Financial statements of
Nova Scotia Power Finance Corporation

March 31, 2023

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Independent Auditor's Report

To the Management of
Nova Scotia Finance Power Corporation

Opinion

We have audited the financial statements of Nova Scotia Finance Power Corporation (the "Company"), which comprise the statement of financial position as at March 31, 2023, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2023, and its financial performance and its cash flows 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 ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company 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 Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor’s 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 auditor’s 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 GAAS 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 these financial statements.

As part of an audit in accordance with Canadian GAAS, 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 Company’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 Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s 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 auditor’s report. However, future events or conditions may cause the Company 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.

We 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.

Deloitte LLP

Chartered Professional Accountants
June 14, 2023

Nova Scotia Power Finance Corporation

Statement of financial position

As at March 31, 2023

(In thousands of dollars)

	Notes	2023 $	2022 $
Assets			
Current assets			
Cash		**3,089**	53
Defeasance assets	4	**15,989**	19,196
		19,078	19,249
Long term defeasance assets	4	**293,373**	305,059
		312,451	324,308
Liabilities			
Long term debt	5	**299,673**	312,262
		299,673	312,262
Shareholder's equity			
Retained earnings		**12,778**	12,046
		312,451	324,308

The accompanying notes are an integral part of the financial statements.

Approved by the Board

________________________________, Director

________________________________, Director

Nova Scotia Power Finance Corporation

Statement of comprehensive income and changes in equity

Year ended March 31, 2023

(In thousands of dollars)

	Notes	2023 $	2022 $
Revenue			
Interest and investment income		**22,732**	37,627
Expenses			
Interest expense - long term debt		**(22,000)**	(39,717)
		732	(2,090)
Realized foreign exchange gain		**—**	1,470
Net and comprehensive income (loss)		**732**	(620)
		12,046	12,666
Equity, end of year		**12,778**	12,046

The accompanying notes are an integral part of the financial statements.

Nova Scotia Power Finance Corporation

Statement of cash flows

Year ended March 31, 2023

(In thousands of dollars)

	2023	2022
	$	$
Operating activities		
Cash interest received	**5,958**	22,477
Cash interest paid	**(22,000)**	(39,717)
Realized foreign exchange (loss)	**—**	(29)
	(16,042)	(17,269)
Financing activities		
Repayment in long term debt at maturity	**—**	(376,950)
Investing activity		
Proceeds from the sale of investments	**19,078**	357,602
Increase (decrease) in cash	**3,036**	(36,617)
Cash, beginning of year	**53**	36,670
Cash, end of year	**3,089**	53

The accompanying notes are an integral part of the financial statements.

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 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 historical cost 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 June 14, 2023.

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.

(b) Financial instruments

Financial assets

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at fair value through profit and loss (FVTPL):

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI").

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in fair value in OCI (FVOCI). This electionis made on an investment-by-investment basis. The Company holds no equity investments. All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirement to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

The Company makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information it provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Company's stated objective for managing the financial assets is achieved and how cash flows are realized.

3. Significant accounting policies (continued)

Business model assessment (continued)

Assessment of whether contractual cash flows are solely payments of principal and interest ("SPPI") for the purpose of this assessment, "principal" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are SPPI, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

Impairment

The Company recognized loss allowances for expected credit losses ("ECL") on defeasance assets.

The Company measures loss allowances at an amount equal to lifetime ECL, except forthe following for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

The Company considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of "investment grade". All defeasance assets meet this definition.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. All defeasance assets use this model.

Lifetime ECL are the ECL that result from all possible default events over the expected life of the financial instrument. No assets required lifetime ECL at this time. Should there be a significant increase in credit risk which the company considers the investment no longer being investment grade, a lifetime ECL will be determined.

Financial liabilities

Financial liabilities are initially recorded at fair value and subsequently at amortized cost. The Company may elect to measure financial liabilities at FVTPL on initial recognition if certain conditions are met. The Company has not used this election on long-term debt.

Financial assets and financial liabilities are classified as follows:

Assets/liability	Business Model	Measurement
Defeasance assets	Collect cash flows	Amortized cost
Long-term debt	SPPI	Amortized cost

4. Defeasance assets

The portfolio of assets held for the payment of principal and interest amounts on the NSPFC debt are held by CIBC Mellon. 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, 2023:

Series	Maturity	Par Value	Carrying Value
AM	June 2, 2021 - February 26, 2031	**$ 331,163**	**$ 309,362**
		$ 331,163	**$ 309,362**

As at March 31, 2022:

Series	Maturity	Par Value	Carrying Value
AM	June 2, 2021 - February 26, 2031	$ 350,242	$ 324,255
		$ 350,242	$ 324,255

The fair value of the defeasance assets at March 31, 2023 was $298,550 ($322,947 in 2022). The carrying value of the defeasance assets includes accrued interest of $531 ($631 in 2022)

	2023
Par value of investments maturing in less than one year	**$ 15,903**
Par value of investments maturing in more than one year and less than five	**65,252**
Par value of investments maturing in more than five years	**250,008**
	$ 331,163

5. Long-term debt

As at March 31, 2023:

Series	Maturity	Rate	**Par Value**	**Carrying Value**
AM	February 26, 2031	11.00%	**$ 200,000**	**$ 299,673**
			$ 200,000	**$ 299,673**

As at March 31, 2022:

CarryingSeries	Maturity	Rate	Par Value	Carrying Value
AM	February 26, 2031	11.00%	$ 200,000	$ 312,262
			$ 200,000	$ 312,262

Interest is payable semi-annually.

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: market risk and liquidity risk. The following analysis outlines these risks as at March 31, 2023.

Market risk

NSPFC is exposed to price risk related to changes in market prices for both its defeasance assets and debt as all 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.

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 settle the liability when due.

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.

6. Financial instruments and risk management (continued)

Fair value hierarchy (continued)

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 (i.e. as prices) or indirectly (i.e. derivedfrom 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 $48 ($49 in 2022) of such costs were paid by NSPI.