrestricted as at September 30, 2009 compared to US\$21,700,000 as at September 30, 2008.

The maximum authorized amount under GMP's unsecured term loan was US\$30,000,000.

(f) On August 24, 2009, TQM issued \$75,000,000 of Series K unsecured bonds. The proceeds were used to repay Series H unsecured bonds that matured on August 24, 2009.

TQM's term loan, originally obtained for the extension of its gas pipeline system is unsecured and may be extended annually by one year. The Partnership's interest in the authorized amount of this loan was \$42,750,000 as at September 30, 2009 and 2008.

(g) Gaz Métro's other subsidiaries and joint ventures can borrow up to \$81,364,000 under term credit facilities, secured by first ranking hypothecs. Swaps concluded by a joint venture to fix the interest rate of a floating rate debt have a nominal amount of \$20,528,000 as at September 30, 2009 and mature on various dates until September 2011.

(h) The term loans bear interest at fixed and floating rates based on bankers' acceptance rates, prime rates and LIBOR, adjusted according to the terms of the credit agreements.

As at September 30, 2009 and 2008, GMi as well as Gaz Métro, its subsidiaries and joint ventures were in compliance with all of the requirements of the trust deeds and term loan agreements governing long-term debt.

Note 14. Deferred credits

	2009	2008
Customers' share of overearnings	\$29,355	\$18,756
Gain on sale of investment (Note 10(a))	-	2,056
	\$29,355	\$20,812

Note 15. Other liabilities

	2009	2008
Liabilities related to employee future benefits	\$47,681	\$28,625
Site decontamination costs in the U.S.	7,551	7,724
Other	16,288	18,661
	\$71,520	\$55,010

Note 16. Partners' equity

AUTHORIZED

Unlimited number of units; each ranks equally with any other unit and confers the same rights, privileges and obligations.

ISSUED AND PAID

	2009	2008
Number of units as at September 30 (in thousands of units)	120,452	120,452

As at September 30, 2009 and 2008, consolidated Partners' equity included 120,452,214 units issued in the amount of \$1,011,905,000.

UNIT OPTION PLAN

On December 31, 2008, Gaz Métro abolished its Unit Option Plan without any monetary compensation or other form of compensation for named senior executives. As at that date, there were 61,565 options outstanding at a weighted average exercise price of \$16.72 (77,297 options at \$16.38 as at September 30, 2008). Of this total, 35,417 options could have been exercised before the plan was abolished, at a weighted average exercise price of \$17.11 (35,417 options at \$17.11 as at September 30, 2008).

Gaz Métro did not issue any new units under the Unit Option Plan during fiscal 2009. During fiscal 2008, 14,814 units were issued for a cash consideration of \$168,000.

Note 16. Partners' equity (cont'd)

Before it was abolished, the Partnership had reserved 1,000,000 units for a unit option plan for named senior executives. During fiscal 2008, 14,814 unit options had been exercised and no options had been granted. Options could not be exercised before the first anniversary of a grant unless the Board of Directors determined otherwise when an option was granted. Options could be exercised at a cumulative rate of 25% on each anniversary of the grant. Options expired seven years after the grant date.

Note 17. Cash flows

a) Change in non-cash working capital items:

	2009	2008
Trade and other receivables	\$ 13,448	\$ (4,832)
Inventories	44,359	(28,673)
Prepaid expenses	848	(1,940)
Accounts payable and accrued liabilities	(15,092)	1,913
Income taxes	13,496	(13,731)
	\$ 57,059	\$ (47,263)

b) Other information:

	2009	2008
Interest received	\$ 11,403	\$ 9,055
Interest paid	\$108,286	\$109,575
Income taxes paid (received)	\$ (8,795)	\$ 15,162

Note 18. Employee future benefits

The Partnership maintains defined benefit and defined contribution pension plans that cover virtually all of its employees. The defined benefit plans are funded, which ensures that employees will receive pension benefits determined according to length of service and salaries during their highest earning years. For defined contribution pension plans, employer contributions are based on employee contributions.

The effective dates of the most recent actuarial valuations and the next mandatory actuarial valuations for purposes of funding the funded plans are as follows:

	DATE OF MOST RECENT ACTUARIAL VALUATION	DATE OF NEXT MANDATORY ACTUARIAL VALUATION
Gaz Métro-QDA	December 31, 2006	December 31, 2009
Gaz Métro Plus Limited Partnership	December 31, 2006	December 31, 2009
TQM	December 31, 2008	December 31, 2009
VGS	January 1, 2009	January 1, 2010
GMP	January 1, 2009	January 1, 2010
CCUM	January 1, 2008	January 1, 2011

The Partnership also provides other postretirement benefits, including supplementary health care and life insurance, for virtually all of its employees, their spouses and qualified dependants. These benefits, however, are not funded, except in the case of GMP.

The following tables describe the Partnership's employee future benefits-related obligations and costs as well as the impact of the unrecorded amounts for Gaz Métro-QDA. The measurement date is June 30, except for VGS, GMP, TQM and CCUM for which the measurement date is September 30.

COMPONENTS OF ACCRUED BENEFIT ASSET (LIABILITY)

The following table presents components of the accrued benefits asset (liability) as at September 30, 2009 and 2008 in accordance with the standards defined in Section 3461 of the Handbook, *Employee Future Benefits*, as well as a reconciliation of recognized and unrecognized assets (liabilities) resulting from regulatory treatments. See Note 4 for more details on the regulatory treatments.

	2009	2008	2009	2008
	PENSION PLANS	PENSION PLANS	OTHER POSTRETIREMENT BENEFITS	OTHER POSTRETIREMENT BENEFITS
ACCRUED BENEFIT OBLIGATIONS				
BALANCE, BEGINNING OF YEAR	\$457,633	\$439,368	\$78,529	\$75,100
Current service cost	14,337	14,076	2,653	2,542
Interest cost	26,861	24,912	4,873	4,330
Employee contributions	2,492	2,402	243	220
Other contributions and employee transfers	1,019	1,405	-	-
Benefits paid	(21,998)	(20,561)	(3,382)	(2,814)
Plan amendments	-	311	-	-
Actuarial gains	(47,225)	(7,770)	(3,081)	(2,060)
Plan settlement	(1,844)	-	-	-
Foreign exchange variations	(1,748)	3,490	(295)	1,211
BALANCE AS AT MEASUREMENT DATE	429,527	457,633	79,540	78,529
PLAN ASSETS AT FAIR VALUE				
BALANCE, BEGINNING OF YEAR	390,180	412,523	12,981	13,976
Actual return on plan assets	(42,037)	(18,877)	595	(1,776)
Employer contributions	16,669	10,506	1,749	1,709
Employee contributions	2,492	2,402	-	-
Other contributions and employee transfers	1,019	1,405	-	-
Benefits paid	(21,998)	(20,561)	(1,889)	(1,802)
Plan settlement	(2,045)	-	-	-
Foreign exchange variations	23	2,782	36	874
BALANCE AS AT MEASUREMENT DATE	344,303	390,180	13,472	12,981
DEFICIENCY OF ASSETS OVER OBLIGATIONS				
Unamortized past service costs	(85,224)	(67,453)	(66,068)	(65,548)
Unamortized net actuarial losses	12,634	14,581	-	225
Unamortized net actuarial losses	106,263	90,702	10,789	15,138
Unamortized transitional obligation (asset)	(29,014)	(34,774)	7,386	8,883
ACCRUED BENEFIT ASSET (LIABILITY)				
AS AT MEASUREMENT DATE	4,659	3,056	(47,893)	(41,302)
Employer contributions between measurement date and year-end	2,407	2,322	452	390
ACCRUED BENEFIT ASSET (LIABILITY), END OF YEAR	\$ 7,066	\$ 5,378	\$(47,441)	\$(40,912)
Representing:				
Unrecognized asset (liability) of Gaz Métro-QDA	\$ 18,933	\$ 23,649	\$(39,933)	\$(33,642)
Asset recognized in <i>Deferred charges</i>	26,246	4,326	4,468	909
Liability recognized in <i>Accounts payable and accrued liabilities and Other liabilities</i>	(38,113)	(22,597)	(11,976)	(8,179)
	\$ 7,066	\$ 5,378	\$(47,441)	\$(40,912)

The following table shows the allocation of the plan assets at the measurement date:

	2009	2008
ASSET CATEGORIES		
Fixed income securities	40.5%	41.4%
Equity securities	59.5%	58.6%
	100.0%	100.0%

Note 18. Employee future benefits (cont'd)

COMPONENTS OF THE ACCRUED BENEFIT COST FOR THE 12-MONTH PERIODS ENDED AT THE MEASUREMENT DATE

The following table presents components of the accrued benefits cost for the 12-month periods ending September 30, 2009 and 2008 in accordance with the standards defined in Handbook Section 3461, *Employee Future Benefits*, as well as a reconciliation of recognized and unrecognized costs (revenues) resulting from regulatory treatments. See Note 4 for more details on the regulatory treatments.

	2009	2008	2009	2008
	PENSION PLANS	PENSION PLANS	OTHER POSTRETIREMENT BENEFITS	OTHER POSTRETIREMENT BENEFITS
Current service cost	\$ 14,337	\$ 14,076	\$ 2,653	\$ 2,542
Interest cost	26,861	24,912	4,873	4,330
Actual return on plan assets	42,037	18,877	(595)	1,776
Actuarial gains	(47,225)	(7,770)	(3,081)	(2,060)
Plan amendments	-	311	-	-
Plan settlement loss	201	-	-	-
Cost before adjustments to recognize the long-term nature of employee future benefits	36,211	50,406	3,850	6,588
Difference between expected return and actual return on plan assets for the period	(69,175)	(47,164)	(552)	(2,904)
Difference between actuarial losses recognized for the period and actual actuarial losses on accrued benefit obligation for the period	51,794	9,125	4,081	3,069
Difference between amortization of past service costs for the period and plan amendments for period	2,330	1,978	(250)	(214)
Amortization of transitional obligation (asset)	(5,760)	(5,761)	2,234	2,177
Accrued benefit cost	\$ 15,400	\$ 8,584	\$ 9,363	\$ 8,716
Representing:				
Unrecognized cost (revenue) of Gaz Métro-QDA	\$ 1,308	\$ (2,502)	\$ 6,356	\$ 6,292
Recognized cost	14,092	11,086	3,007	2,424
	\$ 15,400	\$ 8,584	\$ 9,363	\$ 8,716

Gaz Métro-QDA's accrued benefits cost recognized for pension plans was \$9,853,000 in 2009 and \$8,597,000 in 2008 and, for other postretirement benefits, were \$1,606,000 in 2009 and \$1,510,000 in 2008.

The cost recognized for defined contribution and other pension plans was \$1,231,000 in 2009 and \$868,000 in 2008.

MAIN ACTUARIAL ASSUMPTIONS

	2009	2008	2009	2008
	PENSION PLANS	PENSION PLANS	OTHER POSTRETIREMENT BENEFITS	OTHER POSTRETIREMENT BENEFITS
ACCRUED BENEFIT OBLIGATION RECOGNIZED AT THE MEASUREMENT DATE				
Discount rate	6.75%	5.50%	6.75%	5.50%
Rate of compensation increase	2.50%	3.50%	2.50%	3.50%
BENEFIT COST FOR THE 12-MONTH PERIOD ENDED AT THE MEASUREMENT DATE				
Discount rate	5.50%	5.50%	5.50%	5.50%
Expected long-term rate of return on plan assets	6.75%	6.75%	8.00%	8.00%
Rate of compensation increase	3.50%	3.50%	3.50%	3.50%

The assumed trend rate for health care costs used to project costs for fiscal 2009 is 6.10% and decreases gradually to 3.0% in 2023 and remains at that level thereafter. A 1% change in assumed health care cost trend rates would have the following effects:

	1% INCREASE	1% DECREASE
SENSITIVITY ANALYSIS OF OTHER POSTRETIREMENT BENEFITS		
Impact on current service and interest cost	\$ 1,207	\$ (957)
Impact on accrued benefit obligation	\$ 9,866	\$ (8,006)

CASH PAYMENTS

Total cash payments for employee future benefits were \$19,516,000 in 2009 and \$13,075,000 in 2008. These amounts consisted of the Partnership's contributions to its funded pension plans, amounts paid to other postretirement benefits, and contributions to its defined contribution and other pension plans.

Note 19. Income taxes

GEOGRAPHIC BREAKDOWN

	2009	2008
Income before income taxes		
Canada	\$ 137,722	\$ 129,804
United States	34,407	35,907
	\$ 172,129	\$ 165,711
Current income taxes		
Canada	\$ 176	\$ (31)
United States	4,526	1,282
	\$ 4,702	\$ 1,251
Future income taxes		
Canada	\$ 1,485	\$ (610)
United States	7,490	10,631
	\$ 8,975	\$ 10,021
Total income taxes		
Canada	\$ 1,661	\$ (641)
United States	12,016	11,913
	\$ 13,677	\$ 11,272

RECONCILIATION OF INCOME TAX RATES

	2009	2008
Income before income taxes	\$ 172,129	\$ 165,711
Income from rate-regulated limited partnerships ⁽¹⁾	123,675	125,270
	48,454	40,441
Combined statutory tax rate	30.9%	31.2%
Income taxes at statutory rate	14,972	12,618
Increase (decrease) attributable to the following:		
Higher tax rate in United States	3,267	3,123
Reduction of tax rate on future income tax balances	-	(3,046)
Net impact of non-taxable and other items	(4,562)	(1,423)
Income taxes	\$ 13,677	\$ 11,272
Effective income tax rate ⁽²⁾	28.23%	27.87%

⁽¹⁾ Includes Gaz Métro Limited Partnership, TQM Pipeline and Company, Limited Partnership and TQM Services Limited Partnership.

⁽²⁾ Excludes the portion of income from various limited partners.

Note 19. Income taxes (cont'd)

FUTURE INCOME TAX COMPONENTS

	2009	2008
Future income tax assets:		
Non-deductible allowances relating to non-regulated activities:		
Canadian companies	\$ 894	\$ 1,255
U.S. companies	31,182	48,714
	32,076	49,969
Future income tax liabilities:		
Difference between accounting and tax amortization on property, plant and equipment and others:		
Canadian limited partnerships	26,107	25,014
U.S. companies	135,900	145,312
	162,007	170,326
Net future income tax liabilities	\$129,931	\$120,357

In computing the taxable income attributable to the Partners, the Partnership has claimed capital cost allowances and certain other deductions relating to deferred charges that reduce the income allocation to the Partners, thereby deferring to future years income taxes otherwise payable by them.

If the tax liability method in Section 3465 of the Handbook had been fully adopted, future income taxes, relating to the activities carried on by the various limited partnerships in the group would have been \$117,668,000 as at September 30, 2009 and \$119,111,000 as at September 30, 2008. Under this method, future income taxes are determined based on the differences between the carrying amount and tax bases of assets and liabilities. These future income tax assets and liabilities are calculated at the tax rate for a taxable Canadian corporation on the basis of tax laws that are enacted or substantively enacted for the years in which the temporary differences are expected to reverse. The \$117,668,000 future income tax liability balance consists primarily of future income tax liabilities of \$26,107,000 recognized in Gaz Métro's financial statements following application of EIC-167 (see Note 2) and the unrecognized future income tax liability of \$86,496,000 relating to Gaz Métro's rate-regulated activities (see Note 4). The decrease during the fiscal year ended September 30, 2009 can be explained primarily by the net reversal of temporary differences, which would have resulted in a decrease in the liability by \$1,353,000.

Note 20. Segment information

The business segments presented reflect how management has divided and organized the Partnership's various activities for purposes of operational decision-making and performance assessment.

The Partnership has the four following reportable segments:

Energy distribution: Delivers natural gas and electricity to users;

Natural gas transportation: Transports natural gas, generally from the producers to the distributors;

Natural gas storage: Stores natural gas; and

Energy services and other: Non-regulated activities related to energy and technology services; the sale, leasing, and maintenance of gas appliances; large-building heating and air conditioning; fibreoptics; the leasing and sale of electric water heaters, diagnostic and, until August 2009, rehabilitation services for water and wastewater systems.

The accounting policies for these segments are the same as those described in Note 2.

The Partnership records intersegment sales and transfers as though they were sales and transfers to a third party, that is, at market value.

2009

	ENERGY DISTRIBUTION		TOTAL	NATURAL GAS	NATURAL GAS	ENERGY	NON-ALLOCATED	TOTAL
	GAZ MÉTRO-QDA	VGS AND GMP		TRANSPORTATION	STORAGE	SERVICES AND OTHER	EXPENSES AND ELIMINATIONS	
Customer revenue	\$ 1,667,988	\$ 441,346	\$ 2,109,334	\$ 49,749	\$ 1,217	\$ 87,118	\$ -	\$ 2,247,418
Intersegment revenues	3,333	-	3,333	921	13,183	5,718	(23,155)	-
Interest income (a)	3,015	-	3,015	-	-	-	-	3,015
Total revenues	1,674,336	441,346	2,115,682	50,670	14,400	92,836	(23,155)	2,250,433
Direct costs	1,125,684	328,856	1,454,540	-	-	47,581	(22,875)	1,479,246
Gross margin	548,652	112,490	661,142	50,670	14,400	45,255	(280)	771,187
Operating and maintenance expenses	217,528	47,803	265,331	10,099	3,730	27,509	5,590	312,259
EBITA (e)	331,124	64,687	395,811	40,571	10,670	17,746	(5,870)	458,928
Amortization	141,552	27,904	169,456	12,074	2,075	8,940 ^{(b)(d)}	-	192,545
Interest and financial expenses	71,457	25,363	96,820	13,094	3,914	3,792	-	117,620
Share in earnings of companies subject to significant influence	-	(18,131)	(18,131)	(5,048)	-	(187)	-	(23,366)
Income taxes	-	12,141	12,141	2,046	739	1,463	(2,712)	13,677
Net income (loss)	\$ 118,115	\$ 17,410	\$ 135,525	\$ 18,405	\$ 3,942	\$ 3,738	\$ (3,158)	\$ 158,452
Assets	\$ 1,994,380	\$ 764,622	\$ 2,759,002	\$ 311,151	\$ 116,432	\$ 125,626	\$ (5,447)	\$ 3,306,764
Additions to property, plant and equipment	\$ 88,432	\$ 50,415	\$ 138,847	\$ 2,353	\$ 1,097	\$ 8,672	\$ 883	\$ 151,852
Deferred charges	93,213	34,810	128,023	678	-	866	-	129,567
	\$ 181,645	\$ 85,225	\$ 266,870	\$ 3,031	\$ 1,097	\$ 9,538	\$ 883	\$ 281,419
Goodwill								
Balance, beginning of year	\$ -	\$ 81,864	\$ 81,864	\$ 7,596	\$ -	\$ 26,510	\$ -	\$ 115,970
Translation adjustment	-	499	499	-	-	-	-	499
Write down	-	-	-	-	-	(1,572) ^(d)	-	(1,572)
Sale of a subsidiary (Note 5)	-	-	-	-	-	(683) ^(c)	-	(683)
Balance, end of year	\$ -	\$ 82,363	\$ 82,363	\$ 7,596	\$ -	\$ 24,255	\$ -	\$ 114,214

Note 20. Segment information (cont'd)

2008

	ENERGY DISTRIBUTION		TOTAL	NATURAL GAS TRANSPORTATION	NATURAL GAS STORAGE	ENERGY SERVICES AND OTHER	NON-ALLOCATED EXPENSES AND ELIMINATIONS	TOTAL
	GAZ MÉTRO-QDA	VGS AND GMP						
Customer revenue	\$1,669,508	\$367,218	\$2,036,726	\$ 42,865	\$ 860	\$ 87,301	\$ 887	\$2,168,639
Intersegment revenues	3,873	-	3,873	574	12,878	6,198	(23,523)	-
Interest income (a)	3,280	-	3,280	-	-	-	-	3,280
Total revenues	1,676,661	367,218	2,043,879	43,439	13,738	93,499	(22,636)	2,171,919
Direct costs	1,151,832	278,872	1,430,704	-	-	53,880	(22,636)	1,461,948
Gross margin	524,829	88,346	613,175	43,439	13,738	39,619	-	709,971
Operating and maintenance expenses	204,365	35,638	240,003	8,882	3,211	25,417	6,237	283,750
EBITA (e)	320,464	52,708	373,172	34,557	10,527	14,202	(6,237)	426,221
Amortization	126,164	20,485	146,649	12,013	2,329	10,193(b)(d)	-	171,184
Interest and financial expenses	68,967	21,577	90,544	14,370	4,723	5,614	-	115,251
Share in earnings of companies subject to significant influence	-	(11,129)	(11,129)	(14,541)	-	(255)	-	(25,925)
Income taxes	-	9,373	9,373	4,645	(1,742)	2,236	(3,240)	11,272
Net income (loss)	\$ 125,333	\$ 12,402	\$ 137,735	\$ 18,070	\$ 5,217	\$ (3,586)	\$ (2,997)	\$ 154,439
Assets	\$2,004,825	\$689,725	\$2,694,550	\$320,542	\$116,993	\$142,824	\$ 11,569	\$3,286,478
Additions to property, plant and equipment	\$ 86,498	\$ 39,029	\$ 125,527	\$ 1,598	\$ 151	\$ 8,013	\$ 222	\$ 135,511
Deferred charges	165,988	12,966	178,954	(1,261)	-	1,539	-	179,232
	\$ 252,486	\$ 51,995	\$ 304,481	\$ 337	\$ 151	\$ 9,552	\$ 222	\$ 314,743
Goodwill								
Balance, beginning of year	\$ -	\$ 76,525	\$ 76,525	\$ 7,596	\$ -	\$ 29,080	\$ -	\$ 113,201
Translation adjustment	-	5,339	5,339	-	-	-	-	5,339
Write down	-	-	-	-	-	(2,856)(d)	-	(2,856)
Acquisition of a subsidiary	-	-	-	-	-	286(c)	-	286
Balance, end of year	\$ -	\$ 81,864	\$ 81,864	\$ 7,596	\$ -	\$ 26,510	\$ -	\$ 115,970

(a) The interest income in the Energy Distribution segment comes from, among other things, interest on overdue trade accounts receivable and the capitalized return on assets not yet included in the rate base in accordance with regulatory provisions.

(b) Includes \$560,000 of amortization of the intangible asset in 2009 and \$559,000 in 2008.

(c) Sale of a subsidiary, Aqua-Rehab, on August 11, 2009 and acquisition of 50.0% of MSC Réhabilitation Inc. on April 10, 2008.

(d) Write down of the goodwill of Aqua-Rehab in 2009 and a portion of the goodwill of HydroSolution, L.P. in 2008.

(e) EBITA is not a measurement defined by GAAP. The Partnership defines it as income or loss before interest and financial expenses, income taxes and amortization.

GEOGRAPHIC INFORMATION

	2009		2008	
	CUSTOMER REVENUES	PROPERTY, PLANT AND EQUIPMENT AND GOODWILL	CUSTOMER REVENUES	PROPERTY, PLANT AND EQUIPMENT AND GOODWILL
Canada	\$1,806,072	\$1,856,845	\$1,801,421	\$1,871,271
United States	441,346	466,385	367,218	439,445
Total	\$2,247,418	\$2,323,230	\$2,168,639	\$2,310,716

Note 21. Related party transactions

In the normal course of business, the Partnership incurred gas storage costs of \$21,971,000 and \$21,464,000 during the fiscal years ended September 30, 2009 and 2008 with Intragaz Limited Partnership (Intragaz), a joint venture of Gaz Métro owned jointly with an ultimate shareholder. The Partnership's share in Intragaz's revenues, which is eliminated on consolidation, was \$13,183,000 in 2009 and \$12,878,000 in 2008. These transactions were authorized by the Régie, and the amounts paid were determined in accordance with the terms of the contracts signed by the parties, and in which the value of the services rendered was established at the exchange amount.

As at September 30, 2009 and 2008, transactions with GMi and companies owned by its ultimate shareholders, represented amounts of \$1,206,000 and \$1,122,000, respectively, in *Trade and other receivables*. Under the Partnership Agreement, Gaz Métro pays management fees of \$50,000 annually to GMi.

Note 22. Capital management

The Partnership manages its capital to ensure that its Partners earn a stable and foreseeable return and to create wealth for them over time. Since Gaz Métro's policy is to distribute substantially all of its income, it must use financial markets to finance major investment projects that are not in the normal course of business.

The Partnership's capital management activities include the issuance of new debt and units, debt repayments, distributions to Partners and the use of cash flows from operating activities as well as the other changes in cash and cash equivalents.

The Partnership considers that its capital structure is composed of Partners' equity, bank loans, the current portion of long-term debt, and long-term debt less deferred financing costs. As at September 30, 2009 and 2008, the Partnership's consolidated capital structure was as follows:

	2009	2008
Bank loans	\$ 47,722	\$ 54,451
Current portion of long-term debt	218,542	152,664
Long-term debt	1,512,174	1,622,138
Deferred financing costs	(8,602)	(8,767)
Total debt	1,769,836	1,820,486
Partners' equity	949,552	941,975
Total capitalization	\$2,719,388	\$2,762,461
Debt/total capitalization ratio	65.1%	65.9%

Note 22. Capital management (cont'd)

The Partnership manages capital with a focus on achieving the above-mentioned objectives while also complying with the capital structure requirements of the various regulatory bodies and the credit facility and trust deed covenants of the long-term debt. The Partnership's management monitors capital management using the debt/total capitalization ratio and the long-term debt interest coverage ratio. These ratios are also used by the regulatory bodies with which the Partnership must comply. Management has also established an internal objective to fix the interest rate at approximately 75% of its long-term debt and leave the balance at floating rates. As at September 30, 2009, 93.6% of the long-term debt was at fixed rates compared to 82% at the same date last year.

The Partnership's various long-term debt trust deeds include restrictive covenants as described in Note 13.

For information purposes, as at September 30, 2009 and 2008, the long-term debt/total capitalization ratios under the terms of the trust deeds and term credit agreements based on Gaz Métro's non-consolidated financial statements were 54.0% and 55.2%, respectively. The Partnership expects to issue units at an appropriate time in order to bring its capital structure back to a comparable level with that of the previous years.

For information purposes, as at September 30, 2009 and 2008, the long-term debt interest coverage ratios based on Gaz Métro's non-consolidated financial statements were 3.11 times and 3.00 times, respectively. For information purposes, these ratios, based on Gaz Métro's consolidated financial statements were 2.52 times and 2.49 times as at September 30, 2009 and 2008 respectively.

Each of the Partnership's regulated public utility enterprises has its own capital structure which corresponds with the capital structure reflected in customer rates as authorized by the various regulatory bodies. Gaz Métro-QDA, the Partnership's most significant source of revenue and net income, is required to maintain the capital structure authorized by the Régie of 54% debt and 46% equity. The other subsidiaries and joint ventures, which are governed by regulatory bodies other than the Régie, are required to maintain a similar capital structure (Note 4). As the revenue and net income of these subsidiaries and joint ventures account for a minimum proportion of consolidated income, their capital structure is not disclosed separately in Gaz Métro's consolidated financial statements. As at September 30, 2009, the Partnership, its subsidiaries and joint ventures are in compliance with all of the externally imposed covenants.

Note 23. Financial instruments

The classification, carrying amount and fair value of non-derivative financial instruments are as follows:

	2009		2008	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
FINANCIAL ASSETS HELD FOR TRADING				
Cash and cash equivalents	\$ 48,994	\$ 48,994	\$ 31,984	\$ 31,984
Grants receivable	\$ 2,973	\$ 2,973	\$ 3,880	\$ 3,880
Surrender value of life insurance policies	\$ 10,017	\$ 10,017	\$ 10,107	\$ 10,107
Asset-backed commercial paper investments	\$ 2,169	\$ 2,169	\$ 856	\$ 856
LOANS AND RECEIVABLES				
Trade and other receivables	\$ 112,291	\$ 112,291	\$ 133,359	\$ 133,359
FINANCIAL LIABILITIES NOT HELD FOR TRADING				
Bank overdraft	\$ 4,630	\$ 4,630	\$ 7,244	\$ 7,244
Bank loans	\$ 47,722	\$ 47,722	\$ 54,451	\$ 54,451
Accounts payable and accrued liabilities	\$ 240,525	\$ 240,525	\$ 265,128	\$ 265,128
Long-term debt	\$1,730,716	\$1,936,372	\$1,774,802	\$1,847,766

The fair value amounts presented in these consolidated financial statements represent the consideration estimated by the Partnership that would be agreed upon in an arm's length transaction by willing and knowledgeable parties. These estimates were determined at a specific date and could be amended during future periods as a result of market conditions or other factors. Fair values are determined using quoted market prices in the most advantageous active market for that instrument to which the Partnership has immediate access. In the presence of an active market, fair value is determined using prevailing market prices. In the absence of an active market, fair value is determined using internal or external valuation models, in particular option pricing models and discounted cash flow analysis.

FAIR VALUE OF FINANCIAL INSTRUMENTS OTHER THAN LONG-TERM DEBT AND DERIVATIVE FINANCIAL INSTRUMENTS

Financial instruments other than long-term debt are financial instruments whose fair value approximates the carrying amount given the short period to maturity or because the terms and conditions of the borrowings or receivables are comparable to market rates and conditions for similar items.

FAIR VALUE OF LONG-TERM DEBT

The fair value of long-term debt, including current portions, is calculated using market prices at the end of the year for the same or similar instruments, when available, or, when such information is not available, using discounted cash flows at interest rates which Gaz Métro, its subsidiaries and its joint ventures could have obtained as at the balance sheet date for borrowings with similar terms, conditions and maturity dates.

	2009		2008	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
LONG-TERM DEBT				
Gaz Métro	\$1,215,416	\$1,388,306	\$1,263,376	\$1,330,755
NNEEC	107,070	112,470	106,420	114,285
VGS	32,121	35,933	21,284	25,053
GMP	167,803	186,577	155,489	145,985
TQM	142,000	145,400	158,900	161,432
Other	66,306	67,686	69,333	70,256
	\$1,730,716	\$1,936,372	\$1,774,802	\$1,847,766

FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

The fair value of derivative financial instruments generally reflects the estimated amounts that the Partnership would receive on settlement of favourable agreements or be required to pay to cancel unfavourable agreements at the balance sheet date. This fair value of the derivative financial instruments is estimated using spot rates or forward rates or prices at the close of markets on the balance sheet date. In the absence of such information for a given instrument, the Partnership uses the forward rate or price for a similar instrument.

The method used to value the derivative financial instruments of Gaz Métro has been changed to comply with EIC-173. Before EIC-173 was issued, the Partnership would obtain confirmation of the fair value of most derivative financial instruments from the counterparties. For preparation of the financial statements for the year ended September 30, 2009, the fair value of swaps, forwards and fixed-price swaps was calculated on a future cash flow basis. The fair value calculation of options is based on the Black-Scholes option pricing model recognized by financial markets. To comply with EIC-173, a risk premium is added to the risk-free interest rate in estimating fair value to reflect the credit risk of both the Partnership and each counterparty.

The following table presents the main assumptions underlying the fair value calculation of derivative financial instruments.

	VALUATION MODEL	RISK-FREE INTEREST RATE	PRICE VOLATILITY	FORWARD PRICE	MATURITY DATE
Swaps	(a)	1.33%	N/A	N/A	2011
Forwards	(a)	0.72%	N/A	N/A	2011
Instruments related to natural gas:					
Fixed-price swaps	(a)	1.70%	N/A	\$2.86/GJ - \$7.00/GJ	2012
Maximum payout swaps	Black-Scholes	1.70%	24% - 57%	\$2.86/GJ - \$7.00/GJ	2012
Collars	Black-Scholes	1.02%	30% - 47%	\$5.59/GJ - \$6.79/GJ	2011
Three-way collars	Black-Scholes	1.70%	24% - 57%	\$2.86/GJ - \$7.00/GJ	2012
9701 agreement	Black-Scholes	2.48%	19% - 39%	US\$70.70/MWh - US\$88.24/MWh	2016
Fixed-price swaps-electricity	(a)	1.09%	N/A	US\$50.94/MWh - US\$82.75/MWh	2012

(a) The fair value of the swaps, forwards and fixed-price swaps is calculated using discounted cash flows on the basis of the assumptions shown in this table.

Note 23. Financial instruments (cont'd)

FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS (CONT'D)

The par values, fair values and maturities of the various categories of derivative financial instruments are as follows:

2009

	PAR VALUE	BALANCE SHEET FAIR VALUE	MATURITY
Swaps (a)	\$28,995	\$ (761)	2010-2011
Forwards (b)	\$42,388	\$ 3,243	2010-2011
Instruments related to natural gas (c):			
(in thousands of gigajoules)			
“Fixed-price swaps”	7,755	(3,575)	2010-2012
“Maximum payout swaps”	34,915	(47,704)	2010-2012
“Collars”	1,810	(362)	2010-2011
“Three-way collars”	36,750	(32,859)	2010-2012
Instruments related to electricity (c):			
(in megawatthours)			
“Fixed-price swaps”	241,200	(2,273)	2010-2012
“9701 Agreement” (d)	315,000	(12,888)	2016
		(99,661)	
Total		\$(97,179)	
Portion presented as an asset		\$ 5,634	
Portion presented as a liability		(102,813)	
Net		\$(97,179)	

2008

	PAR VALUE	BALANCE SHEET FAIR VALUE	MATURITY
Swaps (a)	\$31,050	\$ (193)	2010-2011
Forwards (b)	\$57,685	\$ (2,093)	2009-2010
Instruments related to natural gas (c):			
(in thousands of gigajoules)			
“Fixed-price swaps”	8,353	(7,459)	2009-2011
“Maximum payout swaps”	59,173	(3,825)	2009-2011
“Collars”	1,893	(174)	2009
“Three-way collars”	34,215	1,419	2009-2011
Instruments related to electricity (c):			
(in megawatthours)			
“Fixed-price swaps”	81,200	(1,377)	2009-2011
“9701 Agreement” (d)	367,500	(19,396)	2016
		(30,812)	
Total		\$(33,098)	
Portion presented as an asset		\$ 13,601	
Portion presented as a liability		(46,699)	
Net		\$(33,098)	

(a) These instruments, which are sensitive to interest rates, fix interest rates on certain floating rate debts and borrowings (Notes 12(c) and 13(g)). One of the Partnership's joint ventures has designated swaps with a par value of \$20,528,000 as a cash flow hedge. These swaps, with a fair value of \$(708,000) as at September 30, 2009 and \$(168,000) as at September 30, 2008, mature on various dates up to September 2011. The effective portion of the changes in fair value of these swaps designated as a hedge, amounting to \$462,000 as at September 30, 2009 and \$308,000 as at September 30, 2008, has been recognized in other comprehensive income.

(b) These instruments, which are sensitive to exchange rates, allow the Partnership to manage a significant portion of its Canadian dollar natural gas purchases for VGS.

(c) Maturity of instruments related to energy:

	2010	2011	2012	2013	2014 AND THEREAFTER	TOTAL
Fair value	\$(52,632)	\$(34,277)	\$(6,455)	\$(2,162)	\$(4,135)	\$(99,661)

(d) The 9701 Agreement between GMP and Hydro-Québec, which expires in 2016, grants Hydro-Québec an option to purchase a certain amount of electricity at a predetermined price.

As at September 30, 2009, the Partnership is not planning to cancel any financial instruments before the maturity date.

Note 24. Financial instrument risk management

OVERVIEW OF RISK MANAGEMENT

The Partnership is exposed to market risk, credit risk and liquidity risk. Gaz Métro's strategies, policies and controls are designed to ensure that the risks it assumes and other related risks comply with regulatory requirements, the Partnership's objectives and its risk tolerance. Risks are managed within limits approved by the Board of Directors of GMI and applied by senior management.

MARKET RISK

There are several categories of market risk. Changes in risk factors such as exchange rates, interest rates and natural gas and electricity prices impact the fair value of financial assets and liabilities.

EXCHANGE RISK

A portion of Gaz Métro's income from the Energy Distribution and Natural Gas Transportation segments is in U.S. dollars. The operating results of Gaz Métro are therefore impacted by the fluctuation of this foreign currency in relation to the Canadian dollar. For the year ended September 30, 2009, the impact of a 5% appreciation or depreciation of the U.S. dollar in relation to the Canadian dollar on the Partnership's net income would have been negligible. The Partnership also uses forwards to manage a significant portion of its Canadian dollar natural gas purchases for VGS. This item has not been included in the sensitivity analysis because any change in fair value is recognized in a deferred charges account, as required by the VPSB.

INTEREST RATE RISK

Gaz Métro is exposed to the risk of fluctuations in interest rates. The Partnership essentially manages this risk through an interest rate setting policy allowing it to maintain a significant portion of its long-term debt at a fixed rate.

However, the Partnership is exposed to interest rate risk on its bank loans and the portion of the long-term debt at floating rates. One of the Partnership's subsidiaries and one of its joint ventures use interest rate swaps to fix interest rates on a portion of floating rate borrowings. Since Gaz Métro is rate regulated, a significant portion of changes resulting from fluctuations in floating interest rates is recognized as deferred charges and included in future rates (see Note 4). Assuming a 100 basis-point increase in floating interest rates, net income would have decreased by approximately \$977,000 as at September 30, 2009. This impact from floating-rate long-term debt and bank loans does not include the impact from the debt related to regulated activities.

ENERGY COST RISK

The Partnership uses natural gas and electricity-related derivative financial instruments to manage its customers' exposure to natural gas and electricity price volatility. Furthermore, all energy price fluctuations, including gains and losses on derivative financial instruments, are recorded as deferred charges to be included in future rates under the provisions of the *Act respecting the Régie* and the VPSB. In Quebec, natural gas must be sold to customers at cost. In Vermont, VGS and GMP benefit from a rate adjustment mechanism that minimizes the risk of fluctuations in natural gas and electricity prices.

CREDIT RISK

Credit risk represents the risk that a customer, with whom the Partnership carries out energy sale operations, or a counterparty to a derivative financial instrument, is unable to fulfil its obligations resulting in a financial loss for the Partnership. The Partnership's maximum counterparty risk exposure is the carrying amount of financial instruments shown in the Partnership's assets.

Note 24. Financial instrument risk management (cont'd)
CREDIT RISK (CONT'D)

The aging of the Partnership's consolidated trade receivables is presented below:

	2009	2008
Less than 30 days	\$ 87,205	\$ 99,073
30 to 60 days	5,797	8,133
61 to 90 days	2,430	2,944
Over 90 days	11,158	12,142
	106,590	122,292
Less: allowance for doubtful accounts	(4,862)	(5,010)
	\$101,728	\$117,282

Accounts receivable credit concentration is limited given the diversity and number of customers. Credit risk relating to accounts receivable is mitigated through various means, including obtaining security deposits from customers in the circumstances permitted by the regulatory bodies. As at September 30, 2009, the Partnership had security deposits from customers amounting to \$35,270,000.

There is, however, a credit concentration risk relating to the counterparties of derivative financial instruments since they are all in the same industry, financial services. This risk is mitigated by using credit risk management techniques to confirm and monitor the counterparty's creditworthiness, reaching agreements with several counterparties, setting credit limits, monitoring risk related to such limits, establishing credit support agreements and obtaining financial guarantees where warranted. The Partnership's Treasury Department closely monitors and manages derivative financial instrument counterparty credit risk concentration.

As at September, 30, 2009, most of the Partnership's counterparties have a high credit rating that is at least equivalent to those of Gaz Métro and GMi, and are all major companies that meet the Partnership's credit assessment criteria.

LIQUIDITY RISK

Liquidity risk is the risk that the Partnership would be unable to pay its financial commitments as they become due. The Partnership manages liquidity risk by determining cash flow forecasts to determine its financing requirements and by ensuring that it has sufficient cash and credit facilities to meet its needs and to pay its liabilities as they become due. A combination of committed and demand credit facilities and access to capital markets allow it to satisfy its financing requirements. However, a significant decline in Gaz Métro's ability to access capital markets, in particular, as a result of a significant downgrading of its credit and stability ratings, any significant fluctuations in the economic situation, the general state of financial markets or a negative perception by the financial markets of Gaz Métro's financial position or outlook could have an unfavourable impact on Gaz Métro's activities, financial position or net income.

The following table presents required capital and interest instalments of non-derivative financial liabilities as at September 30, 2009. Contractual maturities of the derivative financial instruments are presented in Note 23.

(IN THOUSANDS OF DOLLARS)	2010	2011	2012	2013	2014	SUBSEQUENT YEARS	TOTAL
Bank loans	47,722	-	-	-	-	-	47,722
First mortgage bonds	100,000	6,424	6,959	156,959	6,959	1,047,597	1,324,898
Bonds	87,500	-	-	-	37,500	-	125,000
Capital leases	681	126	-	-	-	2,915	3,722
Term loans	30,361	45,628	6,887	47,985	7,014	30	137,905
Unsecured senior notes	-	-	-	-	10,707	128,484	139,191
	266,264	52,178	13,846	204,944	62,180	1,179,026	1,778,438
Interest	102,936	93,566	93,109	92,513	84,008	896,787	1,362,919
Total	369,200	145,744	106,955	297,457	146,188	2,075,813	3,141,357

Interest is presented based on contractual maturities. Since borrowings could vary considerably based on the Partnership's cyclical needs, interest on future borrowings has not been considered.

Note 25. Commitments and guarantees

SUPPLY CONTRACTS

In the normal course of business, the Partnership has signed energy supply contracts and natural gas transportation and storage contracts for periods up to 2034. The costs relating to these contracts will be recovered from customers in the corresponding periods.

As at September 30, 2009, the schedule of firm and irrevocable supply commitments, in thousands of gigajoules and megawatthours, is as follows:

	2010	2011	2012	2013	2014	SUBSEQUENT YEARS	TOTAL
ENERGY SUPPLY							
In thousands of gigajoules	49,820	9,184	6,210	3,770	–	–	68,984
In thousands of megawatthours	1,896	1,845	1,374	1,036	1,756	18,016	25,923
TRANSPORTATION AND STORAGE							
In thousands of gigajoules	861,355	509,717	184,200	120,262	115,459	547,808	2,338,801

The electricity supply agreements include a joint agreement signed by GMP and certain other electricity distributors in Vermont with Hydro-Québec. This supply agreement includes a joint and several liability clause among the various electricity distributors. If some of the partners to the agreement were unable to fulfil their volume commitment, GMP and the other partners to the agreement would be responsible for purchasing the defaulting partner's electricity quantity. GMP estimates that, as at September 30, 2009 and to the end of the agreement, if all of the other partners to the contract had not purchased their contractual volumes, its total obligation would have been approximately \$487,000,000 (US\$455,000,000). Considering the nature of this guarantee, the Partnership is unable to estimate its potential payment. The Partnership therefore did not recognize any amount on the consolidated balance sheet in respect of this guarantee.

LEASES

The Partnership and its subsidiaries are committed under operating leases for the rental of the offices used in the normal course of their operations. Minimum lease payments under these leases for the next five years are as follows:

(IN THOUSANDS OF DOLLARS)	2010	2011	2012	2013	2014	TOTAL
Leases	\$1,637	\$628	\$287	\$78	\$19	\$2,649

GUARANTEES

Gaz Métro and its equal partner, Boralex inc. (Boralex), obtained a decree on July 7, 2009 from the Quebec Government authorizing two wind power projects for a total installed capacity of 272 megawatts. In connection with its wind power projects, two electricity supply contracts expiring on December 1, 2033 were signed by Hydro-Québec Distribution, Boralex and Gaz Métro Éole inc., a wholly owned subsidiary of Gaz Métro, on June 25, 2008. These contracts were subsequently approved by the Régie on October 17, 2008. Under these supply contracts, GMi provided two guarantees to Hydro-Québec TransÉnergie in 2009 totalling \$1,600,000, in addition to the two other guarantees, for a total of \$1,400,000 provided to Hydro-Québec Distribution in fiscal 2008. GMi could be required to provide additional guarantees at a later date, depending on the progress of the work associated with the contracts.

Gaz Métro, through its General Partner GMi, has issued letters of credit for \$10,841,000 to guarantee a portion of the other postretirement benefits.

In the normal course of its activities, the Partnership and GMi may provide bid bonds and performance bonds. The Partnership and GMi may also provide such guarantees on behalf of Gaz Métro's subsidiaries and joint ventures. Generally, the Partnership and GMi would be liable for the amount of bid bonds only if the Partnership, GMi, or Gaz Métro's subsidiaries or joint ventures did not carry out the work once the tender is awarded. In the case of performance bonds, the Partnership and GMi would also be liable for the guaranteed amounts if they or the subsidiaries or joint ventures of Gaz Métro failed to perform their commitments. As at September 30, 2009, guarantees totalling \$9,774,000 were provided by the Partnership and GMi. The Partnership and GMi consider that they and the subsidiaries and joint ventures of Gaz Métro are in compliance with all of these guarantees and that its total obligation under these guarantees would not have a significant impact on the Partnership's consolidated net income or its financial position. The Partnership did not recognize any amount on the consolidated balance sheet in respect of these guarantees.

Note 25. Commitments and guarantees (cont'd)
GUARANTEES (CONT'D)

The Partnership and some subsidiaries and joint ventures have agreed to provide certain collateral, pursuant to certain derivative financial instrument contracts that contain the natural gas or electricity price, the interest rates or the exchange rate, if the fair value of the said instruments becomes negative for Gaz Métro and exceeds a certain pre-determined threshold. The Partnership did not recognize any amount on the consolidated balance sheet in respect of these guarantees.

Note 26. Contingencies

LITIGATION

- a) The Partnership is cited in claims and lawsuits in the normal course of its activities, including for environmental matters. In the opinion of management, these claims and lawsuits are, for the most part, covered by appropriate insurance coverage and the outcome of these claims and lawsuits is not expected to have a significant impact on the Partnership's net income or financial position.
- b) VGS and GMP, subsidiaries of NNEEC, jointly with other companies, have been cited as being potentially responsible for polluting land on which a manufactured gas plant that ceased operations in 1966 was located. In 1999, a settlement protocol was signed by the U.S. Environmental Protection Agency (EPA) and the enterprises involved. It included an action plan to restore the site and a cost sharing method. The action plan was confirmed by the VPSB in 2001 and has generally proven to be effective except for a small portion of the contaminated area, for which the EPA is currently approving a new action plan. The VPSB has agreed that the costs incurred to date by VGS and GMP can be recovered in rates over a period of 10 to 20 years. If future outlays exceed the provisions already recorded, new requests to recover such amounts in rates will be submitted to the VPSB. In the opinion of management, the costs that might arise in connection with this settlement protocol would not be significant for the Partnership.

Note 27. Subsequent events

On October 1, 2009, distributions totalling \$37,340,000, or \$0.31 per unit, were paid to Partners of record as of September 15, 2009.

On November 16, 2009, Gaz Métro concluded the sale of all the shares it held in Teldig Systems Inc. (Teldig) for a total consideration of \$1,310,000, including repayment of the loan granted to Teldig. The transaction gave rise to a gain of \$780,000. The effective date of the transaction was November 16, 2009. The ownership interest in this company subject to significant influence was previously included in the Energy Services and Other segment.

Note 28. Comparative figures

Certain prior year comparative figures have been reclassified to conform to the current year's presentation.