



**2011-2012**  
*Annual Report*

New Brunswick  
Electric Finance  
Corporation

**2011-2012 Annual Report**

**Published by:**

Department of Finance  
Province of New Brunswick  
P.O. Box 6000  
Fredericton, New Brunswick  
E3B 5H1  
Canada

January 2013

**Cover:**

Communications New Brunswick

**Printing and Binding:**

Printing Services, Supply and Services

**Translation by:**

Translation Bureau, Supply and Services

ISBN 978-1-55396-357-8

ISSN 1715-7781

Printed in New Brunswick



**2011-2012**  
***Annual Report***

New Brunswick  
Electric Finance  
Corporation



## **New Brunswick Electric Finance Corporation**

The Honourable Graydon Nicholas  
Lieutenant-Governor of the Province of New Brunswick

May it please your Honour:

It is my privilege to submit the Annual Report of the New Brunswick Electric Finance Corporation, for the fiscal year April 1, 2011, to March 31, 2012.

Respectfully submitted,



Blaine Higgs  
Minister of Finance  
Chair, New Brunswick Electric Finance Corporation

---

Blaine Higgs  
Minister of Finance  
Fredericton, N.B.

Sir:

I am pleased to be able to present the Annual Report describing operations of the New Brunswick Electric Finance Corporation for the fiscal year April 1, 2011, to March 31, 2012.

Respectfully submitted,



Jane Garbutt  
President, New Brunswick Electric Finance Corporation



## Table of Contents

Legislation .....	1
Purpose .....	1
NB Electric Finance Corporation Governance Structure .....	3
History .....	4
Activities .....	4
Audited Financial Statements.....	9





# **New Brunswick Electric Finance Corporation**

## **Legislation**

On Oct. 1, 2004, under the *Electricity Act*, the New Brunswick Electric Finance Corporation (NB Electric Finance Corporation) was created.

The NB Electric Finance Corporation is a Crown corporation that was incorporated under, and is governed by, the *Business Corporations Act*. The corporation is an agent of the Crown.

The sole shareholder of NB Electric Finance Corporation is the Province of New Brunswick as represented by the Minister of Finance.

## **Purpose**

At the same time NB Electric Finance Corporation came into force, the New Brunswick Power Corporation was restructured into the New Brunswick Power Holding Corporation with four subsidiary companies:

- New Brunswick Power Generation Corporation;
- New Brunswick Power Nuclear Corporation;
- New Brunswick Power Transmission Corporation, and
- New Brunswick Power Distribution and Customer Service Corporation.

NB Electric Finance Corporation's primary purposes as outlined in Section 33(2) of the *Electricity Act* are:

- to facilitate the conversion of New Brunswick Power Holding Corporation's debt to appropriate levels of debt in the subsidiaries of the Corporation and to assume and reduce the remaining portion of the Corporation's debt, and
- to manage the assets, liabilities, rights and obligations of NB Electric Finance Corporation received as part of the restructuring of New Brunswick Power Holding Corporation and to dispose or otherwise deal with them as NB Electric Finance Corporation sees fit.

NB Electric Finance Corporation provides one entity in which all debt management functions associated with the restructuring of New Brunswick Power reside.

NB Electric Finance Corporation manages the debt assumed in the restructuring of New Brunswick Power and manages any new debt acquired by the new NB Power group of companies. NB Electric Finance Corporation manages this debt by making the appropriate debt payments. NB Electric Finance Corporation generates the required funds for these debt payments through the receipt of interest and principal payments, special payments and dividends from the new NB Power group of companies.

## **NB Electric Finance Corporation Governance Structure**

The Board of Directors is responsible for all matters relating to the management of financial assets held by NB Electric Finance Corporation, including the investment and safekeeping of the assets. The Board of Directors of NB Electric Finance Corporation on March 31, 2012, consisted of:

**Hon. Blaine Higgs**, Minister of Finance, Chair

**Hon. Craig Leonard**, Minister of Government Services, Vice-Chair

**Jane Garbutt**, Deputy Minister of Finance, President

**Doug Holt**, Deputy Minister of Management Board, Director

**Leonard Lee-White**, Assistant Deputy Minister of Finance, Director

**Neil Jacobsen**, Assistant Deputy Minister of Energy, Director

**Richard Luton**, Managing Director of Finance, Director

The NB Electric Finance Corporation held two board meetings in the fiscal year commencing April 1, 2011 and ending March 31, 2012:

- June 1, 2011
- February 16, 2012

Officials of the Department of Finance carry out daily operational functions.

The Auditor General of the Province of New Brunswick has been appointed the auditor for NB Electric Finance Corporation.

## **History**

As a result of restructuring, NB Electric Finance Corporation assumed all the obligations of the former New Brunswick Power Corporation including all notes, debentures, cross-currency interest rate swaps, as well as related accrued interest and deferred debt costs existing at Sept. 30, 2004. The total amount transferred to NB Electric Finance Corporation was \$3.580 billion in net debt.

In exchange for the transfer of the existing debt obligations, the restructured NB Power received a new debt portfolio totaling \$3.203 billion.

This transaction resulted in NB Power being relieved of \$377 million in debt obligations by NB Electric Finance Corporation. The new NB Power debt portfolio was reduced as a result of the issuance of \$140 million in share equity, a \$187 million contributed surplus to offset the deficit existing at Sept. 30, 2004, and \$50 million in deferred debt costs.

NB Power no longer makes interest payments on the debt obligations assumed by NB Electric Finance Corporation. However, the NB Power group of companies does make dividend and special payments to NB Electric Finance Corporation, which are used to meet debt obligations. The special payments are made to NB Electric Finance Corporation in lieu of federal and provincial capital and income taxes.

The NB Power companies continue, as in the past, to pay a fee related to the debt management services they receive. The NB Power group of companies pays a debt portfolio management fee to NB Electric Finance Corporation, which in turn pays a fee to the Province.

## **Activities**

During the period April 1, 2011, to March 31, 2012, NB Electric Finance Corporation acted as banker for the NB Power group of companies. In this role, NB Electric Finance Corporation advanced short-term funding to NB Power Holding Corporation on an as-needed basis.

At the end of the twelve-month period NB Power Holding Corporation had outstanding short-term debt of \$582.9 million.

In June 2011, NB Electric Finance Corporation's fiscal agent, the Department of Finance, sold a debenture on the Canadian bond market. The debenture was issued in the form of a fully registered global certificate registered in the name of The Canadian Depository for Securities Limited (CDS) and is held by CDS. The NB Electric Finance Corporation subsequently issued a debenture to the

Province of New Brunswick. This debenture, issued in the name of NB Electric Finance Corporation, is guaranteed as to principal and interest by the Province.

The details of the issue are as follows:

**Series 122**

Principal Amount	\$130,000,000 CDN
Date of Issue	June 9, 2011
Date of Maturity	June 15, 2018
Registrar and Paying Agent	Minister of Finance Province of New Brunswick

The proceeds of this issue were loaned to NB Power Transmission Corporation and NB Power Coleson Cove Corporation against the security of debentures payable to NB Electric Finance Corporation. NB Power used the proceeds to partially re-finance maturing debt.

In October 2011, NB Electric Finance Corporation's fiscal agent sold a debenture on the Canadian bond market. The debenture was issued in the form of a fully registered global certificate registered in the name of The Canadian Depository for Securities Limited (CDS) and is held by CDS. The NB Electric Finance Corporation subsequently issued a debenture to the Province of New Brunswick. This debenture, issued in the name of NB Electric Finance Corporation, is guaranteed as to principal and interest by the Province.

The details of the issue are as follows:

**Series 123**

Principal Amount	\$200,000,000 CDN
Date of Issue	October 11, 2011
Date of Maturity	December 3, 2021
Registrar and Paying Agent	Minister of Finance Province of New Brunswick

The proceeds of this issue were loaned to NB Power Distribution and Customer Service Corporation against the security of debentures payable to NB Electric

Finance Corporation. NB Power Distribution and Customer Service Corporation used the proceeds to refinance maturing debt and finance refurbishment deferral costs.

In November 2011, NB Electric Finance Corporation's fiscal agent sold a debenture on the Canadian bond market. The debenture was issued in the form of a fully registered global certificate registered in the name of The Canadian Depository for Securities Limited (CDS) and is held by CDS. The NB Electric Finance Corporation subsequently issued a debenture to the Province of New Brunswick. This debenture, issued in the name of NB Electric Finance Corporation, is guaranteed as to principal and interest by the Province.

The details of the issue are as follows:

**Series 124**

Principal Amount	\$100,000,000 CDN
Date of Issue	November 22, 2011
Date of Maturity	December 3, 2021
Registrar and Paying Agent	Minister of Finance Province of New Brunswick

The proceeds of this issue were loaned to NB Power Nuclear Corporation against the security of debentures payable to NB Electric Finance Corporation. NB Power Nuclear Corporation used the proceeds to finance capital costs associated with the Point Lepreau refurbishment project.

In January 2012, NB Electric Finance Corporation's fiscal agent sold a debenture on the Canadian bond market. The debenture was issued in the form of a fully registered global certificate registered in the name of The Canadian Depository for Securities Limited (CDS) and is held by CDS. The NB Electric Finance Corporation subsequently issued a debenture to the Province of New Brunswick. This debenture, issued in the name of NB Electric Finance Corporation, is guaranteed as to principal and interest by the Province.

The details of the issue are as follows:

**Series 125**

Principal Amount	\$100,000,000 CDN
Date of Issue	January 26, 2012

Date of Maturity	December 3, 2021
Registrar and Paying Agent	Minister of Finance Province of New Brunswick

The proceeds of this issue were loaned to NB Power Distribution and Customer Service Corporation against the security of debentures payable to NB Electric Finance Corporation. NB Power Distribution and Customer Service Corporation used the proceeds to refinance maturing debt and finance refurbishment deferral costs.

NB Electric Finance Corporation made all principal, interest and sinking fund payments on debt outstanding as required. At March 31, 2012, NB Electric Finance Corporation had gross long-term debt outstanding of \$4.65 billion.

On a regular basis NB Electric Finance Corporation monitored, reviewed and assessed strategic, operational and financial material concerning the NB Power group of companies. From this information, briefing materials were developed for the NB Electric Finance Corporation Board of Directors.

In January 2012, NB Electric Finance Corporation received the Combined Budget 2012-2013 from the NB Power group of companies. This document was reviewed by the board of NB Electric Finance Corporation.





---

**FINANCIAL STATEMENTS**

**NEW BRUNSWICK  
ELECTRIC FINANCE CORPORATION**

**31 MARCH 2012**

---



# AUDITOR GENERAL OF NEW BRUNSWICK

## INDEPENDENT AUDITOR'S REPORT

To the Shareholder of  
New Brunswick Electric Finance Corporation

I have audited the accompanying financial statements of the New Brunswick Electric Finance Corporation, which comprise the balance sheet as at March 31, 2012, the statement of income and accumulated surplus (deficit), the statements of comprehensive income and accumulated other comprehensive income, and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### *Opinion*

In my opinion, the financial statements present fairly, in all material respects, the financial position of the New Brunswick Electric Finance 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.

Kim MacPherson, CA  
Auditor General

Fredericton, N.B.  
October 22, 2012

**NEW BRUNSWICK ELECTRIC FINANCE CORPORATION**  
**BALANCE SHEET**  
**MARCH 31**  
**(in millions)**

<b>ASSETS</b>	<b>2012</b>	<b>2011</b>
<b>Current Assets</b>		
Cash	\$ 0.1	\$ 0.3
Short-term notes receivable from the NB Power Holding Corporation	582.9	482.6
Accounts receivable from the NB Power Group	12.5	3.8
Accrued interest receivable from the NB Power Group	37.2	37.9
Accrued interest receivable - Derivative assets	1.8	1.8
Current portion of long-term notes receivable from the NB Power Group	481.0	549.7
	<b>1,115.5</b>	<b>1,076.1</b>
<b>Long-Term Assets</b>		
Long-term notes receivable from the NB Power Group (Note 4)	3,513.8	3,465.6
Investment in the NB Power Group	349.7	246.6
	<b>3,863.5</b>	<b>3,712.2</b>
<b>Total Assets</b>	<b>\$ 4,979.0</b>	<b>\$ 4,788.3</b>

Contingent liabilities (note 12)  
Subsequent events (note 15)

On behalf of New Brunswick Electric Finance Corporation

  
Hon. Blaine Higgs  
Chair

  
Jane Garbutt  
President

See accompanying notes to the financial statements

**NEW BRUNSWICK ELECTRIC FINANCE CORPORATION**  
**BALANCE SHEET**  
**MARCH 31**  
(in millions)

<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>	<b>2012</b>	<b>2011</b>
<b>Current Liabilities</b>		
Short-term indebtedness (Note 5)	\$ 475.7	\$ 422.6
Accrued interest payable on debenture debt	52.5	56.7
Accrued interest payable - Derivative liabilities	3.0	3.0
Accounts payable - NB Power Group	11.0	1.9
Deferred Revenue	0.1	0.1
Current portion of derivative liabilities	66.7	9.0
Current portion of long-term debt	424.9	550.0
	<u>1,033.9</u>	<u>1,043.3</u>
<b>Long-term Debt</b>		
Derivative Liabilities	59.4	126.0
Debentures (Note 5)	4,234.0	4,117.3
Less Sinking Fund (Note 5)	( 378.2)	( 393.1)
	<u>3,915.2</u>	<u>3,850.2</u>
<b>Shareholder's Equity</b>		
Capital stock (Note 6)	-	-
Accumulated other comprehensive income	2.7	12.6
Accumulated surplus (deficit)	27.2	( 117.8)
	<u>29.9</u>	<u>( 105.1)</u>
<b>Total Liabilities and Shareholder's Equity</b>	<b>\$ 4,979.0</b>	<b>\$ 4,788.3</b>

Contingent liabilities (note 12)  
Subsequent events (note 15)

*See accompanying notes to the financial statements*

**NEW BRUNSWICK ELECTRIC FINANCE CORPORATION**  
**STATEMENT OF INCOME AND SURPLUS**  
**FOR THE YEAR ENDED MARCH 31**  
**(in millions)**

	2012	2011
<b>Revenue</b>		
Long term interest from the NB Power Group	\$ 196.2	\$ 198.3
Short term interest from the NB Power Group	5.2	3.5
Net income from the NB Power Group	173.3	68.1
Special payments in lieu of taxes (Note 8)	55.8	18.0
Sinking fund earnings	19.5	19.5
Unrealized gains (losses) on change in market value of derivatives	8.8	(5.5)
Debt portfolio management fee (Note 4)	29.0	27.9
Administration recovery	0.4	0.3
Amortization of premiums less discounts on notes receivable from the NB Power Group	(1.9)	(0.4)
	<u>486.3</u>	<u>329.7</u>
<b>Expenses</b>		
Financing charges (Note 9)	264.0	266.8
Unrealized foreign exchange losses (gains)	5.4	(8.7)
Debt portfolio management fee (Note 5)	30.3	28.8
Other expenses	0.4	0.3
	<u>300.1</u>	<u>287.2</u>
<b>Net income before adjustment for regulatory deferrals</b>	186.2	42.5
Regulatory deferrals adjustment (Note 14)	(41.2)	(31.7)
<b>NET INCOME FOR THE PERIOD</b>	<u>145.0</u>	<u>10.8</u>
<b>ACCUMULATED (DEFICIT), beginning of period</b>	(117.8)	(128.6)
<b>ACCUMULATED SURPLUS (DEFICIT), end of period</b>	<u>\$ 27.2</u>	<u>\$ (117.8)</u>

See accompanying notes to the financial statements

**NEW BRUNSWICK ELECTRIC FINANCE CORPORATION**  
**STATEMENTS OF OTHER COMPREHENSIVE INCOME (LOSS) AND**  
**ACCUMULATED OTHER COMPREHENSIVE INCOME (DEFICIT)**  
**FOR THE YEAR ENDED MARCH 31**  
**(in millions)**

<b>STATEMENT OF COMPREHENSIVE INCOME</b>	<b>2012</b>	<b>2011</b>
<b>Net income</b>	\$ 145.0	\$ 10.8
<b>Other comprehensive income</b>		
New Brunswick Power Group's other comprehensive income (loss)	( 9.0)	74.0
Amortization of deferred interest charges	3.0	3.9
	( 6.0)	77.9
<b>Comprehensive income before adjustment for future special payment deferral</b>	\$ 139.0	\$ 88.7
Future special payment in lieu of income taxes deferral adjustment (Note 14)	( 3.9)	32.6
<b>COMPREHENSIVE INCOME</b>	\$ 135.1	\$ 121.4

<b>STATEMENT OF ACCUMULATED OTHER COMPREHENSIVE INCOME</b>	<b>2012</b>	<b>2011</b>
<b>Accumulated other comprehensive income (loss), beginning of year</b>	\$ 12.6	\$ (97.9)
Other comprehensive income (loss) for the year	( 9.9)	110.5
<b>ACCUMULATED OTHER COMPREHENSIVE INCOME end of year</b>	\$ 2.7	\$ 12.6

*See accompanying notes to the financial statements*

**NEW BRUNSWICK ELECTRIC FINANCE CORPORATION**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED MARCH 31**  
(In millions)

<b>CASH PROVIDED BY (USED FOR):</b>	<b>2012</b>	<b>2011</b>
<b>Operations:</b>		
Net income for the period	\$ 145.0	\$ 10.8
Add (deduct)		
Net income from the NB Power Group	(173.3)	(68.1)
Sinking fund earnings	(19.5)	(19.5)
Amortization of deferred interest costs	3.0	3.9
Amortization of premiums less discounts on long term notes receivable from the NB Power Group	1.9	0.4
Amortization of discounts and premiums	(1.8)	1.0
Unrealized foreign exchange losses (gains)	5.4	(8.7)
Unrealized (gains) losses on derivatives	(8.8)	5.5
Regulatory Deferral Adjustment	41.2	31.7
Decrease in non-cash components of working capital <sup>1</sup>	(50.4)	(52.5)
	<u>(57.3)</u>	<u>(95.5)</u>
<b>Financing Activities:</b>		
Principal paid on debenture debt	(550.0)	(200.3)
Proceeds on sale of debentures	531.1	694.1
Withdrawals from sinking fund	86.0	21.6
Sinking fund installments	(44.6)	(42.2)
	<u>\$ 22.5</u>	<u>\$ 473.2</u>
<b>Investing activities:</b>		
Loans to subsidiaries	(531.1)	(486.4)
Principal repayments made by the NB Power Group	549.7	99.8
Dividends	16.0	9.0
	<u>\$ 34.6</u>	<u>\$ (377.6)</u>
<b>(DECREASE) INCREASE IN CASH</b>	<b>(0.2)</b>	<b>0.1</b>
<b>Cash position, beginning of period</b>	<b>0.3</b>	<b>0.2</b>
<b>CASH POSITION, end of period</b>	<b>\$ 0.1</b>	<b>\$ 0.3</b>

<sup>1</sup> Non-cash components of working capital include short-term notes receivable from NB Power Holding Corporation, accounts receivable from NB Power Group, accrued interest receivable from NB Power Group, accrued interest receivable - Derivative assets, short-term indebtedness, accrued interest payable on debenture debt, accrued interest payable - Derivative liabilities and accounts payable - NB Power Group.

**NEW BRUNSWICK ELECTRIC FINANCE CORPORATION  
NOTES TO THE FINANCIAL STATEMENTS  
MARCH 31, 2012**

---

**1. FORMATION AND BASIS OF PRESENTATION OF THE NEW BRUNSWICK ELECTRIC  
FINANCE CORPORATION**

---

**Basis of presentation**

The accompanying financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The New Brunswick Electric Finance Corporation ("NBEFC") is classified as a government business enterprise and the financial results of the NB Power Holding Corporation and its subsidiaries are recorded on an equity basis of accounting.

**Formation**

NBEFC was established under the *Electricity Act* ("Act"), which came into force on October 1, 2004 and is incorporated under the Business Corporations Act of New Brunswick.

NBEFC has as its mandate to manage the assets, liabilities, rights and obligations that NBEFC received as part of the restructuring of New Brunswick Power Holding Corporation, and to dispose or otherwise deal with them as it sees fit.

Upon the proclamation of the *Electricity Act*, New Brunswick Power Corporation was restructured into the New Brunswick Power Holding Corporation with four subsidiary companies:

- New Brunswick Power Generation Corporation ("Genco");
- New Brunswick Power Nuclear Corporation ("Nuclearco");
- New Brunswick Power Transmission Corporation ("Transco"), and
- New Brunswick Power Distribution and Customer Service Corporation ("Disco").

As a result of the restructuring, the former New Brunswick Power Corporation's debt, accrued interest, deferred debt charges and sinking funds as of September 30, 2004 were transferred to NBEFC.

In exchange, as of October 1, 2004, NBEFC received promissory notes from each New Brunswick Power Holding Corporation's subsidiaries, including accrued interest, and a \$140-million equity share in Transco. In addition, NBEFC relieved NB Power Holding Corporation and its subsidiaries ("NB Power Group") of New Brunswick Power Corporation's \$187 million deficit.

NBEFC holds one Class "B" non-voting share of nominal value in the Holding Corporation as well as in its subsidiaries. NBEFC holds an additional one thousand Class "B" non-voting common shares in Transco assigned a value of \$140 million.

NBEFC receives debt service payments, debt portfolio management fees, dividends and special payments in lieu of taxes from the companies.



---

**NEW BRUNSWICK ELECTRIC FINANCE CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2012**

---

**2. CHANGES IN ACCOUNTING POLICIES**

---

**Future accounting changes**

In March 2012, the Canadian Accounting Standards Board (AcSB) extended by one year the deferral of the requirement for entities with qualifying rate-regulated activities to replace Canadian generally accepted accounting standards with International Financial Reporting Standards (IFRS). NBEFC has met the requirements for the deferral and has elected to defer implementation until the fiscal year ended March 31, 2014.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

---

**Financial instruments**

Financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification, as described below. Their classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and NBEFC's designation of such instruments. Settlement date accounting is used.

**Held for trading**

Held for trading financial assets are financial assets typically acquired for resale prior to maturity or that are designated as held for trading. They are measured at fair value at the balance sheet date. Fair value fluctuations including interest earned, interest accrued, gains and losses realized on disposal and unrealized gains and losses are included in other income.

Financial liabilities designated as held for trading are those non-derivative financial liabilities that the NBEFC elects to designate on initial recognition as instruments that it will measure at fair value through other interest expense. These are accounted for in the same manner as held for trading assets. The NBEFC has not designated any non-derivative financial liabilities as held for trading.

**Held to maturity**

Held to maturity financial assets are financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity. Held to maturity financial instruments are recognized at amortized cost.

---

**NEW BRUNSWICK ELECTRIC FINANCE CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2012**

---

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

---

**Available for sale**

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale, or that are not classified as loans and receivables, held-to-maturity or held-for-trading investments. Except as mentioned below, available-for-sale financial assets are carried at fair value with unrealized gains and losses included in accumulated other comprehensive income until realized when the cumulative gain or loss is transferred to other income.

Available-for-sale financial assets that do not have quoted market prices in an active market are recorded at cost.

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

**Loans and receivables**

Loans and receivables are accounted for at amortized cost using the effective interest method, which, at initial measurement, corresponds to fair value.

Subsequent revaluations of accounts receivable are recorded at amortized cost, which generally corresponds to initial measurement less any allowance for doubtful accounts. Subsequent revaluations of long-term notes receivable are recorded at amortized cost using the effective interest method less any amortization.

**Other liabilities**

Other liabilities are recorded at amortized cost using the effective interest method and include all financial liabilities, other than derivative instruments. For long-term debt, amortized cost corresponds to the initial recognized amount plus accumulated amortization of premiums and discounts.

---

**NEW BRUNSWICK ELECTRIC FINANCE CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2012**

---

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

---

**Classification**

NBEFC's financial instruments have been classified as follows:

Cash	Held for trading
Short term investments	Held for trading
Short term notes receivable from NB Power Holding Corporation	Loans and receivables
Accounts receivable	Loans and receivables
Accrued interest receivable	Loans and receivables
Long term notes receivable	Loans and receivables
Sinking Fund	Held to maturity
Short-term debt	Other liabilities
Accounts payable and accrued liabilities	Other liabilities
Other deferred revenue	Other liabilities
Derivative instruments	Held for trading
Long-term debt	Other liabilities

**Effective interest method**

NBEFC uses the effective interest method to recognize interest income or expense, which includes transaction costs or fees, premiums or discounts, earned or incurred for financial instruments.

**Transaction costs**

Transactions costs related to debentures are recorded as a reduction in the carrying amount of the related financial liability and amortized using the effective interest method. Transaction costs associated with held for trading instruments are expensed as they are incurred.

**Foreign exchange transactions**

Monetary liabilities denominated in foreign currencies may be hedged using a forward exchange contract, and are translated to Canadian dollars as follows:

---

**NEW BRUNSWICK ELECTRIC FINANCE CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2012**

---

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

---

- If a forward exchange contract is not in place, then the exchange rate used is the exchange rate prevailing at the balance sheet date.
- If a forward exchange contract is in place than the exchange rate issued is the exchange rate established by the terms of the contract.

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

**Derivative financial instruments**

Foreign exchange

Derivative financial instruments are utilized by NBEFC to manage its foreign exposures. NBEFC does not use derivative financial instruments for trading or speculative purposes.

The fair value of derivative instruments is recognized on the balance sheet. The change in fair value of the derivatives is recorded on the Statement of Income and Accumulated Surplus (Deficit).

Interest rate

As part of the 2004 restructuring of New Brunswick Power Holding Corporation, NBEFC inherited contracts that were used by New Brunswick Power Holding Corporation to hedge the interest rate risk associated with its expected future borrowings at the time. Under the interest rate contracts, New Brunswick Power Holding Corporation paid the differential between the interest rate defined in the contract and the interest rate at the time the debt was issued.

NBEFC has designated these past interest rate locks as cash flow hedges and the interest rate locks are accounted for using hedge accounting. The unamortized amount of the differential paid is reflected in Accumulated Other Comprehensive Income and recognized in income, under financing charges, on a straight-line basis over the life of the related security.

**Revenue recognition**

Interest revenue on loans to the NB Power Group and special payments from the NB Power Group are recognized on an accrual basis and reported as revenue in the period earned.

---

**NEW BRUNSWICK ELECTRIC FINANCE CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2012**

---

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

---

**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 significant estimates:

Note reference	Estimate
Note 4	Long-term notes receivable from the NB Power Group
Note 5	Debt
Note 11	Financial instruments
Note 14	Other

**4. LONG-TERM NOTES RECEIVABLE FROM THE NB POWER GROUP**

---

The long-term notes receivable from the NB Power Group require a one per cent pay down of the original principal amount of each note on the anniversary date of its maturity. These payments will be made until the actual maturity date of the debenture, at which time the remaining principal amount will be repaid.

All interest payments are due on a semi-annual basis with the exception of the 5.5% Feb. 25, 2013 Genco issue.

**NEW BRUNSWICK ELECTRIC FINANCE CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2012**

**4. LONG-TERM NOTES RECEIVABLE FROM THE NB POWER GROUP (continued)**

The following is a maturity schedule for the total amount of long-term notes receivable from the NB Power Group as of March 31, 2012:

(\$ millions) Date of Maturity	Weighted Average Coupon Rate	Principal Repayments
Fiscal Year Ending:		
March 31, 2013	6.2%	\$ 481.0
March 31, 2014	3.7%	187.1
March 31, 2015	-	35.1
March 31, 2016	4.5%	339.8
March 31, 2017	4.7%	309.7
1-5 years	5.1%	1,352.7
6-10 years	4.4%	1,568.5
11-20 years	4.7%	972.5
21-30 years	4.8%	96.8
		3,990.5
Unamortized discounts less premiums on long-term notes receivable from the NB Power Group		4.3
		3,994.8
Less current portion of notes receivable from the NB Power Group		481.0
Long-term notes receivable from the NB Power Group	4.7%	\$ 3,513.8

**Debt Portfolio Management Fee**

Pursuant to subsection 37(4) of the Act, the Lieutenant Governor in Council under Order in Council 2011-322 ordered an annual debt portfolio management fee to be paid by the NB Power Group to NBEFC. The fee is .6489% of the total of long-term and short-term indebtedness to NBEFC, less accounts receivable, measured as at the opening balance sheet date.

---

**NEW BRUNSWICK ELECTRIC FINANCE CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2012**

---

**5. DEBT**

---

**Short-term debt**

NBEFC borrows all of its short-term funds from the Province of New Brunswick. Short-term borrowings due to the Province of New Brunswick at March 31, 2012 were \$475.7 million (\$422.6 million at March 31, 2011).

**Long-term debt**

The following is the long-term debt outstanding, payable to the Province of New Brunswick, as at March 31, 2012 and March 31, 2011:

(\$ millions)	March 31 2012	March 31 2011
Debentures held by the Province of New Brunswick	\$ 4,654.6	\$ 4,662.3
Less Unamortized discounts less premiums	(4.3)	(5.0)
	\$ 4,658.9	\$ 4,667.3
Less current portion of long-term debt	424.9	550.0
	4,234.0	4,117.3
Less Sinking Funds	378.2	393.1
<b>Long-term debt</b>	<b>\$ 3,855.8</b>	<b>\$ 3,724.2</b>

---

**NEW BRUNSWICK ELECTRIC FINANCE CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2012**

---

**5. DEBT (continued)**

---

The following is a maturity schedule for the total amount of NBEFC's long-term debt outstanding:

(\$ millions) Date of Maturity	Weighted Average Coupon Rate	Canadian Dollar	US Dollar	March 31 2012
Fiscal Year Ending:				
March 31, 2013	7.0%	\$ 325.0	\$ 99.9	\$ 424.9
March 31, 2014	6.0	220.0	99.9	319.9
March 31, 2015	-	-	-	-
March 31, 2016	5.4	400.0	-	400.0
March 31, 2017	4.7	400.0	-	400.0
1-5 years	5.8	1,345.0	199.8	1,544.8
6-10 years	4.6	1,565.0	149.9	1,714.9
11-20 years	6.6	150.0	99.9	249.9
21-30 years	4.8	1,145.0	-	1,145.0
	5.1%	\$ 4,205.0	\$ 449.6	\$ 4,654.6

**Sinking Funds**

Pursuant to section 12 of the Provincial Loans Act, the Minister of Finance maintains a General Sinking Fund for the repayment of funded debt. On debentures issued to the Province of New Brunswick by the former NB Power, NBEFC is required to contribute 1% of the debenture debt outstanding on the anniversary date of each issue.

Sinking Fund earnings are reflected in NBEFC's income, and Sinking Fund investments are deducted from long-term debt.

The following table shows the activity in the Sinking Fund for fiscal years ending March 31, 2012 and March 31, 2011:



---

**NEW BRUNSWICK ELECTRIC FINANCE CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2012**

---

**5. DEBT (Continued)**

---

(\$ millions)	March 31 2012	March 31 2011
Fund Equity, beginning of year	\$ 393.1	\$ 364.1
Sinking Fund Earnings	19.5	19.5
Unrealized foreign exchange gains (losses)	7.0	( 11.1)
Installments	44.6	42.2
Paid for Debt Retirement	( 86.0)	( 21.6)
Fund Equity, end of year	\$ 378.2	\$ 393.1

On March 31, 2012, the amount of the Sinking Fund accumulated for the repayment of NBEFC debt was \$378.2 million, with a market value - \$404.4 million (\$393.1 million at March 31, 2011 with a market value of \$421.5 million).

The value of the sinking fund's long term investments at March 31, 2012 is as follows:

Bonds and debentures	Canadian Equivalent Par Current exchange	Net Book Value	Market Value
Issued or guaranteed by Canada			
Canadian \$16,000,000	16,000,000	16,030,704	17,547,840
Issued or guaranteed by other countries			
US \$64,659,000	64,600,807	68,443,165	68,500,064
Issued or guaranteed by New Brunswick			
Canadian \$15,000,000	15,000,000	17,465,226	18,977,600
US \$68,402,000	68,340,438	92,276,546	102,644,498
Issued or guaranteed by other provinces			
Canadian \$32,150,868	32,150,868	19,840,872	22,314,061
US \$116,939,000	116,833,754	145,826,150	161,756,382
	\$ 312,925,867	\$ 359,882,662	\$391,740,445

---

**NEW BRUNSWICK ELECTRIC FINANCE CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2012**

---

**5. DEBT (Continued)**

---

The following estimated payments are required in each of the next five years to meet the Sinking Fund provisions of existing debt.

(\$ millions) Fiscal Year Ending	Sinking Fund Installments
March 31, 2013	\$46.5
March 31, 2014	41.3
March 31, 2015	39.1
March 31, 2016	39.1
March 31, 2017	\$35.1

**Cross-currency Interest Rate Swaps**

Upon the restructuring, the New Brunswick Power Corporation transferred the following cross-currency interest rate swaps to NBEFC:

7.63% Debentures, due February 2013 – US \$100 million

A cross-currency interest rate swap transaction with Canadian banks that results in an effective fixed interest rate of 7.75% on CDN \$159 million.

6.75% Debentures, due August 2013 – US \$100 million

A cross-currency interest rate swap transaction with Canadian banks that results in an effective fixed interest rate of 6.8% on CDN \$159 million.

**Debt Portfolio Management Fee**

NBEFC pays an annual debt portfolio management fee to the Province of New Brunswick, amounting to .6489% of the total of long-term debt guaranteed by the Province, debentures held by the Province and short-term indebtedness to the Province, less the balance held in Sinking Funds, measured as at the previous year-end.

---

**NEW BRUNSWICK ELECTRIC FINANCE CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2012**

---

**6. CAPITAL STOCK**

---

NBEFC has one voting common share of nominal value, issued and outstanding to Her Majesty the Queen in right of the Province, as represented by the Minister of Finance.

NBEFC is authorized to issue an unlimited number of common shares without nominal or par value.

**7. CAPITAL MANAGEMENT**

---

NBEFC's objective with respect to its capital structure is to maintain effective access to capital on a long-term basis at the lowest possible cost to the NB Power Group. NBEFC does not have a credit rating as all borrowings are completed by the Province of New Brunswick in the name of the Province of New Brunswick. Accordingly NBEFC is debt financed.

NBEFC's capital structure is as follows:

(\$ millions)	March 31 2012	March 31 2011
Short-term indebtedness	\$ 475.7	\$ 422.6
Less Cash	0.1	0.3
	475.6	422.3
Long-term debt	4,658.9	4,667.3
Less Sinking funds	378.2	393.1
	4,280.7	4,274.2
Common stock	-	-
Accumulated surplus (deficit)	27.2	(117.8)
Total capital	\$ 4,783.5	\$ 4,578.7
Percentage of net debt in capital structure	99%	103%

---

**NEW BRUNSWICK ELECTRIC FINANCE CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2012**

---

**8. SPECIAL PAYMENTS IN LIEU OF TAXES**

---

Effective Oct. 1, 2004, NBEFC is eligible to receive special payments in lieu of taxes from the NB Power Group. The special payments in lieu of taxes, which are calculated in accordance with Regulation 2008-9 of the *Electricity Act*, consist of:

- an income tax component based on accounting net income multiplied by a rate of 26.375 per cent
- a capital tax component based upon the large corporation tax rules contained in the *Income tax Act (Canada)* and *New Brunswick Income Tax Act*. The New Brunswick capital tax rate was 0 percent as at March 31, 2012 and March 31, 2011.

NBEFC permits the NB Power Group to recognize a future special payment in lieu of taxes benefit for current losses, when it is more likely than not that sufficient income will be generated in future periods to utilize losses previously incurred. NB Power Group are not permitted to use other provisions for future special payments in lieu of taxes as a result of any temporary differences as the tax basis of assets and liabilities and their carrying amounts for accounting purposes are considered to be the same for the purposes of the calculation.

Special payments in lieu of income taxes are calculated on an individual company level. For the year ending March 31, 2012, Disco and New Brunswick Power Coleson Cove Corporation, formed as a subsidiary of Genco upon restructuring, used previous years' losses to reduce their payment of special payments in lieu of taxes by \$0.4 million and \$1.7 million respectively.

NB Power Group reduced its "Future special payments in lieu of income taxes – other comprehensive income" liability by \$3.9 million, related to an "Accumulated Other Comprehensive Income" loss recorded by Genco in the amount of \$25.8 million and an "Accumulated Other Comprehensive Income" gain recorded by Nuclearco in the amount of \$26.9 million. The net "Future special payments in lieu of income taxes – other comprehensive income" liability is \$1.1 million as at March 31, 2012.

(\$ millions)	March 31 2012	March 31 2011
NB Power Group's earnings before special payments in lieu of taxes	\$ 219.4	\$ 107.7
Income tax rate	26.38%	28.88%
Special payments in lieu of income taxes	57.9	31.1
Change in NB Power Group's future special payments in lieu of income taxes asset	(2.1)	(13.1)
Special payment in lieu of taxes	\$ 55.8	\$ 18.0

---

**NEW BRUNSWICK ELECTRIC FINANCE CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2012**

---

**9. FINANCING CHARGES**

---

(\$ millions)	March 31 2012	March 31 2011
Long-term interest expense	\$ 249.3	\$ 250.0
Short-term interest expense	4.6	3.2
Net interest expense on derivatives	8.9	8.7
Amortization of premiums less discounts on debentures	( 1.8)	1.0
Amortization of deferred interest costs	3.0	3.9
	<u>\$ 264.0</u>	<u>\$ 266.8</u>

**10. DIVIDENDS**

---

NBEFC, as the holder of Class B shares of the NB Power Group, pursuant to the Shareholder's Agreement, is entitled to receive dividends when declared by the NB Power Group's Boards of Directors. The designated percentage of the dividends declared may vary based upon the discretion of NBEFC and the financial position of each of the NB Power Group. The holder of the Class A shares cannot be paid dividends until such time that there are no longer any Class B shares outstanding.

Dividends are declared and paid at an individual company level. During the period, Transco declared a \$16 million dividend.

**11. 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).

NBEFC's financial instruments include the following:

---

**NEW BRUNSWICK ELECTRIC FINANCE CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2012**

---

**11. FINANCIAL INSTRUMENTS (continued)**

---

(\$ millions)	March 31	March 31	March 31	March 31
	2012	2012	2011	2011
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets held for trading				
Cash	\$ 0.1	\$ 0.1	\$ 0.3	\$ 0.3
Loans and receivables				
Short term notes receivable from the NB Power Holding Corporation	582.9	582.9	482.6	482.6
Accounts receivable - NB Power Group	12.5	12.5	3.8	3.8
Accrued interest receivable - NB Power Group	37.2	37.2	37.9	37.9
Accrued interest receivable - Other	1.8	1.8	1.8	1.8
Long term notes receivable from the NB Power Group	3,994.8	3,994.8	4,015.3	4,015.3
Financial assets held to maturity				
Sinking Fund	378.2	404.4	393.1	421.5
Financial liabilities				
Short-term indebtedness	475.7	475.7	422.6	422.6
Accrued interest payable on debenture debt	52.5	52.5	56.7	56.7
Accounts payable - NB Power Group	11.0	11.0	1.9	1.9
Accounts payable - Other	-	-	-	-
Long-term debt	4,658.9	5,249.3	4,667.3	4,991.8
Financial liabilities held for trading				
Derivative financial instruments	\$ 126.1	\$ 126.1	\$ 135.0	\$ 135.0

---

**Fair value of financial instruments**

Fair value represents the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

---

**NEW BRUNSWICK ELECTRIC FINANCE CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2012**

---

**11. FINANCIAL INSTRUMENTS (continued)**

---

In accordance with the CICA's accounting standard, Section 3862, Financial Instruments – Disclosures, NBEFC is required to classify financial instruments which are measured at fair value using a fair value hierarchy. The fair value hierarchy is based on the methods and assumptions used to determine the financial instruments fair values. The fair value hierarchy has the following three levels:

- Level 1 - quoted prices in active markets for identical assets or liabilities;
- Level 2 - internal models using observable market information as inputs; and
- Level 3 - internal models without observable market information.

The schedule below presents NBEFC's financial instruments within the fair value hierarchy.

(\$ millions)	Level 1	Level 2	Level 3	Total
Financial assets:				
Cash	\$ 0.1	\$ -	\$ -	\$ 0.1
<b>Total financial assets</b>	<b>0.1</b>	<b>-</b>	<b>-</b>	<b>0.1</b>
Financial liabilities:				
Derivative financial instruments	-	126.2	-	126.2
<b>Total financial liabilities</b>	<b>\$ -</b>	<b>\$ 126.2</b>	<b>\$ -</b>	<b>\$ 126.2</b>

The derivative financial instruments are over the counter (i.e. non-exchange traded) derivatives valued using models. Valuation models calculate the present value of expected future cash flows. The inputs to valuation models are determined from observable market data, including foreign exchange spot and forward rates, and benchmark interest rate curves. The fair values of the derivative financial instruments are obtained by the counterparties to the instruments and checked for reasonableness by NBEFC.

Although the sinking fund and long term debt are not recorded at fair value on the financial statements; fair value is provided for information purposes. The fair value was determined as follows:

---

**NEW BRUNSWICK ELECTRIC FINANCE CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2011**

---

**11. FINANCIAL INSTRUMENTS (continued)**

---

The sinking fund is classified as a held to maturity asset accounted for at amortized cost. The fair value was determined using inputs that are quoted prices in active markets for identical assets or liabilities.

Long term debt is classified as an other liability and is recorded at amortized cost using the effective interest method. The fair value was calculated using inputs that are quoted prices in active markets for identical assets or liabilities and internal models using observable market prices as inputs.

The following section describes the risks inherent in NBEFC's financial instruments and the method in which NBEFC manages the risks.

**Market Risk**

Foreign Exchange Risk Management

Foreign exchange or currency risk is the risk that the principal and interest payments on foreign debt will fluctuate in Canadian dollar terms due to fluctuations in foreign exchange rates. NBEFC was transferred two swap agreements in the restructuring, which converts the foreign currency cash flows on the following \$200 million US dollar debentures into Canadian dollar cash flows. The swap agreements are not deemed cash flow hedges for accounting purposes.

- 7.63% Debentures, due February 2013 – US \$100 million

A cross-currency interest rate swap transaction with Canadian banks that results in an effective fixed interest rate of 7.75% on CDN \$159 million.

- 6.75% Debentures, due August 2013 – US \$100 million

A cross-currency interest rate swap transaction with Canadian banks that results in an effective fixed interest rate of 6.8% on CDN \$159 million.

NBEFC has also assigned a percentage of the US dollar denominated Sinking Fund assets to provide an effective hedge against outstanding \$250 million US dollar debentures. The Sinking Fund assets and outstanding debentures are translated to Canadian dollars at the current exchange rate with the resulting gains or losses recorded in income in the current period.



---

**NEW BRUNSWICK ELECTRIC FINANCE CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2012**

---

**11. FINANCIAL INSTRUMENTS (continued)**

---

Interest Rate Risk Management

As part of the 2004 restructuring of New Brunswick Power Holding Corporation, NBEFC inherited contracts that were used by New Brunswick Power Holding Corporation to hedge the interest rate risk associated with its expected future borrowings at the time. Under the interest rate contracts, New Brunswick Power Holding Corporation paid the differential between the interest rate defined in the contract and the interest rate at the time the debt was issued.

The following are the interest rate locks that are being amortized over the life of their related debt issues. The settlement date represents the date in which the differential was paid to the counterparty.

1. Notional amount	Counterparty	Settlement Date	Interest Rate	Loss
25,000,000	CIBC	August 21, 2002	6.420%	2,138,000
50,000,000	CIBC	August 21, 2002	6.531%	4,714,000
25,000,000	CIBC	August 21, 2002	6.428%	2,085,000
50,000,000	CIBC	August 21, 2002	6.621%	4,930,000
				\$13,867,000

The loss is being amortized over the life of 5.875%, December 6, 2012 – CDN \$150 million issue. The unamortized amount remaining in Accumulated Other Comprehensive Income at March 31, 2012 is \$923,780.

2. Notional amount	Counterparty	Settlement Date	Interest Rate	Loss
\$75,000,000	CIBC	February 12, 2003	6.633%	\$7,948,459

The loss is being amortized over the life of 5.5%, February 25, 2013 – CDN \$75 million issue. The unamortized amount remaining in Accumulated Other Comprehensive Income at March 31, 2012 is \$716,450.

NBEFC has designated these past interest rate locks as cash flow hedges. The unamortized amount of the differential paid is reflected in Accumulated Other Comprehensive Income and recognized in income, under financing charges, on a straight-line basis over the life of the related security.

The amount recognized in income for the year ending March 31, 2012 was \$3.0 million (the projected amount to be recognized in income for the year ending March 31, 2013 is \$1.6 million).

---

**NEW BRUNSWICK ELECTRIC FINANCE CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2012**

---

**11. FINANCIAL INSTRUMENTS (continued)**

---

The losses on the following interest rate swaps were fully amortized in fiscal year ending March 31, 2012.

1. Notional amount	Counterparty	Settlement Date	Interest Rate	Loss
\$75,000,000	CIBC	February 2, 2001	6.5090%	4,418,000
\$75,000,000	CIBC	June 4, 2001	6.5280%	2,562,000
				\$6,980,000

The loss was amortized over the life of the 5.800%, July 12, 2011 – CDN \$200 million issue. The amount recognized as an expense for fiscal year ending March 31, 2012 was \$191,147.

2. Notional amount	Counterparty	Settlement Date	Interest Rate	Loss
\$75,000,000	CIBC	September 28, 2001	6.547%	5,163,313
\$75,000,000	CIBC	February 4, 2002	6.570%	5,472,000
				\$10,635,313

The loss was amortized over the life of 5.850%, December 1, 2011 – CDN \$200 million issue. The amount recognized as an expense for fiscal year ending March 31, 2012 was \$712,645.

At March 31, 2012, NBEFC had no forward dated interest rate swap agreements outstanding.

The following table provides a sensitivity analysis which shows the dollar value impact of small changes in various market rates. The amounts shown are derived from outstanding volumes of financial instruments that existed at March 31, 2012.

(\$ millions)	Impact on Net Income
Exchange and interest rates	
1 cent increase in the US/CDN exchange rate	(0.2)
.25% increase in Canadian long-term interest rates	-
.50% increase in Canadian short-term interest rates	1.9
.25% increase in US interest rates	(0.6)
<b>Total</b>	<b>\$ 1.1</b>

---

**NEW BRUNSWICK ELECTRIC FINANCE CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2012**

---

**11. FINANCIAL INSTRUMENTS (continued)**

---

**Credit risk**

Credit risk arises from the potential that a counter party will fail to perform its obligations.

The following is a summary of the fair value of NBEFC's financial instruments that were exposed to credit risk at March 31, 2012:

(\$ millions)	Designated category	March 31 2012 Fair Value
Financial assets		
Cash	Held for trading	\$ 0.1
Accrued interest receivable - Other	Loans and receivables	1.8
Sinking Fund	Held to maturity	404.4
Receivables from the NB Power Group		
Short-term notes receivable from the NB Power Holding Corporation	Loans and receivables	582.9
Accounts receivable from the NB Power Group	Loans and receivables	12.5
Accrued interest receivable from the NB Power Group	Loans and receivables	37.2
Long-term notes receivable from the NB Power Group	Loans and receivables	3,994.8
		4,627.4
<b>Total</b>		<b>\$ 5,033.7</b>

Cash

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

Accrued interest receivable – Derivative assets

Accrued Interest receivable – Other represents interest receivable from a counterparty to a foreign exchange swap transaction. NBEFC only enters into derivative financial instrument transactions with highly creditworthy counterparties. All of the counterparties with which NBEFC has outstanding positions, have investment grade credit ratings assigned to them by external rating agencies. NBEFC monitors counterparty credit limits on an ongoing basis.

**NEW BRUNSWICK ELECTRIC FINANCE CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2012**

**11. FINANCIAL INSTRUMENTS (continued)**

Sinking Fund

NBEFC limits its credit risk associated with the sinking fund by investing in securities tied to creditworthy counterparties. Allowable investments are outlined in the Provincial Loans Act. The current portfolio comprises mainly provincial and federal government bonds. The related credit risk associated with these funds is considered to be low.

Receivables from the NB Power Group

Most of NBEFC's credit risk lies with the NB Power Group. NBEFC actively monitors the financial health of the NB Power Group on an ongoing basis. The maximum credit risk exposure is deemed to be the sum of amounts receivable from the NB Power Group. Amounts receivable is \$4,627.4 million as at March 31, 2012 (March 31, 2011 - \$4,539.6 million).

**Liquidity Risk**

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

NBEFC 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 NBEFC's financial liabilities at March 31, 2012 and in future years:

(\$ millions) Financial liabilities	Carrying Amount	Contractual Cash Flows	2013	2014	2015	2016 and thereafter
Short-term indebtedness	\$ 475.7	\$ 475.7	\$ 475.7	\$ -	\$ -	\$ -
Accrued interest payable on debenture debt	52.5	52.5	52.5	-	-	-
Accrued interest payable - Other	3.0	3.0	3.0	-	-	-
Accounts payable - NB Power Group	11.0	11.0	11.0	-	-	-
Derivative Liabilities	126.2	126.2	66.7	59.5	-	-
Debentures	4,658.9	4,658.9	424.9	319.9	-	3,914.1
Interest on long-term debt	-	2,415.4	238.7	199.3	189.7	1,787.7
	<b>\$ 5,327.3</b>	<b>\$ 7,742.7</b>	<b>\$ 1,272.5</b>	<b>\$ 578.7</b>	<b>\$ 189.7</b>	<b>\$ 5,701.8</b>

---

**NEW BRUNSWICK ELECTRIC FINANCE CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2012**

---

**11. FINANCIAL INSTRUMENTS (continued)**

---

NBEFC believes that it has the ability to generate sufficient funding to meet these financial obligations.

**Summary of impacts of financial instruments**

The following tables summarize the impact of changes in derivative financial instruments recorded on the balance sheet at March 31, 2012. These include the fair value of the derivative instruments and the unamortized balance of the differential paid under the interest rate lock agreements.

(\$ millions)	Foreign Exchange Contracts
Derivative Liabilities - April 1, 2011	\$ (135.0)
Current year adjustment	
Change in value of derivatives not subject to hedge	8.8
Derivative Liabilities - March 31, 2012	\$ (126.2)

(\$ millions)	Interest Rate Lock Contracts
Accumulated other comprehensive income - April 1, 2011	\$ 4.8
Current year adjustment	
Amortization of deferred interest costs	(3.0)
Accumulated other comprehensive income - March 31, 2012	\$ 1.8

The impact of the change in derivative financial instruments at March 31, 2012 resulted in a net liability position of \$5.8 million (see table below). The entire amount flowed through the Statement of Income and Surplus.

**NEW BRUNSWICK ELECTRIC FINANCE CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2012**

**11. FINANCIAL INSTRUMENTS (continued)**

(\$ millions)	Foreign Exchange	Interest Rates	Total
Current portion of derivative liabilities	\$ (57.6)	\$ -	\$ (57.6)
Long-term portion of derivative liabilities	66.4	-	66.4
Accumulated Other Comprehensive Income	-	( 3.0)	( 3.0)
<b>Liabilities</b>	<b>\$ 8.8</b>	<b>\$ (3.0)</b>	<b>\$ 5.8</b>

**12. CONTINGENT LIABILITIES**

**Guarantees**

NBEFC has provided guarantees to a number of financial institutions for obligations of the NB Power Group. As at March 31, 2012, the guarantees were limited to CDN \$503.7 million. Guarantees have been provided to:

1. The Royal Bank of Canada ("RBC") for obligations of the NB Power Group, limited to CDN \$100 million. This guarantee is to cover the day-to-day transactions between RBC and the NB Power Group. Future guarantees terminate upon 30 days notice from NBEFC.
2. RBC for Genco's obligations under an International Swap and Derivatives Association, Inc. ("ISDA") Master Agreement limited to CDN \$29 million. Genco entered into this agreement on Oct. 1, 2004. The ISDA covers foreign exchange derivatives related to the cost of purchasing fuel in US dollars. The guarantee terminates upon payment of all obligations due to RBC or the release of NBEFC from its obligations under the guarantee by RBC.
3. Morgan Stanley and J. Aron for Genco's obligations under ISDA Master Agreements totalling USD \$120 million. These agreements were entered into by the former New Brunswick Power Corporation and were transferred to Genco upon the restructuring. The ISDAs are related to the purchasing of commodities in US dollars. Future guarantees to Morgan Stanley can be terminated upon 15 days notice by NBEFC while future guarantees to J. Aron can be terminated upon 5 days notice by NBEFC.

---

**NEW BRUNSWICK ELECTRIC FINANCE CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2012**

---

**12. CONTINGENT LIABILITIES (continued)**

---

4. CIBC for Genco's obligations under ISDA Master Agreements totalling USD \$45 million. This agreement was entered into by the former New Brunswick Power Corporation and was transferred to Genco upon the restructuring. The ISDA is related to the purchasing of commodities in US dollars. The guarantee terminates upon payment of all obligations due to CIBC or the release of NBEFC from its obligations under the guarantee by CIBC.
5. Hydro-Quebec to cover an agreement entered into by Genco to purchase power from Hydro-Quebec. The guarantee is limited to USD \$40 million. Future guarantees terminate upon 5 days notice from NBEFC.
6. New Brunswick System Operator for Genco's obligations limited to CDN \$5 million, and New Brunswick System Operator for Disco's obligations of CDN \$10 million. Participants in the New Brunswick electricity market are required to post collateral with the New Brunswick System Operator. Future guarantees terminate upon 30 days notice from NBEFC.
7. RBC for Genco's obligations with respect to Letters of Credit limited to USD \$100 million. The Letters of Credit are in support of Genco's normal course of operations. The guarantee will terminate upon 30 days notice from NBEFC.
8. Nextera for Genco's obligations under ISDA Master Agreements totalling USD \$15 million. The ISDA is related to the purchasing of commodities in US dollars. The guarantee terminates upon payment of all obligations due to Nextera or the release of NBEFC from its obligations under the guarantee by Nextera.
9. Scotiabank for Genco's obligations under ISDA Master Agreements totalling USD \$40 million. The ISDAs are related to the purchasing of commodities in US dollars. The guarantee terminates upon payment of all obligations due to Scotiabank or the release of NBEFC from its obligations under the guarantee by Scotiabank.

**13. RELATED PARTY TRANSACTIONS**

---

Related parties to NBEFC include the NB Power Group and the Province of New Brunswick. All of NBEFC's transactions are with these two related parties.

---

**NEW BRUNSWICK ELECTRIC FINANCE CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2012**

---

**14. OTHER**

---

NBEFC records the financial results of the NB Power Group using the equity method. The \$349.7 million shown by NBEFC as an investment on its balance sheet is equal to the amount of capital stock of the NB Power Group plus all earnings of the NB Power Group subsequent to 30 September 2004.

The NB Power Group's net income is reported as revenue on NBEFC's "Statement of Income and Accumulated Surplus (Deficit)". Unrealized intercompany gains or losses are eliminated.

NBEFC's net income was reduced by \$41.2 million of unrealized intercompany gains related to expenses deferred under the rate regulatory accounting used by the NB Power Group. In addition, NBEFC's "Other Comprehensive Income" was decreased by \$3.9 million to adjust for the change in unrealized gain resulting from NB Power Group's recognition of a "Future special payments in lieu of income taxes – other comprehensive income" asset.

The specific treatment of costs by the NB Power Group is outlined in the Electricity Act.

**15. SUBSEQUENT EVENT**

---

On October 19, 2011, the Province released its Energy Blueprint, which outlines a 10-year vision and a three-year action plan for the energy sector in New Brunswick. The action plan includes the amalgamation of the NB Power group of companies, including NBEFC, into a single vertically integrated Crown utility. The proposed structure anticipates that all of the assets and liabilities currently held by NBEFC will be assumed by NB Power in the integrated utility.

**16. COMPARATIVE FIGURES**

---

Certain 2011 figures have been restated to conform to 2012 presentation.