Consolidated Financial Statements of

NEW BRUNSWICK POWER CORPORATION

For the year ended March 31, 2015

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Independent Auditor's Report

To the Honourable Jocelyne Roy-Vienneau,
Lieutenant-Governor of New Brunswick,
Fredericton, New Brunswick

We have audited the accompanying consolidated financial statements of New Brunswick Power Corporation (the "Corporation") which comprise the consolidated balance sheet as at March 31, 2015, and the consolidated statements of earnings, retained earnings, comprehensive income, accumulated other comprehensive income and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2015 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte LLP

Chartered Professional Accountants
June 24, 2015

NEW BRUNSWICK POWER CORPORATION
CONSOLIDATED STATEMENT OF EARNINGS
(in millions)

For the year ended March 31	2015	2014
Revenues		
Sales of power		
In-province	$1,374	$1,328
Out-of-province (Note 6)	346	391
Miscellaneous	71	78
	1,791	1,797
Expenses		
Fuel and purchased power	826	834
Operations, maintenance and administration	477	437
Amortization and decommissioning (Note 7)	239	230
Taxes (Note 8)	37	36
	1,579	1,537
Earnings before undernoted items	212	260
Finance charges (Note 9)	229	223
Sinking funds and other investment income (Note 9)	(122)	(87)
Mark-to-market of held for trading investments (Note 9)	(41)	-
Regulatory deferrals (Notes 3 and 13)	73	69
Net earnings	**$ 73**	**$ 55**

CONSOLIDATED STATEMENT OF RETAINED EARNINGS
(in millions)

For the year ended March 31	**2015**	**2014**
Retained earnings, beginning of year	$ 252	$ 197
Net earnings for the year	73	55
Retained earnings, end of year	**$ 325**	**$ 252**

NEW BRUNSWICK POWER CORPORATION
CONSOLIDATED BALANCE SHEET
(in millions)

As at March 31	2015	2014
Current Assets		
Cash	$ 3	$ 3
Accounts receivable	269	305
Materials, supplies and fuel	184	211
Prepaid expenses	9	8
Current portion of long-term receivable (Note 11)	1	1
Current portion of derivative assets (Note 25)	67	132
Current portion of regulatory assets (Note 13)	20	21
	553	681
Property, Plant and Equipment		
Property, plant and equipment, at cost (Note 14)	8,500	8,381
Less: accumulated amortization (Note 14)	4,489	4,309
	4,011	4,072
Long-Term Assets		
Nuclear decommissioning and used nuclear fuel management funds (Note 15)	720	611
Long-Term receivable (Note 11)	16	16
Sinking fund receivable (Note 12)	471	404
Derivative assets (Note 25)	6	25
Regulatory assets (Note 13)	1,012	1,031
Other asset (Note 16)	2	2
	2,227	2,089
Other Assets		
Intangible assets (Note 17)	20	21
Total Assets	**$ 6,811**	**$ 6,863**

ON BEHALF OF NEW BRUNSWICK POWER CORPORATION

Chairman

President and Chief Executive Officer

NEW BRUNSWICK POWER CORPORATION
CONSOLIDATED BALANCE SHEET
(in millions)

As at March 31	**2015**	**2014**
Current Liabilities		
Short-term indebtedness (Note 19)	$ 784	$ 858
Accounts payable and accruals	256	236
Accrued interest	47	46
Current portion of long-term debt (Note 20)	580	-
Current portion of derivative liabilities (Note 25)	73	13
	1,740	1,153
Long-Term Debt		
Debentures (Note 20)	4,025	4,567
Deferred Liabilities		
Generating station decommissioning and used nuclear fuel management liability (Note 21)	592	635
Other deferred liabilities (Note 22)	109	108
Derivative liabilities (Note 25)	20	1
	721	744
Shareholder's Equity		
Accumulated other comprehensive income	-	147
Retained earnings	325	252
	325	399
Total Liabilities & Shareholder's Equity	**$ 6,811**	**$ 6,863**

Commitments, contingencies and guarantees (Note 27)

NEW BRUNSWICK POWER CORPORATION
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(in millions)

For the year ended March 31	2015	2014
Net earnings	**$ 73**	**$ 55**
Other comprehensive (loss) income		
Net unrealized (loss) gain on derivatives designated as cash flow hedges	(123)	221
Amortization of deferred interest charges	2	2
Net unrealized gain (loss) on mark-to-market of nuclear trust funds	45	(25)
	(76)	198
Reclassification to income of earnings on nuclear trust funds	(46)	(25)
Reclassification to income of settled derivatives designated as cash flow hedges	(25)	(106)
Other comprehensive (loss) income	**(147)**	**67**
Comprehensive (loss) income	**$ (74)**	**$ 122**

NEW BRUNSWICK POWER CORPORATION
CONSOLIDATED STATEMENT OF ACCUMULATED OTHER COMPREHENSIVE INCOME
(in millions)

For the year ended March 31	2015	2014
Accumulated other comprehensive income, beginning of year	$ 147	$ 80
Other comprehensive (loss) income for the year	(147)	67
Accumulated other comprehensive income, end of year	**$ -**	**$ 147**

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

For the year ended March 31	**2015**	**2014**
Operating Activities		
Net earnings for the year	$ 73	$ 55
Amounts charged or credited to operations not requiring a cash payment (Note 23)	183	241
	256	296
Nuclear decommissioning and used nuclear fuel management funds installments	(6)	-
Decommissioning and used fuel management expenditures	(11)	(14)
Retirement allowance payout	(7)	(14)
Net change in non-cash working capital balances	85	(45)
	317	223
Investing Activities		
Expenditure on property, plant and equipment, net of customer contributions	(221)	(182)
Proceeds on disposal and non-cash additions	7	3
	(214)	(179)
Financing Activities		
Debt retirements	-	(384)
Proceeds from issuance of long-term debt	-	180
Increase (decrease) in short-term indebtedness	(74)	171
Sinking fund changes and foreign exchange on debt	(29)	(9)
	(103)	(42)
Net cash (outflow) inflow	-	2
Cash, beginning of year	3	1
Cash, end of year	**$ 3**	**$ 3**

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*. In 2004, NB Power continued as NB Brunswick Power Holding Corporation with new subsidiary operating companies (collectively the NB Power Group of Companies). On October 1, 2013, NB Power became a single, integrated Crown Corporation. By enactment of the *New Brunswick Electricity Act* the NB Power Group of Companies, Electric Finance Corporation (EFC), and the New Brunswick System Operator (NBSO) were amalgamated into a new vertically integrated Corporation.

NB Power has one wholly-owned subsidiary known as New Brunswick Energy Marketing Corporation (formerly New Brunswick Power Generation Corporation). New Brunswick Energy Marketing Corporation (NB Energy Marketing), a Crown Corporation, conducts energy trading activities in markets outside New Brunswick, both to purchase electricity to serve load in New Brunswick and to provide standard offer service outside New Brunswick, and to market excess energy generated in New Brunswick to other jurisdictions.

2. BASIS OF PRESENTATION

The accompanying consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) applied on a basis consistent with the preceding year (see Note 4). The consolidated financial statements include the accounts of NB Power and NB Energy Marketing.

3. RATE REGULATION

NB Power is a rate regulated utility. The following are the key components of NB Power's regulation.

- Commencing on April 1, 2015 and for each subsequent fiscal year, NB Power shall make an application to the New Brunswick Energy and Utilities Board (EUB) for approval of its schedules of rates it proposes to charge for its services.
- NB Power must make an application with the EUB for the approval of the Open Access Transmission Tariff (OATT), or for any changes to the Transmission Tariff. NB Power shall, at least once every three years, make an application to the EUB for approval of its transmission revenue requirements. This revenue requirement is intended to collect sufficient revenues to cover its costs and to provide a return of 10 to 12 per cent on a deemed capital structure of 65 per cent debt and 35 per cent capital.
- NB Power submitted to the EUB for information purposes the 2014 Integrated Resource Plan, and must continue to submit one at least once every three years thereafter.
- NB Power shall submit, annually, to the EUB for information purposes a strategic, financial and capital investment plan covering the next 10 fiscal years.
- NB Power shall make application to the EUB for approval of capital projects exceeding $50 million..

3. RATE REGULATION (CONTINUED)

Regulatory Assets and Liabilities

Regulatory assets or liabilities may arise as a result of the rate-setting process.

All amounts deferred as regulatory assets and liabilities are subject to legislation or 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

Allowance for Funds Used During Construction (AFUDC)
As at March 31, 2015, NB Power has a regulatory asset related to AFUDC which is included in property, plant and equipment for transmission assets (see Note 14). The EUB permits AFUDC to be capitalized monthly on capital construction projects. AFUDC is based on NB Power's weighted average cost of capital and is amortized over the future life of the related asset. It is expected to be recoverable through the OATT.

Point Lepreau Generating Station refurbishment
For the regulatory deferral related to the Point Lepreau Generating Station (PLGS) refurbishment, the *Electricity Act* has deemed the project to be prudent and the costs and expenses recorded in the deferral account were deemed to be prudent and necessary to carry out the project.
NB Power has a regulatory deferral asset relating to refurbishing PLGS. This asset accumulated the following costs over the refurbishment period (March 28, 2008 to November 23, 2012)

- the normal period costs (net of any revenues) incurred by PLGS
- the costs of replacement power incurred during the refurbishment period

less

- costs included in current rates

These amounts will be

- recovered from customers over the refurbished station's operating life
- reflected in charges, rates and tolls to customers (section 139.4 of the *Electricity Act*)

3. RATE REGULATION (CONTINUED)

Lawsuit settlement with Petroleos de Venezuela S.A. (PDVSA)

For the regulatory deferral related to the lawsuit settlement with PDVSA (Note 13) the EUB ruled how the settlement benefits would be passed on to customers.
In 2007/08 NB Power recognized a regulatory deferral asset relating to a lawsuit settlement with PDVSA. The settlement's benefits will be

- amortized over the Coleson Cove Generating Station's remaining useful life (23 years at time of the settlement; 15 years as at March 31, 2015)
- passed on to customers over 17 years (nine years as of March 31, 2015), as approved by the EUB, on a levelized basis

The regulatory deferral reflects NB Power's obligation to pass the settlement's net benefits on to the customers by reducing future rates. The regulatory deferral is in an asset position because the settlement's net benefits are passed on to the customers faster than they are recognized by NB Power.

Net Earnings Adjusted to Remove the Effects of Regulatory Accounting

As a rate regulated entity NB Power applies regulatory accounting. If NB Power did not apply regulatory accounting the net earnings would be as follows:

	2015	**2014**
Net earnings	$ 73	$ 55
Less regulatory deferral adjustment to earnings	73	69
Less interest on deferral (reduction to finance charges)	(53)	(49)
Net earnings adjusted to remove the effects of regulatory accounting	**$ 93**	**$ 75**

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 assets
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. Consolidation of variable interest entities
n. Use of estimates

a. Materials, supplies and fuel inventory

Inventories are recorded at the lower of cost or net realizable value. 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
- asset retirement obligations
- salvage value, 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
- recovery of capital from lawsuit and insurance settlement

Generating station decommissioning and management of used nuclear fuel
Property, plant and equipment includes the present value of asset retirement obligations related to

- the management of used nuclear fuel
- decommissioning of the nuclear and thermal generating stations

Interest and allowance for funds used during construction (AFUDC)
Interest during construction is capitalized monthly based on the weighted average cost of long-term debt, except for transmission assets where AFUDC is capitalized monthly on capital projects based on the weighted average cost of capital.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b. Property, plant and equipment (continued)

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

Asset amortization
Amortization is provided for all assets sufficient to amortize the net cost of such assets over their estimated service lives.

Estimated service lives
The estimated service lives of property, plant and equipment are periodically reviewed and any changes are applied prospectively.

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	10 - 57
Hydro generating stations	9 - 100
Thermal generating stations	6 - 53
Combustion turbine generating stations	10 - 40
Transmission system	10 - 60
Terminals and substations	17 - 56
Distribution system	16 - 48
Buildings and properties	45 - 50
Computer systems	6
Motor vehicles	8 - 20
Miscellaneous assets	15

Recognizing impairment
NB Power 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 in earnings equal to the amount by which the carrying amount exceeds the fair value.

c. Intangible assets

The intangible assets are recorded at cost on the balance sheet and amortized over their estimated useful lives (see Note 17).

d. Foreign exchange transactions

Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at the exchange rate prevailing at the balance sheet date.

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e. Long-term debt

Long-term debt is classified as other liabilities for financial instrument purposes and is recorded at the amortized cost using the effective interest method (see Note 4k). 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. Debentures 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 provides for the estimated future costs of managing used nuclear fuel, and decommissioning the nuclear and thermal generating stations to return the sites to a state of unrestricted use.

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 storage facilities, and
- estimates of inflation rates in the future.

NB Power 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.

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f. Asset retirement obligations (continued)

Costs recognized as liabilities
The estimated present values of the following costs have been recognized as a liability as at March 31, 2015

- 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, 2015, 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 the cost of disposing the 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
- 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 NB Power's credit adjusted risk-free rate, and
- included with amortization and decommissioning expense.

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*
- NB Power 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*
- NB Power 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 NB Power is legally required to remove, an asset retirement obligation will be recognized at that time.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g. Pension plans

NB Power employees are members of the Province of New Brunswick Public Service Shared Risk Plan (PSSRP).

The PSSRP is a multi-employer, defined benefit plan. Contributions are made by both NB Power and the employees. Since it is not practicable or feasible to obtain all of the information required for a materially precise attribution of NB Power's portion of the obligation; NB Power uses defined contribution accounting to account for its portion of the PSSRP.

The Pension Plan for Employees of NB Coal Limited is a private defined benefit pension plan for its former employees.

h. Retirement allowance

NB Power has a retirement allowance program for certain 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
- 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
NB Power recognizes revenue when
- persuasive evidence of an arrangement exists
- delivery has occurred
- the price to the buyer is fixed or determinable
- collection is reasonably assured

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j. Revenues (continued)

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
• residential • general service • 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)
• industrial transmission • wholesale • out-of-province customers	at the end of each month

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 and their characteristics. The instruments are designated into one of the 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. NB Power can choose to designate any financial asset or liability as being held for trading.

The following are classified as held-for-trading assets

- cash
- pooled funds portion of the segregated funds
- derivative assets not in a hedging relationship

The following is classified as a held-for-trading liability

- derivative liabilities not in a hedging relationship

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
- unrealized gains and losses

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k. Financial instruments (continued)

Loans and receivables
Loans and receivables include accounts receivable and 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 not classified as loans and receivables, held-to-maturity or held-for-trading investments. Available-for-sale assets include

- used nuclear fuel waste trust fund
- fixed income portion of segregated funds

Accounting for available-for-sale assets
Available-for-sale-financial assets are recorded as follows

Asset	Accounting treatment
with quoted market prices in an active market	carried at fair value with • unrealized gains and losses recognized outside net earnings, in other comprehensive income • gains and losses transferred to net earnings when they are realized
without quoted market prices in an active market	• carried at cost

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

Other liabilities
All NB Power'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
NB Power uses the effective interest method to recognize interest income or expense on the above noted financial instruments. The effective interest method discounts estimated future cash payments 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.

Fair value
The financial instruments carried at fair value are classified using a fair value hierarchy which has three levels (see Note 25). The hierarchy is based on the inputs used in making the fair value measurement.

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
- settled at a future date

Under derivative contracts, NB Power settles amounts based on the difference between an index-based monthly cumulative floating price and a fixed price. The resultant fixed price is reflected in net earnings.

Derivative use and documentation

NB Power uses derivatives to manage or "hedge" certain exposures. It does not use them for speculative or trading purposes. Certain derivative financial instruments held by NB Power are eligible for hedge accounting. To be eligible for hedge accounting NB Power 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 their effectiveness as hedges. 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 portions.

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,

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

m. Consolidation of variable interest entities

Variable interest entities refers to entities subject to consolidation according to the provisions of the CICA accounting guidelines AcG-15.

NB Power's nuclear fund investments include an investment in a pooled fund, of which NB Power is the primary beneficiary of the fund. As a result NB Power has consolidated the underlying investments in this fund.

NB Power has several variable interests in the form of power purchase contracts with third-party corporations. NB Power has not consolidated the financial results of these third-party entities.

Rationale: all purchased power contracts except one

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

Rationale: the exception

There is one purchase power contract to purchase all of the capacity and electrical energy produced by a 90 MW co-generation facility that began production in December 2004.
Purchases under this contract were $55 million for the year ended March 31, 2015 as compared to $70 million for the year ended March 31, 2014.

NB Power 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, NB Power has not consolidated the financial results of this third-party entity.

n. 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
- 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 4b	Property, plant and equipment
Note 4j	Revenues (billing estimates)
Note 7	Amortization and decommissioning of property, plant and equipment
Note 13	Regulatory assets and liabilities
Note 15	Nuclear decommissioning and used nuclear fuel management funds
Note 18	Deferred pension benefit
Note 21	Generating station decommissioning and used nuclear fuel management liability
Note 22	Deferred liabilities - other
Note 25	Financial instruments
Note 27	Commitments, contingencies and guarantees

5. CHANGES IN ACCOUNTING POLICIES

Policies that have changed during the year ended March 31, 2015

There were no changes impacting the financial statements during the year ended March 31, 2015.

Future accounting changes

First time adoption of International Financial Reporting Standards (IFRS)
In February 2013, the Accounting Standards Board (AcSB) confirmed that all rate regulated enterprises in Canada must report under IFRS effective for fiscal years beginning after January 1, 2015. As such the financial statements for the year ended March 31, 2016 will be prepared in accordance with IFRS. The prior year comparatives, including opening balances, will also be in accordance with IFRS.

In order to be prepared for the conversion to IFRS, the Corporation embarked on a multi-year conversion project. As a result, the Corporation's employees have obtained training, and a thorough knowledge of IFRS, finalized the assessment of accounting policies, and updated processes and systems.

6. OUT-OF-PROVINCE REVENUES

Out-of-province revenues were as follows

	2015	2014
American customers	$ 239	$ 267
Canadian customers	107	124
Out-of-province revenues	**$ 346**	**$ 391**

7. AMORTIZATION AND DECOMMISSIONING

	2015	2014
Amortization	$ 208	$ 198
Decommissioning	31	32
Amortization and decommissioning	**$ 239**	**$ 230**

8. TAXES

	2015	2014
Property taxes	$ 20	$ 20
Utility and right of way taxes	17	16
Taxes	**$ 37**	**$ 36**

9. FINANCE CHARGES

	2015	2014
Interest expense	$ 218	$ 224
Debt portfolio management fee	33	32
Foreign exchange losses	40	22
	291	278
Less: Interest capitalized	(62)	(55)
Finance charges	**229**	**223**
Less: Earnings from sinking fund and other investment income	(122)	(87)
Less: Earnings from held for trading investments	(41)	-
Finance charges less investment income	**$ 66**	**$ 136**

Interest Paid and Received During the Year

Interest paid during the year was $216 million compared to $227 million in 2014. Interest received on investments and sinking fund earnings during the year was $120 million compared to $89 million in 2014.

10. CAPITAL MANAGEMENT

NB Power's borrowings are completed with the Province of New Brunswick. NB Power is predominantly debt financed.

NB Power's capital structure includes the following

At March 31	2015	2014
Long-term debt payable within one year	$ 580	$ -
Less: Cash	(3)	(3)
	577	(3)
Short-term indebtedness	784	858
Long-term debt	4,025	4,567
Sinking fund receivable	(471)	(404)
Total net debt[1]	4,915	5,018
Retained earnings	325	252
Total capital	$ 5,240	$ 5,270
Percentage of net debt[1] in capital structure	94%	95%

[1] Net debt is long-term debt, short-term debt, sinking fund receivable, and cash

11. LONG-TERM RECEIVABLE

In 2013, NB Power sold certain distribution assets to a third party. This transaction was partially offset by a purchase of water heater assets from the same third party. In 2015, NB Power sold additional distribution assets to the same third party. These transactions resulted in a long-term receivable with a net balance of $19 million, which will be collected over 20 years with interest at a rate of 3.85% per annum.

Long-term receivable	**2015**	**2014**
Opening balance	$ 17	$ 18
Additional sale	1	-
Payments made	(1)	(1)
	17	17
Less current portion	(1)	(1)
Ending balance	**$ 16**	**$ 16**

12. SINKING FUND RECEIVABLE

Pursuant to section 12 of the *Provincial Loans Act*, the Minister of Finance maintains a General Sinking Fund for the repayment of funded debt. NB Power pays the Province of New Brunswick one per cent of its outstanding debt annually; this will be returned to NB Power when the corresponding debt issue matures.

The following table shows the activity in the sinking fund for fiscal years ending March 31:

	2015	**2014**
Sinking fund receivable, beginning of year	$ 404	$ 376
Sinking fund earnings	17	16
Foreign exchange gains	41	22
Installments	46	46
Redemptions	(37)	(56)
Sinking fund receivable, end of year	**$ 471**	**$ 404**

13. REGULATORY ASSETS AND LIABILITIES

NB Power has regulatory assets totaling $1,032 million at March 31, 2015 compared to $1,052 million at March 31, 2014. A reconciliation of the two regulatory assets is as follows

Regulatory asset (liability) - lawsuit settlement with PDVSA	**2015**	**2014**
Opening balance	$ 51	$ 52
Deferral adjustment on Statement of Earnings		
Amortization and interest savings	(24)	(26)
Levelized benefit to customers[2]	22	23
	(2)	(3)
Interest on deferral	2	2
	-	(1)
Closing balance	$ 51	$ 51

Regulatory asset - Point Lepreau Generating Station deferral	**2015**	**2014**
Opening balance	$ 1,001	$ 1,020
Deferral adjustment on Statement of Earnings		
Amortization of deferral	(71)	(66)
Interest on deferral	51	47
Closing balance	$ 981	$ 1,001
Total regulatory assets	**$ 1,032**	**$ 1,052**
Current portion of regulatory assets[3]	20	21
Long-term portion of regulatory assets	1,012	1,031
Total regulatory assets	**$ 1,032**	**$ 1,052**

Regulatory deferral adjustment to earnings	**2015**	**2014**
Lawsuit settlement with PDVSA	$ 2	$ 3
Point Lepreau Generating Station deferral	71	66
Regulatory deferral adjustment to earnings	**$ 73**	**$ 69**

[2] Relates to the current year portion of the projected benefits of the lawsuit settlement that are passed onto customers on a levelized basis over the next nine years
[3] Represents amounts due from customers in current year

14. PROPERTY, PLANT AND EQUIPMENT

Cost, accumulated amortization and net book value for property, plant and equipment as follows

	2015			2014		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Power generating stations	$ 6,028	$ 3,241	$ 2,787	$ 6,021	$ 3,098	$ 2,923
Transmission system	415	217	198	404	211	193
Terminals and substations	654	322	332	559	313	246
Distribution system	938	470	468	914	461	453
Buildings and properties	73	42	31	67	41	26
Computer systems	137	130	7	138	123	15
Motor vehicles	87	48	39	82	45	37
Miscellaneous assets	43	19	24	41	17	24
Construction-in-progress	125	-	125	155	-	155
Total	**$ 8,500**	**$ 4,489**	**$ 4,011**	**$ 8,381**	**$ 4,309**	**$ 4,072**

The charge for equity capital (allowance for funds used during construction) included for 2015 was $2 million compared to $1 million in 2014.

15. NUCLEAR DECOMMISSIONING AND USED NUCLEAR FUEL MANAGEMENT FUNDS

This describes the segregated funds established by NB Power regarding nuclear decommissioning and used fuel management. It contains information on the following

- fund requirements
- NB Power's funds
- status of NB Power's funds

Fund Requirements

The *Nuclear Fuel Waste Act* requires owners of used nuclear fuel in Canada to establish trust funds to finance the long-term management of used nuclear fuel. In June 2007, the Government of Canada announced its decision to accept the long-term disposal plan proposed by the Nuclear Waste Management Organization. This is an entity created by the *Nuclear Fuel Waste Act* and owned by major owners of nuclear used fuel.

The Canadian Nuclear Safety Commission (CNSC) requires NB Power to maintain certain segregated funds to meet license conditions for the Point Lepreau Generating Station. The money contained in these established funds will be used to meet the *Nuclear Fuel Waste Act* requirements.

15. NUCLEAR DECOMMISSIONING AND USED NUCLEAR FUEL MANAGEMENT FUNDS (CONTINUED)

NB Power's Funds

NB Power has established the following funds, each held in a custodial account.

Fund	Trustee	Purpose	Funding requirement
Decommissioning segregated fund and used nuclear fuel segregated fund	Provincial Minister of Finance	To meet the license conditions for the Point Lepreau Generating Station set by the CNSC	Established yearly based on the current obligations and market value of the funds. The amount of the contribution in the 2014/15 year was nil (2013/14 - nil).
Used nuclear fuel waste trust fund	Federal Minister of Finance	To meet the *Nuclear Fuel Waste Act* and to meet the CNSC requirements	The Act requires NB Power to deposit to the trust fund an amount based on the approved funding formula. The amount of the contribution in the 2014/15 year was $6 million (2013/14 - $5 million).

Status of NB Power's Funds

The status of each fund is as follows

	2015	2014
Nuclear Decommissioning Fund		
Decommissioning segregated fund	$ 312	$ 267
Used Nuclear Fuel Management Funds		
1. Used nuclear fuel segregated fund	276	236
2. Used nuclear fuel waste trust fund	132	108
	408	344
Total nuclear decommissioning and used nuclear fuel management funds[4]	**$ 720**	**$ 611**

[4] Includes a mark-to-market adjustment at March 31, 2015 of $99 million as compared to $59 million at March 31, 2014

16. OTHER ASSET

NB Power entered into a 15-year agreement to have an outside party build and operate an ash separation facility at the Belledune Generating Station to process the fly ash produced at the plant. The $6 million investment in 2007 represents NB Power's required share of the cost of the facility. Pursuant to this agreement, NB Power will receive royalties on the sale of the processed ash over the term of the agreement. The investment is being amortized on a straight-line basis over the life of the agreement.

	2015	2014
Ash separation asset	$ 2	$ 2

17. INTANGIBLE ASSETS

In 2008 NB Power purchased the Nepisiguit generating facility. The purchase consisted of land, a dam, equipment, and the assignment of a statutory right to generate electricity on the Nepisiguit River.

The estimated fair market value of the assignment of rights was $22 million and is being amortized over the remaining useful life of the facility (50 years).

Other intangible assets include:

- A customer list related to the purchase of the water heater business from a third party. The purchase consisted of water heaters plus the customer list (the benefit to include more customers in Reduce and Shift Demand initiatives). The customer list is valued at $1 million and is being amortized over 20 years.
- Licenses for Enterprise Resource Planning software. Licenses are valued at $1 million. This is being amortized over six years.

	2015	2014
Intangible asset Nepisiguit Falls	$ 22	$ 22
Accumulated amortization Nepisiguit Falls	(4)	(3)
	18	19
Other intangible assets	2	2
Accumulated amortization other intangible assets	-	-
	2	2
Total intangible assets	**$ 20**	**$ 21**

18. DEFERRED PENSION BENEFIT

This describes details associated with NB Power's deferred pension benefit. It contains information on the following

- applicable pension plans
- assumptions
- costs
- assets and obligations

Applicable Pension Plans

NB Power employees are members of the Public Service Shared Risk Plan (PSSRP) as described in Note 4(g). The PSSRP is accounted for using defined contribution accounting.

The former Mine Reclamation Inc. employees are members of the Pension Plan for Employees of NB Coal Limited which is accounted for using defined benefit accounting. The pension assets and liabilities of this plan are measured as at March 31, 2015. The most recent actuarial valuation for funding purposes for the Pension Plan for Employees of NB Coal Limited was completed as at January 1, 2014. The next valuation for funding purposes is required to be completed as at January 1, 2017.

Assumptions

Management's significant assumptions on the Pension Plan for Employees of NB Coal Limited include the following

	2015 (%)	2014 (%)
Discount rate used to determine the accrued benefit obligation	3.40	3.80
Expected long-term rate of return on plan assets	3.40	3.80

Costs

The costs recognized and included in operations maintenance and administration expense for the year are

	2015	2014
Settlement loss	-	19
Contributions	23	18
Total costs	**$ 23**	**$ 37**

The plan assets are comprised 100% of bonds.

Assets and Obligations

The status of the assets and obligations of the Pension Plan for Employees of NB Coal Limited as at March 31 was as follows

	2015	2014
Pension fund assets at fair value	$ 5	$ 5
Accrued benefit obligation	(5)	(5)
Deferred pension benefit	**$ -**	**$ -**

19. SHORT-TERM INDEBTEDNESS

NB Power borrows funds for temporary purposes from the Province of New Brunswick. The short-term borrowings due to the Province of New Brunswick were $784 million at March 31, 2015, as compared to $858 at March 31, 2014.

20. LONG-TERM DEBT

NB Power borrows funds from the Province of New Brunswick to finance long-term requirements. This provides details around NB Power's long-term debt. It contains information on

- year-end long-term borrowings
- terms
- interest rates
- debt portfolio management fee
- principal repayments

Year-end Long-term Borrowings

Long-term borrowings at year-end were as follows

	2015	2014
Debentures held by Province of New Brunswick	$ 4,607	$ 4,566
Unamortized premiums and discounts	(2)	1
	4,605	4,567
Less: Current portion	(580)	-
Long-term debt	**$ 4,025**	**$ 4,567**

Terms

The maturity dates of the debentures range from 2015 to 2065. The debentures will be paid in full at their maturity date.

Interest Rates

All but two of the debentures bear interest at fixed rates ranging from 2.15 to 9.75 per cent. The weighted average coupon interest rate on all debentures outstanding at March 31, 2015 is 4.54 per cent as compared to 4.55 per cent at March 31, 2014. The exception is two floating rate issue whose interest rate is reset on a quarterly basis and is based on the Canadian Dealer Offered Rate (CDOR) plus 4 basis points. At March 31, 2015, the CDOR rate plus 4 basis points was 0.952 per cent.

Debt Portfolio Management Fee

NB Power pays an annual debt portfolio management fee to the Province of New Brunswick amounting to 0.65 per cent of the total long-term debt and short-term indebtedness, less the balance held in Sinking Fund Receivable (Note 12), measured as at the beginning of the fiscal year.

20. LONG-TERM DEBT (CONTINUED)

Principal Repayments

Long-term debt principal repayments are due as follows

Year Ending	Principal Repayment
March 31, 2016 - current portion	$ 580
March 31, 2017	400
March 31, 2018	420
March 31, 2019	230
March 31, 2020	450
March 31, 2021 and thereafter	2,527
Long-term portion	4,027
Unamortized premiums and discounts	(2)
Long-term portion	**$ 4,025**

21. GENERATING STATION DECOMMISSIONING AND USED NUCLEAR FUEL MANAGEMENT LIABILITY

This provides details of NB Power's asset retirement obligations. It contains information on

- nature of the liability
- assumptions used for the liabilities
- liabilities at year end

Nature of the Liability

Details of the liabilities are as follows

Liability	Nature	Funding Details
Thermal generating station decommissioning	Cost of decommissioning the thermal generating stations after the end of their service lives	The liability is not funded
Nuclear generating station decommissioning	Cost of decommissioning the nuclear generating station after the end of its service life	See Note 15 for details on the funding of this liability
Used nuclear fuel management	Cost of interim and long-term management of used nuclear fuel bundles generated by the nuclear generating station	See Note 15 for details on the funding of this liability

21. GENERATING STATION DECOMMISSIONING AND USED NUCLEAR FUEL MANAGEMENT LIABILITY (CONTINUED)

Assumptions Used for the Liabilities

The key assumptions on which the liabilities were based are as follows

	Thermal decommissioning	**Nuclear decommissioning**	**Used nuclear fuel management**
Undiscounted amount of estimated cash flows to settle liability - 2015 - 2014	 $ 126 $ 175	 $ 970 $ 951	 $ 631 $ 703
Reason for the increase or decrease	Decommissioning spending and changes to the liability resulting from updated cost estimates and revisions to timing of cash flows offset by escalation.	Escalation	Decommissioning spending and changes to the liability resulting from updated cost estimates and revisions to timing of cash flows offset by escalation.
Cash expenditures required until the year	2038	2081	2164
Rate used to discount cash flows - for initial recognition of the liability - for subsequent recognition of additional liability	 7.1% 4.3% to 6.3%	 7.1% 4.3% to 5.9%	 7.1% 4.3% to 5.9%
Escalation rate to determine asset retirement obligation	1.8% to 2.4%	2.0%	1.9% to 4.1%

21. GENERATING STATION DECOMMISSIONING AND USED NUCLEAR FUEL MANAGEMENT LIABILITY (CONTINUED)

Liabilities at Year End

The liabilities for thermal generating and nuclear generating stations decommissioning and used nuclear fuel management consists of the following

	2015	2014
Thermal generating station decommissioning liability		
Balance, beginning of year	$ 116	$ 106
Add: Liabilities incurred, including revisions to cash flows	(20)	14
Add: Accretion expense	5	6
Less: Expenditures	(7)	(10)
Balance, end of year	$ 94	$ 116
Nuclear generating station decommissioning liability		
Balance, beginning of year	$ 216	$ 198
Add: Liabilities incurred, including revisions to cash flows	-	7
Add: Accretion expense	11	11
Balance, end of year	$ 227	$ 216
Used nuclear fuel management liability		
Balance, beginning of year	$ 303	$ 283
Add: Changes to liability , including revisions to cash flows	(45)	7
Add: Accretion expense	16	15
Less: Expenditures	(3)	(2)
Balance, end of year	$ 271	$ 303
Total generating station decommissioning and used nuclear fuel management liability	**$ 592**	**$ 635**

22. DEFERRED LIABILITIES - OTHER

This provides details around NB Power's other deferred liabilities. It contains information on the following

- early retirement liability
- retirement allowance liability
- environmental liability

The table below summarizes NB Power's deferred liabilities - other

	2015	2014
Early retirement programs	$ 67	$ 68
Retirement allowance program	30	28
Other future employee benefits payable	9	8
Land reclamation	1	1
Environmental liability	9	10
	116	115
Less: amounts due within one year[5]	(7)	(7)
Deferred liabilities - other	**$ 109**	**$ 108**

Early Retirement Liability

NB Power has an unfunded early retirement program as described in Note 4(i). The latest actuarial calculation to estimate the liability was completed as at April 1, 2012.

The table shows

- management's significant assumptions
- the costs recognized for the period
- the status of the obligation of NB Power at year end

	2015	2014
Assumption		
Discount rate used to determine the early retirement liability	3.40%	4.20%
Cost		
Current service cost	$ -	$ 1
Interest on early retirement liability	5	5
Costs recognized for the year	$ 5	$ 6
Obligation		
Accrued benefit obligation	$ 93	$ 86
Unamortized losses	(26)	(18)
Early retirement liability	**$ 67**	**$ 68**

[5] *Amounts due within one year are included in accounts payable and accruals*

22. DEFERRED LIABILITIES - OTHER (CONTINUED)

Retirement Allowance Liability

NB Power has an unfunded retirement allowance program as described in Note 4(h). The latest actuarial calculation to estimate the liability was completed as at April 1, 2012. In 2013, NB Power announced that it will be phasing out the retirement allowance for non-union employees and the employees in the corporate services union. Accumulation of service, for the purposes of calculating retirement allowance, ceased on April 30, 2013. This resulted in a curtailment and a settlement of the retirement allowance plan in 2014 and an additional settlement in 2015.

Assumptions
Management's significant assumptions include the following

	2015 (%)	2014 (%)
Discount rate used to determine the accrued benefit obligation	3.40	4.20
Expected salary increases	2.50	2.50

This table shows
- the costs recognized for the year
- the status of the obligation of NB Power at year end

	2015	2014
Costs recognized for the year		
Current service cost	$ 2	$ 2
Interest on retirement allowance liability	3	5
Curtailment loss	-	5
Settlement loss	5	4
Costs recognized for the year	**$ 10**	**$ 16**
Obligation		
Accrued benefit obligation	$ 40	$ 41
Unamortized losses	(10)	(13)
Retirement allowance liability	**$ 30**	**$ 28**

22. DEFERRED LIABILITIES - OTHER (CONTINUED)

Environmental Liability

NB Power has a long-term plan to treat acidic water drainage from an inactive mine. NB Power has recognized an unfunded environmental liability equal to the net present value of the expected future costs using a discount rate of 7.75% for the initial recognition of the liability and 4.39% for subsequent future cash flows.

The liability is as follows

	2015	2014
Balance, beginning of year	$ 10	$ 10
Add: Accretion expense	-	1
Less: Expenditures	(1)	(1)
Balance, end of year	**$ 9**	**$ 10**

Cash flows required to settle the liability
The total undiscounted amount of the estimated cash flows required to settle the liability is $14 million.

23. AMOUNTS CHARGED OR CREDITED TO OPERATIONS NOT REQUIRING A CURRENT CASH PAYMENT

The amounts are as follows

	2015	2014
Amortization, decommissioning, and gains and losses on disposal	$ 242	$ 239
Regulatory deferral	20	20
Mark-to-market of derivatives not eligible for hedge accounting	15	(5)
Nuclear decommissioning and used fuel management fund earnings	(104)	(48)
Employee future benefits less related funding	10	35
Total amounts charged or credited to operations not requiring a current cash payment	**$ 183**	**$ 241**

24. RELATED PARTY TRANSACTIONS

Related party of NB Power is the Province of New Brunswick.

Sinking Fund Receivable

At March 31, 2015, NB Power has a sinking fund receivable from the Province of New Brunswick of $471 million as compared to $404 million in 2014.

Debt

NB Power has debt payable to the Province of New Brunswick (Note 19 and 20).

Payments to the Province of New Brunswick

During the year NB Power made payments to the Province of New Brunswick for property taxes, utility taxes, and right of way taxes of $37 million, as compared to $36 million in 2014 (Note 8). NB Power also made payments to New Brunswick Investment Management Corporation related to pension plans (Note 18) and investment management fees.

25. FINANCIAL INSTRUMENTS

A financial instrument [see Note 4(k)] 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).

Fair Value of Financial Instruments

Fair value represents an estimate of the consideration that would be agreed on in an arm's length transaction between knowledgeable, willing parties under no compulsion to act.

A financial instrument's fair value at a given date (including fair values of forward contracts used for hedging purposes, and other derivative positions) reflects, among other things, differences between the instrument's contractual terms and the terms currently available in the market.

The financial instruments carried at fair value are classified using a fair value hierarchy which has three levels. These are as follows:

- Level 1: valuation using inputs that are quoted prices in active markets for identical assets or liabilities.
- Level 2: valuation using internal models using observable market prices as inputs
- Level 3: valuation based on internal models using inputs that are not based on observable market data.

25. FINANCIAL INSTRUMENTS (CONTINUED)

Valuation Dates

For all of its financial assets and liabilities, NB Power discloses fair values as at March 31, 2015.

Outstanding Financial Instruments

This details NB Power's outstanding financial instruments at March 31, 2015. It contains information on the following instruments

a. Long-term debt
b. Nuclear decommissioning and used fuel management funds
c. Derivative instruments in hedging relationships
  i. foreign exchange contracts
  ii. heavy fuel oil contracts
  iii. natural gas contracts
  iv. coal contracts
  v. electricity contracts
  vi. interest rate contracts
d. Other financial assets and liabilities

a. Long-term debt

This financial instrument is categorized within financial instruments as other liabilities and is recorded on the balance sheet at book value.

At March 31, NB Power had outstanding long-term debt as follows

	Hierarchy level	2015	2014
Cost (see Note 20)		$ 4,605	$ 4,567
Fair value	2	$ 5,385	$ 4,947

25. FINANCIAL INSTRUMENTS (CONTINUED)

b. Nuclear decommissioning and used fuel management funds

The nuclear decommissioning and used fuel management funds are comprised of the following three funds, the nuclear decommissioning segregated fund, the nuclear used fuel management segregated fund and the nuclear fuel waste trust fund.

The nuclear decommissioning segregated fund, the nuclear used fuel management segregated fund and nuclear fuel waste trust fund are recorded on the balance sheet at fair value. The funds' investments are categorized as available for sale and held for trading. The breakdown of the fair value by category is as follows:

Category	**2015**	**2014**
Available-for-sale	$ 307	$ 469
Held for trading	$ 413	$ 142
Total fair value (see Note 15)	$ 720	$ 611
Cost	$ 621	$ 552
Gain in market value	**$ 99**	**$ 59**

At March 31, the fair value hierarchy was as follows

	2015	**2014**
Fair value - level 1	$ 336	$ 473
Fair value - level 2	$ 377	$ 138
Fair value - level 3	$ 7	$ -
Total fair value (see Note 15)	**$ 720**	**$ 611**

Fair value level 3 - investment continuity

	2015	**2014**
Investments, beginning of year	$ -	$ -
Gains/ losses recognized in net earnings	$ -	$ -
Purchases	$ 9	$ -
Sales	$ (2)	$ -
Investments, end of year	**$ 7**	**$ -**

c. Derivative instruments[6]

i. Foreign exchange contracts

This financial instrument is recorded on the balance sheet at fair value.

NB Power hedges exchange risk relating to net forecasted US dollar requirements, by entering into forward contracts to sell Canadian dollars and to acquire US dollars. At March 31, it had outstanding contracts maturing over the next 48 months as follows

	Hierarchy level	**2015**	**2014**
Net commitment to purchase ($US in millions)		$ 371	$ 291
Weighted average exchange rate ($US / $CAD)		1.1530	1.0321
Fair value asset	2	$ 43	$ 23

[6] *A derivative asset represents a favourable mark-to-market position, whereas a derivative liability represents an unfavourable mark-to-market position*

25. FINANCIAL INSTRUMENTS (CONTINUED)

c. Derivative instruments (continued)

ii. Heavy fuel oil contracts

This financial instrument is recorded on the balance sheet at fair value.

NB Power hedges its anticipated exposure to changes in the cost of heavy fuel oil. At March 31, it had outstanding contracts maturing over the next 47 months as follows

	Hierarchy level	2015	2014
Net notional amount (in millions of barrels)		1.4	-
Weighted average fixed price (in $US per barrel)		$ 59.05	$ -
Fair value (liability)	2	$ (13)	$ -

iii. Natural gas contracts

This financial instrument is recorded on the balance sheet at fair value.

NB Power hedges its anticipated exposure to changes in natural gas prices. At March 31, it had outstanding contracts maturing over the next 47 months as follows

	Hierarchy level	2015	2014
Net notional amount (in millions of mmbtu)		13.8	6.3
Weighted average fixed price (in $US per mmbtu)		$ 6.98	$ 4.82
Fair value (liability) asset	2	$ (17)	$ 13

iv. Coal contracts

This financial instrument is recorded on the balance sheet at fair value.

NB Power hedges its anticipated exposure to changes in coal prices. At March 31, it had outstanding contracts maturing over the next 42 months as follows

	Hierarchy level	2015	2014
Net notional amount (in millions of metric tonnes)		0.20	-
Weighted average fixed price (in $US per metric tonne)		$ 67.31	$ -
Fair value (liability)	2	$ (1)	$ -

25. FINANCIAL INSTRUMENTS (CONTINUED)

c. Derivative instruments (continued)

v. Electricity contracts

This financial instrument is recorded on the balance sheet at fair value.

NB Power hedges, to the extent possible, its anticipated exposure relating to changes in electricity prices.

Sales contracts

At March 31, it had outstanding contracts maturing over the next 12 months as follows

	Hierarchy level	2015	2014
Notional amount (in millions of MWh)		(0.2)	-
Weighted average fixed price (in $US per MWh)		$ 65.77	$ -
Fair value (liability)	2	$ (1)	$ -

Purchase contracts

At March 31, NB Power had outstanding electricity purchase contracts maturing over the next 53 months as follows

	Hierarchy level	2015	2014
Notional amount (in millions of MWh)		3.9	4.3
Weighted average fixed price (in $US per MWh)		$ 59.28	$ 51.26
Fair value asset (liability)	2	$ (13)	$ 107

vi. Interest rate contracts

This financial instrument is recorded on the Balance Sheet at fair value.

NB Power hedges its anticipated exposure to changes in interest rates. NB Power is hedging the variability in interest payments on forecasted long term fixed-rate debt, by entering into a bond forward as a cash flow hedge.

At March 31, NB Power had an outstanding interest rate contract maturing in 11 months, the details are as follows

	Hierarchy level	2015	2014
Net notional amount		$ 200	$ -
Fair value(liability)	2	$ (18)	$ -

d. Other financial assets and financial liabilities

The fair value of other financial assets and financial liabilities on the balance sheet approximate their carrying values due to their short-term maturity.

25. FINANCIAL INSTRUMENTS (CONTINUED)

Summary of Impacts of Financial Instruments

The following table summarizes the impact of financial instruments recorded on the balance sheet at March 31, 2015. These include

- the fair value of the derivative instruments in hedging relationships
- the fair value of the derivatives no longer qualifying for hedge accounting
- the market value of the nuclear funds

	Trust Funds	Interest	Foreign Exchange	Heavy Fuel Oil	Coal	Natural Gas	Electricity	Total
Current portion of derivative assets	$ -	$ -	$ 51	$ 1	$ -	$ -	$ 15	$ 67
Long-term portion of derivative assets	-	-	6	-	-	-	-	6
Mark-to-market on Nuclear Funds (Note 15)	99	-	-	-	-	-	-	99
Current Portion of derivative liabilities	-	(18)	(14)	(9)	-	(16)	(16)	(73)
Long-term portion of derivative liabilities	-	-	-	(5)	(1)	(1)	(13)	(20)
Assets (liabilities)	**$ 99**	**$ (18)**	**$ 43**	**$ (13)**	**$ (1)**	**$ (17)**	**$ (14)**	**$ 79**

The impact of financial instruments at March 31, 2015 resulted in a net asset of $79 million (see previous table). Of the $79 million the following is recognized on the balance sheet

- $37 million is recognized in earnings and retained earnings
- Nil is recognized in accumulated other comprehensive income (AOCI)

The remaining $42 million relates to the deferred interest included in AOCI and will be amortized over the remaining life of the associated debt.

A reconciliation of these amounts are summarized in the following tables

The retained earnings impact table includes financial instruments that do not qualify for hedge accounting.

Retained earnings impact	Nuclear Trust Funds	Foreign Exchange	Natural Gas	Electricity	Total
Balance - April 1, 2014	**$ 2**	**$ 1**	**$ 1**	**$ 7**	**$ 11**
Current year adjustments	41	3	(1)	(17)	26
Balance - March 31, 2015	**$ 43**	**$ 4**	**$ -**	**$ (10)**	**$ 37**

25. FINANCIAL INSTRUMENTS (CONTINUED)

The AOCI impact table includes financial instruments that qualify for hedge accounting.

	Nuclear Trust Funds	Interest	Foreign Exchange	Heavy Fuel Oil	Coal	Natural Gas	Electricity	Amortization of Deferred Interest	Total
Accumulated other comprehensive income (loss) - April 1, 2014									
	57	-	22	-	-	12	100	(44)	147
Current year impact of mark-to-market adjustments									
	(1)	(18)	17	(13)	(1)	(29)	(104)	2	(147)
Balance March 31, 2015									
	56	**(18)**	**39**	**(13)**	**(1)**	**(17)**	**(4)**	**(42)**	**-**

26. FINANCIAL INSTRUMENT RISK MANAGEMENT

This describes the following types of risk:

- credit risk
- market risk
- liquidity risk

Credit Risk

Credit risk is a risk that a financial loss will occur due to a counterparty failing to perform its obligations under the terms of a financial instrument.

Managing credit risk

To manage credit risk, NB Power

- conducts a thorough assessment of counterparties prior to granting credit
- actively monitors the financial health of its significant counterparties, and the potential exposure to them on an on-going basis

The following is a summary of the fair value of NB Power's financial instruments that were exposed to credit risk at March 31

Financial assets	Designated category	2015 Fair value	2014 Fair value
Cash	Held-for-trading	$ 3	$ 3
Accounts receivable	Loans and receivables	269	305
Long-term receivable	Loans and receivables	17	17
Sinking fund receivable	Loans and receivables	471	404
Derivative assets	Held-for-trading	73	157
Nuclear decommissioning and used nuclear fuel management funds	Held-for-trading and available for sale	720	611
		$ 1,553	$ 1,497

Cash

The credit risk associated with cash is considered to be low as the funds are deposited with Canadian chartered banks.

26. FINANCIAL INSTRUMENT RISK MANAGEMENT (CONTINUED)

Accounts receivable
Accounts receivable are largely a combination of receivables from residential and commercial customers in-province and out-of-province. To reduce credit risk, NB Power monitors outstanding receivables and pursues collection of overdue amounts.

The following table shows a summary of accounts receivable by the number of days outstanding for NB Power as at March 31

Accounts receivable	2015	2014
Trade		
Trade receivables - current	$ 204	$ 234
61-90 days	3	3
Greater than 90 days	7	6
	214	243
Allowance for doubtful accounts	(5)	(5)
Miscellaneous[7]	60	67
	$ 269	**$ 305**

Allowance for doubtful accounts
The allowance for doubtful accounts is

- reviewed on a regular basis
- based on the estimate of outstanding accounts that are at risk of being uncollectible

Reconciliation of allowance for doubtful accounts	2015	2014
Balance, beginning of year	$ 5	$ 5
Increase during the year	4	4
Bad debts recovery during the year	1	1
Bad debts written off during the year	(5)	(5)
	$ 5	**$ 5**

Concentration of credit risk
No significant concentration of credit risk exists within accounts receivable as the receivables are spread across numerous in-province and out-of-province customers. In certain circumstances NB Power holds deposits or requires letters of credit.

Nuclear decommissioning and used fuel management funds
NB Power limits its credit risk associated with the nuclear decommissioning, used fuel management funds and the nuclear fuel waste trust fund. The current portfolio comprises of investment grade ratings of BBB or above for longer term securities and R-1 for short-term debt. The following table outlines the allocation of the maximum credit exposure by investment grade ratings.

Maximum credit exposure	AAA	AA+ to AA-	A+ to A-	BBB	R-1	Other	Total
Used fuel management fund	$ 37	$ 36	$ 47	$ 13	$ 7	$ 1	$ 141
Nuclear decommissioning fund	44	45	60	16	7	1	173
Nuclear fuel waste trust	63	38	27	-	-	-	128
	$ 144	**$ 119**	**$ 134**	**$ 29**	**$ 14**	**$ 2**	**$ 442**

[7] *Miscellaneous receivables include non-electricity sales, accruals and accrued hedge settlements*

26. FINANCIAL INSTRUMENT RISK MANAGEMENT (CONTINUED)

Derivative assets
NB Power only enters into derivative financial instrument transactions with highly creditworthy counterparties. All of the counterparties with which NB Power has outstanding positions have investment grade credit ratings assigned to them by external rating agencies.

NB Power
- monitors counterparty credit limits on an ongoing basis, and
- requests collateral for exposures that exceed assigned credit limits.

Concentration of credit risk
There is a concentration of credit risk at March 31, 2015 in relation to derivative assets, as the bulk of the derivative asset balance is tied to a few counterparties. However, since the majority of the amount is associated with counterparties that are Canadian chartered banks and other reputable financial institutions the associated credit risk is considered to be low.

Market Risk

Market risk is the risk that NB Power's earnings or financial instrument values will fluctuate due to changes in market prices.

NB Power is exposed to a variety of market price risks such as changes in
- foreign exchange rates
- interest rates
- commodity prices
- freight prices

NB Power manages these exposures through the use of forwards and other derivative instruments in accordance with Board approved policies.

The nuclear decommissioning and used fuel management funds as well as the nuclear fuel waste trust are invested in pooled funds, equities and fixed income securities. The pooled funds contain fixed income securities, domestic and international equities, infrastructure, Canadian and international real estate. These are subject to market risk and will fluctuate in value due to changes in market prices. These funds are in place to cover the expected expenditures related to the nuclear decommissioning and used fuel management obligations.

26. FINANCIAL INSTRUMENT RISK MANAGEMENT (CONTINUED)

The following table provides a sensitivity analysis which shows the dollar value impact of small changes in various market rates and prices. The amounts shown are derived from outstanding volumes of financial instruments that existed at March 31, 2015.

(millions of dollars)	Impact on earnings[8]	Impact on other comprehensive income
Exchange and interest rates		
1 cent change in CAD/USD exchange rate	$ 2	$ 3
0.25% change in Canadian interest rates	-	13
0.25% change in short-term debt rates	2	-
0.25% change in investment yields	3	13
Commodity prices		
$5/bbl change in the price of heavy fuel oil	-	7
$1/mmbtu change in natural gas prices	-	14
$5/metric tonne change in coal prices	-	1
$5/MWh changes in electricity prices	-	19

Liquidity Risk

Liquidity risk is a risk that NB Power will have difficulty or be unable to meet its financial obligations associated with financial liabilities.

NB Power forecasts its financing requirements on a consistent basis so that it can plan and arrange for financing to meet financial obligations as they come due. The following table summarizes the contractual maturities of NB Power's financial liabilities at March 31, 2015 and in future years.

Financial liability	Carrying amount	Contractual cash flows	2016	2017	2018	2019 and thereafter
Short-term indebtedness	$ 784	$ 784	$ 784	-	-	-
Accounts payable and accruals	256	256	256	-	-	-
Accrued interest	47	47	47	-	-	-
Derivative liabilities	93	93	73	20	-	-
Long-term debt	4,605	4,607	580	400	420	3,207
Interest on long-term-debt	-	2,424	208	182	170	1,864
	$ 5,785	**$ 8,211**	**$ 1,948**	**$ 602**	**$ 590**	**$ 5,071**

NB Power believes it has the ability to generate sufficient funding to meet these financial obligations.

[8] *These impacts are not included in other comprehensive income as the financial instruments are either not derivatives or not eligible for hedge accounting*

27. COMMITMENTS, CONTINGENCIES AND GUARANTEES

This details the commitments, contingencies and guarantees in place at NB Power.

Belledune Wharf

On April 1, 2013, NB Power has entered into an operating lease agreement for use of the port facility at Belledune. The agreement is for a 10 year term, with a 10-year option to renew with the same party. This lease provides for annual charges of approximately $4 million.

Courtenay Bay Generating Station

This details the agreements that NB Power has in place regarding the Courtenay Bay Generating Station. It contains information on agreements in the following areas

- rental of site facilities
- power purchase and transmission access
- natural gas transportation service

Rental of site facilities
NB Power has entered into a lease agreement for rental of site facilities. The agreement expires in 2021 with a five-year option to extend.

Power purchase and transmission access
NB Power has a related power purchase and transmission access agreement. The agreement expires in 2021 with a five-year option to extend with the same third party.

NB Power will purchase all the electrical energy produced by a 280 MW combined cycle natural gas unit during the winter period, November 1 to March 31, and from time-to-time some or all of the electrical energy produced during the summer period.

Natural gas transportation service
NB Power has entered into an agreement expiring in 2015/16 for firm natural gas transportation service to Courtenay Bay Generating Station. The cost of transportation will be recovered from the tenant that is a party to the lease agreement mentioned above.

27. COMMITMENTS, CONTINGENCIES AND GUARANTEES (CONTINUED)

Power Purchase Agreements

NB Power has other power purchase agreements with third parties, as follows

Initial duration of agreement	End date	Amount of energy	Agreement to purchase
5 years	2016	99 MW	90% of all the electrical energy of a wind generation facility
5 years	2016	42 MW	all the electrical energy of a wind generation facility
20 years	2024	90 MW	all the capacity and electrical energy produced by a co-generation facility
30 years	2027	38.5 MW	38.5 MW capacity and energy from a co-generation facility
20 years	2029	48 MW	all the electrical energy of a wind generation facility
20 years	2029	51 MW	all the electrical energy of a wind generation facility
20 years	2032	8.8 MW	all of the capacity, energy, and environmental attributes generated by the generating stations
25 years	2033	96 MW	all the electrical energy of a wind generation facility
25 years	2034	45 MW	all the electrical energy of a wind generation facility
25 years	2035	54 MW	all the electrical energy of a wind generation facility

Energy Sales and Transmission Rights Assignment Agreement (ESTRA)

NB Power entered into an ESTRA in November 2012. The minimum take is 1,500,000 MWH for each of the next five years.

Coleson Cove - Fuel Supply Agreement

Supply
NB Power entered into a 10-year agreement expiring in 2020 for the supply of the fuel oil requirements for the Coleson Cove Generating Station.

Delivery
NB Power entered into a 10-year agreement expiring in 2020 for the delivery of fuel via a pipeline owned by a third party.

Belledune - Fuel Supply Agreement

Supply
NB Power entered into a five-year agreement expiring at the end of 2016 for the supply of the coal requirements for the Belledune Generating Station.

Delivery
The remaining coal delivery is as follows

- 2015/16 approximately 320,000 tonnes at $77.50 per tonne
- 2016/17 approximately 256,000 tonnes at $71.00 per tonne

27. COMMITMENTS, CONTINGENCIES AND GUARANTEES (CONTINUED)

Gypsum Contract

NB Power entered into a 21.5 year contract expiring in 2026 to supply a third party with synthetic gypsum. In the event of a production shortfall, NB Power must pay the third party for the difference between actual gypsum supplied and the minimum amount of gypsum agreed to in the contract.

Transmission Power Line

To ensure financial viability of the International Power Line project, the Corporation signed Commitment Agreements with load serving entities in the Maritimes for the equivalent of long-term firm transmission reservations through fiscal 2032.

Large Industrial Renewable Energy Purchases Program

NB Power purchases electricity from renewable sources, such as biomass and river hydro, from qualifying large industrial customers who have renewable electricity generating facilities located in New Brunswick.

The program is included in the *Electricity Act* under the renewable portfolio standard regulation and commenced January 1, 2012. There are four program agreements in place. From April 1, 2012 to March 31, 2015, 1,188 GWh of qualified renewable energy was purchased under the program.

The Large Industrial Renewable Energy Purchase Program allows NB Power to purchase renewable energy generated by its largest customers at a set rate. This renewable energy will count towards meeting our Province's renewable energy targets at a purchase price at or below the current market price for most forms of renewable energy.

Reduce and Shift Demand (RASD)

NB Power entered into an agreement dated July 25, 2012 as a result of the Smart Grid Initiative. The Master Services Engineering Agreement indicates that in the initial term ending September 15, 2017 (with options for subsequent renewal periods), that NB Power agrees to a minimum expenditure, subject to rights of termination and cost containment obligations, of $35 million.

Legal Proceedings

NB Power may, from time to time, be involved in legal proceedings, claims and litigations that arise in the ordinary course of business which NB Power believes would not reasonably be expected to have a material adverse effect on the financial condition of NB Power.

28. SUBSEQUENT EVENT

The Crown agency, Efficiency New Brunswick, was dissolved on April 1, 2015 and as such all references to the agency in any document or contracts will be deemed to be referenced to NB Power, effectively transitioning all contractual arrangements to NB Power.