

Hydro-Québec Trust for Management of Nuclear Fuel Waste

Financial statements
December 31, 2021



Independent auditor's report

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

Opinion

We have audited the financial statements of **Hydro-Québec Trust for Management of Nuclear Fuel Waste** [the "Trust"], which comprise the statement of financial position as at December 31, 2021, and the statement of income and comprehensive income, statement of changes in net assets and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2021 and the result of operations and its cash flows for the year then ended in accordance with United States generally accepted accounting principles.

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 are independent of the Trust in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 United States generally accepted accounting principles, 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.

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.

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.

Other matters

The financial statements for the year ended December 31, 2020 were audited by another auditor who expressed an unqualified opinion on those financial statements on March 18, 2021.

*Ernst & Young LLP*¹

Montreal, Canada
March 15, 2022

¹ CPA auditor, CA, public accountancy permit no. A129122

Hydro-Québec Trust for Management of Nuclear Fuel Waste

Statement of financial position

As at December 31, 2021

	2021	2020
	\$	\$
Assets		
Current assets		
Cash	37,484	46,542
Investments <i>[note 4]</i>	65,054,365	30,643,516
	65,091,849	30,690,058
Investments <i>[note 4]</i>	117,019,997	152,462,345
	182,111,846	183,152,403
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	26,590	27,630
Net assets	182,085,256	183,124,773

See accompanying notes

Hydro-Québec Trust for Management of Nuclear Fuel Waste

Statement of income and comprehensive income

For the year ended December 31, 2021

	2021	2020
	\$	\$
Investment income		
Interest on zero-coupon bonds	6,148,683	5,933,281
Other interest	—	48
	<u>6,148,683</u>	<u>5,933,329</u>
Expenditure		
Professional fees	17,304	17,764
Trustee fees	41,826	41,556
	<u>59,130</u>	<u>59,320</u>
Net income	6,089,553	5,874,009
Other comprehensive income		
Unrealized (loss) gain on available-for-sale debt securities <i>[notes 3 and 4]</i>	(7,179,070)	18,793,752
Comprehensive income	(1,089,517)	<u>24,667,761</u>

See accompanying notes

Hydro-Québec Trust for Management of Nuclear Fuel Waste

Statement of changes in net assets

For the year ended December 31, 2021

	2021	2020
	\$	\$
Net assets, beginning of year	183,124,773	158,397,012
Net income	6,089,553	5,874,009
Other comprehensive income	(7,179,070)	18,793,752
Contributions	50,000	60,000
Net assets, end of year	182,085,256	183,124,773

See accompanying notes

Hydro-Québec Trust for Management of Nuclear Fuel Waste

Statement of cash flows

For the year ended December 31, 2021

	2021	2020
	\$	\$
Operating activities		
Net income	6,089,553	5,874,009
Adjustment to determine net cash flows from operating activities		
Interest on zero-coupon bonds	(6,148,683)	(5,933,281)
Interest collected on investments	1,091,901	447,500
Change in non-cash working capital items		
Accounts payable and accrued liabilities	(1,040)	6,937
	<u>1,031,731</u>	<u>395,165</u>
Investing activities		
Purchase of investments	(30,678,888)	(24,997,693)
Maturity of investments	29,588,099	24,552,500
	<u>(1,090,789)</u>	<u>(445,193)</u>
Financing activities		
Contributions	50,000	60,000
Net change in cash	(9,058)	9,972
Cash, beginning of year	46,542	36,570
Cash, end of year	<u>37,484</u>	<u>46,542</u>

See accompanying notes

Hydro-Québec Trust for Management of Nuclear Fuel Waste

Notes to financial statements

December 31, 2021

1. Description of the Trust

Under the Nuclear Fuel Waste Act (S.C. 2002, c. 23) ["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* (R.S.C. 1985, c. 1).

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.

The Trustee has reviewed events occurring until March 15, 2022, the date of approval of these financial statements, to determine whether circumstances warranted consideration of events subsequent to the balance sheet date.

Financial instruments

Financial assets comprise cash and investments.

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

Investments are classified as available-for-sale debt securities and are recognized at fair value. Changes in fair value are recorded in Other comprehensive income until they are realized, at which time they are reclassified to results. Revenue from these investments, calculated using the effective interest method, is recognized in results.

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.

Hydro-Québec Trust for Management of Nuclear Fuel Waste

Notes to financial statements

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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 and liabilities 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

Standard issued but not yet effective

Financial instruments

In June 2016, the Financial Accounting Standards Board issued Accounting Standards Update ["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, 2023. The Trust believes that the adoption will not have a significant impact on the financial statements.

Hydro-Québec Trust for Management of Nuclear Fuel Waste

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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.

	2021		2020	
	Amortized cost \$	Fair value \$	Amortized cost \$	Fair value \$
Investments				
Hydro-Québec, face value of \$30,680,000 and effective interest rate of 1.82%, maturing April 29, 2021	—	—	30,501,333	30,643,516
Hydro-Québec, face value of \$65,160,000 and effective interest rate of 4.49%, maturing April 15, 2022	64,344,578	65,054,365	61,549,770	64,997,037
Hydro-Québec, face value of \$25,675,000 and effective interest rate of 0.89%, maturing May 1, 2023	25,374,066	25,377,413	25,148,952	25,482,447
Hydro-Québec, face value of \$65,450,000 and effective interest rate of 5.30%, maturing April 15, 2027	49,641,562	60,098,780	47,112,054	61,982,861
Hydro-Québec, face value of \$36,036,000 and effective interest rate of 2.02%, maturing April 29, 2029	31,099,474	31,543,804	—	—
	170,459,680	182,074,362	164,312,109	183,105,861
Less				
Investments maturing in less than one year	64,344,578	65,054,365	30,501,333	30,643,516
	106,115,102	117,019,997	133,810,776	152,462,345

Hydro-Québec Trust for Management of Nuclear Fuel Waste

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Accumulated other comprehensive income

	2021	2020
	\$	\$
Balance, end of previous year	18,793,752	—
Other comprehensive income before reclassifications	(1,030,387)	—
Amounts reclassified outside of Accumulated other comprehensive income	(6,148,683)	—
Other comprehensive income	(7,179,070)	18,793,752
Balance, end of current year	11,614,682	18,793,752

Financial risk management

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

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.

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, 2021, the Trust has limited its exposure to credit risk by investing in bonds issued by Hydro-Québec, which holds a credit rating of AA- according to S&P, guaranteed by the Government of Quebec.

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 balance sheet 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.