Fortis Inc. 2005 Annual Report

Annual Report 2005

Dividends paid per common share $

0.60
0.50
0.40
0.30
0.20
0.10

Year 72 73 74 75 76 77 78 79 80 81 82 83 84 85 86 87 88 89 90 91 92 93 94 95 96 97 98 99 00 01 02 03 04 05

Paying Dividends

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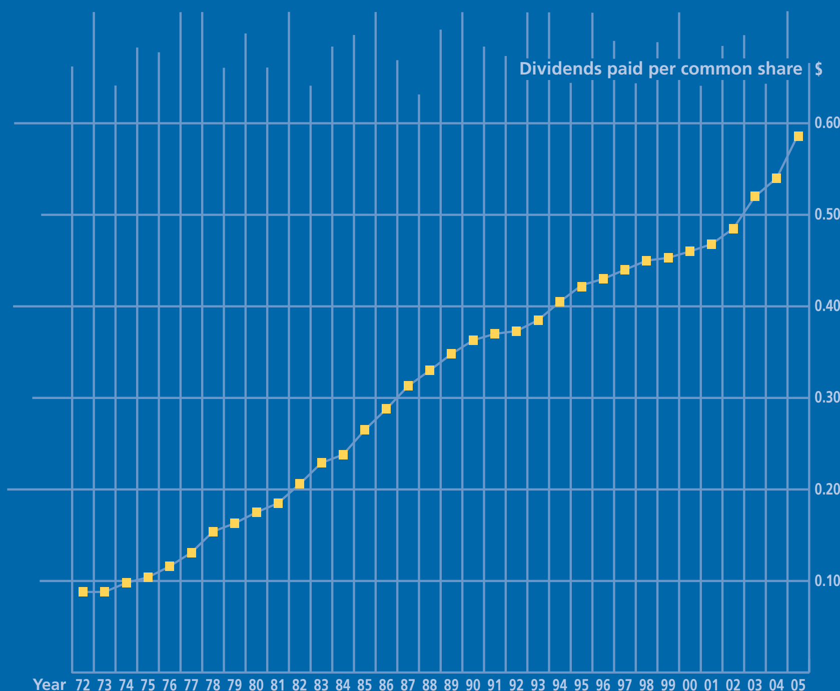
Paying Dividends



Fortis has increased its annual dividend payments to common shareholders for 32 consecutive years, the longest record of any public corporation in Canada.

Financial Highlights

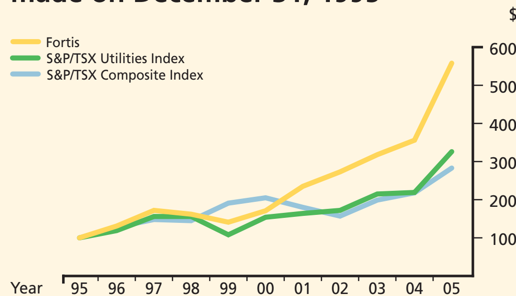
Annual Comparison *($ millions except per share amounts)*

	2005	2004
Revenue	**1,441**	1,146
Net earnings applicable to common shares	**137**	91
Total assets	**4,316**	3,938
Total shareholders' equity	**1,213**	1,000
Cash from operations	**303**	272
Earnings per common share*	**1.35**	1.07
Dividends paid per common share*	**0.59**	0.54

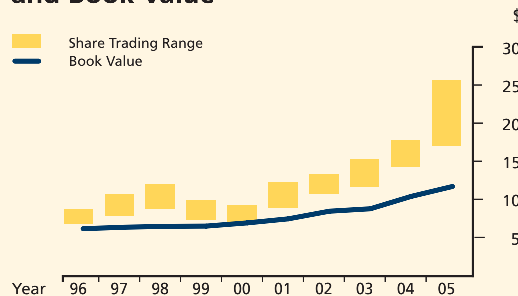
**Reflects 4-for-1 stock split in October 2005*

Fortis Inc.

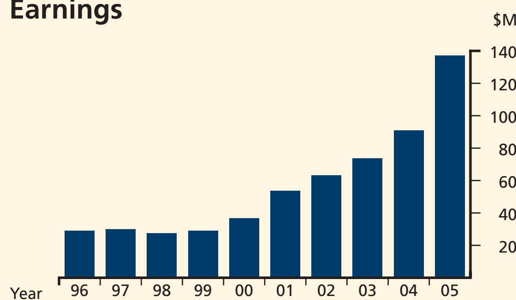
Value of an Investment of $100 made on December 31, 1995



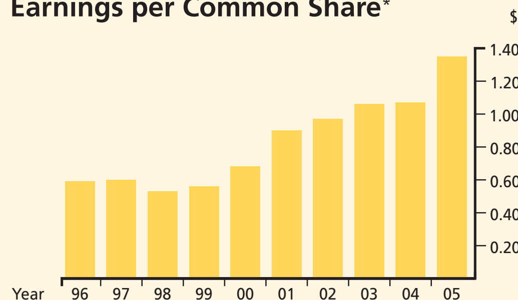
Share Trading Range and Book Value*



Earnings



Earnings per Common Share*



**Reflects 4-for-1 stock split in October 2005*

Corporate Profile

Fortis Inc. ("Fortis" or the "Corporation") is principally a diversified, international electric utility holding company with assets exceeding $4.3 billion and annual revenues of more than $1.4 billion.

Fortis has holdings in 7 companies which are primarily regulated electric distribution utilities. **Newfoundland Power** is the principal distributor of electricity in Newfoundland. **Maritime Electric** is the principal distributor of electricity on Prince Edward Island. **FortisOntario** distributes electricity in the Fort Erie, Port Colborne, Cornwall and Gananoque areas of Ontario. **FortisAlberta** owns and operates the electricity distribution system in a substantial portion of southern and central Alberta. **FortisBC** is a vertically integrated utility which generates, transmits and distributes electricity in the southern interior of British Columbia. **Belize Electricity** is the distributor of electricity in Belize, Central America. **Caribbean Utilities** is the sole provider of electricity on Grand Cayman, Cayman Islands.

Fortis Generation includes the operations of non-regulated generating assets in central Newfoundland, Ontario, British Columbia, Upper New York State and Belize. The generating capacity of these assets is 195 megawatts ("MW"), 190 MW of which is hydroelectric.

Fortis Properties owns and operates 15 hotels in 6 provinces in Canada and 2.7 million square feet of commercial real estate in Atlantic Canada.

The Fortis Group of Companies has over 4,100 employees. Fortis utilities serve more than 1,000,000 customers and meet a combined peak demand of approximately 5,000 MW.

Regulated Utility Operations ■

Newfoundland Power
Newfoundland

Maritime Electric
Prince Edward Island

FortisOntario
Ontario

FortisAlberta
Alberta

FortisBC
British Columbia

Belize Electricity
Belize

Caribbean Utilities
Grand Cayman

Non-regulated Operations

Generation ●
Production Areas
- *Central Newfoundland*
- *Ontario*
- *British Columbia*
- *Upper New York State*
- *Belize*

Fortis Properties ▲
Real Estate
- *Atlantic Canada*

Hotels
- *Eastern Canada*
- *Manitoba*
- *Alberta*

Report to Shareholders

Report to Shareholders

It has been another year of profitable growth as Fortis delivered record earnings to shareholders for the sixth consecutive year. Earnings were $137.1 million, 50.8 per cent higher than earnings of $90.9 million last year. Earnings per common share were $1.35 compared to $1.07 last year.

Dividends paid grew to 59 cents per common share from 54 cents per common share last year. Fortis has increased its annual dividend payments to common shareholders for 32 consecutive years, the longest record of any public corporation in Canada. Given our history of profitable performance, your Board of Directors approved a 12.3 per cent increase in the annual dividend, to 64 cents, commencing with the fourth quarter dividend paid on December 1, 2005.

Angus A. Bruneau, Chair of the Board, Fortis Inc. (left) and H. Stanley Marshall, President and CEO, Fortis Inc. (right)

Fortis delivered a total return to shareholders of 43.9 per cent in 2005, outperforming both the S&P/TSX Utilities Index and the S&P/TSX Composite Index, which delivered annual total returns of 37.0 per cent and 24.3 per cent, respectively. Over the past 5 years, Fortis has achieved an average annualized total shareholder return of 26.6 per cent.

In October, we completed a 4-for-1 common share stock split, increasing the number of common shares outstanding to approximately 103 million. The stock split reflects the growth of Fortis in recent years.

Fortis common shares reached an all-time high price of $25.64 per share in December 2005. The closing common share price for the year was $24.27. Our common share market capitalization grew to approximately $2.5 billion from $1.7 billion last year and is now 5 times higher than the level in 2000.

At year end, the total assets of Fortis surpassed $4.3 billion, more than 3 times total assets in 2000. Today, regulated electric utility assets comprise 84 per cent of the total assets of Fortis. Regulated electric utility assets in Canada comprise 75 per cent of our total assets. The regulated rate base of Fortis utilities is approaching $3.0 billion.

Consolidated energy sales and deliveries totalled more than 26,000 gigawatt hours ("GWh") in 2005 and our utilities currently meet a combined peak demand of approximately 5,000 MW.

Fortis has experienced significant growth in Canada and the Caribbean region over the past 10 years and today serves more than 1,000,000 electricity customers. Our Canadian utilities operate in 5 provinces, making us the leader in our business segment

in Canada. The goals of each of our utilities are the same – to operate sound electrical systems and deliver safe, reliable electricity to customers at reasonable costs. However, each of our utilities has its own unique set of local challenges and opportunities in its daily operations.

Our Canadian Regulated Utilities delivered $104.8 million in earnings in 2005, 31.3 per cent higher than earnings of $79.8 million last year. All utilities reported growth in earnings year over year except Newfoundland Power, where results declined slightly mainly due to a formula-driven reduction in its allowed rate of return on common equity. Performance was bolstered by the first full year of operations of FortisBC and FortisAlberta, which contributed $24.6 million and $36.1 million, respectively, to earnings in 2005.

FortisBC was substantially established as a stand-alone company this year, a goal we achieved ahead of schedule. In April, John Walker, formerly President and Chief Executive Officer, Fortis Properties, became President and Chief Executive Officer, FortisBC. Separate senior management teams and boards of directors are now in place at FortisBC and FortisAlberta. FortisBC also moved its head office from Calgary to Kelowna and opened a new Customer Contact Centre in Trail, fulfilling its commitment to customers to manage its operations from within its service territory.

In 2005, FortisBC renewed the Canal Plant Agreement, which governs the operations of its hydroelectric plants on the Kootenay River, for a further 30-year term, subject to regulatory review.

Regulated electric utility assets comprise 84 per cent of the total assets of Fortis. Regulated electric utility assets in Canada comprise 75 per cent of our total assets. The regulated rate base of Fortis utilities is approaching $3.0 billion.

FortisAlberta's results include positive one-time items of $7.1 million, primarily resulting from the resolution of matters pertaining to prior periods related to taxes, load settlement and the EPCOR claim, partially offset by adjustments associated with the implementation of the Negotiated Settlement Agreement.

FortisAlberta and the City of Airdrie signed a 10-year franchise agreement which grants FortisAlberta the exclusive right to own, operate and maintain the electric distribution service within the City of Airdrie's rights-of-way. The Agreement strengthens franchisee relationships. The EPCOR settlement and the Airdrie Agreement resolved the last remaining outstanding issues related to the acquisition of FortisAlberta.

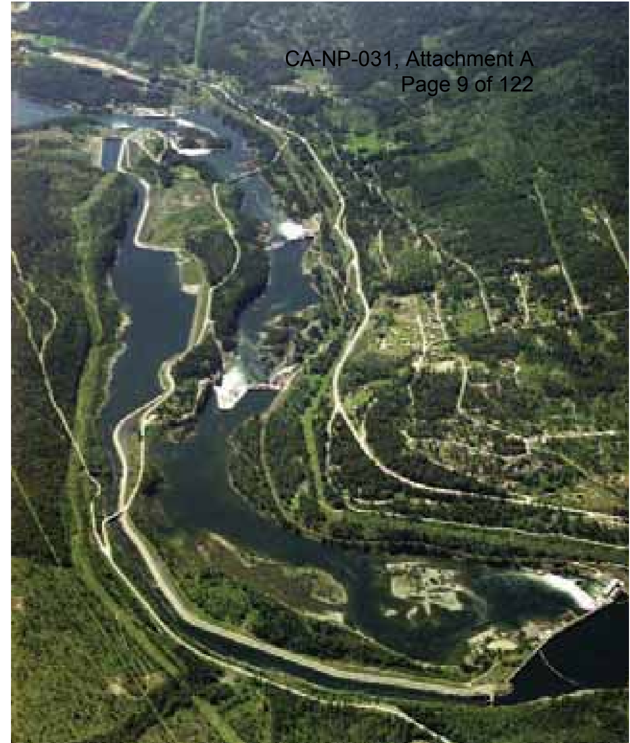
At Newfoundland Power, the impact on earnings of a lower allowed rate of return in 2005 and increased pension costs was partially offset by interest revenue associated with the Canada Revenue Agency income tax settlement and higher energy sales. The increased pension costs related to an early retirement program offered in early 2005.

Maritime Electric's higher earnings were largely driven by increased energy sales and the impact of the 2 per cent increase in basic electricity rates, effective July 1, 2005.

FortisOntario's earnings in 2005 were slightly higher than last year. The recognition of a $1.6 million future tax asset associated with the favourable resolution of a Canada Revenue Agency reassessment at Cornwall Electric was nearly offset by higher operating expenses including costs associated with an early retirement program.

Official commissioning ceremony of the Chalillo hydroelectric facility (l-r): Lynn Young, BECOL Director; Hon. Ralph Fonseca, Minister of Home Affairs and Public Utilities, Government of Belize; H.E. Sir Colville N. Young, Governor-General of Belize; H. Stanley Marshall, President and CEO, Fortis Inc.; Right Honourable George Cadle Price, First Prime Minister, Government of Belize

Report to Shareholders



Fortis, through its regulated and non-regulated businesses, owns and/or operates more than 1,600 MW of generation, mainly hydroelectric.

Our Caribbean Regulated Utilities contributed $19.4 million to earnings in 2005, $11.4 million higher than earnings in 2004.

At Caribbean Utilities, a change in the Company's accounting practice for recognizing unbilled revenue resulted in a $1.1 million positive adjustment to equity income in 2005.

Caribbean Utilities and the Island of Grand Cayman made significant progress recovering from the impact of Hurricane Ivan. The Category V hurricane caused unprecedented damage to the infrastructure of the Cayman Islands in September 2004. Our results in 2004 included a charge of $8.2 million associated with the damage to Caribbean Utilities' assets from Hurricane Ivan. Throughout 2005, the Company continued to reconnect customers as they became ready to receive service and electricity sales are expected to return to 100 per cent of pre-Ivan sales by the end of April 2006. An agreement was reached with the Government of the Cayman Islands to implement a cost recovery surcharge for purposes of recovering over 95 per cent of uninsured hurricane-related losses of approximately US$14 million incurred by Caribbean Utilities. The surcharge equates to an average 4.7 per cent increase in base electricity rates, effective August 2005, and is expected to be in place for 3 years.

Caribbean Utilities and the Government of the Cayman Islands also recommenced Licence renewal discussions in November. The Company's current Licence remains in effect until 2011 or until replaced with a new Licence by mutual agreement.

Belize Electricity's results were driven by an 11 per cent increase in electricity rates, effective July 1, 2005, as a result of the new 4-year tariff agreement and higher electricity sales.

Five of our 7 utilities – FortisBC, FortisAlberta, Maritime Electric, Belize Electricity and Caribbean Utilities – completed regulatory proceedings and negotiations, resulting in increases to their respective 2005 electricity rates. The coming year will be another busy year for regulatory activity, as each of our 5 Canadian utilities will be involved in significant regulatory proceedings. The allowed returns for FortisBC and FortisAlberta, which are formula based, have declined to 8.69 per cent and 8.93 per cent, respectively, for 2006 given the lower bond yields. Newfoundland Power's allowed return, which is also formula based, will remain at 9.24 per cent for 2006.

Fortis invested approximately $425 million in its consolidated utility capital program this year. Much of the capital investment was driven by robust customer growth in western Canada and the need to enhance the reliability of electricity systems. FortisBC's gross investment in capital projects was approximately $116 million in 2005. The Company energized its new Vaseux Lake Substation in October, a key milestone in the $62 million South Okanagan Supply Reinforcement Project to be completed by mid-2006. FortisAlberta's gross investment in capital projects was approximately $165 million, almost 50 per cent of which focused on meeting the energy demands of customer growth. In 2005, the Company added more than 11,000 new customers in its service territory. In early 2006, Maritime Electric completed commissioning of its new 50-MW combustion turbine generator. The $35 million facility will address issues associated with the load on the submarine cables between Prince Edward Island and the mainland power grid.

Annual energy sales from Non-regulated Generation operations were almost 1,050 GWh. Approximately 68 per cent of energy sales were into the Ontario marketplace, where the average price of wholesale power was $68.49 per megawatt hour ("MWh") in 2005 compared to $49.95 per MWh last year. The generating capacity of the Non-regulated Generation business is 195 MW, 190 MW of which is hydroelectric.

Non-regulated Generation operations contributed $29.6 million to earnings this year compared to $12.8 million last year. The $16.8 million increase in earnings was primarily due to higher wholesale energy prices in Ontario and a $7.9 million after-tax gain resulting from the settlement of contractual matters between FortisOntario and Ontario Power Generation Inc.

The Chalillo Hydroelectric Project was officially commissioned in November. Completion of the storage and generating facility marks a significant milestone for Belize towards becoming an electrical-energy self-sufficient country. Hydroelectricity, the least-cost and most environmentally responsible source of energy available, now accounts for more than one-third of the country's energy supply. At year end, the Chalillo reservoir was more than 75 per cent full, making it possible for Belize to meet its current peak energy demand from in-country generation, when necessary.

Consolidated energy sales and deliveries totalled more than 26,000 GWh in 2005 and our utilities currently meet a combined peak demand of approximately 5,000 MW.

Fortis wishes to acknowledge Sinohydro Construction, general contractor, and its employees and all those who worked on the Chalillo Project, including the more than 350 Belizeans, for their contribution to the completion of this significant project.

Since Fortis invested in Belize in 1999, peak energy demand in the country has increased almost 50 per cent from approximately 43 MW to 64 MW. Fortis will continue to work with the Government of Belize to identify potential energy developments that will help address the growing energy demands of the country and keep electricity rates as stable as possible for customers. More stable electricity prices can only be realized by reducing dependence on imported fossil fuels for electricity generation, thereby reducing the associated exposure to volatility in oil prices.

In June, Earl Ludlow succeeded John Walker as President and Chief Executive Officer, Fortis Properties. He was previously Senior Vice President, FortisBC and Vice President Operations, FortisAlberta.

Through its strategic acquisitions and investments, Fortis Properties continued to grow its earnings while building on its reputation for superior customer service combined with high-quality, well-situated properties. The Company achieved earnings of $14.1 million in 2005, marking its 8th consecutive year of record earnings.

Fortis Properties' performance was strengthened by the contribution of the 3 Greenwood Inn hotels in Alberta and Manitoba, which were acquired in February for approximately $63 million. These full-service hotels complement the Company's 12 hotels in Ontario and Atlantic Canada and expand Fortis Properties' hospitality operations to more than 2,900 rooms. We welcome the 128 employees of the Greenwood Inns to the Fortis Group of Companies.

Also strengthening Fortis Properties' results was the contribution associated with the completion of the $15 million, 128-room expansion to the Delta St. John's in June. The expansion, completed 1 month ahead of schedule, makes this property the largest hotel and conference centre in Atlantic Canada.

Fortis Properties will be investing $19 million in its capital program in 2006 to ensure the continued delivery of quality service to its hotel guests and tenants. Expansions are underway at the Holiday Inn Sarnia and Holiday Inn Kitchener-Waterloo. A $7.2 million expansion of the Blue Cross Centre in Moncton to continue to meet the needs of tenants and respond to the demands of a growing market was started. The 3 expansions are expected to be completed in mid-2006.

In March, Fortis issued approximately 7 million common shares of the Corporation at $18.66 (on a post-split basis) per common share, resulting in gross proceeds of approximately $130 million. The proceeds from this issue were used to repay outstanding indebtedness and for general corporate purposes, including utility-based capital expenditures.

The corporate credit ratings of Fortis are stable at BBB(high) from Dominion Bond Rating Service and BBB(+) from Standard & Poor's. In December, Standard & Poor's revised its outlook on the Corporation to stable from negative. The outlook was revised based on greater stability in the business and financial risk profiles of Fortis and reduced concern surrounding the level of operational and funding risk involved with the Corporation's major capital expenditure program.

On behalf of management, we extend our appreciation and congratulations to the more than 4,100 employees throughout the Fortis Group of Companies whose hard work and commitment enables Fortis to build on its performance for delivering healthy returns to our investors and quality service to our customers.

We welcome Messrs. Peter Case and David Norris who joined our Board this year. To all members of the Board of Directors, we extend our thanks for your continued leadership and guidance.

We will continue to focus on fulfilling our obligation to serve our customers and to grow our business profitably. The year ahead will surely be another busy year for your company given the substantial capital investment that will be made to ensure we continue to meet the needs of existing and new customers. Over the next 5 years, investments in utility capital projects are expected to approach $2 billion. Much of this investment will occur at FortisAlberta and FortisBC, which are expected to invest nearly $275 million, on average, annually over the next 5 years to enhance the reliability of their electricity systems and to service new load growth.

Fortis has experienced significant growth in Canada and the Caribbean region over the past 10 years and today serves more than 1,000,000 electricity customers.

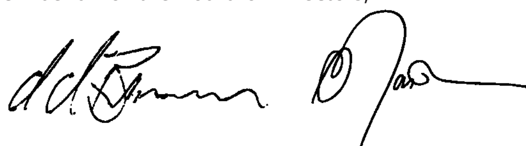
Report to Shareholders

Fortis is positioned well to fund its growth strategy over the coming years. Our diversified businesses are expected to generate sufficient cash flows to fund organic growth while improving the Corporation's capital structure over time.

The ongoing investments in our utilities are expected to translate into annual earnings for your company, enabling Fortis to build on its unmatched history in Canada of 32 consecutive years of annual dividend payment increases.

As we move through 2006 and beyond, we will continue to maintain our discipline as we identify growth opportunities which add value for our customers and value for our shareholders. As we implement our growth strategy, we will continue to leverage the technical and management expertise which underpins our reputation as a leading operator of utilities.

On behalf of the Board of Directors,



Angus A. Bruneau
Chair of the Board
Fortis Inc.

H. Stanley Marshall
President and
Chief Executive Officer
Fortis Inc.

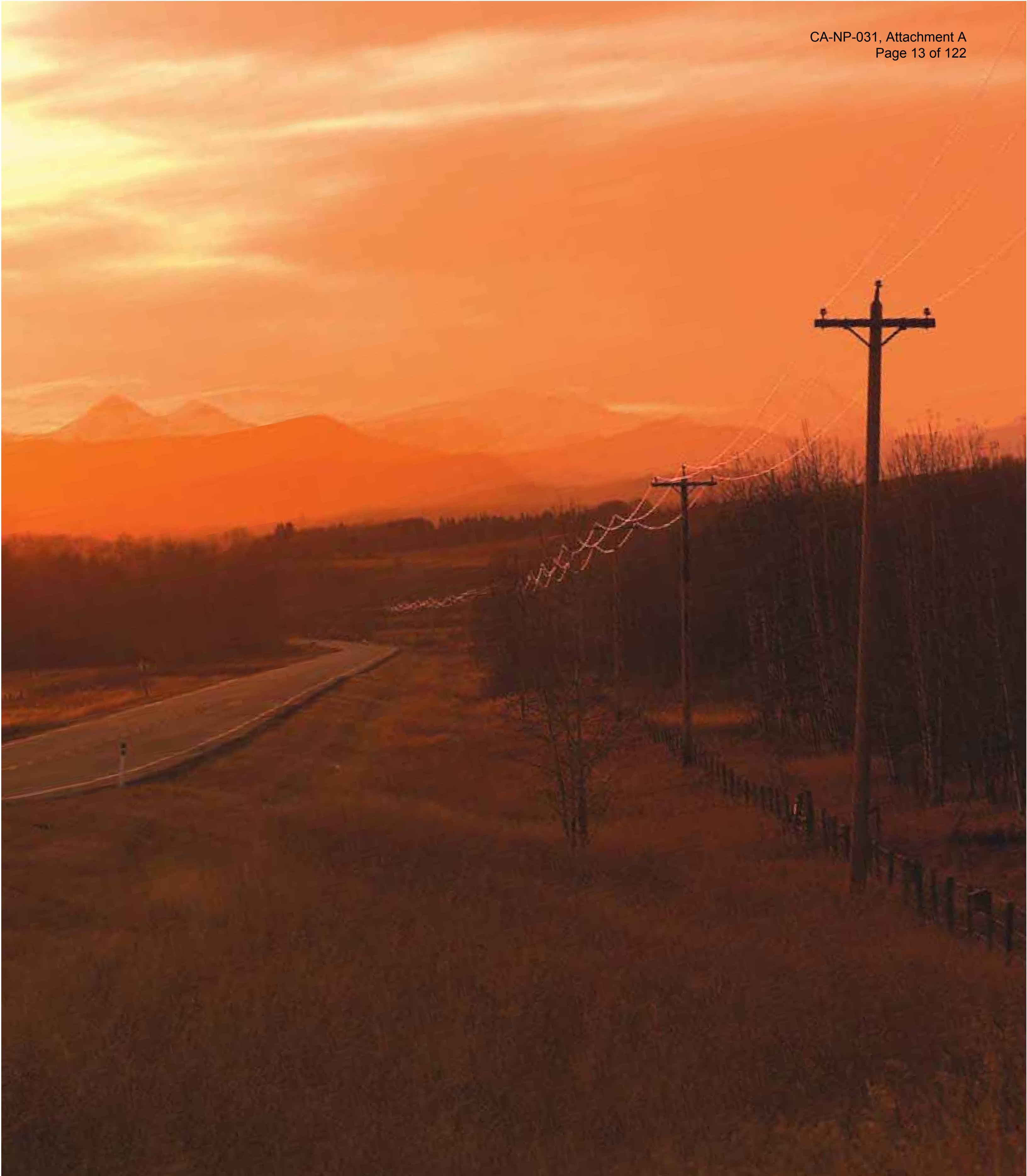
As this Report will be my last as Chairman, I take this opportunity to acknowledge the contribution of employees throughout the Fortis Group, both past and present, whose hard work and commitment have produced the Corporation's performance.

Since Fortis was established as the parent company of Newfoundland Power in 1987 to pursue profitable growth and diversification, it has grown from a single utility with assets of $390 million in Newfoundland to a diversified international utility holding company with assets surpassing $4.3 billion. Today, Fortis serves more than 1 million electricity customers across Canada and in the Caribbean region and has significant non-regulated operations in commercial real estate, hotels and hydroelectric generation.

As Fortis has grown in size and complexity, so too has its expertise and reputation as an efficient operator of utilities and hydroelectric facilities and as a company committed to serving all its customers well. It is the knowledge, skill, commitment and integrity of our employees which fortify the foundation of Fortis.

It is with thanks and appreciation to our employees that I take my leave, confident your commitment will enable Fortis to continue to achieve its goals.

Angus A. Bruneau
Chair of the Board
Fortis Inc.



Vision

Vision

Fortis, through its operating companies, has been a generator and distributor of electricity for 120 years. In 1987, the Corporation was structured as a holding company to pursue profitable growth and diversification. Today, Fortis is principally a diversified, international electric utility holding company with utilities serving more than 1,000,000 customers in Canada and the Caribbean region and with significant non-utility operations in commercial real estate, hotels and non-regulated hydroelectric generation.

Barry V. Perry, VP, Finance and CFO, Fortis Inc. (left) and H. Stanley Marshall, President and CEO, Fortis Inc. (right)

Fortis has holdings in 7 companies which are primarily regulated electric distribution utilities in Newfoundland, Prince Edward Island, Ontario, Alberta, British Columbia, Belize and the Cayman Islands. The Corporation also owns non-regulated generation assets in central Newfoundland, Ontario, British Columbia, Belize and Upper New York State. Fortis Properties, the Corporation's vehicle for non-utility growth and diversification, operates commercial real estate in Atlantic Canada and hotels in 6 provinces in Canada.

Over the past decade, Fortis has grown rapidly in Canada and in the Caribbean. Its Canadian utilities now provide electric distribution in 5 provinces, making Fortis the leader in its business segment in Canada. The total assets of Fortis have more than quadrupled in the past 10 years and today exceed $4.3 billion. Regulated electric utilities comprise 84 per cent of the total assets of Fortis. Regulated electric utilities in Canada comprise 75 per cent of total assets. Earnings applicable to common shares have grown to $137.1 million in 2005 from $36.8 million in 2000. Over that period, earnings per common share have increased to $1.35 from $0.68 and dividends paid per common share have grown to $0.59 from $0.46. Fortis has increased its annual dividend payments to common shareholders for 32 consecutive years, the longest record of any public corporation in Canada.

The principal business of Fortis is and will remain the ownership and operation of regulated utilities. The first priority remains the continued profitable expansion of existing operations. Over the next 5 years, investments in utility capital projects are expected to approach $2 billion. Much of this investment will occur at FortisAlberta and FortisBC, which are expected to invest, on average, nearly $275 million annually to enhance the reliability of their electricity systems and to service new load growth. The Corporation will also pursue opportunities to acquire other utilities in Canada, the Caribbean and the United States. A higher return criteria will be applied to international assets to offset the increase in the risk profile.

Vision

The non-utility business operations of Fortis support the Corporation's utility growth and acquisition strategy. Fortis Properties will continue to grow in size and profitability, providing flexibility in financial and tax planning not generally possible with respect to utilities because of regulatory and public policy constraints. Fortis will maintain approximately 15 per cent to 20 per cent of its assets in non-utility businesses.

The vision of Fortis is to be the world leader in those segments of the electricity industry in which it operates and the leading service provider within its service areas. In all its operations, Fortis will manage resources prudently and deliver quality service to maximize value to customers and shareholders.

Employees' commitment to serve customers well, combined with their knowledge and skills, strengthen the reputation Fortis has achieved as an efficient utility operator.

The vision of Fortis is to be the world leader in those segments of the electricity industry in which it operates and the leading service provider within its service areas.

Vision

The non-utility business operations of Fortis support its utility growth and acquisition strategy.

The Corporation will continue to focus on 3 primary objectives:

i) Earnings should continue at a rate commensurate with that of a well-run Canadian utility.

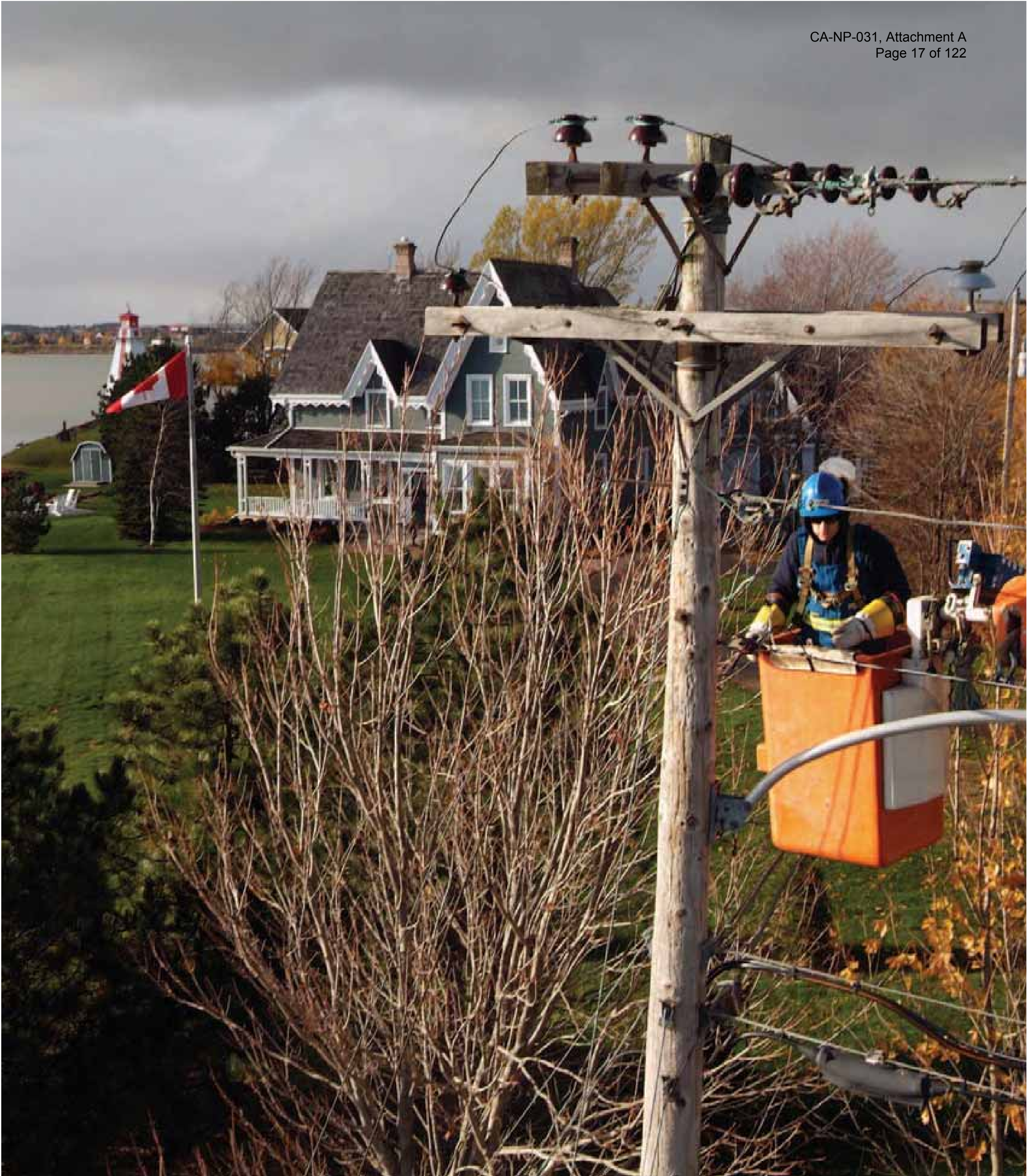
ii) The financial and business risks of the overall operations of Fortis should not be substantially greater than those associated with the operation of a Canadian utility.

iii) The growth in assets and market capitalization should be greater than the average of other Canadian public corporations of similar size.

Fortis utilities provide a good mix of established, low-risk domestic operations and high-growth international assets. The corporate philosophy is to grow only if it can be done profitably. The Corporation has a strong record of profitable growth. Fortis will continue to build upon its record without significantly disturbing the risk-reward balance traditionally associated with the operation of electric utilities.

Employees' commitment to serve customers well, combined with their knowledge and skills, strengthen the reputation Fortis has achieved as an efficient utility operator. Integrity, accountability and autonomy are the core values which continue to underpin performance.

Fortis owns non-regulated generation assets in central Newfoundland, Ontario, British Columbia, Belize and Upper New York State.



Regulated Utility Operations

Newfoundland Power

Newfoundland Power operates an integrated generation, transmission and distribution system in Newfoundland. The Company serves approximately 227,000 customers, or 85 per cent of electricity consumers in the Province, and met a peak demand of 1,124 MW in 2005. Approximately 90 per cent of its energy requirement is purchased from Newfoundland and Labrador Hydro ("Newfoundland Hydro"). Newfoundland Power has an installed generating capacity of 146 MW, of which 95 MW is hydroelectric generation.

This year marked the Company's best year on record for energy production. Through an effective maintenance program, overall hydroelectric plant availability was 95.9 per cent. Combined with higher-than-normal water inflows, its 23 hydroelectric generating plants produced 456 GWh of electricity during the year.

Newfoundland Power continued to make prudent capital investments, perform timely maintenance, minimize scheduled outages and prepare for harsh weather conditions to ensure continued safe, reliable electricity service to customers.

Officers of Newfoundland Power (l-r): Peter Alteen, VP, Regulatory Affairs and General Counsel; Lisa Hutchens, VP, Customer Relations and Corporate Services; Karl Smith, President and CEO; Phonse Delaney, VP, Engineering and Operations; Jocelyn Perry, VP, Finance

Approximately $55 million, before contributions in aid of construction, was invested in capital initiatives in 2005. Sixty per cent of capital projects were focused on replacing aged and deteriorated components of the electricity system. Projects such as the installation of remote control capabilities on 25 additional distribution feeders were undertaken to add new technology and automation to further improve reliability. Capital initiatives were also focused on meeting increased energy needs driven by customer growth.

Newfoundland Power achieved the best reliability performance in its history this year. Electricity service was available to customers 99.96 per cent of the time and the number and length of outages decreased by 17 per cent and 28 per cent, respectively, compared to 2004.

Operating costs per customer were reduced to $218 compared to $220 in 2004. The Company has reduced operating costs per customer approximately 30 per cent in the past 10 years, factoring in the impact of inflation.

Improved reliability performance and lower operating costs contributed to a Customer Satisfaction Rating of 89 per cent achieved in 2005.

In September, a partnership was launched with Dominion stores to offer 11 payment centres, providing customers with convenient locations and extended hours to pay their electricity bills while reducing operating costs for the Company.

Newfoundland Power's overall impact on electricity rates over the past 10 years has been a decrease of approximately 1.5 per cent. However, in July 2005, customers received an average increase in electricity rates of approximately 5.2 per cent

due to higher generation costs of Newfoundland Hydro. Given the upward pressure on electricity rates, Newfoundland Power continued to identify opportunities to help customers better manage their electricity usage. The Company continued its *Bright Ideas* campaign aimed at helping customers use energy wisely, promoted its financing and rebate programs, and formed both local and national partnerships to promote energy management and efficiency. Newfoundland Power participated in a 1-year pilot project to install PowerCost Monitors, meter-monitoring devices that provide real-time feedback on electricity consumption of residential customers. The Company participated in the promotion of *EnerGuide for Houses, Switch to Cold* and *Energy Star*, 3 national energy-efficiency campaigns spearheaded by the Office of Energy Efficiency of Natural Resources Canada.

Newfoundland Power's safety performance continues to be among the best in the electricity industry in Canada. In 2005, the Company achieved its second-best safety results on record, exceeded only by its performance last year. Injury frequency and severity rates were 1.7 and 6.4, respectively. Newfoundland Power was presented with the Canadian Electricity Association's *President's Award of Excellence for Employee Safety* last year.

Newfoundland Power serves approximately 227,000 customers, or 85 per cent of electricity consumers in Newfoundland, and met a peak demand of 1,124 MW in 2005.

Technology improvements were made to the Outage Management System and Customer Contact Centre. These improvements, which will continue throughout 2006, help increase the capacity to answer incoming calls, provide more effective information regarding the status of restoration efforts and offer more outage information options to customers. Further enhancements were made to the Company's website to give customers easier and quicker access to frequently used sections such as account information, online services and energy-efficiency advice.

Newfoundland Power continued to meet ISO 14001 Environmental Management System ("EMS") standards and completed an EMS audit of both its Generation and its Transmission and Distribution sections. This was the first audit that did not identify any non-conformance issues or require an action plan to address issues.

The Company received a *Pinnacle Award* from the International Association of Business Communicators for its internal business communications program, *Information – Your Source of Power!* The program connects employees to corporate targets and business issues by delivering up-to-date information on key performance measures, emphasizing the important role each employee plays in achieving results.

Seventy-six employees participated in an early retirement program in 2005. Throughout the year, employees assumed expanded roles and responsibilities and 19 new employees were hired, bringing the workforce to 544 employees. Strategic succession plans were prepared with emphasis placed on obtaining the appropriate technical and operational skills required to support the future business needs of the Company.

Maritime Electric

Maritime Electric is the principal electric utility on Prince Edward Island. The Company serves approximately 70,300 customers, or 90 per cent of electricity consumers on the Island, and met a peak demand of 209 MW in 2005. It owns and operates a fully integrated system providing for the generation, transmission and distribution of electricity throughout the Province. The system is connected to the mainland power grid via 2 submarine cables under the Northumberland Strait. Maritime Electric maintains on-Island generating facilities at Charlottetown and Borden-Carleton with a combined total capacity of 150 MW.

The Company purchases the majority of the energy required to serve Islanders from New Brunswick Power ("NB Power"). It has entitlement to energy and capacity from NB Power's Point Lepreau and Dalhousie Generating Stations through agreements that extend for the life of these stations. Maritime Electric has an energy purchase agreement with NB Power which provides for the remainder of the off-Island purchases at fixed prices. The balance of the energy it requires is generated on-Island, either from the Company's generating facilities or from wind-powered electrical generation facilities. Maritime Electric continues to support the efforts of the Government of Prince Edward Island to secure energy from renewable sources for the Province.

Officers of Maritime Electric (l-r): John Gaudet, VP, Corporate Planning and Energy Supply; James Lea, President and CEO; Fred O'Brien, VP, Customer Service; William Geldert, VP, Finance, CFO and Corporate Secretary (Effective July 1, 2006, Mr. O'Brien becomes President and CEO, following the retirement of Mr. Lea.)

System reliability remained strong in 2005 as customers experienced, on average, 3.47 hours of interrupted service, marking the 12th consecutive year that the Company's system reliability has exceeded the benchmark established under the former *Maritime Electric Company Limited Regulation Act*.

Maritime Electric's Customer Satisfaction Rating rose to 77.7 per cent from 72.5 per cent last year. Four new customer payment sites were opened this year, providing customers with increased access to information and more convenience with respect to bill payment locations. In a national Public Attitudes Survey conducted by the Canadian Electricity Association in 2005, the Company ranked as one of the top 5 performing electrical utilities in Canada. Performance was ranked for customer satisfaction, staff courtesy, service issues, public safety, power quality and billing accuracy.

Capital investment of more than $40 million was made this year to improve system reliability and service to customers. In early 2006, Maritime Electric completed commissioning of its new 50-MW combustion turbine generator. The $35 million facility will address issues associated with the loading of the submarine cables between Prince Edward Island and the mainland power grid and will provide increased reliability and security of energy supply. The unit, which will be used primarily for peaking purposes, has the capability of operating on light oil, or on natural gas if available.

Maritime Electric's goal is to provide energy delivery infrastructure that guarantees reliable and affordable energy to Islanders for the long term. The announcement by the Government of New Brunswick in July that the refurbishment of the Point Lepreau Nuclear Generating Station will proceed introduces an additional element of stability with respect to long-term energy supply.

Regulated Utility Operations

Maritime Electric's new 50-MW combustion turbine generator will provide increased reliability and security of energy supply on Prince Edward Island.

A review of opportunities to further leverage technology to improve customer service was undertaken during the year. Emphasis was placed on the integration of existing software to reduce response times during system outages. The joint effort between the Operations and Information Technology sections will result in an action plan for future initiatives to reduce operating costs and achieve improvements in customer service. Phase 1 of the upgrade of the Company's communications system from analog to digital was completed in 2005. The upgrade will improve system restoration response during outages.

Maritime Electric works closely with all levels of government to ensure the highest environmental standards are met in its operations and to explore opportunities to partner on environmental initiatives. In November, the Company signed a Memorandum of Understanding with the Province of Prince Edward Island in respect of the upgrade of the Island's energy transmission capability. This joint initiative will provide a conduit for the export of power generated by the new on-Island commercial wind-power projects. Its objectives are to displace fossil fuels as a source of electricity generation and thereby reduce carbon dioxide emissions by 1 million tonnes per year. Other objectives are to reduce dependence on imported fossil fuels, create economic development for the Province, provide a source of competitively priced renewable energy for the region, bring more stability to electricity rates and enable the Province to meet its Kyoto Protocol obligations.

In 2005, 40.5 GWh, or 3.8 per cent, of Maritime Electric's energy supply was generated from wind power and purchased from the PEI Energy Corporation's North Cape site. The diversification of energy supply options and the inclusion of renewable sources will provide increased security and a cleaner environment for all Islanders.

The Company was presented with an Environment Award by the Department of Environment, Energy and Forestry in 2005 for its commitment to the preservation of the environment. The Award was received for Maritime Electric's outstanding commitment to protecting the osprey.

Health and safety are integral components of the day-to-day operations of all employees. In compliance with provincial legislation, the Company rolled out formal documentation in 2005 with respect to the occupational health and safety roles and responsibilities of its 175 employees.

Like other utilities, Maritime Electric is faced with the challenges of ensuring it has the human resources needed to continue to serve customers well. A number of workforce planning initiatives, including the hiring of new apprentices, were undertaken in 2005 to ensure the Company maintains the technical skills and knowledge needed as eligible employees retire in the coming years.

FortisOntario

FortisOntario is an integrated electric utility which owns and operates the regulated electric distribution businesses of Canadian Niagara Power and Cornwall Electric. The utilities serve approximately 51,300 customers located in Fort Erie, Port Colborne, Cornwall and Gananoque, Ontario and met a combined peak demand of 249 MW in 2005. FortisOntario owns regulated transmission assets in the Niagara and Cornwall regions including an interconnection between New York State and Fort Erie. The Company also owns a 10 per cent interest in each of Westario Power Holdings Inc. and Rideau St. Lawrence Holdings Inc., 2 regional electric distribution companies that together serve more than 27,000 customers.

FortisOntario invested approximately $12 million in capital initiatives in 2005 to ensure the continued reliability and efficiency of its electricity systems. In Port Colborne, a new distribution substation was commissioned, replacing an outdated substation and substantially improving system reliability. In Fort Erie, extensive voltage conversion continued as part of a multi-year program to reduce system losses. Connections to the new Supervisory Control and Data Acquisition system were updated to expand the remote control of substation equipment. This enhancement allows for more efficient and timely responses to system events and minimizes the length of customer outages. In Cornwall, capital projects included customer-driven work and system rebuilds which were focused on relocating off-road distribution feeders to more-accessible locations. In Gananoque, the replacement of deteriorated distribution feeders and secondary services and upgrades to existing distribution lines were carried out. An aggressive tree-trimming program continued in all service territories as part of ongoing preventative maintenance work to identify and eliminate potential trouble areas.

Officers of FortisOntario (l-r): Angus Orford, VP, Operations; William Daley, President and CEO; Glen King, VP, Finance and CFO; Scott Hawkes, VP, Corporate Services, General Counsel and Corporate Secretary

A newly upgraded information technology data centre was commissioned and implemented at the Fort Erie location. By concentrating the data, communication and environmental control technology in one location, a best-practice methodology was achieved in the areas of power management, fire suppression and security. This upgrade consolidates and reduces the long-term costs associated with related equipment and maintenance.

FortisOntario received a Customer Satisfaction Rating of 85 per cent, up from 83 per cent last year. Ongoing distribution system upgrades and continued improvement in overall average outage durations, and a renewed focus on customer communications about electricity market changes and energy conservation measures, contributed to the improvement in the Customer Satisfaction Rating. Customers continue to rate reliability/safe delivery of electricity and quality of service even higher at 95 per cent and 89 per cent, respectively. The Company continues to exceed the performance standards set out by the Ontario Energy Board with respect to response times, service connections and percentage of telephone calls answered within 30 seconds.

FortisOntario was bestowed a *Bronze Award* by the Electrical and Utilities Safety Authorities ("EUSA") in 2005. The EUSA awards program is designed to recognize utilities for their development of effective health and safety management

systems, which include corporate policies, job descriptions, strategic objectives and regular meetings, training and field observations. The Company also completed an environmental audit in 2005 and is in the process of implementing a number of recommended best-management practices. These include updating test data for hazardous substances in substation transformers, developing an inventory of all equipment containing ozone-depleting substances, updating floor plans to identify the locations of safety equipment and the decommissioning of monitoring wells that are no longer required.

A voluntary early retirement program was offered to eligible employees in November. The program was part of ongoing efforts to improve overall cost performance in the face of growing regulatory and industry challenges. Approximately 9 per cent of total employees availed of the program.

FortisOntario continued to build on its history of cooperative labour relations. A new 4-year collective agreement was negotiated and ratified with Cornwall Electric employees represented by CUPE Local 1371. A mentoring program for management personnel was initiated in 2005 to foster ongoing employee development and support succession planning initiatives. In addition, wellness programs were launched at all locations, encouraging general employee health and well being of the Company's team of 140 employees.

FortisOntario received a Customer Satisfaction Rating of 85 per cent for 2005. Customers continue to rate reliability/safe delivery of electricity and quality of service even higher at 95 per cent and 89 percent, respectively.

In December, FortisOntario launched its new book, *The Canadian Niagara Power Company Story*. Written by historian Norman R. Ball, this book chronicles the history and contributions of the Company and its employees as pioneers in the establishment of electricity generation and distribution in Niagara Falls and Fort Erie, dating back to the Company's founding in 1892.

FortisOntario continues to lobby the Government of Ontario to institute a new, exemption-based transfer tax policy in Ontario's electricity distribution sector, which would include the participation of Canadian-owned private-sector distributors. The Company continues to pursue opportunities to partner with and acquire other publicly owned utilities in an effort to grow its distribution business.

FortisAlberta

FortisAlberta is an electric distribution utility which owns and/or operates approximately 103,000 kilometres of distribution power lines and distributes electricity generated by other market participants to end-use customers in southern and central Alberta. The Company serves approximately 415,000 customers and met a peak demand of 2,495 MW in 2005.

In June, FortisAlberta and the City of Airdrie signed a 10-year electric distribution franchise agreement, which grants FortisAlberta the exclusive right to provide distribution access services, construction, operations and maintenance within the City of Airdrie's electric distribution service territory. The franchise agreement strengthens franchisee relationships. FortisAlberta serves more than 145 communities, with 89 per cent of these communities on standardized, individual franchise agreements.

In August, FortisAlberta reached an agreement with EPCOR Energy Services (Alberta) Inc. ("EPCOR") to settle all aspects of EPCOR's claim related to distribution tariff terms and conditions. FortisAlberta worked closely with EPCOR during 2005 to strengthen the working relationship between the 2 companies. The EPCOR agreement, along with the Airdrie franchise agreement, concludes the last outstanding issues related to the acquisition of FortisAlberta.

Officers of FortisAlberta (l-r): Alan Skiffington, VP, Information Technology and CIO; James Harbilas, VP, Finance and CFO; Karin Gashus, VP, Customer Service; Philip Hughes, President and CEO; Cynthia Johnston, VP, Corporate Services and Regulatory; Gary Smith, VP, Operations and Engineering

FortisAlberta hired 51 additional power line technicians and apprentices and restructured its Operations Department to ensure it has the human resources needed to complete its extensive capital projects and to be able to respond efficiently to the needs of customers. As a result of these organizational efforts, response time to trouble calls improved by 7 per cent over 2004 and FortisAlberta was within its service-level agreements 99 per cent of the time. The Company enhanced its capability to complete hot-line work by increasing the number of trained staff to 90 from 30 in 2004. The increase in trained staff contributed to improved reliability of service by reducing the need for power outages.

To meet the growing demand for reliable electricity service, FortisAlberta invested approximately $165 million, before contributions in aid of construction, in distribution facilities in 2005. Major capital projects included an investment of $77 million to connect 11,000 new customers to its distribution system and a $54 million investment to maintain the distribution infrastructure and ensure adequate capacity to serve new customers.

Despite the extreme weather conditions experienced in isolated parts of FortisAlberta's service area in 2005, service reliability to customers overall improved, with the duration of outages declining to 1.85 hours from 2.47 hours in 2004. In June, record flooding and a tornado damaged approximately 300 distribution poles owned by FortisAlberta and 125 transmission structures. Coordination with AltaLink, the transmission service provider, and assistance from more than 125 FortisAlberta employees from various service points expedited restoration efforts. In September, an unseasonable snowstorm in

Crowsnest Pass damaged transmission and distribution lines and poles and disrupted electricity service to approximately 3,600 customers in the area. For the first time in the Company's history, 4 large-scale generators were used to supply the entire distribution system in the area to provide power to customers while restoration work was completed.

In 2005, FortisAlberta remained focused on improving its performance measures for customer service and enhancing relationships with customers. These efforts produced positive results with the Company's Customer Satisfaction Rating increasing to 76.0 per cent from 74.2 per cent last year.

To meet the growing demand for reliable electricity service, FortisAlberta invested approximately $165 million, before contributions in aid of construction, in distribution facilities in 2005.

A key focus of the Information Technology department was the development of a Disaster Recovery Centre as part of an enterprise-wide business continuity program to support operational performance. Improved disaster recovery capability along with the business continuity program enables FortisAlberta to maintain critical business services in the event of a significant failure of its information technology systems.

FortisAlberta is committed to operating at the highest standards of employee and public safety in conducting its business. A focus on defensive-driving safety training resulted in a 76 per cent reduction in the total number of incidents involving Company vehicles in 2005.

Reducing the number of public contacts with electrical facilities remains a top priority for FortisAlberta. Over the past 4 years, the number of public contacts in Alberta has risen due to increased construction activity, an influx of new workers to the province and a lack of education and awareness about electrical safety hazards. Throughout the year, the Company worked with industry to educate and train employees about electrical safety hazards on the job. FortisAlberta also launched *Your Safety is Looking Up* campaigns in the spring and fall to increase awareness about overhead electrical hazards and to help prevent electricity-related incidents.

FortisAlberta is committed to complying with federal and provincial environmental protection legislation, as well as meeting or exceeding industry best practices for environmental responsibility. In 2005, the Company continued the development and design of an EMS consistent with ISO 14001. The EMS ensures the continual evaluation, risk assessment and implementation of improvements for programs dealing with environmental issues, training and stewardship.

Employee development plays a vital role in ensuring FortisAlberta's team of approximately 900 employees has the knowledge and skills to deliver quality customer service. In 2005, the Company launched a mentoring program and developed and implemented a leadership program to enhance employee performance. Senior management regularly sponsors business acumen sessions so employees may learn more about corporate activities, the electrical utility industry and the global business environment.

FortisBC

FortisBC is an integrated regulated utility operating in the southern interior of British Columbia, serving approximately 150,000 customers directly and indirectly. The Company met a peak demand of approximately 708 MW in 2005. Its utility assets include more than 6,400 kilometres of transmission and distribution power lines and 4 hydroelectric generating plants with a combined capacity of 214 MW at year-end 2005, increasing to 235 MW in early 2006. FortisBC generates approximately 50 per cent of its electricity requirements with the balance met through power purchase agreements.

A significant milestone was achieved this year when FortisBC fulfilled its commitment to re-establish the Company as a British Columbia-based utility, managed and operated locally. FortisBC substantially completed its transition to a stand-alone utility within the Fortis Group of Companies by separating a number of previously shared services from FortisAlberta. In April, John Walker, formerly President and Chief Executive Officer, Fortis Properties, was appointed President and Chief Executive Officer, FortisBC and, during the year, the Company's senior management team was completely put in place and relocated to Kelowna.

As part of FortisBC's commitment to provide the highest quality customer service, a Customer Call Centre was opened in Trail in May. A toll-free number, 1-866-4FORTIS, was also launched to guarantee customers access to local service personnel who can respond more effectively to customers' needs. Throughout 2005, 120 new employees were hired bringing the Company's total workforce to more than 500 employees.

Officers of FortisBC (l-r): Don Debienne, VP, Generation; Doyle Sam, VP, Transmission and Distribution; John Walker, President and CEO; Michele Leeners, VP, Finance and CFO; David Bennett, General Counsel and Corporate Secretary; Michael Mulcahy, VP, Customer and Corporate Services

FortisBC is undergoing an extensive, long-term capital program in response to energy demand from increased customer growth and the need to enhance the reliability of its electricity system. The Company invested approximately $116 million, before contributions in aid of construction, in capital projects this year.

A key development in the South Okanagan Supply Reinforcement Project was achieved in October when FortisBC energized its Vaseux Lake Substation. The addition of the new substation, which connects the Company's transmission system in the Okanagan to BC Hydro's 500-kilovolt circuit, enables FortisBC to meet growing energy demand in the South Okanagan region and to provide improved reliability to customers in the Okanagan Valley and Kootenay Boundary regions. The Vaseux Project was completed ahead of schedule and under budget. Its completion involved extensive customer and stakeholder consultation, including working with local First Nations groups to solicit their input and expertise. Particular attention was paid to the environmental impacts of the project through the hiring of local biologists and a variety of measures were undertaken to ensure that species at risk and their habitat were protected. The $62 million ($31 million was spent in 2005) South Okanagan Supply Reinforcement Project also includes modifications to 4 existing substations scheduled for completion by mid-2006.

The Company completed the first phase of the Kelowna Area Transmission Upgrade project to meet increasing load and enhance system reliability. FortisBC invested approximately $7 million in 2005 on the $14 million project and the final phase

is planned for completion in 2006. These upgrades will further improve transmission reliability within the Kelowna region, the Company's fastest growing area in terms of customer load growth. FortisBC also invested approximately $14 million in 2005 as part of its generation asset upgrade life extension program, which is expected to conclude in 2010. The life extension program effectively rebuilds the generating plants and all auxiliary systems, renewing the infrastructure for an additional life of at least 40 years.

Outage durations experienced by customers decreased by approximately 15 per cent compared to 2004. As a result of the temporary system configurations and new capital equipment integrated into the existing system, customers experienced an increase in prearranged outages from the previous year. FortisBC expects these short-term system upgrades to provide for improved reliability over the long term as the capital plan is executed.

FortisBC invested approximately $116 million, before contributions in aid of construction, to meet growing energy demand and to enhance reliability of service.

The Company renewed its existing Canal Plant Agreement ("CPA") for a further 30-year term. The CPA is a mutually beneficial, multi-party agreement relating to the coordination of hydroelectric generation along the Kootenay River in the West Kootenay region of British Columbia. It addresses issues that have provincial, national and international elements. The renewed CPA is subject to an approval process by the British Columbia Utilities Commission.

FortisBC's capital plan combined with productivity improvements have resulted in improved customer service, system reliability and safety results. The Company received an overall Customer Satisfaction Rating of 81 per cent in 2005, up from 71 per cent last year. FortisBC is focused on the efficient use of electricity and provides advice and incentives to customers seeking to improve the energy efficiency of their homes and businesses. In 2005, customers conserved approximately 23 GWh through the adoption of energy-efficiency upgrades.

The number of employee injuries and lost work days was reduced from 2004, a substantial achievement given the extensive capital work projects that were undertaken this year and the approximately 30 per cent increase in the size of the Company's workforce. FortisBC also reached a major safety milestone in 2005 when transmission and distribution employees in the Okanagan Region completed 1 year without a medical aid or lost-time injury. The Company launched a cooperative safety campaign with other British Columbia utilities and safety organizations to improve public awareness of electrical safety and potential hazards.

FortisBC worked closely with the Lower Similkameen Indian Band in its development of a Habitat Stewardship Plan, which includes a special designation of more than 500 acres of land to protect endangered plant and animal species. The Company also signed a tri-party agreement with the Osoyoos Indian Band and Indian and Native Affairs Canada, allowing FortisBC open access to band lands for normal and emergency maintenance and construction of new extensions.

Belize Electricity

Belize Electricity is the primary distributor of electricity in Belize, Central America. Serving approximately 69,000 customers, the Company meets a peak demand of 64 MW from multiple sources of energy including power purchases from Belize Electric Company Limited ("BECOL"), from Comisión Federal de Electricidad, the Mexican state-owned power company, and from its own diesel-fired and gas-turbine generation. All major load centres are connected to the country's national electricity system, which is interconnected with the Mexican national electricity grid, allowing the Company to optimize its power supply options. Fortis holds a 68 per cent interest in Belize Electricity.

Delivering cost-efficient, quality service to customers in the face of rapidly escalating oil prices remained a top priority in 2005. Belize Electricity received regulatory approval for an average 11 per cent increase in tariffs, effective July 1, 2005. The tariff adjustments, which represent the first increase in electricity rates since 1984, related in part to the operation of the Company's Cost of Power Rate Stabilization Account. A communication campaign was launched during the year to inform customers of the reason for the new tariffs and to promote energy-conservation practices to mitigate the impact of higher electricity rates.

As a result of its continued focus on maintaining high service standards, customers rewarded Belize Electricity with an annual Customer Satisfaction Rating of 83.5 per cent despite the rate increase. This is the 5th consecutive year that the Company has maintained a Customer Satisfaction Rating above 80 per cent. Many customer visits were conducted during the year, providing customers with the opportunity to discuss their service needs and expectations. The input received was incorporated in work plans developed to further improve productivity and customer service levels.

Officers of Belize Electricity (l-r): Juliet Estell, Company Secretary; Joseph Sukhnandan, VP, Engineering and Energy Supply; Lynn Young, President and CEO; Felix Murrin, VP, Operations; Rene Blanco, VP, Finance and CFO

Belize Electricity invested US$12.6 million in capital expansion projects during the year, which focused on meeting the electricity needs of new customers and enhancing the reliability of the electricity system. Largely as a result of the capital projects completed, the number of customers grew by 3.9 per cent in 2005. A major system expansion project involved the connection of Spanish Lookout to the national grid. Spanish Lookout, an industrial community in the Western Region of Belize, is one of the country's largest food producers. The system expansion project resulted in the supply of power to approximately 480 new customers in that community and has increased Belize Electricity's monthly energy sales by an average of 2 per cent.

Key system reliability initiatives undertaken this year included a proactive Vegetation Management Program, to mitigate against bush fires which can result in loss of poles, and the delivery of training in live-line techniques to enhance maintenance practices. With support from Newfoundland Power, a Thermoscan Survey was conducted to identify and proactively address potential trouble spots on power lines. A study was also commissioned to initiate a Substation Preventative Maintenance Program in 2006.

Belize Electricity initiated the replacement of its customer information and billing system in April. Extensive training on the new system has been ongoing which, when fully implemented in early 2006, will provide more advanced options in managing and processing customer billing information and service requests.

A redesigned version of the Company's website was brought online in December, affording customers improved navigation and additional features as well as the convenience of submitting online service requests. It is a one-stop location for customer service and corporate information and also provides real-time information regarding power restoration work.

Belize Electricity is committed to the development of its team of more than 250 employees. Initiatives to further enhance the business knowledge and technical skills of employees were ongoing throughout the year. A number of employees participated in joint training sessions held in conjunction with other Fortis subsidiaries to share knowledge and experience regarding best practices in the areas of internal audit, safety, corporate communications and human resources.

The Company's *People Strategy* aims to align human resource practices with corporate strategies. During the year, the development of compensation and career advancement guidelines, as well as technical workforce plans, was completed. These initiatives will help ensure that workforce skills complement the current and future business strategies of Belize Electricity.

Construction of a Disaster Recovery Centre was completed to ensure business continuity in the event of a crisis which could impact the Company's information system. The Centre features a back-up system which is designed to minimize downtime in the event of an operational emergency. It will be fully functional by mid-2006.

A continued focus on enhancing the safety and health practices employed throughout the organization delivered improved results. The all-injury frequency rate and the number of vehicular accidents declined by 67 per cent and 12 per cent, respectively, compared to last year. During 2005, additional training was provided in the areas of defensive driving, first aid/CPR techniques and safety practices pertaining to medium-risk operations.

A first-time audit of Belize Electricity's EMS was completed in 2005 and produced positive results. The EMS was introduced in 2004 as part of the corporate plan to become ISO 14001-compliant by 2007. The commitment of employees to adhere to the standards and procedures of the EMS helped contribute to the Company achieving a record-low number and quantity of oil spills in 2005. An Action Plan was also developed to help build on performance results in the future.

Belize Electricity is committed to the development of its team of more than 250 employees. Initiatives to further enhance the business knowledge and technical skills of employees were ongoing throughout the year.

Caribbean Utilities

Caribbean Utilities generates, transmits and distributes electricity to more than 20,000 customers on Grand Cayman, Cayman Islands. Fortis holds a 36.9 per cent interest in the Company.

Caribbean Utilities generates, transmits and distributes electricity to more than 20,000 customers on Grand Cayman, Cayman Islands. The Company is one of the most reliable and efficient utilities in the region. Its electricity system has a generating capacity of 107 MW, as at December 31, 2005, and met a peak load of 79 MW in the summer of 2005.

Caribbean Utilities operates under a 25-year exclusive Licence with the Government of the Cayman Islands. The Company is entitled to earn a 15 per cent rate of return on rate base under the terms of the Licence. Caribbean Utilities reconvened Licence renewal negotiations with the Government of the Cayman Islands in November 2005 with the objective of obtaining a new Licence by the summer of 2006. The current Licence remains in full force and effect until January 2011 or until replaced by a new Licence by mutual agreement.

The Class A Ordinary Shares of Caribbean Utilities are listed in US funds on the Toronto Stock Exchange under the symbol CUP.U.

Fortis holds a 36.9 per cent interest in Caribbean Utilities and accounts for its investment on an equity basis.

Non-regulated Operations

Fortis Generation

Fortis Generation includes the operations of non-regulated generating assets in central Newfoundland, Ontario, British Columbia, Upper New York State and Belize. The generating capacity of these non-regulated assets is 195 MW, 190 MW of which is hydroelectric generation.

In Upper New York State, the non-regulated generating assets are 4 hydroelectric generating stations located in Moose River, Philadelphia, Dolgeville and Diana. The plants have a combined capacity of approximately 23 MW.

In central Newfoundland, Fortis Generation holds a 51 per cent interest in the Exploits River Hydro Partnership ("Exploits Partnership") with Abitibi-Consolidated Company of Canada ("Abitibi-Consolidated"). The Exploits Partnership was established in 2001 to develop additional capacity at Abitibi-Consolidated's hydroelectric generating plant at Grand Falls-Windsor and to redevelop the forestry company's 50-hertz hydroelectric generating plant at Bishop's Falls to increase annual energy production by approximately 140 GWh to 600 GWh. The Exploits Partnership project commenced operations in November 2003. Abitibi-Consolidated continues to use the historical annual generation while the additional energy produced as a result of the project is sold to Newfoundland Hydro under a 30-year Power Purchase Agreement.

In Ontario, non-regulated operations include the 75 MW of water right entitlement associated with the Rankine hydroelectric generating station at Niagara Falls, the 5-MW District Heating cogeneration plant in Cornwall and 6 small hydroelectric generating stations in eastern Ontario with a combined capacity of 8 MW. With the exception of the cogeneration plant in Cornwall, the electricity produced from these facilities is sold in Ontario at market prices.

In British Columbia, the non-regulated generating asset is the 16-MW run-of-river Walden hydroelectric generating plant, near Lillooet, which was acquired in May 2004

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Non-regulated Operations

as part of the assets of FortisBC. The plant sells its entire output to BC Hydro under a long-term contract.

In Upper New York State, the non-regulated generating assets are 4 hydroelectric generating stations located in Moose River, Philadelphia, Dolgeville and Diana. The plants have a combined capacity of approximately 23 MW. The average annual energy output of these modern facilities of 85 GWh is sold at the wholesale level through a series of renewable contracts.

In central Newfoundland, Fortis Generation holds a 51 per cent interest in the Exploits River Hydro Partnership.

In Belize, BECOL owns and operates the 25-MW Mollejon hydroelectric facility, located on the Macal River. The Chalillo dam began storing water in July and the 7-MW hydroelectric plant at the dam was commissioned in September. The storage and hydroelectric generating facility is expected to double the average annual energy production from the Macal River to 160 GWh from 80 GWh. Mollejon and Chalillo are the only commercial hydroelectric generating facilities in Belize. BECOL sells its entire output to Belize Electricity under a 50-year Power Purchase Agreement.

In Belize, the Chalillo storage and hydroelectric generating facility is expected to double the average annual energy production from the Macal River to 160 GWh.

Fortis Properties

Fortis Properties owns and operates hotels in 6 provinces in Canada and commercial real estate in Atlantic Canada. Its holdings include 15 hotels with more than 2,900 rooms and 2.7 million square feet of commercial real estate. The Company, a wholly owned subsidiary of Fortis, is the Corporation's primary vehicle for non-utility diversification and growth.

Fortis Properties achieved a new milestone in February with its first acquisition of hotels in Alberta and Manitoba. The $63 million acquisition of 3 Greenwood Inn hotels expanded the Company's hospitality portfolio by 650 rooms and 128 employees. The full-service, mid-market hotels perform well within their markets. Fortis Properties' expanded geographic footprint enables the Company to build upon its reputation for service excellence.

The Company also capitalized on its ownership and franchising rights to the Greenwood Inn brand. Upon expiration of the existing licencing agreement in place at its Holiday Inn Corner Brook in December, the hotel was rebranded a Greenwood Inn & Suites.

Another milestone was achieved in June with the completion of the $15 million expansion to the Delta St. John's Hotel and Conference Centre. Completed 1 month ahead of schedule, the addition of 128 rooms and 3,000 square feet of meeting space makes the Delta St. John's the largest hotel and conference centre in Atlantic Canada. The Delta St. John's now offers guests 403 rooms and 21,800 square feet of meeting and banquet space.

Officers of Fortis Properties (l-r): Earl Ludlow, President and CEO; Wayne Myers, VP, Real Estate; Neal Jackman, VP, Finance and CFO; Nora Duke, VP, Hospitality Services

Fortis Properties began a $7.7 million, 64-room expansion to its Holiday Inn Sarnia and a $2.5 million, 11,000-square foot expansion to its Holiday Inn Kitchener-Waterloo. Scheduled for completion by mid-2006, both expansions will help meet the growing needs of the markets served by the Hospitality Division.

All branded properties within the Hospitality Division experienced an improvement in guest satisfaction levels. As a result, the Company's internal composite index for guest satisfaction grew in 2005. Revenue per available room ("REVPAR") rose for the 10th consecutive year, increasing to $70.95. Growth in REVPAR was driven by a combination of higher average occupancy rates and average daily room rates. In the past 5 years, REVPAR increased 27.7 per cent, despite the challenges that have affected the hotel industry in recent years such as the rising Canadian dollar and high fuel prices.

The Real Estate Division also responded to the growing needs of the markets it serves. A $7.2 million, 56,000-square foot expansion of the Blue Cross Centre in Moncton commenced in July in response to tenant requirements, municipal government input and the growing market.

The Real Estate Division achieved an overall average occupancy rate of 95.9 per cent as at December 31, 2005. During the year, a record-high average occupancy rate of 96 per cent was reached, outpacing the national rate of 90.8 per cent as at year-end 2005. Fortis Properties continued to build upon its strong tenant relationships with its proactive negotiations for early tenant renewals.

Non-regulated Operations

Fortis Properties achieved a new milestone in 2005 with its first acquisition of hotels in Alberta and Manitoba.

Despite increasing operating costs, the Company maintained its operating efficiency, resulting in stable rental rates for tenants. Costs were controlled through close review of tax assessments, energy programs and cost-control measures, resulting in competitive rates and continued tenant renewals.

A number of technological enhancements were made throughout the year to ensure continued quality service is provided to customers. A property management system was selected and installed for the new Greenwood Inn hotels to achieve improved efficiency and more effective reservations and rate-setting strategies. Internal operations improved with the design and implementation of several applications allowing for more efficient work practices. A new database allowing for the receipt of electronic cheque images has improved productivity within the accounting department through the reduction in search times. A standardized Internet support provider has also been selected for all hotels, now providing toll-free support to customers 24 hours a day, 7 days a week.

The *Safety – It starts with me!* program provided a common theme to reinforce occupational health and safety standards. Emergency-preparedness plans were completed at each property and individual properties were actively involved in several new training and communication initiatives. Examples of education and communication efforts included safe-work practice and procedure training, a revision of new hire safety orientation and a relaunch of the Occupational Health and Safety policy statement. Significant efforts were made to ensure compliance with legislation across all jurisdictions, while further reinforcing the development of a common culture of safety throughout the organization.

Employee development continued to be a priority in 2005 to ensure the Company's team of approximately 1,400 employees has the skills needed to serve customers well and to ensure that the proper human resources are in the right place at the right time. This year saw unprecedented movement of key talent throughout various divisions of the Company. Such movement is but one facet of a new employee development strategy.

All branded properties within the Hospitality Division experienced an improvement in guest satisfaction levels.

Increased efforts were made to enhance communication between management and employee teams. Employee opinion results from the Company's first survey have been communicated to personnel, with resulting action plans now in place. Individual properties have taken ownership for implementing recommendations at a local level. Corporately, responses have been used to modify existing programs and shape future programs, including those related to the employee development strategy. Fortis Properties continues to focus on ongoing training and development to maintain its position as an employer of choice.

Our Community

Fortis and our employees champion initiatives to help enhance the quality of life in the communities we serve. Here are the highlights of some of our community partnerships in 2005.

Fortis employees across Canada participated in the *2005 CIBC Run for the Cure*, raising almost $46,000 in support of breast cancer research and treatment. Since coming on board as *First Regional Sponsor in Atlantic Canada* in 2001, Fortis and our employees have pledged almost $300,000 to the *CIBC Run for the Cure*.

Newfoundland Power employees, family and friends continued to support the Canadian Blood Services' *Partners for Life* program, making 245 blood donations in just 8 months. The Company was awarded the Canadian Blood Services' *Bronze Award* for exceeding the initial goal of 200 blood donations.

Maritime Electric employees organized the *10th Annual Maritime Electric Charity Golf Tournament*, raising $30,000 for the Canadian Cancer Society PEI Division, Special Olympics and Children's Wish Foundation.

FortisOntario presented the Cornwall Community Hospital Foundation with a cheque for $75,000 in support of *Our Hospital, Our Future*, a campaign to raise $10 million in support of a new diagnostic imaging centre.

FortisAlberta partnered with the Stony Plain Heritage Agriculture Society to deliver *Zap*, an electrical safety education program, to more than 5,000 elementary students. The trivia-style board game challenges young people to recognize and respect electrical hazards.

FortisBC was the primary sponsor of the *2005 FortisBC Wild Festival for Youth*, a high-profile environmental education program delivered to youth throughout the Central Okanagan region. The theme of the festival was climate change and habitat restoration.

Belize Electricity selected 8 awardees for its *5th Annual University of Belize Scholarship Program.* Since 2001, the Company has provided scholarships to 39 well-deserving students. This year's scholarship recipients are pursuing associate and bachelor degrees in fields of study such as mathematics, information technology and tourism management.

Fortis Properties supported a number of organizations and initiatives including the Experiences and Leisure (R.E.A.L.) Program. The Company hosted *R.E.A.L. Celebration – A Dinner with a Difference!* in St. John's, raising $20,000 in support of recreation and leisure opportunities for youth.

Thank you to our employees for your invaluable contribution to our communities.

Management Discussion and Analysis

Management Discussion and Analysis

Dated February 28, 2006

The following material should be read in conjunction with the Consolidated Financial Statements and Notes to the Consolidated Financial Statements included in the Fortis Inc. 2005 Annual Report. This material has been prepared in accordance with Multilateral Instrument 51-102 relating to Management Discussion and Analysis. Fortis Inc. ("Fortis" or the "Corporation") includes forward-looking statements in this material. By their very nature, forward-looking statements are based on underlying assumptions and are subject to inherent risks and uncertainties surrounding future expectations generally. Such events include, but are not limited to, general economic, market and business conditions, regulatory developments, weather and competition. Fortis cautions readers that should certain events or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary significantly from those expected. For additional information with respect to certain of these risks or factors, reference should be made to the Corporation's continuous disclosure materials filed from time to time with Canadian securities regulatory authorities. The Corporation disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Barry V. Perry, VP, Finance and CFO, Fortis Inc.

Corporate Overview

Fortis is principally a diversified, international electric utility holding company. Fortis segments its utility operations by franchise area and, depending on regulatory requirements, by the nature of the assets. Fortis also holds investments in non-regulated generation and commercial real estate and hotels, which are treated as separate segments. The operating segments allow senior management to evaluate the operational performance and assess the overall contribution of each segment to the Corporation's long-term objectives. Each operating segment operates as an autonomous unit, assumes profit and loss responsibility and is accountable for its own resource allocation.

The following summary briefly describes the operations included in each of the Corporation's operating and reportable segments.

Regulated Utilities – Canadian

The following summary describes the Corporation's interest in Regulated Utilities in Canada by subsidiary:

a. *Newfoundland Power:* Newfoundland Power is the principal distributor of electricity in Newfoundland. Newfoundland Power also has installed generating capacity of 146 megawatts ("MW") of which 95 MW is hydroelectric generation.

b. *Maritime Electric:* Maritime Electric is the principal distributor of electricity on Prince Edward Island ("PEI"). Maritime Electric also maintains on-Island generating facilities at Charlottetown and Borden-Carleton with a combined total capacity of 150 MW.

c. *FortisOntario:* FortisOntario provides an integrated electric utility service to customers in Fort Erie, Cornwall, Gananoque and Port Colborne in Ontario. FortisOntario includes the operations of Canadian Niagara Power Inc. ("Canadian Niagara Power") and Cornwall Street Railway, Light and Power Company, Limited ("Cornwall Electric"). Included in Canadian Niagara Power's accounts is the operation of the electricity distribution business of Port Colborne Hydro Inc., which has been leased from the City of Port Colborne under a 10-year lease agreement entered into in April 2002. FortisOntario also owns a 10 per cent interest in each of Westario Power Holdings Inc. and Rideau St. Lawrence Holdings Inc., 2 regional electric distribution companies formed in 2000.

d. *FortisAlberta:* On May 31, 2004, Fortis, through an indirect wholly owned subsidiary, acquired all of the issued and outstanding shares of Aquila Networks Canada (Alberta) Ltd. (renamed "FortisAlberta"). FortisAlberta owns and operates the distribution system in a substantial portion of southern and central Alberta. It distributes electricity to approximately 415,000 customers using approximately 103,000 kilometres of power lines.

e. *FortisBC:* On May 31, 2004, Fortis, through an indirect wholly owned subsidiary, acquired all of the issued and outstanding shares of Aquila Networks Canada (British Columbia) Ltd. (renamed "FortisBC"). FortisBC is an integrated utility operating in the southern interior of British Columbia, serving directly and indirectly approximately 150,000 customers. FortisBC owns 4 hydroelectric generation plants with a combined capacity of 214 MW at year-end 2005, increasing to 235 MW in early 2006. Included with the FortisBC component of the Regulated Utilities – Canadian segment are the non-regulated operating, maintenance and management services relating to the 450-MW Waneta hydroelectric generating facility owned by Teck Cominco, the 149-MW Brilliant Hydroelectric Plant owned by Columbia Power Corporation and the Columbia Basin Trust ("CPC/CBT"), the 185-MW Arrow Lakes Hydroelectric Plant owned by CPC/CBT and the distribution system owned by the City of Kelowna. Commencing May 31, 2005, the FortisBC component of the Regulated Utilities – Canadian segment includes Princeton Light and Power Company, Limited ("PLP"). On May 31, 2005, Fortis, through an indirect wholly owned subsidiary, acquired all issued common and preference shares of PLP. PLP is an electric utility serving approximately 3,200 customers, mainly in Princeton, British Columbia. PLP presently purchases its wholesale power from FortisBC under a power purchase agreement ("PPA").

Regulated Utilities – Caribbean

The following summary describes the Corporation's interest in Regulated Utilities in the Caribbean by utility:

a. *Belize Electricity:* Belize Electricity is the principal distributor of electricity in Belize, Central America. The Corporation holds a 68 per cent controlling interest in the Company.

b. *Caribbean Utilities Company, Ltd. ("Caribbean Utilities"):* Caribbean Utilities is the sole provider of electricity on Grand Cayman, Cayman Islands. The Corporation's 36.9 per cent interest in the Company is accounted for on the equity basis of accounting.

Non-regulated – Fortis Generation

The following summary describes the Corporation's non-regulated generation assets by location:

a. *Ontario:* Includes 75 MW of water right entitlement associated with the Rankine Generating Station ("Rankine") at Niagara Falls. Operations include the 5-MW Cornwall District Heating cogeneration plant and 6 small hydroelectric generating stations in eastern Ontario with a combined capacity of 8 MW. Non-regulated generation operations in Ontario are conducted through FortisOntario Inc. and the former FortisOntario Generation Corporation. In January 2006, FortisOntario Generation Corporation was amalgamated with CNE Energy Inc.

b. *Belize:* Operations consist of the 25-MW Mollejon and 7-MW Chalillo hydroelectric facilities in Belize. All of the electricity output is sold to Belize Electricity under a 50-year PPA. Hydroelectric generation operations in Belize are conducted through the Corporation's wholly owned indirect subsidiary, Belize Electric Company Limited ("BECOL"), under a Franchise Agreement with the Government of Belize.

c. *Central Newfoundland:* Through the Exploits River Hydro Partnership ("Exploits Partnership"), a partnership between the Corporation, through an indirect wholly owned subsidiary, CNE Energy Inc., and Abitibi-Consolidated Company of Canada ("Abitibi-Consolidated"), 36 MW of additional capacity was developed and installed at 2 of Abitibi-Consolidated's hydroelectric plants in central Newfoundland. The Corporation holds a 51 per cent interest in the Exploits Partnership and Abitibi-Consolidated holds the remaining 49 per cent interest. The Exploits Partnership sells its output to Newfoundland and Labrador Hydro Corporation ("Newfoundland Hydro") under a 30-year PPA.

d. *Upper New York State:* Operations include 4 hydroelectric generating stations in Upper New York State with a combined capacity of 23 MW operating under licences from the US Federal Energy Regulatory Commission.

Hydroelectric generation operations in Upper New York State are conducted through the Corporation's indirect wholly owned subsidiary, FortisUS Energy Corporation ("FortisUS Energy").

e. *British Columbia:* Operations include the 16-MW run-of-river Walden hydroelectric power plant near Lillooet, British Columbia. This plant sells its entire output to BC Hydro under a long-term contract. Hydroelectric generation operations in British Columbia are conducted through the Walden Power Partnership, a wholly owned partnership of FortisBC.

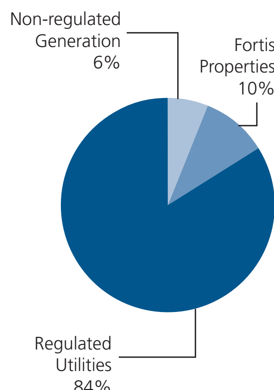
Non-regulated – Fortis Properties

Fortis Properties owns and operates hotels in 6 provinces in Canada and commercial real estate in Atlantic Canada. On February 1, 2005, Fortis Properties acquired 3 hotels in Alberta and Manitoba with approximately 650 rooms and 27,000 square feet of banquet space. Including the new hotels, Fortis Properties owns over 2,900 hotel rooms and approximately 2.7 million square feet of commercial real estate.

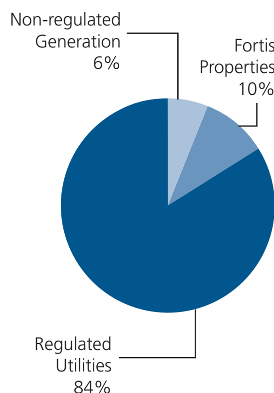
Corporate

Corporate includes finance charges related to debt incurred directly by Fortis, including foreign exchange gains or losses, preference share dividends, other corporate expenses, net of recoveries from subsidiaries, interest and miscellaneous revenues and corporate income taxes.

Total Assets
(at December 31, 2005)



Revenue
(year ended December 31, 2005)



2005 Financial Highlights

On September 28, 2005, the Board of Directors of Fortis declared a stock dividend effecting a 4-for-1 stock split of the Corporation's outstanding Common Shares. The stock dividend was paid on October 21, 2005 to shareholders of record on October 14, 2005. For all periods presented, all references to the number of common shares issued and outstanding, weighted average number of common shares, basic and diluted earnings per common share amounts and stock option data have been retroactively restated to reflect the effect of this stock split.

Annual Comparison	2005	2004	Growth (%)
Net earnings applicable to common shares *($ millions)*	**137.1**	90.9	50.8
Basic earnings per common share *($)*	**1.35**	1.07	26.2
Diluted earnings per common share *($)*	**1.24**	1.01	22.8
Revenue and equity income *($ millions)*	**1,441.5**	1,146.1	25.8
Dividends paid per common share *($)*	**0.59**	0.54	9.3
Return on average common shareholders' equity *(%)*	**12.4**	11.3	9.7
Total assets *($ millions)*	**4,316.2**	3,938.0	9.6
Cash flow from operations *($ millions)*	**303.4**	272.3	11.4

Acquisitions: On February 1, 2005, Fortis Properties acquired 3 Greenwood Inn hotels located in Manitoba and Alberta for approximately $63 million. The acquisition expands the hospitality operations of Fortis Properties by approximately 650 rooms and 27,000 square feet of banquet space. On May 31, 2005, Fortis, through an indirect wholly owned subsidiary, acquired all issued common and preference shares of PLP for $3.7 million. PLP is an electric utility serving approximately 3,200 customers, mainly in Princeton, British Columbia.

On May 31, 2004, Fortis, through an indirect wholly owned subsidiary, acquired all of the common shares of FortisAlberta and FortisBC for approximately $1.5 billion. Results of Fortis for 2005 include a full year of earnings contributions from these utilities compared to 7 months of earnings contributions in 2004.

Net Earnings and Earnings per Common Share: Fortis achieved record earnings of $137.1 million in 2005, a 50.8 per cent increase over earnings of $90.9 million last year. Basic earnings per common share were $1.35, a 26.2 per cent increase over earnings per common

share of $1.07 last year. The Corporation's earnings excluding the impact of Hurricane Ivan, although not a measure under Canadian generally accepted accounting principles ("GAAP"), would have been $99.1 million in 2004, or $1.17 per common share. Earnings for 2004 were negatively impacted by the Corporation's portion of uninsured hurricane-related costs, totalling approximately $8.2 million.

The increase in earnings in 2005 was primarily due to a full year of earnings contributions from FortisAlberta and FortisBC, which were acquired on May 31, 2004, higher wholesale energy prices in Ontario, higher equity income from Caribbean Utilities and a $7.9 million after-tax gain resulting from the settlement of contractual matters between FortisOntario and Ontario Power Generation Inc. ("OPGI"). The increase was partially offset by higher corporate finance charges associated with the acquisition of FortisAlberta and FortisBC. With the exception of Newfoundland Power, all operating segments reported improved financial results over last year. Newfoundland Power's earnings declined slightly mainly due to a formula-driven 51 basis point reduction in its allowed rate of return on common equity ("ROE").

Earnings per common share for 2005 were impacted by the dilution created by the $130 million issue of common shares in March 2005.

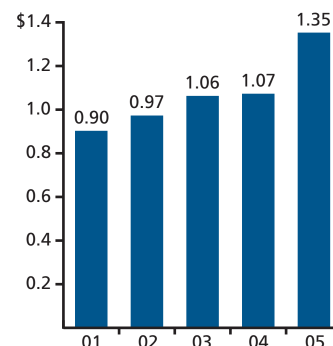
Revenue and Equity Income: Revenue, including equity income from Caribbean Utilities, increased 25.8 per cent to approximately $1.4 billion from approximately $1.2 billion last year. A full year of operations for FortisAlberta and FortisBC, increased wholesale energy prices in Ontario, increased electricity sales and/or rates in the Corporation's regulated utilities and the addition of revenue associated with the 3 Greenwood Inn hotels acquired on February 1, 2005 were the primary contributors to increased revenues. Equity income from Caribbean Utilities increased $10.6 million from last year primarily as a result of the recovery from Hurricane Ivan and the recognition in 2005 of the favourable impact of a change in accounting practice for recognizing unbilled revenue.

Dividends: Dividends paid per common share increased to 59 cents in 2005 from 54 cents last year. Dividends paid have increased for 32 consecutive years. The Corporation's dividend payout ratio was 43.7 per cent in 2005 compared to 50.3 per cent last year. In September 2005, Fortis declared an increase in the regular quarterly dividend to 16 cents per common share from 14.25 cents per common share, with the first payment occurring on December 1, 2005.

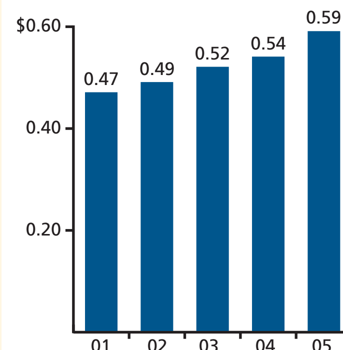
Return on Average Common Shareholders' Equity: Return on average common shareholders' equity was 12.4 per cent in 2005 compared to 11.3 per cent last year.

Cash Flow from Operations: Cash flow from operations was $303.4 million in 2005 compared to $272.3 million last year. The increase was driven by a full year of earnings contributions from FortisAlberta and FortisBC, compared to 7 months in 2004, and a higher earnings contribution from Non-regulated Generation in 2005, including the gain on the settlement of contractual matters between FortisOntario and OPGI. This increase was partially offset by changes in working capital, primarily at FortisAlberta and FortisBC. An increase in regulatory assets in the western Canada utilities in 2005 was partially offset by higher income taxes payable at FortisAlberta. Additionally, working capital in 2004 was favourably impacted by the return of funds on deposit at FortisAlberta.

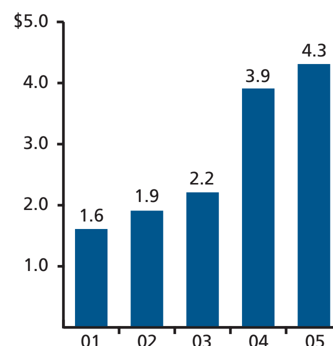
Earnings per Common Share *($)*



Dividends Paid per Common Share *($)*



Consolidated Assets *($ billions)*



Asset Growth: Total assets increased 9.6 per cent to $4.3 billion at year-end 2005 compared to $3.9 billion at year-end 2004. The increase primarily related to the Corporation's continued investment in electricity systems, driven primarily by the capital expenditure programs at FortisAlberta and FortisBC.

Capital Expenditures: Total consolidated capital expenditures for 2005, before contributions in aid of construction, were $508.6 million, of which $402.8 million related to the Corporation's Regulated Utility operations. Capital expenditures at FortisAlberta and FortisBC represented 69.8 per cent, or $281.0 million, of total Regulated Utility capital expenditures. Much of this capital investment was driven by robust customer growth and the need to enhance the reliability of electricity systems. Maritime Electric invested $22 million in 2005 on the construction of a $35 million 50-MW combustion turbine generating facility. The Non-regulated Generation operations incurred $19.3 million in capital expenditures primarily related to the completion of the construction of the Chalillo Hydroelectric Project ("Chalillo Project") in Belize. Fortis Properties incurred $83.9 million in capital expenditures, approximately $63 million of which related to the acquisition of the 3 Greenwood Inn hotels with the remainder primarily related to the expansions of the Delta St. John's Hotel and Conference Centre ("Delta St. John's Hotel"), Holiday Inn Sarnia and Blue Cross Centre in Moncton.

Financing: During 2005, Fortis and its subsidiaries were active in the capital markets, raising approximately $484 million from a combination of common share and long-term debt issues. The $130 million gross proceeds from the common share issue in March 2005 were used primarily to pay certain outstanding indebtedness related to the acquisition of FortisAlberta and FortisBC. The long-term debt proceeds were primarily used to finance the Corporation's capital expenditure program in addition to the acquisition of the 3 Greenwood Inn hotels. These financings were completed at attractive rates and reflect investors' continued positive response to the Corporation's business strategy.

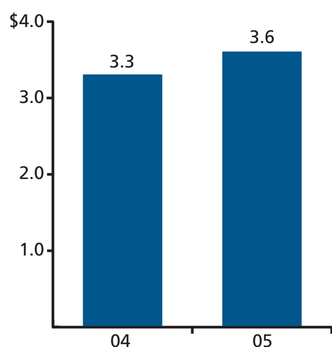
Segmented Results of Operations

The segmented results of the Corporation are outlined below.

($ millions)	**2005**	2004[1]
Regulated Utilities – Canadian		
Newfoundland Power	**30.7**	31.1
Maritime Electric	**9.1**	8.2
FortisOntario	**4.3**	4.2
FortisAlberta	**36.1**	18.6
FortisBC	**24.6**	17.7
	104.8	79.8
Regulated Utilities – Caribbean		
Belize Electricity	**8.0**	7.2
Caribbean Utilities	**11.4**	0.8
	19.4	8.0
Non-regulated operations		
Fortis Generation	**29.6**	12.8
Fortis Properties	**14.1**	11.8
Corporate	**(30.8)**	(21.5)
Net earnings applicable to common shares	**137.1**	90.9

[1] The financial results of FortisAlberta and FortisBC are from the date of acquisition, which occurred May 31, 2004.

Total Regulated Assets
($ billions)



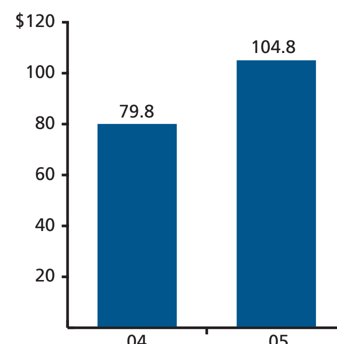
Regulated Utilities

The Corporation's primary business is regulated utilities. The regulated earnings in Canada and the Caribbean represent approximately 74 per cent of the Corporation's earnings from its operating segments. Total regulated assets represent approximately 84 per cent of the Corporation's total assets. As no one utility is expected to contribute more than 25 per cent of earnings and cash flow of the Corporation, the effect of any single adverse regulatory event is mitigated.

The regulated assets are expected to grow as the utilities continue to invest in their respective electricity systems. The increase in the 2006 forecasted capital program for the Corporation's Regulated Utilities is primarily driven by FortisAlberta and FortisBC, as the rate base of these utilities is expected to grow by an average of approximately 8 per cent to 10 per cent per year.

Regulated Utilities – Canadian

Earnings from Regulated Utilities in Canada were $104.8 million, which represented approximately 63 per cent of the Corporation's earnings from its operating segments. The increase in earnings from Regulated Utilities in Canada was primarily related to a full year of earnings contributions from FortisAlberta and FortisBC. Maritime Electric and FortisOntario also delivered improved financial results, partially offset by slightly lower earnings at Newfoundland Power due to a lower allowed ROE in 2005.



Newfoundland Power

Regulation: Newfoundland Power operates under cost of service regulation as administered by the Newfoundland and Labrador Board of Commissioners of Public Utilities ("PUB") under the *Public Utilities Act*. The Company's earnings are regulated on the basis of rate of return on rate base. The determination of the forecast rate of return on rate base, together with the forecast of all reasonable and prudent costs, establishes the revenue requirement upon which customer rates are determined. An automatic adjustment formula, based on observed long-term Canada bond yields, is utilized annually to determine the permitted rate of return for those years in between general rate hearings. The formula determines an appropriate ROE which is then used to determine the resulting rate of return on rate base.

On June 20, 2003, the PUB issued its General Rate Order ("Order") with respect to Newfoundland Power's General Rate Application ("GRA"). The PUB ruled that, for the purpose of rate setting, the capital structure remain at a maximum of 45 per cent common equity, with an allowed ROE of 9.75 per cent for 2004. The Order also established the automatic formula to be utilized to set rates from 2005 through 2007. In December 2004, the PUB approved the operation of this formula which resulted in a decrease in the allowed ROE from 9.75 per cent for 2004 to 9.24 per cent for 2005. The PUB also ordered a decrease in the allowed rate of return on rate base to 8.68 per cent, within a range of 8.50 per cent to 8.86 per cent, to reflect the lower adjusted ROE. In its Order, the PUB also approved a 0.5 per cent decrease in electricity rates, effective January 1, 2005, to reflect the reduction in the allowed rate of return on rate base.

Also in December 2004, the PUB approved a change in the Company's purchased power rate structure, effective January 1, 2005. The introduction of the new purchased power rate structure changed the basis upon which Newfoundland Hydro charges the Company for purchased power. This change was intended to promote energy conservation.

The change in the purchased power rate structure resulted in a movement from an energy only charge to an energy and demand charge from Newfoundland Hydro to Newfoundland Power. Under this rate structure, a portion of the Company's annual purchased power cost, the demand charge, is set at a fixed amount based on peak billing demand for the previous winter season. Previously, under the energy only rate structure, purchased power costs varied based on the amount of electricity used by Newfoundland Power's customers. Based on the Company's demand and energy sales, the cost of purchased power per kilowatt hour ("kWh") was 5.225 cents in 2005 compared to 5.234 cents in the latter half of 2004.

Earnings: Earnings were $30.7 million compared to $31.1 million last year. The $0.4 million net decrease in earnings was due to a 0.5 per cent decrease in customer electricity rates, effective January 1, 2005, costs associated with an early retirement program offered in the first quarter of 2005 and higher amortization costs and finance charges. The decrease in earnings was partially mitigated by interest revenue that resulted from the income tax settlement with Canada Revenue Agency ("CRA") in June 2005, a lower purchased power unit cost, higher electricity sales and increased revenue from pole rentals.

Electricity Sales: Electricity sales were 5,004 gigawatt hours ("GWh"), 0.5 per cent higher than electricity sales of 4,979 GWh last year. Residential electricity sales contributed 0.3 per cent to the 0.5 per cent increase while commercial electricity sales and street lighting contributed 0.2 per cent to the increase.

Revenue: Revenue was $420.0 million compared to $404.4 million last year. The $15.6 million increase was due to a 5.4 per cent increase in electricity rates charged to customers, effective July 1, 2004, as a result of the flow through of an increase in the rate Newfoundland Hydro charges the Company for purchased power. Due to this change, both revenue and purchased power, as described below, increased in 2005 by approximately $12.0 million. Both increases had no impact on Newfoundland Power's 2005 earnings. Revenue also increased as a result of higher electricity sales, increased pole rentals and interest revenue related to the CRA income tax settlement, partially offset by the 0.5 per cent decrease in customer electricity rates, effective January 1, 2005.

In June 2005, the Company entered into an agreement with CRA that provided for the full settlement of Newfoundland Power's revenue recognition policy for tax purposes on a prospective basis, beginning in 2006. The Company's policy has been to record revenue on a billed basis, in accordance with regulatory practice, whereas the position of the CRA is that revenue should be recorded on an accrual basis for income tax purposes. CRA cancelled all outstanding reassessments related to Newfoundland Power's revenue recognition policy in past years and refunded the Company's $6.9 million income tax deposit along with interest. Revenue in 2005 included $2.1 million of interest revenue, resulting in increased earnings of $1.4 million, net of tax, as a result of the CRA income tax settlement.

Expenses: Newfoundland Power purchases approximately 90 per cent of its energy requirements from Newfoundland Hydro. Energy supply costs were $256.0 million compared to $244.0 million last year. The July 1, 2004 increase in the rate charged by Newfoundland Hydro, as described above, resulted in a $12.0 million increase in energy supply costs. Energy supply costs also increased due to electricity sales growth, offset by a lower purchased power unit cost compared to last year.

Operating expenses were $53.8 million compared to $51.8 million last year. The $2.0 million increase in operating expenses was primarily due to the amortization of pension costs and retirement allowances associated with the early retirement program offered in the first quarter of 2005. In total, 76 employees retired under the early retirement program, completed in April 2005, which resulted in a reduction in labour costs that effectively offset normal wage increases. Additional labour savings were realized as a result of improved system reliability and better weather conditions year over year. Continued focus on cost management and control initiatives also mitigated the impact of other inflationary increases.

Amortization costs increased $1.1 million over last year. The increase related to continued investment in the Company's property, plant and equipment required to provide electricity service.

Finance charges were $31.4 million compared to $30.4 million last year. The increase was primarily due to the replacement of $60.0 million of lower cost short-term borrowings with 30-year 5.441% first mortgage sinking fund bonds in August 2005.

Outlook: The growth in electricity sales in 2006 is expected to be comparable to the 2005 growth rate of approximately 0.5 per cent.

Newfoundland Power will invest approximately $50 million in its capital program in 2006. The 2006 capital program is primarily related to customer growth and ongoing maintenance of the Company's electricity system. The Company's 2006 capital budget was approved by the PUB in November 2005.

On December 23, 2005, the Company received an order from the PUB with respect to an Accounting Policy Application filed in September 2005. The PUB approved the proposed change to Newfoundland Power's revenue recognition policy from the billed basis to the accrual basis for financial and regulatory purposes, effective January 1, 2006. The Company also received approval to recognize $3.1 million of the 2005 unbilled revenue balance as revenue in 2006 to offset the impact of the transition to the accrual basis for income tax purposes, and to defer recovery of approximately $5.8 million in increased amortization of capital assets in 2006. The disposition of the remaining 2005 unbilled revenue balance has been deferred until the Company's next GRA, which is anticipated in 2006 for the purpose of setting electricity rates for 2007.

In January 2006, the Company received approval from the PUB of its final 2006 electricity rates, which remain unchanged from 2005. The rates are based on a range of rate of return on rate base of 8.50 per cent to 8.86 per cent, which includes an ROE of 9.24 per cent, also unchanged from 2005.

Maritime Electric

Regulation: In December 2003, the Government of PEI proclaimed legislation returning Maritime Electric to traditional cost of service regulation. Maritime Electric is regulated by the Island Regulatory and Appeals Commission ("IRAC") under the provisions of the *Electric Power Act*, effective January 1, 2004. Maritime Electric's basic rates are now based on actual costs and provide for an approved rate of return on approved rate base assets. Maritime Electric's ROE for 2005 was 10.24 per cent compared to 10.09 per cent for 2004. Previously, Maritime Electric operated under price cap regulation where basic electricity rates were set at 110 per cent of electricity rates charged by New Brunswick Power Corporation ("NB Power") for equivalent service in New Brunswick. As of December 31, 2003, Maritime Electric maintained an energy cost adjustment mechanism ("ECAM") to adjust for the effect of variations in energy costs above or below 5 cents per kWh. Maritime Electric also maintained a cost of capital adjustment account to adjust earnings based on a target return on average common equity. The new legislation, which provided for an orderly transition from the previous regulatory model, allows Maritime Electric to collect the $20.8 million in energy costs recoverable from customers deferred as at December 31, 2003 under terms and conditions as set by IRAC.

On January 6, 2005, IRAC issued an Interim Order which established a new ECAM with application to the period commencing January 1, 2004. This mechanism will help mitigate the impact of fluctuating energy costs on the Company's financial results as it will allow Maritime Electric to collect/rebate energy costs above/below a base rate of 6.73 cents per kWh. The Interim Order also allowed Maritime Electric to commence amortization of the $20.8 million in recoverable costs accumulated as at December 31, 2003. Recoverable costs of $1.5 million were amortized in 2004 while $2.5 million was amortized in 2005.

On June 24, 2005, IRAC issued its Order with respect to Maritime Electric's GRA filed in April 2004 for the period ending June 30, 2006. The Order approved the requested 2 per cent increase in basic electricity rates, effective July 1, 2005, with the new ECAM, effective January 1, 2004, to remain in effect until June 30, 2006.

Earnings: Earnings were $9.1 million in 2005 compared to $8.2 million last year. The $0.9 million increase in earnings was primarily due to increased electricity sales, a 2 per cent increase in basic electricity rates, effective July 1, 2005, and lower finance charges.

Electricity Sales: Electricity sales were 989 GWh, an increase of 1.2 per cent over last year. A 0.4 per cent increase in residential sales was largely due to an expanded customer base while a 2.0 per cent increase in commercial sales was driven by customers in the general service and small industrial sectors.

Revenue: Revenue was $116.7 million compared to $115.4 million last year. Increased revenue as a result of the 2 per cent basic electricity rate increase, effective July 1, 2005, and higher electricity sales was partially offset by increased amortization of recoverable costs as permitted by the January 6, 2005 Interim Order.

Expenses: Energy supply costs, adjusted through the operation of the ECAM, were $71.6 million compared to $71.3 million last year. The $0.3 million increase was primarily due to increased energy sales. Gross energy supply costs before ECAM adjustments, however, were $8.2 million lower than last year primarily due to the expiration of the Emera Inc. power purchase contract in December 2004 and lower-than-anticipated curtailable energy costs. During 2005, Maritime Electric purchased the majority of its energy from NB Power under several energy purchase agreements.

Amortization costs were $9.7 million compared to $9.2 million last year. The $0.5 million increase reflects the Company's continued investment in its energy delivery system infrastructure.

Finance charges were $7.6 million compared to $8.7 million last year. The $1.1 million decrease reflected the continued use of short-term financing for and the capitalization of interest costs associated with the construction of the 50-MW combustion turbine generating facility in Charlottetown, PEI.

The commissioning of the $35 million 50-MW generating facility was completed in early 2006. This facility, which can operate on light oil or natural gas, will address submarine cable loading issues, reduce the Company's reliance on imported electricity and improve security of supply.

Outlook: Economic growth for PEI in 2006 is expected to be modest. Although activity in the construction sector is expected to provide stimulation to the economy, it will be somewhat offset by reduced public spending with GDP growth forecasted at over 2.0 per cent for 2006. Electricity sales growth in 2006 is forecast to be 1.3 per cent, comparable to the growth rate experienced in 2005.

Maritime Electric continues to rely on imported energy for the majority of its annual energy requirements. Legislation proclaimed by the Government of PEI will see an increased reliance by Maritime Electric on on-Island renewable energy sources such as wind-powered energy. By 2010, Maritime Electric will be required to obtain at least 15 per cent of its annual energy requirements from renewable sources.

In 2005, Maritime Electric signed a Memorandum of Understanding with the Government of PEI in respect of a $30 million upgrade of the Island's transmission system to accommodate large-scale commercial wind power development. This upgrade will take place over a 5-year period and is expected to commence in 2006.

During 2006, Maritime Electric is expected to invest approximately $21 million in its energy delivery system primarily related to ongoing maintenance and to meet customer growth. On November 8, 2005, Maritime Electric filed an application with respect to its proposed 2006 Capital Budget, which was approved by IRAC on January 20, 2006.

On January 31, 2006, the Company filed an application with IRAC proposing an overall increase in customer electricity rates of 1.6 per cent, effective July 1, 2006, and further amortization of $1.5 million in 2006 and $1.3 million in 2007 of the recoverable costs accumulated as at December 31, 2003.

FortisOntario

Regulation: FortisOntario includes the regulated operations of Canadian Niagara Power and Cornwall Electric. Canadian Niagara Power and Cornwall Electric operate under the *Electricity Act* (Ontario) and the *Ontario Energy Board Act* (Ontario) as administered by the Ontario Energy Board ("OEB"). Canadian Niagara Power operates under cost of service regulation and earnings are regulated on the basis of rate of return on rate base, plus a recovery of allowable distribution costs. Cornwall Electric is exempt from many aspects of these Acts and is also subject to a 35-year Franchise Agreement with the City of Cornwall, dated July 31, 1998. Rates under the Franchise Agreement are subject to price cap with commodity cost flow-through. The base revenue requirement is adjusted annually for inflation, load growth and customer growth. In November 2004, the OEB granted Cornwall Electric a Distribution Licence valid until December 2019. The Licence acknowledges the existing service territory and franchise agreements. Prior to this date, Cornwall Electric had been granted an Interim Distribution Licence.

In 2002, the Government of Ontario enacted *Bill 210*, the *Electricity Pricing, Conservation and Supply Act, 2002* (Ontario), which introduced a 4.3 cent per kWh retail commodity price cap for low-volume and designated customers and implemented a freeze on transmission and distribution rate increases until May 1, 2006. For 2005, transmission rates and Fort Erie and Gananoque distribution rates were set based on a 9.88 per cent ROE. In 2005, Port Colborne applied for and received approval by the OEB for the recovery of the final one-third of the phase-in to the 9.88 per cent ROE. However, in order to qualify, Canadian Niagara Power had to submit in 2004, for approval, a Conservation and Demand Management Plan ("CDM Plan") to the OEB. This CDM Plan was approved by the OEB in 2005. The CDM Plan includes a required investment equal to the value of the final one-third of ROE for 1 year, which may be spread over a 3-year period ending in September 2007. Cornwall Electric has been given exemption from *Bill 210* as it does not participate in the open market in Ontario and its rates are set by the Franchise Agreement.

In December 2003, *Bill 4*, the *Ontario Energy Board Amendment Act, 2003* (Ontario) came into force. The legislation replaced the 4.3 cent per kWh commodity price cap with a two-tiered commodity pricing structure and allowed electricity distributors to begin to recover a portion of the distribution costs incurred in preparing for the competitive market. Distributors were permitted to apply for recovery of amounts incurred up to and including December 31, 2002 with recovery over a 4-year period, effective April 2004. In March 2004, Canadian Niagara Power received a Board Decision and Order and Interim Rate Schedule for transitional rates to recover its transitional costs in Fort Erie and Port Colborne. There were no transitional costs associated with Gananoque. In March 2005, Canadian Niagara Power received a Board Decision and Order and Interim Rate Schedule for transitional rates to continue the recovery of transitional costs in Fort Erie and Port Colborne.

In June 2004, the Ontario Minister of Energy granted permission to Canadian Niagara Power to apply to the OEB for a reduction in its retail transmission rates charged to customers in Fort Erie as a result of efficiency gains implemented by the Company. In June 2004, the OEB issued a Decision and Order establishing new standard retail transmission service rates, effective July 2004. Retail transmission service charges are captured in the appropriate retail settlement variance account for disposition at a later date, subject to OEB approval.

On December 9, 2004, the *Electricity Restructuring Act, 2004* (Ontario) came into force amending certain prior Acts. It reorganized the Province of Ontario's electricity sector and introduced the regulated price plan, which was later developed and announced by the OEB on March 11, 2005. The regulated price plan is intended to reflect the true cost of electricity. It has replaced the interim two-tiered commodity pricing structure that had been in place since April 2004. Effective April 1, 2005, eligible customers pay 5.0 cents per kWh for the first 750 kWh used each month, and 5.8 cents per kWh for electricity consumed over this amount. Starting November 1, 2005, the price threshold, the amount of electricity charged at the lower price, will change twice a year for residential customers. The price threshold is 1,000 kWh per month in the winter months from November through April and 600 kWh per month in the summer months from May through October.

Earnings: Earnings were $4.3 million compared to $4.2 million last year. The recognition of a $1.6 million future tax asset associated with the favourable resolution of a CRA reassessment related to Cornwall Electric in 2005 was nearly offset by the costs associated with an early retirement program, offered in the fourth quarter of 2005, and increased operating expenses.

Electricity Sales: Electricity sales of 1,195 GWh were comparable to last year.

Revenue: Revenue was $139.7 million compared to $125.2 million last year. The $14.5 million net increase was primarily due to a 12 per cent increase in Cornwall Electric's electricity rates on July 1, 2004 and a change in the cost of power component billed to Canadian Niagara Power's customers, partially offset by a 4.5 per cent decrease in Cornwall Electric's rates effective July 1, 2005. The change in the cost of power component billed increased both revenue and energy supply costs; however, it did not impact earnings.

Expenses: Energy supply costs were $110.2 million compared to $96.5 million last year. The $13.7 million increase in energy supply costs was primarily related to increased cost of power at Cornwall Electric and the change in the cost of power component billed to Canadian Niagara Power's customers.

Operating expenses were $14.5 million compared to $12.3 million last year. The $2.2 million increase in operating expenses was due to $0.8 million in costs associated with the early retirement program offered in the fourth quarter of 2005 and an increase in the allocation of shared service costs from non-regulated Ontario generation operations of $1.4 million. The allocation increase resulted from a recent internal cost allocation study.

Corporate taxes were $0.5 million compared to $2.2 million last year. The $1.7 million net decrease was primarily due to lower earnings before taxes and the recognition of a $1.6 million future tax asset associated with the favourable resolution of a CRA reassessment of a tax asset created when Cornwall Electric was acquired by a previous owner. This was partially offset by the impact of a higher effective corporate income tax rate compared to last year.

Outlook: FortisOntario is projecting economic growth of approximately 1 per cent in 2006 in the regions it serves. FortisOntario expects to spend approximately $10 million on its 2006 capital program. The 2006 capital program is primarily related to ongoing maintenance of the Company's electricity system.

On September 6, 2005, Canadian Niagara Power made application to the OEB for new electricity distribution rates, effective May 1, 2006. The new electricity distribution rates are based on 2004 costs using a deemed capital structure at 50 per cent long-term debt and 50 per cent common equity, with an allowed ROE of 9.0 per cent. On September 6, 2005, applications were made for the final approval of regulatory asset and liability balances, including transitional costs, as of December 31, 2004, and the approval of "rate riders" to recover/settle these balances, beginning May 1, 2006. Approval had previously been given by the OEB for the interim recovery/settlement of these regulatory assets and liabilities. Regulatory assets and liabilities arising in 2005 will be subject to rate recovery/settlement in future rate applications.

There are approximately 95 municipally owned local distribution companies in Ontario. Management believes further consolidation of municipal electric utilities is likely and FortisOntario will continue to pursue opportunities to lease or acquire local distribution companies as they become available.

FortisAlberta

Regulation: FortisAlberta is regulated by the Alberta Energy Utilities Board ("AEUB"), pursuant to the *Electric Utilities Act* (Alberta), the *Public Utilities Board Act* (Alberta) and the *Hydro and Electric Energy Act* (Alberta). FortisAlberta operates under cost of service regulation as prescribed by the AEUB. Rate orders issued by the AEUB establish the Company's revenue requirements, being those revenues required to recover approved costs associated with the distribution business and provide a rate of return on a deemed capital structure applied to approved rate base assets. The Company applies for tariff revenue based on estimated costs of service. Once the tariff is approved, it is not adjusted as a result of actual costs of service being different from those which were estimated, other than for certain prescribed costs that are eligible for deferral account treatment. FortisAlberta's allowed ROE is adjusted annually through the operation of an automatic adjustment formula to adjust for forecast changes in long-term Canada bond yields.

On July 2, 2004, the AEUB issued a Generic Cost of Capital Decision (the "Generic Cost of Capital Decision") that established a common approach for setting the rate of return on deemed common equity for all electricity and natural gas utilities under its jurisdiction. The Generic Cost of Capital Decision also established a capital structure of 63 per cent debt and 37 per cent equity for FortisAlberta, which ratio represents how FortisAlberta is deemed to be financing its rate base assets. Additionally, the Generic Cost of Capital Decision set the formula for establishing FortisAlberta's allowed ROE for future years. As a result of the operation of the automatic adjustment formula in 2005, FortisAlberta's allowed ROE for 2005 was 9.5 per cent.

On May 24, 2005, the AEUB approved the Negotiated Settlement dealing with all aspects of FortisAlberta's 2005 Distribution Access Tariff Application. The Negotiated Settlement resulted in a 2005 distribution revenue requirement of $215.4 million, which translated into a 2.1 per cent increase on base rates for 2005, effective August 1, 2005. The approved revenue requirement reflected forecast operating expenses of $101.0 million and capital expenditures of $134.3 million, before customer contributions. The cumulative impact of the Negotiated Settlement on results for the first half of 2005 was reflected in the second quarter of 2005. FortisAlberta billed customers on interim rates for the period January 1, 2005 through July 31, 2005. The revenue shortfall for this period was collected from customers over the period August 2005 through December 2005 through a distribution adjustment rider.

In June 2005, FortisAlberta and the City of Airdrie signed a 10-year electric distribution franchise agreement. The franchise agreement grants FortisAlberta the exclusive right to own, operate and maintain the electric distribution service within the City of Airdrie's rights-of-way.

Earnings: Earnings were $36.1 million compared to $18.6 million for the 7-month period ended December 31, 2004. The $17.5 million increase in earnings was primarily due to a full year of earnings contribution from FortisAlberta in 2005. FortisAlberta's results for 2005 included $7.1 million in net earnings primarily associated with the resolution of items pertaining to prior periods relating to taxes, load settlement and the EPCOR Energy Services (Alberta) Inc. ("EPCOR") claim settlement, net of the insurance recovery, partially offset by adjustments associated with the Negotiated Settlement and the impact of a higher effective corporate income tax rate.

On August 8, 2005, FortisAlberta announced that an agreement was reached with EPCOR to settle all aspects of the claim filed on August 18, 2003 in the Court of Queen's Bench of Alberta. All amounts related to the settlement were reflected in the second quarter results of FortisAlberta as the Company had adequate provisions in its financial statements to offset the impact of the settlement. Proceeds received under an insurance policy have partially offset the settlement of the EPCOR claim and were reflected in the third quarter.

Electricity Sales: Electricity sales were 14,445 GWh compared to 7,964 GWh for the 7-month period ended December 31, 2004. Total electricity sales for 2004 were 13,908 GWh. Electricity sales for 2005 were favourably impacted by an increase in both consumption and the number of customers in the residential, commercial and oil and gas sectors due to a strong provincial economy. These increases were partially offset by decreased consumption in the farming and irrigation sector as a result of unusually high levels of precipitation in 2005.

Revenue: Revenue was $259.8 million compared to $129.7 million for the 7-month period ended December 31, 2004. Revenue for 2005 was favourably impacted by the 2.1 per cent increase in electricity rates, higher electricity sales, increased franchise fee revenue and higher gains related to transmission revenue and costs. Revenue was also favourably impacted by the resolution of tax-related matters resulting in the reduction of liabilities associated with prior periods, the insurance recovery related to the settlement of the EPCOR claim and the finalization of load settlement amounts related to prior periods.

Expenses: Operating expenses were $113.0 million compared to $60.2 million for the 7-month period ended December 31, 2004. Operating expenses for 2005 were unfavourably impacted by higher labour, overtime and material costs associated with increased line maintenance activities, an increase in property taxes and a change from 2004 in the method used to record inter-company operating expense recoveries.

Amortization costs were $61.4 million compared to $31.3 million for the 7-month period ended December 31, 2004. Amortization costs in 2005 were impacted by higher depreciation rates as a result of the Negotiated Settlement and an increase in capital assets primarily due to load growth within the Company's service territory.

Finance charges were $24.2 million compared to $10.8 million for the 7-month period ended December 31, 2004. Coincident with the Company's purchase by Fortis on May 31, 2004, FortisAlberta borrowed $393 million on a short-term basis from a syndicate of Canadian chartered banks. These funds were used to repay amounts owed to the Company's former parent. The interest rate on the new debt was substantially less than the interest rate paid by FortisAlberta on the debt owed to its former parent. Finance charges were impacted by the interest rate on the $400 million public debentures issued on October 25, 2004 being higher than that on the short-term bridge facility, noted above, that was repaid with the proceeds of the debenture issue.

Corporate taxes were $25.1 million compared to $8.8 million for the 7-month period ended December 31, 2004. Corporate taxes in 2005 were impacted by a higher effective corporate income tax rate, primarily due to the impact of adjustments resulting from differences between income for accounting and income tax purposes, in addition to higher earnings.

Outlook: Energy sales for FortisAlberta are heavily influenced by oil and gas sector activity and overall economic conditions within its service territory. With commodity prices in the oil and gas sector expected to remain high, the economy in Alberta is forecast to grow by 4.5 per cent in 2006. Growth in energy deliveries at FortisAlberta is estimated at 2.3 per cent for 2006. This expected growth will result in an increased investment in rate base assets, which should result in a trend of continuously increasing regulated earnings.

On November 22, 2005, as a result of the operation of the automatic adjustment formula, the AEUB issued its Return on Equity Decision, which set FortisAlberta's allowed ROE at 8.93 per cent for 2006, down from 9.5 per cent for 2005. This decrease is directly related to lower long-term Canada bond yields.

The Company filed its 2006/2007 Distribution Access Tariff Application ("2006/2007 Application") with the AEUB on December 12, 2005. The 2006/2007 Application includes a 2006 distribution revenue requirement of $221.2 million. This revenue requirement reflects a forecast level of operating expenses of $103.6 million and a forecast level of capital expenditures of $193.0 million, before customer contributions, in addition to $10.7 million expected to be contributed to Alberta Electric System Operator ("AESO") projects. If approved, the filing will result in no distribution rate increase in 2006 and a 3 per cent rate increase to customer rates in 2007. More than 75 per cent of the Company's capital expenditures in 2006 and 2007 will be directed toward improving and expanding poles and wires facilities. On December 20, 2005, interim rates were approved by the AEUB, effective January 1, 2006. A decision on the 2006/2007 Application is expected in the latter part of 2006.

In December 2005, the Company received approval from the AEUB for interim rates, effective January 1, 2006, to recover from customers the transmission costs under the new rate structure that FortisAlberta is required to pay to the AESO. Transmission costs paid to the AESO are subject to deferral account treatment by the AEUB and, as such, will not impact FortisAlberta's earnings in 2006.

FortisBC

Regulation: FortisBC is regulated by the British Columbia Utilities Commission ("BCUC") which administers acts and regulations pursuant to the *Utilities Commission Act* (British Columbia). FortisBC operates under both cost of service regulation and a performance-based rate ("PBR") setting methodology as prescribed by the BCUC. The Company applies to the BCUC for annual revenue requirements based on estimated costs of service. The PBR framework provides for a sharing of achieved savings or, in some cases, increased expenditures with ratepayers. Sharing applies only on certain components of the Company's costs and is subject to change as the Company's regulatory framework evolves. FortisBC's allowed ROE is adjusted annually through the operation of an automatic adjustment formula to adjust for forecast changes in long-term Canada bond yields.

On May 31, 2005, the BCUC issued its decision on FortisBC's 2005 Revenue Requirement Application filed on November 26, 2004, approving a 3.4 per cent electricity rate increase, effective January 1, 2005. This rate replaced the interim refundable rate of 3.7 per cent. Due to the change in rates, approximately $0.3 million was refunded to customers during the third quarter of 2005. The decision also approved an ROE of 9.43 per cent, the continuation of a common equity ratio of 40 per cent and the 2005 Capital Plan in the amount of $121.6 million.

Earnings: Earnings were $24.6 million compared to $17.7 million for the 7-month period ended December 31, 2004. The $6.9 million increase in earnings was primarily due a full year of earnings contribution from FortisBC in 2005.

On May 31, 2005, Fortis, through an indirect wholly owned subsidiary, acquired all issued common and preference shares of PLP for $3.7 million. PLP is an electric utility serving approximately 3,200 customers, mainly in Princeton, British Columbia. PLP presently purchases its wholesale power from FortisBC under a power purchase agreement. The financial results of PLP are included in the FortisBC segmented results from May 31, 2005.

Electricity Sales: Electricity sales were 2,968 GWh compared to 1,662 GWh for the 7-month period ended December 31, 2004. Total electricity sales for 2004 were 2,873 GWh. Electricity sales for 2005 were favourably impacted by an increase in the number of residential customers, as a result of continued population growth in the Okanagan region, and increased heating loads caused by cooler winter weather in 2005.

Revenue: Revenue was $194.7 million compared to $109.5 million for the 7-month period ended December 31, 2004. Revenue for 2005 was favourably impacted by increased electricity sales and a 3.4 per cent increase in electricity rates, effective January 1, 2005, partially offset by lower other revenue. The decrease in other revenue primarily related to PBR incentive adjustments. Additionally, higher revenue was recorded for the fourth quarter of 2004 compared to the same period in 2005 primarily due to a $5.7 million ($3.7 million after-tax) favourable adjustment to unbilled revenue and an overall refinement in the process of estimating unbilled revenue for 2004.

Expenses: Energy supply costs were $60.4 million compared to $32.9 million for the 7-month period ended December 31, 2004. Energy supply costs for 2005 were impacted by increased purchase volumes, partially offset by lower average power purchase prices. Energy supply costs for the 7-month period ended December 31, 2004 included a $1.1 million favourable adjustment which reduced energy supply costs for that period.

Operating expenses were $64.8 million compared to $33.4 million for the 7-month period ended December 31, 2004. Operating expenses for 2005 were impacted by increased customer service, system maintenance activities and general inflationary increases, partially offset by a $0.5 million refund relating to a British Columbia capital tax appeal in 2005.

Amortization costs were $19.0 million compared to $9.9 million for the 7-month period ended December 31, 2004. Amortization costs for 2005 were impacted by an increase in capital assets resulting from the Company's capital expenditure program. A depreciation study was completed by the Company during the third quarter of 2005. Any future changes in depreciation expense as a result of the depreciation study will, subject to BCUC approval, be included in rates charged to customers.

Finance charges were $18.5 million compared to $8.5 million for the 7-month period ended December 31, 2004. Finance charges for 2005 were impacted by increased borrowings to finance FortisBC's capital expenditure program and a higher interest rate on the $140 million debentures issued on November 30, 2004 compared to the interest rate on the short-term debt repaid with the proceeds of the debenture issue, partially offset by an increase in capitalized interest associated with large long-term capital projects. Coincident with the Company's purchase by Fortis on May 31, 2004, FortisBC borrowed, on a short-term basis, $155 million by way of a demand note from Fortis. These funds were used to repay amounts owed to the Company's former parent. The interest rate on the new debt was substantially less than the interest rate paid by FortisBC on the debt owed to its former parent. Net proceeds from the $140 million debenture issue were used primarily to repay the short-term demand note described above.

In November 2005, FortisBC completed a 30-year 5.6% $100 million senior unsecured debenture issue. Proceeds from the debt issue were used to repay certain indebtedness under FortisBC's credit facilities, which was incurred primarily to fund capital expenditures. The remaining proceeds were used for working capital purposes.

Outlook: Customer and energy sales growth at FortisBC are influenced by general economic growth. Economic growth in British Columbia was strong in 2005 and is expected to continue into 2006 as global demand for natural resource products is expected to remain strong, with commercial and residential construction activity forecasted to increase. GDP growth for British Columbia is forecasted at over 3.0 per cent for 2006 and energy sales growth for FortisBC is forecasted at approximately 2.2 per cent.

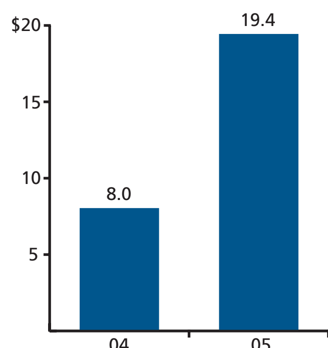
In order to establish 2006 rates, FortisBC filed a Revenue Requirements Application ("2006 Application") with the BCUC on November 24, 2005. FortisBC's 2006 Application seeks approval of a 5.9 per cent electricity rate increase, effective January 1, 2006. The rate increase is primarily related to the Company's capital expenditure program. The BCUC approved an interim refundable rate increase of 5.9 per cent, effective January 1, 2006. The 2006 Application was reviewed with the BCUC in February 2006, with negotiation or hearing scheduled thereafter, and includes a proposed new PBR mechanism to determine revenue requirements for 2007 through 2009. The 2006 Application is based on the continuation of the Generic ROE mechanism and a cost of capital for rate making purposes to reflect a capital structure of 40 per cent equity and 60 per cent debt. The ROE used in the 2006 Application was 8.69 per cent, down from 9.43 per cent for 2005. This decrease is directly related to lower long-term Canada bond yields.

On January 31, 2006, FortisBC received approval from the BCUC for its $111.7 million 2006 Capital Plan, net of contributions in aid of construction, with approximately $27.0 million in projects subject to a further approval process. Significant areas of capital investment planned for 2006 include the expansion and upgrading of the transmission and distribution systems in the South Okanagan and Kelowna areas. Planned capital expenditures also include the continuation of upgrades and life extension work on hydroelectric generation facilities on the Kootenay River.

In June 2005, a British Columbia utility applied to the BCUC for, among other things, a review of the current ROE adjustment mechanism that also applies to FortisBC. The application is subject to a regulatory process in which FortisBC is participating to the extent that the proceedings affect FortisBC. The impact and materiality of any changes to the ROE adjustment mechanism cannot be estimated or reasonably determined at this time. A decision on the ROE adjustment mechanism is expected in the first quarter of 2006.

FortisBC had previously committed to the BCUC that the Company will establish itself as a stand-alone business by June 2006. This process was substantially completed in 2005 with FortisAlberta and FortisBC having established separate management teams and boards of directors. FortisBC has also established a locally based head office in Kelowna, British Columbia and has transitioned most of its business functions from FortisAlberta.

Regulated Earnings – Caribbean
($ millions)



Regulated Utilities – Caribbean

Earnings from Regulated Utilities in the Caribbean were $19.4 million compared to $8.0 million last year due to increased earnings from Belize Electricity and equity income from Caribbean Utilities.

Belize Electricity

Fortis holds a 68 per cent interest in Belize Electricity. The results reported below represent the Company's total operations. The Belizean dollar is pegged to the US dollar at BZ$1.00 = US$0.50. Belize Electricity's results for 2005 were translated at an average annual exchange rate of US$1.00 = CDN$1.21 compared to US$1.00 = CDN$1.30 for 2004.

Regulation: Belize Electricity is regulated by the Public Utilities Commission ("PUC") under the terms of the *Electricity Act* (Belize), the *Electricity (Tariffs, Charges and Quality of Service Standards) By-Laws* (Belize) and the *Public Utilities Commission Act* (Belize). Basic electricity rates at Belize Electricity are comprised of 2 components. The first component is Value Added Delivery (''VAD") and the second is cost of fuel and purchased power ("COP"), including the variable cost of generation, which is a flow through in customer rates. The VAD component of the tariff allows the Company to recover its operating expenses, transmission and distribution expenses, taxes, amortization and rate of return on regulated asset base in the range of 10 per cent to 15 per cent. Belize Electricity undergoes annual rate proceedings, and full rate proceedings every 4 years, with the PUC to determine the level of the VAD and COP components of electricity rates and any rate stabilization account ("RSA") recovery. The VAD component of the tariff is normally reviewed every 4 years, while the COP component and RSA recovery are reviewed at each annual rate proceeding and at Threshold Event Review Proceedings which can occur at any time that deferrals of COP into the RSA exceed a threshold level.

Belize Electricity filed its first full Tariff Application on March 2, 2005 to establish a new 4-year VAD tariff setting arrangement. On July 14, 2005, the PUC delivered its final Decision ("Decision") approving an overall 11 per cent increase in electricity rates, inclusive of the recovery of RSA balances, to BZ39.0 cents per kWh from BZ34.9 cents per kWh, effective July 1, 2005 through June 30, 2006. As a result of the Decision, the VAD component of electricity rates increased to BZ16.2 cents per kWh from BZ14.0 cents per kWh while the COP component increased to BZ21.0 cents per kWh from BZ17.5 cents per kWh. Previously, the VAD was subject to a BZ5.0 cent reduction over a 5-year transition period that ended June 30, 2005. Belize Electricity's regulation includes a Cost of Power Rate Stabilization Account ("CPRSA") designed to normalize changes in the price of electricity due to fluctuating cost of power. The CPRSA stabilizes electricity rates for consumers while providing Belize Electricity with a mechanism which permits the recovery

of its cost of power. Effective July 1, 2002, a Hurricane Cost of Power Rate Stabilization Account ("HCPRSA") was also established to normalize hurricane reconstruction costs. As a result of the Decision, a BZ$6.0 million threshold level ("Threshold Event") for the CPRSA was authorized by the PUC to allow for adjustments to the tariff once new deferrals to the CPRSA reach this level. Adjustments to the tariff as a result of a Threshold Event may require adjustments to the COP component of the tariff and additional CPRSA recovery surcharges at any time during a calendar year.

Belize Electricity's Licence to generate, transmit, distribute and supply electricity in Belize expires in 2015. Under the terms of the Licence, the Company has a right of first refusal on any replacement licence. If the current Licence is not renewed for any reason, Belize Electricity will be entitled to receive, upon the transfer of its electric utility assets to a new operator, the greater of market value or 120 per cent of the net book value of these assets.

Earnings: Belize Electricity's total earnings were $8.0 million (BZ$12.9 million) compared to $7.2 million (BZ$10.7 million) last year. The increase in earnings was primarily due to the 11 per cent increase in electricity rates, effective July 1, 2005, as a result of the new 4-year tariff agreement, higher electricity sales and the foreign exchange impact associated with the Company's euro-denominated debt. The increase was partially offset by higher finance charges and operating expenses and the impact of the depreciation of the US dollar relative to the Canadian dollar compared to last year.

Electricity Sales: Electricity sales were 350 GWh, 6.1 per cent higher than electricity sales of 330 GWh last year, primarily due to increased sales in both the residential and commercial sectors. The increased sales were driven by economic growth.

Revenue: Revenue was $75.8 million (BZ$125.4 million) compared to $71.9 million (BZ$110.1 million) last year. Excluding foreign exchange impacts, revenue increased 13.9 per cent over last year. The increase was due to the 18 per cent increase in the VAD and COP components of electricity rates, effective July 1, 2005, and electricity sales growth, partially offset by the final reduction of rates of BZ 1 cent per kWh implemented July 1, 2004 through June 30, 2005.

Expenses: Energy supply costs were $40.8 million (BZ$67.6 million) compared to $37.7 million (BZ$57.7 million) last year. Increased energy supply costs reflected the increase in the COP component of electricity rates, effective July 1, 2005, and electricity sales growth, partially offset by foreign exchange impacts. Belize Electricity purchases the majority of its energy requirements from Comisión Federal de Electricidad ("CFE"), the Mexican state-owned power company, and from BECOL.

Operating expenses were $10.7 million (BZ$17.7 million) compared to $11.0 million (BZ$16.9 million) last year. Excluding foreign exchange impacts, operating expenses increased due to higher employee costs and general increases in the cost of goods and services, partially offset by the impact of the Company's focus on controlling costs and improving operating efficiencies and productivity.

Annual amortization costs were $5.8 million (BZ$9.8 million) compared to $6.1 million (BZ$9.7 million) last year. Excluding foreign exchange impacts, annual amortization costs increased due to capital asset growth, partially offset by the recovery of all generation equipment depreciation through the COP, as a result of the July 1, 2005 final tariff Decision.

Finance charges were $6.0 million (BZ$9.9 million) compared to $5.3 million (BZ$8.2 million) last year. The increase was primarily due to higher utilization of overdraft facilities, additional short-term loans to help meet operational needs and lower levels of capitalized interest as a result of delayed capital expenditures, partially offset by foreign exchange impacts.

Foreign exchange gains and losses at Belize Electricity primarily related to foreign currency exchange rate fluctuations associated with Belize Electricity's euro-denominated debt. During 2005, a net $0.4 million (BZ$0.6 million) foreign exchange gain was recorded compared to a net foreign exchange loss of $0.3 million (BZ$0.4 million) last year. Overall, the US dollar strengthened relative to the euro in 2005.

Outlook: The GDP of Belize is estimated to grow almost 4 per cent in 2006. A slowdown in the rate of economic growth, that began in 2005, is expected to continue into 2006. Belize Electricity anticipates energy sales growth in 2006 to be between 6 per cent and 7 per cent, comparable to 2005.

Belize Electricity expects to spend approximately $19.0 million on its 2006 capital program. The 2006 capital program is related to the expansion and maintenance of its electricity systems.

In October 2005, a Threshold Event associated with the CPRSA occurred, at which time the CPRSA reached BZ$27.0 million. In December 2005, the Company submitted an application to the PUC for a tariff adjustment to recover the excess deferrals to the CPRSA and to increase the COP component of rates to reflect actual and forecasted cost of power for the period July 1, 2005 through June 30, 2006. On December 31, 2005, the PUC approved a BZ0.6 cent per kWh increase in electricity rates associated with the recovery of the excess deferrals to the CPRSA and a BZ4.5 cent per kWh increase in the COP component of electricity rates. The result was an overall increase in rates of 13 per cent from BZ39.0 cents per kWh to BZ44.1 cents per kWh, effective January 1, 2006. This increase in electricity rates will have no impact on Belize Electricity's 2006 earnings due to the flow through of cost of power to customers. The PUC also approved a reduction in the Threshold Event level from BZ$6.0 million to BZ$3.0 million and approved that there will be no electricity rate decreases until the CPRSA is fully repaid. At December 31, 2005, the balance in the CPRSA and HCPRSA owing from customers was BZ$29.2 million.

The Company's continued long-term strategy is to mitigate the risk of fuel price increases to customers by diversifying its sources of energy supply. The PPA with the CFE terminates in August 2006. In July 2005, a request for proposals for the provision of 25 MW of baseload generation in 2007 and 15 MW in 2009 was issued to potential independent power producers. Six responses were received by October 31, 2005 and are currently under evaluation by the Company and the PUC. In 2004, Belize Electricity signed a PPA with Hydro Maya Limited to purchase output from a 4-MW run-of-river hydroelectric plant in the Punta Gorda District (southern Belize). This facility is now expected to become operational in August 2006. Additionally, Belize Electricity signed a PPA with Belize Cogeneration Energy Limited in December 2004 for the supply of 13.5 MW of power. This facility is now scheduled to become operational by late 2007.

Caribbean Utilities

At December 31, 2005, the Corporation held a 36.9 per cent interest in Caribbean Utilities. Fortis accounts for its interest in Caribbean Utilities on an equity basis. Equity income is recorded on a lag basis and, therefore, equity income represents the Corporation's share of Caribbean Utilities earnings for the 12 months ended October 31, 2005. The Cayman Island dollar is pegged to the US dollar at CI$1.00 = US$1.20. Equity income was translated at the average exchange rates during the 12-month periods ended October 31, 2005 and October 31, 2004, which were US$1.00 = CDN$1.22 and US$1.00 = CDN$1.32, respectively.

Regulation: Caribbean Utilities operates the only electric utility on Grand Cayman, Cayman Islands pursuant to a 25-year exclusive Licence, expiring in 2011. Under the terms of the Licence, the Company is permitted to earn a rate of return on rate base of 15 per cent and is permitted to flow through fuel costs to customers.

Caribbean Utilities submitted a proposal to the Cayman Islands Government (the "Government") in July 2002 to extend its current Licence and replace the 15 per cent rate of return on rate base mechanism for adjusting customer rates with a price cap mechanism. The non-binding tentative agreement signed by Caribbean Utilities and the Government in June 2004 expired following Hurricane Ivan. The current Licence is still in effect and is scheduled to expire in January 2011 or when replaced by a new Licence by mutual agreement. In May 2005, a new Government was elected in the Cayman Islands and, in November 2005, the Company resumed Licence extension discussions with the new Government with the objective of obtaining a new Licence by the summer of 2006.

Upon submitting its Final Return to Government on July 21, 2005 for its 2005 fiscal year end, Caribbean Utilities determined that, under its current Licence, it was permitted a rate increase of 9.5 per cent, effective August 1, 2005, as a result of substantial costs incurred from Hurricane Ivan. The Company determined, without prejudice to its rights under its existing Licence, that given the post-hurricane economic realities, it would not have been in the best interest

of the Cayman Islands and its residents, or in the longer-term interest of the Company, to implement the rate increase as allowed under the Licence. The Company and the Government agreed on a Cost Recovery Surcharge ("CRS") of US0.89 cents per kWh for each kWh of electricity consumed by customers. The CRS represents a 4.7 per cent average increase in base electricity rates, less than half of the 9.5 per cent permitted under the Licence. The CRS became effective for August 2005 billings and will continue for a period of approximately 3 years. It has also been agreed with the Government that there will be no increases in basic billing rates until July 31, 2008 and no retroactive increases in billing rates are permitted after the CRS has been fully recovered. Caribbean Utilities had direct uninsured hurricane losses of US$14.0 million. By agreement with the Government, Caribbean Utilities will recover US$13.4 million of the US$14.0 million uninsured losses through the CRS. In addition, Caribbean Utilities has agreed to absorb US$3.6 million of indirect costs incidental to the hurricane which will not be recovered from customer rates. These indirect costs were recorded in Caribbean Utilities' fiscal year ended April 30, 2005.

Equity Income: Caribbean Utilities and the Cayman Islands are continuing to recover from the impact of Hurricane Ivan, which struck Grand Cayman in September 2004. Approximately 5 per cent of the Company's pre-Ivan customers remained without electricity at the end of October 31, 2005, with approximately 107 MW of generating capacity restored or leased. The Company expects electricity sales to achieve 100 per cent of pre-Ivan sales by the end of April 2006 and anticipates returning to a total owned capacity of approximately 120 MW by the summer of 2006 compared to 123 MW pre-Ivan.

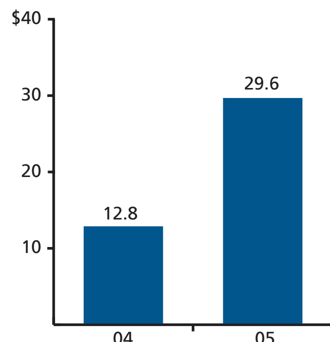
Equity income recorded from Caribbean Utilities increased $10.6 million over equity income recorded in 2004. The increase was primarily due to the impact of Hurricane Ivan on 2004 equity income, which included the Corporation's portion of uninsured hurricane-related costs of approximately $8.2 million. The increase was also due to a $1.1 million positive adjustment related to a change in Caribbean Utilities' accounting practice for recognizing unbilled revenue. While Caribbean Utilities recorded a positive US$2.5 million (CDN$3.0 million) retroactive adjustment to its April 30, 2004 retained earnings, Fortis recorded its share, or $1.1 million, in 2005 equity income. The remaining increase in equity income was due to the recovery in 2005 of 2004 fuel costs that were expensed following Hurricane Ivan, the reduction of hurricane-loss estimates recorded by Caribbean Utilities in its fourth quarter ended April 30, 2005, continued post-hurricane economic recovery, the favourable impact of continuing business interruption loss insurance ("BI") claims and the impact of the CRS effective August 1, 2005. This increase was partially offset by the impact of the depreciation of the US dollar relative to the Canadian dollar compared to last year.

In 2005, the BI claim calculation methodology was agreed to with the insurance adjustors, which is facilitating the monthly calculation of the BI claims by Caribbean Utilities following Hurricane Ivan. The BI claim calculation includes a revenue growth factor of 5.625 per cent with the BI claim being calculated on a contribution margin basis. From the end of the deductible period on October 25, 2004 to the end of October 2005, the Company recorded US$12.4 million in BI insurance claims. Typically, the ultimate recovery under a BI policy is judgmental and subject to negotiations between the insured and the insurance company. Given the subjectivity of the ultimate settlement and the lengthy claim coverage period, many contingencies may exist in the ultimate settlement. To date, US$22.0 million has been received from the insurers in relation to the Company's property damage and BI claims.

Effective August 1, 2005, the CRS was implemented resulting in a US$1.1 million increase in Caribbean Utilities' earnings for the quarter ended October 31, 2005. Approximately US$12.3 million of direct uninsured hurricane losses remains to be collected by Caribbean Utilities from customers through the CRS.

Outlook: The Government is projecting the Cayman Islands economy to grow over 5.0 per cent for the year ended June 30, 2006. The high growth rate in the current year continues to reflect the economic impact of the restoration effort together with international influence. It is expected that the economy will return to more normal growth levels as recovery and restoration work is completed. While visitor arrivals to the Cayman Islands have decreased 7.4 per cent in the first 9 months of 2005 from the same period last year, this is directly related to the temporary shortage of tourist accommodations. This decline is expected to stabilize once the existing stock of visitor accommodations is again fully operational.

Non-regulated – Fortis Generation Earnings
($ millions)



Non-regulated – Fortis Generation

Fortis Generation consists of the Corporation's investment in non-regulated generation assets. The following table provides a summary of the Corporation's non-regulated generation assets by location.

	Plants	Capacity *(MW)*	**2005 Energy Sales** *(GWh)*	2004 Energy Sales *(GWh)*
Central Newfoundland	2	36	**159**	152
Ontario	8	88	**708**	721
British Columbia	1	16	**39**	23
Belize	2	32	**68**	63
Upper New York State	4	23	**75**	69
Total	**17**	**195**	**1,049**	1,028

Earnings: The earnings contribution from Non-regulated Generation operations was $29.6 million, up $16.8 million from $12.8 million last year. Earnings increased primarily due to higher wholesale energy prices in Ontario and a $7.9 million after-tax gain resulting from the settlement of contractual matters between FortisOntario and OPGI.

Energy Sales: Energy sales were 1,049 GWh compared to 1,028 GWh last year. The 21 GWh increase in energy sales was primarily due to a full year of operations of the 16-MW run-of-river Walden hydroelectric plant compared to 7 months in 2004. The Walden plant was acquired upon the Corporation's acquisition of FortisBC on May 31, 2004. The increase was also due to higher production at central Newfoundland, Upper New York State and Belize, partially offset by decreased production in Ontario. Annual energy production was primarily impacted by rainfall levels.

The Chalillo dam in Belize began storing water in July 2005 and the 7-MW hydroelectric plant at the dam commenced generating electricity in September 2005. The facility is expected to double the amount of average annual hydroelectric energy produced in the Belizean operations.

Revenue: Generation revenue was $84.0 million compared to $69.2 million last year. The $14.8 million increase in revenue was driven by higher wholesale energy prices in Ontario. The average annual wholesale energy price per megawatt hour ("MWh") in Ontario was $68.49 compared to $49.95 last year. The increase in revenue was also attributable to higher wholesale energy prices in Upper New York State and an overall increase in production.

Expenses: Operating expenses were $17.8 million compared to $16.1 million last year. The $1.7 million net increase in operating expenses was primarily due to a $1.7 million ($1.1 million after-tax) writedown of Rankine assets, $0.5 million of costs associated with an early retirement program at FortisOntario and the impact of the full year of operations of the Walden plant, partially offset by a $1.4 million reduction in the allocation of shared-service costs to non-regulated Ontario generation operations resulting from a recent internal cost allocation study. The Rankine assets were written down as a result of the implementation of the Niagara Exchange Agreement ("NEA"). The NEA assigns FortisOntario's water rights on the Niagara River to OPGI and facilitates the irrevocable exchange of 75 MW of wholesale electric power supply to FortisOntario from OPGI until April 30, 2009 in exchange for FortisOntario's agreement not to seek renewal of the water entitlement at that time.

Finance charges were $14.0 million compared to $15.4 million last year. The $1.4 million decrease in finance charges was primarily due to the repayment of a $22.5 million term loan in the second quarter of 2005 associated with the Ontario operations.

Outlook: Fortis expects to pursue opportunities associated with non-regulated hydroelectric operations in 2006 as well as continue to develop and enhance existing operations.

Non-regulated – Fortis Properties

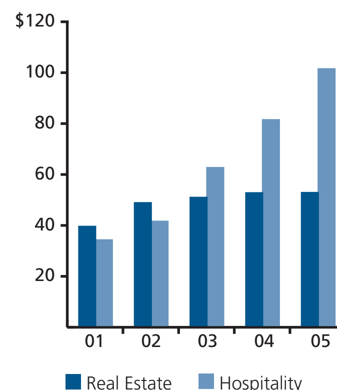
Fortis Properties consists of the Corporation's investment in non-regulated real estate and hospitality assets.

Earnings: Earnings were $14.1 million compared to $11.8 million last year. The increase in earnings was due to higher earnings from operations, including contributions from the 3 hotels acquired in Alberta and Manitoba in February 2005 and the expanded Delta St. John's Hotel operations, partially offset by increased amortization and finance charges. The $15 million expansion to the Delta St. John's Hotel was completed on June 1, 2005, 1 month ahead of schedule, and resulted in the addition of 128 rooms and approximately 3,000 square feet of meeting space.

	Revenue		Operating Income[(1)]	
($ millions)	**2005**	2004	**2005**	2004
Real Estate	**52.9**	52.8	**26.8**	27.3
Hospitality	**101.5**	81.5	**27.6**	19.8
Total	**154.4**	134.3	**54.4**	47.1

[(1)] Earnings before interest, taxes and amortization

Real Estate Division: Real Estate revenue was $52.9 million, comparable to last year. The occupancy level in the Real Estate Division was 95.9 per cent at December 31, 2005, up from 95.0 per cent at December 31, 2004. The national occupancy level for the real estate sector was 90.8 per cent as at December 31, 2005. Exposure to lease expiries averages approximately 9 per cent per annum over the next 5 years.



Operating expenses were $26.1 million compared to $25.5 million last year. Higher electricity costs and property taxes were the main contributors to the increased operating expenses.

In 2005, the Company started the estimated $7.2 million expansion of the Blue Cross Centre in Moncton, which is scheduled for completion by mid-2006. Approximately half of the Blue Cross Centre expansion is pre-leased. Approximately $2.1 million was capitalized in 2005 related to this expansion.

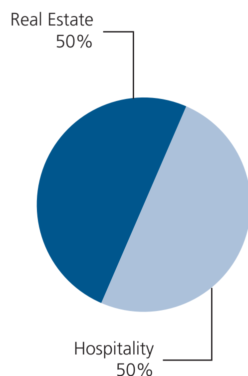
Hospitality Division: Hospitality revenue was $101.5 million compared to $81.5 million last year. The growth was primarily attributable to the acquisition of the 3 hotels in Manitoba and Alberta in February 2005 and the expanded Delta St. John's Hotel operations. Revenue per available room ("REVPAR") for 2005 was $70.95 compared to $70.72 last year. The slight increase in REVPAR was primarily due to a small increase in average room rate combined with consistent occupancy compared to last year.

Operating expenses were $73.9 million in 2005 compared to $61.7 million last year. The increase was mainly due to the 3 hotels acquired in February 2005 and the expanded operations of the Delta St. John's Hotel.

In 2005, Fortis Properties commenced an estimated $7.7 million 64-room expansion of the Holiday Inn Sarnia and an estimated $2.5 million, 11,000-square foot expansion to the Holiday Inn Kitchener-Waterloo, primarily associated with expanded catering and conference facilities. Capital expenditures related to these expansions were $4.6 million in 2005, with completion expected by mid-2006.

Other Expenses: Amortization and finance charges increased $1.5 million and $1.9 million, respectively, from last year primarily due to the 3 hotels acquired in February and the expanded operations of the Delta St. John's Hotel. Increased finance charges were partially offset by the impact of lower principal balances on scheduled debt.

Fortis Properties 2005 Asset Mix



Outlook: The revenue and earnings impact from the 3 Greenwood Inn hotels in Manitoba and Alberta and the expanded operations of the Delta St. John's Hotel, Holiday Inn Sarnia, Holiday Inn Kitchener-Waterloo and Blue Cross Centre in Moncton are expected to provide the primary sources of growth in 2006. Growth will be somewhat tempered due to upward pressure on operating expenses.

The Real Estate Division operates in 3 provinces in Atlantic Canada, with properties located in large regional markets that contain a broad economic base. The buildings are occupied by a diversified tenant base characterized by long-term leases with staggered maturity dates to reduce the risk of vacancy exposure. There is continued focus in this Division on a strategy of early tenant renewals.

The Hospitality Division currently operates in 6 provinces in Canada. This Division competes in the mid- to upper-mid-market which targets a large customer base, allowing the Company to reduce exposure to risk associated with a specific market segment.

Corporate

The Corporate segment captures a number of expense and revenue items not specifically related to any operating segment. Included in the Corporate segment are finance charges related to debt incurred directly by Fortis, including foreign exchange gains or losses, preference share dividends, other corporate expenses, net of recoveries from subsidiaries, miscellaneous revenues and corporate income taxes.

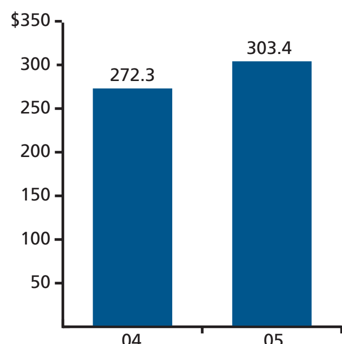
Net corporate expenses totalled $30.8 million, $9.3 million higher than last year. The increase primarily related to higher finance charges, including amortization of deferred acquisition financing costs, increased preference share dividends and higher operating expenses. The increase in finance charges primarily related to the acquisition of the utilities in western Canada, partially offset by lower short-term interest expense. On October 28, 2004, Fortis issued by way of private placement to US-based institutional investors US$150 million of 10-year 5.74% Senior Unsecured Notes due October 31, 2014. The proceeds were used to repay certain of the Corporation's short-term acquisition facilities. Preference share dividends increased due to a full year of dividends paid on the 4.9% Series E First Preference Shares. On January 29, 2004, Fortis issued 4.9% First Preference Units which were subsequently converted to 4.9% Series E First Preference Shares in the last half of 2004. Operating expenses were higher than last year due to a $1.2 million charge ($0.8 million after-tax) associated with the finalization of certain restructuring costs related to the western Canada utilities which had not been provided for in the acquisition purchase price, certain non-recurring acquisition-related costs and increased professional fees, partially offset by decreased pension costs as a result of assumption changes for 2005.

Annual net corporate expenses for 2004 were also positively impacted as Fortis recorded a $1.8 million corporate income tax recovery related to the tax benefit associated with non-capital losses.

Consolidated Financial Position

The following table outlines the significant changes in the consolidated balance sheets between December 31, 2005 and December 31, 2004.

($ millions)	**Increase (Decrease)**	**Explanation**
Accounts receivable	13.6	The increase primarily related to the timing of refunds to customers in 2004 at FortisAlberta and increased accounts receivable balances in 2005 at FortisAlberta due to the increase in distribution electricity rates and higher amounts receivable from customers for contributions in aid of construction.
Regulatory assets (current and long-term)	24.3	The increase primarily related to higher transmission cost deferrals at FortisAlberta, increased RSA balances at Belize Electricity and increased deferred other post-employment benefit plan costs at Newfoundland Power, partially offset by decreased ECAM balances at Maritime Electric.
Future income tax assets (long-term)	45.2	The increase primarily related to the recognition of future income taxes as a result of the change in 2005 in the regulatory tax methodology at FortisAlberta.
Utility capital assets	234.4	The increase related to $424.8 million invested in electricity systems less contributions in aid of construction and amortization.
Income producing properties	73.5	On February 1, 2005, Fortis Properties acquired 3 hotels in Alberta and Manitoba for approximately $63 million. The remaining increase primarily related to the expansions of the Delta St. John's Hotel, the Holiday Inn Sarnia and the Blue Cross Centre in Moncton, partially offset by amortization.
Goodwill	(1.9)	Goodwill was reduced by $2.6 million upon the recognition of a future tax asset as a result of a favourable CRA reassessment at Cornwall Electric. A further reduction of $0.5 million was a result of the finalization of certain restructuring cost accruals associated with the acquisition of FortisAlberta and FortisBC. This decrease was partially offset by $1.2 million of goodwill created upon the acquisition of PLP on May 31, 2005.
Short-term borrowings	(133.0)	The decrease primarily related to the repayment of short-term borrowings at the Corporate level with partial proceeds from the March 2005 $130 million common share issue, repayment of short-term facilities at Newfoundland Power, Fortis Properties and FortisBC, partially offset by higher short-term borrowings at Maritime Electric primarily to fund its utility capital expenditure program.
Income taxes payable	20.4	The increase primarily related to the timing of income tax instalments at FortisAlberta and increased income taxes payable at Maritime Electric.
Deferred credits	9.4	The increase primarily related to higher accrued other post-employment benefit plan obligations at Newfoundland Power and FortisBC.
Regulatory liabilities (long-term)	51.9	The increase primarily related to a regulatory liability associated with the future income tax asset increase at FortisAlberta.
Long-term debt and capital lease obligations (including current portion)	215.3	In March 2005, Fortis Properties completed a 5-year 5.1% $29.6 million financing of the Edmonton and Calgary Greenwood Inns, acquired in February 2005. In April 2005, Fortis Properties completed a 5-year 5.35% $12.3 million financing of the Winnipeg Greenwood Inn, also acquired in February 2005. FortisBC, FortisAlberta and Corporate drew down $70.0 million, $56.8 million and $18.0 million, respectively, under term credit facilities. The borrowings at FortisBC and FortisAlberta were primarily associated with the interim financing of each subsidiary's respective capital program. The borrowings at Corporate were primarily to fund equity injections in certain subsidiaries. These term credit facilities have a 3-year term and mature in May 2008. FortisBC repaid these borrowings using a portion of the proceeds from the issue of 5.6% $100 million Senior Unsecured Debentures due November 9, 2035. The remainder of the proceeds from the FortisBC debenture issue was used for working capital purposes. Similarly, the borrowings under the 3-year term credit facilities at FortisAlberta and Corporate will likely be replaced with long-term permanent financing in future periods. In August 2005, Newfoundland Power closed a private placement of $60 million bonds. The net proceeds from the private placement were used to repay short-term indebtedness and for general corporate purposes. On May 31, 2005, $4.0 million in debt was assumed on the acquisition of PLP. This long-term debt was refinanced in September 2005 using revolving credit facilities. These increases were partially offset by the impact of the translation of the Corporation's US dollar-denominated debt at a lower foreign exchange rate at December 31, 2005 compared to December 31, 2004 and regular debt repayments during the year. Additionally, during the second quarter, FortisOntario repaid its $22.5 million term loan due in 2007.
Shareholders' equity	213.3	The increase primarily related to the issuance of 6.96 million common shares of the Corporation (adjusted for stock split) in March 2005 for gross proceeds of approximately $130 million and proceeds from shares issued under the Corporation's share purchase, dividend reinvestment and stock option plans. The remainder of the increase primarily related to net earnings reported for the year, less common share dividends.



Liquidity

The following table outlines the summary of cash flows.

($ millions)	2005	2004
Cash and cash equivalents, beginning of year	**37.2**	65.1
Cash provided by (used in)		
Operating activities	**303.4**	272.3
Investing activities	**(466.9)**	(1,026.3)
Financing activities	**159.9**	726.5
Foreign currency impact on cash balances	**(0.2)**	(0.4)
Cash and cash equivalents, end of year	**33.4**	37.2

Operating Activities: Cash flow from operations, after working capital adjustments, was $303.4 million, up $31.1 million from $272.3 million last year. The increase was driven by a full year of earnings contributions from FortisAlberta and FortisBC, compared to 7 months in 2004, and a higher earnings contribution from Non-regulated Generation in 2005, including the gain on the settlement of contractual matters between FortisOntario and OPGI. This increase was partially offset by changes in working capital, primarily at FortisAlberta and FortisBC. An increase in regulatory assets in the western Canada utilities in 2005 was partially offset by higher income taxes payable at FortisAlberta. Additionally, working capital in 2004 was favourably impacted by the return of funds on deposit at FortisAlberta.

Investing Activities: Cash used in investing activities during 2005 was $466.9 million, down $559.4 million from last year. The decrease was primarily due to less cash used in business acquisitions, partially offset by increased utility and income producing capital expenditures.

Utility capital expenditures were $424.8 million compared to $262.5 million last year. The increase was primarily related to capital spending at FortisAlberta and FortisBC. In addition, Maritime Electric continued the construction of the $35 million 50-MW generating facility on PEI during 2005 and construction of the Chalillo Project in Belize was completed in the second half of 2005.

Capital expenditures for income producing properties were $83.9 million compared to $16.1 million last year. The increase primarily related to the acquisition of 3 hotels in Alberta and Manitoba for approximately $63 million in February 2005, the completion of the $15 million expansion to the Delta St. John's Hotel in June 2005 and the commencement of expansions of the Holiday Inn Sarnia and the Blue Cross Centre in Moncton.

Contributions in aid of construction were $45.1 million compared to $17.1 million last year. The increase primarily related to the capital expenditure programs of FortisAlberta and FortisBC.

During 2005, cash used in business acquisitions related to the purchase of PLP on May 31, 2005 while cash used in business acquisitions during 2004 related to the purchase of FortisAlberta and FortisBC and the acquisition of the remaining 5 per cent interest in BECOL from the Social Security Board of the Government of Belize.

Financing Activities: Cash provided from financing activities in 2005 was $159.9 million compared to $726.5 million last year. Cash provided from financing activities in 2005 primarily related to net borrowings under long-term debt facilities at Newfoundland Power, FortisAlberta and FortisBC to fund respective capital programs, the issuance in March 2005 of 6.96 million common shares (adjusted for stock split) of the Corporation, which resulted in net after-tax proceeds of $126.1 million, and borrowings to finance the acquisition of the 3 Greenwood Inn hotels in February 2005, partially offset by the payment of common share dividends, the repayment by FortisOntario of its $22.5 million term loan, regular repayments of long-term debt and net repayments of short-term indebtedness. During 2005, FortisAlberta and FortisBC drew down $56.8 million and $70.0 million, respectively, under 3-year term credit facilities while Corporate drew down $18.0 million. Borrowings under term credit facilities at FortisAlberta and FortisBC were primarily associated with the interim financing of capital expenditure programs. The borrowings at Corporate were primarily to fund equity injections in certain subsidiaries. In August 2005, Newfoundland Power closed a private placement

of 30-year 5.441% $60 million first mortgage sinking fund bonds. The net proceeds from the private placement were used to repay short-term indebtedness and for general corporate purposes. Also, a portion of the net proceeds of the March 2005 common share issue were used to repay certain Corporate short-term indebtedness. In November 2005, FortisBC issued 30-year 5.6% $100 million Senior Unsecured Debentures of which $70.0 million was used to repay borrowings under the 3-year term credit facility. In April 2005, Fortis Properties completed a 5-year 5.35% $12.3 million loan related to the acquisition of the Winnipeg Greenwood Inn. This loan was in addition to the 5-year 5.1% $29.6 million loan related to the financing of the Edmonton and Calgary Greenwood Inns completed in the first quarter. Additionally, $4.0 million in debt was assumed on the acquisition of PLP on May 31, 2005. This long-term debt was refinanced in September 2005 using revolving credit facilities.

Cash provided from financing activities in 2004 primarily related to financings associated with the acquisition of FortisAlberta and FortisBC. During 2004, approximately $1,281.4 million in net proceeds was secured from the issuance of preference shares, common shares and long-term debt, of which $557.4 million was used to repay assumed acquisition debt. The remaining financing activities primarily related to short-term borrowings and regular repayment of long-term debt and payment of common share dividends.

Contractual Obligations: The consolidated contractual obligations over the next 5 years and for periods thereafter, as at December 31, 2005, are outlined in the following table.

($ millions)	**Total**	< 1 year	1–3 years	4–5 years	> 5 years
Long-term debt	**2,126.4**	29.9	164.2	226.6	1,705.7
Brilliant Terminal Station ("BTS")[(1)]	**68.1**	2.5	4.9	4.9	55.8
Power purchase obligations					
FortisBC[(2)]	**2,917.1**	37.7	72.2	74.0	2,733.2
FortisOntario[(3)]	**344.3**	21.3	64.5	46.7	211.8
Maritime Electric[(4)]	**4.0**	4.0	–	–	–
Capital cost[(5)]	**454.5**	20.0	47.9	39.1	347.5
Joint-use asset and shared service agreements[(6)]	**63.8**	3.7	11.2	6.5	42.4
Operating lease obligations[(7)]	**21.0**	4.4	10.6	5.4	0.6
Office lease – FortisBC[(8)]	**22.3**	0.9	1.9	2.7	16.8
Other	**5.7**	1.5	2.9	0.1	1.2
Total	**6,027.2**	125.9	380.3	406.0	5,115.0

(1) On July 15, 2003, FortisBC began operating the BTS under an agreement the term of which expires in 2056 (unless the Company has earlier terminated the agreement by exercising its right, at any time after the anniversary date of the agreement in 2029, to give 36 months' notice of termination). The agreement provides that FortisBC will pay a charge related to the recovery of the capital cost of the BTS and related operating expenses.

(2) Power purchase obligations of FortisBC include the Brilliant Power Purchase Contract as well as Firm Power Purchase Contracts. On May 3, 1996, an Order was granted by the BCUC approving a 60-year power purchase contract for the output of the Brilliant hydroelectric plant located near Castlegar, British Columbia. The Brilliant plant is owned by the Brilliant Power Corporation ("BPC"), a corporation owned as to 50 per cent by each of the Columbia Power Corporation and the Columbia Basin Trust. FortisBC operates and maintains the Brilliant plant for the BPC in return for a management fee. The contract requires fixed monthly payments based on specified natural flow take-or-pay amounts of energy. The contract includes a market-related price adjustment after 30 years of the 60-year term. In addition, FortisBC has a long-term minimum-payment firm power purchase contract with BC Hydro, which expires in 2013. This contract includes a take-or-pay provision based on a 5-year rolling nomination of capacity requirements.

(3) Power purchase obligations for FortisOntario primarily include a long-term take-or-pay contract between Cornwall Electric and Hydro-Québec Energy Marketing for the supply of electricity and capacity. The contract provides approximately 237 GWh of energy per year and up to 45 MW of capacity at any one time. The contract, which

expires on December 31, 2019, provides approximately one-third of Cornwall Electric's load. Cornwall Electric also has a 1-year contract in place with Hydro-Québec Energy Marketing, which expires on June 30, 2006. This take-or-pay contract provides energy on an as-needed basis, but charges for 100 MW of capacity at $0.14 million per month.

(4) Maritime Electric has 1 take-or-pay contract for the purchase of either capacity or energy. This contract totals approximately $4.0 million through October 2006.

(5) Maritime Electric has entitlement to approximately 6.7 per cent of the output from the NB Power Dalhousie Generating Station and approximately 4.7 per cent from the NB Power Point Lepreau Generating Station for the life of each unit. As part of its participation agreement, Maritime Electric is required to pay its share of the capital costs of these units.

(6) FortisAlberta and an Alberta transmission service provider have entered into an agreement in consideration for joint attachments of distribution facilities to the transmission system. The expiry terms of this agreement state that the agreement remains in effect until the Company no longer has attachments to the transmission facilities. Due to the unlimited term of this contract, the calculation of future payments after 2010 includes payments to the end of 20 years. However, the payments under this agreement may continue for an indefinite period of time. FortisAlberta and an Alberta transmission service provider have also entered into a number of service agreements to ensure operational efficiencies are maintained through coordinated operations. The service agreements have minimum expiry terms of 5 years from September 1, 2005 and are subject to extension based on mutually agreeable terms.

(7) Operating lease obligations include certain office, vehicle and equipment leases as well as the lease of electricity distribution assets of Port Colborne Hydro Inc.

(8) Under a sale-leaseback agreement, on September 29, 1993, FortisBC began leasing its Trail, British Columbia office building for a term of 30 years. The terms of the agreement grant FortisBC repurchase options at approximately year 20 and year 28 of the lease term. On December 1, 2004, FortisBC also entered into a 5-year lease for the Kelowna, British Columbia head office. The terms of the lease allow for termination without penalty after 3 years.

Capital Resources

The Corporation's principal business of regulated electric utilities requires Fortis to have ongoing access to capital to allow it to build and maintain the electricity systems in its service territories. In order to ensure access to capital is maintained, the Corporation targets a long-term capital structure that includes a minimum of 40 per cent equity and 60 per cent debt as well as investment grade credit ratings. The Corporation targets the equity component of its capital structure to consist of at least 75 per cent common share equity. The capital structure of Fortis is presented in the following table.

	December 31, 2005		December 31, 2004	
	($ millions)	*(%)*	*($ millions)*	*(%)*
Total debt and capital lease obligations (net of cash)	**2,182.5**	**58.7**	2,096.4	61.4
Preference shares	**319.5**	**8.6**	319.5	9.4
Shareholders' equity	**1,213.4**	**32.7**	1,000.1	29.2
Total	**3,715.4**	**100.0**	3,416.0	100.0

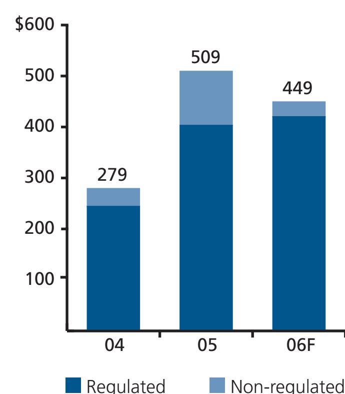
The improvement in the Corporation's capital structure is primarily the result of the issuance of 6.96 million common shares of the Corporation (adjusted for stock split) for net after-tax proceeds of $126.1 million in March 2005. The proceeds were used to repay outstanding short-term indebtedness and for general corporate purposes, including capital expenditures. The Corporation also reported net earnings less common share dividends of $74.7 million for 2005 compared to $42.0 million for 2004. Earnings growth in 2005 allowed the Corporation to increase its common share dividends to $62.4 million, or 59 cents per common share, compared to $48.8 million, or 54 cents per common share, in 2004. Fortis has increased its annual dividend payments to common shareholders for 32 consecutive years. The dividend payout ratio was 43.7 per cent compared to 50.3 per cent for 2004.

As at December 31, 2005, the Corporation's credit ratings were as follows:

Standard & Poor's ("S&P")	BBB(+)
Dominion Bond Rating Service ("DBRS")	BBB(high)

In December 2005, S&P confirmed its corporate credit rating on the Corporation at BBB(+) and revised its outlook from negative to stable. The outlook was revised based on greater stability in the business and financial risk profiles of Fortis and reduced concern surrounding the level of operational and funding risk involved with the Corporation's major capital expenditure program. In February 2006, DBRS confirmed the rating on the Corporation's bonds at BBB(high). Fortis will continue to update both S&P and DBRS on the execution of its capital expenditure program.

2006 Capital Program: The Corporation's principal business of regulated electric utilities is capital intensive. Consolidated gross capital expenditures of Fortis for 2006 are expected to be almost $450 million, of which approximately $420 million will be invested in regulated electric utilities. Approximately 76 per cent of the $420 million investment in regulated electric utilities will be attributable to FortisAlberta and FortisBC. The Corporation's total utility capital assets are expected to grow at an average annual rate of approximately 6 per cent for the next 5 years. The significant capital programs at FortisAlberta and FortisBC are the primary drivers of this expected growth. The cash needed to complete the capital programs is expected to be supplied by a combination of long-term and short-term borrowings, internally generated funds and common share issuances under existing consumer and employee share purchase plans, dividend reinvestment plan and stock option plans. Fortis does not anticipate any difficulties with accessing the required capital.



Cash Flows: The Corporation's ability to service debt obligations as well as dividends on its common and preference shares is dependent on the financial results of the operating subsidiaries and the related cash payments from these subsidiaries. Certain regulated subsidiaries may be subject to restrictions which may limit their ability to distribute cash to Fortis.

At December 31, 2005, Belize Electricity was non-compliant with its debt service coverage ratio of 1.5 times related to its BZ$10.6 million loan with the International Bank for Reconstruction and Development ("IBRD") and its BZ$17.9 million loan with the Caribbean Development Bank. A waiver was obtained for December 2005 from the IBRD. Discussions with the Caribbean Development Bank are ongoing with a view to cure and/or amend the covenants. Fortis does not expect any change in the regular debt repayment schedule relating to these loans.

The Corporation and its subsidiaries had consolidated authorized lines of credit of $747.1 million, of which $538.8 million was unused at December 31, 2005. The following summary outlines the Corporation's credit facilities by reporting segments as at December 31.

($ millions)	Corporate	Regulated Utilities	Fortis Generation	Fortis Properties	**Total 2005**	Total 2004
Total credit facilities	210.0	518.8	5.8	12.5	**747.1**	543.2
Credit facilities utilized						
Short-term borrowings	(2.8)	(53.9)	(2.8)	(0.4)	**(59.9)**	(192.9)
Long-term debt	(18.0)	(56.8)	–	–	**(74.8)**	–
Letters of credit outstanding	(4.6)	(66.8)	–	(2.2)	**(73.6)**	(91.0)
Credit facilities available	184.6	341.3	3.0	9.9	**538.8**	259.3

At December 31, 2005, certain borrowings under the Corporation's credit facilities have been classified as long-term debt. These borrowings are under long-term credit facilities and management's intention is to refinance these borrowings with long-term permanent financing during future periods.

In January 2005, Fortis entered into a $50 million unsecured revolving/term credit facility for its general corporate purposes, including acquisitions. In May 2005, Fortis renegotiated its $145 million unsecured revolving/term credit facility to a $145 million unsecured term credit facility that matures in May 2008. This facility can be used for general corporate purposes, including acquisitions. In December 2005, Fortis renegotiated its $50 million unsecured revolving/term credit facility to an unsecured term credit facility that matures in January 2009. Fortis also entered into a $15 million demand facility during 2005.

In January 2005, Newfoundland Power cancelled its $110 million uncommitted lines of credit and entered into a syndicated $100 million committed/revolving term credit facility and a $20 million uncommitted demand facility. In January 2006, the Company renegotiated the $100 million credit facility, extending the term from 1 year to 3 years.

In January 2005, Maritime Electric entered into a $25 million non-revolving unsecured short-term bridge financing, due January 2006, to support the construction of its 50-MW generating facility. In January 2006, this $25 million short-term bridge financing was extended until June 2007.

In May 2005, FortisAlberta renegotiated its $100 million unsecured revolving/term credit facility to a $150 million unsecured term credit facility that matures in May 2008.

In May 2005, FortisBC renegotiated its $100 million unsecured revolving/term credit facility to a $100 million unsecured term credit facility that matures in May 2008. Additionally, in May 2005 FortisBC entered into a $50 million unsecured revolving/term credit facility.

In September 2005, PLP entered into $5.4 million of credit facilities consisting of a $0.7 million revolving demand operating line and a $4.7 million non-revolving demand instalment loan.

Off-balance Sheet Arrangements

Disclosure is required of all off-balance sheet arrangements such as transactions, agreements or contractual arrangements with unconsolidated entities, structured finance entities, special purpose entities or variable interest entities that are reasonably likely to materially affect liquidity or the availability of, or requirements for, capital resources. The Corporation had no such off-balance sheet arrangements as at December 31, 2005.

Related Party Transactions

Related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. The significant related party transactions primarily related to the sale of energy from BECOL to Belize Electricity and finance charges on inter-company borrowings. The significant related party transactions for the years ended December 31, 2005 and 2004 are detailed below.

($ millions)	**2005**	2004
Sales from BECOL to Belize Electricity	**8.2**	8.1
Inter-company finance charges on borrowings from:		
Corporate to FortisBC	**–**	2.4
Corporate to Fortis Properties	**3.8**	1.9
Corporate to BECOL	**2.2**	1.9
BECOL to Belize Electricity	**2.3**	2.1

Business Risk Management

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

Regulation: The Corporation's key business risk is regulation. Total regulated assets were approximately 84 per cent of total assets at December 31, 2005 (December 31, 2004 – 83 per cent). Each of the Corporation's utilities is subject to some form of regulation which can impact future revenues and earnings. Management at each operating utility is

responsible for working closely with the regulators and local governments to ensure both compliance with existing regulations and the proactive management of regulatory issues.

Approximately 84 per cent of the Corporation's operating revenue and equity income was derived from regulated utility operations in 2005 (2004 – 83 per cent), while approximately 74 per cent of the Corporation's operating earnings was derived from regulated utility operations in 2005 (2004 – 78 per cent). These regulated operations – Newfoundland Power, Maritime Electric, FortisOntario, FortisAlberta, FortisBC and Belize Electricity – are subject to the normal uncertainties faced by regulated companies. These uncertainties include approvals by the PUB, IRAC, OEB, AEUB, BCUC and PUC, as applicable, of customer rates that permit a reasonable opportunity to recover on a timely basis the estimated costs of providing services, including a fair return on rate base. The ability of the utilities to recover the actual costs of providing services and to earn the approved rates of return depends on achieving the forecasts established in the rate-setting process. Upgrades of existing facilities and the addition of new facilities require the approval of the regulators. There is no assurance that capital projects perceived as required by the management of the utilities will be approved or that conditions to such approvals will not be imposed. Capital cost overruns relative to such approvals granted might not be recoverable.

Rate applications that establish revenue requirements may be subject to negotiated settlement procedures as well as pursued through public hearing processes. In 2005, significant regulatory rate decisions were received at Maritime Electric, FortisAlberta, FortisBC, Belize Electricity and Caribbean Utilities which reduced regulatory risk for 2005. Additionally, in January 2006, Newfoundland Power received approval from the PUB of its final 2006 electricity rates, which remain unchanged from 2005. In September 2005, Canadian Niagara Power made application to the OEB for new electricity distribution rates effective May 1, 2006. In order to establish 2006 rates, FortisBC filed a GRA with the BCUC on November 24, 2005. FortisBC's application seeks approval of a 5.9 per cent rate increase effective January 1, 2006. Within the 2006 rate application, FortisBC also proposes a new PBR mechanism. FortisBC is proposing that the application be disposed of through a negotiated settlement process. FortisAlberta filed a full 2006/2007 Distribution Tariff Application on December 12, 2005 pertaining to 2006 and 2007 customer electricity rates and capital expenditures. As well, on January 31, 2006, Maritime Electric filed a GRA for electricity rates effective July 1, 2006. There can be no assurance that rate orders issued will permit these utilities to recover all costs actually incurred and to earn the expected rates of return. A failure to obtain acceptable rate orders may adversely affect the business carried on by each of these utilities, the undertaking or timing of proposed expansion projects, the issue and sale of securities, ratings assigned by rating agencies and other matters which may, in turn, negatively impact the Corporation's results of operations or financial position.

Although Fortis considers the regulatory frameworks in each of the jurisdictions to be fair and balanced, uncertainties do exist at the present time. Regulatory frameworks in Ontario and Alberta have undergone significant changes since the deregulation of new generation and the introduction of retail competition. The regulations and market rules in these jurisdictions which govern the competitive wholesale and retail electricity markets are relatively new and there may be significant changes in these regulations and market rules that could adversely affect the ability of FortisOntario and FortisAlberta to recover costs or to earn reasonable returns on capital. As these companies and their applicable regulators work through the regulatory process associated with the recently submitted GRAs, it is anticipated that more certainty will be gained concerning the evolving regulatory frameworks and environments.

Currently, although all of the Corporation's regulated utilities operate under traditional cost of service methodologies, their regulators are utilizing, to varying degrees, PBR and other rate-setting mechanisms such as automatic rate of return formulas which could adversely affect the ability of the utilities to earn reasonable returns on capital.

Generally, allowed returns for regulated utilities in North America are exposed to changes in the general level of interest rates. Earnings of such regulated utilities are exposed to changes in interest rates associated with rate-setting mechanisms. The rate of return is either directly impacted through automatic adjustment mechanisms or indirectly through regulatory determinations of what constitutes appropriate returns on investment. Automatic adjustment mechanisms currently exist at Newfoundland Power, FortisAlberta and FortisBC.

Integration and Separation of FortisAlberta and FortisBC: Risks associated with integrating and separating the operations of FortisAlberta and FortisBC were reduced in 2005. Integration of FortisAlberta and FortisBC into the Fortis Group continued during 2005. The separation of the 2 companies was substantially completed in 2005, ahead of schedule, with both companies having established separate management teams and boards of directors. FortisBC has also established a locally based head office in Kelowna, British Columbia and has transitioned most of its business functions from FortisAlberta. The final step, however, will be the repatriation of information technology systems, which is expected to be completed in late 2006 or early 2007.

Derivative Instruments and Hedging: The Corporation manages its financial exposures in accordance with its risk management policy and procedures. Derivative instruments, such as interest rate swaps, are used only to manage risk and not for trading purposes. The Corporation designates each derivative instrument as a hedge of specific assets or liabilities on the balance sheet and assesses, both at the hedge's inception and on an ongoing basis, whether the hedging transactions are effective in offsetting changes in cash flows of the hedged items. Payments or receipts on derivative instruments that are designated and effective as hedges are recognized concurrently with, and in the same financial category as, the hedged item. If a derivative instrument is terminated or ceases to be effective as a hedge prior to maturity, the gain or loss at that date is deferred and recognized in income concurrently with the hedged item. Subsequent changes in the value of the financial instrument are reflected in income. If the designated hedged item is sold, extinguished or matures prior to the termination of the related derivative instrument, the gain or loss at that date on such derivative instrument is recognized in income.

Fortis manages interest rate risk by locking in interest rates for long periods through fixed-rate debt and interest rate swap contracts. The Corporation's interest rate swap contract, as outlined in Note 10 to the 2005 Fortis Inc. Annual Consolidated Financial Statements, is accounted for as a hedge against the long-term debt. The change in the market value of the interest rate swap contract, which will fluctuate over time, is not recognized until future interest payments are made. The Corporation's interest rate hedging programs are typically unaffected by changes in market conditions, as interest rate swaps are generally held to maturity consistent with the objective to lock in interest rate spreads on the hedged item. Approximately 80 per cent of the Corporation's long-term debt facilities and capital lease obligations have maturities beyond 5 years. The Corporation's exposure to interest rate risk is associated with short-term borrowings and other variable interest credit facilities. The following table outlines the nature of the Corporation's debt as at December 31, 2005.

	($ millions)	*(%)*
Short-term borrowings	**59.9**	**2.7**
Utilized variable rate credit facilities classified as long-term	**74.8**	**3.4**
Other long-term debt and capital lease obligations (including current portion)	**2,081.3**	**93.9**
Total	**2,216.0**	**100.0**

The Corporation's earnings from its foreign investments are exposed to changes in US exchange rates. However, the Corporation has effectively decreased its exposure to foreign currency exchange rate fluctuations through the use of US dollar borrowings. As a result of the Corporation's hedging strategy, the estimated annual sensitivity to each 4-cent increase in the US exchange rate will result in a 1-cent increase in the Corporation's earnings per common share.

The Corporation's earnings are also impacted by foreign currency exchange rate fluctuations associated with the translation of its US dollar borrowings. Fortis has US$170 million in US dollar-denominated debt. Approximately US$115 million has been designated as a hedge against the Corporation's net foreign investments as at December 31, 2005 (December 31, 2004 – US$90 million). Net foreign investments of Fortis exclude its investment in Caribbean Utilities as the earnings of Caribbean Utilities are accounted for by the equity method of accounting and do not qualify for accounting purposes as a net foreign investment. As a result, the remaining US$55 million at December 31, 2005 (December 31, 2004 – US$80 million) has not been designated as a hedge and the fluctuations in the carrying value of this debt as a result of foreign currency exchange rate fluctuations will be recorded in income each reporting period. At the end of each reporting period, the estimated sensitivity to each 4-cent increase in the US exchange rate will result in a 2-cent decrease in the Corporation's earnings per common share.

Energy Prices: The Corporation's primary exposure to changes in energy prices relates to its non-regulated generation sales in Ontario. Electricity is sold to the Independent Electricity System Operator at market prices. The sensitivity of the Corporation's earnings to each $1 per MWh change in the annual wholesale market price of electricity is expected to be $0.4 million. Energy sales from the non-regulated generation assets in central Newfoundland, British Columbia, Upper New York State and Belize are sold under medium- and long-term specified-price contracts.

Economic Conditions: Typical of electric utilities, the general economic conditions of the Corporation's service territory influence electricity sales. Electricity sales are influenced by economic factors such as changes in employment levels, personal disposable income, energy prices and housing starts.

Fortis also holds investments in both commercial real estate and hotel properties. The hotel properties, in particular, are subject to operating risks associated with industry fluctuations and possible downturns. The high quality of the real estate and hotel assets, strength of its brands and commitment to productivity improvement reduce the exposure to industry fluctuations and possible downturns. Fortis Properties' real estate investments are also anchored by high-quality tenants with long-term leases. Exposure to lease expiries averages approximately 9 per cent per annum over the next 5 years. With the addition of the hotels in Manitoba and Alberta in February 2005, approximately 51 per cent of Fortis Properties' operating earnings were derived from hotel investments in 2005. Management believes that, based on the nature of its business, the Corporation is not exposed to a significant reduction in revenues. A 5 per cent decrease in revenues from the Hospitality Division would reduce earnings by approximately $1.1 million.

Loss of Service Area: FortisAlberta serves a number of direct customers that reside within various municipalities throughout its service areas. From time to time, municipal governments in Alberta give consideration to creating their own electric distribution utilities by purchasing the assets of FortisAlberta that are located within their municipal boundaries. Upon the termination of its franchise agreement, a municipality has the right, subject to AEUB approval, to purchase FortisAlberta's assets within its municipal boundaries pursuant to the *Municipal Act* (Alberta). Under the *Hydro Act* (Alberta), if a municipality that owns an electric utility expands its boundaries, such municipality can acquire FortisAlberta's assets in the annexed area. The consequence to FortisAlberta of a municipality purchasing its distribution assets would be an erosion of its rate base, which would reduce the capital upon which FortisAlberta could earn a regulated return.

In June 2005, FortisAlberta and the City of Airdrie signed a 10-year electric distribution franchise agreement. This agreement grants FortisAlberta the exclusive right to own, operate and maintain the electric distribution service within the City of Airdrie's rights-of-way. Previous to this agreement, the City of Airdrie had provided the Company with notice of its intention to terminate its franchise agreement and to pursue its rights under the *Municipal Act* (Alberta) to purchase the Company's distribution network. In 2005, this agreement has reduced franchise area erosion risk. Presently, there are no transactions initiated pursuant to the *Municipal Act* (Alberta). However, upon expiration of franchise agreements, there is a risk that municipalities will opt to purchase the distribution assets existing within the boundaries of the municipality, the loss of which could have a material adverse affect on the financial condition and results of operations of FortisAlberta.

Environmental: The Corporation is subject to numerous laws, regulations and guidelines governing the management, transportation and disposal of hazardous substances and other waste materials and otherwise relating to the protection of the environment and health and safety. The costs arising from compliance with such laws, regulations and guidelines may be material to the Corporation. Potential environmental damage and costs could arise due to a variety of events, including severe weather, human error or misconduct, or equipment failure. However, there can be no assurance that such costs will be recoverable through rates and, if substantial, unrecovered costs may have a material effect on the business, results of operations, financial condition and prospects of the Corporation.

Insurance: While the Corporation maintains insurance, the insurance is subject to coverage limits as well as time-sensitive claims discovery and reporting provisions and there can be no assurance that the possible types of liabilities that may be incurred by the Corporation will be covered by its insurance. The Corporation's utilities would likely apply to the regulator to recover the loss (or liability) through increased rates. However, there can be no assurance that the regulator

would approve any such application, in whole or in part. Any major damage to the Corporation's facilities could result in repair costs and customer claims that are substantial in amount and which could have an adverse effect on the Corporation's business, results of operations, financial position and prospects.

It is anticipated that such insurance coverage will be maintained. However, there can be no assurance that the Corporation will be able to obtain or maintain adequate insurance in the future at rates it considers reasonable or that insurance will continue to be available on terms as favourable as the Corporation's existing arrangements.

Labour Relations: Approximately 53 per cent of the employees of the Corporation are members of labour unions which have entered into collective bargaining agreements with the Corporation. The provisions of such collective bargaining agreements affect the flexibility and efficiency of the business carried out by the Corporation. The Corporation considers its relationships with its labour unions to be satisfactory but there can be no assurance that current relations will continue in future negotiations or that the terms under the present collective bargaining agreements will be renewed. The inability to maintain, or to renew, the collective bargaining agreements on acceptable terms could result in increased labour costs or service interruptions arising from labour disputes for the Corporation that are not provided for in approved rate orders and which could have an adverse effect on the results of operations, cash flow and net earnings of the Corporation.

Weather: The facilities of the Corporation are exposed to the effects of severe weather conditions and other acts of nature. Although the Corporation's facilities have been constructed, operated and maintained to withstand severe weather, there is no assurance that they will successfully do so in all circumstances. The exposure of Fortis utilities to climatic factors is generally addressed by regulatory mechanisms. In particular, the PUB has approved the operation of a weather normalization reserve at Newfoundland Power which mitigates year-over-year volatility in earnings that would otherwise be caused by variations in weather conditions.

Despite preparation for severe weather, extraordinary conditions, like Hurricane Ivan in September 2004, and other natural disasters will always remain a risk to utilities. Except for Caribbean Utilities, the Corporation uses a centralized insurance management function to create a higher level of insurance expertise and to reduce its liability exposure.

The assets and earnings of Belize Electricity and Caribbean Utilities are subject to hurricane risk. Similar to other Fortis utilities, these companies manage weather risks through insurance on generation assets and self-insurance on transmission and distribution assets. The PUC provides for recovery of certain costs arising from hurricanes through a surcharge on electricity rates, thereby mitigating the financial impact to Belize Electricity. In 2005, the new Government of the Cayman Islands approved a hurricane CRS, effective for August 1, 2005 customer billings, for a period of approximately 3 years. This CRS serves to recover a significant portion of previously expensed direct uninsured Hurricane Ivan losses.

Earnings from non-regulated generation assets are sensitive to rainfall levels; however, the geographic diversity of the Corporation's generation assets mitigates the risk associated with rainfall levels.

Liquidity Risks: Earnings from Belize Electricity are denominated in Belizean dollars, earnings from Caribbean Utilities are denominated in Cayman Island dollars and earnings from FortisUS Energy and BECOL are denominated in US dollars. As at December 31, 2005, both the Cayman Island dollar and the Belizean dollar are pegged to the US dollar: CI$1.00 = US$1.20; BZ$1.00 = US$0.50. Foreign earnings derived in currencies other than the US dollar must be converted into US dollars before repatriation, presenting temporary liquidity risks. Due to the small size and cyclical nature of the economy in Belize, conversion of local currency into US dollars may be subject to restrictions from time to time.

Human Resources: The ability of Fortis to deliver superior operating performance in a cost-effective manner is dependent on the Corporation's ability to attract, develop and retain a skilled workforce. Like other utilities across Canada, Fortis utilities are faced with demographic challenges relating to trades, technical staff and engineers. The growing size of the Corporation and an increasingly competitive marketplace present certain recruitment challenges going forward. The Corporation's significant consolidated capital expenditure program over the next several years will

present challenges in ensuring the Corporation has the qualified workforce necessary to complete the capital work initiatives. In particular, the Alberta market is a highly competitive job market where it is difficult to attract new employees. During 2005, a strategic review of human resources throughout the Fortis Group of Companies was completed. The specific focus of the review was to ensure that Fortis has the necessary line staff, engineering technicians and engineers needed to complete future work plans pertaining to both organic and new growth initiatives and assume future leadership roles within the organization.

Changes in Accounting Policies

Variable Interest Entities: Effective January 1, 2005, the Corporation adopted the recommendations of the Canadian Institute of Chartered Accountants ("CICA") on accounting for variable interest entities as per Accounting Guideline 15 ("AcG-15"). The Corporation performed a review of its business arrangements with other entities and concluded that the entities do not require consolidation and that no variable interests are required to be disclosed under the requirements of AcG-15. There was no impact, therefore, to the financial statements upon adopting AcG-15.

Revenue: Up to December 31, 2005, Newfoundland Power recognized revenue on the billed basis as approved by the PUB. On December 23, 2005, the Company received an order from the PUB with respect to an Accounting Policy Application filed with the PUB in September 2005. The PUB approved the proposed change to Newfoundland Power's revenue recognition policy from the billed basis to the accrual basis for financial and regulatory purposes, effective January 1, 2006.

Future Accounting Pronouncements

Conditional Asset Retirement Obligations: In December 2005, the CICA issued EIC-159 – *Conditional Asset Retirement Obligations* ("EIC-159"). EIC-159 requires entities to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. The accounting treatment in EIC-159 is to be applied retroactively, with restatement of prior periods, to all financial statements for interim and annual reporting periods ending after March 31, 2006. The Corporation is in the process of reviewing EIC-159 to determine the potential impact on its financial statements. EIC-159 was issued in response to the United States Financial Accounting Standards Board's *Accounting for Conditional Asset Retirement Obligations, Interpretation No. 47* ("FIN 47") issued in June 2005. FIN 47 was issued due to the diverse accounting practices that have developed with respect to the timing of liability recognition for legal obligations associated with the retirement of a tangible long-lived asset when the timing and/or method of settlement are conditional on a future event.

Financial Instruments, Hedges and Comprehensive Income: New accounting standards for financial instruments (recognition and measurement), hedges and comprehensive income have been issued by the CICA and are applicable for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006. These standards address the criteria for recognition of financial instruments on the balance sheet and the measurement of financial instruments for related gains and losses, provide guidance on how hedge accounting is performed and the required disclosures, as well as provide standards for reporting and displaying comprehensive income. These standards are intended to harmonize Canadian accounting principles for these items with international accounting standards, including those in the United States. The Corporation is in the process of reviewing these new standards to determine the potential impact on its financial statements.

Change in Presentation

Accounting for Rate Regulated Operations: The Accounting Standards Board ("AcSB") of the CICA is reviewing Canadian GAAP applicable to enterprises with rate-regulated operations. Potential future changes in this area could have a material impact on the Corporation's financial statements. The AcSB has released Accounting Guideline 19 ("AcG-19") on disclosure by entities subject to rate regulation as an interim measure pending completion of the full project. AcG-19 requires disclosure regarding the nature and effects of rate regulation, as well as additional information on how rate regulation has affected the entity's financial statements. The Corporation has adopted AcG-19 for its fiscal

year ended December 31, 2005. The adoption of AcG-19 had no impact on the Corporation's net earnings. As a result of adopting AcG-19, Fortis has changed the basis of presentation of certain of its assets and liabilities and has restated certain comparative 2004 figures. Fortis now provides separate disclosure for and no longer nets the following assets and liabilities: (i) regulatory other post-employment benefit ("OPEB") assets and the associated accrued OPEB obligations; (ii) accrued pension benefit assets and the related regulatory pension deferral; (iii) the accrual for unbilled revenue and the associated regulatory liability; and (iv) utility capital assets, capital lease obligations and regulatory deferred lease costs. The impact of this change in the basis of presentation was a $33.4 million increase in long-term regulatory assets (2004 – $26.5 million), a $31.3 million increase in deferred credits (2004 – $25.1 million), a $5.1 million increase in deferred charges (2004 – $7.5 million), a $32.8 million increase in long-term regulatory liabilities (2004 – $34.9 million), a $27.8 million increase in accounts receivable (2004 – $27.4 million), a $23.7 million increase in utility capital assets (2004 – $24.6 million), a $25.5 million increase in long-term debt and capital lease obligations (2004 – $25.8 million) and a $0.2 million increase in current instalments of long-term debt and capital lease obligations (2004 – $0.2 million).

Preference Share Dividends: As at December 31, 2005, the Corporation changed the basis of presentation of preference share dividends on the statement of earnings. Preference share dividends are now presented with finance charges before "Earnings Before Income Taxes" rather than presented under "Net Earnings Before Non-Controlling Interest and Preference Share Dividends" on the statement of earnings. This change in presentation has been adopted retroactively with restatement of comparative figures.

Critical Accounting Estimates

The preparation of the Corporation's consolidated financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions 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 year. Estimates are based on historical experience, current conditions and various other assumptions believed to be reasonable under the circumstances. Changes in facts and circumstances may result in revised estimates and actual results could differ from those estimates. The Corporation's critical accounting estimates are discussed below.

Useful Life of Property, Plant and Equipment: Amortization, by its nature, is an estimate based primarily on the useful life of assets. The Corporation's consolidated property, plant and equipment represented approximately 70 per cent of total consolidated assets at December 31, 2005 (December 31, 2004 – 69 per cent). Estimated useful lives are based on current facts and historical information and take into consideration the anticipated physical life of the assets. The amortization periods used are reviewed on an ongoing basis to ensure they continue to be appropriate.

Goodwill Valuation: Goodwill represents the excess, at the dates of acquisition, of the purchase price over the fair values of the net amounts assigned to individual assets acquired and liabilities assumed relating to business acquisitions. The Corporation is required to perform an annual impairment test and at such time any event occurs or if circumstances change that would indicate that the fair value of a reporting unit was below its carrying value. In July of each year, the Corporation reviews for impairment, which is based on current information of the reporting unit being reviewed. There was no impairment provision required on the $512.1 million in goodwill recorded on the Corporation's balance sheet as at December 31, 2005.

Employee Future Benefits: The Corporation's defined benefit pension plans and other post-employment benefit plans are subject to judgments utilized in the actuarial determination of the expense and related obligation. The main assumptions utilized by management in determining pension expense and obligations were the discount rate for the accrued benefit obligation and the expected long-term rate of return on plan assets. Other assumptions applied were average rate of compensation increase, average remaining service life of the active employee group and employee and retiree mortality rates. Except for the assumptions of the expected long-term rate of return on plan assets and average rate of compensation increase, the above assumptions were also utilized by management in determining other

post-employment benefit plan expense and obligations. Additionally, assumptions were made regarding the health care cost trend increase. Certain subsidiaries of Fortis record the cost of pension and other post-employment benefit plan expense on a cash basis; therefore, changes in assumptions do not impact earnings.

Asset Retirement Obligations: In measuring the fair value of asset retirement obligations, the Corporation is required to make reasonable estimates concerning the method of settlement and settlement dates associated with the legally obligated asset retirement costs. If reasonable estimates cannot be made, the asset retirement obligation and offsetting capital asset are recognized when the timing and the amount can be reasonably estimated. There are no asset retirement obligations recorded as at December 31, 2005.

Revenue Recognition: Utility accounting policies of Fortis include both recognition of sales revenue on a meter reading basis and on an accrual basis, whereby the estimated amount of power consumed between the meter reading and the end of the reporting period is used to establish an accrual of unbilled revenue in the Corporation's financial statements.

Contingencies: The Corporation is party to a number of disputes and lawsuits in the normal course of business as outlined in the 2005 Fortis Inc. Annual Consolidated Financial Statements. Contingent liabilities as of December 31, 2005 are consistent with disclosures in the previous year except as noted below.

In 2002, CRA confirmed a 2000 reassessment related to Newfoundland Power's 1993 taxation year, which included in income the value of electricity consumed in December 1993 but not billed until January 1994. Newfoundland Power's practice has been to record revenue on a billed basis. This method has been audited and accepted previously by CRA and is in accordance with regulatory requirements.

During 2005, Newfoundland Power entered into an agreement with CRA that provided for the full settlement of this issue on a prospective basis, beginning in 2006. CRA cancelled all outstanding reassessments related to the Company's revenue recognition policy in past years and refunded the Company's $6.9 million income tax deposit along with interest. Revenue in 2005 included $2.1 million of interest revenue, resulting in increased earnings of $1.4 million, net of tax, as a result of the CRA income tax settlement.

In a statement of claim filed on August 18, 2003 in the Court of the Queen's Bench of Alberta, EPCOR sought damages of approximately $83 million for alleged breaches of certain agreements between it and FortisAlberta, distribution tariff terms and conditions and fiduciary duty, as well as for negligence. On August 8, 2005 FortisAlberta announced that an agreement was reached with EPCOR to settle all aspects of the claim. All amounts related to the settlement were reflected in the second quarter results of FortisAlberta as the Company had adequate provisions in its financial statements to offset the impact of the settlement. On October 3, 2005, FortisAlberta signed an agreement with Aquila, Inc. and its insurers, which partitioned an insurance policy intended to cover legal expenses incurred to defend a lawsuit, as well as any amounts rendered against FortisAlberta by way of a legal ruling, or agreed to in a settlement. The proceeds received under this insurance policy partially offset the settlement of the EPCOR claim and were reflected in the third quarter results.

FortisBC has received correspondence and met with the B.C. Ministry of Forests (the "Ministry") to discuss the possibility of an invoice being issued to the Company related to fire suppression costs associated with certain forest fires in FortisBC's service territory in 2003. The Ministry has alleged breaches of the Forest Practices Code and negligence and has filed, but not served, a writ and statement of claim against FortisBC. FortisBC is currently communicating with the Ministry and its insurers. In addition, FortisBC has become aware of 2 writs and statements of claim filed, but not served, by private landowners in relation to the same matter. The outcome cannot be reasonably determined and estimated at this time and, accordingly, no amount has been accrued in the consolidated financial statements.

On January 5, 2006, FortisBC was served a writ and statement of claim filed with the B.C. Supreme Court under the *Class Proceedings Act, 1995* on behalf of a class consisting of all persons who are or were customers of FortisBC and who paid or have been charged FortisBC's late payment penalties at any time between April 1, 1981 and the date of any judgment in this action. The claim is that forfeitures of the prompt payment discount offered to customers

constitute "interest" within the meaning of section 347 of the Criminal Code and, since the effective annual rate of such interest exceeds 60 per cent, they are illegal and void. In the action, the class seeks damages and restitution of all late payment penalties which were forfeited. The outcome cannot be reasonably determined and estimated at this time and, accordingly, no amount has been accrued in the consolidated financial statements.

In May 2003, Cornwall Electric received a CRA reassessment disallowing amounts claimed as capital cost allowance ("CCA") in respect of a Class 14 asset of Cornwall Electric. This Class 14 asset was created upon acquisition of Cornwall Electric by a previous owner. As a result, CCA deductions totalling $2.1 million claimed during the 1998 to 2001 taxation years were disallowed. The opening undepreciated capital cost of the Class 14 asset, including valuation allowance, was valued at approximately $1.4 million on Cornwall Electric's balance sheet. Cornwall Electric had filed a Notice of Objection with CRA. During the third quarter of 2005, Cornwall Electric obtained a favourable resolution of the CRA reassessment. The impact of this resolution resulted in the recognition in FortisOntario of a future tax asset of $4.2 million, a $2.6 million reduction of goodwill and a $1.6 million reduction of future income tax expense.

Selected Annual Financial Information

The following table sets forth the annual financial information for the years ended December 31, 2005, 2004 and 2003. The financial information has been prepared in accordance with Canadian GAAP and as required by utility regulators. The timing of the recognition of certain assets, liabilities, revenues and expenses as a result of regulation may differ from that otherwise expected using Canadian GAAP for non-regulated entities. All amounts presented are in Canadian dollars unless otherwise stated.

($ millions, except per share amounts)	**2005**	2004	2003
Revenue and equity income[(1)]	**1,441.5**	1,146.1	843.1
Net earnings before non-controlling interest[(2)]	**143.3**	96.5	77.5
Net earnings applicable to common shares	**137.1**	90.9	73.6
Total assets	**4,316.2**	3,938.0[(3)]	2,163.8
Long-term debt and capital lease obligations (net of current portion)	**2,124.7**	1,904.4[(3)]	1,031.4
Non-controlling interest	**39.6**	37.5	36.8
Preference shares	**319.5**	319.5	123.0
Common shareholders' equity	**1,213.4**	1,000.1	614.7
Earnings per common share[(4)]	**1.35**	1.07	1.06
Diluted earnings per common share[(4)]	**1.24**	1.01	1.03
Dividends declared per common share[(4)]	**0.61**	0.55	0.53
Dividends declared per Series C First Preference Share	**1.3625**	1.3625	1.0173[(5)]
Dividends declared per Series D First Preference Share	**0.03**[(6)]	0.1706[(7)]	–
Dividends declared per Series E First Preference Share	**1.2250**	0.7733[(7)]	–

(1) Revenue reflects weather-adjusted values related to Newfoundland Power's Weather Normalization Reserve.
(2) Net earnings before non-controlling interest for 2004 and 2003 have been restated to reflect the change in 2005 in the basis of presentation of preference share dividends.
(3) Total assets and long-term debt and capital lease obligations for 2004 have been retroactively restated to reflect a change in the basis of presentation as a result of adopting CICA AcG-19 on December 31, 2005.
(4) Earnings and dividends per common share data have been adjusted to reflect the 4-for-1 stock split completed in October 2005.
(5) The Series C $125 million First Preference Shares were issued in June 2003.
(6) The Series D First Preference Shares were redeemed in September 2005.
(7) The Series D and Series E First Preference Shares were issued at various times during 2004 based on the exercise of warrants under the issuance of First Preference Units in January 2004.

2005/2004 – Revenue, including equity income, and net earnings applicable to common shares in 2005 grew 25.8 per cent and 50.8 per cent, respectively, over 2004. A full year of operations for FortisAlberta and FortisBC, increased wholesale energy prices in Ontario, increased electricity sales and/or rates in the Corporation's regulated utilities and the addition of revenue associated with the 3 Greenwood Inn hotels acquired on February 1, 2005 were

the primary contributors to increased revenues. Equity income from Caribbean Utilities increased $10.6 million from last year primarily as a result of the recovery from Hurricane Ivan and the recognition in 2005 of the impact of a change in accounting practice for recognizing unbilled revenue. The increase in earnings in 2005 was due to a full year of earnings contributions from FortisAlberta and FortisBC, higher wholesale energy prices in Ontario, higher equity income from Caribbean Utilities and a $7.9 million after-tax gain resulting from the settlement of contractual matters between FortisOntario and OPGI. The increase was partially offset by higher corporate finance charges associated with the acquisition of FortisAlberta and FortisBC in 2004. With the exception of Newfoundland Power, all operating segments reported improved financial results over last year. Newfoundland Power's earnings declined slightly mainly due to a 51 basis point formula-driven reduction in its allowed ROE in 2005. The growth in total assets and long-term liabilities was primarily associated with the extensive capital programs at FortisAlberta and FortisBC and the acquisition of the 3 Greenwood Inn hotels.

2004/2003 – Revenue, including equity income, and net earnings applicable to common shares in 2004 grew 35.9 per cent and 23.4 per cent, respectively, over 2003. The addition of revenues from FortisAlberta and FortisBC, increased electricity sales and rates in most of the other regulatory jurisdictions and the first full year of operations for the 4 Ontario hotels and the Exploits Partnership Project were the primary contributors to the increased revenues. The increase in revenues was offset by a $9.7 million decrease in equity income from Caribbean Utilities as a result of Hurricane Ivan. The significant increase in earnings was primarily the result of the Corporation's acquisition of FortisAlberta and FortisBC in May 2004. With the exception of FortisOntario and Caribbean Utilities, all other operating segments reported improved financial results over last year. The growth in total assets and long-term liabilities was also primarily associated with the acquisitions in Alberta and British Columbia.

Fortis has increased its annual dividend payments to common shareholders for 32 consecutive years. The Corporation's dividend payout ratio was 43.7 per cent in 2005 compared to 50.3 per cent in 2004. In September 2005, Fortis declared an increase in the regular quarterly dividend to 16 cents per common share from 14.25 cents per common share, with the first payment occurring on December 1, 2005.

Quarterly Results

The following table sets forth unaudited quarterly information for each of the 8 quarters ended March 31, 2004 through December 31, 2005. All earnings per common share data have been adjusted to reflect the increased number of shares as a result of the 4-for-1 stock split completed in October 2005. The quarterly information has been obtained from the Corporation's unaudited interim consolidated financial statements which, in the opinion of management, have been prepared in accordance with Canadian GAAP and as required by utility regulators. The timing of the recognition of certain assets, liabilities, revenues and expenses as a result of regulation may differ from that otherwise expected using Canadian GAAP for non-regulated entities. These operating results are not necessarily indicative of results for any future period and should not be relied upon to predict future performance. All amounts presented are in Canadian dollars unless otherwise stated.

Quarter Ended	Revenue and Equity Income *($ thousands)*	Net Earnings Applicable to Common Shares *($ thousands)*	Earnings per Common Share Basic *($)*	Earnings per Common Share Diluted *($)*
December 31, 2005	353,084	22,263	0.22	0.21
September 30, 2005	341,650	37,450	0.36	0.33
June 30, 2005	364,948	38,188	0.37	0.34
March 31, 2005	381,789	39,196	0.40	0.36
December 31, 2004	337,170	21,176	0.22	0.21
September 30, 2004	303,653	25,452	0.26	0.25
June 30, 2004	254,513	23,946	0.30	0.28
March 31, 2004	250,793	20,281	0.29	0.27

The summary of the past 8 quarters reflects the Corporation's continued growth as well as the seasonality associated with its businesses. From June 2004, financial results were impacted by the acquisition of FortisAlberta and FortisBC. The Corporation's non-utility investment, Fortis Properties, generally produces its highest earnings in the second and third quarters. Given the diversified group of companies, seasonality may vary. Each of the comparative quarterly earnings has increased as a result of both the Corporation's acquisition strategy as well as improved operating earnings at most subsidiaries.

December 2005/December 2004 – Net earnings applicable to common shares for the fourth quarter of 2005 were $22.3 million, or $0.22 per common share, compared to $21.2 million, or $0.22 per common share, for the same quarter last year. Higher earnings from Non-regulated Generation, as a result of higher wholesale energy prices in Ontario and Upper New York State and increased production, partially offset by increased operating expenses, were partially offset by decreased earnings from Regulated Utilities and higher Corporate expenses. The decrease in earnings from Regulated Utilities was primarily driven by lower earnings at FortisAlberta and FortisBC, partially offset by higher equity income from Caribbean Utilities. FortisAlberta's earnings for the fourth quarter of 2005 were reduced by a one-time adjustment of approximately $3.0 million largely related to the implementation of the Negotiated Rate Settlement reached on May 24, 2005. Additionally, during the fourth quarter of last year, FortisBC recorded a $3.7 million after-tax increase to earnings related to the refinement of the process of estimating unbilled electricity revenue. Also, equity income in the fourth quarter of 2004 included an $8.2 million charge associated with the damage from Hurricane Ivan.

Earnings per common share for the fourth quarter, compared to the same quarter last year, were impacted by the dilution created by the common shares issued in March 2005.

September 2005/September 2004 – Net earnings applicable to common shares for the third quarter of 2005 were $37.4 million, or $0.36 per common share, compared to $25.5 million, or $0.26 per common share, for the same quarter last year. Earnings for the third quarter were $11.9 million higher than for the same quarter last year primarily due to higher wholesale energy prices in Ontario, a $3.1 million, net of tax, unrealized foreign exchange gain associated with the translation of US$60 million of unhedged corporate long-term debt and increased earnings at Belize Electricity, Caribbean Utilities and Fortis Properties. Earnings from the Regulated Canadian Utilities were comparable quarter over quarter. The net impact of several adjustments at FortisAlberta, FortisBC and FortisOntario and higher earnings at Maritime Electric helped offset lower quarterly earnings at Newfoundland Power related to the new purchase power rate structure and higher finance charges at the utilities in western Canada. Growth in earnings per common share quarter over quarter was partially offset by the dilution created by the common shares issued in March 2005.

June 2005/June 2004 – Net earnings applicable to common shares for the second quarter were $38.2 million, or $0.37 per common share, compared to $23.9 million, or $0.30 per common share, for the second quarter of 2004. Second quarter results include 3 months of earnings from FortisAlberta and FortisBC compared to 1 month for the second quarter of 2004. Results this quarter included a $7.0 million positive net after-tax adjustment to FortisAlberta's earnings, associated with the resolution of tax-related matters resulting in the reduction of liabilities associated with prior periods, partially offset by amounts provided for the final settlement of billings related to prior years. Results also included approximately $1.4 million in after-tax interest revenue from a tax settlement at Newfoundland Power and a $1.1 million positive adjustment to Caribbean Utilities' earnings related to a change in the accounting practice for recognizing unbilled revenue. Fortis Properties' earnings were also $1.1 million higher quarter over quarter. The increase in earnings for the second quarter was partly constrained by a $1.0 million after-tax unrealized foreign exchange loss associated with the translation of US$75 million of unhedged corporate debt. Growth in earnings per common share quarter over quarter was partially offset by the dilution created by the common shares issued in March 2005.

March 2005/March 2004 – Net earnings applicable to common shares for the first quarter were $39.2 million, or $0.40 per common share, compared to $20.3 million, or $0.29 per common share, for the first quarter of 2004. In the first quarter, Fortis reported a $7.9 million after-tax gain resulting from the settlement of contractual matters between FortisOntario and OPGI.

The Corporation's earnings, excluding the impact of the OPGI settlement, although not a measure under Canadian GAAP, would have been $31.3 million in the first quarter, or $0.32 per common share, 10.3 per cent higher than earnings per common share of $0.29 for the first quarter of last year. Although the Corporation believes that it is useful supplemental information, readers should be cautioned that this information should not be confused with or used as an alternative for net earnings determined in accordance with Canadian GAAP.

The earnings contributions from the acquisition of FortisAlberta and FortisBC, as well as timing of recognition of earnings at Newfoundland Power, primarily contributed to this increase. Fortis also reported $0.7 million in earnings related to the recovery of hurricane-related expenses associated with damages to Caribbean Utilities in Grand Cayman from Hurricane Ivan. Fortis Properties also reported improved earnings over the same quarter last year. The increase in earnings per common share was constrained by lower hydroelectric production in Belize and the dilution created by the common shares issued in March 2005.

Management's Evaluation of the Effectiveness of Disclosure Controls and Procedures

The Corporation's management is responsible for establishing and maintaining disclosure controls and procedures to ensure that information used internally and disclosed externally is complete and reliable. In compliance with the requirements of *Multilateral Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings*, the President and Chief Executive Officer ("CEO") and the Vice President, Finance and Chief Financial Officer ("CFO") of Fortis are required to disclose in the annual MD&A of Fortis the effectiveness of the disclosure controls and procedures of the Corporation based on such evaluation as at the end of the annual reporting period. The CEO and CFO of Fortis conclude, with reasonable assurance, that the disclosure controls and procedures of Fortis are effective and adequate based on their evaluation of such controls as of December 31, 2005.

Outlook

The Corporation's principal business of regulated electric utilities is capital intensive, and Fortis expects that most of its capital expenditures for the next 5 years will relate primarily to FortisAlberta and FortisBC. Consolidated gross capital expenditures for 2006 are expected to be almost $450 million, of which approximately $420 million will be invested in Regulated Utilities.

Fortis also expects to focus its capital on funding further acquisitions of utility assets. Fortis will continue to pursue acquisition opportunities in Canada, the Caribbean and the United States. Fortis will also pursue growth in its non-regulated businesses including hydroelectric generation, hotels and real estate.

Outstanding Share Data

At February 28, 2006, the Corporation had issued and outstanding 103,245,117 Common Shares, 5,000,000 Series C First Preference Shares and 7,993,500 Series E First Preference Shares. The number of Common Shares that would be issued upon conversion of the Series C and Series E First Preference Shares, share options and convertible debt as at December 31, 2005 is described in the Notes to the 2005 Fortis Inc. Annual Consolidated Financial Statements.

Management's Report

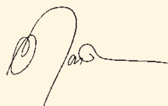
The accompanying Consolidated Financial Statements of Fortis Inc. and all information in the 2005 Annual Report have been prepared by management, who are responsible for the integrity of the information presented including the amounts that must of necessity be based on estimates and informed judgments. These Consolidated Financial Statements were prepared in accordance with accounting principles generally accepted in Canada. Financial information contained elsewhere in the 2005 Annual Report is consistent with that in the Consolidated Financial Statements.

In meeting its responsibility for the reliability and integrity of the Consolidated Financial Statements, management has developed and maintains a system of accounting and reporting which provides for the necessary internal controls to ensure transactions are properly authorized and recorded, assets are safeguarded and liabilities are recognized. The systems of the Corporation and its subsidiaries 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 Fortis Inc. is evaluated on an ongoing basis.

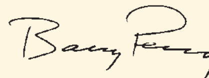
The Board of Directors oversees management's responsibilities for financial reporting through an Audit Committee which is composed entirely of outside independent directors. The Audit Committee oversees the external audit of the Corporation's Annual Consolidated Financial Statements and the accounting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

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

The December 31, 2005 Consolidated Financial Statements and Management Discussion and Analysis contained in the 2005 Annual Report were reviewed by the Audit Committee and, on their recommendation, were approved by the Board of Directors of Fortis Inc. Ernst & Young, LLP, independent auditors appointed by the shareholders of Fortis Inc. upon recommendation of the Audit Committee, have performed an audit of the 2005 Consolidated Financial Statements and their report follows.



H. Stanley Marshall
President and Chief Executive Officer



Barry V. Perry
Vice President, Finance and Chief Financial Officer

St. John's, Canada

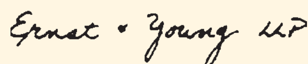
Auditors' Report

To the Shareholders of Fortis Inc.

We have audited the consolidated balance sheets of Fortis Inc. as at December 31, 2005 and 2004 and the consolidated statements of earnings, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



St. John's, Canada
January 27, 2006

Chartered Accountants

Consolidated Balance Sheets

FORTIS INC.
(Incorporated under the laws of the Province of Newfoundland and Labrador)

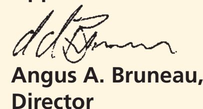
As at December 31 (in thousands)

ASSETS	2005	2004 *(Note 3)*
Current assets		
Cash and cash equivalents	$ 33,416	$ 37,203
Accounts receivable	204,169	190,565
Prepaids	9,786	6,534
Regulatory assets *(Note 4)*	33,289	24,682
Materials and supplies	32,033	30,235
Future income taxes *(Note 19)*	–	4,204
	312,693	293,423
Corporate income tax deposit	–	6,949
Deferred charges *(Note 5)*	148,140	148,343
Regulatory assets *(Note 4)*	82,315	66,628
Future income taxes *(Note 19)*	58,815	13,661
Utility capital assets *(Note 6)*	2,606,061	2,371,678
Income producing properties *(Note 7)*	414,608	341,069
Investments *(Note 8)*	167,393	163,769
Intangibles, net of amortization *(Note 2)*	14,027	18,455
Goodwill	512,139	514,041
	$ 4,316,191	$ 3,938,016
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Short-term borrowings *(Note 9)*	$ 59,868	$ 192,858
Accounts payable and accrued charges	265,223	272,490
Dividends payable	17,924	14,997
Income taxes payable	22,785	2,380
Regulatory liabilities *(Note 4)*	19,392	19,247
Current instalments of long-term debt and capital lease obligations *(Note 10)*	31,392	36,286
Future income taxes *(Note 19)*	6,714	–
	423,298	538,258
Deferred credits *(Note 11)*	64,261	54,891
Regulatory liabilities *(Note 4)*	86,780	34,875
Future income taxes *(Note 19)*	44,718	48,432
Long-term debt and capital lease obligations *(Note 10)*	2,124,674	1,904,431
Non-controlling interest *(Note 12)*	39,555	37,487
Preference shares *(Note 13)*	319,492	319,530
	3,102,778	2,937,904
Shareholders' equity		
Common shares *(Note 14)*	813,304	675,215
Contributed surplus	3,179	1,831
Equity portion of convertible debentures *(Note 10)*	1,500	1,550
Foreign currency translation adjustment *(Note 16)*	(16,312)	(15,497)
Retained earnings	411,742	337,013
	1,213,413	1,000,112
	$ 4,316,191	$ 3,938,016

Commitments *(Note 25)*
Contingent liabilities *(Note 26)*

See accompanying notes to consolidated financial statements

Approved on Behalf of the Board



Angus A. Bruneau, Director
Bruce Chafe, Director

Consolidated Statements of Earnings

FORTIS INC.

For the Years Ended December 31 (in thousands, except per share amounts)

	2005	2004 *(Note 3)*
Operating Revenues	$ 1,430,005	$ 1,145,287
Equity Income	11,466	842
	1,441,471	1,146,129
Expenses		
Operating	926,295	766,628
Amortization	157,622	113,672
	1,083,917	880,300
Operating Income	357,554	265,829
Finance charges *(Note 17)*	137,219	110,054
Preference share dividends	16,606	12,319
Gain on settlement of contractual matters *(Note 18)*	(10,000)	–
	143,825	122,373
Earnings Before Income Taxes	213,729	143,456
Corporate income taxes *(Note 19)*	70,416	46,927
Net Earnings Before Non-Controlling Interest	143,313	96,529
Non-controlling interest	6,216	5,674
Net Earnings Applicable to Common Shares	$ 137,097	$ 90,855
Weighted Average Common Shares Outstanding *(Note 14)*	101,750	84,738
Earnings Per Common Share *(Note 14)*		
Basic	$ 1.35	$ 1.07
Diluted	$ 1.24	$ 1.01

Consolidated Statements of Retained Earnings

FORTIS INC.

For the Years Ended December 31 (in thousands)

	2005	2004
Balance at Beginning of Year	$ 337,013	$ 294,986
Net Earnings Applicable to Common Shares	137,097	90,855
	474,110	385,841
Dividends on Common Shares	(62,368)	(48,828)
Balance at End of Year	$ 411,742	$ 337,013

See accompanying notes to consolidated financial statements

Consolidated Statements of Cash Flows

FORTIS INC.

For the Years Ended December 31 (in thousands)

	2005	2004
Operating Activities		
Net earnings applicable to common shares	$ 137,097	$ 90,855
Items not Affecting Cash		
Amortization – capital assets, net of contributions in aid of construction	147,222	105,817
Amortization – intangibles	4,428	3,684
Amortization – other	5,972	4,171
Future income taxes	12,322	9,006
Accrued employee future benefits	1,915	1,970
Equity (income) loss, net of dividends	(3,426)	3,962
Stock-based compensation	1,569	969
Unrealized foreign exchange gain on long-term debt *(Note 17)*	(2,335)	(1,229)
Non-controlling interest	6,216	5,674
Other	1,653	67
	312,633	224,946
Change in non-cash operating working capital	(9,208)	47,322
	303,425	272,268
Investing Activities		
Change in deferred charges and credits	(1,550)	(12,673)
Purchase of utility capital assets	(424,754)	(262,546)
Purchase of income producing properties	(83,875)	(16,123)
Contributions in aid of construction	45,130	17,127
Proceeds on sale of utility capital assets	1,556	702
Business acquisitions, net of cash acquired *(Note 21)*	(3,258)	(752,735)
Increase in investments	(193)	(8)
	(466,944)	(1,026,256)
Financing Activities		
Change in short-term borrowings	(132,818)	90,821
Proceeds from long-term debt	348,698	746,646
Repayment of long-term debt and capital lease obligations	(126,411)	(38,533)
Repayment of assumed acquisition debt	–	(557,381)
Redemption of preference shares	(38)	–
Advances (to) from non-controlling interest	(596)	722
Issue of preference shares	–	194,709
Issue of common shares	135,253	340,060
Dividends		
Common shares	(62,368)	(48,828)
Subsidiary dividends paid to non-controlling interest	(1,803)	(1,686)
	159,917	726,530
Effect of exchange rate changes on cash	(185)	(433)
Change in Cash and Cash Equivalents	(3,787)	(27,891)
Cash and Cash Equivalents, Beginning of Year	37,203	65,094
Cash and Cash Equivalents, End of Year	$ 33,416	$ 37,203

Supplementary Information to Consolidated Statements of Cash Flows *(Note 23)*

See accompanying notes to consolidated financial statements

Notes to Consolidated Financial Statements

December 31, 2005 and 2004

1. Description of the Business

Nature of Operations

Fortis Inc. ("Fortis" or the "Corporation") is principally a diversified, international electric utility holding company. Fortis segments its utility operations by franchise area and, depending on regulatory requirements, by the nature of the assets. Fortis also holds investments in non-regulated generation and commercial real estate and hotels, which are treated as separate segments. The operating segments allow senior management to evaluate the operational performance and assess the overall contribution of each segment to the Corporation's long-term objectives. Each operating segment operates as an autonomous unit, assumes profit and loss responsibility and is accountable for its own resource allocation.

The following summary briefly describes the operations included in each of the Corporation's operating and reportable segments.

Regulated Utilities – Canadian

The following summary describes the Corporation's interest in Regulated Utilities in Canada by subsidiary:

(a) *Newfoundland Power:* Newfoundland Power is the principal distributor of electricity in Newfoundland. Newfoundland Power also has an installed generating capacity of 146 megawatts ("MW") of which 95 MW is hydroelectric generation.

(b) *Maritime Electric:* Maritime Electric is the principal distributor of electricity on Prince Edward Island. Maritime Electric also maintains on-Island generating facilities at Charlottetown and Borden-Carleton with a combined total capacity of 150 MW.

(c) *FortisOntario:* FortisOntario provides an integrated electric utility service to customers in Fort Erie, Cornwall, Gananoque and Port Colborne in Ontario. FortisOntario operations include Canadian Niagara Power Inc. ("Canadian Niagara Power") and Cornwall Street Railway, Light and Power Company, Limited ("Cornwall Electric"). Included in Canadian Niagara Power's accounts is the operation of the electricity distribution business of Port Colborne Hydro Inc., which has been leased from the City of Port Colborne under a 10-year lease agreement entered into in April 2002. FortisOntario also owns a 10 per cent interest in each of Westario Power Holdings Inc. and Rideau St. Lawrence Holdings Inc., 2 regional electric distribution companies formed in 2000.

(d) *FortisAlberta:* On May 31, 2004, Fortis, through an indirect wholly owned subsidiary, acquired all of the issued and outstanding shares of Aquila Networks Canada (Alberta) Ltd. (renamed "FortisAlberta"). FortisAlberta owns and operates the distribution system in a substantial portion of southern and central Alberta.

(e) *FortisBC:* On May 31, 2004, Fortis, through an indirect wholly owned subsidiary, acquired all of the issued and outstanding shares of Aquila Networks Canada (British Columbia) Ltd. (renamed "FortisBC"). FortisBC is an integrated utility operating in the southern interior of British Columbia. FortisBC owns 4 hydroelectric generation plants with a combined capacity of 214 MW at year-end 2005, increasing to 235 MW in early 2006. Included with the FortisBC component of the Regulated Utilities – Canadian segment are the non-regulated operating, maintenance and management services relating to the 450-MW Waneta hydroelectric generating facility owned by Teck Cominco, the 149-MW Brilliant Hydroelectric Plant owned by Columbia Power Corporation and the Columbia Basin Trust ("CPC/CBT"), the 185-MW Arrow Lakes Hydroelectric Plant owned by CPC/CBT and the distribution system owned by the City of Kelowna. Commencing May 31, 2005, the FortisBC component of the Regulated Utilities – Canadian segment includes Princeton Light and Power Company, Limited ("PLP"). On May 31, 2005, Fortis, through an indirect wholly owned subsidiary, acquired all issued common and preference shares of PLP. PLP is an electric utility serving approximately 3,200 customers, mainly in Princeton, British Columbia. PLP presently purchases its wholesale power from FortisBC under a power purchase agreement ("PPA").

Regulated Utilities – Caribbean

The following summary describes the Corporation's interest in Regulated Utilities in the Caribbean by utility:

(a) *Belize Electricity:* Belize Electricity is the principal distributor of electricity in Belize, Central America. The Corporation holds a 68 per cent controlling interest in the Company.

(b) *Caribbean Utilities Company, Ltd. ("Caribbean Utilities"):* Caribbean Utilities is the sole provider of electricity on Grand Cayman, Cayman Islands. The Corporation's 36.9 per cent interest in the Company is accounted for on the equity basis of accounting.

1. Description of the Business (cont'd)

Non-regulated – Fortis Generation

The following summary describes the Corporation's non-regulated generation assets by location:

(a) *Ontario:* Includes 75 MW of water right entitlement associated with the Rankine Generating Station ("Rankine") at Niagara Falls. Operations include the 5-MW Cornwall District Heating cogeneration plant and 6 small hydroelectric generating stations in eastern Ontario with a combined capacity of 8 MW. Non-regulated generating operations in Ontario are conducted through FortisOntario Inc. and the former FortisOntario Generation Corporation. In January 2006, FortisOntario Generation Corporation was amalgamated with CNE Energy Inc.

(b) *Belize:* Operations consist of the 25-MW Mollejon and 7-MW Chalillo hydroelectric facilities in Belize. All of the electricity output is sold to Belize Electricity under a 50-year PPA. Hydroelectric generation operations in Belize are conducted through the Corporation's wholly owned indirect subsidiary, Belize Electric Company Limited ("BECOL"), under a Franchise Agreement with the Government of Belize.

(c) *Central Newfoundland:* Through the Exploits River Hydro Partnership ("Exploits Partnership"), a partnership between the Corporation, through an indirect wholly owned subsidiary, CNE Energy Inc., and Abitibi-Consolidated Company of Canada ("Abitibi-Consolidated"), 36 MW of additional capacity was developed and installed at 2 of Abitibi-Consolidated's hydroelectric plants in central Newfoundland. The Corporation holds a 51 per cent interest in the Exploits Partnership and Abitibi-Consolidated holds the remaining 49 per cent interest. The Exploits Partnership sells its output to Newfoundland and Labrador Hydro Corporation ("Newfoundland Hydro") under a 30-year PPA.

(d) *Upper New York State:* Includes the operations of 4 hydroelectric generating stations in Upper New York State with a combined capacity of 23 MW operating under licences from the US Federal Energy Regulatory Commission. Hydroelectric generation operations in Upper New York State are conducted through the Corporation's indirect wholly owned subsidiary, FortisUS Energy Corporation ("FortisUS Energy").

(e) *British Columbia:* Includes the 16-MW run-of-river Walden hydroelectric power plant near Lillooet, British Columbia. This plant sells its entire output to BC Hydro under a long-term contract. Hydroelectric generating operations in British Columbia are conducted through the Walden Power Partnership ("WPP"), a wholly owned partnership of FortisBC.

Non-regulated – Fortis Properties

Fortis Properties owns and operates hotels in 6 provinces in Canada and commercial real estate in Atlantic Canada. On February 1, 2005, Fortis Properties acquired 3 hotels in Alberta and Manitoba with approximately 650 rooms and 27,000 square feet of banquet space. Including the new hotels, Fortis Properties owns more than 2,900 hotel rooms and approximately 2.7 million square feet of commercial real estate.

Corporate

Corporate includes finance charges related to debt incurred directly by Fortis, including foreign exchange gains or losses, preference share dividends, other corporate expenses, net of recoveries from subsidiaries, interest and miscellaneous revenues and corporate income taxes.

2. Summary of Significant Accounting Policies

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"), including selected accounting treatments that differ from those used by entities not subject to rate regulation. The timing of the recognition of certain assets, liabilities, revenues and expenses, as a result of regulation, may differ from that otherwise expected using Canadian GAAP for entities not subject to rate regulation. These differences are described below under "Regulation" and in Note 4.

All amounts presented are in Canadian dollars unless otherwise stated.

Regulation

Newfoundland Power

Newfoundland Power operates under cost of service regulation as administered by the Newfoundland and Labrador Board of Commissioners of Public Utilities ("PUB") under the *Public Utilities Act*. The PUB is required to approve, among other things, customer rates, capital expenditures and the issue of securities of Newfoundland Power. The *Public Utilities Act* also entitles the Company to an opportunity to recover all reasonable and prudent costs incurred in providing electricity service to its

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

customers, including a just and reasonable return on its rate base. The determination of the forecast rate of return on rate base, together with the forecast of all reasonable and prudent costs, establishes the revenue requirement upon which Newfoundland Power's customer rates are determined through a general rate hearing. In between general rate hearings, customer rates are adjusted annually through the operation of an automatic adjustment formula. The automatic adjustment formula is based on observed long-term Canada bond yields and is utilized annually to determine the permitted rate of return. The formula determines the appropriate rate of return on common equity ("ROE") which is then used to determine the resulting rate of return on rate base. The approved ROE reflected in customer rates for 2005 was 9.24 per cent (2004 – 9.75 per cent).

Maritime Electric
In December 2003, the Government of Prince Edward Island proclaimed legislation returning Maritime Electric to a traditional cost of service regulation. Maritime Electric is regulated by the Island Regulatory and Appeals Commission ("IRAC") under the provisions of the *Electric Power Act*, effective January 1, 2004. On January 1, 2004, the *Maritime Electric Company Limited Regulation Act* was repealed. Under the new regulatory model, Maritime Electric's basic rates are now based on actual costs and provide an approved rate of return on approved rate base assets. Maritime Electric's ROE was 10.24 per cent for 2005 (2004 – 10.09 per cent). Maritime Electric applies for tariff revenue based on estimated costs of service. Once the tariff is approved, it is not adjusted as a result of actual costs or service being different from that which was estimated, other than for certain prescribed costs that are eligible for deferral account treatment.

FortisOntario
Canadian Niagara Power and Cornwall Electric operate under the *Electricity Act* (Ontario) and the *Ontario Energy Board Act* (Ontario) as administered by the Ontario Energy Board ("OEB"). Canadian Niagara Power operates under cost of service regulation and earnings are regulated on the basis of rate of return on rate base, plus a recovery of allowable distribution costs. In September 2005, Canadian Niagara Power made application to the OEB for new electricity distribution rates, effective May 1, 2006, based on an allowed ROE of 9.0 per cent. Cornwall Electric is exempt from many aspects of these Acts and is also subject to a 35-year Franchise Agreement with the City of Cornwall, dated July 31, 1998. The rate setting mechanism is subject to price cap with commodity cost flow-through. The base revenue requirement is adjusted annually for inflation, load growth and customer growth.

FortisAlberta
FortisAlberta is regulated by the Alberta Energy Utilities Board ("AEUB"), pursuant to the *Electric Utilities Act* (Alberta), the *Public Utilities Board Act* (Alberta) and the *Hydro and Electric Energy Act* (Alberta). The AEUB administers these acts and regulations covering such matters as tariffs, rates, construction, operations and financing. FortisAlberta operates under cost of service regulation as prescribed by the AEUB. Rate orders issued by the AEUB establish the Company's revenue requirements, being those revenues required to recover approved costs associated with the distribution business, and provide a rate of return on a deemed capital structure applied to approved rate base assets. FortisAlberta's approved ROE was 9.5 per cent for 2005 (2004 – 9.5 per cent). The Company applies for tariff revenue based on estimated costs of service. Once the tariff is approved, it is not adjusted as a result of actual costs of service being different from those which were estimated, other than for certain prescribed costs that are eligible for deferral account treatment. FortisAlberta's allowed ROE is adjusted annually through the operation of an automatic adjustment formula to adjust for forecast changes in long-term Canada bond yields.

FortisBC
FortisBC is regulated by the British Columbia Utilities Commission ("BCUC"). The BCUC administers acts and regulations pursuant to the *Utilities Commission Act* (British Columbia), covering such matters as tariffs, rates, construction, operations, financing and accounting. FortisBC operates under both cost of service regulation and a performance-based rate ("PBR") setting methodology as prescribed by the BCUC. The Company applies to the BCUC for annual revenue requirements based on estimated costs of service, including, but not limited to, operating expenses, power purchases, depreciation and amortization, property taxes, income taxes, interest on debt, and an ROE. FortisBC's approved ROE was 9.43 per cent for 2005 (2004 – 9.76 per cent). The PBR framework provides for a sharing of achieved savings or, in some cases, increased expenditures, with ratepayers. Sharing applies only on certain components of the Company's costs and is subject to change as the Company's regulatory framework evolves. FortisBC's allowed ROE is adjusted annually through the operation of an automatic adjustment formula to adjust for forecast changes in long-term Canada bond yields.

Belize Electricity
Belize Electricity is regulated by the Public Utilities Commission ("PUC") under the terms of the *Electricity Act* (Belize), the *Electricity (Tariffs, Charges and Quality of Service Standards) By-Laws* (Belize) and the *Public Utilities Commission Act* (Belize). In addition, the PUC is responsible for the award of licences and for monitoring and enforcing compliance with licence

conditions. Basic electricity rates for Belize Electricity are comprised of 2 components. The first component is Value Added Delivery ("VAD") and the second is the cost of fuel and purchased power ("COP"), including the variable cost of generation, which is a flow through in customer rates. The VAD component of the tariff allows the Company to recover its operating expenses, transmission and distribution expenses, taxes and amortization and rate of return on regulated asset base in the range of 10 per cent to 15 per cent. Belize Electricity undergoes annual rate proceedings, and full rate proceedings every 4 years, with the PUC to determine the level of the VAD and COP components of electricity rates and any rate stabilization account ("RSA") recovery. The VAD component of the tariff is normally reviewed every 4 years, while the COP component and RSA recovery are reviewed at each annual rate proceeding and at Threshold Event Review Proceedings which can occur at any time that deferrals of COP into the RSA exceed BZ$3 million.

Cash and Cash Equivalents

Cash and cash equivalents include cash and short-term deposits with maturities of 3 months or less.

Materials and Supplies

Materials and supplies are valued at the lower of cost and market value determined on the basis of estimated net realizable value.

Deferred Charges and Credits

Deferred charges and credits include deferred pension costs, deferred financing expenses, deferred recoverable and project costs, energy management loans and other deferred costs. Deferred financing expenses are amortized on a straight-line basis over the term of the related debt. Recoverable project costs are amortized over the estimated remaining useful lives of the projects. Project costs are deferred until a capital project has been identified, at which time the costs are transferred to utility capital assets or income producing properties. Energy management loans range in terms from 1 to 5 years and are deferred until they are recovered from customers. Other deferred charges are recorded at cost and are amortized over the estimated period of future benefit.

Deferred charges and credits also include deferred gains and losses on the cancellation of swap contracts. In December 2003, Fortis entered into a forward interest rate swap agreement that swapped 90-day bankers' acceptance interest rate payments on $200 million of long-term debt to 5.6 per cent. In October 2004, upon the completion of the long-term acquisition financing for FortisAlberta and FortisBC, the forward interest rate swap agreement was terminated and the cash payment of $14.1 million made upon termination of the swap is being amortized on a straight-line basis over 10 years, the term of the related financing.

In October 2004, Fortis cancelled its US dollar currency swap agreement under which the interest payments on the Corporation's $100 million Senior Unsecured Debentures were converted into US dollar interest payments. The cancellation of the US dollar currency swap agreement resulted in a gain of $4.7 million, which is being amortized on a straight-line basis over the remaining term of the $100 million Senior Unsecured Debentures which mature in October 2010.

Utility Capital Assets and Income Producing Properties

Utility capital assets of Newfoundland Power are stated at values approved by the PUB as at June 30, 1966 with subsequent additions at cost. Capital assets of all other utility operations are stated at cost. Contributions in aid of construction represent the cost of utility capital assets contributed by customers and governments. These contributions are recorded as a reduction in the cost of capital assets and are being reduced annually by an amount equal to the charge for amortization provided on the related assets.

Certain of the Corporation's utilities include in amortization expense a regulatory allowance for future removal and site restoration costs. Actual costs of removal and restoration incurred are recorded in accumulated amortization as the assets are disposed of. In the absence of rate regulation, the removal and site restoration costs would be expensed in the period incurred rather than over the lives of the assets through amortization expense. At December 31, 2005, $229.1 million (2004 – $209.1 million) of the accumulated amortization balance related to the provisioning for future removal and site restoration costs at FortisAlberta. As at December 31, 2005, a reasonable estimate of the future removal and site restoration cost provisioning balance for Newfoundland Power, Maritime Electric and FortisBC cannot be made in the absence of recent depreciation studies approved by the respective regulators.

Upon retirement or disposal of utility capital assets, the cost, net of salvage proceeds, is charged to accumulated amortization by certain of the Corporation's regulated utilities, as permitted by the regulators, with no gain or loss reflected in the statement of earnings. It is expected that any gain or loss which is credited or charged to accumulated amortization will be reflected in future amortization expense when it is refunded or collected in customer rates. In the absence of rate regulation,

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

any gain or loss on the retirement or sale of the asset would be recognized in the current period. The net loss charged to accumulated amortization in 2005 was approximately $17.2 million.

Maintenance and repairs of capital assets are charged to operations while renewals and betterments are capitalized.

Certain of the Corporation's utilities capitalize overhead costs which are not directly attributable to specific capital assets, but which relate to the overall capital expenditure program. The methodology for calculating and allocating these general expenses is established by the regulators. In the absence of rate regulation, only those overhead costs directly attributable to the construction activity would be capitalized. The general expenses capitalized ("GEC") are allocated over constructed capital assets and amortized over their estimated service lives. In 2005, GEC totalled $11.8 million.

Certain of the Corporation's utilities are also permitted by the regulators to include an equity component in the allowance for funds used during construction ("AFUDC") that is included in the cost of capital assets. Since AFUDC includes both an interest component and an equity component, it exceeds the amount allowed to be capitalized in similar circumstances by entities not subject to rate regulation. AFUDC is deducted from finance charges and AFUDC capitalized during 2005 was $6.7 million (Note 17), including an equity component of $3.3 million. The AFUDC is charged to operations through amortization expense over the estimated service lives of the applicable capital assets.

FortisAlberta maintains a regulatory tax basis adjustment account, which represents the excess of the deemed tax basis of the Company's property, plant and equipment for regulatory rate making purposes as compared to the Company's tax basis for income tax purposes. The regulatory tax basis adjustment is being amortized over the estimated service lives of the Company's property, plant and equipment by an offset against the provision for depreciation and amortization. The regulatory tax basis adjustment is recorded as a reduction in capital assets. For the year ended December 31, 2005, amortization expense was reduced by $5.0 million (7 months ended December 31, 2005 – $3.1 million) for the amortization of the regulatory tax basis adjustment.

Amortization on utility capital assets is provided on a straight-line method based on the estimated service lives of the capital assets. Amortization rates range from 1.4 per cent to 21.9 per cent. The composite rate of amortization before reduction for amortization of contributions in aid of construction for 2005 was 4.0 per cent (2004 – 3.4 per cent).

Income producing properties, which include office buildings, shopping malls, hotels and land, are recorded at cost. Effective January 1, 2004, new recommendations by the Canadian Institute of Chartered Accountants ("CICA") effectively eliminated certain industry-specific accounting practices which previously qualified as Canadian GAAP. To comply with these recommendations, Fortis Properties changed from a sinking fund method of amortization to the straight-line method. This change was adopted with no restatement of prior period amounts. This change had a negative impact on after-tax earnings of approximately $2.7 million in 2004. Buildings are being amortized using the straight-line method over an estimated useful life of 60 years. Fortis Properties amortizes tenant inducements over the initial terms of the leases to which they relate, except where a write-down is required to reflect a permanent impairment. The lease terms vary to a maximum of 20 years.

Amortization of capital construction projects and related equipment commences when the project has been substantially completed. Equipment is recorded at cost and is amortized on a straight-line basis over a range of 2 to 15 years.

Investments

Portfolio investments are accounted for on the cost basis. Declines in value considered to be other than temporary are recorded in the period in which such determinations are made.

The Corporation accounts for its investment in Caribbean Utilities on the equity basis. The Corporation reviews this equity investment on an annual basis for potential impairment in the investment value. Should an impairment be identified, it will be recorded in the period such impairment is recognized.

Intangibles

Intangibles represent the estimated fair value of water rights associated with Rankine in Ontario, which were acquired upon the acquisition of the remaining 50 per cent of Canadian Niagara Power. As at December 31, 2005, the net book value of intangibles was $14.0 million (net of accumulated amortization of $10.9 million) [2004 – $18.5 million (net of accumulated amortization of $6.4 million)]. Effective January 1, 2004, new recommendations by the CICA effectively eliminated certain industry-specific accounting practices, which previously qualified as Canadian GAAP. To comply with these new recommendations, FortisOntario changed from a sinking fund method of amortization to the straight-line method. This

change, as required under the recommendations, was adopted with no restatement of prior period amounts. The change had no material impact on the 2004 financial statements. Intangibles are amortized using the straight-line method over the estimated life of the asset. The Corporation evaluates the carrying value of intangibles for potential impairment through ongoing review and analysis of fair market value and expected earnings. Should an impairment in the value of intangibles be identified, it will be recorded in the period such impairment is recognized.

Goodwill

Goodwill represents the excess, at the dates of acquisition, of the purchase price over the fair values of the net amounts assigned to individual assets acquired and liabilities assumed relating to business acquisitions. In 2005, goodwill was reduced by $2.6 million upon the recognition of a future tax asset as a result of a favourable resolution of a Canada Revenue Agency reassessment of a tax asset created when Cornwall Electric was acquired by a previous owner. A further reduction of $0.5 million was a result of the finalization of certain restructuring cost accruals related to the acquisition of FortisAlberta and FortisBC. The decrease was partially offset by $1.2 million of goodwill created upon the acquisition of PLP on May 31, 2005 (Note 21). In 2004, goodwill increased by $448.6 million as a result of the acquisition of FortisAlberta and FortisBC.

In accordance with CICA recommendations, the Corporation is required to perform an annual impairment test and any impairment provision is charged to income. In addition to the annual impairment test, the Corporation also performs an impairment test if any event occurs or if circumstances change that would indicate that the fair value of a reporting unit was below its carrying value. No goodwill impairment provision has been determined for the year ended December 31, 2005 (2004 – nil).

Employee Future Benefits

Defined Benefit and Defined Contribution Pension Plans

The Corporation maintains defined benefit and defined contribution pension plans and group Registered Retirement Savings Plans ("RRSPs") for its employees. The costs of the defined contribution pension plans and group RRSPs are expensed as incurred. The accrued benefit obligation and the value of pension costs of the defined benefit pension plans are actuarially determined using the projected benefits method prorated on service and management's best estimate of expected plan investment performance, salary escalation and retirement of employees. With the exception of Newfoundland Power, pension plan assets are valued at fair value. At Newfoundland Power, the plan assets are valued using the market-related value where investment returns in excess of or below expected returns are recognized in the asset value over a period of 3 years. The excess of any cumulative net actuarial gain (loss) over 10 per cent of the greater of the benefit obligation and the fair value of plan assets (the market-related value of plan assets at Newfoundland Power), at the beginning of the fiscal year, along with unamortized past service costs, are deferred and amortized over the average remaining service period of active employees.

On January 1, 2000, Newfoundland Power prospectively applied Section 3461 of the CICA Handbook. The Company is amortizing the resulting transitional obligation on a straight-line basis over 18 years, the expected average remaining service period of the plan members at that time.

At FortisAlberta, as approved by the AEUB, the cost of the defined benefit pension plan is being recovered in customer rates based on employer cash contributions made while the cost of the defined contribution pension plan is being recovered based on the filed amount of the funding requirements less $1.6 million, which reduced FortisAlberta's regulatory pension deferral.

In 2004, the AEUB ordered FortisAlberta to fund its contributions to the Company's defined benefit and defined contribution pension plans from the surplus of the pension plan and, as such, FortisAlberta did not collect any amounts for these costs in customer rates and the Company deferred any pension expense in 2004. From January 1, 2005 through June 30, 2005, the required contributions for the defined contribution component of the pension plan were funded from the surplus of the pension plan and, therefore, no amounts were included in customer rates at FortisAlberta for the defined contribution component of the plan for this period.

Any difference between the expense recognized under Canadian GAAP and that recovered from customers in current rates for defined benefit and defined contribution pension plans, which is expected to be recovered or refunded in future customer rates, is subject to deferral treatment (Notes 4 *(xiv)* and *(xvi)*).

Other Post-employment Benefits

The Corporation and certain subsidiaries also offer other non-pension post-employment benefits through defined benefit plans including certain health and dental coverage for qualifying employees. Additionally, the Corporation and certain subsidiaries provide for retirement allowances and supplemental retirement plans for certain of its executive employees. The accrued benefit obligation and the value of the costs associated with these other post-employment benefits are actuarially determined using the projected benefits method prorated on service and best estimate assumptions.

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

Any difference between the expense recognized under Canadian GAAP and that recovered from customers in current rates for other post-employment benefit plans, which is expected to be recovered or refunded in future customer rates, is subject to deferral treatment (Note 4 *(vii)*).

Stock-based Compensation

The Corporation records compensation expense upon the issuance of stock options under its 2002 Stock Option Plan. Using the fair value method, the compensation expense is amortized over the 4-year vesting period of the options granted. Under the fair value method, compensation expense was $1.6 million for the year ended December 31, 2005 (2004 – $1.0 million). The offsetting entry is an increase to contributed surplus for an amount equal to the annual compensation expense related to the issuance of stock options. Upon exercise, the proceeds of the options are credited to capital stock at the option price and the fair value of the options, as previously recorded, is reclassified from contributed surplus to capital stock. An exercise of options below the current market price has a dilutive effect on capital stock and shareholders' equity.

Foreign Currency Translation

The assets and liabilities of foreign operations, all of which are self-sustaining, are translated at the exchange rates in effect at the balance sheet dates. The resulting unrealized translation gains and losses are accumulated as a separate component of common shareholders' equity under the foreign currency translation adjustment heading. Revenue and expense items are translated at the average exchange rate for the year.

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate prevailing on the balance sheet date. Revenue and expense items denominated in foreign currencies are translated into Canadian dollars at the exchange rate prevailing on the transaction date. Gains and losses on translation are included in the statement of earnings.

Hedging Relationships

Effective January 1, 2004, the Corporation implemented the recommendations of the CICA Accounting Guideline 13 ("AcG-13"), which outlines the requirements for identification, designation, documentation and effectiveness testing of hedging relationships in order to meet the conditions for applying hedge accounting to certain financial instruments. Implementation of AcG-13 did not have an impact on the Corporation's earnings or financial position at December 31, 2005 or December 31, 2004.

At December 31, 2005, the Corporation's hedging relationships consisted of an interest-rate swap contract and US dollar-denominated borrowings. Derivative instruments, such as interest-rate swaps, are used only to manage risk and not for trading purposes. The Corporation designates each derivative instrument as a hedge of specific assets or liabilities on the balance sheet and assesses, both at the hedge's inception and on an ongoing basis, whether the hedging transactions are effective in offsetting changes in cash flows of the hedged items. Payments or receipts on derivative instruments that are designated and effective as hedges are recognized concurrently with, and in the same financial category as, the hedged item. If a derivative instrument is terminated or ceases to be effective as a hedge prior to maturity, the gain or loss at that date is deferred and recognized in income concurrently with the hedged item. Subsequent changes in the value of the financial instrument are reflected in income. If the designated hedged item is sold, extinguished or matures prior to the termination of the related derivative instrument, the gain or loss at that date on such derivative instrument is recognized in income.

The Corporation's foreign investments are exposed to changes in US exchange rates and the Corporation has reduced its exposure to foreign currency exchange rate fluctuations on a substantial portion of its foreign investments through the use of US dollar debentures. Fortis has US$170 million of debt, of which approximately US$115 million has been designated as a hedge against the Corporation's net foreign investments as at December 31, 2005. The remaining US$55 million has not been designated as a hedge and the fluctuations in the carrying value of this debt as a result of foreign currency exchange rate fluctuations are recorded in income each reporting period.

Income Taxes

Except as modified and described below for Newfoundland Power, FortisAlberta and FortisBC, the Corporation and its subsidiaries follow the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities, as well as for the benefit of losses available to be carried forward to future years for tax purposes that are likely to be realized. The future income tax assets and liabilities are measured using the enacted and substantively enacted tax rates and laws that will be in effect when the differences are expected to be recovered or settled. The effect of a change in income tax rates on future

income tax assets and liabilities is recognized in income in the period that the change occurs. Current income tax expense is recognized for the estimated income taxes payable in the current year.

The PUB specifies Newfoundland Power's method of accounting for income taxes. Effective January 1, 1981, pursuant to PUB order, future income tax liabilities at Newfoundland Power are recognized solely on temporary differences in capital cost allowance in excess of amortization of capital assets, excluding GEC. Current customer rates do not include the recovery of future income taxes related to certain temporary differences between the tax basis of assets and liabilities and their carrying amounts for regulatory purposes, but these taxes are expected to be collected in future customer rates when the taxes become payable.

As ordered by the BCUC, FortisBC follows the taxes payable method of accounting for income taxes on regulated earnings.

At FortisAlberta, as prescribed by the AEUB in 2005, provincial income tax expenses are recovered through customer rates based on the taxes payable method and federal income tax expenses are recovered through customer rates based on a modified liability method. Previously, FortisAlberta followed the taxes payable method for accounting for provincial and federal income taxes. Under the current modified liability method, current customer rates include the recovery of future federal income taxes related to specified temporary differences between the tax basis of assets and liabilities and their carrying amounts for regulatory purposes. As a result of collecting a portion of federal future income taxes within current customer rates, FortisAlberta has now recognized all federal future income taxes within the financial statements. The Company has set up a regulatory liability equal to the amount of federal future income taxes recognized in these financial statements that have not yet been reflected in customer rates. These amounts will be reflected in future rates to customers as timing differences reverse (Note 4 *(xiii)*). FortisAlberta continues to recognize future income taxes for certain deferral amounts where the future income taxes will not be collected in future customer rates.

Entities not subject to rate regulation generally recognize future income tax assets and liabilities for temporary differences between the tax and accounting bases of all assets and liabilities. If this method were applied to Newfoundland Power, FortisAlberta and FortisBC, future income tax liabilities and future income tax assets would have increased by approximately $126.2 million and $29.0 million, respectively, at December 31, 2005 (December 31, 2004 – $120.6 million and $77.0 million, respectively).

Revenue Recognition

Revenue from the sale of electricity by Newfoundland Power and Belize Electricity is recognized as monthly billings are rendered to customers as permitted by the utility regulatory authorities. In the absence of rate regulation, revenue would be recorded on an accrual basis. The difference between recognizing revenue on a billed versus an accrual basis is recorded on the balance sheet as a regulatory liability (Note 4 *(xv)*). As approved by the PUB in December 2005, Newfoundland Power changed its revenue recognition policy from the billed basis to the accrual basis, effective January 1, 2006.

Revenue from the sale of electricity by Maritime Electric, FortisOntario, FortisAlberta and FortisBC is recognized on the accrual basis, which includes an estimate of the value of electricity consumed by customers in the year but billed subsequent to year end. For FortisAlberta, transmission revenue and expenses are recorded on a net basis in other revenue.

All of the Corporation's non-regulated generating operations record revenue on an accrual basis.

Hospitality revenue is recognized when services are provided.

Real estate revenue is derived from leasing retail and office space to tenants for varying periods of time. The leases are primarily of a net nature, with tenants paying basic rental plus a pro rata share of certain defined overhead expenses. Certain retail tenants pay additional rent based on a percentage of tenant sales. Expenses recovered from tenants are recorded as revenue.

Effective January 1, 2004, Fortis Properties adopted the new recommendations of the CICA, which eliminated certain industry-specific accounting practices which previously qualified as Canadian GAAP. To comply with these recommendations, Fortis Properties recognized escalation of lease rates included in long-term leases in income on a straight-line basis over the term of the lease. This change in revenue recognition did not have a material impact on the 2004 financial statements.

Asset Retirement Obligations

Effective January 1, 2004, the Corporation retroactively adopted the recommendations of the CICA on accounting for asset retirement obligations. The recommendations require total retirement costs to be recorded as a liability at fair value, with a corresponding increase to property, plant and equipment. The Corporation recognizes asset retirement obligations in the periods in which they are incurred if a reasonable estimate of a fair value can be determined.

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

While some of the Corporation's long-lived tangible assets will have future legal retirement obligations, the final date of removal of these long-lived tangible assets that carry asset retirement obligations cannot be reasonably determined at this time, as the assets are operated in perpetuity. No asset retirement obligations, therefore, have been recognized. An asset retirement obligation and offsetting capital asset will be recognized when the timing and amount can be reasonably estimated.

Asset Impairment

Effective January 1, 2004, the Corporation prospectively adopted the recommendations of the CICA on accounting for asset impairment. An impairment of property, plant and equipment, intangible assets with finite lives, deferred operating costs and long-term prepaid expenses is recognized in income when the asset's carrying value exceeds the total cash flows expected from its use and eventual disposition. The impairment loss is calculated as the difference between the asset's carrying value and its fair value, which is determined using present value techniques. There was no impact on the financial statements as a result of asset impairments for the year ended December 31, 2004.

During 2005, the remaining value of the Rankine assets, located on the Niagara River, were written down as a result of the implementation of the Niagara Exchange Agreement ("NEA"). The NEA assigns FortisOntario's water rights on the Niagara River to Ontario Power Generation Inc. ("OPGI") and facilitates the irrevocable exchange of 75 MW of wholesale electric power supply to FortisOntario Inc. from OPGI until April 30, 2009 in exchange for FortisOntario's agreement not to seek renewal of the water entitlement at that time. The write-down totalled $1.7 million ($1.1 million after-tax) in 2005.

Variable Interest Entities

Effective January 1, 2005, the Corporation adopted the recommendations of the CICA on accounting for variable interest entities as per Accounting Guideline 15 ("AcG-15"). The Corporation performed a review of its business arrangements with other entities and concluded that the entities do not require consolidation and that no variable interests are required to be disclosed under the requirements of AcG-15. There was no impact, therefore, to the financial statements upon adopting AcG-15.

Use of Accounting Estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions 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. Actual results may differ from current estimates. Certain estimates are necessary since the regulatory environments in which the Corporation's utilities operate often require amounts to be recorded at estimated values until these amounts are finalized pursuant to regulatory decisions or other regulatory proceedings. Estimates are reviewed periodically and, as adjustments become necessary, are reported in earnings in the period in which they become known.

3. Change in Presentation

Accounting for Rate Regulated Operations

The Accounting Standards Board of the CICA has released Accounting Guideline 19 ("AcG-19") on disclosure by entities subject to rate regulation. AcG-19 requires disclosure regarding the nature and effects of rate regulation, as well as additional information on how rate regulation has affected the entity's financial statements. The Corporation has adopted AcG-19 for its fiscal year ended December 31, 2005. The adoption of AcG-19 had no impact on the Corporation's net earnings. As a result of adopting AcG-19, Fortis has changed the basis of presentation of certain of its assets and liabilities and has restated certain comparative 2004 figures. Fortis now provides separate disclosure for and no longer nets the following assets and liabilities: (i) regulatory other post-employment benefit ("OPEB") assets and the associated accrued OPEB obligations; (ii) accrued benefit pension assets and the related regulatory pension deferral; (iii) the accrual for unbilled revenue and the associated regulatory liability; and (iv) utility capital assets, capital lease obligations and regulatory deferred lease costs. The impact of this change in the basis of presentation was a $33.4 million increase in long-term regulatory assets (2004 – $26.5 million), a $31.3 million increase in deferred credits (2004 – $25.1 million), a $5.1 million increase in deferred charges (2004 – $7.5 million), a $32.8 million increase in long-term regulatory liabilities (2004 – $34.9 million), a $27.8 million increase in accounts receivable (2004 – $27.4 million), a $23.7 million increase in utility capital assets (2004 – $24.6 million), a $25.5 million increase in long-term debt and capital lease obligations (2004 – $25.8 million) and a $0.2 million increase in current instalments of long-term debt and capital lease obligations (2004 – $0.2 million) (Note 4).

Preference Share Dividends

As at December 31, 2005, the Corporation changed the basis of presentation of preference share dividends on the statement of earnings. Preference share dividends are now presented with finance charges before "Earnings Before Income Taxes" rather than presented under "Net Earnings Before Non-Controlling Interest and Preference Share Dividends" on the statement of earnings. This change in presentation has been adopted retroactively with restatement of comparative years' figures.

4. 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.

All amounts deferred as regulatory assets and regulatory liabilities are subject to regulatory approval. As such, the regulators could alter the amounts subject to deferral, at which time the change would be reflected in the financial statements. Certain remaining recovery and settlement periods are those expected and the actual recovery or settlement periods could differ based on regulatory approval. Based on previous, existing or expected future regulatory orders or decisions, the Corporation has recorded the following amounts expected to be recovered by or refunded to customers in future periods:

Regulatory Assets

(in thousands)	**2005**	2004	Remaining recovery period (years)
Alberta Electric System Operator charges deferral *(i)*	**$ 11,778**	$ –	
Municipal tax asset *(ii)*	**6,879**	6,100	
Cost of Power and Hurricane Cost Rate Stabilization Accounts *(iii)*	**5,004**	6,358	
Rate stabilization account *(iv)*	**2,405**	2,663	
Commodity cost deferral *(v)*	**2,225**	2,152	
Energy cost adjustment mechanism (pre-2004) *(vi)*	**1,500**	2,500	
Energy cost adjustment mechanism (post-2003) *(vi)*	**–**	2,725	
Other *(xii)*	**3,498**	2,184	
Current regulatory assets	**$ 33,289**	$ 24,682	1
Regulatory other post-employment benefit asset *(vii)*	**$ 29,401**	$ 23,291	Not determinable
Energy cost adjustment mechanism (pre-2004) *(vi)*	**15,284**	16,784	Not determinable
Cost of Power and Hurricane Cost Rate Stabilization Accounts *(iii)*	**11,979**	1,953	See 4 (iii)
Weather normalization account *(viii)*	**10,100**	10,477	See 4 (viii)
Energy management costs *(ix)*	**5,703**	4,826	8
Lease costs *(x)*	**3,786**	3,177	18-29
Capital charge – Point Lepreau Station *(xi)*	**2,801**	3,361	Not determinable
Other *(xii)*	**3,261**	2,759	2-19
Long-term regulatory assets	**$ 82,315**	$ 66,628	

4. *Regulatory Assets and Liabilities (cont'd)*

Regulatory Liabilities

(in thousands)	**2005**	2004	Remaining settlement period (years)
Municipal tax liability *(ii)*	**$ 10,966**	$ 10,187	
Energy cost adjustment mechanism (post-2003) *(vi)*	**3,343**	–	
Alberta Electric System Operator charges deferral *(i)*	**–**	1,643	
Regulatory future income tax liability *(xiii)*	**900**	–	
Regulatory pension deferral *(xiv)*	**524**	1,664	
Other *(xvi)*	**3,659**	5,753	
Current regulatory liabilities	**$ 19,392**	$ 19,247	1
Regulatory future income tax liability *(xiii)*	**$ 52,899**	$ –	2
Unbilled revenue liability *(xv)*	**27,760**	27,356	Not determinable
Regulatory pension deferral *(xiv)*	**5,065**	7,519	8
Other *(xvi)*	**1,056**	–	See 4 (xvi)
Long-term regulatory liabilities	**$ 86,780**	$ 34,875	

(i) Alberta Electric System Operator ("AESO") charges deferral

FortisAlberta maintains an AESO-charges deferral account that represents expenses incurred in excess of revenues collected for various items, such as transmission costs incurred and billed through to customers, that are subject to deferral. It also includes deferrals for contributions paid to the AESO, certain riders and other miscellaneous charges related to the period of 2003 to 2005. To the extent that actual costs incurred exceeded the amount collected in revenue, the excess costs have been deferred as a regulatory asset and will be recognized when collected in future rates. In the event that the amount of revenue collected in rates for these items exceeds actual costs incurred, the excess is deferred as a regulatory liability. This liability will either be refunded to customers through a reduction in future rates or will be recognized when costs are incurred. The filing for the 2004 deferral was made on September 22, 2005. The filing for the 2005 AESO-charges deferral will not be made until 2006. Once approved, these amounts are expected to be collected in rates through a transmission adjustment rider, at which time these deferred costs will be recognized. In the absence of rate regulation, FortisAlberta would have recognized $13.4 million less in other revenue during 2005.

(ii) Municipal Tax Asset and Liability

At Newfoundland Power, as allowed by the PUB, a predetermined percentage of current-year electricity revenue is accrued to cover the following year's business and property taxes, as collectible from customers and payable to municipalities. The asset, net of amounts already collected from customers in the current year, is classified as a current regulatory asset. The liability of $11.0 million at December 31, 2005 (2004 – $10.2 million) is classified as a current regulatory liability. In the absence of rate regulation, these balances would be reversed with no net earnings impact.

(iii) Cost of Power and Hurricane Cost Rate Stabilization Accounts

The PUC has allowed Belize Electricity to defer excess or reductions in fuel costs, power purchases and diesel operating and maintenance expenses, plus interest on the account balances, to be recovered from or rebated to customers. The Cost of Power Rate Stabilization Account ("CPRSA") was established to regulate the manner in which these excesses or reductions in costs are passed on or rebated to customers. Similarly, the PUC has allowed a Hurricane Cost Rate Stabilization Account ("HCRSA") to regulate the manner in which expenses associated with hurricane damage and recovery are passed on to customers. The rate of recovery or rebate is recalculated on July 1 of each year based on the balance in the CPRSA and HCRSA as of the preceding year end but may be adjusted at any time as a result of reaching a certain threshold level. A new $1.7 million (BZ$3.0 million) threshold level was established for the CPRSA, with effect from July 1, 2005, that allows for adjustments to the tariff once new deferrals to the CPRSA reach this level. Adjustments to the tariff as a result of reaching the threshold level may include adjustments to the COP component of the tariff and additional CPRSA recovery surcharges. In the absence of rate regulation, cost of power and hurricane costs would be expensed in the period incurred. During 2005, $15.7 million (BZ$26.0 million) of excess cost of power and interest and hurricane costs were deferred while $6.4 million (BZ$10.6 million) was recovered through customer rates.

The PUC regulates the recovery of the balance in the CPRSA and the HCRSA. The outstanding balances at July 1, 2005 were approved for full recovery by June 30, 2009. In October 2005, excess deferrals into the CPRSA reached a threshold level and, on December 20, 2005, Belize Electricity filed an application with the PUC for a tariff adjustment to recover the excess deferrals and to increase the COP component of rates. The PUC subsequently approved a 13 per cent increase in average tariffs, effective January 1, 2006. The PUC will address subsequent balances in future annual rate submissions or threshold events, and recovery will be dependent on future operational circumstances that cannot be determined at this time.

(iv) *Rate Stabilization Account*

Newfoundland Power has a rate stabilization account that passes through to customers charges or reductions related to changes in the cost and quantity of fuel burned by Newfoundland Hydro to produce the electricity sold to the Company. Operation of this account has no net earnings impact on Newfoundland Power. On July 1 of each year the rate charged to Newfoundland Power's customers is recalculated to reflect changes in this account from year to year. In the absence of rate regulation, these charges would be accounted for in a similar manner; however, the amount recovered and the recovery period would not be subject to regulatory approval. This regulatory asset is not subject to a regulatory return.

(v) *Commodity Cost Deferral*

This commodity cost deferral represents the remaining balance of the commodity costs incurred in 2000 by FortisAlberta's former retail operations in excess of amounts recovered from customers. As directed by the AEUB, FortisAlberta will be submitting a true-up filing in 2006 to collect the remaining balance of the deferred costs from customers. In the absence of rate regulation, the Corporation would have recognized these costs in the year incurred and there would be no amount recorded on the balance sheet. These remaining deferred costs will be recognized when they are collected in rates.

(vi) *Energy Cost Adjustment Mechanism ("ECAM")*

Until December 31, 2003, Maritime Electric maintained an ECAM account to adjust for and recover from or return to customers the effect of variations in energy costs above or below 5 cents per kilowatt hour ("kWh"). Maritime Electric also maintained a cost of capital adjustment account to adjust earnings based on a target rate of return on average common equity. In the absence of rate regulation, these items would be recorded in the period incurred. Under the new legislation effective January 1, 2004, IRAC issued a regulatory order that allowed Maritime Electric to amortize to earnings $1.5 million and $2.5 million of these pre-2004 recoverable costs in 2004 and 2005, respectively. The Company filed an application with IRAC on January 31, 2006, requesting approval for the amortization of $1.5 million and $1.3 million of these pre-2004 recoverable costs in 2006 and 2007, respectively. The remaining recovery period for the asset is not determinable as it is subject to future regulatory review and approval. In the absence of rate regulation, revenue would have been $2.5 million higher in 2005.

Beginning in 2004, IRAC authorized the recovery from or return to customers of energy costs above or below an approved amount of 6.73 cents per kWh, over a rolling 18-month period, under the operation of a new ECAM. In 2005, IRAC also extended this new ECAM to June 30, 2006, at which time it may be replaced with an ECAM that reflects a reduced number of energy-related cost categories as determined by IRAC. The amounts removed from the ECAM account would be recoverable through basic customer rates. In the absence of rate regulation, energy supply costs would be expensed in the period incurred and energy costs would have been $5.7 million lower in 2005. At December 31, 2004, post-2003 ECAM costs were classified as a current regulatory asset. At December 31, 2005, post-2003 ECAM costs were classified as a current regulatory liability as it is expected that amounts due to customers will be refunded within one year.

(vii) *Regulatory Other Post-Employment Benefit ("OPEB") Asset*

At Newfoundland Power and, prior to 2005, at FortisAlberta and FortisBC, the cash cost of providing other post-employment benefits was collected in customer rates as permitted by the regulators. In 2005, as permitted by the BCUC, the recovery from customers of the cost of other post-employment benefits at FortisBC included the cash costs plus a partial recovery of the full accrual cost of OPEBs. In 2005, as permitted by the AEUB, the recovery from customers of the cost of other post-employment benefits at FortisAlberta was based on the accrual method of accounting. The regulatory OPEB asset represents the deferred portion of the benefit expense at Newfoundland Power, FortisAlberta and FortisBC that is expected to be recovered from customers in future rates. Upon recovery in customer rates, these deferred expenses will be recognized in earnings. Also in 2005, at FortisAlberta, customer rates included amounts for OPEB costs which had previously been deferred. In the absence of rate regulation, operating expenses in 2005 would have been $6.0 million higher as the benefit expense would be recognized on an accrual basis as actuarially determined with no deferral of costs recorded on the balance sheet. This regulatory asset is not subject to a regulatory return.

4. Regulatory Assets and Liabilities (cont'd)

Newfoundland Power is required to file a report with the PUB no later than its next General Rate Application ("GRA") that addresses the potential use of the accrual method as an alternative to the currently approved method of expensing the costs of OPEB benefits in the year paid.

(viii) Weather Normalization Account

The PUB has ordered provision of a weather normalization account for Newfoundland Power to adjust for the effect of variations in weather and streamflows when compared to long-term averages. This reduces Newfoundland Power's year-to-year earnings volatility that would otherwise result from such fluctuations in revenue and purchased power. The methodology of this account anticipates that these variations will correct themselves over time. In the absence of rate regulation, these fluctuations would be recorded in earnings in the period in which they occurred.

As part of Newfoundland Power's 2003 GRA, it was determined that $5.6 million of the balance of this account was not expected to reduce over time. This non-reversing portion of the balance is being amortized and recovered through rates on a straight-line basis over a 5-year period ending in 2007. This amortization increases purchased power expenses by approximately $1.7 million per year and decreases income tax expense by approximately $0.6 million per year, for a net reduction of the non-reversing portion of the account balance of approximately $1.1 million per year.

Excluding the non-reversing portion, the remaining recovery period of the weather normalization account is not determinable, as it depends on weather and streamflow conditions in the future. In the absence of rate regulation, revenue and energy supply costs in 2005 would have been $10.6 million and $11.2 million lower, respectively.

(ix) Energy Management Costs

FortisBC provides energy management services to promote energy-efficiency programs for its customers. As required by a BCUC order, the Company has capitalized all expenditures (except certain defined costs) and has amortized these expenditures on a straight-line basis at 12.5 per cent per annum. In the absence of rate regulation, the costs of the energy management services would have been expensed in the period incurred, which would have resulted in increased operating and maintenance expenses of $2.4 million, decreased amortization expense of $1.0 million and decreased income taxes of $0.8 million in 2005. The regulatory asset represents the unamortized balance of the energy management service program costs.

(x) Lease Costs

On July 15, 2003, FortisBC began operating the Brilliant Terminal Station ("BTS") under an agreement the term of which expires in 2056 (unless the Company has earlier terminated the agreement by exercising its right, at any time after the anniversary date of the agreement in 2029, to give 36 months' notice of termination) (the "BTS Obligation") (Notes 10 and 25). The agreement provides that FortisBC will pay a charge related to the recovery of the capital cost of the BTS and related operating expenses. The recovery of the capital cost of the BTS, the cost of financing the BTS Obligation and the related operating costs are not being fully recovered by the Company in current customer rates since the rates include only the BTS lease payments on a cash basis. Of the regulatory deferred lease cost balance at December 31, 2005, $2.1 million (2004 – $1.4 million) represents the deferred portion of the cost of the lease that is expected to be recovered from customers in future rates. In the absence of rate regulation, amortization of the BTS and interest on the BTS Obligation would have been recorded, resulting in an increase in 2005 interest expense of $2.2 million, a decrease in 2005 operating and maintenance expenses of $2.4 million and an increase in 2005 amortization expense of $0.9 million.

Under a sale-leaseback agreement, on September 29, 1993, FortisBC began leasing its Trail, British Columbia office building for a term of 30 years (Note 25). The Company is accounting for the lease as an operating lease. The terms of the agreement require increasing stepped lease payments during the lease term. As ordered by the BCUC, FortisBC recovers the Trail office lease payments from customers and records the lease costs on a cash basis. In the absence of rate regulation, these lease costs would be recorded on a straight-line basis, which would not result in any change in the expense recorded in 2005 because the lease payments, on a cash basis, equalled the cost on a straight-line basis in the current year. Of the regulatory deferred lease cost balance at December 31, 2005, $1.7 million (2004 – $1.8 million) represents the deferred portion of the lease payments that is expected to be recovered from customers in future rates as the stepped lease payments increase. The regulatory deferred lease cost asset is not subject to a regulatory return.

(xi) *Capital Charge – Point Lepreau Nuclear Generating Station ("Point Lepreau Station")*

In 2001, Maritime Electric recorded a deferred asset in the amount of approximately $6.0 million with respect to the $450 million write-down of the Point Lepreau Station in 1998 by New Brunswick Power ("NB Power"), subject to an Entitlement Agreement between the 2 companies. Under the provisions of the *Electric Power Act*, effective January 1, 2004, Maritime Electric was permitted to recover these deferred costs but under such terms, timelines and conditions as determined by IRAC. IRAC has issued 2 Orders permitting the continued amortization of the deferred asset based on the estimated useful life of the Point Lepreau Station which will be extended to 2035 after its scheduled refurbishment in 2008. In the absence of rate regulation, amortization expense in 2005 would have been $0.6 million lower.

(xii) *Other Regulatory Assets*

Other regulatory assets, included as current and/or long-term, primarily relate to FortisAlberta, FortisBC and Newfoundland Power.

FortisAlberta's other regulatory assets relate to self-insurance costs, rate hearing costs, deferred building lease costs and future income tax expense. These expenses will be recognized in earnings when collected from customers in future rates upon approval by the AEUB. In the absence of rate regulation, these costs would be expensed in the period incurred, which would have resulted in increased operating expenses and lower revenue of $1.6 million and $0.1 million, respectively. These assets are expected to be recovered in 2006.

FortisBC's other regulatory assets include costs deferred, as allowed by the BCUC, associated with developing a long-term transmission and distribution system plan, renewing the Canal Plant Agreement, between BC Hydro, Teck Cominco, CPC/CBT, and annual rate application proceedings. Other regulatory assets at FortisBC also include PBR-mechanism incentive balances. FortisBC's regulatory framework includes PBR mechanisms that allow for the recovery from or refund to customers of a portion of certain increased or decreased costs, as compared to the forecast costs used to set customer rates. The final disposition of amounts deferred as regulatory PBR incentive assets and regulatory PBR incentive liabilities is determined by the sharing mechanisms with customers as approved per BCUC orders. The other regulatory asset balance at FortisBC will be recovered from customers in future rates as approved by or upon approval by the BCUC. In the absence of rate regulation, the costs would have been expensed in the period incurred and the PBR-incentive balances would not be recorded. In 2005, this would have resulted in increased operating expenses of $0.9 million, reduced amortization expense of $0.3 million, reduced revenue of $1.2 million and reduced income tax expense of $0.3 million.

Newfoundland Power's other regulatory assets include deferred early retirement program costs, deferred rate hearing costs and an unbilled revenue increase reserve. As approved by the PUB, early retirement program pension costs of $11.3 million, included in deferred pension costs (Notes 5 and 20), and retirement allowance early retirement program costs of $1.7 million are being amortized over a period of 10 and 2 years, respectively, beginning April 1, 2005. The unbilled revenue increase reserve will be applied against the unbilled revenue regulatory liability in 2006 (Note 4 *(xv)*). The deferred rate hearing costs, related to the 2003 GRA, were fully amortized by 2005. In the absence of rate regulation, the retirement allowances would have been expensed in the period the early retirement program was accepted by employees, the rate hearing costs would have been recorded in the period incurred and the unbilled revenue increase reserve would not have been allowed. This would have resulted in increased early retirement program costs of $0.7 million, reduced revenue of $0.1 million and reduced operating expenses of $0.3 million in 2005.

Of the total balance of current and long-term other regulatory assets at December 31, 2005, $0.5 million is not subject to a regulatory return.

(xiii) *Regulatory Future Income Tax Liability*

In 2005, FortisAlberta collected in customer rates taxes calculated on a modified liability basis as approved by the AEUB. As a result of collecting a portion of federal future income taxes within current rates, FortisAlberta has now recognized all federal future income taxes within the financial statements. As a result, FortisAlberta has set up a regulatory liability equal to the amount of federal future income taxes recognized in these financial statements that have not yet been reflected in customer rates. These amounts will be reflected in future rates to customers as timing differences reverse. FortisAlberta has applied for the taxes payable method in its filing to set the 2006 and 2007 rates and, if approved, this balance would be removed.

4. *Regulatory Assets and Liabilities (cont'd)*

During 2005, FortisAlberta collected in its approved customer rates $3.1 million relating to future income tax expense, which was recognized for customer rate making purposes. This balance is also included in the regulatory future income tax liability. For financial statement purposes, only $0.1 million of the $3.1 million was recognized as a future income tax expense. As such, the remaining $3.0 million of revenue was deferred. In the absence of rate regulation, revenue would have been $3.0 million higher in 2005.

(xiv) Regulatory Pension Deferral

This regulatory liability represents pension surplus at FortisAlberta that has not been reflected in customer rates and will result in a reduction of future customer rates when recognized. When future customer rates are reduced, this liability will be drawn down and reflected as a reduction of pension expense. In the absence of rate regulation, additional operating expenses of $3.6 million would have been recognized in 2005.

(xv) Unbilled Revenue Liability

Newfoundland Power and Belize Electricity record revenue derived from electricity sales on a billed basis (Note 2). The difference between revenue recognized on a billed basis and revenue recognized on an accrual basis is recorded on the balance sheet as a regulatory liability. In the absence of rate regulation, revenue would be recorded on an accrual basis and revenue for 2005 would have been $0.6 million higher.

The PUB has authorized Newfoundland Power to recognize $3.1 million of the 2005 unbilled revenue balance as revenue in 2006. The disposition of the remaining balance has been deferred until the Company's next GRA, which is anticipated in 2006 for the purpose of setting rates for 2007.

(xvi) Other Regulatory Liabilities

Other regulatory liabilities, included as current and/or long-term, primarily relate to FortisOntario, FortisAlberta and FortisBC.

FortisOntario maintains regulatory accounts, as approved by the OEB, to adjust for the effect of cost of power and related costs above or below amounts recovered in rates, net of deferred transmission costs associated with preparing for the competitive electricity market. In the absence of rate regulation, cost of power would be expensed in the period incurred. In 2005, cost of power deferred was $1.8 million while cost of power recovered through rates was $2.4 million. In the absence of rate regulation, the transmission costs would be appropriately deferred, due to their capital nature; however, the amount to be recovered and the recovery period would not be subject to regulatory approval. As allowed under franchise agreement, FortisOntario is guaranteed an annual gross margin on energy sold, subject to regulatory adjustments, and maintains a regulatory account to adjust for variances in actual gross margins from the guaranteed gross margins. In the absence of rate regulation, a guaranteed gross margin would not be allowed and revenue would have been higher by $0.9 million in 2005.

At FortisAlberta, other regulatory liabilities primarily include an amount resulting from the collection, in 2005, in customer rates of software maintenance costs that will not be incurred until 2006, an amount resulting from the collection of pension expense in customer rates that has not yet been contributed into the pension plan, and an amount owing to customers, as prescribed by the AEUB, relating to the difference in the actual amounts of certain deductions which are expected to be claimed for income tax purposes versus those that were included in 2005 customer rates. In the absence of rate regulation, these balances would not be deferred and revenue would have been higher by $1.7 million in 2005.

At FortisBC, other regulatory liabilities relate to PBR-mechanism incentive balances that are expected to be refunded to customers upon approval by the BCUC (Note 4 *(xii)*).

5. Deferred Charges

(in thousands)	**2005**	2004
Deferred pension costs *(Note 20)*	**$ 97,194**	$ 93,878
Unamortized debt discount and expenses	**21,937**	24,045
Deferred loss on interest rate swap contract	**12,443**	13,852
Deferred recoverable and project costs	**8,357**	7,530
Energy management loans	**3,944**	3,616
Other deferred charges	**4,265**	5,422
	$ 148,140	$ 148,343

6. Utility Capital Assets

2005 *(in thousands)*	**Cost**	**Accumulated Amortization**	**Contributions in Aid of Construction (Net)**	**Regulatory Tax Base Adjustment (Net)**	**Net Book Value**
Distribution	**$ 2,989,184**	**$ 1,069,626**	**$ 423,552**	**$ 100,913**	**$ 1,395,093**
Transmission	**689,295**	**196,085**	**–**	**–**	**493,210**
Generation	**599,406**	**143,599**	**–**	**–**	**455,807**
Assets under construction	**95,052**	**–**	**–**	**–**	**95,052**
Other	**291,143**	**124,244**	**–**	**–**	**166,899**
	$ 4,664,080	**$ 1,533,554**	**$ 423,552**	**$ 100,913**	**$ 2,606,061**

2004 *(in thousands)*	Cost	Accumulated Amortization	Contributions in Aid of Construction (Net)	Regulatory Tax Base Adjustment (Net)	Net Book Value
Distribution	$ 2,816,430	$ 998,042	$ 398,769	$ 105,941	$ 1,313,678
Transmission	557,464	178,358	–	–	379,106
Generation	562,044	143,935	–	–	418,109
Assets under construction	95,074	–	–	–	95,074
Other	284,053	118,342	–	–	165,711
	$ 4,315,065	$ 1,438,677	$ 398,769	$ 105,941	$ 2,371,678

The cost of assets under capital lease at December 31, 2005 was $26.2 million (2004 – $26.2 million) and related accumulated amortization was $2.5 million (2004 – $1.6 million).

7. Income Producing Properties

(in thousands)	**2005**	2004
Land, buildings and tenant inducements	**$ 464,472**	$ 380,597
Accumulated amortization	**(49,864)**	(39,528)
	$ 414,608	$ 341,069

The cost of assets under capital lease at December 31, 2005 was $11.3 million (2004 – $11.3 million) and related accumulated amortization was $5.7 million (2004 – $4.6 million).

8. Investments

(in thousands)	**2005**	2004
Caribbean Utilities	**$ 164,808**	$ 161,292
Other investments	**2,585**	2,477
	$ 167,393	$ 163,769

9. Short-term Borrowings

The credit facilities of the Corporation and its subsidiaries, as detailed below, bear interest at rates ranging from 3.3 per cent to 5.3 per cent at December 31, 2005 (2004 – 2.7 per cent to 4.3 per cent). The Corporation and its subsidiaries had consolidated authorized lines of credit of $747.1 million, of which $538.8 million was unused at December 31, 2005.

The following summary outlines the Corporation's credit facilities by reporting segment as at December 31.

(in millions of dollars)	Corporate	Regulated Utilities	Fortis Generation	Fortis Properties	**Total 2005**	Total 2004
Total credit facilities	210.0	518.8	5.8	12.5	**747.1**	543.2
Credit facilities utilized						
Short-term borrowings	(2.8)	(53.9)	(2.8)	(0.4)	**(59.9)**	(192.9)
Long-term debt *(Note 10)*	(18.0)	(56.8)	–	–	**(74.8)**	–
Letters of credit outstanding	(4.6)	(66.8)	–	(2.2)	**(73.6)**	(91.0)
Credit facilities available	184.6	341.3	3.0	9.9	**538.8**	259.3

At December 31, 2005, certain borrowings under the Corporation's credit facilities have been classified as long-term debt. These borrowings are under long-term credit facilities and management's intention is to refinance these borrowings with long-term permanent financing during future periods.

In January 2005, Fortis entered into a $50 million unsecured revolving/term credit facility for its general corporate purposes, including acquisitions. In May 2005, Fortis renegotiated its $145 million unsecured revolving/term credit facility to a $145 million unsecured term credit facility that matures in May 2008. This facility can be used for general corporate purposes, including acquisitions. At December 31, 2005, there was $18.0 million drawn on this facility, all of which has been reported as long-term debt. In December 2005, Fortis renegotiated its $50 million unsecured revolving/term credit facility to an unsecured term credit facility that matures in January 2009. Fortis also entered into a $15 million demand facility during 2005.

In January 2005, Newfoundland Power cancelled its $110 million uncommitted lines of credit and entered into a syndicated $100 million committed revolving/term credit facility and a $20 million uncommitted demand facility. In January 2006, the Company renegotiated the $100 million credit facility, extending the term from 1 year to 3 years.

In January 2005, Maritime Electric entered into a $25 million non-revolving unsecured short-term bridge financing, due January 2006, to support the construction of its 50-MW generating facility. In January 2006, this $25 million short-term bridge financing was extended until June 2007.

In May 2005, FortisAlberta renegotiated its $100 million unsecured revolving/term credit facility to a $150 million unsecured term credit facility that matures in May 2008. At December 31, 2005, there was $56.8 million drawn on this facility, all of which has been reported as long-term debt.

In May 2005, FortisBC renegotiated its $100 million unsecured revolving/term credit facility to a $100 million unsecured term credit facility that matures in May 2008. Additionally, in May 2005, FortisBC entered into a $50 million unsecured revolving/term credit facility. At December 31, 2005, there were no amounts drawn on these facilities.

In September 2005, PLP entered into $5.4 million of credit facilities consisting of a $0.7 million revolving demand operating line and a $4.7 million non-revolving demand instalment loan.

10. Long-term Debt and Capital Lease Obligations

(in thousands)	**2005**	2004
Regulated Utilities		
Newfoundland Power		
Secured first mortgage sinking fund bonds:		
11.875% Series AC, due 2007	**$ 32,270**	$ 32,670
10.550% Series AD, due 2014	**32,153**	32,553
10.900% Series AE, due 2016	**34,400**	34,800
9.000% Series AG, due 2020	**35,600**	36,000
10.125% Series AF, due 2022	**34,800**	35,200
8.900% Series AH, due 2026	**36,435**	36,835
6.800% Series AI, due 2028	**46,500**	47,000
7.520% Series AJ, due 2032	**72,750**	73,500
5.441% Series AK, due 2035	**59,400**	–
	384,308	328,558
Maritime Electric		
Secured first mortgage bonds:		
12.000% Series – due 2010	**15,000**	15,000
11.500% Series – due 2016	**12,000**	12,000
8.550% Series – due 2018	**15,000**	15,000
7.570% Series – due 2025	**15,000**	15,000
8.625% Series – due 2027	**15,000**	15,000
8.920% Series – due 2031	**20,000**	20,000
	92,000	92,000
FortisOntario		
7.092% Senior Unsecured Notes, due 2018	**30,000**	30,000
7.092% Senior Unsecured Notes, due 2018	**22,000**	22,000
	52,000	52,000
FortisAlberta		
5.33% Senior Unsecured Debentures, due 2014	**200,000**	200,000
6.22% Senior Unsecured Debentures, due 2034	**200,000**	200,000
	400,000	400,000
FortisBC		
Secured Debentures:		
11.00% Series E, due 2009	**6,000**	6,750
9.65% Series F, due 2012	**15,000**	15,000
8.80% Series G, due 2023	**25,000**	25,000
Unsecured Debentures:		
6.75% Series J, due 2009	**50,000**	50,000
5.48% Series 1-04, due 2014	**140,000**	140,000
8.77% Series H, due 2016	**25,000**	25,000
7.81% Series I, due 2021	**25,000**	25,000
5.60% Series 1-05, due 2035	**100,000**	–
Obligation under capital lease	**25,792**	26,016
	411,792	312,766
Belize Electricity		
Secured		
RBTT Merchant Bank (BZ$18.9M)	**10,997**	13,586
First Caribbean International Bank (BZ$5.0M)	**2,908**	4,207
Other loans	**–**	33

Notes to Consolidated Financial Statements

December 31, 2005 and 2004

10. Long-term Debt and Capital Lease Obligations (cont'd)

(in thousands)	**2005**	2004
Belize Electricity (cont'd)		
Unsecured		
6.75% Term loan, due 2006 (BZ$0.8M)	**443**	1,209
12.00% Debentures, due 2012 (BZ$17.0M)	**9,888**	10,226
9.50% Debentures, due 2021 (BZ$19.4M)	**11,307**	11,706
10.00% Debentures, due 2022 (BZ$19.6M)	**11,378**	9,958
Caribbean Development Bank (BZ$17.9M)	**10,419**	11,688
European Investment Bank (Euro 2.4M)	**3,190**	4,004
International Bank for Reconstruction and Development ("IBRD") (BZ$10.6M)	**6,178**	7,820
M&T Bank (formerly All-First Bank) (BZ$1.9M)	**1,119**	2,334
Toronto Dominion Bank (BZ$7.6M)	**4,429**	5,884
	72,256	82,655
Non-regulated – Fortis Generation		
Secured		
FortisOntario Inc.		
Term loan, repaid during 2005	**–**	22,500
BECOL		
Term loan, due 2011 (US$32.7M)	**37,972**	43,765
Exploits Partnership		
Construction and term loan, due 2028	**63,994**	65,000
Walden Power Partnership		
9.44% WPP Mortgage, due 2013	**6,397**	6,923
	108,363	138,188
Non-regulated – Fortis Properties		
Secured		
6.85% First mortgage, due 2007	**4,855**	5,014
5.10% First mortgage, due 2010	**29,068**	–
5.35% First mortgage, due 2010	**12,097**	–
8.15% First mortgage, due 2010	**16,522**	17,393
9.47% First mortgage, due 2010	**11,181**	11,464
7.42% First mortgage bonds, due 2012	**26,383**	27,186
7.77% First mortgage, due 2012	**21,779**	22,375
6.58% First mortgage, due 2013	**32,614**	33,758
7.30% First mortgage, due 2013	**28,742**	29,369
6.42% First mortgage, due 2014	**15,290**	15,557
7.50% First mortgage bonds, due 2017	**42,433**	43,660
7.32% Senior notes, due 2019	**18,521**	19,343
Obligations under capital leases	**3,885**	5,426
Non-interest bearing note payable due 2006	**428**	837
	263,798	231,382
Fortis Inc.		
7.40% Senior Unsecured Debentures, due 2010	**100,000**	100,000
6.75% Unsecured Subordinated Convertible Debentures, due 2012 (US$10 million)	**10,998**	11,261
5.50% Unsecured Subordinated Convertible Debentures, due 2013 (US$10 million)	**11,278**	11,607
5.74% Senior Unsecured Notes, due 2014 (US$150 million)	**174,450**	180,300
	296,726	303,168
Long-term classification of credit facilities *(Note 9)*	**74,823**	–
Total long-term debt and capital lease obligations	**2,156,066**	1,940,717
Less: Current instalments of long-term debt and capital lease obligations	**31,392**	36,286
	$ 2,124,674	$ 1,904,431

Regulated Utilities

Newfoundland Power and Maritime Electric

The Newfoundland Power and Maritime Electric first mortgage bonds are secured by a first fixed and specific charge on the respective utility's capital assets owned or to be acquired and by a floating charge on all other assets.

On August 15, 2005, Newfoundland Power closed a private placement of 5.441%, $60 million first mortgage sinking fund bonds, due August 15, 2035.

FortisAlberta

On October 25, 2004, FortisAlberta issued $200 million in Senior Unsecured Debentures bearing interest at 5.33 per cent to be paid semi-annually, maturing October 31, 2014 and $200 million in Senior Unsecured Debentures bearing interest at 6.22 per cent to be paid semi-annually, maturing on October 31, 2034.

FortisBC

The Secured Series E, F and G Debentures are collaterized by a fixed and floating first charge on the assets of FortisBC. Sinking fund payments of $0.75 million per year are required for Series E Secured Debentures.

On November 10, 2005, FortisBC issued $100 million in Unsecured Debentures bearing interest at 5.60 per cent, due November 9, 2035. On November 30, 2004, FortisBC issued $140 million in Unsecured Debentures, bearing interest at 5.48 per cent, due November 28, 2014. Upon issuance of the $140 million Unsecured Debentures, the Series H, I and J Secured Debentures were converted to Unsecured Debentures pursuant to the terms of the unsecured trust deed.

FortisBC has a capital lease obligation with respect to the BTS (Note 4 *(x)*). Future minimum lease payments associated with this capital lease obligation are approximately $2.5 million per year over the remaining term of the lease agreement. The BTS lease obligation bears interest at a composite rate of 8.64 per cent.

Belize Electricity

The RBTT Merchant Bank construction and term loan bears interest at rates ranging from 5.75 per cent to 8.15 per cent and matures between 2010 and 2012. The loan is secured by a debenture over specific assets of the Company.

The First Caribbean International Bank loan bears interest at 11.5 per cent and matures in 2008. The loan is secured by an equitable mortgage on specific assets of the Company.

The 12.0% Unsecured Debentures can be called by Belize Electricity at any time after June 30, 2003 until maturity by giving the holders not more than 60 days' nor less than 30 days' written notice, and are repayable at the option of the holders at any time on or after June 30, 2002 by giving 12 months' written notice to Belize Electricity. Redemption by agreement between Belize Electricity and the debenture holders at any time is also allowed.

The 9.5% Unsecured Debentures can be called by Belize Electricity at any time after April 30, 2008 until maturity by giving holders not more than 60 days' nor less than 30 days' written notice, and are repayable at the option of the holders at any time on or after April 30, 2008 by giving 12 months' written notice to Belize Electricity. Redemption by agreement between Belize Electricity and the debenture holders at any time is also allowed.

The 10.0% Unsecured Debentures can be called by Belize Electricity at any time after August 31, 2009 until maturity by giving holders not more than 60 days' nor less than 30 days' written notice, and are repayable at the option of the holders at any time on or after August 31, 2009 by giving 12 months' written notice to Belize Electricity. Redemption by agreement between Belize Electricity and the debenture holders at any time is also allowed.

The Caribbean Development Bank loans bear interest at rates ranging from 5.5 per cent to 8.5 per cent and mature from 2007 to 2014. The European Investment Bank loan bears interest at 5.0 per cent and matures in 2014. The IBRD loan bears interest at 0.5 per cent per annum above the bank's "Cost of Qualified Borrowings" as defined in the loan agreement, and matures in 2011. The effective rate of interest as of December 31, 2005 was 5.46 per cent per annum (2004 – 5.31 per cent). The M&T Bank loan bears interest at 4.95 per cent and matures in 2006. The Toronto Dominion Bank loan bears interest at 5.75 per cent and matures in 2009.

At December 31, 2005, Belize Electricity was non-compliant with its debt service coverage ratio of 1.5 times related to its IBRD and Caribbean Development Bank loans. A waiver was obtained for December 2005 from the IBRD. Discussions with the Caribbean Development Bank are ongoing with a view to cure and/or amend the covenants. Fortis does not expect any change in the regular debt repayment schedule relating to these loans.

10. Long-Term Debt and Capital Lease Obligations (cont'd)

Fortis Generation

FortisOntario Inc.

The FortisOntario Inc. term loan, originally due in 2007, was repaid on May 30, 2005.

BECOL

The BECOL term loan is secured by agreements covering all its property assets and undertakings. BECOL is party to an interest rate swap contract maturing on September 30, 2011 to hedge against interest exposures on the term loan. The contract has the effect of fixing the rate of interest at 9.45 per cent on the indebtedness.

The interest rate swap contract is accounted for as a hedge against the long-term debt. At December 31, 2005, there was an unrecognized loss of US$0.8 million (CDN$0.9 million) [2004 – US$2.3 million (CDN$2.8 million) loss] on the interest rate swap contract. The change in the market value of the interest rate swap contract, which will fluctuate over time, is not recognized until future interest payments are made. Therefore, the change in market value of this contract at year end has not been recognized in these consolidated financial statements.

Exploits Partnership

The Exploits Partnership non-recourse construction and 25-year amortizing term loan bears interest at 7.55 per cent. At December 31, 2005, the Exploits Partnership had drawn the full balance on the loan and had no cash held in escrow (2004 – $0.1 million). A first, fixed and specific charge and security interest over all the assets of the Exploits Partnership and assignment of various agreements has been provided as security. The term loan matures in 2028.

Walden Power Partnership

The WPP mortgage is secured by a fixed and floating charge over the assets of WPP.

Fortis Properties

The Fortis Properties first mortgage bonds are secured by a fixed and floating charge on specific income producing properties. The senior secured notes are collateralized by a fixed and specific mortgage and a charge on a specific income producing property. The first mortgages are secured by specific income producing properties. Fortis Properties has capital lease obligations which require future minimum lease payments of approximately $1.5 million in 2006, $1.3 million in 2007 and a final payment of $1.5 million in 2008.

Fortis Inc.

The $100 million Senior Unsecured Debentures are redeemable at the option of the Corporation at a price calculated as the greater of the principal amount to be redeemed and the amount equal to the net present value of interest and principal based on the Canada Yield, plus a premium ranging from 0.43 per cent to 0.87 per cent, together with accrued and unpaid interest thereon. There are also stated limitations for additional borrowings, dividend payments, share distributions and redemptions and the prepayment of subordinated debt.

The 6.75% Unsecured Subordinated Convertible Debentures are redeemable by the Corporation at par at any time on or after March 12, 2007, and are convertible, at the option of the holder, into the Corporation's Common Shares at US$9.19 per share (adjusted for stock split). The Debentures are subordinated to all other indebtedness of the Corporation, other than subordinated indebtedness ranking equally to the Debentures.

The 5.50% Unsecured Subordinated Convertible Debentures are redeemable by the Corporation at par at any time on or after May 20, 2008, and are convertible, at the option of the holder, into the Corporation's Common Shares at US$11.97 per share (adjusted for stock split). The Debentures are subordinated to all other indebtedness of the Corporation, other than subordinated indebtedness ranking equally to the Debentures.

The Unsecured Subordinated Convertible Debentures are being accounted for in accordance with their substance and are presented in the financial statements in their component parts. The liability and equity components are classified separately on the balance sheet and are measured at their respective fair values at the time of issue. The equity portion of convertible debentures was $1.5 million at December 31, 2005 (2004 – $1.6 million).

On October 28, 2004, Fortis issued, by way of private placement, US$150 million of 10-year 5.74% Senior Unsecured Notes due October 31, 2014. There are also stated limitations for additional borrowings, dividend payments, share distributions and redemptions and the prepayment of subordinated debt.

Repayment of Long-term Debt and Capital Lease Obligations

The consolidated annual requirements to meet principal repayments and maturities in each of the next 5 years are as follows:

2006	$ 31.4 million
2007	$ 61.8 million
2008	$105.6 million
2009	$ 82.8 million
2010	$144.4 million

Fair Values

While the Corporation's liability with respect to long-term debt and capital lease obligations was $2,156 million (2004 – $1,941 million), the estimated fair value of the long-term debt and capital lease obligations was $2,482 million at December 31, 2005 (2004 – $2,158 million). Fair value is estimated using present value techniques based on borrowing rates at year end for debt with similar terms and maturities. Since the Corporation does not intend to settle the debt prior to maturity, the fair value estimate does not represent an actual liability and therefore does not include exchange or settlement costs.

11. Deferred Credits

(in thousands)	**2005**	2004
Other post-employment benefit obligations *(Note 20)*	**$ 43,743**	$ 36,642
Supplementary defined benefit plan obligations *(Note 20)*	**9,882**	8,716
Deferred gain on foreign exchange swap contract	**3,526**	4,268
Other	**7,110**	5,265
	$ 64,261	$ 54,891

12. Non-controlling Interest

The non-controlling interest consists of the non-controlling interest in the net assets of Belize Electricity, Exploits Partnership and preference shares of Newfoundland Power.

(in thousands)	**2005**	2004
Belize Electricity	**$ 28,370**	$ 26,583
Exploits Partnership	**3,989**	3,617
Preference shares of Newfoundland Power	**7,196**	7,287
	$ 39,555	$ 37,487

13. Preference Shares

Authorized
(a) an unlimited number of First Preference Shares, without nominal or par value
(b) an unlimited number of Second Preference Shares, without nominal or par value

Issued and Outstanding	**2005**		2004	
	Number of Shares	**Amount *(in thousands)***	Number of Shares	Amount *(in thousands)*
Series C First Preference Shares	**5,000,000**	**$ 122,992**	5,000,000	$ 122,992
Series D First Preference Shares	**–**	**–**	6,500	38
Series E First Preference Shares	**7,993,500**	**196,500**	7,993,500	196,500
Total	**12,993,500**	**$ 319,492**	13,000,000	$ 319,530

Series C First Preference Shares

The Series C First Preference Shares are entitled to fixed cumulative preferential cash dividends at a rate of $1.3625 per share per annum.

On or after June 1, 2010, the Corporation may, at its option, redeem for cash the Series C First Preference Shares, in whole at any time or in part from time to time, at $25.75 per share if redeemed before June 1, 2011, at $25.50 per share if redeemed on or after June 1, 2011 but before June 1, 2012, at $25.25 per share if redeemed on or after June 1, 2012 but before June 1, 2013 and at $25.00 per share if redeemed on or after June 1, 2013 plus, in each case, all accrued and unpaid dividends up to but excluding the date fixed for redemption.

13. Preference Shares (cont'd)

On or after June 1, 2010, the Corporation may, at its option, convert all, or from time to time any part of the outstanding Series C First Preference Shares into fully paid and freely tradable common shares of the Corporation. The number of common shares into which each Preference Share may be so converted will be determined by dividing the then applicable redemption price per Preference Share, together with all accrued and unpaid dividends up to but excluding the date fixed for conversion, by the greater of $1.00 and 95 per cent of the then current market price of the common shares at such time.

On or after September 1, 2013, each Series C First Preference Share will be convertible at the option of the holder on the third day of September, December, March and June of each year into freely tradable common shares determined by dividing $25.00, together with all accrued and unpaid dividends up to but excluding the date fixed for conversion, by the greater of $1.00 and 95 per cent of the then current market price of the common shares. If a holder of Series C First Preference Shares selects to convert any of such shares into common shares, the Corporation can redeem such Series C First Preference Shares for cash or arrange for the sale of those shares to substitute purchasers.

Series D First Preference Shares

On January 29, 2004, Fortis issued 8,000,000 First Preference Units of the Corporation. Each First Preference Unit consisted of one Series D First Preference Share of the Corporation and one Series E First Preference Share Purchase Warrant (a "Warrant"). Upon close of the acquisition of FortisAlberta and FortisBC, which occurred on May 31, 2004, each Warrant entitled the holder to acquire 0.75 of a Series E First Preference Share upon payment of $18.75 per Warrant. Holders of Series D First Preference Shares had the right to convert each Series D First Preference Share into 0.25 of a Series E First Preference Share and to exercise a Warrant (in conjunction with the payment of $18.75) on July 15, 2004, September 1, 2004 and December 1, 2004.

The purchase price of $6.25 per First Preference Share Unit resulted in initial gross proceeds of approximately $50 million. During the remainder of 2004, Fortis received additional gross proceeds of approximately $149.9 million from the conversion of 7,993,500 of the First Preference Units. On December 1, 2004, the remaining 6,500 First Preference Units were cancelled and replaced with the issuance of 6,500 Series D First Preference Shares.

On September 20, 2005, the 6,500 Series D First Preference Shares were redeemed, without premium, at a redemption price of $6.25 per Series D First Preference Share. Prior to the redemption, the quarterly cash dividend payable with respect to the Series D First Preference Shares that were not converted was reduced to $0.01 per share, being equivalent to 0.64 per cent per annum per Series D First Preference Share.

Series E First Preference Shares

The Series E First Preference Shares are entitled to receive fixed cumulative preferential cash dividends in the amount of $1.2250 per share per annum.

On or after June 1, 2013, the Corporation may, at its option, redeem all, or from time to time any part of, the outstanding Series E First Preference Shares by the payment in cash of a sum per redeemed share equal to $25.75 if redeemed during the 12 months commencing June 1, 2013, $25.50 if redeemed during the 12 months commencing June 1, 2014, $25.25 if redeemed during the 12 months commencing June 1, 2015, and $25.00 if redeemed on or after June 1, 2016 plus, in each case, all accrued and unpaid dividends up to but excluding the date fixed for redemption.

On or after June 1, 2013, the Corporation may, at its option, convert all, or from time to time any part of the outstanding Series E First Preference Shares into fully paid and freely tradable common shares of the Corporation. The number of common shares into which each Preference Share may be so converted will be determined by dividing the then applicable redemption price per Series E First Preference Share, together with all accrued and unpaid dividends up to but excluding the date fixed for conversion, by the greater of $1.00 and 95 per cent of the then current market price of the common shares at such time.

On or after September 1, 2016, each Series E First Preference Share will be convertible at the option of the holder on the first business day of September, December, March and June of each year, into fully paid and freely tradable common shares determined by dividing $25.00, together with all accrued and unpaid dividends up to but excluding the date fixed for conversion, by the greater of $1.00 and 95 per cent of the then current market price of the common shares. If a holder of Series E Preference Shares elects to convert any of such shares into common shares, the Corporation can redeem such Series E Preference Shares for cash or arrange for the sale of those shares to other purchasers.

Fair Values

Fair values for the preference shares, determined using quoted market prices, were $369.1 million at December 31, 2005 (2004 – $360.4 million).

14. Common Shares

On September 28, 2005, the Board of Directors of Fortis declared a stock dividend effecting a 4-for-1 stock split of the Corporation's outstanding Common Shares. The stock dividend was paid on October 21, 2005 to shareholders of record on October 14, 2005. For all periods presented, all references to the number of common shares issued and outstanding, weighted average number of common shares, basic and diluted earnings per common share amounts and stock option data have been retroactively restated to reflect the effect of this stock split.

Authorized
(a) an unlimited number of Common Shares without nominal or par value.

Issued and Outstanding	**2005**		2004	
	Number of Shares	**Amount *(in thousands)***	Number of Shares	Amount *(in thousands)*
Common Shares	**103,203,981**	**$ 813,304**	95,529,292	$ 675,215

Common Shares issued for cash during the year were as follows:

	2005		2004	
	Number of Shares	**Amount *(in thousands)***	Number of Shares	Amount *(in thousands)*
Opening balance	**95,529,292**	**$ 675,215**	69,521,676	$ 329,660
Public offering	**6,960,000**	**126,072**	–	–
Partial consideration in business acquisition *(Note 21)*	**23,668**	**443**	–	–
Conversion of Subscription Receipts	**–**	**–**	25,240,000	335,793
Consumer Share Purchase Plan	**86,588**	**1,799**	106,232	1,640
Dividend Reinvestment Plan	**171,301**	**3,526**	199,176	3,074
Employee Share Purchase Plan	**151,724**	**3,088**	141,724	2,184
Directors' and Executive Stock Option Plans	**281,408**	**3,161**	320,484	2,864
	103,203,981	**$ 813,304**	95,529,292	$ 675,215

On March 1, 2005, Fortis issued 6,960,000 Common Shares (adjusted for stock split) of the Corporation at $18.66 per common share (adjusted for stock split). The common share issue resulted in gross proceeds of approximately $130 million. Net proceeds after tax-effected issuance costs totalled $126.1 million. The proceeds of the issue were used to pay outstanding indebtedness and for general corporate purposes.

On May 31, 2005, Fortis issued 23,668 Common Shares (adjusted for stock split) of the Corporation at a fair value of $18.71 per common share, the 5-day average trading price of the Corporation's Common Shares for the last 5 trading days immediately preceding the acquisition (adjusted for stock split), to the shareholders of PLP, combined with a cash payment, to acquire all of the issued common and preference shares of PLP.

On May 31, 2004, upon closing of the acquisition of FortisAlberta and FortisBC, the Subscription Receipts were cancelled and automatically exchanged, without payment of additional consideration, for one Common Share of Fortis and a cash payment of $0.40 per common share (adjusted for stock split), which is an amount equal to the dividends declared on a common share by Fortis during the period from the closing date of the Subscription Receipts offering to May 31, 2004. The net after-tax proceeds to Fortis upon conversion of the Subscription Receipts were $335.8 million.

At December 31, 2005, 6,355,560 Common Shares remained reserved for issue under the terms of the above share purchase, dividend reinvestment and stock option plans (adjusted for stock split).

As at December 31, 2005, $1.3 million of common share equity had not been fully paid. The amount relates to amounts outstanding under employee share purchase and executive stock option loans.

14. Common Shares (cont'd)

Earnings per Common Share

The Corporation has calculated earnings per common share on the weighted average number of common shares outstanding. The weighted average number of common shares outstanding were 101,749,758 and 84,737,532 for 2005 and 2004, respectively (adjusted for stock split). Diluted earnings per common share are calculated using the treasury stock method for options and the "if-converted" method for subordinated convertible debentures and preference securities.

Earnings per common share are as follows:

	2005			2004		
	Earnings (in thousands)	Weighted Average Shares (in thousands)	Earnings per Common Share	Earnings (in thousands)	Weighted Average Shares (in thousands)	Earnings per Common Share
Earnings	$ 137,097			$ 90,855		
Weighted average shares outstanding		101,750			84,738	
Basic Earnings per Common Share			$1.35			$1.07
Effect of dilutive securities						
Stock options	–	1,046		–	543	
Preference Shares	16,606	19,689		12,319	16,154	
Convertible debentures	1,104	1,925		1,186	1,924	
Diluted Earnings per Common Share	$ 154,807	124,410	$1.24	$ 104,360	103,359	$1.01

15. Stock Options

The Corporation is authorized to grant certain key employees and directors of Fortis Inc. and its subsidiaries options to purchase Common Shares of the Corporation. At December 31, 2005, the Corporation had the following stock-based compensation plans: Executive Stock Option Plan and 2002 Stock Option Plan. The 2002 Stock Option Plan was adopted at the Annual and Special General Meeting on May 15, 2002 to ultimately replace the Executive and Directors' Stock Option Plans. The Executive Stock Option Plan will cease to exist when all outstanding options are exercised or expire in or before 2011. The Directors' Stock Option Plan ceased to exist at December 31, 2005 as no options granted under this Plan remained outstanding. As a result of the October 2005 stock split, all outstanding stock options at that time were split 4-for-1, with the exercise price at one quarter of the pre-split exercise price (Note 14).

Number of Options:	2005	2004
Options outstanding at beginning of year	2,882,588	2,408,852
Granted	845,720	836,956
Cancelled	(25,024)	(42,736)
Exercised	(281,408)	(320,484)
Options outstanding at end of year	3,421,876	2,882,588
Options vested at end of year	1,452,602	1,004,848
Weighted Average Exercise Prices:		
Outstanding at beginning of year	$12.57	$11.17
Granted	18.49	15.20
Cancelled	16.56	12.18
Exercised	10.44	8.94
Outstanding at end of year	14.18	12.57

Details of stock options outstanding are as follows:	Number of Options	Exercise Price	Expiry Date
	448,624	$ 9.57	2011
	642,428	$12.03	2012
	703,468	$12.81	2013
	709,136	$15.28	2014
	12,000	$15.23	2014
	73,540	$14.55	2014
	770,940	$18.40	2015
	28,000	$18.11	2015
	33,740	$20.82	2015
	3,421,876		

Stock-based Compensation

On March 1, 2005, the Corporation issued 783,980 options (adjusted for stock split) on common shares under its 2002 Stock Option Plan at the 5-day average trading price immediately preceding the date of grant of $18.40 (adjusted for stock split). These options vest evenly over a 4-year period on each anniversary of the date of grant. The options expire 10 years after the date of grant. The fair market value of each option granted was $2.75 per option (adjusted for stock split).

On May 11, 2005, the Corporation issued 28,000 options (adjusted for stock split) on common shares under its 2002 Stock Option Plan at the 5-day average trading price immediately preceding the date of grant of $18.11 (adjusted for stock split). These options vest evenly over a 4-year period on each anniversary of the date of grant. The options expire 10 years after the date of grant. The fair market value of each option granted was $2.58 per option (adjusted for stock split).

On August 16, 2005, the Corporation issued 33,740 options (adjusted for stock split) on common shares under its 2002 Stock Option Plan at the 5-day average trading price immediately preceding the date of grant of $20.82 (adjusted for stock split). These options vest evenly over a 4-year period on each anniversary of the date of grant. The options expire 10 years after the date of grant. The fair market value of each option granted was $2.82 per option (adjusted for stock split).

The fair value was estimated on the date of grant using the Black-Scholes fair value option-pricing model and the following assumptions:

	March 1, 2005	**May 11, 2005**	**August 16, 2005**
Dividend yield *(%)*	3.44	3.44	3.44
Expected volatility *(%)*	15.3	15.2	14.9
Risk-free interest rate *(%)*	4.28	4.12	3.93
Weighted-average expected life (years)	7.5	7.5	7.5

16. Foreign Currency Translation Adjustment

(in thousands)	**2005**	2004
Balance, beginning of year	**$ (15,497)**	$ (12,515)
Effect of exchange rate changes	**(815)**	(2,982)
Balance, end of year	**$ (16,312)**	$ (15,497)

17. Finance Charges

(in thousands)	**2005**	2004
Amortization of debt and stock issue expenses	**$ 1,093**	$ 1,984
Interest – Long-term debt	**143,505**	101,094
– Short-term borrowings	**5,435**	17,181
Interest charged to construction *(Note 2)*	**(6,727)**	(4,895)
Interest earned	**(3,752)**	(4,081)
Unrealized foreign exchange gain on long-term debt	**(2,335)**	(1,229)
	$ 137,219	$ 110,054

18. Gain on Settlement of Contractual Matters

In the first quarter of 2005, Fortis recorded a $7.9 million after-tax gain ($10 million pre-tax) resulting from the settlement of contractual matters between FortisOntario and OPGI.

19. Income Taxes

The following is a reconciliation of the consolidated statutory income tax rate to the consolidated effective income tax rate:

(%)	**2005**	2004
Statutory income tax rate	**35.4**	35.8
Large corporations' tax	**2.0**	2.3
Pension costs	**(0.9)**	(1.4)
Non-controlling interest share of partnership income	**(0.3)**	(0.4)
Difference between Canadian statutory rates and those applicable to foreign subsidiaries	**(3.3)**	(2.3)
Items capitalized for accounting but expensed for income tax purposes	**(1.5)**	(1.6)
Cornwall Electric tax reassessment	**(0.7)**	–
Utilization of non-capital losses	**–**	(1.3)
Impact of a change in tax rates on future income taxes	**–**	(0.1)
Other	**(0.1)**	(0.9)
Effective income tax rate	**30.6**	30.1

The components of the provision for income taxes are as follows:

(in thousands)	**2005**	2004
Canadian		
Current taxes	**$ 55,762**	$ 36,939
Future income taxes	**11,798**	8,332
	67,560	45,271
Foreign		
Current taxes	**2,326**	982
Future income taxes	**530**	674
	2,856	1,656
Income tax expense	**$ 70,416**	$ 46,927

Future income taxes are provided for temporary differences. Future income tax assets and liabilities are comprised of the following:

(in thousands)	**2005**	2004
Future income tax (asset) liability		
Energy cost adjustment mechanism	**$ 5,123**	$ 8,390
Utility and income producing assets	**(5,744)**	23,067
Valuation allowance – Cornwall Electric	**–**	4,900
Water rights	**5,067**	6,587
Employee future benefits	**(8,400)**	(7,299)
Share issue and debt financing costs	**(2,010)**	(1,760)
Deferred charges	**981**	1,521
Tenant inducements	**2,382**	2,388
Losses carried forward	**(8,151)**	(6,303)
Other	**3,369**	(924)
Net future income tax (asset) liability	**(7,383)**	30,567
Current future income tax asset	**$ –**	$ (4,204)
Current future income tax liability	**6,714**	–
Long-term future income tax asset	**(58,815)**	(13,661)
Long-term future income tax liability	**44,718**	48,432
Net future income tax (asset) liability	**(7,383)**	30,567

As at December 31, 2005, the Corporation had approximately $26.7 million in non-capital and capital losses carried forward, of which $0.6 million in capital losses has not been recognized in the financial statements.

20. Employee Future Benefits

For the defined benefit pension arrangements, the accrued benefit obligation and the market-related value or fair value of plan assets are measured for accounting purposes as at December 31 of each year for the Corporation and Newfoundland Power, and as at September 30 of each year for FortisOntario, FortisAlberta and FortisBC. The most recent actuarial valuation of the pension plans for funding purposes was as of December 31, 2003 for FortisOntario and Newfoundland Power; as of December 31, 2004 for FortisAlberta and FortisBC; and will be done as of December 31, 2005 for the Corporation. The next required valuations will be, at the latest, 3 years from the date of the most recent actuarial valuation for each company.

The Corporation's defined benefit pension plan asset allocation was as follows:

Plan assets as at December 31

(%)	**2005**	2004
Canadian equities	**46**	48
Fixed income	**38**	37
Foreign equities	**14**	12
Real estate	**2**	3
	100	100

The following is a breakdown of the Corporation's defined benefit pension plans and their respective funded or (unfunded) status:

	2005					
($ thousands)	**Newfoundland Power**	**Fortis Inc.**	**FortisOntario**	**FortisAlberta**	**FortisBC**	**Total**
Accrued benefit obligation	**226,725**	**4,218**	**24,558**	**19,815**	**114,324**	**389,640**
Plan assets	**223,370**	**3,261**	**19,746**	**17,285**	**86,136**	**349,798**
Unfunded	**(3,355)**	**(957)**	**(4,812)**	**(2,530)**	**(28,188)**	**(39,842)**

	2004					
($ thousands)	Newfoundland Power	Fortis Inc.	FortisOntario	FortisAlberta	FortisBC	Total
Accrued benefit obligation	182,961	2,064	20,846	14,876	96,398	317,145
Plan assets	197,906	1,802	18,220	17,650	73,405	308,983
Funded (unfunded)	14,945	(262)	(2,626)	2,774	(22,993)	(8,162)

20. Employee Future Benefits (cont'd)

	Defined Benefit Pension Plans Funded		Supplementary Defined Benefit Plans Unfunded		Other Post-employment Benefit Plans Unfunded	
(in thousands, except as indicated)	**2005**	2004	**2005**	2004	**2005**	2004
Change in accrued benefit obligation						
Balance, beginning of year	**$ 317,145**	$ 198,344	**$ 13,191**	$ 8,798	**$ 82,442**	$ 60,970
Liability associated with acquisitions	**–**	105,162	**–**	–	**–**	1,293
Current service costs	**8,314**	6,491	**470**	429	**1,680**	1,913
Interest costs	**19,756**	15,961	**727**	780	**4,856**	3,991
Benefits paid	**(17,557)**	(13,626)	**(386)**	(489)	**(2,221)**	(1,760)
Actuarial losses (gains)	**50,070**	2,790	**(115)**	3,673	**15,762**	16,035
Plan amendments *(Note 4 (xii))*	**11,277**	824	**–**	–	**98**	–
Special termination benefits	**635**	–	**–**	–	**–**	–
Net transfers in	**–**	1,199	**–**	–	**–**	–
Balance, end of year	**$ 389,640**	$ 317,145	**$ 13,887**	$ 13,191	**$ 102,617**	$ 82,442
Change in value of plan assets						
Balance, beginning of year	**$ 308,983**	$ 198,340	**$ –**	$ –	**$ –**	$ –
Assets associated with acquisitions	**–**	92,058	**–**	–	**–**	–
Actual return on plan assets	**42,768**	18,962	**–**	–	**–**	–
Benefits paid	**(17,557)**	(13,626)	**(386)**	(489)	**(2,221)**	(1,760)
Employee contributions	**3,139**	3,426	**–**	–	**–**	–
Employer contributions	**12,465**	8,697	**386**	489	**2,221**	1,760
Net transfers in	**–**	1,126	**–**	–	**–**	–
Balance, end of year	**$ 349,798**	$ 308,983	**$ –**	$ –	**$ –**	$ –
Funded status						
Deficit, end of year	**(39,842)**	(8,162)	**(13,887)**	(13,191)	**(102,617)**	(82,442)
Unamortized net actuarial loss	**98,940**	73,570	**3,303**	3,583	**38,254**	23,832
Unamortized past service costs	**13,748**	3,815	**–**	–	**319**	–
Unamortized transitional obligation	**23,047**	24,792	**702**	892	**20,176**	21,968
Employer contributions after measurement date	**1,301**	(137)	**–**	–	**125**	–
Accrued benefit asset (liability), end of year *(Notes 5 and 11)*	**$ 97,194**	$ 93,878	**$ (9,882)**	$ (8,716)	**$ (43,743)**	$ (36,642)
Significant assumptions						
Discount rate during year *(%)*	**6.00–6.25**	6.00–6.50	**6.00–6.25**	6.00–6.50	**6.00–6.25**	6.00–6.75
Discount rate as at December 31 *(%)*	**5.00–6.00**	6.00–6.25	**5.25–6.00**	6.00–6.25	**5.00–6.00**	6.00–6.25
Expected long-term rate of return on plan assets *(%)*	**7.00–7.50**	7.25–7.50	**–**	–	**–**	–
Rate of compensation increase *(%)*	**3.50–4.50**	3.50–4.50	**3.50–4.50**	3.50–4.50	**3.50–4.00**	3.50–4.50
Health care cost trend increase as at December 31 *(%)*	**–**	–	**–**	–	**4.50–10.00**	4.00–10.00
Expected average remaining service life of active employees *(years)*	**12–16**	9–17	**4–16**	11–17	**12–17**	11–17

(in thousands)	Defined Benefit Pension Plans Funded 2005	2004	Supplementary Defined Benefit Plans Unfunded 2005	2004	Other Post-employment Benefit Plans Unfunded 2005	2004
Components of net benefit expense						
Current service costs	**$ 5,387**	$ 4,349	**$ 470**	$ 429	**$ 1,680**	$ 1,913
Interest costs	**19,756**	15,961	**727**	780	**4,856**	3,991
Actual return on plan assets	**(42,768)**	(18,962)	**–**	–	**–**	–
Actuarial loss (gain)	**50,070**	2,790	**(115)**	3,673	**15,762**	16,035
Costs arising in the year	**32,445**	4,138	**1,082**	4,882	**22,298**	21,939
Differences between costs arising and costs recognized in the year in respect of:						
Return on plan assets	**20,432**	305	**–**	–	**–**	–
Actuarial (loss) gain	**(46,609)**	(473)	**279**	(1,698)	**(14,694)**	(15,901)
Past service costs	**1,345**	529	**–**	–	**–**	–
Special termination benefits	**635**	–	**–**	–	**–**	–
Transitional obligation and amendments	**2,325**	1,901	**191**	191	**1,838**	1,838
Settlements and curtailments	**49**	–	**–**	–	**–**	–
Regulatory adjustment	**(40)**	(266)	**30**	(84)	**(5,425)**	(3,945)
Net benefit expense	**$ 10,582**	$ 6,134	**$ 1,582**	$ 3,291	**$ 4,017**	$ 3,931

For 2005, the effects of changing the health care cost trend rate by a 1 per cent increase and a 1 per cent decrease are as follows:

(in thousands)	1 per cent increase in rate	1 per cent decrease in rate
Increase (decrease) in accrued benefit obligation	**$ 14,099**	**$ (11,384)**
Increase (decrease) in service and interest costs	**$ 1,177**	**$ (896)**

During 2005, the Corporation expensed $3.5 million (2004 – $3.6 million) related to defined contribution pension plans.

21. Business Acquisitions

2005

Acquisition of Princeton Light and Power Company, Limited

On May 31, 2005, Fortis, through an indirect wholly owned subsidiary, acquired all issued and outstanding common and preference shares of PLP for an aggregate purchase price of $3.7 million. PLP is an electric utility that serves approximately 3,200 customers, mainly in Princeton, British Columbia. PLP presently purchases its wholesale power from FortisBC under a power purchase agreement.

The acquisition was financed through a combination of cash consideration of $3.3 million and the issuance of 23,668 Common Shares (adjusted for stock split) of the Corporation at a fair value of $18.71 per common share, the 5-day average trading price of the Corporation's Common Shares for the last 5 trading days immediately preceding the acquisition (adjusted for stock split).

The acquisition has been accounted for using the purchase method, whereby the results of full operations have been included in the consolidated financial statements commencing May 31, 2005. The book value of these assets and liabilities has been assigned as fair value for purchase price allocation. The regulated nature of PLP and the determination of its revenues and earnings are based on historic values and do not change with market conditions or change of ownership. Therefore, no fair market value increments were recorded as part of the purchase price on individual assets and liabilities because all economic benefits and obligations associated with them will accrue to the customers.

21. Business Acquisitions (cont'd)

The purchase price allocation to net assets based on their fair values is as follows:

(in thousands)	
Fair value assigned to net assets:	
Utility capital assets	$ 6,381
Current assets	1,168
Goodwill	1,210
Other assets	445
Current liabilities	(1,109)
Assumed long-term debt	(3,990)
Future income taxes	(329)
Other liabilities	(75)
	$ 3,701

Fortis Properties

On February 1, 2005, Fortis Properties purchased assets comprising the businesses of 1 Greenwood Inn hotel in Manitoba and 2 Greenwood Inn hotels in Alberta for cash consideration of $62.8 million. The acquisition has been accounted for using the purchase method, whereby the results of operations have been included in the consolidated financial statements from the date of acquisition.

The purchase price allocation to net assets based on their fair values is as follows:

(in thousands)	
Fair value assigned to net assets:	
Income producing properties	$ 62,600
Other assets	229
Other liabilities	(69)
	$ 62,760

2004

Acquisition of the Alberta and British Columbia Utilities

On May 31, 2004, Fortis, through its wholly owned subsidiary, Fortis West Inc., acquired all of the issued and outstanding shares of Aquila Networks Canada (Alberta) Ltd. (renamed "FortisAlberta") and Aquila Networks Canada (British Columbia) Ltd. (renamed "FortisBC") for aggregate consideration of $1,476 million. The net purchase price of $776.6 million paid, including acquisition costs, was based on the estimated balance sheets of both utilities at May 31, 2004. During 2004, the balance sheets of both utilities at May 31, 2004 were finalized and the net purchase price adjustments were settled. The net settlement combined with adjustments to the purchase price allocation resulted in a $1.6 million reduction to the net purchase price.

The acquisition has been accounted for using the purchase method, whereby the results of full operations have been included in the consolidated financial statements commencing May 31, 2004. The book value of these assets and liabilities has been assigned as fair value for purchase price allocation. FortisAlberta and FortisBC are regulated under traditional cost of service. The regulated nature of these businesses and the determination of revenues and earnings are based on historic values and do not change with market conditions or change of ownership. Therefore, no fair market value increments were recorded as part of the purchase price on individual assets and liabilities because all economic benefits and obligations associated with them will accrue to the customers.

Notes to Consolidated Financial Statements

The purchase price allocation to net assets based on their fair values is as follows:

(in thousands)	FortisAlberta	FortisBC	Total
Fair value assigned to net assets:			
Utility capital assets – net regulatory tax base adjustment	$ 499,592	$ 488,865	$ 988,457
Current assets	82,680	38,243	120,923
Goodwill	229,097	219,509	448,606
Other assets	8,094	13,239	21,333
Current liabilities	(57,110)	(33,063)	(90,173)
Assumed long-term debt	–	(154,709)	(154,709)
Debt and accrued interest, subsequently refinanced	(402,343)	(155,038)	(557,381)
Future income taxes	13,145	(1,600)	11,545
Other regulatory liabilities	(40,849)	–	(40,849)
	332,306	415,446	747,752
Cash	16,067	12,818	28,885
	$ 348,373	$ 428,264	$ 776,637

Acquisition of Remaining 5 Per cent Interest in BECOL

On May 20, 2004, Fortis acquired the remaining 5 per cent interest in BECOL from the Social Security Board of the Government of Belize for $4.8 million (US$3.5 million), making it a wholly owned indirect subsidiary of the Corporation. In January 2001, Fortis purchased Duke Energy Group, Inc.'s 95 per cent interest in BECOL for an aggregate purchase price of US$62 million. The acquisition was accounted for using the purchase method, whereby the remaining 5 per cent interest in BECOL was included in the consolidated financial statements commencing May 20, 2004. The $4.8 million purchase price has been allocated to the fair values of the assets and liabilities as at May 20, 2004.

22. a) Segmented Information

The accounting policies of the segments are described in the Summary of Accounting Policies. Information by reportable segment is as follows:

Year ended December 31, 2005 *(in thousands of dollars)*	**Regulated Utilities**							**Non-regulated**			**Inter-segment elimi-nations**	**Consoli-dated**
	Nfld Power	**Maritime Electric**	**Fortis Ontario**	**Fortis Alberta**	**Fortis BC**	**Total Canadian**	**Total Caribbean**	**Fortis Generation**	**Fortis Properties**	**Corporate**		
Operating revenues	**419,963**	**116,693**	**139,668**	**259,775**	**194,765**	**1,130,864**	**75,790**	**83,955**	**154,403**	**9,977**	**(24,984)**	**1,430,005**
Equity income	**–**	**–**	**–**	**–**	**–**	**–**	**11,466**	**–**	**–**	**–**	**–**	**11,466**
Energy supply costs	**255,954**	**71,568**	**110,164**	**–**	**60,412**	**498,098**	**40,845**	**6,204**	**–**	**–**	**(11,232)**	**533,915**
Operating expenses	**53,812**	**12,535**	**14,520**	**113,006**	**64,738**	**258,611**	**10,725**	**17,812**	**99,967**	**9,490**	**(4,225)**	**392,380**
Amortization	**32,143**	**9,670**	**5,100**	**61,395**	**19,038**	**127,346**	**5,770**	**10,380**	**11,244**	**2,882**	**–**	**157,622**
Operating income	**78,054**	**22,920**	**9,884**	**85,374**	**50,577**	**246,809**	**29,916**	**49,559**	**43,192**	**(2,395)**	**(9,527)**	**357,554**
Finance charges	**31,369**	**7,614**	**5,058**	**24,198**	**18,513**	**86,752**	**5,614**	**14,051**	**19,988**	**20,341**	**(9,527)**	**137,219**
Preference share dividends	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**16,606**	**–**	**16,606**
Gain on settlement of contractual matters	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(10,000)**	**–**	**–**	**–**	**(10,000)**
Corporate income taxes	**15,368**	**6,224**	**493**	**25,105**	**7,424**	**54,614**	**1,261**	**13,811**	**9,077**	**(8,347)**	**–**	**70,416**
Non-controlling interest	**588**	**–**	**–**	**–**	**–**	**588**	**3,610**	**2,183**	**–**	**(165)**	**–**	**6,216**
Net earnings (loss)	**30,729**	**9,082**	**4,333**	**36,071**	**24,640**	**104,855**	**19,431**	**29,514**	**14,127**	**(30,830)**	**–**	**137,097**
Goodwill	**–**	**19,858**	**42,947**	**228,615**	**220,719**	**512,139**	**–**	**–**	**–**	**–**	**–**	**512,139**
Identifiable assets	**850,059**	**267,565**	**120,867**	**758,449**	**722,392**	**2,719,332**	**212,157**	**267,049**	**427,753**	**41,655**	**(28,702)**	**3,639,244**
Equity investment assets	**–**	**–**	**–**	**–**	**–**	**–**	**164,808**	**–**	**–**	**–**	**–**	**164,808**
Total assets	**850,059**	**287,423**	**163,814**	**987,064**	**943,111**	**3,231,471**	**376,965**	**267,049**	**427,753**	**41,655**	**(28,702)**	**4,316,191**
Capital expenditures	**55,399**	**40,369**	**10,913**	**164,962**	**115,989**	**387,632**	**15,197**	**19,310**	**83,875**	**2,615**	**–**	**508,629**

Notes to Consolidated Financial Statements

December 31, 2005 and 2004

22. a) Segmented Information (cont'd)

Year ended December 31, 2004 *(in thousands of dollars)*	Regulated Utilities							Non-regulated			Inter-segment elimi-nations	Consoli-dated
	Nfld Power	Maritime Electric	Fortis Ontario	Fortis Alberta	Fortis BC	Total Canadian	Total Caribbean	Fortis Generation	Fortis Properties	Corporate		
Operating revenues	404,447	115,407	125,250	129,738	109,522	884,364	71,945	69,170	134,363	10,175	(24,730)	1,145,287
Equity income	–	–	–	–	–	–	842	–	–	–	–	842
Energy supply costs	244,012	71,345	96,543	–	32,901	444,801	37,711	5,849	–	–	(11,011)	477,350
Operating expenses	51,755	12,459	12,273	60,177	33,432	170,096	11,033	16,083	87,237	8,691	(3,862)	289,278
Amortization	30,987	9,176	4,751	31,356	9,893	86,163	6,127	10,189	9,711	1,482	–	113,672
Operating income	77,693	22,427	11,683	38,205	33,296	183,304	17,916	37,049	37,415	2	(9,857)	265,829
Finance charges	30,394	8,656	5,233	10,782	8,531	63,596	5,571	15,418	18,080	17,246	(9,857)	110,054
Preferences share dividends	–	–	–	–	–	–	–	–	–	12,319	–	12,319
Corporate income taxes	15,586	5,591	2,197	8,856	7,058	39,288	982	6,977	7,519	(7,839)	–	46,927
Non-controlling interest	591	–	–	–	–	591	3,358	1,891	–	(166)	–	5,674
Net earnings (loss)	31,122	8,180	4,253	18,567	17,707	79,829	8,005	12,763	11,816	(21,558)	–	90,855
Goodwill	–	19,858	45,577	229,097	219,509	514,041	–	–	–	–	–	514,041
Identifiable assets	825,310	240,268	118,326	612,480	613,436	2,409,820	200,305	267,758	354,223	53,017	(22,440)	3,262,683
Equity investment assets	–	–	–	–	–	–	161,292	–	–	–	–	161,292
Total assets	825,310	260,126	163,903	841,577	832,945	2,923,861	361,597	267,758	354,223	53,017	(22,440)	3,938,016
Capital expenditures	60,315	26,806	9,631	73,564	57,111	227,427	16,661	17,290	16,123	1,168	–	278,669

22. b) Related Party Transactions

Related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. The significant related party transactions primarily related to the sale of energy from BECOL to Belize Electricity and finance charges on inter-company borrowings. The significant related party transactions during the year were as follows:

(in thousands)	**2005**	2004
Sales from BECOL to Belize Electricity	**$ 8,217**	$ 8,071
Inter-company finance charges on borrowings from:		
Corporate to FortisBC	**–**	2,418
Corporate to Fortis Properties	**3,763**	1,946
Corporate to BECOL	**2,222**	1,889
BECOL to Belize Electricity	**2,266**	2,129

23. Supplementary Information to Consolidated Statements of Cash Flows

(in thousands)	**2005**	2004
Interest paid	**$ 146,687**	$ 121,500
Income taxes paid	**$ 43,396**	$ 41,243

24. Financial Instruments

Fair Values

Fair value estimates are made as of a specific point in time using available information about the financial instruments and current market conditions. The estimates are subjective in nature involving uncertainties and significant judgment.

The carrying values of financial instruments included in current assets and current liabilities in the consolidated balance sheets approximate their fair value, reflecting the short-term maturity and normal trade credit terms of these instruments. The fair value of the long-term debt is based on current pricing of financial instruments with comparable terms. The fair values of

forward foreign currency exchange contracts and interest rate swap contracts reflect the estimated amount that the Corporation would have to pay if forced to settle all outstanding contracts at year-end. This fair value reflects a point-in-time estimate that may not be relevant in predicting the Corporation's future earnings or cash flows.

Risk Management

The Corporation has exposure to foreign currency exchange rate fluctuations associated with its US dollar-denominated operations. The Corporation may periodically enter into hedges of its foreign currency exposures on its foreign investments by entering into offsetting forward exchange contracts. The Corporation does not hold or issue derivative financial instruments for trading purposes.

Foreign exchange translation gains and losses on foreign currency denominated financial instruments used to hedge foreign currency investments are recorded as an adjustment to the foreign currency translation adjustment account.

Interest Rate Risk

Long-term debt is issued at fixed interest rates, thereby minimizing cash flow and interest rate exposure. The Corporation is primarily subject to risks associated with fluctuating interest rates on its short-term borrowings and other variable interest credit facilities. The Corporation designates its interest rate swap agreements as hedges of the underlying debt. Interest expense on the debt is adjusted to include payments made or received under the interest rate swaps.

Credit Risk

The Corporation is exposed to credit risk in the event of non-performance by counterparties to its derivative financial instruments. Non-performance is not anticipated since these counterparties are highly rated financial institutions. In addition, the Corporation is exposed to credit risk from customers. However, the Corporation has a large and diversified customer base, which minimizes the concentration of this risk.

Rate Regulation

Certain of the Corporation's regulated utilities have rate stabilization accounts, which are approved by the regulators, to recover excess energy costs over an established benchmark. These accounts minimize the impact of changing energy costs on the financial results.

25. Commitments

(in millions)	**Total**	< 1 year	1–3 years	4–5 years	> 5 years
Power purchase obligations					
FortisBC *(a)*	**$ 2,917.1**	$ 37.7	$ 72.2	$ 74.0	$ 2,733.2
FortisOntario *(b)*	**344.3**	21.3	64.5	46.7	211.8
Maritime Electric *(c)*	**4.0**	4.0	–	–	–
Capital cost *(d)*	**454.5**	20.0	47.9	39.1	347.5
BTS *(e)*	**68.1**	2.5	4.9	4.9	55.8
Joint-use asset and shared service agreements *(f)*	**63.8**	3.7	11.2	6.5	42.4
Operating lease obligations *(g)*	**21.0**	4.4	10.6	5.4	0.6
Office lease – FortisBC *(h)*	**22.3**	0.9	1.9	2.7	16.8
Other	**5.7**	1.5	2.9	0.1	1.2
Total	**$ 3,900.8**	$ 96.0	$ 216.1	$ 179.4	$ 3,409.3

(a) Power purchase obligations of FortisBC include the Brilliant Power Purchase Contract as well as Firm Power Purchase Contracts. On May 3, 1996, an Order was granted by the BCUC approving a 60-year power purchase contract for the output of the Brilliant hydroelectric plant located near Castlegar, British Columbia. The Brilliant plant is owned by the Brilliant Power Corporation ("BPC"), a corporation owned as to 50 per cent by each of the Columbia Power Corporation and the Columbia Basin Trust. FortisBC operates and maintains the Brilliant plant for the BPC in return for a management fee. The contract requires fixed monthly payments based on specified natural flow take-or-pay amounts of energy. The contract includes a market-related price adjustment after 30 years of the 60-year term. In addition, FortisBC has a long-term minimum-payment firm power purchase contract with BC Hydro, which expires in 2013. This contract includes a take-or-pay provision based on a 5-year rolling nomination of capacity requirements.

25. Commitments (cont'd)

(b) Power purchase obligations for FortisOntario primarily include a long-term take-or-pay contract between Cornwall Electric and Hydro-Québec Energy Marketing for the supply of electricity and capacity. The contract provides approximately 237 gigawatt hours of energy per year and up to 45 MW of capacity at any one time. The contract, which expires on December 31, 2019, provides approximately one-third of Cornwall Electric's load. Cornwall Electric also has a 1-year contract in place with Hydro-Québec Energy Marketing, which expires on June 30, 2006. This take-or-pay contract provides energy on an as-needed basis, but charges for 100 MW of capacity at $0.14 million per month.

(c) Maritime Electric has 1 take-or-pay contract for the purchase of either capacity or energy. This contract totals approximately $4.0 million through October 2006.

(d) Maritime Electric has entitlement to approximately 6.7 per cent of the output from the NB Power Dalhousie Generating Station and approximately 4.7 per cent from the NB Power Point Lepreau Station for the life of each unit. As part of its participation agreement, Maritime Electric is required to pay its share of the capital costs of these units.

(e) On July 15, 2003, FortisBC began operating the BTS under an agreement the term of which expires in 2056 (unless the Company has earlier terminated the agreement by exercising its right, at any time after the anniversary date of the agreement in 2029, to give 36 months' notice of termination). The agreement provides that FortisBC will pay a charge related to the recovery of the capital cost of the BTS and related operating expenses.

(f) FortisAlberta and an Alberta transmission service provider have entered into an agreement in consideration for joint attachments of distribution facilities to the transmission system. The expiry terms of this agreement state that the agreement remains in effect until the Company no longer has attachments to the transmission facilities. Due to the unlimited term of this contract, the calculation of future payments after 2010 includes payments to the end of 20 years. However, the payments under this agreement may continue for an indefinite period of time. FortisAlberta and an Alberta transmission service provider have also entered into a number of service agreements to ensure operational efficiencies are maintained through coordinated operations. The service agreements have minimum expiry terms of 5 years from September 1, 2005 and are subject to extension based on mutually agreeable terms.

(g) Operating lease obligations include certain office, vehicle and equipment leases as well as the lease of electricity distribution assets of Port Colborne Hydro Inc.

(h) Under a sale-leaseback agreement, on September 29, 1993, FortisBC began leasing its Trail, British Columbia office building for a term of 30 years. The terms of the agreement grant FortisBC repurchase options at approximately year 20 and year 28 of the lease term. On December 1, 2004, FortisBC also entered into a 5-year lease for the Kelowna, British Columbia head office. The terms of the lease allow for termination without penalty after 3 years.

(i) The regulated subsidiaries of the Corporation are obligated to provide service to customers within their respective service territories. These regulated subsidiaries' capital expenditures are largely driven by customer requests or include large capital projects specifically approved by their respective regulators. The consolidated capital program of the Corporation, including non-regulated segments, is forecast to include almost $450 million in capital expenditures for 2006. This commitment has not been included in the summary table shown previously.

26. Contingent Liabilities

FortisUS Energy

Legal proceedings have been initiated against FortisUS Energy by the Village of Philadelphia ("Village"), New York. The Village claims that FortisUS Energy should honour a series of current and future payments set out in an agreement between the Village and a former owner of the hydro site, located in the Village of Philadelphia municipality, now owned by FortisUS Energy, totalling approximately US$7.1 million (CDN$8.6 million). The First American Title Insurance Company is defending the action on behalf of FortisUS Energy. Management believes that the claim will not be successful and, therefore, no provision has been made in these consolidated financial statements. Any amount that FortisUS Energy could be required to pay would be charged to earnings in the year such determination is made.

FortisBC

FortisBC has received correspondence and met with the B.C. Ministry of Forests (the "Ministry") to discuss the possibility of an invoice being issued to the Company related to fire suppression costs associated with certain forest fires in FortisBC's service territory in 2003. The Ministry has alleged breaches of the Forest Practices Code and negligence and has filed, but not served, a writ and statement of claim against FortisBC. FortisBC is currently communicating with the Ministry and its insurers. In addition, FortisBC has become aware of 2 writs and statements of claim filed, but not served, by private land owners in relation to the same matter. The outcome cannot be reasonably determined and estimated at this time and, accordingly, no amount has been accrued in the consolidated financial statements.

On January 5, 2006, FortisBC was served a writ and statement of claim filed with the B.C. Supreme Court under the *Class Proceedings Act, 1995* on behalf of a class consisting of all persons who are or were customers of FortisBC and who paid or have been charged FortisBC's late payment penalties at any time between April 1, 1981 and the date of any judgment in this action. The claim is that forfeitures of the prompt payment discount offered to customers constitute "interest" within the meaning of section 347 of the Criminal Code and, since the effective annual rate of such interest exceeds 60 per cent, they are illegal and void. In the action, the class seeks damages and restitution of all late payment penalties which were forfeited. The outcome cannot be reasonably determined and estimated at this time and, accordingly, no amount has been accrued in the consolidated financial statements.

Regulated Utilities

The regulated utilities are subject to various legal proceedings and claims that arise in the ordinary course of business operations. Management believes that the amount of liability, if any, from these actions would not have a material effect on the Corporation's financial position or results of operations.

27. Comparative Figures

Certain comparative figures have been reclassified to comply with the current year's classifications, including certain changes in the basis of presentation as described in Note 3.

Historical Financial Summary

Statements of Earnings *(in thousands $)*	**2005**	2004 [1]	2003	2002
Revenue, including equity income	**1,441,471**	1,146,129	843,080	715,465
Operating expenses	**926,295**	766,628	578,731	476,969
Amortization	**157,622**	113,672	62,327	65,063
Finance charges	**137,219**	110,054	82,335	70,728
Preference share dividends	**16,606**	12,319	3,952	2,736
Gain on settlement of contractual matters	**10,000**	–	–	–
Corporate income taxes	**70,416**	46,927	38,236	32,488
Results of discontinued operations				
and other unusual items	–	–	–	–
Non-controlling interest	**6,216**	5,674	3,869	4,229
Net earnings applicable to common shares	**137,097**	90,855	73,630	63,252
Balance Sheets *(in thousands $)*				
Current assets	**312,693**	293,423	191,032	180,122
Other long-term assets, including goodwill	**815,436**	768,077	242,320	204,837
Long-term investments	**167,393**	163,769	167,752	95,751
Utility capital assets and income producing properties	**3,020,669**	2,712,747	1,562,693	1,459,300
Total assets	**4,316,191**	3,938,016	2,163,797	1,940,010
Current liabilities	**423,298**	538,258	296,056	334,467
Deposits due beyond one year	–	–	–	–
Deferred credits, regulatory liabilities				
and future income taxes	**195,759**	138,198	61,956	38,835
Long-term debt and capital lease obligations	**2,124,674**	1,904,431	1,031,358	940,910
Non-controlling interest	**39,555**	37,487	36,770	39,955
Preference shares	**319,492**	319,530	122,992	–
Shareholders' equity	**1,213,413**	1,000,112	614,665	585,843
Cash Flows *(in thousands $)*				
Operations	**303,425**	272,268	156,682	134,422
Financing activities	**224,088**	777,044	232,011	261,043
Investing activities	**466,944**	1,026,256	308,006	348,724
Dividends, excluding preference share dividends	**64,171**	50,514	38,456	35,070
Financial Statistics				
Return on average common shareholders' equity *(%)*	**12.40**	11.28	12.30	12.23
Capitalization Ratios *(%)* (year end)				
Long-term debt and capital lease obligations				
(excluding current portion)	**57.5**	58.1	57.1	60.1
Non-controlling interest	**1.1**	1.2	2.0	2.5
Preference securities and equity portion of				
convertible debentures	**8.7**	9.9	6.9	0.1
Common shareholders' equity	**32.7**	30.8	34.0	37.3
Interest Coverage *(x)*				
Debt	**2.5**	2.3	2.2	2.3
All fixed charges	**2.1**	2.0	2.1	2.2
Capital expenditures *(in thousands $)*	**508,629**	278,669	207,740	228,830
Common share data [2]				
Book value per share (year end) *($)*	**11.74**	10.45	8.82	8.50
Average common shares outstanding *(in thousands)*	**101,750**	84,738	69,236	65,108
Earnings per common share *($)*	**1.35**	1.07	1.06	0.97
Dividends declared per common share *($)*	**0.605**	0.548	0.525	0.498
Dividends paid per common share *($)*	**0.588**	0.540	0.520	0.485
Dividend payout ratio *(%)*	**43.7**	50.3	48.9	49.9
Price earnings ratio *(x)*	**18.0**	16.2	13.9	13.5
Share trading summary [2]				
Closing price *($)* (TSX)	**24.27**	17.38	14.73	13.13
Volume *(in thousands)*	**37,706**	29,254	31,180	21,676

(1) Certain 2004 comparative numbers have been reclassified to conform with the current year's presentation as a result of the adoption of CICA AcG-19 for the year ended December 31, 2005.

(2) For all periods presented, certain common share data and the share trading summary information have been restated to reflect the 4-for-1 stock split completed in October 2005.

Historical Financial Summary

2001	2000	1999	1998	1997	1996	1995
628,254	580,197	505,218	472,725	486,662	474,293	447,035
418,117	417,607	356,227	339,429	341,024	334,388	315,003
62,495	52,513	45,407	42,428	41,147	35,993	37,998
62,655	52,737	43,090	40,662	38,658	38,487	37,246
2,975	2,975	2,975	2,975	6,232	7,325	4,448
–	–	–	–	–	–	–
28,732	17,228	27,476	22,998	29,449	28,029	20,334
4,179	2,771	(57)	3,696	369	–	–
3,862	3,149	803	515	515	1,026	1,414
53,597	36,759	29,183	27,414	30,006	29,045	30,592
134,935	165,814	92,862	94,123	78,603	70,456	72,659
123,011	116,912	160,998	162,487	160,445	160,470	120,289
82,211	81,515	–	–	–	–	–
1,245,940	1,056,291	929,909	750,223	747,461	736,338	693,178
1,586,097	1,420,532	1,183,769	1,006,833	986,509	967,264	886,126
272,439	224,431	229,569	147,764	172,158	172,493	153,368
–	–	15,640	15,745	20,444	17,448	16,703
31,628	24,110	27,538	21,942	23,307	23,388	17,024
746,092	678,349	487,828	424,275	385,627	335,654	285,343
36,419	31,502	29,381	8,430	8,430	8,430	18,990
50,000	50,000	50,000	50,000	50,000	100,000	100,000
449,519	412,140	343,813	338,677	326,543	309,851	294,698
94,115	97,499	84,679	68,898	63,202	86,351	60,701
171,358	177,820	66,797	15,858	16,721	33,992	60,057
239,726	240,698	122,469	65,882	54,093	95,838	103,078
29,913	27,661	24,303	23,824	22,968	22,416	22,048
12.44	9.73	8.55	8.24	9.43	9.61	10.74
58.2	57.8	53.5	51.7	50.0	44.5	41.8
2.8	2.7	3.2	1.0	1.1	1.1	2.7
3.9	4.3	5.5	6.1	6.5	13.3	14.1
35.1	35.2	37.8	41.2	42.4	41.1	41.4
2.3	2.1	2.3	2.2	2.6	2.6	2.4
2.2	1.9	2.1	2.0	2.0	1.9	2.0
149,455	157,652	86,475	65,468	49,773	53,420	89,893
7.50	6.97	6.55	6.52	6.40	6.21	6.05
59,512	54,068	52,188	51,632	50,492	49,276	48,400
0.90	0.68	0.56	0.53	0.60	0.59	0.63
0.470	0.460	0.455	0.450	0.443	0.430	0.425
0.468	0.460	0.453	0.450	0.440	0.430	0.423
51.9	67.6	80.8	84.9	73.9	72.9	66.8
13.0	13.2	14.0	18.0	17.6	14.4	10.8
11.74	9.00	7.85	9.56	10.50	8.5	6.81
21,460	26,760	9,024	12,356	13,520	13,620	8,072

Corporate Directory

Fortis Inc. *Officers (l-r): Ronald W. McCabe, General Counsel and Corporate Secretary; Barry V. Perry, VP, Finance and CFO; H. Stanley Marshall, President and CEO; Donna G. Hynes, Assistant Secretary and Manager, Investor and Public Relations*

Newfoundland Power Inc.

Directors: Bruce Chafe (Chair), Peggy Bartlett, William J. Daley, Ed Drover, Peter W. Fenwick, Chris Griffiths, H. Stanley Marshall, David G. Norris, Karl W. Smith, Dell Texmo, John C. Walker

Officers:
Karl W. Smith, President and Chief Executive Officer
Jocelyn H. Perry, Vice President, Finance
Lisa A. Hutchens, Vice President, Customer Relations and Corporate Services
Phonse J. Delaney, Vice President, Engineering and Operations
Peter S. Alteen, Vice President, Regulatory Affairs and General Counsel

Maritime Electric Company, Limited

Directors: A. James Casey (Chair), Kimberley D. Horrelt, James A. Lea, Earl A. Ludlow, R. Elmer MacDonald, H. Stanley Marshall, Michael A. Pavey, Cheryl L. Paynter, L. John Reddin, David W. Rodd, Eugene P. Rossiter, Lynn R. Young

Officers:
James A. Lea, President and Chief Executive Officer
J. William Geldert, Vice President, Finance, CFO and Corporate Secretary
John D. Gaudet, Vice President, Corporate Planning and Energy Supply
Fred J. O'Brien, Vice President, Customer Service

FortisOntario Inc.

Directors: Gilbert S. Bennett (Chair), Peter E. Case, William J. Daley, Geoffrey F. Hyland, James A. Lea, H. Stanley Marshall, Oskar T. Sigvaldason, Karl W. Smith

Officers:
William J. Daley, President and Chief Executive Officer
Glen C. King, Vice President, Finance and Chief Financial Officer
Angus S. Orford, Vice President, Operations
R. Scott Hawkes, Vice President, Corporate Services, General Counsel and Corporate Secretary

FortisAlberta Inc.

Directors: H. Stanley Marshall (Chair), Donald G. Bacon, Brian F. Bietz, Gregory E. Conn, Philip G. Hughes, John S. McCallum, Barry V. Perry, John C. Walker

Officers:
Philip G. Hughes, President and Chief Executive Officer
D. James Harbilas, Vice President, Finance and Chief Financial Officer
Karin C. F. Gashus, Vice President, Customer Service
Cynthia Johnston, Vice President, Corporate Services and Regulatory
Alan M. Skiffington, Vice President, Information Technology and CIO
Gary J. Smith, Vice President, Operations and Engineering
Mike G. Olson, Controller
Robert J. Fink, Corporate Counsel and Corporate Secretary

FortisBC Inc.

Directors: H. Stanley Marshall (Chair), Beth D. Campbell, Bruce Chafe, Richard (Kim) D. Deane, Philip G. Hughes, Roger Mayer, John S. McCallum, R. Harry McWatters, Barry V. Perry, John C. Walker

Officers:
John C. Walker, President and Chief Executive Officer
Michele I. Leeners, Vice President, Finance and Chief Financial Officer
Don L. Debienne, Vice President, Generation
Michael A. Mulcahy, Vice President, Customer and Corporate Services
Doyle O. Sam, Vice President, Transmission and Distribution
David C. Bennett, General Counsel and Corporate Secretary

Belize Electricity Limited

Directors: Robert Usher (Chair), Fernando E. Coye, J. F. Richard Hew, Philip G. Hughes, James A. Lea, H. Stanley Marshall, Karl H. Menzies, Yasin Shoman, Lynn R. Young

Officers:
Lynn R. Young, President and Chief Executive Officer
Rene J. Blanco, Vice President, Finance and Chief Financial Officer
Felix J. Murrin, Vice President, Operations
Joseph Sukhnandan, Vice President, Engineering and Energy Supply
Juliet Estell, Company Secretary

Caribbean Utilities Company, Ltd.

Directors: David E. Ritch (Chair), Frank J. Crothers (Vice Chair), Philip A. Barnes, J. Bryan Bothwell, Sheree L. Ebanks, J. F. Richard Hew, Philip G. Hughes, Joseph A. Imparato, H. Stanley Marshall, Peter A. Thomson, Anna Rose S. Washburn

Officers:
J. F. Richard Hew, President and Chief Executive Officer
Eddinton M. Powell, Senior VP, Finance & Corporate Services and CFO
Robert L. Smith, Vice President, Production and Engineering
J. Lee Tinney, Vice President, Transmission and Distribution
Robert D. Imparato, Company Secretary and Chief Governance Officer

Fortis Properties Corporation

Directors: Linda L. Inkpen (Chair), Angus A. Bruneau, Bruce Chafe, Earl A. Ludlow, H. Stanley Marshall

Officers:
Earl A. Ludlow, President and Chief Executive Officer
Neal J. Jackman, Vice President, Finance and Chief Financial Officer
Nora M. Duke, Vice President, Hospitality Services
Wayne W. Myers, Vice President, Real Estate
Ronald W. McCabe, General Counsel and Corporate Secretary

Board of Directors

Angus A. Bruneau ∗ ★ ✷
Chair, Fortis Inc., St. John's, Newfoundland and Labrador

Dr. Bruneau, 70, joined the Fortis Inc. Board in 1987 and is Chair of the Board. He retired as CEO of Fortis Inc. in 1996. Dr. Bruneau is a Director of Fortis Properties Corporation, and is a director of Petro-Canada, SNC-Lavalin Group Inc., Inco Limited, The Canadian Institute of Child Health and Sustainable Development Technology Canada. Dr. Bruneau will be retiring from the Board at the Annual and Special Meeting on May 2, 2006.

Peter E. Case ∗
Corporate Director, Freelton, Ontario

Mr. Case, 51, joined the Fortis Inc. Board in May 2005. He has been a consultant to the utility industry since 2003, following his retirement as Executive Director, Institutional Equity Research at CIBC World Markets. Prior to this position, he was Managing Director at BMO Nesbitt Burns. Mr. Case has been a Director of FortisOntario Inc. since March 2003.

Bruce Chafe ∗ ★
Corporate Director, St. John's, Newfoundland and Labrador

Mr. Chafe, 69, joined the Fortis Inc. Board in 1997. He was appointed Chair of the Board of Newfoundland Power Inc. in 2000 and is a Director of Fortis Properties Corporation and FortisBC Inc. Mr. Chafe is also a director of several private investment firms. He is a retired senior partner of Deloitte & Touche LLP.

Geoffrey F. Hyland ✷
Corporate Director, Caledon, Ontario

Mr. Hyland, 61, joined the Fortis Inc. Board in May 2001. He retired as President and CEO of Shawcor Ltd. in June 2005. Mr. Hyland is a Director of FortisOntario Inc. He continues to serve on the board of ShawCor Ltd. and is a director of Enerflex Systems Ltd. and Exco Technologies Limited.

Linda L. Inkpen ★
Medical Practitioner, St. John's, Newfoundland and Labrador

Dr. Inkpen, 58, joined the Fortis Inc. Board in 1994. She was appointed Chair of the Board of Fortis Properties Corporation in 2000 and is a past Chair of Newfoundland Power Inc. Dr. Inkpen is a member of the National Roundtable on the Economy and the Environment.

H. Stanley Marshall
President and CEO, Fortis Inc., St. John's, Newfoundland and Labrador

Mr. Marshall, 55, has served on the Fortis Inc. Board since 1995. He joined Newfoundland Power Inc. in 1979 and was appointed President and CEO of Fortis Inc. in 1996. Mr. Marshall serves on the Boards of all Fortis companies and is a director of Toromont Industries Ltd.

John S. McCallum ∗ ★
Professor of Finance, University of Manitoba, Winnipeg, Manitoba

Mr. McCallum, 62, joined the Fortis Inc. Board in July 2001. He was Chairman of Manitoba Hydro from 1991 to 2000 and Policy Advisor to the Federal Minister of Finance from 1984 to 1991. Mr. McCallum is a Director of FortisBC Inc., FortisAlberta Inc. and also serves as a director of IGM Financial Inc., Toromont Industries Ltd. and Wawanesa.

David G. Norris ∗ ✷
Corporate Director, St. John's, Newfoundland and Labrador

Mr. Norris, 58, joined the Fortis Inc. Board in May 2005. He has been a financial and management consultant since 2001, prior to which he was Executive Vice-President, Finance and Business Development, Fishery Products International Limited. Previously, he held Deputy Minister positions with Department of Finance and Treasury Board, Government of Newfoundland and Labrador. Mr. Norris has been a Director of Newfoundland Power Inc. since 2003.

Michael A. Pavey ✷
Executive Vice President & Chief Financial Officer,
Major Drilling Group International Inc., Moncton, New Brunswick

Mr. Pavey, 58, joined the Fortis Inc. Board in May 2004. Prior to joining Major Drilling Group International Inc. in 1999, he held senior executive positions with TransAlta Corporation. Mr. Pavey has been a Director of Maritime Electric Company, Limited since 2001.

Roy P. Rideout ★ ✷
Corporate Director, Halifax, Nova Scotia

Mr. Rideout, 58, joined the Fortis Inc. Board in March 2001. He retired as Chairman and CEO of Clarke Inc. in October 2002. Prior to 1998, Mr. Rideout served as President of Newfoundland Capital Corporation Limited. He also serves as a director of the Halifax International Airport Authority, Oceanex Inc. and NAV CANADA.

∗ Audit Committee ★ Governance and Nominating Committee ✷ Human Resources Committee

Board of Directors (l-r): Geoffrey F. Hyland, Bruce Chafe, John S. McCallum, H. Stanley Marshall, Roy P. Rideout, David G. Norris, Angus A. Bruneau, Peter E. Case, Linda L. Inkpen, Michael A. Pavey

Investor Information

Transfer Agent and Registrar

Computershare Trust Company of Canada ("Computershare") is responsible for the maintenance of shareholder records and the issue, transfer and cancellation of stock certificates. Transfers can be effected at its Halifax, Montreal and Toronto offices. Computershare also distributes dividends and shareholder communications. Inquiries with respect to these matters and corrections to shareholder information should be addressed to the Transfer Agent.

Computershare Trust Company of Canada

9th Floor, 100 University Avenue
Toronto, ON M5J 2Y1
T: 514.982.7555 or 1.866.586.7638
F: 416.263.9394 or 1.888.453.0330
E: service@computershare.com
W: www.computershare.com

Direct Deposit of Dividends

Shareholders may obtain automatic electronic deposit of dividends to their designated Canadian financial institutions by contacting the Transfer Agent.

Duplicate Annual Reports

While every effort is made to avoid duplications, some shareholders may receive extra reports as a result of multiple share registrations. Shareholders wishing to consolidate these accounts should contact the Transfer Agent.

Dividend Reinvestment Plan and Consumer Share Purchase Plan

Fortis Inc. offers a Dividend Reinvestment Plan(1) and a Consumer Share Purchase Plan(2) to Common Shareholders as a convenient method of increasing their investments in Fortis Inc. Participants have dividends plus any optional cash payments (minimum of $100, maximum of $20,000 annually) automatically deposited in the Plans to purchase additional Common Shares. Shares are sold quarterly on March 1, June 1, September 1 and December 1 at the average market price then prevailing on the Toronto Stock Exchange. Inquiries should be directed to the Transfer Agent, Computershare Trust Company of Canada.

(1) All registered shareholders of Common Shares who are residents of Canada are eligible to participate in the Dividend Reinvestment Plan. Shareholders residing outside Canada may also participate unless participation is not allowed in that jurisdiction. Residents of the United States, its territories or possessions are not eligible to participate.

(2) The Consumer Share Purchase Plan is offered to residents of the provinces of Newfoundland and Labrador and Prince Edward Island.

Valuation Day

For capital gains purposes, the valuation day prices are as follows:

December 22, 1971	$ 1.531
February 22, 1994	$ 7.156

Share Listings

The Common Shares, Series C First Preference Shares and Series E First Preference Shares of Fortis Inc. are listed on the Toronto Stock Exchange and trade under the ticker symbols FTS, FTS.PR.C and FTS.PR.E, respectively.

Common Share Prices*

Year	High	Low	Close
2005	25.64	17.00	24.27
2004	17.75	14.23	17.38
2003	15.24	11.63	14.73
2002	13.28	10.76	13.13
2001	11.89	8.56	11.74
2000	9.19	6.88	9.00
1999	9.93	7.29	7.85
1998	12.03	8.75	9.56
1997	10.63	7.83	10.50
1996	8.68	6.75	8.50

** Reflects 4-for-1 stock split in October 2005*

Investor Information

Fortis Inc.

The Fortis Building, Suite 1201
139 Water Street
PO Box 8837
St. John's, NL
Canada A1B 3T2
T: 709.737.2800
F: 709.737.5307
W: www.fortisinc.com

Newfoundland Power Inc.
55 Kenmount Road
PO Box 8910
St. John's, NL
Canada A1B 3P6
T: 709.737.5600
F: 709.737.5300
W: www.newfoundlandpower.com

Maritime Electric Company, Limited
180 Kent Street
PO Box 1328
Charlottetown, PE
Canada C1A 7N2
T: 902.629.3799
F: 902.629.3665
W: www.maritimeelectric.com

FortisOntario Inc.
1130 Bertie Street
PO Box 1218
Fort Erie, ON
Canada L2A 5Y2
T: 905.871.0330
F: 905.871.8676
W: www.fortisontario.com

FortisAlberta Inc.
320-17 Avenue SW
Calgary, AB
Canada T2S 2V1
T: 403.514.4000
F: 403.514.4001
W: www.fortisalberta.com

FortisBC Inc.
5th Floor
1628 Dickson Avenue
Kelowna, BC
Canada V1Y 9X1
T: 250.469.8000
F: 250.717.0802
W: www.fortisbc.com

Belize Electricity Limited
2 1/2 Miles Northern Highway
PO Box 327
Belize City, Belize
Central America
T: 501.227.0954
F: 501.223.0891
W: www.bel.com.bz

Caribbean Utilities Company, Ltd.
457 North Sound Road
PO Box 38 GT
Grand Cayman, Cayman Islands
T: 345.949.5200
F: 345.949.4621
W: www.cuc-cayman.com

Fortis Properties Corporation
The Fortis Building, Suite 1201
139 Water Street
PO Box 8837
St. John's, NL
Canada A1B 3T2
T: 709.737.2800
F: 709.737.3785
W: www.fortisproperties.com

Expected Dividend* and Earnings Dates

Dividend Record Date

May 5, 2006	August 4, 2006
November 3, 2006	February 3, 2007

Dividend Payment Dates

June 1, 2006	September 1, 2006
December 1, 2006	March 1, 2007

Earnings Release Dates

May 1, 2006	August 4, 2006
October 31, 2006	February 6, 2007

* *The declaration and payment of dividends are subject to the Board of Directors' approval.*

Analyst and Investor Inquiries

Manager, Investor and Public Relations
T: 709.737.2800
F: 709.737.5307
E: investorrelations@fortisinc.com

Annual and Special Meeting

Tuesday, May 2, 2006
11:00 a.m.
Holiday Inn St. John's
180 Portugal Cove Road
St. John's, NL Canada

Photography:
Marnie Burkhart, Calgary, AB
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Fortis Inc.
The Fortis Building
Suite 1201, 139 Water Street
P.O. Box 8837
St. John's, NL, Canada A1B 3T2

T: 709-737-2800
F: 709-737-5307

www.fortisinc.com