

Financial Statements of

**NEW BRUNSWICK POWER CORPORATION
NUCLEAR FUEL WASTE TRUST**

For the year ended March 31, 2020



KPMG LLP
Frederick Square, TD Tower
700-77 Westmorland Street
Fredericton NB E3B 6Z3
Canada
Tel (506) 452-8000
Fax (506) 450-0072

INDEPENDENT AUDITORS' REPORT

To the Trustee of the New Brunswick Power Corporation Nuclear Fuel Waste Trust

Opinion

We have audited the financial statements of New Brunswick Power Corporation Nuclear Fuel Waste Trust (the Entity), which comprise:

- the statement of assets as at March 31, 2020
- the statement of operations and comprehensive income for the year then ended
- the statement of changes in net assets for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at March 31, 2020, and its financial performance for the year then ended in accordance with International Financial Reporting Standards (IFRS).

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 "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity 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 IFRS, 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 Entity'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 Entity or to cease operations, or has no realistic alternative but to do so.

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

Auditors' 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 auditors' 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 the 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 Entity'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 Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Entity 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.
- 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.

KPMG LLP

Chartered Professional Accountants

Fredericton, Canada

June 29, 2020

NEW BRUNSWICK POWER CORPORATION

NUCLEAR FUEL WASTE TRUST

Statement of Assets

for the year ended March 31, 2020

(Amounts are expressed in thousands of Canadian dollars unless otherwise indicated)

	<u>2020</u>	<u>2019</u>
ASSETS		
INVESTMENTS		
Investments (Note 3)	\$ 183,198	\$ 173,330
	<u>183,198</u>	<u>173,330</u>
OTHER		
Accrued interest receivable (Note 3)	-	3
	-	<u>3</u>
TOTAL ASSETS	\$ 183,198	\$ 173,333

NEW BRUNSWICK POWER CORPORATION
NUCLEAR FUEL WASTE TRUST
Statement of Operations and Comprehensive Income
for the year ended March 31, 2020

(Amounts are expressed in thousands of Canadian dollars unless otherwise indicated)

	<u>2020</u>	<u>2019</u>
Income		
Interest income	\$ (11)	\$ 411
Gain/(loss) on disposal of fair value through other comprehensive income investments	(1,521)	2,172
Mark-to-market of fair value through profit and loss	7,875	8,781
OPERATING INCOME	<u>6,343</u>	<u>11,364</u>
Other comprehensive loss		
Change in unrealized gains and losses on fair value through other comprehensive income investments		
Unrealized loss arising during the year	(319)	(2,526)
COMPREHENSIVE INCOME	<u>\$ 6,024</u>	<u>\$ 8,838</u>

NEW BRUNSWICK POWER CORPORATION

NUCLEAR FUEL WASTE TRUST

Statement of Changes in Assets

for the year ended March 31, 2020

(Amounts are expressed in thousands of Canadian dollars unless otherwise indicated)

	2020	2019
ASSETS, BEGINNING OF YEAR	\$ 173,333	\$ 160,506
Transfer from Point Lepreau Used Fuel Management and Decommissioning Segregated Funds	3,841	3,989
Increase in assets from operations	6,343	11,364
Decrease in assets from other comprehensive income	(319)	(2,526)
ASSETS, END OF YEAR	\$ 183,198	\$ 173,333

NEW BRUNSWICK POWER CORPORATION
NUCLEAR FUEL WASTE TRUST
Notes to the Financial Statements
for the year ended March 31, 2020

(Amounts are expressed in thousands of Canadian dollars unless otherwise indicated)

1. DESCRIPTION OF THE FUNDS

On October 1, 2013, New Brunswick Power Nuclear Corporation amalgamated with New Brunswick Power Corporation, as such the Nuclear Fuel Waste Trust funds are now held by New Brunswick Power Corporation.

As required under the *Nuclear Fuel Waste Act* (NFWA), owners of nuclear fuel waste established, by incorporation, the Nuclear Waste Management Organization (NWMO). The NWMO will report regularly to the Government of Canada and make recommendations on long-term management of nuclear fuel waste.

The *Nuclear Fuel Waste Act* requires major owners of used nuclear fuel in Canada to establish trust funds to finance the long-term management of used nuclear fuel. In June 2007, the Government of Canada announced its decision to accept the long-term disposal plan proposed by the NWMO. The funding requirement is based on the accepted proposal and was approved on April 7, 2009. The funding requirement for 2019/20 was \$3.8 million (\$4.0 million in 2018/19).

The Trust is managed by Vestcor Investment Management Corporation ("VIMC") in accordance with the *Statement of Investment Policy and Guidelines* that have been established. The NWMO is the beneficiary of the Trust. The Trust has been accepted by the Canadian Nuclear Safety Commission as satisfaction of New Brunswick Power Corporation's financial guarantee requirement of the operating license.

The financial statements present the assets of the Trust as at March 31, 2020 and the statements of operations and comprehensive income and changes in assets for the year then ended.

NEW BRUNSWICK POWER CORPORATION
NUCLEAR FUEL WASTE TRUST
Notes to the Financial Statements
for the year ended March 31, 2020

(Amounts are expressed in thousands of Canadian dollars unless otherwise indicated)

2. BASIS OF PREPARATION

The financial statements of the Trust have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and interpretations adopted by the International Accounting Standards Board (“IASB”). The financial statements of the Trust have been prepared on the historical cost basis except for fair value through other comprehensive income and fair value through profit and loss financial assets that are measured at fair value. The financial report has been prepared on a going concern basis. The financial statements are presented in Canadian dollars, which is the Trust’s functional currency. The financial statements of the Trust have been rounded off to the nearest thousand dollars, unless otherwise stated. The financial statements of the Trust were authorized for issue by the Trustee on June 29, 2020.

The preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of the assets, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable when making the judgment about carrying values of assets that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognized in the financial statements are described in Note 5.

The impact of COVID-19 pandemic and the subsequent state of emergency declared by the Province of New Brunswick and surrounding jurisdictions introduced a further level of estimation uncertainty. Impacts have been estimated where applicable based on information available at the time.

NEW BRUNSWICK POWER CORPORATION
NUCLEAR FUEL WASTE TRUST
Notes to the Financial Statements
for the year ended March 31, 2020

(Amounts are expressed in thousands of Canadian dollars unless otherwise indicated)

3. SIGNIFICANT ACCOUNTING POLICIES

Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity (for example, accounts receivable / accounts payable).

Financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification as described below. Their classification depends on the purpose for which the financial instruments were acquired or issued and their characteristics.

Classification

Financial instrument	Classification
Accrued interest receivable	Amortized cost
Investment in NBP Canadian Long-Term Bond Fund	Fair value through other comprehensive income
Investments in various other fixed income funds	Fair value through profit and loss

Amortized cost

A financial asset is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance. Changes in fair value are recognized in earnings when the asset is derecognized or reclassified.

Fair value through profit and loss (FVTPL)

Financial assets in this category are typically acquired with the intention of re-selling them prior to maturity. NB Power can choose to designate any financial asset as being fair value through profit and loss.

These assets are measured at fair value at the statement of assets date. Changes in fair value are included in operating income. These include realized and unrealized earnings.

Fair value through other comprehensive income (FVOCI)

Financial instruments classified as fair value through other comprehensive income are subsequently measured at fair value, with changes in fair value recognized in other comprehensive income (loss). On de-recognition, gains and losses accumulated in other comprehensive income (loss) are reclassified to the statement of operations.

NEW BRUNSWICK POWER CORPORATION
NUCLEAR FUEL WASTE TRUST
Notes to the Financial Statements
for the year ended March 31, 2020

(Amounts are expressed in thousands of Canadian dollars unless otherwise indicated)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Interest on interest-bearing available-for-sale financial assets is calculated using the effective interest method.

Effective interest method

The Trust uses the effective interest method to recognize interest income or expense which includes transaction costs or fees, premiums or discounts earned or incurred for financial instruments.

4. INVESTMENTS

	2020	2019
Accrued interest receivable	\$ -	\$ 3
Investment in NBP Canadian Long-Term Bond Fund	-	1,821
Investments in various NBIMC unit trust funds	183,198	171,509
	\$ 183,198	\$ 173,333

5. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Trust, through its financial assets, has exposure to the following risks from its use of financial instruments: credit risk and market risk.

Credit risk

The Trust's principal financial assets are cash, investments and accrued interest receivable, which are subject to credit risk. The Trust limits its credit risk associated with the bonds held in the Nuclear Fuel Waste Trust Fund. The current portfolio is comprised of investment grade ratings of BBB or above for longer-term securities and R-1 for short-term debt. The following table outlines the allocation of the maximum credit exposure by investment grade ratings.

	AAA	AA+ to AA	A+ to A	BBB	R1	Other	Total
Maximum credit exposure	\$34,769	\$78,632	\$40,906	\$24,182	\$1,301	-	\$179,790

NEW BRUNSWICK POWER CORPORATION
NUCLEAR FUEL WASTE TRUST
Notes to the Financial Statements
for the year ended March 31, 2020

(Amounts are expressed in thousands of Canadian dollars unless otherwise indicated)

5. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Market risk

Market risk is the risk that the Trust's operating income or financial instrument values will fluctuate due to changes in market prices.

The Trust is managed by Vestcor Investment Management Corporation. The Nuclear Fuel Waste Trust is invested in NBIMC unit trusts. The NBIMC unit trusts contain fixed income securities. These are subject to market risk and will fluctuate in value due to changes in market prices.

These funds are in place to cover the expected expenditures related to the nuclear decommissioning and used fuel management obligations. The nature of the investments and level of market risk are consistent with the long-term nature of the related liability.

The following table provides a sensitivity analysis which shows the dollar value impact of small changes in various market rates and prices. The amounts shown are derived from outstanding volumes of financial instruments that existed at March 31, 2020.

	Impact on earnings	Impact on other comprehensive income
Exchange and interest rates		
1 % change in investment yields	\$13,744	-

Fair value

The fair value of cash and accrued interest receivable approximates their carrying values due to their short-term maturity.

NEW BRUNSWICK POWER CORPORATION
NUCLEAR FUEL WASTE TRUST
Notes to the Financial Statements
for the year ended March 31, 2020

(Amounts are expressed in thousands of Canadian dollars unless otherwise indicated)

5. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

The financial instruments carried at fair value are classified using a fair value hierarchy which has 3 levels as follows

- *Level 1:* Fair value determination is based on inputs that are quoted prices in active markets for identical assets or liabilities.
- *Level 2:* Fair value is determined using inputs, other than quoted prices in level 1, that are observable for the financial asset or financial liability, either directly or indirectly. These inputs include quoted prices for similar financial instruments in active markets, quoted price for similar instruments that are not active, and inputs other than quoted prices that are observable for the instrument. These are inputs that are derived principally from, or corroborated by, observable market data.
- *Level 3:* Fair value is determined based on valuation models using inputs that are not based on observable market data. Unobservable inputs reflect subjective assumptions that market participants may use in pricing the investments.

Hierarchy Level	Financial Instruments	Fair value
1	N/A	The Trust does not have any fair values in level 1.
2	<ul style="list-style-type: none"> • Investment in NBP Canadian Long-Term Bond Fund • Investments held in various NBIMC unit trust funds 	Total fair value of \$183,198
3	N/A	The Trust does not have any fair values in level 3.