

# **Hydro-Québec Trust for Management of Nuclear Fuel Waste**

Financial statements  
**As at December 31, 2018**



## *Independent auditor's report*

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

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### *Our opinion*

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Hydro-Québec Trust for Management of Nuclear Fuel Waste (the Trust) as at December 31, 2018 and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America (US GAAP).

#### **What we have audited**

The Trust's financial statements comprise:

- the statement of financial position as at December 31, 2018;
- the statement of income and comprehensive income for the year then ended;
- the statement of changes in net assets for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

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### *Basis for opinion*

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

#### **Independence**

We are independent of the Trust in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

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### *Responsibilities of management and those charged with governance for the financial statements*

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

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\*PwC\* refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



In preparing the financial statements, management is responsible for assessing the Trust's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Trust or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Trust's financial reporting process.

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### *Auditor's responsibilities for the audit of the financial statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Trust's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Trust to cease to continue as a going concern.



- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

*PricewaterhouseCoopers LLP<sup>1</sup>*

Montréal, Quebec  
March 22, 2019

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<sup>1</sup> CPA auditor, CA, public accountancy permit No. A125110

# Hydro-Québec Trust for Management of Nuclear Fuel Waste

## Statement of Financial Position

As at December 31, 2018

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	Note	2018 \$	2017 \$
<b>Assets</b>			
<b>Current assets</b>			
Cash		42,508	60,371
Investments	4	53,994,479	—
		<hr/>	<hr/>
		54,036,987	60,371
<b>Investments</b>	4	98,739,427	147,061,916
		<hr/>	<hr/>
		152,776,414	147,122,287
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		27,768	17,589
		<hr/>	<hr/>
<b>Net assets</b>		152,748,646	147,104,698
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The accompanying notes are an integral part of these financial statements.

# Hydro-Québec Trust for Management of Nuclear Fuel Waste

## Statement of Income and Comprehensive Income

For the year ended December 31, 2018

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	2018 \$	2017 \$
<b>Investment income</b>		
Interest on zero-coupon bonds	5,215,351	5,239,207
Other interest	218	7,155
	<hr/> 5,215,569	<hr/> 5,246,362
<b>Expenditure</b>		
Professional fees	17,566	14,607
Trustee fees	40,969	39,753
	<hr/> 58,535	<hr/> 54,360
<b>Net income and comprehensive income</b>	<hr/> 5,157,034	<hr/> 5,192,002

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

# Hydro-Québec Trust for Management of Nuclear Fuel Waste

## Statement of Changes in Net Assets

For the year ended December 31, 2018

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	2018 \$	2017 \$
<b>Net assets, beginning of year</b>	147,104,698	141,581,790
Net income and comprehensive income	5,157,034	5,192,002
Contributions	486,914	330,906
<b>Net assets, end of year</b>	<u>152,748,646</u>	<u>147,104,698</u>

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

# Hydro-Québec Trust for Management of Nuclear Fuel Waste

## Statement of Cash Flows

For the year ended December 31, 2018

	2018 \$	2017 \$
<b>Operating activities</b>		
Net income	5,157,034	5,192,002
Adjustment to determine net cash flows from operating activities		
Interest on zero-coupon bonds	(5,215,351)	(5,239,207)
Interest collected on investments	-	8,860,795
Change in non-cash working capital items		
Accounts payable and accrued liabilities	10,179	1,090
	<u>(48,138)</u>	<u>8,814,680</u>
<b>Investing activities</b>		
Purchase of investments	(456,639)	(52,523,418)
Maturity of investments	-	43,359,205
	<u>(456,639)</u>	<u>(9,164,213)</u>
<b>Financing activities</b>		
Contributions	486,914	330,906
<b>Net change in cash</b>	(17,863)	(18,627)
<b>Cash, beginning of year</b>	60,371	78,998
<b>Cash, end of year</b>	<u>42,508</u>	<u>60,371</u>

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



# Hydro-Québec Trust for Management of Nuclear Fuel Waste

## Notes to Financial Statements

December 31, 2018

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### 1 Description of the Trust

Under the Nuclear Fuel Waste Act ("NFWA"), which came into force in 2002, the owners of nuclear fuel waste in Canada were required to set up a management organization, the Nuclear Waste Management Organization, and each of them was required to establish a trust fund to finance the cost of long-term management of its nuclear fuel waste. Hydro-Québec established the Hydro-Québec Trust for Management of Nuclear Fuel Waste (the "Trust"), of which Hydro Québec is the primary beneficiary.

In April 2009, the Government of Canada approved a formula for financing the costs of the approach adopted for long-term nuclear fuel waste management. The amounts deposited in the trust funds can only be used to finance the implementation of this approach. In order to discharge its financial responsibilities, Hydro-Québec has made all the payments required under the NFWA.

The Trust is exempt from paying income taxes under section 149(1)(z.2) of the Income Tax Act.

The Trustee of the Trust is RBC Investor Services Trust.

### 2 Significant accounting policies

The Trust's financial statements have been prepared in accordance with United States generally accepted accounting principles since January 1, 2018. These financial statements are therefore the Trust's first annual financial statements prepared according to this basis of accounting.

The new accounting principles have been applied retrospectively to all the periods presented in these financial statements. Their application has not had any impact on the Trust's financial statements as at the date of transition.

The Trustee is of the opinion that these financial statements present fairly, in all material respects, the financial position of the Trust.

The Trustee has reviewed events occurring until March 22, 2019, the date of approval of these financial statements, to determine whether circumstances warranted consideration of events subsequent to the statement of financial position date.

#### Financial instruments

Financial assets comprise cash and investments.

Cash is initially measured at cost, which is the fair value.

Investments have been classified as financial assets held to maturity and are measured at amortized cost using the effective interest method. Interest is recognized in results.

# Hydro-Québec Trust for Management of Nuclear Fuel Waste

## Notes to Financial Statements

December 31, 2018

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Financial liabilities are made up of accounts payable and accrued liabilities.

Accounts payable and accrued liabilities are measured at amortized cost using the effective interest method.

### **Fair value**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

In accordance with the applicable standards, the Trust classifies the fair value measurements of financial assets according to a three-level hierarchy, based on the type of inputs used in making these measurements:

- Level 1: Quoted prices (unadjusted) on active markets for identical assets or liabilities that the Trust can access at the measurement date;
- Level 2: Inputs other than quoted market prices included within Level 1 that are observable either directly or indirectly; and
- Level 3: Unobservable inputs.

## **3 Changes to accounting policies**

### **Recent changes**

#### **Financial instruments**

On January 1, 2018, the Trust early adopted Accounting Standards Update (“ASU”) 2016-01, Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. This ASU provides guidance on the recognition and measurement of financial assets and financial liabilities. It was applied on a modified retrospective basis and did not have an impact on the Trust’s financial statements.

#### **Statement of cash flows**

On January 1, 2018, the Trust early adopted ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. This ASU clarifies how certain items are presented and classified in the statement of cash flows. It was applied on a full retrospective basis and did not have an impact on the Trust’s financial statements.

# Hydro-Québec Trust for Management of Nuclear Fuel Waste

## Notes to Financial Statements

December 31, 2018

### Standard issued but not yet effective

#### Financial instruments

In June 2016, the Financial Accounting Standards Board issued ASU 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This ASU provides new guidance on the impairment of financial assets that are not accounted for at fair value through net income. It will be applied on a modified retrospective basis to the annual financial statements for annual periods beginning on or after January 1, 2021. The Trust is currently examining the impact of this ASU on its financial statements.

## 4 Investments

### Investment objective

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

	2018		2017	
	Amortized cost \$	Fair value \$	Amortized cost \$	Fair value \$
<b>Investments</b>				
Hydro-Québec, face value of \$54,193,000 (\$53,728,000 in 2017) and effective interest rate of 1.14% (\$1.13% in 2017), maturing on April 29, 2019	53,994,479	53,821,030	52,930,308	52,563,727
Hydro-Québec, face value of \$65,160,000 and effective interest rate of 4.49%, maturing April 15, 2022	56,312,282	60,498,816	53,866,357	59,372,875
Hydro-Québec, face value of \$65,450,000 and effective interest rate of 5.30%, maturing April 15, 2027	42,427,145	52,251,121	40,265,251	51,407,114
	152,733,906	166,570,967	147,061,916	163,343,716
<b>Less</b>				
Investments maturing in less than one year	53,994,479	53,821,030	—	—
	98,739,427	112,749,937	147,061,916	163,343,716

# Hydro-Québec Trust for Management of Nuclear Fuel Waste

## Notes to Financial Statements

December 31, 2018

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### Financial risk management

The Trust is exposed to risks associated with its investment strategies and the markets in which it invests.

a) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates. The Trust is currently exposed to a change in fair value because of investments in zero coupon bonds. As at December 31, 2018 and 2017, the Trust has limited its exposure to interest rate risk by planning to hold the investments until maturity.

b) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. As at December 31, 2018 and 2017, the Trust has limited its exposure to credit risk by investing in bonds issued by Hydro-Québec, a related company and a Quebec government corporation.

### Fair value of financial instruments

Fair value measurements of financial instruments are classified at Level 2. Fair value is obtained by discounting future cash flows, based on rates observed on the statement of financial position date for similar instruments traded on capital markets.

The fair value of accounts payable and accrued liabilities approximates their carrying amount because of the short-term nature of these financial instruments.