

2009 Report to Partners

Stability, agility and diversity

Dear Partners

We are proud to report that earnings are up in spite of the economic adversity that prevailed throughout the 2009 fiscal year. Gaz Métro has not been spared from the turbulence of the global economy but your Partnership, which is built on solid foundations, was well prepared to face it.

Even though the economy weighed down customer demand, the Partnership proved its commercial agility by fully seizing opportunities that arose in the industrial market where natural gas became very competitive and dislodged heavy fuel oil. As a result, the impact of the recession on our deliveries was mitigated.

In 2009, Gaz Métro also reaped the rewards of the strategy it has been pursuing for a number of years to diversify, in a prudent targeted manner, its activities, its territories and its operations. During the past fiscal year, activities other than the distribution of natural gas in Quebec therefore represented more than 25% of your Partnership's net income.

OUR FINANCIAL RESULTS

Gaz Métro's unit has outperformed the stock market in general since the beginning of the financial crisis. Between September 1, 2008 and November 18, 2009, Gaz Métro's unit did not lose any value. In fact, it rose slightly, whereas the TSX index, in spite of a rebound that has lasted eight months now, is still 15% below its original level.

Investors have good reason to place their confidence in us. Our adjusted net income² was \$159.6 million, which is more than \$6 million higher than in 2008. As a result, adjusted net income per unit is \$1.32, up \$0.05 from the previous year.

We distributed \$0.31 per unit to our Partners in each quarter of the 2009 fiscal year. Gaz Métro has already paid the same amount last October 1 and declared a distribution of an identical amount payable on January 5, 2010. We expect to maintain that distribution level in each quarter of the 2010 fiscal year.

Gaz Métro has a stable risk profile and we work hard to protect it. Our financial approach involves taking all the appropriate steps to maintain high credit ratings. This makes it possible for us to borrow at reasonable rates, which benefits the organization's investors and its customers.

OUR PROJECTS AND CHALLENGES

While we cannot predict what the future will bring, we do everything we can to be well prepared to handle it. At the start of the 2010 fiscal year, natural gas is less expensive than all other energies in all market segments in Quebec and Vermont. This is good news for our customers who have to cope with an economic environment that is still fragile. The outlook for the competitiveness of natural gas is enhanced by the nearly 10% increase in gas production in the United States over the past two years. Coupled with rigorous control of our operating costs, the economic appeal of natural gas puts Gaz Métro in a good position to sustain deliveries and attract new customers as the recovery takes hold.

Counting on the competitiveness and the environmental attributes of natural gas, Gaz Métro is working to expand its commercial base in the transportation sector by specifically targeting fleets of heavy duty diesel trucks. The road transportation sector accounts for 40% of Quebec's greenhouse gas (GHG) emissions, and trucks are substantial contributors. Natural gas vehicles reduce GHG emissions in the order of 15% to 25% compared to diesel and other fuels and significantly reduce air pollutants that are responsible for urban smog. It is a proven widespread solution around the world for reducing the environmental fingerprint of economic activity. There are presently a number of similar initiatives across Canada. We are confident we can also give it life in Quebec.

Even though we are not involved in gas exploration, we closely monitor projects for developing natural gas reserves found in shale formations in Quebec. Gaz Métro's

¹ As of November 6, 2009. Will have to be adjusted as at November 18, 2009.

² Adjusted net income excludes an unfavourable non-monetary adjustment of \$1.1 million related to future income taxes for the 2009 fiscal year (favourable non-monetary adjustment of \$1.1 million for the 2008 fiscal year).

gas system is well positioned geographically for moving and possibly enhancing the value of this gas for the benefit of consumers and producers, provided it can be extracted in full respect of existing regulations.

The proposed Rabaska LNG terminal is also on our plate. As we have often pointed out, it is a strategic infrastructure for the long-term diversification of Quebec's natural gas supply. While the present economic conditions are not conducive to moving quickly, we still plan to go ahead with it.

We are also continuing to develop our energy distribution activities in Vermont. For the more than 20 years we have owned Vermont Gas, its clientele has grown an average of 4.6% a year, and this trend has not changed in spite of the tightening economy. In 2007, our deep knowledge of the energy market and the regulatory environment in Vermont enabled us to acquire Green Mountain Power (GMP), the second largest electricity distributor in the State. GMP benefits from the substantial regulated investment opportunities afforded by its investment interest in the transportation of Vermont's electricity. Green Mountain Power alone generated nearly 10%³ of Gaz Métro's consolidated net income in 2009. Vermont's electricity market is still extremely fragmented. Accordingly, in Gaz Métro's view, there are possibilities for consolidation. If this is the case, we are well positioned there to assert our expertise.

Here, like everywhere else in the world, society is changing, energy is diversifying and Gaz Métro is working to broaden its expertise for the benefit of its customers and investors.

Four years ago, we got involved in development projects for producing electricity from wind power in Quebec. In 2008, the Seigneurie de Beaupré project, put together by Gaz Métro and Boralex in collaboration with the Séminaire de Québec, was awarded 272 MW of Hydro-Québec's call for tenders for 2,000 MW.

In 2009, we reached a key milestone when we obtained a decree from the Government of Quebec, thereby acknowledging the project's environmental merits and social acceptance. Our wind farm will be built on the private lands of the Séminaire, 60 km. northeast of Quebec City and 15 km. north of Saint-Tite-des-Caps, a remote area that makes the visual and noise impacts virtually non-existent for the neighbouring communities.

Now that the environmental approvals have been obtained, Gaz Métro and its partners have started the other key steps for realizing the project, in particular applying for construction permits and arranging financing. The Seigneurie de Beaupré wind farm has a 20-year contract with Hydro-Québec. It will be put in service in December 2013 and will immediately contribute to Gaz Métro's net income and the creation of long-term value for our investors. And as this first phase will only use 10% of the land area of the Seigneurie, Gaz Métro and its partners are well positioned to increase its value over the years by being able to respond to future calls for tenders.

OUR REGULATORY ENVIRONMENT

The ardour we put into planning our growth we also direct toward ensuring our regulatory framework keeps pace, adapts to fundamental changes in financial market conditions and makes it possible for us to raise the capital required to maintain and develop our distribution and transportation infrastructures.

Last March, the National Energy Board (NEB) rendered a "historic" decision according to industry observers. The NEB accepted the request of Trans Québec & Maritimes Pipeline (TQM), in which we own a 50% interest, to establish a new method for calculating the allowed return on equity. This decision represents a major evolution in Canada's regulatory thinking. It redefines the criteria for a fair and reasonable return and redresses the situation for investors in regulated transmission enterprises. In the wake of this decision, TQM's authorized rate of return for 2007 and 2008 was more than 315 basis points higher than it would have been using the formula in place since 1994.

In Quebec, Gaz Métro relied on this decision to reiterate to the Régie de l'énergie the need to review and correct the method for establishing the return allowed our investors in the natural gas distribution system.

Unlike the NEB, the Régie, in a decision rendered on December 7, continued to stick with the rate of return formula. However, it did allow a circumstantial premium to reflect market conditions and it has already renewed it for the 2011 fiscal year. Consequently, the base rate of return allowed for the 2010 fiscal year is 9.20%, which is 56 basis points higher than the 8.64% under the formula.

³ Before financial costs



TAX REFORM

By October 1, 2010, Gaz Métro has to respond to the new tax rules for limited partnerships and income trusts introduced a few years ago by the Government of Canada. The Board of Directors of Gaz Métro inc., the general partner of Gaz Métro and a wholly owned subsidiary of Noverco Inc., is analyzing its various options. The search for a solution that will be in the best interests of our Partners and the other stakeholders is guiding the process.

SOLID STRATEGY

Gaz Métro's value creation strategy is based on what we know best: the distribution and transportation of energy and the realization of sound energy projects. Our 2009 results show that this is a solid successful strategy that we are striving to make even more successful over time.

In what remains an uncertain economic context for 2010, our experience and vision, coupled with the loyalty of our customers and the mobilization of our employees, are cherished benefits. Gaz Métro will continue to cultivate them; we invite you to take advantage of them.

SOPHIE BROCHU

President and
Chief Executive Officer

LOUIS P. GIGNAC

Chairman
of the Board