Q. **On its web page NP has its 2017 annual and its 2018 quarterly report. Please [provide] both reports. Questions CA-NP-17 to CA-NP-23 relate to those materials.**

A. The information is provided in Attachments A through D and can be found on Newfoundland Power's stranded website at the link https://ftp.nfpower.nf.ca.

Attachment A	*First Quarter 2018*
Attachment B	*Second Quarter 2018*
Attachment C	*At a Glance 2017*
Attachment D	*2017 Management Discussion & Analysis*

First Quarter 2018

First Quarter 2018

WHENEVER. WHEREVER.
We'll be there.

NEWFOUNDLAND POWER
A FORTIS COMPANY

INTERIM MANAGEMENT DISCUSSION AND ANALYSIS
For the Three Months Ended March 31, 2018

Dated April 30, 2018

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 condensed financial statements and notes thereto for the three month period ended March 31, 2018 and the MD&A and annual audited financial statements for the year ended December 31, 2017. The MD&A has been prepared in accordance with National Instrument 51-102 - Continuous Disclosure Obligations. Financial information herein, all of which is unaudited, reflects Canadian dollars and accounting principles generally accepted in the United States of America ("U.S. GAAP"), including certain accounting practices unique to rate-regulated entities. These accounting practices are disclosed in Notes 2 and 6 to the Company's 2017 annual audited financial statements.

FORWARD-LOOKING STATEMENTS

Certain information herein is forward-looking within the meaning of applicable securities laws in Canada ("forward-looking information"). All forward-looking information is given pursuant to the "safe harbour" provisions of applicable Canadian securities legislation. 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; the amount of and the ability to meet future pension funding requirements; the expectation that no material adverse credit rating actions will occur in the near term; the Company's belief that it does not anticipate any difficulties in issuing bonds on reasonable market terms; the Company's expectations for employee future benefit costs; and, the forecast gross capital expenditures for 2018.

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 2018; 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; energy supply; purchased power cost; electricity prices; health, safety and environmental regulations; capital resources and liquidity; economic conditions; interest rates; cyber security; labour relations; human resources; operating and maintenance investment requirements; weather; insurance; defined benefit pension plan performance; information technology infrastructure; and, continued reporting in accordance with U.S. GAAP. For additional information with respect to these risk factors, reference should be made to the section entitled "Business Risk Management" in this MD&A.

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

Additional information, including the Company's quarterly and annual financial statements and MD&A, Annual Information Form and Management Information Circular, is available on the System for Electronic Document Analysis and Retrieval ("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 Newfoundland and Labrador. The Company is a subsidiary of Fortis Inc. ("Fortis"). Fortis is a leader in the North American electric and gas utility business, serving customers across Canada and in the United States and the Caribbean.

Newfoundland Power's primary business is electricity distribution. It generates approximately 7% of its electricity needs and purchases the remainder from Newfoundland and Labrador Hydro ("Hydro"). Newfoundland Power serves approximately 267,000 customers, comprising approximately 87% of all electricity consumers in the Province.

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

Regulation

Newfoundland Power is regulated by the Newfoundland and Labrador Board of Commissioners of Public Utilities (the "PUB"). The Company operates under cost of service regulation whereby it is entitled an 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.

On June 8, 2016, the PUB issued an order on the Company's 2016/2017 General Rate Application ("GRA") which established the Company's cost of capital for ratemaking purposes for 2016 through 2018 based upon an 8.50% return on equity ("ROE") and 45% common equity. The Company's rate of return on rate base for 2018 is 7.04%, with a range of 6.86% to 7.22%, compared to 7.19%, with a range of 7.01% to 7.37% for 2017.

The operation of the Automatic Adjustment Formula, which historically adjusted the Company's ratemaking ROE between GRAs, has been suspended pending a further order of the PUB. Newfoundland Power is required to file its next GRA for 2019 on or before June 1, 2018.

Financial Highlights

	Quarter Ended March 31		
	2018	**2017**	**Change**
Electricity Sales *(gigawatt hours ("GWh"))* [1]	2,022.2	2,060.0	(37.8)
Earnings Applicable to Common Shares			
$ Millions	6.3	10.8	(4.5)
$ Per Share	0.61	1.05	(0.44)
Cash Flow from Operating Activities *($millions)*	1.8	(4.6)	6.4
Total Assets *($millions)*	1,600.7	1,572.3	28.4

[1] *Reflects normalized electricity sales.*

Electricity sales for the first quarter of 2018 decreased by 37.8 GWh, or 1.8%, compared to the first quarter of 2017. Electricity sales decreased due to a 2.5% reduction in average consumption by residential and commercial customers. The lower average consumption by commercial customers was mainly due to the completion of Hebron's gravity based structure in the second quarter of 2017. The decrease associated with lower average consumption was partially offset by a 0.7% increase in electricity sales associated with an increase in the number of customers.

Earnings for the first quarter of 2018 decreased by $4.5 million compared to the first quarter of 2017. Approximately $4.1 million of the decrease related to the timing of quarterly purchased power expense as a result of the July 1, 2017 change in wholesale electricity rate paid to Hydro by Newfoundland Power. The rate change will not impact Newfoundland Power's annual earnings. See the "Quarterly Results" section of this MD&A.

Excluding the impact of the timing of quarterly purchased power expense, earnings for the first quarter of 2018 decreased by $0.4 million compared to the first quarter of 2017. The decrease was primarily due to lower electricity sales and higher depreciation and financing costs reflecting continued investment in the electricity system. These impacts were partially offset by lower purchased power costs associated with demand charges from Hydro, higher charges to telecommunication companies and lower labour costs.

Cash flow from operating activities for the first quarter of 2018 increased by $6.4 million compared to the first quarter of 2017. The increase reflects the timing of the recovery of Harmonized Sales Tax ("HST") on refunds issued to customers related to Hydro's Rate Stabilization Plan ("RSP") in the first quarter of 2017. The impact of the HST recovery was partially offset by higher purchased power payments in the first quarter of 2018 as a result of the July 1, 2017 change in the wholesale electricity rate.

Total assets as at March 31, 2018 increased by $28.4 million compared to March 31, 2017. This increase primarily reflects continued investment in the electricity system, partially offset by lower accounts receivable.

RESULTS OF OPERATIONS

Revenue

($millions)	Quarter Ended March 31 2018	2017	Change
Electricity Revenue [1]	220.0	227.4	(7.4)
Other Revenue [2]	2.4	1.5	0.9
Total Revenue	222.4	228.9	(6.5)

[1] *Electricity revenue includes regulatory deferrals and amortizations recognized pursuant to PUB orders of approximately ($0.6) million for the first quarter of 2018 (2017 - $1.4 million).*

[2] *Other revenue includes charges to telecommunication companies, interest revenue associated with customer accounts and other miscellaneous amounts.*

Electricity revenue for the first quarter of 2018 decreased by $7.4 million compared to the first quarter of 2017. The decrease primarily reflects lower electricity sales and the 0.7% customer rate decrease effective July 1, 2017 associated with the change in the wholesale electricity rate paid by Newfoundland Power to Hydro. The decrease also reflects lower regulatory amortizations recognized pursuant to PUB orders.

Amortizations of regulatory liabilities and deferrals includes the pension expense variance deferral ("PEVDA"), the other post-employment benefits ("OPEB") cost variance deferral, and the amortization of annual customer energy conservation program costs. These regulatory mechanisms are described in Note 6 to the Company's 2017 annual audited financial statements.

Other revenue for the first quarter of 2018 was $0.9 million higher than the first quarter of 2017. The increase primarily relates to higher charges to telecommunication companies and $0.5 million associated with a change in accounting policy. See the "Changes in Accounting Policies" section of this MD&A.

Purchased Power: Purchased power expense for the first quarter of 2018 decreased by $0.8 million compared to the first quarter of 2017. The decrease was primarily due to lower energy purchases and lower demand charges from Hydro partially offset by the timing of quarterly purchased power expense as a result of the July 1, 2017 change in the wholesale electricity rate paid to Hydro by Newfoundland Power. See the "Quarterly Results" section of this MD&A.

Operating Expenses: Operating expenses for the first quarter of 2018 were $0.3 million higher than the first quarter of 2017. The increase primarily relates to $0.5 million associated with a change in accounting policy. Excluding the impact of the change in accounting policy, operating expenses for the first quarter of 2018 were $0.2 million lower than the first quarter of 2017. The decrease primarily relates to lower labor costs in 2018. Labor costs in the first quarter of 2017 reflected restoration efforts associated with a severe wind storm that impacted the Company's service territory in March 2017. The decrease in labour costs was partially offset by inflationary increases and the impact of regulatory deferrals and amortizations, due to the normal operation of regulatory mechanisms.

Employee Future Benefits: Employee future benefits for the first quarter of 2018 were $1.0 million lower than the first quarter of 2017. The decrease is primarily due to the expiry of regulatory amortizations in 2017 and also reflects a reduction in claims costs experience associated with the OPEB plan.

Depreciation and Amortization: Depreciation and amortization expense for the first quarter of 2018 was $0.4 million higher than the first quarter of 2017. The increase reflects the Company's capital expenditure program.

Amortization of Cost Recovery Deferral: As a result of the PUB's order on the 2016/2017 GRA and the related customer rate change on July 1, 2016, the Company recorded a $2.6 million over-recovery from customer rates in 2016. This over-recovery in 2016 was ordered to be amortized in customer rates over a 30-month period from July 1, 2016 through December 31, 2018. Amortization of $0.3 million was recorded in the first quarter of 2018 and 2017.

Finance Charges: Finance charges for the first quarter of 2018 were $0.5 million higher than the first quarter of 2017. The increase reflects higher long-term debt and related interest charges associated with continued investment in the electricity system.

Income Tax Expense: Income tax expense for the first quarter of 2018 was $1.4 million lower than the first quarter of 2017. The decrease was primarily due to lower pre-tax earnings.

FINANCIAL POSITION

Explanations of the primary causes of significant changes in the Company's balance sheets between December 31, 2017 and March 31, 2018 follow.

($millions)	Increase (Decrease)	Explanation
Accounts Receivable	15.5	Increase reflects the seasonal nature of electricity consumption for heating, and normal timing differences relating to both the operation of the Company's equal payment plan for its customers, and the collection and payment of municipal taxes.
Regulatory Assets	(8.1)	Decrease due to the normal operation of the Company's approved regulatory accounts. See Note 7 to the Company's March 31, 2018 interim unaudited condensed financial statements.
Accounts Payable and Accrued Charges	(13.0)	Decrease reflects reduced purchased power costs related to lower energy consumption in March 2018 compared to December 2017, as well as the timing of payments.
Long-term Debt, including Current Portion	25.0	Represents additional debt required to finance growth in rate base and ongoing operating activities.

LIQUIDITY AND CAPITAL RESOURCES

The primary sources of liquidity and capital resources are net funds generated from operations, debt capital markets and bank credit facilities. These sources are used primarily to satisfy capital and intangible asset expenditures, service and repay debt, and pay dividends. A summary of first quarter cash flows and cash position for 2018 and 2017 follows.

	Quarter Ended March 31		
($millions)	2018	2017	Change
Cash, Beginning of Period	-	-	-
Operating Activities	1.8	(4.6)	6.4
Investing Activities	(16.3)	(14.7)	(1.6)
Financing Activities	14.5	19.3	(4.8)
Cash, End of Period	-	-	-

Operating Activities

Cash from operating activities for the first quarter of 2018 increased by $6.4 million compared to the first quarter of 2017. The increase reflects the timing of the recovery of HST on refunds issued to customers related to Hydro's RSP in the first quarter of 2017. The impact of the HST recovery was partially offset by higher purchased power payments in the first quarter of 2018 as a result of the July 1, 2017 change in the wholesale electricity rate.

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

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

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

Investing Activities

Cash used in investing activities for the first quarter of 2018 was $16.3 million compared to $14.7 million for the first quarter of 2017. The increase reflects lower contributions from customers in the first quarter of 2018. Capital and intangible asset expenditures for the first quarter of 2018 were consistent with the first quarter of 2017.

A summary of first quarter 2018 and 2017 capital and intangible asset expenditures follows.

	Quarter Ended March 31		
(*$millions*)	**2018**	**2017**	**Change**
Electricity System			
Generation	0.6	0.4	0.2
Transmission	0.3	0.3	-
Substations	1.5	1.3	0.2
Distribution	9.5	10.3	(0.8)
Other	3.6	3.1	0.5
Intangible Assets	0.6	0.5	0.1
Capital and Intangible Asset Expenditures	16.1	15.9	0.2

The Company's business is capital intensive. Capital investment is required to ensure safe, reliable electrical system performance and to meet customer growth. All costs considered to be repairs and maintenance are expensed as incurred. Capital investment is also required 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 year-to-year depending upon both planned electricity system expenditures and unplanned expenditures arising from weather or other unforeseen events.

The Company's annual capital plan requires prior PUB approval. Variances between actual and planned expenditures are generally subject to PUB review prior to inclusion in the Company's rate base. The PUB has approved the Company's 2018 capital plan which provides for capital expenditures of approximately $83.9 million, approximately 54% of which relates to the replacement of existing assets.

Financing Activities

Cash provided by financing activities for the first quarter of 2018 decreased by $4.8 million compared to the first quarter of 2017. The decrease in cash provided by financing activities was primarily due to lower net proceeds from the Company's credit facilities as a result of higher cash from operations.

The Company has historically generated sufficient annual cash flows from operating activities to service annual interest and sinking fund payments on debt, to fund pension obligations, to pay dividends and to finance a major portion of its annual capital program. Additional financing to fully fund the annual capital program is primarily obtained through the Company's bank credit facilities and these borrowings are periodically refinanced, along with any maturing bonds, through the issuance of long-term first mortgage sinking fund bonds. The issuance of bonds is subject to prior PUB approval and to a mortgage trust deed requirement that the ratio of (i) annual earnings, before tax and bond interest, to (ii) annual bond interest incurred plus annual bond interest to be incurred on the contemplated bond issue, be two times or higher. The Company currently does not expect any material changes in these annual cash flow and financing dynamics over the foreseeable future.

Credit Facilities: The Company's credit facilities are comprised of a $100 million committed revolving term credit facility and a $20 million demand facility as detailed below.

($millions)	March 31, 2018	December 31, 2017
Total Credit Facilities	120.0	120.0
Borrowing, Committed Facility	(37.0)	(12.0)
Borrowing, Demand Facility	-	(3.6)
Credit Facilities Available	83.0	104.4

The Committed Facility matures in August 2022. Subject to lenders' approval, an extension of maturity for a further period of up to, but not exceeding, five years may be granted.

Pensions: As at March 31, 2018, the fair value of the Company's primary defined benefit pension plan assets was $418.4 million compared to $421.7 million as at December 31, 2017.

In April 2018, Newfoundland Power received actuarial valuation results for its defined benefit pension plan, including the funding status of the plan as at December 31, 2017, on a going concern and solvency basis. On a going concern basis, the surplus increased from $32.1 million as at December 31, 2014 to $69.7 million as at December 31, 2017. On a solvency basis, the funding position increased from a deficit of $7.0 million as at December 31, 2014 to a surplus of $8.6 million as at December 31, 2017. The increase was primarily due to contributions to the plan since 2014 and favorable market returns, partially offset by a lower estimated discount rate.

Based on the December 2017 Actuarial Valuation Report, contributions for current service amounts are estimated to be $2.8 million in 2018, $2.8 million in 2019 and $2.7 million in 2020. The Company expects to have sufficient cash generated from operations to meet future pension funding requirements.

Contractual Obligations: Details, as at March 31, 2018, of 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)	37.0	37.0	-	-	-
First Mortgage Sinking Fund Bonds [1]	584.5	6.6	42.8	40.4	494.7
Interest obligations on long-term debt	559.0	35.8	69.7	61.8	391.7
Total	1,180.5	79.4	112.5	102.2	886.4

[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 endeavors to maintain its investment grade credit ratings. Details of the Company's investment grade bond ratings follow.

	March 31, 2018		December 31, 2017	
Rating Agency	**Rating**	**Outlook**	**Rating**	**Outlook**
Moody's Investors Service ("Moody's")	A2	Stable	A2	Stable
DBRS	A	Stable	A	Stable

During the first quarter of 2018, Moody's issued an updated credit rating report confirming the Company's existing investment grade bond rating and rating outlook.

Newfoundland Power maintains an average annual capital structure comprised of approximately 55% debt and preference equity and 45% common equity. This capital structure is reflected in customer rates and is consistent with the Company's current investment grade credit ratings.

The Company's capital structure follows.

	March 31, 2018		December 31, 2017	
	$millions	%	$millions	%
Total Debt [1]	618.7	55.5	597.2	54.6
Common Equity	487.6	43.7	487.8	44.6
Preference Equity	8.9	0.8	8.9	0.8
Total	1,115.2	100.0	1,093.9	100.0

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

The Company expects to maintain its current investment grade credit ratings in 2018.

Capital Stock and Dividends: During the first quarters of 2018 and 2017, the weighted average number of common shares outstanding was 10,320,270. In 2018, the quarterly common share dividend increased to $0.66 per share compared to $0.64 per share in 2017. The Company's common share dividend policy maintains the average capital structure that includes 45% common equity.

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 operating expenses for the first quarter of 2018 were $0.8 million (2017 - $0.7 million).

FINANCIAL INSTRUMENTS

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

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

The carrying and estimated fair values of the Company's long-term debt follows.

	March 31, 2018		December 31, 2017	
($millions)	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Long-term debt, including current portion and committed credit facility	621.5	756.1	596.5	736.5

BUSINESS RISK MANAGEMENT

There were no material changes to the Company's business risks during the first quarter of 2018, with the exception of the following.

Approximately 55% of the Company's employees are members of the International Brotherhood of Electrical Workers labour union (the "IBEW"), which has two collective bargaining agreements with the Company. The two agreements expired on September 30, 2017. Collective agreement negotiations with the IBEW commenced in the fourth quarter of 2017. To date, no tentative agreements have been reached and conciliation proceedings are expected to occur in the second quarter of 2018. The inability to maintain or renew the collective bargaining agreements on acceptable terms could result in increased labor costs, or service interruptions arising from labor disputes that are not provided for in approved rates and that could have a material adverse effect on the results of operations, cash flows and financial position of the Company.

CHANGES IN ACCOUNTING POLICIES

Revenue from Contracts with Customers: Effective January 1, 2018, the Company adopted Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts with Customers*, which requires that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The Company adopted the standard using the modified retrospective method, under which the comparative figures were not restated. The majority of the Company's revenue is generated from electricity sales to customers based on published tariff rates, as approved by the PUB. The adoption of this standard does not change the Company's revenue recognition policy and does not have an impact on net earnings. The Company did, however, change the presentation of other contract revenue to be on a gross basis effective January 1, 2018. This resulted in an increase in revenue and operating expenses. Additional disclosure on Newfoundland Power's revenue as a result of the adoption of ASC Topic 606 is provided in Note 5 to the Company's interim unaudited condensed financial statements.

Improving the Presentation of Net Periodic Pension Cost and Net Periodic Post-retirement Benefit Cost: Effective January 1, 2018, the Company adopted Accounting Standards Update ("ASU") No. 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Post-retirement Benefit Cost*, which requires that an employer disaggregate the current service cost component of net benefit cost and present it in the same statement of earnings line item as other employee compensation costs arising from services rendered. The other components of net benefit cost are required to be presented separately from the service cost component and outside of operating income. Additionally, the amendments allow only the service cost component to be eligible for capitalization, when applicable.

The adoption of this update was applied retrospectively for the presentation of net periodic benefit costs and prospectively for the capitalization in assets of only the service cost component of net periodic benefit cost. This change in presentation resulted in an increase in operating expenses and a corresponding decrease in employee future benefits of $2.0 million on the statement of earnings for the three months ended March 31, 2017. Service costs are included in operating expenses and the other components of net benefit costs are included in employee future benefits on the statement of earnings. There was no impact on net earnings.

FUTURE ACCOUNTING PRONOUNCEMENTS

The Company considers the applicability and impact of all ASUs issued by the Financial Accounting Standards Board ("FASB"). The following update has been issued by the FASB, but has not yet been adopted by Newfoundland Power. Any ASUs not included below were assessed and determined to be either not applicable to the Company or are not expected to have a material impact on the financial statements.

Leases

ASU No. 2016-02 was issued in February 2016 and the amendments in this update create ASC Topic 842, *Leases*, and supersede lease requirements in ASC Topic 840, *Leases*. The main provision of ASC Topic 842 is the recognition of lease assets and lease liabilities on the balance sheet by lessees for those leases that were previously classified as operating leases. ASU No. 2018-01 was issued in January 2018 and provides an additional optional transition practical expedient to not evaluate existing land easements that were not previously accounted for as leases. These updates are effective for annual and interim periods beginning after December 15, 2018 and are to be applied using a modified retrospective approach with practical expedient options. Early adoption is permitted.

Newfoundland Power is assessing the impact that the adoption of these updates will have on its financial statements and related disclosures. The Company expects to elect a package of practical expedients that allow entities to not reassess whether any expired or existing contract is a lease or contains a lease, the lease classification of any expired or existing leases, and the initial direct costs for any existing leases. Any significant developments in its implementation efforts could change the Company's expected election of transition practical expedients.

CRITICAL ACCOUNTING ESTIMATES

There were no material changes to the Company's critical accounting estimates during the first quarter of 2018. Interim financial statements, however, tend to employ a greater use of estimates than the annual financial statements.

QUARTERLY RESULTS

The following table sets forth unaudited quarterly information for each of the eight quarters ended June 30, 2016 through March 31, 2018. The quarterly information reflects Canadian dollars and has been obtained from the Company's interim unaudited financial statements which have been prepared in accordance with U.S. GAAP. These financial results are not necessarily indicative of results for any future period and should not be relied upon to predict future performance.

	First Quarter March 31		Second Quarter June 30		Third Quarter September 30		Fourth Quarter December 31	
(Unaudited)	**2018**	**2017**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Electricity Sales *(GWh)*	2,022.2	2,060.0	1,357.5	1,342.7	926.7	950.9	1,577.9	1,618.0
Revenue *($millions)*	222.4	228.9	155.2	152.8	109.9	112.3	178.4	182.4
Net Earnings Applicable to Common Shares *($millions)*	6.3	10.8	11.5	10.3	7.9	7.9	10.8	11.0
Earnings per Common Share *($)* [1]	0.61	1.05	1.11	1.00	0.77	0.77	1.04	1.06

[1] *Basic and fully diluted.*

Seasonality

Sales and Revenue: Quarterly sales and revenue are impacted by 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: In addition to 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.

Overall, these sales, revenue and cost dynamics are such that earnings will generally be lower in the first quarter than the remaining quarters in the year.

On July 1, 2017, the PUB approved a change in the wholesale electricity rate charged by Hydro to Newfoundland Power. As a result, the Company will pay more for purchased power in the winter months and less in the summer months. In 2018, this reduced earnings in the first quarter relative to 2017 by approximately $4.1 million. The rate change will not impact Newfoundland Power's annual earnings.

Trending

Sales and Revenue: Changes in quarterly electricity sales year-over-year reflect fluctuations in average consumption and growth in the number of customers served by the Company. Future sales and customer growth is expected to be lower than in recent years.

Earnings: As a result of the July 1, 2017 change in the wholesale electricity rate, quarterly earnings for 2018 will not be comparable with 2017. In 2018, this is expected to reduce earnings in the first and fourth quarters and increase earnings in the second and third quarters relative to 2017.

Beyond the impact of expected lower 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.

As part of the order issued by the PUB on the Company's 2016/2017 GRA, Newfoundland Power is required to file its next GRA for 2019 on or before June 1, 2018.

Supply Costs: Hydro filed a 2017 GRA with the PUB on July 28, 2017. The application originally proposed to increase the wholesale electricity rate charged to Newfoundland Power by 9.7% on January 1, 2018 and 9.4% on January 1, 2019. In the fourth quarter of 2017, Hydro indicated that it would not be feasible for it to implement the originally proposed rate increase for January 1, 2018. The application is currently under review by the PUB, and a public hearing in relation to Hydro's 2017 GRA began in April 2018.

On April 13, 2018, Hydro submitted an interim rates application with the PUB associated with its 2017 GRA. The application proposes a 11.1% increase in the wholesale electricity rate charged to Newfoundland Power, effective July 1, 2018 on an interim basis. The proposed rate increase incorporates the changes in the forecast cost of oil to be used at Hydro's Holyrood generating facility. See "Customer Rates" discussion below. The application is currently under review by the PUB.

The timing and amount of any rate change associated with Hydro's 2017 GRA is uncertain.

Future changes in supply costs, including costs associated with Nalcor Energy's Muskrat Falls hydroelectric generation development and associated transmission assets, may affect electricity prices in a manner that affects the Company's sales. During 2017, Nalcor Energy indicated that the cost of the project is projected to reach $12.7 billion and that it was investigating the options available to moderate the impact of higher project costs on electricity prices.

Customer Rates: Customer electricity rates are projected to change effective July 1, 2018 as a result of the annual operation of Hydro's RSP and Newfoundland Power's Rate Stabilization Adjustment ("RSA"). Variances in Hydro's cost of fuel used to generate electricity are captured in the Hydro RSP and flowed-through to the Company's customers through the operation of the Company's RSA. The RSA also captures variances in certain Newfoundland Power costs including energy supply and employee future benefit costs.

Any change in customer rates on July 1, 2018 will not impact annual earnings for Newfoundland Power.

Inquiries: The PUB's inquiry into supply reliability after interconnection with Nalcor Energy's Muskrat Falls project is ongoing. See additional detail in the "Business Risk Management" section of the Company's MD&A for the year ended December 31, 2017.

The Provincial Government of Newfoundland and Labrador's inquiry into the Muskrat Falls project commenced in the first quarter of 2018 and is scheduled to end by December 31, 2019.

OUTSTANDING SHARES

As at the filing date of this MD&A the Company had issued and outstanding 10,320,270 common shares; 179,225 first preference shares, Series A; 337,983 first preference shares, Series B; 191,640 first preference shares, Series D; and 182,900 first preference shares, Series G. Each of the common shares and first preference shares carry voting rights equal to one vote per share.

CORPORATE INFORMATION

Additional information about Newfoundland Power, including its Annual Information Form and Management Information Circular, is available on SEDAR at www.sedar.com.

All the common shares of Newfoundland Power Inc. are owned by Fortis Inc., a leader in the North American regulated electric and gas utility business with total assets of approximately $49 billion and fiscal 2017 revenue of $8.3 billion. Approximately 8,500 employees of Fortis Inc. serve utility customers in five Canadian provinces, nine U.S. states and three Caribbean countries.

Fortis shares are listed on the TSX and NYSE and trade under the symbol FTS. Additional information can be accessed at www.fortisinc.com, www.sedar.com, or www.sec.gov.

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Condensed Statements of Earnings (Unaudited)

For the Three Months Ended March 31

(in thousands of Canadian dollars, except per share amounts)

	2018	2017
Revenue *(Note 5)*	$ 222,401	$ 228,899
Expenses		
Purchased power	168,110	168,915
Operating expenses	20,206	19,907
Employee future benefits	1,395	2,414
Depreciation and amortization	15,459	15,017
Amortization of cost recovery deferral *(Note 7)*	(258)	(258)
Finance charges *(Note 8)*	9,144	8,693
	214,056	214,688
Earnings Before Income Taxes	8,345	14,211
Income tax expense	1,878	3,267
Net Earnings	6,467	10,944
Preference share dividends	138	139
Net Earnings Applicable to Common Shares	$ 6,329	$ 10,805
Basic and Diluted Earnings per Common Share	$ 0.61	$ 1.05

Condensed Statements of Changes in Shareholders' Equity (Unaudited)

For the Three Months Ended March 31

(in thousands of Canadian dollars, except per share amounts)

	Common Shares	Preference Shares	Retained Earnings	Total Equity
As at January 1, 2018	$ 70,321	$ 8,917	$ 417,517	**$ 496,755**
Net earnings	-	-	6,467	**6,467**
Allocation of Part VI.1 tax	-	-	274	**274**
Dividends on common shares ($0.66 per share)	-	-	(6,811)	**(6,811)**
Dividends on preference shares	-	-	(138)	**(138)**
As at March 31, 2018	$ 70,321	$ 8,917	$ 417,309	**$ 496,547**
As at January 1, 2017	$ 70,321	$ 8,930	$ 414,954	**$ 494,205**
Net earnings	-	-	10,944	**10,944**
Allocation of Part VI.1 tax	-	-	128	**128**
Dividends on common shares ($0.64 per share)	-	-	(6,605)	**(6,605)**
Dividends on preference shares	-	-	(139)	**(139)**
Redemption of preference shares	-	(3)	-	**(3)**
As at March 31, 2017	$ 70,321	$ 8,927	$ 419,282	**$ 498,530**

See accompanying notes to condensed interim financial statements.

Condensed Balance Sheets (Unaudited)

As at

(in thousands of Canadian dollars)

	March 31, 2018	December 31, 2017
Assets		
Current assets		
Accounts receivable *(Note 6)*	$ 95,239	$ 79,696
Income taxes receivable	-	68
Materials and supplies	1,583	1,465
Prepaid expenses	1,141	2,022
Regulatory assets *(Note 7)*	15,821	14,027
	113,784	97,278
Property, plant and equipment (net)	1,122,214	1,118,644
Intangible assets	22,229	22,501
Defined benefit pension plans	12,616	11,206
Regulatory assets *(Note 7)*	327,871	337,764
Other assets	2,023	1,631
	$ 1,600,737	$ 1,589,024
Liabilities and Shareholders' Equity		
Current liabilities		
Short-term borrowings	$ 20	$ 3,575
Accounts payable and accrued charges	70,793	83,775
Interest payable	10,883	6,785
Income taxes payable	2,386	-
Defined benefit pension plans	242	1,055
Other post-employment benefits	3,656	3,640
Regulatory liabilities *(Note 7)*	979	1,032
Current instalments of long-term debt *(Note 9)*	43,600	18,600
	132,559	118,462
Regulatory liabilities *(Note 7)*	156,461	156,229
Defined benefit pension plans	5,300	5,263
Other post-employment benefits	78,810	78,151
Other liabilities	872	1,066
Deferred income taxes	155,023	157,935
Long-term debt *(Note 9)*	575,165	575,163
	1,104,190	1,092,269
Commitments *(Note 13)*		
Shareholders' equity		
Common shares, no par value, unlimited authorized shares, 10.3 million shares issued and outstanding	70,321	70,321
Preference shares	8,917	8,917
Retained earnings	417,309	417,517
	496,547	496,755
	$ 1,600,737	$ 1,589,024

See accompanying notes to condensed interim financial statements.

Condensed Statements of Cash Flows (Unaudited)

For the Three Months Ended March 31

(in thousands of Canadian dollars)

	2018	2017
Operating Activities		
Net earnings	$ 6,467	$ 10,944
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation of property, plant and equipment	14,637	14,240
Amortization of intangible assets and other	879	835
Change in long-term regulatory assets and liabilities	7,097	3,845
Deferred income taxes	(3,779)	(1,044)
Employee future benefits	(146)	786
Other	237	100
Change in non-cash working capital	(23,542)	(34,313)
	1,850	(4,607)
Investing Activities		
Capital expenditures	(15,512)	(15,316)
Intangible asset expenditures	(550)	(541)
Contributions from customers	357	1,181
Other	(597)	(55)
	(16,302)	(14,731)
Financing Activities		
Change in short-term borrowings	(3,555)	(1,415)
Net borrowings under committed credit facility	25,000	27,500
Redemption of preference shares	-	(3)
Payment of debt financing costs	(44)	-
Dividends		
Preference shares	(138)	(139)
Common shares	(6,811)	(6,605)
	14,452	19,338
Change in Cash	-	-
Cash, Beginning of Period	-	-
Cash, End of Period	$ -	$ -
Cash Flows Include the Following:		
Interest paid	$ 5,030	$ 5,191
Income taxes paid	$ 2,927	$ 4,000

See accompanying notes to condensed interim financial statements.

Notes to Condensed Interim Financial Statements (Unaudited)
For the Three Months Ended March 31, 2018 and 2017 (unless otherwise noted)

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

1. Description of the Business

Newfoundland Power Inc. (the "Company" or "Newfoundland Power") is a regulated electricity utility that operates an integrated generation, transmission and distribution system throughout the island portion of Newfoundland and Labrador. The Company is regulated by the Newfoundland and Labrador Board of Commissioners of Public Utilities (the "PUB") and serves approximately 267,000 customers comprising approximately 87% of all electricity consumers in the Province. All of the common shares of the Company are owned by Fortis Inc. ("Fortis"). Newfoundland Power has an installed generating capacity of 139 megawatts ("MW"), of which approximately 97 MW is hydroelectric generation. It generates approximately 7% of its energy needs and purchases the remainder from Newfoundland and Labrador Hydro ("Hydro").

The Company operates under cost of service regulation as administered by the PUB under the *Public Utilities Act (Newfoundland and Labrador)* ("Public Utilities Act"). The Public Utilities Act provides for the PUB's general supervision of the Company's utility operations and requires the PUB to approve, among other things, customer rates, capital expenditures and the issuance of securities. The Public Utilities Act also entitles the Company an opportunity to recover 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 consists of the net assets required by the Company to provide electricity service to customers.

On June 8, 2016, the PUB issued an order on the Company's 2016/2017 General Rate Application ("GRA") which established the Company's cost of capital for ratemaking purposes for 2016 through 2018 based upon an 8.50% return on equity ("ROE") and 45% common equity. The Company's rate of return on rate base for 2018 is 7.04%, with a range of 6.86% to 7.22%, compared to 7.19%, with a range of 7.01% to 7.37% for 2017. Newfoundland Power is required to file its next GRA for 2019 on or before June 1, 2018.

2. Basis of Presentation

These condensed interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial statements and do not include all of the disclosures provided in the annual audited financial statements. These condensed interim financial statements should be read in conjunction with the Company's 2017 annual audited financial statements.

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. There were no material changes to the Company's significant accounting estimates during the three months ended March 31, 2018.

An evaluation of subsequent events through April 30, 2018, the date these condensed interim financial statements were issued, was completed and it was determined there were no circumstances that warranted recognition and disclosure of events or transactions in the condensed interim financial statements as at March 31, 2018.

The accounting policies and methods of their application followed in the preparation of these condensed interim financial statements are the same as those followed in the preparation of the Company's 2017 annual audited financial statements, except as disclosed in Note 3.

3. Changes in Accounting Policies

New Accounting Policies

Revenue from Contracts with Customers

Effective January 1, 2018, the Company adopted Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts with Customers*, which requires that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

3. Changes in Accounting Policies (cont'd)

The Company adopted the standard using the modified retrospective method, under which comparative figures were not restated. The majority of the Company's revenue is generated from electricity sales to customers based on published tariff rates, as approved by the PUB. The adoption of this standard does not change the Company's revenue recognition policy and does not have an impact on net earnings. The Company did, however, change the presentation of other contract revenue to be on a gross basis effective January 1, 2018. This resulted in an increase in revenue and operating expenses. Additional disclosure on Newfoundland Power's revenue as a result of the adoption of ASC Topic 606 is provided in Note 5.

Improving the Presentation of Net Periodic Pension Cost and Net Periodic Post-retirement Benefit Cost

Effective January 1, 2018, the Company adopted Accounting Standards Update ("ASU") No. 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Post-retirement Benefit Cost*, which requires that an employer disaggregate the current service cost component of net benefit cost and present it in the same statement of earnings line item as other employee compensation costs arising from services rendered. The other components of net benefit cost are required to be presented separately from the service cost component and outside of operating income. Additionally, the amendments allow only the service cost component to be eligible for capitalization, when applicable.

The adoption of this update was applied retrospectively for the presentation of net periodic benefit costs and prospectively for the capitalization in assets of only the service cost component of net periodic benefit cost. This change in presentation resulted in an increase in operating expenses and a corresponding decrease in employee future benefits of $2.0 million on the statement of earnings for the three months ended March 31, 2017. Service costs are included in operating expenses and the other components of net benefit costs are included in employee future benefits on the statement of earnings. There was no impact on net earnings.

Future Accounting Pronouncements

The Company considers the applicability and impact of all ASUs issued by the Financial Accounting Standards Board ("FASB"). The following update has been issued by the FASB, but has not yet been adopted by Newfoundland Power. Any ASUs not included below were assessed and determined to be either not applicable to the Company or are not expected to have a material impact on the financial statements.

Leases

ASU No. 2016-02 was issued in February 2016 and the amendments in this update create ASC Topic 842, *Leases*, and supersede lease requirements in ASC Topic 840, *Leases*. The main provision of ASC Topic 842 is the recognition of lease assets and lease liabilities on the balance sheet by lessees for those leases that were previously classified as operating leases. ASU No. 2018-01 was issued in January 2018 and provides an additional optional transition practical expedient to not evaluate existing land easements that were not previously accounted for as leases. These updates are effective for annual and interim periods beginning after December 15, 2018 and are to be applied using a modified retrospective approach with practical expedient options. Early adoption is permitted.

Newfoundland Power is assessing the impact that the adoption of these updates will have on its financial statements and related disclosures. The Company expects to elect a package of practical expedients that allow entities to not reassess whether any expired or existing contract is a lease or contains a lease, the lease classification of any expired or existing leases, and the initial direct costs for any existing leases. Any significant developments in its implementation efforts could change the Company's expected election of transition practical expedients.

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: In addition to 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.

Overall, these sales, revenue and cost dynamics are such that earnings will generally be lower in the first quarter than the remaining quarters in the year.

4. Seasonality (cont'd)

On July 1, 2017, the PUB approved a change in the wholesale electricity rate charged by Hydro to Newfoundland Power. As a result, the Company will pay more for purchased power in the winter months and less in the summer months. In 2018, this reduced earnings in the first quarter relative to 2017 by approximately $4.1 million. The rate change will not impact Newfoundland Power's annual earnings.

5. Revenue

The composition of the Company's revenue follows.

	Three Months Ended March 31 2018	2017
Electricity revenue		
Residential	$ 148,339	$ 151,538
Commercial	68,194	70,416
Street lighting	4,032	4,056
Regulatory deferrals and amortizations	(602)	1,402
	219,963	227,412
Other contract revenue	1,915	1,024
Interest and miscellaneous revenue	523	463
Total revenue	$ 222,401	$ 228,899

Electricity revenue
Newfoundland Power delivers electricity to residential and commercial customers and to municipalities for street lighting service. Revenue is recognized under the accrual method when service is rendered. Electricity is metered upon delivery to customers and recognized as revenue using approved rates when consumed. Meters are read periodically and bills are issued to customers based on these readings.

At the end of each period, an estimate of electricity consumed but not yet billed is accrued as revenue. The unbilled revenue accrual for each period is based on estimated electricity sales to customers for the period since the last meter reading at the rates approved by the PUB. The development of the electricity sales estimates requires analysis of electricity consumption on a historical basis in relation to key inputs such as the current price of electricity, population growth, economic activity, weather conditions and electricity system losses.

Revenue arising from the deferral and amortization of certain regulatory assets and liabilities is recognized in the manner prescribed by the PUB.

Other revenue
Other revenue is primarily the result of other contracts with customers including (i) revenue from telecommunication companies for pole attachments and other pole related services; (ii) wheeling revenue from Hydro for transmitting electricity to its customers using Newfoundland Power's electrical system; and, (iii) revenue from customers for services other than those directly related to delivery of electricity service. Revenue is recognized when the service is rendered.

Other revenue also includes interest revenue, the equity portion of allowance for funds used during construction ("AFUDC") and other miscellaneous amounts.

Contract balances
Contract asset balances are disclosed in Note 6 as trade accounts receivable and unbilled accounts receivable. The Company does not have any material contract liabilities or remaining performance obligations as at March 31, 2018 and December 31, 2017.

6. Accounts Receivable

The timing of revenue recognition, billings and cash collections from contracts with customers results in trade accounts receivable and unbilled accounts receivable. As prescribed by the PUB, interest at a rate equal to the prime rate plus 5% is charged on accounts receivable greater than $50 that have been outstanding for more than 30 days. Receivable balances reflect the seasonal nature of electricity consumption for heating and timing of cash collection from customers related to the Company's equal payment plan.

6. Accounts Receivable (cont'd)

The composition of the Company's accounts receivable follows.

	March 31, 2018	December 31, 2017
Trade accounts receivable	$ 68,561	$ 42,888
Unbilled accounts receivable	27,127	35,489
Other	1,690	2,987
Allowance for doubtful accounts	(2,139)	(1,668)
	$ 95,239	$ 79,696

7. Regulatory Assets and Liabilities

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

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

	March 31, 2018	December 31, 2017	Remaining Recovery Period (Years)
Regulatory assets			
Rate stabilization account	$ 8,133	$ 4,519	2
Other post-employment benefits ("OPEBs")	27,156	28,032	8
Conservation and demand management deferral	17,372	20,017	7
Employee future benefits	81,161	82,732	Benefit payment period
Weather normalization account	-	6,815	2
Deferred GRA costs	256	341	1
OPEB cost variance deferral account	1,540	-	2
Demand management incentive	-	2,128	2
Deferred income taxes	208,074	207,207	Life of related assets
Total regulatory assets	$ 343,692	$ 351,791	
Less: current portion	(15,821)	(14,027)	
Long-term regulatory assets	$ 327,871	$ 337,764	

	March 31, 2018	December 31, 2017	Remaining Settlement Period (Years)
Regulatory liabilities			
Rate stabilization account	$ -	$ 4,254	2
Cost recovery deferral	774	1,032	1
Weather normalization account	388	-	2
Pension expense variance deferral account	205	-	2
Energy supply cost variance	1,083	-	2
Future removal and site restoration provision	154,990	151,975	Life of related assets
Total regulatory liabilities	$ 157,440	$ 157,261	
Less: current portion	(979)	(1,032)	
Long-term regulatory liabilities	$ 156,461	$ 156,229	

8. Finance Charges

	Three Months Ended March 31 2018	2017
Interest – first mortgage sinking fund bonds	$ 8,973	$ 8,363
Interest – committed credit facility	151	300
Interest – other	7	5
Total interest expense	9,131	8,668
Amortization – debt issue costs	47	44
Amortization – committed credit facility costs	11	14
Debt portion of AFUDC	(45)	(33)
	$ 9,144	$ 8,693

9. Long-Term Debt

	March 31, 2018	December 31, 2017
First mortgage sinking fund bonds	$ 584,535	$ 584,535
Committed credit facility	37,000	12,000
	621,535	596,535
Less: current portion	(43,600)	(18,600)
	$ 577,935	$ 577,935
Less: deferred financing costs	(2,770)	(2,772)
	$ 575,165	$ 575,163

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

Newfoundland Power has unsecured bank credit facilities of $120 million comprised of a $100 million committed credit facility and a $20 million demand facility. The committed facility matures in August 2022. Subject to lenders' approval, the Company may request an extension for a further period of up to, but not exceeding, a five-year term.

Borrowings under the committed credit facility are in the form of bankers acceptances that primarily have a maturity of 30 days or less, bearing interest based on the daily Canadian Deposit Offering Rate for the date of borrowing plus a stamping fee. Standby fees on the unutilized portion of the committed credit facility are payable quarterly in arrears at a fixed rate of 0.16%. Interest on borrowings under the demand facility is calculated at the daily prime rate and is payable monthly in arrears.

The utilized and unutilized credit facilities as at March 31, 2018 and December 31, 2017 follow.

	March 31, 2018	December 31, 2017
Total credit facilities	$ 120,000	$ 120,000
Borrowings under committed credit facility	(37,000)	(12,000)
Borrowings under demand facility	(20)	(3,575)
Credit facilities available	$ 82,980	$ 104,425

10. Fair Value Measurement

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

The fair value of long-term debt, including current portion and committed credit facility, is classified as Level 2 based on the three level hierarchy utilized in measuring fair value. The fair value is calculated by discounting the future cash flows of each debt instrument at the estimated yield-to-maturity equivalent to benchmark government bonds, with similar terms to maturity, plus a credit risk premium equal to that of issuers of similar credit quality. Since the Company does not intend to settle its debt instruments before maturity, the fair value estimate does not represent an actual liability and, therefore, does not include settlement costs.

10. Fair Value Measurement (cont'd)

The fair value of long-term debt, including current portion and committed credit facility, as at March 31, 2018 and December 31, 2017 is as follows.

	March 31, 2018		December 31, 2017	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Long-term debt, including current portion and committed credit facility *(Note 9)*	$ 621,535	$ 756,073	$ 596,535	$ 736,500

As at March 31, 2018, the fair value of the Company's primary defined benefit pension plan assets was $418.4 million compared to $421.7 million as at December 31, 2017. The fair value measurements for all of the pension plan assets, as held in various pooled funds, are classified as Level 2.

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

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

11. Employee Future Benefits

The components of net benefit costs associated with the Company's defined benefit and OPEB plans, prior to capitalization, are as follows (Note 3).

	Three Months Ended March 31			
	2018		2017	
	Defined Benefit Pension Plans	OPEB Plan	Defined Benefit Pension Plans	OPEB Plan
Service costs	$ 1,312	$ 521	$ 1,198	$ 544
Interest costs	3,680	720	3,802	880
Expected return on plan assets	(5,287)	-	(5,142)	-
Amortization of net actuarial losses	1,479	-	1,228	149
Amortization of past service costs (credits)	53	(329)	53	(323)
	$ 1,237	$ 912	$ 1,139	$ 1,250
Regulatory adjustments				
Amortization of transitional obligations	-	-	333	357
Amortization of pension deferrals	206	-	206	-
Amortization of OPEB regulatory asset	-	876	-	876
Net benefit costs	$ 1,443	$ 1,788	$ 1,678	$ 2,483

For the three months ended March 31, 2018, the Company expensed $0.5 million (2017 - $0.5 million) related to its defined contribution pension plans.

In April 2018, Newfoundland Power received actuarial valuation results for its defined benefit pension plan, including the funding status of the plan as at December 31, 2017, on a going concern and solvency basis. On a going concern basis, the surplus increased from $32.1 million as at December 31, 2014 to $69.7 million as at December 31, 2017. On a solvency basis, the funding position increased from a deficit of $7.0 million as at December 31, 2014 to a surplus of $8.6 million as at December 31, 2017. The increase was primarily due to contributions to the plan since 2014 and favorable market returns, partially offset by a lower estimated discount rate.

Based on the December 2017 Actuarial Valuation Report, contributions for current service amounts are estimated to be $2.8 million in 2018, $2.8 million in 2019 and $2.7 million in 2020. The Company expects to have sufficient cash generated from operations to meet future pension funding requirements.

12. 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 operating expenses for the three months ended March 31, 2018 were $0.8 million (2017 - $0.7 million).

13. Commitments

There were no material changes in the nature and amount of the Company's commitments as disclosed in the Company's 2017 annual audited financial statements.

Second Quarter 2018

Second Quarter 2018

WHENEVER. WHEREVER.
We'll be there.

NEWFOUNDLAND POWER
A FORTIS COMPANY

INTERIM MANAGEMENT DISCUSSION AND ANALYSIS
For the Three and Six Month Periods Ended June 30, 2018

Dated July 30, 2018

The following interim Management Discussion and Analysis ("MD&A") should be read in conjunction with Newfoundland Power Inc.'s (the "Company" or "Newfoundland Power") condensed interim unaudited financial statements and notes thereto for the three and six month periods ended June 30, 2018 and the MD&A and annual audited financial statements for the year ended December 31, 2017. The MD&A has been prepared in accordance with National Instrument 51-102 - Continuous Disclosure Obligations. Financial information herein, all of which is unaudited, reflects Canadian dollars and accounting principles generally accepted in the United States of America ("U.S. GAAP"), including certain accounting practices unique to rate-regulated entities. These accounting practices are disclosed in Notes 2 and 6 to the Company's 2017 annual audited financial statements.

FORWARD-LOOKING STATEMENTS

Certain information herein is forward-looking within the meaning of applicable securities laws in Canada ("forward-looking information"). All forward-looking information is given pursuant to the "safe harbour" provisions of applicable Canadian securities legislation. 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; the amount of and the ability to meet future pension funding requirements; the expectation that no material adverse credit rating actions will occur in the near term; the Company's belief that it does not anticipate any difficulties in issuing bonds on reasonable market terms; the Company's expectations for employee future benefit costs; and, the forecast gross capital expenditures for 2018.

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 2018; 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; energy supply; purchased power cost; electricity prices; health, safety and environmental regulations; capital resources and liquidity; economic conditions; interest rates; cyber security; labour relations; human resources; operating and maintenance investment requirements; weather; insurance; defined benefit pension plan performance; information technology infrastructure; and, continued reporting in accordance with U.S. GAAP. For additional information with respect to these risk factors, reference should be made to the section entitled "Business Risk Management" in this MD&A.

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

Additional information, including the Company's quarterly and annual financial statements and MD&A, Annual Information Form and Management Information Circular, is available on the System for Electronic Document Analysis and Retrieval ("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 Newfoundland and Labrador. The Company is a subsidiary of Fortis Inc. ("Fortis"). Fortis is a leader in the North American electric and gas utility business, serving customers across Canada and in the United States and the Caribbean.

Newfoundland Power's primary business is electricity distribution. It generates approximately 7% of its electricity needs and purchases the remainder from Newfoundland and Labrador Hydro ("Hydro"). Newfoundland Power serves approximately 267,000 customers, comprising approximately 87% of all electricity consumers in the Province.

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

Regulation

Newfoundland Power is regulated by the Newfoundland and Labrador Board of Commissioners of Public Utilities (the "PUB"). The Company operates under cost of service regulation whereby it is entitled an 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.

On June 8, 2016, the PUB issued an order on the Company's 2016/2017 General Rate Application ("GRA") which established the Company's cost of capital for ratemaking purposes for 2016 through 2018 based upon an 8.50% return on equity ("ROE") and 45% common equity. The Company's rate of return on rate base for 2018 is 7.04%, with a range of 6.86% to 7.22%, compared to 7.19%, with a range of 7.01% to 7.37% for 2017.

On June 1, 2018, the Company filed a 2019/2020 GRA with the PUB for the purpose of setting customer rates effective March 1, 2019. The Company is proposing an overall average increase in customer rates of 1.2%. This proposed increase results from a full review of the Company's costs, including cost of capital, and customer rates. The application is currently under review by the PUB. A hearing on the application is expected in the fourth quarter of 2018.

On July 13, 2018, the Company filed an application with the PUB requesting approval of its 2019 capital expenditure plan totalling $93.3 million. The application is currently under review by the PUB.

Financial Highlights

	Three Months Ended June 30			Six Months Ended June 30		
	2018	**2017**	**Change**	**2018**	**2017**	**Change**
Electricity Sales *(gigawatt hours ("GWh"))* [1]	1,323.8	1,357.5	(33.7)	3,346.0	3,417.6	(71.6)
Earnings Applicable to Common Shares						
$ Millions	12.8	11.5	1.3	19.1	22.3	(3.2)
$ Per Share	1.24	1.11	0.13	1.85	2.16	(0.31)
Cash Flow from Operating Activities *($millions)*	34.4	31.5	2.9	36.2	26.9	9.3
Total Assets *($millions)*				1,580.6	1,544.2	36.4

[1] *Reflects normalized electricity sales.*

Electricity sales for the second quarter of 2018 decreased by 33.7 GWh, or 2.5%, compared to the second quarter of 2017. On a year-to-date basis, electricity sales decreased by 71.6 GWh, or 2.1%, compared to the same period in 2017. The decrease in electricity sales for the second quarter and year to date is due to a reduction in average consumption by residential and commercial customers of 3.2% and 2.8%, respectively. Lower average consumption by commercial customers was mainly due to the completion of Hebron's gravity based structure in the second quarter of 2017. The impact of the decrease in average consumption was partially offset by a 0.7% increase in electricity sales associated with an increase in the number of customers.

Earnings for the second quarter of 2018 increased by $1.3 million compared to the second quarter of 2017. On June 14, 2017 the PUB approved a 1.2% decrease in the wholesale electricity rate paid by Newfoundland Power to Hydro effective July 1, 2017 ("July 1, 2017 Wholesale Rate Change"). This translated into a 0.7% reduction in customer electricity rates for Newfoundland Power's customers effective July 1, 2017. This resulted in higher earnings of approximately $1.8 million in the second quarter of 2018. The rate change will not impact Newfoundland Power's annual earnings. See the "Quarterly Results" section of this MD&A.

Excluding the impact of the July 1, 2017 Wholesale Rate Change, earnings for the second quarter of 2018 decreased by $0.5 million compared to the second quarter of 2017. The decrease in earnings was primarily due to lower electricity sales and higher depreciation and financing costs reflecting continued investment in the electricity system. These impacts were partially offset by lower purchased power costs associated with demand charges from Hydro, higher revenue from telecommunication companies and lower operating costs.

On a year-to-date basis, earnings decreased by $3.2 million compared to the same period in 2017. Approximately $2.3 million of the decrease was due to the July 1, 2017 Wholesale Rate Change, as discussed above. Excluding the impact of the July 1, 2017 Wholesale Rate Change, year-to-date earnings decreased by $0.9 million compared to the same period in 2017. This reflects the same factors discussed above for the second quarter.

Cash from operating activities for the second quarter of 2018 increased by $2.9 million compared to the second quarter of 2017 and $9.3 million on a year-to-date basis. The increase reflects changes in the Company's cash working capital. This includes the impact of the recovery of HST in the second quarter of 2017 on refunds issued to customers related to Hydro's RSP in the first quarter of 2017.

Total assets as at June 30, 2018 increased by $36.4 million compared to June 30, 2017. This increase primarily reflects continued investment in the electricity system.

RESULTS OF OPERATIONS

Revenue

	Three Months Ended June 30			Six Months Ended June 30		
($millions)	**2018**	**2017**	**Change**	**2018**	**2017**	**Change**
Electricity Revenue [1]	147.3	153.6	(6.3)	367.3	381.0	(13.7)
Other Revenue [2]	2.5	1.6	0.9	4.9	3.1	1.8
Total Revenue	149.8	155.2	(5.4)	372.2	384.1	(11.9)

[1] *Electricity revenue includes regulatory deferrals and amortizations recognized pursuant to PUB orders of approximately $(0.7) million and $(1.3) million for the three and six months ended 2018, respectively (2017 - $1.2 million and $2.6 million, respectively).*

[2] *Other revenue includes revenue from telecommunication companies, interest revenue associated with customer accounts and other miscellaneous amounts.*

Electricity revenue for the second quarter of 2018 decreased by $6.3 million compared to the second quarter of 2017 and decreased by $13.7 million on a year-to-date basis. The decrease primarily reflects lower electricity sales and the July 1, 2017 Wholesale Rate Change. The revenue decrease also reflects lower regulatory amortizations recognized pursuant to PUB orders.

The amortization of regulatory liabilities and deferrals includes the pension expense variance deferral ("PEVDA"), the other post-employment benefits ("OPEB") cost variance deferral, and the amortization of annual customer energy conservation program costs. These regulatory mechanisms are described in Note 6 to the Company's 2017 annual audited financial statements.

Other revenue for the second quarter of 2018 was $0.9 million higher than the second quarter of 2017 and $1.8 million higher on a year-to-date basis. The increase for the quarter and year to date includes $0.8 million and $1.3 million, respectively, associated with a change in accounting policy. The increase also reflects higher revenue from telecommunication companies. See the "Changes in Accounting Policies" section of this MD&A.

Purchased Power: Purchased power expense for the second quarter of 2018 decreased by $7.4 million compared to the second quarter of 2017 and decreased by $8.2 million on a year-to-date basis. The decrease for the second quarter and year to date was primarily due to lower energy purchases, lower demand charges from Hydro, and the July 1, 2017 Wholesale Rate Change. The change in the wholesale electricity rate paid by Newfoundland Power to Hydro favorably impacted purchased power expense for the second quarter, while unfavorably impacting purchased power costs year to date. See the "Quarterly Results" section of this MD&A.

Operating Expenses: Operating expenses for the second quarter of 2018 increased by $0.4 million compared to the second quarter of 2017 and increased by $0.7 million on a year-to-date basis. The increase for the second quarter and year to date was primarily due to $0.8 million and $1.3 million, respectively, associated with a change in accounting policy. Excluding the impact of the change in accounting policy, operating expenses for the second quarter and year to date decreased by $0.4 million and $0.6 million, respectively. The decrease was primarily due to lower corporate costs, partially offset by inflationary increases and the impact of regulatory deferrals and amortizations due to the normal operation of regulatory mechanisms. Also contributing to the decrease year to date was lower labor costs as a result of March restoration efforts in the first quarter of 2017.

Employee Future Benefits: Employee future benefits for the second quarter of 2018 were $1.0 million lower than the second quarter of 2017 and $2.0 million lower on a year-to-date basis. The decrease for the second quarter and year to date was primarily due to the expiry of regulatory amortizations in 2017 and also reflects a reduction in claims costs experience associated with the OPEB plan.

Depreciation and Amortization: Depreciation and amortization expense for the second quarter of 2018 was $0.8 million higher than the second quarter of 2017 and $1.3 million higher on a year-to-date basis. The increase for the second quarter and year to date reflects the Company's capital expenditure program.

Amortization of Cost Recovery Deferral: As a result of the PUB's order on the 2016/2017 GRA and the related customer rate change on July 1, 2016, the Company recorded a $2.6 million over-recovery from customer rates in 2016. This over-recovery in 2016 was ordered to be amortized in customer rates over a 30-month period from July 1, 2016 through December 31, 2018. Amortization of $0.3 million and $0.5 million was recognized for the second quarter and year-to-date periods of 2018 and 2017, respectively.

Finance Charges: Finance charges for the second quarter of 2018 were $0.3 million higher than the second quarter of 2017 and $0.8 million higher on a year-to-date basis. The increase for the second quarter and year to date was primarily due to higher long-term debt and related interest charges associated with continued investment in the electricity system.

Income Tax Expense: Income tax expense for the second quarter of 2018 was $0.3 million higher than the second quarter of 2017, primarily due to higher pre-tax earnings.

On a year-to-date basis income tax expense was $1.2 million lower than the same period in 2017, primarily due to lower pre-tax earnings.

FINANCIAL POSITION

Explanations of the primary causes of significant changes in the Company's balance sheets between December 31, 2017 and June 30, 2018 follow.

($millions)	Increase (Decrease)	Explanation
Accounts Receivable	(12.7)	Decrease reflects the seasonal nature of electricity consumption for heating, and normal timing differences relating to both the operation of the Company's equal payment plan for its customers, and the collection and payment of municipal taxes.
Property, Plant and Equipment	11.6	Increase due to investment in the electricity system, in accordance with the 2018 capital expenditure program, partially offset by depreciation and customer contributions in aid of construction.
Regulatory Assets	(9.3)	Decrease due to the normal operation of the Company's approved regulatory accounts. See Note 7 to the Company's June 30, 2018 condensed interim unaudited financial statements.
Accounts Payable and Accrued Charges	(36.3)	Decrease reflects reduced purchased power costs related to lower energy consumption in June 2018 compared to December 2017, as well as the timing of payments.
Long-term Debt, including Current Portion	19.5	Represents additional debt required to finance growth in rate base and ongoing operating activities.
Retained Earnings	6.0	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 asset expenditures, service and repay debt, and pay dividends. A summary of second quarter and year-to-date cash flows and cash position for 2018 and 2017 follows.

	Three Months Ended June 30			Six Months Ended June 30		
($millions)	**2018**	**2017**	**Change**	**2018**	**2017**	**Change**
Cash, Beginning of Period	-	-	-	-	-	-
Operating Activities	34.4	31.5	2.9	36.2	26.9	9.3
Investing Activities	(23.1)	(21.1)	(2.0)	(39.4)	(35.8)	(3.6)
Financing Activities	(11.3)	(10.4)	(0.9)	3.2	8.9	(5.7)
Cash, End of Period	-	-	-	-	-	-

Operating Activities

Cash from operating activities for the second quarter of 2018 increased by $2.9 million compared to the second quarter of 2017 and $9.3 million on a year-to-date basis. The increase reflects changes in the Company's cash working capital. This includes the impact of the recovery of HST in the second quarter of 2017 on refunds issued to customers related to Hydro's RSP in the first quarter of 2017.

Investing Activities

Cash used in investing activities for the second quarter of 2018 increased by $2.0 million compared to the second quarter of 2017 and increased by $3.6 million on a year-to-date basis. The increase for the second quarter and year to date reflects higher capital and intangible asset expenditures and lower contributions received from customers.

A summary of second quarter and year-to-date 2018 and 2017 capital and intangible asset expenditures follows.

	Three Months Ended June 30			Six Months Ended June 30		
($millions)	**2018**	**2017**	**Change**	**2018**	**2017**	**Change**
Electricity System						
Generation	0.5	0.4	0.1	1.0	0.8	0.2
Transmission	2.1	1.1	1.0	2.3	1.4	0.9
Substations	3.4	2.5	0.9	4.9	3.8	1.1
Distribution	11.8	12.1	(0.3)	21.3	22.4	(1.1)
Other	4.1	5.0	(0.9)	8.0	8.1	(0.1)
Intangible Assets	1.3	1.2	0.1	1.8	1.7	0.1
Capital and Intangible Asset Expenditures	23.2	22.3	0.9	39.3	38.2	1.1

The Company's business is capital intensive. Capital investment is required to ensure safe, reliable electrical system performance and to meet customer growth. All costs considered to be repairs and maintenance are expensed as incurred. Capital investment is also required 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 year-to-year depending upon both planned electricity system expenditures and unplanned expenditures arising from weather or other unforeseen events.

The Company's annual capital plan requires prior PUB approval. Variances between actual and planned expenditures are generally subject to PUB review prior to inclusion in the Company's rate base. The PUB has approved the Company's 2018 capital plan which provides for capital expenditures of approximately $83.9 million, approximately 54% of which relates to the replacement of existing assets.

Financing Activities

Cash provided by financing activities for the second quarter of 2018 decreased by $0.9 million compared to the second quarter of 2017 and decreased by $5.7 million on a year-to-date basis. The decrease for the second quarter and year to date was primarily due to lower net proceeds from the Company's credit facilities as a result of higher cash from operations.

The Company has historically generated sufficient annual cash flows from operating activities to service annual interest and sinking fund payments on debt, to fund pension obligations, to pay dividends and to finance a major portion of its annual capital program. Additional financing to fully fund the annual capital program is primarily obtained through the Company's bank credit facilities and these borrowings are periodically refinanced, along with any maturing bonds, through the issuance of long-term first mortgage sinking fund bonds. The issuance of bonds is subject to prior PUB approval and to a mortgage trust deed requirement that the ratio of (i) annual earnings, before tax and bond interest, to (ii) annual bond interest incurred plus annual bond interest to be incurred on the contemplated bond issue, be two times or higher. The Company currently does not expect any material changes in these annual cash flow and financing dynamics over the foreseeable future.

Credit Facilities: The Company's credit facilities are comprised of a $100 million committed revolving term credit facility and a $20 million demand facility as detailed below.

($millions)	**June 30, 2018**	**December 31, 2017**
Total Credit Facilities	120.0	120.0
Borrowing, Committed Facility	(31.5)	(12.0)
Borrowing, Demand Facility	(1.2)	(3.6)
Credit Facilities Available	87.3	104.4

The committed facility matures in August 2022. Subject to lenders' approval, an extension of maturity for a further period of up to, but not exceeding, five years may be granted.

Pensions: As at June 30, 2018, the fair value of the Company's primary defined benefit pension plan assets was $424.0 million compared to $421.7 million as at December 31, 2017.

In April 2018, Newfoundland Power received actuarial valuation results for its defined benefit pension plan, including the funding status of the plan as at December 31, 2017, on a going concern and solvency basis. On a going concern basis, the surplus increased from $32.1 million as at December 31, 2014 to $69.7 million as at December 31, 2017. On a solvency basis, the funding position increased from a deficit of $7.0 million as at December 31, 2014 to a surplus of $8.6 million as at December 31, 2017. The increase was primarily due to contributions to the plan since 2014 and favorable market returns, partially offset by a lower estimated discount rate.

Based on the December 2017 Actuarial Valuation Report, contributions for current service amounts are estimated to be $2.8 million in 2018, $2.8 million in 2019 and $2.7 million in 2020. The Company expects to have sufficient cash generated from operations to meet future pension funding requirements.

Contractual Obligations: Details, as at June 30, 2018, of 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)	31.5	31.5	-	-	-
First Mortgage Sinking Fund Bonds [1]	584.5	6.6	42.8	40.4	494.7
Interest obligations on long-term debt	559.0	35.8	69.7	61.8	391.7
Total	1,175.0	73.9	112.5	102.2	886.4

[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 endeavors to maintain its investment grade credit ratings. Details of the Company's investment grade bond ratings follow.

	June 30, 2018		December 31, 2017	
Rating Agency	**Rating**	**Outlook**	**Rating**	**Outlook**
Moody's Investors Service ("Moody's")	A2	Stable	A2	Stable
DBRS	A	Stable	A	Stable

During the first quarter of 2018, Moody's issued an updated credit rating report confirming the Company's existing investment grade bond rating and rating outlook.

Newfoundland Power maintains an average annual capital structure comprised of approximately 55% debt and preference equity and 45% common equity. This capital structure is reflected in customer rates and is consistent with the Company's current investment grade credit ratings.

The Company's capital structure follows.

	June 30, 2018		December 31, 2017	
	$millions	**%**	**$millions**	**%**
Total Debt [1]	614.5	55.0	597.2	54.6
Common Equity	493.9	44.2	487.8	44.6
Preference Equity	8.9	0.8	8.9	0.8
Total	1,117.3	100.0	1,093.9	100.0

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

The Company expects to maintain its current investment grade credit ratings in 2018.

Capital Stock and Dividends: During the second quarter and year-to-date periods of 2018 and 2017, the weighted average number of common shares outstanding was 10,320,270. In 2018, the quarterly common share dividend increased to $0.66 per share compared to $0.64 per share in 2017. The Company's common share dividend policy maintains the average capital structure that includes 45% common equity.

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 operating expenses for the second quarter and year-to-date periods of 2018 were $0.3 million and $1.1 million, respectively (2017 - $0.6 million and $1.2 million, respectively).

FINANCIAL INSTRUMENTS

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

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

The carrying and estimated fair values of the Company's long-term debt follows.

	June 30, 2018		**December 31, 2017**	
($millions)	**Carrying Value**	**Estimated Fair Value**	**Carrying Value**	**Estimated Fair Value**
Long-term debt, including current portion and committed credit facility	616.0	753.3	596.5	736.5

BUSINESS RISK MANAGEMENT

There were no material changes to the Company's business risks during the first half of 2018, with the exception of the following.

Approximately 55% of the Company's employees are members of the International Brotherhood of Electrical Workers labour union (the "IBEW"), which has two collective bargaining agreements with the Company. The two agreements expired on September 30, 2017. Collective agreement negotiations with the IBEW commenced in the fourth quarter of 2017. Conciliation proceedings occurred in the second quarter of 2018, and no tentative agreements have been reached to date. The inability to maintain or renew the collective bargaining agreements on acceptable terms could result in increased labor costs, or service interruptions arising from labor disputes that are not provided for in approved rates and that could have a material adverse effect on the results of operations, cash flows and financial position of the Company.

CHANGES IN ACCOUNTING POLICIES

Revenue from Contracts with Customers: Effective January 1, 2018, the Company adopted Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts with Customers*, which requires that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The Company adopted the standard using the modified retrospective method, under which the comparative figures were not restated. The majority of the Company's revenue is generated from electricity sales to customers based on published tariff rates, as approved by the PUB. The adoption of this standard does not change the Company's revenue recognition policy and does not have an impact on net earnings. The Company did, however, change the presentation of other contract revenue to be on a gross basis effective January 1, 2018. This resulted in an increase in revenue and operating expenses. Additional disclosure on Newfoundland Power's revenue as a result of the adoption of ASC Topic 606 is provided in Note 5 to the Company's condensed interim unaudited financial statements.

Improving the Presentation of Net Periodic Pension Cost and Net Periodic Post-retirement Benefit Cost: Effective January 1, 2018, the Company adopted Accounting Standards Update ("ASU") No. 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Post-retirement Benefit Cost*. This standard requires that an employer disaggregate the current service cost component of net benefit cost and present it in the same statement of earnings line item as other employee compensation costs arising from services rendered. The other components of net benefit cost are required to be presented separately from the service cost component and outside of operating income. Additionally, the amendments allow only the service cost component to be eligible for capitalization, when applicable.

The adoption of this update was applied retrospectively for the presentation of net periodic benefit costs and prospectively for the capitalization in assets of only the service cost component of net periodic benefit cost. This change in presentation resulted in an increase in operating expenses and a corresponding decrease in employee future benefits of $2.0 million and $4.0 million on the statement of earnings for the three and six months ended June 30, 2017, respectively. Service costs are included in operating expenses and the other components of net benefit costs are included in employee future benefits on the statement of earnings. There was no impact on net earnings.

FUTURE ACCOUNTING PRONOUNCEMENTS

The Company considers the applicability and impact of all ASUs issued by the Financial Accounting Standards Board ("FASB"). The following update has been issued by the FASB, but has not yet been adopted by Newfoundland Power. Any ASUs not included below were assessed and determined to be either not applicable to the Company or are not expected to have a material impact on the financial statements.

Leases

ASU No. 2016-02 was issued in February 2016 and the amendments in this update create ASC Topic 842, *Leases*, and supersede lease requirements in ASC Topic 840, *Leases*. The main provision of ASC Topic 842 is the recognition of lease assets and lease liabilities on the balance sheet by lessees for those leases that were previously classified as operating leases. ASU No. 2018-01 was issued in January 2018 and provides an additional optional transition practical expedient to not evaluate existing land easements that were not previously accounted for as leases. These updates are effective for annual and interim periods beginning after December 15, 2018 and are to be applied using a modified retrospective approach with practical expedient options. Early adoption is permitted.

Newfoundland Power is assessing the impact that the adoption of these updates will have on its financial statements and related disclosures. The Company expects to elect a package of practical expedients that allow entities to not reassess whether any expired or existing contract is a lease or contains a lease, the lease classification of any expired or existing leases, and the initial direct costs for any existing leases. Any significant developments in its implementation efforts could change the Company's expected election of transition practical expedients.

CRITICAL ACCOUNTING ESTIMATES

There were no material changes to the Company's critical accounting estimates during the first half of 2018. Interim financial statements, however, tend to employ a greater use of estimates than the annual financial statements.

QUARTERLY RESULTS

The following table sets forth unaudited quarterly information for each of the eight quarters ended September 30, 2016 through June 30, 2018. The quarterly information reflects Canadian dollars and has been obtained from the Company's condensed interim unaudited financial statements which have been prepared in accordance with U.S. GAAP. These financial results are not necessarily indicative of results for any future period and should not be relied upon to predict future performance.

	Second Quarter June 30		**First Quarter March 31**		**Fourth Quarter December 31**		**Third Quarter September 30**	
(Unaudited)	**2018**	**2017**	**2018**	**2017**	**2017**	**2016**	**2017**	**2016**
Electricity Sales *(GWh)* [1]	1,323.8	1,357.5	2,022.2	2,060.0	1,577.9	1,618.0	926.7	950.9
Revenue *($millions)*	149.8	155.2	222.4	228.9	178.4	182.4	109.9	112.3
Net Earnings Applicable to Common Shares *($millions)*	12.8	11.5	6.3	10.8	10.8	11.0	7.9	7.9
Earnings per Common Share *($)* [2]	1.24	1.11	0.61	1.05	1.04	1.06	0.77	0.77

[1] *Reflects normalized electricity sales.*
[2] *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: In addition to 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. Overall, these sales, revenue and cost dynamics are such that earnings will generally be lower in the first quarter than the remaining quarters in the year.

The PUB approved a change in the wholesale electricity rate paid by Newfoundland Power to Hydro effective July 1, 2017. As a result, the Company will pay more for purchased power in the winter months and less in the summer months. In 2018, this reduced earnings in the first quarter relative to 2017 by approximately $4.1 million and increased earnings in the second quarter relative to 2017 by approximately $1.8 million. The rate change will not impact Newfoundland Power's annual earnings.

Trending

Sales and Revenue: The decrease in quarterly electricity sales year-over-year reflect lower average consumption by residential and commercial customers, partially offset by growth in the number of customers served by the Company. Future sales and customer growth is expected to be lower than in recent years.

Earnings: As a result of the July 1, 2017 change in the wholesale electricity rates, quarterly earnings for 2018 will not be comparable with 2017. In 2018, this will reduce earnings in the first and fourth quarters and increase earnings in the second and third quarters relative to 2017.

In addition to the impact of expected lower 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.

2019/2020 General Rate Application: On June 1, 2018, the Company filed a 2019/2020 GRA with the PUB for the purpose of setting customer rates effective March 1, 2019, proposing an overall average increase in customer rates of 1.2%. See the "Regulation" section of this MD&A.

Supply Costs: Newfoundland Power purchases approximately 93% of its electricity requirements from Hydro. A significant portion of customer electricity rates is dependent on purchased power costs, which are outside of Newfoundland Power's control.

Hydro filed a 2017 GRA with the PUB on July 28, 2017. The application originally proposed to increase the wholesale electricity rate charged to Newfoundland Power by 9.7% on January 1, 2018 and 9.4% on January 1, 2019. On May 28, 2018, the PUB approved a 4.1% interim increase in the wholesale electricity rate charged to Newfoundland Power effective July 1, 2018. This translates into a 2.6% increase in customer electricity rates for Newfoundland Power's customers effective July 1, 2018. Hydro's 2017 GRA continues to be under review by the PUB.

Future increases in supply costs from Hydro, including costs associated with Nalcor Energy's Muskrat Falls hydroelectric generation development and associated transmission assets, will increase electricity rates that Newfoundland Power charges to its customers. Increases in customer electricity rates can cause changes in customer electricity consumption, which could negatively impact the Company's sales.

Customer Rates: Effective July 1, 2018, there was an overall increase in customer electricity rates of approximately 6.8%. The rate increase is the net result of a flow-through adjustment to Newfoundland Power's customer electricity rates resulting from the interim rate increase associated with Hydro's 2017 GRA, as discussed in "Supply Costs" above, and the annual review of Newfoundland Power's Rate Stabilization Account ("RSA").

Variances in Hydro's cost of fuel used to generate electricity are captured in the Hydro RSP and flowed-through to the Company's customers through the operation of the Company's RSA. The RSA also captures variances in certain Newfoundland Power costs including energy supply and employee future benefit costs.

The increase in customer rates has no impact on annual earnings for Newfoundland Power.

OUTSTANDING SHARES

As at the filing date of this MD&A the Company had issued and outstanding 10,320,270 common shares; 179,225 first preference shares, Series A; 337,983 first preference shares, Series B; 191,540 first preference shares, Series D; and 182,900 first preference shares, Series G. Each of the common shares and first preference shares carry voting rights equal to one vote per share.

CORPORATE INFORMATION

Additional information about Newfoundland Power, including its Annual Information Form and Management Information Circular, is available on SEDAR at www.sedar.com.

All the common shares of Newfoundland Power Inc. are owned by Fortis Inc., a leader in the North American regulated electric and gas utility business with total assets of approximately $50 billion and fiscal 2017 revenue of $8.3 billion. Approximately 8,500 employees of Fortis Inc. serve utility customers in five Canadian provinces, nine U.S. states and three Caribbean countries.

Fortis shares are listed on the TSX and NYSE and trade under the symbol FTS. Additional information can be accessed at www.fortisinc.com, www.sedar.com, or www.sec.gov.

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Condensed Statements of Earnings (Unaudited)

For the Three and Six Months Ended June 30

(in thousands of Canadian dollars, except per share amounts)

	Three Months Ended		Six Months Ended	
	2018	2017	2018	2017
Revenue *(Note 5)*	$ 149,846	$ 155,203	$ 372,247	$ 384,102
Expenses				
Purchased power	87,964	95,335	256,074	264,250
Operating expenses	18,334	17,897	38,540	37,804
Employee future benefits	1,391	2,419	2,786	4,833
Depreciation and amortization	16,692	15,917	32,151	30,934
Amortization of cost recovery deferral *(Note 7)*	(258)	(258)	(516)	(516)
Finance charges	9,152	8,853	18,296	17,546
	133,275	140,163	347,331	354,851
Earnings Before Income Taxes	16,571	15,040	24,916	29,251
Income tax expense	3,651	3,397	5,529	6,664
Net Earnings	12,920	11,643	19,387	22,587
Preference share dividends	139	139	277	278
Net Earnings Applicable to Common Shares	$ 12,781	$ 11,504	$ 19,110	$ 22,309
Basic and Diluted Earnings per Common Share	$ 1.24	$ 1.11	$ 1.85	$ 2.16

Condensed Statements of Changes in Shareholders' Equity (Unaudited)

For the Six Months Ended June 30

(in thousands of Canadian dollars, except per share amounts)

	Common Shares	Preference Shares	Retained Earnings	Total Equity
As at January 1, 2018	$ 70,321	$ 8,917	$ 417,517	**$ 496,755**
Net earnings	-	-	19,387	**19,387**
Allocation of Part VI.1 tax	-	-	550	**550**
Dividends on common shares ($1.32 per share)	-	-	(13,623)	**(13,623)**
Dividends on preference shares	-	-	(277)	**(277)**
Redemption of preference shares	-	(1)	-	**(1)**
As at June 30, 2018	$ 70,321	$ 8,916	$ 423,554	**$ 502,791**
As at January 1, 2017	$ 70,321	$ 8,930	$ 414,954	**$ 494,205**
Net earnings	-	-	22,587	**22,587**
Allocation of Part VI.1 tax	-	-	288	**288**
Dividends on common shares ($1.28 per share)	-	-	(13,210)	**(13,210)**
Dividends on preference shares	-	-	(278)	**(278)**
Redemption of preference shares	-	(3)	-	**(3)**
As at June 30, 2017	$ 70,321	$ 8,927	$ 424,341	**$ 503,589**

See accompanying notes to condensed interim financial statements.

Condensed Balance Sheets (Unaudited)

As at

(in thousands of Canadian dollars)

	June 30, 2018	December 31, 2017
Assets		
Current assets		
Accounts receivable *(Note 6)*	$ 66,952	$ 79,696
Income taxes receivable	-	68
Materials and supplies	1,596	1,465
Prepaid expenses	554	2,022
Regulatory assets *(Note 7)*	15,137	14,027
	84,239	97,278
Property, plant and equipment (net)	1,130,231	1,118,644
Intangible assets	22,695	22,501
Defined benefit pension plans	13,891	11,206
Regulatory assets *(Note 7)*	327,334	337,764
Other assets	2,161	1,631
	$ 1,580,551	$ 1,589,024
Liabilities and Shareholders' Equity		
Current liabilities		
Short-term borrowings	$ 1,182	$ 3,575
Accounts payable and accrued charges	47,508	83,775
Interest payable	6,785	6,785
Income taxes payable	2,242	-
Defined benefit pension plans	246	1,055
Other post-employment benefits	3,672	3,640
Regulatory liabilities *(Note 7)*	653	1,032
Current instalments of long-term debt *(Note 8)*	38,100	18,600
	100,388	118,462
Regulatory liabilities *(Note 7)*	159,972	156,229
Defined benefit pension plans	5,342	5,263
Other post-employment benefits	79,187	78,151
Other liabilities	849	1,066
Deferred income taxes	156,810	157,935
Long-term debt *(Note 8)*	575,212	575,163
	1,077,760	1,092,269
Commitments *(Note 12)*		
Shareholders' equity		
Common shares, no par value, unlimited authorized shares, 10.3 million shares issued and outstanding	70,321	70,321
Preference shares	8,916	8,917
Retained earnings	423,554	417,517
	502,791	496,755
	$ 1,580,551	$ 1,589,024

See accompanying notes to condensed interim financial statements.

Condensed Statements of Cash Flows (Unaudited)

For the Three and Six Months Ended June 30

(in thousands of Canadian dollars)

	Three Months Ended 2018	Three Months Ended 2017	Six Months Ended 2018	Six Months Ended 2017
Operating Activities				
Net earnings	$ 12,920	$ 11,643	$ 19,387	$ 22,587
Adjustments to reconcile net earnings to net cash provided by operating activities:				
Depreciation of property, plant and equipment	15,870	15,157	30,507	29,397
Amortization of intangible assets and other	880	820	1,759	1,655
Change in long-term regulatory assets and liabilities	2,353	1,889	9,450	5,734
Deferred income taxes	593	355	(3,186)	(689)
Employee future benefits	508	565	362	1,351
Other	203	92	440	192
Change in non-cash working capital	1,023	984	(22,519)	(33,329)
	34,350	31,505	36,200	26,898
Investing Activities				
Capital expenditures	(21,933)	(21,167)	(37,445)	(36,483)
Intangible asset expenditures	(1,288)	(1,158)	(1,838)	(1,699)
Contributions from customers	333	1,127	690	2,308
Other	(172)	95	(769)	40
	(23,060)	(21,103)	(39,362)	(35,834)
Financing Activities				
Change in short-term borrowings	1,162	1,094	(2,393)	(321)
Net (repayments) borrowings under committed credit facility	(5,500)	(79,500)	19,500	(52,000)
Proceeds from long-term debt	-	75,000	-	75,000
Redemption of preference shares	(1)	-	(1)	(3)
Payment of debt financing costs	-	(252)	(44)	(252)
Dividends				
Preference shares	(139)	(139)	(277)	(278)
Common shares	(6,812)	(6,605)	(13,623)	(13,210)
	(11,290)	(10,402)	3,162	8,936
Change in Cash	-	-	-	-
Cash, Beginning of Period	-	-	-	-
Cash, End of Period	$ -	$ -	$ -	$ -
Cash Flows Include the Following:				
Interest paid	$ 13,218	$ 12,026	$ 18,248	$ 17,217
Income taxes paid	$ 2,928	$ 2,855	$ 5,855	$ 6,855

See accompanying notes to condensed interim financial statements.

Notes to Condensed Interim Financial Statements (Unaudited)
For the Three and Six Months Ended June 30, 2018 and 2017 (unless otherwise noted)

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

1. Description of the Business

Newfoundland Power Inc. (the "Company" or "Newfoundland Power") is a regulated electricity utility that operates an integrated generation, transmission and distribution system throughout the island portion of Newfoundland and Labrador. The Company is regulated by the Newfoundland and Labrador Board of Commissioners of Public Utilities (the "PUB") and serves approximately 267,000 customers comprising approximately 87% of all electricity consumers in the Province. All of the common shares of the Company are owned by Fortis Inc. ("Fortis"). Newfoundland Power has an installed generating capacity of 139 megawatts ("MW"), of which approximately 97 MW is hydroelectric generation. It generates approximately 7% of its energy needs and purchases the remainder from Newfoundland and Labrador Hydro ("Hydro").

The Company operates under cost of service regulation as administered by the PUB under the *Public Utilities Act (Newfoundland and Labrador)* ("Public Utilities Act"). The Public Utilities Act provides for the PUB's general supervision of the Company's utility operations and requires the PUB to approve, among other things, customer rates, capital expenditures and the issuance of securities. The Public Utilities Act also entitles the Company an opportunity to recover 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 consists of the net assets required by the Company to provide electricity service to customers.

On June 8, 2016, the PUB issued an order on the Company's 2016/2017 General Rate Application ("GRA") which established the Company's cost of capital for ratemaking purposes for 2016 through 2018 based upon an 8.50% return on equity ("ROE") and 45% common equity. The Company's rate of return on rate base for 2018 is 7.04%, with a range of 6.86% to 7.22%, compared to 7.19%, with a range of 7.01% to 7.37% for 2017.

On June 1, 2018, the Company filed a 2019/2020 GRA with the PUB for the purpose of setting customer rates effective March 1, 2019. The Company is proposing an overall average increase in customer rates of 1.2%. This proposed increase results from a full review of the Company's costs, including cost of capital, and customer rates. The application is currently under review by the PUB. A hearing on the application is expected in the fourth quarter of 2018.

2. Basis of Presentation

These condensed interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial statements and do not include all of the disclosures provided in the annual audited financial statements. These condensed interim financial statements should be read in conjunction with the Company's 2017 annual audited financial statements.

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. There were no material changes to the Company's significant accounting estimates during the three and six months ended June 30, 2018.

An evaluation of subsequent events through July 30, 2018, the date these condensed interim financial statements were issued, was completed and it was determined there were no circumstances that warranted recognition and disclosure of events or transactions in the condensed interim financial statements as at June 30, 2018.

The accounting policies and methods of their application followed in the preparation of these condensed interim financial statements are the same as those followed in the preparation of the Company's 2017 annual audited financial statements, except as disclosed in Note 3.

3. Changes in Accounting Policies

New Accounting Policies

Revenue from Contracts with Customers

Effective January 1, 2018, the Company adopted Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts with Customers*, which requires that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The Company adopted the standard using the modified retrospective method, under which comparative figures were not restated. The majority of the Company's revenue is generated from electricity sales to customers based on published tariff rates, as approved by the PUB. The adoption of this standard does not change the Company's revenue recognition policy and does not have an impact on net earnings. The Company did, however, change the presentation of other contract revenue to be on a gross basis effective January 1, 2018. This resulted in an increase in revenue and operating expenses. Additional disclosure on Newfoundland Power's revenue as a result of the adoption of ASC Topic 606 is provided in Note 5.

Improving the Presentation of Net Periodic Pension Cost and Net Periodic Post-retirement Benefit Cost

Effective January 1, 2018, the Company adopted Accounting Standards Update ("ASU") No. 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Post-retirement Benefit Cost*. This standard requires that an employer disaggregate the current service cost component of net benefit cost and present it in the same statement of earnings line item as other employee compensation costs arising from services rendered. The other components of net benefit cost are required to be presented separately from the service cost component and outside of operating income. Additionally, the amendments allow only the service cost component to be eligible for capitalization, when applicable.

The adoption of this update was applied retrospectively for the presentation of net periodic benefit costs and prospectively for the capitalization in assets of only the service cost component of net periodic benefit cost. This change in presentation resulted in an increase in operating expenses and a corresponding decrease in employee future benefits of $2.0 million and $4.0 million on the statement of earnings for the three and six months ended June 30, 2017, respectively (Note 10). Service costs are included in operating expenses and the other components of net benefit costs are included in employee future benefits on the statement of earnings. There was no impact on net earnings.

Future Accounting Pronouncements

The Company considers the applicability and impact of all ASUs issued by the Financial Accounting Standards Board ("FASB"). The following update has been issued by the FASB, but has not yet been adopted by Newfoundland Power. Any ASUs not included below were assessed and determined to be either not applicable to the Company or are not expected to have a material impact on the financial statements.

Leases

ASU No. 2016-02 was issued in February 2016 and the amendments in this update create ASC Topic 842, *Leases*, and supersede lease requirements in ASC Topic 840, *Leases*. The main provision of ASC Topic 842 is the recognition of lease assets and lease liabilities on the balance sheet by lessees for those leases that were previously classified as operating leases. ASU No. 2018-01 was issued in January 2018 and provides an additional optional transition practical expedient to not evaluate existing land easements that were not previously accounted for as leases. These updates are effective for annual and interim periods beginning after December 15, 2018 and are to be applied using a modified retrospective approach with practical expedient options. Early adoption is permitted.

Newfoundland Power is assessing the impact that the adoption of these updates will have on its financial statements and related disclosures. The Company expects to elect a package of practical expedients that allow entities to not reassess whether any expired or existing contract is a lease or contains a lease, the lease classification of any expired or existing leases, and the initial direct costs for any existing leases. Any significant developments in its implementation efforts could change the Company's expected election of transition practical expedients.

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: In addition to 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.

Overall, these sales, revenue and cost dynamics are such that earnings will generally be lower in the first quarter than the remaining quarters in the year.

The PUB approved a change in the wholesale electricity rate paid by Newfoundland Power to Hydro effective July 1, 2017. As a result, the Company will pay more for purchased power in the winter months and less in the summer months. In 2018, this increased earnings in the second quarter relative to 2017 by approximately $1.8 million and reduced earnings year to date relative to 2017 by approximately $2.3 million. The rate change will not impact Newfoundland Power's annual earnings.

5. Revenue

The composition of the Company's revenue follows.

	Three Months Ended June 30		Six Months Ended June 30	
	2018	**2017**	**2018**	**2017**
Electricity revenue				
Residential	$ 92,603	$ 96,407	$ 240,942	$ 247,947
Commercial	51,394	51,981	119,588	122,397
Street lighting	4,067	4,037	8,099	8,093
Regulatory deferrals and amortizations	(731)	1,196	(1,333)	2,598
	147,333	153,621	367,296	381,035
Other contract revenue	1,885	1,009	3,800	2,033
Interest and miscellaneous revenue	628	573	1,151	1,034
Total revenue	$ 149,846	$ 155,203	$ 372,247	$ 384,102

Electricity revenue
Newfoundland Power delivers electricity to residential and commercial customers and to municipalities for street lighting service. Electricity is metered upon delivery to customers and recognized as revenue using approved rates when consumed. Meters are read periodically and bills are issued to customers based on these readings.

At the end of each period, an estimate of electricity consumed but not yet billed is accrued as revenue. The unbilled revenue accrual for each period is based on estimated electricity sales to customers for the period since the last meter reading at the rates approved by the PUB. The development of the electricity sales estimates requires analysis of electricity consumption on a historical basis in relation to key inputs such as the current price of electricity, population growth, economic activity, weather conditions and electricity system losses.

Revenue arising from the deferral and amortization of certain regulatory assets and liabilities is recognized in the manner prescribed by the PUB.

Other revenue
Other revenue is primarily the result of other contracts with customers including (i) revenue from telecommunication companies for pole attachments and other pole related services; (ii) wheeling revenue from Hydro for transmitting electricity to its customers using Newfoundland Power's electrical system; and, (iii) revenue from customers for services other than those directly related to delivery of electricity service. Revenue is recognized when the service is rendered.

Other revenue also includes interest revenue, the equity portion of allowance for funds used during construction ("AFUDC") and other miscellaneous amounts.

6. Accounts Receivable

The timing of revenue recognition, billings and cash collections from contracts with customers results in trade accounts receivable and unbilled accounts receivable. As prescribed by the PUB, interest at a rate equal to the prime rate plus 5% is charged on accounts receivable greater than $50 that have been outstanding for more than 30 days. Receivable balances reflect the seasonal nature of electricity consumption for heating and timing of cash collection from customers related to the Company's equal payment plan.

The composition of the Company's accounts receivable follows.

	June 30, 2018	December 31, 2017
Trade accounts receivable	$ 52,838	$ 42,888
Unbilled accounts receivable	14,636	35,489
Other	1,711	2,987
Allowance for doubtful accounts	(2,233)	(1,668)
	$ 66,952	$ 79,696

7. Regulatory Assets and Liabilities

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

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, 2018	December 31, 2017	Remaining Recovery Period (Years)
Regulatory assets			
Rate stabilization account	$ 6,450	$ 4,519	2
Other post-employment benefits ("OPEB")	26,280	28,032	8
Conservation and demand management deferral	18,968	20,017	7
Employee future benefits	79,611	82,732	Benefit payment period
Weather normalization account	696	6,815	2
Deferred GRA costs	171	341	1
OPEB cost variance deferral account	1,027	-	2
Demand management incentive	-	2,128	2
Deferred income taxes	209,268	207,207	Life of related assets
Total regulatory assets	$ 342,471	$ 351,791	
Less: current portion	(15,137)	(14,027)	
Long-term regulatory assets	$ 327,334	$ 337,764	

7. Regulated Assets and Liabilities (cont'd)

	June 30, 2018	December 31, 2017	Remaining Settlement Period (Years)
Regulatory liabilities			
Rate stabilization account	$ -	$ 4,254	2
Cost recovery deferral	516	1,032	1
Pension expense variance deferral account	137	-	2
Energy supply cost variance	2,297	-	2
Future removal and site restoration provision	157,675	151,975	Life of related assets
Total regulatory liabilities	$ 160,625	$ 157,261	
Less: current portion	(653)	(1,032)	
Long-term regulatory liabilities	$ 159,972	$ 156,229	

8. Long-term Debt

	June 30, 2018	December 31, 2017
First mortgage sinking fund bonds	$ 584,535	$ 584,535
Committed credit facility	31,500	12,000
	616,035	596,535
Less: current portion	(38,100)	(18,600)
	$ 577,935	$ 577,935
Less: deferred financing costs	(2,723)	(2,772)
	$ 575,212	$ 575,163

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

Newfoundland Power has unsecured bank credit facilities of $120 million comprised of a $100 million committed credit facility and a $20 million demand facility. The committed facility matures in August 2022. Subject to lenders' approval, the Company may request an extension for a further period of up to, but not exceeding, a five-year term.

Borrowings under the committed credit facility are in the form of bankers acceptances that primarily have a maturity of 30 days or less, bearing interest based on the daily Canadian Deposit Offering Rate for the date of borrowing plus a stamping fee. Standby fees on the unutilized portion of the committed credit facility are payable quarterly in arrears at a fixed rate of 0.16%. Interest on borrowings under the demand facility is calculated at the daily prime rate and is payable monthly in arrears.

The utilized and unutilized credit facilities as at June 30, 2018 and December 31, 2017 follow.

	June 30, 2018	December 31, 2017
Total credit facilities	$ 120,000	$ 120,000
Borrowings under committed credit facility	(31,500)	(12,000)
Borrowings under demand facility	(1,182)	(3,575)
Credit facilities available	$ 87,318	$ 104,425

9. Fair Value Measurement

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

The fair value of long-term debt, including current portion and committed credit facility, is classified as Level 2 based on the three level hierarchy utilized in measuring fair value. The fair value is calculated by discounting the future cash flows of each debt instrument at the estimated yield-to-maturity equivalent to benchmark government bonds, with similar terms to maturity, plus a credit risk premium equal to that of issuers of similar credit quality. Since the Company does not intend to settle its debt instruments before maturity, the fair value estimate does not represent an actual liability and, therefore, does not include settlement costs.

The fair value of long-term debt, including current portion and committed credit facility, as at June 30, 2018 and December 31, 2017 is as follows.

	June 30, 2018		December 31, 2017	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Long-term debt, including current portion and committed credit facility *(Note 8)*	$ 616,035	$ 753,298	$ 596,535	$ 736,500

As at June 30, 2018, the fair value of the Company's primary defined benefit pension plan assets was $424.0 million compared to $421.7 million as at December 31, 2017. The fair value measurements for all of the pension plan assets, as held in various pooled funds, are classified as Level 2.

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

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

10. Employee Future Benefits

The components of net benefit costs associated with the Company's defined benefit and OPEB plans, prior to capitalization, are as follows (Note 3).

	Three Months Ended June 30			
	2018		2017	
	Defined Benefit Pension Plans	OPEB Plan	Defined Benefit Pension Plans	OPEB Plan
Service costs	$ 1,278	$ 521	$ 1,200	$ 544
Interest costs	3,677	720	3,805	880
Expected return on plan assets	(5,287)	-	(5,142)	-
Amortization of net actuarial losses	1,479	-	1,228	149
Amortization of past service costs (credits)	53	(329)	53	(323)
	$ 1,200	$ 912	$ 1,144	$ 1,250
Regulatory adjustments				
Amortization of transitional obligations	-	-	333	357
Amortization of pension deferrals	206	-	206	-
Amortization of OPEB regulatory asset	-	876	-	876
Net benefit costs	$ 1,406	$ 1,788	$ 1,683	$ 2,483

10. Employee Future Benefits (cont'd)

	Six Months Ended June 30			
	2018		2017	
	Defined Benefit Pension Plans	OPEB Plan	Defined Benefit Pension Plans	OPEB Plan
Service costs	$ 2,590	$ 1,042	$ 2,398	$ 1,088
Interest costs	7,357	1,440	7,607	1,760
Expected return on plan assets	(10,574)	-	(10,284)	-
Amortization of net actuarial losses	2,959	-	2,456	298
Amortization of past service costs (credits)	106	(657)	106	(646)
	$ 2,438	$ 1,825	$ 2,283	$ 2,500
Regulatory adjustments				
Amortization of transitional obligations	-	-	667	714
Amortization of pension deferrals	412	-	412	-
Amortization of OPEB regulatory asset	-	1,752	-	1,752
Net benefit costs	$ 2,850	$ 3,577	$ 3,362	$ 4,966

For the three and six months ended June 30, 2018, the Company expensed $0.5 million and $1.0 million, respectively, related to its defined contribution pension plans (2017 - $0.5 million and $1.0 million, respectively).

In April 2018, Newfoundland Power received actuarial valuation results for its defined benefit pension plan, including the funding status of the plan as at December 31, 2017, on a going concern and solvency basis. On a going concern basis, the surplus increased from $32.1 million as at December 31, 2014 to $69.7 million as at December 31, 2017. On a solvency basis, the funding position increased from a deficit of $7.0 million as at December 31, 2014 to a surplus of $8.6 million as at December 31, 2017. The increase was primarily due to contributions to the plan since 2014 and favorable market returns, partially offset by a lower estimated discount rate.

Based on the December 2017 Actuarial Valuation Report, contributions for current service amounts are estimated to be $2.8 million in 2018, $2.8 million in 2019 and $2.7 million in 2020. The Company expects to have sufficient cash generated from operations to meet future pension funding requirements.

11. 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 operating expenses for the three and six months ended June 30, 2018 were $0.3 million and $1.1 million, respectively (2017 - $0.6 million and $1.2 million, respectively).

12. Commitments

There were no material changes in the nature and amount of the Company's commitments as disclosed in the Company's 2017 annual audited financial statements.

2017 At a Glance

2017 At a Glance

WHENEVER. WHEREVER.
We'll be there.

NEWFOUNDLAND POWER
A FORTIS COMPANY

2017
At a Glance

Employees from St. John's to Port aux Basques work hard every day to ensure we deliver safe, dependable service to our customers. Our customer satisfaction rating of 86.5% tells us we are focused on the right areas and our employees are dedicated to providing customer service excellence.

As with every year, safety remains our top priority. 2017 marked the second safest year in our Company's history - a testament to our commitment to working safely. We invested over $90 million to upgrade and strengthen our electricity system. It is because of investments like these that we were able to keep our 2017 reliability performance among the top of Canadian utilities. Despite our harsh operating environment, our electrical system performed well through the extreme wind storms in March and December.

The outlook for our Province and our customers continues to be challenging. In these uncertain economic times, Newfoundland Power understands the impact electricity rates can have on our customers and we remain committed to managing our costs.

We have been honoured with two significant awards during the last year: the Community Impact Award and the Employer of Distinction Award. We appreciate our employees' dedication and thank them for a great year. We also thank our Board of Directors for another year of dependable governance. Working together, we look forward to a successful 2018.

Anne Whelan
Chair, Board of Directors

Jocelyn Perry
President and CEO

Putting Safety First, Each and Every Day

Safety is, and always will be, Newfoundland Power's top priority. We operate an electricity system that includes: 12,000 km of transmission and distribution lines; 23 hydro plants; 2 diesel plants; 3 combustion turbine facilities; and, 130 substations throughout the province. When it comes to safety we are focused on being the best.

Think Safe. Live Safe.

- Newfoundland Power recorded 4 non-electrical related injuries in 2017. This was the second safest year in our Company's history.
- We received a positive response from employees on safety engagement – with 99% indicating they are confident they can work safely every day.
- The number of preventable vehicle accidents decreased by over 30% compared to last year.
- We launched our 10 Key Safety Principles to enhance our core safety values and set clear expectations for employees.
- We held the second annual Safety Symposium in collaboration with Western municipalities to share best practices for working safely around the electricity system.
- In 2017, we concluded a $2 million, 3-year project to improve public safety around our hydroelectric facilities. This included: upgrading safety signage; the installation of barriers, fencing and warning booms; and, buoys around our waterways.

Serving Our Customers, Whenever, Wherever

We are committed to being there for our customers whenever and wherever they need us. From restoring power during a blizzard to helping customers manage their electricity usage, we are here to serve. At Newfoundland Power, we consider our customers in every decision we make and continue to strive for service excellence.

Delivering Excellence

- Customers gave us an 86.5% satisfaction rating for 2017 – our highest customer satisfaction rating in 5 years.
- We refunded over $120 million of Newfoundland and Labrador Hydro's Rate Stabilization Plan surplus to eligible customers.
- The number of customers that interacted with us electronically increased almost 60% in 2017.
- Customers can now generate their own electricity while connected to the grid with our new Net Metering program.
- Commercial customers are learning how they can better manage electricity usage through our new Business Energy Forums. In 2017, we held events in Clarenville, Grand Falls-Windsor and Corner Brook.
- In partnership with the Provincial Government, we launched a new Energy Efficiency Loan Program. This program makes heat pumps, insulation and energy assessments more accessible for customers.

Providing service to over **266,000** customers.

113,000 on ebills
Over **40%** of total customer base.

Automated meters have reduced bill estimates **45%** over 2016.

Through energy efficiency, customers save **$3 MILLION** on their electricity bills every year.

Powering Your Homes and Businesses

We deliver power to over 266,000 customers on the island portion of the province – a responsibility we take seriously. Customers depend on us to keep the lights on. Our crews are always ready to respond, no matter the weather or time of day.

Reliability Ranked Among
THE BEST
Canadian Utilities
of similar size & service territory.

Hydro Hall of Fame

Operating 100+ Years

Petty Harbour and Victoria hydro plants

Delivering on Our Promise

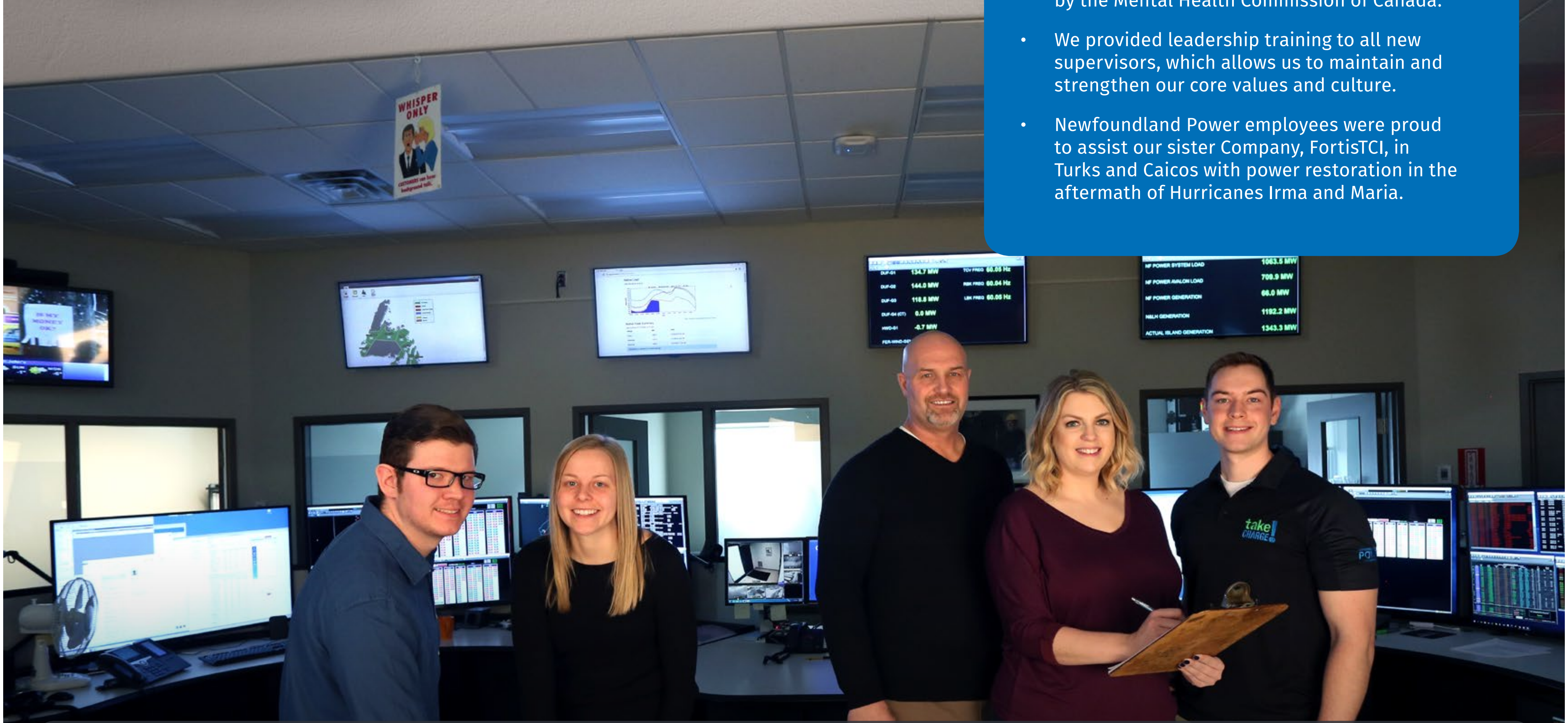
- Newfoundland Power's relability record is among the best in the country when compared with utilities of similar size and service territory. Excluding major storms, our customers experienced an average of only 2.28 hours without power in 2017.
- We invested over $90 million to upgrade and modernize our system.
    - Upgrades have been completed at our substations in Chamberlains, Salt Pond and Catalina.
    - We rebuilt several transmission lines, including those between Bay Roberts and Harbour Grace, and Carbonear and Heart's Content.
    - We connected 3,271 new customers to the electricity system over the last year.
    - We continue to add automation to our electricity system. Today, approximately 90% of our distribution feeders can be operated remotely from our System Control Centre.

Passionate Employees – At Your Service

Newfoundland Power is a proud local company that employs a talented group of individuals. We focus on the growth and development of each person, knowing that a strong employee is essential to getting the job done.

Our Employees

- We were recognized by the Newfoundland and Labrador Employers' Council with the 2017 Employer of Distinction Award.
- Newfoundland Power's recruitment efforts have increased as we search for the best talent for our team.
- We value mental health in the workplace. In 2017, over half of our employees were trained under The Working Mind Program, developed by the Mental Health Commission of Canada.
- We provided leadership training to all new supervisors, which allows us to maintain and strengthen our core values and culture.
- Newfoundland Power employees were proud to assist our sister Company, FortisTCI, in Turks and Caicos with power restoration in the aftermath of Hurricanes Irma and Maria.



Over
600
skilled employees from St. John's to Port aux Basques.

Recipient of
Employer of Distinction Award!
Newfoundland and Labrador Employers' Council

Employees
2007 20%
2017 50%
Ten Years Experience and Less.

Part of Our Community

We are dedicated to improving the communities in which we live and work. Through our corporate charity, *The Power of Life Project*, we raise money to help improve cancer care in Newfoundland and Labrador. Employees are always ready to roll up their sleeves. Whether to build an outdoor classroom or giving the gift of life by donating blood, we are making a difference.

Community Impact Award Winner.

St. John's Board of Trade

To date, almost

$4 MILLION

raised for cancer care in the province through *The Power of Life Project*

The Power of Giving Back

- Newfoundland Power was proud to receive the St. John's Board of Trade Business Excellence Award for Community Impact.
- We marked 15 years of *The Power of Life Project* with a $100,000 donation to cancer centres across the island. Our 3rd employee-driven Provincial Hard Hat Drive brought in $30,000 for cancer care.
- We have been celebrating the environment for 20 years through *EnviroFest* events. In 2017, we held beautification projects in Carmanville, King's Cove, Bristol's Hope and Steady Brook, and were proud to support Rainbow Riders in St. John's.
- Each year we support local youth, sports, arts, health care and community initiatives. In 2017, our donations totaled over $730,000.
- We introduced the Province's first Osprey nestcam. So far it has accumulated 266,000 YouTube views.

EXECUTIVE TEAM

Jocelyn Perry, President and Chief Executive Officer
Peter Alteen, Vice President, Regulation and Planning
Gary Murray, Vice President, Customer Operations and Engineering
Paige London, Vice President, Finance and Chief Financial Officer

"Leadership is the capacity to translate vision into reality."

—Warren Bennis

Board of Directors

Ken Bennett
President
Johnson Inc.
St. John's, NL

Fred Cahill
President
The Cahill Group
St. John's, NL

John Gaudet
President and CEO
Maritime Electric
Charlottetown, PEI

Susan Hollett
President
Hollett & Sons Inc.
Clarenville, NL

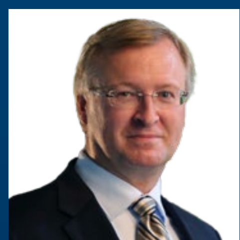
Michelle Melendy
President
MiBar Holdings Ltd.
Corner Brook, NL

Glenn Mifflin
CEO
Cuso International
Ottawa, ON

Mike Mosher
President and CEO
Central Hudson
Gas & Electric
Poughkeepsie, NY

Edward Murphy
Senior VP, Finance
Pennecon Ltd.
St. John's, NL

Jocelyn Perry
President and CEO
Newfoundland
Power Inc.
St. John's, NL



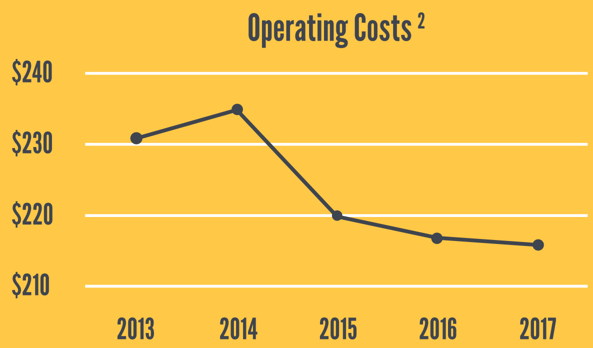
Gary Smith
Executive VP, Eastern
Canadian & Caribbean
Operations, Fortis Inc.
St. John's, NL

Anne Whelan *Chair
President and CEO
Seafair Capital Inc.
St. John's, NL

5-Year Summary

	2017	2016	2015	2014	2013
INCOME STATEMENT ITEMS ($THOUSANDS)					
Revenue	672,435	672,131	652,814	629,772	605,127
Purchased power	440,249	443,311	422,095	402,843	390,210
Operating and employee future benefit cost	80,472	78,690	84,046	83,972	81,308
Depreciation and amortization	62,973	60,472	56,720	53,882	51,300
Finance charges	35,365	35,235	35,724	36,450	36,034
Income taxes[1]	12,882	11,851	10,925	10,795	(2,877)
Net earnings applicable to common shares[1]	40,971	39,953	38,758	37,283	49,357
BALANCE SHEET ITEMS ($THOUSANDS)					
Property, plant and equipment	1,673,934	1,615,169	1,549,941	1,477,770	1,388,856
Intangible assets	41,054	39,394	35,861	33,664	35,114
Accumulated depreciation and amortization	(573,843)	(551,300)	(529,430)	(511,102)	(493,610)
Net capital assets	1,141,145	1,103,263	1,056,372	1,000,332	930,360
Total assets	1,589,024	1,540,323	1,495,476	1,447,431	1,398,458
Long-term debt (including current portion)	593,763	574,047	567,119	545,571	515,330
Preference shares	8,917	8,930	8,939	8,948	8,981
Common equity	487,838	485,275	466,255	436,747	421,600
Total capital	1,090,518	1,068,252	1,042,313	991,266	945,911
OPERATING STATISTICS (GWh)					
Sources of Electricity (NORMALIZED)					
Purchased	5,829	5,868	5,877	5,817	5,678
Generated	437	427	432	430	429
Total	6,266	6,295	6,309	6,247	6,107
Electricity Sales (NORMALIZED)					
Residential	3,645	3,656	3,654	3,613	3,530
Commercial and street lighting	2,277	2,294	2,303	2,286	2,233
Total	5,922	5,950	5,957	5,899	5,763
CUSTOMERS					
Residential	231,639	229,815	227,455	224,824	221,995
Commercial and street lighting	34,811	34,591	34,319	34,055	33,623
Total	266,450	264,406	261,774	258,879	255,618
Number of full-time equivalent employees	611	635	653	665	656

After inflation,
OPERATING COSTS HAVE DECREASED by an average of **1.7% ANNUALLY** over the last five years.



Approximately **$500 MILLION** invested in our system over the past five years.

[1] *Results for 2013 include a one-time $12.8 million income tax recovery related to the enactment of corporate income tax rates associated with Part VI.1 tax, which is not regulated for the purpose of setting customer rates.*

[2] *Operating costs per customer, inflation adjusted and excluding conservation program costs.*

Investor Information

Peter Alteen, Corporate Secretary
55 Kenmount Road, P.O. Box 8910
St. John's, NL A1B 3P6

TELEPHONE (709) 737-5819
EMAIL palteen@newfoundlandpower.com

Share Transfer Agent and Registrar
Computershare Investor Services Inc.
100 University Avenue, 8th Floor
Toronto, ON M5J 2Y1

TELEPHONE (416) 263-9200
FACSIMILE (888) 453-0330
WEBSITE computershare.com

Annual General Meeting
Tuesday, April 24, 2018, at 8:00 a.m.
Main Boardroom, 3rd Floor
Newfoundland Power Inc.
55 Kenmount Road
St. John's, NL A1B 3P6

Photography

Cover: Bethany Locke, PLT Apprentice, St. John's, NL. [1]

Table of Contents: Rick Slade and Patrick Loveless, PLTs working in Brigus. [2]

Letter from President and Chair: President and CEO, Jocelyn Perry, and Chair of the Board of Directors, Anne Whelan. [2]

Putting Safety First, Each and Every Day: Steven Janes, Tim Clements, Jeff Hurley, Blaine McGrath completing a safety tailboard. [1]

Serving our Customers, Whenever, Wherever: Jennie Wadden, takeCHARGE with customer. [1]

Powering Your Homes and Businesses: Nick Woodford, PLT, St. John's, NL. [1]

Passionate Employees – At Your Service: Employees Roger Wiseman, Allison Hicks, Perry Pollard, Ashley Head and Brandon Sullivan. [1]

Part of Our Community: Employees, their family members and community partners celebrating EnviroFest in Western NL. [3]

Investor Information: David Ball, Manager, Regional Engineering, Western Region. [1]

Design: Brandon Sullivan.

Credit: *Paul Daley [1], Terry Rice [2], Submitted. [3]*

“Providing service to over 266,000 customers.”

Newfoundland Power, a Fortis company, delivers power throughout the island portion of Newfoundland and Labrador. We purchase over 93% of the electricity we deliver to our customers from the Crown corporation, Newfoundland and Labrador Hydro. For over 130 years, we have provided customers with safe, reliable electricity in the most cost-efficient manner possible. Our employees are united by a set of core values: People, Safety, Service, Respect, Teamwork and Innovation. Our values guide us as we continue to provide our customers with the service they expect and deserve in an environmentally and socially responsible manner.

WHENEVER. WHEREVER.
We’ll be there.

NEWFOUNDLAND POWER
A FORTIS COMPANY

newfoundlandpower.com

2017 Management Discussion & Analysis

2017 MANAGEMENT DISCUSSION & ANALYSIS & Annual Audited Financial Statements

WHENEVER. WHEREVER.
We'll be there.

NEWFOUNDLAND POWER
A FORTIS COMPANY

MANAGEMENT DISCUSSION

AND ANALYSIS//

MANAGEMENT DISCUSSION AND ANALYSIS

Dated February 14, 2018

The following Management Discussion and Analysis ("MD&A") of Newfoundland Power Inc. (the "Company" or "Newfoundland Power") should be read in conjunction with the Company's annual audited financial statements and notes thereto for the year ended December 31, 2017. The MD&A has been prepared in accordance with National Instrument 51-102 - Continuous Disclosure Obligations. Financial information for 2017 and comparative periods contained herein reflects Canadian dollars and accounting principles generally accepted in the United States of America ("U.S. GAAP").

FORWARD-LOOKING STATEMENTS

Certain information herein is forward-looking within the meaning of applicable securities laws in Canada ("forward-looking information"). All forward-looking information is given pursuant to the "safe harbour" provisions of applicable Canadian securities legislation. 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; the expectation that no material adverse credit rating actions will occur in the near term; the Company's belief that it does not anticipate any difficulties in issuing bonds on reasonable market terms; the Company's expectations for employee future benefit costs; and, the forecast gross capital expenditures for 2018.

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 2018; 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; energy supply; purchased power cost; electricity prices; health, safety and environmental regulations; capital resources and liquidity; economic conditions; interest rates; cyber security; labour relations; human resources; operating and maintenance investment requirements; weather; insurance; defined benefit pension plan performance; information technology infrastructure; and, continued reporting in accordance with U.S. GAAP. For additional information with respect to these risk factors, reference should be made to the section entitled "Business Risk Management" in this MD&A.

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

Additional information, including the Company's quarterly and annual financial statements and MD&A, annual information form and management information circular, is available on the System for Electronic Document Analysis and Retrieval ("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 Newfoundland and Labrador. The Company is a subsidiary of Fortis Inc. ("Fortis"). Fortis is a leader in the North American electric and gas utility business, serving customers across Canada and in the United States and the Caribbean.

Newfoundland Power's primary business is electricity distribution. It generates approximately 7% of its electricity needs and purchases the remainder from Newfoundland and Labrador Hydro ("Hydro"). Newfoundland Power serves approximately 266,000 customers, comprising approximately 87% of all electricity consumers in the Province.

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

Regulation

Newfoundland Power is regulated by the Newfoundland and Labrador Board of Commissioners of Public Utilities (the "PUB"). The Company operates under cost of service regulation whereby it is entitled an 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.

Newfoundland Power 2016/2017 General Rate Application

On June 8, 2016, the PUB issued an Order on the Company's 2016/2017 General Rate Application ("GRA") which established the Company's cost of capital for ratemaking purposes for 2016 through 2018 based upon an 8.50% return on equity ("ROE") and 45% common equity. The Company's rate of return on rate base for 2017 was set at 7.19%, with a range of 7.01% to 7.37%, compared to 7.21%, with a range of 7.03% to 7.39% for 2016.

The operation of the Automatic Adjustment Formula, which historically adjusted the Company's ratemaking ROE between GRAs, has been suspended pending a further Order of the PUB. Newfoundland Power is required to file its next GRA for 2019 on or before June 1, 2018.

The implementation of the PUB's Order related to the Company's 2016/2017 GRA increased electricity rates by approximately 1.2% effective July 1, 2016.

Financial Highlights

	2017	**2016**	**Change**
Electricity Sales *(gigawatt hours ("GWh"))* [1]	5,922.2	5,950.1	(27.9)
Change in Electricity Sales (%)	(0.5)	(0.1)	(0.4)
Net Earnings Applicable to Common Shares			
$ Millions	41.0	40.0	1.0
$ Per Share	3.97	3.87	0.10
ROE (%) [2]	8.42	8.40	0.02
Cash Flow from Operating Activities *($millions)*	110.0	119.1	(9.1)
Total Assets *($millions)*	1,589.0	1,540.3	48.7

[1] *Reflects normalized electricity sales.*

[2] *Earnings applicable to common shares, divided by the average of common shareholders' equity at the beginning and end of the year. This ratio is a non-GAAP financial measure, does not have any standardized meaning prescribed by GAAP and is unlikely to be comparable to similar ratios published by other companies. It is presented because it is commonly referred to by the users of the Company's financial statements in evaluating the results of operations and by the Company's regulator in the rate-setting process. This ratio includes non-regulated transactions.*

Electricity sales for the year ended December 31, 2017 decreased by 27.9 GWh, or approximately 0.5% compared to 2016. Electricity sales decreased due to (i) a 1.0% reduction in average consumption by residential and commercial customers, and (ii) 0.3% as a result of one less day of electricity sales in 2017 due to 2016 being a leap year. The decrease associated with lower average consumption was partially offset by higher electricity sales associated with an increase in the number of customers.

Earnings for the year ended December 31, 2017 increased by $1.0 million, from $40.0 million in 2016 to $41.0 million in 2017. This was primarily due to lower than anticipated finance charges and an increase in other revenue which were partially offset by higher purchased power costs associated with demand charges from Hydro and lower electricity sales.

Cash from operating activities decreased by $9.1 million compared to 2016. The decrease in cash was primarily due to the impact of a $9.2 million income tax refund received in 2016, related to the allocation of the unregulated Part VI.1 tax deduction from Fortis to Newfoundland Power.

Excluding the impact of the tax refund, cash from operating activities was comparable year over year. The impact of (i) lower purchased power payments due to the timing of the July 1, 2017 change in the wholesale electricity rate paid to Hydro by Newfoundland Power and (ii) the 1.2% customer rate increase effective July 1, 2016 associated with the 2016/2017 GRA was offset by higher demand charges from Hydro and the timing of payments.

Total assets increased by $48.7 million compared to December 31, 2016, reflecting continued investment in the electricity system.

RESULTS OF OPERATIONS

Revenue:

($millions)	**2017**	**2016**	**Change**
Revenue from Rates	661.7	664.5	(2.8)
Amortization of Regulatory Liabilities and Deferrals	4.0	1.8	2.2
Other Revenue[1]	6.7	5.8	0.9
Total	672.4	672.1	0.3

[1] *Other revenue includes charges to telecommunication companies, interest revenue associated with customer accounts and other miscellaneous amounts.*

Revenue from rates decreased by $2.8 million compared to 2016. The decrease reflects lower electricity sales partially offset by a full year impact of the 1.2% customer rate increase effective July 1, 2016 associated with the 2016/2017 GRA.

The amortization of regulatory liabilities and deferrals includes the pension expense variance deferral ("PEVDA"), the other post-employment benefits ("OPEB") cost variance deferral, and the amortization of annual customer energy conservation program costs. The amounts recorded are in accordance with PUB orders and are described in Note 6 to the Company's 2017 annual audited financial statements.

Other revenue for 2017 was $0.9 million higher than 2016. The increase primarily relates to charges to telecommunication companies and higher interest due to the normal operation of Newfoundland Power's rate stabilization account ("RSA").

Purchased Power: Purchased power expense for 2017 was $3.1 million lower than 2016. The decrease reflects lower energy purchases partially offset by higher demand charges from Hydro.

Operating Expenses: Operating expenses increased by $3.2 million, from $60.2 million in 2016 to $63.4 million in 2017. The increase primarily reflects (i) higher distribution maintenance costs, largely due to a severe wind storm that impacted the Company's service territory in March 2017; (ii) the impact of regulatory deferrals and amortizations, due to the normal operation of regulatory mechanisms; and, (iii) inflationary increases. These factors were partially offset by a reduction in meter reading costs and lower corporate costs.

Employee Future Benefits: Employee future benefits decreased by $1.4 million, from $18.4 million in 2016 to $17.0 million in 2017. The decrease reflects (i) the expiry of a regulatory amortization in 2017; and, (ii) a reduction in net benefit cost associated with the defined benefit pension plan. See Note 11 to the Company's 2017 annual audited financial statements.

Depreciation and Amortization: Depreciation and amortization expense increased by $2.5 million, from $60.5 million in 2016 to $63.0 million in 2017. The increase reflects the Company's capital expenditure program.

Cost Recovery Deferrals, Net: As a result of the PUB's Order on the 2016/2017 GRA and the related customer rate change on July 1, 2016, the Company recorded a $2.6 million over-recovery from customer rates in 2016. This over-recovery in 2016 was ordered to be amortized in customer rates over a 30-month period from July 1, 2016 through December 31, 2018. Amortization of $1.0 million was recorded in 2017 and $0.5 million was recorded in 2016.

Finance Charges: Finance charges increased by approximately $0.2 million, from $35.2 million in 2016 to $35.4 million in 2017. The increase was due to the combination of (i) interest costs associated with the issuance of $75 million, 3.815% first mortgage sinking fund bonds in June 2017, (ii) the maturity of $30.4 million, 10.9% first mortgage sinking fund bonds in May 2016, and (iii) lower credit facility borrowings.

Income Taxes: Income tax expense increased by $1.0 million, from $11.9 million in 2016 to $12.9 million in 2017. The increase reflects higher pre-tax earnings and an increase in the effective tax rate.

FINANCIAL POSITION

Explanations of the primary causes of significant changes in the Company's balance sheets between December 31, 2016 and December 31, 2017 follow.

($millions)	Increase (Decrease)	Explanation
Property, Plant and Equipment (Net)	36.5	Increase due to investment in the electricity system, in accordance with the 2017 capital expenditure program, partially offset by depreciation and customer contributions in aid of construction.
Accounts Payable and Accrued Charges	5.2	Increase due to the annual operation of Hydro's Rate Stabilization Plan ("RSP"). See "Outlook" section of this MD&A.
OPEB Liability, including Current Portion	(10.2)	Decrease due to an actuarial gain associated with a reduction in claims cost experience under the plan, partially offset by a lower discount rate as at December 31, 2017 used to determine the Company's OPEB obligation.
Regulatory Liabilities	11.8	Increase due to the normal operation of the Company's approved regulatory accounts. See Note 6 to the Company's 2017 annual audited financial statements.
Deferred Income Tax Liability	18.2	Increase reflects investment in the electricity system, in accordance with the 2017 capital expenditure program.
Long-term Debt, including Current Portion	19.7	Represents additional debt required to finance growth in rate base and ongoing operating activities.

LIQUIDITY AND CAPITAL RESOURCES

The primary sources of liquidity and capital resources are net funds generated from operations, debt capital markets and bank credit facilities. These sources are used primarily to satisfy capital and intangible asset expenditures, service and repay debt, and pay dividends. A summary of cash flows and cash position for 2017 and 2016 follows.

($millions)	2017	2016	Change
Cash, Beginning of Year	-	-	-
Operating Activities	110.0	119.1	(9.1)
Investing Activities	(91.7)	(103.7)	12.0
Financing Activities			
Net (Repayments) Borrowings under Committed Credit Facility	(48.5)	43.0	(91.5)
Proceeds from Long-term Debt	75.0	-	75.0
Repayment of Long-term Debt	(6.6)	(36.2)	29.6
Dividends on Common Shares	(38.4)	(21.5)	(16.9)
Other	0.2	(0.7)	0.9
	(18.3)	(15.4)	(2.9)
Cash, End of Year	-	-	-

Operating Activities

Cash from operating activities totalled $110.0 million in 2017 compared to $119.1 million in 2016. The decrease in cash was primarily due to the impact of a $9.2 million income tax refund received in 2016, related to the allocation of the unregulated Part VI.1 tax deduction from Fortis to Newfoundland Power.

Excluding the impact of the tax refund, cash from operating activities was comparable year over year. The impact of (i) lower purchased power payments due to the timing of the July 1, 2017 change in the wholesale electricity rate paid to Hydro by Newfoundland Power and (ii) the 1.2% customer rate increase effective July 1, 2016 associated with the 2016/2017 GRA was offset by higher demand charges from Hydro and the timing of payments.

Investing Activities

Cash used in investing activities totalled $91.7 million in 2017 compared to $103.7 million in 2016. The decrease results from lower capital expenditures and a decrease in removal and site restoration costs in 2017. Capital expenditures in 2016 include $14.2 million associated with the Pierre's Brook penstock replacement project.

A summary of 2017 and 2016 capital and intangible asset expenditures follows.

($millions)	**2017**	**2016**
Electricity System		
Generation	6.2	17.5
Transmission	6.4	4.8
Substations	16.4	13.7
Distribution	46.3	41.9
Other	16.5	23.4
Intangible Assets	4.4	5.7
Capital and Intangible Asset Expenditures	96.2	107.0

The Company's business is capital intensive. Capital investment is required to ensure safe, reliable electrical system performance and to meet customer growth. All costs considered to be repairs and maintenance are expensed as incurred. Capital investment is also required 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 year-to-year depending upon both planned electricity system expenditures and unplanned expenditures arising from weather or other unforeseen events.

The Company's annual capital plan requires prior PUB approval. Variances between actual and planned expenditures are generally subject to PUB review prior to inclusion in the Company's rate base. The PUB has approved the Company's 2018 capital plan which provides for capital expenditures of approximately $83.9 million, approximately 54% of which relate to capital maintenance of the electricity system.

Financing Activities

Net proceeds from the Company's long-term debt and committed credit facility increased by $13.1 million compared to 2016. The increase in cash required from financing activities was due to lower cash from operations and higher common share dividends. These factors were partially offset by the impact of lower capital expenditures in 2017.

On June 2, 2017, the Company issued $75 million 40-year, 3.815% first mortgage sinking fund bonds.

In the third quarter of 2017, a special dividend of $12.0 million was paid to Fortis to maintain the Company's average capital structure that includes 45% 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 fund pension obligations, to pay dividends and to finance a major portion of its annual capital program. Additional financing to fully fund the annual capital program is primarily obtained through the Company's bank credit facilities and these borrowings are periodically refinanced, along with any maturing bonds, through the issuance of long-term first mortgage sinking fund bonds. The issuance of bonds is subject to prior PUB approval and to a mortgage trust deed requirement that the ratio of (i) annual earnings, before tax and bond interest, to (ii) annual bond interest incurred plus annual bond interest to be incurred on the contemplated bond issue, be two times or higher. The Company currently does not expect any material changes in these annual cash flow and financing dynamics over the foreseeable future.

Credit Facilities: The Company's credit facilities are comprised of a $100 million committed revolving term credit facility and a $20 million demand facility as detailed below.

($millions)	**2017**	**2016**
Total Credit Facilities	120.0	120.0
Borrowing, Committed Facility	(12.0)	(60.5)
Borrowing, Demand Facility	(3.6)	(2.3)
Credit Facilities Available	104.4	57.2

During the third quarter of 2017, the $100 million committed credit facility was extended to a five-year term maturing in August 2022. Subject to lenders' approval, the Company may request an extension for a further period of up to, but not exceeding, five years.

Pensions: As at December 31, 2017, the fair value of the Company's primary defined benefit pension plan assets was $421.7 million compared to $400.8 million as at December 31, 2016. The $20.9 million increase in fair value was due to market conditions in 2017. Details of the plan asset changes are included in Note 11 to the Company's 2017 annual audited financial statements.

Based on the latest actuarial valuation completed in April 2015, contributions for current service amounts are expected to be $3.2 million in 2018. The latest actuarial valuation of the Company's primary defined benefit pension plan for funding purposes was as of December 31, 2014, and the next valuation is as of December 31, 2017. The valuation is currently ongoing and is expected to be completed in the first quarter of 2018. The Company expects to have sufficient cash generated from operations to meet future pension funding requirements.

Contractual Obligations: Details, as at December 31, 2017, of 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)	15.6	15.6	-	-	-
First Mortgage Sinking Fund Bonds [1]	584.5	6.6	42.8	40.4	494.7
Interest obligations on long-term debt	559.0	35.8	69.7	61.8	391.7
Total	1,159.1	58.0	112.5	102.2	886.4

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 investment grade credit ratings. Details of the Company's investment grade bond ratings as at December 31, 2017 and 2016 follow.

	2017		**2016**	
Rating Agency	**Rating**	**Outlook**	**Rating**	**Outlook**
Moody's Investors Service ("Moody's")	A2	Stable	A2	Stable
DBRS	A	Stable	A	Stable

Both Moody's and DBRS issued updated credit rating reports in 2017 confirming the Company's existing investment grade bond rating and rating outlook.

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

The Company's capital structure as at December 31, 2017 and 2016 follows.

	2017		2016	
	$millions	%	$millions	%
Total Debt [1]	597.2	54.6	576.3	53.9
Common Equity	487.8	44.6	485.3	45.3
Preference Equity	8.9	0.8	8.9	0.8
Total	1,093.9	100.0	1,070.5	100.0

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

The Company expects to maintain its current investment grade credit ratings in 2018.

Capital Stock and Dividends: In both 2017 and 2016, the weighted average number of common shares outstanding was 10,320,270. Dividends on common shares for 2017 were $16.9 million higher than 2016. In 2017, the quarterly common share dividends increased to $0.64 per share compared to $0.52 per share in 2016. As well, the Company paid a special common share dividend of $12.0 million to Fortis on August 30, 2017. The increase in common share dividends was to maintain an average capital structure that includes approximately 45% common equity.

The Company purchased for cancellation 1,250 Series D preference shares for $12,500 during the year.

As at December 31, 2017, the number of preferences shares outstanding was 891,748 comprised of 179,225 First Preference Shares, Series A; 337,983 First Preference Shares, Series B; 191,640 First Preference Shares, Series D; and 182,900 First Preference Shares, Series G.

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 years ended December 31, 2017 and 2016 follow.

($millions)	2017	2016
Revenue	0.1	0.1
Operating Expenses	2.3	2.4

In 2017, the Company provided emergency restoration assistance to Fortis Turks and Caicos as a result of damage caused by Hurricane Irma in September. There is approximately $1.8 million included in accounts receivable as of December 31, 2017 from Fortis Turks and Caicos for labour and materials associated with the restoration. The balance was paid subsequent to year end.

FINANCIAL INSTRUMENTS

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

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

The carrying and estimated fair values of the Company's long-term debt as at December 31, 2017 and 2016 follows.

	2017		2016	
($millions)	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Long-term debt, including current portion and committed credit facility	596.5	736.5	576.6	718.7

BUSINESS RISK MANAGEMENT

The following is a summary of the Company's significant business risks.

Regulation: The Company's key business risk is regulation. The Company is subject to normal uncertainties facing entities that operate under cost of service regulation. It is dependent on PUB approval of customer rates that permit a reasonable opportunity to recover on a timely basis the estimated costs of providing electricity service, including a fair and reasonable return on rate base. The ability to recover the actual costs of providing service and to earn the approved rates of return depends on achieving the forecasts established in the rate-setting process. There can be no assurance that rate orders issued by the PUB will permit the Company to recover the estimated costs of providing electricity service. A failure to obtain acceptable rate orders may adversely affect the operations of the Company, the timing of capital projects, and the Company's credit ratings assigned by rating agencies, which may in turn, negatively affect the results of operations and financial position of the Company.

Energy Supply: The Company is dependent on Hydro for approximately 93% of its electricity requirements. In the event that Hydro is unable to supply the Company with wholesale energy deliveries, Newfoundland Power would be unable to meet its customers' requirements.

The Company experienced losses of electricity supply from Hydro in January 2013 and January 2014, which disabled the Company from meeting all of its customers' requirements. On September 29, 2016, the PUB issued its report on these losses of supply which indicated that Newfoundland Power did not cause or contribute to the power outages. The PUB indicated significant concerns remain in relation to the adequacy and reliability of supply from Hydro. The PUB continues to consider issues associated with supply reliability after interconnection of Nalcor Energy's Muskrat Falls project.

Purchased Power: Purchased power costs are based on a wholesale demand and energy rate structure. The demand and energy rate structure presents the risk of volatility in purchased power costs due to uncertainty in forecasting energy sales and peak billing demand. Effective January 1, 2008, the PUB ordered the operation of the demand management incentive account (the "DMI"). The DMI limits variations in the unit cost of purchased power related to demand up to 1% of total demand costs reflected in customer rates, or approximately $0.7 million for 2017 (2016 - $0.6 million). The disposition of balances in this account, which would be determined by a further order of the PUB, will consider the merits of the Company's conservation and demand management activities.

The marginal cost of purchased power exceeds the average cost of purchased power that is embedded in customer rates. To the extent actual electricity sales in any period exceed forecast electricity sales used to set customer rates, the marginal purchased power expense will exceed related revenue. These supply cost dynamics have no material effect on Company earnings because the PUB ordered that variations in purchased power expense caused by differences between the actual unit cost of energy purchased and that reflected in customer rates be recovered from or refunded to customers through the Company's RSA.

In July 2017, Hydro filed a GRA which will, amongst other things, establish wholesale rates for Newfoundland Power. See the "Outlook" section of this MD&A.

Electricity Prices: Increases in electricity rates can cause changes in customer electricity consumption, which could negatively impact the Company's sales and, therefore, earnings and cash flows. A significant portion of customer electricity rates is dependent on purchased power costs, which are outside of Newfoundland Power's control.

Future changes in supply costs, including costs associated with Nalcor Energy's Muskrat Falls hydroelectric generation development and associated transmission assets, may affect electricity prices in a manner that affects the Company's sales. During 2017, Nalcor Energy indicated that the cost of the project is now projected to reach $12.7 billion and that it was investigating the options available to moderate the impact of higher project costs on electricity prices.

Health and Safety: The Company is subject to numerous and increasing health and safety laws, regulations and guidelines. Damages and costs could potentially arise due to a variety of events, including human error or misconduct and equipment failure. There is no assurance that any costs which might arise would be recoverable through customer rates and, if substantial, unrecovered costs could have a material adverse effect on the results of operations, cash flows and financial position of the Company. A focus on safety is an integral and continuing component of the Company's core business strategy.

The Company maintains a health and safety management system which complies with the internationally recognized Occupational Health and Safety Assessment Series 18001 standard. Continuing to meet this standard improves the Company's ability to capture and track information related to safe work practices and hazard recognition, and enhances safety management.

Environment: The Company is subject to numerous laws, regulations and guidelines relating to the protection of the environment including those governing the management, transportation and disposal of hazardous substances and other waste materials. Environmental damage and associated costs could potentially arise due to a variety of events, including the impact of severe weather and other natural disasters, human error or misconduct and equipment failure. Costs arising from environmental protection initiatives, compliance with environmental laws, regulations and guidelines or damages may become material to the Company.

The Company's key environmental hazard relates to risks of contamination of air, soil and water primarily relating to the storage and handling of fuel, the use and/or disposal of petroleum-based products, including transformer oils containing polychlorinated biphenyls, in the day-to-day operating and maintenance activities, and emissions from the combustion of fuel required in the generation of electricity.

The Company is also subject to inherent risks, including risk of fires. Electricity transmission and distribution facilities have the potential to cause fires as a result of equipment failure, trees falling on a transmission or distribution line or lightning strikes to wooden poles.

The environmental hazards related to hydroelectric generation operations include the creation of artificial water flows that may disrupt natural habitats and the storage of large volumes of water for the purpose of electricity generation.

To identify, mitigate and monitor environmental performance the Company has established an environmental management system ("EMS"). The Company's EMS is compliant with the International Organization for Standardization 14001:2004 standard. As at December 31, 2017, there were no environmental liabilities recorded in the Company's 2017 annual audited financial statements and there were no material unrecorded environmental liabilities known to management.

Capital Resources and Liquidity: The Company's financial position could be adversely affected if it fails to arrange sufficient and cost-effective financing to fund, among other things, capital expenditures and the repayment of maturing debt. There can be no assurance that sufficient capital will continue to be available on acceptable terms to repay existing debt and to fund capital expenditures. The ability to arrange sufficient and cost-effective financing is subject to numerous factors, including the financial position of the Company, conditions in the capital and bank credit markets, ratings assigned by rating agencies and general economic conditions.

Credit ratings affect the level of credit risk spreads on new long-term bond issues and on the Company's credit facilities. A change in credit ratings could potentially affect access to various sources of capital and increase or decrease the Company's financing costs. There were no changes to the Company's credit ratings in 2017. The Company does not anticipate any material adverse rating actions by the credit rating agencies in the near term.

The Company has been successful at securing cost effective capital and expects to have reasonable access to capital in the near to medium terms. In 2017, the Company's $100 million committed credit facility was extended to a five-year term maturing in August 2022. Further information on the Company's credit facilities, contractual obligations, including long-term debt maturities and repayments, and cash flow requirements is provided in the "Liquidity and Capital Resources" section of this MD&A.

Economic Conditions: Economic conditions primarily impact the Company's electricity sales, cost of capital and the performance of the defined benefit pension plan.

Electricity sales are influenced by economic factors such as changes in employment levels, personal disposable income and housing starts. Out-migration in rural areas, as well as declining birth rates and increasing death rates associated with an aging population, also affect sales. An extended decline in economic conditions would be expected to have the effect of reducing demand for energy over time. In addition to the impact of reduced demand, an extended decline in economic conditions could also impair the ability of customers to pay for electricity consumed, thereby affecting the aging and collection of the Company's accounts receivable. A modest decline in electricity sales is currently expected for 2018.

The impact of economic conditions on pensions and cost of capital are discussed in the Interest Rates and Defined Benefit Pension Plan Performance sections of this MD&A.

Interest Rates: Global financial market conditions could impact the Company's cost of capital as well as impact timing of future long-term bond issues. Market driven changes in interest rates could cause fluctuations in interest costs associated with the Company's bank credit facilities. The Company periodically refinances its credit facilities in the normal course with fixed-rate first mortgage sinking fund bonds, which compose most of its long-term debt, thereby significantly mitigating exposure to short-term interest rate changes.

Cyber Security: The Company is exposed to the risk of cyber-security violations. Unauthorized access to corporate and information technology systems due to hacking, viruses and other causes could result in service disruptions and system failures. In addition, the Company requires access to confidential customer data, including personal and credit information, which could be exposed in the event of a security breach.

Despite implemented security measures and controls to protect corporate and information technology systems and safeguard the confidentiality of customer information, a security breach could result. This could potentially result in service disruptions, property damage, corruption or unavailability of critical data or confidential customer information, reputational damage and increased regulation and litigation, which could impact the Company's results if the situation is not resolved in a timely manner, or the financial impacts are not alleviated through insurance policies or through recovery from customers in future rates.

Labour Relations: Approximately 55% of the Company's employees are members of the International Brotherhood of Electrical Workers labour union (the "IBEW"), which has two collective bargaining agreements with the Company. The two agreements expired on September 30, 2017. The inability to maintain or renew the collective bargaining agreements on acceptable terms could result in increased labour costs, or service interruptions arising from labour disputes that are not provided for in approved rates and that could have a material adverse effect on the results of operations, cash flows and financial position of the Company. Collective agreement negotiations with the IBEW commenced in the fourth quarter of 2017.

Human Resources: The ability of the Company to deliver service in a cost-effective manner is dependent on the ability of the Company to attract, develop and retain a skilled workforce.

Operating and Maintenance: The Company's electricity system requires ongoing maintenance and capital investment to ensure its continued performance, reliability and safety. The failure of the Company to properly execute its capital expenditure programs, maintenance programs or the occurrence of significant unforeseen equipment failures could have a material adverse effect on the Company's results of operations, cash flows and financial position. There can be no assurance that any additional maintenance and capital costs will receive regulatory approval for recovery in future customer rates.

Weather: The physical assets of the Company are exposed to the effects of severe weather conditions and other acts of nature. Although the physical assets have been constructed, operated and maintained to withstand severe weather, there is no assurance that they will successfully do so in all circumstances. In the event of a material uninsured loss caused by severe weather conditions or other natural disasters, there is potential to make an application to the PUB for recovery of those costs. However, there can be no assurance that the PUB would approve any such application. Any major damage to the Company's facilities could result in lost revenue, repair costs and customer claims that are substantial in amount and could result in a material adverse effect on the Company's results of operations, cash flows and financial position.

Insurance: While the Company maintains a comprehensive insurance program, the Company's transmission and distribution assets (i.e. poles and wires) are not covered under insurance for physical damage. This is customary in North America as the cost of the coverage is not considered economical. Insurance is subject to coverage limits as well as time-sensitive claims discovery and reporting provisions and there is no assurance that the types of liabilities that may be incurred by the Company, including those that may arise relating to environmental matters, will be covered by insurance.

For material uninsured losses, the Company expects that it could seek regulatory relief. However, there is no assurance that regulatory relief would be received. Any major damage to the physical assets of the Company could result in repair costs and customer claims that are substantial in amount and which could have a material adverse effect on the Company's results of operations, cash flows and financial position.

It is expected that existing insurance coverage will be maintained. However, there is no assurance that the Company will be able to obtain or maintain adequate insurance in the future at rates considered reasonable or that insurance will continue to be available on terms comparable to those now existing.

Defined Benefit Pension Plan Performance: The defined benefit pension plan is subject to judgments utilized in the actuarial determination of the projected pension benefit obligation and the related pension expense. The primary assumptions utilized are the expected long-term rate of return on pension plan assets and the discount rate used to value the projected pension benefit obligation. A discussion of the critical accounting estimates associated with pensions is provided in the "Critical Accounting Estimates – Employee Future Benefits" section of this MD&A.

Pension benefit obligations and related pension expense can be affected by changes in the global financial and capital markets. 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 in actual return on pension plan assets from the expected long-term return on the assets. This may cause material changes in future pension funding requirements from current estimates and material changes in future pension expense. Market-driven changes also impact the discount rate which may result in material variations in (i) future pension funding requirements from current estimates and (ii) future pension expense.

There is also risk associated with measurement uncertainty inherent in the actuarial valuation process as it affects the measurement of pension expense, future funding requirements, and the projected benefit obligation.

Pension risks are mitigated due to the PUB approved PEVDA to deal with the differences between actual defined benefit pension expense and pension expense approved by the PUB for rate-setting purposes. Differences in pension expense arising from variations in assumptions are recovered from or refunded to customers through the Company's RSA. The closure of the defined benefit pension plan in 2004 also mitigates pension risk.

Information Technology Infrastructure: The ability of the Company to operate effectively is dependent upon developing and maintaining its information systems and infrastructure that support electricity operations, provide customers with billing information and support the financial and general operating aspects of the business. System failures could have a material adverse effect on the Company.

Hydro Rate Stabilization Plan ("RSP") Refund: Due to mismatches in Hydro's customer pricing and actual costs of supply from 2007 through 2013, a balance of over $138 million had accumulated in the Hydro RSP as of January 31, 2017. Approximately $129 million of the RSP balance was attributable to Newfoundland Power's customers. On September 2, 2016, the PUB approved the Company's proposed refund program for its customers. In accordance with the approved refund program, $120.4 million of the Hydro RSP was transferred to Newfoundland Power, and processed as refunds to customers, in 2017.

Continued Reporting in Accordance with U.S. GAAP: Due to uncertainty around the adoption of a rate-regulated accounting standard by the International Accounting Standards Board ("IASB"), the Company adopted U.S. GAAP, as opposed to International Financial Reporting Standards ("IFRS"), effective January 1, 2012.

In December 2017, the Ontario Securities Commission ("OSC") issued a relief order which permits Newfoundland Power to continue to prepare its financial statements in accordance with U.S. GAAP. The relief extends until the earliest of: (i) January 1, 2024; (ii) the first date of the financial year that commences after the Company ceases to have activities subject to rate regulation; or (iii) the effective date prescribed by the IASB for the mandatory application of a standard within IFRS specific to entities with activities subject to rate regulation. The OSC relief order effectively extends the OSC's previous relief order, which was due to expire effective January 1, 2019.

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") registrant. Without OSC relief, the Company would be required to become an SEC registrant in order to continue reporting under U.S. GAAP, or adopt IFRS. The IASB has released an interim, optional standard on Regulatory Deferral Accounts and continues to work on a project focusing on accounting specific to rate-regulated activities. It is not yet known when this project will be completed or whether IFRS will, as a result, include a permanent, mandatory standard to be applied by entities with activities subject to rate regulation. In the absence of a permanent standard for rate-regulated activities, the application of IFRS could result in volatility in earnings and earnings per common share as compared to that which would otherwise be recognized under U.S. GAAP.

CHANGES IN ACCOUNTING POLICIES

Future Accounting Pronouncements

The Company considers the applicability and impact of all Accounting Standards Updates ("ASUs") issued by the Financial Accounting Standard's Board ("FASB"). The following updates have been issued by the FASB, but have not yet been adopted by Newfoundland Power. Any ASUs not included below were assessed and determined to be either not applicable to the Company or are not expected to have a material impact on the financial statements.

Revenue from Contracts with Customers

ASU No. 2014-09 was issued in May 2014 and the amendments in this update create Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts with Customers*, and supersede the revenue recognition requirements in ASC Topic 605, *Revenue Recognition*, including most industry-specific revenue recognition guidance throughout the codification. In 2016 a number of additional ASUs were issued that clarify implementation guidance in ASC Topic 606. This standard, and all related ASUs, is effective for annual and interim periods beginning after December 15, 2017.

The guidance permits two methods of adoption: (i) the full retrospective method, under which comparative periods would be restated, and the cumulative impact of applying the standard would be recognized as at January 1, 2017, the earliest period presented; and (ii) the modified retrospective method, under which comparative periods would not be restated and the cumulative impact of applying the standard would be recognized at the date of initial adoption, January 1, 2018. The Company will use the modified retrospective approach.

The majority of the Company's revenue is generated from energy sales to customers based on published tariff rates, as approved by the PUB, and is within the scope of ASU No. 2014-09. Newfoundland Power has assessed its tariff revenue and other revenue streams and has determined that the adoption of this standard, and all related ASUs, will not change the Company's revenue recognition policy and will not have a material impact on earnings. The Company's financial statements will provide additional note disclosure, as required, upon implementation of the standard.

Improving the Presentation of Net Periodic Pension Cost and Net Periodic Post-retirement Benefit Cost

ASU No. 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Post-retirement Benefit Cost*, was issued in March 2017 and the amendments in this update require that an employer disaggregate the current service cost component of net benefit cost and present it in the same statement of earnings line item as other employee compensation costs arising from services rendered. The other components of net benefit cost are required to be presented separately from the service cost component and outside of operating income. Additionally, the amendments allow only the service cost component to be eligible for capitalization, when applicable. This update is effective for annual and interim periods beginning after December 15, 2017. The amendments in this update should be applied retrospectively for the presentation of net periodic benefit costs and prospectively, on and after the effective date, for the capitalization in assets of only the service cost component of net periodic benefit cost. The adoption of this update is not expected to have a material impact on earnings.

Leases

ASU No. 2016-02 was issued in February 2016 and the amendments in this update create ASC Topic 842, Leases, and supersede lease requirements in ASC Topic 840, Leases. The main provision of ASC Topic 842 is the recognition of lease assets and lease liabilities on the balance sheet by lessees for those leases that were previously classified as operating leases. This update is effective for annual and interim periods beginning after December 15, 2018 and is to be applied using a modified retrospective approach with practical expedient options. Early adoption is permitted. Newfoundland Power is assessing the impact that the adoption of this update will have on its financial statements and related disclosures.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Estimates and judgments are based on historical experience, current conditions and various other assumptions believed to be reasonable under the circumstances. Additionally, certain estimates are necessary since the regulatory environment in which the Company operates often requires amounts to be recorded at estimated values until these amounts are finalized pursuant to regulatory decisions or other regulatory proceedings. Due to changes in facts and circumstances and the inherent uncertainty involved in making estimates, actual results may differ significantly from current estimates. Estimates and judgments are reviewed periodically and, as adjustments become necessary, are reported in earnings in the period in which they either, as appropriate, become known or included in customer rates. The critical accounting estimates are discussed below.

Depreciation and Amortization: Depreciation and amortization, by their nature, are estimates based primarily on the useful lives of assets. Estimated useful lives are based on current facts and historical information, and take into consideration the anticipated lives of the assets. Newfoundland Power's depreciation methodology, including depreciation and amortization rates, accumulated depreciation and estimated remaining service lives, is subject to a periodic study by external experts. The difference between actual accumulated depreciation and that indicated by the depreciation study is amortized and included in customer rates in a manner prescribed by the PUB.

The most recent depreciation study, based on property, plant and equipment in service as at December 31, 2014, indicated an accumulated depreciation variance of $12.2 million. The PUB ordered that it be amortized as an increase in depreciation expense of property, plant and equipment over the average remaining service life of the related assets.

The estimate of future removal and site restoration costs is based on historical experience and future expected cost trends. The balance of this regulatory liability as at December 31, 2017, was $152.0 million (December 31, 2016 - $143.4 million). The net amount of estimated future removal and site restoration costs provided for and reported in depreciation expense during 2017 was $17.2 million (2016 - $14.2 million).

Capitalized Overhead: Newfoundland Power capitalizes overhead costs which are not directly attributable to specific capital assets, but which relate to the overall capital expenditure program (general expenses capitalized or "GEC"). Capitalization reflects estimates of the portions of various general expenses that relate to the overall capital expenditure program in accordance with a methodology ordered by the PUB. GEC is allocated over constructed property, plant and equipment, and amortized over their estimated service lives. In 2017, GEC totalled $4.0 million (2016 - $4.0 million). Changes to the methodology for calculating and allocating general overhead costs to property, plant and equipment could have a material impact on the amounts recorded as operating expenses versus property, plant and equipment. However, any change in the fundamental methodology for the calculation and allocation of GEC would require the approval of the PUB.

Employee Future Benefits: The Company's primary defined benefit pension and OPEB plans are subject to judgments utilized in the actuarial determination of the expense and related obligations. The primary assumptions utilized in determining the pension expense and the projected pension benefit obligation are the discount rate and the expected long-term rate of return on plan assets. The primary assumptions utilized in determining the OPEB expense and the projected OPEB benefit obligation are the discount rate and the health care cost trend rate. All assumptions are assessed and concluded in consultation with the Company's external actuarial advisor.

The discount rate as at December 31, 2017, which is utilized to determine the projected pension benefit obligation and the 2018 pension expense was 3.6% compared to the discount rate of 3.9% as at December 31, 2016. The discount rate as at December 31, 2017, utilized to determine the projected OPEB obligation and the 2018 OPEB expense was 3.6% compared to the discount rate of 3.9% as at December 31, 2016. Discount rates reflect market interest rates on high-quality debt instruments with cash flows that match the timing and amount of expected benefit payments. The methodology in determining the discount rate was consistent with that used to determine the discount rate in the previous year.

The expected long-term rate of return on pension plan assets which is used to estimate the 2018 defined benefit pension expense is 5.25%, consistent with that used for the 2017 defined benefit pension expense. The expected long-term rate of return reflects global market conditions and the Company's long-term investment strategy. As in previous years, the Company's actuary provided a range of expected long-term pension asset returns based on their internal modelling. The expected long-term return on pension plan assets of 5.25% falls within this range. The Company periodically completes a review of its investment strategy and asset allocation. Based on the review completed in 2017, the Company reduced its Canadian equity allocation and re-allocated its U.S. and international equity funds to a combination of diversified global equity funds. Newfoundland Power plans to gradually reduce the Canadian equity concentration to 10% and increase the fixed income securities to 60% through 2020, subject to market conditions. This is expected to reduce the risk of asset volatility and allow for more predictability in terms of the plan's funded status.

The health care cost trend rate as at December 31, 2017, which is utilized to determine the projected OPEB benefit obligation and the 2018 OPEB expense, is 4.5%, consistent with December 31, 2016.

The following table provides sensitivity to the changes in the 2017 primary assumptions associated with the Company's primary defined benefit pension and OPEB plans.

	Defined Benefit Pension Plan		OPEB Plan	
($millions)	**Pension Expense[1]**	**Benefit Obligation[2]**	**OPEB Expense[1]**	**Benefit Obligation[2]**
Rate of return on plan assets:				
Increase by 1.0%	(3.9)	-	-	-
Decrease by 1.0%	3.9	-	-	-
Discount rate:				
Increase by 1.0%	(4.6)	(50.6)	(0.9)	(10.4)
Decrease by 1.0%	5.8	64.3	1.2	14.1
Health care cost trend rate:				
Increase by 1.0%	-	-	1.4	9.0
Decrease by 1.0%	-	-	(1.2)	(6.8)

1 *For the year ended December 31, 2017. The volatility of future pension and OPEB expense has been significantly mitigated by the PUB approved PEVDA and OPEB cost variance deferrals, in which the difference arising from variations in assumptions between actual pension and OPEB expense and pension and OPEB expense approved by the PUB for rate-setting purposes would be recovered from or refunded to customers through the Company's RSA.*

2 *As at December 31, 2017.*

Other assumptions applied in measuring the defined benefit pension expense and/or the projected pension benefit obligation were the average rate of compensation increase, average remaining service life of the active employee group, and employee and retiree mortality rates. Other assumptions utilized in determining OPEB costs and obligations include the foregoing assumptions, excluding the average rate of compensation increase.

Income Taxes: Deferred income tax assets and liabilities are based upon temporary differences between the accounting and tax basis of existing assets and liabilities, the benefit of income tax reductions or tax losses available to be carried forward and the effects of changes in tax laws. The carrying amounts of assets and liabilities are based upon the amounts recorded in the financial statements and are, therefore, subject to accounting estimates that are inherent to those balances. The timing of the reversal of temporary differences is estimated based upon assumptions of expectations of future results of operations. The composition of deferred income tax assets and liabilities are reasonably likely to change from period to period because of changes in the estimation of these expectations.

Asset Retirement Obligations: The measurement of the fair value of asset retirement obligations ("AROs") requires the Company to make reasonable estimates about the method of settlement and settlement dates associated with legally obligated asset retirement costs. While the Company has AROs for its generation assets and certain distribution and transmission assets, there were no amounts recognized as at December 31, 2017 and 2016.

The nature, amount and timing of AROs for hydroelectric generation assets cannot be reasonably estimated at this time as these assets are expected to effectively operate in perpetuity given their nature. In the event that environmental issues are identified or hydroelectric generation assets are decommissioned, AROs will be recorded at that time provided the costs can be reasonably estimated. It is management's judgment that identified AROs for its remaining assets are immaterial.

Revenue Recognition: The Company recognizes electricity revenue on an accrual basis. Electricity is metered upon delivery to customers and recognized as revenue using approved rates when consumed. Meters are read periodically and bills are issued to customers based on those readings. At the end of each period, an estimate of electricity consumed but not yet billed is accrued as revenue. The unbilled revenue accrual for each period is based on estimated electricity sales to customers for the period since the last meter reading at the rates approved by the PUB.

The development of the electricity sales estimates requires analysis of electricity consumption on a historical basis in relation to key inputs such as the current price of electricity, population growth, economic activity, weather conditions and electricity system losses. The estimation process for accrued unbilled electricity consumption will result in adjustments to electricity revenue in the period during which the difference between actual results and those estimated becomes known. As at December 31, 2017, the amount of accrued unbilled revenue recorded in accounts receivable was approximately $35.5 million (December 31, 2016 - $38.9 million).

Contingencies: The Company is subject to various legal proceedings and claims associated with the ordinary course of business operations. It is management's judgment that the amount of liability, if any, from these actions would not have a material adverse effect on the Company's financial position or results of operations.

SELECTED ANNUAL INFORMATION

The following table sets forth annual information for the years ended December 31, 2017, 2016 and 2015. The financial information reflects Canadian dollars and has been prepared in accordance with U.S. GAAP.

($millions, except per share amounts)	**2017**	**2016**	**2015**
Results of Operations:			
Revenue	672.4	672.1	652.8
Net Earnings Applicable to Common Shares	41.0	40.0	38.8
Financial Position:			
Total Assets	1,589.0	1,540.3	1,495.5
Total Long-term Liabilities	973.8	887.1	873.0
Shareholders' Equity	496.8	494.2	475.2
Per Share Data:			
Earnings Applicable to Common Shares [1]	3.97	3.87	3.76
Common Dividends Declared [1]	3.72	2.08	0.92
Preference Dividends Declared [2]	0.62	0.62	0.62

1 *Basic and fully diluted. Based on the weighted average number of common shares outstanding, which was 10,320,270 common shares in each year.*

2 *Based on the aggregate number of preference shares outstanding in each year, which was 891,748 in 2017, 892,998 in 2016 and 893,898 in 2015. Changes in the number of preference shares outstanding reflect shares repurchased at $10 per share.*

The changes from 2016 to 2017 have been discussed previously in this MD&A. The increase in revenue from 2015 to 2016 reflects changes in customer energy rates in 2015 and 2016. The rate changes included (i) an increase of 4.75% effective July 1, 2015 related to the PUB's approval of an interim rate increase in the wholesale electricity rate charged by Hydro to Newfoundland Power; and, (ii) an increase of 1.2% effective July 1, 2016 related to the Company's 2016/2017 GRA. The impact of these rate increases on revenue was partially offset by lower sales.

The increase in net earnings applicable to common shares from 2015 to 2016 reflects the rebasing of customer rates due to the implementation of the Order on the 2016/2017 GRA, which included the combined impact of rate base growth and a lower ratemaking ROE. The increase in earnings in 2016 also reflected (i) a reduction in purchased power cost associated with demand charges from Hydro; (ii) lower than anticipated operating expenses and finance charges; and, (iii) an increase in other revenue. These factors were partially offset by lower than anticipated sales.

The increase in total assets from 2015 to 2016 was due to continued investment in the electricity system and an increase in the defined benefit pension plan asset. These factors were partially offset by a decrease in accounts receivable, due to lower sales and the overall change in customer energy rates effective July 1, 2016, and a reduction in income taxes receivable associated with unregulated Part VI.1 tax.

FOURTH QUARTER RESULTS

	2017	2016	Change
Electricity Sales *(GWh)* [1]	1,577.9	1,618.0	(40.1)
Net Earnings Applicable to Common Shares			
$ Millions	10.8	11.0	(0.2)
$ Per Share	1.04	1.06	(0.02)
Cash Flow from Operating Activities *($millions)*	31.8	29.0	2.8
Cash Flow used in Investing Activities *($millions)*	(33.6)	(28.4)	(5.2)
Cash Flow from Financing Activities *($millions)*	1.8	(0.5)	2.3

[1] *Reflects normalized electricity sales.*

Electricity sales for the fourth quarter of 2017 decreased by 40.1 GWh, or 2.5% compared to the fourth quarter of 2016. The decrease was due to a 3.3% reduction in average consumption by residential and commercial customers. The reduction in average consumption was partially offset by a 0.8% increase in the number of customers.

Earnings for the fourth quarter of 2017 decreased by $0.2 million compared to the fourth quarter of 2016. The decrease was due to lower electricity sales, partially offset by lower than anticipated finance charges and an increase in other revenue.

Cash from operating activities for the fourth quarter of 2017 increased by $2.8 million compared to the fourth quarter of 2016. The increase primarily reflects lower purchased power payments due to the timing of the July 1, 2017 change in the wholesale electricity rate paid to Hydro by Newfoundland Power.

Cash used in investing activities for the fourth quarter of 2017 increased by $5.2 million compared to the fourth quarter of 2016. The increase was due to higher capital expenditures.

Cash from financing activities for the fourth quarter of 2017 increased by $2.3 million compared to the fourth quarter of 2016. The increase in cash required from the Company's credit facilities was due to higher capital expenditures and higher common share dividends. The Company increased common share dividends in 2017 to maintain an average capital structure that includes approximately 45% common equity. These impacts were partially offset by higher cash from operations.

QUARTERLY RESULTS

The following table sets forth unaudited quarterly information for each of the eight quarters ended March 31, 2016, through December 31, 2017. The quarterly information reflects Canadian dollars and has been obtained from the Company's interim unaudited financial statements which have been prepared in accordance with U.S. GAAP. These financial results are not necessarily indicative of results for any future period and should not be relied upon to predict future performance.

	First Quarter March 31		Second Quarter June 30		Third Quarter September 30		Fourth Quarter December 31	
(unaudited)	2017	2016	2017	2016	2017	2016	2017	2016
Electricity Sales *(GWh)*	2,060.0	2,038.5	1,357.5	1,342.7	926.7	950.9	1,577.9	1,618.0
Revenue *($millions)*	228.9	224.6	155.2	152.8	109.9	112.3	178.4	182.4
Net Earnings Applicable to Common Shares *($millions)*	10.8	10.8	11.5	10.3	7.9	7.9	10.8	11.0
Earnings per Common Share *($)* [1]	1.05	1.04	1.11	1.00	0.77	0.77	1.04	1.06

[1] *Basic and fully diluted.*

Seasonality

Sales and Revenue: Quarterly sales and revenue are impacted by 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: In addition to 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.

Overall, these sales, revenues and cost dynamics are such that earnings have generally been lower in the third quarter than the remaining quarters in the year.

On July 1, 2017, the PUB approved a change in the wholesale electricity rate charged by Hydro to Newfoundland Power. As a result, the Company will pay more for purchased power in the winter months and less in the summer months. In 2018, this is expected to reduce earnings in the first and fourth quarters and increase earnings in the second and third quarters relative to 2017. The rate change will not impact Newfoundland Power's annual earnings.

Trending

Sales and Revenue: Changes in quarterly electricity sales year-over-year reflect fluctuations in average consumption and growth in the number of customers served by the Company. Future sales and customer growth is expected to be lower than in recent years.

Earnings: Beyond the impact of expected lower 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. On June 8, 2016, the PUB issued the Order on the Company's 2016/2017 GRA which established, for ratemaking purposes, a regulated ROE of 8.50% and 45% common equity for 2016 through 2018. For 2018, this reflects a rate of return on rate base of 7.04%, with a range of 6.86% to 7.22%, as approved by the PUB on December 8, 2017. Newfoundland Power is required to file its next GRA for 2019 on or before June 1, 2018.

Newfoundland Power expects to maintain its investment grade credit ratings in 2018.

Customer Rates: Effective July 1, 2017, there was an overall average increase in electricity rates charged to customers of approximately 8.5%. The rate increase was the net result of a flow through adjustment to Newfoundland Power's customer electricity rates resulting from a final ruling on Hydro's 2013 GRA and the annual operation of Hydro's RSP and the Company's RSA.

Among other things, Hydro's 2013 GRA resulted in adjustments in the wholesale electricity rate paid to Hydro by Newfoundland Power to reflect changes in Hydro's costs.

Variances in Hydro's cost of fuel used to generate electricity are captured in the Hydro RSP and flowed-through to the Company's customers through the operation of the Company's RSA. The primary reason for the rate increase was an increase in the forecast cost of fuel to be used at the Holyrood generating facility. The RSA also captures variances in Newfoundland Power's cost such as energy supply cost variances and employee future benefit cost variances.

This adjustment in customer rates has no impact on annual earnings for Newfoundland Power.

2018 Capital Plan: On July 7, 2017, the Company filed an application with the PUB requesting approval for its 2018 capital expenditure plan totaling $83.9 million. The application was approved by the PUB on November 6, 2017.

Supply Costs: Hydro filed a 2017 GRA with the PUB on July 28, 2017. The application originally proposed to increase the wholesale electricity rate charged to Newfoundland Power by 9.7% on January 1, 2018 and 9.4% on January 1, 2019. In the fourth quarter of 2017, Hydro indicated that it would not be feasible for it to implement the originally proposed rate increase for January 1, 2018. The application is currently under review by the PUB, and the timing and amount of any rate change associated with the application is uncertain.

Future changes in supply costs, including costs associated with Nalcor Energy's Muskrat Falls hydroelectric generation development and associated transmission assets, may affect electricity prices in a manner that affects the Company's sales. See additional detail with respect to future changes in supply costs in the "Business Risk Management" section of this MD&A.

Inquiries: The PUB's inquiry into supply reliability after interconnection with Nalcor Energy's Muskrat Falls project is ongoing. See additional detail in the "Business Risk Management" section of this MD&A.

The Provincial Government of Newfoundland and Labrador announced that it will be proceeding with a public inquiry into the Muskrat Falls project to commence in 2018 and end by December 31, 2019.

OUTSTANDING SHARES

As at the filing date of this MD&A the Company had issued and outstanding 10,320,270 common shares; 179,225 first preference shares, Series A; 337,983 first preference shares, Series B; 191,640 first preference shares, Series D; and 182,900 first preference shares, Series G. Each of the common shares and first preference shares carry voting rights equal to one vote per share.

CORPORATE INFORMATION

Additional information about Newfoundland Power, including its Annual Information Form, is available on SEDAR at www.sedar.com.

All the common shares of Newfoundland Power Inc. are owned by Fortis Inc., a leader in the North American regulated electric and gas utility business with 2017 revenue of $8.3 billion and total assets of approximately $48 billion. Approximately 8,500 employees of Fortis Inc. serve utility customers in five Canadian provinces, nine U.S. states and three Caribbean countries.

Fortis shares are listed on the TSX and NYSE and trade under the symbol FTS. Additional information can be accessed at www.fortisinc.com, www.sedar.com, or www.sec.gov.

For further information, contact:

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www.computershare.com

Website: www.newfoundlandpower.com

MANAGEMENT REPORT//

MANAGEMENT REPORT

The accompanying 2017 Financial Statements of Newfoundland Power Inc. ("Newfoundland Power" or the "Company") have been prepared by management, who are responsible for the integrity of the information presented. These Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Management has determined such amounts on a reasonable basis in order to ensure that the Financial Statements are presented fairly, in all material respects.

In meeting its responsibility for the reliability and integrity of the Financial Statements, management has developed and maintains a system of accounting and reporting which provides for the necessary internal controls to provide reasonable assurance that transactions are properly authorized and recorded, assets are safeguarded and liabilities are recognized. The systems of the Company focus on the need for training of qualified and professional staff and the effective communication of management guidelines and policies. The effectiveness of the internal controls of the Company is evaluated on an ongoing basis.

The Board of Directors oversees management's responsibility for financial reporting through an Audit & Risk Committee which is composed entirely of external independent directors. The Audit & Risk Committee oversees the external audit of the Company's Annual Financial Statements and the accounting and financial reporting and disclosure processes and policies of the Company. The Audit & Risk Committee meets with management, the shareholders' auditors and the internal auditor to discuss the results of the audit, the adequacy of internal accounting controls and the quality and integrity of financial reporting. The Company's Annual Financial Statements are reviewed by the Audit & Risk Committee with management before the statements are recommended to the Board of Directors for approval. The shareholders' auditors have full and free access to the Audit & Risk Committee.

The Audit & Risk Committee has the duty to review the adoption of, and changes in, accounting principles and practices which have a material effect on the Company's financial statements and to review and report to the Board of Directors on policies relating to accounting, financial reporting and disclosure processes. The Audit & Risk Committee has the duty to review financial reports requiring the approval of the Board of Directors prior to submission to securities commissions or other regulatory authorities, to assess and review management's judgments that are material to reported financial information and to review shareholders' auditors' independence and auditors' fees.

The 2017 Financial Statements were reviewed by the Audit & Risk Committee and, on their recommendation, were approved by the Board of Directors of Newfoundland Power. Deloitte LLP, independent auditors appointed by the shareholders of Newfoundland Power upon recommendation of the Audit & Risk Committee, have performed an audit of the 2017 Financial Statements and their report follows.

Jocelyn Perry President, and Chief Executive Officer	Paige London Vice President Finance, and Chief Financial Officer

February 14, 2018
St. John's, Canada

INDEPENDENT AUDITOR'S REPORT//

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Newfoundland Power Inc.

We have audited the accompanying financial statements of Newfoundland Power Inc., which comprise the balance sheet as at December 31, 2017 and the statement of earnings, changes in shareholders' equity and cash flows for the year then ended, and the related notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Newfoundland Power Inc. as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

The financial statements of Newfoundland Power Inc. for the year ended December 31, 2016 were audited by another auditor who expressed an unmodified opinion on those financial statements on February 7, 2017.

/s/ Deloitte LLP

Chartered Professional Accountants
February 14, 2018
St. John's, Canada

ANNUAL AUDITED FINANCIAL STATEMENTS & NOTES//

Statements of Earnings

For the years ended December 31

(in thousands of Canadian dollars, except per share amounts)

	2017	2016
Revenue	$ 672,435	$ 672,131
Expenses		
Purchased power	440,249	443,311
Operating expenses	63,433	60,249
Employee future benefits *(Note 11)*	17,039	18,441
Depreciation and amortization	62,973	60,472
Cost recovery deferrals, net (*Note 6)*	(1,032)	2,064
Finance charges *(Note 7)*	35,365	35,235
	618,027	619,772
Earnings Before Income Taxes	54,408	52,359
Income tax expense *(Note 8)*	12,882	11,851
Net Earnings	41,526	40,508
Preference share dividends	555	555
Net Earnings Applicable to Common Shares	$ 40,971	$ 39,953
Basic and Diluted Earnings per Common Share	$ 3.97	$ 3.87

Statements of Changes in Shareholders' Equity

For the years ended December 31

(in thousands of Canadian dollars, except per share amounts)

	Common Shares	Preference Shares	Retained Earnings	Total Equity
As at January 1, 2017	$ 70,321	$ 8,930	$ 414,954	**$ 494,205**
Net earnings	-	-	41,526	**41,526**
Allocation of Part VI.1 tax	-	-	11	**11**
Dividends on common shares ($3.72 per share)	-	-	(38,419)	**(38,419)**
Dividends on preference shares	-	-	(555)	**(555)**
Redemption of preference shares	-	(13)	-	**(13)**
As at December 31, 2017	$ 70,321	$ 8,917	$ 417,517	**$ 496,755**
As at January 1, 2016	$ 70,321	$ 8,939	$ 395,934	**$ 475,194**
Net earnings	-	-	40,508	**40,508**
Allocation of Part VI.1 tax	-	-	533	**533**
Dividends on common shares ($2.08 per share)	-	-	(21,466)	**(21,466)**
Dividends on preference shares	-	-	(555)	**(555)**
Redemption of preference shares	-	(9)	-	**(9)**
As at December 31, 2016	$ 70,321	$ 8,930	$ 414,954	**$ 494,205**

See accompanying notes to financial statements.

Balance Sheets
As at December 31
(in thousands of Canadian dollars)

	2017	2016
Assets *(Note 13)*		
Current assets		
Accounts receivable *(Note 4)*	$ 79,696	$ 75,639
Income taxes receivable	68	-
Materials and supplies (*Note 5)*	1,465	1,419
Prepaid expenses	2,022	1,842
Regulatory assets *(Note 6)*	14,027	12,783
	97,278	91,683
Property, plant and equipment (net) *(Note 9)*	1,118,644	1,082,095
Intangible assets *(Note 10)*	22,501	21,168
Defined benefit pension plans *(Note 11)*	11,206	9,164
Regulatory assets *(Note 6)*	337,764	334,725
Other assets *(Note 12)*	1,631	1,488
	$ 1,589,024	$ 1,540,323
Liabilities and Shareholders' Equity		
Current liabilities		
Short-term borrowings	$ 3,575	$ 2,349
Accounts payable and accrued charges	83,775	78,535
Interest payable	6,785	6,623
Income taxes payable	-	495
Defined benefit pension plans *(Note 11)*	1,055	233
Other post-employment benefits *(Note 11)*	3,640	3,388
Regulatory liabilities *(Note 6)*	1,032	1,032
Current instalments of long-term debt *(Note 13)*	18,600	66,350
	118,462	159,005
Regulatory liabilities *(Note 6)*	156,229	144,451
Defined benefit pension plans *(Note 11)*	5,263	5,859
Other post-employment benefits *(Note 11)*	78,151	88,570
Other liabilities *(Note 14)*	1,066	786
Deferred income taxes *(Note 8)*	157,935	139,750
Long-term debt *(Note 13)*	575,163	507,697
	1,092,269	1,046,118
Commitments *(Note 19)*		
Shareholders' equity		
Common shares, no par value, unlimited authorized shares, 10.3 million shares issued and outstanding *(Note 15)*	70,321	70,321
Preference shares *(Note 15)*	8,917	8,930
Retained earnings	417,517	414,954
	496,755	494,205
	$ 1,589,024	$ 1,540,323

See accompanying notes to financial statements.

APPROVED ON BEHALF OF THE BOARD:

Kenneth Bennett — Director

Anne Whelan — Director

Statements of Cash Flows
For the years ended December 31
(in thousands of Canadian dollars)

	2017	2016
Operating Activities		
Net earnings	$ 41,526	$ 40,508
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation of property, plant and equipment	59,885	57,673
Amortization of intangible assets and other	3,320	3,021
Change in long-term regulatory assets and liabilities	525	2,334
Deferred income taxes *(Note 8)*	2,291	(353)
Employee future benefits	3,025	4,170
Other	(460)	(59)
Change in non-cash working capital *(Note 16)*	(144)	11,824
	109,968	119,118
Investing Activities		
Capital expenditures	(91,774)	(101,257)
Intangible asset expenditures	(4,422)	(5,703)
Contributions from customers	4,367	3,908
Other	125	(630)
	(91,704)	(103,682)
Financing Activities		
Change in short-term borrowings	1,226	(55)
Net (repayments) borrowings under committed credit facility	(48,500)	43,000
Proceeds from long-term debt *(Note 13)*	75,000	-
Repayment of long-term debt *(Note 13)*	(6,600)	(36,250)
Redemption of preference shares *(Note 15)*	(13)	(9)
Payment of debt financing costs	(403)	(101)
Dividends		
Preference shares	(555)	(555)
Common shares	(38,419)	(21,466)
	(18,264)	(15,436)
Change in Cash	-	-
Cash, Beginning of Year	-	-
Cash, End of Year	$ -	$ -
Cash Flows Include the Following:		
Interest paid	$ 35,369	$ 36,286
Income taxes paid	$ 11,734	$ 11,300

See accompanying notes to financial statements.

Notes to Financial Statements

December 31, 2017

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

1. Description of the Business

Newfoundland Power Inc. (the "Company" or "Newfoundland Power") is a regulated electricity utility that operates an integrated generation, transmission and distribution system throughout the island portion of Newfoundland and Labrador. The Company is regulated by the Newfoundland and Labrador Board of Commissioners of Public Utilities (the "PUB") and serves approximately 266,000 customers comprising approximately 87% of all electricity consumers in the Province. All of the common shares of the Company are owned by Fortis Inc. ("Fortis"). Newfoundland Power has an installed generating capacity of 139 megawatts ("MW"), of which approximately 97 MW is hydroelectric generation. It generates approximately 7% of its energy needs and purchases the remainder from Newfoundland and Labrador Hydro ("Hydro").

The Company operates under cost of service regulation as administered by the PUB under the *Public Utilities Act (Newfoundland and Labrador)* ("Public Utilities Act"). The Public Utilities Act provides for the PUB's general supervision of the Company's utility operations and requires the PUB to approve, among other things, customer rates, capital expenditures and the issuance of securities. The Public Utilities Act also entitles the Company an opportunity to recover 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 consists of the net assets required by the Company to provide electricity service to customers.

The determination of the forecast return on rate base, together with the forecast of all reasonable and prudent costs, establishes the revenue requirement upon which the Company's customer rates are determined through a general rate hearing. Rates are bundled to include generation, transmission and distribution services.

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

On June 8, 2016, the PUB issued an Order on the Company's 2016/2017 General Rate Application ("GRA") which established the Company's cost of capital for ratemaking purposes for 2016 through 2018 based upon an 8.50% return on equity ("ROE") and 45% common equity. The Company's rate of return on rate base for 2017 was set at 7.19%, with a range of 7.01% to 7.37%, compared to 7.21%, with a range of 7.03% to 7.39% for 2016.

The operation of the Automatic Adjustment Formula, which historically adjusted the Company's ratemaking ROE between GRAs, has been suspended pending a further Order of the PUB. Newfoundland Power is required to file its next GRA for 2019 on or before June 1, 2018.

2. Summary of Significant Accounting Policies

The significant accounting policies of the Company are as follows.

Basis of Presentation
These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

An evaluation of subsequent events through February 14, 2018, the date these financial statements were issued, was completed and it was determined there were no circumstances that warranted recognition and disclosure of events or transactions in the financial statements as at December 31, 2017.

2. Summary of Significant Accounting Policies (cont'd)

Revenue Recognition
Revenue is recognized under the accrual method when service is rendered. Electricity is metered upon delivery to customers and recognized as revenue using approved rates when consumed. Meters are read periodically and bills are issued to customers based on these readings. At the end of each period, an estimate of electricity consumed but not yet billed is accrued as revenue. The unbilled revenue accrual for each period is based on estimated electricity sales to customers for the period since the last meter reading at the rates approved by the PUB. The development of the electricity sales estimates requires analysis of electricity consumption on a historical basis in relation to key inputs such as the current price of electricity, population growth, economic activity, weather conditions and electricity system losses.

Revenue arising from the amortization of certain regulatory assets and liabilities is recognized in the manner prescribed by the PUB (Note 6).

Sales Taxes
In the course of its operations, the Company collects municipal taxes and sales taxes from its customers. When customers are billed, a current liability is recognized for municipal taxes included in electricity rates charged to customers and sales taxes included on customers' bills. The liability is settled when the taxes are remitted to the appropriate government authority. The Company's revenue excludes municipal taxes and sales taxes.

Allowance for Doubtful Accounts
The allowance for doubtful accounts reflects management's best estimate of uncollectible accounts receivable balances. Management estimates uncollectible accounts receivable based on a variety of factors including accounts receivable aging, historical experience and other currently available information, including events such as customer bankruptcy. As prescribed by the PUB, interest at a rate equal to the prime rate plus 5 percent is charged on accounts receivable balances greater than $50 that have been outstanding for more than 30 days. Accounts receivable are written off against the allowance in the period in which they are deemed uncollectible.

Materials and Supplies
Materials and supplies, representing fuel and materials required for maintenance activities, are measured at the lower of average cost and net realizable value.

Regulatory Assets and Liabilities
Regulatory assets and liabilities arise as a result of the rate-setting process. Regulatory assets represent future revenues associated with certain costs incurred in the current or prior periods that will be, or are expected to be, recovered from customers in future periods through the rate-setting process. Regulatory liabilities represent future reductions or limitations of increases in revenues associated with amounts that will be, or are expected to be, refunded to customers through the rate-setting process. The accounting methods underlying regulatory assets and liabilities, and their eventual settlement through the rate-setting process, are approved by the PUB and impact the Company's cash flows.

Property, Plant and Equipment
Property, plant and equipment are stated at values approved by the PUB as at June 30, 1966, with subsequent additions at cost.

Maintenance and repairs of utility capital assets are charged to expense in the period incurred, while replacements and betterments which extend the useful lives are capitalized.

Contributions in aid of construction represent the cost of utility property, plant and equipment contributed by customers and government. These contributions are recorded as a reduction in the cost of utility property, plant and equipment.

The Company capitalizes certain overhead costs not directly attributable to specific property, plant and equipment but which do relate to its overall capital expenditure program (general expenses capitalized or "GEC"). The methodology for calculating and allocating GEC among classes of property, plant and equipment is established by PUB Order. In 2017, GEC totalled $4.0 million (2016 - $4.0 million).

The Company capitalizes an allowance for funds used during construction ("AFUDC"), which represents the cost of debt and equity financing incurred during construction of property, plant and equipment. AFUDC is calculated in a manner prescribed by the PUB based on a capitalization rate that is the Company's weighted average cost of capital. In 2017, the cost of equity financing capitalized as an AFUDC and recorded in revenue was approximately $0.5 million (2016 - $0.6 million). The debt component of AFUDC is recorded as a reduction of finance charges (Note 7).

2. Summary of Significant Accounting Policies (cont'd)

Property, Plant and Equipment (cont'd)
Property, plant and equipment are depreciated using the straight-line method by applying the depreciation rates approved by the PUB and disclosed below to the average original cost of the related assets, including GEC and AFUDC.

The Company's depreciation methodology, including depreciation rates, accumulated depreciation and estimated remaining service lives, is subject to periodic review by external experts (a "Depreciation Study").

Based on the 2014 Depreciation Study, and as approved by the PUB, the composite depreciation rates for the Company's property, plant and equipment, as well as their service life ranges and average remaining service lives are as follows.

		Service Life (Years)	
	Composite Depreciation Rate (%)	Range	Average Remaining
Distribution	3.2	18-65	27
Transmission and substations	3.0	31-65	27
Generation	2.8	17-75	30
Transportation and communications	8.2	6-30	5
Buildings	2.4	37-70	26
Equipment	8.9	5-25	5

The difference between actual accumulated depreciation and that indicated by a Depreciation Study is treated as a depreciation variance which is used to increase or decrease depreciation expense and is included in customer rates in a manner prescribed by the PUB. The 2014 Depreciation Study, which was based on property, plant and equipment in service as at December 31, 2014, indicated an accumulated depreciation variance of $12.2 million. The PUB ordered that it be amortized as an increase in depreciation expense of property, plant and equipment over the average remaining service life of the related assets.

Upon disposition, the original cost of property, plant and equipment is removed from the asset accounts. That amount, net of salvage proceeds, is also removed from accumulated depreciation. As a result, any gain or loss is charged to accumulated depreciation and is effectively included in the depreciation variance arising from the next Depreciation Study.

Intangible Assets
Intangible assets are recorded at cost and amortized over their estimated useful lives using the straight-line method by applying the amortization rates approved by the PUB. The weighted average amortization rates for intangible assets in 2017 were 10.0% for computer software (2016 – 10.0%) and 1.6% for land rights (2016 – 1.6%).

Upon disposition, the original cost of the intangible asset is removed from the asset accounts. That amount, net of salvage proceeds, is also removed from accumulated amortization. As a result, any gain or loss is charged to accumulated amortization and is effectively included in the accumulated amortization variance arising from the next Depreciation Study.

Impairment of Long-Lived Assets
The Company reviews the valuation of property, plant and equipment, intangible assets and other long-term assets when events or changes in circumstances indicate that the assets' carrying values exceed the total undiscounted cash flows expected from their use and eventual disposition. An impairment loss, calculated as the difference between the assets' carrying value and their fair values, which is determined using present value techniques, is recognized in earnings in the period in which it is identified. There was no impairment of long-lived assets for the years ended December 31, 2017 and 2016.

2. Summary of Significant Accounting Policies (cont'd)

Income Taxes
The Company follows the asset and liability method of accounting for income taxes. Under this method, deferred income tax assets and liabilities are recognized for temporary differences between the tax and accounting basis of assets and liabilities. The deferred income tax assets and liabilities are measured using enacted income tax rates and laws that are expected to be in effect when the differences are expected to be recovered or settled. The effect of a change in income tax rates on deferred income tax assets and liabilities is recognized in earnings in the period that the change occurs. Current income tax expense is recognized for the estimated income taxes payable or receivable in the current year.

Newfoundland Power recovers current income tax expense in customer rates. The Company is permitted to recover deferred income tax expense by the PUB as follows.

Effective January 1, 1981, deferred income tax liabilities are recognized and recovered in customer rates on temporary differences associated with the cumulative excess of capital cost allowance over depreciation of property, plant and equipment, excluding GEC.

Effective January 1, 2008, deferred income taxes are recognized and recovered in customer rates on temporary differences between pension expense and pension funding.

Effective January 1, 2011, deferred income taxes are recognized and recovered in customer rates on temporary timing differences between other post-employment benefits ("OPEB") costs recovered using the accrual method and that using the cash method.

Deferred income taxes associated with the Company's regulatory reserves and certain regulatory deferrals is also recognized and included in the determination of customer rates (Note 6).

Deferred income tax assets and liabilities associated with other temporary differences between the tax basis of assets and liabilities and their carrying amounts are not included in customer rates. These amounts are expected to be recovered from (refunded to) customers through rates when the income taxes actually become payable (recoverable). The Company has recognized these deferred income tax liabilities with an offsetting increase in regulatory assets. The Company's regulatory asset for deferred income taxes as at December 31, 2017 was $207.2 million (2016 - $191.3 million) (Note 6).

The allocation of Part VI.1 tax to Newfoundland Power from Fortis associated with preference share dividends is recognized in retained earnings upon signing the respective agreement.

Tax benefits associated with income tax positions taken, or expected to be taken, in an income tax return are recognized only when the more likely than not recognition threshold is met.

Interest related to unrecognized tax benefits is recognized in finance charges and any associated penalties are recognized in operating expenses.

Employee Future Benefits
Newfoundland Power maintains defined contribution and defined benefit pension plans for its employees and also provides an OPEB plan. The OPEB plan is composed of retirement allowances for retiring employees as well as health, medical and life insurance for retirees and their dependants.

Defined Contribution and Defined Benefit Pension Plans
The Company's defined contribution plans are its individual and group registered retirement savings plans. Defined contribution pension plan costs are expensed as incurred.

The Company's defined benefit plans are its funded defined benefit pension plan, an unfunded pension uniformity plan ("PUP"), and an unfunded supplementary employee retirement plan ("SERP"). Both the funded defined benefit pension plan and the PUP are closed to new entrants.

2. Summary of Significant Accounting Policies (cont'd)

Employee Future Benefits (cont'd)

Defined Contribution and Defined Benefit Pension Plans (cont'd)

The net benefit costs and projected benefit obligations of the funded defined benefit pension plan and the PUP are actuarially determined using the projected benefits method pro-rated on service and management's best estimate of expected plan investment performance, salary escalation and retirement ages of employees. Discount rates reflect market interest rates on high-quality bonds with cash flows that match the timing and amount of pension payments. The net benefit costs and projected benefit obligations of the SERP are determined based upon employee earnings and years of service. Net benefit costs are also impacted by the amortization of various regulatory assets (Note 6 (iv)).

Pension plan assets of the funded defined benefit pension plan are valued at market-related value, where investment returns in excess of or below expected returns are recognized in the asset value over a period of three years. The excess of the cumulative net actuarial gain or loss over 10% of the greater of the benefit obligation and the market-related value of plan assets is amortized over the estimated average remaining service period of active employees.

Other Post-Employment Benefits

The net benefit cost and projected benefit obligation of the OPEB plan are actuarially determined using the projected benefits method pro-rated on service and best estimate of health care costs. Discount rates reflect market interest rates on high-quality bonds with cash flows that match the timing and amount of OPEB payments. Net benefit costs are also impacted by the amortization of various regulatory assets (Notes 6 (ii) and (iv)). The excess of any net cumulative net actuarial gain or loss over 10% of the benefit obligation, along with unamortized past service costs is amortized over the estimated average remaining service period of active employees.

Asset Retirement Obligations

The Company is required to record the fair value of future expenditures necessary to settle legal obligations associated with asset retirements even though the timing or method of settlement is conditional on future events. Newfoundland Power has determined that there are asset retirement obligations ("AROs") associated with its hydroelectric generation assets and some parts of its transmission and distribution system.

For hydroelectric generation assets, the legal obligation is the environmental remediation of the land and waterways to protect fish habitat. However, this obligation is conditional on the decision to decommission generation assets. The Company currently has no plans to decommission any of its hydroelectric generation assets as they are effectively operated in perpetuity. Therefore, the nature and fair value of any ARO is not currently determinable.

The legal obligations for the transmission and distribution system pertain to the proper disposal of used oil and polychlorinated biphenyl contaminated assets. Obligations related to other Company facilities consist of the removal of fuel storage tanks and asbestos. These obligations were determined to be immaterial and therefore no AROs have been recognized.

The Company will recognize AROs and offsetting property, plant and equipment if the nature and timing can reasonably be determined and the amount is material.

Use of Accounting Estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Estimates and judgments are based on historical experience, current conditions and various other assumptions believed to be reasonable under the circumstances. Additionally, certain estimates are necessary since the regulatory environment in which the Company operates often requires amounts to be recorded at estimated values until these amounts are finalized pursuant to regulatory decisions or other regulatory proceedings. Due to changes in facts and circumstances and the inherent uncertainty involved in making estimates, actual results may differ significantly from current estimates. Estimates are reviewed periodically and, as adjustments become necessary, are reported in earnings in the period in which they either, as appropriate, become known or included in customer rates.

3. Future Accounting Pronouncements

The Company considers the applicability and impact of all Accounting Standards Updates ("ASUs") issued by the Financial Accounting Standard's Board ("FASB"). The following updates have been issued by the FASB, but have not yet been adopted by Newfoundland Power. Any ASUs not included below were assessed and determined to be either not applicable to the Company or are not expected to have a material impact on the financial statements.

Revenue from Contracts with Customers

ASU No. 2014-09 was issued in May 2014 and the amendments in this update create Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts with Customers*, and supersede the revenue recognition requirements in ASC Topic 605, *Revenue Recognition*, including most industry-specific revenue recognition guidance throughout the codification. In 2016 a number of additional ASUs were issued that clarify implementation guidance in ASC Topic 606. This standard, and all related ASUs, is effective for annual and interim periods beginning after December 15, 2017.

The guidance permits two methods of adoption: (i) the full retrospective method, under which comparative periods would be restated, and the cumulative impact of applying the standard would be recognized as at January 1, 2017, the earliest period presented; and (ii) the modified retrospective method, under which comparative periods would not be restated and the cumulative impact of applying the standard would be recognized at the date of initial adoption, January 1, 2018. The Company will use the modified retrospective approach.

The majority of the Company's revenue is generated from energy sales to customers based on published tariff rates, as approved by the PUB, and is within the scope of ASU No. 2014-09. Newfoundland Power has assessed its tariff revenue and other revenue streams and has determined that the adoption of this standard, and all related ASUs, will not change the Company's revenue recognition policy and will not have a material impact on earnings. The Company's financial statements will provide additional note disclosure, as required, upon implementation of the standard.

Improving the Presentation of Net Periodic Pension Cost and Net Periodic Post-retirement Benefit Cost

ASU No. 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Post-retirement Benefit Cost*, was issued in March 2017 and the amendments in this update require that an employer disaggregate the current service cost component of net benefit cost and present it in the same statement of earnings line item as other employee compensation costs arising from services rendered. The other components of net benefit cost are required to be presented separately from the service cost component and outside of operating income. Additionally, the amendments allow only the service cost component to be eligible for capitalization, when applicable. This update is effective for annual and interim periods beginning after December 15, 2017. The amendments in this update should be applied retrospectively for the presentation of net periodic benefit costs and prospectively, on and after the effective date, for the capitalization in assets of only the service cost component of net periodic benefit cost. The adoption of this update is not expected to have a material impact on earnings.

Leases

ASU No. 2016-02 was issued in February 2016 and the amendments in this update create ASC Topic 842, *Leases*, and supersede lease requirements in ASC Topic 840, *Leases*. The main provision of ASC Topic 842 is the recognition of lease assets and lease liabilities on the balance sheet by lessees for those leases that were previously classified as operating leases. This update is effective for annual and interim periods beginning after December 15, 2018 and is to be applied using a modified retrospective approach with practical expedient options. Early adoption is permitted. Newfoundland Power is assessing the impact that the adoption of this update will have on its financial statements and related disclosures.

4. Accounts Receivable

	2017	2016
Trade accounts receivable	$ 45,357	$ 37,252
Unbilled accounts receivable	35,489	38,926
Other	518	978
Allowance for doubtful accounts	(1,668)	(1,517)
	$ 79,696	$ 75,639

5. Materials and Supplies

	2017	2016
Materials and supplies	$ 1,108	$ 1,148
Fuel in storage	357	271
	$ 1,465	$ 1,419

6. Regulatory Assets and Liabilities

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

	2017	2016	Remaining Recovery Period (Years)
Regulatory assets			
Rate stabilization account ("RSA") (i)	$ 4,519	$ 4,763	1
OPEB (ii)	28,032	31,536	8
Conservation and demand management deferral (iii)	20,017	15,999	7
Employee future benefits (iv)	82,732	100,757	Benefit payment period
Weather normalization account (v)	6,815	2,458	2
Deferred GRA costs (vi)	341	682	1
Demand management incentive ("DMI") (vii)	2,128	-	2
Deferred income taxes	207,207	191,313	Life of related assets
Total regulatory assets	$ 351,791	$ 347,508	
Less: current portion	(14,027)	(12,783)	
Long-term regulatory assets	$ 337,764	$ 334,725	

	2017	2016	Remaining Settlement Period (Years)
Regulatory liabilities			
RSA (i)	$ 4,254	$ -	2
Cost recovery deferral (viii)	1,032	2,064	1
Future removal and site restoration provision (ix)	151,975	143,419	Life of related assets
Total regulatory liabilities	$ 157,261	$ 145,483	
Less: current portion	(1,032)	(1,032)	
Long-term regulatory liabilities	$ 156,229	$ 144,451	

(i) Rate Stabilization Account

On July 1 of each year, customer rates are recalculated in order to recover from or refund to customers, over the subsequent twelve months, the balance in the RSA as of March 31 of the current year. The amount and timing of the recovery or refund is subject to PUB approval.

The RSA passes through, to the Company's customers, amounts primarily related to changes in the cost and quantity of fuel used by Hydro to produce the electricity sold to the Company.

The RSA also passes through, to the Company's customers, variations in purchased power expense caused by differences between the actual unit cost of energy and that reflected in customer rates ("Energy Supply Cost Variance"). The marginal cost of purchased power for the Company currently exceeds the average cost that is embedded in customer rates. To the extent actual electricity sales in any period exceed forecast electricity sales used to set customer rates, marginal purchased power expense will exceed related revenue.

6. Regulatory Assets and Liabilities (cont'd)

(i) Rate Stabilization Account (cont'd)

Effective January 1, 2010, the PUB ordered the creation of a pension expense variance deferral account ("PEVDA"). This account is charged or credited with the amount by which actual pension expense differs from amounts approved in customer rates by the PUB due to variations in assumptions. Each year, at March 31, the balance in the PEVDA is transferred to the Company's RSA and disposed of in accordance with the operation of the RSA. The amount transferred from the PEVDA to the RSA for recovery from customers in 2017 was $1.2 million (2016 - $nil).

Effective January 1, 2011, the PUB ordered the creation of an OPEB cost variance deferral account. This account is charged or credited with the amount by which actual OPEB expense differs from amounts approved in customer rates by the PUB due to variations in assumptions. Each year, at March 31, the balance in the OPEB cost variance deferral account is transferred to the Company's RSA and disposed of in accordance with the operation of the RSA. The amount transferred from the OPEB cost variance deferral account to the RSA for recovery from customers in 2017 was $0.1 million (2016 - $nil).

Effective July 1, 2017, customer electricity rates and the Company's purchased power costs were adjusted as a result of the PUB's final ruling on Hydro's 2013 GRA. Due to the timing of the rate change, the PUB approved an adjustment to the Company's RSA to provide for any under-recovery or over-recovery of purchased power costs in 2017 associated with Hydro's rate adjustment. The balance of $4.8 million for refund to customers was transferred to the RSA on December 31, 2017.

Customer energy conservation program costs and balances in the weather normalization account are also transferred to the RSA (Notes 6 (iii) and (v)). The RSA is also adjusted from time-to-time by other amounts as approved by the PUB.

(ii) OPEB

This regulatory asset represents the accumulated difference between OPEB expense recognized on a cash basis for regulatory purposes and an accrual basis for financial reporting purposes from 2000 through December 31, 2010. Effective January 1, 2011, the PUB ordered the adoption of the accrual method of accounting for OPEB and the $52.6 million regulatory asset be amortized evenly over 15 years.

(iii) Conservation and Demand Management Deferral

Effective January 1, 2013, the PUB ordered that annual customer energy conservation program costs be deferred and amortized to operating expenses over the subsequent seven-year period, consistent with the period these costs are recovered from customers. Conservation program costs of $6.8 million were deferred in 2017 (2016 - $7.2 million). The amount transferred to the RSA for recovery from customers in 2017 was $2.7 million (2016 – $1.7 million).

(iv) Employee Future Benefits

Upon transition to U.S. GAAP in 2012, the PUB approved the following with respect to the accounting for employee future benefits.

(a) Opening unamortized balances for transitional obligations associated with defined benefit pension plans, and the majority of the unamortized transitional obligation for the OPEB plan be recorded as a regulatory asset, rather than a reduction to retained earnings. The regulatory asset was amortized through 2017 as an increase to employee future benefits expense.

(b) Opening unamortized balances and future amounts of past service costs and actuarial gains or losses are recorded as a regulatory asset, rather than accumulated other comprehensive loss. The amortization of these balances will continue to be included in the calculation of employee future benefit expense.

(c) The period over which pension expense had been recognized differed between that used for regulatory purposes and that used for U.S. GAAP. Therefore, the cumulative difference was recorded as a regulatory asset to be recovered from customers in future rates. The PUB ordered that pension expense for regulatory purposes be recognized in accordance with U.S. GAAP effective January 1, 2013 and that the accumulated difference in pension expense to December 31, 2012 of $12.4 million be amortized evenly over 15 years to pension expense.

(v) Weather Normalization Account

The Weather Normalization Account reduces earnings volatility by adjusting purchased power expense and electricity sales revenue to eliminate variances in purchases and sales caused by the difference between normal weather conditions, based on long-term averages, and actual weather conditions. The PUB has ordered that balances in the weather normalization account be recovered through the RSA (Note 6 (i)). The amount transferred to the RSA in 2017 for recovery from customers was $2.5 million (2016 - $6.2 million).

(vi) Deferred GRA Costs

The PUB ordered external costs related to the Company's 2016/2017 GRA be deferred and amortized to operating expense over a 30-month period from July 1, 2016 through December 31, 2018. Amortization of $0.3 million was recorded in 2017.

6. Regulatory Assets and Liabilities (cont'd)

(vii) Demand Management Incentive

Through the DMI, variations in the unit cost of purchased power related to demand are limited, at the discretion of the PUB, to 1% of demand costs reflected in customer rates. The disposition of balances in this account to the RSA are determined by orders of the PUB following consideration of the Company's conservation and demand management activities. There were no transfers to the RSA in 2017 and 2016.

(viii) Cost Recovery Deferral

As a result of the PUB's Order on the 2016/2017 GRA and the related customer rate change on July 1, 2016, the Company recorded a $2.6 million over-recovery from customer rates in 2016. This over-recovery in 2016 was ordered to be amortized in customer rates over a 30-month period from July 1, 2016 through December 31, 2018. Amortization of $1.0 million was recorded in 2017 (2016 - $0.5 million).

(ix) Future Removal and Site Restoration Provision

This regulatory liability represents amounts collected in customer electricity rates over the life of certain property, plant and equipment which are attributable to removal and site restoration costs that are expected to be incurred in the future. Actual removal and site restoration costs are recorded against the regulatory liability when incurred. The regulatory liability represents the amount of expected future removal and site restoration costs associated with the applicable property, plant and equipment in service as at December 31, calculated using current depreciation rates as approved by the PUB.

(x) Hydro Rate Stabilization Plan ("RSP") Refund

Due to mismatches in Hydro's customer pricing and actual costs of supply from 2007 through 2013, a balance of over $138 million had accumulated in the Hydro RSP as of January 31, 2017. Approximately $129 million of the RSP balance was attributable to Newfoundland Power's customers. On September 2, 2016, the PUB approved the Company's proposed refund program for its customers. In accordance with the approved refund program, $120.4 million of the Hydro RSP was transferred to Newfoundland Power, and processed as refunds to customers, in 2017.

7. Finance Charges

	2017	2016
Interest – first mortgage sinking fund bonds	$ 35,013	$ 34,846
Interest – committed credit facility	646	854
Interest – other	26	24
Total interest expense	35,685	35,724
Amortization – debt issue costs	182	179
Amortization – committed credit facility costs	52	44
Debt portion of AFUDC	(554)	(712)
	$ 35,365	$ 35,235

8. Income Taxes

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

	2017	2016
Current income tax expense	$ 10,591	$ 12,204
Deferred income tax expense	18,185	11,428
Less: regulatory adjustment	(15,894)	(11,781)
	$ 12,882	$ 11,851

8. Income Taxes (cont'd)

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

	2017	2016
Earnings before income taxes	$ 54,408	$ 52,359
Statutory tax rate	30.0%	30.0%
Income taxes, at statutory rate	16,322	15,708
Items capitalized for accounting purposes but expensed for income tax purposes	(1,502)	(1,581)
Difference between capital cost allowance and depreciation and amortization expense	(2,465)	(2,335)
Other	527	59
Income tax expense	$ 12,882	$ 11,851
Effective income tax rate	23.7%	22.6%

Deferred Income Taxes
The composition of the Company's net deferred income tax liability follows.

	2017	2016
Deferred income tax liabilities		
Property, plant and equipment	$ 158,029	$ 145,420
Intangible assets	8,852	7,712
Regulatory assets	56,262	62,749
Defined benefit pension plans	3,623	2,192
Total deferred income tax liabilities	$ 226,766	$ 218,073
Deferred income tax assets		
Regulatory liabilities	$ (39,010)	$ (43,911)
OPEB	(29,053)	(34,118)
Other	(768)	(294)
Total deferred income tax assets	(68,831)	(78,323)
Net deferred income tax liability	$ 157,935	$ 139,750

The net deferred income tax liability includes a gross up to reflect the income tax associated with future revenue required to fund the net deferred income tax liability (Note 6).

As at December 31, 2017 and 2016, the Company had no non-capital or capital losses carried forward.

As at December 31, 2017 and 2016, the Company had no material unrecognized tax benefits related to uncertain tax positions.

As at December 31, 2017, the Company's tax years still open to examination by taxing authorities include 2010 and subsequent years.

9. Property, Plant and Equipment

	Cost		Accumulated Depreciation		Net Book Value	
	2017	2016	2017	2016	2017	2016
Distribution	$ 944,717	$ 909,079	$ (318,767)	$ (304,165)	$ 625,950	$ 604,914
Transmission and substations	369,343	353,410	(100,971)	(99,093)	268,372	254,317
Generation	231,168	227,448	(83,093)	(77,315)	148,075	150,133
Transportation and communications	38,454	37,080	(20,453)	(21,741)	18,001	15,339
Land, buildings and equipment	81,002	80,111	(32,006)	(30,760)	48,996	49,351
Construction in progress	3,518	1,719	-	-	3,518	1,719
Construction materials	5,732	6,322	-	-	5,732	6,322
	$ 1,673,934	$ 1,615,169	$ (555,290)	$ (533,074)	$1,118,644	$1,082,095

Distribution assets are used to distribute low voltage electricity to customers and include poles, towers and fixtures, low voltage wires, transformers, overhead and underground conductors, street lighting, metering equipment and other related equipment. Transmission and substations assets are used to transmit high voltage electricity to distribution assets and include poles, high voltage wires, switching equipment, transformers and other related equipment. Generation assets are used to generate electricity and include hydroelectric and thermal generating stations, gas and combustion turbines, dams, reservoirs and other related equipment. Transportation and communications assets include vehicles as well as telephone, radio and other communications equipment. Land, buildings and equipment are used generally in the provision of electricity service, but not specifically in the distribution, transmission or generation of electricity or specifically related to transportation and communication activities.

10. Intangible Assets

	Cost		Accumulated Amortization		Net Book Value	
	2017	2016	2017	2016	2017	2016
Computer software	$ 32,745	$ 31,369	$ (13,738)	$ (13,542)	$ 19,007	$ 17,827
Land rights	8,309	8,025	(4,815)	(4,684)	3,494	3,341
	$ 41,054	$ 39,394	$ (18,553)	$ (18,226)	$ 22,501	$ 21,168

Amortization expense related to intangibles was $3.1 million for 2017 (2016 - $2.8 million).

The estimated annual amortization expense for the next five years, assuming no new acquisitions or divestitures, is as follows.

Year	($ thousands)
2018	3,059
2019	2,841
2020	2,642
2021	2,433
2022	2,196

11. Employee Future Benefits

The projected benefit obligation for all of the Company's defined benefit plans, and the market-related value of plan assets for the Company's funded defined benefit pension plan, are measured for accounting purposes as at December 31 of each year. The latest actuarial valuation of the Company's defined benefit pension plan for funding purposes was as of December 31, 2014, and the next valuation will be as of December 31, 2017. The valuation is currently ongoing and is expected to be completed in the first quarter of 2018. The most recent actuarial valuation of the Company's OPEB plan was December 31, 2017, the results of which are included in the balances reported below.

Details of the Company's defined benefit plans follow.

	2017		2016	
	Defined Benefit Pension Plans[1]	OPEB Plan	Defined Benefit Pension Plans[1]	OPEB Plan
Change in projected benefit obligation				
Balance, beginning of year	$ 397,715	$ 91,958	$ 389,622	$ 86,536
Service costs	4,774	2,177	4,706	1,896
Employee contributions	809	-	871	-
Interest costs	15,219	3,520	15,673	3,565
Benefits paid	(18,360)	(2,864)	(16,443)	(2,717)
Actuarial loss (gain)	16,609	(13,000)	3,286	2,678
Balance, end of year [2]	$ 416,766	$ 81,791	$ 397,715	$ 91,958
Change in fair value of plan assets				
Balance, beginning of year	$ 400,787	$ -	$ 382,740	$ -
Actual return on assets	34,757	-	30,141	-
Benefits paid	(18,360)	(2,864)	(16,443)	(2,717)
Employee contributions	809	-	871	-
Employer contributions	3,661	2,864	3,478	2,717
Balance, end of year	$ 421,654	$ -	$ 400,787	$ -
Funded status, net asset (liability), end of year	$ 4,888	$ (81,791)	$ 3,072	$ (91,958)
Balance Sheet Presentation				
Long-term assets	$ 11,206	$ -	$ 9,164	$ -
Current liabilities	(1,055)	(3,640)	(233)	(3,388)
Long-term liabilities	(5,263)	(78,151)	(5,859)	(88,570)
	$ 4,888	$ (81,791)	$ 3,072	$ (91,958)

1 *The Company's defined benefit plans include the funded defined benefit pension plan, the PUP and the SERP.*

2 *The accumulated benefit obligation for defined benefit pension plans, which includes no assumption about future salary levels, was $387.4 million at December 31, 2017 (December 31, 2016 - $365.6 million).*

11. Employee Future Benefits (cont'd)

Newfoundland Power's net benefit costs for its defined benefit pension and OPEB plans included in regulatory assets and yet to be recognized are as follows.

	2017			2016		
	Defined Benefit Pension Plans	OPEB Plan	Total	Defined Benefit Pension Plans	OPEB Plan	Total
Employee future benefits regulatory asset (Note 6 (iv))						
Unrecognized net actuarial losses	$ 72,676	$ 5,120	$ 77,796	$ 75,169	$ 18,715	$ 93,884
Unrecognized transitional obligations	8,244	-	8,244	10,400	861	11,261
Unrecognized past service costs (credits)	637	(3,945)	(3,308)	849	(5,237)	(4,388)
	$ 81,557	$ 1,175	$ 82,732	$ 86,418	$ 14,339	$ 100,757
OPEB regulatory asset (Note 6 (ii))	$ -	$ 28,032	$ 28,032	$ -	$ 31,536	$ 31,536

The change in regulatory assets associated with the Company's defined benefit pension and OPEB plans for 2017 and 2016 follow.

	2017		2016	
	Defined Benefit Pension Plans	OPEB Plan	Defined Benefit Pension Plans	OPEB Plan
Actuarial losses (gains)	$ 2,420	$ (13,000)	$ (5,423)	$ 2,678
Amortization of OPEB regulatory asset	-	(3,504)	-	(3,504)
Amortization of actuarial losses	(4,913)	(595)	(6,545)	(492)
Amortization of transitional obligations	(1,332)	(861)	(1,334)	(1,428)
Amortization of pension deferral costs	(824)	-	(824)	-
Amortization of past service (costs) credits	(212)	1,292	(212)	1,292
Total	$ (4,861)	$ (16,668)	$ (14,338)	$ (1,454)

Net benefit costs for 2018 are expected to include the amortization of regulatory assets of $9.1 million. This is comprised of net actuarial losses of $5.9 million, past service credits of $1.1 million, pension deferral costs of $0.8 million and OPEB costs of $3.5 million.

Significant Assumptions

The following table provides the weighted-average assumptions used to determine benefit obligations for the Company's defined benefit pension and OPEB plans. These rates are used in determining the net benefit costs in the following year.

	2017		2016	
	Defined Benefit Pension Plans	OPEB Plan	Defined Benefit Pension Plans	OPEB Plan
Discount rate (%)	3.60	3.60	3.90	3.90
Rate of compensation increase (%)	3.50	-	3.50	-
Expected long term rate of return on plan assets (%)[1]	5.25	-	5.25	-
Health care cost trend increase (%)[2]	-	4.50	-	4.50

1 *Developed by management with assistance from an independent actuary. The best estimates are based on historical performance, future expectations and periodic portfolio rebalancing among the diversified asset classes.*

2 *The projected 2018 health care cost trend rate is 7.0% for the OPEB plan and is assumed to decrease over the next 11 years to the ultimate health-care cost trend rate of 4.5%.*

11. Employee Future Benefits (cont'd)

For 2017, the effects of changing the health care cost trend rate by 1% were as follows.

	2017	
	1% increase in rate	1% decrease in rate
Increase (decrease) in projected benefit obligation	$ 9,015	$ (6,820)
Increase (decrease) in service and interest costs	$ 948	$ (740)

Plan Assets
The investment strategy of the Company's funded defined benefit pension plan is to ensure that the pension plan assets, together with expected contributions, are invested in a prudent and cost-effective manner so as to optimally meet the liabilities of the plan for its members.

The investment objective of the pension plan is to maximize return in order to manage the funded status of the plan, and minimize the Company's cost over the long-term, as measured by both cash contributions and pension expense for financial statement purposes.

The Company's funded primary defined benefit pension plan asset allocation is as follows.

Plan assets as at December 31	2017		2016	
(%)	Target Allocation	Actual[1]	Target Allocation	Actual
Canadian equities	16	16	28	28
International equities	30	30	20	20
Fixed income	54	54	52	52
Total	100	100	100	100

[1] *The defined benefit pension plan assets will be rebalanced to target only if actual results are +/- 5% outside of target allocation.*

Newfoundland Power periodically reviews its investment strategy and asset allocation. Based on the review completed in 2017, the Company reduced its Canadian equity allocation and re-allocated its U.S. and international equity funds to a combination of diversified global equity funds. Newfoundland Power plans to gradually reduce the Canadian equity concentration to 10% and increase the fixed income securities to 60% through 2020, subject to market conditions. This is expected to reduce the risk of asset volatility and allow for more predictability in terms of the plan's funded status.

Fair Value of Plan Assets
The guidance on fair value measurements emphasizes that plan asset measurement should be based on assumptions that market participants would use to price the plan assets. The Company's funded defined benefit pension plan assets are measured using the market approach valuation technique. The assumptions or inputs to the valuation technique are categorized into three levels. Level 1 provides the most reliable measure of fair value, whereas Level 3 generally requires significant management judgment.

The fair value measurements for all of the Company's equity and debt securities, as held in various pooled funds, are classified as Level 2 inputs based on the three level hierarchy that distinguishes the level of pricing observability utilized in measuring fair value. Level 2 includes inputs other than quoted market prices in active markets that are either directly or indirectly observable for the asset or liability.

The fair value of the Company's primary defined benefit pension plan assets are as follows.

	2017	2016
Canadian equities	$ 69,139	$ 125,727
International equities	124,471	85,353
Fixed income	228,044	189,707
Total fair value	$ 421,654	$ 400,787

11. Employee Future Benefits (cont'd)

Expected Cash Flows

The estimated future benefit payments for the defined benefit pension and OPEB plans follow.

	Defined Benefit Pension Plans	OPEB Plan
2018	$ 18,442	$ 3,640
2019	18,230	3,703
2020	18,315	3,709
2021	19,256	4,165
2022	20,328	4,533
2023-2027	112,965	24,364

The Company's contributions to the defined benefit pension plans are estimated to be $4.3 million for 2018.

Employee Future Benefits Cost

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

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

	2017		2016	
	Defined Benefit Pension Plans	OPEB Plan	Defined Benefit Pension Plans	OPEB Plan
Service costs	$ 4,803	$ 2,177	$ 4,731	$ 1,896
Interest costs	15,219	3,520	15,673	3,565
Expected return on plan assets	(20,569)	-	(21,432)	-
Amortization of actuarial losses	4,913	595	6,545	492
Amortization of past service costs (credits)	212	(1,292)	212	(1,292)
	$ 4,578	$ 5,000	$ 5,729	$ 4,661
Regulatory adjustments (Note 6)				
Amortization of transitional obligations	1,332	861	1,334	1,428
Amortization of pension deferrals	824	-	824	-
Amortization of OPEB regulatory asset	-	3,504	-	3,504
Net benefit cost	$ 6,734	$ 9,365	$ 7,887	$ 9,593

During 2017, the Company expensed approximately $2.0 million (2016 - $1.9 million) related to its defined contribution pension plans.

12. Other Assets

	2017	2016
Customer finance plans	$ 1,496	$ 1,341
Other	135	147
	$ 1,631	$ 1,488

Customer finance plans represent the non-current portion of loans to customers for certain new service requests and energy efficiency upgrades. The current portion of these loans is classified as accounts receivable. In the case of new service requests, and as prescribed by the PUB, interest is charged at a fixed rate of prime plus 3% for repayment periods up to 60 months and prime plus 4% for repayment periods of 61 months to 120 months. In the case of energy efficiency upgrades, interest is charged at a fixed rate of prime plus 4% for a maximum repayment period of 60 months. All loan instalments are made through the customers' monthly electricity bill payments. The balance of any loan may be repaid at any time without penalty.

13. Long-term Debt

	Maturity Date	2017	2016
First mortgage sinking fund bonds			
10.125% $40 million Series AF	2022	$ 30,000	$ 30,400
9.000% $40 million Series AG	2020	30,800	31,200
8.900% $40 million Series AH	2026	31,635	32,035
6.800% $50 million Series AI	2028	40,500	41,000
7.520% $75 million Series AJ	2032	63,750	64,500
5.441% $60 million Series AK	2035	52,200	52,800
5.901% $70 million Series AL	2037	62,300	63,000
6.606% $65 million Series AM	2039	59,150	59,800
4.805% $70 million Series AN	2043	67,200	67,900
4.446% $75 million Series AO	2045	72,750	73,500
3.815% $75 million Series AP	2057	74,250	-
Committed credit facility	2022	12,000	60,500
		596,535	576,635
Less: current portion		(18,600)	(66,350)
		$ 577,935	$ 510,285
Less: deferred financing costs		(2,772)	(2,588)
		$ 575,163	$ 507,697

In 2017, the Company issued $75 million in first mortgage sinking fund bonds. The bonds were issued with a 40-year term at an interest rate of 3.815%. First mortgage sinking fund bonds are secured by a first fixed and specific charge on property, plant and equipment owned or to be acquired by the Company and by a floating charge on all other assets. They require an annual sinking fund payment of 1% of the original principal balance.

Newfoundland Power has unsecured bank credit facilities of $120 million comprised of a $100 million committed credit facility and a $20 million demand facility. The committed facility matures in August 2022. Subject to lenders' approval, the Company may request an extension for a further period of up to, but not exceeding, a five-year term.

Borrowings under the committed credit facility are in the form of bankers acceptances that primarily have a maturity of 30 days or less, bearing interest based on the daily Canadian Deposit Offering Rate for the date of borrowing plus a stamping fee. Standby fees on the unutilized portion of the committed credit facility are payable quarterly in arrears at a fixed rate of 0.16%. Interest on borrowings under the demand facility is calculated at the daily prime rate and is payable monthly in arrears.

13. Long-term Debt (cont'd)

The utilized and unutilized credit facilities as at December 31 follow.

	2017	2016
Total credit facilities	$ 120,000	$ 120,000
Borrowings under committed credit facility	(12,000)	(60,500)
Borrowings under demand facility	(3,575)	(2,349)
Credit facilities available	$ 104,425	$ 57,151

Deferred financing costs are recorded at cost and are amortized to earnings using the effective interest rate method over the life of the related debt.

Future payments required to meet sinking fund instalments, maturities of long-term debt and long-term credit facilities follow.

Year	($ thousands)
2018	18,600
2019	6,600
2020	36,200
2021	6,200
2022	34,200
Thereafter	494,735

The issuance of debt with a maturity that exceeds one year requires prior approval of the PUB. 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. During 2017, and as at December 31, 2017, the Company was in compliance with all of its debt covenants.

14. Other Liabilities

	2017	2016
Security deposits	$ 1,066	$ 786

Security deposits are advance cash collections from certain customers to guarantee the payment of electricity bills. The security deposit liability includes interest credited to customer deposits. The current portion of security deposits is reported in accounts payable and accrued charges.

15. Capital Stock

Authorized

(a) an unlimited number of Class A and Class B Common Shares without nominal or par value. The shares of each class are inter-convertible on a share-for-share basis and rank equally in all respects including dividends. The Board of Directors may provide for the payment, in whole or in part, of any dividends to Class B shareholders by way of a stock dividend;

(b) an unlimited number of First Preference Shares and Second Preference Shares without nominal or par value, except that each Series A, B, D and G First Preference Share has a par value of $10. The issued First Preference Shares are entitled to cumulative preferential dividends and are redeemable at the option of the Company at a premium not in excess of the annual dividend rate. Series D and G First Preference Shares are subject to the operation of purchase funds and the Company has the right to purchase limited amounts of these shares at or below par.

15. Capital Stock (cont'd)

Issued	2017 Number of Shares	2017 Amount	2016 Number of Shares	2016 Amount
Class A common shares	10,320,270	$ 70,321	10,320,270	$ 70,321
First preference shares				
5.50% Series A	179,225	1,792	179,225	1,792
5.25% Series B	337,983	3,380	337,983	3,380
7.25% Series D	191,640	1,916	192,890	1,929
7.60% Series G	182,900	1,829	182,900	1,829
	891,748	$ 8,917	892,998	$ 8,930

As at December 31, 2017, Fortis held 299,664 or approximately 33.6% of the Company's issued and outstanding First Preference Shares.

The Company purchased for cancellation 1,250 Series D preference shares for $12,500 during the year.

16. Change in Non-Cash Working Capital

The composition of the Company's change in non-cash working capital follows.

	2017	2016
Accounts receivable	$ (4,057)	$ 4,961
Income taxes receivable	(68)	9,105
Materials and supplies	(46)	16
Prepaid expenses	(180)	(538)
Current regulatory assets	(700)	(440)
Accounts payable and accrued charges	5,240	(2,184)
Interest payable	162	(623)
Income taxes payable	(495)	495
Current regulatory liabilities	-	1,032
	$ (144)	$ 11,824

17. 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 in 2017 and 2016 follow.

	2017	2016
Revenue	$ 89	$ 84
Operating Expenses	$ 2,253	$ 2,403

In 2017, the Company provided emergency restoration assistance to Fortis Turks and Caicos as a result of damage caused by Hurricane Irma in September. There is approximately $1.8 million included in accounts receivable as of December 31, 2017 from Fortis Turks and Caicos for labour and materials associated with the restoration. The balance was paid subsequent to year end.

There were no loans or agreements with related companies during 2017.

18. Fair Value Measurement

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

The fair value of long-term debt, including current portion and committed credit facility, is classified as Level 2 based on the three level hierarchy utilized in measuring fair value. The fair value is calculated by discounting the future cash flows of each debt instrument at the estimated yield-to-maturity equivalent to benchmark government bonds, with similar terms to maturity, plus a credit risk premium equal to that of issuers of similar credit quality. Since the Company does not intend to settle its debt instruments before maturity, the fair value estimate does not represent an actual liability and, therefore, does not include settlement costs.

The fair value of long-term debt, including current portion and committed credit facility, as at December 31, 2017 and 2016 is as follows.

	2017		**2016**	
	Carrying Value	**Estimated Fair Value**	**Carrying Value**	**Estimated Fair Value**
Long-term debt, including current portion and committed credit facility (Note 13)	$ 596,535	$ 736,500	$ 576,635	$ 718,740

The fair value of the Company's defined benefit pension plan assets is discussed in Note 11. The fair value of the Company's remaining financial instruments included in current assets, current liabilities, other assets and other liabilities approximate their carrying value, reflecting their nature, short-term maturity or normal trade credit terms.

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

19. Commitments

As at December 31, 2017, the Company's commitment with respect to future payments associated with interest obligations on long-term debt and credit facilities follow.

Year	($ thousands)
2018	35,801
2019	35,373
2020	34,294
2021	31,889
2022	29,960
Thereafter	391,725

The Company is obligated to provide service to customers, resulting in ongoing capital expenditure commitments. Capital expenditures are subject to PUB approval. The Company's 2018 capital plan provides for capital expenditures of approximately $83.9 million and was approved by the PUB in November 2017.

The Company's defined benefit pension funding contributions, including current service and solvency deficit funding amounts, are based on estimates provided by the Company's actuary. Based on the December 2014 actuarial valuation, the Company's commitment for its solvency deficit was fully funded in 2015. The funding required for current service, as well as revised solvency position, will be determined in the Company's next actuarial valuation as at December 31, 2017. This valuation is currently ongoing and is expected to be completed in the first quarter of 2018. The Company expects to be able to meet future pension funding requirements as it expects the amounts will be financed from a combination of cash generated from operations and amounts available for borrowing under existing credit facilities.