NEWFOUNDLAND POWER
A FORTIS COMPANY

Third Quarter 2011

INTERIM MANAGEMENT DISCUSSION and ANALYSIS
For the Three and Nine Month Periods Ended September 30, 2011

Dated November 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 nine month periods ended September 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 over 246,000 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 September 30			Nine Months Ended September 30		
	2011	2010	Change	2011	2010	Change
Electricity Sales *(gigawatt hours, ("GWh"))* [1]	923.7	915.4	8.3	4,026.2	3,930.8	95.4
Earnings Applicable to Common Shares						
$ Millions	8.0	7.6	0.4	25.7	25.8	(0.1)
$ Per Share	0.78	0.74	0.04	2.49	2.50	(0.01)
Cash Flow from Operating Activities *($millions)*	46.4	44.9	1.5	58.8	69.6	(10.8)
Total Assets *($millions)*				1,210.7	1,158.4	52.3

[1] *Reflects weather normalized electricity sales.*

Electricity sales for the third quarter of 2011 increased by 8.3 GWh or approximately 0.9 per cent compared to the third quarter of 2010. This increase was composed of an increase of 1.6 per cent in customer growth partially offset by a 0.7% decrease in average consumption. On a year-to-date basis, electricity sales increased by 95.4 GWh or approximately 2.4 per cent. This increase was composed of (i) a 1.6 per cent increase due to customer growth; and, (ii) a 0.8 per cent increase in average consumption.

Earnings for the third quarter of 2011 increased by $0.4 million compared to the third quarter of 2010. The increase in earnings was primarily the result of lower operating expenses. The third quarter 2010 operating costs were higher due to Hurricane Igor. Also contributing to the increase was higher electricity sales, decreased amortization expense and a lower effective tax rate. These amounts were partially offset by a lower ROE embedded in customer rates effective January 1, 2011, and a decrease in other income related to the new support structure arrangements with Bell Aliant.

On a year-to-date basis, earnings were $0.1 million lower 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, and a decrease in other income related to the new support structure arrangements with Bell Aliant. These amounts were partially offset by higher electricity sales, decreased amortization expense, and a lower effective tax rate. Operating expenses are consistent with the prior year, as costs associated with Hurricane Igor in 2010 were primarily offset by wage and inflationary increases, higher training and personal illness costs, and higher professional fees associated with the Company's adoption of new accounting standards in 2012.

Year-to-date cash from operating activities decreased by $10.8 million compared to 2010. This decrease was mainly a result of higher income tax payments and lower joint-use pole charges received as a result of the new support structure arrangements with Bell Aliant effective January 2011. This was partially offset by the January 1, 2011 customer rate increase and higher electricity sales. During the third quarter, these amounts were offset by timing of cash collections, primarily related to the Canada Post strike in June 2011.

Total assets increased by $52.3 million at September 30, 2011 compared to September 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 regulatory assets, due to the normal operation of various regulatory mechanisms, and an increase in accounts receivable related to higher electricity sales and customer rates as well as amounts receivable from Bell Aliant as part of the new support structure arrangements effective January 1, 2011.

RESULTS OF OPERATIONS

Revenue:

($millions)	Three Months Ended September 30 2011	2010	Change	Nine Months Ended September 30 2011	2010	Change
Revenue from Rates	97.5	94.7	2.8	406.1	390.5	15.6
Amortization of Regulatory Liabilities and Deferrals	0.8	1.3	(0.5)	2.3	4.0	(1.7)
Other Revenue [1]	2.9	3.0	(0.1)	8.3	9.0	(0.7)
Total	101.2	99.0	2.2	416.7	403.5	13.2

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

Revenue from rates for the third quarter of 2011 increased by $2.8 million compared to the third quarter of 2010. On a year-to-date basis, revenue from rates increased $15.6 million compared to the same period last year. The increase primarily reflects the 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 $0.1 million lower in the third quarter and $0.7 million lower year-to-date. The decrease primarily related to the new support structure arrangements with Bell Aliant effective January 1, 2011. See Outlook Section of this MD&A.

Purchased Power: Purchased Power expense for the third quarter of 2011 increased by $2.4 million compared to the third quarter of 2010. Year-to-date 2011, purchased power expense was $10.2 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 third quarter of 2011 were $1.7 million lower than the third quarter of 2010. The third quarter 2010 operating expenses were higher due to Hurricane Igor. Excluding the impact of Hurricane Igor, operating expenses were $0.2 million higher than the third quarter of 2010, primarily due to wage and inflationary increases in 2011.

Year-to-date 2011 operating expenses were $0.1 million lower than the same period last year. The decrease was mainly the result of labour and distribution maintenance costs associated with Hurricane Igor as well as higher retirement and severance expenses in 2010. Excluding the impact of Hurricane Igor, operating expenses were $1.8 million higher than the same period last year. The increase related to wage and inflationary increases, higher costs associated with training and personal illness, and higher professional fees associated with the Company's adoption of new accounting standards in 2012.

Employee Future Benefits: Employee Future Benefits for the third quarter of 2011 were $3.0 million higher compared to the third quarter of 2010. Approximately $1.0 million of the increase related 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 $2.0 million relates to higher OPEBs costs. Effective January 1, 2011, pursuant to a PUB order, (i) the Company recognized OPEBs 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 $9.2 million higher than the same period last year. Approximately $3.0 million of the increase related to the amortization of experience losses from prior years and the lower discount rate at December 31, 2010 $6.2 million relates to higher OPEBs costs.

Amortization: Amortization expense for the third quarter of 2011 was $0.2 million lower compared to the third quarter of 2010. Year-to-date 2011, amortization expense was $0.6 million lower compared to the same period last year. The decrease was primarily due to lower depreciable assets resulting from the new support structure arrangements 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 third quarter, and $1.8 million year-to-date 2011.

Finance Charges: Finance charges for the third 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 third quarter of 2011 were $0.1 million lower than the third quarter of 2010. The quarterly decrease in income tax expense primarily reflects a lower effective income tax rate partially offset by a higher pre-tax earnings. Year-to-date 2011, income taxes were $0.7 million lower compared to the same period last year. The decrease in income tax expense reflects lower pre-tax earnings and a lower effective income tax rate. The lower 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 September 30, 2011 follow:

($millions)	Increase (Decrease)	Explanation
Accounts Receivable	(11.4)	Decrease is attributable to lower electricity sales in September 2011 compared to December 2010, reflecting the seasonal nature of electricity consumption for heating. This decrease was partially offset by (i) the January 1 and July 1, 2011 rate increases, (ii) amounts receivable from Bell Aliant as part of the new support structure arrangements effective January 1, 2011, and (iii) normal timing differences associated with the collection and payment of municipal taxes.
Regulatory Assets	9.8	Increase due to normal operation of various regulatory mechanisms. See Regulatory Assets and Liabilities (Note 3).
Accrued Pension	(2.5)	Pension expense has exceeded contributions made to the plan in 2011.
Property, Plant and Equipment	23.2	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	(12.7)	Decrease in payable for purchased power due to warmer weather and resulting lower consumption in September 2011 compared to December 2010, partially offset by an increase in accrued interest payable on long-term debt due to timing of interest payments.
Regulatory Liabilities	6.9	Increase primarily due to normal operation of the PEVDA and weather normalization account.
Other Post-Employment Benefits	2.6	Increase is related to accrual of benefits earned during 2011.
Future Income Taxes	3.9	Increase is primarily related to the future tax impact of the Company's capital expenditure program.
Long-term Debt, including Current Portion	10.1	Represents additional debt required to finance growth in rate base and ongoing operating activities.
Retained Earnings	10.5	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 third quarter and year-to-date cash flows and cash position for 2011 and 2010 follows:

	Three Months Ended September 30			Nine Months Ended September 30		
($millions)	2011	2010	Change	2011	2010	Change
(Bank Indebtedness) Cash, Beginning of Period	(0.3)	(0.5)	0.2	4.2	5.3	(1.1)
Operating Activities	46.4	44.9	1.5	58.8	69.6	(10.8)
Investing Activities	(23.2)	(18.9)	(4.3)	(53.1)	(54.5)	1.4
Financing Activities						
Net (Repayments) Borrowings	(13.6)	(18.7)	5.1	10.0	(5.5)	15.5
Dividends and Other	(5.2)	(4.4)	(0.8)	(15.8)	(12.5)	(3.3)
	(18.8)	(23.1)	4.3	(5.8)	(18.0)	12.2
Cash, End of Period	4.1	2.4	1.7	4.1	2.4	1.7

Operating Activities

Year-to-date cash from operating activities decreased by $10.8 million compared to 2010. This decrease was mainly a result of higher income tax payments and lower joint-use pole charges received as a result of the new support structure arrangements with Bell Aliant effective January 2011. This was partially offset by the January 1, 2011 customer rate increase and higher electricity sales. During the third quarter, these amounts were offset by timing of cash collections, primarily related to the Canada Post strike in June 2011.

Investing Activities

Third quarter cash flow used in investing activities, for 2011 compared to 2010, increased by $4.3 million. The quarterly increase was primarily a result of higher capital expenditures in 2011 compared to 2010. Year-to-date cash used in investing activities, for 2011 compared to 2010, decreased by $1.4 million. The decrease was due primarily to capital work associated with the ice storm in March 2010 partially offset by higher capital expenditures in 2011 compared to 2010.

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

	Three Months Ended September 30			Nine Months Ended September 30		
($millions)	2011	2010	Change	2011	2010	Change
Electricity System						
Generation	3.4	2.0	1.4	4.6	3.3	1.3
Transmission	2.2	1.8	0.4	3.4	4.6	(1.2)
Substations	3.9	2.8	1.1	8.4	6.1	2.3
Distribution	11.0	10.2	0.8	27.2	30.3	(3.1)
Intangible Assets and Other	3.9	3.0	0.9	11.5	12.1	(0.6)
Capital and Intangible Asset Expenditures	24.4	19.8	4.6	55.1	56.4	(1.3)

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 $77.5 million for 2011.

Financing Activities

Third quarter cash flow from financing activities, for 2011 compared to 2010, increased by $4.3 million. The increase in cash required from financing activities was primarily the result of higher capital expenditures and common share dividends partially offset by higher available cash from operations. The Company's common share dividend policy is to maintain a capital structure composed of 55 per cent debt and preference equity and 45 per cent common equity.

Year-to-date 2011, cash flow from financing activities increased by $12.2 million 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 which increased borrowing requirements in 2011. This was partially offset by lower capital expenditures in 2011.

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 will 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)	September 30, 2011	December 31, 2010
Total Credit Facilities	120.0	120.0
Borrowing, Committed Facility	(25.0)	(15.0)
Credit Facilities Available	95.0	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 September 30, 2011, the fair value of the Company's primary defined benefit pension plan assets was $266.0 million compared to fair value of plan assets of $269.3 million as at December 31, 2010. The $3.3 million decrease in fair value of plan assets was primarily due to unfavourable 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 September 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)	25.0	-	-	25.0	-
First Mortgage Sinking Fund Bonds[1]	463.7	5.2	10.4	38.6	409.5
Total	488.7	5.2	10.4	63.6	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:

Rating Agency	September 30, 2011		December 31, 2010	
	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 report ratings this year 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 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:

	September 30, 2011		December 31, 2010	
	$millions	%	$millions	%
Total Debt [1]	481.4	53.4	471.3	53.5
Common Equity	411.0	45.6	400.5	45.5
Preference Equity	9.1	1.0	9.1	1.0
Total	901.5	100.0	880.9	100.0

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

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

Capital Stock and Dividends: During the third quarter and nine 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 third quarter and $3.4 million higher year-to-date. In 2011, quarterly common share dividends increased to $0.49 per share compared to $0.38 per share in 2010. The increase in common share dividends was to maintain an average capital structure that includes approximately 45 per cent common equity.

The Company redeemed 3,000 Series D preference shares outstanding for $30,000 in 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 third quarter and nine months ended 2011 and 2010 follow:

	Three Months Ended September 30		Nine Months Ended September 30	
($millions)	2011	2010	2011	2010
Revenue [1]	1.0	1.0	3.4	3.4
Operating expenses	0.4	0.4	1.6	1.6

[1] *Includes charges for electricity consumed.*

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

In July 2011, the Company borrowed $25.0 million from Fortis as a short-term demand loan at an interest rate of 1.68 percent per annum. The full amount was repaid to Fortis in August 2011.

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 an 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:

	September 30, 2011		December 31, 2010	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Long-term debt, including current portion and committed credit facility	488.7	591.3	478.7	581.3

BUSINESS RISK MANAGEMENT

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

FUTURE ACCOUNTING CHANGES

Adoption of New Accounting Standards: Due to continued uncertainty around the adoption of a rate-regulated accounting standard by the International Accounting Standards Board, the Company has evaluated the option of adopting United States generally accepted accounting principles ("U.S. GAAP"), as opposed to International Financial Reporting Standards ("IFRS"), and has decided to adopt U.S. GAAP 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 SEC Issuers (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 required an amendment in the *Corporations Act* (Newfoundland and Labrador) in order to prepare its financial statements in accordance with U.S. GAAP. The amendment was enacted in the third quarter of 2011.

The Company's application of Canadian GAAP relies on U.S. GAAP for guidance on accounting for rate-regulated activities. The adoption of U.S. GAAP in 2012 is, therefore, 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.

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's voluntary filing of audited U.S. GAAP financial statements for the year ending December 31, 2011 and the comparative period, subsequent to the filing of its audited Canadian GAAP financial statements for the year ending December 31, 2011, has been approved by the OSC. The voluntary filing is expected to be completed prior to March 31, 2012.

The Company has 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 employee benefit expense. Newfoundland Power expects to record these balances as a regulatory asset.

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 employee future benefit expense. Newfoundland Power expects to reclassify these balances as a regulatory asset on the balance sheet.

An additional 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 expects 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.

U.S. GAAP also requires that OPEBs costs be recorded on an accrual basis, and prohibits the recognition of regulatory assets or liabilities associated with OPEBs costs that are recovered on a cash basis. The Company had historically recovered its OPEBs costs on a cash basis and as a result the Company was not permitted under U.S. GAAP to record its OPEBs regulatory asset. However, in December 2010 the PUB approved Newfoundland Power's application to adopt the accrual method of accounting for OPEB costs, effective January 1, 2011. Based on the PUB's approval of the Company's application to adopt the accrual method of accounting for OPEBs the regulatory asset can be recognized through earnings in accordance with U.S. GAAP in 2010.

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 with the exception of the one-time adjustment in 2010 related to the Company's recognition of the OPEBs regulatory asset.

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 activities, 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, and are subject to change. Other less significant differences have also been identified. Analysis remains ongoing and additional areas where the Company's financial statements may be materially impacted may be identified prior to the Company's voluntary preparation and filing of its audited U.S. GAAP financial statements for the year ending December 31, 2011. A detailed reconciliation between the Company's audited Canadian GAAP and U.S. GAAP financial statements for 2011, including 2010 comparatives, and any additional areas where significant adjustments may be required in accordance with U.S. GAAP, will be disclosed as part of that voluntary filing.

The unaudited, estimated quantification and reconciliation of the Company's balance sheet as of December 31, 2010 prepared in accordance with U.S. GAAP versus Canadian GAAP has been completed based on the differences identified to date, and may be summarized as follows:

Total assets as of December 31, 2010 are estimated to increase by approximately $20.8 million. The increase relates to the recognition of unamortized transitional obligations for OPEBs as a regulatory asset.

Total liabilities as of December 31, 2010 are estimated to increase by approximately $34.3 million. The increase is due to the recognition of the OPEBs unamortized transitional obligation, as discussed above, and an increase in income taxes payable in accordance with U.S. GAAP.

Shareholders' equity as of December 31, 2010 is estimated to decrease by approximately $13.5 million. The decrease is due to corporate income taxes based on enacted rates in accordance with U.S. GAAP. This decrease is expected to reverse in future years.

The unaudited, estimated quantification and reconciliation of the Company's statement of earnings for the year ended December 31, 2010 prepared in accordance with U.S. GAAP versus Canadian GAAP may be summarized as follows:

Net earnings to be reported in accordance with U.S. GAAP for the year ended December 31, 2010, is estimated to decrease by approximately $4.2 million reflecting corporate income taxes calculated using enacted tax rates.

As well, net earnings for 2010 will reflect the one-time adjustment of approximately $46.7 million to recognize the OPEBs regulatory asset upon regulatory approval for the accrual method of accounting for OPEBs. This adjustment has no impact on retained earnings as of December 31, 2010 as it reverses a previous U.S. GAAP versus Canadian GAAP difference.

The quantification and reconciliation of the Company's financial statements from Canadian GAAP to U.S. GAAP for 2011 interim and annual reporting periods is expected to be completed by March 31, 2012.

The Company is currently in the process of determining what changes, if any, are appropriate for regulatory purposes.

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

	Third Quarter September 30		Second Quarter June 30		First Quarter March 31		Fourth Quarter December 31	
	2011	2010	2011	2010	2011	2010	2010	2009
Electricity Sales *(GWh)*	923.7	915.4	1,268.7	1,220.2	1,833.8	1,795.2	1,488.2	1,473.9
Revenue *($millions)*	101.2	99.0	132.5	126.2	183.0	178.3	151.5	146.5
Earnings Applicable to Common Shares *($millions)*	8.0	7.6	10.7	11.0	7.0	7.2	9.2	8.6
Earnings per Common Share *($)* [1]	0.78	0.74	1.03	1.06	0.68	0.70	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.

Support Structure Arrangement: On January 1, 2011, the new support structure arrangements with Bell Aliant went into effect, including Bell Aliant buying back 40 per cent of all joint-use poles and related infrastructure from Newfoundland Power. 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.

The new support structure arrangements were subject to certain conditions, including PUB approval of the sale of 40 per cent of the Company's joint-use poles. On September 28, 2011, the PUB issued an order that approved the sale of the joint-use poles.

As of September 30, 2011, the Company continued to record assets held for sale in the amount of $44.7 million which represents the estimated purchased price less cost to sell. On October 5, 2011, proceeds in the amount of $45.7 million were received from Bell Aliant reflecting the purchase price for 40 per cent of all joint-use poles and related infrastructure. The estimated purchase price is subject to adjustment upon completion of a pole survey later this year. The Company also recovered its financing costs on the assets held for sale of approximately $3.3 million up to October 5, 2011. The Company utilized the proceeds from this transaction to pay down its short-term debt, and on October 7, 2011 paid a special dividend to Fortis of $29.9 million in order to maintain its capital structure of 45 per cent common equity.

Effective January 1, 2011, the Company no longer received 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 will have no material impact on the Company's ability to earn a reasonable return on its rate base in 2011.

Customer Rates:

2012 Customer Rates: Customer rates for 2012 will be established through the operation of the Formula The Formula applies forecast long-term Canada bond yields' data to determine the risk free rate for calculating the forecast cost of equity to be used in setting customer rates. The impact, if any, on customer rates will be determined in the fourth quarter 2011.

***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 in which the 8 per cent provincial portion of the HST on home energy purchases, including electricity, is being refunded to residential customers. The rebate was implemented effective October 1, 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.

Cost Recovery Deferral: On September 16, 2011, the Company filed an application with the PUB requesting the deferred recovery of expected increased costs in 2012 of $2.4 million due to expired regulation amortizations. The application was approved by the PUB on October 27, 2011.

Labour Relations: Approximately 54% of the employees of the Company are members of the International Brotherhood of Electrical Workers labour union which had two collective bargaining agreements with the Company. The two agreements expired on September 30, 2011. Negotiations to renew the collective bargaining agreements began in October 2011.

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 more than $13 billion and fiscal 2010 revenue totalling approximately $3.7 billion. The Corporation serves approximately 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 Nine Month Periods Ended September 30
(in thousands of Canadian dollars, except per share amounts)

	Three Months Ended 2011	Three Months Ended 2010	Nine Months Ended 2011	Nine Months Ended 2010
Revenue	$101,207	$ 99,000	$416,671	$ 403,473
Purchased Power	52,789	50,356	266,391	256,160
Gross Margin	48,418	48,644	150,280	147,313
Operating expenses	12,403	14,118	40,438	40,566
Employee Future Benefits *(Note 11)*	5,133	2,136	15,426	6,258
Amortization	10,858	11,038	31,579	32,213
Amortization true-up deferral	-	965	-	2,896
Cost recovery deferral *(Note 3)*	(590)	-	(1,772)	-
Finance charges *(Note 5)*	8,844	8,916	26,904	26,885
	36,648	37,173	112,575	108,818
Earnings Before Income Taxes	11,770	11,471	37,705	38,495
Income taxes *(Note 6)*	3,595	3,717	11,617	12,284
Net Earnings	8,175	7,754	26,088	26,211
Preference share dividends	141	142	425	426
Net Earnings Applicable to Common Shares	$ 8,034	$ 7,612	$ 25,663	$ 25,785
Basic and Diluted Earnings per Common Share	$ 0.78	$ 0.74	$ 2.49	$ 2.50

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

	Three Months Ended 2011	Three Months Ended 2010	Nine Months Ended 2011	Nine Months Ended 2010
Balance, Beginning of the Period	$ 337,697	$ 321,192	$ 330,181	$ 310,864
Net earnings	8,175	7,754	26,088	26,211
Dividends				
Preference shares	(141)	(142)	(425)	(426)
Common shares	(5,057)	(3,922)	(15,170)	(11,767)
Balance, End of the Period	$ 340,674	$ 324,882	$ 340,674	$ 324,882

See accompanying notes to financial statements.

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

	September 30, 2011	December 31, 2010
Assets		
Current assets		
Cash	$ 4,138	$ 4,182
Accounts receivable	50,247	61,654
Regulatory assets *(Note 3)*	14,921	11,536
Materials and supplies	1,211	992
Prepaid expenses	2,092	1,327
Assets held for sale *(Note 7)*	44,698	-
	117,307	79,691
Property, plant and equipment	799,619	776,382
Regulatory assets *(Note 3)*	181,991	175,593
Accrued pension	95,297	97,755
Assets held for sale *(Note 7)*	-	44,698
Intangible assets	14,959	15,310
Other assets	1,550	1,647
	$ 1,210,723	$ 1,191,076
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued charges	$ 51,593	$ 64,269
Regulatory liabilities *(Note 3)*	771	-
Current instalments of long-term debt *(Note 8)*	5,200	5,200
Future income taxes *(Note 6)*	3,044	3,211
Income tax payable	2,522	4,302
	63,130	76,982
Regulatory liabilities *(Note 3)*	63,478	57,371
Other post-employment benefits	55,203	52,559
Other liabilities	4,343	4,253
Future income taxes *(Note 6)*	124,113	120,016
Long-term debt *(Note 8)*	480,380	470,282
	790,647	781,463
Shareholders' equity		
Common shares	70,321	70,321
Preference shares	9,081	9,111
Retained earnings	340,674	330,181
	420,076	409,613
	$ 1,210,723	$ 1,191,076

Commitments *(Note 12)*

Subsequent event *(Note 14)*

See accompanying notes to financial statements.

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

	Three Months Ended		Nine Months Ended	
	2011	2010	2011	2010
Cash From Operating Activities				
Net earnings	$ 8,175	$ 7,754	$ 26,088	$ 26,211
Items not affecting cash				
Amortization of property, plant and equipment	10,102	10,329	29,610	30,085
Amortization of intangible assets & other	836	783	2,197	2,317
Change in regulatory assets and liabilities	(328)	643	2,836	4,872
Future income taxes	(769)	(382)	(3,218)	(699)
Employee future benefits	2,127	484	5,276	(250)
	20,143	19,611	62,789	62,536
Change in non-cash working capital	26,243	25,288	(4,033)	7,023
	46,386	44,899	58,756	69,559
Cash Used In Investing Activities				
Capital expenditures	(23,929)	(19,513)	(53,482)	(55,126)
Intangible asset expenditures	(458)	(296)	(1,618)	(1,264)
Contributions from customers	1,220	967	2,042	1,857
Other	(29)	(38)	13	90
	(23,196)	(18,880)	(53,045)	(54,443)
Cash Used In Financing Activities				
Net credit facilities (repayments) borrowings	(13,589)	(18,675)	10,000	(5,500)
Proceeds from related party loan *(Note 13)*	25,000	-	25,000	-
Repayment of related party loan *(Note 13)*	(25,000)	-	(25,000)	-
Payment of debt financing costs	-	(300)	(130)	(300)
Redemption of preference shares	(10)	-	(30)	-
Dividends				
Preference shares	(141)	(142)	(425)	(426)
Common shares	(5,057)	(3,922)	(15,170)	(11,767)
	(18,797)	(23,039)	(5,755)	(17,993)
Increase (Decrease) in Cash	4,393	2,980	(44)	(2,877)
(Bank Indebtedness) Cash, Beginning of the Period	(255)	(549)	4,182	5,308
Cash, End of the Period	$ 4,138	$ 2,431	$ 4,138	$ 2,431
Cash flows include the following elements:				
Interest paid	$ 5,218	$ 5,209	$ 23,297	$ 23,289
Income taxes paid	$ 4,113	$ -	$ 15,094	$ 6,337

See accompanying notes to financial statements.

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 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 adoption of a rate-regulated accounting standard by the IASB, the Company has evaluated the option of adopting United States generally accepted accounting principles ("U.S. GAAP"), as opposed to IFRS, and has decided to adopt U.S. GAAP 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 SEC Issuers (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 required an amendment in the *Corporations Act* (Newfoundland and Labrador) in order to prepare its financial statements in accordance with U.S. GAAP. The amendment was enacted in the third quarter of 2011.

The Company's application of Canadian GAAP relies on U.S. GAAP for guidance on accounting for rate-regulated activities. The adoption of U.S. GAAP in 2012 is, therefore, expected to result in fewer significant changes to the Company'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:

	September 30, 2011		December 31, 2010	
	Current	Non-Current	Current	Non-Current
Regulatory Assets				
Rate stabilization account ("RSA")	$ 5,399	$ 280	$ 1,847	$ 1,876
Other Post Employment Benefits ("OPEBs")	3,504	46,428	3,504	49,055
Weather normalization account	2,102	526	2,102	2,102
Pension deferral	1,128	2,819	1,128	3,665
Deferred GRA costs	253	63	253	253
Energy supply cost variance reserve	-	4,438	-	-
Conservation and demand management deferral	339	424	339	678
Cost recovery deferral [1]	-	1,772	-	-
Optional seasonal rate revenue and cost recovery account [2]	-	189	-	-
Future income taxes	2,196	125,052	2,363	117,964
	$ 14,921	$ 181,991	$ 11,536	$ 175,593
Regulatory Liabilities				
Pension expense variance deferral account	$ 722	$ -	$ -	$ -
OPEBs cost variance deferral account [3]	49	-	-	-
Demand management incentive account	-	997	-	994
Future removal and site restoration provision	-	50,892	-	49,485
Weather normalization account	-	11,589	-	6,892
	$ 771	$ 63,478	$ -	$ 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 $1,772,000 has been recorded to September 30, 2011. The disposition of balances in this account will be determined by a further order of the PUB.*

[2] *Effective July 1, 2011, the PUB ordered the creation of the optional seasonal rate revenue and cost recovery account. This account provides for the deferral of costs and revenue effects associated with implementing optional rates. Each year, at March 31, the balance in the optional seasonal rate revenue and cost recovery account will be transferred and disposed of through the Company's RSA.*

[3] *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 September 30		Nine Months Ended September 30	
	2011	2010	2011	2010
Interest - first mortgage sinking fund bonds	$ 8,886	$ 8,987	$ 26,659	$ 26,962
Interest - committed credit facility	187	77	582	206
Interest - other	9	1	23	12
Total interest expense	9,082	9,065	27,264	27,180
Amortization - debt issue costs	48	48	143	143
Amortization - committed credit facility costs	32	17	85	17
Amortization - capital stock issue costs	-	9	-	28
Allowance for funds used during construction ("AFUDC")	(318)	(223)	(588)	(483)
	$ 8,844	$ 8,916	$26,904	$26,885

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:

	Nine Months Ended September 30	
	2011	2010
Accounting income per financial statements	$ 37,705	$ 38,495
Statutory tax rate	30.5%	32.0%
Expected tax expense (*statutory rate*)	11,500	12,318
Items capitalized vs. expensed	(935)	(878)
Capital cost allowance vs. amortization	866	1,013
Pension funding vs. pension expense	34	(15)
OPEBs benefits paid vs. OPEBs expense	78	-
Other timing differences	22	(4)
Unbilled revenue	-	(989)
Regulatory deferrals	52	839
Income tax expense	$ 11,617	$ 12,284
Effective tax rate	30.8%	31.9%

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2011	2010	2011	2010
Current income tax expense	4,364	4,099	14,835	12,983
Future income tax expense	3,706	288	3,930	239
Regulatory adjustment	(4,475)	(670)	(7,148)	(938)
	3,595	3,717	11,617	12,284

6. Income Taxes (cont'd)

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

	September 30, 2011	December 31, 2010
Future income tax liability (asset)		
Property, plant and equipment/intangibles	$ 112,256	$ 102,964
Regulatory assets	24,378	25,988
Regulatory liabilities	(25,959)	(23,463)
Employee future benefits	15,326	16,541
Debt financing costs	1,156	1,197
Net future income tax liability	$ 127,157	$ 123,227
Current future income tax liability	$ 3,044	$ 3,211
Long-term future income tax liability	124,113	120,016
Net future income tax liability	$ 127,157	$ 123,227

As at September 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 would 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.

Effective January 1, 2011, the Company is no longer receiving pole rental revenue from Bell Aliant. However, Newfoundland Power is responsible for the construction and maintenance of Bell Aliant's support structures throughout 2011.

The new support structure arrangements were subject to certain conditions, including PUB approval of the sale of 40 per cent of the Company's joint-use poles. On September 28, 2011, the PUB issued an order that approved of the sale of the joint-use poles. 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 purchased price is subject to adjustment upon completion of a pole survey later this year (Note 14).

8. Long-term Debt

	September 30, 2011	December 31, 2010
First mortgage sinking fund bonds	$ 463,688	$ 463,688
Committed credit facility	25,000	15,000
	488,688	478,688
Less: current instalments of long-term debt	5,200	5,200
	483,488	473,488
Less: debt issue costs	3,108	3,206
	$ 480,380	$ 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 obtained through the Company's 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 financing dynamics over the foreseeable future, with the exception of an increase in cash flow from the joint-use pole sale (Note 7) which will 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:

	September 30, 2011		December 31, 2010	
	$	%	$	%
Debt [1]	481,442	53.4	471,300	53.5
Common equity	410,995	45.6	400,502	45.5
Preference equity	9,081	1.0	9,111	1.0
	901,518	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 September 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:

	September 30, 2011		December 31, 2010	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Held for trading				
Cash	$ 4,138	$ 4,138	$ 4,182	$ 4,182
Loans and receivables				
Accounts receivable	50,247	50,247	61,654	61,654
Customer finance plans [1]	1,550	1,550	1,647	1,647
Other financial liabilities				
Accounts payable and accrued charges	51,593	51,593	64,269	64,269
Security deposits [2]	621	621	705	705
Long-term debt, including current portion and committed credit facility	488,688	591,270	478,688	581,275

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

Fair Value: 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, follows:

	September 30, 2011	December 31, 2010	September 30, 2010
Not past due	$ 28,152	$ 31,947	$ 23,611
Past due 1-30 days	16,789	24,654	14,747
Past due 31-60 days	4,910	5,351	3,941
Past due 61-90 days	1,513	1,148	1,072
Past due over 90 days	433	201	280
	$ 51,797	$ 63,301	$ 43,651

10. Financial Instruments (cont'd)

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.

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 September 30, 2011, the fair value of the Company's primary defined benefit pension plan assets was $266.0 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 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 September 30, 2010 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	51.2	51.2	-	-	-
Security deposits [1]	1.0	0.4	0.6	-	-
Credit facilities *(unsecured)*	25.0	-	-	25.0	-
Interest on first mortgage sinking fund bonds and committed credit facility	523.4	35.7	69.0	61.3	357.4
First mortgage sinking fund bonds [2]	463.7	5.2	10.4	38.6	409.5
	1,064.3	92.5	80.0	124.9	766.9

[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 nine month period ended September 30, 2011, each 25 basis points change in interest rates on the Company's credit facilities would have caused a $58,000 change in credit facility interest costs and a $40,000 change in earnings (2010 - $31,000 and $21,000, 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 recovery of pension expense.

11. Employee Future Benefits

The total amount of defined benefit pension plan expense recognized for the three months ended September 30, 2011 was $2.5 million (2010 - $1.5 million). For the nine months ended September 30, 2011, the cost was $7.5 million (2010 - $4.6 million).

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2011	2010	2011	2010
Pension and early retirement program	$ 2,889	$ 1,930	$ 8,669	$ 5,661
OPEBs Costs	2,244	206	6,757	597
	$ 5,133	$ 2,136	$ 15,426	$ 6,258

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. Related Party Transaction

In July 2011, the Company borrowed $25.0 million from Fortis Inc. ("Fortis") as a short-term demand loan, at an interest rate of 1.68 per cent per annum. The full amount was repaid to Fortis in August 2011.

14. Subsequent Event

On October 5, 2011, the transaction with Bell Aliant, whereby Bell Aliant purchased 40 per cent of all joint-use poles and related infrastructure from Newfoundland Power (Note 7), substantially closed. The proceeds in the amount of $45.7 million were received from Bell Aliant on October 5, 2011. This purchase price is subject to adjustment upon completion of a pole survey later this year. The Company utilized the proceeds from this transaction to pay down its short-term debt, and on October 7, 2011 paid a special dividend to Fortis of $29.9 million in order to maintain its capital structure of 45 per cent common equity.

15. Comparative Figures

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