

Financial Statements

NOVA SCOTIA POWER FINANCE CORPORATION

March 31, 2013

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, 2013, and the statements of comprehensive income and changes in equity and cash flows for the year ended March 31, 2013, 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 in our audit is sufficient and appropriate to provide a basis for our 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 cumulative gains / loss of the defeasance assets or the effective interest rate of the defeasance assets. In this respect, the financial statements are not 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, 2013, and its financial performance and its cash flows for the year ended March 31, 2013 in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Accountants
Halifax, Nova Scotia
October 18, 2013

NOVA SCOTIA POWER FINANCE CORPORATION

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NOVA SCOTIA POWER FINANCE CORPORATION

Statement of Financial Position

As at March 31, 2013

(in thousands of Canadian dollars)

	<u>2013</u>	<u>2012</u>
ASSETS		
Current		
Cash	\$ 1,840	\$ 3,880
Accrued interest receivable (Note 4)	19,970	20,570
	<u>21,810</u>	<u>24,450</u>
Defeasance assets (Note 4)	1,306,456	1,488,869
	<u>\$ 1,328,266</u>	<u>\$ 1,513,319</u>
LIABILITIES		
Current		
Accrued interest on outstanding debt (Note 5)	\$ 29,092	\$ 35,106
Long-term debt (Note 5)	1,268,087	1,446,722
	<u>1,297,179</u>	<u>1,481,828</u>
EQUITY		
Retained earnings	31,087	31,491
	<u>\$ 1,328,266</u>	<u>\$ 1,513,319</u>

The accompanying notes are an integral part of these 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, 2013
(in thousands of Canadian dollars)

	<u>2013</u>	<u>2012</u>
Interest revenues	\$ 50,803	\$ 52,156
Interest expenses	(98,037)	(104,795)
	<u>(47,234)</u>	<u>(52,639)</u>
Realized fair value gain on long-term debt	8,824	-
Realized fair value (loss) gain on investments	(28)	320
	<u>8,796</u>	<u>320</u>
Change in fair value		
Change in fair value of investments	10,925	96,802
Change in fair value of long-term debt	26,841	(44,110)
	<u>37,766</u>	<u>52,692</u>
Unrealized foreign exchange gain (loss) on United States dollar cash balances	21	(3)
Unrealized foreign exchange gain on United States dollar investments	7,278	11,363
Unrealized foreign exchange loss on United States dollar long-term debt	(7,031)	(10,957)
	<u>268</u>	<u>403</u>
Net and comprehensive income	(404)	776
Retained earnings, beginning of year	31,491	30,715
Retained earnings, end of year	\$ 31,087	\$ 31,491

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

NOVA SCOTIA POWER FINANCE CORPORATION

Statement of Cash Flows

Year ended March 31, 2013

(in thousands of Canadian dollars)

	<u>2013</u>	<u>2012</u>
Operating activities		
Net income	\$ (404)	\$ 776
Items not involving cash:		
Change in fair value of investments	(10,925)	(96,802)
Change in fair value of long-term debt	(26,841)	44,110
Unrealized foreign exchange gain on US dollar investments	(7,278)	(11,363)
Unrealized foreign exchange loss on US dollar long-term debt	7,031	10,957
Realized fair value loss (gain) on investments	28	(320)
Realized fair value gain on long-term debt	(8,824)	-
Changes in non-cash working capital items	(5,414)	124
	<u>(52,627)</u>	<u>(52,518)</u>
Investing activities		
Long-term debt maturities	(150,000)	-
Investment maturities	200,587	53,046
	<u>50,587</u>	<u>53,046</u>
NET (DECREASE) INCREASE IN CASH	(2,040)	528
CASH, BEGINNING OF YEAR	3,880	3,352
CASH, END OF YEAR	\$ 1,840	\$ 3,880

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

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" or the "Corporation") 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 cumulative gains / loss of defeasance assets or the effective interest rate of the defeasance assets. 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 October 18, 2013.

Cash

Cash is comprised of amounts on deposit with financial institutions.

NOVA SCOTIA POWER FINANCE CORPORATION

Notes to the Financial Statements

March 31, 2013

(in thousands of Canadian dollars)

3. ACCOUNTING POLICIES

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. 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 the Financial Statements

March 31, 2013

(in thousands of Canadian dollars)

3. ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Other liabilities

Other liabilities are recorded at amortized cost using the effective interest method and include all financial liabilities, other than derivative instruments, and those that have been classified as FVTPL by 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, 2013, 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, 2015.

IFRS 13 Fair Value Measurement ("IFRS 13")

IFRS 13 is a new standard meant to clarify the definition of fair value, provide guidance on measuring fair value and improve disclosure requirements related to fair value measurement. IFRS 13 can be applied for annual periods beginning on or after January 1, 2013.

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. During the year, the AH, AJ, and AK portfolios were combined with the AM portfolio.

As at March 31, 2013:

Series	Maturity	Par Value	Fair Value	Accrued Interest on Investments
AM	April 1, 2013 - February 26, 2031	\$ 949,594	\$ 862,802	\$ 6,698
AN	March 1, 2020 - April 1, 2021 ¹	305,677	443,654	13,272
		\$ 1,255,271	\$ 1,306,456	\$ 19,970

NOVA SCOTIA POWER FINANCE CORPORATION

Notes to the Financial Statements

March 31, 2013

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4. DEFEASANCE ASSETS (continued)

As at March 31, 2012:

Series	Maturity	Par Value	Fair Value	Accrued Interest on Investments
AM	April 1, 2013 - February 26, 2031	\$ 1,150,182	\$ 1,048,517	\$ 7,514
AN	March 1, 2020 - April 1, 2021 ¹	300,711	440,712	13,056
		\$ 1,450,893	\$ 1,488,869	\$ 20,570

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 \$1.0156 as of March 31, 2013).

Par value of investments maturing in less than one year	\$ 37,454
Par value of investments maturing in more than one year and less than five years	322,020
Par value of investments maturing in more than five years	895,797
	\$ 1,255,271

5. LONG-TERM DEBT

As at March 31, 2013:

Series	Maturity Date	Rate	Par Value	Fair Value	Accrued Interest on Outstanding Debt
Debentures					
AJ	April 27, 2014	11.250%	200,000	220,876	9,555
AK	January 10, 2020	10.250%	150,000	223,116	3,370
AM	February 26, 2031	11.000%	200,000	396,082	1,989
AN	April 1, 2021	9.400%	304,680	428,013	14,178
			\$ 854,680	\$ 1,268,087	\$ 29,092

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Notes to the Financial Statements

March 31, 2013

(in thousands of Canadian dollars)

5. LONG-TERM DEBT (continued)

As at March 31, 2012:

Series	Maturity Date	Rate	Par Value	Fair Value	Accrued Interest on Outstanding Debt
Debentures					
AH	November 15, 2012	10.875%	\$ 150,000	\$ 158,824	\$ 6,078
AJ	April 27, 2014	11.250%	200,000	238,552	9,555
AK	January 10, 2020	10.250%	150,000	225,203	3,370
AM	February 26, 2031	11.000%	200,000	398,416	1,989
AN	April 1, 2021	9.400%	299,730	425,727	14,114
			\$ 999,730	\$ 1,446,722	\$ 35,106

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, 2013.

Market risk

NSPFC is exposed to price risk related to changes in market prices for both its defeasance assets and long-term 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.

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:

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(in thousands of Canadian dollars)

6. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Fair value hierarchy (continued)

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. 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, \$99,033 (2012 - \$96,903) of such costs were paid by NSPI.