

Hydro-Québec Trust for Management of Nuclear Fuel Waste

**Financial statements
December 31, 2023**

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, 2023, 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, 2023 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.

*Ernst & Young LLP*¹

Montreal, Canada
March 13, 2024

¹ CPA auditor, public accountancy permit no. A129122

Hydro-Québec Trust for Management of Nuclear Fuel Waste

Statements of financial position

As at December 31
In Canadian dollars

	2023	2022
	\$	\$
Assets		
Current assets		
Cash	19,930	27,701
Investments <i>[note 4]</i>	16,095,751	25,286,094
Total current assets	16,115,681	25,313,795
Investments <i>[note 4]</i>	167,011,745	148,586,499
	183,127,426	173,900,294
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	22,949	21,553
Net assets	183,104,477	173,878,741

See accompanying notes

Hydro-Québec Trust for Management of Nuclear Fuel Waste

Statements of income and comprehensive income

Years ended December 31

In Canadian dollars

	2023	2022
	\$	\$
Investment income		
Interest on zero-coupon bonds	6,643,931	5,804,126
Other interest	1,795	514
Loss on anticipated sell of bonds	(189,748)	—
	<u>6,455,978</u>	<u>5,804,640</u>
Expenditure		
Professional fees	20,299	18,781
Trustee fees	51,140	47,580
	<u>71,439</u>	<u>66,361</u>
Net income	<u>6,384,539</u>	<u>5,738,279</u>
Other comprehensive income		
Unrealized gain (loss) on available-for-sale debt securities <i>[notes 3 and 4]</i>	2,781,197	(14,004,794)
Comprehensive income	<u>9,165,736</u>	<u>(8,266,515)</u>

See accompanying notes

Hydro-Québec Trust for Management of Nuclear Fuel Waste

Statements of changes in net assets

Years ended December 31
In Canadian dollars

	2023	2022
	\$	\$
Net assets, beginning of year	173,878,741	182,085,256
Net income	6,384,539	5,738,279
Other comprehensive income	2,781,197	(14,004,794)
Contributions	60,000	60,000
Net assets, end of year	183,104,477	173,878,741

See accompanying notes

Hydro-Québec Trust for Management of Nuclear Fuel Waste

Statements of cash flows

Years ended December 31

In Canadian dollars

	2023	2022
	\$	\$
Operating activities		
Net income	6,384,539	5,738,279
Adjustment to determine net cash flows from operating activities		
Interest on zero-coupon bonds	(6,643,931)	(5,804,126)
Interest collected on investments	632,898	26,066,099
Change in non-cash working capital items		
Accounts payable and accrued liabilities	1,396	(5,037)
	374,902	25,995,215
Investing activities		
Purchase of investments	(25,440,368)	(65,158,898)
Sale of investments	24,997,695	—
Maturity of investments	—	39,093,900
	(442,673)	(26,064,998)
Financing activities		
Contributions	60,000	60,000
Net change in cash	(7,771)	(9,783)
Cash, beginning of year	27,701	37,484
Cash, end of year	19,930	27,701

See accompanying notes

Hydro-Québec Trust for Management of Nuclear Fuel Waste

Notes to 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* (R.S.C. 1985, ch. 1 (5th suppl.)).

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 13, 2024, 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.

Hydro-Québec Trust for Management of Nuclear Fuel Waste

Notes to financial statements

2. Significant accounting policies [continued]

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

On January 1, 2023, the Trust adopted, on a modified retrospective basis, the Accounting Standard Codification 326, Financial Instruments—Credit Losses issued by the Financial Accounting Standards Board. This standard provides new guidance on the impairment of financial assets that are not accounted for at fair value in results. It replaces the method based on incurred losses by a method based on expected losses, and it did not have a significant impact on the Trust's consolidated financial statements.

Hydro-Québec Trust for Management of Nuclear Fuel Waste

Notes to 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.

	2023		2022	
	Amortized cost \$	Fair value \$	Amortized cost \$	Fair value \$
Investments				
Hydro-Québec, face value of \$25,675,000 and effective interest rate of 0.89%, maturing May 1, 2023	—	—	25,601,195	25,286,094
Hydro-Québec, face value of \$16,335,000 and effective interest rate of 4.79%, maturing April 15, 2024	16,115,047	16,095,751	—	—
Hydro-Québec, face value of \$40,500,000 and effective interest rate of 2.90%, maturing April 18, 2025	39,019,058	38,316,013	37,912,638	36,901,568
Hydro-Québec, face value of \$65,450,000 and effective interest rate of 5.30%, maturing April 15, 2027	55,115,308	58,256,973	52,306,883	55,725,123
Hydro-Québec, face value of \$36,036,000 and effective interest rate of 2.02%, maturing April 29, 2029	32,375,418	29,946,033	31,731,034	28,323,132
Hydro-Québec, face value of \$38,355,000 and effective interest rate of 3.52%, maturing April 18, 2031	29,730,736	29,604,038	28,710,955	27,636,676
Hydro-Québec, face value of \$20,000,000 and effective interest rate of 4.35%, maturing April 15, 2039	10,360,844	10,888,688	—	—
	182,716,411	183,107,496	176,262,705	173,872,593
Less				
Investments maturing in less than one year	16,115,047	16,095,751	25,601,195	25,286,094
	166,601,364	167,011,745	150,661,510	148,586,499

Hydro-Québec Trust for Management of Nuclear Fuel Waste

Notes to financial statements

4. Investments [continued]

Accumulated other comprehensive income

	2023	2022
	\$	\$
Balance, end of previous year	(2,390,112)	11,614,682
Other comprehensive income before reclassifications	9,425,128	(8,200,668)
Amounts reclassified outside of Accumulated other comprehensive income	(6,643,931)	(5,804,126)
Other comprehensive income	2,781,197	(14,004,794)
Balance, end of current year	391,085	(2,390,112)

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. Financial instruments that potentially subject the Trust to concentration of credit risk consist primarily of investments in bonds. As at December 31, 2023 & 2022, the Trust has limited its exposure to credit risk by investing all the amounts in bonds issued by Hydro-Québec which are guaranteed by the Government of Québec. Hydro-Québec holds a credit rating of AA- according to S&P as at December 31, 2023.

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.