Énergie NB Power

ANNUAL REPORT

2011/12

July 31, 2012

Honourable Craig Leonard,
Minister of Energy,
Province of New Brunswick,
Fredericton, N.B. E3B 5H1

Sir:

I am pleased to submit the annual report of New Brunswick Power Holding Corporation for the fiscal year ended March 31, 2012.

Respectfully submitted,

Ed Barrett
Chairman
Board of Directors

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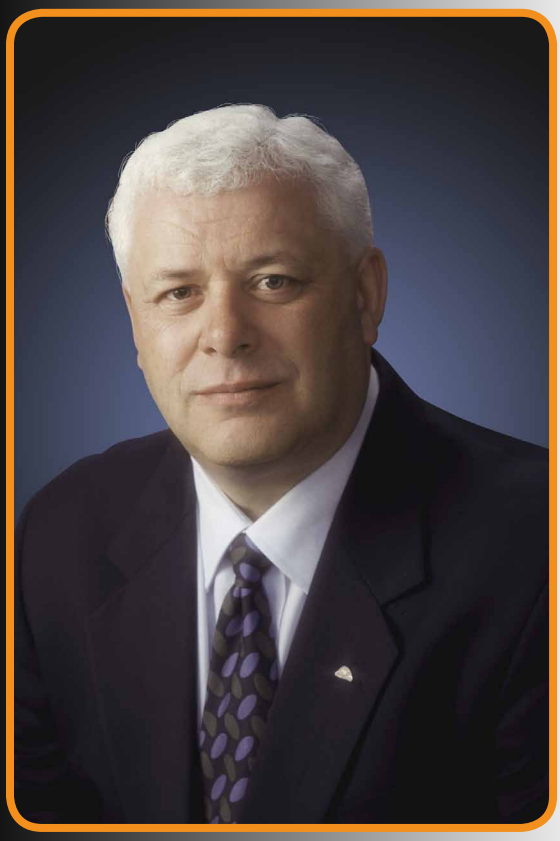
Cover Photo: Light emitting diode (LED) street lights illuminate the way on Waters Road in Miramichi. Above: The turbine hall at the Point Lepreau Generating Station.

Message from the Chairman



In October 2011, the Department of Energy released the New Brunswick Energy Blueprint. Through this Energy Blueprint and the Shareholder's previously released mandate letter, our Shareholder has provided us very clear direction. Specifically, NB Power is to operate in a manner which will provide competitive rates for customers while maintaining and enhancing shareholder value through efficient operations and long-term debt management.

That's where NB Power's newly released long-term strategic plan comes in. Our Board worked with management to develop a 30-year strategic plan to serve as the roadmap for all of NB Power's future business actions, investment decisions and program initiatives. This plan, which established three priorities for the Corporation, provides the foundation for NB Power to become a solid performer, reduce its debt and keep rates low.

This past fiscal year was a momentous one. A combination of good fortune and good management led to record earnings of $173 million. The utility benefited from higher-than-average hydro flows during the year and staff also continued to reduce operating and maintenance costs by focusing on productivity and process improvements.

During the year we realized some significant milestones towards completion of the refurbishment project at the Point Lepreau Generating Station. We also took some important first steps in launching our reduce and shift demand initiative. In addition, management began work on implementing the direction outlined in the Energy Blueprint by focusing on the necessary steps to bring together the NB Power companies into one entity and to reintegrate system operations back into the utility.

With every great year comes the challenge of sustaining, or bettering, that performance. As we look forward to 2012/13, I am confident that the entire NB Power team, board and employees, are on the right path and are energized to achieve another year of positive results for New Brunswickers.

Norman Betts Shirley Mears Robert Youden Ed Barrett

During the upcoming year we will increase our focus on transparency. We will continue to publish quarterly reports on our website that measure performance against financial and operational targets. We will also be engaging more with stakeholders in order to present our strategic plan and to listen to the challenges and concerns of our various stakeholders.

On behalf of the Board of Directors, I would like to thank our Shareholder for providing clear policy direction through the mandate letter and Energy Blueprint. NB Power's accomplishments during this past year are in part due to this clear direction, the cooperative relationship we enjoy with Energy Minister Leonard and his interest in and support for our various initiatives.

I would also like to thank my fellow directors for their commitment and hard work during this past year. I look forward to the year ahead as we continue to work with management to ensure the utility operates in a manner that secures competitive rates for customers.

Finally, I'd like to acknowledge NB Power's dedicated, professional workforce. Over the past two years, employees have worked alongside outside consultants to find annualized savings in excess of $50 million. Their willingness to support the productivity and process improvement initiative is a testament to their commitment to ensuring New Brunswickers have a stable, safe, cost-effective, environmentally friendly supply of energy at competitive rates – today and into the future.

Ed Barrett
Chairman, NB Power
Board of Directors

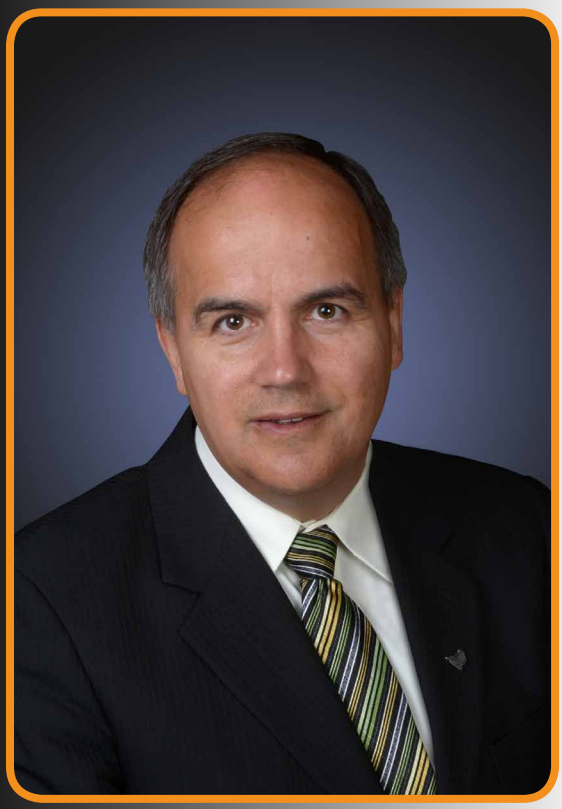
NB Power Strategic Objectives

NB Power will target being a top Quartile performer as compared to public and private utilities in North America

NB Power will systematically reduce debt to ensure that it is in a financial position to invest in new generation that will ensure stable rates for New Brunswick

NB Power will invest in technology, educate customers and incent consumption that will reduce and shift demand (RASD) for electricity and ultimately defer the next significant generation investment

Message from the President and CEO



I would like to begin by thanking and congratulating our employees for an excellent year. In 2011/12, NB Power's net earnings were $173 million, compared to $67 million in the prior year. Fuel and purchased power costs were down during the year as a result of lower overall generating costs and higher hydro flows. At the same time, operations, maintenance and administration expenses were down during the year.

Together, we accomplished much during 2011/12 as we responded to the goals established for us by our Shareholder and our Board of Directors. Let me start by addressing our results against the three pillars of our Strategic Plan.

1. Top Quartile Performance

The New Brunswick Energy Blueprint calls for us to implement costs reductions and to operate a leaner Crown utility. In 2011/12, we partnered with a firm to find efficiencies that will drive costs savings and reduce debt. The objective of this initiative is to realize $30 million in sustainable cost savings through productivity and process improvements. During the year, the company continued to reduce operating and maintenance costs through process improvement measures and other cost reduction initiatives.

The Energy Blueprint also calls for the amalgamation of the NB Power Group into a single vertically integrated Crown utility. In addition, it calls for the dissolution of the New Brunswick System Operator and the migration of system operator functions back to NB Power. This reintegration, which is scheduled to be complete by April 1, 2013, will reduce costs and create operating efficiencies.

2. Debt Management/Net Earnings

After making debt repayments of $413 million, NB Power's net debt increased by $83 million as we invested $363 million for the year on the Point Lepreau Generating Station Refurbishment Project and $133 million in other capital projects. Following refurbishment, net debt levels are forecasted to begin a gradual decline to meet the $1 billion reduction target by 2020/21.

3. Reduce and Shift Demand (RASD)

RASD requires that we invest in information and communication technologies commonly referred to as Smart Grid. In August 2011, we engaged Siemens Canada and Siemens Global Infrastructure and Cities Smart Grid headquarters to ensure we optimize the cumulative value of RASD. In March 2012, we partnered with Invest NB to host the Information, Technology and Communications Council to discuss opportunities for NB-based IT companies through RASD investments.

Gaëtan Thomas Blair Kennedy Darren Murphy Sherry Thomson

RASD is dependent on customer-made behavioural changes through conservation and energy efficiency efforts. We are engaged with Efficiency NB and the Municipal Electric Utilities in the development of a three-year cooperative energy efficiency program focused on electricity. It is anticipated this plan should be complete late in 2012 or early in 2013.

Key Accomplishments

In August 2011, E Source announced that we received third place in a study of 100 US and Canadian electric and gas company websites. This is a significant improvement since 2007, when we were ranked 67 out of the 100 companies that were evaluated. Our ranking reflects efforts made in recent years to increase access to information and service options for our customers.

In 2011/12, the focus of our Point Lepreau Refurbishment Project team was on completion of Phase 2 – Executing the Refurbishment Outage. Moderator refill activity was safely completed in January 2012 and the lower feeder installations in March 2012.

On February 17, 2012, the Canadian Nuclear Safety Commission (CNSC) announced that the Power Reactor Operating License for the Point Lepreau Generating Station had been renewed for a five-year period. This license, which is valid until June 2017, included permission to proceed with fuel load and other restart activities.

In March 2012, workers started loading the first of 4,560 new fuel bundles into the reactor and this work was completed two weeks later. We are focused on completing restart-related work by fall 2012 with a continued strong focus on safety and quality.

Late in fiscal 2011/12, we reached an agreement with Edmundston Energy which allows for the expansion of Edmundston Energy's customer boundary. This agreement also includes a 20-year power purchase agreement where we purchase 100 per cent of Edmundston Energy's generation output from both the Madawaska and Green River hydro generation systems. In addition, this agreement includes a power supply agreement where we supply 100 per cent of Edmundston Energy's needs for the next 20 years.

Looking Forward

As we look forward to 2012/13, we expect to continue to streamline our organization and focus on process improvement opportunities as we work to achieve top quartile performance. At the same time, we are committed to doing this without impacting safety, quality or customer service levels. We will complete the refurbishment of the Point Lepreau Generating Station and we expect to make significant advancement on our RASD initiative.

While we are proud of our accomplishments in 2011/12, we know that we must continue our efforts to explore new ways of working and embrace change as part of our ongoing commitment to providing New Brunswickers with excellent customer service and competitive rates.

Gaëtan Thomas
President and Chief Executive Officer

Senior Management

Blair Kennedy
Vice President Generation (Conventional & Nuclear)

Darren Murphy
Vice President Finance & Human Resources & Chief Financial Officer

Sherry Thomson
Vice President Customer Service, Distribution & Transmission

Wanda Harrison
Secretary & General Counsel

Keith Cronkhite
Vice President Shared Services (Acting) and Executive Director Business Development & Strategic Advisor

Wanda Harrison Keith Cronkhite

Nuclear

NB Power has more than 2300 employees working in generating stations, offices and in field operations throughout the province. Whether or not NB Power's employees directly interact with customers or are working behind the scenes, they each have a role to play in keeping the lights on for New Brunswickers.

NB Power Nuclear employees are responsible for the operation and maintenance of the Point Lepreau Generating Station, Atlantic Canada's only nuclear facility. This Station is currently undergoing the world's first CANDU 6 refurbishment.

In 2011/12, the refurbishment project team realized several significant milestones with the successful installation of all 360 calandria tubes in the reactor vessel, the successful completion of the fuel channel installation and the installation of the 760 lower feeder pipes, which was the last major refurbishment activity prior to loading fuel inside the reactor.

In February 2012, the Canadian Nuclear Safety Commission (CNSC) announced that the Power Reactor Operating License for the Point Lepreau Generating Station had been renewed for a five-year period. This license, which is valid until June 2017, included permission to proceed with fuel load and other restart activities.

Towards the end of the fiscal year, workers at the Station started loading the first of 4,560 new fuel bundles into the reactor. Workers manually inserted the new fuel bundles into the reactor after a detailed fuel accounting process, which is in accordance with the International Atomic Energy Agency and the CNSC. Each fuel bundle is about the size of a fire log and weighs approximately 22 kilograms. A single bundle can produce enough energy to power one home for one hundred years.

Throughout the refurbishment project, employees have been working closely with the local Community Liaison Committee to provide information to the community and address any public concerns relating to the refurbishment or the operation of the Station.

Commissioning activities are well underway and NB Power remains on track to restart the Station by the fall 2012 to deliver safe and reliable power to New Brunswick for the next 25 to 30 years.

Greg Brown, NB Power Fuel Handling Specialist, inserts a fuel bundle into the reactor at the Point Lepreau Generating Station.

Generation

NB Power Generation employees operate and maintain one of North America's most diverse generating systems, consisting of 13 hydro, coal, oil and diesel-powered stations. The network of conventional generating stations has an installed net capacity of 3,152 MW comprised of 1,738 MW thermal, 889 MW hydro and 525 MW combustion turbine.

Employees in Generation constantly monitor these stations to ensure they are operating effectively. Whether it is keeping a close eye on water levels, performing maintenance work or looking for ways to reduce our environmental footprint, they all help to ensure that we are producing safe and reliable electricity for our customers.

NB Power Generation employees also work closely with the communities surrounding these generating stations. The Community Liaison Committees for the Coleson Cove, Dalhousie, Grand Lake, Point Lepreau and Belledune generating stations meet regularly to ensure that each community's needs are being looked after and to discuss important initiatives and events that could impact the community. These committees will be expanded to incorporate our hydro facilities in the coming year.

NB Power also exports and imports energy to/from neighbouring New England, Québec, Prince Edward Island and Nova Scotia markets. NB Power's Marketing Desk operates 24 hours a day, 365 days a year to secure short- and long-term deals for selling NB Power's excess energy to take advantage of peak prices in the export market or buying energy at a lower cost than it would cost to generate for the benefit of New Brunswick customers. The Marketing group is also responsible for monitoring the financial, natural gas and hedging markets.

During the year, NB Power Generation completed the second year of a multi-year project to refurbish the concrete structures of the Grand Falls Generating Station spillway. In addition, the Belledune Generating Station began a two-year project to replace the 20-year-old, plant-wide control system that controls every aspect of the operation at the Station. The Millbank Generating Station also began a two-year maintenance overhaul, which will replace many of the components of the gas turbine and thus ensuring the reliability and availability of the unit for years to come.

Nicole Vienneau, Hydro Operator, monitors water flows and unit output at the Grand Falls Generating Station.

Transmission

NB Power Transmission employees are focused on safely and efficiently operating and maintaining NB Power's 46 terminals and switchyards that are interconnected by over 6,849 km of transmission lines, ranging in voltage from 69 kV to 345 kV.

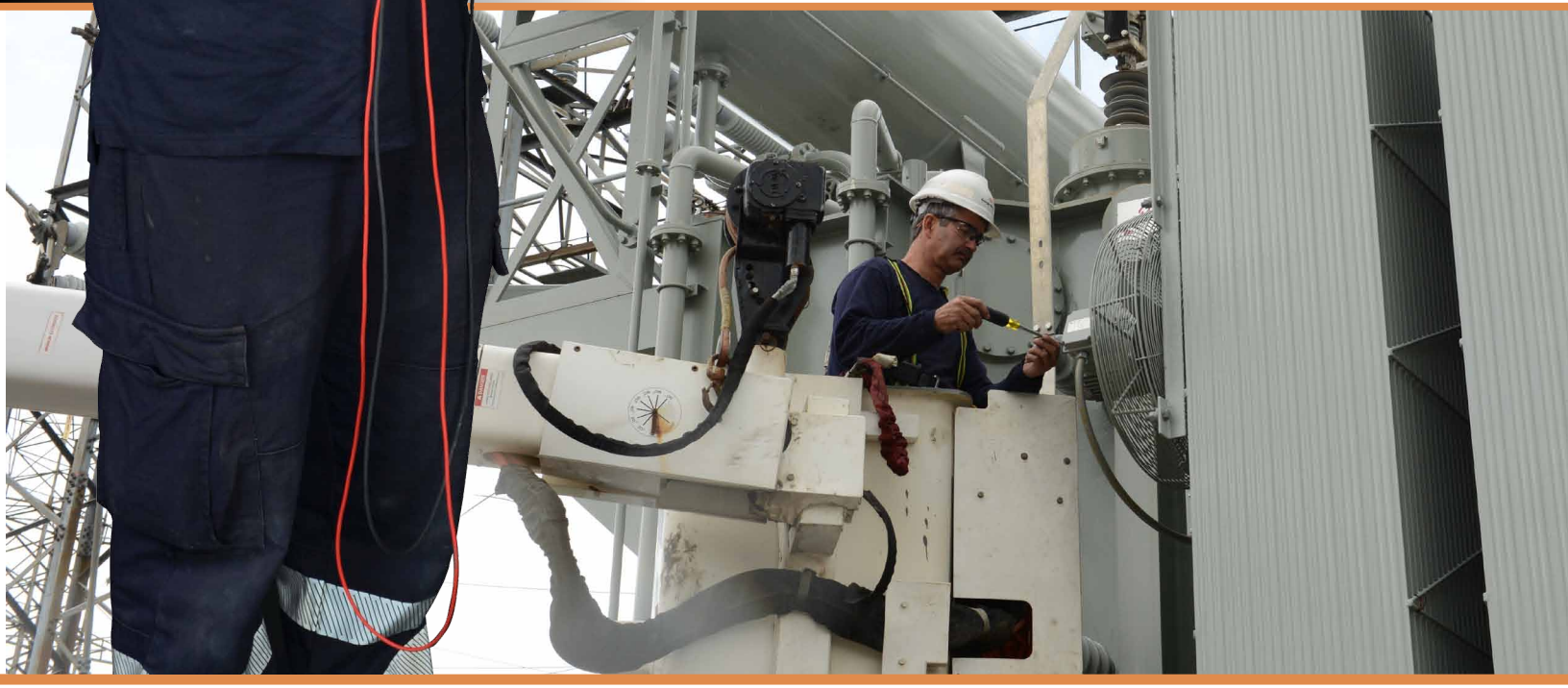
This transmission system is interconnected with electrical systems in North America, including Québec, Maine, Nova Scotia and Prince Edward Island. The NB Power transmission network is operated from the Energy Control Centre in Fredericton, which operates 24 hours per day, seven days per week.

Transmission employees are constantly performing regular maintenance work on the system in order to ensure that service is not interrupted to customers. These employees also work with customers to address inquiries about outages, right-of-ways and tree trimming activities.

NB Power Transmission manages vegetation growth on and along transmission lines to assist with removing safety obstacles. More than 50 per cent of power outages in Canada occur when vegetation has some kind of contact with power lines. Trained arborists and forest technicians use mechanical and hand cutting, mowing, pruning, and Health Canada approved herbicides to reduce troublesome vegetation. Having low growing vegetation reduces the amount of power outages and increases safety for NB Power employees and those who use these right-of-ways.

In 2011/12, NB Power Transmission successfully completed two major capital projects. NB Power expanded the Norton terminal by constructing a new 138kV - 69kV yard to improve system security and reliability for customers in southern New Brunswick. Transmission also expanded and reconfigured its facilities at the Grand Lake terminal enabling NB Power to leverage the latest control technologies to produce the first fully functional microprocessor controlled terminal in New Brunswick. This project will be the foundation for future terminal projects to ensure a safe and reliable transmission system.

Denis LeClair, Electrical Mechanic, performs maintenance on a power transformer at the Marysville's switchyard.



Customer Service

NB Power Distribution and Customer Service employees operate and maintain the distribution system and provide customer service to more than 391,000 direct and indirect customers across the province.

NB Power's customer care employees are focused on customer interaction, market development, account management and energy counsel. These employees interact with customers through various services including the customer interaction centre, payment locations across the province and home shows.

NB Power's account managers and residential and business customer advisors provide the next level of customer service, working with customers to address inquiries or concerns and help these customers look for ways to reduce their energy consumption. Moving forward, NB Power will use significant advances in technology such as smart grid to enable customers to control and manage their energy utilization.

2011/12 was a big year for NB Power's website. NB Power ranked third out of 100 North American websites and first in Canada in E Source's 2011 Review of North American Electric and Gas Company Websites. Late in the year, NB Power's Business Customer Self-serve went live on nbpower.com.

New Brunswick's distribution system includes a centralized distribution control centre, approximately 237 distribution, wholesale and industrial substations and approximately 20,500 kilometres of distribution lines supported by approximately 590,000 poles.

Distribution employees design, construct, operate and maintain these distribution substations, lines, facilities and equipment. These employees remain focused on reducing and managing costs, optimizing asset utilization and ensuring employees work safely in delivering service to customers and that the distribution system is maintained to provide a safe and reliable supply of electricity.

Early in the fiscal year, a third party began producing renewable energy from a biogas generator, selling this electricity to NB Power under the Embedded Generation Program. This is the first Biogas Renewable Generator to be embedded on NB Power's distribution system.

Tamara Brown, Residential Customer Advisor, works with Mrs. Phyllis Morehouse of Zealand to review opportunities to reduce her energy consumption.

Financials 2011/12

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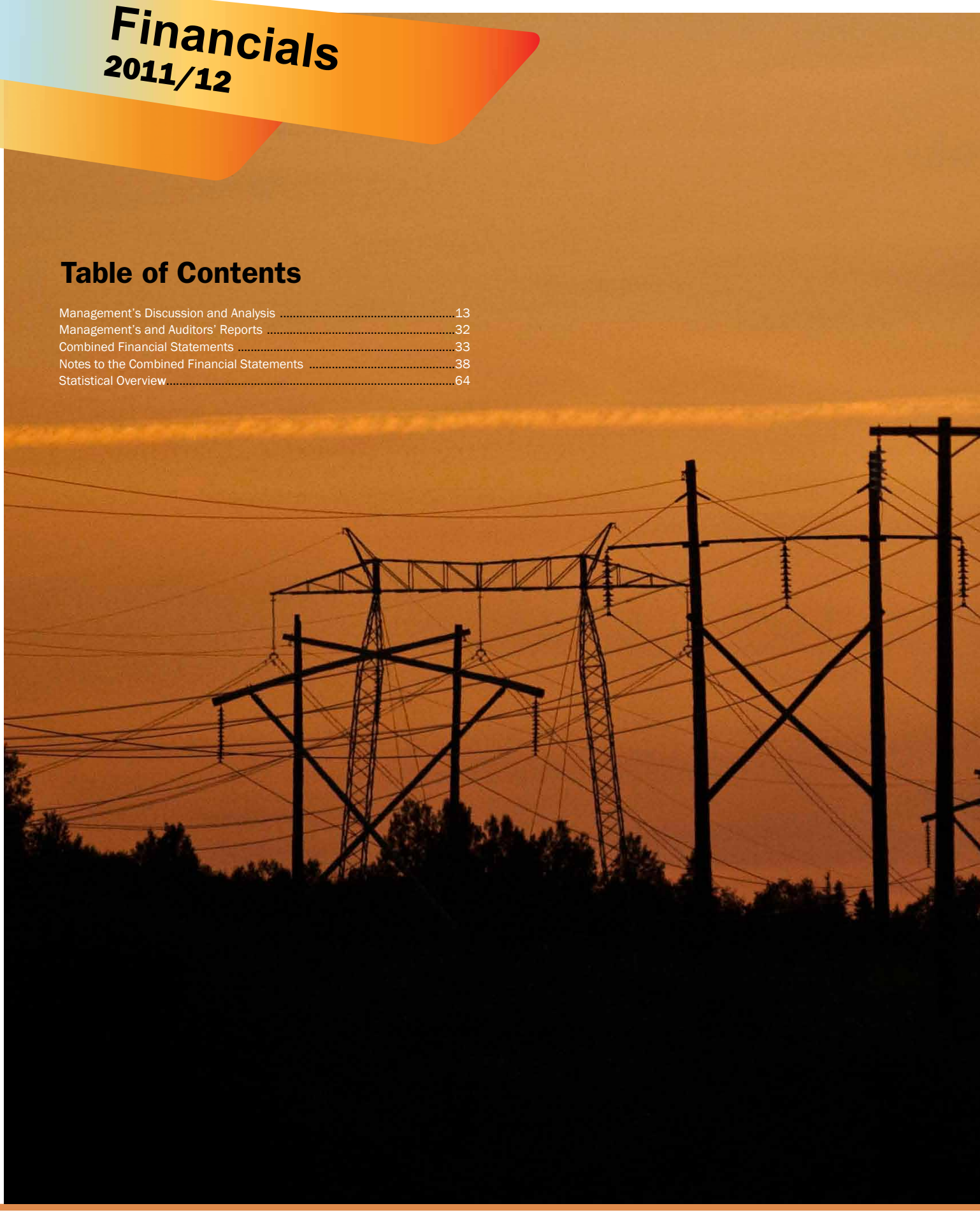

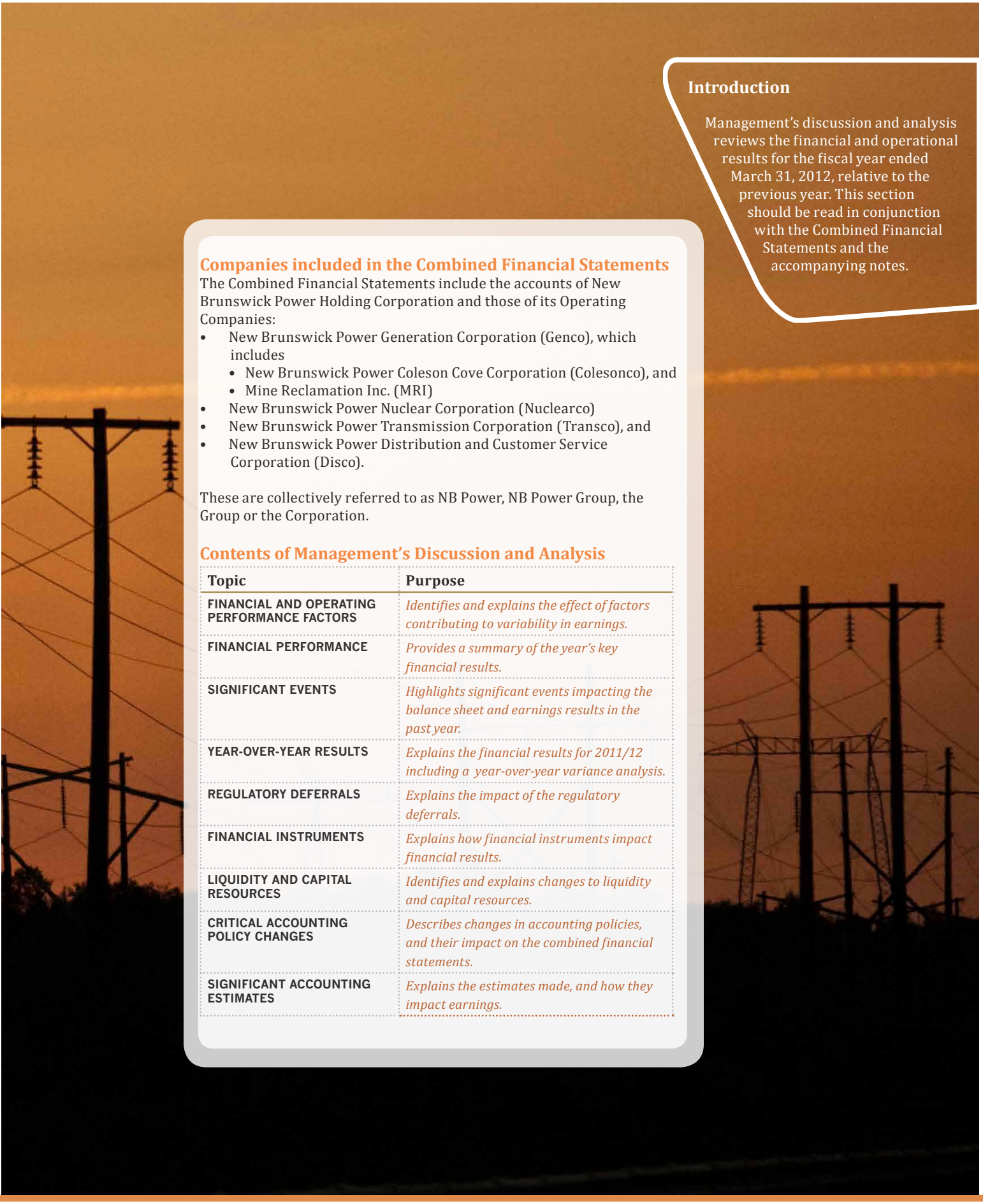

Introduction

Management's discussion and analysis reviews the financial and operational results for the fiscal year ended March 31, 2012, relative to the previous year. This section should be read in conjunction with the Combined Financial Statements and the accompanying notes.

Companies included in the Combined Financial Statements

The Combined Financial Statements include the accounts of New Brunswick Power Holding Corporation and those of its Operating Companies:

- New Brunswick Power Generation Corporation (Genco), which includes
  - New Brunswick Power Coleson Cove Corporation (Colesonco), and
  - Mine Reclamation Inc. (MRI)
- New Brunswick Power Nuclear Corporation (Nuclearco)
- New Brunswick Power Transmission Corporation (Transco), and
- New Brunswick Power Distribution and Customer Service Corporation (Disco).

These are collectively referred to as NB Power, NB Power Group, the Group or the Corporation.

Contents of Management's Discussion and Analysis

Topic	Purpose
FINANCIAL AND OPERATING PERFORMANCE FACTORS	*Identifies and explains the effect of factors contributing to variability in earnings.*
FINANCIAL PERFORMANCE	*Provides a summary of the year's key financial results.*
SIGNIFICANT EVENTS	*Highlights significant events impacting the balance sheet and earnings results in the past year.*
YEAR-OVER-YEAR RESULTS	*Explains the financial results for 2011/12 including a year-over-year variance analysis.*
REGULATORY DEFERRALS	*Explains the impact of the regulatory deferrals.*
FINANCIAL INSTRUMENTS	*Explains how financial instruments impact financial results.*
LIQUIDITY AND CAPITAL RESOURCES	*Identifies and explains changes to liquidity and capital resources.*
CRITICAL ACCOUNTING POLICY CHANGES	*Describes changes in accounting policies, and their impact on the combined financial statements.*
SIGNIFICANT ACCOUNTING ESTIMATES	*Explains the estimates made, and how they impact earnings.*

FINANCIAL AND OPERATING PERFORMANCE FACTORS

This explains why the NB Power Group earnings before taxes are subject to significant variability under normal operations.

Impact of financial and operating performance factors

There are many factors that impact earnings before taxes that are outside the control of management. These factors result in significant swings in year-to-year results because they affect the cost of generation or price competitiveness in export markets.

Factors that affect financial and operating performance

These are the major factors that have historically affected NB Power's variability in earnings. This table explains how each factor can affect the variability of revenue and expenses.

Factor	Description
Purchased power contracts based on natural gas	Represents • approximately 15 to 20 per cent of total supply, and • approximately 20 to 25 per cent of the total fuel and purchased power costs. As a portion of the price of NB Power's purchased power contracts is based on natural gas prices, the Group manages this exposure by entering into forward purchase contracts for natural gas.
Short-term energy purchases	Represent • approximately 40 to 45 per cent of total supply requirements, and • approximately 50 to 55 per cent of total fuel and purchased power costs. Depending on world oil prices, lower cost energy is purchased to displace internal oil-fired generation. Typically NB Power enters into forward purchase contracts for energy to supply forecasted requirements.
Coal/petcoke based generation	Represents • approximately 15 to 20 per cent of total supply, and • 15 to 20 per cent of the fuel and purchased power costs. Coal is normally purchased through tendered contracts of one to two-year terms. As a mixture of coal types are blended and burned, coal is procured from a number of counterparties, generally at firm fixed prices. Petcoke is also normally purchased through tendered contracts of one to two-year terms. A floating price component is typically built into petcoke contracts in which the purchase price is reflective of an index price at the time the petcoke is delivered.

Belledune Generating Station's fuel supply is a mix of coal and petroleum coke, which are brought in through the Port of Belledune.

<table>
<tr><th>Factor</th><th>Description</th></tr>
<tr><td>Hydro based generation</td><td>Represents NB Power's lowest-cost fuel for generating electricity. It typically accounts for 15 to 20 per cent of total production. The table below describes how hydro flows can increase or decrease generation costs.

<table><tr><td>If hydro flows are</td><td>then NB Power</td></tr><tr><td>below anticipated levels</td><td>uses other more expensive fuel to make up the shortfall and increases its generation costs</td></tr><tr><td>higher than anticipated</td><td>reduces the use of expensive fuels and decreases its generation costs</td></tr></table>
Hydro net generation as a percentage of the long-term average over the past 10 years has ranged from 70 to 132 per cent.</td></tr>
<tr><td>Out-of-province margins</td><td>The Group is a price-taker in regional energy markets. Market prices in the surrounding regions are typically driven by the cost of natural gas generation.

In the normal course of business, the lowest cost or must-take energy is directed to in-province use and any remaining energy is available for out-of-province sales.

Subject to operating conditions, the Group enters into forward out-of-province sales contracts which enable more predictable out-of-province margins.</td></tr>
<tr><td>Heavy fuel oil based generation</td><td>Heavy fuel oil subject to market price fluctuations represent
• approximately 0 to 5 per cent of total supply, and
• 0 to 5 per cent of fuel and purchased power costs.

During 2011/12 there was market volatility with heavy fuel oil prices with a high of over $116/bbl (USD) and a low of just under $91/bbl (USD).

To minimize short to medium term heavy fuel oil price exposure, the Group typically enters into forward purchases for its forecasted in-province and firm export heavy fuel oil requirements.</td></tr>
<tr><td>Exchange rates</td><td>NB Power is exposed to foreign exchange risk when its purchases of fuel and purchased power in US dollars do not offset the revenue received in US dollars.

There was volatility in the Canadian dollar during the past year. The value of the Canadian dollar compared to the US dollar fluctuated between $0.94 and $1.06 during the year.

NB Power typically enters into forward purchase contracts for US dollar requirements net of expected US dollar revenue.</td></tr>
<tr><td>Nuclear based generation</td><td>In previous years, nuclear generation represented up to 25 per cent of total production through the Point Lepreau Generating Station, of which effective operation is essential for NB Power's positive financial performance.

On March 28, 2008, Point Lepreau Generating Station was taken out of service for refurbishment. The refurbishment project has experienced some challenges which have caused the outage to be extended: as a result there was no production from nuclear generation in 2011/12.</td></tr>
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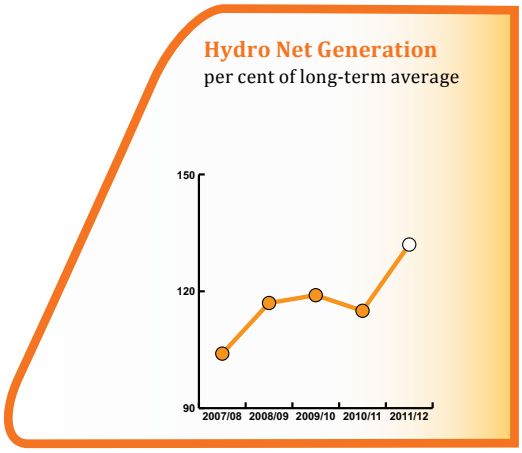
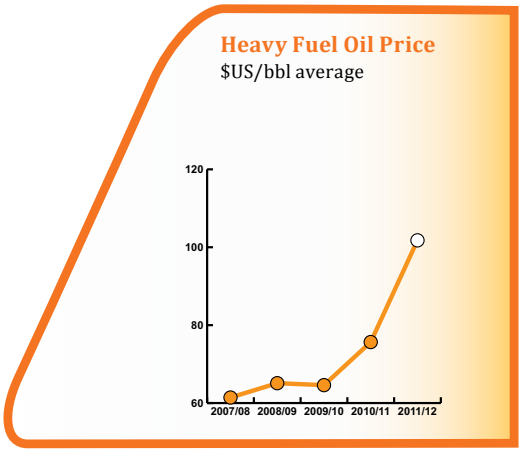




Measuring Financial and Operating Performance Factors

The table below provides explanations of the factors behind NB Power's variability in earnings. The indicative prices quoted in the table below are un-hedged prices.

Financial and Operating Factors behind Variability	2011/12	2010/11
Range of heavy fuel oil prices ($US / bbl Platts NY three per cent) throughout the year Platts NY three per cent is a fuel price index benchmark reported by the dominant price benchmark reporting service. Platts NY three per cent refers to the sulphur level of heavy fuel oil against which NB Power benchmarks.	$91 - 116	$62 - $103
Range of Canadian dollar throughout the year ($US equivalent) Exchange Rate: the rate at which one currency may be converted into another.	$0.94 - $1.06	$0.93 - $1.03
Range of short-term debt interest rates throughout the year	1.0%	.25% - 1.00%
Average International Coal Report coal market price ($US / ton) International Coal Report provides news and analysis on the international steam coal and coking coal markets, including evaluations of the major markets, and benchmark price assessments for coal trading in the Atlantic and Pacific markets. The report covers data on shipping movements, tenders, and contracts, and assesses spot prices for key benchmark prices for physical coal in both the Atlantic and Pacific markets for forward-month delivery.	$110.05	$90.07
Range of natural gas prices ($US / mmbtu) throughout the year Mmbtu = 1 million British Thermal Units	$2.27 -$6.94	$3.47 - $12.63
Average New England on-peak prices ($US / MWh) On Peak Price reflects the price of electricity when demand for electricity is highest.	$45.53	$58.70
Hydro net generation as a percentage of long-term average Net generation is the amount of electricity generated by a power plant that is transmitted and distributed for consumer use and is the result of gross generation less the electric energy consumed at the generating station for station use. Long-term average hydro energy is the amount of energy that can potentially be produced using the average river flow, based on the period of record (the period of record for NB Power is 1954-1994)	132%	115%
Point Lepreau Generating Station net capacity factor Capacity factor of a power plant is the ratio of the actual output of a power plant over a period of time, and its output if it had operated at full capacity the entire time.	-	-

The majority of commodities prices (e.g. heavy fuel oil, natural gas and coal) are hedged through forward purchases and therefore provides in-year price predictability.

The Tobique Generating Station began production in 1953 and contributes to annual hydro levels.

FINANCIAL PERFORMANCE

This provides an overview of NB Power Group's financial performance for the year.

Introduction

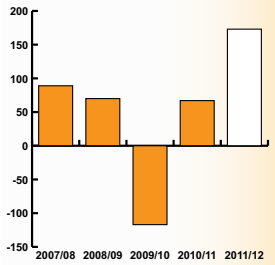
This provides an overview of NB Power Group's financial performance for the year.

Key measures of financial performance

Financial Performance (in millions)	2011/12	2010/11
Net earnings (loss)	$173	$67
Cash flow from operations	$388	$293
Net capital expenditures	$279	$238
Total debt at end of year	$4,533	$4,450
Net increase in debt	$83	$197
Expenditures (revenue) deferred for regulatory purposes[1]	$175	$216

[1]Expenses incurred in the current year related to the Point Lepreau Generating Station refurbishment (period costs and additional energy costs) and the Petroleos de Venezuela S.A. (PDVSA) lawsuit settlement are deferred and will be collected in future rates.

Net Earnings (Loss)
in the millions of dollars

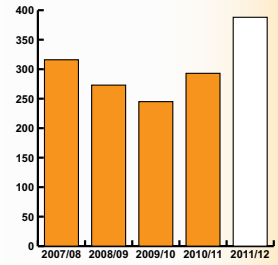


Financial ratios and percentages

Financial Ratios and Percentages	2011/12	2010/11
Operating margin	18%	11%
Cash flow from operations / capital expenditures	1.39	1.23
Cash flow from operations / total debt	0.09	0.07
Capital expenditures / net book value of property, plant and equipment	7%	6%
Per cent of debt in capital structure	91%	94%
Interest coverage ratio[2]	1.59	1.02

[2]Interest coverage ratio is defined as the adjusted earnings before interest and taxes (earnings before interest and taxes net of debt portfolio management fee and investment income) divided by adjusted finance charges (finance charges net of interest income, realized foreign exchange, debt portfolio management fee, interest during construction, debenture discount amortization and deferred interest amortization).

Cash Flow from Operations
in the millions of dollars



The newly constructed Charles Lutes Road Substation in Moncton was built in 2011/12.

Highlights

NB Power's net earnings were $173 million for the year ended March 31, 2012, compared to $67 million in the prior year. Earnings before special payments in lieu of income taxes for the year ended March 31, 2012 were $231 million compared to the prior year's income before special payments in lieu of income taxes of $99 million. The significant factors that contributed to the $132 million year-over-year variance were

- an increase in gross margin of $110 million mainly due to
  - higher in-province revenue due to higher residential and general service load partially offset by warmer weather
  - lower overall generation costs partially reduced by higher volumes
  - higher hydro flows in 2011/12 at 132 per cent of the long-term average compared to 115 per cent of the long-term average in 2010/11

  partially offset by
  - lower out-of-province revenue due to lower volumes mainly due to completion of prior year export contracts and lower market prices
- a decrease in finance charges of $19 million due to lower long-term interest rates and lower debt levels (other than debt associated with ongoing capital projects)
- gain on sale of dragline of $15 million in 2011/12 (reported as miscellaneous revenue)
- a decrease in operations maintenance and administration expense of $7 million in 2011/12 (see Year-over-Year Results – Expense section for more detail)

partially offset by

- an increase in amortization and decommissioning expense of $18 million in 2011/12 (see Year-over-Year Results – Expense section for more detail)

Non-capital costs of $180 million were incurred related to the Point Lepreau Generating Station Refurbishment Project; however, these costs were deferred in accordance with legislation, (no impact on the current year's earnings) and will be amortized over the life of the refurbished generating station.

In 2011/12, the NB Power Group's debt increased by $83 million. The increase was mainly due to financing requirements for the Point Lepreau Refurbishment Project and the related deferred costs (see Liquidity and Capital Resources section for more detail).

SIGNIFICANT EVENTS

The following significant events impacted the NB Power Group's financial results.

PLGS Refurbishment Project

In July 2005, the Province of New Brunswick announced its decision to support the Board's recommendation to refurbish the Point Lepreau Generating Station in partnership with Atomic Energy of Canada Limited (AECL). The refurbishment will extend the Station's life by approximately 25 years, providing the NB Power Group with electricity from a fuel source that is not subject to the volatility of heavy fuel oil pricing. The refurbished Station will also continue to provide an environmental benefit by generating electricity that avoids significant carbon dioxide, sulphur dioxide and nitrogen oxide emissions.

The original project completion and Station restart date was October 2009. The project has experienced challenges and as a result the expected project completion and Station restart is now on track and scheduled for Fall 2012.

Total project capital spending to March 31, 2012 was $1.2 billion.

Financial implications of delay

Refurbishment of the Point Lepreau Generating Station is largely a turnkey project and, as such, construction cost overruns are the responsibility of the contractor – AECL. However, there are financial implications for NB Power as project owner.

The capital costs and deferral costs totaling $33 million per month as a result of the delay are as follows

- The capital cost of the project will increase by approximately $15 million per month of project delay, this consists of
  - $3 million in increased project owner costs for facilities, contracted staff, insurance and other costs to support the project
  - $12 million of costs reallocated from operations to the project
- The deferral of Nuclearco period and replacement power costs will increase by approximately $18 million per month (including interest applied to the deferral balance).

These costs will be amortized and charged to customers over the extended life of the station.

Workers at the Point Lepreau Generating Station install calandria tubes in the reactor vessel.

Rate Freeze

In January 2011, the NB Power Board of Directors received the Shareholder's mandate letter which included a number of specific directives, one of which directed NB Power to implement a three-year rate freeze ending September 2013. As a result of this directive, the hedging program was extended from purchasing 18 months forward to 36 months forward. This will assist with mitigating risk related to fuel and purchased power price volatility over the three-year rate freeze.

International Financial Reporting Standards (IFRS)

During the year, the Accounting Standards Board (AcSB) allowed companies with rate regulated activities to defer their implementation of IFRS by one year. The NB Power Group met the requirements for the deferral and has elected to defer the transition to IFRS until April 1, 2013. This is consistent with what other government business enterprise rate regulated utilities are doing.

Thermal Decommissioning Liabilities

During the year as part of the on-going decommissioning liability review process, a third party performed a decommissioning study on the Coleson Cove Generating Station. As a result of this study the decommissioning liability was increased by $4.5 million to $24 million.

Nuclear Decommissioning Liabilities

During the year as part of the on-going decommissioning liability review process, the Nuclear Waste Management Organization (NMWO) performed a study on the used nuclear fuel and as a result the liability increased by $15 million to $271 million.

Material Damage and Delay in Start-up Legal Action

In August 2011, Lloyds Underwriting denied insurance claims by NB Power Nuclear and Atomic Energy of Canada Limited, stating that the claims did not fall within the coverage afforded each company's Construction All Risk policy. In February 2012, NB Power Nuclear and Atomic Energy of Canada Limited each commenced separate legal actions against Lloyds Underwriting, claiming coverage under each company's policy related to damage incurred and delays associated with the calandria tube activities. NB Power Nuclear has claimed approximately $65 million under the material damage section of the policy, and $255 million under the delay in start-up section.

New Brunswick Energy Blueprint

On October 19, 2011, the New Brunswick Department of Energy released its Energy Blueprint, which outlines a 10-year vision and a three-year action plan for the energy sector. The Energy Blueprint contains a number of actions that impact NB Power.

Continuous process improvement

The New Brunswick Energy Blueprint called for NB Power to implement costs reductions and to operate a leaner Crown utility. In 2011/12, NB Power partnered with a firm to find efficiencies within the Group that will drive costs savings and reduce debt by 20 per cent over 10 years. The objective of this 36-week long initiative, known as Energy Transformation, is to realize $30 million in sustainable cost savings through productivity and process improvements.

Large Industrial Renewable Energy Purchase Program

The Energy Blueprint's Large Industrial Renewable Energy Purchase Program provides electricity cost relief for certain large industrial customers who compete against competitors located in jurisdictions with lower energy costs than New Brunswick. This Program calls for NB Power to purchase renewable-based electricity from qualifying large industrial customers at a set price. As of March 31, 2012, NB Power had not executed any agreements; however, when these agreements do come into force energy purchases will be retro-active to January 1, 2012.

Reintegration

The Energy Blueprint calls for the amalgamation of the Group into a single vertically integrated Crown utility and the dissolution of the New Brunswick System Operator and the migration of system operator functions back to NB Power. This reintegration, which is scheduled to be complete by April 1, 2013, will reduce costs and allow operating efficiencies which are necessary for the company to address its debt issues in a very strategic and focused manner.

YEAR-OVER-YEAR RESULTS - REVENUES

This provides an overview of NB Power's revenues for the year, and compares them with previous years.

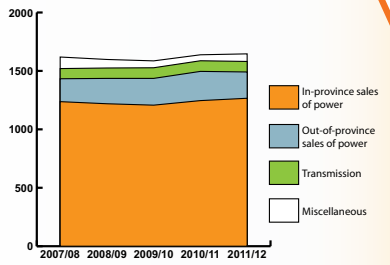
Revenue Overview

Revenue overview (in millions)	2011/12	2010/11
Sales of power		
In-province	$1,266	$1,246
Out-of-province	225	250
Transmission	90	91
Miscellaneous	65	51
Total revenues	$1,646	$1,638
Per cent increase (decrease) year-over-year	0%	3%

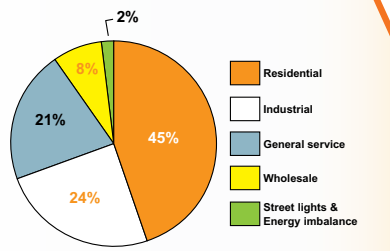
In-province Sales of Power

In-province sales of power (in millions)	2011/12	2010/11
Residential	$569	$551
Industrial	306	311
General service	271	264
Wholesale	96	97
Street lights and energy imbalance	24	23
Total	$1,266	$1,246
Per cent increase (decrease) year-over-year	2%	3%
GWh	12,862	12,658
Per cent increase (decrease) year-over-year	2%	1%

Revenue Analysis
in the millions of dollars



In-province Revenue



Major contributors to year-over-year in-province sales variance

In-province sales of power totaled $1,266 million in 2011/12, representing a $20 million or two per cent increase compared to 2010/11. The main contributors to the year-over-year variance were as follows

Revenues	By this amount	Due to
Contributing factors		
increased	$29 million	increased residential and general service load
Offsetting factors		
(decreased)	($7 million)	warmer weather

Out-of-province Sales of Power

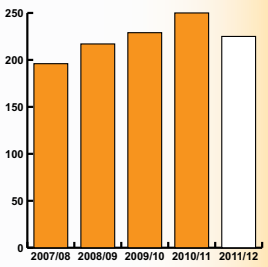
Out-of-province sales of power (in millions)	2011/12	2010/11
Revenue	$225	$250
Per cent (decrease) increase	(10%)	9%
GWh	3,132	2,994
Per cent increase (decrease) year-over-year	5%	29%

Major contributors to year-over-year out-of-province sales variance

In 2011/12, out-of-province sales of power decreased by $25 million or 10 per cent compared to 2010/11. The main contributors to the year-over-year variance were:

Revenues	By this amount	Due to
Contributing factors		
(decreased)	($29 million)	lower market prices
	($6 million)	lower volumes mainly due to expiration of a contract to sell capacity during the year
Offsetting factors		
increased	$10 million	increased sales volumes as a result of favorable sales prices due to lower cost to supply (resulting from higher hydro)

Out-of-province Revenue
in the millions of dollars



Miscellaneous Revenue

Normally miscellaneous revenue consists primarily of

- water heater rentals
- pole attachment fees
- point-to-point tariff
- generation by-products

Miscellaneous revenue results

Miscellaneous revenue was $65 million in 2011/12, an increase of $14 million compared to 2010/11. This increase was mainly due to the sale of a dragline from the former NB Coal company.

Transmission Revenue

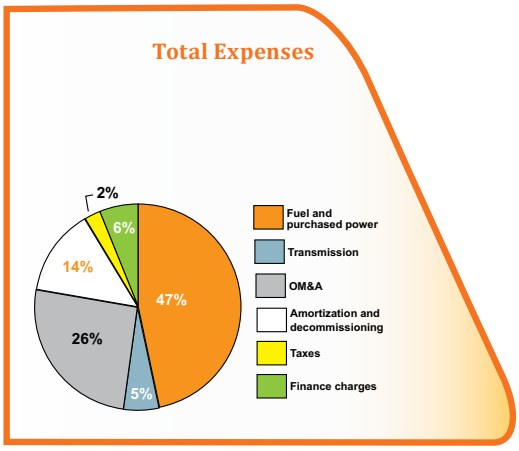
Transmission revenue

- represents recoveries from the System Operator for the transmission revenue requirement
- is largely offset by transmission expenses paid to the System Operator for
  - network service
  - connection fees
  - point-to-point tariff
  - scheduling services.

YEAR-OVER-YEAR RESULTS - EXPENSES

This provides an overview of NB Power's expenses for the year, and compares them with previous years.

Expenses Overview



Expenses (in millions)	2011/12		2010/11	
	$	%	$	%
Fuel and purchased power	$742	45%	$874	50%
Transmission	87	5	90	5
Operations, maintenance & administration	409	25	416	24
Amortization and decommissioning	217	13	199	11
Taxes	40	2	40	2
Finance charges	95	6	114	6
Special payments in lieu of income taxes	58	4	32	2
Total	$1,648	100%	$1,765	100%
Per cent (decrease) increase year-over-year		(7%)		(7)%

Major contributors to year-over-year expense variance

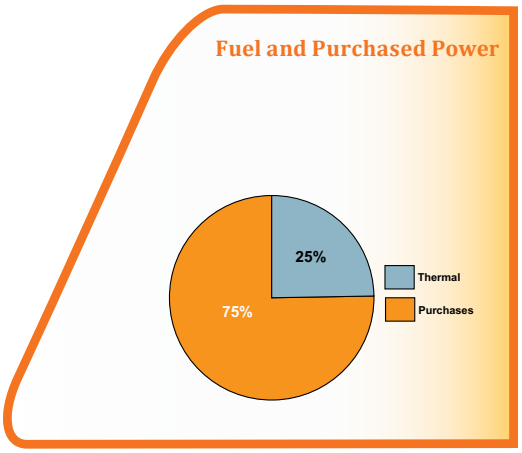
Total expenses decreased by $117 million to $1,648 million in 2011/12. This decrease resulted mainly from the following factors:

Expense	Change	Explanation
Contributing factors		
fuel and purchased power	decreased by ($132 million)	• lower overall generating costs • higher hydro flows *partially offset by* • higher overall volumes required • prior year one-time settlement of a fuel supply and storage agreement resulting in lower costs
finance charges	decreased by ($19 million)	• lower interest charges mainly related to lower debt levels (other than debt associated with ongoing capital projects) and lower long-term interest rates
operations, maintenance and administration (OM&A)	decreased by ($7 million)	• lower early retirement expense due to a prior year staff reduction incentive program • lower corporate costs due to prior year settlement of a contract to supply gypsum • lower land reclamation expense this year due to an adjustment made in prior year *partially offset by* • higher pension costs • higher labour and overtime related to Point Lepreau Generating Station OM&A projects • higher hired services at the Point Lepreau Generating Station in preparation for restart partially offset by lower costs at Belledune due to a prior year outage
Offsetting factors		
special payments in lieu of income taxes	increased by $26 million	due to higher earnings
amortization and decommissioning	increased by $18 million	• adjustment to the cost of Grand Lake Generating Station decommissioning during the year *partially offset by* • prior year write offs at the Belledune and Coleson Cove generating stations

Workers install one of the 380 fuel channels in the calandria vessel at the Point Lepreau Generating Station.

Fuel and Purchased Power

Fuel and purchased power (in millions)	2011/12		2010/11	
	$	%	$	%
Hydro	0	0	0	0
Nuclear	0	0	0	0
Thermal	185	25	254	29
Purchases	557	75	620	71
Total	$742	100%	$874	100%
Per cent (decrease) increase year-over-year		(15%)		(1%)



Major contributors to year-over-year fuel and purchased power expense variance

The cost of fuel and purchased power was $742 million in 2011/12, a decrease of $132 million or 15 per cent from 2010/11. The year-over-year decrease in fuel and purchased power costs was mainly attributable to

Fuel and purchased power expenses	By this amount	Due to
Contributing factors		
(decreased)	($123 million)	lower overall generating costs partially due to an economic decision to purchase more power rather than generate due to low market prices
(decreased)	($25 million)	higher hydro flows
Offsetting factors		
increased	$10 million	higher overall volumes required
increased	$9 million	one-time settlement of a fuel supply and storage agreement resulting in lower costs in prior year

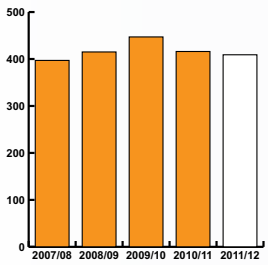
The Mactaquac Generating Station is the largest of NB Power's hydro generating stations.

Operations, Maintenance and Administration

The table below shows operations, maintenance and administration expenses compared with previous year.

Operations, maintenance and administration (in millions)	2011/12	2010/11
Operations, maintenance and administration expenses	$409	$416
Per cent (decrease) increase year-over-year	(2%)	(7%)

OM&A Expenses
in the millions of dollars



Major contributors to year-over-year operations, maintenance and administration variance

Operations, maintenance and administration costs were $409 million in 2011/12, a $7 million or two per cent decrease compared to 2010/11. The significant changes were

OM&A	By this amount	Due to
Contributing factors		
(decreased)	($17 million)	lower early retirement expense related to the prior year staff reduction initiative
(decreased)	($5 million)	settlement of a contract to supply gypsum in prior year
(decreased)	($5 million)	adjustment to land reclamation expense in prior year
Offsetting factors		
increased	$7 million	higher labour at the Point Lepreau Generating Station due to higher overtime and less labour allocated to capital as the refurbishment nears completion and employees focus on OM&A work necessary for restart
increased	$7 million	higher hired services and materials mainly due to scope and timing work related to the Point Lepreau Generating Station's Refurbishment Project partially offset by higher outage costs at Belledune in prior year
increased	$5 million	higher pension interest and amortization due to a lower return on plan assets and lower discount rate

Claude Boucher, Meter Reader Changer, uses a handheld device to read meters in the Moncton area.

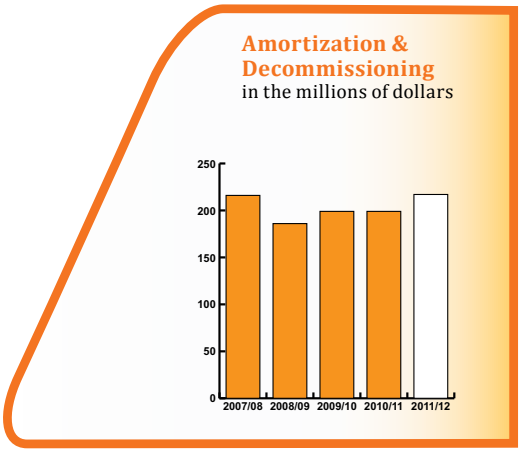
Amortization and Decommissioning

Amortization and Decommissioning (in millions)	2011/12	2010/11
Amortization and decommissioning	$217	$199
Per cent increase (decrease) year-over-year	9%	0%

Contributing factors to changes in amortization and decommissioning

Amortization and decommissioning costs were $217 million in 2011/12, an $18 million or nine per cent increase compared to 2010/11. The significant changes were

Amortization and decommissioning expenses	By this amount	Due to
Contributing factors		
increased	$16 million	higher decommissioning as a result of an adjustment to Grand Lake Generating Station decommissioning liability during 2011/12.
increased	$6 million	higher decommissioning as a result of an adjustment to the Dalhousie Generating Station decommissioning liability during 2011/12.
increased	$3 million	higher amortization related to the adjustment to the Coleson Cove Generating Station decommissioning liability and adjustment to the used nuclear fuel liability
Offsetting factors		
(decreased)	($6 million)	prior year write offs at Belledune and Coleson Cove generating stations



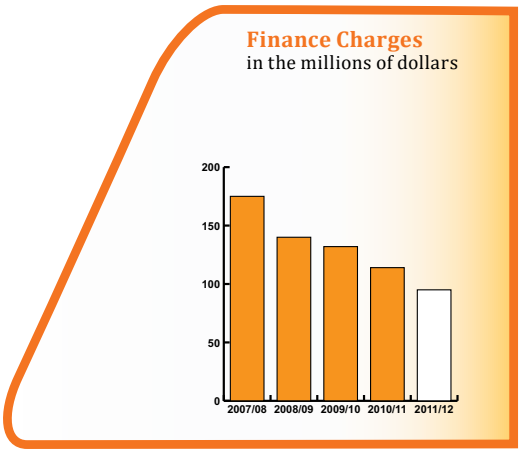
Finance Charges

Finance charges (in millions)	2011/12	2010/11
Finance charges	$95	$114
Per cent (decrease) year-over-year	(17%)	(14%)

Contributing factors to changes in finance charges

Finance charges were $95 million in 2011/12 a $19 million or 17 per cent decrease from 2010/11. This was mainly due to

Finance charges	By this amount	Due to
Contributing factors		
(decreased)	($19 million)	lower interest charges mainly related to lower debt levels outstanding and lower long-term interest rates[3]



[3]Although debt has actually increased since March 2011, the increase is related to capital projects in progress and the deferral. Total debt (other than debt associated with Lepreau capital projects in progress and the deferral) has been reduced since March 2011 mainly due to positive cash flow from operations.

Special Payments in Lieu of Income Taxes

The NB Power Group is required to make special payments in lieu of income taxes to New Brunswick Electric Finance Corporation (Electric Finance) or recover taxes previously paid through the application of loss carry-backs. These payments or recoveries are based on accounting net earnings multiplied by a rate of 26.375 per cent. Special payments (recoveries) are as follows:

Special payments in lieu of income taxes (in millions)	2011/12	2010/11
Special payments in lieu of income taxes	$58	$32
Per cent increase (decrease) year-over-year	81%	160%

Contributing factors to changes in special payments in lieu of taxes

Special payments in lieu of income taxes were $58 million in 2011/12, a $26 million increase compared to 2010/11. This increase was due to higher earnings.

REGULATORY DEFERRALS

Explains the impact of the regulatory deferrals.

Regulatory Deferral – Point Lepreau Generating Station Refurbishment

Background

A legislated[4] regulatory deferral was created for non-capital costs incurred during the refurbishment of the Point Lepreau Generating Station. The refurbishment of the Point Lepreau Generating Station will enable electricity to be provided to future generations of customers. The deferral and amortization of these costs over the life of the Station provides for inter-generational equity. The deferral consists of

- the period costs of Nuclearco, net of any revenues, and
- the additional costs to supply energy that are charged to Disco by Genco during the period of refurbishment.

[4] Section 143.1 of the *Electricity Act* provides for the establishment of this regulatory deferral related to the refurbishment of the Point Lepreau Generating Station.

These amounts are to be recovered by Disco over the operating life of the refurbished Point Lepreau Generating Station and are to be reflected in the charges, rates and tolls Disco charges its customers.

Impact on earnings before special payments in lieu of taxes

During 2011/12, $180 million in period costs and additional costs to supply energy were deferred.

The deferral adjustment consisted of

- $189 million in period costs
- $200 million in additional costs to supply energy

partially offset by

- $209 million in costs included in current rates

In addition to the deferral adjustment on the statement of earnings, interest expense associated with the refurbishment of $37 million was deferred, which directly reduced finance charges in the year.

Workers at the Point Lepreau Generating Station manually insert a fuel bundle into the reactor.

Regulatory Deferral – Lawsuit settlement with PDVSA

Background

On August 23, 2007, the Energy and Utilities Board (EUB) approved a regulatory deferral for the purpose of returning the benefit of the lawsuit settlement with PDVSA to customers in a levelized manner. The deferral is being allocated to customers over 17 years in order to best match the benefit from the settlement to the customers that will pay for the Coleson Cove Generating Station refurbishment.

Impact on earnings before special payments in lieu of taxes

During 2011/12, ($5) million in cost adjustments from the lawsuit settlement were deferred. The deferral adjustment consisted of

- $27 million in amortization and interest savings resulting from the lawsuit settlement (the interest savings will increase as the fuel value of the settlement is received)

partially offset by

- $22 million of a levelized benefit to customers

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

(In millions)	2011/12	2010/11
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)

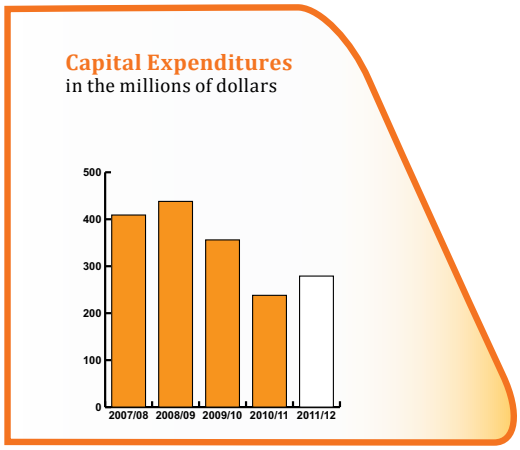
FINANCIAL INSTRUMENTS

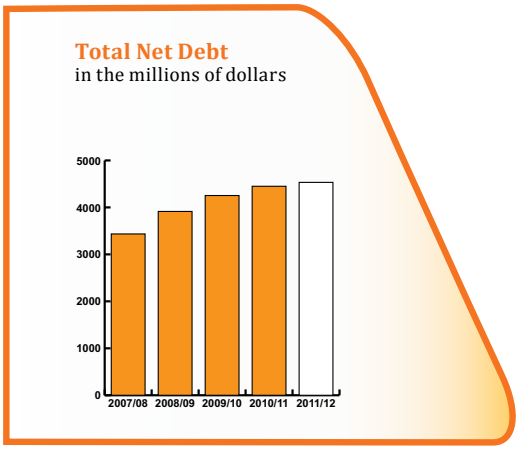
The Group enters into forward contracts for commodities. The accounting impacts of these financial instruments can be found in Note 26 of the Financial Statements.

Mark Maillard, Powerline Technician, installs a light-emitting diode (LED) street light in the Dieppe area.

LIQUIDITY AND CAPITAL RESOURCES

This provides an overview of NB Power's liquidity and capital resources. The two main items which impact NB Power's debt are capital expenditures and cash flow from operating activities.





Total debt[5]

Total Debt (in millions)	2011/12	2010/11
Long-term debt	$3,950	$3,967
Short-term indebtedness	583	483
Total debt	4,533	4,450
Debt/capital	91%	94%
Cash flow from operations/total debt	0.09	0.07

[5]The level of short-term borrowings fluctuates depending on the timing of debt maturities and capital investment requirements. Since restructuring on October 1, 2004 the Group issues long- and short-term notes to Electric Finance. Under the authority of the Electricity Act, Electric Finance issues debt in the name of the Province of New Brunswick.

Factors impacting debt

Change in Total Debt (in millions)	2011/12	2010/11
Total debt - April 1	$4,450	$4,253
Debt requirements:		
Lepreau refurbishment project	146	120
Lepreau deferral adjustment and interest on deferral	217	224
Other capital expenditures	133	118
Debt repayments during the year	(413)	(265)
Total Debt - March 31	$4,533	$4,450

Year-over-year change to total debt level

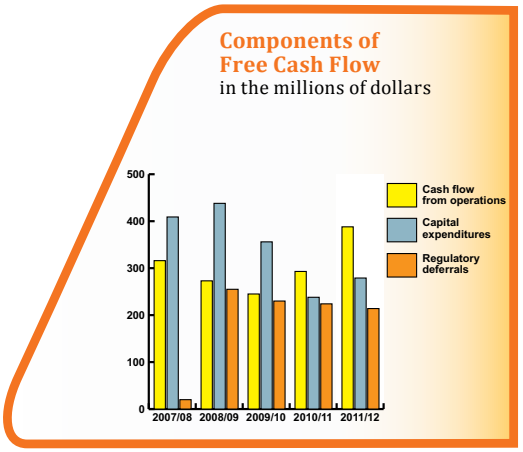
Total debt increased by $83 million in 2011/12 due to the following requirements

- $146 million of capital spending on the Point Lepreau Generating Station Refurbishment Project
- $217 million for the costs deferred (the Nuclearco period costs and additional energy costs incurred during the refurbishment will be recovered through rates over the life of the Point Lepreau Generating Station)
- $133 million mainly related to regular capital spending, decommissioning expenditures partially offset by increased working capital

These debt requirements were partially offset by debt repayments during the year of $413 million.

Free cash outflow

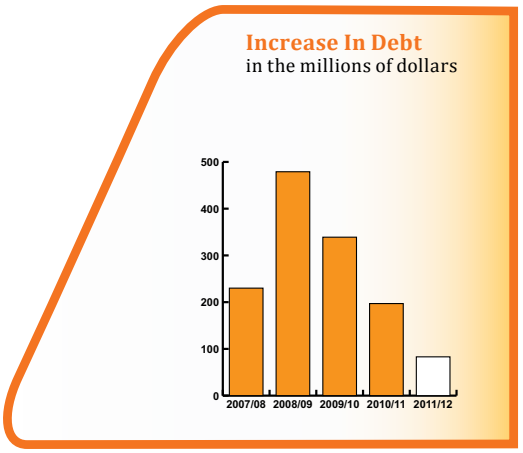
Increase in Net Debt (in millions)	2011/12	2010/11
Cash flow from operations	$388	$293
Capital expenditures less proceeds on disposal	(264)	(238)
Recovery of capital (related to PDVSA fuel shipments received)	0	55
Increase (decrease) cash from working capital	53	(36)
Nuclear trust fund payments and earnings	(22)	(22)
Decommissioning expenditures	(13)	(10)
Regulatory deferrals excluding mark-to-market adjustments	(215)	(224)
Free cash outflow	$(73)	$(182)
Dividends paid	(16)	(9)
Change in cash	6	(6)
Increase in total debt	**$(83)**	**$(197)**



Contributing factors to changes in free cash flow

Free cash outflow was $73 million in 2011/12, a decrease of $109 million compared to 2010/11. The primary reasons for the decrease were

Decreased cash outflow	Due to
Contributing factors	
Increased cash from working capital	related to the timing of payments
Decreased regulatory deferrals (excluding mark-to-market adjustment)	net change in regulatory deferrals related to the Point Lepreau Generating Station Refurbishment Project and the PDVSA lawsuit settlement
increased cash flow from operations	mainly due to higher earnings
Offsetting factors	
Increased capital spending	the Point Lepreau Generating Station Refurbishment Project, regular capital spending
Decreased recovery of capital	recovery of capital related to the PDVSA fuel shipments ended in prior year



Capital expenditures

Capital Expenditures (in millions)	2011/12	2010/11
Major project capital expenditures	$150	$124
Regular project capital expenditures	$132	$120
Less customer contributions	$(3)	$(6)
Total capital expenditures	$279	$238

Contributing factors to changes in capital expenditures

Capital expenditures, net of proceeds on disposal and customer contributions, were $279 million in 2011/12. This year-over-year increase of $41 million or 17 per cent resulted primarily from the following

Capital expenditures	By this amount	Due to
Contributing factors		
increased	$26 million	increased spending on the Point Lepreau Generating Station Refurbishment Project, and turbine upgrade completion
increased	$12 million	increased regular capital spending

Cash flow from operations

Cash Flow from Operations (in millions)	2011/12	2010/11
Cash flow from operations	$388	$293
Percentage increase (decrease) year-over-year	32%	20%

Contributing factors to changes in cash flow from operations

Cash flow from operations in 2011/12 increased by $95 million to $388 million. This increase resulted from the following

Cash flow from operations	By this amount	Due to
Contributing factors		
increased	$106 million	increased net earnings
Offsetting factors		
(decreased)	($11 million)	decrease in amounts charged to operations not requiring a current cash payment (mainly due to sale of asset)

NB Power crews perform maintenance work on power lines near Woodstock.

CRITICAL ACCOUNTING POLICY CHANGES

This provides an overview of NB Power's accounting policies that have changed.

Topic	Purpose
Change in accounting policies for fiscal 2012	There were no changes impacting the financial statements during the fiscal year ended March 31, 2012.
Future change: International Financial Reporting Standards (IFRS)	Describes future changes required by the Corporation related to adopting IFRS.

Future Change International Financial Reporting Standards (IFRS)

Background

On February 13, 2008, the Canadian Accounting Standards Board confirmed the adoption of IFRS in place of Canadian GAAP for publicly accountable enterprises. In March 2012 the Canadian Accounting Standards Board allowed companies with rate-regulated activities to defer their IFRS implementation by one year. Many rate regulated utilities in Canada, including NB Power, met the requirements for the deferral and NB Power elected to defer implementation. The transition date for the NB Power Group is April 2013. 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.

Progress to date and evaluation of impacts

A project team is in place to perform core project work and a Steering Committee is in place to assist with project governance. Regular project status updates are provided to the Audit Committee.

The Group has completed the diagnostic and assessment activities of its transition plan. The differences between Canadian GAAP and IFRS have been determined and the Corporation has substantially completed the determination of the impact on policies, processes, systems and financial statements upon adoption. The Group has completed significant work around the determination of opening balances in the combined statement of financial position and anticipates a significant increase in disclosure resulting from the adoption of IFRS. Areas with significant differences that will impact the Group include: regulatory accounting, property, plant and equipment, employee benefits, asset retirement obligations. There will be adjustments to retained earnings on transition.

Rate regulated accounting

There is currently no specific standard allowing rate regulated accounting under IFRS. The International Accounting Standards Board (IASB) is developing a new agenda which is anticipated to include a decision on rate regulated accounting.

SIGNIFICANT ACCOUNTING ESTIMATES

Please refer to Note 4 (o) of the financial statements for a listing of NB Power's significant accounting estimates.

NB Power employees install a new regulator on the Bedell Settlement Road.

Énergie NB Power

The combined financial statements of NB Power Holding Corporation (the Corporation) have been prepared by management, who are responsible for the integrity, accuracy and fairness of the information. The accounting principles followed in the financial statements are generally accepted in Canada. The financial information presented throughout the annual report is consistent with the financial statements.

Systems of internal control and supporting procedures are maintained to provide assurance that transactions are authorized, assets are safeguarded and records properly maintained. These controls and procedures include

- system security and various financial controls
- quality standards in hiring and training of employees
- a code of conduct
- an organizational structure that provides a well-defined division of responsibilities
- performance accountability
- communication of policies and guidelines through the Corporation

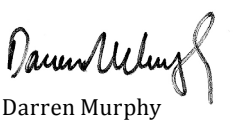
Internal controls are reviewed and evaluated by audit programs, which are subject to scrutiny by external auditors.

The ultimate responsibility for the financial statements rests with the Board of Directors. The Board is assisted in its responsibilities by the Audit Committee, which reviews the recommendations of internal and external auditors for improvements in internal control and the action of management to implement such recommendations. In carrying out its duties and responsibilities, the Audit Committee meets regularly with management and with external and internal auditors to review the scope and timing of their respective audits, to review their findings and to satisfy itself that its responsibility has been properly discharged. The Audit Committee reviews the financial statements and recommends them for approval by the Board of Directors.

The Corporation's external auditors, Deloitte & Touche LLP, have conducted an independent examination of the financial statements in accordance with auditing standards generally accepted in Canada, performing such tests and other procedures as they consider necessary to express the opinion in their Auditors' Report.

The external auditors have full and unrestricted access to the Audit Committee to discuss their audit and related findings as to the integrity of the Corporation's financial reporting and the adequacy of internal control systems.

Gaëtan Thomas
President and CEO



Darren Murphy
VP Finance and CFO

June 20, 2012

Deloitte.

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

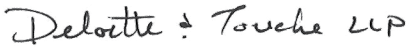
Our responsibility is to express an opinion on these combined financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable 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.



Chartered Accountants
June 20, 2012

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 (Note 3, 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 29)	44	53
	64	75
Total Assets	**$6,006**	**$5,632**

On Behalf of The New Brunswick Power Holding Corporation

Ed Barrett
Chairman

Gaëtan Thomas
President and CEO

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 (loss)	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 (loss) beginning of year	$12	$(62)
Other comprehensive income (loss) 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 current 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 proceeds on disposal and 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**

NOTE 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)

NOTE 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.

NOTE 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.

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.

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)

NOTE 4. SIGNIFICANT ACCOUNTING POLICIES

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

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

a. Materials, supplies and fuel inventory

Inventories 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).

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 facilities	35 - 100
Thermal generating stations	25 – 35
Combustion turbine generating stations	25
Transmission system	45 – 60
Terminals and substations	25 – 60
Distribution system	16 – 40
Buildings	40 – 50
Communications and computer systems	3 – 15
Motor vehicles	3 – 18

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

Recognizing impairment

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

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.

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.

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.

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.

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.

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 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.

Loans and receivables

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

Available-for-sale

Available-for-sale financial assets are those non-derivative financial assets that are 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 recognize interest income or expense on the above noted financial instruments. The effective interest method discounts estimated future cash payments over an instrument's expected life, or a shorter period if appropriate, down to the net carrying amount at the balance sheet date. The calculation includes earned or incurred

- transaction costs
- fees
- premiums
- discounts.

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

Fair value

The financial instruments carried at fair value are classified using a fair value hierarchy which has three levels (see Note 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.

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.

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.

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

NOTE 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.

NOTE 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

NOTE 7. AMORTIZATION AND DECOMMISSIONING

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

NOTE 8. TAXES

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

NOTE 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
Deferred debt costs	-	1
Realized foreign exchange (gains) 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.

NOTE 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.

NOTE 11. CAPITAL STOCK

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

Capital stock issued and outstanding is as follows

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

NOTE 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
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

NOTE 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).

Long-term receivable	2012	2011
Opening balance	$-	$77
Shipments received	-	(55)
	-	22
(Loss) gain 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.

NOTE 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

[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.

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

NOTE 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.

NOTE 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).

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.

NOTE 17. OTHER ASSETS

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

NOTE 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

NOTE 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.

Assumptions

Management's significant assumptions include the following

	2012	2011
Discount rate used to determine the accrued benefit obligations	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) loss on plan assets	(47)	(92)
Difference between actual and expected return on plan assets	(24)	20
Actuarial losses (gains) 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

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

NOTE 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.

NOTE 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.

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.

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

NOTE 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.

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	$ 175	$ 907	$ 662
2011	$ 162	$ 889	$ 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%

Liabilities at year-end

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

Thermal generating station decommissioning liability	2012	2011
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

NOTE 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.

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.

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 at April 1, 2012.

Assumption

Management's significant assumptions include the following

	2012 %	2011 %
Discount rate used to determine the retirement allowance liability	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

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.

NOTE 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

NOTE 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 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 expense	-	-	87	90
Interest	201	202	-	-
Debt portfolio management fee	29	28	-	-
Special payments (recovery) in lieu of income taxes	58	32	-	-
	$288	$262	$87	$90

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).

NOTE 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 the 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.

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

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.

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 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

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
Net 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.

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

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

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

AOCI Impact	Nuclear Trust Funds	Foreign Exchange	Heavy Fuel Oil	Natural Gas	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.

NOTE 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

		2012	2011
Financial assets	Designated category	Fair value	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.

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 recievables-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.

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 asset

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.

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 the 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 change 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.

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.

NOTE 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.

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.

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.

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.

NOTE 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.

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.

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.

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

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 earnings (loss)	$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

Statement of Generation

(millions of kWh)	2011/12	2010/11	2009/10	2008/09	2007/08
Hydro	3,582	3,132	3,221	3,172	2,781
Thermal	3,823	4,453	6,303	8,089	7,262
Nuclear	-	-	-	-	4,393
Combustion turbine	2	2	1	3	1
Purchases	9,780	9,546	6,772	5,295	3,909
Gross generation and purchases	17,187	17,133	16,297	16,559	18,346
Station service	355	414	491	535	794
Net generation and purchases	16,832	16,719	15,806	16,024	17,552
Losses - transformer and transmission	568	729	647	757	645
Total energy available for distribution	16,264	15,990	15,159	15,267	16,907

Statement of Sales

(millions of kWh)	2011/12	2010/11	2009/10	2008/09	2007/08
Residential	4,983	4,840	4,857	5,036	5,010
Industrial	4,364	4,321	4,164	4,362	5,589
General service	2,334	2,294	2,304	2,372	2,369
Wholesale	1,106	1,128	1,145	1,207	1,207
Street lights	75	75	75	75	75
Total in-province sales	12,862	12,658	12,545	13,052	14,250
Interconnections	3,132	2,994	2,326	1,891	2,327
Total sales	15,994	15,652	14,871	14,943	16,577
Distribution losses	270	338	288	324	330
Total energy distributed and sold	16,264	15,990	15,159	15,267	16,907

Statement of Revenue

(in millions)	2011/12	2010/11	2009/10	2008/09	2007/08
Residential	569	551	540	539	519
Industrial	306	311	294	307	362
General service	271	264	254	250	248
Wholesale	$96	$97	$96	$98	$94
Street lights and energy imbalance	24	23	23	25	14
Total in-province sales of power	1,266	1,246	1,207	1,219	1,237
Interconnections	225	250	229	217	196
Sales of power	1,491	1,496	1,436	1,436	1,433
Gain (loss) on mark-to-market of long-term receivable	-	(22)	49	(145)	93
Miscellaneous	65	51	59	73	99
Transmission revenue	90	91	91	89	87
Total revenue	$1,646	$1,616	$1,635	$1,453	$1,712

Statement of In-province Generation

(millions of kWh)	2011/12	2010/11	2009/10	2008/09	2007/08
Hydro	3,324	3,066	3,205	3,149	2,698
Nuclear	-	-	-	-	3,871
Coal and petroleum coke	2,683	2,672	2,952	3,515	3,189
Heavy fuel oil	288	875	1,851	3,201	2,466
Purchases [1]	7,357	7,085	5,473	4,272	2,957
Net generation and purchases	13,652	13,698	13,481	14,137	15,181
Losses - transformer and transmission	568	729	647	757	645
Total energy available for distribution	13,084	12,969	12,834	13,380	14,536

Operating Statistics

	2011/12	2010/11	2009/10	2008/09	2007/08
Transmission lines - km	6,849	6,848	6,841	6,829	6,780
Distribution lines - km	20,786	20,602	20,595	20,397	20,284
Residential customers	319,102	316,104	312,779	309,623	306,383
Industrial customers[1]	1,860	1,875	1,898	1,904	1,915
General service customers	25,512	25,330	25,113	24,984	24,798
Non-metered customers	2,736	2,616	2,632	2,486	2,417
Direct customers	349,210	345,925	342,422	338,997	335,513
Indirect customers[1]	41,981	42,010	41,861	41,685	41,451
Total customers	391,191	387,935	384,283	380,682	376,964
Positions - regular	2,283	2,343	2,509	2,477	2,474
Positions - temporary	104	117	164	198	159
Positions - Mine Reclamation Inc. [1]	9	15	15	54	66
Total positions	2,396	2,475	2,688	2,729	2,699

[1] Certain comparative figures have been reclassified to conform to the current year's presentation

Income Statement Summary

(in millions)	2011/12	2010/11	2009/10	2008/09	2007/08
In-province sales of power	$1,266	$1,246	$1,207	$1,219	$1,237
Out-of-province sales of power	225	250	229	217	196
Miscellaneous revenue	65	51	59	73	99
Gain (loss) on mark-to-market of long-term receivable	-	(22)	49	(145)	93
Transmission revenue	90	91	91	89	87
Total fuel and purchased power	742	874	887	869	585
Transmission expenses	87	90	86	82	85
Operations, maintenance and administration	409	416	447	415	397
Regulatory deferral	(175)	(216)	(147)	(386)	73
Amortization and decommissioning	217	199	199	186	216
Taxes, other than special payments in lieu of income taxes	40	40	40	43	43
Finance charges	95	114	132	140	175
Impairment of long-term asset	-	-	161	-	-
Special payments in lieu of income taxes	58	32	(53)	34	49
Net earnings (loss)	$173	$67	$(117)	$70	$89

Balance Sheet Summary March 31

(in millions)	2011/12	2010/11	2009/10	2008/09	2007/08
Assets					
Current assets	$503	$542	$613	$736	$622
Property, plant and equipment[2]	3,909	3,773	3,703	3,585	3,310
Long-term assets[2]	1,530	1,242	947	758	646
Other assets	64	75	116	111	96
Total assets	$6,006	$5,632	$5,379	$5,190	$4,674
Liabilities and Shareholders' Equity					
Current liabilities	$1,405	$1,297	$1,154	$1,377	$928
Long-term debt	3,469	3,417	3,481	3,051	2,879
Deferred liabilities	678	612	570	457	516
Shareholders' equity	454	306	174	305	351
Total liabilities and shareholders' equity	$6,006	$5,632	$5,379	$5,190	$4,674

Cash Flow Summary

(in millions)	2011/12	2010/11	2009/10	2008/09	2007/08
Cash flow from operations	$388	$293	$245	$273	$316
Change in working capital	53	(36)	(65)	(60)	(80)
Nuclear trust fund payments and earnings	(22)	(22)	(21)	(35)	(141)
Regulatory deferrals excluding mark-to-market adjustments	(215)	(224)	(230)	(255)	(20)
Decommissioning expenditures	(13)	(10)	(7)	(2)	(1)
Operating activities	191	1	(78)	(79)	74
Investing activities	(264)	(183)	(250)	(381)	(323)
Financing activities	67	188	326	466	219
Net cash (outflow) inflow	(6)	6	(2)	6	(30)
Cash & short-term investments					
Beginning of year	10	4	6	0	30
End of year	$4	$10	$4	$6	$-

[2] Certain comparative figures have been reclassified to conform to the current year's presentation

Finance Charges

(in millions)	2011/12	2010/11	2009/10	2008/09	2007/08
Interest expense	$201	$202	$197	$193	192
Income from sinking funds, trust funds, and other	(22)	(21)	(22)	(21)	(16)
Debt portfolio management fee	29	28	26	22	21
Amortization of deferred debt costs	-	1	3	2	1
Foreign exchange (gain) or loss	-	1	4	(11)	5
Interest deferred[10]	(40)	(30)	(18)	(4)	-
Interest capitalized[10]	(73)	(67)	(58)	(41)	(28)
Net finance charges	$95	$114	$132	$140	$175

Financial Ratios

	2011/12	2010/11	2009/10	2008/09	2007/08
Operating margin [3]	18.0%	11.4%	-3.9%	15.3%	17.1%
Cash flow from operations / capital expenditures [4]	1.39	1.23	0.69	0.62	0.77
Cash flow from operations / total debt	0.09	0.07	0.06	0.07	0.09
Debt / capital [5]	91%	94%	96%	93%	91%
Interest coverage ratio [6]	1.59	1.02	(0.21)	1.26	1.61

Other Statistics

	2011/12	2010/11	2009/10	2008/09	2007/08
Rate increase	0.0%	3.0%	3.0%	3.0%	5.9%
CPI (New Brunswick)	3.5%	2.1%	0.3%	1.7%	1.9%
GDP increases (New Brunswick) [7]	1.2%	3.1%	-0.4%	-0.2%	1.7%
Capital expenditures (millions) [8, 10]	$279	$238	$356	$438	$409
Change in total debt (millions)	$83	$197	$339	$479	$230
Per cent breakdown of long-term debt					
Canadian dollar	100%	100%	100%	100%	100%
US dollar [9]	0%	0%	0%	0%	0%
Weighted average coupon interest rate	4.7%	5.2%	5.2%	5.5%	5.8%
Canadian Dollar - March 31	$1.009	$1.029	$0.985	$0.794	$0.973

[3] Operating margin = (net income before finance charges - debt portfolio management fee) / total revenue

[4] Capital expenditures are net of proceeds on disposal and customer contributions

[5] Debt ratio = (debt) / (debt + equity), where debt = (long-term debt + short-term indebtedness)

[6] Interest coverage ratio = [net income before finance charges + (income from sinking funds, trust funds, and other investments - debt portfolio management fee)] / (interest expense)

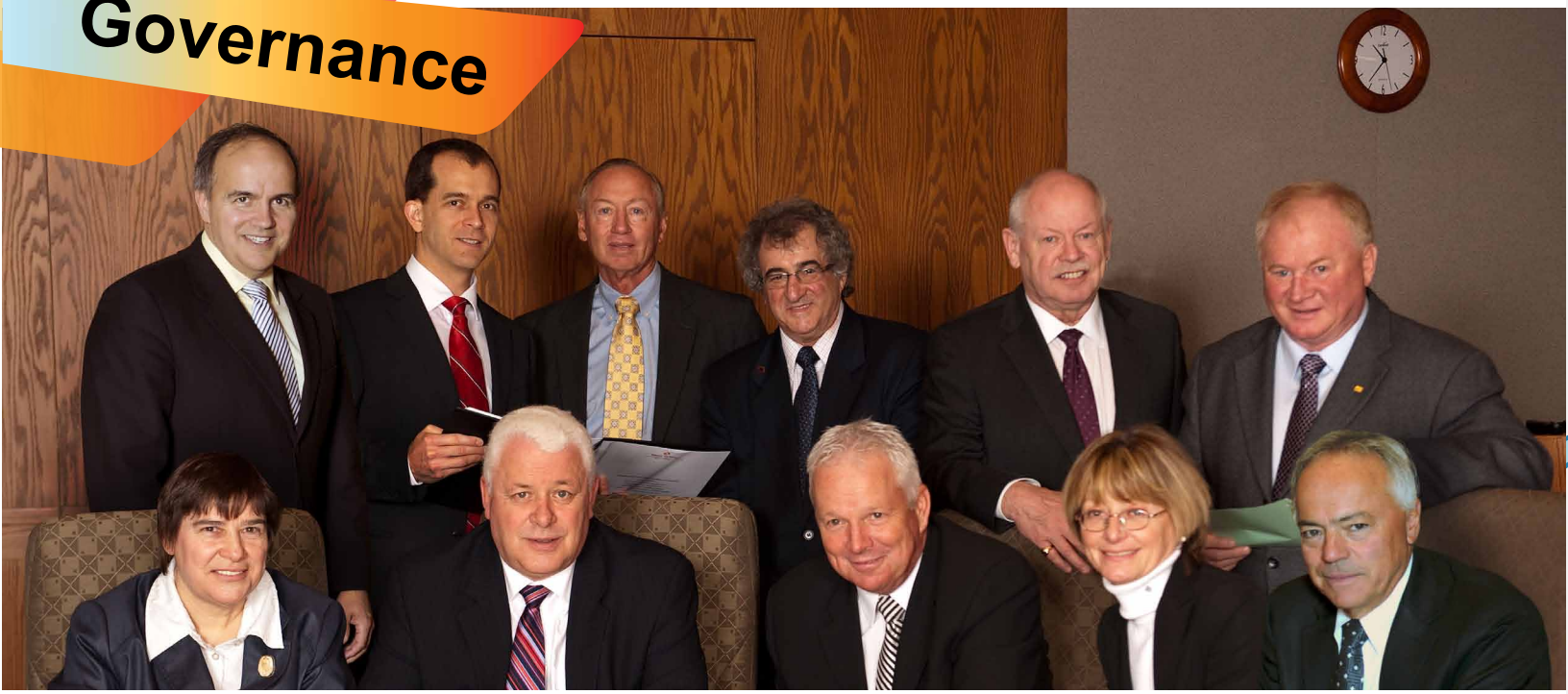
[7] In its 2011/12 budget documents, the Provincial Government restated its GDP growth rates for the past years

[8] Capital expenditures are net of proceeds on disposal and customer contributions

[9] All U. S. denominated debt was transferred to New Brunswick Electric Finance Corporation on October 1, 2004

[10] Certain comparative figures have been reclassified to conform to the current year's presentation

Governance



Front row from left to right: Lise Ouellette, Ed Barrett, Robert Youden, Shirley Mears and Normand Caissie.
Back row from left to right: Gaëtan Thomas (ex-officio), Andy Justason Michael Sellman Louis LaPierre John Mallory and Norman Betts.

The companies in the NB Power Group share a common Chair, President & CEO and common directors. The Boards of Directors are responsible for directing the affairs of each of the Corporations consistent with the *Business Corporations Act* and the *Electricity Act.*

The NB Power Group has a common Audit Committee and a common Strategic Planning Committee for the holding company and all of the operating companies. Each Corporation also has an Environment, Health & Safety Committee and a Human Resources, Governance and Nominating Committee.

In addition to these committees, NB Power Nuclear Corporation has a Nuclear Oversight Committee.

Audit Committee

The Audit Committee is mandated to assist the Boards in meeting their responsibilities with respect to financial reporting, internal control and risk management. The committee directly interacts with the internal and external auditors.

Audit Committee Members: Shirley Mears (Chair), Ed Barrett, Norman Betts, John Mallory and Lise Ouellette

Environment, Health & Safety Committees

The Environment Health & Safety Committee exists to assist the board in establishing and maintaining appropriate board policies that guide the companies in respect to the outcomes to be achieved in meeting or exceeding their environmental and safety obligations.

Environment, Health & Safety Committee Members: Louis LaPierre (Chair), Ed Barrett, Normand Caissie, Andy Justason and Lise Ouellette

Strategic Planning Committee

The Strategic Planning Committee is responsible for monitoring the implementation of the Strategic Plan and overseeing the productivity and performance improvement initiatives.

Strategic Planning Committee Members: Robert Youden (Chair), Ed Barrett, Norman Betts, Louis LaPierre, Shirley Mears and Michael Sellman

Human Resources, Governance and Nominating Committees

The Human Resources, Governance and Nominating Committees have the following mandates

1. Human Resources

The committees in this role exist to assist the Boards in establishing and maintaining appropriate board policies to guide the companies regarding outcomes to be achieved in the management and handling of human resources.

2. Governance

The committees in this role exist to assist the Boards in establishing and maintaining an effective system of corporate governance.

3. Nominating

The committees in this role exist to assist the Boards in maintaining a full slate of directors with the appropriate personal characteristics, experience and skill sets that provide for a mix of competencies on the Boards and facilitates diversity of opinion and effective governance of the Corporations.

Human Resources, Governance and Nominating Committee Members: Norman Betts (Chair), Ed Barrett and Robert Youden

Nuclear Oversight Committee

The Nuclear Oversight Committee is responsible for monitoring the nuclear performance of Nuclearco, particularly with respect to safety and operations issues, oversight of any refurbishment process and nuclear risk.

Nuclear Oversight Committee Members: Michael Sellman (Chair), Ed Barrett, Normand Caissie, Andy Justason, John Mallory and Robert Youden

There were no disclosures received pursuant to the Public Interest Disclosure Act, 2007, S.N.B., c.P.-23.005 during the period covered in this annual report.

Generating Capacity Thermal	
Belledune	467 MW
Coleson Cove	972 MW
Dalhousie	299 MW
Total Thermal	1,738 MW

Generating Capacity Combustion Turbine	
Grand Manan	29 MW
Millbank	397 MW
Ste.-Rose	99 MW
Total Combustion Turbine	525 MW

Generating Capacity Hydro	
Beechwood	112 MW
Grand Falls	66 MW
Mactaquac	668 MW
Milltown	3 MW
Sisson	9 MW
Tobique	20 MW
Nepisiguit Falls	11 MW
Total Hydro	889 MW

Generating Capacity Nuclear	
Point Lepreau	635 MW

Total Generating Capacity	
Thermal	1,738 MW
Combustion Turbine	525 MW
Hydro	889 MW
Nuclear	635 MW
Total Generating Capacity	3787 MW

Number of Lines	
# of km of distribution lines	20,786
# of km of transmission lines	6,849
Export capacity	2,378 MW
Import capacity	2,137 MW

Number of Customers	
# of direct customers	349,210
# of indirect customers	41,981
Total Customers	391,191

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