Financial Statements

NOVA SCOTIA POWER FINANCE CORPORATION

March 31, 2009

Deloitte.

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Auditors' Report

To the Board of Directors,
Nova Scotia Power Finance Corporation

We have audited the balance sheet of Nova Scotia Power Finance Corporation as at March 31, 2009 and the statements of earnings and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements.

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.

In our opinion, except for the effects of the failure to provide necessary disclosures regarding the investments historical cost and interest rates as described in the preceding paragraph, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with the Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Halifax, Nova Scotia
April 23, 2009

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NOVA SCOTIA POWER FINANCE CORPORATION
Balance Sheet
March 31, 2009
(in thousands of dollars)

	2009	2008
ASSETS		
Current		
Cash and cash equivalents	$ **5,235**	$ 5,125
Accrued interest receivable (Note 4)	**23,939**	20,947
	29,174	26,072
Defeasance assets (Note 4)	**1,626,172**	1,537,234
	$ **1,655,346**	$ 1,563,306
LIABILITIES		
Current		
Accrued interest on outstanding debt (Note 5)	$ **38,615**	$ 35,366
Long-term debt (Note 5)	**1,595,632**	1,513,999
	1,634,247	1,549,365
EQUITY		
Retained earnings	**21,099**	13,941
	$ **1,655,346**	$ 1,563,306

APPROVED BY THE BOARD

. . . . Director

. . . . Director

NOVA SCOTIA POWER FINANCE CORPORATION
Statement of Earnings and Retained Earnings
Year ended March 31, 2009
(in thousands of dollars)

	2009	2008
Interest revenues	**$ 56,234**	$ 51,595
Interest expenses	**(108,875)**	(104,166)
	(52,641)	(52,571)
Realized fair value gain on investments	**644**	1,033
Change in market value		
Change in market value of investments	**42,533**	57,482
Change in market value of long-term debt	**16,042**	(2,288)
	58,575	55,194
Unrealized foreign exchange gains (losses)		
Unrealized foreign exchange gain (loss) on United States dollar cash balances	**53**	(105)
Unrealized foreign exchange gain (loss) on United States dollar investments	**98,202**	(51,606)
Unrealized foreign exchange (loss) gain on United States dollar long-term debt	**(97,675)**	51,409
	580	(302)
Net earnings	**7,158**	3,354
Retained earnings, beginning of year	**13,941**	10,587
Retained earnings, end of year	**$ 21,099**	$ 13,941

NOVA SCOTIA POWER FINANCE CORPORATION
Statement of Cash Flows
Year ended March 31, 2009
(in thousands of dollars)

	2009	2008
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:		
Operating activities		
Net earnings	$ **7,158**	$ 3,354
Items not involving cash:		
Change in market value of investments	**(42,533)**	(57,482)
Change in market value of long-term debt	**(16,042)**	2,288
Unrealized foreign exchange (gain) loss on US dollar investments	**(98,202)**	51,606
Unrealized foreign exchange loss (gain) on US dollar long-term debt	**97,675**	(51,409)
Realized fair value gain on investments	**(644)**	(1,033)
Changes in non-cash working capital items	**257**	(183)
	(52,331)	(52,859)
Investing activities		
Investment maturities	**52,441**	45,926
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**110**	(6,933)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**5,125**	12,058
CASH AND CASH EQUIVALENTS, END OF YEAR	$ **5,235**	$ 5,125

	2009	2008
Supplemental cash flow information:		
Cash paid for interest	$ **105,626**	$ 105,938

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. CHANGES IN ACCOUNTING POLICIES

Financial instruments

NSPFC adopted the following recommendations of the CICA Handbook:

Section 3862, *Financial instruments – Disclosures* and Section 3863, *Financial instruments – Presentation.* Section 3862 requires the disclosure of information about: a) the significance of financial instruments for the Corporation's financial position and performance and b) the nature and extent of risks arising from financial instruments to which the Corporation is exposed during the period and at the balance sheet date, and how the Corporation manages those risks. The required disclosures are included in note 6. Section 3863 contains standards for presentation of financial instruments and non-financial derivatives. The adoption of this Section had no impact on the financial statements.

Capital disclosures

NSPFC adopted the recommendations of CICA Handbook Section 1535, Capital Disclosures. This Section requires the disclosure of information about externally imposed capital requirements. The adoption of this Section had no impact on the financial statements.

3. 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.

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

The Corporation's financial instruments are classified and measured as follows:

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.

(in thousands of 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.

As at March 31, 2009:

Series	Maturity	Par Value	Market Value	Accrued Interest on Investments
AH	April 1, 2009 - October 27, 2015	$ 215,916	$ 212,734	$ 1,182
AJ	April 27, 2009 - February 7, 2024	258,489	286,656	5,398
AK	April 27, 2009 - February 26, 2026	291,629	220,580	324
AM	July 30, 2009 - February 26, 2031	541,110	348,049	566
AN	March 1, 2020 - April 1, 2021 [1]	300,982	558,153	16,469
		$ 1,608,126	$ 1,626,172	$ 23,939

As at March 31, 2008:

Series	Maturity	Par Value	Market Value	Accrued Interest on Investments
AH	April 1, 2008 - October 27, 2015	$ 227,923	$ 212,696	$ 1,187
AJ	April 27, 2008 - February 7, 2024	267,321	289,028	5,419
AK	April 27, 2008 - February 26, 2026	305,693	226,480	327
AM	July 30, 2008 - February 26, 2031	558,649	374,496	581
AN	March 1, 2020 - April 1, 2021 [1]	308,958	434,534	13,433
		$ 1,668,544	$ 1,537,234	$ 20,947

[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 $1.2602 as of March 31, 2009 and $1.0279 as of March 31, 2008).*

Par value of investments maturing in less than one year	$ 68,290
Par value of investments maturing in more than one year and less than five years	326,714
Par value of investments maturing in more than five years	1,213,122
	$ 1,608,126

(in thousands of dollars)

5. LONG-TERM DEBT

As at March 31, 2009:

Series	Maturity Date	Rate	Par Value	Market Value	Accrued Interest on Outstanding Debt
Debentures					
AH	November 15, 2012	10.875%	$ 150,000	$ 193,983	$ 6,078
AJ	April 27, 2014	11.250%	200,000	276,614	9,555
AK	January 10, 2020	10.250%	150,000	221,132	3,370
AM	February 26, 2031	11.000%	200,000	348,080	1,989
AN	April 1, 2021 [1]	9.400%	378,060	555,823	17,623
			$ 1,078,060	$ 1,595,632	$ 38,615

As at March 31, 2008:

Series	Maturity Date	Rate	Par Value	Market Value	Accrued Interest on Outstanding Debt
Debentures					
AH	November 15, 2012	11.875%	$ 150,000	$ 195,931	$ 6,078
AJ	April 27, 2014	11.250%	200,000	279,940	9,555
AK	January 10, 2020	10.250%	150,000	229,166	3,370
AM	February 26, 2031	11.000%	200,000	376,760	1,989
AN	April 1, 2021 [1]	9.400%	308,370	432,202	14,374
			$ 1,008,370	$ 1,513,999	$ 35,366

[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 $1.2602 as of March 31, 2009 and $1.0279 as of March 31, 2008).

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, 2009.

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 5.

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, $130,747 (2008 - $131,829) of such costs were paid by NSPI.