

Financial Statements
Nova Scotia Power Inc.

Regulated Statements of Income

For the		Three months ended			Twelve months ended			
millions of Canadian dollars		December 31			December 31			
	<i>Actual</i>		<i>Test Year</i>	<i>Prior Year</i>	<i>Actual</i>		<i>Test Year</i>	<i>Prior Year</i>
	<i>2021</i>		<i>2014 ⁽¹⁾</i>	<i>2020</i>	<i>2021</i>		<i>2014</i>	<i>2020</i>
Operating revenues	\$ 390		\$ 327	\$ 376	\$ 1,501		\$ 1,271	\$ 1,493
Operating expenses								
Fuel for generation and purchased power	263		117	219	817		451	721
Fuel adjustment mechanism	(93)		-	(53)	(163)		-	(64)
Application of non-fuel revenues	-		(9)	-	-		(35)	2
Settlement agreement adjustment	-		(4)	-	-		(14)	-
Operating, maintenance and general	57		71	59	240		283	245
Demand side management	9		-	7	35		-	27
Provincial grants and taxes	10		9	11	42		38	42
Depreciation and amortization	62		62	61	244		241	234
Total operating expenses	308		246	304	1,215		964	1,207
Income from operations	82		81	72	286		307	286
Other expenses, net	(3)		1	(2)	(12)		5	(6)
Interest expense, net	32		35	33	131		136	138
Income before provision for income taxes	53		45	41	167		166	154
Income tax expense/(recovery)	8		10	5	15		35	21
Net income of Nova Scotia Power Inc.	45		35	36	152		131	133
Preferred stock dividends	-		2	-	-		8	-
Net income attributable to common shareholders	\$ 45		\$ 33	\$ 36	\$ 152		\$ 123	\$ 133

Notes:

1. Quarterly test year figures are based on an allocation of the annual test year amounts as these amounts are not profiled quarterly.

Regulated Balance Sheets

As at millions of Canadian dollars	December 31 2021	December 31 2020
Assets		
Current assets		
Receivables, net	\$ 280	\$ 300
Due from related parties	210	207
Inventory	201	174
Derivative instruments	138	4
Regulatory assets	17	48
Prepaid expenses	15	12
Total current assets	861	745
Property, plant and equipment, net of accumulated depreciation	4,279	4,138
Other assets		
Income taxes receivable	44	45
Derivative instruments	81	9
Pension and post-retirement assets	71	13
Regulatory assets	830	610
Other long-term assets	63	65
Total other assets	1,089	742
Total assets	\$ 6,229	\$ 5,625

	December 31 2021	December 31 2020
Liabilities and Equity		
Current liabilities		
Short-term debt	\$ 1	\$ 1
Accounts payable	245	144
Income taxes payable	2	-
Derivative instruments	11	36
Regulatory liabilities	165	40
Pension and post-retirement liabilities	7	6
Other current liabilities	89	82
Total current liabilities	520	309
Long-term liabilities		
Long-term debt	3,026	2,941
Due to related parties	57	39
Deferred income taxes	619	528
Derivative instruments	8	23
Regulatory liabilities	91	40
Asset retirement obligations	118	112
Pension and post-retirement liabilities	78	144
Other long-term liabilities	75	40
Total long-term liabilities	4,072	3,867
Equity		
Common stock	1,289	1,289
Accumulated other comprehensive loss	(60)	(176)
Retained earnings	408	336
Total equity	1,637	1,449
Total liabilities and equity	\$ 6,229	\$ 5,625

Regulated Operating Revenues

For the millions of Canadian dollars		Three months ended December 31			Twelve months ended December 31	
	<i>Actual 2021</i>	<i>Test Year 2014 ⁽¹⁾</i>	<i>Prior Year 2020</i>	<i>Actual 2021</i>	<i>Test Year 2014</i>	<i>Prior Year 2020</i>
Electric Revenues						
Residential	\$ 209	\$ 169	\$ 199	\$ 797	\$ 649	\$ 806
Commercial						
Small General	12	9	11	47	36	46
General	81	79	80	315	311	313
Large General	11	10	11	45	42	46
Total Commercial	104	98	102	407	389	405
Industrial						
Small Industrial	9	7	9	35	31	35
Medium Industrial	14	14	15	58	54	56
Large Industrial	20	19	19	80	75	76
ELIADC/Load Retention and Other Industrial	18	-	17	64	1	57
Total Industrial	61	40	60	237	161	224
Other						
Municipal	1	6	1	4	21	5
Unmetered	5	7	5	20	23	20
Wholesale Market	-	-	-	2	-	2
LED Capital Costs	-	-	-	-	3	-
Total Other	6	13	6	26	47	27
Total In-Province Electric Revenues	\$ 380	\$ 320	\$ 367	\$ 1,467	\$ 1,246	\$ 1,462
Export Revenues	-	1	1	1	2	4
Total Electric Revenues	\$ 380	\$ 321	\$ 368	\$ 1,468	\$ 1,248	\$ 1,466
Other Operating Revenues	10	6	8	33	23	27
Total Operating Revenues	\$ 390	\$ 327	\$ 376	\$ 1,501	\$ 1,271	\$ 1,493

Notes:

1. Quarterly test year figures are based on an allocation of the annual test year amounts as these amounts are not profiled quarterly.

Regulated Operating, Maintenance and General

For the millions of Canadian dollars		Three months ended December 31				Twelve months ended December 31				Original Classification ³
	<i>Actual 2021</i>		<i>Test Year 2014 ⁽¹⁾⁽²⁾</i>	<i>Prior Year 2020</i>	<i>Actual 2021</i>		<i>Test Year 2014 ⁽¹⁾</i>	<i>Prior Year 2020</i>	<i>Test Year 2014</i>	
Corporate Groups	\$ 18		\$ 11	\$ 20	\$ 73 ⁴		\$ 47	\$ 72	\$ 53	
Asset Management and Control Centre	7		6	5	25 ⁵		22	19	-	
Power Production	23		25	25	97 ⁶		100	93	114	
Customer Operations	16		21	20	74 ⁷		86	84	81	
Customer Service	1		-	-	5 ⁸		2	4	37	
Corporate Adjustments	(11)		(5)	(14)	(45) ⁹		(24)	(38)	(18)	
Pension	3		12	3	11 ¹⁰		49	11	-	
Technical & Construction Services	-		-	-	-		-	-	15	
Sustainability	-		1	-	- ¹¹		1	-	1	
Total Operating Maintenance and General	\$ 57		\$ 71	\$ 59	\$ 240		\$ 283	\$ 245	\$ 283	

Notes:

1. Certain of the 2014 test year figures have been reclassified to conform to the financial statement presentation adopted for 2021.
2. Quarterly test year figures are based on an allocation of the annual test year amounts as these amounts are not profiled quarterly.
3. Test year figures under 'Original Classification' align expenses to the classification in the 2014 test year compliance filing.
4. Increased compared to test year primarily due to increased information technology, legal and insurance expenditures.
5. Increased compared to test year primarily due to increases in costs associated with vehicle services and implementation of the Smart Meter Operation Center, partially offset by decreases in costs associated with Asset Management.
6. Decreased compared to test year due to reduced thermal and hydro plant costs, partially offset by increased wind operating costs and enterprise and generation asset management costs.
7. Decreased compared to test year due to lower Forestry Right of Way program work, lower bad debt expense and lower storm costs, partially offset by increased regional operations costs.
8. Increased compared to test year primarily due to increased operating costs in the Customer Solutions group.
9. Decreased compared to test year due to increased administrative overhead credits as a result of the capital program, increased recoveries from affiliates of information technology costs, partially offset by increased regulated incentive pay and increased corporate allocations.
10. Total pension costs for 2021 were \$1M, \$11M in 'OM&G' and (\$10M) in 'Other Expenses, net', which is a decrease of \$48M from Test Year. Decrease is partially related to changes in actuarial assumptions and partially related to the adoption of Accounting Standard Update 2017-07, Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost in 2018. The guidance requires the service cost component of defined benefit pension or other postretirement benefit plans to be reported in OM&G. The other components of net benefit cost are now presented in Other expenses, net. Test year figures have not been restated.
11. Decreased compared to test year due to Sustainability group which no longer exists.

Summary of Unregulated Adjustments

As at	December 31
millions of Canadian dollars	2021

Unregulated Retained Earnings

Unregulated retained earnings - December 31, 2020	\$138.5
Unregulated compensation (including director share units/performance share units and management incentive)	8.2
Donations and sponsorships	4.3
Interest expense, unregulated assets	1.2
Depreciation expense, unregulated assets	1.8
Unregulated rental income from Lower Water Street	(0.7)
Income taxes, unregulated adjustments	(4.3)
Subtotal	10.5
Unregulated retained earnings - December 31, 2021	\$149.0

Unregulated Property, Plant and Equipment

Unregulated Portion of Maritime Link Project	\$40.1
Unregulated Portion of Lower Water Street	9.6
Unapproved Authorization to Overspend	7.7
Burnside Natural Gas Conversion Project	2.9
Kentville Electric Purchase Price Discrepancy Goodwill	2.3
Unregulated Portion of Tufts Cove 6 Project	1.7
Unregulated Land	1.0
Electric Vehicle Charging Station Project	0.4
Other unapproved capital projects	0.3
Total unregulated property, plant and equipment	\$66.0

Unregulated Other Assets

Sponsorship	\$0.8
Deferred General Rate Application costs	1.0
Total unregulated other assets	\$1.8

Unregulated Deferred Income Taxes

Increase to long-term deferred income taxes liability related to unregulated expenditures	\$4.9
Total unregulated deferred income taxes	\$4.9

Unregulated Due from Related Parties

Effect of unregulated adjustments	\$221.7
Effect of unregulated adjustments	\$221.7

Nova Scotia Power Inc.

Regulated Return on Equity

As at		December 31
millions of Canadian dollars		2021
	Regulated Equity	Regulated Capitalization
December 31, 2020	\$1,624.6	\$4,377.6
March 31, 2021	1,688.8	4,453.6
June 30, 2021	1,710.1	4,385.9
September 30, 2021	1,652.0	4,280.8
December 31, 2021	1,696.9	4,514.6
Total	\$8,372.3	\$22,012.4
Five Quarter Average	\$1,674.5	\$4,402.5
Five Quarter Average Regulated Common Equity		38.0%
Regulated Net Earnings - December 31, 2021	\$152.0	
Regulated Return on Equity (Regulated Net Earnings / Average Regulated Common Equity)	9.08%	

NOVA SCOTIA POWER INC.
Consolidated Financial Statements
December 31, 2021 and 2020

MANAGEMENT REPORT

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of Nova Scotia Power Inc. ("NSPI" or "the Company") and the information in the Management's Discussion & Analysis ("MD&A") are the responsibility of management and have been approved by the Board of Directors ("Board").

The consolidated financial statements have been prepared by management in accordance with United States Generally Accepted Accounting Principles. When alternative accounting methods exist, management has chosen those it considers most appropriate in the circumstances. In preparation of these consolidated financial statements, estimates are sometimes necessary when transactions affecting the current accounting period cannot be finalized with certainty until future periods. Management represents that such estimates, which have been properly reflected in the accompanying consolidated financial statements, are based on careful judgements and are within reasonable limits of materiality. Management has determined such amounts on a reasonable basis in order to ensure that the consolidated financial statements are presented fairly in all material respects. Management has prepared the financial information presented in the MD&A and has ensured that it is consistent with that in the consolidated financial statements.

NSPI maintains effective systems of internal accounting and controls, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is reliable and accurate, and that NSPI's assets are appropriately accounted for and adequately safeguarded.

The Board is responsible for ensuring that management fulfils its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements.

The Board meets periodically with management, internal auditors and with the external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities, and to review the MD&A, the consolidated financial statements and the external auditors' report. The Board also considers, for review and approval by the shareholders, the appointment of the external auditors.

The consolidated financial statements have been audited by Ernst & Young LLP, the external auditors, in accordance with Canadian Generally Accepted Auditing Standards. Ernst & Young LLP has full and free access to the Board.

February 8, 2022

"Peter Gregg"
President and Chief Executive Officer

"Greg Blunden"
Chief Financial Officer

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and the Board of Directors of Nova Scotia Power Inc.

Opinion

We have audited the consolidated financial statements of Nova Scotia Power Inc. (the "Company"), which comprise the consolidated balance sheets as at December 31, 2021 and 2020, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2021 and 2020, and the consolidated results of its operations and its consolidated cash flows for the years then ended in accordance with United States generally accepted accounting principles ("USGAAP").

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matter

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Accounting for the effects of rate regulation

Key Audit Matter

As disclosed in note 4 of the consolidated financial statements, the Company has \$847 million in regulatory assets and \$256 million in regulatory liabilities. The Company is subject to regulation by the Nova Scotia Utility and Review Board. The regulatory rates are designed to recover the costs of providing the regulated products or services and provide a reasonable return on the invested capital. In addition to regulatory assets and liabilities, rate regulation impacts multiple financial statement line items, including property, plant and equipment, operating revenues and expenses, income taxes, and depreciation expense.

Auditing the impact of rate regulation on the Company's financial statements is complex and highly judgmental due to the significant judgments made by the Company to support its accounting and disclosure for regulatory matters when final regulatory decisions or orders have not yet been obtained or when regulatory formulas are complex. There is also subjectivity involved in assessing the potential impact of future regulatory decisions on the financial statements. Although the Company expects to recover costs from customers through rates, there is a risk that the regulator will not approve full recovery of the costs incurred. The Company's judgments include making an assessment of the probability of recovery of and recovery on costs incurred, of the disallowance of part of the cost of recently completed property, plant and equipment and construction work in progress, or of the probable refund to customers through future rates.

*How Our Audit
Addressed the Key
Audit Matter*

We performed audit procedures that included, amongst others, assessing the Company's evaluation of the probability of future recovery for regulatory assets, property, plant and equipment, and refund of regulatory liabilities by obtaining and reviewing relevant regulatory orders, filings, testimony, hearings and correspondence, and other publicly available information. For regulatory matters for which regulatory decisions or orders have not yet been obtained, we inspected the Company's filings for any evidence that might contradict the Company's assertions, and reviewed other regulatory orders, filings and correspondence for other entities within the same or similar jurisdictions to assess the likelihood of recovery in future rates based on the regulator's treatment of similar costs under similar circumstances. We obtained and evaluated an analysis from the Company and corroborated that analysis with letters from legal counsel, when appropriate, regarding cost recoveries or future changes in rates. We also assessed the methodology, accuracy and completeness of the Company's calculations of regulatory asset and liability balances based on provisions and formulas outlined in rate orders and other correspondence with the regulator. We evaluated the Company's disclosures related to the impacts of rate regulation.

Other information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

/s/ Ernst & Young LLP
Chartered Professional Accountants

Halifax, Canada
February 8, 2022

**Nova Scotia Power Inc.
Consolidated Statements of Income**

For the millions of Canadian dollars	Year ended December 31	
	2021	2020
Operating revenues (note 3)	\$ 1,501	\$ 1,494
Operating expenses		
Fuel for generation and purchased power (notes 14 and 15)	817	721
Fuel adjustment mechanism ("FAM") and fixed cost deferrals (note 4)	(163)	(62)
Operating, maintenance and general ("OM&G")	252	255
Demand side management ("DSM")	35	27
Provincial grants and taxes	42	42
Depreciation and amortization	246	236
Total operating expenses	1,229	1,219
Income from operations	272	275
Other income, net	(12)	(6)
Interest expense, net (note 5)	132	139
Income before provision for income taxes	152	142
Income tax expense (note 6)	11	17
Net income attributable to common shareholders	\$ 141	\$ 125

The accompanying notes are an integral part of these consolidated financial statements.

**Nova Scotia Power Inc.
Consolidated Statements of Comprehensive Income**

For the millions of Canadian dollars	Year ended December 31	
	2021	2020
Net income attributable to common shareholders	\$ 141	\$ 125
Other Comprehensive Income		
Actuarial gains (losses) and amortization of unrecognized pension and post-retirement benefit costs (note 7)	116	(1)
Comprehensive income	\$ 257	\$ 124

The accompanying notes are an integral part of these consolidated financial statements.

Nova Scotia Power Inc. Consolidated Balance Sheets

As at millions of Canadian dollars	December 31 2021	December 31 2020
Assets		
Current assets		
Receivables, net (note 8)	\$ 280	\$ 300
Inventory (note 9)	201	174
Derivative instruments (notes 10 and 11)	138	4
Regulatory assets (note 4)	17	48
Prepaid expenses	15	12
Due from related parties (note 15)	-	12
Total current assets	651	550
Property, plant and equipment , net of accumulated depreciation of \$3,105 and \$2,995 respectively (note 12)	4,345	4,200
Other assets		
Income taxes receivable	44	45
Derivative instruments (notes 10 and 11)	81	9
Pension and post-retirement asset (note 13)	71	13
Regulatory assets (note 4)	830	611
Other long-term assets	65	65
Total other assets	1,091	743
Total assets	\$ 6,087	\$ 5,493
Liabilities and Equity		
Current liabilities		
Bank indebtedness	\$ 1	\$ 1
Accounts payable	245	144
Due to related parties (note 15)	12	7
Income taxes payable	2	-
Derivative instruments (notes 10 and 11)	11	36
Regulatory liabilities (note 4)	165	40
Pension and post-retirement liabilities (note 13)	7	6
Other current liabilities (note 16)	89	82
Total current liabilities	532	316
Long-term liabilities		
Long-term debt (note 17)	3,026	2,941
Due to related parties (note 15)	57	39
Deferred income taxes (note 6)	614	527
Derivative instruments (notes 10 and 11)	8	23
Regulatory liabilities (note 4)	91	40
Asset retirement obligations (note 18)	118	112
Pension and post-retirement liabilities (note 13)	78	144
Other long-term liabilities	75	40
Total long-term liabilities	4,067	3,866
Equity		
Common stock, no par value, unlimited shares authorized, 142.6 million shares issued and outstanding	1,289	1,289
Accumulated other comprehensive loss ("AOCL") (note 7)	(60)	(176)
Retained earnings	259	198
Total equity	1,488	1,311
Total liabilities and equity	\$ 6,087	\$ 5,493

Commitments and contingencies (note 19)

Approved on behalf of the Board of Directors

The accompanying notes are an integral part
of these consolidated financial statements.

"Scott Balfour"
Chair of the Board

"Peter Gregg"
President and Chief Executive Officer

**Nova Scotia Power Inc.
Consolidated Statements of Cash Flows**

For the millions of Canadian dollars	Year ended December 31	
	2021	2020
Operating activities		
Net income attributable to common shareholders	\$ 141	\$ 125
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	248	242
Allowance for equity funds used during construction	(4)	(2)
Deferred income taxes, net	11	30
Net change in pension and post-retirement obligations	(7)	(9)
Fuel adjustment mechanism	(166)	(94)
Other operating activities, net	43	(13)
Changes in non-cash working capital:		
Receivables, net	20	36
Income taxes receivable	1	29
Inventory	(27)	5
Prepaid expenses	(3)	-
Due from/to related parties	17	(25)
Accounts payable	86	11
Income taxes payable	2	-
Other current liabilities	7	(10)
Net cash provided by operating activities	369	325
Investing activities		
Additions to property, plant and equipment	(338)	(319)
Allowance for borrowed funds used during construction	(4)	(2)
Removal of assets from service, net of salvage	(28)	(19)
Proceeds from sale of assets	1	-
Net cash used in investing activities	(369)	(340)
Financing activities		
Change in bank indebtedness	-	(5)
Proceeds from long-term debt	-	300
Net borrowings (repayments) under committed credit facility	85	(17)
Issuance of common stock	-	2
Dividends on common stock	(80)	(258)
Payments on long-term payable	(5)	(5)
Other financing activities	-	(2)
Net cash provided by financing activities	-	15
Net change in cash	-	-
Cash, beginning of year	-	-
Cash, end of year	\$ -	\$ -
Supplemental disclosure of cash paid (received):		
Interest	\$ 137	\$ 135
Income taxes	\$ 18	\$ (12)
Supplemental disclosure of non-cash activity:		
Increase (decrease) in accrued capital expenditures	\$ 15	\$ (24)

The accompanying notes are an integral part of these consolidated financial statements.

Nova Scotia Power Inc.
Consolidated Statements of Changes in Equity

millions of Canadian dollars		Common Stock	AOCL	Retained Earnings	Total Equity
Balance, December 31, 2020	\$	1,289 \$	(176) \$	198 \$	1,311
Net income attributable to common shareholders		-	-	141	141
Other comprehensive loss		-	116	-	116
Dividends declared on common stock		-	-	(80)	(80)
Balance, December 31, 2021	\$	1,289 \$	(60) \$	259 \$	1,488

millions of Canadian dollars		Common Stock	AOCL	Retained Earnings	Total Equity
Balance, December 31, 2019	\$	1,287 \$	(175) \$	331 \$	1,443
Net income attributable to common shareholders		-	-	125	125
Other comprehensive income		-	(1)	-	(1)
Issuance of common stock		2	-	-	2
Dividends declared on common stock		-	-	(258)	(258)
Balance, December 31, 2020	\$	1,289 \$	(176) \$	198 \$	1,311

The accompanying notes are an integral part of these consolidated financial statements.

**Nova Scotia Power Inc.
Notes to the Consolidated Financial Statements**

As at December 31, 2021 and 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Nova Scotia Power Inc. (“NSPI” or the “Company”) is a vertically integrated regulated electric utility. It is the primary electricity supplier in Nova Scotia, Canada, providing electricity generation, transmission and distribution services to approximately 536,000 customers. NSPI is a public utility as defined in the Public Utilities Act of Nova Scotia and is subject to regulation by the Nova Scotia Utility and Review Board (“UARB”). The Company’s accounting policies are subject to examination and approval by the UARB.

NSPI is a wholly owned subsidiary of Emera Incorporated (“Emera”). NSPI holds a 100 per cent investment in NS Power Energy Marketing Incorporated (“NSPEMI”), an energy business that purchases and sells electricity and natural gas in the United States energy commodity market. Intercompany balances and intercompany transactions have been eliminated on consolidation.

Basis of Presentation

These consolidated financial statements are prepared and presented in accordance with United States Generally Accepted Accounting Principles (“USGAAP”). In the opinion of management, these consolidated financial statements include all adjustments that are of a recurring nature and necessary to fairly state the financial position of NSPI.

All dollar amounts are presented in Canadian dollars, unless otherwise indicated.

Principles of Consolidation

The consolidated financial statements of NSPI include the accounts of NSPI and its wholly-owned subsidiary, NSPEMI.

The Company performs ongoing analysis to assess whether it holds any variable interest entities (“VIE”). To identify potential VIEs, management reviews contractual and ownership arrangements such as leases, long-term purchase power agreements, tolling contracts, guarantees, jointly owned facilities and equity investments. The primary beneficiary of a VIE has both the power to direct the activities of the entity that most significantly impact its economic performance and the obligation to absorb losses of the entity that could potentially be significant to the entity.

Use of Management Estimates

The preparation of consolidated financial statements in accordance with USGAAP requires management to make estimates and assumptions. These may affect the reported amounts of assets and liabilities at the date of the financial statements, and reported amounts of revenues and expenses during the reporting periods. Significant areas requiring the use of management estimates relate to rate-regulated assets and liabilities, accumulated reserve for cost of removal, pension and post-retirement benefits, unbilled revenue, useful lives for depreciable assets, income taxes, asset retirement obligations, and valuation of financial instruments. Management evaluates the Company’s estimates on an ongoing basis based upon historical experience, current and expected conditions and assumptions believed to be reasonable at the time the assumption is made, with any adjustments recognized in income in the year they arise.

Management has analyzed the impact of the COVID-19 pandemic on its estimates and assumptions and concluded that no material adjustments were required for the year December 31, 2021.

The extent of the future impact of COVID-19 on the Company's financial results and business operations cannot be predicted at this time and will depend on future developments, including the duration and severity of the pandemic, timing and effectiveness of vaccinations, further potential government actions and future economic activity and energy usage. Actual results may differ significantly from these estimates.

Regulatory Matters

Regulatory accounting applies where rates are established by, or subject to approval by, an independent third party regulator. The rates are designed to recover prudently incurred costs of providing the regulated products or services and provide an opportunity for a reasonable rate of return on invested capital, as applicable (refer to note 4 for additional details).

Foreign Currency Translation

Monetary assets and liabilities, denominated in foreign currencies, are converted to Canadian dollars at the rates of exchange prevailing at the balance sheet date. The resulting differences between the translation at the original transaction date and the balance sheet date are included in income.

Revenue Recognition

Regulated electric revenue

Electric revenues, including energy charges, demand charges, basic facilities charges and clauses and riders, are recognized when obligations under the terms of a contract are satisfied, which is when electricity is delivered to customers over time as the customer simultaneously receives and consumes the benefits of the electricity. Electric revenues are recognized on an accrual basis and include billed and unbilled revenues. Revenues related to the sale of electricity are recognized at rates approved by the UARB and recorded based on metered usage, which occurs on a periodic, systematic basis, generally monthly or bi-monthly. At the end of each reporting period, the electricity delivered to customers, but not billed, is estimated and the corresponding unbilled revenue is recognized. The Company's estimate of unbilled revenue at the end of the reporting period is calculated by estimating the number of megawatt hours ("MWh") delivered to customers at the established rates expected to prevail in the upcoming billing cycle. This estimate includes assumptions as to the pattern of energy demand, weather, line losses and inter-period changes to customer classes.

Other

Other revenues are recorded when obligations under terms of a contract are satisfied.

Leases

NSPI determines whether a contract contains a lease at inception by evaluating if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

NSPI has leases with independent power producers ("IPP") and other utilities with annual requirements to purchase wind and hydro energy over varying contract lengths that are classified as finance leases. These finance leases are not recorded on NSPI's Consolidated Balance Sheets as payments associated with the leases are variable in nature and there are no minimum fixed lease payments. Lease expense associated with these leases is recorded as "Fuel for Generation and Purchased Power" on the Consolidated Statements of Income.

Operating lease liabilities and right-of-use assets are recognized on the Consolidated Balance Sheets based on the present value of the future minimum lease payments over the lease term at the commencement date. As most of NSPI's leases do not provide an implicit rate, the incremental borrowing rate at the commencement of the lease is used in determining the present value of future lease payments. Lease expense is recognized on a straight-line basis over the lease term and is recorded as "OM&G" on the Consolidated Statements of Income.

Where NSPI is the lessor, a lease is a sales-type lease if certain criteria are met and the arrangement transfers control of the underlying asset to the lessee. For arrangements where the criteria are met due to the presence of a third party residual value guarantee, the lease is a direct financing lease.

For direct finance leases, a net investment in the lease is recorded that consists of the sum of the minimum lease payments and residual value (net of estimated executory costs and unearned income). The difference between the gross investment and the cost of the leased item is recorded as unearned income at the inception of the lease. Unearned income is recognized in income over the life of the lease using a constant rate of interest equal to the internal rate of return on the lease.

For sales-type leases, the accounting is similar to the accounting for direct finance leases, however the difference between the fair value and the carrying value of the leased item is recorded at lease commencement rather than deferred over the term of the lease.

NSPI has certain contractual agreements that include lease and non-lease components, which management has elected to account for as a single lease component for all leases.

Property, Plant and Equipment

Property, plant and equipment are recorded at original cost, including allowance for funds used during construction ("AFUDC") or capitalized interest, net of contributions received in aid of construction.

The cost of additions, including betterments and replacements of units of property, plant and equipment are included in "Property, plant and equipment". When units of regulated property, plant and equipment are replaced, renewed or retired, their cost plus removal or disposal costs, less salvage proceeds, is charged to accumulated depreciation, with no gain or loss reflected in income.

The cost of property, plant and equipment represents the original cost of materials, contracted services, direct labour, AFUDC for regulated property or interest for non-regulated property, asset retirement obligations ("ARO") and overhead attributable to the capital project. Overhead includes costs related to support functions, employee benefits, insurance, procurement, and fleet operating and maintenance.

Normal maintenance projects are expensed as incurred. Planned major maintenance projects that do not increase the overall life of the related assets are expensed. When a major maintenance project increases the life or value of the underlying asset, the cost is capitalized.

Depreciation is determined by the straight-line method, based on the estimated remaining service lives of the depreciable assets in each functional class of depreciable property. The service lives of assets are determined based on formal depreciation studies and are approved by the UARB. The last depreciation study was completed in 2010.

Intangible assets, which are included in "Property, plant and equipment" consist primarily of land rights and computer software with definite lives. Amortization is determined by the straight-line method, based on the estimated remaining service lives of the assets in each category. The estimated service lives of intangible assets requires regulatory approval.

Allowance for Funds Used During Construction

AFUDC represents the cost of financing regulated construction projects and is capitalized to the cost of property, plant and equipment until the asset is operational. The Company includes an equity cost component in AFUDC, in addition to a charge for borrowed funds. AFUDC is a non-cash item and cash is realized under the rate-making process over the service life of the related property, plant and equipment through future revenues resulting from a higher rate base and recovery of higher depreciation expense. The component of AFUDC attributable to borrowed funds is included as a reduction to "Interest expense, net", while the equity component is included as a reduction to "Other expenses, net". AFUDC is calculated using a weighted average cost of capital, as per the method of calculation approved by the UARB, and is compounded semi-annually.

Income Taxes and Investment Tax Credits

NSPI recognizes deferred income tax assets and liabilities for the future tax consequences of events that have been included in the consolidated financial statements or income tax returns. Deferred income tax assets and liabilities are determined based on the difference between the carrying value of assets and liabilities on the Consolidated Balance Sheets and their respective tax bases using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in income tax rates on deferred income tax assets and liabilities is recognized in the period when the change is enacted. NSPI recognizes the effect of income tax positions only when it is more likely than not that they will be realized.

Management reviews all readily available current and historical information, including forward-looking information, and the likelihood that deferred tax assets will be recovered from future taxable income is assessed and assumptions about the expected timing of the reversal of deferred tax assets and liabilities are made. If management subsequently determines that it is likely that some or all of a deferred income tax asset will not be realized, then a valuation allowance is recorded to reflect the amount of the deferred income tax asset expected to be realized.

Investment tax credits arise as a result of incurring qualifying scientific research and development expenditures and are recorded as a reduction to income tax expense in the current or future periods to the extent that realization of such benefit is more likely than not.

NSPI collects income taxes from customers based on income tax that is currently payable except for the deferred income taxes on certain regulatory balances specifically prescribed by the UARB. For the balance of regulated deferred income taxes, NSPI recognizes regulatory assets or liabilities where the deferred income taxes are expected to be recovered from or returned to customers in future years. These regulated assets or liabilities are grossed up using the respective income tax rate to reflect the income tax associated with future revenues that are required to fund these deferred income tax liabilities, and the income tax benefits associated with reduced revenues resulting from the realization of deferred income tax assets.

NSPI classifies interest and penalties associated with unrecognized tax benefits in the Consolidated Statements of Income as "Interest expense, net" and "OM&G", respectively. Refer to note 6 for further details.

Derivatives and Hedging Activities

NSPI's risk management policies and procedures provide a framework through which management monitors various risk exposures. The risk management policies and practices are overseen by the Board of Directors. The Company has established a number of processes and practices to identify, monitor, report on and mitigate material risks to the Company. A corporate team independent from operations is responsible for tracking to report on market and credit risks.

The Company manages its exposure to normal operating and market risks relating to commodity prices, and foreign exchange through contractual protections with counterparties where practicable, and by using financial instruments consisting mainly of foreign exchange forwards and swaps, and coal, oil, natural gas and purchased power, options, forwards and swaps. Collectively, these contracts are considered derivatives.

The Company recognizes the fair value of all its derivatives on its balance sheet, except for non-financial derivatives that meet the normal purchases and normal sales (“NPNS”) exception. Physical contracts that meet the NPNS exception are not recognized on the balance sheet; these contracts are recognized in income when they settle. A physical contract generally qualifies for the NPNS exception if the transaction is reasonable in relation to the Company’s business needs, the counterparty owns or controls resources within the proximity to allow for physical delivery, the Company intends to receive physical delivery of the commodity, and the Company deems the counterparty creditworthy. NSPI continually assesses contracts designated under the NPNS exception and will discontinue the treatment of these contracts under this exemption where the criteria are no longer met.

Derivatives entered into by NSPI, that are documented as economic hedges or for which the NPNS exception has not been taken, are subject to regulatory accounting treatment, as approved by the UARB. These derivatives are recorded at fair value on the balance sheet as derivative assets or liabilities. The change in fair value of the derivatives is deferred to a regulatory asset or liability. The gain or loss is recognized in the hedged item when the hedged item is settled. The UARB has approved that any gains or losses resulting from settlement of these derivatives related to fuel for generation and purchased power will be refunded to or collected from customers in future rates through the FAM.

Derivatives that do not meet any of the above criteria are designated as held-for-trading (“HFT”), with changes in fair value normally recorded in net income of the period. The Company has not elected to designate any derivatives to be included in the HFT category where another accounting treatment would apply.

NSPI classifies gains and losses on derivatives as a component of fuel for generation and purchased power, other expenses, inventory, OM&G and property, plant and equipment, depending on the nature of the item being economically hedged. Cash flows from derivative activities are presented in the same category as the item being hedged within operating or investing activities on the Consolidated Statements of Cash Flows. Non-hedged derivatives are included in operating cash flows on the Consolidated Statements of Cash Flows.

Derivatives, as reflected on the Consolidated Balance Sheets, are not offset by the fair value amounts of cash collateral with the same counterparty. Rights to reclaim cash collateral are recognized in “Receivables, net” and obligations to return cash collateral are recognized in “Accounts payable”.

Receivables and Allowance for Credit Losses

Customer receivables are recorded at the invoiced amount and do not bear interest. Standard payment terms for electricity sales are 30 days for bi-monthly customers and 20 days for monthly customers. A late payment fee may be assessed on account balances after the due date.

The Company is exposed to credit risk with respect to amounts receivable from customers. Credit risk assessments are conducted on all new customers and deposits are requested on any high-risk accounts in accordance with the Company’s policy. The Company also maintains provisions for expected credit losses, which are assessed on a regular basis.

Management estimates credit losses related to accounts receivable after considering historical loss experience, current events, characteristics of existing accounts and reasonable and supportable forecasts that affect the collectability of the reported amount. Provisions for credit losses on receivables are expensed to maintain the allowance at a level considered adequate to cover expected losses. Receivables are written off against the allowance when they are deemed uncollectible.

The economic impact of COVID-19 has impacted the aging of customer receivables resulting in higher allowance for credit losses related to customer receivables.

Inventory

Fuel and materials inventories are valued using the weighted-average cost method. These inventories are carried at the lower of cost or net realizable value, unless evidence indicates that the weighted-average cost will be recovered in future customer rates.

Asset Impairment

Long-lived assets and intangibles are periodically reviewed for impairment when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. NSPI bases its evaluation of long-lived assets and intangibles on the presence of impairment indicators such as the future economic benefit of the assets, any historical or future profitability measurements and other external market conditions or factors. If the sum of the undiscounted cash flows expected from an asset is less than the carrying value of the asset, the asset is written down to fair value.

The review of long-lived assets for impairment involves comparing the undiscounted expected future cash flows to the carrying value of the asset. When the undiscounted cash flow analysis indicates a long-lived asset is not recoverable, the amount of the impairment loss is determined by measuring the excess of the carrying amount of the long-lived asset over its estimated fair value. The Company's assumptions relating to future results of operations or other recoverable amounts are based on a combination of historical experience, fundamental economic analysis, observable market activity and independent market studies. The Company's expectations regarding uses and holding periods of assets are based on internal long-term budgets and projections, which give consideration to external factors and market forces, as of the end of each reporting period. The assumptions made are consistent with generally accepted industry approaches and assumptions used for valuation and pricing activities.

Asset Retirement Obligations

An ARO is recognized if a legal obligation exists in connection with the future disposal or removal costs resulting from the permanent retirement, abandonment or sale of a long-lived asset. A legal obligation may exist under an existing or enacted law or statute, written or oral contract, or by legal construction under the doctrine of promissory estoppel.

An ARO represents the fair value of the estimated cash flows necessary to discharge the future obligation using the Company's credit adjusted risk-free rate. The amounts are reduced by actual expenditures incurred. Estimated future cash flows are based on completed depreciation studies, remediation reports, prior experience, estimated useful lives and governmental regulatory requirements. The present value of the liability is recorded and the carrying amount of the related long-lived asset is correspondingly increased. The amount capitalized at inception is depreciated in the same manner as the related long-lived asset. Over time, the liability is accreted to its estimated future value. Accretion expense is included as part of "Depreciation and amortization". Differences between accretion expense recognized for rate regulatory purposes and USGAAP, and accretion expense not yet approved by the UARB, are deferred to "Property, plant and equipment" and included in the next depreciation study.

As at December 31, 2021 and 2020, some of the Company's transmission and distribution assets may have conditional AROs which are not recognized in the consolidated financial statements as the fair value of these obligations could not be reasonably estimated, given there is insufficient information to do so. A conditional ARO refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. Management monitors these obligations and a liability is recognized at fair value in the period in which an amount can be determined.

Cost of Removal

The Company recognizes non-ARO costs of removal (“COR”) as regulatory liabilities. The non-ARO COR represents funds received from customers through depreciation rates to cover estimated future non-legally required cost of removal and decommissioning of property, plant and equipment upon retirement. The Company accrues for removal costs over the life of the related assets based on the depreciation studies approved by the UARB. The costs are estimated based on historical experience and future expectations, including expected timing and estimated future cash outlays.

Stock-Based Compensation

The Company participates in several Emera stock-based compensation plans: a common share option plan for senior management; an employee common share purchase plan; a deferred share unit (“DSU”) plan; a performance share unit (“PSU”) plan; and a restricted share unit (“RSU”) plan. The Company accounts for its plans in accordance with the fair value based method of accounting for stock-based compensation. Stock-based compensation cost is measured at the grant date, based on the calculated fair value of the award, and is recognized as an expense over the employee’s or director’s requisite service period using the graded vesting method. Stock-based compensation plans recognized as liabilities are initially measured at fair value and re-measured at fair value at each reporting date with the change in liability recognized in income.

Employee Benefits

The costs of the Company’s pension and other post-retirement benefit programs for employees are expensed over the periods during which employees render service. The Company recognizes the funded status of its defined-benefit and other post-retirement plans on the balance sheet and recognizes changes in funded status in the year the change occurs. The Company recognizes the unamortized gains and losses and past service costs in AOCL. The components of net periodic benefit cost other than the service cost component are included in “Other income (expense), net” on the Consolidated Statements of Income.

The COVID-19 pandemic could impact key actuarial assumptions used to account for employee post-retirement benefits including the anticipated rates of return on plan assets and discount rates used in determining the accrued benefit obligation, benefit costs and annual pension funding requirements.

2. FUTURE ACCOUNTING PRONOUNCEMENTS

The Company considers the applicability and impact of all ASUs issued by the FASB. Any ASUs not included were assessed and determined to be either not applicable to the Company or have an insignificant impact on the consolidated financial statements.

3. REVENUE

The following disaggregates the Company's revenue by major source:

For the millions of Canadian dollars	Year ended December 31	
	2021	2020
Residential	\$ 797	\$ 806
Commercial	407	405
Industrial	237	224
Other	27	31
Electric Revenue	1,468	1,466
Other Revenue (1)	33	28
Operating Revenues	\$ 1,501	\$ 1,494

(1) Includes revenue which does not represent revenues from contracts with customers.

Remaining Performance Obligations

Remaining performance obligations primarily represent the transaction prices of a long-term steam supply agreement. As of December 31, 2021, the aggregate amount of the transaction price allocated to remaining performance obligations was \$7 million (2020 - \$12 million). The Company expects to recognize revenue for the remaining performance obligations through Q2 2023.

4. REGULATORY MATTERS

The Company is a public utility as defined in the Act and is subject to regulation under the Act by the UARB. The Act gives the UARB supervisory powers over NSPI's operations and expenditures. Electricity rates for NSPI's customers are subject to UARB approval. The Company is not subject to a general annual rate review process, but rather participates in hearings held from time to time at the Company's or the UARB's request.

NSPI is regulated under a cost-of-service model, with rates set to recover prudently incurred costs of providing electricity service to customers and provide an appropriate return to investors. NSPI's approved regulated return on equity ("ROE") range is 8.75 per cent to 9.25 per cent based on an actual five-quarter average regulated common equity component of up to 40 per cent.

NSPI is currently operating under a three-year Fuel Stability Plan which results in an average annual overall rate increase of 1.5 per cent to recover Fuel Costs for the period of 2020 through 2022.

The Maritime Link is a \$1.6 billion transmission project, including two 170-kilometre sub-sea cables, connecting the island of Newfoundland and Nova Scotia. The Maritime Link entered service on January 15, 2018 and NSPI started interim assessment payments to NS Power Maritime Link ("NSPML") at that time. The UARB approved 2021 interim cost assessment recovery payment to NSPML was \$172 million (2020 - \$145 million) and as of December 31, 2021 \$139 million (2020 - \$135 million) has been paid. The approved interim cost assessment payments are subject to a holdback of up to \$10 million pending UARB agreement that benefits from the Maritime Link are realized for NSPI customers. For 2021, NSPI has recorded a \$10 million (2020 - \$4 million) holdback payable to NSPML and NSPML has deferred collection and recognition of \$23 million in depreciation expense in 2021. On January 18, 2022, the UARB directed NSPI to pay to NSPML \$10 million of the 2021 holdback (less a small amount to be returned to customers through the FAM).

As part of the three-year Fuel Stability Plan, electricity rates have been set to include the \$145 million approved Maritime Link assessment for 2020 and amounts of \$164 million and \$162 million for 2021 and 2022, respectively. Any differences between the amounts included in the Fuel Stability Plan and those approved by the UARB through the NSPML interim assessment application will be addressed through the FAM.

In response to the delayed timing of energy delivery from the Muskrat Falls project, which is being developed by Nalcor Energy ("Nalcor"), the approved Maritime Link interim assessment payment in 2019 reflected a reduction in NSPML's assessment, related to depreciation and amortization expenses. The UARB's decision to approve NSPI's 2020 through 2022 Fuel Stability Plan outlined the treatment of the reduced 2019 NSPML assessment of \$52 million plus interest. NSPI refunded approximately \$40 million of the reduced assessment plus interest in 2020, and the remaining \$12 million plus interest will be returned to customers subsequent to 2022.

Nalcor's NS Block delivery obligations commenced on August 15, 2021 and delivery will continue over the next 35 years pursuant to the project agreements. On August 9, 2021, NSPML filed a final capital cost application with the UARB seeking approval to recover capital costs associated with the Maritime Link and approval of NSPML's 2022 assessment. In December 2021, NSPML obtained an interim decision from the UARB approving interim rates beginning January 1, 2022, pending receipt of the UARB's final decision on the application which is expected in early 2022.

On January 27, 2022, NSPI filed a General Rate Application ("GRA") with the UARB. The GRA proposes a rate stability plan for 2022 through 2024 which includes average base rate increases of 2.9 per cent per year and average fuel rate increases pursuant to the FAM of 0.8 per cent per year on August 1, 2022, January 1, 2023 and January 1, 2024. The proposed rates would result in annualized incremental revenue (base and fuel rates) increases of \$52 million in 2022 (\$21 million related to August 1, 2022 through December 31, 2022), \$54 million in 2023 and \$56 million in 2024. A decision by the UARB is expected later this year.

Fuel Adjustment Mechanism and Fixed Cost Deferrals

NSPI has a UARB approved FAM, allowing NSPI to recover fluctuating Fuel Costs from customers through annual fuel rate adjustments. Differences between prudently incurred Fuel Costs and amounts recovered from customers through electricity rates in a given year are deferred to a FAM regulatory asset or liability and recovered from or returned to customers in a subsequent year. For the years 2020 through 2022, differences between actual Fuel Costs and fuel revenues recovered from customers will be returned to, or recovered from, customers after 2022. Under the proposed GRA, any differences after September 30, 2021 will be recovered from or returned to customers after 2024.

The UARB's decision to approve NSPI's Fuel Stability Plan directed that annual non-fuel revenues above NSPI's approved range of ROE are to be applied to the FAM.

Pursuant to the FAM Plan of Administration, NSPI's Fuel Costs are subject to independent audit. On April 6, 2021, the UARB's decision on the FAM audit findings and recommendations relating to fiscal 2018 and 2019 was publicly released. The final recommendations were endorsed by the UARB and included two disallowances. The impacts of the disallowances were not material to NSPI's financial results.

FAM and fixed cost deferrals recognized in the Consolidated Statements of Income consisted of the following:

For the millions of Canadian dollars	Year ended December 31	
	2021	2020
Fuel adjustment mechanism (refer to table below)	\$ (163)	\$ (64)
Other	-	2
	\$ (163)	\$ (62)

The impact of the FAM in the Consolidated Statements of Income includes the effect of Fuel Costs in both the current and preceding years as follows:

- The difference between actual Fuel Costs and amounts recovered from customers in the current year. This amount is deferred to a FAM regulatory asset in “Regulatory assets” or a FAM regulatory liability in “Regulatory liabilities” on the Consolidated Balance Sheets; and
- The recovery from (refund to) customers of under (over) recovered Fuel Costs from prior years.

FAM recovery on the Consolidated Statements of Income consisted of the following:

For the millions of Canadian dollars	Year ended December 31	2021	2020
Total (under) over recovery of Fuel Costs (1)	\$	(162)	\$ 36
Refund to customers of prior years' Fuel Costs		(1)	(100)
Fuel adjustment mechanism expense	\$	(163)	\$ (64)

(1) Includes a \$38 million non-cash accrual representing the estimated cost of acquiring emissions credits for the 2019 – 2022 Nova Scotia Cap-and-Trade compliance period due to higher than expected emissions primarily as a result of the delayed timing of Muskrat Falls energy. The expense is accrued over the compliance period based on forecast emissions for the 2019 – 2022 period and is an estimate of expected costs but does not represent a fixed obligation.

The FAM regulatory asset balance of \$145 million as at December 31, 2021, (refer to the table below) includes associated interest, that is recorded as “Interest expense, net” on the Consolidated Statements of Income.

Other Regulatory Matters

NSPI plans to retire the Company’s Annapolis Tidal Generating Station. On February 19, 2021, NSPI applied to the UARB for the accounting treatment of the unrecovered net book value of these assets in the amount of \$28 million. On January 14, 2022, the UARB concluded that it was not yet in a position to make a determination on the accounting treatment and would hold the application in abeyance. The UARB suggested NSPI resubmit the application for accounting treatment along with a decommissioning application. NSPI continues to classify these assets within Property, Plant and Equipment at December 31, 2021.

Regulatory Assets and Regulatory Liabilities

Regulatory assets represent prudently incurred costs that have been deferred because it is probable that they will be recovered through future rates collected from customers. Management believes that existing regulatory assets are probable of recovery either because the Company received specific approval from the UARB, or due to regulatory precedent set for similar circumstances. If Management no longer considers it probable that an asset will be recovered, the deferred costs are charged to income.

Regulatory liabilities represent obligations to make refunds to customers or to reduce future revenues for previous collections. If Management no longer considers it probable that a liability will be settled, the related amount is recognized in income.

Regulatory assets and liabilities as at December 31, excluding certain regulatory assets related to property, plant and equipment and AROs as discussed in notes 12 and 18, consisted of the following:

As at millions of Canadian dollars	December 31 2021	December 31 2020
Regulatory assets		
Deferred income tax regulatory asset	\$ 661	\$ 564
Fuel adjustment mechanism (refer to table below)	145	-
Deferrals related to derivative instruments	18	61
Unamortized defeasance costs	11	13
DSM deferral	10	15
Other	2	6
	\$ 847	\$ 659
Current	\$ 17	\$ 48
Long-term	830	611
Total regulatory assets	\$ 847	\$ 659
Regulatory liabilities		
Deferrals related to derivative instruments	\$ 222	\$ 13
Cost of removal	34	46
Fuel adjustment mechanism (refer to table below)	-	21
	\$ 256	\$ 80
Current	\$ 165	\$ 40
Long-term	91	40
Total regulatory liabilities	\$ 256	\$ 80

Deferred Income Tax Regulatory Asset

NSPI recognizes deferred income tax assets and liabilities for the future tax consequences of events that have been included in the consolidated financial statements or income tax returns, in accordance with NSPI's rate-regulated accounting policy as approved by the UARB. To the extent deferred income taxes are expected to be recovered from or returned to customers in future years, NSPI recognizes a net deferred income tax regulatory asset or liability as appropriate.

Deferrals Related to Derivative Instruments

NSPI defers changes in fair value of derivatives that are documented as economic hedges or that do not qualify for NPNS exception, as a regulatory asset or liability as approved by the UARB. The realized gain or loss is recognized when the hedged item settles in fuel for generation and purchased power, other income, inventory, OM&G or property, plant and equipment, depending on the nature of the item being economically hedged.

Unamortized Defeasance Costs

Upon privatization of NSPI in 1992, NSPI became responsible for managing a portfolio of defeasance securities held in trust that provide the principal and interest streams to match the related defeased debt, which as at December 31, 2021, totaled \$200 million (2020 – \$582 million). The excess of the cost of defeasance investments over the face value of the related debt is deferred on the consolidated balance sheet and amortized over the life of the defeased debt as permitted by the UARB.

DSM Deferral

The UARB approved the implementation of the 2015 DSM deferral set at \$35 million for 2015 and recoverable from customers over an eight year period beginning in 2016.

The UARB directed EfficiencyOne to review the financing options through which EfficiencyOne would borrow the 2015 deferral amount from a commercial lender in order to repay NSPI the amount it

expended on behalf of its customers in 2015. In December 2016, EfficiencyOne secured financing and \$31 million was advanced to NSPI to finance the 2015 DSM deferral. In February 2017, EfficiencyOne advanced an additional \$2 million to NSPI. As NSPI collects the associated amounts from customers over the remaining three years, it will repay the balance to EfficiencyOne. This has been set up as a liability in "Other long-term liabilities" with the current portion of the liability included in "Other current liabilities" on the Consolidated Balance Sheets.

millions of Canadian dollars	2021		2020	
DSM regulatory asset – Balance as at January 1	\$	15	\$	19
Recovery of regulatory asset recorded as regulatory amortization		(5)		(4)
DSM regulatory asset – Balance as at December 31	\$	10	\$	15

Cost of Removal

This item represents non-ARO cost of removal reserve. AROs are costs for legally required removal of property, plant and equipment and are recorded as a liability on the balance sheet (refer to note 18). Non-ARO cost of removal represents funds received from customers through depreciation rates to cover future non-legally required cost of removal of property, plant and equipment, net of salvage value upon retirement.

Fuel Adjustment Mechanism

The change in the FAM regulatory asset/(liability) balances consisted of the following:

millions of Canadian dollars	2021		2020	
FAM regulatory liability – Balance as at January 1	\$	(21)	\$	(115)
Total under (over) recovery of current period Fuel Costs (1)		162		(36)
Interest on FAM balance		3		(6)
Refund to customers of prior years' over-recovery of Fuel Costs and reduced Maritime Link assessment		1		140
Other		-		(4)
FAM regulatory asset (liability) – Balance as at December 31	\$	145	\$	(21)

(1) Includes the Nova Scotia Cap-and-Trade Program provision.

5. INTEREST EXPENSE, NET

For the	Year ended December 31			
millions of Canadian dollars	2021		2020	
Interest on debt	\$	138	\$	136
Interest on FAM balance		(3)		6
Interest revenue, net		(2)		(4)
Allowance for borrowed funds used during construction		(4)		(2)
Other		3		3
	\$	132	\$	139

6. INCOME TAXES

The income tax provision, for the years ended December 31, differs from that computed using the enacted combined Canadian federal and Nova Scotia provincial statutory income tax rate for the following reasons:

millions of Canadian dollars	2021	2020
Income before provision for income taxes	\$ 152	\$ 142
Statutory income tax rate	29.0%	29.5%
Income taxes, at statutory income tax rate	44	42
Deferred income taxes on regulated income recorded as regulatory assets and regulatory liabilities	(35)	(26)
Revaluation of deferred income taxes due to changes in Nova Scotia provincial corporate income tax rate	-	1
Other	2	-
Income tax expense	\$ 11	\$ 17
Effective income tax rate	7%	12%

On March 10, 2020, Bill 243 of the Nova Scotia Financial Measures (2020) Act was enacted, which included a reduction in the Nova Scotia provincial corporate income tax rate. As a result, the Company's combined federal and provincial statutory income tax rate was reduced from 31% to 29.5% for 2020, and further reduced to 29% for 2021 and onward.

As a result of the change in the tax rate in 2020, the Company recorded a reduction of \$53 million to its net deferred income tax liabilities and an offsetting reduction to its net deferred income tax regulatory asset, as the benefit of lower net deferred income tax liabilities is expected to be returned to customers in future years. The Company also recognized a \$1 million income tax expense as a result of the revaluation of certain net deferred income tax assets.

The following reflects the composition of taxes on income from continuing operations presented in the Consolidated Statements of Income for the years ended December 31:

millions of Canadian dollars	2021	2020
Current income taxes	\$ -	\$ (13)
Deferred income taxes	47	30
Operating loss carryforwards	(36)	-
Income tax expense	\$ 11	\$ 17

The deferred income tax assets and liabilities presented in the Consolidated Balance Sheets as at December 31 consisted of the following:

millions of Canadian dollars	2021	2020
Deferred income tax assets:		
Tax loss carryforwards	104	47
Regulatory liabilities - deferrals related to derivative instruments	89	5
Asset retirement obligations	48	46
Pension and post-retirement liabilities	40	67
Regulatory liabilities - cost of removal	14	19
Derivative instruments	8	24
Other	27	33
Total deferred income tax assets before valuation allowance	330	241
Valuation allowance	(12)	(12)
Total deferred income tax assets after valuation allowance	\$ 318	\$ 229
Deferred income tax liabilities:		
Property, plant and equipment	\$ (734)	\$ (690)
Derivative instruments	(89)	(5)
Regulatory asset - FAM	(42)	-
Pension and post-retirement assets	(29)	(5)
Other	(38)	(56)
Total deferred income tax liabilities	\$ (932)	\$ (756)
Consolidated Balance Sheets presentation:		
Long-term deferred income tax liabilities	\$ (614)	\$ (527)

As at December 31, 2021, NSPI had a net operating loss carryforward of \$317 million (2020 - \$120 million) which expires between 2039 and 2041 and a gross capital loss carryforward of \$56 million (2020 - \$57 million) with an indefinite carryforward period. NSPI has a deferred tax asset of \$92 million relating to the net operating loss carryforward (2020 - \$35 million) and a \$12 million deferred tax asset relating to the capital loss carryforward (2020 - \$12 million). A valuation allowance of \$12 million has been recorded as at December 31, 2021 (2020 - \$12 million) related to the capital loss carryforward as realization is uncertain.

Considering all evidence regarding the utilization of the Company's deferred income tax assets, it has been determined that NSPI is more likely than not to realize all recorded deferred income tax assets, except for the capital loss carryforward noted above. The only valuation allowance recorded as at December 31, 2021 is related to the capital loss carryforward.

The following table provides details of the change in unrecognized tax benefits for the years ended December 31 as follows:

millions of Canadian dollars	2021	2020
Balance, January 1	\$ 17	\$ 17
Increases due to tax positions related to current year	3	1
Decreases due to tax positions related to a prior year	(1)	(1)
Balance, December 31	\$ 19	\$ 17

The total amount of unrecognized tax benefits as at December 31, 2021 was \$19 million (2020 - \$17 million), which would affect the effective tax rate if recognized. The total amount of accrued interest with respect to unrecognized tax benefits was \$6 million (2020 - \$6 million) with nil interest expense recognized in the Consolidated Statement of Income in 2021 (2020 - \$1 million). No penalties have been accrued. The balance of unrecognized tax benefits could change in the next twelve months as a result of resolving Canada Revenue Agency ("CRA") audits. A reasonable estimate of any change cannot be made at this time.

NSPI files a Canadian federal income tax return, which includes its Nova Scotia provincial income tax. As at December 31, 2021, NSPI's tax years still open to examination by taxing authorities include 2006 and subsequent years.

NSPI and the CRA are currently in a dispute with respect to the timing of certain tax deductions for its 2006 through 2010 taxation years. The ultimate permissibility of the tax deductions is not in dispute; rather, it is the timing of those deductions. The cumulative net amount in dispute to date is \$62 million, including interest. NSPI has prepaid \$23 million of the amount in dispute, as required by CRA.

On November 29, 2019, NSPI filed a Notice of Appeal with the Tax Court of Canada with respect to its dispute. Should NSPI be successful in defending its position, all payments including applicable interest will be refunded. If NSPI is unsuccessful in defending any portion of its position, the resulting taxes and applicable interest will be deducted from amounts previously paid, with the excess, if any, owing to CRA. The related tax deductions will be available in subsequent years.

Should NSPI be similarly reassessed by the CRA for years not currently in dispute, further payments will be required; however, the ultimate permissibility of these deductions would be similarly not in dispute.

NSPI and its advisors believe that NSPI has reported its tax position appropriately. NSPI continues to assess its options to resolving the dispute; however, the outcome of the Appeal process is not determinable at this time.

7. ACCUMULATED OTHER COMPREHENSIVE LOSS

millions of Canadian dollars	Defined benefit pension and non-pension benefits	
	2021	2020
Balance, January 1	\$ (176)	\$ (175)
Amounts reclassified from (to) AOCL	116	(1)
Balance, December 31	\$ (60)	\$ (176)

The reclassifications out of AOCL are as follows:

millions of Canadian dollars	2021		2020	
Affected line item in the Consolidated Statements of Income (1)	Amounts reclassified from AOCL			
Amortization of defined pension and non-pension benefit costs				
Actuarial losses	Other income, net	\$ 17	\$	14
Past service gains	Other income, net	-		(1)
Amounts reclassified to obligations	Pension and post-retirement obligations	99		(14)
Total reclassifications out of (in to) AOCL for the period		\$ 116	\$	(1)

(1) These AOCL components are included in the computation of net periodic pension cost (refer to note 13 for additional details).

8. RECEIVABLES, NET

As at millions of Canadian dollars	December 31		December 31	
	2021		2020	
Customer accounts receivable – billed	\$	92	\$	104
Customer accounts receivable – unbilled		154		141
Total customer accounts receivable		246		245
Allowance for credit losses		(3)		(5)
Customer accounts receivable, net		243		240
Cash collateral position on derivative instruments (note 10)		-		42
Other		37		18
	\$	280	\$	300

9. INVENTORY

As at millions of Canadian dollars	December 31 2021	December 31 2020
Fuel	\$ 129	\$ 108
Materials	72	66
	\$ 201	\$ 174

10. DERIVATIVE INSTRUMENTS

Derivative assets and liabilities receiving regulatory deferral consisted of the following:

	Derivative Assets		Derivative Liabilities	
As at millions of Canadian dollars	December 31 2021	December 31 2020	December 31 2021	December 31 2020
Current				
Commodity swaps and forwards				
Coal purchases	\$ 20	\$ -	\$ 1	5
Power purchases	51	3	1	18
Oil purchases	3	-	-	3
Natural gas purchases	14	2	4	1
Foreign exchange forwards	2	-	8	10
Physical natural gas purchases	51	-	-	-
Total gross current derivatives	141	5	14	37
Impact of master netting agreements with intent to settle net or simultaneously	(3)	(1)	(3)	(1)
Total current derivatives	138	4	11	36
Long-term				
Commodity swaps and forwards				
Coal purchases	2	1	-	1
Power purchases	32	7	7	16
Natural gas purchases	6	2	2	-
Foreign exchange forwards	5	-	-	7
Physical natural gas purchases	37	-	-	-
Total gross long-term derivatives	82	10	9	24
Impact of master netting agreements with intent to settle net or simultaneously	(1)	(1)	(1)	(1)
Total long-term derivatives	81	9	8	23
Total derivatives	\$ 219	\$ 13	\$ 19	\$ 59

Derivative assets and liabilities are classified as current or long-term based upon the maturities of the underlying contracts.

Regulatory Deferral

NSPI received approval from the UARB for regulatory deferral of gains and losses on certain derivatives documented as economic hedges and certain physical contracts that do not qualify for the NPNS exception. Refer to note 4 for these regulatory deferrals. The Company has recorded the following changes with respect to derivatives receiving regulatory deferral:

For the millions of Canadian dollars	Year ended December 31 2021			Year ended December 31 2020		
	Commodity swaps and forwards	Physical natural gas purchases and sales	Foreign exchange forwards	Commodity swaps and forwards	Physical natural gas purchases and sales	Foreign exchange forwards
Unrealized gain (loss) in regulatory assets	\$ (9)	\$ -	\$ 9	\$ (34)	\$ -	\$ (11)
Unrealized gain (loss) in regulatory liabilities	193	88	(3)	5	-	3
Realized (gain) loss in regulatory assets	-	-	-	2	-	-
Realized (gain) loss in regulatory liabilities	(3)	-	-	14	-	-
Realized (gain) loss in inventory (1)	(8)	-	5	8	-	(2)
Realized (gain) loss in fuel for generation and purchased power (2)	(31)	-	5	23	-	(3)
Total change in derivative instruments	\$ 142	\$ 88	\$ 16	\$ 18	\$ -	\$ (13)

(1) Realized (gains) losses will be recognized in "Fuel for generation and purchased power" when the hedged item is consumed.

(2) Realized (gains) losses on derivative instruments settled and consumed in the period, hedging relationships that have been terminated or the hedged transaction is no longer probable.

Commodity Swaps and Forwards

As at December 31, 2021, the Company had the following notional volumes of commodity swaps and forward contracts designated for regulatory deferral that are expected to settle as outlined below:

millions	2022 Purchases	2023 - 2024 Purchases
Natural Gas (MMBtu)	13	13
Power (MWh)	1	2

Foreign Exchange Swaps and Forwards

As at December 31, 2021, the Company had the following notional volumes of foreign exchange forward contracts designated for regulatory deferral that are expected to settle as outlined below:

	2022	2023-2024
Foreign exchange contracts (millions of US dollars)	\$ 170	\$ 150
Weighted average rate	1.3047	1.2413
% of USD requirements	65%	29%

NSPI reassesses forecasted foreign exchange requirements periodically and will enter into additional hedges or unwind existing hedges, as required.

Credit Risk

The Company is exposed to credit risk with respect to amounts receivable from customers and derivative assets. Credit risk is the potential loss from a counterparty's non-performance under an agreement. The Company manages credit risk with policies and procedures for counterparty analysis, exposure measurement, and exposure monitoring and mitigation. Credit assessments are conducted on all new customers and counterparties, and deposits or collateral are requested on any high-risk accounts.

The Company assesses the potential for credit losses on a regular basis, and where appropriate, recognizes provisions. With respect to counterparties, the Company has implemented procedures to monitor the creditworthiness and credit exposure of counterparties and to consider default probability in valuing the counterparty positions. The Company monitors counterparties' credit standing, including those that are experiencing financial problems, have significant swings in default probability rates, have credit rating changes by external rating agencies, or have changes in ownership. Net liability positions are adjusted based on the Company's current default probability. Net asset positions are adjusted based on the counterparty's current default probability. The Company assesses credit risk internally for counterparties that are not rated.

As at December 31, 2021, the maximum exposure the Company has to credit risk is \$408 million (December 31, 2020 – \$294 million), which includes accounts receivable and assets related to derivatives net of collateral/deposits.

It is possible that volatility in commodity prices could cause the Company to have material credit risk exposures with one or more counterparties. If such counterparties fail to perform their obligations under one or more agreements, the Company could suffer a material financial loss. The Company transacts with counterparties as part of its risk management strategy for managing commodity price and foreign exchange. Counterparties that exceed established credit limits can provide a cash deposit or letter of credit to the Company for the value in excess of the credit limit where contractually required. The Company also obtains cash deposits from electric customers. The total cash deposits/collateral on hand as at December 31, 2021, was \$91 million (December 31, 2020 - \$17 million). The Company uses the cash as payment for the amount receivable or returns the deposit/collateral to the customer/counterparty when it is no longer required by the Company.

The Company enters into commodity master arrangements with its counterparties to manage certain risks, including credit risk to these counterparties. The Company generally enters into International Swaps and Derivatives Association agreements, North American Energy Standards Board agreements and, or Edison Electric Institute agreements. The Company believes that entering into such agreements offers protection by creating contractual rights relating to creditworthiness, collateral, non-performance and default.

As at December 31, 2021, the Company had \$37 million (December 31, 2020 - \$44 million) in financial assets considered to be past due, which have been outstanding for an average of 72 days. The fair value of these financial assets is \$36 million (December 31, 2020 - \$40 million), the difference of which is included in the allowance for credit losses. These assets relate to accounts receivable from electric revenue.

Concentration Risk

The Company's concentrations of risk as at December 31, consisted of the following:

As at	2021		2020	
	millions of Canadian dollars	% of total exposure	millions of Canadian dollars	% of total exposure
Receivables, net				
Residential	\$ 153	31%	\$ 153	49%
Commercial	53	11%	53	17%
Industrial	26	5%	26	8%
Other	48	10%	26	8%
Cash Collateral	-	-%	42	14%
	280	56%	300	96%
Derivative Instruments (current and long-term)				
Credit rating of A- or above	131	26%	13	4%
Not rated	88	18%	-	-%
	219	44%	13	4%
	\$ 499	100%	\$ 313	100%

Cash Collateral

Derivatives, as reflected on the Consolidated Balance Sheets, are not offset by the fair value amounts of cash collateral with the same counterparty. Rights to reclaim cash collateral are recognized in "Receivables, net" and obligations to return cash collateral are recognized in "Accounts payable". As at December 31, 2021, the Company's cash collateral position was a receivable of nil (December 31, 2020 – \$42 million) and a payable of \$76 million (December 31, 2020 – \$2 million).

Collateral is posted in the normal course of business. Certain of the Company's derivatives could contain financial assurance provisions that require collateral to be posted if a material adverse credit-related event occurs. If a material adverse event resulted in the senior unsecured debt to fall below investment grade, the counterparties to such derivatives could request ongoing full collateralization. As at December 31, 2021, the total fair value of these derivatives, in a liability position, was \$19 million (December 31, 2020 – \$59 million).

11. FAIR VALUE MEASUREMENTS

The Company is required to determine the fair value of all derivatives except those which qualify for the NPNS exception and uses a market approach to do so. The three levels of the fair value hierarchy are defined as follows:

Level 1 - Where possible, the Company bases the fair valuation of its financial assets and liabilities on quoted prices in active markets ("quoted prices") for identical assets and liabilities.

Level 2 - Where quoted prices for identical assets and liabilities are not available, the valuation of certain contracts must be based on quoted prices for similar assets and liabilities with an adjustment related to location differences. Also, certain derivatives are valued using quotes from over-the-counter clearing houses.

Level 3 - Where the information required for a Level 1 or Level 2 valuation is not available, derivatives must be valued using unobservable or internally-developed inputs. The primary reasons for a Level 3 classification are as follows:

- While valuations were based on quoted prices, significant assumptions were necessary to reflect seasonal or monthly shaping and locational basis differentials.

- The term of certain transactions extends beyond the period when quoted prices are available, and accordingly, assumptions were made to extrapolate prices from the last quoted period through the end of the transaction term.
- The valuations of certain transactions were based on internal models, although quoted prices were utilized in the valuations.

Derivative assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

The following tables set out the classification of the methodology used by the Company to fair value its derivatives:

As at	December 31, 2021			
millions of Canadian dollars	Level 1	Level 2	Level 3	Total
Assets				
<i>Regulatory deferral</i>				
Commodity swaps and forwards				
Coal purchases	\$ -	\$ 22	\$ -	\$ 22
Power purchases	83	-	-	83
Oil purchases	3	-	-	3
Natural gas purchases	15	1	-	16
Foreign exchange forwards	-	7	-	7
Physical natural gas purchases	-	-	88	88
Total assets	101	30	88	219
Liabilities				
<i>Regulatory deferral</i>				
Commodity swaps and forwards				
Power purchases	7	-	-	7
Natural gas purchases	-	4	-	4
Foreign exchange forwards	-	8	-	8
Total liabilities	7	12	-	19
Net assets	\$ 94	\$ 18	\$ 88	\$ 200

As at	December 31, 2020			
millions of Canadian dollars	Level 1	Level 2	Level 3	Total
Assets				
<i>Regulatory deferral</i>				
Commodity swaps and forwards				
Power purchases	\$ 9	\$ -	\$ -	\$ 9
Natural gas purchases	2	2	-	4
Total assets	11	2	-	13
Liabilities				
<i>Regulatory deferral</i>				
Commodity swaps and forwards				
Coal purchases	-	4	-	4
Power purchases	33	-	-	33
Oil purchases	3	-	-	3
Natural gas purchases	-	2	-	2
Foreign exchange forwards	-	17	-	17
Total liabilities	36	23	-	59
Net liabilities	\$ (25)	\$ (21)	\$ -	\$ (46)

The change in the fair value of the Level 3 financial assets for the year ended December 31, 2021, was as follows:

millions of Canadian dollars	Physical natural gas purchases
Balance, January 1, 2021	\$ -
Change in unrealized gains included in regulatory liabilities	88
Balance, December 31, 2021	\$ 88

There were no Level 3 financial liabilities for the year ended December 31, 2021 and no Level 3 financial assets or liabilities for the year ended December 31, 2020.

Significant unobservable inputs used in the fair value measurement of the Company's natural gas derivatives include third-party sourced pricing for instruments based on illiquid markets; internally developed correlation factors and basis differentials; own credit risk; and discount rates. Internally developed correlations and basis differentials are reviewed on a quarterly basis based on statistical analysis of the spot markets in the various illiquid term markets. Discount rates may include a risk premium for those long-term forward contracts with illiquid future price points to incorporate the inherent uncertainty of these points. Any risk premiums for long-term contracts are evaluated by observing similar industry practices and in discussion with industry peers. Significant increases (decreases) in any of these inputs in isolation would result in a significantly lower (higher) fair value measurement.

As at	December 31, 2021				
	Fair Value	Valuation Technique	Unobservable Input	Range	Weighted average (1)
millions of Canadian dollars					
Assets					
<i>Regulatory deferral – Physical natural gas purchases</i>	\$ 88	Modelled pricing	Third-party pricing	\$4.51 - \$26.09	\$9.74
			Probability of default	2.52% - 4.40%	3.31%
			Discount Rate	0.01% - 1.60%	0.48%

(1) Unobservable inputs were weighted by the relative fair value of the instruments

The financial liabilities included on the Consolidated Balance Sheets that are not measured at fair value consisted of long-term debt as follows:

As at	December 31, 2021					
millions of Canadian dollars	Carrying Amount	Fair Value	Level 1	Level 2	Level 3	Total
Long-term debt	\$ 3,026	\$ 3,680	\$ -	\$ 3,680	\$ -	\$ 3,680

As at	December 31, 2020					
millions of Canadian dollars	Carrying Amount	Fair Value	Level 1	Level 2	Level 3	Total
Long-term debt	\$ 2,941	\$ 3,836	\$ -	\$ 3,836	\$ -	\$ 3,836

The fair values of long-term debt instruments, classified as level 2 in the fair value hierarchy, are estimated based on the quoted market price from the same or similar issues, or on the current rates offered to the Company for debt of the same remaining maturity.

A payable included in "Other long-term liabilities" with the current portion of the liability included in "Other current liabilities" on the Consolidated Balance Sheets is carried at cost and approximates the fair value of the financial liability.

12. PROPERTY, PLANT AND EQUIPMENT

As at millions of Canadian dollars	December 31 2021	December 31 2020
Generation	\$ 3,577	\$ 3,524
Transmission	1,153	1,107
Distribution	1,786	1,735
General plant and other	752	703
Total cost	7,268	7,069
Less: Accumulated depreciation	(3,105)	(2,995)
	4,163	4,074
Construction work in progress	182	126
Net book value	\$ 4,345	\$ 4,200

For the year ended December 31, 2021, AFUDC of \$8 million (2020 – \$5 million) was capitalized to “Property, plant and equipment”.

As a result of UARB approved accounting policies and depreciation rates, NSPI recognizes or defers certain costs within “Property, plant and equipment” that would not otherwise be recognized or deferred in the absence of rate regulation. Cumulative differences between items recognized for rate regulatory purposes and USGAAP including depreciation rates, AFUDC and overhead costs, cannot be separately determined. The cumulative increase to accretion expense included within accumulated depreciation as at December 31, 2021 was \$2 million (2020 – \$3 million).

There were no material asset impairments of these assets for the years ended December 31, 2021 and 2020.

The estimated useful lives, in years, for each major category of property, plant and equipment consist of the following:

Generation	32 to 65
Generation - hydro	63 to 131
Generation - wind	25
Transmission	40 to 80
Distribution	14 to 65
General plant and other	5 to 50

The estimated average amortization expense for each of the five succeeding years is \$3 million for land rights and \$19 million for computer software.

13. EMPLOYEE BENEFIT PLANS

NSPI maintains contributory defined-benefit and defined-contribution pension plans, which cover substantially all of its employees; and plans providing non-pension benefits for its retirees.

Defined Benefit Plans

The Company maintains contributory defined benefit pension plans which cover approximately half of the active workforce. The defined benefit plan pension benefits are determined based on the years of service and average salary at the time the employee terminates employment. The plan provides annual post-retirement indexing equal to the change in the Consumer Price Index up to a stated maximum. The measurement date for the defined benefit pension plan is December 31. Effective November 1, 2014, the defined benefit plan was closed to new entrants.

Other retirement benefit plans ("Non-pension benefit plans") include the unfunded retirement award plan (which is impacted by expected future salary increases) and contributory health care plan. The unfunded retirement award plan was closed to new entrants effective August 1, 2007.

Benefit Obligation and Plan Assets

The changes in benefit obligation and plan assets, and the funded status for all plans for the years ended December 31 were as follows:

millions of Canadian dollars	2021		2020	
Change in Projected Benefit Obligation ("PBO") and Accumulated Post-retirement Benefit Obligation ("APBO")	Defined benefit pension plans	Non-pension benefit plans	Defined benefit pension plans	Non-pension benefit plans
Balance, January 1	\$ 1,525	\$ 35	\$ 1,448	\$ 35
Service cost	15	1	15	2
Plan participant contributions	6	-	6	-
Interest cost	39	1	45	1
Benefits paid	(62)	(3)	(61)	(3)
Actuarial (gains) losses	(48)	(1)	72	-
Balance, December 31	\$ 1,475	\$ 33	\$ 1,525	\$ 35
Change in Plan assets				
Balance, January 1	\$ 1,423	\$ -	\$ 1,338	\$ -
Employer contributions	11	3	13	3
Plan participant contributions	6	-	6	-
Benefits paid	(62)	(3)	(61)	(3)
Actual return on assets, net of expenses	116	-	127	-
Balance, December 31	\$ 1,494	\$ -	\$ 1,423	\$ -
Funded Status, end of year	\$ 19	\$ (33)	\$ (102)	\$ (35)

The actuarial gains recognized in the period for the defined benefit pension plans are primarily as a result of gains associated with a change in discount rate and gains related to changes in assumed mortality, partially offset by losses associated with changes in inflation and compensation-related assumptions.

For the years ended December 31 the aggregate financial position for all pension plans where the PBO or, for post-retirement benefit plans, the APBO, exceeds the plan assets is as follows:

millions of Canadian dollars	2021		2020	
Plans with PBO/APBO in excess of plan assets	Defined benefit pension plans	Non-pension benefit plans	Defined benefit pension plans	Non-pension benefit plans
PBO/APBO	\$ 56	\$ 33	\$ 1,506	\$ 35
Fair value of Plan Assets	4	-	1,391	-
Funded Status	\$ (52)	\$ (33)	\$ (115)	\$ (35)

Plans with Accumulated Benefit Obligation ("ABO") in excess of Plan assets

The ABO for the defined benefit pension plans was \$1,405 million as at December 31, 2021 (2020 – \$1,461 million). The aggregate financial position for those plans with an ABO in excess of the plan assets for the years ended December 31 is as follows:

millions of Canadian dollars	Defined benefit pension plans	
	2021	2020
ABO	\$ 53	\$ 1,442
Fair value of Plan Assets	4	1,391
Funded Status	\$ (49)	\$ (51)

Consolidated Balance Sheets

The amounts recognized in the Consolidated Balance Sheets as at December 31 consisted of the following:

millions of Canadian dollars	2021		2020	
	Defined benefit pension plans	Non-pension benefit plans	Defined benefit pension plans	Non-pension benefit plans
Current liabilities	\$ (4)	\$ (3)	\$ (3)	(3)
Long-term liabilities	(48)	(30)	(112)	(32)
Other assets	71	-	13	-
AOCL	62	(2)	177	(1)
Net amount recognized at end of year	\$ 81	\$ (35)	\$ 75	(36)

Unamortized gains and losses and past service costs arising on post-retirement benefits are recorded in AOCL. The following tables summarize the change in AOCL:

millions of Canadian dollars	Actuarial (gains) losses	Past service (gains) costs
Defined Benefit Pension Plans		
Balance, January 1, 2021	\$ 177	\$ -
Amortized in current period	(17)	-
Current year addition to AOCL	(98)	-
Balance, December 31, 2021	\$ 62	\$ -
Non-pension benefits plans		
Balance, January 1, 2021	\$ (1)	\$ -
Amortized in current period	-	-
Current year addition to AOCL	(1)	-
Balance, December 31, 2021	\$ (2)	\$ -

millions of Canadian dollars	2021		2020	
	Defined benefit pension plans	Non-pension benefit plans	Defined benefit pension plans	Non-pension benefit plans
Actuarial (gains) losses	\$ 62	(2)	\$ 177	(1)
Past service gains	-	-	-	-
Net amount in AOCL	\$ 62	(2)	\$ 177	(1)

Benefit Cost Components

NSPI's net periodic benefit cost as at December 31 included the following:

millions of Canadian dollars	2021		2020	
	Defined benefit pension plans	Non-pension benefit plans	Defined benefit pension plans	Non-pension benefit plans
Service cost	\$ 15	\$ 1	\$ 15	\$ 2
Interest cost	39	1	45	1
Expected return on plan assets	(66)	-	(69)	-
Current year amortization of:				
Actuarial losses	17	-	14	-
Past service gains	-	-	(1)	-
Total	\$ 5	\$ 2	\$ 4	\$ 3

The expected return on plan assets is determined based on the market-related value of plan assets of \$1,295 million as at January 1, 2021 (2020 – \$1,237 million), adjusted for interest on certain cash flows during the year. The market-related value of assets is based on a five-year smoothed asset value. Any investment gains (or losses) in excess of (or less than) the expected return on plan assets are recognized on a straight-line basis into the market-related value of assets over a five-year period.

Pension Plan Asset Allocations

NSPI's registered defined benefit pension plan employs a long-term strategic approach with respect to asset allocation, real return and risk. The underlying objective is to earn an appropriate return given the Company's goal of preserving capital within an acceptable level of risk for the pension fund investments.

To achieve the overall long-term asset allocation, pension assets are managed by external investment managers under the pension plan's investment policy and governance framework. The asset allocation includes investments in the assets of Canadian and global equities, domestic and global bonds, and short-term investments. NSPI reviews investment manager performance on a regular basis and maintains the plans' asset allocations within the ranges permitted in the pension plans' investment policy.

NSPI's target asset allocation for 2021 and 2020 was as follows:

Asset Class	2021 Target Range at Market			2020 Target Range at Market		
Short-term securities	0%	to	5%	0%	to	5%
Fixed income	35%	to	50%	35%	to	50%
Equities:						
Canadian	12%	to	22%	12%	to	22%
Non-Canadian (world)	30%	to	55%	30%	to	55%

The investment of the pension assets, including the performance of investment managers, is overseen by the NSPI Management Pension Committee. All pension investments are in accordance with the policies approved by the Board of Directors.

The fair values of investments as at December 31, 2021, by asset category, are as follows:

millions of Canadian dollars	NAV	Level 1	Level 2	Total	Percentage
Cash and cash equivalents	\$ -	\$ 14	\$ -	\$ 14	1 %
Equity securities:					
Canadian equity	-	95	-	95	6 %
International equity	-	515	-	515	35 %
Fixed income securities	-	-	45	45	3 %
Open-ended investments measured at Net Asset Value ("NAV") ⁽¹⁾	825	-	-	825	55 %
Total	\$ 825	\$ 624	\$ 45	\$ 1,494	100 %

(1) NAV investments are comprised of open-ended fixed income, short-term investment, Canadian equity and international equity pooled funds. NAV's are calculated at least monthly and the funds honor subscription and redemption activity regularly.

The fair value of investments as at December 31, 2020, by asset category, are as follows:

millions of Canadian dollars	NAV	Level 1	Level 2	Total	Percentage
Cash and cash equivalents	\$ -	\$ 11	\$ -	\$ 11	1 %
Equity Securities:					
Canadian equity	-	152	-	152	11 %
International equity	-	531	-	531	37 %
Fixed income securities	-	-	43	43	3 %
Open-ended investments measured at NAV ⁽¹⁾	686	-	-	686	48 %
Total	\$ 686	\$ 694	\$ 43	\$ 1,423	100 %

(1) NAV investments are comprised of open-ended fixed income, short-term investment, Canadian equity and international equity pooled funds. NAV's are calculated at least monthly and the funds honor subscription and redemption activity regularly.

Refer to note 11 for more information on the fair value hierarchy and inputs used to measure fair value.

Investments in Emera Incorporated or NSPI

As at December 31, 2021 and 2020, the assets related to the pension funds do not hold any material investments in Emera or NSPI securities. However, as a significant portion of assets for the benefit plan are held in pooled assets, there may be indirect investments in these securities.

Post-retirement benefit plan assets

There are no assets set aside to pay for the other post-retirement benefit plans. As is common in Canada, post-retirement health benefits are paid from general accounts as required.

Cash Flows

The following table shows the expected cash flows for defined benefit pension and other post-retirement benefit plans:

millions of Canadian dollars	Defined benefit pension plans	Non-pension benefit plans
Expected employer contributions		
2022	\$ 12	\$ 3
Expected benefit payments		
2022	65	3
2023	69	3
2024	74	3
2025	79	3
2026	84	3
2027 – 2031	482	20

Assumptions

The following table shows the assumptions that have been used in accounting for defined benefit pension and other post-retirement benefit plans as at December 31 included the following:

	2021		2020	
(weighted average assumptions)	Defined benefit pension plans	Non-pension benefit plans	Defined benefit pension plans	Non-pension benefit plans
Benefit obligation				
Discount rate - past service	3.25 %	2.78 %	2.59 %	2.59 %
Discount rate - future service	3.48 %	2.98 %	2.85 %	2.85 %
Rate of compensation increase	2.25-4.75%	2.25-4.75%	1.75-4.25%	1.75-4.25%
Health care trend - initial (next year)	-	4.71 %	-	4.77 %
- ultimate	-	3.60 %	-	3.70 %
- year ultimate reached	-	2040	-	2039
Benefit cost				
Discount rate - past service	2.59 %	2.59 %	3.13 %	3.13 %
Discount rate - future service	2.85 %	2.85 %	3.21 %	3.21 %
Expected long-term return on plan assets	5.25 %	N/A	5.75 %	N/A
Rate of compensation increase	1.75-4.25%	1.75-4.25%	2.00-4.50%	2.00-4.50%
Health care trend - initial (current year)	-	4.77 %	-	4.85 %
- ultimate	-	3.10 %	-	3.30 %

The rate of compensation increase for the December 31, 2021, benefit obligation disclosure ranged from 2.25 per cent (age 50 and over) to 4.75 per cent (age 29 and under).

The expected long-term rate of return on plan assets is based on historical and projected real rates of return for the plan's current asset allocation, and assumed inflation. A real rate of return is determined for each asset class. Based on the asset allocation, an overall expected real rate of return for all assets is

determined. The asset return assumption is equal to the overall real rate of return assumption added to the inflation assumption, adjusted for assumed expenses to be paid from the plan.

The discount rates are based on high-quality long-term Canadian corporate bonds, with maturities matching the estimated cash flows from the pension plan for future service and past service.

Defined Contribution Plan

The Company also provides a defined contribution pension plan for certain employees. The Company's contribution for the year ended December 31, 2021, was \$4 million (2020 – \$4 million).

14. LEASES

Lessee

NSPI has operating leases for office space, land, telecommunications services and rail cars. NSPI's leases have remaining lease terms of 1 year to 64 years, some of which include options to extend the leases for up to 51 years. These options are included as part of the lease term when it is considered reasonably certain that they will be exercised.

As at millions of Canadian dollars	Classification	December 31 2021	December 31 2020
Right-of-use asset	Other long-term assets	\$ 21	\$ 21
Lease liabilities:			
Current	Other current liabilities	1	1
Long-term	Other long-term liabilities	21	21
Total lease liabilities		\$ 22	\$ 22

For the year ended December 31, 2021, NSPI has recorded lease expense of \$143 million (2020 - \$150 million) of which \$142 million (2020 - \$149 million) relates to variable costs for power generation facility finance leases recognized in "Fuel for generation and purchased power".

As at December 31, 2021, future minimum lease payments under non-cancellable operating leases for each of the next five years and in aggregate thereafter are as follows:

millions of Canadian dollars	2022	2023	2024	2025	2026	Thereafter	Total
Minimum lease payments	\$ 2	\$ 1	\$ 1	\$ 1	\$ 1	44	\$ 50
Less: Imputed interest							28
Total							\$ 22

Additional information related to NSPI's leases for the year ended December 31, 2021 is as follows:

Weighted average remaining lease term	49 years
Weighted average discount rate - operating leases	3.71%

Lessor

The Company's net investment in direct finance and sales-type leases relates to leases of heat pumps and other equipment.

The net investment in heat pump and other equipment leases consist of the following:

As at millions of Canadian dollars	December 31 2021	December 31 2020
Minimum lease payments to be received	\$ 63	\$ 65
Less: Unearned finance lease income	14	15
Net investment in direct finance and sales-type leases	\$ 49	\$ 50
Principal due within one year (included in 'Receivables, net')	\$ 8	\$ 8
Net investment in direct finance and sales-type leases - long-term (included in 'Other long-term assets')	\$ 41	\$ 42

The unearned income related to the direct finance and sales-type leases is recognized in income over the life of the lease using a constant rate of interest equal to the internal rate of return on the lease and is recorded as "Other expenses, net" on the Consolidated Statements of Income. Customers have the option to purchase the heat pumps and other equipment at the end of the lease term for a nominal fee.

As at December 31, 2021, future minimum lease payments to be received for each of the next five years and in aggregate thereafter are as follows:

millions of Canadian dollars	2022	2023	2024	2025	2026	Thereafter	Total
Minimum lease payments to be received	\$ 12	\$ 11	\$ 10	\$ 8	\$ 7	\$ 15	\$ 63

15. RELATED PARTY TRANSACTIONS

The Company enters into transactions with Emera Inc. and other subsidiaries or investments of Emera Inc. in the normal course of operations. As at December 31, 2021, related parties include Emera Inc., Brooklyn Power Corporation, Emera Energy Inc., Emera Energy Services Inc. and NSPML. All related party transactions entered into by NSPI are governed by an Affiliate Code of Conduct approved by the UARB.

Transactions between the Company and its related parties reported in the Consolidated Statements of Income and Consolidated Balance Sheets are as follows:

For the millions of Canadian dollars		Year ended December 31
Nature of Service	Presentation	2021 2020
Sales:		
Corporate support and other services	OM&G	\$ 12 \$ 12
Rent and other services	Operating revenues	2 1
Purchases:		
Maritime Link assessment (note 4)	Fuel for generation and purchased power	149 139
Net purchase of electricity and natural gas	Fuel for generation and purchased power	39 19
Corporate support and other services	OM&G	15 11

NSPI recorded the impact of two agreements with an Emera affiliate on a net basis in the Consolidated Statements of Income. Under the agreements, NSPI purchased power from an Emera affiliate and received contract revenues from an Emera affiliate for the year ended December 31, 2021, of \$10 million (2020 - \$11 million).

For the year ended December 31, 2021, the Company issued 0.03 million (2020 - 0.2 million) common shares to Emera for total consideration of \$0.3 million (2020 - \$2 million). During the year ended December 31, 2021, NSPI paid \$80 million (2020 - \$258 million) in dividends to Emera.

As at December 31, 2021, NSPI had \$69 million due to Emera and affiliates (December 31, 2020 - \$46 million) and nil due from Emera (December 31, 2020 - \$12 million).

16. OTHER CURRENT LIABILITIES

As at millions of Canadian dollars	December 31 2021	December 31 2020
Accrued charges	\$ 41	\$ 34
Accrued interest on long-term debt	36	36
Sales taxes payable	6	6
Current portion of long-term payable	5	5
Current portion of lease liability	1	1
	\$ 89	\$ 82

17. LONG-TERM DEBT

NSPI's long-term debt includes the issuances detailed below. Medium-term notes are issued under trust indentures at fixed interest rates and are unsecured unless noted below. Also included are advances on the credit facility where the Company has the intention and the unencumbered ability to refinance the obligations for a period greater than one year. Long-term debt as at December 31 consisted of the following:

millions of Canadian dollars	Interest Rate	Maturity	2021	2020
Discount Notes (1)	Variable	2026	\$ 376	\$ 291
Medium-term notes				
Series F	8.85%	2025	125	125
Series L	8.30%	2036	60	60
Series M (2)	8.50%	2026	40	40
Series N	7.60%	2097	50	50
Series P	6.28%	2029	40	40
Series R	7.45%	2031	75	75
Series S	6.95%	2033	200	200
Series V	5.67%	2035	150	150
Series W	5.95%	2039	200	200
Series X	5.61%	2040	300	300
Series Y	4.15%	2042	250	250
Series Z	4.50%	2043	300	300
Series AA	3.61%	2045	175	175
Series AB	3.57%	2049	400	400
Series 2020-1	3.31%	2050	300	300
			\$ 2,665	\$ 2,665
			\$ 3,041	\$ 2,956
Debt issue costs			(15)	(15)
Long-term debt			\$ 3,026	\$ 2,941

(1) Commercial paper is backed by a revolving credit facility which matures in 2026.

(2) Notes are extendable until 2056 at the option of the holders.

The Company's total long-term revolving credit facility, outstanding borrowings and available capacity as at December 31 were as follows:

millions of Canadian dollars	Maturity	2021	2020
Revolving credit facility (1)	December 2026	\$ 600	\$ 600
Less:			
Face value of borrowings under credit facility		376	292
Letters of credit issued inside the line of credit		9	8
Use of available facility		385	300
Available capacity under existing agreement		\$ 215	\$ 300

(1) Advances on the revolving credit facility can be made by way of overdraft on accounts up to \$50 million at prime rate borrowing. Overdraft advances are classified as short-term debt.

Credit Facilities

NSPI has an active commercial paper program for up to \$500 million, of which the full amount outstanding is backed by the Company's bank line referred to above, which results in an equal amount of credit being considered drawn and unavailable.

As at December 31, 2021, the credit facility has standby fees of 0.2 per cent calculated on the limit of the credit facility less any outstanding letters of credit. The weighted average interest rate on the outstanding borrowings on the credit facility was 0.26 per cent as at December 31, 2021 (2020 - 0.25 per cent).

On December 3, 2021, NSPI amended its operating credit facility to extend the maturity from October 2024 to December 2026. All other terms of the credit facility are the same.

Debt Covenants

NSPI's debt obligations contain covenants related to the amount of debt to capitalization as defined in certain agreements. In addition, other covenants and financial reporting obligations exist. Failure to comply with these covenants could result in an event of default, which if not cured or waived, could result in the acceleration of outstanding debt obligations.

NSPI has debt covenants associated with its credit facility. As at December 31, 2021 and 2020, NSPI was in compliance with all respective financial covenants related to outstanding debt. NSPI's significant covenant is listed below:

Instrument	Financial Covenant	Requirement/Restriction	As at December 31, 2021
Syndicated credit facility	Debt to capital ratio	Less than or equal to 0.70 to 1	0.66:1

Long-Term Debt Maturities

As at December 31, 2021, long-term debt maturities for each of the next five years and in aggregate thereafter are as follows:

Year of maturity	millions of Canadian dollars
2022	\$ -
2023	-
2024	-
2025	125
2026	416
Greater than 5 years	2,500
Total	\$ 3,041

18. ASSET RETIREMENT OBLIGATIONS

AROs mostly relate to the reclamation of land at the Company's thermal, hydro and combustion turbine sites; and the disposal of polychlorinated biphenyls in transmission and distribution equipment. Certain hydro, transmission and distribution assets may have additional AROs that cannot be measured as these assets are expected to be used for an indefinite period and, as a result, a reasonable estimate of the fair value of any related ARO cannot be made.

The change in ARO for the years ended December 31 are as follows:

millions of Canadian dollars	2021	2020
Balance, January 1	\$ 112	\$ 107
Revisions in estimated cash flows	1	2
Liabilities settled	(1)	(1)
Accretion deferred to regulatory asset (included in property, plant and equipment) (1)	(2)	(2)
Accretion included in ARO liability	8	6
Balance, December 31	\$ 118	\$ 112

(1) Differences between accretion expense recognized for rate regulatory purposes and USGAAP, and accretion expense not yet approved by the UARB, are deferred to "Property, plant and equipment." Deferred amounts are included in the Company's next depreciation study.

As at December 31, 2021 and 2020, some of the Company's transmission and distribution assets may have additional conditional AROs which are not recognized in the consolidated financial statements as the fair value of these obligations could not be reasonably estimated, given there is insufficient information to do so. Management will continue to monitor these obligations and a liability will be recognized in the period in which an amount becomes determinable.

19. COMMITMENTS AND CONTINGENCIES

A. Commitments

As at December 31, 2021, contractual commitments (excluding pensions and other post-retirement obligations, long-term debt, interest payment obligations, long-term payables and ARO) for each of the next five years and in aggregate thereafter consisted of the following:

millions of Canadian dollars	2022	2023	2024	2025	2026	Thereafter	Total
Purchased power - IPPs (1)	\$ 132	\$ 133	\$ 147	\$ 141	\$ 130	\$ 1,313	\$ 1,996
Purchased power - Community Feed-in Tariff ("COMFIT") (1)	73	73	73	73	73	654	1,019
Transportation (2)	49	44	31	32	19	192	367
Maritime Link assessment	172	-	-	-	-	-	172
Solid fuel supply	121	22	1	-	-	-	144
Capital projects	84	13	3	1	1	-	102
Long-term service agreements (3)	20	14	12	12	7	27	92
Leases (4)	2	1	1	1	1	44	50
DSM	41	-	-	-	-	-	41
Heavy fuel oil supply	21	-	-	-	-	-	21
	\$ 715	\$ 300	\$ 268	\$ 260	\$ 231	\$ 2,230	\$ 4,004

(1) Annual requirement to purchase 100 per cent of electricity production from IPPs including COMFIT over varying contract lengths up to 25 years based on estimated production volumes.

(2) Purchasing commitments for transportation of solid fuel and natural gas.

(3) Outsourced management of the Company's computer and communication infrastructure, software maintenance and support, shared service agreements at a co-generation facility, transmission and distribution line construction and maintenance services related to a generation facility, wind operating agreements and commitments in accordance with a technology leadership project.

(4) Operating leases for office space, land, telecommunications services, and rail cars.

NSPI has a contractual obligation to pay NSPML, a related party, for the use of the Maritime Link over approximately 38 years from its January 15, 2018 in-service date. As part of the 2020 through 2022 Fuel Stability Plan, rates have been set to include \$164 million and \$162 million for 2021 and 2022, respectively. The timing and amounts payable to NSPML for the remainder of the 38-year commitment period are subject to UARB approval. Any difference between the amounts included in the Fuel Stability Plan and those approved by the UARB through the NSPML interim assessment application will be addressed through the FAM. On August 9, 2021, NSPML filed a final capital cost application with the UARB seeking approval to recover capital costs associated with the Maritime Link and approval of NSPML's 2022 assessment. In December 2021, NSPML obtained an interim decision from the UARB approving interim rates beginning January 1, 2022, pending receipt of the UARB's final decision on the application which is expected in early 2022.

B. Legal Proceedings

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

C. Environment

NSPI's activities are subject to a broad range of federal, provincial, regional and local laws and environmental regulations, designed to protect, restore and enhance the quality of the environment including air, water and solid waste. NSPI estimates its environmental capital spending, excluding AFUDC, based upon present environmental laws and regulations will be approximately \$131 million during fiscal 2022 and is estimated to be \$556 million from 2023 through 2026. Amounts that have been committed to are included in "Capital projects" in the commitments table in note 19A. The estimated expenditures do not include costs related to possible changes in the environmental laws or regulations and enforcement policies that may be enacted in response to issues such as climate change and other pollutant emissions.

In addition to imposing continuing compliance obligations, there are laws, regulations and permits authorizing the imposition of penalties for non-compliance, including fines, injunctive relief and other sanctions. The cost of complying with current and future environmental requirements is material to the Company. Failure to comply with environmental requirements or to recover environmental costs in a timely manner through rates could have a material adverse effect on the Company.

Conformance with legislative and Company requirements is verified through a comprehensive environmental audit program. There were no significant environmental or regulatory compliance issues identified during the audits completed to December 31, 2021.

Polychlorinated Biphenyl Equipment

In response to the Canadian Environmental Protection Act 1999, 2008 Polychlorinated Biphenyl ("PCB") Regulations to phase out electrical equipment and liquids containing PCBs, NSPI has implemented a program to eliminate transformers and other oil-filled electrical equipment on its system that fall under the 2008 PCB Regulations Standard by December 31, 2025. This also includes PCB contaminated pole mounted transformers. The combined total cost of these projects is estimated to be \$67 million and, as at December 31, 2021, approximately \$63 million (December 31, 2020 – \$54 million) has been spent to date. NSPI has recognized an ARO liability on the balance sheet of \$14 million as at December 31, 2021 (December 31, 2020 – \$14 million) associated with the PCB phase-out program.

D. Principal Financial Risks and Uncertainties

In this section, NSPI describes some of the principal financial risks management believes could materially affect the Company in the normal course of business. Risks associated with derivatives and fair value measurements are discussed further in note 10 and note 11.

Sound risk management is an essential discipline for running the business efficiently and pursuing the Company's strategy successfully. NSPI has a business-wide risk management process, monitored by the Board of Directors, to ensure a consistent and coherent approach.

Public Health Risk

An outbreak of infectious disease, a pandemic or a similar public health threat, such as the COVID-19 pandemic, or a fear of any of the foregoing, could adversely impact the Company, including by causing operating, supply chain and project development delays and disruptions, labour shortages and shutdowns (including as a result of government regulation and prevention measures), which could have a negative impact on the Company's operation.

Any adverse changes in general economic and market conditions arising as a result of a public health threat could negatively impact demand for electricity, revenue, operating costs, timing and extent of capital expenditures, results of financing efforts, or credit risk and counterparty risk, which could result in a material adverse effect on the Company's business. The Company maintains pandemic and business contingency plans to manage and help mitigate the impact of any such public health threat.

Commodity Price and Foreign Exchange Rate Fluctuations in Fuel Prices

A large portion of the Company's fuel supply comes from international suppliers and is subject to commodity price risk and foreign exchange rate fluctuations. The Company manages these risks through established processes and practices to identify, monitor, report and mitigate these risks. Fuel contracts may be exposed to broader global conditions which may include impacts on delivery, reliability and price, despite contracted terms. The Company seeks to manage this risk using financial hedging instruments and physical contracts and through contractual protection with counterparties, where applicable. The Company utilizes a portfolio strategy for fuel procurement with a combination of long, medium, and short-term supply agreements. It also provides for mine, country, and supplier diversification. The strategy is designed to reduce the effects from market volatility through agreements with staggered expiration dates, volume options and varied pricing mechanisms. In addition, the FAM has further helped manage this risk, as the regulatory framework for NSPI permits the recovery of prudently incurred Fuel Costs. The Company's FAM Plan of Administration is approved by the UARB.

Interest Rate Risk

NSPI utilizes a combination of fixed and floating rate debt financing for operations and capital expenditures, resulting in an exposure to interest rate risk. NSPI seeks to manage interest rate risk through a portfolio approach that includes the use of fixed and floating rate debt with staggered maturities. The Company will, from time to time, issue fixed rate long term debt or enter into interest rate hedging contracts to limit its exposure to fluctuations in floating interest rate debt. Interest rates may be impacted by market disruptions related to public health threats, including the COVID-19 pandemic.

The allowed range of ROE will generally follow the direction of interest rates, such that it is likely to fall in times of reducing interest rates and rise in times of increasing interest rates, albeit not directly and generally with a lag period reflecting the regulatory process. The cost of debt is a component of rates and prudently incurred debt costs are recovered from customers.

As at December 31, 2021, 88 per cent of NSPI's debt position is fixed rate in nature, with an average term to maturity of approximately 21 years.

E. Guarantees and Letters of Credit

In 2021, the Company issued guarantees in the amount of \$15 million USD, on behalf of its subsidiary NSPEMI, to secure obligations under purchase agreements with third party suppliers. The Company issued an additional guarantee of \$85 million USD on behalf of NSPEMI relating to a 15-year natural gas transportation commitment. As at December 31, 2021, the Company had \$118 million USD (2020 - \$18 million USD) of guarantees outstanding with terms of varying lengths, all of which are issued on behalf of NSPEMI.

As at December 31, 2021, the Company had \$5 million USD and \$3 million CAD of letters of credit outstanding.

F. Collaborative Arrangements

For the years ended December 31, 2021 and 2020, the Company has identified the following material collaborative arrangements:

The Company is a participant in three wind energy projects in Nova Scotia. The percentage ownership of the wind project assets is based on the relative value of each party's project assets by the total project assets. NSPI has power purchase arrangements to purchase the entire net output of the projects and, therefore, NSPI's portion of the revenues are recorded net within regulated fuel for generation and purchased power. NSPI's portion of operating expenses is recorded in OM&G.

NSPI is a participant in a 23.3 megawatt ("MW") wind energy project with Renewable Energy Services Ltd. in Point Tupper, Nova Scotia, with NSPI owning 47.4 per cent. In 2021, NSPI recognized \$3 million net expense (2020 - \$3 million) in fuel for generation and purchased power.

NSPI is a participant in a 102 MW wind energy project with the South Canoe Development Partnership for South Canoe Wind Farm, in New Ross, Nova Scotia, with NSPI owning 49 per cent. In 2021, NSPI recognized a \$13 million (2020 - \$14 million) net expense in fuel for generation and purchased power and \$3 million (2020 - \$3 million) in OM&G.

NSPI is a participant in a 13.8 MW wind energy project with the Municipality of the District of Guysborough for Sable Wind Farm, near Canso, Nova Scotia, with NSPI owning 49 per cent. In 2021, NSPI recognized a \$2 million (2020 - \$2 million) net expense in fuel for generation and purchased power.

20. STOCK-BASED COMPENSATION**EMPLOYEE COMMON SHARE PURCHASE PLAN**

Eligible employees may participate in Emera's Employee Common Share Purchase Plan ("ECSP"). As of December 31, 2021, the plan allows employees to make cash contributions of a minimum of \$25 to a maximum of \$20,000 per year for the purpose of purchasing common shares of Emera. The Company also contributes 20 percent of the employee's contributions to the plan.

The plan allows the reinvestment of dividends except where it is prohibited by law. The maximum aggregate number of Emera common shares reserved for issuance under this plan is 7 million common shares (2020 – 7 million common shares).

Compensation cost for shares issued by Emera for the year ended December 31, 2021, to employees of NSPI under the Employee Common Share Purchase Plan was \$2 million (2020 – \$2 million) and is included in "OM&G" on the Consolidated Statements of Income.

SHARE UNIT PLANS

The Company participates in Emera's Deferred Share Unit Plan ("DSU"), Performance Share Unit Plan ("PSU") and Restricted Share Unit Plan ("RSU"). The DSU, PSU and RSU liabilities are marked-to-market at the end of each period based on an average Emera common share price at the end of the period.

Deferred Share Unit Plan

Under the Directors' DSU plan, Directors of the Company may elect to receive all or any portion of their compensation in DSUs in lieu of cash compensation, subject to requirements to receive a minimum portion of their annual retainer in DSUs. Directors' fees are paid on a quarterly basis and, at the time of each payment of fees, the applicable amount is converted to DSUs. A DSU has a value equal to one Emera common share. When a dividend is paid on Emera's common shares, the Director's DSU account is credited with additional DSUs. DSUs cannot be redeemed for cash until the Director retires, resigns or otherwise leaves the Board. The cash redemption value of a DSU equals the market value of a common share at the time of redemption, pursuant to the plan. Following retirement or resignation from the Board, the value of the DSUs credited to the participant's account is calculated by multiplying the number of DSUs in the participant's account by Emera's closing common share price on the date the DSUs are redeemed.

Under the executive and senior management DSU plan, each participant may elect to defer all or a percentage of their annual incentive award in the form of DSUs with the understanding, for participants who are subject to executive share ownership guidelines, a minimum of 50 per cent of the value of their actual annual incentive award (25 per cent in the first year of the program) will be payable in DSUs until the applicable guidelines are met.

When incentive awards are determined, the amount elected is converted to DSUs, which have a value equal to the market price of an Emera common share. When a dividend is paid on Emera's common shares, each participant's DSU account is allocated additional DSUs equal in value to the dividends paid on an equivalent number of Emera common shares. Following termination of employment or retirement, and by December 15 of the calendar year after termination or retirement, the value of the DSUs credited to the participant's account is calculated by multiplying the number of DSUs in the participant's account by the average of Emera's stock closing price for the fifty trading days prior to a given calculation date. Payments are usually made in cash. At the sole discretion of the Emera Management Resources and Compensation Committee ("MRCC"), payments may be made in the form of actual shares.

In addition, special DSU awards may be made from time to time by the MRCC to selected executives and senior management to recognize singular achievements or to achieve certain corporate objectives.

A summary of the activity related to employee and director DSUs for the year ended December 31, 2021, is presented in the following table:

	Employee DSU	Weighted Average Grant Date Fair Value	Director DSU	Weighted Average Grant Date Fair Value
Outstanding as at December 31, 2020	16,285	\$ 43.44	67,153	\$ 42.30
Granted including DRIP	2,804	54.16	13,595	51.39
Outstanding as at December 31, 2021	19,089	\$ 45.01	80,748	\$ 43.83

Compensation cost recognized for employee and director DSU for the year ended December 31, 2021 was \$1 million (2020 – nil). Tax benefits realized related to this compensation cost were nil for share units in 2021 and 2020. The aggregate intrinsic value of the outstanding shares for the year ended December 31, 2021 was \$6 million (2020 - \$5 million). Cash payments made during the year ended December 31, 2021 associated with the DSU plan were nil (2020 - \$4 million).

Performance Share Unit Plan

Under the PSU plan, certain executive and senior employees are eligible for long-term incentives payable through the PSU plan. PSUs are granted annually for three-year overlapping performance cycles, resulting in a cash payment. PSUs are granted based on the average of Emera's stock closing price for the fifty trading days prior to the effective grant date. Dividend equivalents are awarded and paid in the form of additional PSUs. The PSU value varies according to the Emera common share market price and corporate performance.

PSUs vest at the end of the three-year cycle and the payouts will be calculated and approved by the MRCC early in the following year. The value of the payout considers actual service over the performance cycle and will be pro-rated in certain departure scenarios.

A summary of the activity related to employee PSUs for the year ended December 31, 2021, is presented in the following table:

	Employee PSU	Weighted Average Grant Date Fair Value	Aggregate Intrinsic Value (millions of Canadian dollars)
Outstanding as at December 31, 2020	51,438	\$ 47.05	\$ 3
Granted including DRIP	19,740	53.29	-
Exercised	(21,462)	48.14	-
Forfeited	(2,033)	48.00	-
Transferred	(533)	46.94	-
Outstanding as at December 31, 2021	47,150	\$ 49.13	\$ 3

Compensation cost recognized for the PSU plan for the year ended December 31, 2021, was \$1 million (2020 – \$1 million). Tax benefits realized related to this compensation cost were nil for share units in 2021 and 2020. Cash payments made during the year ended December 31, 2021 associated with the PSU plan were \$1 million (2020 – \$1 million).

Restricted Share Unit Plan

Under the RSU plan, certain executive and senior employees are eligible for long-term incentives payable through the RSU plan. RSUs are granted annually for three-year overlapping cycles, resulting in a cash payment. RSUs are granted based on the average of Emera's stock closing price for the fifty trading days prior to the effective grant date. Dividend equivalents are awarded and paid in the form of additional RSUs. The RSU value varies according to the Emera common share market price.

RSUs vest at the end of the three-year cycle and the payouts will be calculated and approved by the MRCC early in the following year. The value of the payout considers actual service over the performance cycle and may be pro-rated in certain departure scenarios.

A summary of the activity related to employee RSUs for the year ended December 31, 2021, is presented in the following table:

	Employee RSU	Weighted Average Grant Date Fair Value	Aggregate Intrinsic Value (millions of Canadian dollars)
Outstanding as at December 31, 2020	9,410	54.62	\$ 1
Granted including DRIP	14,256	54.66	-
Forfeited	(781)	54.64	-
Transferred	51	54.62	-
Outstanding as at December 31, 2021	22,936	54.64	\$ 1

Compensation cost recognized for the RSU plan for the year ended December 31, 2021, was nil (2020 – nil). Tax benefits realized related to this compensation cost were nil for share units in 2021 and 2020. Cash payments made during the year ended December 31, 2021 associated with the RSU plan were nil (2020 – nil).

21. VARIABLE INTEREST ENTITIES

The Company has identified certain long-term purchase power agreements that meet the definition of variable interests as the Company has to purchase all or a majority of the electricity generation at a fixed price. However, it was determined that the Company was not the primary beneficiary since it lacked the power to direct the activities of the entity, including the ability to operate the generating facilities and make management decisions.

For the year ended December 31, 2021, the Company has not identified any new VIEs.

22. COMPARATIVE INFORMATION

These financial statements contain certain reclassifications of prior period amounts to be consistent with the current period presentation, with no effect on net income.

23. SUBSEQUENT EVENTS

The consolidated financial statements and notes reflect NSPI's evaluation of events occurring subsequent to the balance sheet date through February 8, 2022, the date the financial statements were available for issuance.