Hydro-Québec Trust for Management of Nuclear Fuel Waste

Financial statements
As at December 31, 2020

Independent auditor's report

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

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, 2020 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, 2020;
- the statement of income and other 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 significant accounting policies and other explanatory information.

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.

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.

PricewaterhouseCoopers LLP[1]

Montréal, Quebec
March 18, 2021

[1] CPA auditor, CA, public accountancy permit No. A128080

Hydro-Québec Trust for Management of Nuclear Fuel Waste

Statement of Financial Position

As at December 31, 2020

	Note	2020 $	2019 $
Assets			
Current assets			
Cash		46,542	36,570
Investments	4	30,643,516	24,853,844
		30,690,058	24,890,414
Investments	4	152,462,345	133,527,291
		183,152,403	158,417,705
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		27,630	20,693
Net assets		183,124,773	158,397,012

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, 2020

	Note	2020 $	2019 $
Investment income			
Interest on zero-coupon bonds		5,933,281	5,699,630
Other interest		48	347
		5,933,329	5,699,977
Expenditure			
Professional fees		17,764	10,348
Trustee fees		41,556	41,263
		59,320	51,611
Net income		5,874,009	5,648,366
Other comprehensive income			
Contingent gain on available-for-sale debt securities	3, 4	18,793,752	-
Comprehensive income		24,667,761	5,648,366

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, 2020

	2020 $	2019 $
Net assets, beginning of year	158,397,012	152,748,646
Net income	5,874,009	5,648,366
Other comprehensive income	18,793,752	-
Contributions	60,000	-
Net assets, end of year	183,124,773	158,397,012

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, 2020

	2020 $	2019 $
Operating activities		
Net income	5,874,009	5,648,366
Adjustment to determine net cash flows from operating activities		
Interest on zero-coupon bonds	(5,933,281)	(5,699,630)
Interest collected on investments	447,500	1,212,942
Change in non-cash working capital items		
Accounts payable and accrued liabilities	6,937	(7,075)
	395,165	1,154,603
Investing activities		
Purchase of investments	(24,997,693)	(54,140,599)
Maturity of investments	24,552,500	52,980,058
	(445,193)	(1,160,541)
Financing activities		
Contributions	60,000	-
Net change in cash	9,972	(5,938)
Cash, beginning of year	36,570	42,508
Cash, end of year	46,542	36,570

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

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 (Canada)* (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 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 17, 2021, the date of approval of these financial statements, to determine whether circumstances warranted consideration of events subsequent to the statement of financial position date.

COVID-19 pandemic

The global COVID-19 pandemic has affected economic activity and financial markets. Its impact is reflected in the fair value of the Trust's investments as at December 31, 2020.

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 the statement of income and comprehensive income.

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 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

Recent change

Financial instruments

Investments, which were formerly classified as held-to-maturity financial assets, have been reclassified prospectively as available-for-sale debt securities as at December 31, 2020.

This reclassification is due to a change in the Trust's investment management strategy, which now calls for more active management of investments rather than holding them all to maturity, as was previously the case.

At the time of reclassification, the amortized cost of the investments was $164,312,109 and their fair value totaled $183,105,861. A contingent gain on available-for-sale debt securities of $18,793,752 was therefore recognized in Other comprehensive income as at December 31, 2020.

Standard issued but not yet effective

Financial instruments

In June 2016, the Financial Accounting Standards Board issued the 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 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.

	2020		2019	
	Amortized cost $	**Fair value $**	**Amortized cost $**	**Fair value $**
Investments				
Hydro-Québec, face value of $25,000,000 and effective interest rate of 1.81%, matured April 29, 2020	-	-	24,853,844	24,846,546
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	29,952,906	29,976,492
Hydro-Québec, face value of $65,160,000 and effective interest rate of 4.49%, maturing April 15, 2022	61,549,770	64,997,037	58,869,271	62,501,918
Hydro-Québec, face value of $25,675,000 and effective interest rate of 0.89%, maturing May 1, 2023	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	47,112,054	61,982,861	44,705,114	55,855,217
	164,312,109	183,105,861	158,381,135	173,180,173
Less				
Investments maturing in less than one year	30,501,333	30,643,516	24,853,844	24,846,546
	133,810,776	152,462,345	133,527,291	148,333,627

Accumulated other comprehensive income

	2020 $
Balance, end of previous year	-
Other comprehensive income before reclassifications	18,793,752
Amounts reclassified outside of Accumulated other comprehensive income	-
Other comprehensive income	18,793,752
Balance, end of current year	18,793,752

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 its investments in zero-coupon bonds.

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, 2020, 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.