Combined Financial Statements of

NEW BRUNSWICK POWER HOLDING CORPORATION

For the year ended March 31, 2012

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Independent Auditor's Report

To the Honourable Graydon Nicholas,
Lieutenant-Governor of New Brunswick,
Fredericton, New Brunswick

Sir,

We have audited the accompanying combined financial statements of New Brunswick Power Holding Corporation (the "Corporation") which comprise the combined balance sheet as at March 31, 2012, and the combined statements of earnings, retained earnings (deficit), comprehensive income, accumulated other comprehensive income (loss) and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined 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 combined 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined 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 combined financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2012 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
June 20, 2012
Saint John, New Brunswick, Canada

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

For the year ended March 31	2012	2011
Revenues		
Sales of power		
In-province (Note 3)	$ 1,266	$ 1,246
Out-of-province (Note 6)	225	250
Transmission revenue (Note 25)	90	91
Miscellaneous	65	51
(Loss) on long-term receivable and associated contracts (Note 13)	-	(22)
	1,646	1,616
Expenses		
Fuel and purchased power	742	874
Transmission expense (Note 25)	87	90
Operations, maintenance and administration	409	416
Amortization and decommissioning (Note 7)	217	199
Taxes (Note 8)	40	40
	1,495	1,619
Earnings (loss) before undernoted items	151	(3)
Finance charges (Note 9)	95	114
Regulatory deferrals (Notes 3 and 14)	(175)	(216)
Earnings before special payments in lieu of income taxes	231	99
Special payments in lieu of income taxes (Note 10)	58	32
Net earnings	**$ 173**	**$ 67**

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

For the year ended March 31	2012	2011
(Deficit), beginning of year	$ (33)	$ (91)
Net earnings for the year	173	67
Dividends declared (Note 25)	(16)	(9)
Retained earnings (deficit), end of year	**$ 124**	**$ (33)**

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

As at March 31	2012	2011
Current Assets		
Cash	$ 4	$ 10
Accounts receivable (Note 25)	263	266
Materials, supplies and fuel	221	252
Prepaid expenses	15	9
Current portion of derivative assets (Note 26)	-	5
	503	542
Property, Plant and Equipment (Note 15)		
Land, buildings, plant and equipment, at cost	7,975	7,717
Less: accumulated amortization	4,066	3,944
	3,909	3,773
Long-Term Assets		
Nuclear decommissioning and used nuclear fuel management funds (Note 16)	584	497
Derivative assets (Note 26)	-	13
Regulatory assets (Note 14)	943	728
Other assets (Note 17)	3	4
	1,530	1,242
Other Assets		
Future special payments in lieu of income taxes	-	2
Intangible asset (Note 18)	20	20
Deferred pension benefit (Note 19)	44	53
	64	75
Total Assets	**$ 6,006**	**$ 5,632**

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	2012	2011
Current Liabilities		
Short-term indebtedness (Note 20)	$ 583	$ 483
Accounts payable and accruals (Note 25)	227	199
Accrued interest (Note 25)	37	38
Current portion of long-term debt (Note 21)	481	550
Current portion of derivative liabilities (Note 26)	77	27
	1,405	1,297
Long-Term Debt (Note 21)		
Debentures	3,469	3,417
Deferred Liabilities		
Generating station decommissioning and used nuclear fuel management liability (Note 22)	549	489
Other (Note 23)	107	107
Future special payments in lieu of income taxes - other comprehensive income (Note 26)	1	5
Derivative liabilities (Note 26)	21	11
	678	612
Shareholders' Equity		
Capital stock (Note 11)	140	140
Contributed surplus (Note 12)	187	187
Accumulated other comprehensive income	3	12
Retained earnings (deficit)	124	(33)
	454	306
Total Liabilities & Shareholders' Equity	**$ 6,006**	**$ 5,632**

Commitments, contingencies and guarantees (Note 28)

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

For the year ended March 31		2012		2011
Net earnings	**$**	**173**	**$**	**67**
Other comprehensive (loss) income, net of tax				
Net unrealized (loss) gain on derivatives designated as cash flow hedges[1]		(100)		4
Net unrealized gain on mark-to-market of nuclear trust funds[2]		49		11
		(51)		15
Reclassification to income of settled derivatives designated as cash flow hedges[3]		42		59
Other comprehensive (loss) income, net of tax		**(9)**		**74**
Comprehensive income	**$**	**164**	**$**	**141**

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

For the year ended March 31		2012		2011
Accumulated other comprehensive income (loss) beginning of year	$	12	$	(62)
Other comprehensive (loss) income for the year		(9)		74
Accumulated other comprehensive income, end of year	**$**	**3**	**$**	**12**

[1]Net of a tax credit of $35 million for the year ended March 31, 2012, as compared to tax of $2 million at March 31, 2011.
[2]Net of tax of $17 million for the year ended March 31, 2012, as compared to $4 million at March 31, 2011.
[3]Net of tax of $15 million for the year ended March 31, 2012, as compared to $24 million at March 31 2011.

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

For the year ended March 31	2012	2011
Operating Activities		
Net earnings for the year	$ 173	$ 67
Amounts charged or credited to operations not requiring a cash payment (Note 24)	215	226
	388	293
Nuclear decommissioning and used nuclear fuel management funds instalments and earnings	(22)	(22)
Decommissioning and used fuel management expenditures	(13)	(10)
Regulatory deferrals excluding mark-to-market adjustments (Note 14)	(215)	(224)
Net change in non-cash working capital balances	53	(36)
	191	1
Investing Activities		
Expenditure on property, plant and equipment, net of customer contributions	(279)	(238)
Proceeds on disposal	15	-
Recovery of capital (shipments received) (Note 13)	-	55
	(264)	(183)
Financing Activities		
Debt retirements	(548)	(100)
Proceeds from issuance of long-term debt	531	487
Increase (decrease) in short-term indebtedness	100	(190)
Dividends paid	(16)	(9)
	67	188
Net cash (outflow) inflow	(6)	6
Cash, beginning of year	10	4
Cash, end of year	**$ 4**	**$ 10**

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 New Brunswick Power Holding Corporation (Holdco) with new subsidiary operating companies (collectively the NB Power Group or the Group). The subsidiaries include

- New Brunswick Power Generation Corporation (Genco)
  - includes New Brunswick Power Coleson Cove Corporation (Colesonco) and Mine Reclamation Inc. (formerly NB Coal Limited).
- New Brunswick Power Nuclear Corporation (Nuclearco)
- New Brunswick Power Transmission Corporation (Transco)
- New Brunswick Power Distribution and Customer Service Corporation (Disco)

2. 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 (see Note 5). The combined financial statements include the accounts of Holdco and those of its subsidiaries listed above.

3. RATE REGULATION

This details the effects of a rate regulated environment and its implications on the following rate regulated operating companies (Transco and Disco).

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 • 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	• 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 (within a range from 8.5 per cent to 10.5 per cent), and a capital structure 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. Under the *EUB Act*, section 24(1), the Minister of Energy may direct the EUB to make an investigation into the need for a rate increase of 3 per cent or less and file the report with the Minister.

3. RATE REGULATION (CONTINUED)

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

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.

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.

For the regulatory deferral related to the lawsuit settlement with PDVSA (Note 14) the EUB ruled how the settlement benefits would be passed on to customers.

Transco

As at March 31, 2012, Transco has a regulatory asset related to allowance for funds used during construction (AFUDC) which is included in property, plant and equipment (see Note 15). The EUB permits 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. It is expected to be recoverable through the OATT.

(in millions)

3. RATE REGULATION (CONTINUED)

Disco

Point Lepreau Generating Station refurbishment

Disco has a regulatory deferral 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
- less costs included in current rates.

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 (section 143.1 of the *Electricity Act*).

Lawsuit settlement with PDVSA

In 2007/08 Disco recognized a regulatory deferral asset relating to a lawsuit settlement with PDVSA (see Note 14). The settlement's benefits will be

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

The regulatory deferral reflects Disco'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 the Group.

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 (loss) before special payments in lieu of income taxes would be as follows:

	2012	**2011**
Net earnings before special payments in lieu of income taxes	231	99
Less regulatory deferral adjustment to earnings	(175)	(216)
Less interest on deferral (reduction to finance charges)	(40)	(30)
Net earnings (loss) before special payments in lieu of income taxes adjusted to remove the effects of regulatory accounting	16	(147)

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a. Materials, supplies and fuel inventory

Inventories are recorded at the lower of costs 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, and
- recovery of capital from lawsuit and insurance settlements.

Generating station decommissioning and management of used nuclear fuel

Property, plant and equipment also includes the present value of asset retirement obligations related to
- the management of used nuclear fuel, and
- 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 in Transco where AFUDC 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 EUB).

(in millions)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b. Property, plant and equipment (continued)

Asset amortization

Amortization is provided for all assets sufficient to amortize the net cost of such assets over their estimated useful 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[4]	25 - 50
Hydro generating stations	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
Motor vehicles	3 - 18

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 in earnings equal to the amount by which the carrying amount exceeds the fair value.

c. Intangible asset

The intangible asset is recorded at cost on the balance sheet and amortized over its estimated useful life (50 years) (see Note 18).

[4]The Nuclear generating station's useful life is based on the refurbished life

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 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 Group 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.

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 storage 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.

Calculation methodology

The Nuclear Waste Management Organization (NWMO) was established by the *Nuclear Fuel Waste Act (NWFA)*. 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 Natural Resources Canada.

Costs recognized as liabilities

The estimated present values of the following costs have been recognized as a liability as at March 31, 2012

- 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, 2012, 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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f. Asset retirement obligations (continued)

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.

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 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 return on plan assets
- actuarial gains and losses, and
- transitional asset.

Plans in place

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

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 *Public Service Superannuation Act* and its regulations.

Method to determine accrued benefit obligation

The projected benefit method is used in determining the accrued benefit obligation. This method involves complex actuarial calculations using several assumptions including discount rates, expected rates of return on plan assets, projected salary increases, retirement age, mortality and termination rates.

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.

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
• 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).
• industrial transmission, and • out-of-province customers	at the end of each month.

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 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. 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
- derivative assets not in a hedging relationship

The following is classified as a 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.

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

- nuclear decommissioning fund
- used fuel management 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 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 recognized 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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k. Financial instruments (continued)

Fair value

The financial instruments carried at fair value are classified using a fair value hierarchy which has three levels (see Note 26). The hierarchy is based on the inputs used in making the fair value measurement.

l. 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, the Group 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

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 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.

(in millions)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

l. Derivatives (continued)

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.

m. Special payments in lieu of taxes

The NB Power Group, excluding Mine Reclamation Inc., is required under the *Electricity Act* to make special payments in lieu of taxes to New Brunswick Electric Finance Corporation (see Note 25). Total special payments in lieu of taxes consist of

- an income tax component based on accounting net earnings multiplied by a rate of 26.38 per cent for the year ended March 31, 2012 as compared to 28.88 per cent for the year ended March 31, 2011.
- future special payments in lieu of taxes on other comprehensive income based on a rate of 26.38 per cent for the year ended March 31, 2012 as compared to 28.88 per cent for the year ended March 31, 2011.

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 subsidiary operating company level.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

n. 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.

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 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 $39 million for the year ended March 31, 2012 as compared to $42 million for the year ended March 31, 2011.

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.

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 4b	Property, plant and equipment
Note 4j	Revenues (billing estimates)
Note 7	Amortization and decommissioning of property, plant and equipment
Note 13	Long-term receivable
Note 14	Regulatory assets and liabilities
Note 16	Nuclear decommissioning and used nuclear fuel management funds
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
Note 28	Commitments, contingencies and guarantees

(in millions)

5. CHANGES IN ACCOUNTING POLICIES

Policies that have changed during the year ended March 31, 2012

There were no changes impacting the financial statements during the year ended March 31, 2012.

Future accounting changes

International Financial Reporting Standards (IFRS)

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

Key dates

Date	Event
March 2012	The Accounting Standards Board (AcSB) allowed companies with rate-regulated activities to defer their IFRS implementation by one year. The NB Power Group met the requirements for the deferral and has elected to defer implementation until the fiscal year ended March 31, 2014.
April 1, 2013	The transition date for the NB Power Group. This will require the restatement, for comparative purposes, of amounts reported by the Group for its year ended March 31, 2013, and of the opening balance sheet as at April 1, 2012.

(in millions)

6. OUT-OF-PROVINCE REVENUES

Out-of-province revenues were as follows

	2012	2011
United States customers	$ 103	$ 116
Canadian customers	122	134
Out-of-province revenues	$ 225	$ 250

7. AMORTIZATION AND DECOMMISSIONING

	2012	2011
Amortization	$ 187	$ 171
Decommissioning	30	28
Amortization and decommissioning	$ 217	$ 199

8. TAXES

	2012	2011
Property taxes	$ 23	$ 23
Utility and right of way taxes	17	17
Taxes	$ 40	$ 40

(in millions)

9. FINANCE CHARGES

	2012	2011
Interest expense (Note 25)	$ 201	$ 202
Less: Earnings from trust funds and other investments	(22)	(21)
	179	181
Debt portfolio management fee (Note 25)	29	28
Amortization of discounts and premiums	-	1
Realized foreign exchange (gains) or losses	-	1
	208	211
Less: Interest capitalized	(113)	(97)
Finance charges	$ 95	$ 114

Interest paid during the year

Interest paid during the year was $203 million compared to $200 million in 2011. Interest received on investments during the year was $22 million compared to $21 million in 2011.

(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

	2012	2011
Earnings before special payments in lieu of income taxes	$ 231	$ 99
(Earnings) loss not subject to payments in lieu of income taxes (Mine Reclamation Inc.)	(12)	8
Earnings subject to special payments in lieu of income taxes	219	107
Income tax rate	26.38 %	28.88 %
	57	31
Rate differential related to loss carryforward/carryback	1	1
	$ 58	$ 32

Special payments in lieu of taxes paid during the year were $60 million compared to $27 million in 2011.

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

Future special payments for other comprehensive income were as follows

	2012	2011
Other comprehensive (loss) income before special payments in lieu of income taxes	$ (12)	$ 104
Income tax rate	26.38 %	28.88 %
Special payments in lieu of income taxes (recovery)	(3)	30

Special payments in lieu of income taxes are calculated at the subisdiary operating company level.

11. CAPITAL STOCK

The NB Power Group, with the New Brunswick Electric Finance Corporation's (Electric Finance) 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 by Transco and paid at the subsidiary operating company level.

(in millions)

12. CAPITAL MANAGEMENT

The Group'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 Group's borrowings are completed with Electric Finance acting as an agent for the Group with the guarantee of the Province of New Brunswick. The Group is predominantly debt financed.

The Group's capital structure includes the following

At March 31	2012	2011
Long-term debt payable within one year	$ 481	$ 550
Less: Cash	4	10
	477	540
Short-term indebtedness	583	483
Long-term debt	3,469	3,417
Capital stock	140	140
Contributed surplus	187	187
Retained earnings (deficit)	124	(33)
Total capital	$ 4,980	$ 4,734
Percentage of net debt[5] in capital structure	91 %	94 %

[5] Net debt is long-term debt, short-term debt and cash

(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 at the time of the settlement based on • forward prices, and • planned delivery dates

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 2011/12, as a result of the settlement
- interest expense was lower by $14 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 3).

13. LONG-TERM RECEIVABLE (CONTINUED)

Long-term receivable	**2012**	**2011**
Opening balance	$ -	$ 77
Shipments received	-	(55)
	-	**22**
(Loss) on long-term receivable and associated hedges		
(Loss) on long-term receivable and associated hedges	-	(22)
Realized cost adjustments	-	(1)
Unrealized mark-to-market adjustments on associated hedges[6]	-	1
	-	**(22)**
	-	**-**
Less: current portion	-	-
Ending balance	**$ -**	**$ -**

[6]Unrealized (loss) gain on associated hedges is recognized in derivative assets/liabilities.

(in millions)

14. REGULATORY ASSETS AND LIABILITIES

Disco has regulatory assets totalling $943 million at March 31, 2012 compared to $728 at March 31, 2011. A reconciliation of the two regulatory assets is as follows

Regulatory asset (liability) - lawsuit settlement with PDVSA	**2012**	**2011**
Opening balance	$ 55	$ 33
Deferral adjustment on Statement of Earnings		
Amortization and interest savings	(27)	(27)
Unrealized loss on mark-to-market of long-term receivable	-	22
Unrealized loss on mark-to-market of associated freight hedges	-	1
Cost adjustments on shipments received	-	(1)
Levelized benefit to customers[7]	22	24
	(5)	19
Interest on deferral	3	3
	(2)	22
Closing balance	$ 53	$ 55

Regulatory asset - Point Lepreau Generating Station deferral	**2012**	**2011**
Opening balance	$ 673	$ 449
Deferral adjustment on Statement of Earnings		
Period costs	189	164
Additional costs to supply energy	200	239
Offset for costs included in current rates	(209)	(206)
	180	197
Interest on deferral	37	27
Closing balance	$ 890	$ 673
Total regulatory assets	**$ 943**	**$ 728**

Regulatory deferral adjustment to earnings	**2012**	**2011**
Lawsuit settlement with PDVSA	$ (5)	$ 19
Point Lepreau Generating Station deferral	180	197
Regulatory deferral adjustment to earnings	$ 175	$ 216

[7] 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 13 years.

(in millions)

15. PROPERTY, PLANT AND EQUIPMENT

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

	2012			2011		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Power generating stations	$ 4,467	$ 2,915	$ 1,552	$ 4,404	$ 2,839	$ 1,565
Transmission system	373	183	190	366	176	190
Terminals and substations	542	308	234	524	298	226
Distribution system	861	440	421	839	425	414
Buildings and properties	63	39	24	62	38	24
Communications and computer systems	150	125	25	148	115	33
Motor vehicles	77	40	37	72	39	33
Miscellaneous assets	39	16	23	36	14	22
Construction-in-progress	1,403	-	1,403	1,266	-	1,266
Total	$ 7,975	$ 4,066	$ 3,909	$ 7,717	$ 3,944	$ 3,773

Construction-in-progress related to the Point Lepreau Generating Station refurbishment at March 31, 2012 was $1,208 million compared to $1,062 million at March 31, 2011.

The charge for equity capital (allowance for funds used during construction) included for 2012 was $1 million compared to $1 million in 2011.

(in millions)

16. NUCLEAR DECOMMISSIONING AND USED NUCLEAR FUEL MANAGEMENT FUNDS

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

- fund requirements
- NB Power Group's funds
- status of NB Power Group'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 the Group 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.

NB Power Group's funds

The NB Power Group 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 2011/12 year was nil (2010/11 - nil).
Used nuclear fuel trust fund	Federal Minister of Finance	To meet the *Nuclear Fuel Waste Act* and to meet the CNSC requirements	The Act requires the Group to deposit to the trust fund an amount based on the approved funding formula. The amount of the contribution in the 2011/12 year was $5 million (2010/11 - $4 million).

(in millions)

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

Status of NB Power Group's funds
The status of each fund is as follows

		2012		2011
Nuclear Decommissioning Fund				
Decommissioning segregated fund	$	189	$	160
Used Nuclear Fuel Management Funds				
1. Used nuclear fuel segregated fund		301		260
2. Used nuclear fuel trust fund		94		77
		395		337
Total nuclear decommissioning and used nuclear fuel management funds[8]	$	584	$	497

[8]Includes a mark-to-market adjustment at March 31, 2012 of $102 million as compared to $37 million at March 31, 2011.

(in millions)

17. OTHER ASSET

The Group 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 the Group's required share of the cost of the facility. Pursuant to this agreement, the Group 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.

	2012	2011
Ash separation asset	$ 3	$ 4

18. INTANGIBLE ASSET

In 2008 the Group 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 live of the facility (50 years).

	2012	2011
Intangible asset	$ 22	$ 22
Accumulated amortization	(2)	(2)
	$ 20	$ 20

19. DEFERRED PENSION BENEFIT

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

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

Applicable pension plans

NB Power Group employees, excluding Mine Reclamation Inc. employees, are members of the Province of New Brunswick Public Service Superannuation Plan as described in Note 4(g). Pension assets and liabilities for the NB Power Group plan and the Mine Reclamation Inc. plan are measured as at March 31, 2012. The most recent actuarial valuations for funding purposes for the Public Service Superannuation Plan was completed as at April 1, 2011. The next valuation for funding purposes is required to be completed as at April 1, 2012. The most recent actuarial valuation for funding purposes for the Mine Reclamation Inc. Plan was completed as at January 1, 2011. The next valuation for funding purposes is required to be completed as at January 1, 2014.

(in millions)

19. DEFERRED PENSION BENEFIT (CONTINUED)

Assumptions

Management's significant assumptions include the following

	2012 (%)	2011 (%)
Discount rate used to determine the accrued benefit obligation	4.9	5.75
Expected long-term rate of return on plan assets	6.96	6.75
Expected salary increases	2.5	2.5

Costs

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

	2012	2011
Current service cost	$ 19	$ 17
Interest on accrued benefit obligation	78	75
Actual (gain) on plan assets	(47)	(92)
Difference between actual and expected return on plan assets	(24)	20
Actuarial losses on accrued benefit obligation	199	110
Difference between actuarial loss recognized for the year and actuarial loss on accrued benefit obligation for the year	(183)	(99)
Amortization of transitional asset	(3)	(3)
	$ 39	$ 28

(in millions)

19. DEFERRED PENSION BENEFIT (CONTINUED)

Assets and obligations

The status of the assets and obligations of the Group's share of the Public Service Superannuation Plan and the private plan of Mine Reclamation Inc. as at March 31 was as follows

	2012	2011
Pension fund assets at fair value	$ 1,104	$ 1,070
Accrued benefit obligation	(1,593)	(1,354)
Pension deficit	(489)	(284)
Unamortized transitional asset	(13)	(16)
Unamortized losses	546	353
Deferred pension benefit	$ 44	$ 53

Contributions

In accordance with prescribed regulations, contributions were as follows

	2012	2011
Employee contributions	$ 12	$ 13
Employer contributions	$ 28	$ 30

20. SHORT-TERM INDEBTEDNESS

The Group borrows funds for temporary purposes from Electric Finance. The short-term borrowings due to Electric Finance were $583 million at March 31, 2012, as compared to $483 at March 31, 2011.

21. LONG-TERM DEBT

The Group borrows funds from Electric Finance to finance long-term requirements. This provides details around the Group's long-term debt. It contains information on

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

(in millions)

21. LONG-TERM DEBT (CONTINUED)

Year-end long-term borrowings

Long-term borrowings at year-end were as follows

	2012	2011
Debentures held by Electric Finance	$ 3,992	$ 4,010
	3,992	4,010
Unamortized discounts and premiums	(42)	(43)
	3,950	3,967
Less: Current portion	(481)	(550)
Long-term debt	$ 3,469	$ 3,417

Terms

The maturity dates of the debentures range from 2012 to 2039. The terms of the debentures are such that the Group is required to make annual repayments of one per cent of the original amount of each debenture on the anniversary date of its maturity. These payments will be made until the actual maturity dates of the debentures, at which time the remaining principal amounts will be repaid.

Interest rates

The debentures bear interest at fixed rates ranging from 3.35 to 8.75 per cent. The weighted average coupon interest rate on all debentures outstanding at March 31, 2012 is 4.70 per cent as compared to 5.15 per cent at March 31, 2011.

Debt portfolio management fee

The Group pays an annual debt portfolio management fee to Electric Finance amounting to 0.6489 per cent of the total long-term debt and short-term indebtedness, measured as at the beginning of the fiscal year.

(in millions)

21. LONG-TERM DEBT (CONTINUED)

Principal repayments

Long-term debt principal repayments are due as follows

Year Ending	**Principal Repayment**
March 31, 2013 - current portion	$ 481
March 31, 2014	188
March 31, 2015	37
March 31, 2016	339
March 31, 2017	309
March 31, 2018 and thereafter	2,638
Long-term portion	$ 3,511
	$ 3,992

22. GENERATING STATION DECOMMISSIONING AND USED NUCLEAR FUEL MANAGEMENT LIABILITY

This provides details of NB Power Group'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 16 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 16 for details on the funding of this liability.

(in millions)

22. 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 - 2012 - 2011	 $ 175 $ 162	 $ 907 $ 889	 $ 662 $ 585
Reason for the increase	Escalation and changes to the liability resulting from updated cost estimates and revisions to timing of cash flows.	Escalation	Escalation and changes to the liability resulting from updated cost estimates and revisions to timing of cash flows.
Cash expenditures required until the year	2039	2079	2164
Rate used to discount cash flows - for initial recognition of the liability - for subsequent recognition of additional liability	 7.1% 5.3% to 6.3%	 7.1% 5.5% to 5.9%	 7.1% 5.2% to 5.9%
Inflation rate to determine asset retirement obligation	1.8% to 2.5%	2.0%	1.9% to 4.1%

(in millions)

22. 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

	2012	2011
Thermal generating station decommissioning liability		
Balance, beginning of year	$ 91	$ 93
Add: Liabilities incurred, including revisions to cash flows	26	(1)
Add: Accretion expense	6	6
Less: Expenditures	(9)	(7)
Balance, end of year	$ 114	$ 91
Nuclear generating station decommissioning liability		
Balance, beginning of year	$ 155	$ 146
Add: Liabilities incurred, including revisions to cash flows	-	1
Add: Accretion expense	9	8
Balance, end of year	$ 164	$ 155
Used nuclear fuel management liability		
Balance, beginning of year	$ 243	$ 232
Add: Liabilities incurred, including revisions to cash flows	15	-
Add: Accretion expense	14	12
Less: Expenditures	(1)	(1)
Balance, end of year	$ 271	$ 243
Total generating station decommissioning and used nuclear fuel management liability	$ 549	$ 489

(in millions)

23. DEFERRED LIABILITIES - OTHER

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

- early retirement liability
- retirement allowance liability
- Mine Reclamation Inc. environmental liability.

The table below summarizes the Group's deferred liabilities - other

	2012	2011
Early retirement programs	$ 68	$ 70
Retirement allowance program	26	24
Other future employee benefits payable	7	6
Mine Reclamation Inc. land reclamation	3	5
Mine Reclamation Inc. environmental liability	10	10
	114	115
Less: amounts due within one year[9]	(7)	(8)
Deferred liabilities - other	$ 107	$ 107

[9]Amounts due within one year are included in accounts payable and accruals.

(in millions)

23. DEFERRED LIABILITIES - OTHER (CONTINUED)

Early retirement liability

The NB Power Group 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, 2011. The next valuation for accounting purposes is as as April 1, 2012.

The table shows
- Management's significant assumptions
- the costs recognized for the period, and
- the status of the obligation of the Group at year-end.

	2012	2011
Assumption		
Discount rate used to determine the early retirement liability	4.90 %	5.75 %
Cost		
Interest on early retirement liability	$ 5	$ 4
Special termination benefits[10]	-	17
Costs recognized for the year	$ 5	$ 21
Obligation		
Accrued benefit obligation	$ 81	$ 74
Unamortized losses	(13)	(4)
Early retirement liability	$ 68	$ 70

[10] In the prior year special termination benefits of $17 million were recognized related to an employee reduction program.

(in millions)

23. DEFERRED LIABILITIES - OTHER (CONTINUED)

Retirement allowance liability

The Group 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, 2011. The next valuation for accounting purposes is as as April 1, 2012.

Assumptions

Management's significant assumptions include the following

	2012 (%)	**2011 (%)**
Discount rate used to determine the accrued benefit obligation	4.9	5.75
Expected salary increases	2.5	2.5

This table shows
- the costs recognized for the year, and
- the status of the obligation of the Group at year-end

	2012	**2011**
Costs recognized for the year		
Current service cost	$ 2	$ 2
Interest on retirement allowance liability	4	4
Costs recognized for the year	$ 6	$ 6
Obligation		
Accrued benefit obligation	$ 47	$ 42
Unamortized losses	(21)	(18)
Retirement allowance liability	$ 26	$ 24

(in millions)

23. DEFERRED LIABILITIES - OTHER (CONTINUED)

Mine Reclamation Inc. environmental liability

The Group and its subsidiary, Mine Reclamation Inc., have a long-term plan to treat acidic water drainage from an inactive mine. Mine Reclamation Inc. has recognized an unfunded environmental liability equal to the net present value of the expected future costs using a discount rate of 7.75% (2011 - 7.75%).

The liability is as follows

	2012	2011
Balance, beginning of year	$ 10	$ 10
Add: Accretion expense	1	1
Less: Expenditures	(1)	(1)
Balance, end of year	$ 10	$ 10

Cash flows required to settle the liability
The total undiscounted amount of the estimated cash flows required to settle the liability is $55 million.

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

The amounts are as follows

	2012	2011
Amortization, decommissioning, and gain or loss on disposal	$ 202	$ 200
Land reclamation liability adjustment	-	4
Retirement expense payments	1	9
Pension expense less related funding	10	(1)
Future payments in lieu of income taxes	2	14
	$ 215	$ 226

(in millions)

25. RELATED PARTY TRANSACTIONS

Related parties of the NB Power Group include Electric Finance, New Brunswick System Operator (System Operator), and the Province of New Brunswick.

Electric Finance and the System Operator were established by the *Electricity Act* as follows:

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

This note outlines transactions with these related parties.

Revenues and expenses

The following related party revenues and expenses are included in the financial results for the year ending March 31,

	Electric Finance		System Operator	
	2012	**2011**	**2012**	**2011**
Revenues				
Transmission revenue	$ -	$ -	$ 90	$ 91
Miscellaneous revenue	-	-	1	1
	$ -	$ -	$ 91	$ 92
Expenses				
Transmission	-	-	87	90
Interest	201	202	-	-
Debt portfolio management fee	29	28	-	-
Special payments in lieu of income taxes	58	32	-	-
	$ 288	$ 262	$ 87	$ 90

(in millions)

25. RELATED PARTY TRANSACTIONS (CONTINUED)

Receivables and payables

The following related party receivable and payable balances existed as at March 31,

	Electric Finance		System Operator	
	2012	2011	2012	2011
Accounts receivable	$ 11	$ 2	$ 10	$ 10
Accounts payable	10	4	6	7
Accrued interest payable	37	38	-	-

The amounts included in accounts receivable and accounts payable for related parties are subject to the normal payment terms extended to unrelated parties.

Dividends

During the year the Group declared $16 million in dividends, as compared to $9 million in 2011, payable to Electric Finance.

Debt and guarantees

The Group has debt payable to Electric Finance (Note 20 and 21) which is guaranteed by the Province of New Brunswick.

Electric Finance has provided certain guarantees for the Group to significant third-party creditors with respect to banking arrangements, trade payables and derivative financial instrument obligations.

Payments to the Province of New Brunswick

During the year the Group made payments to the Province of New Brunswick for property taxes, utility taxes and right of way taxes of $40 million, as compared to $40 million in 2011 (see Note 8). The Group also made payments to New Brunswick Investment Management Corporation related to pension plans (see Note 19).

26. 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.

Hierarchy Level	Fair values are determined	Includes these financial instruments
1	using inputs that are quoted prices in active markets for identical assets or liabilities.	• the nuclear decommissioning fund • the used fuel management funds • other financial assets and liabilities (the fair value approximates the carrying value due to their short-term maturity)
2	using internal models using observable market prices as inputs	• derivative assets • derivative liabilities • long-term debt
3	based on internal models using inputs that are not based on observable market data.	The Group currently does not have any fair values in level 3.

(in millions)

26. FINANCIAL INSTRUMENTS (CONTINUED)

Valuation dates

For all of its financial assets and liabilities, the Group discloses fair values as at March 31, 2012.

Outstanding financial instruments

This details the Group's outstanding financial instruments at March 31, 2012. 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
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 combined balance sheet at book value.

At March 31, the Group had outstanding long-term debt as follows

	Hierarchy level	2012	2011
Cost (see Note 21)		$ 3,950	$ 3,967
Fair value	2	$ 4,474	$ 4,190

26. FINANCIAL INSTRUMENTS (CONTINUED)

b. *Nuclear decommissioning and used fuel management funds*

This financial instrument is categorized as available-for-sale and is recorded on the Combined Balance Sheet at fair value.

At March 31, the Group had outstanding nuclear decommissioning and used fuel management funds as follows

	Hierarchy level	2012	2011
Cost		$ 482	$ 460
Fair value (see Note 16)	1	$ 584	$ 497
Gain in market value (included in AOCI)		$ 102	$ 37

c. *Derivative instruments*[11]

i. *Foreign exchange contracts*
This financial instrument is recorded on the combined balance sheet at fair value.

The Group 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 66 months as follows

	Hierarchy level	2012	2011
Net commitment to purchase ($US in millions)		$ 623	$ 891
Weighted average exchange rate ($US / $CAD)		1.0174	1.0274
Fair value (liability)	2	$ (6)	$ (40)

[11] A derivative asset represents a favorable mark-to-market position, whereas a derivative liability represents an unfavorable mark-to-market position.

26. FINANCIAL INSTRUMENTS (CONTINUED)

c. *Derivative instruments (continued)*

ii. *Heavy fuel oil contracts*

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

The Group hedges its anticipated exposure to changes in the cost of heavy fuel oil.
At March 31, it had net outstanding contracts maturing over the next 11 months as follows

	Hierarchy level	2012	2011
Net notional amount (in millions of barrels)		0.2	0.2
Weighted average fixed price (in $US per barrel)		$ 94.76	$ 86.76
Fair value asset	2	$ 2	$ 2

iii. *Natural gas contracts*

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

The Group hedges its anticipated exposure to changes in natural gas prices. At March 31, it had outstanding contracts maturing over the next 21 months as follows

	Hierarchy level	2012	2011
Net notional amount (in millions of mmbtu)		15.8	21.9
Weighted average fixed price (in $US per mmbtu)		$ 5.48	$ 6.05
Fair value (liability) asset	2	$ -	$ 4

iv. *Coal contracts*

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

The Group hedges its anticipated exposure to changes in coal prices. At March 31, it had outstanding contracts maturing over the next 2 months as follows

	Hierarchy level	2012	2011
Net notional amount (in millions of metric tonnes)		0.04	0.04
Weighted average fixed price (in $US per metric tonne)		$ 98.40	$ 69.10
Fair value asset	2	$ -	$ 2

26. FINANCIAL INSTRUMENTS (CONTINUED)

c. *Derivative instruments (continued)*

v. *Electricity contracts*

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

The Group hedges, to the extent possible, its anticipated exposure relating to changes in electricity prices. These changes affect both

- the price the Group receives on its export sales of electricity
- the price it pays on out-of-province purchases

Sales contracts

At March 31 the Group had no outstanding electricity sale contracts maturing.

	Hierarchy level	2012	2011
Notional amount (in millions of MWh)		-	0.1
Weighted average fixed price (in $US per MWh)		$ -	$ 71.00
Fair value asset	2	$ -	$ 2

Purchase contracts

At March 31 the Group had outstanding electricity purchase contracts maturing over the next 57 months as follows

	Hierarchy level	2012	2011
Notional amount (in millions of MWh)		4.9	7.4
Weighted average fixed price (in $US per MWh)		$ 51.98	$ 49.48
Fair value asset (liability)	2	$ (68)	$ 10

d. Other financial assets and financial liabilities

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

(in millions)

26. 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, 2012. These include

- the fair value of the derivative instruments in hedging relationships
- the accrued settlement value on the derivatives no longer qualifying for hedge accounting
- the market value change on the long-term receivable and nuclear trust funds

	Nuclear Trust Funds	Foreign Exchange	Heavy Fuel Oil	Natural Gas	Coal	Electricity Purchase	Total
Accrued settlement value on forward contracts not qualifying for hedge accounting[12]	-	-	2	-	-	-	2
Included in retained earnings	**-**	**-**	**2**	**-**	**-**	**-**	**2**
Current portion of derivative assets	-	-	-	-	-	-	-
Long-term portion of derivative assets	-	-	-	-	-	-	-
Mark-to-market on Nuclear Funds (Note 16)	102	-	-	-	-	-	102
Current Portion of derivative liabilities	-	(3)	-	(21)	-	(53)	(77)
Long-term portion of derivative liabilities	-	(3)	-	(3)	-	(15)	(21)
Included in AOCI	**102**	**(6)**	**-**	**(24)**	**-**	**(68)**	**4**
Assets (liabilities)	**102**	**(6)**	**2**	**(24)**	**-**	**(68)**	**6**

[12]Included in accounts receivable and/or accounts payable

26. FINANCIAL INSTRUMENTS (CONTINUED)

The impact of financial instruments at March 31, 2012 resulted in a net asset of $6 million (see previous table). Of the $6 million recognized on the balance sheet

- $2 million is recognized in retained earnings
- $4 million gain ($3 million gain after tax) is recognized in accumulated other comprehensive income (AOCI)

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	Heavy Fuel Oil	Natural Gas	Coal	Electricity Sale	Electricity Purchase	Total
Balance - April 1, 2011	**-**	**(2)**	**2**	**-**	**-**	**2**	**(2)**	**-**
Current year adjustments								
De-designated hedge adjustments	-	(1)	2	-	-	-	2	3
Settlements	-	3	(2)	-	-	(2)	-	(1)
	-	**2**	**-**	**-**	**-**	**(2)**	**2**	**2**
Balance March 31, 2012	**-**	**-**	**2**	**-**	**-**	**-**	**-**	**2**

(in millions)

26. FINANCIAL INSTRUMENTS (CONTINUED)

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

AOCI impact	Nuclear Trust Funds	Foreign Exchange	Heavy Fuel Oil	Natural Gasl	Coal	Electricity Sale	Electricity Purchase	Total
Accumulated other comprehensive income (loss) (before tax) - April 1, 2011	37	(38)	-	4	2	-	12	17
Current year impact of mark-to-market adjustments[13]	65	32	-	(28)	(2)	-	(80)	(13)
	102	**(6)**	**-**	**(24)**	**-**	**-**	**(68)**	**4**
Future special payments in lieu of income taxes reflected in AOCI	(27)	2	-	6	-	-	18	(1)
Balance March 31, 2012	**75**	**(4)**	**-**	**(18)**	**-**	**-**	**(50)**	**3**

[13]The current year's impact of mark-to-market adjustments does not reflect the impact of year-over-year tax rate changes of $(1) million which is not reflected in the OCI statement.

(in millions)

27. FINANCIAL INSTRUMENT RISK MANAGEMENT

This describes the following types of risk:

- credit risk
- market risk, and
- 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, the Group

- conducts a thorough assessment of counterparties prior to granting credit, and
- 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 the Group's financial instruments that were exposed to credit risk at March 31

Financial assets	**Designated category**	**2012 Fair value**	**2011 Fair value**
Cash	Held for trading	$ 4	$ 10
Accounts receivable	Loans and receivables	263	266
Derivative assets	Held for trading	-	18
Nuclear decommissioning and used nuclear fuel management funds	Available for sale	584	497
		$ 851	$ 791

Cash

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

(in millions)

27. FINANCIAL INSTRUMENT RISK MANAGEMENT (CONTINUED)

Accounts receivable

Accounts receivable is largely a combination of receivables from residential and commercial customers in-province and out-of-province. To reduce credit risk, the Group 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 the Group as at March 31

Accounts receivable	**2012**	**2011**
Trade		
Trade receivables - current	$ 184	$ 171
60-89 days	2	11
Greater than 90 days	9	12
	195	194
Allowance for doubtful accounts	(5)	(4)
Miscellaneous[14]	62	74
Special payments in lieu of income taxes	11	2
	$ 263	$ 266

[14]Miscellaneous receivables include non-electricity sales, accruals and accrued hedge settlements.

27. FINANCIAL INSTRUMENT RISK MANAGEMENT (CONTINUED)

Allowance for doubtful accounts

The allowance for doubtful accounts is
- reviewed on a regular basis, and
- based on the estimate of outstanding accounts that are at risk of being uncollectible.

Reconciliation of allowance for doubtful accounts	**2012**	**2011**
Balance, beginning of year	$ 4	$ 7
Increase during the year	6	1
Bad debts recovery during the year	-	-
Bad debts written off during the year	(5)	(4)
	$ 5	$ 4

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 the Group holds deposits or requires letters of credit.

Nuclear decommissioning and used fuel management funds

The Group limits its credit risk associated with the nuclear decommissioning and used fuel management trust funds by investing in liquid securities tied to creditworthy counterparties. The current portfolio comprises mainly provincial and federal government bonds. The related credit risk associated with these funds is considered to be low.

Derivative Assets

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

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

(in millions)

27. FINANCIAL INSTRUMENT RISK MANAGEMENT (CONTINUED)

Concentration of credit risk (continued)

There is a concentration of credit risk at March 31, 2012 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 the Group's earnings or financial instrument values will fluctuate due to changes in market prices.

The Group is exposed to a variety of market price risks such as changes in

- foreign exchange rates
- interest rates
- commodity prices, and
- freight prices.

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

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, 2012.

(millions of dollars)	Impact on earnings before special payments in lieu of income taxes[15]	Impact on other comprehensive income before tax
Exchange and interest rates		
1 cent change in CAD/USD exchange rate	$ -	$ 6
0.25% change in Canadian interest rates	-	-
0.5% change in short-term debt rates	3	-
0.5% change in investment yields	-	38
Commodity prices		
$5/bbl change in the price of heavy fuel oil	1	-
$1/mmbtu change in natural gas prices	-	16
$5/MWh changes in electricity prices	-	24

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

(in millions)

27. FINANCIAL INSTRUMENT RISK MANAGEMENT (CONTINUED)

Liquidity Risk

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

The Group 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 the Group's financial liabilities at March 31, 2012 and in future years.

Financial liability	Carrying amount	Contractual cash flows	2013	2014	2015	2016 and thereafter
Short-term indebtedness	$ 583	$ 583	$ 583	-	-	-
Accounts payable and accruals	227	227	227	-	-	-
Accrued interest	37	37	37	-		-
Derivative liabilities	98	98	77	12	5	4
Long-term debt	3,950	3,992	481	188	37	3,286
Interest on long-term-debt	-	1,773	187	155	150	1,281
	$ 4,895	$ 6,710	$ 1,592	$ 355	$ 192	$ 4,571

The Group has the ability to generate sufficient funding to meet these financial obligations.

28. COMMITMENTS, CONTINGENCIES AND GUARANTEES

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

Belledune Wharf

The Group has entered into an operating lease agreement for use of the port facility at Belledune. The agreement expires in 2013 with a 20-year renewal option. This lease provides for annual charges of approximately $5 million.

Courtenay Bay Generating Station

This details the agreements that the Group 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

The Group 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

The Group 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.

The Group 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

The Group has entered into an agreement expiring in 2015 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.

(in millions)

28. COMMITMENTS, CONTINGENCIES AND GUARANTEES (CONTINUED)

Power purchase agreements

The Group has other power purchase agreements with third parties, as follows

Initial duration of agreement	End date	Amount of energy	Agreement to purchase
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.
25 years	2033	96 MW	all the electrical energy of a wind generation facility.
5 years	2014	99 MW	90% of all the electrical energy of a wind 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.
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.

Coleson Cove - Fuel Supply Agreement

Supply

The Group entered into a 10 year agreement expiring in 2020 for the supply of the fuel oil requirements for the Coleson Cove Generating Station.

Delivery

The Group entered into a 10 year agreement expiring in 2020 for the delivery of fuel via a pipeline owned by a third party.

Gypsum Contract

The Group 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, the Group must pay the third party for the difference between actual gypsum supplied and the minimum amount of gypsum agreed to in the contract.

28. COMMITMENTS, CONTINGENCIES AND GUARANTEES (CONTINUED)

Point Lepreau Generating Station refurbishment project

The Group will refurbish the Point Lepreau Generating Station replacing key components of the reactor and upgrading other major plant systems. This project is expected to extend the operating life of the facility by approximately 25 years.

The project was originally scheduled for completion in September 2009 and is now expected to be completed by the fall of 2012.

The Station shut down on March 28, 2008 for completion of the retubing and refurbishment work. Expenditures to March 31, 2012 were $1.3 billion ($146 million capitalized, $1,208 million construction-in-progress).

Point Lepreau Generating Station turbine upgrade project

The Group is proceeding with the replacement of three low pressure turbine rotors. The project will be completed within the Point Lepreau Generating Station outage period. Expenditures to March 31, 2012 were $68 million.

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.

Transmission reservations

For the purposes of delivering electricity to out-of-province markets, the Group has committed to long-term transmission reservations with the System Operator.

Ancillary services contracts

The NB Power Group has entered into three ancillary services contracts with the System Operator. The Group's obligation is to supply ancillary services for the life of the heritage assets (generation assets that were already held prior to restructuring). The services provided are

- reactive power and voltage support
- automatic generation control
- load following
- operating reserve, and
- black start capability.

28. COMMITMENTS, CONTINGENCIES AND GUARANTEES (CONTINUED)

Environmental liability

The Coleson Cove Generating Station was commissioned in 1976. As part of a decommissioning study for the station it was discovered that there are elevated levels of vanadium and nickel in the water and sediment in Shannon Brook. Shannon Brook originates on the Coleson Cove property, and flows out to the Musquash Estuary. NB Power has retained a firm to conduct studies as to the cause of the elevated levels of nickel and vanadium. The liability is uncertain at this time and therefore no accrual.

Large Industrial Renewable Energy Purchases Program

NB Power will purchase 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. Power purchase agreements are currently being developed. As of March 31, 2012 no agreements were executed, however, when they do come into force; energy purchases will be retro-active to January 1, 2012. From January 1, 2012 to March 31, 2012, it is estimated that 70 GWh of qualified renewable energy was generated.

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.

Legal Proceedings

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

29. SEGMENTED INFORMATION

This provides information for the specific segments that make up the NB Power Group. It contains information on the following

- the Group's five business segments
- significant inter-company agreements
- financial overview for the current and previous years.

The Group's five business segments

The Group is organized and operates under the following five reportable business segments.

Business segment	Responsibility
Genco	operating and maintaining the oil, coal, and diesel-powered generating stations.
Nuclearco	operating and maintaining the Point Lepreau Generating Station.
Transco	operating and maintaining the transmission system.
Disco	operating and maintaining the distribution system. Disco is designated as the standard service supplier for the Province of New Brunswick and is obligated to provide standard services to residential, commercial, wholesale and industrial customers located throughout the province.
Holdco (unconsolidated)	providing • strategic direction, governance and support to the other business segments for communications, finance, human resources, legal, governance, and risk management, and • shared services on a cost-recovery basis.

Significant inter-company agreements

The Group has entered into a number of significant inter-company power purchase agreements. They are as follows

- power purchase agreement - Disco and Nuclearco
- power purchase agreement - Disco and Colesonco, and
- power purchase agreement - Disco and Genco.

29. SEGMENTED INFORMATION (CONTINUED)

Power purchase agreement - Disco and Nuclearco

Disco and Nuclearco entered into a power purchase agreement as follows

Aspect	Detail
Terms of the agreement	Disco purchases 95 per cent of • the Point Lepreau Generating Station's pre-refurbishment 635 MW capacity and post-refurbishment 630 MW capacity, and • the electricity produced
Expiration	The agreement expires 25 years after the Station returns to service following refurbishment. Disco has annual renewal options thereafter.

Power purchase agreement - Disco and Colesonco

Disco and Colesonco entered into a 25-year tolling agreement as follows

Aspect	Detail
Terms of the agreement	Disco purchases tolling capacity and related services to convert fuel to electricity. The agreement requires the sale of all energy generated at Coleson Cove Generating Station to Disco. Under the Colesonco purchase power agreement Disco pays a monthly capacity payment based on plant capacity ($MW-month) and a monthly payment towards plant operations and maintenance, and a charge in $/MWh to cover variable costs, excluding fuel, and provide a nominal incentive to operate the plant as and when required. All of the capacity and energy delivered under the Colesonco purchase power agreement is made available to Genco to be dispatched along with other generation resources so as to minimize the overall cost of production to meet in-province requirements. The billing from Colesonco is passed over to Genco. Genco pays Disco and Disco in turn pays Colesonco. The Genco purchase power agreement capacity and energy charges incorporate all of the Colesonco capacity charges, monthly payment towards operation and maintenance and the variable charges related to in-province energy supply.
Expiration	The agreement expires in March 2030.

29. SEGMENTED INFORMATION (CONTINUED)

Power purchase agreement - Disco and Genco

Disco and Genco entered into a long-term power purchase agreement as follows

Aspect	Detail
Terms of the agreement	Genco supplies capacity and energy to Disco. The commitment at March 31, 2012 was 2,358 MW of base capacity and 1,161 MW of peaking capacity. Under the Genco purchase power agreement, Disco has access to the capacity of all of the generation resources available to Genco. These include power purchase agreements that Genco has with third parties. The pricing has two parts, a capacity price ($/MW) and an energy price ($/MWh). The capacity price covers the capital related costs associated with the generating plants including Coleson Cove. The price applies to the base load capacity nominated by Disco to meet its supply obligations.
Expiration	The agreement expires when • all of Genco's heritage assets, including third-party power purchase agreements, are retired or expire, or • Disco reduces its nominated capacity under the terms of the agreement to zero.

(in millions)

29. SEGMENTED INFORMATION (CONTINUED)

Financial Overview - 2012

	Genco	Nuclearco	Transco	Disco	Holdco (Unconsolidated)	Eliminations	Total
Sales of power							
In-province	$ -	$ -	$ -	$ 1,267	$ -	$ (1)	$ 1,266
Out-of-province	215	10	-	-	-	-	225
Inter-company	815	188	-	5	-	(1,008)	-
Transmission	7	1	82	-	-	-	90
Miscellaneous	20	2	3	40	-	-	65
Other inter-company	-	-	20	4	80	(104)	-
Total revenues	1,057	201	105	1,316	80	(1,113)	1,646
Fuel and purchased power	674	-	-	1,071	-	(1,003)	742
Transmission	36	2	-	58	-	(9)	87
Operations, maintenance and administration	102	163	49	120	71	(96)	409
Amortization and decommissioning	116	41	19	38	3	-	217
Taxes	14	6	8	11	1	-	40
Finance charges	73	(11)	10	23	5	(5)	95
Regulatory deferral	-	-	-	(175)	-	-	(175)
Special payments in lieu of income taxes (recovery)	8	-	5	45	-	-	58
Total expenses	1,023	201	91	1,191	80	(1,113)	1,473
Net earnings (loss)	**$ 34**	**$ -**	**$ 14**	**$ 125**	**$ -**	**$ -**	**$ 173**
Total assets	**$ 1,479**	**$ 2,470**	**$ 402**	**$ 1,775**	**$ 469**	**$ (589)**	**$ 6,006**
Capital expenditures (net of customer contributions)	**$ 12**	**$ 202**	**$ 19**	**$ 44**	**$ 2**	**$ -**	**$ 279**

(in millions)

29. SEGMENTED INFORMATION (CONTINUED)

Financial Overview - 2011

	Genco	Nuclearco	Transco	Disco	Holdco (Unconsolidated)	Eliminations	Total
Sales of power							
In-province	$ 2	$ -	$ -	$ 1,244	$ -	$ -	$ 1,246
Out-of-province	240	10	-	-	-	-	250
Inter-company	1,008	163	-	5	-	(1,176)	-
Transmission	6	1	84	-	-	-	91
Miscellaneous	4	1	4	41	1	-	51
Other inter-company	1	-	18	4	80	(103)	-
Loss on mark to market of derivative asset	(22)	-	-	-	-	-	(22)
Total revenues	1,239	175	106	1,294	81	(1,279)	1,616
Fuel and purchased power	838	-	-	1,206	-	(1,170)	874
Transmission	35	2	-	62	-	(9)	90
Operations, maintenance and administration	129	140	48	121	74	(96)	416
Amortization and decommissioning	102	37	19	38	3	-	199
Taxes	15	6	8	11	-	-	40
Finance charges	84	(10)	12	28	4	(4)	114
Regulatory deferral	-	-	-	(216)	-	-	(216)
Special payments in lieu of income taxes (recovery)	13	-	6	13	-	-	32
Total expenses	1,216	175	93	1,263	81	(1,279)	1,549
Net (loss) earnings	**$ 23**	**$ -**	**$ 13**	**$ 31**	**$ -**	**$ -**	**$ 67**
Total assets	**$ 1,634**	**$ 2,181**	**$ 402**	**$ 1,548**	**$ 358**	**$ (491)**	**$ 5,632**
Capital expenditures (net of customer contributions)	**$ 19**	**$ 153**	**$ 19**	**$ 43**	**$ 4**	**$ -**	**$ 238**