NEWFOUNDLAND POWER
A FORTIS COMPANY

Second Quarter 2011

INTERIM MANAGEMENT DISCUSSION and ANALYSIS
For the Three and Six Month Periods Ended June 30, 2011

Dated August 3, 2011

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 and six month periods ended June 30, 2011 and the MD&A and annual audited financial statements for the year ended December 31, 2010. 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 Canadian generally accepted accounting principles ("Canadian GAAP"), including certain accounting practices unique to rate regulated entities. These accounting practices, which are disclosed in Notes 2 and 4 to the Company's 2010 annual audited financial statements, result in the recognition of revenues, expenses, regulatory assets and regulatory liabilities which would not occur in the absence of rate regulation and which affect the Company's reported earnings, cash flows and financial position.

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 forward-looking information reflects management's current beliefs and is based on information currently available to the Company's management. The forward-looking information in this MD&A includes, but is not limited to, statements regarding: expectations to generate sufficient cash to complete required capital expenditures and to service interest and sinking fund payments on debt; meeting pension funding requirements; no material adverse credit rating actions are expected in the near term; the Company's belief that it does not anticipate any difficulties in issuing bonds on reasonable market terms; and the forecast gross capital expenditures for 2011.

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 2011; 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; economic conditions; defined benefit pension plan performance; capital resources and liquidity; interest rates; electricity prices; purchased power cost; health, safety and the environment; insurance; weather; changes in accounting standards; 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, and the MD&A for the year ended December 31, 2010.

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 per cent of its electricity needs and purchases the remainder from Newfoundland and Labrador Hydro ("Hydro"). Newfoundland Power serves approximately 245,000 customers comprising about 86 per cent 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 are established annually through an automatic adjustment formula (the "Formula").The Formula sets an appropriate rate of return on common equity ("ROE") which is used to determine the rate of return on rate base. In accordance with the operation of the Formula, the Company's rate of return on common equity, for purposes of setting rates, was reduced to 8.38 per cent for 2011 from 9.00 per cent in 2010. The Company's rate of return on rate base was reduced to 7.96 per cent, with a range of 7.78 per cent to 8.14 per cent for 2011, from 8.23 per cent, with a range of 8.05 per cent to 8.41 per cent in 2010.

Effective January 1, 2011, customer electricity rates increased by an average of 0.8 per cent. This reflects the net impact of the increase in revenue requirement due to adoption of accrual accounting for other post employment benefits effective January 2011, partially offset by operation of the Formula which reduced the Company's allowed return on rate base for 2011.

Financial Highlights

	Three Months Ended June 30			Six Months Ended June 30		
	2011	2010	Change	2011	2010	Change
Electricity Sales *(gigawatt hours, ("GWh"))* [1]	1,268.7	1,220.2	48.5	3,102.5	3,015.4	87.1
Earnings Applicable to Common Shares						
$ Millions	10.7	11.0	(0.3)	17.6	18.2	(0.6)
$ Per Share	1.03	1.06	(0.03)	1.71	1.76	(0.05)
Cash Flow from Operating Activities *($millions)*	8.8	18.6	(9.8)	12.4	24.7	(12.3)
Total Assets *($millions)*				1,212.2	1,168.9	43.3

[1] *Reflects weather normalized electricity sales.*

Electricity sales for the second quarter of 2011 increased by 48.5 GWh or approximately 4.0 per cent compared to the second quarter of 2010. This increase was composed of (i) an increase of 2.4 per cent in average consumption reflecting higher concentration of electric heat in new home construction as well as strong economic growth; and, (ii) an increase of 1.6 per cent in customer growth. On a year-to-date basis, electricity sales increased by 87.1 GWh or approximately 2.9 per cent. This increase was composed of (i) a 1.6 per cent increase due to customer growth; and, (ii) a 1.3 per cent increase due to higher average consumption.

Earnings for the second quarter of 2011 decreased by $0.3 million compared to the second quarter of 2010. On a year-to-date basis, earnings decreased by $0.6 million compared to the same period last year. The decrease in earnings was primarily the result of a lower ROE embedded in customer rates effective January 1, 2011, higher operating expenses, and a decrease in other income related to the new support structure arrangement with Bell Aliant. These amounts were partially offset by higher electricity sales, decreased amortization expense, and a lower effective tax rate.

Cash flow from operating activities for the second quarter of 2011 decreased by $9.8 million compared to the second quarter of 2010. The decrease was mainly a result of (i) higher purchase power costs, (ii) timing of cash collections, (iii) higher income tax payments and (iv) lower joint-use pole charges received as a result of the new support structure arrangement with Bell Aliant effective January 2011. This was partially offset by (i) the January 1, 2011 customer rate increase, (ii) higher electricity sales, and (iii) timing of payments to vendors.

Cash from operating activities year-to-date 2011, decreased by $12.3 million, compared to year-to-date 2010. This decrease was mainly a result of (i) higher purchase power costs, (ii) timing of cash collections, (iii) higher income tax payments, (iv) timing of payments to vendors and (v) lower joint-use pole charges received as a result of the new support structure arrangement with Bell Aliant effective January 2011. This was partially offset by the January 1, 2011 customer rate increase and higher electricity sales.

Total assets increased by $43.3 million at June 30, 2011 compared to June 30, 2010. This increase was predominantly due to continued investment in the electricity system, and is consistent with the Company's strategy to provide safe, reliable electricity service at the lowest reasonable cost. Also contributing to the higher asset balance was an increase in accounts receivable, which related to higher electricity sales and customer rates, as well as the timing of cash collections.

RESULTS OF OPERATIONS

Revenue:

	Three Months Ended June 30			Six Months Ended June 30		
($millions)	2011	2010	Change	2011	2010	Change
Revenue from Rates	128.9	121.8	7.1	308.6	295.9	12.7
Amortization of Regulatory Liabilities and Deferrals	0.8	1.3	(0.5)	1.5	2.7	(1.2)
Other Revenue [1]	2.8	3.1	(0.3)	5.4	5.9	(0.5)
Total	132.5	126.2	6.3	315.5	304.5	11.0

[1] *Other revenue is composed largely of maintenance, construction and related charges associated with the new support structure arrangement with Bell Aliant effective January 2011, as well as pole attachment charges to various telecommunication companies.*

Revenue from rates for the second quarter of 2011 increased by $7.1 million compared to the second quarter of 2010. On a year-to-date basis, revenue from rates increased by $12.7 million compared to the same period last year. This increase primarily reflects electricity sales growth and the January 1, 2011 customer rate increase.

The amortization of regulatory liabilities and deferrals in 2011 include the pension expense variance deferral ("PEVDA") and the Other Post Employment Benefits ("OPEBs") cost variance deferral. The amortization of the unbilled revenue and municipal tax regulatory liability expired December 2010. The amounts recorded are in accordance with PUB orders. These regulatory liabilities and deferrals are described in Notes 2 and 4 to the Company's 2010 annual audited financial statements.

Other revenue for 2011, compared to 2010, was $0.3 million lower in the second quarter and $0.5 million lower year-to-date. The decrease primarily related to the new support structure arrangement with Bell Aliant effective January 1, 2011. See Outlook Section of this MD&A.

Purchased Power: Purchased Power expense for the second quarter of 2011 increased by $5.0 million compared to the second quarter of 2010. Year-to-date 2011, purchased power expense was $7.8 million higher compared to the same period last year. The increase in purchased power expense resulted mainly from electricity sales growth.

Operating Expenses: Operating Expenses for the second quarter of 2011 were $0.5 million higher than the second quarter of 2010. This increase was primarily related to wage and inflationary increases and higher professional fees associated with the Company's consideration of new accounting standards in 2012.

Year-to-date 2011 operating expenses were $1.6 million higher than the same period last year. The increase was related to wage and inflationary increases, higher distribution maintenance costs, higher professional fees associated with the Company's consideration of new accounting standards in 2012, and the timing of operating labour costs. The timing of operating labour costs related to training costs, as well as increased capital work was completed during the first half of 2010 due to better weather conditions and the March ice storm. This increase was partially offset by lower retirement and severance costs.

Employee Future Benefits: Employee Future Benefits for the second quarter of 2011 were $3.1 million higher compared to the second quarter of 2010. Approximately $1.0 million of the increase was due to the amortization of experience losses from prior years associated with the pension plan assets and a lower discount rate at December 31, 2010, which is used to determine the Company's accrued benefit pension obligation associated with its defined benefit pension plan. The remaining increase of $2.1 million relates to higher OPEBs costs. Effective January 1, 2011 pursuant to a PUB order, (i) the Company recognized OPEBs costs based on the accrual method of accounting and (ii) commenced amortization of the OPEBs regulatory asset of $52.6 million over 15 years.

Year-to-date 2011 Employee Future Benefits were $6.2 million higher than the same period last year. Approximately $2.1 million of this increase related to the amortization of experience losses from prior years and the lower discount rate at December 31, 2010 and $4.1 million relates to higher OPEBs costs.

Amortization: Amortization expense for the second quarter of 2011 was $0.3 million lower compared to the second quarter of 2010. Year-to-date 2011, amortization expense was $0.5 million lower compared to the same period last year. The decrease was primarily due to lower depreciable assets resulting from the new support structure arrangement with Bell Aliant effective January 1, 2011. See assets held for sale (Note 7). This was partially offset by increased amortization relating to the Company's capital expenditure program.

Amortization of property, plant and equipment is subject to periodic review by external experts via an amortization study. The most recent amortization study, based on capital assets in service as at December 31, 2010, indicates an accumulated amortization variance of approximately $17.7 million. Subject to PUB approval, this variance is expected to increase the amortization of capital assets in future years which will be recovered in future customer rates.

Amortization True-Up Deferral: Based on a 2002 amortization study, the PUB ordered the deferred recovery of approximately $11.6 million, $5.8 million in each of 2006 and 2007, related to a variance in accumulated amortization. These deferrals were amortized evenly through 2008-2010.

Cost Recovery Deferral: The PUB approved the deferred recovery of $2.4 million of costs in 2011 due to increased costs associated with expiring regulatory amortizations related to unbilled revenue, municipal tax liability, amortization true-up deferral, replacement energy deferral, purchased power unit cost variance deferral, and deferred GRA costs. The deferral was recorded as an increase in regulatory assets and a decrease in expense of approximately $0.6 million for the second quarter, and $1.2 million year-to-date 2011.

Finance Charges: Finance charges for the second quarter and year-to-date 2011 were comparable to 2010. Additional borrowings under the Company's credit facility and higher short-term interest rates were offset by a reduction in interest on long-term debt after the annual sinking fund payment made in October 2010. The higher short term interest rates are reflective of current market conditions.

Income Taxes: Income taxes for the second quarter of 2011 were $0.2 million lower than the second quarter of 2010. The quarterly decrease in income tax expense primarily reflects lower pre-tax earnings. Year-to-date 2011, income taxes were $0.5 million lower compared to the same period last year. The decrease in income tax expense primarily reflects lower pre-tax earnings and a lower effective income tax rate. The year-to-date decrease in the Company's effective tax rate related primarily to a reduction in the statutory tax rate.

FINANCIAL POSITION

Explanations of the primary causes of significant changes in the Company's balance sheets between December 31, 2010 and June 30, 2011 follow:

($millions)	Increase (Decrease)	Explanation
Cash and Bank Indebtedness	(4.4)	Decrease related to the timing of borrowings on the Company's credit facilities.
Accounts Receivable	11.2	Increase was due to (i) timing differences in the collection of trade receivables, primarily related to the Canada Post strike in June 2011, (ii) amounts receivable from Bell Aliant as part of the new support structure arrangement effective January 1, 2011, and (iii) normal timing differences associated with the collection and payment of municipal taxes and collections from customers under the Company's equal payment plan. These factors were partially offset by lower electricity sales in June 2011 compared to December 2010, reflecting the seasonal nature of electricity consumption for heating.
Regulatory Assets	5.3	Increase due to the normal operation of various regulatory mechanisms. See regulatory assets and liabilities (Note 3).
Property, Plant and Equipment	10.5	Investment in electricity system, in accordance with the 2011 capital expenditure program, offset partially by amortization and customer contributions in aid of construction.
Accounts Payable and Accrued Charges	(18.1)	Decrease in payable for purchased power due to warmer weather and resulting lower consumption in June 2011, versus December 2010; and decrease in remaining trade payables due to timing of expenditures and payments to vendors.
Regulatory Liabilities	7.0	Increase primarily due to normal operation of the PEVDA and weather normalization account.
Long-term Debt, including Current Portion	23.5	Represents additional debt required to finance growth in rate base and ongoing operating activities.
Retained Earnings	7.5	Earnings in excess of dividends, retained to finance rate base growth.

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 expenditures, service and repay debt, and pay dividends. A summary of second quarter and year-to-date cash flows and cash position for 2011 and 2010 follows:

	Three Months Ended June 30			Six Months Ended June 30		
($millions)	2011	2010	Change	2011	2010	Change
Cash, Beginning of Period	2.6	2.7	(0.1)	4.2	5.3	(1.1)
Operating Activities	8.8	18.6	(9.8)	12.4	24.7	(12.3)
Investing Activities	(16.4)	(19.4)	3.0	(29.9)	(35.6)	5.7
Financing Activities						
Net Credit Facilities Borrowings	10.5	1.0	9.5	23.5	12.5	11.0
Dividends and Other	(5.8)	(3.4)	(2.4)	(10.5)	(7.4)	(3.1)
	4.7	(2.4)	7.1	13.0	5.1	7.9
Bank Indebtedness, End of Period	(0.3)	(0.5)	0.2	(0.3)	(0.5)	0.2

Operating Activities

Second quarter cash flow from operating activities, for 2011 compared to 2010, decreased by $9.8 million. The quarterly decrease was primarily a result of (i) higher purchase power costs, (ii) timing of cash collections, (iii) higher income tax payments and (iv) lower joint-use pole charges received as a result of the new support structure arrangement with Bell Aliant effective January 2011. This was partially offset by (i) the January 1, 2011 customer rate increase, (ii) higher electricity sales, and (iii) timing of payments to vendors.

Year-to-date cash from operating activities, for 2011 compared to 2010, decreased by $12.3 million. This decrease was mainly a result of (i) higher purchase power costs, (ii) timing of cash collections, (iii) higher income tax payments (iv) timing of payments to vendors and (v) lower joint-use pole charges received as a result of the new support structure arrangement with Bell Aliant effective January 2011. This was partially offset by the January 1, 2011 customer rate increase and higher electricity sales.

Investing Activities

Cash flow used in investing activities for 2011, compared to 2010, decreased by $3.0 million for the second quarter and by $5.7 million year-to-date. The decrease was due primarily to capital work associated with the ice storm in March 2010.

A summary of second quarter and year-to-date capital and intangible asset expenditures for 2011 and 2010 follows.

	Three Months Ended June 30			Six Months Ended June 30		
($millions)	2011	2010	Change	2011	2010	Change
Electricity System						
Generation	0.8	0.9	(0.1)	1.2	1.3	(0.1)
Transmission	0.8	1.5	(0.7)	1.2	2.8	(1.6)
Substations	2.2	1.8	0.4	4.4	3.3	1.1
Distribution	8.7	10.8	(2.1)	16.3	20.1	(3.8)
Intangible Assets and Other	4.5	4.9	(0.4)	7.6	9.1	(1.5)
Capital and Intangible Asset Expenditures	17.0	19.9	(2.9)	30.7	36.6	(5.9)

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 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 2011 Capital Plan which provides for capital expenditures of $74.8 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 are forecasted to be $75.7 million for 2011.

Financing Activities

Second quarter cash flow from financing activities, for 2011 compared to 2010, increased by $7.1 million. Year-to-date 2011, cash flow from financing activities increased by $7.9 compared to the same period last year. The increase in cash required from financing activities was primarily the result of lower cash from operations available and higher common share dividends offset by lower capital expenditures. The Company's common share dividend policy is to maintain a capital structure composed of 55 per cent debt and 45 per cent common equity.

The Company has historically generated sufficient annual cash flows from operating activities to service annual interest and sinking fund payments on debt, 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 with the exception of an increase in cash flow from the proceeds of the joint-use pole sale which is expected to extend the timing of the next bond issue.

Debt: The Company's credit facilities are comprised of a $100 million committed revolving term credit facility ("Committed Facility") and a $20 million demand facility as detailed below:

($millions)	**June 30, 2011**	**December 31, 2010**
Total Credit Facilities	120.0	120.0
Borrowing, Committed Facility	(38.5)	(15.0)
Borrowing, Demand Facility	(0.1)	-
Total Credit Facilities Available	81.4	105.0

During the second quarter of 2011, the $100 million Committed Facility was renegotiated on similar terms as the previous facility, with a decrease in pricing, and an extension to a four year term maturing in August 2015.

Pensions: As at June 30, 2011, the fair value of the Company's primary defined benefit pension plan assets was $272.9 million compared to fair value of plan assets of $269.3 million as at December 31, 2010. The $3.6 million increase in fair value of plan assets was primarily due to favourable market conditions.

Based on the latest Actuarial Valuation for funding purposes as at December 31, 2008, the solvency deficit was $6.9 million ($7.7 million inclusive of interest). The solvency deficit is being funded over a five-year period, which commenced in 2009. The Company fulfilled its 2011 annual solvency deficit funding requirement of $1.5 million during the second quarter of 2011.

Newfoundland Power makes minimum defined benefit pension funding contributions, which according to the latest Actuarial Valuation are expected to be $5.2 million in 2011, $1.6 million in 2012 and $1.5 million in 2013. Future actuarial valuations will establish the funding obligations for subsequent years, which could be materially different from prior years depending on the market conditions. The next required funding valuation is expected to be completed as at December 31, 2011.

The Company does not expect any difficulty in its ability to meet current or 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 June 30, 2011, 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)	38.6	0.1	-	38.5	-
First Mortgage Sinking Fund Bonds [1]	463.7	5.2	10.4	38.6	409.5
Total	502.3	5.3	10.4	77.1	409.5

[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.

	June 30, 2011		December 31, 2010	
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 have issued updated credit rating reports this year confirming the Company's existing investment grade bond rating and rating outlook. The Company's investment grade bond rating and rating outlook from DBRS and Moody's remain unchanged from 2010.

Newfoundland Power manages common share dividends to maintain a capital structure composed of 55 per cent debt and preference equity and 45 per cent 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.

	June 30, 2011		December 31, 2010	
	$millions	**%**	**$millions**	**%**
Total Debt [1]	499.3	54.5	471.3	53.5
Common Equity	408.0	44.5	400.5	45.5
Preference Equity	9.1	1.0	9.1	1.0
Total	916.4	100.0	880.9	100.0

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

The Company currently expects it will be able to maintain its current investment grade credit ratings in 2011.

Capital Stock and Dividends: During the second quarter and six months ended 2011 and 2010, the weighted average number of common shares outstanding was 10,320,270. Dividends on common shares, for 2011, compared to 2010, were $1.1 million higher for the second quarter and $2.3 million higher year-to-date. In 2011, common shares dividends increased to $0.49 per share compared to $0.38 per share in 2010 for the first and second quarters. The increase in common share dividends was to maintain an average capital structure that includes approximately 45 per cent common equity.

The Company redeemed 2,000 Series D preference shares outstanding for $20,000 in June 2011.

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 second quarter and six months ended 2011 and 2010 follow:

	Three Months Ended June 30		Six Months Ended June 30	
($millions)	2011	2010	2011	2010
Revenue [1]	1.1	1.1	2.4	2.4
Operating expenses	0.4	0.8	1.2	1.2

[1] *Includes charges for electricity consumed.*

Related party transactions included in accounts receivable at June 30, 2011 were $0.1 million, consistent with December 31, 2010.

FINANCIAL INSTRUMENTS

The carrying values of financial instruments included in current assets, current liabilities, other financial assets, and other financial liabilities approximate their fair value, reflecting their nature, short-term maturity or normal trade credit terms. The fair value of long-term debt is determined by discounting the future cash flows of each debt instrument at an estimated yield-to-maturity equivalent to benchmark government bonds, with similar terms to maturity, plus a market credit risk premium equal to that of issuers of similar credit quality. Since the Company does not intend to settle its debt instruments prior to 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 follow.

	June 30, 2011		December 31, 2010	
($millions)	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Long-term debt, including current portion and committed credit facility	502.2	591.7	478.7	581.3

BUSINESS RISK MANAGEMENT

There were no material changes to the Company's business risks during the second quarter of 2011.

FUTURE ACCOUNTING CHANGES

Adoption of New Accounting Standards: Due to continued uncertainty around the timing and adoption of a rate-regulated accounting standard by the International Accounting Standards Board, the Company is evaluating the option of adopting United States generally accepted accounting principles ("U.S. GAAP"), as opposed to International Financial Reporting Standards ("IFRS"), effective January 1, 2012. Canadian securities rules allow a reporting issuer to prepare and file its financial statements in accordance with U.S. GAAP by qualifying as a U.S. Securities and Exchange Commission ("SEC") Issuer. On June 6, 2011, an application was filed with the Ontario Securities Commission (the "OSC") seeking relief, pursuant to National Policy 11-203 – *Process for Exemptive Relief Applications in Multiple Jurisdictions*, to permit Fortis and its reporting issuer subsidiaries, including Newfoundland Power, to prepare their financial statements in accordance with U.S. GAAP without qualifying as an SEC Issuer ("the Exemption"). On June 9, 2011 the OSC granted the Exemption for financial years commencing on or after January 1, 2012 but before January 1, 2015, and interim periods therein. The Exemption will terminate in respect of financial statements for annual and interim periods commencing on or after the earlier of: (i) January 1, 2015; or (ii) the date on which the Company ceases to have activities subject to rate regulation.

The Company also requires an amendment in the *Corporations Act* (Newfoundland and Labrador) in order to prepare its financial statements in accordance with U.S. GAAP. The amendment has been requested, and a decision is expected during the third quarter 2011.

The adoption of U.S. GAAP in 2012 is expected to result in fewer significant changes in the Company's accounting policies as compared to accounting policy changes that may have resulted with the adoption of IFRS. U.S. GAAP guidance on accounting for rate-regulated activities allows the economic impact of rate-regulated activities to be recognized in the financial statements in a manner consistent with the timing by which amounts are reflected in customer rates. The Company believes that the continued application of rate-regulated accounting, and the associated recognition of regulatory assets and liabilities under U.S. GAAP, accurately reflects the impact that rate regulation has on the Company's financial position and results of operations.

The Company expects to conclude its evaluation of adoption of U.S. GAAP for all interim and annual periods beginning on or after January 1, 2012 during the third quarter of 2011. Several other Canadian investor-owned rate-regulated utilities are also expected to take a similar approach to adoption of U.S. GAAP in 2012. The Company intends to voluntarily prepare and file, in accordance with U.S. GAAP, its annual audited financial statements for the year ending December 31, 2011 and the comparative period. The voluntary filing is expected to be completed prior to March 31, 2012.

During the quarter, the Company substantially completed its analysis of differences between U.S. GAAP and Canadian GAAP. The areas identified to date where differences between U.S. GAAP and Canadian GAAP are expected to have the most significant financial statement impacts are as follows:

Employee future benefits: Under Canadian GAAP, the accrued benefit asset or liability associated with defined benefit pension plans and OPEBs is recognized on the balance sheet with a reconciliation of the recognized asset or liability to the funded or unfunded status being disclosed in the notes to the financial statements. The accrued benefit asset or liability excludes unamortized balances related to past service costs, actuarial gains or losses and transitional obligations which have not yet been expensed.

U.S. GAAP requires recognition of the funded or unfunded status of defined benefit pension plans and OPEBs on the balance sheet. This is expected to result in several one-time adjustments upon adoption of U.S. GAAP.

1. The opening unamortized balances for transitional obligations associated with defined benefit pension plans, and the majority of the opening unamortized transitional obligation for OPEBs are required to be recorded as a reduction to retained earnings and the amortization of these opening transitional balances would no longer be included in the calculation of future pension expense. Newfoundland Power would expect to record these balances as a regulatory asset to be recovered from customers in future rates, the disposition of which would depend on a future PUB order.

2. Opening unamortized balances related to past service costs, actuarial gains or losses and the remaining portion of the OPEBs transitional obligation are required to be recorded as a reduction to equity and classified as accumulated other comprehensive income on the balance sheet. The amortization of these balances will be included in the calculation of future pension expense. Newfoundland Power would expect to reclassify these balances as a regulatory asset on the balance sheet, subject to PUB approval.

The other significant difference between Canadian GAAP and U.S. GAAP relates to the period over which pension expense is recognized. Canadian GAAP allows a period that extends beyond the date when the credited service period ends. U.S. GAAP limits the period up to the date when the credited service period ends. Newfoundland Power would expect to recognize the cumulative difference up to the transition to U.S. GAAP as a regulatory asset to be recovered from customers in future rates, and the disposition of this regulatory asset would depend on a future PUB order. The shorter period over which pension expense is recognized is expected to result in an increase to future pension expense, although the difference is expected to be immaterial.

The impact of adopting U.S. GAAP with respect to accounting for employee future benefits is not expected to have a material impact on the Company's earnings.

Corporate income taxes: Under Canadian GAAP, the Company has recognized corporate income taxes using substantially enacted corporate income tax rates. Under U.S. GAAP, the Company is required to record corporate income taxes based on enacted corporate income tax rates. Therefore, upon adoption of U.S. GAAP, the Company will be required to recognize the impact of the difference between enacted tax rates and substantially enacted tax rates related to the allocation of the Part VI.1 tax deduction from Fortis to Newfoundland Power. The retroactive adjustment to recognize the Part VI.1 tax deduction based on enacted corporate income tax rates under U.S. GAAP will result in a reduction in opening retained earnings. Annual earnings thereafter will also be impacted by the Part VI.1 tax deduction, should this deduction be allocated to the Company in future periods. However, the amount of the adjustments is expected to reverse as corporate taxation years become statute barred or once pending Canadian federal legislation is passed resulting in the enactment of the proposed corporate income tax rate changes. This difference in income tax rates applies to the Company's non-regulated expenditures, and as such would not qualify as a regulatory asset.

Adjustments to retained earnings based on the application of U.S. GAAP are not expected to affect Newfoundland Power's credit ratings or debt covenants.

The above items do not represent a complete list of expected differences between U.S. GAAP and Canadian GAAP. Analysis remains on-going and additional areas where the Company's financial statements may be materially impacted could be identified. Any additional areas where significant adjustments may be required will be disclosed as they are determined. As previously indicated, no material adjustments to the Company's earnings under U.S. GAAP are currently expected due to the Company's continued ability to apply rate-regulated accounting policies.

Should the Company not adopt U.S. GAAP, Newfoundland Power will be required to adopt IFRS effective January 1, 2012.

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

	Second Quarter June 30		First Quarter March 31		Third Quarter September 30		Fourth Quarter December 31	
	2011	2010	2011	2010	2010	2009	2010	2009
Electricity Sales *(GWh)*	1,268.7	1,220.2	1,833.8	1,795.2	915.4	885.0	1,488.2	1,473.9
Revenue *($millions)*	132.5	126.2	183.0	178.3	99.0	92.9	151.5	146.5
Earnings Applicable to Common Shares *($millions)*	10.7	11.0	7.0	7.2	7.6	7.1	9.2	8.6
Earnings per Common Share *($)* [1]	1.03	1.06	0.68	0.70	0.74	0.68	0.89	0.84

[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.

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. Newfoundland Power expects to maintain its investment grade credit ratings in 2011. The Company is currently assessing the requirement for it to file an application with the PUB to recover expected increased costs in 2012.

Customer Rates:

July 1, 2011 Rate Increase: Effective July 1, 2011, there was an overall average increase in electricity rates charged to customers of approximately 7.7 per cent. The increase was primarily a result of the normal annual operation of Hydro's Rate Stabilization Plan. Variances in the cost of fuel used to generate electricity Hydro sells to Newfoundland Power are captured and flowed-through to the Company's customers through the operation of its Rate Stabilization Account ("RSA"). Over the past 12 months, the price of oil required for electricity generation by Hydro was higher than forecasted. The operation of the RSA further captures variances in Newfoundland Power's costs such as pension cost variances and energy supply cost variances. The increase in customer rates will have no impact on earnings for Newfoundland Power.

Newfoundland and Labrador Energy Rebate: As part of its 2011 Budget, the Government of Newfoundland and Labrador introduced the Energy Rebate which will result in the 8 per cent provincial portion of the HST on home energy purchases, including electricity, being refunded to residential customers. The details regarding the Energy Rebate's application and implementation date are expected to be finalized over the summer months for implementation in early fall 2011.

Optional Seasonal Rate for Domestic Customers: Effective July 1, 2011, an optional seasonal rate for Domestic Customers was introduced. This optional seasonal rate charges a higher price for electricity during the months of December to April and a lower rate for May to November. On April 13, 2011, the PUB approved the application put forth by the Company for the approval of (i) the Optional Seasonal Rate, (ii) 2011 capital expenditures required to facilitate implementation of the Optional Seasonal Rate, and (iii) an Optional Rates Revenue and Cost Recovery Account that provides for the deferral of annual costs and revenue effects associated with implementing optional rates.

Capital Plan: On July 8, 2011, the Company filed an application with the PUB requesting approval for its 2012 capital expenditure plan totalling $77.3 million. The application is currently under review by the PUB.

Support Structure Arrangement: On January 1, 2011, the new support structure arrangements with Bell Aliant went into effect. Bell Aliant will buy back 40 per cent of all joint-use poles and related infrastructure at a price of approximately $45.7 million. This represents approximately 5 per cent of Newfoundland Power's rate base. In 2001, Newfoundland Power purchased Bell Aliant's (formerly Aliant Telecom Inc.) joint-use poles and related infrastructure under a 10-year Joint Use Facilities Partnership Agreement ("JUFPA") which expired December 31, 2010. Bell Aliant has rented space on these poles from Newfoundland Power since 2001 with the right to repurchase 40 per cent of all joint-use poles at the end of the term. Bell Aliant exercised the option to buy back these poles from Newfoundland Power in 2010.

On July 22, 2011, the PUB issued an order that denied the Company's application requesting approval of the sale of the joint-use poles. The PUB indicated there was lack of evidence to support the customer benefits with this transaction. The Company is presently reviewing the order and its options including whether to appeal the PUB decision or file further evidence to support the PUB's reconsideration of the proposed sale.

The new support structure arrangements are subject to certain conditions, including PUB approval of the sale of 40 per cent of the Company's joint-use poles, which was to be met by both parties by June 30, 2011, or either party could terminate the new arrangements. At this time, the purchase price continues to be held in escrow and the Company is negotiating with the Purchaser to facilitate the successful completion of the transaction. In the event of termination the rights and recourses under the JUFPA will remain in effect for both parties.

Due to the timing of the PUB decision, and the range of options available, it is not practicable at this time to determine the financial impact, if any, the decision has on the Company.

The Company has recorded assets held for sale in the amount of $44.7 million which represents the estimated purchased price less cost to sell. The estimated purchase price will be adjusted upon completion of a pole survey later this year. Effective January 1, 2011, the Company is no longer receiving pole rental revenue from Bell Aliant. Newfoundland Power is responsible for the construction and maintenance of Bell Aliant's support structure requirements throughout 2011. The new support structure arrangements are not expected to materially impact the Company's ability to earn a reasonable return on its rate base in 2011. The Company anticipates the proceeds from this transaction will be used to pay down its short-term debt and maintain its capital structure of 45 per cent common equity.

CORPORATE INFORMATION

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

Fortis is the largest investor-owned distribution utility in Canada, with total assets of approximately $13.0 billion and fiscal 2010 revenue totalling approximately $3.7 billion. The Corporation serves more than 2,000,000 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 Upper New York State. It also owns hotels and commercial office and retail space primarily in Atlantic 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.

For further information, contact:

Jocelyn Perry, Vice President, Finance & CFO
Newfoundland Power Inc.
P.O. Box 8910, St. John's, NL A1B 3P6
Tel: (709) 737-2812
Fax: (709) 737-5300
email: jperry@newfoundlandpower.com

Share Transfer Agent and Registrar:

Computershare Trust Company of Canada
1500 University Street, Suite 700
Montreal, QC H3A 3S8
Tel: (514) 982-7888
Fax: (514) 982-7635
www.computershare.com

Website: www.newfoundlandpower.com

Unaudited Statements of Earnings
For the Three and Six Month Periods Ended June 30
(in thousands of Canadian dollars, except per share amounts)

	Three Months Ended		Six Months Ended	
	2011	2010	2011	2010
Revenue	$ 132,498	$ 126,199	$ 315,464	$ 304,473
Purchased power	79,575	74,616	213,602	205,804
Gross Margin	52,923	51,583	101,862	98,669
Operating expenses	13,252	12,725	28,034	26,449
Employee future benefits *(Note 11)*	5,169	2,081	10,293	4,121
Amortization	10,494	10,779	20,721	21,175
Amortization true-up deferral	-	966	-	1,931
Cost recovery deferral *(Note 3)*	(591)	-	(1,182)	-
Finance charges *(Note 5)*	9,036	8,977	18,060	17,969
	37,360	35,528	75,926	71,645
Earnings Before Income Taxes	15,563	16,055	25,936	27,024
Income taxes *(Note 6)*	4,771	4,933	8,022	8,567
Net Earnings	10,792	11,122	17,914	18,457
Preference share dividends	142	142	284	284
Net Earnings Applicable to Common Shares	$ 10,650	$ 10,980	$ 17,630	$ 18,173
Basic and Diluted Earnings per Common Share	$ 1.03	$ 1.06	$ 1.71	$ 1.76

Unaudited Statements of Retained Earnings
For the Three and Six Month Periods Ended June 30
(in thousands of Canadian dollars)

	Three Months Ended		Six Months Ended	
	2011	2010	2011	2010
Balance, Beginning of the Period	$ 332,104	$ 314,133	$ 330,181	$ 310,864
Net earnings	10,792	11,122	17,914	18,457
Dividends				
Preference shares	(142)	(142)	(284)	(284)
Common shares	(5,057)	(3,921)	(10,114)	(7,845)
Balance, End of the Period	$ 337,697	$ 321,192	$ 337,697	$ 321,192

See accompanying notes to financial statements.

Unaudited Balance Sheets
As at
(in thousands of Canadian dollars)

	June 30, 2011	December 31, 2010
Assets		
Current assets		
Cash	$ -	$ 4,182
Accounts receivable	72,915	61,654
Regulatory assets *(Note 3)*	14,675	11,536
Materials and supplies	1,092	992
Prepaid expenses	787	1,327
	89,469	79,691
Property, plant and equipment	786,842	776,382
Regulatory assets *(Note 3)*	177,742	175,593
Accrued pension	96,633	97,755
Assets held for sale *(Note 7)*	44,698	44,698
Intangible assets	15,257	15,310
Other assets	1,541	1,647
	$ 1,212,182	$ 1,191,076
Liabilities and Shareholders' Equity		
Current liabilities		
Bank indebtedness	$ 255	$ -
Short-term borrowings	89	-
Accounts payable and accrued charges	46,163	64,269
Regulatory liabilities *(Note 3)*	1,541	-
Current instalments of long-term debt *(Note 8)*	5,200	5,200
Future income taxes *(Note 6)*	3,100	3,211
Income tax payable	2,953	4,302
	59,301	76,982
Regulatory liabilities *(Note 3)*	62,846	57,371
Other post-employment benefits	54,481	52,559
Other liabilities	4,294	4,253
Future income taxes *(Note 6)*	120,351	120,016
Long-term debt *(Note 8)*	493,800	470,282
	795,073	781,463
Shareholders' equity		
Common shares	70,321	70,321
Preference shares	9,091	9,111
Retained earnings	337,697	330,181
	417,109	409,613
	$ 1,212,182	$ 1,191,076

Commitments *(Note 12)*

Subsequent Event *(Note 13)*

See accompanying notes to financial statements.

Unaudited Statements of Cash Flows
For the Three and Six Month Periods Ended June 30
(in thousands of Canadian dollars)

	Three Months Ended		Six Months Ended	
	2011	**2010**	**2011**	**2010**
Cash From Operating Activities				
Net earnings	$ 10,792	$ 11,122	$ 17,914	$ 18,457
Items not affecting cash				
Amortization of property, plant and equipment	9,887	10,069	19,508	19,756
Amortization of intangible assets & other	683	767	1,361	1,533
Change in regulatory assets and liabilities	1,012	1,800	3,164	4,229
Future income taxes	(1,040)	649	(2,449)	(317)
Employee future benefits	2,414	455	3,149	(734)
	23,748	24,862	42,647	42,924
Change in non-cash working capital	(14,984)	(6,310)	(30,276)	(18,264)
	8,764	18,552	12,371	24,660
Cash Used In Investing Activities				
Capital expenditures	(16,312)	(19,306)	(29,553)	(35,613)
Intangible asset expenditures	(743)	(556)	(1,160)	(968)
Contributions from customers	637	352	822	890
Other	86	129	42	128
	(16,332)	(19,381)	(29,849)	(35,563)
Cash From (Used In) Financing Activities				
Change in short-term borrowings	(436)	675	89	675
Net credit facilities borrowings	10,500	1,000	23,500	12,500
Payment of debt financing costs	(130)	-	(130)	-
Redemption of preference shares	(20)	-	(20)	-
Dividends				
Preference shares	(142)	(142)	(284)	(284)
Common shares	(5,057)	(3,921)	(10,114)	(7,845)
	4,715	(2,388)	13,041	5,046
Decrease in Cash	(2,853)	(3,217)	(4,437)	(5,857)
Cash, Beginning of the Period	2,598	2,668	4,182	5,308
Bank indebtedness, End of the Period	$ (255)	$ (549)	$ (255)	$ (549)
Cash flows include the following elements:				
Interest paid	$ 12,859	$ 12,881	$ 18,079	$ 18,080
Income taxes paid	$ 7,538	$ 3,427	$ 10,981	$ 6,337

See accompanying notes to financial statements.

Unaudited Notes to Interim Financial Statements

For the Three and Six Months Ended June 30, 2011 and 2010 (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 Canadian generally accepted accounting principles ("Canadian 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 2010 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 2010 annual audited financial statements.

2. Future Accounting Changes

Effective January 1, 2012, the Company will be required to adopt a new set of accounting standards. Publicly accountable enterprises in Canada were required to adopt International Financial Reporting Standards ("IFRS") effective January 1, 2011; however, qualifying entities with rate-regulated activities were granted an optional one-year deferral for the adoption of IFRS, due to continued uncertainty around the timing and adoption of a rate-regulated accounting standard by the International Accounting Standards Board ("IASB"). As a qualifying entity with rate-regulated activities, the Company has elected to opt for the one-year deferral and, therefore, will continue to prepare its financial statements in accordance with Part V of the Canadian Institute of Chartered Accountants Handbook for all interim and annual periods ending on or before December 31, 2011.

Due to continued uncertainty around the timing and adoption of a rate-regulated accounting standard by the IASB, the Company is evaluating the option of adopting United States generally accepted accounting principles ("U.S. GAAP"), as opposed to IFRS, effective January 1, 2012. Canadian securities rules allow a reporting issuer to prepare and file its financial statements in accordance with U.S. GAAP by qualifying as a U.S. Securities and Exchange Commission ("SEC") Issuer. On June 6, 2011 an application was filed with the Ontario Securities Commission (the "OSC") seeking relief, pursuant to National Policy 11-203 – *Process for Exemptive Relief Applications in Multiple Jurisdictions*, to permit Fortis and its reporting issuer subsidiaries, including Newfoundland Power, to prepare their financial statements in accordance with U.S. GAAP without qualifying as an SEC Issuer ("the Exemption"). On June 9, 2011 the OSC granted the Exemption for financial years commencing on or after January 1, 2012 but before January 1, 2015, and interim periods therein. The Exemption will terminate in respect of financial statements for annual and interim periods commencing on or after the earlier of: (a) January 1, 2015; or (b) the date on which the Company ceases to have activities subject to rate regulation.

The Company also requires an amendment in the *Corporations Act* (Newfoundland and Labrador) in order to prepare its financial statements in accordance with U.S. GAAP. A request for this amendment has been submitted.

The adoption of U.S. GAAP in 2012 is expected to result in fewer significant changes to the Corporation's accounting policies as compared to accounting policy changes that may have resulted from the adoption of IFRS. U.S. GAAP guidance on accounting for rate-regulated activities allows the economic impact of rate-regulated activities to be recognized in the financial statements in a manner consistent with the timing by which amounts are reflected in customer rates. The Company believes that the continued application of rate-regulated accounting, and the associated recognition of regulatory assets and liabilities under U.S. GAAP, accurately reflects the impact that rate regulation has on the Company's financial position and results of operations.

3. Regulatory Assets and Liabilities

As a result of rate regulation, the timing of the recognition of certain revenues and expenses for Newfoundland Power differs from that otherwise expected under Canadian GAAP for entities not subject to rate regulation. The underlying accounting practices, which result in the recognition of regulatory assets and regulatory liabilities, are disclosed in Notes 2 and 4 to the Company's 2010 annual audited financial statements.

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

	June 30, 2011		December 31, 2010	
	Current	Non-Current	Current	Non-Current
Regulatory Assets				
Rate stabilization account ("RSA")	$ 5,097	$ 228	$ 1,847	$ 1,876
Other Post Employment Benefits ("OPEBs")	3,504	47,304	3,504	49,055
Weather normalization account	2,102	1,051	2,102	2,102
Pension deferral	1,128	3,101	1,128	3,665
Deferred GRA costs	253	127	253	253
Energy supply cost variance reserve	-	3,722	-	-
Conservation and demand management deferral	339	509	339	678
Cost recovery deferral[1]	-	1,182	-	-
Future income taxes	2,252	120,518	2,363	117,964
	$ 14,675	$ 177,742	$ 11,536	$ 175,593
Regulatory Liabilities				
Pension expense variance deferral account	$ 1,444	$ -	$ -	$ -
OPEBs cost variance deferral account[2]	97	-	-	-
Demand management incentive account	-	581	-	994
Future removal and site restoration provision	-	50,722	-	49,485
Weather normalization account	-	11,543	-	6,892
	$ 1,541	$ 62,846	$ -	$ 57,371

[1] *Effective January 1, 2011, the PUB ordered the deferred recovery of $2,363,000 due to the conclusion of regulatory amortizations associated with unbilled revenue, municipal tax liability, amortization true-up deferral, replacement energy deferral, purchased power unit cost variance deferral, and deferred GRA costs, of which $1,182,000 has been recorded to June 30, 2011. The disposition of balances in this account will be determined by a further order of the PUB.*

[2] *Effective January 1, 2011, the PUB ordered the creation of an OPEBs cost variance deferral account. This account will be charged or credited with the amount by which annual OPEBs expense, recorded in accordance with Canadian GAAP, differs from amounts approved in rates by the PUB. Each year, at March 31, the balance in the OPEBs cost variance deferral account will be transferred and disposed of through the Company's RSA.*

4. 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.

5. Finance Charges

	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
Interest - first mortgage sinking fund bonds	$ 8,887	$ 8,987	$ 17,773	$ 17,975
Interest - committed credit facility	229	79	395	129
Interest - other	11	10	14	11
Total interest expense	9,127	9,076	18,182	18,115
Amortization – debt issue costs	48	47	95	95
Amortization – committed credit facility costs	28	-	53	-
Amortization – capital stock issue costs	-	10	-	19
Allowance for funds used during construction ("AFUDC")	(167)	(156)	(270)	(260)
	$ 9,036	$ 8,977	$ 18,060	$ 17,969

6. Income Taxes

Income taxes vary from the amount that would be determined by applying statutory income tax rates to pre-tax earnings. A reconciliation of the combined federal and provincial statutory income tax rate to the Company's effective income tax rate follows.

	Six Months Ended June 30	
	2011	2010
Accounting income per financial statements	$ 25,936	$ 27,024
Statutory tax rate	30.5%	32.0%
Expected tax expense (*statutory rate)*	7,910	8,648
Items capitalized vs. expensed	(651)	(649)
Capital cost allowance vs. amortization	600	702
Pension funding vs. pension expense	24	(27)
OPEB benefits paid vs. OPEB expense	55	-
Other timing differences	48	55
Unbilled revenue	-	(730)
Regulatory deferrals	36	568
Income tax expense	$ 8,022	$ 8,567
Effective tax rate	30.9%	31.7%

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

	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
Current income tax expense	$ 5,811	$ 4,284	$ 10,471	$ 8,884
Future income tax expense	156	(708)	224	(49)
Regulatory adjustment	(1,196)	1,357	(2,673)	(268)
	$ 4,771	$ 4,933	$ 8,022	$ 8,567

6. Income Taxes (cont'd)

The composition of the Company's future income tax liability follows:

	June 30, 2011	December 31, 2010
Future income tax liability (asset)		
Property, plant and equipment/intangibles	$ 107,240	$ 102,964
Regulatory assets	24,864	25,988
Regulatory liabilities	(25,687)	(23,463)
Employee future benefits	15,847	16,541
Debt financing costs	1,187	1,197
Net future income tax liability	$ 123,451	$ 123,227
Current future income tax liability	3,100	3,211
Long-term future income tax liability	120,351	120,016
Net future income tax liability	$ 123,451	$ 123,227

As at June 30, 2011, the Company had no capital losses (2010 - Nil) carried forward.

7. Assets Held for Sale

On December 22, 2010 the Company signed new support structure arrangements, effective January 1, 2011, with Bell Aliant (formerly Aliant Telecom Inc.) where Bell Aliant will buy back 40 per cent of all joint-use poles and related infrastructure at a price of approximately $45.7 million. This represents approximately 5 per cent of Newfoundland Power's rate base. In 2001, Newfoundland Power purchased the joint-use poles and related infrastructure under a 10-year Joint Use Facilities Partnership Agreement ("JUFPA") which expired December 31, 2010. Bell Aliant has rented space on these poles from Newfoundland Power since 2001 with the right to repurchase 40 per cent of all joint-use poles at the end of the term. Bell Aliant exercised the option to buy back these poles from Newfoundland Power.

At December 31, 2010, the Company recorded assets held for sale in the amount of $44.7 million which represents the estimated purchased price less cost to sell. The estimated purchased price is expected to be adjusted upon completion of a pole survey in 2011. Effective January 1, 2011, as a result of the sale, the Company will no longer be receiving pole rental revenue from Bell Aliant. However, Newfoundland Power will be responsible for the construction and maintenance of Bell Aliant's support structures throughout 2011.

The new support structure arrangements are subject to certain conditions, including PUB approval of the sale of 40 per cent of the Company's joint-use poles, which were to be met by June 30, 2011, or either party could terminate the new arrangements. In the event of termination, the rights and recourses under the JUFPA will remain in effect for both parties. On July 22, 2011, the PUB issued an order that denied the Company's application requesting approval of the sale of the joint-use poles. At this time, the purchase price continues to be held in escrow and the Company is negotiating with the Purchaser to facilitate the successful completion of the transaction (Note 13).

8. Long-term Debt

	June 30, 2011	December 31, 2010
First mortgage sinking fund bonds	$ 463,688	$ 463,688
Committed credit facility	38,500	15,000
	502,188	478,688
Less: current instalments of long-term debt	5,200	5,200
	496,988	473,488
Less: debt issue costs	3,188	3,206
	$ 493,800	$ 470,282

9. Capital Management

Newfoundland Power's primary objectives when managing capital are (i) to ensure continued access to capital at reasonable cost and (ii) to provide an adequate return to its common shareholder commensurate with the level of risk associated with the shareholder's investment in the Company.

The Company requires ongoing access to capital because its business is capital intensive. Capital investment is required to ensure continued and enhanced performance, reliability and safety of its electricity system and to meet customer growth.

The Company operates under cost of service regulation. The cost of capital is ultimately borne by its customers. Access to capital at reasonable cost is a core aspect of the Company's business strategy, which is to operate a sound electricity system and to focus on the safe, reliable delivery of electricity service to its customers in the most cost-efficient manner possible.

The capital managed by the Company is composed of debt (first mortgage sinking fund bonds, bank credit facilities, short-term borrowings and cash/bank indebtedness), common equity (common shares and retained earnings) and preference equity.

The Company has historically generated sufficient cash flows from operating activities to service interest and sinking fund payments on debt, 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 basic cash flow and financial dynamics over the foreseeable future, with the exception of an increase in cash flow from the joint-use pole sale (Note 7) which is expected to extend the timing of the next bond issue.

Newfoundland Power endeavours to maintain a capital structure composed of approximately 55 per cent debt and preference equity and 45 per cent common equity. This capital structure is reflected in customer rates. It is also consistent with the Company's current investment grade credit ratings, thereby ensuring continued access to capital at reasonable cost. The Company maintains this capital structure primarily by managing its common share dividends.

A summary of the Company's capital structure follows.

	June 30, 2011		December 31, 2010	
	$	%	$	%
Debt [1]	499,344	54.5	471,300	53.5
Common equity	408,018	44.5	400,502	45.5
Preference equity	9,091	1.0	9,111	1.0
	916,453	100.0	880,913	100.0

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

The issuance of debt with a maturity that exceeds one year requires the prior approval of the Company's regulator. The issuance of first mortgage sinking fund bonds is subject to an earnings covenant whereby the ratio of (i) annual earnings applicable to common shares, before bond interest and tax, to (ii) annual bond interest incurred plus annual bond interest to be incurred on the contemplated bond issue, must be two times or higher. Under its committed credit facility, the Company must also ensure that its Debt to Capitalization ratio does not exceed 0.65:1.00 at any time. At June 30, 2011, the Company was in compliance with all of its debt covenants.

10. Financial Instruments

The Company has designated its financial instruments as follows:

	June 30, 2011		December 31, 2010	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Held for trading				
Cash	$ -	$ -	$ 4,182	$ 4,182
Bank indebtedness	255	255	-	-
Loans and receivables				
Accounts receivable	72,915	72,915	61,654	61,654
Customer finance plans [1]	1,541	1,541	1,647	1,647
Other financial liabilities				
Short-term borrowings	89	89	-	-
Accounts payable and accrued charges	46,163	46,163	64,269	64,269
Security deposits [2]	641	641	705	705
Long-term debt, including current portion and committed credit facility	$ 502,188	$ 591,735	$ 478,688	$ 581,275

[1] *Included in other assets on the balance sheet.*
[2] *Included in other liabilities on the balance sheet.*

Fair Values: The fair value of long-term debt, including current portion and committed credit facility, 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 market 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.

The fair value of the Company's remaining financial instruments approximates their carrying value, reflecting their nature, short-term maturity or normal trade credit terms.

The fair value of the Company's financial instruments reflect 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 flow.

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.

The aging of accounts receivable and amounts owing under customer finance plans, past due but not impaired, follow.

	June 30, 2011	December 31, 2010	June 30, 2010
Not past due	$ 29,827	$ 31,947	$ 25,592
Past due 1-30 days	31,241	24,654	26,153
Past due 31-60 days	10,415	5,351	8,028
Past due 61-90 days	2,631	1,148	2,107
Past due over 90 days	342	201	450
	$ 74,456	$ 63,301	$ 62,330

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 and repayment of maturing debt.

10. Financial Instruments (cont'd)

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.

Newfoundland Power manages short-term liquidity risk primarily by maintaining bank credit facilities. The Company has unsecured facilities of $120.0 million, composed of a syndicated $100.0 million committed revolving term credit facility and a $20.0 million demand facility.

Newfoundland Power manages long-term liquidity risk primarily by maintaining its investment grade credit ratings.

As at June 30, 2011, the fair value of the Company's primary defined benefit pension plan assets was $272.9 million compared to fair value of plan assets of $269.3 million as at December 31, 2010.

Based on the Actuarial Valuation Report as at December 31, 2008, the solvency deficit was $6.9 million ($7.7 million inclusive of interest). The solvency deficit is required to be funded over a five-year period, which commenced in 2009. The Company has fulfilled its 2011 annual solvency deficit funding requirement of $1.5 million during the second quarter of 2011. The Company does not expect any difficulty in its ability 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.

The contractual maturities of the Company's financial liabilities at June 30, 2011 follow.

($millions)	Total	Due Within 1 Year	Due in Years 2 & 3	Due in Years 4 & 5	Due After 5 Years
Accounts payable and accrued charges	45.7	45.7	-	-	-
Security deposits[1]	1.1	0.5	0.6	-	-
Credit facilities *(unsecured)*	38.6	0.1	-	38.5	-
Interest on first mortgage sinking fund bonds and committed credit facility	530.3	36.1	70.5	63.0	360.7
First mortgage sinking fund bonds [2]	463.7	5.2	10.4	38.6	409.5
	1,079.4	87.6	81.5	140.1	770.2

1 *Included in accounts payable and accrued charges and other liabilities.*

2 *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.*

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. For the six month period ended June 30, 2011, each 25 basis points change in interest rates on the Company's credit facilities would have caused a $26,000 change in credit facility interest costs and a $18,000 change in earnings (2010 - $22,000 and $15,000, respectively).

The Company periodically refinances its credit facilities in the normal course with fixed-rate first mortgage sinking fund bonds which significantly mitigate the 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 does not expect to issue any additional long-term debt during 2011.

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. Effective January 1, 2010, pursuant to the 2010 GRA, the operation of PEVDA is expected to significantly mitigate the impact on the Company's pension expense.

11. Employee Future Benefits

The total amount of defined benefit pension plan expense recognized for the three months ended June 30, 2011 was $2.5 million (2010 - $1.5 million). For the six months ended June 30, 2011, the cost was $5.0 million (2010 - $3.1 million).

The composition of the Company's employee future benefits is as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
Pension and early retirement program	$ 2,918	$ 1,884	$ 5,780	$ 3,731
OPEBs Costs	2,251	197	4,513	390
	$ 5,169	$ 2,081	$ 10,293	$ 4,121

12. Commitments

There were no material changes in the nature and amount of the Company's commitments from the commitments disclosed in the Company's 2010 annual audited financial statements.

13. Subsequent Event

On July 22, 2011, the PUB issued an order that denied the Company's application requesting approval of the sale of the joint-use poles (Note 7). The PUB indicated there was lack of evidence to support the customer benefits with this transaction. The Company is presently reviewing the order and its options including whether to appeal the PUB decision or file further evidence to support the PUB's reconsideration of the proposed sale.

At this time, the purchase price continues to be held in escrow and the Company is negotiating with the Purchaser to facilitate the successful completion of the transaction. Due to the timing of the PUB decision, and the range of options available, it is not practicable at this time to determine the financial impact, if any, the decision has on the Company.

14. Comparative Figures

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