NOVA SCOTIA POWER INC.

Unaudited Condensed Consolidated Interim Financial Statements

March 31, 2021 and 2020

Nova Scotia Power Inc.
Condensed Consolidated Statements of Income (Unaudited)

For the millions of Canadian dollars	Three months ended March 31 **2021**	2020
Operating revenues (note 3)	**$ 443**	$ 458
Operating expenses		
Fuel for generation and purchased power	**212**	194
Fuel adjustment mechanism ("FAM") and fixed cost deferrals (note 4)	**(19)**	10
Operating, maintenance and general ("OM&G")	**69**	72
Demand side management ("DSM")	**9**	7
Provincial grants and taxes	**10**	10
Depreciation and amortization	**61**	58
Total operating expenses	**342**	351
Income from operations	**101**	107
Other income, net	**(2)**	(1)
Interest expense, net	**35**	35
Income before provision for income taxes	**68**	73
Income tax expense (note 5)	**6**	8
Net income attributable to common shareholders	**$ 62**	$ 65

Nova Scotia Power Inc.
Condensed Consolidated Statements of Comprehensive Income (Unaudited)

For the millions of Canadian dollars	Three months ended March 31 **2021**	2020
Net income attributable to common shareholders	**$ 62**	$ 65
Other Comprehensive Income		
Net change in unrecognized pension and post-retirement costs (note 6)	**5**	(5)
Comprehensive income	**$ 67**	$ 60

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

Nova Scotia Power Inc.
Condensed Consolidated Balance Sheets (Unaudited)

As at millions of Canadian dollars		**March 31 2021**		December 31 2020
Assets				
Current assets				
Cash	**$**	**1**	$	-
Receivables, net (note 7)		**346**		300
Inventory		**164**		174
Derivative instruments (notes 8 and 9)		**14**		4
Regulatory assets (note 4)		**39**		48
Prepaid expenses		**24**		12
Due from related parties (note 11)		**13**		12
Total current assets		**601**		550
Property, plant and equipment, net of accumulated depreciation of $3,026 and $2,995, respectively		**4,207**		4,200
Other assets				
Income taxes receivable		**44**		45
Derivative instruments (notes 8 and 9)		**4**		9
Pension and post-retirement asset (note 10)		**13**		13
Regulatory assets (note 4)		**629**		611
Other long-term assets		**64**		65
Total other assets		**754**		743
Total assets	**$**	**5,562**	$	5,493
Liabilities and Equity				
Current liabilities				
Bank indebtedness	**$**	**-**	**$**	1
Accounts payable		**124**		144
Due to related parties (note 11)		**6**		7
Income taxes payable		**3**		-
Derivative instruments (notes 8 and 9)		**31**		36
Regulatory liabilities (note 4)		**40**		40
Pension and post-retirement liabilities (note 10)		**4**		6
Other current liabilities		**88**		82
Total current liabilities		**296**		316
Long-term liabilities				
Long-term debt		**2,958**		2,941
Due to related parties (note 11)		**44**		39
Deferred income taxes (note 5)		**548**		527
Derivative instruments (notes 8 and 9)		**21**		23
Regulatory liabilities (note 4)		**24**		40
Asset retirement obligations		**113**		112
Pension and post-retirement liabilities (note 10)		**140**		144
Other long-term liabilities		**40**		40
Total long-term liabilities		**3,888**		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 6)		**(171)**		(176)
Retained earnings		**260**		198
Total equity		**1,378**		1,311
Total liabilities and equity	**$**	**5,562**	$	5,493

Commitments and contingencies (note 12)

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

Approved on behalf of the Board of Directors

"Scott Balfour"
Chair of the Board

"Peter Gregg"
President and Chief Executive Officer

Nova Scotia Power Inc.
Condensed Consolidated Statements of Cash Flows (Unaudited)

For the millions of Canadian dollars	Three months ended March 31 **2021**	2020
Operating activities		
Net income attributable to common shareholders	**$ 62**	$ 65
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**63**	60
Allowance for equity funds used during construction	**(1)**	(1)
Deferred income taxes, net	**4**	2
Net change in pension and post-retirement obligations	**(1)**	(2)
Fuel adjustment mechanism	**(19)**	(3)
Other operating activities, net	**6**	(5)
Changes in non-cash working capital:		
Receivables, net	**(46)**	(99)
Income taxes receivable	**1**	-
Inventory	**10**	19
Prepaid expenses	**(12)**	(12)
Accounts payable	**(15)**	4
Due from/to related parties	**(2)**	(6)
Income taxes payable	**3**	-
Other current liabilities	**5**	3
Net cash provided by operating activities	**58**	25
Investing activities		
Additions to property, plant and equipment	**(64)**	(95)
Allowance for borrowed funds used during construction	**(1)**	-
Removal of assets from service, net of salvage	**(7)**	2
Net cash used in investing activities	**(72)**	(93)
Financing activities		
Change in short-term debt, net	**(1)**	(6)
Net borrowings under committed credit facility	**17**	86
Payments on long-term payable	**(1)**	(1)
Net cash provided by financing activities	**15**	79
Net change in cash	**1**	11
Cash, beginning of period	**-**	-
Cash, end of period	**$ 1**	$ 11

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

Nova Scotia Power Inc.
Condensed Consolidated Statements of Changes in Equity (Unaudited)

millions of Canadian dollars		Common Stock	AOCL	Retained Earnings	Total Equity
For the three months ended March 31, 2021					
Balance, December 31, 2020	$	1,289 $	(176) $	198 $	1,311
Net income attributable to common shareholders		-	-	62	62
Other comprehensive income		-	5	-	5
Balance, March 31, 2021	**$**	**1,289 $**	**(171) $**	**260 $**	**1,378**
For the three months ended March 31, 2020					
Balance, December 31, 2019	$	1,287 $	(175) $	331 $	1,443
Net income attributable to common shareholders		-	-	65	65
Other comprehensive income		-	(5)	-	(5)
Dividends declared on common stock		-	-	(145)	(145)
Balance, March 31, 2020	$	1,287 $	(180) $	251 $	1,358

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

Nova Scotia Power Inc.
Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)

As at March 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 531,000 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. NSPEMI was incorporated in 2018 and commenced operations in 2019. Intercompany balances and intercompany transactions have been eliminated on consolidation.

Basis of Presentation

These unaudited condensed consolidated interim financial statements are prepared and presented in accordance with United States Generally Accepted Accounting Principles ("USGAAP"). The significant accounting policies applied to these unaudited condensed consolidated interim financial statements are consistent with those disclosed in the audited consolidated financial statements as at and for the year ended December 31, 2020.

In the opinion of management, these unaudited condensed consolidated interim financial statements include all adjustments that are of a recurring nature and necessary to fairly state the financial position of NSPI. Financial results for this interim period are not necessarily indicative of results that may be expected for any other interim period or for the year ending December 31, 2021.

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

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, allowance for credit losses, 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.

NSPI continues to be affected by the ongoing novel coronavirus ("COVID-19") pandemic. NSPI provides an essential service and continues to operate and meet customer demand. The federal and provincial governments have implemented measures intended to address the pandemic. These measures include travel and transportation restrictions, quarantines, physical distancing, closures of commercial spaces and industrial facilities, shutdowns, and other health measures. The Government of Nova Scotia declared a State of Emergency in March 2020, which remains in effect to date. These measures are adversely impacting the economy in Nova Scotia. The federal and provincial governments have implemented measures designed to stabilize economic conditions. The pace and strength of economic recovery is uncertain.

Management has analyzed the impact of the COVID-19 pandemic on its estimates and assumptions and concluded that no material adjustments are required for the three months ended March 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.

Receivables and Allowance for Credit Losses

Management estimates uncollectible 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 amounts. The economic impact of the COVID-19 pandemic has resulted in higher allowances for credit losses related to customer receivables however it has not had a material impact on earnings.

Pension and Other Post-Retirement Employee Benefits

The COVID-19 pandemic could impact key actuarial assumptions used to account for employee post-retirement benefits as a result of changes in the market. These changes could impact assumptions 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. Fluctuations in actual equity market returns and changes in interest rates as a result of the COVID-19 pandemic may also result in changes to pension costs and funding in future periods.

Income taxes

NSPI is required to estimate its annual effective tax rate for purposes of calculating the income tax provision as at March 31, 2021 and has done so consistent with its historical approach. Due to the uncertainty of the future impact of the COVID-19 pandemic on NSPI's financial results, the actual annual effective tax rate may be materially different than that estimated in Q1 2021 based on the historical approach.

Seasonal Nature of Operations

Interim results are not necessarily indicative of results for the full year, primarily due to seasonal factors. Electricity sales and related generation vary over the year. The first quarter is typically the strongest period, reflecting colder weather and fewer daylight hours in the winter season. Certain quarters may also be impacted by weather and the number and severity of storms. Quarterly results include the impact of the COVID-19 pandemic commencing in March 2020.

2. FUTURE ACCOUNTING PRONOUNCEMENTS

The Company considers the applicability and impact of all Accounting Standards Update ("ASUs") issued by the Financial Accounting Standards Board ("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		Three months ended March 31 **2021**		2020
Residential	**$**	**259**	$	264
Commercial		**114**		120
Industrial		**56**		56
Other		**7**		11
Electric Revenue		**436**		451
Other Revenue (1)		**7**		7
Operating Revenues	**$**	**443**	$	458

(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 March 31, 2021, the aggregate amount of the transaction price allocated to remaining performance obligations was $11 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 paying the UARB approved interim assessment payments to NS Power Maritime Link ("NSPML") at that time. The payments are subject to a holdback of $10 million, pending UARB agreement that a minimum $10 million in benefits from the Maritime Link are realized for NSPI customers. If the $10 million in benefits is realized, the UARB will direct NSPI to pay the $10 million to NSPML for that year. If not realized, then the UARB will direct NSPI to pay to NSPML only that portion that is realized and the balance will be refunded to customers through NSPI's 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 2020, $135 million was paid to NSPML under the 2020 approved interim assessments and the UARB directed NSPI to pay $4 million of the 2020 holdback to NSPML in 2021.

In December 2020 the UARB approved NSPML's interim assessment for recovery of 2021 Maritime Link costs of approximately $172 million (2020 - $145 million), subject to a holdback of up to $10 million, and as at March 31, 2021 $26 million has been paid. The UARB decision to approve the 2021 interim cost assessment recovery payments to NSPML also provided for a potential long-term deferral of up to $23 million expense otherwise payable to NSPML if the commencement of the NS Block is delayed beyond 2021. As of March 31, 2021, NSPI has deferred $14 million to the FAM.

In response to the delayed timing of energy delivery from the Muskrat Falls project, which is being developed by Nalcor Energy, 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.

FAM 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 to 2022, differences between actual Fuel Costs and fuel revenues recovered from customers will be recovered or returned to customers after 2022.

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 Condensed Consolidated Statements of Income consisted of $19 million of Fuel adjustment mechanism expense (2020 - $10 million). Refer to table below for further details.

The impact of the FAM in the Condensed 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 expense on the Condensed Consolidated Statements of Income consisted of the following:

For the	Three months ended March 31	
millions of Canadian dollars	**2021**	2020
Total (under) over recovery of Fuel Costs	**$ (19)**	$ 43
Refund to customers of prior years' Fuel Costs	**-**	(33)
Fuel adjustment mechanism	**$ (19)**	$ 10

The FAM regulatory liability balance of $2 million as at March 31, 2021 (refer to the table below) includes associated interest which is recorded as "Interest expense, net" on the Condensed 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. NSPI continues to classify these assets within Property, Plant and Equipment until a decision from the UARB is received. A decision is expected in Q4 2021.

Regulatory Assets and Liabilities

A summary of the Company's regulatory assets and liabilities, excluding certain regulatory assets related to property, plant and equipment and asset retirement obligations ("ARO") is provided below. For a detailed description of the nature of the Company's regulatory assets and liabilities, refer to note 5 in NSPI's 2020 annual audited consolidated financial statements.

As at millions of Canadian dollars		**March 31 2021**		December 31 2020
Regulatory assets				
Deferred income tax regulatory asset	**$**	**586**	$	564
Deferrals related to derivative instruments		**52**		61
DSM deferral		**14**		15
Unamortized defeasance costs		**11**		13
Other		**5**		6
	$	**668**	$	659
Current		**39**		48
Long-term		**629**		611
Total regulatory assets	**$**	**668**	$	659
Regulatory liabilities				
Cost of removal	**$**	**43**	$	46
Fuel adjustment mechanism (refer to table below)		**2**		21
Deferrals related to derivative instruments		**19**		13
	$	**64**	$	80
Current		**40**		40
Long-term		**24**		40
Total regulatory liabilities	**$**	**64**	$	80

Fuel Adjustment Mechanism

The change in the FAM regulatory liability balances consisted of the following:

millions of Canadian dollars		**March 31 2021**		December 31 2020
FAM regulatory liability - Balance January 1	**$**	**21**	$	115
Total (under) over recovery of current period Fuel Costs		**(19)**		36
Interest on FAM balance		**-**		6
Other		**-**		4
Refund to customers of prior years' over-recovery of Fuel Costs and reduced Maritime Link assessment		**-**		(140)
FAM regulatory liability	**$**	**2**	$	21

5. INCOME TAXES

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

For the millions of Canadian dollars		Three months ended March 31		
		2021		2020
Income before provision for income taxes	**$**	**68**	$	73
Statutory income tax rate		**29.0%**		29.5%
Income taxes, at statutory income tax rate		**20**		22
Deferred income taxes on regulated income recorded as regulatory assets and regulatory liabilities		**(14)**		(15)
Revaluation of deferred income taxes due to changes in Nova Scotia provincial corporate income tax rate		**-**		1
Income tax expense	**$**	**6**	$	8
Effective income tax rate		**9%**		11%

6. ACCUMULATED OTHER COMPREHENSIVE LOSS

	Defined benefit pension and non-pension benefits			
millions of Canadian dollars		**2021**		2020
Balance, January 1	**$**	**(176)**	$	(175)
Amounts reclassified from AOCL		**5**		(5)
Balance, March 31	**$**	**(171)**	$	(180)

The reclassifications out of AOCL are as follows:

For the millions of Canadian dollars			Three months ended March 31 **2021**		2020
	Affected line item in the Consolidated Financial Statements (1)		Amounts reclassified from AOCL		
Amortization of defined pension and non-pension benefit costs	Other expenses, net	**$**	**4**	$	3
Amounts reclassified to obligations	Pension and post retirement obligations		**1**		(8)
Total reclassifications out of AOCL for the period		**$**	**5**	$	(5)

(1) These AOCL components are included in the computation of net periodic pension cost (refer to note 10 for additional details).

7. RECEIVABLES, NET

As at millions of Canadian dollars		**March 31 2021**		December 31 2020
Customer accounts receivable – billed	**$**	**141**	$	104
Customer accounts receivable – unbilled		**156**		141
Total customer accounts receivable		**297**		245
Allowance for credit losses		**(4)**		(5)
Customer accounts receivable, net		**293**		240
Cash collateral position on derivative instruments (note 8)		**31**		42
Other		**22**		18
	$	**346**	$	300

8. DERIVATIVE INSTRUMENTS

The Company enters into forwards, swaps and option contracts as part of its risk management strategy to limit exposure to:

- commodity price fluctuations related to the purchase of commodities in the course of normal operations; and
- foreign exchange fluctuations on foreign currency denominated purchases.

The Company also enters into physical contracts for energy commodities. Collectively, these contracts are considered “derivatives”. The Company accounts for derivatives under one of the following two approaches:

1. Physical contracts that meet the normal purchase normal sale (“NPNS”) exception are not recognized on the balance sheet; they 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 credit worthy. The Company continually assesses contracts designated under the NPNS exception and will discontinue the treatment of these contracts under this exception if the criteria are no longer met.

2. Derivatives entered into by NSPI that are documented as economic hedges or that do not qualify for NPNS exception 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 realized gain or loss is recognized when the hedged item settles in fuel for generation and purchased power, OM&G, inventory or property, plant and equipment, depending on the nature of the item being economically hedged. The UARB has approved that any gains or losses resulting from the settlement of fuel related derivatives will be refunded to or collected from customers through the FAM.

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

	Derivative Assets		Derivative Liabilities	
As at millions of Canadian dollars	**March 31 2021**	December 31 2020	**March 31 2021**	December 31 2020
Current				
Commodity swaps and forwards				
Coal purchases	**$ 1**	$ -	**$ 3**	$ 5
Power purchases	**11**	3	**15**	18
Oil purchases	**-**	-	**-**	3
Natural gas purchases	**3**	2	**2**	1
Foreign exchange forwards	**1**	-	**13**	10
Total gross current derivatives	**16**	5	**33**	37
Impact of master netting agreements with intent to settle net or simultaneously	**(2)**	(1)	**(2)**	(1)
Total current derivatives	**14**	4	**31**	36
Long-term				
Commodity swaps and forwards				
Coal purchases	**1**	1	**-**	1
Power purchases	**2**	7	**15**	16
Natural gas purchases	**2**	2	**1**	-
Foreign exchange forwards	**-**	-	**6**	7
Total gross long-term derivatives	**5**	10	**22**	24
Impact of master netting agreements with intent to settle net or simultaneously	**(1)**	(1)	**(1)**	(1)
Total long-term derivatives	**4**	9	**21**	23
Total derivatives	**$ 18**	$ 13	**$ 52**	$ 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, including 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	**Three months ended March 31, 2021**		Three months ended March 31, 2020	
	Commodity swaps and forwards	**Foreign exchange forwards**	Commodity swaps and forwards	Foreign exchange forwards
Unrealized gain (loss) in regulatory assets	**$ 2**	**$ (2)**	$ (51)	$ 6
Unrealized gain (loss) in regulatory liabilities	**10**	**(2)**	(8)	35
Realized (gain) loss in regulatory liabilities	**(2)**	**-**	7	-
Realized (gain) loss in inventory (1)	**6**	**2**	-	(1)
Realized (gain) loss in fuel for generation and purchased power (2)	**(3)**	**1**	5	(1)
Total increase/(decrease) in derivative instruments	**$ 13**	**$ (1)**	$ (47)	$ 39

(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 March 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	2021 Purchases	2022 Purchases
Natural Gas (MMBtu)	9	7
Power (MWh)	2	1
Coal (Metric Tonnes)	-	1

Foreign Exchange Swaps and Forwards

As at March 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:

	2021	2022-2023
Foreign exchange contracts (millions of US dollars)	$ 152	$ 172
Weighted average rate	1.3133	1.3129
% of USD requirements	77%	48%

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 March 31, 2021, the maximum exposure the Company has to credit risk is $347 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 March 31, 2021, was $17 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 March 31, 2021, the Company had $49 million (December 31, 2020 - $44 million) in financial assets considered to be past due, which have been outstanding for an average of 69 days. The fair value of these financial assets is $46 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.

Cash Collateral

Derivatives, as reflected on the Condensed 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 March 31, 2021, the Company's cash collateral position was a receivable of $31 million (December 31, 2020 – receivable of $42 million) and a payable of nil (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 March 31, 2021, the total fair value of these derivatives, in a liability position, was $52 million (December 31, 2020 – $59 million).

9. 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				**March 31, 2021**
millions of Canadian dollars	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Regulatory deferral				
Commodity swaps and forwards				
Coal purchases	**$ -**	**$ 1**	**$ -**	**$ 1**
Power purchases	**12**	**-**	**-**	**12**
Natural gas purchases	**2**	**2**	**-**	**4**
Foreign exchange forwards	**-**	**1**	**-**	**1**
Total assets	**14**	**4**	**-**	**18**
Liabilities				
Regulatory deferral				
Commodity swaps and forwards				
Coal purchases	**-**	**3**	**-**	**3**
Power purchases	**29**	**-**	**-**	**29**
Natural gas purchases	**-**	**1**	**-**	**1**
Foreign exchange forwards	**-**	**19**	**-**	**19**
Total liabilities	**29**	**23**	**-**	**52**
Net liabilities	**$ (15)**	**$ (19)**	**$ -**	**$ (34)**

As at				December 31, 2020
millions of Canadian dollars	Level 1	Level 2	Level 3	Total
Assets				
Regulatory deferral				
Commodity swaps and forwards				
Power purchases	$ 9	$ -	$ -	$ 9
Natural gas purchases	2	2	-	4
Total assets	11	2	-	13
Liabilities				
Regulatory deferral				
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 financial liabilities included on the Condensed Consolidated Balance Sheets that are not measured at fair value consisted of long-term debt as follows:

As at						**March 31, 2021**
millions of Canadian dollars	**Carrying Amount**	**Fair Value**	**Level 1**	**Level 2**	**Level 3**	**Total**
Long-term debt	**$ 2,958**	**$ 3,515**	**$ -**	**$ 3,515**	**$ -**	**$ 3,515**

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 Condensed Consolidated Balance Sheets is carried at cost and approximates the fair value of the financial liability.

10. 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. For details of the Company’s employee benefit plans, refer to note 14 in NSPI’s 2020 annual audited consolidated financial statements.

Net periodic costs prior to the effects of capitalization consisted of the following:

For the millions of Canadian dollars	Three months ended March 31 **2021**	2020
Defined benefit pension plans		
Service cost	**$ 4**	$ 4
Interest cost	**10**	11
Expected return on plan assets	**(17)**	(17)
Current year amortization of:		
Actuarial losses	**4**	3
Total defined benefit pension plans	**1**	1
Non-pension benefits plan		
Service and interest costs	**1**	1
Total non-pension benefits plans	**1**	1
Total defined benefit plans	**$ 2**	$ 2

11. 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 March 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 Condensed Consolidated Statements of Income and Condensed Consolidated Balance Sheets are as follows:

For the millions of Canadian dollars		Three months ended March 31	
Nature of Service	**Presentation**	**2021**	2020
Sales:			
Corporate support and other services	OM&G	**$ 3**	$ 3
Purchases:			
Maritime Link assessment	Fuel for generation and purchased power	**28**	28
Net purchase of electricity and natural gas	Fuel for generation and purchased power	**7**	4
Corporate support and other services	OM&G	**4**	2

NSPI recorded the impact of two agreements with an Emera affiliate on a net basis in the Condensed Consolidated Statements of Income. Under the agreements, NSPI purchased power from an Emera affiliate and received contract revenues from an Emera affiliate of $3 million (2020 - $3 million) for the three months ended March 31, 2021.

During the three months ended March 31, 2021, NSPI declared nil dividends to Emera (2020 - $145 million).

As at March 31, 2021, NSPI had $50 million due to Emera and affiliates (December 31, 2020 - $46 million) and $13 million due from Emera (December 31, 2020 - $12 million).

12. COMMITMENTS AND CONTINGENCIES

A. Commitments

As at March 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	2021	2022	2023	2024	2025	Thereafter	Total
Purchased power - IPPs (1)	$ 90	$ 124	$ 124	$ 132	$ 133	$ 1,407	$ 2,010
Purchased power - Community Feed-in Tariff ("COMFIT") (1)	57	73	73	73	74	729	1,079
Transportation (2)	36	23	18	18	18	77	190
Solid fuel supply	100	41	2	1	-	-	144
Maritime Link assessment	121	-	-	-	-	-	121
Long-term service agreements (3)	18	19	14	12	12	34	109
DSM	26	41	-	-	-	-	67
Leases (4)	1	2	1	1	1	43	49
Capital projects	30	-	-	-	-	-	30
Natural gas supply	30	-	-	-	-	-	30
Purchased power - Import	20	-	-	-	-	-	20
	$ 529	$ 323	$ 232	$ 237	$ 238	$ 2,290	$ 3,849

(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. In December 2020, the UARB approved the 2021 interim cost assessment of approximately $172 million, and as at March 31, 2021, $26 million has been paid and $14 million has been deferred to the FAM. As part of the Fuel Stability Plan, rates have been set to include Maritime Link assessment amounts of $164 million and $162 million for 2021 and 2022, respectively. 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. The timing and amounts payable to NSPML for the remainder of the 38-year commitment period are dependent upon regulatory filings with the UARB. Refer to note 4 for further details.

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. 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 8 and note 9.

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 operations.

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 extent of the evolving COVID-19 pandemic and its future impact on the Company is uncertain. The Company maintains pandemic and business contingency plans to manage and help mitigate the impact of any such public health threat. The Company's top priority continues to be the health and safety of its customers and employees and supporting the communities in which it operates.

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 these risks through the use of 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 these risks, 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 investment, 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 to limit its exposure to fluctuations in floating interest rate debt. The cost of debt is a component of rates and prudently incurred debt costs are recovered from customers.

As at March 31, 2021, 90 per cent of NSPI's debt position is fixed rate in nature, with an average term to maturity of approximately 21 years.

D. Guarantees and Letters of Credit

NSPI's guarantees and letters of credit are consistent with those disclosed in the Company's 2020 audited annual consolidated financial statements with updates as noted below.

The company issued a guarantee in the amount of $5 million USD on behalf of its subsidiary, NSPEMI, to secure obligations under purchase agreements with third party suppliers. The guarantee has a term of 2 years. As at March 31, 2021, the Company has $23 million USD of guarantees outstanding with terms of varying lengths.

13. VARIABLE INTEREST ENTITIES

NSPI performs ongoing analysis to assess whether it holds any variable interest entities ("VIEs"). To identify potential VIEs, management reviews contractual and ownership arrangements such as leases, long-term power purchase agreements, tolling contracts, guarantees, jointly owned facilities and equity investments.

VIEs of which NSPI is deemed the primary beneficiary must be consolidated. 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 or the right to receive benefits from the entity that could potentially be significant to the entity.

NSPI has identified certain long-term power purchase agreements that meet the definition of variable interests as NSPI has to purchase all or a majority of the electricity generation at a fixed price. However, it was determined that NSPI 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 three months ended March 31, 2021, NSPI has not identified any new VIEs.

14. SUBSEQUENT EVENTS

The condensed consolidated interim financial statements and notes reflect NSPI's evaluation of events occurring subsequent to the balance sheet date through May 11, 2021, the date the financial statements were available for issuance.