

Hydro-Québec Trust for Management of Nuclear Fuel Waste

Financial Statements
December 31, 2015
(expressed in Canadian dollars)

March 15, 2016

Independent Auditor's Report

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

We have audited the accompanying financial statements of Hydro-Québec Trust for Management of Nuclear Fuel Waste, which comprise the statement of financial position as at December 31, 2015 and the statements of income and comprehensive income, changes in net assets and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, 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.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Hydro-Québec Trust for Management of Nuclear Fuel Waste as at December 31, 2015 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP¹

¹ CPA auditor, CA, public accountancy permit No. A123642

Hydro-Québec Trust for Management of Nuclear Fuel Waste

Statement of Financial Position

As at December 31, 2015

(expressed in Canadian dollars)

	Note	2015 \$	2014 \$
Assets			
Cash		71,357	48,659
Investments	4	<u>130,744,828</u>	<u>118,945,036</u>
		130,816,185	118,993,695
Liabilities			
Accounts and other payables		<u>15,789</u>	<u>12,722</u>
Net assets		<u>130,800,396</u>	<u>118,980,973</u>

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, 2015

(expressed in Canadian dollars)

	2015 \$	2014 \$
Investment income		
Interest	5,335,817	5,006,538
Expenses		
Professional fees	15,823	10,815
Custodial fees	35,126	32,594
	50,949	43,409
Net income and comprehensive income	5,284,868	4,963,129

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, 2015

(expressed in Canadian dollars)

	2015 \$	2014 \$
Net assets – Beginning of year	118,980,973	105,077,638
Net income	5,284,868	4,963,129
Contributions	6,534,555	8,940,206
Net assets – End of year	<u>130,800,396</u>	<u>118,980,973</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, 2015

(expressed in Canadian dollars)

	2015 \$	2014 \$
Operating activities		
Net income	5,284,868	4,963,129
Adjustment to reconcile net income to cash flows from operating activities		
Interest	(5,335,817)	(5,006,538)
Change in non-cash working capital		
Accounts and other payables	3,067	(7,486)
	<u>(47,882)</u>	<u>(50,895)</u>
Investing activities		
Acquisition of investments	<u>(6,463,975)</u>	<u>(8,879,432)</u>
Financing activities		
Contributions	<u>6,534,555</u>	<u>8,940,206</u>
Net increase in cash during the year	22,698	9,879
Cash – Beginning of year	<u>48,659</u>	<u>38,780</u>
Cash – End of year	<u>71,357</u>	<u>48,659</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, 2015

(expressed in Canadian dollars)

1 Description of the Trust

The *Act respecting the long-term management of nuclear fuel waste* (the “Nuclear Fuel Waste Act” or “NFWA”) came into effect in 2002. As required under the NFWA, Canadian nuclear energy companies established by incorporation the Nuclear Waste Management Organization (“NWMO”), whose purpose was to propose approaches to the long-term management of nuclear fuel waste to the Government of Canada. The NFWA also required nuclear energy companies to set up a trust fund with a financial institution to finance the costs involved in the long-term management of their nuclear fuel waste. Hydro-Québec established the Hydro-Québec Trust for Management of Nuclear Fuel Waste (the “Trust”), of which the NWMO and Hydro-Québec are the beneficiaries.

In April 2009, the Government of Canada approved the funding formula for financing costs inherent in the long-term management of members’ nuclear fuel waste. The sums deposited in the Trust can only be used to finance the implementation of the approach prescribed by the Government of Canada. To fulfill its financial responsibilities, Hydro-Québec has made all payments required by the NFWA.

The trustee of the Trust is RBC Investor Services Trust. The address of the Trust’s registered office is 1 Place Ville Marie, 5th Floor, East Wing, Montréal, Quebec, Canada H3B 1Z3. The financial statements were approved by the Trust on March 15, 2016.

2 Significant accounting policies

Basis of presentation

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”).

The functional and presentation currency of the financial statements is the Canadian dollar.

Financial instruments

Financial instruments, on initial recognition, must be measured at their fair value. Their valuation during subsequent periods and the accounting of fluctuations in their fair value, if necessary, depend on the category in which they are classified: financial assets and financial liabilities classified as held for trading, held-to-maturity investments, loans and receivables, available for sale or other financial liabilities.

Investments are classified as held-to-maturity investments and are accounted for at the amount required to be paid, less, when material, a discount to reduce the investments to fair value. Subsequently, investments are measured at amortized cost using the effective interest rate method. The fair value of zero-coupon bonds is discounted using the prevailing market rates of interest for similar instruments.

Cash is classified as a held-for-trading financial asset and accounted for at fair value. Cash includes cash on hand with original maturities of three months or less.

Hydro-Québec Trust for Management of Nuclear Fuel Waste

Notes to Financial Statements

December 31, 2015

(expressed in Canadian dollars)

Accounts and other payables are classified as other financial liabilities and accounted for at cost, which approximates fair value due to their short-term maturities.

Investment income

Income earned from investments recognized in net income represents the accretion of zero-coupon bonds and is calculated using the effective interest rate method.

Income tax

The Trust is exempt from income tax in accordance with paragraph 149(1)(z.2) of Bill C-10, Income Tax Amendments Act. As a result, the Trust has not provided for any income tax in these financial statements.

3 Future change in accounting policy

Accounting standard issued but not yet effective

IFRS 9, Financial Instruments

The final version of IFRS 9 was issued by the IASB in July 2014 and will replace International Accounting Standard 39, Financial Instruments: Recognition and Measurement. IFRS 9 introduces a model for classification and measurement, a single, forward-looking “expected loss” impairment model and a substantially reformed approach to hedge accounting. The new single, principle-based approach for determining the classification of financial assets is driven by cash flow characteristics and the business model in which an asset is held. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 but is available for early adoption. The Trust is currently assessing the impact of IFRS 9 on the financial statements.

Hydro-Québec Trust for Management of Nuclear Fuel Waste

Notes to Financial Statements

December 31, 2015

(expressed in Canadian dollars)

4 Investments

	2015		2014	
	Amortized cost \$	Fair value \$	Amortized cost \$	Fair value \$
Zero-coupon bonds				
Hydro-Québec, face value of \$52,220,000 in 2015 (2014 – \$45,620,000), effective interest rate of 3.0% in 2015 (2014 – 3.3%), maturing April 15, 2017	50,252,140	51,783,329	42,331,638	44,306,257
Hydro-Québec, face value of \$59,450,000 and effective interest rate of 4.8% in 2015 and in 2014, maturing April 15, 2022	44,231,487	53,140,736	42,199,903	50,227,759
Hydro-Québec, face value of \$65,400,000 and effective interest rate of 5.3% in 2015 and in 2014, maturing April 15, 2027	36,261,201	48,244,680	34,413,495	45,200,897
	<u>130,744,828</u>	<u>153,168,745</u>	<u>118,945,036</u>	<u>139,734,913</u>

5 Financial instruments

Investment objective

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

Financial risk management

The Trust's financial instruments consist of zero-coupon bonds. 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 arises from the possibility that changes in interest rates will affect the fair values or cash flows of financial instruments.

The Trust is not exposed to risk from changes in fair value or future cash flows because it holds investments in zero-coupon bonds accounted for at amortized cost. Changes in interest rates, therefore, had no impact on net income.

Hydro-Québec Trust for Management of Nuclear Fuel Waste

Notes to Financial Statements

December 31, 2015

(expressed in Canadian dollars)

b) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause financial loss to the other party. As at December 31, 2015, the Trust limited its exposure to credit risk by investing in Hydro-Québec bonds. Hydro-Québec is a related party and a Government of Quebec Crown corporation.