

Financial Statements of
(In thousands of dollars)

**NOVA SCOTIA POWER
FINANCE CORPORATION**

Year ended March 31, 2016

NOVA SCOTIA POWER FINANCE CORPORATION

Table of Contents

(In thousands of dollars)

	Page
Independent Auditors' Report	
Statement of Financial Position	1
Statement of Comprehensive Income and Changes in Equity	2
Statement of Cash Flows	3
Notes to Financial Statements	4 - 11



KPMG LLP
Purdy's Wharf Tower One
1959 Upper Water Street, Suite 1500
Halifax Nova Scotia B3J 3N2
Canada

Telephone (902) 492-6000
Fax (902) 492-1307
Internet www.kpmg.ca

INDEPENDENT AUDITORS' 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, 2016, the statement of comprehensive income and changes in equity and cash flows for the year then ended, and notes, comprising 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 our 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, we consider 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 in our audit 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 Nova Scotia Power Finance Corporation as at March 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Chartered Accountants

May 24, 2016

Halifax, Canada

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. KPMG Canada provides services to KPMG LLP.

NOVA SCOTIA POWER FINANCE CORPORATION

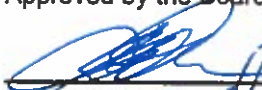
Statement of Financial Position
(In thousands of dollars)

March 31, 2016, with comparative information for 2015

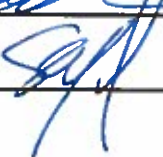
	2016	2015
Assets		
Cash	\$ 9,388	\$ 3,015
Defeasance assets (note 4)	1,117,488	1,160,460
	<u>\$ 1,126,876</u>	<u>\$ 1,163,475</u>
Liabilities and Shareholder's Equity		
Long-term debt (note 5)	\$ 1,117,230	\$ 1,156,281
Shareholder's equity:		
Retained earnings	9,646	7,194
	<u>\$ 1,126,876</u>	<u>\$ 1,163,475</u>

See accompanying notes to financial statements.

Approved by the Board:



Director



Director

NOVA SCOTIA POWER FINANCE CORPORATION

Statement of Comprehensive Income and Changes in Equity
(In thousands of dollars)

Year ended March 31, 2016, with comparative information for 2015

	2016	2015
Gain from change in fair value of investments	\$ 37,331	\$ 181,613
Loss from change in fair value of long-term debt	(34,778)	(180,854)
	2,553	759
Unrealized foreign exchange gain on cash held in United States dollars	(101)	359
Net and comprehensive income	2,452	1,118
Equity, beginning of year	7,194	6,076
Equity, end of year	\$ 9,646	\$ 7,194

See accompanying notes to financial statements.

NOVA SCOTIA POWER FINANCE CORPORATION

Statement of Cash Flows
(In thousands of dollars)

Year ended March 31, 2016, with comparative information for 2015

	2016	2015
Operating activities:		
Cash interest received	\$ 45,726	\$ 46,194
Cash interest paid	(73,829)	(80,260)
<u>Effect of foreign exchange on United States dollar cash</u>	<u>(101)</u>	<u>359</u>
	(28,204)	(33,707)
Investing activities:		
Proceeds from the sale of investments	34,577	236,298
Financing activities:		
Repayment of long-term debt at maturity	-	(200,000)
<hr/>		
Increase in cash	6,373	2,591
Cash, beginning of year	3,015	424
<hr/>		
Cash, end of year	\$ 9,388	\$ 3,015

See accompanying notes to financial statements.

NOVA SCOTIA POWER FINANCE CORPORATION

Notes to Financial Statements
(In thousands of dollars)

Year ended March 31, 2016

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 funds 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 funds 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 continued 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.

NOVA SCOTIA POWER FINANCE CORPORATION

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2016

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 May 24, 2016.

3. Significant accounting policies:

(a) 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. Revenue 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.

NOVA SCOTIA POWER FINANCE CORPORATION

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2016

3. Significant accounting policies (continued):

(b) 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>Assets/liability</u>	<u>Classification</u>	<u>Measurement</u>
Cash	Loans and receivables	Amortized cost
Defeasance assets	FVTPL	Fair value
Long-term debt	FVTPL	Fair value

Fair value through profit of 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. Gains and losses arising from changes in fair value include interest, dividend and the effects of foreign exchange fluctuations. The Corporation derecognizes a financial liability in this category when its contractual obligation is discharged or cancelled or expired.

Loans and receivables

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

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.

NOVA SCOTIA POWER FINANCE CORPORATION

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2016

3. Significant accounting policies (continued):

(c) 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, 2015, 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")

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.

NOVA SCOTIA POWER FINANCE CORPORATION

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2016

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. Defeasance assets are held in debt securities issued and guaranteed by the Federal or Provincial Governments of Canada, debt securities issued and guaranteed by the United States Department of the Treasury and investments in NSPFC's own debt.

As at March 31, 2016:

Series	Maturity	Par Value	Fair Value
AM	July 10, 2016 - February 26, 2031	\$ 641,264	\$ 593,050
AN	* March 1, 2020 - April 1, 2021	390,404	524,438
		\$ 1,031,668	\$ 1,117,488

As at March 31, 2015:

Series	Maturity	Par Value	Fair Value
AM	April 1, 2015 - February 26, 2031	\$ 675,841	\$ 632,915
AN	* March 1, 2020 - April 1, 2021	381,735	527,545
		\$ 1,057,576	\$ 1,160,460

* 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 \$1.2971 as of March 31, 2016 and \$1.2683 as of March 31, 2015).

	2016
Par value of investments maturing in less than one year	\$ 22,739
Par value of investments maturing in more than one year and less than five years	290,035
Par value of investments maturing in more than five years	718,894
	\$ 1,031,668

NOVA SCOTIA POWER FINANCE CORPORATION

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2016

5. Long-term debt:

As at March 31, 2016:

Series	Maturity	Rate	Par Value	Fair Value
AK	January 10, 2020	10.250%	\$ 150,000	\$ 201,426
AM	February 26, 2031	11.000%	200,000	391,927
AN	* April 1, 2021	9.400%	389,130	523,877
			739,130	1,117,230

As at March 31, 2015:

Series	Maturity	Rate	Par Value	Fair Value
AK	January 10, 2020	10.250%	\$ 150,000	\$ 214,610
AM	February 26, 2031	11.000%	200,000	414,589
AN	* April 1, 2021	9.400%	380,490	527,082
			\$ 730,490	\$ 1,156,281

Interest is payable semi-annually.

* Amounts in foreign currencies are expressed at the Canadian dollar equivalent at the rate prevailing at the date of the financial statements (exchange rate was \$1.2971 as of March 31, 2016 and \$1.2683 as of March 31, 2015). The par value of the foreign currency series at March 31, 2016 is \$300,000 (2015 - \$300,000).

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, 2016.

NOVA SCOTIA POWER FINANCE CORPORATION

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2016

6. Financial instruments and risk management (continued):

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 and are measured at fair value.

The amount of assets and liabilities exposed to market risk offset and therefore changes in market prices will not have a material impact on income.

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 dollars denominated. The risk is mitigated by the fact that US dollar denominated investments were purchased to match US dollar denominated cash flows required to fulfil its interest payments and debt retirement obligations.

At March 31, 2016, the Corporation has approximately equal amounts of US dollar assets and liabilities creating a natural offset in future foreign exchange fluctuations. As a result, any future change in foreign exchange would not have a material impact on income.

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 cash flows from investments are intended to defease the liability when due.

	Carrying amount	Total	Less than one year	More than one year and less than five years	More than five years
Long-term debt, including interest payments	\$ 1,117,230	\$ 1,307,776	\$ 73,953	\$ 815,656	\$ 418,167

NOVA SCOTIA POWER FINANCE CORPORATION

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2016

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 assets 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 Corporation's investments are classified as Level 1 measurement as fair value is determined based on the quoted price in an actively traded market.

The Corporation's long-term debt is classified as Level 2 measurement as the fair value is determined based on the quoted price in an active market for long-term debt held by another party as an asset.

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 \$83 (2015 - \$83) of such costs were paid by NSPI.