NEWFOUNDLAND POWER
A FORTIS COMPANY

First Quarter 2013

INTERIM MANAGEMENT DISCUSSION and ANALYSIS
For the Three Months Ended March 31, 2013

Dated May 7, 2013

The following interim Management Discussion and Analysis ("MD&A") should be read in conjunction with Newfoundland Power Inc.'s (the "Company" or "Newfoundland Power") interim unaudited financial statements and notes thereto for the three months ended March 31, 2013 and the MD&A and annual audited financial statements for the year ended December 31, 2012. The MD&A has been prepared in accordance with National Instrument 51-102 - Continuous Disclosure Obligations. Financial information herein, all of which is unaudited, reflects Canadian dollars and accounting principles generally accepted in the United States ("U.S. GAAP"), including certain accounting practices unique to rate regulated entities. These accounting practices are disclosed in Notes 2 and 7 to the Company's 2012 annual audited financial statements.

Certain information herein is forward-looking within the meaning of applicable securities laws in Canada ("forward-looking information"). The words "anticipates", "believes", "budgets", "could", "estimates", "expects", "forecasts", "intends", "may", "might", "plans", "projects", "schedule", "should", "will", "would" and similar expressions are often intended to identify forward-looking information, although not all forward-looking information contains these identifying words.

The forecasts and projections that make up the forward-looking information are based on assumptions, which include, but are not limited to: receipt of applicable regulatory approvals; continued electricity demand; no significant operational disruptions or environmental liability due to severe weather or other acts of nature; no significant decline in capital spending in 2013; sufficient liquidity and capital resources; the continuation of regulator-approved mechanisms that permit recovery of costs; no significant variability in interest rates; no significant changes in government energy plans and environmental laws; the ability to obtain and maintain insurance coverage, licences and permits; the ability to maintain and renew collective bargaining agreements on acceptable terms; and, sufficient human resources to deliver service and execute the capital program.

The forward-looking information is subject to risks, uncertainties and other factors that could cause actual results to differ materially from historical results or results anticipated by the forward-looking information. The factors which could cause results or events to differ from current expectations include, but are not limited to: regulation; operating and maintenance investment requirements; economic conditions; defined benefit pension plan performance; capital resources and liquidity; interest rates; electricity prices; purchased power cost; health, safety and environmental regulations; insurance; weather; information technology infrastructure; labour relations; and, human resources. For additional information with respect to these risk factors, reference should be made to the section entitled "Business Risk Management" in this MD&A.

All forward-looking information in this MD&A is qualified in its entirety by this cautionary statement and, except as required by law, the Company undertakes no obligation to revise or update any forward-looking information as a result of new information, future events or otherwise after the date hereof.

Additional information, including the Company's quarterly and annual financial statements and MD&A, annual information form and management information circular, is available on SEDAR at sedar.com.

OVERVIEW

The Company

Newfoundland Power is a regulated electricity utility that owns and operates an integrated generation, transmission and distribution system throughout the island portion of the Province of Newfoundland and Labrador. All the Company's common shares are owned by Fortis Inc. ("Fortis"), which is principally a diversified, international holding company for electricity and gas distribution utilities.

Newfoundland Power's primary business is electricity distribution. It generates approximately 7% of its electricity needs and purchases the remainder from Newfoundland and Labrador Hydro ("Hydro"). Newfoundland Power serves over 252,000 customers, approximately 87% of all electricity consumers in the Province.

Newfoundland Power's vision is to be a leader among North American electricity utilities in terms of safety, reliability, customer service and efficiency. The key goals of the Company are to operate sound electricity distribution systems, deliver safe, reliable electricity to customers at the lowest reasonable cost, and conduct business in an environmentally and socially responsible manner.

Regulation

Newfoundland Power is regulated by the Newfoundland and Labrador Board of Commissioners of Public Utilities (the "PUB"). The Company operates under cost of service regulation whereby it is entitled the opportunity to recover, through customer rates, all reasonable and prudent costs incurred in providing electricity service to its customers, including a just and reasonable return on its rate base. The rate base is the value of the net assets required to provide electricity service.

Between general rate hearings, customer rates have historically been established annually through an automatic adjustment formula (the "Formula").The Formula sets a regulated rate of return on common equity ("ROE") which is used to determine the rate of return on rate base. On June 15, 2012, the PUB approved an 8.80% ROE for 2012 and a deferred recovery of approximately $2.5 million (before tax) reflecting the difference between the 8.38% ROE currently in customer electricity rates and the 8.80% approved ROE for 2012.

On September 14, 2012, the Company filed a 2013/2014 General Rate Application ("GRA") with the PUB which included a full review of the Company's costs, including the cost of capital. On April 17, 2013, the PUB issued the Order on the GRA which established the Company's cost of capital for ratemaking purposes for 2013 through 2015. The regulated ROE of 8.80% and 45% common equity are consistent with 2012. The Company is required to file its next GRA for 2016 on or before June 1, 2015.

The GRA Order included approval of an overall composite depreciation rate of 3.42%, compared to 3.47% in current customer rates and that pension expense for regulatory purposes be recognized in accordance with U.S. GAAP. The accumulated difference in pension expense to December 31, 2012 has been recorded as a regulatory asset, which will be recovered through customer rates over 15 years. As well, the PUB ordered that annual customer energy conservation program costs be deferred and recovered over the subsequent seven year period.

The PUB approved various regulatory amortizations over a three year period, including the cost recovery deferrals recorded in 2011 and 2012, costs associated with the GRA, and the December 31, 2011 balance in the Weather Normalization Account.

The Company evaluated the impact of the GRA Order on net earnings for the quarter ended March 31, 2013, and determined the amount to be immaterial. The Company's interim financial statements for the second quarter of 2013 will reflect the implementation of the GRA Order.

Newfoundland Power expects to yield earnings and cash flows that will maintain its investment grade credit ratings in 2013.

Financial Highlights

	Quarter Ended March 31		
	2013	**2012**	**Change**
Electricity Sales *(gigawatt hours, ("GWh"))* [1]	1,942.4	1,913.6	28.8
Earnings Applicable to Common Shares			
$ Millions	6.9	6.9	-
$ Per Share	0.67	0.67	-
Cash Flow from (used in) Operating Activities *($millions)*	(2.6)	2.2	(4.8)
Total Assets *($millions)*	1,419.8	1,324.6[2]	95.2

[1] *Reflects normalized electricity sales.*
[2] *The March 31, 2012 balance sheet is reclassified to conform to the presentation of the Company's current year financial statements. See Note 3 of the Company's 2012 annual audited financial statements.*

Electricity sales for the first quarter of 2013 increased by 28.8 GWh or approximately 1.5% compared to the first quarter of 2012. This increase was composed of (i) an increase of 1.7% due to customer growth; and, (ii) an increase of 0.9% in average consumption reflecting higher concentration of electric heat in new home construction as well as strong economic growth. This was partially offset by a decrease of 1.1% as a result of one less day of electricity sales in 2013 due to 2012 being a leap year.

Earnings for the first quarter of 2013 were comparable to the first quarter of 2012. An increase in earnings due to higher electricity sales and lower effective income tax rate was offset by higher operating expenses, increased depreciation associated with the Company's capital expenditure program, and the conclusion of regulatory cost recovery deferrals in 2012.

Cash flow from operating activities for the first quarter of 2013 decreased by $4.8 million compared to the first quarter of 2012. The decrease was mainly a result of (i) higher purchased power payments; (ii) higher pension funding; and, (iii) timing of collections. This decrease was partially offset by higher electricity sales and timing of income tax payments.

Total assets increased by $95.0 million at March 31, 2013 compared to March 31, 2012. The increase was due to (i) an increase in regulatory assets, due to the normal operation of various regulatory mechanisms; and, (ii) continued investment in the electricity system, consistent with the Company's strategy to provide safe, reliable electricity service at the lowest reasonable cost.

RESULTS OF OPERATIONS

Revenue

	Quarter Ended March 31		
($millions)	2013	2012	Change
Revenue from Rates	194.2	189.6	4.6
Amortization of Regulatory Liabilities and Deferrals	1.9	1.1	0.8
Other Revenue [1]	1.6	1.6	-
Total	197.7	192.3	5.4

[1] *Other revenue is composed largely of pole attachment charges to various telecommunication companies, interest revenue associated with customer accounts and other miscellaneous charges.*

Revenue from rates for the first quarter of 2013 increased by $4.6 million compared to the first quarter of 2012. This increase primarily reflects electricity sales growth.

The amortization of regulatory liabilities and deferrals for the first quarter of 2013 and 2012 include the pension expense variance deferral ("PEVDA") and the other post employment benefits ("OPEBs") cost variance deferral. These regulatory liabilities and deferrals are described in Notes 2 and 7 to the Company's 2012 annual audited financial statements. The amounts recorded are in accordance with PUB orders.

Other revenue for the first quarter of 2013 was comparable to the first quarter of 2012.

Purchased Power: Purchased power expense for the first quarter of 2013 increased by $2.9 million compared to the first quarter of 2012. The increase resulted from electricity sales growth.

Operating Expenses: Operating expenses for the first quarter of 2013 were $0.9 million higher than the first quarter of 2012. The increase primarily related to costs associated with restoration efforts following the loss of supply from Hydro on January 11, 2013 and increased costs associated with customer energy conservation programs.

Employee Future Benefits: Employee future benefits for the first quarter of 2013 were $1.0 million higher compared to the first quarter of 2012. Approximately $0.6 million of the increase was due to an increase in the Company's projected benefit pension obligation associated with its defined benefit pension plan. The increase is primarily due to a lower discount rate at December 31, 2012, which is used to determine the pension obligation.

The remaining increase of $0.4 million relates to higher OPEBs costs, which is primarily due to a lower discount rate at December 31, 2012.

Depreciation and Amortization: Depreciation and amortization expense for the first quarter of 2013 was $0.7 million higher compared to the first quarter of 2012. The increase was primarily reflective of the Company's capital expenditure program.

Cost Recovery Deferral: The PUB approved the deferred recovery of $2.4 million of costs in 2012 due to increased costs associated with the expiry of various regulatory amortizations in 2010. The deferral of $0.6 million for the first quarter of 2012 was recorded as an increase in regulatory assets and a decrease in expense. No cost deferral has been recorded in the first quarter of 2013 as the GRA Order, which included a full review of the Company's costs, was outstanding at the end of the quarter.

Finance Charges: Finance charges for the first quarter of 2013 decreased by $0.1 million compared to the first quarter of 2012. The reduction in interest on long-term debt associated with the annual sinking fund payment made in October 2012 was partially offset by additional borrowings under the Company's credit facility.

Income Taxes: Income taxes for the first quarter of 2013 were $0.6 million lower than the first quarter of 2012. The decrease in income tax expense reflects a lower effective income tax rate primarily resulting from the allocation of the Part VI.1 tax deduction from Fortis to Newfoundland Power.

FINANCIAL POSITION

Explanations of the primary causes of significant changes in the Company's balance sheets between December 31, 2012 and March 31, 2013 follow:

($millions)	Increase (Decrease)	Explanation
Accounts Receivable	25.2	Increase due to higher electricity sales, reflecting the seasonal nature of electricity consumption for heating, and normal timing differences relating to both the operation of the Company's equal payment plan for its customers, and the collection and payment of municipal taxes.
Property, Plant and Equipment	3.9	Increase due to investment in electricity system, in accordance with 2013 capital expenditure program.
Regulatory Assets	2.4	Increase due to the normal operation of various regulatory mechanisms. See Note 2 of the Company's interim unaudited financial statements.
Short-term Borrowings	1.8	Increase required to finance ongoing operating activities.
Interest Payable	3.7	Increase due to timing differences in scheduled interest payments.
Regulatory Liabilities	8.3	Increase due to the normal operation of various regulatory mechanisms. See Note 2 of the Company's interim unaudited financial statements.
Defined Benefit Pension Plan Liability	(3.5)	Decrease due to pension funding payments.
Long-term Debt, including Current Installments	21.5	Represents additional debt required to finance growth in rate base and ongoing operating activities.

LIQUIDITY AND CAPITAL RESOURCES

The primary sources of liquidity and capital resources are net funds generated from operations, debt capital markets and bank credit facilities. These sources are used primarily to satisfy capital and intangible asset expenditures, service and repay debt, and pay dividends. A summary of first quarter cash flows and cash position for 2013 and 2012 follows:

	Quarter Ended March 31		
($millions)	2013	2012	Change
Cash, Beginning of Period	-	0.3	(0.3)
Operating Activities	(2.6)	2.2	(4.8)
Investing Activities	(14.5)	(14.5)	-
Financing Activities			
Net Credit Facility Proceeds	23.0	18.2	4.8
Dividends	(5.8)	(5.5)	(0.3)
	17.2	12.7	4.5
Cash, End of Period	0.1	0.7	(0.6)

Operating Activities

First quarter cash flow from operating activities, for 2013 compared to 2012, decreased by $4.8 million. The decrease was mainly a result of (i) higher purchased power payments; (ii) higher pension funding; and, (iii) timing of collections. This decrease was partially offset by higher electricity sales and timing of income tax payments.

The operating cash flow in the first quarter is typically lower reflecting the temporary timing differences in non-cash working capital relating primarily to the receipt and payment of municipal tax and to the Company's equal payment plan for its electricity customers.

Municipal tax for each calendar year is generally paid to municipalities in the first quarter of the year. Municipal tax is collected from customers through their monthly electricity bills for the calendar year. The result is a net outflow of cash in the first quarter of each year and a net inflow over the remaining quarters.

Electricity consumption for heating is higher in the winter months and lower in the summer months, compared to the remaining months of the year. Monthly payments received from customers availing of the equal payment plan reflect average monthly consumption. Monthly payments made by the Company for purchased power reflect actual consumption. During the first (winter) quarter, the resulting excess of actual consumption over average consumption results in a net cash outflow.

Investing Activities

Cash flow used in investing activities for the first quarter of 2013 was $14.5 million, comparable to the same period of 2012. A reduction in contributions from customers in the current period was offset by the $0.8 million joint-use pole purchase price adjustment paid to Bell Aliant in the first quarter of 2012.

A summary of first quarter 2013 and 2012 capital and intangible asset expenditures follows.

	Quarter Ended March 31		
($millions)	2013	2012	Change
Electricity System			
Generation	0.5	0.7	(0.2)
Transmission	0.3	0.3	-
Substations	1.6	1.5	0.1
Distribution	8.7	8.6	0.1
Intangible Assets and Other	3.9	3.8	0.1
Capital and Intangible Asset Expenditures	15.0	14.9	0.1

The Company's business is capital intensive. Capital investment is required to ensure continued and enhanced performance, reliability and safety of the electricity system and to meet customer growth. All costs considered to be repairs and maintenance are expensed as incurred. Capital investment also arises for information technology systems and for general facilities, equipment and vehicles. Capital expenditures, and property, plant and equipment repairs and maintenance expense, can vary from quarter-to-quarter and year-to-year depending upon both planned electricity system expenditures and unplanned expenditures arising from weather or other unforeseen events.

The Company's annual capital plan requires prior PUB approval. The PUB has approved the Company's 2013 Capital Plan which provides for capital expenditures of $80.8 million, approximately half of which relate to construction and capital maintenance of the electricity distribution system. Variances between actual and planned expenditures are generally subject to PUB review prior to inclusion in the Company's rate base. The Company's capital expenditures, including unforeseen capital spending, are forecasted to be $82.9 million for 2013.

Financing Activities

During the first quarter of 2013, the net proceeds from the Company's credit facilities increased by $4.8 million compared to the first quarter of 2012. The increase in financing requirements was primarily to support lower cash available from operations.

The Company has historically generated sufficient annual cash flows from operating activities to service annual interest and sinking fund payments on debt, to fund pension obligations, to pay dividends and to finance a major portion of its annual capital program. Additional financing to fully fund the annual capital program is primarily obtained through the Company's bank credit facilities and these borrowings are periodically refinanced along with any maturing bonds through the issuance of long-term first mortgage sinking fund bonds. The Company currently does not expect any material changes in these annual cash flow and financing dynamics over the foreseeable future.

Debt: The Company's credit facilities are comprised of a $100.0 million committed revolving term credit facility ("Committed Facility") and a $20.0 million demand facility as detailed below:

($millions)	March 31, 2013	December 31, 2012
Total Credit Facilities	120.0	120.0
Borrowing, Committed Facility	(63.5)	(42.0)
Borrowing, Demand Facility	(2.1)	(0.3)
Credit Facilities Available	54.4	77.7

Pensions: As at March 31, 2013, the fair value of the Company's primary defined benefit pension plan assets was $308.2 million compared to fair value of plan assets of $298.4 million as at December 31, 2012. The $9.8 million increase in fair value was primarily due to favorable market conditions.

Based on the Actuarial Valuation Report as at December 31, 2011, the Company's primary defined benefit pension plan had a solvency deficit of $49.5 million. This deficit was primarily due to lower interest rates as at December 31, 2011. The solvency deficit of $49.5 million ($53.4 million inclusive of interest) is expected to be funded over a five-year period, which commenced in 2012. The Company will fulfill its 2013 annual solvency deficit funding requirement of $10.7 million by the end of the year.

The defined benefit pension funding contributions, including current service and solvency deficit funding amounts, are expected to be $13.6 million in 2013 and $13.7 million in 2014. The Company expects to be able to meet future pension funding requirements as it expects the amounts will be financed from a combination of cash generated from operations and amounts available for borrowing under existing credit facilities.

Contractual Obligations: Details, as at March 31, 2013, of all contractual obligations over the subsequent five years and thereafter, follow.

($millions)	Total	Due Within 1 Year	Due in Years 2 & 3	Due in Years 4 & 5	Due After 5 Years
Credit Facilities (unsecured)	65.6	2.1	-	63.5	-
First Mortgage Sinking Fund Bonds [1]	453.3	5.2	38.6	39.2	370.3
Total	518.9	7.3	38.6	102.7	370.3

[1] *First mortgage sinking fund bonds are secured by a first fixed and specific charge on property, plant and equipment owned or to be acquired by the Company, by a floating charge on all other assets and carry customary covenants.*

Credit Ratings and Capital Structure: To ensure continued access to capital at reasonable cost, the Company endeavours to maintain its investment grade credit ratings. Details of the Company's investment grade bond ratings follow.

	March 31, 2013		December 31, 2012	
Rating Agency	**Rating**	**Outlook**	**Rating**	**Outlook**
Moody's Investors Service ("Moody's")	A2	Stable	A2	Stable
DBRS	A	Stable	A	Stable

Both DBRS and Moody's issued updated credit report ratings during the quarter confirming the Company's existing investment grade bond rating and rating outlook. The Company's investment grade bond rating and rating outlook remain unchanged from 2012.

Newfoundland Power manages common share dividends to maintain an average annual capital structure composed of 55% debt and preference equity and 45% common equity. This capital structure is reflected in customer rates and is consistent with the Company's current investment grade credit ratings.

The Company's capital structure follows:

	March 31, 2013		December 31, 2012	
	$millions	**%**	**$millions**	**%**
Total Debt [1]	516.1	56.1	493.2	55.0
Common Equity	394.2	42.9	394.2	44.0
Preference Equity	9.1	1.0	9.1	1.0
Total	919.4	100.0	896.5	100.0

[1] *Includes bank indebtedness, or net of cash and debt issue costs, if applicable.*

Capital Stock and Dividends: During the first quarters of 2013 and 2012, the weighted average number of common shares outstanding was 10,320,270. Dividends on common shares, for the first quarter 2013, compared to 2012, were $0.3 million higher. In the first quarter of 2013, common share dividends increased to $0.55 per share compared to $0.52 per share in the first quarter of 2012.

There were no changes to the number of preference shares during the first quarter.

RELATED PARTY TRANSACTIONS

The Company provides services to, and receives services from, its parent company, Fortis and other subsidiaries of Fortis. The Company also incurs charges from Fortis for the recovery of general corporate expenses incurred by Fortis. These transactions are in the normal course of business and are recorded at their exchange amounts.

Related party transactions included in revenue and operating expenses for the first quarter of 2013 and 2012 follow:

($millions)	2013	2012
Revenue [1]	1.6	1.5
Operating Expenses	0.4	0.4

[1] *Includes charges for electricity consumed.*

FINANCIAL INSTRUMENTS

The carrying values of financial instruments included in current assets, current liabilities, other assets, and other liabilities approximate their fair value, reflecting their nature, short-term maturity or normal trade credit terms.

The fair value of long-term debt is calculated by discounting the future cash flows of each debt instrument at the estimated yield-to-maturity equivalent to benchmark government bonds, with similar terms to maturity, plus a credit risk premium equal to that of issuers of similar credit quality. Since the Company does not intend to settle its debt instruments before maturity, the fair value estimate does not represent the actual liability, and therefore, does not include exchange or settlement costs.

The carrying and estimated fair values of the Company's long-term debt, including current portion and committed credit facility, follow:

	March 31, 2013		December 31, 2012	
($millions)	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Long-term debt, including current portion and committed credit facility	516.8	672.6	495.3	660.9

BUSINESS RISK MANAGEMENT

There were no material changes to the Company's business risks during the first quarter of 2013.

CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2013, the Company adopted the amendments to Accounting Standards Codification Topic 210, *Balance Sheet - Disclosures about Offsetting Assets and Liabilities* as outlined in Accounting Standards Updates No. 2011-11 and 2013-01. Adoption of the amendments did not impact the Company's interim financial statements for the three months ended March 31, 2013.

CRITICAL ACCOUNTING ESTIMATES

There were no material changes to the Company's critical accounting estimates during the quarter. Interim financial statements, however, tend to employ a greater use of estimates than the annual financial statements.

QUARTERLY RESULTS

The following table sets forth unaudited quarterly information for each of the eight quarters ended June 30, 2011 through March 31, 2013. The quarterly information has been obtained from the Company's interim unaudited financial statements which, in the opinion of management, have been prepared in accordance with U.S. GAAP. These financial results are not necessarily indicative of results for any future period and should not be relied upon to predict future performance.

	First Quarter March 31		Second Quarter June 30		Third Quarter September 30		Fourth Quarter December 31	
(unaudited)	2013	2012	2012	2011	2012	2011	2012	2011
Electricity Sales *(GWh)*	1,942.4	1,913.6	1,259.4	1,268.7	940.4	923.7	1,538.8	1,526.6
Revenue *($millions)*	197.7	192.3	130.9	132.6	100.8	101.4	158.9	156.1
Net Earnings Applicable to Common Shares *($millions)*	6.9	6.9	11.5	9.8	8.9	8.1	9.3	7.9
Earnings per Common Share *($)* [1]	0.67	0.67	1.12	0.95	0.86	0.78	0.90	0.77

[1] *Basic and fully diluted.*

Seasonality

Sales and Revenue: Interim financial results reflect the seasonality of electricity sales for heating. Sales and revenue are significantly higher in the first quarter and significantly lower in the third quarter compared to the remaining quarters. This reflects the seasonality of electricity consumption for heating.

Earnings: Beyond the seasonality of electricity consumption for heating, quarterly earnings are impacted by the purchased power rate structure. The Company pays more, on average, for each kilowatt hour ("kWh") of purchased power in the winter months and less, on average, for each kWh of purchased power in the summer months.

These sales, revenue and cost dynamics are expected to yield lower earnings in the first quarter compared to remaining quarters within any given year.

Trending

Sales and Revenue: Year-over-year quarterly electricity sales increases primarily reflect modest customer growth.

Earnings: Beyond the impact of expected moderate sales growth, future quarterly earnings and earnings per share are expected to trend with the ROE reflected in customer rates and rate base growth, with the exception of the impact of unregulated Part VI.1 tax.

On transition to U.S. GAAP, a retroactive restatement to retained earnings of $15.3 million was recognized related to Part VI.1 tax deductions from Fortis to Newfoundland Power. These adjustments are expected to reverse through earnings once Canadian federal legislation is passed and proposed corporate income tax rate changes become enacted or as reassessment of corporate taxation years become statute barred. The legislation is expected to be passed in 2013, otherwise the statute barred reversals are expected to occur in the third quarter of each year until 2016.

OUTLOOK

The Company's strategy will remain unchanged.

Newfoundland Power is regulated under a cost of service regime. Cost of service regulation entitles the Company to an opportunity to recover its reasonable cost of providing service, including its cost of capital, in each year.

On April 17, 2013, the PUB issued the Order on the 2013/2014 GRA which established the Company's cost of capital for ratemaking purposes for 2013 through 2015. The regulated ROE of 8.80% and 45% common equity are consistent with 2012. The Company is required to file its next GRA for 2016 on or before June 1, 2015.

Newfoundland Power expects to maintain its investment grade credit ratings in 2013.

Customer Rates: Customer electricity rates will be adjusted effective July 1, 2013 to reflect the annual operation of the Rate Stabilization Account ("RSA") and the impact of the Company's GRA Order.

Through the annual operation of Hydro's Rate Stabilization Plan ("Hydro RSP") and the Company's RSA, variances in Hydro's cost of fuel used to generate electricity are captured in the Hydro RSP and flowed-through to the Company's customers through the operation of the Company's RSA. Electricity rates are expected to decrease approximately 8.0% effective July 1st due to the decrease in the forecast cost of oil to be used at the Holyrood generating facility. The RSA also captures variances in Newfoundland Power's cost such as energy supply cost variances and employee future benefit cost variances.

The implementation of the GRA Order is expected to increase electricity rates by an overall average of approximately 5.0% effective July 1, 2013.

The Company plans to file an application with the PUB mid-May 2013 to adjust customer electricity rates by an average decrease of approximately 3% effective July 1, 2013 to reflect the combined impact of the Company's GRA Order and the annual operation of the RSA.

CORPORATE INFORMATION

All of the common shares of Newfoundland Power are owned by Fortis.

Fortis Inc. is the largest investor-owned distribution utility in Canada, with total assets of approximately $15 billion and fiscal 2012 revenue totalling $3.7 billion. The Corporation serves more than 2 million gas and electricity customers. Its regulated holdings include electric distribution utilities in five Canadian provinces and two Caribbean countries and a natural gas utility in British Columbia, Canada. Fortis owns and operates non-regulated generation assets across Canada and in Belize and Upstate New York. It also owns hotels and commercial office and retail space in Canada. Fortis shares are listed on the Toronto Stock Exchange and trade under the symbol FTS. Additional information can be accessed at www.fortisinc.com or www.sedar.com.

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Unaudited Statements of Earnings
For the Three Months Ended March 31
(in thousands of Canadian dollars, except per share amounts)

	2013	2012
Revenue	$ 197,705	$ 192,254
Purchased power	144,812	141,952
Gross Margin	52,893	50,302
Operating expenses	15,883	14,948
Employee future benefits	6,500	5,510
Depreciation and amortization	12,095	11,403
Cost recovery deferral *(Note 2)*	-	(591)
Finance charges *(Note 4)*	9,000	9,095
	43,478	40,365
Earnings Before Income Taxes	9,415	9,937
Income taxes *(Note 5)*	2,326	2,891
Net Earnings	7,089	7,046
Preference share dividends	141	141
Net Earnings Applicable to Common Shares	$ 6,948	$ 6,905
Basic and Diluted Earnings per Common Share	$ 0.67	$ 0.67

See accompanying notes to financial statements.

Unaudited Statements of Changes in Equity
For the Three Months Ended March 31
(in thousands of Canadian dollars, except per share amounts)

	Common Shares	Preference Shares	Retained Earnings	Total Equity
As at January 1, 2013	$ 70,321	$ 9,081	$ 323,886	**$ 403,288**
Net earnings	-	-	7,089	**7,089**
Allocation of Part VI.1 tax	-	-	(1,186)	**(1,186)**
Dividends on common shares ($0.55 per share)	-	-	(5,676)	**(5,676)**
Dividends on preference shares	-	-	(141)	**(141)**
As at March 31, 2013	$ 70,321	$ 9,081	$ 323,972	**$ 403,374**
As at January 1, 2012	$ 70,321	$ 9,081	$ 298,432	**$ 377,834**
Net earnings	-	-	7,046	**7,046**
Dividends on common shares ($0.52 per share)	-	-	(5,367)	**(5,367)**
Dividends on preference shares	-	-	(141)	**(141)**
As at March 31, 2012	$ 70,321	$ 9,081	$ 299,970	**$ 379,372**

Unaudited Balance Sheets

As at

(in thousands of Canadian dollars)

	March 31, 2013	December 31, 2012
Assets *(Note 6)*		
Current assets		
Cash	$ 67	$ -
Accounts receivable	101,626	76,461
Income taxes receivable	638	1,202
Materials and supplies	1,388	1,155
Prepaid expenses	755	1,075
Regulatory assets *(Note 2)*	42,633	37,421
	147,107	117,314
Property, plant and equipment	876,999	873,085
Intangible assets	14,591	14,739
Regulatory assets *(Note 2)*	376,964	379,752
Other assets	4,142	4,252
	$ 1,419,803	$ 1,389,142
Liabilities and Shareholders' Equity		
Current liabilities		
Bank indebtedness	$ -	$ 383
Short-term borrowings	2,144	302
Accounts payable and accrued charges	73,850	75,212
Interest payable	11,076	7,384
Defined benefit pension plans	246	248
Other post-employment benefits	3,103	3,035
Regulatory liabilities *(Note 2)*	5,885	-
Current instalments of long-term debt *(Note 6)*	5,200	5,200
Other liabilities	14,586	13,349
Deferred income taxes	6,152	5,895
	122,242	111,008
Regulatory liabilities *(Note 2)*	136,040	133,663
Defined benefit pension plans	40,282	43,740
Other post-employment benefits	94,998	94,646
Other liabilities	882	851
Deferred income taxes	110,397	111,858
Long-term debt *(Note 6)*	511,588	490,088
	1,016,429	985,854
Shareholders' equity		
Common shares, no par value, unlimited authorized shares, 10.3 million shares issued and outstanding	70,321	70,321
Preference shares	9,081	9,081
Retained earnings	323,972	323,886
	403,374	403,288
	$ 1,419,803	$ 1,389,142

Commitments *(Note 10)*

See accompanying notes to financial statements.

Unaudited Statements of Cash Flows
For the Three Months Ended March 31
(in thousands of Canadian dollars)

	2013	2012
Cash From (Used in) Operating Activities		
Net earnings	$ 7,089	$ 7,046
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation of property, plant and equipment	11,484	10,770
Amortization of intangible assets and other	697	714
Change in long-term regulatory assets and liabilities	191	(3,499)
Deferred income taxes	(577)	(712)
Employee future benefits	(300)	1,959
Equity portion of allowance for funds used during construction	(35)	(31)
Change in non-cash working capital	(21,175)	(14,008)
	(2,626)	2,239
Cash From (Used In) Investing Activities		
Net adjustment from sale to Bell Aliant	-	(829)
Capital expenditures	(14,526)	(14,480)
Intangible asset expenditures	(463)	(445)
Contributions from customers	485	1,243
Other	55	(24)
	(14,449)	(14,535)
Cash From (Used In) Financing Activities		
Change in bank indebtedness	(383)	-
Change in short-term borrowings	1,842	3,712
Net proceeds of committed credit facility	21,500	14,500
Dividends		
Preference shares	(141)	(141)
Common shares	(5,676)	(5,367)
	17,142	12,704
Increase in Cash	67	408
Cash, Beginning of the Period	-	330
Cash, End of the Period	$ 67	$ 738
Cash flows include the following elements:		
Interest paid	$ 5,260	$ 5,228
Income taxes paid	$ 2,288	$ 6,518

See accompanying notes to financial statements.

Notes to Unaudited Interim Financial Statements
For the Three Months Ended March 31, 2013 and 2012 (unless otherwise noted)

Tabular amounts are in thousands of Canadian dollars unless otherwise noted.

1. Basis of Presentation

These interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") for interim financial statements and do not include all of the disclosures provided in Newfoundland Power Inc.'s (the "Company" or "Newfoundland Power") annual audited financial statements. These interim financial statements should be read in conjunction with the Company's 2012 annual audited financial statements.

The accounting policies and methods of their application, followed in the preparation of these interim financial statements are the same as those followed in the preparation of the Company's 2012 annual audited financial statements, except for the following:

Effective January 1, 2013, the Company adopted the amendments to Accounting Standards Codification Topic 210, *Balance Sheet - Disclosures about Offsetting Assets and Liabilities* as outlined in Accounting Standards Updates No. 2011-11 and 2013-01. Adoption of the amendments did not impact the Company's interim financial statements for the three months ended March 31, 2013.

An evaluation of subsequent events through April 29th, 2013, the date these interim financial statements were approved by the Board of Directors of the Company and available to be issued, was completed to determine whether the circumstances warranted recognition and disclosure of events or transactions in the interim financial statements as at March 31, 2013 (*Note 11*).

2. Regulatory Assets and Liabilities

Regulatory assets and liabilities arise as a result of the rate setting process. Regulatory assets represent future revenues associated with certain costs incurred in the current or prior periods that will be, or are expected to be, recovered from customers in future periods through the rate setting process. Regulatory liabilities represent future reductions or limitations of increases in revenues associated with amounts that will be, or are expected to be, refunded to customers through the rate setting process. The regulatory assets and liabilities, and their eventual settlement through the rate setting process, are prescribed by the Newfoundland and Labrador Board of Commissioners of Public Utilities (the "PUB") and impact the Company's cash flows.

The underlying accounting practices, which result in the recognition of regulatory assets and regulatory liabilities, are disclosed in Notes 2 and 7 to the Company's 2012 annual audited financial statements.

The Company's regulatory assets which will be, or are expected to be, reflected in customer rates in future periods, follow:

	March 31, 2013		December 31, 2012	
	Current	Non-Current	Current	Non-Current
Regulatory Assets				
Rate stabilization account ("RSA")	$ 18,067	$ 4,233	$ 13,912	$ 5,617
Other post employment benefits ("OPEBs")	3,504	41,172	3,504	42,048
Pension deferral	1,128	1,127	1,128	1,409
Cost recovery deferral	-	4,726	-	4,726
Cost of capital cost recovery deferral	-	2,487	-	2,487
Conservation and demand management deferral	254	-	339	-
Optional seasonal rate revenue and cost recovery account	-	-	-	130
Employee future benefits	13,612	157,679	12,755	162,301
Energy supply cost variance reserve	-	5,420	-	-
Deferred income taxes	6,068	160,120	5,783	161,034
	$ 42,633	$ 376,964	$ 37,421	$ 379,752

2. Regulatory Assets and Liabilities (cont'd)

The Company's regulatory liabilities which will be, or are expected to be, reflected in customer rates in future periods, follow:

	March 31, 2013		December 31, 2012	
	Current	Non-Current	Current	Non-Current
Regulatory Liabilities				
Pension expense variance deferral account ("PEVDA")	$ 4,304	$ -	$ -	$ -
OPEBs cost variance deferral account	1,581	-	-	-
Weather normalization account	-	8,366	-	6,549
Future removal and site restoration provision	-	127,651	-	126,329
Demand management incentive account	-	-	-	785
Optional seasonal rate revenue and cost recovery account	-	23	-	-
	$ 5,885	$ 136,040	$ -	$ 133,663

3. Seasonality

Sales and Revenue: Interim financial results reflect the seasonality of electricity sales for heating. Sales and revenue are significantly higher in the first quarter and significantly lower in the third quarter compared to the remaining quarters. This reflects the seasonality of electricity consumption for heating.

Earnings: Beyond the seasonality of electricity consumption for heating, quarterly earnings are impacted by the purchased power rate structure. The Company pays more, on average, for each kilowatt hour ("kWh") of purchased power in the winter months and less, on average, for each kWh of purchased power in the summer months.

These sales, revenue and cost dynamics are expected to yield lower earnings in the first quarter compared to remaining quarters within any given year.

4. Finance Charges

	Three Months Ended March 31	
	2013	2012
Interest - first mortgage sinking fund bonds	$ 8,684	$ 8,785
Interest - committed credit facility	268	207
Interest - other	3	54
Total interest expense	8,955	9,046
Amortization - debt issue costs	48	48
Amortization – committed credit facility costs	38	33
Interest portion of allowance for funds used during construction	(41)	(32)
	$ 9,000	$ 9,095

5. Income Taxes

The composition of the Company's income tax expense follows:

	Three Months Ended March 31	
	2013	2012
Current income tax expense	$ 2,903	$ 3,603
Deferred income tax recovery	(1,204)	(122)
Regulatory adjustment	627	(590)
	$ 2,326	$ 2,891

5. Income Taxes (cont'd)

Income taxes differ from the amount that would be determined by applying the enacted combined Canadian federal and provincial statutory income tax rate to earnings before income taxes. A reconciliation of the combined statutory income tax rate to the Company's effective income tax rate follows:

	Three Months Ended March 31 2013	2012
Earnings before income taxes per financial statements	$ 9,415	$ 9,937
Statutory tax rate	29.0%	29.0%
Income taxes, at statutory rate	2,730	2,882
Items capitalized for accounting purposes but expensed for income tax purposes	(838)	(830)
Difference between capital cost allowance and depreciation expense	391	268
Part VI.1 tax	-	493
Other	43	78
Income tax expense	$ 2,326	$ 2,891
Effective income tax rate	24.7%	29.1%

As at March 31, 2013, the Company had no non-capital or capital losses (2012 - Nil) carried forward.

6. Long-term Debt

	March 31, 2013	December 31, 2012
First mortgage sinking fund bonds	$ 453,288	$ 453,288
Committed credit facility *(Note 8)*	63,500	42,000
	516,788	495,288
Less: current instalments of long-term debt	5,200	5,200
	$ 511,588	$ 490,088

First mortgage sinking fund bonds are secured by a first fixed and specific charge on property, plant and equipment owned or to be acquired by the Company and by a floating charge on all other assets. They require an annual sinking fund payment of 1% of the original principal balance.

7. Fair Value Measurement

Fair value is the price at which a market participant could sell an asset or transfer a liability to an unrelated party. A fair value measurement is required to reflect the assumptions that market participants would use in pricing an asset or a liability based on the best available information. These assumptions include the risks inherent in a particular valuation technique, such as a pricing model, and the risks inherent in the inputs to the model.

The fair value of long-term debt, including current portion and committed credit facility, is classified as Level 2 based on the three level hierarchy that distinguishes the level of pricing observability utilized in measuring fair value. Level 2 includes inputs other than quoted prices in active markets, that are either directly or indirectly observable for the asset or liability. The fair value is calculated by discounting the future cash flows of each debt instrument at the estimated yield-to-maturity equivalent to benchmark government bonds, with similar terms to maturity, plus a credit risk premium equal to that of issuers of similar credit quality. Since the Company does not intend to settle its debt instruments before maturity, the fair value estimate does not represent an actual liability and, therefore, does not include exchange or settlement costs.

7. Fair Value Measurement (cont'd)

The fair value of long-term debt, including current portion and committed credit facility, at March 31, 2013 and December 31, 2012 is as follows:

	March 31, 2013		December 31, 2012	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Long-term debt, including current portion and committed credit facility	$ 516,788	$ 672,608	$ 495,288	$ 660,876

As at March 31, 2013, the fair value of the Company's primary defined benefit pension plan assets was $308.2 million compared to fair value of plan assets of $298.4 million as at December 31, 2012. The fair value measurements for all of the pension plan assets, as held in various pooled funds, are classified as Level 2 inputs.

The fair value of the Company's remaining financial instruments included in current assets, current liabilities, other assets and other liabilities approximate their carrying value, reflecting their nature, short-term maturity or normal trade credit terms.

The fair value of the Company's financial instruments reflects a point-in-time estimate based on current and relevant market information about the instruments as at the balance sheet date. The estimates cannot be determined with precision as they involve uncertainties and matters of judgment, and therefore, may not be relevant in predicting the Company's future earnings or cash flows.

8. Financial Risk Management

The Company is primarily exposed to credit risk, liquidity risk and market risk as a result of holding financial instruments in the normal course of business.

Credit Risk: There is risk that Newfoundland Power may not be able to collect all of its accounts receivable and amounts owing under its customer finance plans. These financial instruments, which arise in the normal course of business, do not represent a significant concentration of credit risk as amounts are owed by a large number of customers on normal credit terms. The requirement for security deposits for certain customers, which are advance cash collections from customers to guarantee payment of electricity billings, further reduces the exposure to credit risk. The maximum exposure to credit risk is the net carrying value of these financial instruments.

Newfoundland Power manages credit risk primarily by executing its credit and collection policy, including the requirement for security deposits, through the resources of its Customer Relations Department.

Liquidity Risk: The Company's financial position could be adversely affected if it failed to arrange sufficient and cost-effective financing to fund, among other things, capital expenditures, pension funding obligation, and repayment of maturing debt.

The ability to arrange such financing is subject to numerous factors, including the results of operations and financial position of the Company, conditions in the capital and bank credit markets, ratings assigned by ratings agencies and general economic conditions. These factors are mitigated by the legal requirement as outlined in the *Electrical Power Control Act* which requires rates be set to enable the Company to achieve and maintain a sound credit rating in the financial markets of the world.

The Company has historically generated sufficient annual cash flows from operating activities to service annual interest and sinking fund payments on debt, to fund pension obligations, to pay dividends and to finance a major portion of its annual capital program. Additional financing to fully fund the annual capital program is primarily obtained through the Company's bank credit facilities and these borrowings are periodically refinanced along with any maturing bonds through the issuance of long-term first mortgage sinking fund bonds. The Company currently does not expect any material changes in these annual cash flow and financing dynamics over the foreseeable future.

8. Financial Risk Management (cont'd)

Newfoundland Power has unsecured bank credit facilities of $120.0 million comprised of a syndicated $100.0 million committed revolving term credit facility ("Committed Facility") and a $20.0 million demand facility. The committed facility matures in August 2017. Subject to lenders' approval, the Company may request an extension for a further period of up to, but not exceeding, a five year term.

Borrowings under the Committed Facility have been classified as long-term as the Committed Facility expires in 2017. Management intends to refinance these amounts in the future with the issuance of other long-term debt. These borrowings are in the form of bankers acceptances bearing interest based on the daily Canadian Deposit Offering Rate for the date of borrowing plus a stamping fee. Standby fees on the unutilized portion of the Committed Facility are payable quarterly in arrears at a fixed rate of 0.17%. Borrowings under the demand facility are classified as current and interest is calculated at the daily prime rate and is payable monthly in arrears.

The utilized and unutilized credit facilities as at March 31, 2013 and December 31, 2012 follow:

	March 31, 2013	December 31, 2012
Total credit facilities	$ 120,000	$ 120,000
Borrowings under Committed Facility *(Note 6)*	(63,500)	(42,000)
Borrowings under demand facility	(2,144)	(302)
Credit facilities available	$ 54,356	$ 77,698

To ensure continued access to capital at reasonable cost, the Company endeavours to maintain its investment grade credit ratings. Details of the Company's investment grade bond ratings follow:

	March 31, 2013		December 31, 2012	
Rating Agency	Rating	Outlook	Rating	Outlook
Moody's Investors Service ("Moody's")	A2	Stable	A2	Stable
DBRS	A	Stable	A	Stable

During the first quarter of 2013, both Moody's and DBRS issued an updated credit rating report confirming the Company's existing investment grade bond rating and rating outlook. The Company's investment grade bond rating and rating outlook remain unchanged from 2012.

Market Risk: Exposure to foreign exchange rate fluctuations is immaterial.

Market driven changes in interest rates and changes in the Company's credit ratings can cause fluctuations in interest costs associated with the Company's bank credit facilities. The Company periodically refinances its credit facilities in the normal course with fixed-rate first mortgage sinking fund bonds thereby significantly mitigating exposure to interest rate changes.

Changes in interest rates and/or changes in the Company's credit ratings can affect the interest rate on first mortgage sinking fund bonds at the time of issue.

The Company's defined benefit pension plan is impacted by economic conditions. There is no assurance that the pension plan assets will earn the expected long-term rate of return in the future. Market driven changes impacting the performance of the pension plan assets may result in material variations from the expected long-term return on the assets. This may cause material changes in future pension liabilities and pension expense. The operation of the PUB approved PEVDA is expected to significantly mitigate the impact on the Company's pension expense, whereby the difference between actual pension expense and pension expense approved by the PUB for rate setting purposes is recovered from (returned to) customers through the Company's RSA.

Concentration of Supply: The Company is dependent on Hydro for approximately 93% of its energy requirements. The principal terms of the supply arrangements with Hydro are regulated by the PUB on a basis similar to that upon which the Company's service to its customers is regulated.

9. Employee Future Benefits

The Company's employee future benefits cost includes both the net benefit costs of its defined benefit and defined contribution plans.

The components of net benefit costs associated with the Company's defined benefit plans, prior to capitalization, are as follows:

	Three Months Ended March 31			
	2013		2012	
	Defined Benefit Pension Plans	OPEBs	Defined Benefit Pension Plans	OPEBs
Service costs	$ 1,168	$ 311	$ 1,185	$ 236
Interest costs	3,730	1,047	3,844	1,012
Expected return on plan assets	(4,840)	-	(4,387)	-
Amortization of net actuarial losses	2,432	602	1,791	288
Amortization of past service costs	7	(328)	7	(340)
Amortization of transitional obligation	-	-	-	214
	$ 2,497	$ 1,632	$ 2,440	$ 1,410
Regulatory adjustments				
Amortization of transitional obligations	333	357	333	143
Deferral of pension costs	335	-	(145)	-
Amortization of pension deferral	282	-	282	-
Amortization of OPEBs regulatory asset	-	876	-	876
Net benefit cost	$ 3,447	$ 2,865	$ 2,910	$ 2,429

During the three months ended March 31, 2013, the Company expensed $0.3 million (2012 - $0.3 million) related to its defined contribution pension plans.

10. Commitments

There were no material changes in the nature and amount of the Company's commitments as disclosed in the Company's 2012 annual audited financial statements.

11. Subsequent Event

On April 17, 2013, the PUB issued an Order on the Company's 2013/2014 General Rate Application. The Order, which amongst other things, established the Company's cost of capital for ratemaking purposes for 2013 through 2015. The regulated ROE of 8.80% and 45% common equity established in the GRA Order for 2013 through 2015, are consistent with 2012. The Company evaluated the impact of the GRA Order on net earnings for the quarter ended March 31, 2013, and determined the impact to be immaterial.

12. Comparative Figures

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the current year financial statements.