Financial Statements

NOVA SCOTIA POWER FINANCE CORPORATION

March 31, 2011

Deloitte.

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Independent Auditor's Report

To the Board of Directors of
Nova Scotia Power Finance Corporation

We have audited the accompanying financial statements of Nova Scotia Power Finance Corporation, which comprise the balance sheet as at March 31, 2011, and the statements earnings (loss) and retained earnings, and cash flows for the year then ended, and 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 Canadian 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.

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.

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

Basis for Qualified Opinion

The Corporation is not able with reasonable effort to provide all of the necessary disclosures required by CICA Handbook Section 3862 – *Financial Instruments – Disclosures*. Specifically the Corporation is not able with reasonable effort to provide the historical cost of the investments or the effective interest rate of the investments as this information is not available. In this respect, the financial statements are not in accordance with the Canadian generally accepted accounting principles.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Nova Scotia Power Finance Corporation Company as at March 31, 2011, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Halifax, Nova Scotia
June 29, 2011

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NOVA SCOTIA POWER FINANCE CORPORATION
Balance Sheet
As at March 31, 2011
(in thousands of dollars)

	2011	2010
ASSETS		
Current		
Cash and cash equivalents	$ 3,352	$ 5,065
Accrued interest receivable (Note 3)	20,170	20,742
	23,522	25,807
Defeasance assets (Note 3)	1,433,430	1,441,149
	$ 1,456,952	$ 1,466,956
LIABILITIES		
Current		
Accrued interest on outstanding debt (Note 4)	$ 34,582	$ 35,196
Long-term debt (Note 4)	1,391,655	1,417,894
	1,426,237	1,453,090
EQUITY		
Retained earnings	30,715	13,866
	$ 1,456,952	$ 1,466,956

APPROVED BY THE BOARD

. . . . Director

. . . . Director

NOVA SCOTIA POWER FINANCE CORPORATION
Statement of Earnings (Loss) and Retained Earnings
Year ended March 31, 2011
(in thousands of dollars)

	2011	2010
Interest revenues	$ **51,482**	$ 53,079
Interest expenses	**(104,182)**	(105,839)
	(52,700)	(52,760)
Realized fair value gain on investments	**231**	227
Change in market value		
Change in market value of investments	**47,856**	(24,024)
Change in market value of long-term debt	**8,816**	69,855
	56,672	45,831
Unrealized foreign exchange gain (loss)		
Unrealized foreign exchange loss on United States dollar cash balances	**3**	(76)
Unrealized foreign exchange loss on United States dollar investments	**(4,779)**	(108,338)
Unrealized foreign exchange gain on United States dollar long-term debt	**17,422**	107,883
	12,646	(531)
Net earnings (loss)	**16,849**	(7,233)
Retained earnings, beginning of year	**13,866**	21,099
Retained earnings, end of year	$ **30,715**	$ 13,866

NOVA SCOTIA POWER FINANCE CORPORATION
Statement of Cash Flows
Year ended March 31, 2011
(in thousands of dollars)

		2011		2010
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:				
Operating activities				
Net earnings (loss)	$	**16,849**	$	(7,233)
Items not involving cash:				
Change in market value of investments		**(47,856)**		24,024
Change in market value of long-term debt		**(8,816)**		(69,855)
Unrealized foreign exchange loss on US dollar investments		**4,779**		108,338
Unrealized foreign exchange gain on US dollar long-term debt		**(17,422)**		(107,883)
Realized fair value gain on investments		**(231)**		(227)
Changes in non-cash working capital items		**(42)**		(222)
		(52,739)		(53,058)
Investing activities				
Investment maturities		**51,026**		52,888
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(1,713)**		(170)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		**5,065**		5,235
CASH AND CASH EQUIVALENTS, END OF YEAR	$	**3,352**	$	5,065
Supplemental cash flow information:				
Cash paid for interest	$	**104,795**	$	109,259

1. REORGANIZATION AND PRIVATIZATION

In 1992, the Province of Nova Scotia (the "Province") passed legislation to facilitate the reorganization and privatization of the business of Nova Scotia Power Corporation ("NSPC"). In effecting this, pursuant to an Asset Transfer Agreement and a Debt Restructuring Agreement effective August 10, 1992, NSPC transferred all of its existing assets, liabilities and equity, except for long-term debt and related sinking funds, to Nova Scotia Power Inc. ("NSPI") in exchange for:

a. matching notes receivable equivalent to outstanding long-term debt, and matching notes payable equivalent to sinking fund assets; and

b. 20,134,666 fully paid common shares of NSPI issued to the Province, which were subsequently sold on August 12, 1992 by the Province as a secondary offering.

Subsequent to the reorganization and privatization, the former business activities of NSPC continued under NSPI. NSPC changed its name to Nova Scotia Power Finance Corporation ("NSPFC") which continued to hold the long-term debt and sinking fund assets and the matching notes receivable and notes payable.

On reorganization, NSPI and NSPFC committed, subject to certain conditions, to effect defeasance of NSPFC debt by December 31, 1998. Defeasance required qualifying assets to be set aside to be used solely for satisfying scheduled future payments of principal and interest of the outstanding debt. Defeasance of NSPFC's debt was achieved by December 31, 1998 and the matching notes receivable and notes payable of NSPI were exchanged for the portfolio of defeasance assets. The matching notes continue to be pledged by NSPI as collateral security for a Defeasance Indemnity. NSPI is responsible for managing the portfolio of defeasance assets and is obligated to match its cash inflows with the principal and interest streams of the related defeased debt. NSPI is obligated to indemnify NSPFC against all expense, cost, damage, etc. which NSPFC may suffer or incur as a consequence of a Defeasance Portfolio Deficiency as defined in the Debt Restructuring Agreement.

2. ACCOUNTING POLICIES

The accompanying financial statements are prepared in accordance with Canadian generally accepted accounting principles except that the Corporation is not able with reasonable effort to provide the historical cost of the investments or the effective interest rate of the investments. In this respect, the financial statements are not in accordance with Canadian generally accepted accounting principles. NSPFC's significant accounting policies are as follows:

Cash and cash equivalents

Cash and cash equivalents is comprised of amounts on deposit with financial institutions.

2. ACCOUNTING POLICIES (continued)

Foreign currency translation

All US dollar denominated monetary items are translated into Canadian dollars at exchange rates in effect at the balance sheet date and non-monetary items are translated at rates of exchange in effect when the assets were acquired or obligations incurred. Revenues and expenses are translated at rates in effect at the time of the transaction. Foreign exchange gains and losses are included in net earnings for the year.

Revenue recognition

Interest income is recorded on the accrual basis.

Financial instruments

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, their characteristics and the Company's designation of such instruments.

Asset/liability	Classification	Measurement
Cash and cash equivalents	Held-for-trading	Fair value
Accrued interest receivable	Loans and receivables	Amortized cost
Defeasance assets	Held-for-trading	Fair value
Accrued interest on outstanding debt	Other financial liabilities	Amortized cost
Long-term debt	Held-for-trading	Fair value

Changes in fair value are recognized in the statement of earnings. Fair value is determined by reference to published price quotations in an active market.

Future accounting changes

New accounting framework

The Corporation will be required to adopt International Financial Reporting Standards ("IFRS"). These standards are effective for fiscal years beginning on or after January 1, 2011. The Corporation is evaluating the impact of these new standards.

(in thousands of dollars)

3. DEFEASANCE ASSETS

The portfolio of assets held for the payment of principal and interest amounts on the NSPFC debt are held by RBC Dexia. All assets are held in securities issued and guaranteed by the Federal or Provincial Governments and investments in NSPFC's own debt. During the year, the AH, AJ, AK portfolios were combined with the AM portfolio.

As at March 31, 2011:

Series	Maturity	Par Value	Market Value	Accrued Interest on Investments
AM	April 1, 2012 - February 26, 2031	$ 1,203,228	$ 1,028,907	$ 7,470
AN	March 1, 2020 - April 1, 2021 [1]	292,494	404,523	12,700
		$ 1,495,722	$ 1,433,430	$ 20,170

As at March 31, 2010:

Series	Maturity	Par Value	Market Value	Accrued Interest on Investments
AH	April 1, 2012 - October 27, 2015	$ 203,686	$ 201,742	$ 1,182
AJ	April 27, 2012 - February 7, 2024	249,738	271,611	5,398
AK	April 27, 2012 - February 26, 2026	277,775	214,322	324
AM	July 30, 2012 - February 26, 2031	523,056	348,128	566
AN	March 1, 2020 - April 1, 2021 [1]	305,677	405,346	13,272
		$ 1,559,932	$ 1,441,149	$ 20,742

[1] *Amounts in foreign currencies are expressed at the Canadian dollar equivalent at the rates prevailing at the date of the financial statements (exchange rate was $0.9718 as of March 31, 2011 and $1.0156 as of March 31, 2010).*

Par value of investments maturing in less than one year	$ 53,046
Par value of investments maturing in more than one year and less than five years	508,918
Par value of investments maturing in more than five years	933,758
	$1,495,722

(in thousands of dollars)

4. LONG-TERM DEBT

As at March 31, 2011:

Series	Maturity Date	Rate	Par Value	Market Value	Accrued Interest on Outstanding Debt
Debentures					
AH	November 15, 2012	10.875%	$ 150,000	$ 171,203	$ 6,078
AJ	April 27, 2014	11.250%	200,000	250,226	9,555
AK	January 10, 2020	10.250%	150,000	217,044	3,370
AM	February 26, 2031	11.000%	200,000	363,127	1,989
AN	April 1, 2021 [1]	9.400%	291,540	390,055	13,590
			$ 991,540	$ 1,391,655	$ 34,582

As at March 31, 2010:

Series	Maturity Date	Rate	Par Value	Market Value	Accrued Interest on Outstanding Debt
Debentures					
AH	November 15, 2012	10.875%	$ 150,000	$ 181,866	$ 6,078
AJ	April 27, 2014	11.250%	200,000	260,226	9,555
AK	January 10, 2020	10.250%	150,000	218,132	3,370
AM	February 26, 2031	11.000%	200,000	353,692	1,989
AN	April 1, 2021 [1]	9.400%	304,680	403,978	14,204
			$ 1,004,680	$ 1,417,894	$ 35,196

[1] *Amounts in foreign currencies are expressed at the Canadian dollar equivalent at the rates prevailing at the date of the financial statements (exchange rate was $0.9718 as of March 31, 2011 and $1.0156 as of March 31, 2010).*

5. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

NSPFC, through its financial assets and liabilities, has exposure to the following risks from its use of financial instruments: currency risk, market risk, and liquidity risk. The following analysis outlines these risks as at March 31, 2011.

Market risk

NSPFC is exposed to price risk related to changes in market prices for both its defeasance assets and debt as all of the assets and debt have fixed interest rates.

6. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Currency risk

NSPFC is exposed to foreign exchange risk related to changes in exchange rates for both its defeasance assets and debt as all of the "AN" series of assets and debt are US dollar denominated. The risk is mitigated by the fact that US dollar denominated investments were purchased to match US dollar denominated cash flows required to fulfill its interest payments and debt retirement obligations.

Liquidity risk

NSPFC's objective is to have sufficient liquidity to meet its liabilities when due. The Corporation monitors its cash balances and cash flows to meeting its requirements. The Corporation's financial liabilities are disclosed in Note 4.

Fair value hierarchy

Financial instruments recorded at fair value on the balance sheet are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 – valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices);

Level 3 – valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

The financial instruments are all classified as Level 1.

7. GENERAL AND ADMINISTRATIVE EXPENSES

Under the terms of the privatization agreement, NSPI is responsible for the payment of all reasonable operating costs of NSPFC. During the year, $90,028 (2010 - $132,032) of such costs were paid by NSPI.