

Financial Statements

NOVA SCOTIA POWER FINANCE CORPORATION

March 31, 2014



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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 statement of financial position as at March 31, 2014, and the statements of comprehensive income and changes in equity and cash flows for the year ended March 31, 2014, 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 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.

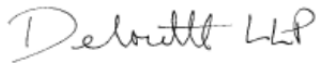
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for Qualified Opinion

Nova Scotia Power Finance Corporation is not able with reasonable effort to provide all necessary disclosures required by *IFRS -7- Financial Instruments – Disclosures*. Specifically, Nova Scotia Power Finance 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 presented in accordance with the International Financial Reporting Standards.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for the Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Nova Scotia Power Finance Corporation as at March 31, 2014, and its financial performance and its cash flows for the year ended March 31, 2014 in accordance with International Financial Reporting Standards.

A handwritten signature in cursive script that reads "Deloitte LLP".

Chartered Accountants
Halifax, Nova Scotia
July 16, 2014

NOVA SCOTIA POWER FINANCE CORPORATION

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NOVA SCOTIA POWER FINANCE CORPORATION

Statement of Financial Position

As at March 31, 2014

(in thousands of Canadian dollars)

	<u>2014</u>	<u>2013</u>
	\$	\$
		(Note 7)
ASSETS		
Current assets		
Cash and cash equivalents	424	1,840
Accrued interest receivable (Note 4)	21,030	19,970
	<u>21,454</u>	<u>21,810</u>
Defeasance assets (Note 4)	1,240,309	1,286,486
	<u>1,261,763</u>	<u>1,308,296</u>
LIABILITIES		
Current liabilities		
Accrued interest on long-term debt (Note 5)	30,496	29,092
Current portion of long-term debt	201,346	-
Long-term debt (Note 5)	1,023,845	1,268,087
	<u>1,255,687</u>	<u>1,297,179</u>
EQUITY		
Retained earnings	6,076	11,117
	<u>1,261,763</u>	<u>1,308,296</u>

APPROVED BY THE BOARD

..... Director

..... Director

NOVA SCOTIA POWER FINANCE CORPORATION

Statement of Comprehensive Income and Changes in Equity

Year ended March 31, 2014

(in thousands of Canadian dollars)

	2014	2013
	\$	\$
		(Note 7)
Interest revenues	50,665	50,803
Interest expenses	(90,020)	(98,037)
	(39,355)	(47,234)
Realized fair value gain on long-term debt	-	8,824
Realized fair value (loss) on investments	(263)	(28)
Change in fair value		
Change in fair value of investments	(46,472)	11,742
Change in fair value of long-term debt	80,699	26,841
	34,227	38,583
Unrealized foreign exchange gain on United States dollar cash balances	141	21
Unrealized foreign exchange gain on United States dollar investments	38,012	7,063
Unrealized foreign exchange (loss) on United States dollar long-term debt	(37,803)	(7,031)
	350	53
Net and comprehensive income	(5,041)	198
Retained earnings, beginning of year	11,117	31,491
Adjustment to opening retained earnings (Note 7)	-	(20,572)
Retained earnings, end of year	6,076	11,117

NOVA SCOTIA POWER FINANCE CORPORATION

Statement of Cash Flows

Year ended March 31, 2014

(in thousands of Canadian dollars)

	<u>2014</u>	<u>2013</u>
	\$	\$
		(Note 7)
Operating activities		
Net (loss) income	\$ (5,041)	\$ 198
Items not involving cash:		
Change in fair value of investments	46,472	(11,742)
Change in fair value of long-term debt	(80,699)	(26,841)
Unrealized foreign exchange loss on US dollar investments	(38,012)	(7,063)
Unrealized foreign exchange gain on US dollar long-term debt	37,803	7,031
Realized fair value loss (gain) on investments	263	28
Realized fair value gain on long-term debt	-	(8,824)
Changes in non-cash working capital items	344	(5,414)
	<u>(38,870)</u>	<u>(52,627)</u>
Investing activities		
Long-term debt maturities	-	(150,000)
Sale of investments	37,454	200,587
Net decrease in cash and cash equivalents	(1,416)	(2,040)
Cash and cash equivalents, beginning of year	1,840	3,880
Cash and cash equivalents, end of year	\$ 424	\$ 1,840

NOVA SCOTIA POWER FINANCE CORPORATION

Notes to the Financial Statements

March 31, 2013

(in thousands of Canadian dollars)

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. 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”) and interpretations of the IFRS Interpretations Committee except that the Corporation is unable, with reasonable effort, to provide the historical cost of investments or the effective rate of the investments. In this respect, the financial statements are not in accordance with IFRS.

These financial statements have been prepared on a fair value basis except for certain financial assets and liabilities which are measured at their amortized cost, as discussed further under the Financial Instruments significant accounting policy in Note 3.

The presentation and functional currency are in Canadian dollars.

These financial statements were authorized for issuance by the Board of Directors of the Corporation on July 16, 2014.

NOVA SCOTIA POWER FINANCE CORPORATION

Notes to the Financial Statements

March 31, 2014

(in thousands of Canadian dollars)

3. ACCOUNTING POLICIES

Cash and cash equivalents

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

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 comprehensive income 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 Corporation's designation of such instruments.

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

Fair value through profit or loss ("FVTPL")

Financial instruments in this category are recognized initially and subsequently at fair value. Upon initial recognition of financial assets or financial liabilities in this category, attributable transaction costs are recognized in profit or loss as incurred. Gains and losses arising from changes in fair value are presented in the statement of comprehensive income in the period in which they arise. The Corporation derecognizes a financial liability in this category when its contractual obligation is discharged or cancelled or expired. Financial liabilities at FVTPL are classified as current except for the portion expected to be paid beyond twelve months after the date of the statement of financial position, which is classified as non-current.

Loans and receivables

Loans and receivables are initially recorded at fair value and are subsequently accounted for at amortized cost using the effective interest method, less any applicable provision for impairment.

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Notes to the Financial Statements

March 31, 2014

(in thousands of Canadian dollars)

3. ACCOUNTING POLICIES (continued)

A provision for impairment is established when there is objective evidence that the Corporation will not be able to collect all amounts due according to the original terms of the receivable.

Other liabilities

Other liabilities are recorded at amortized cost using the effective interest method and include all financial liabilities, other than derivative instruments.

Application of new and revised standards

In the current year, the Corporation applied the following new and amended IFRS issued by the IASB that is mandatorily effective for the year ended March 31, 2014.

IFRS 13 Fair Value Measurement

In May 2011, the IASB issued IFRS 13 - Fair Value Measurement ("IFRS 13"). IFRS 13 defines fair value and sets out in a single IFRS framework for measuring fair value and requires disclosures about fair value measurements.

The adoption of the new and amended standards had no impact on the operations or reporting of the Corporation.

Future accounting changes

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or International Financial Interpretations Committee ("IFRIC") that are not effective for the year ended December 31, 2011, and although early adoption is permitted, they have not been applied in preparing these financial statements.

The Corporation is currently evaluating the effect, if any, the following new standards and amendments will have on its financial statements.

IFRS 9 Financial Instruments ("IFRS 9")

IFRS 9 was issued in November 2009 and will replace IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. IFRS 9 is effective for annual periods beginning on or after January 1, 2018.

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Notes to the Financial Statements

March 31, 2014

(in thousands of Canadian dollars)

4. 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.

As at March 31, 2014:

Series	Maturity	Par Value	Fair Value	Accrued Interest on Investments
AM	April 1, 2014 - February 26, 2031	\$ 912,140	\$ 808,546	\$ 6,586
AN	March 1, 2020 - April 1, 2021 ¹	332,675	452,793	14,444
		\$ 1,244,815	\$ 1,261,339	\$ 21,030

As at March 31, 2013:

Series	Maturity	Par Value	Fair Value	Accrued Interest on Investments
AM	April 1, 2013 - February 26, 2031	\$ 949,594	\$ 856,104	\$ 6,698
AN	March 1, 2020 - April 1, 2021 ¹	305,677	430,383	13,272
		\$ 1,255,271	\$ 1,286,487	\$ 19,970

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 \$1.1053 as of March 31, 2014 and \$1.0156 as of March 31, 2013).

Par value of investments maturing in less than one year	\$ 236,299
Par value of investments maturing in more than one year and less than five years	115,843
Par value of investments maturing in more than five years	892,673
	\$ 1,244,815

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Notes to the Financial Statements

March 31, 2014

(in thousands of Canadian dollars)

5. LONG-TERM DEBT

Series	Maturity Date	Rate	Par Value	Fair Value	Accrued Interest on Outstanding Debt
Debentures					
AJ	April 27, 2014	11.250%	200,000	201,346	9,555
AK	January 10, 2020	10.250%	150,000	211,455	3,370
AM	February 26, 2031	11.000%	200,000	375,842	1,989
AN	April 1, 2021 ¹	9.400%	331,590	436,548	15,582
			\$ 881,590	\$ 1,225,191	\$ 30,496

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 \$1.1053 as of March 31, 2014 and \$1.0156 as of March 31, 2013).

6. 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, 2014.

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.

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 5.

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(in thousands of Canadian dollars)

6. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

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 measured at fair value are all classified as Level 1.

7. RESTATEMENT OF PRIOR PERIOD

The financial statements for the year ended March 31, 2013 have been restated to adjust for an error in the fair market value of the defeasance assets. As a result, the defeasance assets have decreased by \$19,970, an increase in the fair value of investments of \$817, a decrease in unrealized foreign exchange gain (loss) on United States dollar investments of \$215 and a decrease in opening retained earnings of \$20,572.

8. 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 \$89,844 (2013 - \$99,033) of such costs were paid by NSPI.