

NEW BRUNSWICK POWER HOLDING CORPORATION
COMBINED STATEMENT OF EARNINGS
(in millions)

For the year ended March 31	2009	2008
Revenues		
Sales of power		
In-province (Note 2)	\$ 1,219	\$ 1,237
Out-of-province (Note 6)	217	196
Transmission revenue	89	87
Miscellaneous	73	99
(Loss) gain on long-term receivable and associated contracts (Note 13)	(145)	93
	<u>1,453</u>	<u>1,712</u>
Expenses		
Fuel and purchased power	869	585
Transmission expense	82	85
Operations, maintenance and administration	415	397
Amortization and decommissioning (Note 7)	186	216
Taxes (Note 8)	43	43
	<u>1,595</u>	<u>1,326</u>
(Loss) earnings before finance charges, regulatory deferrals and special payments in lieu of income taxes	(142)	386
Finance charges (Note 9)	140	175
(Loss) earnings before regulatory deferrals and special payments in lieu of income taxes	(282)	211
Regulatory deferrals (Note 14)	(386)	73
Earnings before special payments in lieu of income taxes	104	138
Special payments in lieu of income taxes (Note 10)	34	49
Net earnings	\$ 70	\$ 89

COMBINED STATEMENT OF RETAINED EARNINGS (DEFICIT)
(in millions)

For the year ended March 31	2009	2008
Deficit, beginning of year	\$ (18)	\$ (96)
Net earnings for the year	70	89
Dividends declared (Note 25)	(13)	(11)
Retained earnings (deficit), end of year	\$ 39	\$ (18)

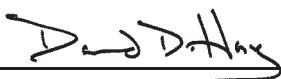
NEW BRUNSWICK POWER HOLDING CORPORATION
COMBINED BALANCE SHEET
(in millions)

As at March 31	2009	2008
Current Assets		
Cash	\$ 6	\$ -
Accounts receivable (Note 25)	290	284
Materials, supplies and fuel	203	181
Prepaid expenses	8	8
Current portion of long-term receivable (Note 13)	147	90
Current portion of derivative assets (Note 26)	82	59
	<u>736</u>	<u>622</u>
Property, Plant and Equipment (Note 15)		
Land, buildings, plant and equipment, at cost	7,306	6,890
Less: accumulated amortization	3,721	3,580
	<u>3,585</u>	<u>3,310</u>
Long-Term Assets		
Nuclear decommissioning and used nuclear fuel management funds (Note 16)	432	414
Long-term receivable (Note 13)	-	217
Derivative assets (Note 26)	2	7
Regulatory assets (Note 14)	317	2
Other investments and deferred assets (Note 17)	7	6
	<u>758</u>	<u>646</u>
Other Assets		
Future special payments in lieu of income taxes	2	7
Future special payments in lieu of income taxes - other comprehensive income (Note 26)	29	-
Intangible asset (Note 18)	21	22
Deferred pension benefit (Note 19)	59	67
	<u>111</u>	<u>96</u>
Total Assets	\$ 5,190	\$ 4,674

ON BEHALF OF NEW BRUNSWICK POWER HOLDING CORPORATION



Chairman



President and Chief Executive Officer

NEW BRUNSWICK POWER HOLDING CORPORATION
COMBINED BALANCE SHEET
(in millions)

As at March 31	2009	2008
Current Liabilities		
Short-term indebtedness (Note 20)	\$ 450	\$ 273
Accounts payable and accruals (Note 25)	265	291
Accrued interest (Note 25)	39	45
Current portion of long-term debt (Note 21)	413	283
Current portion of derivative liabilities (Note 26)	210	24
Current portion future special payments in lieu of income taxes - other comprehensive income	-	12
	<u>1,377</u>	<u>928</u>
Long-Term Debt (Note 21)		
Debentures	3,051	2,879
Deferred Liabilities		
Generating station decommissioning and used nuclear fuel management liability (Note 22)	366	347
Regulatory liability (Note 14)	-	75
Other (Note 23)	84	78
Derivative liabilities (Note 26)	7	6
Future special payments in lieu of income taxes - other comprehensive income	-	10
	<u>457</u>	<u>516</u>
Shareholders' Equity		
Capital stock (Note 11)	140	140
Contributed surplus	187	187
Accumulated other comprehensive (loss) income	(61)	42
Retained earnings (deficit)	39	(18)
	<u>305</u>	<u>351</u>
Total Liabilities & Shareholders' Equity	\$ 5,190	\$ 4,674
Commitments, contingencies and guarantees (Note 28)		

NEW BRUNSWICK POWER HOLDING CORPORATION
COMBINED STATEMENT OF COMPREHENSIVE (LOSS) INCOME
(in millions)

For the year ended March 31	2009	2008
Net earnings	\$ 70	\$ 89
Other comprehensive income, net of tax		
Net unrealized (loss) gain on derivatives designated as cash flow hedges ¹	(109)	30
Net unrealized (loss) gain on mark-to-market of nuclear trust funds ²	(11)	3
	(120)	33
Reclassification to income of settled derivatives designated as cash flow hedges ³	17	17
Other comprehensive (loss) income, net of tax	(103)	50
Comprehensive (loss) income	(33)	139

STATEMENT OF ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME
(in millions)

For the year ended March 31	2009	2008
Accumulated other comprehensive income (loss), beginning of year	\$ 42	\$ (8)
Other comprehensive (loss) income for the year	(103)	50
Accumulated other comprehensive (loss) income, end of year	\$ (61)	\$ 42

¹ Net of a tax credit of \$54 million for the year ended March 31, 2009, as compared to tax of \$16 million at March 31, 2008

² Net of a tax credit of \$5 million for the year ended March 31, 2009, as compared to tax of \$1 million at March 31, 2008

³ Net of tax of \$8 million for the year ended March 31, 2009, as compared to tax of \$9 million at March 31, 2008

NEW BRUNSWICK POWER HOLDING CORPORATION
COMBINED STATEMENT OF CASH FLOWS
(in millions)

For the year ended March 31	2009	2008
Operating Activities		
Net earnings for the year	\$ 70	\$ 89
Amounts charged or credited to operations not requiring a current cash payment (Note 24)	203	227
	<u>273</u>	<u>316</u>
Nuclear decommissioning and used nuclear fuel management funds instalments and earnings	(35)	(141)
Decommissioning expenditures	(2)	(1)
Regulatory deferrals excluding mark-to-market adjustments (Note 14)	(255)	(20)
Net change in non-cash working capital balances	(60)	(80)
	<u>(79)</u>	<u>74</u>
Investing Activities		
Expenditure on property, plant and equipment, net of proceeds on disposal and customer contributions	(438)	(409)
Recovery of capital (Note 13)	57	86
	<u>(381)</u>	<u>(323)</u>
Financing Activities		
Debt retirements	(284)	(445)
Proceeds from issuance of long-term debt	585	402
Increase in short-term indebtedness	178	273
Dividends paid	(13)	(11)
	<u>466</u>	<u>219</u>
Net cash inflow (outflow)	6	(30)
Cash, beginning of year	-	30
Cash, end of year	\$ 6	\$ -

NEW BRUNSWICK POWER HOLDING CORPORATION
NOTES TO THE COMBINED FINANCIAL STATEMENTS
 For the year ended March 31, 2009
 (in millions)

1. INCORPORATION AND CORPORATE STRUCTURE

Incorporation

New Brunswick Power Corporation (NB Power) was established as a Crown Corporation of the Province of New Brunswick in 1920 by enactment of the *New Brunswick Electric Power Act*.

Effect of the Electricity Act: On October 1, 2004 the Province of New Brunswick proclaimed the *Electricity Act*. This resulted in the reorganization of NB Power and the restructuring of the electricity industry in New Brunswick.

Corporate Structure

Following the *Electricity Act*, NB Power was continued as New Brunswick Power Holding Corporation (Holdco) with new subsidiary operating companies. The subsidiaries include

- New Brunswick Power Generation Corporation (Genco)
 - includes New Brunswick Power Coleson Cove Corporation (Colesonco) and NB Coal Limited (NB Coal), formed as subsidiaries of Genco.
- New Brunswick Power Nuclear Corporation (Nuclearco)
- New Brunswick Power Transmission Corporation (Transco)
- New Brunswick Power Distribution and Customer Service Corporation (Disco)

Other organizations formed by the *Electricity Act*

The *Electricity Act* also resulted in the establishment of the following organizations:

- New Brunswick Electric Finance Corporation (Electric Finance), a Crown Corporation and agent of the Crown, whose purpose is to facilitate the conversion of NB Power's debt to appropriate levels in the subsidiary operating companies and to assume and reduce the remaining portion of NB Power's debt,
- New Brunswick System Operator (System Operator), a not-for-profit body whose purpose is to independently direct the operation of the electricity market, and maintain the long-term adequacy and reliability of the electricity system.

2. RATE REGULATION

This details the effects of a rate regulated environment and its implications on the following rate regulated operating companies

- New Brunswick Power Transmission Corporation (Transco)
- New Brunswick Power Distribution and Customer Service Corporation (Disco).

NEW BRUNSWICK POWER HOLDING CORPORATION
NOTES TO THE COMBINED FINANCIAL STATEMENTS
 For the year ended March 31, 2009
 (in millions)

2. RATE REGULATION (CONTINUED)

Transco

Components involved

The key components that play a role in Transco's regulation are as follows:

Component	Function
Open Access Transmission Tariff (OATT)	Establishes <ul style="list-style-type: none"> • access to the province's transmission system, without discrimination, for entities generating and selling power and for customers, whether from inside or from outside the province. • how the NB Power Group raises revenues to operate and maintain the transmission system.
New Brunswick Energy and Utilities Board (EUB)	Oversees and regulates the OATT.
System Operator	<ul style="list-style-type: none"> • Designs and administers the OATT. • Collects revenues from load serving entities – including Genco, Nuclearco and Disco – and reimburses Transco for its revenue requirement.

Expectation of returns

Transco is intended to collect sufficient revenues to cover its costs, and to provide a return on its equity. The return approved by the regulator for Transco is 9.5 per cent (with a possibility of increasing to 10.5 per cent), and capital of 65 per cent debt and 35 per cent equity.

Disco

Disco is regulated under a system whereby annual average rate increases greater than three per cent or the percentage change in the average Consumer Price Index, whichever is higher, require regulatory approval by the EUB.

Regulatory assets and liabilities

Regulatory assets or liabilities may arise as a result of the rate-setting process. If all the required conditions are met, Transco's and Disco's balance sheet can contain

- Regulatory assets which represent future revenues associated with certain costs incurred in current or prior periods that are expected to be recovered from customers in future periods through the rate-setting process.

NEW BRUNSWICK POWER HOLDING CORPORATION
NOTES TO THE COMBINED FINANCIAL STATEMENTS

For the year ended March 31, 2009
(in millions)

- Regulatory liabilities which represent future reductions or limitations of revenue increases associated with amounts that are expected to be refunded to customers.

NEW BRUNSWICK POWER HOLDING CORPORATION
NOTES TO THE COMBINED FINANCIAL STATEMENTS

For the year ended March 31, 2009
(in millions)

2. RATE REGULATION (CONTINUED)

All amounts deferred as regulatory assets and liabilities are subject to regulatory approval. As such

- the regulatory authorities could alter the amounts subject to deferral, at which time the change would be reflected in the financial statements
- certain remaining recovery and settlement periods are those expected by management and the actual recovery or settlement periods could differ based on regulatory approval.

For the regulatory deferral related to the Point Lepreau Generating Station refurbishment, the *Electricity Act* was amended to provide guidance on the specific treatment of costs incurred.

Transco

As at March 31, 2009, Transco has a regulatory asset related to allowance for funds used during construction which is included in property, plant and equipment (see Note 15).

Allowance for funds used during construction

The EUB permits allowance for funds used during construction in progress (AFUDC) to be capitalized monthly on capital construction projects. AFUDC is based on Transco's weighted average cost of capital and is amortized over the future life of the related asset.

A non-regulated entity would not be allowed to include a charge for equity capital as part of an asset's cost.

Recovery of regulatory asset

It is expected that future amortization from property, plant and equipment containing allowance for funds used during construction is recoverable through the OATT. However, the expected recovery or likelihood of recovery is affected by the EUB's decisions determining Transco's revenue requirement.

Disco

Point Lepreau Generating Station refurbishment

At March 31, 2009 Disco has a regulatory asset relating to refurbishing the Point Lepreau Generating Station. This asset accumulates

- the normal period costs (net of any revenues) incurred by Nuclearco, and
- the costs of replacement power incurred by Genco, during the refurbishment period.

These amounts will be

- recovered from customers over the refurbished station's operating life, and
- reflected in Disco's charges, rates and tolls to customers (as per section 143.1 of the *Electricity Act*).

Lawsuit settlement with PDVSA

At March 31, 2009, Disco has a regulatory liability relating to a lawsuit settlement with PDVSA (see Note 14). The mark-to-market adjustment¹ at March 31, 2009 has caused the regulatory liability to be in a temporary asset position. The regulatory liability reflects Disco's obligation to pass the settlement's net benefits on to customers, by reducing future rates. The settlement's benefits will be

- accumulated as they are received, over the Coleson Cove Generating Station's 23-year useful life
- passed on to customers over 17 years, as approved by the EUB, on a levelized basis.

¹ These mark-to-market adjustments are temporary and will reverse when all the fuel shipments have been received.

NEW BRUNSWICK POWER HOLDING CORPORATION
NOTES TO THE COMBINED FINANCIAL STATEMENTS

For the year ended March 31, 2009
(in millions)

3. BASIS OF PRESENTATION

The accompanying combined financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a basis consistent with the preceding year. The combined financial statements include the accounts of Holdco and those of its subsidiaries listed above (collectively the NB Power Group or the Group).

NEW BRUNSWICK POWER HOLDING CORPORATION
NOTES TO THE COMBINED FINANCIAL STATEMENTS
 For the year ended March 31, 2009
 (in millions)

4. SIGNIFICANT ACCOUNTING POLICIES

This describes the accounting policies used in preparing the financial statements. It contains the following sections

- a. Materials, supplies and fuel inventory
- b. Property, plant and equipment
- c. Intangible asset
- d. Foreign exchange transactions
- e. Long-term debt
- f. Asset retirement obligations
- g. Pension plans
- h. Retirement allowance
- i. Early retirement programs
- j. Revenues
- k. Financial instruments
- l. Derivatives
- m. Special payments in lieu of taxes
- n. Consolidation of variable interest entities
- o. Use of estimates

a. Materials, supplies and fuel inventory

Inventories of materials, supplies and fuel other than nuclear fuel are valued at average cost. Nuclear fuel is valued at cost using the first-in, first-out method.

b. Property, plant and equipment

Cost of additions

The cost of additions to property, plant and equipment is the original cost of

- contracted services
 - direct labour and material
 - interest and allowance for funds used during construction
 - indirect charges for administration, and
 - other expenses related to capital projects
- less
- credits for the value of power generated during commissioning,
 - contributions in aid of construction, which include customer contributions, and research and development grants, and
 - recovery of capital from lawsuit and insurance settlements.

NEW BRUNSWICK POWER HOLDING CORPORATION
NOTES TO THE COMBINED FINANCIAL STATEMENTS
For the year ended March 31, 2009
(in millions)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b. Property, plant and equipment (continued)

Generating station decommissioning and disposal of used nuclear fuel

Property, plant and equipment also includes the present value of asset retirement obligations related to

- the disposal of used nuclear fuel, and
- decommissioning of the nuclear and thermal generating stations.

Interest and allowance for funds used during construction

Interest during construction is capitalized monthly based on the weighted average cost of long-term debt capital on capital projects based on the cost of long-term borrowings, except in Transco where allowance for funds used during construction is capitalized monthly on capital projects based on the weighted average cost of capital.

Cost of retired distribution system assets

The cost of distribution system assets retired, net of dismantlement and salvage, is charged to accumulated amortization as deemed appropriate by the New Brunswick Board of Commissioners of Public Utilities (now the New Brunswick Energy and Utilities Board (EUB)).

Asset amortization

Amortization is provided for all assets sufficient to amortize the cost of such assets less estimated salvage value over their estimated service lives.

Estimated service lives

The estimated service lives of fixed assets are periodically reviewed and any changes are applied prospectively.

NEW BRUNSWICK POWER HOLDING CORPORATION
NOTES TO THE COMBINED FINANCIAL STATEMENTS
 For the year ended March 31, 2009
 (in millions)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b. Property, plant and equipment (continued)

Estimated service lives

The main categories of property, plant and equipment are being amortized on a straight-line basis based on the following estimated service lives

Assets	Years
Power generating stations	
Nuclear generating station ²	25 - 50
Hydro generating facilities	35 - 100
Thermal generating stations	25 - 35
Combustion turbine generating stations	25
Transmission system	45 - 60
Terminals and substations	25 - 60
Distribution system	16 - 40
Buildings	40 - 50
Communications and computer systems	3 - 15
Mining equipment	20 - 35
Motor vehicles	3 - 18

²the Nuclear generating station's useful life is based on the refurbished life

Recognizing impairment

The Group evaluates its property, plant and equipment to identify impairment whenever conditions indicate that estimated undiscounted future net cash flows may be less than the net carrying amount of assets. If impairment is identified, an impairment loss will be recognized equal to the amount by which the carrying amount exceeds the fair value.

c. Intangible asset

Intangible assets are recorded at cost on the balance sheet and amortized over their estimated useful lives.

NEW BRUNSWICK POWER HOLDING CORPORATION
NOTES TO THE COMBINED FINANCIAL STATEMENTS

For the year ended March 31, 2009
(in millions)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. Foreign exchange transactions

Monetary assets and liabilities denominated in foreign currencies

- may be hedged using a forward exchange contract, and
- are translated to Canadian dollars as follows

If a forward exchange contract	Then the exchange rate used is
is not in place	the exchange rate prevailing at the balance sheet date.
is in place	the exchange rate established by the terms of the contract.

Exchange gains and losses resulting from foreign currency translation are reflected in earnings.

e. Long-term debt

Long-term debt is classified as loans and receivables for financial instrument purposes and is recorded at the amortized cost using the effective interest method. The estimated fair value of long-term debt is disclosed in the notes to the financial statements using market values or estimates of market values based on debt with similar terms and maturities. Debenture discounts and premiums, and deferred interest related to debt financing, are amortized over the lives of the issues to which they pertain. These unamortized debt costs are included in long-term debt.

f. Asset retirement obligations

This describes the accounting policies related to asset retirement obligations. It contains information on the

- nuclear and thermal generating stations, and
- hydro generating stations, transmission and distribution assets.

Nuclear and thermal generating stations

NB Power Group provides for the estimated future costs of permanently disposing of used nuclear fuel, and decommissioning the nuclear and thermal generating stations to return the sites to a state of unrestricted use.

NEW BRUNSWICK POWER HOLDING CORPORATION
NOTES TO THE COMBINED FINANCIAL STATEMENTS
 For the year ended March 31, 2009
 (in millions)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f. Asset retirement obligations (continued)

Calculations of anticipated costs

The calculations of the anticipated future costs are based on detailed studies that take into account various assumptions regarding

- the method and timing of dismantling the nuclear and thermal generating stations
- the cost of transporting nuclear material to permanent disposal facilities, and
- estimates of inflation rates in the future.

The Group reviews such calculations periodically due to

- potential developments in the decommissioning and used nuclear fuel management technologies, and
- changes in the various assumptions and estimates inherent in the calculations.

The NB Power Group recognizes these liabilities taking into account the time value of money.

Costs recognized as liabilities

The estimated present values of the following costs have been recognized as a liability as at March 31, 2009

- the fixed cost portion of used nuclear fuel management activities. These are required regardless of the volume of fuel consumed.
- the variable cost portion of used nuclear fuel management activities to take into account actual fuel volumes incurred up to March 31, 2009, and
- the costs of decommissioning the nuclear and thermal generating stations at the end of their useful lives.

The liability for used nuclear fuel management is increased for nuclear fuel bundles used each year with the corresponding amounts charged to operations through fuel expense.

The liability accounts are charged for current expenditures incurred related to the following

- used nuclear fuel management, and
- nuclear and thermal plant decommissioning.

Accretion expense

Accretion is the increase in the carrying amount of the liability due to the passage of time.

Accretion is calculated on the liabilities for used nuclear fuel management and nuclear and thermal plant decommissioning. Specifically, the accretion expense is

- calculated using the Group's credit-adjusted risk-free rate, and
- included with amortization expense.

NEW BRUNSWICK POWER HOLDING CORPORATION
NOTES TO THE COMBINED FINANCIAL STATEMENTS

For the year ended March 31, 2009

(in millions)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f. Asset retirement obligations (continued)

Calculation methodology

The Nuclear Waste Management Organization's (NWMO) was established by the *Nuclear Fuel Waste Act (NFWA)*. The methodology used by the NB Power Group to calculate the liability for used nuclear fuel management is consistent with the Nuclear Waste Management Organization's (NWMO) recommendations as approved by NRCan.

Hydro generating stations, transmission and distribution assets

For hydro generating stations, transmission and distribution assets no removal date can be determined. Consequently a reasonable estimate of the fair value of any related asset retirement obligations cannot be made at this time.

- *Hydro generating stations*
The Group currently has no intention and is not legally obligated to decommission its hydro generating stations. With either maintenance efforts or rebuilding, the assets are expected to be used for the foreseeable future.
- *Transmission and distribution assets*
The NB Power Group expects to use the majority of its transmission and distribution assets for an indefinite period of time.

If at some future date it becomes possible to estimate the fair value cost of removing assets that the Group is legally required to remove, an asset retirement obligation will be recognized at that time.

g. Pension plans

This describes the accounting policies related to pension plans. It contains information on the following

- plans in place
- method to determine accrued benefit obligation
- expected returns on plan assets
- actuarial gains and losses, and
- transitional asset.

Plans in place

The NB Power Group employees, excluding NB Coal employees, are members of the Province of New Brunswick Public Service Superannuation Plan. NB Coal maintains a private defined benefit pension plan for its employees.

NEW BRUNSWICK POWER HOLDING CORPORATION
NOTES TO THE COMBINED FINANCIAL STATEMENTS

For the year ended March 31, 2009
(in millions)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g. Pension plans (continued)

The Province of New Brunswick Public Service Superannuation Plan is a multi-employer, defined benefit plan. Details are as follows

Aspect	Detail
Pension benefits based on	length of service and the average of the highest five consecutive years of earnings
Escalation	annual, based on the Consumer Price Index to a maximum of five or six per cent depending on retirement date.
Contributions	made by the Group and its employees as prescribed in the <i>Public Service Superannuation Act</i> and its regulations.

Method to determine accrued benefit obligation

Under both plans, future salary levels affect the amount of employee future benefits. Therefore the projected benefit method pro-rated on service has been used to determine the accrued benefit obligation.

Expected return on plan assets

The expected return on plan assets is based on the expected long-term rate of return on plan assets and the market related value of plan assets.

Actuarial gains and losses

Actuarial gains or losses in excess of 10 per cent of the greater of the accrued benefit obligation, and the fair value of the plan assets at the beginning of the year are amortized over the expected average remaining service life of the employee group.

Transitional asset

The transitional asset is the fair market value of the plan assets less the accrued benefit obligation as determined at April 1, 2000, and amortized over the average remaining service life of the employee group.

NEW BRUNSWICK POWER HOLDING CORPORATION
NOTES TO THE COMBINED FINANCIAL STATEMENTS

For the year ended March 31, 2009
(in millions)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h. Retirement allowance

The NB Power Group has a retirement allowance program for employees. The program provides a lump-sum payment equal to one week of pay for each full year of employment to a maximum of 26 weeks of pay.

The present value of accrued retirement allowance obligations

- is based on actuarial calculations
- incorporates management's best estimate assumptions on salary and wage projections to expected retirement dates, and
- is amortized on a straight-line basis over the expected average remaining service life of the employee group.

i. Early retirement programs

The present value of the estimated future costs of early retirement programs is charged to earnings in the year the program is accepted by employees, irrespective of when payments are actually made.

j. Revenues

Recognizing revenues

The NB Power Group recognizes revenue when

- persuasive evidence of an arrangement exists
- delivery has occurred
- the price to the buyer is fixed or determinable, and
- collection is reasonably assured.

Billing schedule

Billing occurs monthly, according to the table below. Revenue in respect of items not billed at the end of a fiscal period is estimated and accrued.

Customer type	Billing schedule
<ul style="list-style-type: none"> • residential • general service, and • most industrial customers 	on a cyclical basis (i.e. the date on which a customer is billed each month varies from one customer to the next).
<ul style="list-style-type: none"> • industrial transmission, and • out-of-province customers 	at the end of each month.

NEW BRUNSWICK POWER HOLDING CORPORATION
NOTES TO THE COMBINED FINANCIAL STATEMENTS
 For the year ended March 31, 2009
 (in millions)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k. Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity (e.g. accounts receivable/accounts payable).

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 Group's designation of the instrument into one of five following categories

- held-for-trading
- loans and receivables
- available-for-sale
- other liabilities
- held-to-maturity

Held-for-trading

Financial assets and liabilities in this category are typically acquired, with the intention of reselling them prior to maturity. The Group can choose to designate any financial asset or liability as being held for trading.

The following are classified as held-for-trading assets

- cash
- long-term receivable
- derivative assets not in a hedging relationship

The following is classified as held-for-trading liability

- derivative liabilities not in a hedging relationship

The Group has not designated any non-derivative financial liabilities as held for trading.

Accounting for held-for-trading assets and liabilities

These assets and liabilities are measured at fair value at the balance sheet date. Changes in fair value are included in net earnings. These include

- interest earned
- interest accrued
- realized gains and losses, and
- unrealized gains and losses.

NEW BRUNSWICK POWER HOLDING CORPORATION
NOTES TO THE COMBINED FINANCIAL STATEMENTS

For the year ended March 31, 2009
(in millions)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k. Financial instruments (continued)

Loans and receivables

Loans and receivables are accounted for at amortized cost using the effective interest method.

Available-for-sale

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale, or that are not classified as loans and receivables, held-to-maturity or held-for-trading investments. Available-for-sale assets include

- nuclear decommissioning funds
- used fuel management funds.

Accounting for available-for-sale assets

Available-for-sale financial assets are recorded as follows

Asset	Accounting treatment
available-for-sale financial asset with quoted market prices in an active market	carried at fair value with <ul style="list-style-type: none"> • unrealized gains and losses are recognized outside net earnings, in other comprehensive income. • gains and losses are transferred to net earnings when they are realized.
available-for-sale financial asset without quoted market prices in an active market	carried at cost.

Interest on interest-bearing available-for-sale financial assets are calculated using the effective interest method.

Other liabilities

All the Group's financial liabilities, except for derivative liabilities designated as held-for-trading, are included in this category. They are recorded at amortized cost, using the effective interest method.

Effective interest method and transaction costs

The NB Power Group uses the effective interest method to recognize interest income or expense. The effective interest method discounts estimated future cash payments or receipts over an instrument's expected life, or a shorter period if appropriate, down to the net carrying amount at the balance sheet date. The calculation includes earned or incurred

- transaction costs
- fees
- premiums
- discounts.

Transaction costs associated with held-for-trading instruments are expensed as they are incurred.

NEW BRUNSWICK POWER HOLDING CORPORATION
NOTES TO THE COMBINED FINANCIAL STATEMENTS

For the year ended March 31, 2009
(in millions)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Derivatives

A derivative is a financial instrument or other contract with all three of the characteristics below

- value changes with underlying variable (e.g. market index)
- little or no initial investment required, and
- settled at a future date.

Derivative use and documentation

The Group uses derivatives to manage or “hedge” certain exposures. It does not use them for speculative or trading purposes. Certain derivative financial instruments held by the Group are eligible for hedge accounting. To be eligible for hedge accounting the Group formally documents

- all relationships between hedging instruments and hedged items at their inception, its assessment of the effectiveness of the hedging relationship, and
- its hedging objectives and strategy underlying various hedge transactions.

This process includes linking all derivatives to specific assets and liabilities on the balance sheet or to specific forecasted transactions.

Accounting for derivatives

Derivatives eligible for hedge accounting are recognized on the balance sheet at their fair value. The accounting for changes in fair value depends on its effectiveness as a hedge. In broad terms, a derivative is an effective hedge of another item when changes in their fair value or cash flows closely offset each other. Due to the nature of some of the hedging relationships the fair values or cash flows do not perfectly offset, which represents the ineffective portion.

Different portions of changes in a derivative’s fair value are recognized as follows

This portion	is recognized in
effective	other comprehensive income, outside net earnings for the year.
ineffective	net earnings.

If a hedging instrument is sold or terminated before it matures, or if it ceases to be effective as a hedge,

- the Group ceases hedge accounting at that point, and
- any gains or losses previously accumulated in other comprehensive income are then recognized immediately in net earnings.

NEW BRUNSWICK POWER HOLDING CORPORATION
NOTES TO THE COMBINED FINANCIAL STATEMENTS
 For the year ended March 31, 2009
 (in millions)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

m. Special payments in lieu of taxes

The NB Power Group, excluding NB Coal, is required under the Electricity Act to make special payments in lieu of taxes to Electric Finance. Total special payments in lieu of taxes consist of

- an income tax component based on accounting net earnings multiplied by a rate of 32.38 per cent for the year ended March 31, 2009 as compared to 34.47 per cent for the year ended March 31, 2008
- a capital tax component based on the large corporation tax rules contained in the *New Brunswick Income Tax Act*, and
- future special payments in lieu of taxes on other comprehensive income based on a rate of 32.38 per cent for the year ended March 31, 2009 as compared to 34.47 per cent for the year ended March 31, 2008.

The Group also recognizes the future special payments in lieu of income taxes benefit of current losses when it is more likely than not that sufficient earnings will be generated in future periods to offset losses previously incurred.

Special payments in lieu of taxes are calculated at the individual company level.

n. Consolidation of variable interest entities

Variable interest entities refer to an entity subject to consolidation according to the provisions of AcG-15. The NB Power Group has several variable interests in the form of power purchase contracts with third-party corporations. The Group has not consolidated the financial results of these third-party entities.

Rationale: all contracts except one

For all of these contracts except one, it was determined that there is an insignificant amount of variability being absorbed by the Group as a result of these contracts and therefore consolidation is inappropriate.

Rationale: the exception

There is one purchase power contract to purchase all the capacity and electrical energy produced by a 90 MW co-generation facility that began production in December 2004. Purchases under this contract were \$63 million for the year ended March 31, 2009 as compared to \$55 million for the year ended March 31, 2008.

Despite exhaustive efforts, the Group has been unable to obtain the necessary information, and has therefore been unable to assess whether the third-party corporation is a variable interest entity. As a result, the Group has not consolidated the financial results of this third-party entity.

NEW BRUNSWICK POWER HOLDING CORPORATION
NOTES TO THE COMBINED FINANCIAL STATEMENTS
 For the year ended March 31, 2009
 (in millions)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

o. Use of estimates

The preparation of financial statements that conform to generally accepted accounting principles requires management to make estimates and assumptions that affect

- the reported amounts of assets and liabilities at the date of the financial statements and
- the reported amounts of revenues and expenses during the reporting period.

Actual results could differ from the estimates. The following table lists the notes that refer to these estimates

Note reference	Estimate
Note 7	Amortization and decommissioning of capital assets
Note 13	Long-term receivable
Note 14	Regulatory assets and liabilities
Note 19	Deferred pension benefit
Note 22	Generating station decommissioning and used nuclear fuel management liability
Note 23	Deferred liabilities – other
Note 26	Financial instruments

NEW BRUNSWICK POWER HOLDING CORPORATION
NOTES TO THE COMBINED FINANCIAL STATEMENTS
For the year ended March 31, 2009
(in millions)

5. CHANGES IN ACCOUNTING POLICIES

Policies that have changed in 2008/09

In 2008/09 the NB Power Group adopted the following recommendations of the Canadian Institute of Chartered Accountants Handbook:

Section	Description and requirement	Effect on 2009 results
Section 3031, <i>Inventories</i> .	<p>This Section describes the</p> <ul style="list-style-type: none"> • recognition • measurement • reporting, and • disclosure recommendations <p>with respect to inventory.</p> <p>This Section</p> <ul style="list-style-type: none"> • requires inventories to be measured at the lower of cost or net realizable value • no longer permits the last-in first-out (LIFO) measurement methodology; and • requires the reversal of previous inventory write-downs to net realizable value where necessary. • capitalizes inventory that meets the definition of major spare parts. 	<p>These were applied retrospectively with prior year restatement.</p> <p>As at April 1, 2008 \$8 million (April 1, 2007 - \$8 million) were reclassified to capital assets on the balance sheet as they</p> <ul style="list-style-type: none"> • met the definition of a spare part • will be used over more than one period and, • will only be used in connection with capital assets.
Sections 3862 and 3863, <i>Financial Instruments – Disclosure and Presentation</i>	<p>These Sections describe reporting and disclosure guidelines with respect to financial instruments.</p> <p>They require the Corporation to disclose quantitative and qualitative information in order for the readers to understand the nature, and extent of risks associated with the Corporation's financial instruments.</p>	Additional note disclosure was added.
Section 1535, <i>Capital Disclosures</i>	This Section requires the Corporation to disclose quantitative and qualitative information regarding objective policies and processes for managing capital.	Additional note disclosure was added.

NEW BRUNSWICK POWER HOLDING CORPORATION
NOTES TO THE COMBINED FINANCIAL STATEMENTS
For the year ended March 31, 2009
(in millions)

5. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

Policies that have changed in 2008/09 (continued)

Section	Description and requirement	Effect on 2009 results
Section 1400, <i>General Standards of Financial Statement Presentation</i>	<p>This Section was amended regarding providing going concern guidance to management. Management must</p> <ul style="list-style-type: none"> • assess an entity's ability to continue as a going concern each time financial statements are prepared • take into account all available information at such time, and • disclose material uncertainties related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. 	None.
Section 3064, <i>Goodwill and Intangible Assets</i>	<p>This Section describes the</p> <ul style="list-style-type: none"> • recognition • measurement • reporting, and • disclosure recommendations <p>with respect to goodwill and intangible assets.</p> <p>This Section replaces Section 3062 <i>Goodwill and Other Intangibles Assets</i> and Section 3450 <i>Research and Development Costs</i>.</p>	None.
EIC 173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities	<p>This EIC requires that the fair value of financial instruments, including derivative financial instruments, takes into account the counterparties' credit risks for assets and the Corporation's credit risk for liabilities.</p>	<p>Applied retrospectively without restatement of prior periods.</p> <p>The effects on the Corporation's 2009 financial results were immaterial.</p>

NEW BRUNSWICK POWER HOLDING CORPORATION
NOTES TO THE COMBINED FINANCIAL STATEMENTS
For the year ended March 31, 2009
(in millions)

5. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

Future accounting changes

International Financial Reporting Standards (IFRS)

This describes the issues and impact on the NB Power Group of implementing IFRS.

Key dates

Date	Event
February 2008	The Accounting Standards Board (AcSB) confirmed that the use of IFRS will be required for fiscal years beginning on or after January 1, 2011 for publicly accountable enterprises in Canada.
April 2008	The AcSB issued an IFRS Omnibus Exposure Draft proposing that publicly accountable enterprises be required to apply IFRS, in full and without modification, for fiscal years beginning on or after January 1, 2011.
March 2009	The Accounting Standards Board issued a second IFRS Omnibus Exposure Draft. The purpose of this Exposure Draft is to incorporate into Canadian GAAP any amendments made to IFRS since the 2007 Bound Volume was published. It also addresses the definition of publicly accountable enterprises, the mandatory effective date of the adoption of IFRSs by publicly accountable enterprises, and the disposition of the Emerging Issues Committee.
April 1, 2011	The transition date for the NB Power Group. This will require the restatement, for comparative purposes, of amounts reported by the Corporation for its year ended March 31, 2011, and of the opening balance sheet as at April 1, 2010. The AcSB proposes that CICA Handbook Section - <i>Accounting Changes</i> , paragraph 1506.30, not be applied with respect to this second IFRS Omnibus Exposure Draft. This paragraph normally requires an entity to disclose information relating to a new primary source of Canadian GAAP that has been issued but is not yet effective and that the entity has not applied.

Progress to date and evaluation of impacts

The Group has completed the scoping phase of its transition plan. The impacts of the differences identified from the scoping phase and the complete conversion to IFRS are currently being evaluated by the Group to determine the effect on its processes, system and financial statements upon adoption. The Group anticipates significant work around the determination of opening balances in the consolidated

NEW BRUNSWICK POWER HOLDING CORPORATION
NOTES TO THE COMBINED FINANCIAL STATEMENTS

For the year ended March 31, 2009
(in millions)

statement of financial position, and a significant increase in disclosure resulting from the adoption of IFRS.

NEW BRUNSWICK POWER HOLDING CORPORATION
NOTES TO THE COMBINED FINANCIAL STATEMENTS
For the year ended March 31, 2009
(in millions)

5. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

Future accounting changes

Public Sector Accounting Board (PSAB)

PSAB is a body of the CICA that governs the accounting standards applicable to federal, provincial, territorial and local governments. PSAB accounting standards apply to the NB Power Group as it is a Governmental Business Entity (GBE). Currently GBEs are directed by PSAB to follow commercial standards, Canadian GAAP and not the Public Sector Accounting book. When the AcSB announced that Canadian GAAP would be replaced with IFRS, the PSAB announced that GBEs would continue to follow commercial standards, and would therefore have to convert to IFRS.

In December 2008 the PSAB revisited this issue and released an invitation to comment on whether or not GBEs should convert to IFRS or convert to PSAB.

A decision has not yet been issued, but it is possible that the Corporation will have the choice to convert to IFRS or PSAB. The Corporation will then determine which conversion is most appropriate for all stakeholders.

Rate regulated accounting

IFRS currently do not have a specific standard allowing rate regulated accounting. In December 2008, the International Accounting Board (IASB) amended their agenda to include a project related to rate regulated accounting.

An exposure draft is expected to be released in July 2009 with a 120 day comment period. A final standard is expected in 2010.

NEW BRUNSWICK POWER HOLDING CORPORATION
NOTES TO THE COMBINED FINANCIAL STATEMENTS

For the year ended March 31, 2009
(in millions)

5. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

Rate Regulated Operations

Effective for fiscal years beginning on or after January 1, 2009, certain sections of the CICA Handbook regarding rate regulated accounting have changed. These changes represent the conclusion of the long and often changing CICA project on rate-regulated accounting.

CICA Handbook Section	Description	Effect
Section 1100 <i>Generally Accepted Accounting Principles</i>	the temporary exemption has been removed.	There will be no effect on the Corporation's financial results, as a result of these amendments.
Section 3465 <i>Income Taxes</i>	requires the recognition of <ul style="list-style-type: none"> • future income tax liabilities and assets, and • a separate regulatory asset or liability for the amount of future income taxes expected to be included in future rates, and recovered from or paid to future customers. 	

6. OUT-OF-PROVINCE REVENUES

Out of province revenues were as follows

	2009	2008
United States customers	\$ 47	\$ 64
Canadian customers	170	132
Total out-of-province revenues	\$ 217	\$ 196

NEW BRUNSWICK POWER HOLDING CORPORATION
NOTES TO THE COMBINED FINANCIAL STATEMENTS

For the year ended March 31, 2009
(in millions)

7. AMORTIZATION AND DECOMMISSIONING

	2009	2008
Amortization	\$ 165	\$ 197
Decommissioning	21	19
Amortization and decommissioning	\$ 186	\$ 216

8. TAXES

	2009	2008
Property taxes	\$ 22	\$ 21
Utility and right of way taxes	17	17
Special payments in lieu of provincial capital taxes	4	5
Taxes	\$ 43	\$ 43

9. FINANCE CHARGES

	2009	2008
Interest expense	\$ 189	\$ 192
Less: Earnings from trust funds and other investments	(21)	(16)
	168	176
Debt portfolio management fee	22	21
Deferred debt costs	2	1
Realized foreign exchange (gains) or losses	(11)	5
	181	203
Less: Interest capitalized	(41)	(28)
Finance charges	\$ 140	\$ 175

Interest paid during the year

Interest paid during the year was \$195 million compared to \$203 million in 2008. Interest received on investments during the year was \$21 million compared to \$16 million in 2008.

NEW BRUNSWICK POWER HOLDING CORPORATION
NOTES TO THE COMBINED FINANCIAL STATEMENTS
For the year ended March 31, 2009
(in millions)

10. SPECIAL PAYMENTS IN LIEU OF INCOME TAXES

This describes NB Power Group's special payments in lieu of income taxes. It contains information on the following:

- Special payments in lieu of income taxes for the year
- Future special payments in lieu of income taxes – other comprehensive income.

Special payments for the year

Special payments in lieu of income taxes were as follows

	2009	2008
Earnings before special payments in lieu of income taxes	\$ 104	\$ 138
Loss not subject to payments in lieu of income taxes	-	3
Earnings subject to special payments in lieu of income taxes	104	141
Income tax rate	32.38%	34.47%
Special payments in lieu of income taxes	\$ 34	\$ 49

Taxes paid during the year were \$58 million compared to \$29 million in 2008.

Future special payments in lieu of income taxes – other comprehensive income

Future special payments for other comprehensive income are as follows

	2009	2008
Other comprehensive income before special payments in lieu of income taxes	\$ (154)	\$ 76
Income tax rate	32.38%	34.47%
Special payments in lieu of income taxes (recovery)	\$ (51)	\$ 26

Special payments in lieu of income taxes are calculated at an individual company level.

NEW BRUNSWICK POWER HOLDING CORPORATION
NOTES TO THE COMBINED FINANCIAL STATEMENTS
For the year ended March 31, 2009
(in millions)

11. CAPITAL STOCK

The NB Power Group, with Electric Finance's approval, is authorized to issue an unlimited number of Class A or Class B shares without nominal or par value.

Capital stock issued and outstanding is as follows

	Class A	Class B
Number of shares	1	1,006
Voting or non-voting	Voting	Non-voting
Shareholder	New Brunswick Minister of Energy	Electric Finance
Value	Nominal	\$ 140 (stated value)
Dividend entitlement	Cannot be paid dividends until such time that there are no longer any Class B shares outstanding.	Received when declared by the Group's Boards of Directors. The designated percentage of the dividends declared may vary based upon the discretion of the Shareholder and the financial position of the Group. Dividends are declared and paid at an individual company level.

12. CAPITAL MANAGEMENT

The Corporation's objectives with respect to its capital structure are to maintain effective access to capital on a long-term basis at the lowest possible cost to customers. The Corporation does not have a credit rating currently as all current borrowings are completed with Electric Finance acting as an agent for the Group with the guarantee of the Province of New Brunswick. Accordingly the Group is predominantly debt financed.

The Corporation considers its capital structure to include the following

At March 31	2009	2008
Long-term debt payable within one year	\$ 413	\$ 283
Less: Cash	6	-
	407	283
Short-term indebtedness	450	273
Long-term debt	3,051	2,879
Common stock	140	140
Contributed surplus	187	187
Retained earnings (deficit)	39	(18)
Total Capital	\$ 4,274	\$ 3,744
Percentage of net debt in capital structure	91%	92%

NEW BRUNSWICK POWER HOLDING CORPORATION
NOTES TO THE COMBINED FINANCIAL STATEMENTS

For the year ended March 31, 2009
(in millions)

13. LONG-TERM RECEIVABLE

This describes elements of the lawsuit settlement with Petroleos de Venezuela S.A. (PDVSA). It contains information on the following

- amount and terms of settlement, and
- use and recognition of the settlement.

Amount and terms of settlement

On August 3, 2007, the NB Power Group settled a lawsuit with PDVSA for \$333 million in total. The settlement was as follows

This amount	Was settled as follows
\$115 million	paid by PDVSA on signing.
\$218 million	a commitment by PDVSA to deliver a specified quantity of fuel in the future. The Group assigned a value based on <ul style="list-style-type: none"> • forward prices, and • planned delivery dates at the time of the settlement.

Use and recognition of the settlement

For the Group, the lawsuit settlement recovers part of its investment to prepare the Coleson Cove Generating Station to receive and burn Orimulsion fuel. Therefore the majority of the settlement, \$304 million, has been applied to reduce the station's net book value.

The Group will recognize the benefits of the lawsuit settlement through reduced interest and amortization as a result of

- reduced debt levels, and
- reduced net book value of the Coleson Cove Generating Station

During 2008/09, as a result of the settlement

- interest expense was lower by \$5 million, and
- amortization was lower by \$13 million due to the station's reduced net book value.

Ultimately, the settlement's net benefit will be accumulated through a regulatory deferral and passed on to customers, through rate reductions over 17 years as approved by the EUB (see Note 2).