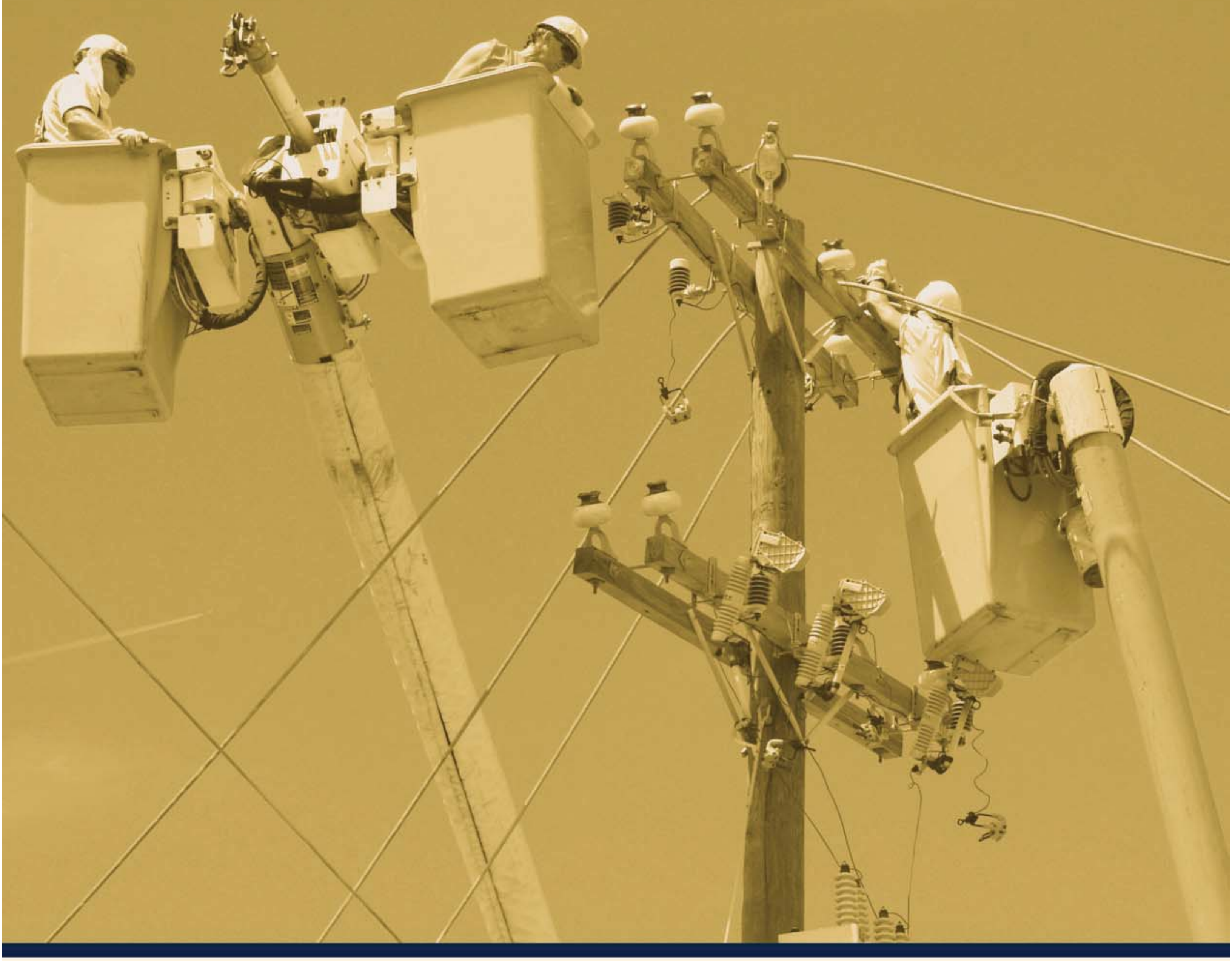
Working Together



Annual Report 2004

FORTIS INC.

Corporate Profile

Fortis Inc. ("Fortis" or the "Corporation") is principally a diversified, international electric utility holding company with assets exceeding $3.8 billion and annual revenues of approximately $1.2 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 188 megawatts ("MW"), 183 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 4,000 employees. Fortis utilities serve approximately one million customers and meet a combined peak demand of 5,000 MW.

Table of Contents

Financial Highlights

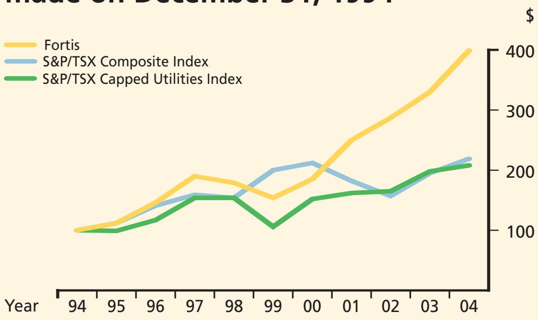
Annual Comparison *($ millions except per share amounts)*

	2004	2003
Revenue	**1,146**	843
Net earnings applicable to common shares	**91**	74
Total assets	**3,838**	2,164 (1)
Total shareholders' equity	**1,000**	615 (2)
Cash from operations	**271**	157 (3)
Earnings per common share	**4.29**	4.25
Dividends paid per common share	**2.16**	2.08

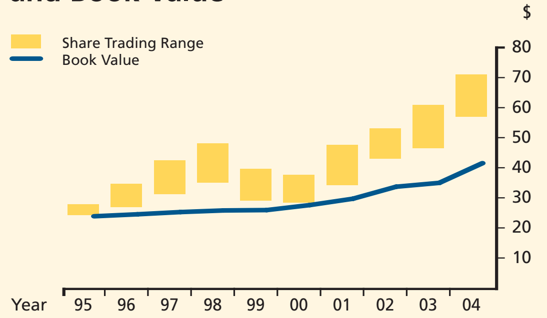
(1) Amount restated to reflect reclassification of contributions in aid of construction.
(2) Amount restated to reflect reclassification of equity preference shares.
(3) Amount restated to reflect reclassification of dividends on equity preference shares.

Fortis Inc.

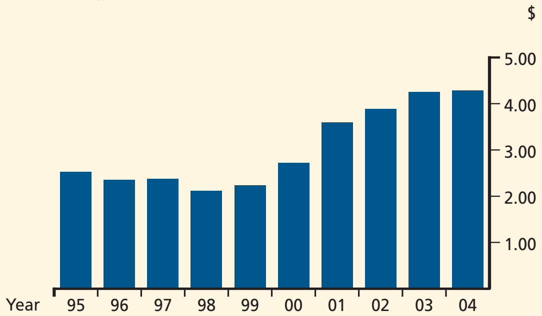
Value of an Investment of $100 made on December 31, 1994



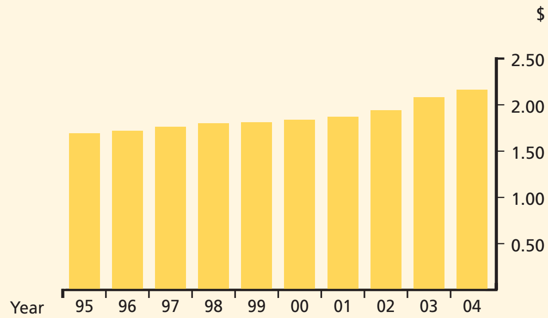
Share Trading Range and Book Value



Earnings per Common Share



Dividends Paid per Common Share



FORTIS INC.

Working Together

Regulated Utilities
Service Areas

Newfoundland Power
Newfoundland

Maritime Electric
Prince Edward Island

FortisOntario
Ontario

FortisAlberta
Alberta

FortisBC
British Columbia

Belize Electricity
Belize

Caribbean Utilities
Grand Cayman

Fortis Generation
Production Areas

Central Newfoundland

Ontario

British Columbia

Upper New York State

Belize

Fortis Properties
Operating Areas

Real Estate
Atlantic Canada

Hotels
Eastern Canada, Manitoba, Alberta

Report to Shareholders

Working Together

Over the past decade, Fortis has grown rapidly in Canada and in the Caribbean. In 2004, we acquired electric utilities with substantial service territories in Alberta and British Columbia. Our Canadian utilities now provide electric distribution in 5 provinces, making us the leader in our business segment in Canada. It has been profitable growth and in 2004 we delivered record earnings to our shareholders for the fifth consecutive year.

Fortis employees are committed to delivering quality service to almost one million customers.

Earnings were $90.9 million in 2004, 23.5 per cent higher than earnings of $73.6 million in 2003. Earnings per common share were $4.29 compared to $4.25 last year.

In the fourth quarter, Fortis incurred a charge of $8.2 million associated with the damage to Caribbean Utilities in Grand Cayman from Hurricane Ivan. The Corporation's earnings excluding the impact of Hurricane Ivan, although not a measure under generally accepted accounting principles, would have been $99.1 million in 2004, or $4.68 per common share, 34.6 per cent higher than earnings of $73.6 million last year and 10.1 per cent higher than earnings per common share of $4.25 last year.

In 2004, dividends grew to $2.16 per common share from $2.08 per common share on an annualized basis. In the fourth quarter, your Board of Directors approved an increase in dividends to $2.28 per common share on an annualized basis. Fortis has now raised its annual dividend to common shareholders for 32 consecutive years, a remarkable record.

On December 30, 2004, Fortis common shares reached an all-time high of $70.99. Our closing common share price for the year was $69.50. The common share market capitalization of Fortis grew to approximately $1.7 billion from $1.0 billion last year.

Our total return to common shareholders for the year was 22.2 per cent compared to the 14.5 per cent return for the S&P/TSX Composite Index and the 9.9 per cent return for the S&P/TSX Capped Utilities Index. Over the past 5 years, Fortis has delivered an annualized total common shareholder return of 22.4 per cent.

Assets have grown to $3.8 billion from $2.2 billion in 2003. In the past decade, our assets have more than quadrupled. The Fortis objective is to grow faster than its peers while maintaining a risk profile

Report to Shareholders

consistent with that of a well-run Canadian utility. The diversification of our assets significantly reduces our risk profile. No one Fortis utility represents more than 25 per cent of our earnings base. Regulated utility assets now comprise approximately 80 per cent of total operating assets, with regulated assets in Canada comprising approximately 70 per cent of total operating assets. Over the next 5 years, we expect strong organic growth within our utilities as they invest to enhance reliability of service to customers and to sustain new load growth.

Our Canadian regulated utilities delivered $79.8 million in earnings, which was significantly higher than reported results of $43.1 million last year. In their first 7 months of operations, FortisAlberta and FortisBC delivered $36.3 million. All of our Canadian regulated utilities reported growth in earnings, with the exception of FortisOntario where earnings declined primarily as a result of higher finance charges related to the issuance of long-term debt and a lower effective income tax rate in 2003.

Earnings

Fortis delivered $90.9 million in earnings to shareholders, our fifth consecutive year of record earnings.

Our expansion into western Canada has delivered positive results sooner than initially anticipated. When we acquired FortisAlberta and FortisBC on May 31, 2004, our expectation was that these operations would be accretive to earnings by the end of the second year. The acquisition was actually accretive to earnings in 2004.

The management of FortisAlberta and FortisBC remain focused on the integration of these utilities into the Fortis organization. We welcome our 1,200 new employees in western Canada to the Fortis family, now more than 4,000 strong, and look forward to their contribution in helping us build on our track record of performance.

All the long-term financing for the acquisition of FortisAlberta and FortisBC was completed within 6 months of closing the acquisition, including a $350 million common share issue, a $200 million preference share issue and our first senior debt issue with US investors of US$150 million. At the subsidiary levels, FortisAlberta and FortisBC completed initial public debenture issues of $400 million and $140 million, respectively. These financings were completed at attractive rates reflecting a positive response by financial markets to our strategic initiative.

In December 2004, Fortis reached an agreement to acquire Princeton Light and Power, an electric utility which serves approximately 3,200 customers. It is another step for Fortis in growing our utility assets in British Columbia.

To enhance security of energy supply to its customers, Maritime Electric began construction of a $35 million, 50-MW gas turbine generator at its Charlottetown Plant. The generator is expected to be in service by the fall of 2005 and will reduce the Company's reliance on generating capacity from outside Prince Edward Island. It will operate initially on light fuel oil and can be converted to natural gas fuel source when gas becomes available on the Island.

On January 1, 2004, the Government of Prince Edward Island introduced legislation to return Maritime Electric to traditional cost of service regulation, which we believe will result in more rate stability for customers and more certainty and predictability of operating earnings.

In July 2004, the Alberta Energy and Utilities Board issued its Generic Cost of Capital decision. The regulated capital structure for FortisAlberta was set at 63 per cent debt and 37 per cent equity while the regulated rate of return on equity for establishing electricity rates was set at 9.6 per cent. Through the operation of an automatic adjustment formula, FortisAlberta's regulated return on rate base for 2005 was subsequently reset to 9.5 per cent.

Newfoundland Power's rate of return on common equity for the purpose of setting rates for 2005 decreased to 9.24 per cent from 9.75 per cent as a result of the operation of the Company's automatic adjustment formula.

Results from our Caribbean regulated utilities in 2004 include the $8.2 million charge resulting from the damage to Caribbean Utilities in Grand Cayman from Hurricane Ivan. More than 140 Fortis employees became directly involved in helping to restore electricity service to the 21,000 customers of Caribbean Utilities in the aftermath of the Category V hurricane. The Fortis emergency response was spearheaded by Belize Electricity but involved crews from every Fortis utility. We were pleased that our assistance helped Caribbean Utilities restore service within 3 months to all customers ready to receive such service.

Senior engineers (l-r) Chen Jian, Sinohydro; Zhang Weidong, Sinohydro; Sergio Tejada, BECOL and Guo Rui, Sinohydro with H. Stanley Marshall, President and CEO, Fortis Inc. at the Chalillo hydroelectric site. The facility will increase average annual energy production from the Macal River in Belize to 170 GWh.

Report to Shareholders

Working together, our employees are committed to delivering quality service to our approximately one million utility customers. Fortis is proud of its reputation as the leader in our business segment in Canada.

Fortis continues to grow its non-regulated operations. Our non-regulated generation assets delivered $12.8 million in earnings, approximately 17 per cent higher than in 2003. In May 2004, we acquired the remaining 5 per cent interest in Belize Electric Company Limited from the Social Security Board of the Government of Belize for US$3.5 million, making it a wholly owned indirect subsidiary of Fortis. The acquisition of FortisBC included the 16-MW run-of-river Walden hydroelectric plant, a non-regulated asset, which sells its entire output to BC Hydro under a long-term contract.

In 2004, significant progress was made on construction of the US$30 million Chalillo hydroelectric project in Belize, which is scheduled to be commissioned in the second half of 2005. It will provide significant additional electricity from the most environmentally responsible and economical energy source in the country. Early in January 2004, a ruling of the Judicial Committee of the Privy Council in the United Kingdom dismissed the appeal against earlier court decisions upholding approval of construction of the facility. This decision ended the eighth and final legal challenge by those opposed to the hydroelectric development.

Fortis Properties' earnings grew to $11.8 million in 2004, its seventh consecutive year of record earnings. In May 2004, the Company began a $15 million expansion of the Delta St. John's Hotel and Conference Centre. Construction is expected to be completed by June 2005 and will

Operating Assets

Regulated utility assets comprise approximately 80 per cent of total operating assets. Regulated utility assets in Canada comprise approximately 70 per cent of total operating assets.

make this hotel the largest convention hotel in Atlantic Canada. Fortis Properties also announced plans to expand the Holiday Inn Sarnia by an additional 65 rooms.

Fortis believes it is essential to stay close to our customers in order to effectively respond to their needs. In keeping with our commitment to separate operations for FortisAlberta and FortisBC, John Walker, President and Chief Executive Officer, Fortis Properties will become President and Chief Executive Officer, FortisBC, effective April 1, 2005, while Philip Hughes continues as President and Chief Executive Officer, FortisAlberta. Earl Ludlow, Senior Vice President, FortisBC and Vice President Operations, FortisAlberta will become President and Chief Executive Officer, Fortis Properties, effective June 1, 2005.

We also welcome Mr. Michael Pavey to our Board of Directors and thank all our members for their valued contribution.

Subsequent to year end, Fortis Properties achieved a milestone with its expansion into western Canada. In February 2005, the Company acquired 3 hotels in Edmonton, Calgary and Winnipeg, which complement its other 12 hotels. This acquisition expands Fortis Properties' hospitality operations to more than 2,800 rooms. Consistent with the vision of Fortis and our long-term growth strategy, this investment is expected to be accretive to Fortis shareholders immediately. Over the longer term, it is expected to provide returns above those generated by our utility investments.

On March 1, 2005, Fortis issued approximately 1.7 million common shares of the Corporation for $74.65 per common share. The offering resulted in gross proceeds of $129.9 million and will be used to repay outstanding indebtedness and for general corporate purposes, including utility-based capital expenditures.

This is an exciting time for Fortis. We remain focused on serving our customers well while growing our business profitably and delivering good returns to our shareholders.

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.

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

Working Together

Fortis, through its operating companies, has been a generator and distributor of electricity since 1885. In 1987, the Corporation was structured as a holding company to pursue profitable growth and diversification. Today, Fortis is an international electric utility holding company with utilities serving approximately one million customers in Canada and the Caribbean region and with significant non-regulated operations in commercial real estate, hotels and hydroelectric generation.

In 2004, we completed the largest acquisition in our history with our utility acquisitions in Alberta and British Columbia, positioning Fortis as the leading electric distribution utility company in Canada.

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, Upper New York State and Belize. Fortis Properties, the Corporation's vehicle for non-utility growth and diversification, owns and operates commercial real estate in Atlantic Canada and hotels in 6 provinces in Canada.

Since 1999, the total assets of Fortis have tripled and today exceed $3.8 billion. Regulated electric utilities comprise approximately 80 per cent of the total operating assets of Fortis. Regulated electric utilities in Canada comprise approximately 70 per cent of total operating assets. Earnings applicable to common shares have grown to $90.9 million in 2004 from $29.2 million in 1999. Over that period, earnings per common share have increased to $4.29 from $2.24.

At Fortis, our principal business is and will remain the ownership and operation of electric distribution utilities. Our first priority remains the continued profitable expansion of existing operations. Over the next 5 years, we anticipate strong organic growth within our utilities which are expected to invest, on average, over $300 million annually to enhance reliability of service to customers and to sustain new load growth. We will also pursue opportunities to acquire other utilities in Canada, the Caribbean and the northeastern United States. We will apply higher return criteria to international assets to offset the increase in the risk profile.

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

Positioning

In 2004, we completed the largest acquisition in our history with our utility acquisitions in Alberta and British Columbia, positioning Fortis as the leading electric distribution utility company in Canada.

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 Corporation will also continue to grow its non-regulated hydroelectric generation assets.

Our vision is to be the world leader in those segments of the electricity industry in which we operate and the leading service provider within our service areas. In all our operations, Fortis will manage resources prudently and deliver quality service to maximize value to our customers and shareholders. We will continue to focus on 3 primary objectives:

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

We remain focused on the integration of our most recent acquisitions, FortisAlberta and FortisBC, within the Fortis Group. Both companies are well on the way to becoming stand-alone companies.

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

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

Our committed and knowledgeable workforce will always be our most valuable asset. Fortis employees are empowered to respond to the needs of our customers within an agile, highly decentralized organization. Integrity, accountability and autonomy are the core values upon which Fortis is structured.

Regulated Utilities – Operations

Newfoundland Power

Newfoundland Power operates an integrated generation, transmission and distribution system in Newfoundland. The Company serves approximately 224,000 customers, or 85 per cent of electricity consumers in the Province, and meets a peak demand of 1,197 MW. 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.

In 2004, we devoted significant energy to reducing costs. The Company's gross operating cost per customer has decreased approximately 30 per cent over the past 10 years on an inflation-adjusted basis.

The greatest challenge facing Newfoundland Power has been the upward pressure on customers' electricity rates. In July 2004, electricity rates rose approximately 9.9 per cent. Approximately 5.4 per cent of the increase was driven by a 9.3 per cent increase in the rate Newfoundland Hydro charges Newfoundland Power for purchased power. As part of the normal regulatory process, the Company was granted approval from the Newfoundland and Labrador Board of Commissioners of Public Utilities to flow through the increase in the cost of purchased power to its customers. The remainder of the increase (4.5 per cent) was associated with the operation of Newfoundland Hydro's Rate Stabilization Plan. A constant focus on implementing operational efficiencies and controlling costs has resulted in Newfoundland Power's impact on electricity rates over the past 10 years being approximately a 1.0 per cent decrease.

This year, we implemented a customer communications strategy to help customers understand the reasons for the increase in their electricity rates. Our "Bright Ideas" advertising campaign focuses on informing, educating and assisting customers with practical tips and advice on energy efficiency. We redesigned customers' electricity bills to make them easier to read and to provide more information, including historical electricity consumption details.

In surveys conducted throughout 2004, customers gave the Company an overall Customer Satisfaction Rating of 89 per cent. Such a high customer satisfaction rating in a year with a significant rate increase indicates we're succeeding in meeting customers' expectations.

We rely on technology as a valuable tool to help us better serve our customers. A new outage management system enables employees to more efficiently dispatch, respond to and track outages reported by our customers. The new look and navigation of our website now provides customers with more information at their fingertips. Our website was ranked in the top quartile of over 3,000 worldwide utility websites.

Cost Reductions

Newfoundland Power's gross operating cost per customer has decreased approximately 30 per cent over the past 10 years on an inflation-adjusted basis.

Newfoundland Power

In 2004, Newfoundland Power invested approximately $60 million in capital expenditures to ensure the continued reliability and efficiency of its electricity system. The Company added capacity in areas that were experiencing significant load growth, carried out extensive preventative maintenance work and upgraded several major components of its generation, transmission and distribution infrastructure.

Requests for new residential service connections increased approximately 14 per cent in 2004 compared to the previous year. To meet the demand for additional capacity in Corner Brook, a new 25-megavolt-amps ("MVA") transformer was added at the Walbournes Substation and an existing 15-MVA transformer was relocated to the Bayview Substation at a cost of approximately $1.3 million.

The Company continued work to extend the useful life of its hydroelectric generating plants with a complete refurbishment of its New Chelsea Hydroelectric Generating Plant at a cost of approximately $4.3 million. Investments in hydroelectric plants have contributed to a 97 per cent plant availability rate, 8 per cent above the plant availability rate in 2003.

The Company plans to invest approximately $255 million in plant and equipment in the next 5 years. Replacement of deteriorated, obsolete and defective equipment and customer-driven capital requirements will continue to be the main focus of the capital program.

Management continuously supports employees so they can contribute fully to our success. Executive members championed an internal business communications strategy launched in 2004 that focuses on developing employees' knowledge of the business.

This year was the Company's best year since it began reporting its safety performance in 1965. Overall corporate injury frequency and severity rates were reduced by 64 per cent and 96 per cent, respectively, while a number of individual departments celebrated lost-time injury-free milestones, including the whole operations group, which worked the entire year without a lost-time injury.

Our 600 employees work hard to be good stewards of the environment. In 2004, the Company was recognized by the Newfoundland and Labrador Environmental Industry Association with their Environmental Performance Award. This award was the sixth environmental award Newfoundland Power has received in the past 3 years.

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

Regulated Utilities – Operations

Maritime Electric

Maritime Electric is the principal electric utility on Prince Edward Island. The Company serves approximately 70,000 customers, or 90 per cent of electricity consumers on the Island, and meets a peak demand of 209 MW. Maritime Electric owns and operates a fully integrated system providing for the generation, transmission and distribution of electricity in the Province. The system is connected to the mainland power grid via 2 submarine cables under the Northumberland Strait. The Company maintains on-Island generating facilities at Charlottetown and Borden-Carleton with a combined total capacity of 100 MW.

Maritime Electric meets the majority of its annual energy requirements through purchases from New Brunswick Power ("NB Power"). In late 2003, the Company negotiated a new energy purchase agreement with NB Power which provides for an increase in firm energy purchases and replaces the agreement with Emera Inc., which expired on December 31, 2004. The new energy purchase agreement will enhance security of supply and should result in increased price stability. Maritime Electric continues to work with the Government of Prince Edward Island in its efforts to secure energy from renewable sources for the Island.

System reliability continues to be strong. During 2004, customers experienced, on average, 1.95 hours of interrupted service, marking the eleventh consecutive year that the Company's system reliability has exceeded the benchmark established under the former *Maritime Electric Company Limited Regulation Act*. Through a continued focus on meeting the needs of our customers, the Company earned a 72.5 per cent Customer Satisfaction Rating in 2004 compared to 71 per cent in 2003.

Reliability

Maritime Electric has begun construction on a $35 million, 50-MW combustion turbine generator, which will increase reliability and security of energy supply.

As part of our ongoing program to improve system reliability and service to customers, Maritime Electric invested approximately $27 million in its electricity system last year. Outage statistics were analyzed to prioritize capital work in the strategic replacement and rebuilding of assets to ensure customers receive the maximum benefits from these investments.

In 2004, Maritime Electric received the necessary approvals to construct a 50-MW combustion turbine generator on Prince Edward Island. This $35 million facility, located adjacent to our Charlottetown Generating Plant, will address issues associated with the loading of the submarine cables between Prince Edward Island and the mainland power grid and will provide for increased reliability and security of energy supply. The unit will be used primarily for peaking purposes and will have the capability of operating on light oil or on natural gas when available. Construction has begun on the facility and it is scheduled for completion in late 2005.

We continue to leverage technology to deliver quality service to our customers. In 2004, a pilot project was undertaken involving the use of computers in vehicles. The project, which will continue in 2005, provides employees in the field with immediate access to data, resulting in increased operational efficiency. The integration of mapping technology and visual data with the Customer Care System will improve response times during system outages. We were honoured to receive an Award of Excellence from the Atlantic Environmental Systems Research Institute User Conference in recognition of the Company's outstanding achievement and innovation in the application of Enterprise Geographical Information Systems technology.

Maritime Electric is committed to ensuring a safe, secure working environment for our 180 employees as well as our customers and all individuals with whom we interact. Our recent one-on-one driver training program reduced the number of Company motor vehicle collisions by 50 per cent compared to 2003. Maritime Electric is recognized as a leader in the Province in the management of traffic control at its roadside worksites.

The preservation of the Island's environment is important to us. In 2004, we partnered with communities throughout Prince Edward Island to promote the use of energy-efficient light emitting diode lighting during the Christmas season. We continue to work closely with all levels of government to ensure the highest environmental standards are met in all our operations and to explore opportunities to partner on environmental initiatives.

Maritime Electric supports the Government of Prince Edward Island's increased emphasis on renewable energy sources. In 2004, approximately 4 per cent of the Company's energy supply was secured through the purchase of wind energy from the North Cape Site. This renewable source diversifies the energy supply options of Maritime Electric and reduces its reliance on fossil fuels. Under new legislation introduced in the fall of 2004, the Company is required to acquire 15 per cent of its total energy requirements from renewable sources by 2010.

Officers of Maritime Electric (l-r): William Geldert, VP, Finance, CFO and Corporate Secretary; James Lea, President and CEO; and John Gaudet, VP, Operations

Regulated Utilities – Operations

FortisOntario

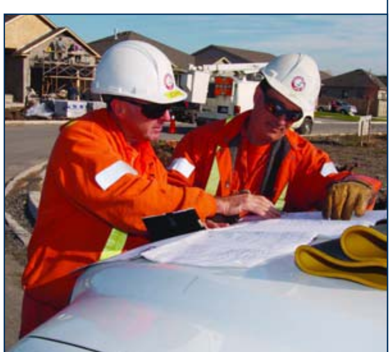
FortisOntario is an integrated electric utility which owns and operates the electric distribution businesses of Canadian Niagara Power and Cornwall Electric. The Company serves approximately 51,600 customers primarily located in Fort Erie, Port Colborne, Cornwall and Gananoque, Ontario and meets a combined peak demand of 256 MW. FortisOntario owns international transmission facilities at Fort Erie. The Company also owns a 10 per cent interest in Westario Power Holdings Inc. and Rideau St. Lawrence Holdings Inc., 2 regional electric distribution companies formed in 2000 that, together, serve over 27,000 customers.

FortisOntario invested approximately $10 million in capital initiatives in 2004 to ensure the continued delivery of safe, reliable electricity service to our existing and new customers. A new distribution station was constructed in Port Colborne to replace an outdated substation and associated cabling. Aging transmission line structures were replaced in the Cornwall and Fort Erie service areas. Key transmission station inter-ties were constructed to improve reliability, reduce potential outage durations and lower transmission charges to Fort Erie area customers. Distribution station inter-ties were upgraded to mitigate potential outages and facilitate station maintenance. Capital work was completed as part of a multi-year voltage conversion effort designed to reduce system losses and to transition to a safer system configuration.

Approximately $0.7 million was invested in information technology upgrades to enhance critical business systems including the implementation of new production site technology at our Fort Erie Data Centre and the completion of a new offsite Disaster Recovery Centre. These initiatives position FortisOntario to meet the changing regulatory requirements in Ontario while providing reliable and cost-effective delivery of system-critical data management services.

An automated call distribution system was installed in the Cornwall and Gananoque service territories, similar to the one in Fort Erie and Port Colborne. This communication system enables more efficient responses to customer inquiries and improves call monitoring and performance activities. Internet and telephone banking payments were automated, reducing costs associated with manual handling of customer payments. Customer bills were redesigned to a more reader-friendly one-page format which improved communications with customers and reduced material costs.

We were honoured to receive the 2004 Business/Industry of the Year Award from the 1000 Islands Gananoque Chamber of Commerce. The Award was bestowed in recognition of capital improvements made to the local utility infrastructure and at our Service Centre.



Customer Service

FortisOntario customers rated reliability and safe delivery of electricity and quality of service at 95 per cent and 88 per cent, respectively.

FortisOntario continues to explore opportunities for alternative sources of supply for Cornwall Electric customers and to negotiate competitive electricity prices from Hydro-Québec. Cornwall Electric receives its energy supply from Hydro-Québec as the utility's distribution system is not connected to Ontario's Independent Market Operator-controlled grid. Recent supply shortages in Quebec, coupled with rising wholesale power prices in New York State, resulted in an 11.98 per cent electricity rate increase for Cornwall Electric customers in 2004.

FortisOntario's overall Customer Satisfaction Rating was 83 per cent in 2004, 5 per cent higher than in 2003. This increase reflects the Company's continued focus on safety, system reliability and customer service delivery as well as government-imposed commodity price caps reducing price volatility for consumers. Customers continue to rate reliability and safe delivery of electricity and quality of service much higher at 95 per cent and 88 per cent, respectively.

The health and safety of our customers, the general public and our 150 employees is paramount. In 2004, FortisOntario received a Health and Safety Award from the Government of Ontario for surpassing 250,000 consecutive employee hours worked without incurring a lost-time injury. In recognition of our safety performance, we were honoured to receive the Electrical and Utilities Safety Association of Ontario President's Award.

FortisOntario remains committed to the preservation of the environment in all our operations. In 2004, we received the PCB Award of Merit from Environment Canada and the US Environmental Protection Agency for the Company's efforts over the past decade in the Fort Erie area of sampling, analyzing, storing and decommissioning electrical equipment containing PCBs.

We continue to lobby the Government of Ontario to remove the 33 per cent transfer tax legislation which adversely affects the ability of private-sector companies to acquire municipally owned utilities. Hydro One and other municipal electric utilities are currently exempt from this legislation, which is expected to be reviewed in 2005.

Our success with respect to the lease of the electricity assets of the City of Port Colborne provides an excellent opportunity to pursue future growth in the distribution sector. With the City of Port Colborne, we were honoured to receive the Chuck Wills Award for Innovation and Excellence in Public-Private Partnerships from the Canadian Council for Public-Private Partnerships.

Officers of FortisOntario (l-r): William Daley, President and CEO; Frederick O'Brien, VP, Operations; and Scott Hawkes, VP, Corporate Services, General Counsel and Corporate Secretary. (On February 16, 2005, Glen King was appointed VP, Finance and CFO.)

Regulated Utilities – Operations

FortisAlberta

On May 31, 2004, Fortis acquired Aquila, Inc.'s utilities in Alberta and British Columbia, which were renamed FortisAlberta and FortisBC.

FortisAlberta is an electric distribution utility which owns and operates approximately 103,000 kilometres of distribution power lines in southern and central Alberta. The Company serves more than 400,000 customers and meets a peak demand of 2,430 MW. Its distribution system comprises about 60 per cent of the low-voltage distribution system in Alberta.

FortisAlberta invested more than $120 million in its electricity system in 2004 to improve reliability of service and meet new load growth. Approximately 11,000 new customers were connected and almost 1,450 kilometres of new lines were constructed. Two major initiatives undertaken were the construction of new distribution feeders north of Edmonton at the Pinedale and Carvel substations. An extensive upgrade was also completed on the 25-kilovolt ("kV") power line stretching 56 kilometres from Plamondon to Wandering River. The enhanced power link is the largest single project in the Company's operating history and has enabled a 40 per cent increase in the capacity of Pembina Pipeline Corporation's pump station.

In October, FortisAlberta completed its initial public offering of $400 million long-term debentures. The net proceeds of the offering were used primarily to repay short-term indebtedness incurred by the Company to retire debt to its former parent prior to closing of the acquisition of FortisAlberta by Fortis. The financing will also help bring rate stability to our customers going forward.

In November, the Company filed its first general rate application with the Alberta Energy and Utilities Board to establish its revenue requirement for 2005. In its application, FortisAlberta requested an increase in distribution rates of 4.5 per cent effective January 1, 2005. The general rate application also included a forecast of $135 million of capital expenditures, most of which are related to improvements to the electricity distribution system to meet customer growth and improve reliability. While approvals are not expected until mid-2005, the application is the first step in executing on FortisAlberta's priorities of improving relationships with customers and regulators in the year ahead.

In the field and through our Customer Contact Centre, FortisAlberta strives to make all interactions pleasant and efficient for customers. Initiatives were implemented to better serve customers by reducing wait times. In 2004, our Customer Contact Centre responded to 73 per cent of calls within 30 seconds, a significant increase from the previous year.

Capital Initiatives

FortisAlberta invested more than $120 million in its electricity system in 2004 to improve reliability of service and meet new load growth.

We are committed to improving all service interactions with customers. The Company has increased the frequency of meter reading, thereby reducing the reliance on estimations and enhancing data integrity. System and process improvements resulted in over 98 per cent accuracy rates in meter reading and billing for consecutive months since August 2004. FortisAlberta is heavily involved in industry-wide initiatives aimed at the development of billing standards to further improve the quality of bills for end-use customers in Alberta.

We are committed to meeting the highest standards of employee and public safety in conducting daily business. Our Safe Driving Program has resulted in a decline in vehicle incidents. Ergonomic changes were made to tools and equipment provided to power line technicians. As a result of such initiatives, employee lost-time and medical aid accidents were at their lowest levels since 2001.

High construction activity and the large influx of new workers to Alberta have resulted in an increased frequency of overhead power line contacts. In 2004, a concentrated approach to reduce public contacts with power lines was implemented including a safety advertising campaign featuring local power line technicians. Employees also delivered electrical hazard presentations to school children throughout the Province.

The Company helps preserve Alberta's natural environment by ensuring our operations meet industry environmental standards. Partnerships were explored with environmental organizations such as the Alberta Riparian Habitat Management Society, whose work across the Province helps protect riparian areas and green zones around lakes and wetlands that provide clean water supply and house a variety of species of animals.

Our employees are committed to providing the customers of FortisAlberta with quality service. The Company supports the development of our 800 employees through various initiatives including an annual Journeyperson Upgrading Program. New programs include leadership development and a Mentoring Program that delivers coaching to employees from the senior management team.

Officers of FortisAlberta (l-r): Earl Ludlow, VP, Operations; Cynthia Johnston, VP, Corporate Services and Regulatory; Steven Raniseth, Treasurer; Philip Hughes, President and CEO; Karin Gashus, VP, Customer Service; Michael Olsen, Controller; Robert Fink, Corporate Counsel and Corporate Secretary; and James Harbilas, VP, Finance and CFO

Regulated Utilities – Operations

FortisBC

On May 31, 2004, Fortis acquired Aquila, Inc.'s utilities in British Columbia and Alberta, which were renamed FortisBC and FortisAlberta.

FortisBC is an integrated, regulated utility operating in the southern interior of British Columbia. The Company serves directly and indirectly more than 140,000 customers and meets a peak demand of approximately 700 MW. Its electricity system includes close to 7,000 kilometres of transmission and distribution power lines. FortisBC owns and operates 4 regulated hydroelectric generating plants with a combined capacity of 205 MW and operates 2 other hydroelectric plants under management contracts. The Company generates approximately 50 per cent of its electricity requirements with the balance met through power purchase agreements.

During its first 7 months of operations, a major focus for management has been the integration of FortisBC within the Fortis Group as a stand-alone utility. FortisBC has established an executive management team based in its service territory. Effective April 1, 2005, John Walker, President and Chief Executive Officer, Fortis Properties, will become President and Chief Executive Officer of FortisBC, fulfilling the commitment of Fortis to establish separate management groups for FortisBC and FortisAlberta. A Customer Call Centre will be established in Trail, British Columbia by June 2005 to better accommodate customer inquiries, requests and payments.

FortisBC invested over $87 million in capital projects in 2004 to further improve service reliability and to meet growth in energy demand. Life extension projects were performed on hydroelectric facilities and a new 230-kV transmission line was completed in the Kootenay area. Construction began on a new substation to supply additional power to the fast-growing South Okanagan area while upgrades were undertaken on the substations supplying the Kelowna area. Upgrades for the Big White Ski Resort were completed and a high-voltage transformer was added to the substation supplying the Creston area. Aged equipment and lines continue to be replaced throughout our service territory.

Focus

During its first 7 months of operations, a major focus for management has been the integration of FortisBC within the Fortis Group as a stand-alone utility.

In November, the Company filed its first general rate application with the British Columbia Utilities Commission ("BCUC") to establish 2005 electricity rates. In its application, FortisBC requested an increase in rates of 4.4 per cent effective January 1, 2005. The BCUC has approved an interim refundable rate increase of 3.7 per cent. The general rate application also included a forecast of over $120 million of capital expenditures to improve reliability to customers and control costs over the long term.

Also in November, FortisBC completed its first public debenture offering of $140 million, representing the final step in the long-term financing plans of Fortis for the acquisition of the utilities in western Canada. The net proceeds of the offering were mainly used to repay short-term indebtedness incurred by FortisBC relating to its acquisition by Fortis on May 31, 2004.

We are committed to improving service to our customers. For example, the cost and time required to complete new customer hook-ups will be reduced by streamlining the process. FortisBC is committed to ensuring customers receive clear, accurate bills in a timely fashion. To improve billing accuracy, meters will be read more frequently, resulting in less estimation. In 2004, 95.7 per cent of meters were read in December compared to 78.1 per cent in January.

In September, FortisBC implemented a new corporate safety policy reaffirming our commitment to excellence in employee and public safety practices. Improved hazard recognition and control programs were implemented to strengthen performance in hazardous energy lock out, confined-space work and public safety. A Mission Possible driving program, an office safety program and an incident management program were launched to enhance the Company's safety standards.

FortisBC supports the continued development of our 400 employees. A Mentoring Program to be launched in the second quarter of 2005 will provide employees with opportunities to receive coaching from senior management. Such initiatives help to ensure that employees have the skills and knowledge needed for professional and organizational success.

We work closely with government and interested environmental groups to minimize the impact of our operations. As part of the Kootenay 230-kV System Development Project and the South Okanagan Supply Reinforcement Project, habitat enhancements and replacement were pursued in conjunction with conservation groups.

We work closely with municipalities, First Nations and other stakeholders in our service territory. Our Partners in Efficiency Program, for example, helps identify energy cost savings for our customers.

Officers of FortisBC (l-r): Robert Meyers, VP, Finance and CFO; Don Debienne, VP, Generation; Earl Ludlow, Senior VP; Kelly Cairns, VP, Customer and Corporate Services, General Counsel and Secretary; and Philip Hughes, President and CEO. (On February 4, 2005, Doyle Sam was appointed VP, Transmission and Distribution.)

Regulated Utilities – Operations

Belize Electricity

Belize Electricity is the primary distributor of electricity in Belize, Central America. Serving more than 66,000 customers, the Company meets a peak demand of 61 MW from multiple sources of energy including power purchases from Belize Electric Company Limited ("BECOL"), the only commercial hydroelectric generating facility in Belize, from Comision 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.

Throughout 2004, Belize Electricity continued to focus on improving reliability of service to customers and expanding its electricity system to meet growth in energy demand. The scope of work under the Power III Project, a Rural Electrification and Housing Project, was broadened at the request of the Government of Belize. Under this Project, an additional 670 homes received electricity for the first time in 2004. Since the Project's inception in 1999, electricity has been made available for the first time to approximately 19,000 housing lots.

The transmission line to Punta Gorda, the southernmost municipality of Belize, was commissioned in November, connecting this previously isolated area to the rest of the country. The completion of this capital project provides more reliable and clean energy to over 3,000 customers and supports industrial growth by supplying the booming shrimp farming industry and large-scale tourism operators. The Company is now in the process of decommissioning its diesel plant in Punta Gorda.

Customer Satisfaction

In 2004, Belize Electricity continued to receive a Customer Satisfaction Rating in excess of 85 per cent.

The Reliability Project, aimed at reducing the frequency of outages caused by salt and dust contamination during unusually dry seasons, was a top priority in 2004. Under this US$1.3 million project, a hot-line washer designed to wash energized lines up to 500 kV was procured and over 3,200 insulators were replaced with more resilient ones.

As part of our commitment to deliver exceptional customer service, Belize Electricity teamed up with Atlantic Bank in 2004 to facilitate electricity bill payments via the Internet. Through these and other efforts designed to provide more convenience for customers, we continued to receive a Customer Satisfaction Rating in excess of 85 per cent.

Belize Electricity continues to pursue opportunities to strengthen its energy supply sources to continue to meet growing energy demands in Belize. The Chalillo hydroelectric facility is scheduled to start providing a low-cost, clean energy supply in the second half of 2005. Belize Electricity signed an agreement with Belize Cogeneration Energy Limited in December for the supply of 13.5 MW of bagasse-fired energy by early 2008.

Progress continued to be made with the Company's plans to become ISO 14001 compliant. With assistance from Newfoundland Power, Belize Electricity implemented an Environmental Management System ("EMS") and delivered training on EMS techniques, spill prevention and compliance with government regulations.

In September, a team of our employees spearheaded the emergency response initiated by Fortis to assist Caribbean Utilities in its service restoration efforts following the impact of Hurricane Ivan on Grand Cayman. Also in September, another group of our employees was dispatched to Grand Bahama as part of a team sent by the Caribbean Association of Electric Utilities after Hurricane Francis devastated that Island's electricity system. We were proud to share our expertise and resources to help restore electricity service to these islands as quickly as possible.

The development of our 250 employees is an integral component of our strategic initiatives to enhance operational efficiency and improve customer satisfaction. Critical training initiatives conducted in association with Newfoundland Power and Maritime Electric included training in transmission design, gas turbine operations, information system security, system dispatch and safety management. In 2004, a job evaluation and remuneration review of Company positions was undertaken to assess their value in the Belizean marketplace, with the goal of positioning the Company as an employer of choice. These initiatives, along with a restructuring of corporate hiring policies and employee benefits, will ensure we continue to attract and retain top talent.

A focus on safety continued to deliver positive results as the Lost-Time Accident Severity Index was reduced by over 50 per cent compared to 2003. The Company held its second annual Health and Safety Week, during which a number of lunch-and-learn sessions covering a variety of topics including health and fitness, traffic safety and hurricane preparedness were conducted. Belize Electricity shared its focus on safety with external partners and completed electricity safety training sessions with firefighters from the National Fire Service and the National Occupational Safety and Health Committee.

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

Regulated Utilities – Operations

Caribbean Utilities

Caribbean Utilities generates, transmits and distributes electricity to more than 21,000 customers on Grand Cayman, Cayman Islands. The Company is one of the most reliable and efficient utilities in the region. Its electricity system is comprised of 18 generating units (16 diesel, 1 gas turbine and 1 steam turbine) with a combined capacity of 123 MW and meets a peak load of 85 MW.

Caribbean Utilities operates under a 25-year exclusive License 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 License. In June 2004, Caribbean Utilities and the Government of the Cayman Islands reached a tentative non-binding agreement that, if finalized, would result in changes to the regulatory regime and extend the Company's License to 2024. The non-binding tentative agreement expired following Hurricane Ivan in September 2004. The Company will meet with Government at the appropriate time to assess the status of the License renewal negotiations. It continues to operate under its existing License which expires in 2011.

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 37.3 per cent interest in Caribbean Utilities and accounts for its investment on an equity basis.

Investment

Fortis holds a 37.3 per cent interest in Caribbean Utilities and accounts for its investment on an equity basis.

Fortis has a strong, successful relationship with management of Caribbean Utilities that spans more than a decade. The strength of this relationship was further demonstrated when Caribbean Utilities was confronted with the challenge of restoring electricity service to its more than 21,000 customers on Grand Cayman in the aftermath of Hurricane Ivan. The Category V hurricane caused widespread damage throughout the Caribbean region in mid-September and resulted in the loss of approximately 20 per cent of the Company's transmission and distribution system.

Employees from every Fortis utility, including FortisBC and FortisAlberta which had only been part of the Fortis Group for 15 weeks, volunteered to help Caribbean Utilities with its restoration efforts. Fortis has the expertise and resources to respond quickly to such natural disasters. Working together, more than 140 Fortis employees helped personnel from Caribbean Utilities restore electricity service in under 3 months, a remarkable achievement.

We extend our thanks and appreciation to all employees throughout the Fortis Group who are committed to providing our customers with safe, quality and reliable electricity service.

Three contingents of more than 140 Fortis employees helped Caribbean Utilities restore service to its customers in the aftermath of Hurricane Ivan.

Fortis Generation – Operations

Working Together

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 188 MW, 183 MW of which is hydroelectric generation.

In central Newfoundland, Central Newfoundland Energy, a non-regulated wholly owned subsidiary of Fortis, 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 gigawatt hours ("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 25-year Power Purchase Agreement.

In Ontario, non-regulated operations are the 75-MW 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.

Capacity

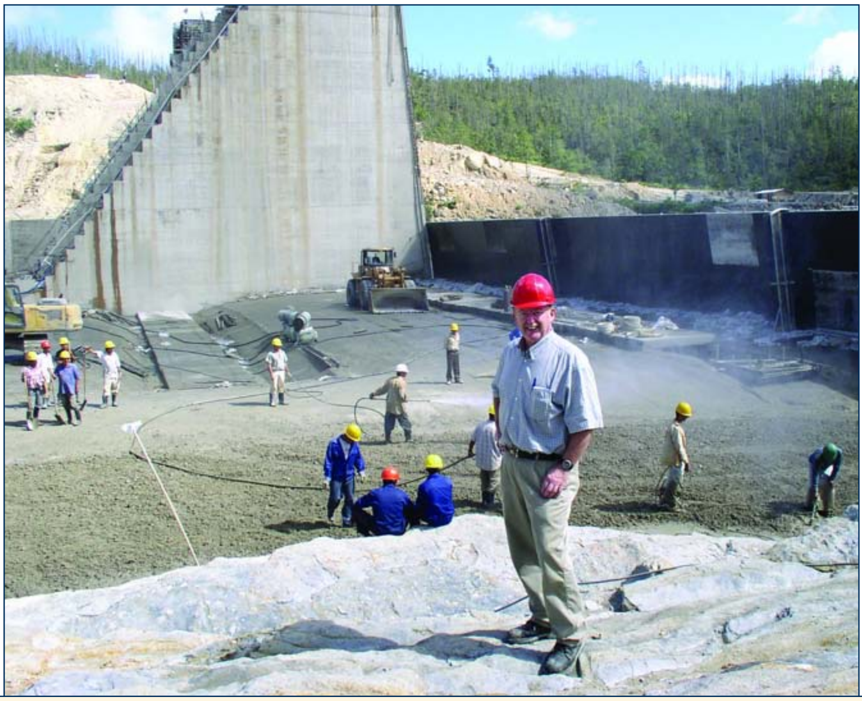
The generating capacity of Fortis Generation's non-regulated assets is 188 MW, 183 MW of which is hydroelectric generation.

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 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 Belize, BECOL owns and operates the 25-MW Mollejon hydroelectric facility, located on the Macal River, the only commercial hydroelectric generating facility in Belize. The Company sells its entire output to Belize Electricity under a 50-year Power Purchase Agreement. Construction of the Chalillo hydroelectric project is scheduled to be completed in the second half of 2005. The US$30 million development is an upstream storage and hydroelectric generating facility which will increase average annual energy production from the Macal River to 170 GWh from 80 GWh.

John Evans, Chief Engineer, Fortis Inc., at the Chalillo project site. The hydroelectric facility is scheduled to be completed in the second half of 2005.



Fortis Properties – Operations

Working Together

Fortis Properties owns and operates hotels in 6 provinces in Canada and commercial real estate in Atlantic Canada. Its holdings include 15 hotels (including the 3 hotels acquired in western Canada on February 1, 2005) with over 2,800 rooms and 2.7 million square feet of commercial real estate. The Company, a wholly owned subsidiary of Fortis, is the Corporation's vehicle for non-utility diversification and growth.

Fortis Properties continued to perform well in 2004 despite numerous regional and industry market challenges in the hospitality sector. Recognizing these challenges, the Company leveraged its ability to adapt quickly to change, to focus on product and service enhancements and cost-containment strategies, and to identify efficiencies as means of continuing its growth.

This year marked our first full year of operations for the 4 hotels in Ontario that were acquired in October 2003. These hotels, located in Sarnia, Cambridge, Kitchener and Peterborough, were strong contributors to the Company's overall performance in 2004.

Revenue per available room ("REVPAR") rose for the ninth consecutive year, increasing to $70.72 in 2004. The hotels continued to achieve high average occupancy rates with REVPAR growth driven by higher average daily room rates. In the past 5 years, REVPAR has increased approximately 33 per cent.

In May, we started construction on the $15 million expansion to the Delta St. John's Hotel and Convention Centre. It includes the addition of 128 rooms, bringing total room count to over 400, and 5,000 square feet of additional meeting space. Scheduled for completion in June 2005, the expansion transforms the property into the largest convention hotel in Atlantic Canada and positions the Delta St. John's to build upon its market leadership position in group and convention business.

Commitment to Service

Fortis Properties' team of more than 1,400 employees is focused on providing quality service and creating favourable customer experiences.

Our Real Estate Division continued to lead regional and national markets with an overall average occupancy rate of 95 per cent as at December 31, 2004. Anchored by high-quality, long-term tenants, the Real Estate Division is a stable and high-performing component of the Company's operations. High occupancy rates, low lease expiries and increased customer satisfaction are key to the success of this portfolio. Leveraging its strong customer relations, Fortis Properties has proactively negotiated early renewals with existing tenants. This strategy has proven to be successful in maintaining a stable tenant base and improving rental rates while limiting the potential for vacancies.

We focus on providing quality service and creating favourable customer experiences. For the second consecutive year, the Four Points by Sheraton Halifax received a Best in Brand Award for overall guest satisfaction. Holiday Inn Kitchener was voted best hotel in its area by local residents and the business community. The Real Estate Division was recognized for excellence in property and facility management with the prestigious BOMA Atlantic 2004 Award of Excellence bestowed to Cabot Place in St. John's. Our commitment to service satisfaction was also reflected through the Company's annual tenant satisfaction rating, which reached an all-time high of 98.7 per cent in 2004.

To ensure we continue to maintain high-quality properties and deliver quality service to customers, over $16 million was invested in capital upgrades in both the Hospitality and Real Estate Divisions, inclusive of $6.1 million expended on the Delta St. John's Hotel expansion. Upgrades included exterior façade and room product renovations, new food and beverage concepts in select locations and technological innovations to increase productivity.

Fortis Properties was successful in raising $15.6 million in new financing this year, taking advantage of favourable market conditions to secure low rates and long-term financing. This financing was used to assist in the funding of the expansion to the Delta St. John's and other ongoing property investments.

Fortis Properties is a strong, vibrant, geographically diverse organization. Our team of more than 1,400 employees continues to demonstrate a strong commitment to performance and service. Competitive compensation and benefit packages, ongoing training and development and a focus on leadership development continue to position the Company as an employer of choice.

Subsequent to year end, Fortis Properties achieved another significant milestone with its first acquisition of hotels in western Canada. On February 1, 2005, the Company acquired 3 hotels in Edmonton, Calgary and Winnipeg for $62.6 million. With a total of approximately 650 rooms, each of the full-service hotels offers quality rooms and varied guest amenities, food and beverage outlets, meeting and fitness facilities and a pool. These mid-market hotels perform well within their markets and complement our current hotel portfolio. Fortis Properties has acquired ownership and franchising rights to the Greenwood Inn brand, currently promoted within the regional market. We are pleased to welcome our new employees at Greenwood Inns to the Fortis Properties team and welcome their contribution in building on our reputation for service excellence.

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

Our Community

Working Together






At Fortis, our commitment to customers transcends to communities. Every year, we strive to improve the quality of life in the communities we serve.

Fortis and our employees rally around many community initiatives. In 2004, for example, Fortis renewed its 3-year commitment as regional sponsor in Atlantic Canada of the CIBC Run for the Cure. In partnership with Maritime Electric and Fortis Properties, we have raised $150,000 to support breast cancer research and treatment since we announced our initial sponsorship. Fortis employees have raised an additional $90,000 in support of this significant cause.

Newfoundland Power's corporate charity, The Power of Life Project, continued to raise funds for the fight against cancer in Newfoundland and Labrador. Employees and customers have contributed a large portion of the nearly $500,000 raised in the first 2 years of the 4-year campaign.

Maritime Electric supported more than 200 charities and community events on Prince Edward Island. Employees organized and hosted the Company's annual fundraising activities, raising $30,000 for the Children's Wish Foundation, the Crohn's and Colitis Foundation and the Heart & Stroke Foundation.

FortisOntario held its annual United Way fundraising campaign in October and, with the support and drive of employees, raised almost $20,000 for this worthwhile initiative. The Company donated and installed the lighting for a Christmas tree that brightened the Gananoque Town Square during the holiday season.

FortisAlberta donated $87,500 to the Shock Trauma Air Rescue Society Foundation for the purchase of a new Human Patient Simulator unit. The Company has pledged a total of $350,000 towards the retrofitted motor home, which simulates an emergency room and will help facilitate training for emergency personnel in Alberta.

FortisBC was proud to be the largest sponsor of the Wildest Festival for Youth, a Robert Bateman environmental awareness program held every year in Kelowna and directed at school children across Canada. The Company also helped fund a mobile Magnetic Resonance Imaging unit ("MRI") which will provide greater access to MRI screening for individuals living in the Kootenays.

Belize Electricity funded scholarships for students pursuing undergraduate studies at the University of Belize. Since 2001, the Company has funded 4 consecutive classes, helping support the education of young Belizeans. The Company again sponsored the Minorettes marching band, which has become a staple of national parades.

Fortis Properties hosted its eighth annual Fortis Classic Golf Tournament in Sydney, Nova Scotia in support of the College of Cape Breton Athletic Fund and Kidsport Nova Scotia. Employees had another successful year in fundraising for the Saint John Business Community Anti-Poverty Initiative with the Fortis Charity Ball and Golf Classic.

Thank you to Fortis employees for giving your all. Your team spirit, hard work and commitment make a difference.

Management Discussion and Analysis

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. 2004 Annual Report. This material has been prepared in accordance with National 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.

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 commercial real estate and hotel properties, which are treated as a separate segment. 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.

During 2004, Fortis changed its segmented reporting relating to the reporting of non-regulated generation assets as one reportable segment. Previously, non-regulated generation assets were either combined with other regulated utility operations in the same jurisdiction or reported as stand-alone operations. The reportable segments for the prior periods have been restated to reflect this change in segmented reporting. The following summary briefly describes the operations included in each of the Corporation's operating and reportable segments.

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

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.

(b) *Maritime Electric:* Maritime Electric is the principal distributor of electricity on Prince Edward Island.

(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 operations 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 and Rideau St. Lawrence, 2 regional electric distribution companies formed in 2000.

(d) *FortisAlberta:* On May 31, 2004, Fortis, through its 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 over 400,000 customers using approximately 103,000 kilometres of power lines. FortisAlberta is regulated by the Alberta Energy and Utilities Board ("AEUB").

(e) *FortisBC:* On May 31, 2004, Fortis, through its 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 over 140,000 customers. FortisBC is regulated by the British Columbia Utilities Commission ("BCUC").

Included with the FortisBC component of Regulated Utilities – Canadian segment are the non-regulated operating, maintenance and management services relating to the 450-megawatt ("MW") Waneta hydroelectric generating facility owned by Teck Cominco, the 145-MW Brilliant Hydroelectric Plant owned by Columbia Power Corporation and the Columbia Basin Trust ("CPC/CBT"), the 150-MW Arrow Lakes Hydroelectric Plant owned by CPC/CBT and the distribution system owned by the City of Kelowna.

Regulated Utilities – Caribbean

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

(a) *Belize Electricity:* Belize Electricity is the principal distributor of electricity in Belize, Central America. Fortis currently owns a 68 per cent interest in Belize Electricity.

(b) *Caribbean Utilities Company, Ltd. ("Caribbean Utilities"):* Caribbean Utilities is the sole provider of electricity on Grand Cayman, Cayman Islands. The Corporation's 37.3 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:* Operations include the 75-MW Rankine hydroelectric generating station at Niagara Falls, 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 FortisOntario Generation Corporation.

(b) *Belize:* Operations include the 25-MW Mollejon hydroelectric facility in Belize. All of the facility's electricity output is sold to Belize Electricity under a 50-year Power Purchase Agreement ("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 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 commenced operations in November 2003 and sells its output to Newfoundland and Labrador Hydro Corporation ("Newfoundland Hydro") under a 25-year PPA.

(d) *Upper New York State:* Operations include the 4 hydroelectric generating stations in Upper New York State with a combined capacity of 23 MW operating under a licence from the U.S. Federal Energy Regulatory Commission. Hydroelectric generation operations in Upper New York State are conducted through the Corporation's wholly owned indirect 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 generating operations in British Columbia are conducted through the Walden Power Partnership ("WPP"), a wholly owned subsidiary of FortisBC.

Non-regulated – Fortis Properties

Fortis Properties includes the operations of commercial real estate in Atlantic Canada and hotel properties in Atlantic Canada and Ontario. On February 1, 2005, Fortis Properties acquired 3 hotels in western Canada that have approximately 650 rooms and 27,000 square feet of banquet space.

Corporate

Corporate includes finance charges associated with corporate debt, dividends on preference securities, other corporate expenses net of recoveries from subsidiaries, interest and miscellaneous revenues and related income taxes.

Significant One-time Item

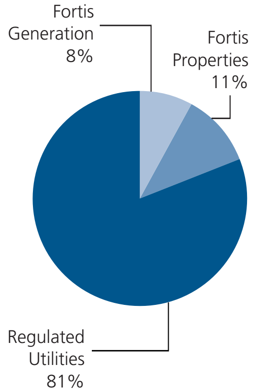
Hurricane Ivan

In September 2004, Grand Cayman was struck by Hurricane Ivan, a Category V hurricane that significantly affected the distribution system of Caribbean Utilities. The total uninsured cost of the hurricane for Caribbean Utilities was approximately US$17.8 million, which the Company expensed for its quarter ended October 31, 2004. Fortis accounts for its 37.3 per cent interest in Caribbean Utilities on an equity basis. Equity earnings are recorded on a lag basis and, therefore, the Corporation's portion of the uninsured hurricane-related costs, totalling approximately $8.2 million, has reduced its equity earnings for the fourth quarter of 2004.

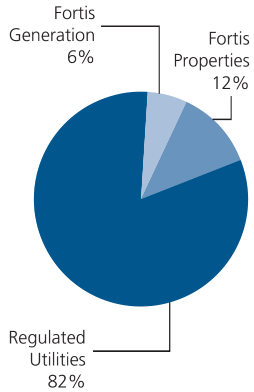
The Corporation's earnings excluding the impact of Hurricane Ivan, although not a measure under generally accepted accounting principles ("GAAP"), would have been $99.1 million in 2004, or $4.68 per common share, 34.6 per cent higher than earnings of $73.6 million last year and 10.1 per cent higher than earnings per common share of $4.25 last year. The Corporation believes that disclosing this measure provides useful supplemental information. Readers should be cautioned, however, that this information should not be confused with or used as an alternative for net earnings determined in accordance with GAAP.

Management Discussion and Analysis

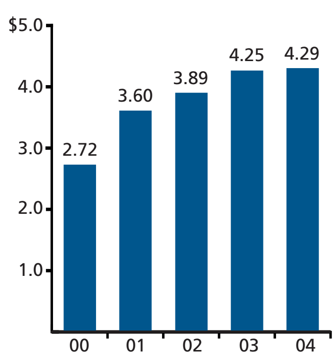
Assets
(at December 31, 2004)



Revenue *(year ended December 31, 2004)*



Earnings Per Common Share *($)*



2004 Financial Highlights

Annual Comparison	2004	2003	Growth *(%)*
Net earnings applicable to common shares *($ millions)*	**90.9**	73.6	23.5
Earnings per common share *($)*	**4.29**	4.25	0.9
Revenue and equity income *($ millions)*	**1,146.1**	843.1	35.9
Dividends paid per common share *($)*	**2.16**	2.08	3.8
Return on average common shareholders' equity *(%)*	**11.3**	12.3	(8.1)
Total assets *($ millions)*	**3,838.0**	2,163.8	77.4
Cash flow from operations *($ millions)*	**271.3**	156.7	73.1

Acquisitions: In 2004, Fortis significantly expanded its investment in regulated utilities with its acquisition of FortisAlberta and FortisBC. On May 31, 2004, Fortis, through its wholly owned subsidiary, Fortis West Inc., acquired all of the common shares of FortisAlberta and FortisBC for approximately $1.5 billion. At December 31, 2004, the combined rate base of these utilities was approximately $1.2 billion.

The acquisition of FortisAlberta and FortisBC significantly improves the diversification of Fortis while increasing the proportion of earnings from regulated utilities. As at and for the year ended December 31, 2004, the Corporation's regulated electric utility subsidiaries accounted for approximately 80 per cent of the Corporation's assets, excluding goodwill, and revenue.

On May 20, 2004, Fortis also acquired the remaining 5 per cent interest in BECOL from the Social Security Board of the Government of Belize for BZ$7.0 million (US$3.5 million), making it an indirect wholly owned subsidiary of the Corporation.

Net Earnings and Earnings per Common Share: Fortis achieved record earnings of $90.9 million in 2004, a 23.5 per cent increase over earnings of $73.6 million last year. Earnings per common share were $4.29, a 0.9 per cent increase over earnings per common share of $4.25 last year. The Corporation's earnings excluding the impact of Hurricane Ivan, although not a measure under GAAP, would have been $99.1 million in 2004, or $4.68 per common share, 34.6 per cent higher than earnings of $73.6 million last year and 10.1 per cent higher than earnings per common share of $4.25 last year.

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.

Revenue and Equity Income: Revenue, including equity income from Caribbean Utilities, increased 35.9 per cent to approximately $1.2 billion from $843.1 million last year. The addition of revenues from FortisAlberta and FortisBC, increased electricity sales and rates in most of the other regulatory jurisdictions, 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 largely as a result of Hurricane Ivan.

Dividends: Dividends paid per common share increased to $2.16 in 2004 from $2.08 last year. Dividends have increased for 32 consecutive years. The Corporation's dividend payout ratio was 50.3 per cent in 2004 compared to 48.9 per cent last year. In December 2004, Fortis declared an increase in the regular quarterly dividend to $0.57 from $0.54, payable on March 1, 2005.

Return on Average Common Shareholders' Equity: Return on average common shareholders' equity was 11.3 per cent in 2004 compared to 12.3 per cent last year.

Cash from Operations: Cash from operations was $271.3 million in 2004 compared to $156.7 million last year. The 2004 acquisitions, as well as improved operating earnings at most subsidiaries, contributed to the improvement in cash flow from operations.

Asset Growth: Total assets increased 77.4 per cent to $3.8 billion at year-end 2004 from $2.2 billion at year-end 2003. The increase primarily related to the Corporation's acquisition of FortisAlberta and FortisBC as well as its continued investment in electricity systems.

Capital Expenditures: Total consolidated capital expenditures for 2004, before contributions in aid of construction, were $278.7 million of which $244.1 million related to the Corporation's regulated utility operations. The non-regulated generation operations incurred $17.3 million, primarily related to the construction of the Chalillo Hydroelectric Project ("Chalillo Project") in Belize, and Fortis Properties incurred $16.1 million of which $6.1 million related to the expansion of the Delta St. John's Hotel and Conference Centre ("Delta St. John's Hotel"). The remaining capital expenditures primarily related to the acquisition of non-joint use poles from Aliant Telecom Inc. ("Aliant Telecom").

Financing: During 2004, Fortis was active in the capital markets raising approximately $1.3 billion from a combination of long-term debt, preference share and common share issuances. Most of the financing activities related to the acquisition of FortisAlberta and FortisBC. These financings were completed at attractive rates and reflect investors' continued positive response to the Corporation's business strategy.

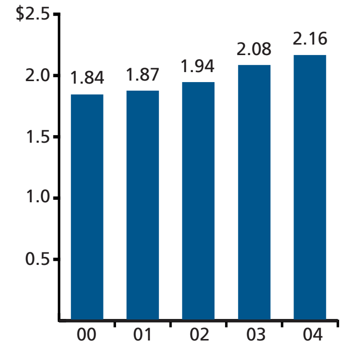
Segmented Results of Operations

The segmented results of the Corporation are outlined below.

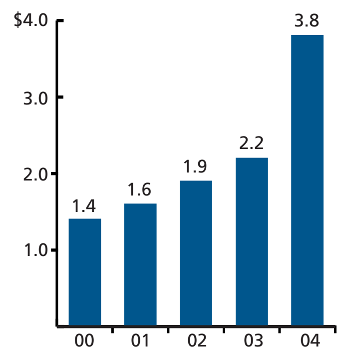
($ millions)	**2004**	2003
Regulated Utilities – Canadian[1]		
Newfoundland Power	**31.1**	29.5
Maritime Electric	**8.2**	7.2
FortisOntario	**4.2**	6.4
FortisAlberta	**18.6**	–
FortisBC	**17.7**	–
	79.8	43.1
Regulated Utilities – Caribbean		
Belize Electricity	**7.2**	6.7
Caribbean Utilities	**0.8**	10.5
	8.0	17.2
Non-regulated operations		
Fortis Generation	**12.8**	10.9
Fortis Properties	**11.8**	11.0
Corporate	**(21.5)**	(8.6)
Net earnings applicable to common shares	**90.9**	73.6

(1) The financial results of FortisAlberta and FortisBC are from the date of acquisition by Fortis which occurred on May 31, 2004.

Dividends Paid per Common Share *($)*

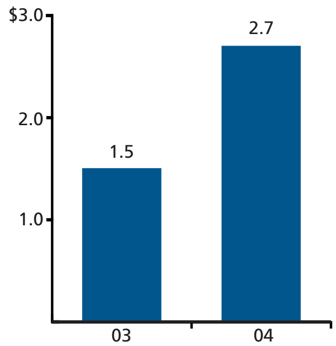


Consolidated Assets *($ billions)*

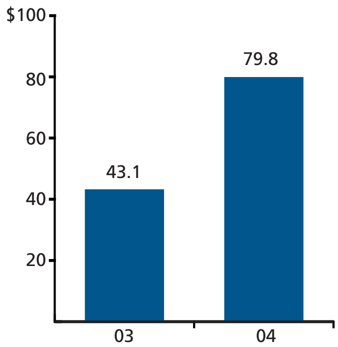


Management Discussion and Analysis

Total Regulated Assets
($ billions)



Regulated Earnings – Canadian
($ millions)



Regulated Utilities

The Corporation's key business is regulated utilities. The regulated earnings in Canada and the Caribbean represent approximately 80 per cent of the Corporation's earnings from its operating segments. The increase in regulated assets, with the acquisition of FortisAlberta and FortisBC, is expected to mitigate the effect of any single adverse regulatory event as no one utility is expected to contribute more than 25 per cent of earnings and cash flow of the Corporation.

The regulated assets are expected to grow as the utilities continue to invest in their respective electricity systems. The 2005 forecasted capital program is significantly higher than the 2004 capital program, mainly related to FortisAlberta and FortisBC as the rate base of these utilities is expected to grow by an average of 5 to 10 per cent per year.

Regulated Utilities – Canadian

Earnings from Regulated Utilities in Canada were $79.8 million, which represented more than 70 per cent of the Corporation's earnings from its operating segments. The substantial increase in earnings from Regulated Utilities in Canada related to the acquisition of the utilities in western Canada on May 31, 2004. Newfoundland Power and Maritime Electric also delivered improved financial results, partially offset by lower earnings at FortisOntario.

On December 15, 2004, Fortis reached an agreement to acquire Princeton Light and Power ("PLP"), an electric utility which serves approximately 3,200 customers in British Columbia and has a rate base of approximately $6.2 million. The closing of the transaction is subject to approval of securities authorities, final due diligence and regulatory approval by the BCUC. The specific purchase price will be adjusted depending on the time of closing but is expected to result in a premium over rate base of approximately 14 per cent.

Newfoundland Power

Regulation: Newfoundland Power operates under a cost of service regulatory model as prescribed by orders of the Newfoundland and Labrador Board of Commissioners of Public Utilities ("PUB"). Under this model, earnings are regulated on the basis of rate of return on rate base. An automatic adjustment formula based on observed long-term bond rates is utilized to annually determine the permitted rate of return. The formula determines an appropriate rate of return on equity which is then used to determine the resulting 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 a return on equity of 9.75 per cent for 2004. The Order also established the automatic formula to be utilized to set rates from 2005 through 2007.

Earnings: Earnings were $31.1 million compared to $29.5 million last year. The $1.6 million increase in earnings was due to a combination of increased electricity sales and continued focus on cost management, partially offset by increased amortization and finance charges associated with Newfoundland Power's ongoing capital program.

Electricity Sales: Electricity sales increased 2.0 per cent to 4,979 gigawatt hours ("GWh") from 4,882 GWh last year. Residential sales increased 2.2 per cent and commercial sales increased 1.7 per cent compared to last year. The increase in residential electricity sales was primarily due to higher average usage levels and an increase in the number of customers. The increase in commercial sales was attributed to growth in the service sector of the economy and activity related to the White Rose offshore oil project.

Revenue: Revenue was $404.4 million compared to $384.2 million last year. The primary reason for the increase was a 5.4 per cent increase in electricity rates charged to Newfoundland Power's customers effective July 1, 2004. This rate increase resulted from a flow through of increased purchase power rates from Newfoundland Hydro and had no impact on Newfoundland Power's earnings. Newfoundland Power also benefited from higher pole rental revenues.

In addition to the 5.4 per cent electricity rate increase, Newfoundland Power's customers also experienced a 4.5 per cent increase in electricity rates on July 1, 2004 associated with the operation of Newfoundland Hydro's Rate Stabilization Plan. While the 4.5 per cent rate increase does increase electricity rates of Newfoundland Power's customers, it does not impact revenues as it flows directly through Newfoundland Power's Rate Stabilization Account ("RSA") on the Company's balance sheet.

Expenses: Newfoundland Power purchases approximately 90 per cent of its energy requirements from Newfoundland Hydro. Energy supply costs were $244 million compared to $228 million last year. The increase primarily related to the increase in Newfoundland Hydro's rates charged to Newfoundland Power, effective July 1, 2004, and increased power purchases related to increased electricity sales.

In December 2004, the PUB ordered the restructuring of Newfoundland Hydro's rates charged to Newfoundland Power to include both a demand and an energy rate component, effective January 1, 2005. Under this rate structure, Newfoundland Power will be billed based on its highest demand from the previous winter season. The use of a demand-energy rate is common to utilities; however, it increases the risk of volatility in purchased power expense. A purchased power cost variance reserve was approved by the PUB, which should limit the impact of variances from forecast purchased power costs on the Company's financial performance.

Operating expenses were consistent with last year. Inflationary increases and an increase in annual pension costs were offset by lower costs associated with reduced regulatory activity in 2004 and management's continued focus on operating cost management and control. Newfoundland Power's operating cost per customer was $220 in 2004 compared to $225 last year.

Amortization and finance charges increased $1.6 million and $0.4 million, respectively, over last year. The increase was attributable to continued investment in Newfoundland Power's electricity system assets.

Outlook: The growth in electricity sales in 2005 is expected to be lower than the 2004 growth rate of approximately 2 per cent.

Newfoundland Power expects to spend approximately $50 million on its capital program in 2005. The 2005 capital program is mainly related to customer and energy sales growth and ongoing maintenance of the Company's electricity system.

Newfoundland Power expects to spend approximately $50 million on its 2005 capital program.

Management Discussion and Analysis

The 2005 earnings for Newfoundland Power will also be influenced by the operation of the automatic annual adjustment formula for 2005. The PUB has 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 an adjusted return on common equity of 9.24 per cent. 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 allowed return on rate base.

During 2004, Newfoundland Power offered a voluntary early retirement program to 131 eligible employees. This program will reduce future operating costs as well as address challenges associated with an aging workforce. The expected date of retirement is April 1, 2005. In December 2004, Newfoundland Power was granted approval by the PUB to amortize the pension costs associated with the early retirement program over a 10-year period commencing on the retirement date in 2005, and to amortize the retirement allowances associated with the program over a 24-month period from the date the allowances are paid in 2005.

Maritime Electric

Regulation: In December 2003, the Government of Prince Edward Island passed legislation to return Maritime Electric to traditional cost of service regulation under the *Electric Power Act* effective January 1, 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 $0.05 per kilowatt hour ("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 the Island Regulatory and Appeals Commission ("IRAC"). This regulatory change reduced Maritime Electric's exposure to energy costs, as 100 per cent of all energy-related costs are recoverable under this regulatory framework. The *Electric Power Act* contains the same minimum common equity requirement as the *Regulation Act* but does not contain any prescribed standards for system reliability.

On April 30, 2004, Maritime Electric filed a GRA with IRAC for the period ending June 30, 2006. On January 6, 2005, IRAC issued an Interim Order which re-established an ECAM. 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 energy costs above a base rate per kWh or rebate to customers energy costs below a base rate per kWh. The rates charged to customers in effect at December 31, 2003 have been adopted as basic rates.

Earnings: Earnings were $8.2 million in 2004 compared to $7.2 million last year. The increase in earnings related to higher electricity sales, the 2.1 per cent basic rate increase implemented on April 1, 2003 and changes to Maritime Electric's regulated structure effective January 1, 2004.

Electricity Sales: Electricity sales were 977 GWh, an increase of 2.0 per cent over last year. The increase in electricity sales was largely due to an expanding customer base and an increase in average use. Annual residential sales and commercial sales increased 3.5 per cent and 1.0 per cent, respectively, in 2004. The increase in residential sales reflects customer growth and increased consumption levels and the increase in commercial sales was primarily the result of increased manufacturing and processing output.

Revenue: Revenue was $115.4 million compared to $96.3 million last year. Increased electricity sales and the 2.1 per cent increase in basic rates effective April 1, 2003, coupled with the changes associated with the new legislation effective January 1, 2004, contributed to higher revenues. As of December 31, 2003, Maritime Electric maintained an ECAM to adjust for the effect of variations in energy costs above or below $0.05 per kWh. The new legislation, effective January 1, 2004, allows Maritime Electric to fully collect these costs, thus increasing both energy supply costs and revenues.

Expenses: Energy supply costs were $71.3 million compared to $53.4 million last year. The increase related to higher electricity sales and changes to the legislation effective January 1, 2004, as discussed above.

Operating expenses increased $0.2 million compared to last year. The increase in annual operating expenses was primarily due to increased regulatory costs including the costs associated with the application for approval of the 50-MW generating facility and the GRA.

Outlook: The economic growth of Prince Edward Island is expected to remain at modest levels, based on the expected continuation of construction sector activity and an improvement in tourism.

Currently, Maritime Electric relies on imported energy for its energy requirements. Maritime Electric has received all necessary approvals for the construction of a 50-MW generating facility on Prince Edward Island. This facility is designed to operate on light oil or natural gas, will address submarine cable loading issues and will reduce the Company's reliance on imported electricity. The targeted in-service date is fall 2005.

Maritime Electric expects to spend approximately $43 million on its 2005 capital program.

Maritime Electric expects to spend approximately $43 million on its 2005 capital program. The 2005 capital program includes approximately $24 million to complete the construction of the 50-MW generating facility and the remainder relates to ongoing maintenance of the Company's electricity system.

Maritime Electric expects to receive a final Order on its GRA no later than mid-2005.

FortisOntario

Regulation: FortisOntario includes the regulated operations of Canadian Niagara Power and Cornwall Electric. Canadian Niagara Power operates under the *Electricity Act (Ontario)* and the *Ontario Energy Board Act (Ontario)*. Canadian Niagara Power's distribution and transmission assets are regulated on a cost of service basis. Cornwall Electric is exempt from many aspects of these Acts and is also subject to a 35-year Franchise Agreement with the Corporation of the City of Cornwall, dated July 31, 1998. Rates under the Franchise Agreement are determined based on the contracted cost of power and other operating costs and are reset each year based on a formula including adjustments for increases in purchase power costs, inflation, load growth and customer growth. In November 2004, the Ontario Energy Board ("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*, 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. During the period of the rate freeze, Government subsidized the difference between the competitive wholesale price paid to generators and the fixed commodity price charged to low-volume and designated customers. Currently, the transmission rates and Fort Erie distribution rates have been set based on a 9.88 per cent return on equity. Port Colborne distribution has implemented two-thirds of a phase-in of rates to the 9.88 per cent return and currently charges rates based on a 6.91 per cent rate of return. Gananoque has fully implemented its distribution rates based on a 9.88 per cent return on equity. Port Colborne will apply for recovery of the final third of its return on equity in 2005; however, in order to qualify Canadian Niagara Power had to submit a Conservation and Demand Management Plan to the OEB for approval in 2004. The Plan includes the required investment equal to the value of the final one-third of return on equity 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* was passed into law. The legislation allowed electricity distributors to begin to recover a portion of the 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 and costs incurred subsequent to this date can be recovered 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. The Interim Rate Schedule is subject to future review by the OEB.

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 its 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.

Earnings: Earnings were $4.2 million compared to $6.4 million last year. The primary reason for the decrease related to higher finance charges associated with the $52 million of long-term debt issued in August 2003 and a lower effective income tax rate in 2003.

Electricity Sales: Electricity sales were 1,198 GWh compared to 1,242 GWh last year. The decrease was primarily related to Cornwall Electric's loss of an industrial customer representing approximately 40 GWh in annual electricity sales. Less air conditioning load associated with cooler temperatures in Ontario also contributed to the decrease. This decrease was partially mitigated by sales from the Gananoque area associated with the acquisition of the operating subsidiaries of Granite Power Corporation ("Granite Power") in April 2003. Granite Power's operations are now amalgamated with Canadian Niagara Power.

Revenue: Revenue was $125.2 million compared to $119.8 million last year. The decline in electricity sales was more than offset by increases in Cornwall Electric rates, effective July 2003 and July 2004.

Expenses: Energy supply costs were $96.5 million compared to $89.7 million last year. The increase primarily related to increased wholesale cost of power at Cornwall Electric. Operating expenses were slightly below last year. The decrease in operating expenses associated with operational efficiencies achieved from the ongoing integration of Cornwall Electric was partially offset by operating expenses associated with the acquisition of the operating subsidiaries of Granite Power in April 2003.

Finance charges increased $1.2 million compared to last year. The increase in finance charges was primarily related to the issuance of long-term debt in August 2003.

Outlook: FortisOntario is projecting economic growth of approximately 1 per cent in the regions it serves. FortisOntario expects to spend approximately $12 million on its 2005 capital program. The 2005 capital program is primarily related to ongoing maintenance of the Company's electricity system.

The Ontario electricity market continues to evolve and FortisOntario expects to be active in 2005 as the regulatory framework is reviewed by the Government of Ontario. The Minister of Energy released a discussion paper on December 21, 2004 entitled *Electricity Transmission and Distribution in Ontario – A Look Ahead*. The paper identifies and discusses changes and challenges facing the wires sector and public consultation in developing a framework for this sector. FortisOntario expects to file a GRA in 2005 to set rates for 2006.

There are presently 95 municipally owned local distribution companies in the Province. 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.

FortisOntario expects to spend approximately $12 million on its 2005 capital program.

FortisAlberta

The financial results of FortisAlberta are from the date of acquisition by Fortis, which occurred on May 31, 2004.

Regulation: FortisAlberta is a regulated electricity distribution utility under the jurisdiction of the AEUB. Its distribution assets are regulated on a cost-of-service basis. Rate orders issued by the AEUB establish FortisAlberta's revenue requirements, being those revenues required to recover all prudently incurred operating expenses, depreciation, income tax, interest on debt supporting regulated assets and a reasonable return on deemed common equity applied to approved rate base assets.

On July 2, 2004, the AEUB issued a Generic Cost of Capital Decision that established a common approach for setting the 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. The Generic Cost of Capital Decision set FortisAlberta's regulated base rate of return on deemed common equity for future rates at 9.6 per cent, based on a forecast long-term Canada bond of 5.68 per cent. Beginning in 2005, FortisAlberta's regulated base rate of return on deemed common equity will be adjusted by a formula. FortisAlberta believes that this formulaic approach to rate setting enhances the transparency and predictability of the regulatory process and will, in many cases, reduce the complexity and cost of regulatory proceedings.

FortisAlberta expects to spend approximately $135 million on its 2005 capital program.

Earnings: FortisAlberta's earnings for the 7 months ended December 31, 2004 were $18.6 million. The earnings were positively impacted by lower interest expense primarily related to more favourable short-term borrowing rates experienced by FortisAlberta for the period May 31, 2004 through October 31, 2004. Concurrent 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. On October 25, 2004, FortisAlberta closed its $400 million public debenture offering equally divided between 5.33 per cent Senior Unsecured Debentures due October 31, 2014 and 6.22 per cent Senior Unsecured Debentures due October 31, 2034. The proceeds from this offering were used to repay FortisAlberta's short-term debt previously noted.

Electricity Sales: Electricity sales for the 7 months ended December 31, 2004 were 7,964 GWh compared to 7,857 GWh for the same period last year. FortisAlberta's electricity sales continue to benefit from Alberta's growing economy.

Outlook: On November 30, 2004, as a result of the operation of the automatic adjustment formula, the AEUB issued its Return on Equity Decision which set FortisAlberta's rate of return on common equity at 9.5 per cent for 2005. In order to establish 2005 rates, FortisAlberta filed a GRA with the AEUB in November 2004 using the 9.5 per cent rate of return on common equity and the 37 per cent equity in its regulated capital structure. The GRA is seeking a 4.5 per cent increase in distribution rates and includes forecasted capital expenditures of $135 million for 2005, including software development costs, most of which are related to improvements and extensions to the electricity distribution system to meet customer growth and improve reliability.

Fortis continues to progress with plans to separate management and operations at FortisAlberta and FortisBC, as committed to stakeholders during the consultation process leading to the purchase of the businesses. The separation is expected to result in more effective and productive companies and will lend itself to improved customer service and reliable electricity service at reasonable costs.

FortisBC

The financial results of FortisBC are from the date of acquisition by Fortis, which occurred on May 31, 2004.

Regulation: FortisBC is regulated by the BCUC, which operates under and administers the *Utilities Commission Act* (British Columbia). FortisBC is required to regularly file rate applications with the BCUC. FortisBC's rates are established pursuant to both a cost-of-service framework and a performance-based rate setting methodology ("PBR") framework. The rate process first requires FortisBC to establish and have its annual revenue requirements approved by the BCUC. These annual revenue requirements include the recovery of prudently incurred operating expenses, power purchase costs, depreciation, income tax, interest on debt and a reasonable return on equity. Second, an appropriate customer rate structure is established. The purpose of the rate structure is to charge fair rates to each customer class and to permit FortisBC to recover its approved revenue requirements. The PBR framework, which in part governs FortisBC's rates, is intended to encourage FortisBC to operate efficiently by permitting its shareholders and customers to share in costs savings if specific targets are met.

The year 2004 was to be a rate rebasing year for the PBR framework. However, because of the change in ownership of FortisBC, in its application for 2004 rates filed with the BCUC in November 2003, FortisBC proposed extending the existing settlement agreement and PBR framework for 2004, with a rebasing in 2005. The application was the subject of a successful negotiated settlement reached in March 2004, which was reviewed and approved by the BCUC in April 2004. On April 26, 2004, the BCUC approved a 4.3 per cent rate increase, effective May 1, 2004. An interim rate increase of 3.6 per cent was put in place on January 1, 2004.

Earnings: Earnings for the 7 months ended December 31, 2004 were $17.7 million. The 4.3 per cent general rate increase effective May 1, 2004 and a refinement of the process of estimating unbilled electricity revenue, which resulted in a $3.7 million after-tax increase to earnings, contributed to favourable earnings for the period. In addition, lower finance charges as a result of more favourable short-term borrowing rates for the period May 31, 2004 through November 30, 2004 contributed to favourable earnings for the period.

Concurrent with the Company's purchase by Fortis on May 31, 2004, FortisBC borrowed on a short-term basis $155 million by way of 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. On November 30, 2004, FortisBC issued $140 million of 5.48 per cent Senior Unsecured Debentures due November 28, 2014. FortisBC also converted $100 million of the outstanding aggregate principal of its previously existing Senior Secured Debentures into Unsecured Debentures ranking pari passu with the new 5.48 per cent Senior Unsecured Debentures. The net proceeds of the offering were primarily used to repay the Fortis demand note.

Electricity Sales: Electricity sales for the 7 months ended December 31, 2004 were 1,662 GWh compared to 1,637 GWh for the same period last year. The increase in electricity sales is consistent with customer growth for the period.

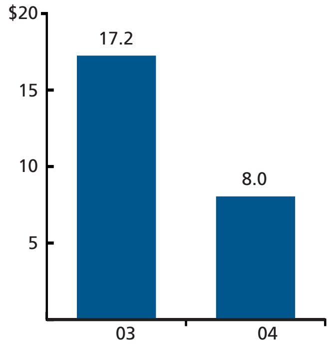
Outlook: In order to establish 2005 rates, FortisBC filed a GRA with the BCUC on November 26, 2004. FortisBC's application seeks approval of a 4.4 per cent rate increase effective January 1, 2005. The BCUC approved an interim refundable rate increase of 3.7 per cent effective January 1, 2005 pending a hearing on the Company's application. The GRA requests a continuation of the power purchase and demand side management aspects of the incentive sharing mechanism for 2005 and a cost of capital for rate making purposes to reflect a capital structure of 40 per cent equity and 60 per cent debt, with a return on equity that is 0.75 per cent above the 2005 benchmark return of 9.03 per cent. The GRA also proposed to share 50 per cent of savings in actual operating and maintenance expenditures from those forecast for 2005 and to develop a comprehensive performance-based mechanism in consultation with customers, which may be implemented as early as 2006.

The GRA includes forecasted capital expenditures of approximately $122 million. The major capital expenditures for 2005 include two critical transmission projects: the South Okanagan Supply Reinforcement Project and the Kelowna Area Upgrade. The plan also includes upgrades and life extension work on hydroelectric generation.

FortisBC expects to spend approximately $122 million on its 2005 capital program.

FortisBC has committed to the BCUC that the Company will establish itself as a stand-alone business by June 2006. By establishing itself as a separate business, FortisBC believes it will provide improved customer service, greater operational efficiency and better regulatory transparency. The Corporation has appointed a management team, located in British Columbia, that is solely dedicated to managing the affairs of FortisBC. Some FortisBC functions, such as operations and regulatory affairs, have already been transitioned to British Columbia. Other functions such as customer service, finance, human resources and corporate services are currently being transferred. Most of the employees needed to carry out all of the functions of the Company will be located in British Columbia by June 2005.

Regulated Earnings – Caribbean
($ millions)



Regulated Utilities – Caribbean

Earnings from regulated utilities in the Caribbean were $8.0 million compared to $17.2 million last year. Increased earnings from Belize Electricity were offset by lower equity income from Caribbean Utilities. The earnings for Caribbean Utilities were impacted by Hurricane Ivan. The Corporation's portion of the uninsured hurricane-related costs, which approximate $8.2 million, have reduced the equity earnings from Caribbean Utilities for 2004.

Belize Electricity

Fortis holds a 68 per cent interest in Belize Electricity. The results reported below represent the Company's total operations.

Regulation: Belize Electricity is regulated by the Public Utilities Commission ("PUC") under the terms of an amendment to the *1992 Electricity Act* and the *Public Utilities Commission Act of 1999*. The PUC has approved bylaws that govern electricity rates. Electricity rates in Belize are comprised of two components; the first, Value Added Delivery ("VAD"), is subject to price cap and the second is the cost of fuel and purchase power, including the variable cost of generation, which is a flow through in customer rates. The current VAD is subject to a BZ$0.05 reduction over a 5-year transition period that ends July 2005. As of July 1, 2004, the BZ$0.05 rate reduction has been implemented. A new 4-year VAD tariff setting arrangement will be required by July 1, 2005. The cost of generating or purchasing electricity will remain as a flow through to customers. Belize Electricity's regulation also includes a Cost of Power Rate Stabilization Account ("CPRSA") designed to normalize changes in the price of electricity due to fluctuating fuel costs. The CPRSA stabilizes electricity rates for consumers while providing Belize Electricity with a mechanism which permits the recovery of its cost of electricity. Effective July 1, 2002, a Hurricane Cost of Power Rate Stabilization Account was also established to normalize hurricane reconstruction costs. At December 31, 2004, the balance in these accounts owing from customers was $8.2 million.

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 subsequent licence grant. If the 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 $10.3 million (BZ$15.8 million) in 2004 compared to $9.7 million (BZ$14.1 million) last year. The increase in earnings was the result of higher electricity sales as well as a lower foreign exchange loss recognized on the Company's euro-denominated debt. The foreign exchange loss recognized on the Company's euro-denominated debt was $0.3 million (BZ$0.4 million) compared to $0.8 million (BZ$1.1 million) last year. The increase in earnings was partially mitigated by the depreciation of the US dollar relative to the Canadian dollar compared to 2003.

Electricity Sales: Electricity sales were 330 GWh in 2004, 7.1 per cent higher than electricity sales of 308 GWh last year. The increase was driven by growth in the residential and commercial segments as a result of expansion of electricity service to rural and new housing projects, as well as continued economic growth in the tourism and commercial sectors.

Revenue: Revenue was $71.9 million (BZ$110.1 million) compared to $72.5 million (BZ$105.3 million) last year. Excluding foreign exchange impacts, revenue increased 4.6 per cent compared to last year. The increase related to higher electricity sales, partially offset by a final reduction in electricity rates of BZ$0.01 per kWh implemented in July 2004. Rates have been reduced by BZ$0.05 per kWh in total since Fortis acquired Belize Electricity in October 1999.

Expenses: Energy supply costs were $37.7 million (BZ$57.7 million) compared to $37.2 million (BZ$53.9 million) last year. The increase in energy costs was associated with higher electricity sales partially offset by depreciation of the US dollar relative to the Canadian dollar. Belize Electricity purchases the majority of its energy requirements from Comision Federal de Electricidad, the Mexican state-owned power company, and from BECOL.

Operating expenses were $11.0 million in 2004 compared to $11.6 million last year. The decrease reflects management's focus on improving operating efficiencies and productivity.

Amortization expense was $6.1 million, comparable to last year. During the fourth quarter of 2003, Belize Electricity completed a review of its amortization records and updated its annual amortization expense for assets previously retired. In 2004, Belize Electricity began applying an estimated annual rate of 3.44 per cent to depreciate its assets that is similar to the composite depreciation method adopted by the other Fortis regulated utilities.

The decrease in finance charges compared to last year is a result of regular repayments on its long-term debt facilities.

Outlook: The gross domestic product of Belize is estimated to grow by approximately 4 per cent in 2005. Belize Electricity anticipates growth of electricity demand to remain high at approximately 7 per cent to 8 per cent for 2005. Economic growth, countrywide housing investments, aquaculture developments and rural expansion projects continue to add new load.

Belize Electricity expects to spend approximately $20 million on its 2005 capital program. The 2005 capital program is related to expansion and maintenance of its electricity systems.

Belize Electricity is required to file a GRA in 2005 to establish a new 4-year VAD tariff setting arrangement. In response to steep and unforeseen increases in oil prices, Belize Electricity also applied for an interim 3-cent increase in average tariff to speed recovery of the CPRSA. The PUC delayed the review of this application for consideration at the next tariff review proceedings, which are scheduled to commence in March 2005. The Company's long-term strategy is to mitigate the risk of fuel price increases to customers by diversifying its sources of energy supply. Belize Electricity has signed a new PPA with Hydro Maya Limited. The agreement is to purchase output from a 2-MW run-of-river hydroelectric plant in the Punta Gorda District (southern Belize) which is expected to become operational in January 2006. Belize Electricity also signed a PPA with Belize Cogeneration Energy Limited in December 2004 for the supply of 13.5 MW of power by early 2007.

Belize Electricity expects to spend approximately $20 million on its 2005 capital program.

Caribbean Utilities

In January 2003, Fortis acquired an additional 15.9 per cent of the outstanding Class A, Ordinary Shares of Caribbean Utilities, increasing its holding in the utility to approximately 38 per cent at that time. At December 31, 2004, the Corporation held a 37.3 per cent interest in Caribbean Utilities. Fortis accounts for its interest in Caribbean Utilities on an equity basis. Equity earnings are recorded on a lag basis and, therefore, the earnings of Caribbean Utilities represent earnings for the 12 months ended October 31, 2004.

Regulation: Caribbean Utilities operates the only electricity 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.

In July 2002, Caribbean Utilities submitted a Licence extension proposal to the Government of the Cayman Islands that included a price cap rate-setting mechanism to replace the existing rate of return on rate base formula. The current Licence remains in full force and effect until 2011 or until replaced or changed by mutual agreement. The non-binding tentative agreement signed by Caribbean Utilities and Government in June 2004 has expired following Hurricane Ivan. The Company will meet with Government at the appropriate time to assess the status of the Licence renewal negotiations. Caribbean Utilities continues to operate under its existing Licence, which expires in 2011.

Equity Income: Equity income recorded from Caribbean Utilities in 2004 decreased $9.7 million compared to last year. The primary reason for the decrease related to Hurricane Ivan as well as a 3 per cent rate reduction implemented November 2003.

To date, the total uninsured hurricane-related costs for Caribbean Utilities were approximately US$17.8 million. The Corporation's portion of the uninsured hurricane-related costs, which approximate $8.2 million, have reduced the equity earnings from Caribbean Utilities in 2004. The terms of Caribbean Utilities' Licence permit the recovery of hurricane-related costs through rate adjustment. At the appropriate time, Caribbean Utilities will make proposals to the Government of the Cayman Islands on how best to implement rate adjustments and recover these costs.

Outlook: Management at Caribbean Utilities expect that earnings will improve as service restoration, which is expected to reach 75 per cent of pre-Hurricane Ivan load by April 2005, continues and proceeds from the Company's business interruption insurance claims are received. As of November 30, 2004, Caribbean Utilities had completed the restoration of service to all customers able to receive such service.

Caribbean Utilities has made a claim for its business interruption loss. Typically, the ultimate recovery under a business interruption 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. In view of the immediate cash flow requirements needed to restore service following the passage of Hurricane Ivan, interruption to Caribbean Utilities' billing and collection procedures and the loss of revenues during the 45-day deductible period associated with business interruption insurance, the Board of Directors of Caribbean Utilities elected not to declare a dividend for its second quarter of fiscal year 2005. On February 22, 2005, the Board of Directors of Caribbean Utilities declared a regular quarterly dividend payable March 17, 2005.

Fortis Generation

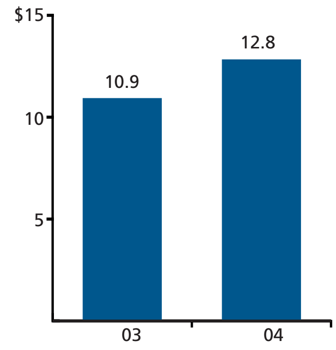
Fortis Generation consists of the Corporation's investment in non-regulated generation assets. The following table provides a summary of the Corporation's non-regulated generation assets by location.

	Plants	Capacity *(MW)*	2004 Energy Sales *(GWh)*	2003 Energy Sales *(GWh)*
Central Newfoundland	2	36	152	17
Ontario	8	88	721	705
British Columbia	1	16	23	–
Belize	1	25	63	61
Upper New York State	4	23	69	86
Total	**16**	**188**	**1,028**	**869**

Earnings: The earnings contribution from the Corporation's non-regulated generation assets for 2004 was $12.8 million compared to $10.9 million last year. Increased earnings associated with slightly higher rainfall levels in Belize and the first full year of operations in central Newfoundland were partially offset by lower wholesale energy prices in Ontario.

Energy Sales: Energy sales were 1,028 GWh compared to 869 GWh last year. Increased sales in central Newfoundland were associated with the commencement of the Exploits Partnership Project in November 2003. Energy sales in Ontario increased as a result of the acquisition of the operating subsidiaries of Granite Power in April 2003. The slightly higher energy sales in Belize were a direct result of higher rainfall levels compared to last year. The Corporation's acquisition of FortisBC, on May 31, 2004, included the 16 MW run-of-river Walden hydroelectric power plant near Lillooet, British Columbia. This plant is a non-regulated operation that sells its entire output to BC Hydro under a long-term contract. The increased energy sales were partially offset by a decrease in energy sales from the hydroelectric plants in Upper New York State due to the Dolgeville unit being out of service. Dolgeville returned to service on June 29, 2004. Over the first 6 months of 2003, Dolgeville contributed 11.4 GWh to energy sales.

Fortis Generation Earnings
($ millions)



Revenue: Generation revenue for 2004 was $69.2 million compared to $57.1 million last year. The $12.1 million increase in revenue related to the start of production in central Newfoundland and the addition of generation in British Columbia in 2004. The increase was partially offset by a 7.7 per cent decline in market prices in Ontario associated with the energy provided by the Rankine Generating Plant. The average market price in Ontario was $49.95 per megawatt hour ("MWh") for 2004 compared to $54.09 per MWh for 2003.

Operating Expenses: Operating expenses were $16.1 million compared to $14.0 million last year. The increase in annual operating expenses was primarily caused by the addition of generation in central Newfoundland and British Columbia. Increases in amortization and finance charges were primarily associated with the start of production in central Newfoundland in November 2003.

Outlook: Fortis expects to pursue opportunities associated with non-regulated hydroelectric operations in 2005 as well as continue to develop and enhance existing operations.

The Chalillo Project in Belize commenced construction in May 2003. The US$30 million development is an upstream storage and hydroelectric generating facility that is expected to increase average annual energy production from the Macal River by approximately 90 GWh. Construction is scheduled for completion during the second half of 2005. The Project will increase reliability of energy supply in Belize and represents the most economical source of new energy for the country.

Management Discussion and Analysis

On February 18, 2005, Fortis, through its wholly owned subsidiary, FortisOntario Inc., completed an agreement with Ontario Power Generation Inc. ("OPGI") addressing the future disposition of FortisOntario Inc.'s water rights and facilities on the Niagara River. The Niagara Exchange Agreement facilitates the firm and irrevocable exchange of 75 MW of wholesale electric power supply to FortisOntario Inc. from OPGI until April 30, 2009 in exchange for the transfer of FortisOntario Inc.'s water entitlement to OPGI. FortisOntario Inc. also received a payment of $10 million from OPGI resulting from the settlement of contractual matters.

Fortis Properties

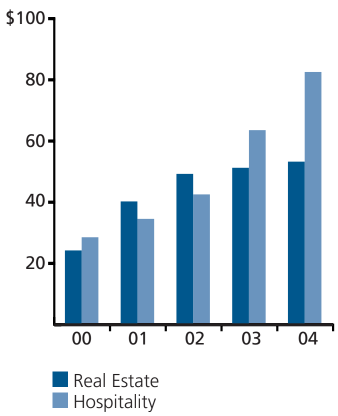
Fortis Properties consists of the Corporation's investment in non-regulated real estate and hospitality assets.

Earnings: Earnings were $11.8 million compared to $11.0 million last year. Higher earnings from operations, including contributions from the acquisition of 4 hotels in Ontario purchased in October 2003, were partially offset by increased amortization related to a change in amortization policy.

	Revenue		Operating Income (1)	
($ millions)	**2004**	2003	**2004**	2003
Real Estate	**52.8**	51.0	**27.3**	26.2
Hospitality	**81.5**	62.7	**19.8**	14.9
Total	**134.3**	113.7	**47.1**	41.1

(1) Earnings before interest, taxes, depreciation and amortization.

Fortis Properties Revenue
($ millions)



Real Estate Division: Real Estate revenue was $52.8 million compared to $51.0 million last year. Fortis Properties' real estate portfolio, anchored by high-quality tenants with long-term leases, has benefited from low vacancy and stable rental rates. The occupancy rate of the Real Estate Division improved to 95.0 per cent as at December 31, 2004 compared to 94.5 per cent last year. The national occupancy level for the real estate sector was approximately 88 per cent as at December 31, 2004. Exposure to lease expiries averages approximately 10 per cent per annum over the next 5 years.

Operating expenses were $25.5 million compared to $24.8 million last year. Higher electricity and property tax costs were the main contributors to the increased operating expenses.

Hospitality Division: Hospitality revenue was $81.5 million compared to $62.7 million last year. The growth was primarily attributable to the acquisition of the hotels in Ontario in October 2003. Revenue per available room ("REVPAR") for 2004 was $70.72 compared to $69.98 last year. The 1.1 per cent increase in REVPAR was attributable mainly to an increase in average room rates of 2.2 per cent, partially offset by a 1.1 per cent decrease in occupancy compared to the prior year.

Operating expenses were $61.7 million in 2004 compared to $47.8 million last year. The increase in operating expenses was mainly due to the first full year of operations for the 4 hotels in Ontario.

Fortis Properties has commenced an expansion of the Delta St. John's Hotel. The estimated $15 million expansion entails the addition of 128 rooms and approximately 5,000 square feet of meeting space. The expansion is scheduled for completion mid-2005.

Subsequent to year end, Fortis Properties acquired 3 hotels in western Canada for an approximate purchase price of $62.6 million. The acquisition expands the hospitality operations of Fortis Properties by approximately 650 rooms and 27,000 square feet of banquet space.

Other Expenses: Amortization was $9.7 million compared to $4.5 million last year. 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. As a result, effective January 1, 2004, amortization of Fortis Properties' income producing properties is being recorded on a straight-line basis, whereas it was recorded based on the sinking fund method up to and including December 31, 2003. The resulting increase in depreciation for 2004 was approximately $4.3 million, $2.7 million after-tax.

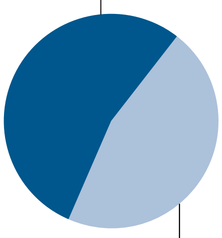
Finance charges were $18.1 million compared to $17.1 million last year. The increase in finance charges related primarily to the first full year of financing costs for the Ontario hotels, partially offset by lower principal balances of scheduled debt and lower finance rates.

Outlook: The revenue and earnings impact from the acquisition of hotels in western Canada in February 2005 as well as the expansion of both the Delta St. John's Hotel and the Holiday Inn in Sarnia are expected to provide the primary growth in 2005.

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.

In the Hospitality Division, growth in REVPAR is forecast as a result of increased average room rates. Currently operating 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.

Fortis Properties' Asset Mix Post Acquisition of 3 Hotels in Western Canada



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 for 2004 totalled $21.5 million, $12.9 million higher than last year. The increase primarily related to higher finance charges, operating expenses and preference share dividends.

The increase in finance charges primarily related to the acquisition of the utilities in western Canada. On October 28, 2004, Fortis issued by way of private placement to US-based institutional investors US$150 million of 10-year, 5.74 per cent Senior Unsecured Notes due October 31, 2014. The proceeds were used to repay the Corporation's short-term acquisition facility. The increase in operating expenses primarily related to higher salary and pension costs. The increase in preference share dividends was associated with the 5.45 per cent Series C First Preference Shares issued in June 2003, the 4.9 per cent First Preference Units issued in January 2004 and the subsequent conversion of the First Preference Units to the 4.9 per cent Series E First Preference Shares in the last half of 2004.

The overall increase in annual net corporate expenses was partially offset by a $1.8 million corporate income tax recovery recorded in the first quarter related to the tax benefit associated with non-capital losses. As well, during the fourth quarter of 2004, Fortis recorded a $0.9 million after-tax unrealized foreign exchange gain related to foreign currency exchange rate fluctuations associated with US$80 million of the Corporation's US dollar-denominated long-term debt.

Consolidated Financial Position

The following table outlines the significant changes in the consolidated balance sheets between December 31, 2004 and December 31, 2003.

($ millions)	**Increase (Decrease)**	**Explanation**
Cash and cash held in escrow	(31.6)	The decrease primarily related to payment of costs associated with the acquisition of FortisAlberta and FortisBC and Chalillo Project construction costs, partially offset by cash positions of FortisAlberta, FortisBC and FortisOntario.
Accounts receivable	75.8	The increase primarily related to accounts receivable balances acquired with the purchase of FortisAlberta and FortisBC in May 2004.
Other regulatory assets	13.0	The increase primarily related to regulatory assets acquired with the purchase of FortisAlberta and FortisBC combined with an increase in the RSA at Newfoundland Power.
Materials and supplies	13.8	The increase primarily related to materials and supplies acquired with the purchase of FortisAlberta and FortisBC.
Deferred charges	32.6	Approximately $22 million related to deferred charges acquired with the purchase of FortisAlberta and FortisBC in May 2004. During the fourth quarter, deferred charges increased approximately $14 million related to the cancellation of an interest rate swap agreement. Deferred costs at Newfoundland Power also increased as a result of funding of the pension plan in excess of pension expense and deferral of operating expenses under Newfoundland Power's weather normalization account in accordance with PUB regulation. The increase was partially offset upon reallocation of acquisition-related costs from deferred charges to purchase price as well as amortization of deferred charges during the year.
Utility capital assets – net regulatory tax base adjustment	1,118.0	Approximately $1,069.4 million related to capital assets acquired in the purchase of FortisAlberta and FortisBC and utility capital expenditures of $262.5 million offset by amortization for the period. There was also a decrease in the value of assets denominated in US dollars as a result of the depreciation of the US dollar since December 31, 2003.
Goodwill	448.6	The increase related to the purchase of FortisAlberta and FortisBC in May 2004.
Short-term borrowings	88.4	The increase primarily related to the short-term borrowings associated with the acquisition of FortisAlberta and FortisBC combined with increased short-term borrowing levels at Newfoundland Power and FortisBC primarily related to interim financing of capital projects.
Accounts payable, accruals and dividends payable	135.1	The increase primarily related to accounts payable and accrued charges acquired with the purchase of FortisAlberta and FortisBC in May 2004 and increased dividends payable at Fortis for both common and preference shares.
Other regulatory liabilities	21.3	The increase primarily related to regulatory liabilities acquired with the purchase of FortisAlberta.
Deferred credits	9.7	The increase primarily related to higher pension costs at Fortis as well as recognition of a deferred gain on the cancellation of the Corporation's foreign exchange swap agreement.
Future income taxes (including current portion)	(12.3)	Approximately $6.5 million related to a future income tax asset acquired with the purchase of FortisAlberta. The remainder of the decrease related to future income tax recorded on issuance costs associated with the First Preference Unit issue in January 2004 and Common Share issue upon conversion of Subscription Receipts in May 2004.
Long-term debt (including current portion)	845.1	The increase was primarily associated with approximately $154 million in long-term debt assumed with the acquisition of FortisBC, issuance of $400 million in Senior Unsecured Debentures at FortisAlberta, issuance of $140 million in Senior Unsecured Debentures at FortisBC, the private placement of US$150 million in Senior Unsecured Notes at Fortis, the draw down of approximately $8 million on existing facilities and the $15.6 million financing of the Four Points by Sheraton Halifax, partially offset by regular debt repayments of $38.5 million.
Equity preference shares	196.5	The increase related to the issuance of Series E First Preference Shares, which resulted in gross proceeds of approximately $200 million.
Shareholders' equity	385.4	The increase primarily related to the conversion of Subscription Receipts to Common Shares in May 2004, which resulted in gross proceeds of approximately $350 million.

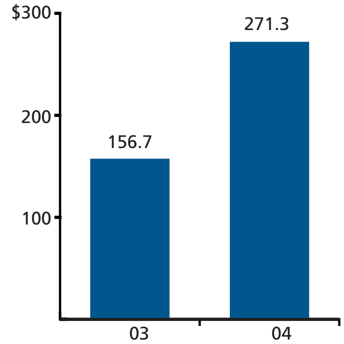
Liquidity

The following table outlines the summary of cash flow.

($ millions)	**2004**	2003
Cash and cash equivalent, beginning of year	**$ 65.1**	$ 26.3
Cash provided by (used in)		
Operating activities	**271.3**	156.7
Investing activities	**(1,042.4)**	(308.0)
Financing activities	**743.6**	193.5
Foreign currency impact on cash balances	**(0.4)**	(3.4)
Cash and cash equivalent, end of year	**$ 37.2**	$ 65.1

Operating Activities: Cash flow from operations for 2004, after working capital adjustments, was $271.3 million compared to $156.7 million last year. The 2004 acquisitions, as well as improved operating earnings at most subsidiaries, contributed to the improvement in cash flow from operations.

Cash Flow from Operations
($ millions)



Investing Activities: During 2004, cash used in investing activities was $1,042.4 million, $734.4 million higher than 2003. The increase primarily related to the acquisition of FortisAlberta and FortisBC.

Fortis acquired FortisAlberta and FortisBC for a net purchase price of $747.8 million (aggregate consideration of approximately $1.5 billion less assumption of debt and cash). On May 20, 2004, Fortis also 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. Total capital expenditures for 2004, before contributions in aid of construction, were $278.7 million of which $244.1 million related to the Corporation's regulated utility operations. The non-regulated generation operations incurred $17.3 million in capital expenditures, primarily related to the construction of the Chalillo Project in Belize. Fortis Properties incurred $16.1 million, of which $6.1 million related to the expansion of the Delta St. John's Hotel, and Corporate incurred $1.2 million primarily related to the acquisition of non-joint use poles from Aliant Telecom.

The remaining investing activities of $11.1 million were primarily associated with the net cash settlement upon cancellation of both the US dollar currency swap agreement and the forward interest rate swap agreement. Both swap agreements were cancelled upon completion of US borrowings and long-term acquisition financings in 2004.

Financing Activities: Cash provided from financing activities was $743.6 million compared to $193.5 million last year. The increase in cash from financing activities 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 change in short-term borrowings and regular repayment of long-term debt and payment of common share dividends.

Acquisition Financing

On May 31, 2004, Fortis completed the acquisition of FortisAlberta and FortisBC for gross proceeds of approximately $1.5 billion. At close, the acquisition was financed with short-term facilities, equity issuance and assumption of certain debt obligations at FortisBC. Fortis was required to fund $1.3 billion ($1.5 billion less assumption of debt at FortisBC) of the purchase price at close. On May 31, 2004, approximately $1.0 billion was drawn on the Corporation's short-term acquisition facilities and the remainder was financed with the net cash proceeds from the conversion of Subscription Receipts to 6,310,000 common shares of the Corporation. The short-term acquisition financing was fully repaid by December 31, 2004, primarily with proceeds from the long-term financings noted below. As well, on August 6, 2004, FortisAlberta returned $15 million of share capital to Fortis in order to maintain its regulated capital structure at 37 per cent equity.

In January 2004, Fortis issued 8,000,000 First Preference Units of the Corporation. Each First Preference Unit consisted of one Series D First Preference Share and one Series E First Preference Share Purchase Warrant. The purchase price of $6.25 per First Preference Share Unit resulted in initial gross proceeds of approximately $50 million in January 2004. During 2004, Fortis received approximately $150 million gross proceeds from the conversion of 7,993,500 of the First Preference Units.

The Series E First Preference Shares will yield 4.9 per cent per annum for a 12-year term. The quarterly cash dividend payable with respect to the Series D First Preference Shares that were not converted has been reduced to $0.01 per share, being equivalent to 0.64 per cent per annum per Series D First Preference Share.

On October 28, 2004, Fortis issued by way of private placement to US-based institutional investors US$150 million of 10-year, 5.74 per cent Senior Unsecured Notes due October 31, 2014. On October 25, 2004, FortisAlberta closed its $400 million public debenture offering equally divided between 5.33 per cent Senior Unsecured Debentures due October 31, 2014 and 6.22 per cent Senior Unsecured Debentures due October 31, 2034. On November 30, 2004, FortisBC issued $140 million of 5.48 per cent Senior Unsecured Debentures due November 28, 2014.

To reduce exposure to interest rate risk on the issuance of long-term debt associated with the acquisition, Fortis entered into a forward interest rate swap agreement in December 2003 that swapped 90-day bankers' acceptance interest rate payments on $200 million of long-term debt to 5.6 per cent. The swap agreement was designated as a hedge against the planned issuance of long-term acquisition financing. As a result of the completion of the long-term acquisition financing, the forward interest rate swap agreement was terminated and the cash payment of $14.1 million made upon termination of the swap will be amortized on a straight-line basis over 10 years.

Other Financing

Fortis Properties completed a $15.6 million financing of the Four Points by Sheraton Halifax. The proceeds were used to partially repay a short-term loan to Fortis.

Belize Electricity and the Exploits Partnership also drew down approximately $4.3 million and $3.7 million, respectively, on their existing long-term debt.

Foreign Currency Impact: The decrease in cash in 2004 of $0.4 million as a result of foreign currency impact was a direct result of the appreciation of the Canadian dollar relative to the US dollar.

Contractual Obligations: The consolidated contractual obligations over the next 5 years and for periods thereafter are outlined in the following table.

($ millions)	**Total**	< 1 Year	1–3 Years	4–5 Years	> 5 Years
Long-term debt	**1,909.3**	34.5	102.1	108.2	1,664.5
Capital lease obligations	**5.4**	1.6	2.4	1.4	–
Power purchase obligations					
FortisBC *(1)*	**3,102.7**	38.7	115.9	75.9	2,872.2
FortisOntario *(2)*	**367.3**	23.0	63.7	45.1	235.5
Maritime Electric *(3)*	**26.8**	22.9	3.9	–	–
Capital cost *(4)*	**224.1**	16.5	45.6	30.0	132.0
Brilliant Terminal Station ("BTS") *(5)*	**65.3**	2.4	7.1	4.7	51.1
Joint-use asset agreements *(6)*	**48.8**	3.7	6.7	6.0	32.4
Operating lease obligations *(7)*	**36.8**	6.9	14.0	10.4	5.5
Office lease – FortisBC *(8)*	**22.7**	0.9	2.8	2.7	16.3
Purchase of joint-use poles from Aliant Telecom *(9)*	**4.8**	4.8	–	–	–
Other	**1.8**	0.1	0.2	0.1	1.4
Total	**5,815.8**	156.0	364.4	284.5	5,010.9

(1) 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, B.C. The Brilliant plant is owned by the Brilliant Power Corporation ("BPC"), a corporation owned as to 50 per cent by each of the CPC/CBT. 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. FortisBC is accounting for the contract as an operating lease as directed by the BCUC. In addition, FortisBC has a long-term, minimum-payment, firm power purchase contract with BC Hydro. This contract includes a take-or-pay provision based on a 5-year rolling nomination of capacity requirements.

(2) Power purchases primarily include a long-term contract with 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 December 31, 2019, provides approximately one-third of Cornwall Electric's load.

(3) Maritime Electric has one take-or-pay contract for the purchase of either capacity or energy. The obligation is subject to force majeure provisions that impact the ability of the supplier to deliver or Maritime Electric to receive the energy contracted for. This contract totals approximately $27 million through October 2006.

(4) 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.

(5) Under the BTS Facilities Interconnection and Investment Agreement dated January 31, 2002 with CPC/CBT, which relates to the engineering, design, procurement, construction, maintenance and ownership of the BTS, the utility in B.C. has an exclusive Licence to operate and maintain the BTS and is subject to a 30-year obligation (the "BTS Obligation") to pay the BPC a charge related to the recovery of the capital cost of the BTS and related operating costs. FortisBC is accounting for the BTS Obligation as an operating lease, as directed by the BCUC.

(6) FortisAlberta and an Alberta transmission provider have entered into a number of service agreements to ensure operational efficiencies are maintained through coordinated operations. The agreements have minimum expiry terms of 20 years 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. On April 15, 2002, Canadian Niagara Power entered into a 10-year operating agreement to lease the electricity distribution assets of Port Colborne Hydro Inc. Minimum annual lease payments under the agreement, which runs until April 2012, amount to $1.6 million.

(8) Under a sale-leaseback agreement, on September 29, 1993, the utility in B.C. began leasing its Trail, B.C. office building for a term of 30 years. The terms of the agreement grant FortisBC repurchase options at year 20 and year 30 of the lease term. FortisBC is accounting for the lease as an operating lease, as directed by the BCUC. On December 1, 2004, FortisBC also entered into a 5-year lease for the Kelowna head office. The terms of the lease allow for termination without penalty after 3 years.

(9) On September 13, 2001, Newfoundland Power and Fortis closed a $46 million transaction to purchase 102,000 poles and related infrastructure from Aliant Telecom in Newfoundland. On February 7, 2002, the Corporation closed a $2.2 million transaction to purchase 5,586 poles and related infrastructure from Aliant Telecom in Newfoundland. A final payment of $4.8 million is required in 2005 under the purchase agreements.

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 this 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. Fortis targets the equity component of its capital structure to consist of at least 75 per cent common share equity. The Corporation's capital structure is presented in the following table.

	December 31, 2004		December 31, 2003	
	($ millions)	***(per cent)***	*($ millions)*	*(per cent)*
Total debt (net of cash)	**2,070.3**	**61.1**	1,105.1	60.0
Equity preference shares	**319.5**	**9.4**	123.0	6.7
Shareholders' equity	**1,000.1**	**29.5**	614.7	33.3
Total	**3,389.9**	**100.0**	1,842.8	100.0

The change in capital structure results primarily from the acquisition of FortisAlberta and FortisBC. The growth in earnings in 2004 allowed the Corporation to increase its common share dividends to $48.8 million, or $2.16 per common share, compared to $36.4 million, or $2.08 per common share, in 2003. Fortis has increased its dividends for 32 consecutive years. The dividend payout ratio was 50.3 per cent in 2004 compared to 48.9 per cent in 2003.

On March 1, 2005, Fortis issued 1,740,000 common shares of the Corporation for $74.65 per common share. The common share issuance resulted in gross proceeds of $129.9 million. The proceeds of the issuance will be used to repay outstanding indebtedness and for general corporate purposes, including utility-based capital expenditures.

As at December 31, 2004, the Corporation's credit ratings were as follows:

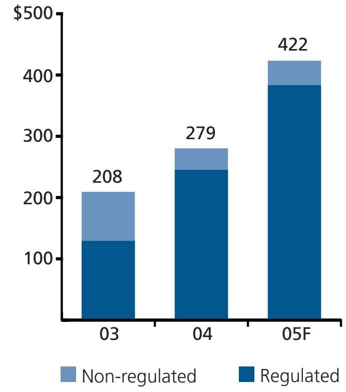
Standard & Poor's ("S&P")	BBB(+)
Dominion Bond Rating Service ("DBRS")	BBB(high)

In December 2004, S&P confirmed its corporate credit rating on the Corporation at BBB(+). S&P is maintaining a negative outlook on Fortis, reflecting the Corporation's financial profile combined with execution risks associated with a large capital expenditure program. In January 2005, DBRS confirmed the rating on the Corporation's bonds at BBB(high). Fortis will continue to update both S&P and DBRS on the progress of the integration of FortisAlberta and FortisBC within the Fortis Group.

2005 Capital Program: The Corporation's principal business of regulated electric utilities is capital intensive and consolidated capital expenditures for 2005 are expected to be more than $400 million. The cash needed to complete the 2005 capital program is expected to be supplied by a combination of long-term and short-term borrowings, common equity issuance and internally generated funds. Fortis does not anticipate any issues 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.

Total Capital Expenditures
($ millions)



Belize Electricity remains non-compliant with its debt service coverage ratio related to its BZ$13.0 million loan with the International Bank for Reconstruction and Development ("IBRD"). The IBRD has acknowledged this non-compliance and has encouraged the Company to continue to improve its debt service ratio. Fortis does not expect any change in the regular debt repayment schedule relating to this loan.

The WPP was not in compliance with its debt service ratio of 1.2 times as required by the loan covenant related to a $6.9 million mortgage. As at December 31, 2004, WPP's debt service ratio was 0.41 times. A waiver was obtained for December 2004. Compliance with the debt service covenant is required at the end of each fiscal year. Fortis does not expect any change in the regular debt repayment schedule relating to this mortgage.

The Corporation and its subsidiaries had consolidated authorized lines of credit of $543.2 million of which $259.3 million was unused at December 31, 2004. The following summary outlines the short-term credit facilities by the Corporation's reporting segments.

($ millions)	Corporate	Regulated Utilities	Fortis Generation	Fortis Properties	Total
Total short-term facilities	145.0	374.7	11.0	12.5	543.2
Utilized at December 31, 2004	(68.5)	(111.6)	(4.4)	(8.4)	(192.9)
Letters of credit outstanding	(7.6)	(80.9)	–	(2.5)	(91.0)
Short-term facilities available	68.9	182.2	6.6	1.6	259.3

On January 25, 2005, Fortis entered into a $50 million unsecured revolving/non-revolving term credit facility for its general corporate purposes, including acquisitions.

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 has no such off-balance sheet arrangements.

Business Risk Management

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

Regulation: The Corporation's key business risk is regulation. With the acquisition of FortisAlberta and FortisBC, total regulated assets were approximately 80 per cent of total operating assets at December 31, 2004. 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 80 per cent of the Corporation's operating revenue and earnings are derived from regulated utility operations. 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. On November 26, 2004, FortisAlberta and FortisBC each filed rate applications for 2005. As well, Maritime Electric has filed for rates for 2004 and 2005 and FortisOntario and Belize Electricity are expected to file rate applications in 2005. There can be no assurance that the 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 their costs or to earn reasonable returns on their capital.

Currently, although all of the Corporation's regulated utilities operate under traditional cost of service methodologies, their regulators are utilizing, to varying degrees, performance-based 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 their capital.

Generally, allowed returns for regulated utilities are exposed to changes in the general level of interest rates. Earnings of 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.

Integration of FortisAlberta and FortisBC: Fortis has appointed an executive team to lead the successful integration of FortisAlberta and FortisBC within the Fortis Group. In December, Fortis announced organizational changes as part of its commitment to establish separate management groups for each utility. Effective April 1, 2005, John Walker, President and Chief Executive Officer, Fortis Properties will become President and Chief Executive Officer, FortisBC. Philip Hughes continues as President and Chief Executive Officer, FortisAlberta. Fortis is also moving forward with plans to separate the operations at the 2 companies. The separation is expected to result in more efficient and productive companies and will lend itself to improved customer service and more reliable electricity service at reasonable costs.

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 derivative 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 contracts, as outlined in Note 9 to the Consolidated Financial Statements, are accounted for as a hedge against long-term debt. The change in the market value of the interest rate swap contracts, 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 87 per cent of the Corporation's long-term debt facilities have maturities beyond 5 years. The Corporation's exposure to interest rate risk is associated with short-term debt. The amount of short-term debt at December 31, 2004 was $192.9 million or 9.2 per cent of total debt.

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 2-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. Including the US$150 million Notes which were issued on October 28, 2004, Fortis now has US$170 million in US dollar-denominated debt. Approximately US$90 million has been designated as a hedge against the Corporation's net foreign investments. 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$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 1-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 Market 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 approximately $0.4 million. Energy sales from the non-regulated generation assets in central Newfoundland, British Columbia and Belize are sold under long-term, fixed-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 10 per cent per annum over the next 5 years. With the addition of the hotels in western Canada in January 2005, approximately 50 per cent of Fortis Properties' operating earnings are expected to be derived from hotel investments. 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 $1.0 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*. Under the *Hydro Act*, if a municipality that owns an electric utility expands its boundaries, such a 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.

The City of Airdrie recently provided notice under the *Municipal Act* to the Corporation of its intention to purchase FortisAlberta's assets within its jurisdiction. The AEUB has subsequently made a determination that the value of such assets is approximately $20.4 million before customer contributions and adjustments. FortisAlberta is not aware of whether the City of Airdrie intends to continue the process of purchasing these assets from the Company. Except for the current initiative involving the City of Airdrie, there have been no transactions pursuant to the *Municipal Act* to date.

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 54 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 on 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 income 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, 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.

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 and BECOL are denominated in Belizean dollars, earnings from Caribbean Utilities are denominated in Cayman Island dollars and earnings from FortisUS Energy are denominated in US dollars. As at December 31, 2004, 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 of Belize, conversion of local currency into US dollars may be subject to restrictions from time to time.

Changes in Accounting Policies

During 2004, a number of accounting policies evolved. Fortis has reviewed the applicable accounting policies as well as consulted with the Corporation's independent auditors about the appropriate interpretation and application of these policies. The following accounting policy changes occurred during 2004.

Amortization Policy: 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, the Corporation's non-utility investment, Fortis Properties, has changed from a sinking fund method of amortization to the straight-line method. This change, as required under the recommendations, has been adopted with no restatement of prior period amounts. The change in accounting policy from the sinking fund method to the straight-line method negatively impacted after-tax earnings by approximately $2.7 million in 2004. FortisOntario has also changed from a sinking fund method of amortization on intangibles to the straight-line method. The change in accounting policy from the sinking fund method of depreciation to the straight-line method had no material impact on the 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 period in which they are incurred if a reasonable estimate of fair value can be determined. While some of the Corporation's utility long-lived tangible assets will have future legal retirement obligations, no asset retirement obligations have been recognized upon adoption of the new recommendations. The final date of removal of the long-lived tangible assets that carry asset retirement obligations cannot be reasonably determined at this time. An asset retirement obligation and offsetting capital asset will be recognized when the timing and amount can be reasonably estimated.

Valuation of Property, Plant and Equipment: Effective January 1, 2004, the Corporation prospectively adopted the recommendations of the CICA on accounting for asset impairment. The recommendations require an impairment of property, plant and equipment, intangible assets with finite lives, deferred operating costs and long-term prepaid expenses to be 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 has been no impact on the financial statements resulting from the adoption of the recommendations.

Liabilities and Equity: Effective December 31, 2004, the Corporation implemented the recommendations of the CICA on the classification of financial instruments as liabilities or equity. The recommendations require that certain financial instruments that are ultimately convertible into a variable number of common shares at the holders' option be classified as liabilities. As a result, the Corporation has reclassified all of its First Preference Shares from shareholders' equity to liabilities on December 31, 2004. The dividends on the First Preference Shares have also been reclassified as a deduction to arrive at net earnings. The change does not impact net earnings applicable to common shares as the dividends on the First Preference Shares were previously deducted to arrive at net earnings applicable to common shares. This change has been adopted retroactively with restatement of comparative figures.

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 a draft guideline on disclosures as an interim measure pending completion of the full project. The final disclosure guideline is expected to be effective for interim periods beginning on or after April 1, 2005.

Hedging Relationships: Effective January 1, 2004, the Corporation implemented the recommendations of the CICA Accounting Guideline 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 this Guideline did not have an impact on the Corporation's earnings or financial position as at December 31, 2004.

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 capital assets represented approximately 70 per cent of total consolidated assets at December 31, 2004. 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 or if 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 $514 million of goodwill recorded on the Corporation's balance sheet as at December 31, 2004.

Employee Future Benefits: The Corporation's defined benefit pension plan expense is subject to judgments utilized in the actuarial determination of the expense. The main assumptions utilized by management in determining pension expense 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.

Contingencies: The Corporation is party to a number of disputes and lawsuits in the normal course of business as outlined in the 2004 Fortis Inc. Annual Consolidated Financial Statements. Contingent liabilities as of December 31, 2004 are consistent with disclosures in the previous year except as noted below.

In a statement of claim filed on August 18, 2003 in the Court of the Queen's Bench of Alberta, EPCOR Energy Services (Alberta) Inc. is pursuing damages of $83 million against the utility in Alberta for alleged breaches of contract, common law duties and distribution tariff terms and conditions of service relating to the provision of the Regulated Rate Option to customers. Management has not, to date, made a definitive assessment of potential liability with respect to this claim; however, management believes that these allegations are without merit.

FortisBC has been advised of a pending inquiry by the BC Ministry of Forests into fire suppression costs associated with certain forest fires in the Company's service territory in 2003. FortisBC is in the preliminary stages of collecting and analyzing information and evidence surrounding these fires.

Revenue Recognition: Utility accounting policies of Fortis include both recognition of sales 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.

Selected Annual Financial Information

The following table sets forth the annual audited financial information for the years ended December 31, 2004, 2003 and 2002. 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.

($ thousands except per share amounts)	**2004**	2003	2002
Revenue and equity income(1)	**1,146,129**	843,080	715,465
Net earnings before non-controlling interest	**108,848**	81,451	67,481
Net earnings applicable to common shares	**90,855**	73,630	63,252
Total assets	**3,837,996**	2,163,797	1,940,010
Long-term debt (net of current portion)	**1,878,639**	1,031,358	940,910
Non-controlling interest	**37,487**	36,770	39,955
Preference shares	**319,530**	122,992	–(2)
Common shareholders' equity	**1,000,112**	614,665	585,843
Earnings per common share	**4.29**	4.25	3.89
Diluted earnings per common share	**4.04**	4.10	3.85
Dividends declared per common share	**2.19**	2.10	1.99
Dividends declared per Series B First Preference Share	**–**	–	1.4916(2)
Dividends declared per Series C First Preference Share	**1.3625**	1.0173(3)	–
Dividends declared per Series D First Preference Share	**0.1706(4)**	–	–
Dividends declared per Series E First Preference Share	**0.7733(4)**	–	–

(1) Revenue reflects weather-adjusted values related to Newfoundland Power's Weather Normalization Reserve.

(2) The $50 million Series B First Preference Shares were redeemed December 2002.

(3) The $125 million Series C First Preference Shares were issued June 2003.

(4) The Series D and 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.

Revenue, including equity income, and net earnings 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.

Revenue, including equity income, and earnings in 2003 grew 17.8 per cent and 16.4 per cent, respectively, over 2002. The growth in both revenue and earnings was associated with the Corporation's acquisitions in Ontario as well as its increased investment in Caribbean Utilities. The growth in total assets and long-term liabilities was also associated with the acquisitions as well as the completion of the Exploits Partnership Project in November 2003.

Dividends have increased annually for 32 consecutive years. The Corporation's dividend payout ratio was 50.3 per cent in 2004 compared to 48.9 per cent in 2003. In December 2004, Fortis declared an increase in the regular quarterly dividend to $0.57 from $0.54, payable on March 1, 2005.

Quarterly Results

The following table sets forth unaudited quarterly information for each of the 8 quarters ended March 31, 2003 through December 31, 2004. This 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 *($ thousands)*	Earnings per Common Share Basic *($)*	Earnings per Common Share Diluted *($)*(1)
December 31, 2004	337,170	21,176	0.89	0.85
September 30, 2004	303,653	25,452	1.07	1.00
June 30, 2004	254,513	23,946	1.22	1.15
March 31, 2004	250,793	20,281	1.16	1.12
December 31, 2003	210,624	14,760	0.85	0.82
September 30, 2003	191,445	18,114	1.05	0.99
June 30, 2003	205,582	20,796	1.20	1.15
March 31, 2003	235,429	19,961	1.16	1.14

(1) The diluted earnings per common share for 2003 have been restated to reflect the issuance of convertible preference shares in June 2003.

A summary of the past 8 quarters reflects the Corporation's continued growth as well as the seasonality associated with its businesses. Most of the Corporation's utility investments produce their highest earnings in the first quarter. The June 2003 financial results were impacted by the 2003 GRO at Newfoundland Power. From June 2004 to December 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 2003/December 2004 – For the quarter ended December 2004, net earnings applicable to common shares were 43.5 per cent higher than the same quarter in 2003. Earnings per common share increased 4.7 per cent over the same quarter in 2003. The increase in earnings was primarily associated with the acquisition of FortisAlberta and FortisBC as well as improved operating income at most subsidiaries. The increase in quarterly earnings was affected by Hurricane Ivan. In September 2004, Grand Cayman was struck by Hurricane Ivan, a Category V hurricane that significantly affected Caribbean Utilities' distribution system. Equity earnings of Caribbean Utilities are recorded on a lag basis and, therefore, the Corporation's portion of the uninsured hurricane-related costs, which approximate $8.2 million, reduced the Corporation's equity earnings from Caribbean Utilities for the fourth quarter of 2004.

The Corporation's fourth quarter net earnings in 2004 excluding the impact of Hurricane Ivan, although not a measure under GAAP, would have been $29.4 million, $8.2 million higher than actual fourth quarter net earnings of $21.2 million, or $1.23 per common share, 44.7 per cent higher than earnings per common share of $0.85 for the fourth quarter last year. The Corporation believes that this is useful supplemental information as it provides an indication of the results excluding the impact of Hurricane Ivan. Readers should be cautioned, however, that this information should not be confused with or used as an alternative for net earnings determined in accordance with GAAP.

September 2003/September 2004 – For the quarter ended September 2004, net earnings applicable to common shares were 40.5 per cent higher than the same quarter last year. Earnings per common share increased 1.9 per cent over the same quarter last year. The increase in earnings was primarily associated with the acquisition of FortisAlberta and FortisBC as well as improved operating income at most subsidiaries. The increase was partially offset by lower production in Belize and timing of expenditures associated with production in Ontario.

June 2003/June 2004 – For the quarter ended June 2004, net earnings applicable to common shares were 15.1 per cent higher than the same quarter in 2003. Earnings per common share increased 1.7 per cent over the same quarter in 2003. The increase in earnings was primarily associated with the acquisition of the utilities in western Canada as well as improved operating income at most subsidiaries. In particular, operations in Belize delivered improved results due to increased production associated with higher rainfall levels.

March 2003/March 2004 – For the quarter ended March 2004, net earnings applicable to common shares were 1.6 per cent higher than the same quarter in 2003. Earnings per common share remained consistent with the same quarter last year. Newfoundland Power and Maritime Electric were the major drivers of performance compared to the same quarter last year. Operations in Belize also delivered improved results due to increased production associated with higher rainfall levels. The increased quarterly earnings from Newfoundland Power over the first quarter of 2003 largely resulted from timing differences related to the implementation of the decisions contained in the 2003 GRO received in June 2003. The increase in quarterly earnings was partially mitigated by lower wholesale energy prices in Ontario.

Proposed Acquisition

On December 15, 2004, Fortis and Princeton Light and Power ("PLP") entered into an agreement in which Fortis will purchase all issued common and preferred shares of PLP. Fortis, upon closing, will transfer ownership of PLP to Fortis Pacific Holdings. PLP shareholders have the option of receiving cash or common shares of Fortis or a combination thereof. The closing of the transaction is subject to the approval of securities authorities, final due diligence and regulatory approval by the BCUC. The specific purchase price will be adjusted depending on the time of closing but is expected to result in a premium over rate base of approximately 14 per cent. The regulated rate base of PLP was approximately $6.2 million as of March 31, 2004. PLP is an electric utility that serves approximately 3,200 customers in Princeton, British Columbia and surrounding areas. PLP also provides utility service to customers of FortisBC in the Similkameen and Tulameen regions. PLP presently purchases its wholesale power from FortisBC under a long-term contract.

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 capital expenditures for 2005 are expected to be more than $400 million.

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

Outstanding Share Data

At March 1, 2005, the Corporation had issued and outstanding 25,684,046 common shares, 5,000,000 Series C First Preference Shares, 7,993,500 Series E First Preference Shares and 6,500 Series D First Preference Shares. The number of common shares that would be issued upon conversion of the First Preference Shares, share options and convertible debt as at December 31, 2004 is described in the Notes to the 2004 Consolidated Financial Statements.

Dated March 1, 2005

Financials

Management's Responsibility for Financial Reporting

The accompanying Consolidated Financial Statements of Fortis Inc. and all information in the 2004 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 2004 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, 2004 Consolidated Financial Statements and Management Discussion and Analysis contained in the 2004 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 2004 Consolidated Financial Statements and their report follows.

H. Stanley Marshall	**Barry V. Perry**
President and Chief Executive Officer	Vice President, Finance and Chief Financial Officer

Auditors' Report

To the Shareholders of Fortis Inc.

We have audited the consolidated balance sheets of Fortis Inc. as at December 31, 2004 and 2003 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 financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

St. John's, Canada,
January 28, 2005 (except for Note 25(b), (c) and (d),
which are as at March 1, 2005)

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	2004	2003
Current assets		
Cash and cash equivalents	**$ 37,203**	$ 65,094
Accounts receivable	**169,649**	93,822
Other regulatory assets *(Note 3)*	**15,245**	17,146
Materials and supplies	**30,235**	16,470
Future income taxes *(Note 17)*	**4,204**	–
	256,536	192,532
Corporate income tax deposit *(Note 24)*	**6,949**	6,949
Cash held in escrow *(Note 9)*	**103**	3,810
Deferred charges *(Note 4)*	**144,698**	112,051
Other regulatory assets *(Note 3)*	**45,309**	30,436
Utility capital assets *(Note 5)*	**2,347,067**	1,229,089
Income producing properties *(Note 6)*	**341,069**	333,604
Investments *(Note 7)*	**163,769**	167,752
Intangibles, net of amortization	**18,455**	22,139
Goodwill	**514,041**	65,435
	$ 3,837,996	$ 2,163,797
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Short-term borrowings *(Note 8)*	**$ 192,858**	$ 104,452
Accounts payable and accrued charges	**270,055**	139,996
Dividends payable	**14,997**	9,953
Other regulatory liabilities *(Note 3)*	**23,657**	2,396
Current installments of long-term debt *(Note 9)*	**36,062**	38,197
Future income taxes *(Note 17)*	**–**	1,062
Subscription Receipts issue	**–**	350,205
Restricted cash – Subscription Receipts issue	**–**	(350,205)
	537,629	296,056
Deferred credits *(Note 10)*	**29,828**	20,105
Future income taxes *(Note 17)*	**34,771**	41,851
Long-term debt *(Note 9)*	**1,878,639**	1,031,358
Non-controlling interest *(Note 11)*	**37,487**	36,770
Equity preference shares *(Note 12)*	**319,530**	122,992
	2,837,884	1,549,132
Shareholders' Equity		
Common shares *(Note 13)*	**675,215**	329,660
Contributed surplus *(Note 14)*	**1,831**	862
Equity portion of convertible debentures *(Note 9)*	**1,550**	1,672
Foreign currency translation adjustment *(Note 16)*	**(15,497)**	(12,515)
Retained earnings	**337,013**	294,986
	1,000,112	614,665
	$ 3,837,996	$ 2,163,797

Commitments *(Note 23)*
Contingent liabilities *(Note 24)*
Subsequent events *(Note 25)*

See accompanying notes to consolidated financial statements

Approved on Behalf of the Board

Angus A. Bruneau, Director

C. Bruce Chafe, Director

Consolidated Statements of Earnings

FORTIS INC.

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

	2004	2003
Operating Revenues	**$ 1,145,287**	$ 832,585
Equity Income	**842**	10,495
	1,146,129	843,080
Expenses		
Operating	**766,628**	578,731
Amortization	**113,672**	62,327
	880,300	641,058
Operating Income	**265,829**	202,022
Finance charges *(Note 15)*	**110,054**	82,335
Earnings Before Income Taxes	**155,775**	119,687
Corporate income taxes *(Note 17)*	**46,927**	38,236
Net Earnings Before Non-Controlling Interest and Preference Share Dividends	**108,848**	81,451
Non-controlling interest	**5,674**	3,869
Preference share dividends	**12,319**	3,952
Net Earnings Applicable to Common Shares	**$ 90,855**	$ 73,630
Weighted Average Common Shares Outstanding *(Note 13)*	**21,184**	17,309
Earnings Per Common Share *(Note 13)*		
Basic	**$4.29**	$4.25
Diluted	**$4.04**	$4.10

Consolidated Statements of Retained Earnings

FORTIS INC.

For the Years Ended December 31 (in thousands)

	2004	2003
Balance at Beginning of Year	**$ 294,986**	$ 257,776
Net Earnings Applicable to Common Shares	**90,855**	73,630
	385,841	331,406
Dividends on Common Shares	**(48,828)**	(36,420)
Balance at End of Year	**$ 337,013**	$ 294,986

See accompanying notes to consolidated financial statements

Consolidated Statements of Cash Flows

FORTIS INC.

For the Years Ended December 31 (in thousands)

	2004	2003
Operating Activities		
Net earnings applicable to common shares	$ 90,855	$ 73,630
Items not Affecting Cash		
Amortization – capital assets, net of contributions in aid of construction	105,817	55,988
Amortization – intangibles	3,684	3,684
Amortization – other	4,171	2,655
Future income taxes	9,006	5,127
Accrued employee future benefits	(1,841)	(4,477)
Equity income – net of dividends	3,962	(2,922)
Stock-based compensation	969	642
Unrealized foreign exchange (gain) loss on long-term debt	(1,229)	780
Non-controlling interest	5,674	3,869
Other	(97)	1,179
	220,971	140,155
Change in non-cash operating working capital	50,348	16,527
	271,319	156,682
Investing Activities		
Change in deferred charges and credits	(11,724)	(19,486)
Purchase of utility capital assets	(262,546)	(159,843)
Purchase of income producing properties	(16,123)	(47,897)
Proceeds on sale of utility capital assets	702	1,204
Business acquisitions, net of cash acquired	(752,735)	(10,955)
Increase in investments	(8)	(71,029)
	(1,042,434)	(308,006)
Financing Activities		
Change in short-term borrowings	90,821	(50,934)
Subscription Receipts issue	–	350,205
Restricted cash – Subscription Receipts issue	–	(350,205)
Proceeds from long-term debt, net of cash held in escrow	746,646	194,729
Repayment of long-term debt	(38,533)	(48,885)
Repayment of assumed acquisition debt	(557,381)	–
Contributions in aid of construction	17,127	4,231
Advances from non-controlling interest	722	1,578
Issue of preference shares	194,709	121,861
Issue of common shares	340,060	9,431
Dividends		
Common shares	(48,828)	(36,420)
Subsidiary dividends paid to non-controlling interest	(1,686)	(2,036)
	743,657	193,555
Effect of exchange rate changes on cash	(433)	(3,395)
Change in Cash and Cash Equivalents	(27,891)	38,836
Cash and Cash Equivalents, Beginning of Year	65,094	26,258
Cash and Cash Equivalents, End of Year	$ 37,203	$ 65,094

See accompanying notes to consolidated financial statements

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

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 commercial real estate and hotel properties which are treated as a separate segment. 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.

For the year ended December 31, 2004, the Corporation began reporting non-regulated generating assets as one reportable segment. In the previous year, non-regulated generating assets were either combined with other regulated utility operations in the same jurisdiction or reported as stand-alone operations. The reportable segments for the year ended December 31, 2003 have been restated to reflect this change in segmented reporting. 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.

(b) *Maritime Electric:* Maritime Electric is the principal distributor of electricity on Prince Edward Island.

(c) *FortisOntario:* FortisOntario provides an integrated electric utility service to customers in Fort Erie, Cornwall, Gananoque and Port Colborne. 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. On April 1, 2003, FortisOntario acquired the operating subsidiaries of Granite Power Corporation ("Granite Power"). The non-regulated generating assets of Granite Power are reported under the non-regulated Fortis Generation segment. FortisOntario also owns a 10 per cent interest in each of Westario Power and Rideau St. Lawrence.

(d) *FortisAlberta:* On May 31, 2004, Fortis, through its wholly owned subsidiaries, 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 its wholly owned subsidiaries, 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 also provides non-regulated operating, maintenance and management services relating to the 450-megawatt ("MW") Waneta hydroelectric generation facility owned by Teck Cominco, the 145-MW Brilliant Hydroelectric Plant owned by Columbia Power Corporation and the Columbia Basin Trust ("CPC/CBT"), the 150-MW Arrow Lakes Hydroelectric Plant owned by CPC/CBT and the distribution system owned by the City of Kelowna.

Regulated Utilities – Caribbean

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

(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:* Caribbean Utilities is the sole provider of electricity on Grand Cayman, Cayman Islands. The Corporation's 37.3 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:* Operations include the 75-MW Rankine hydroelectric generating station at Niagara Falls, 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 FortisOntario Generation Corporation.

(b) *Belize:* Operations consist of the 25-MW Mollejon hydroelectric facility in Belize. All of its electricity output is sold to Belize Electricity under a 50-year Power Purchase Agreement. 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 and Abitibi-Consolidated Company of Canada ("Abitibi-Consolidated"), 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 commenced operations in November 2003 and sells its output to Newfoundland and Labrador Hydro Corporation under a 25-year Power Purchase Agreement.

(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 a license from the U.S. Federal Energy Regulatory Commission. Hydroelectric generation operations in Upper New York State are conducted through the Corporation's wholly owned indirect 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 generation operations in British Columbia are conducted through the Walden Power Partnership ("WPP"), a wholly owned subsidiary of FortisBC.

Non-regulated – Fortis Properties

Fortis Properties includes the operations of commercial real estate in Atlantic Canada and hotel properties in eastern Canada.

Corporate

Corporate includes finance charges associated with corporate debt, dividends on preference securities, other corporate expenses net of recoveries from subsidiaries, interest and miscellaneous revenues and related 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 in Note 3.

All amounts presented are in Canadian dollars unless otherwise stated.

Regulation

Newfoundland Power is regulated by the Newfoundland and Labrador Board of Commissioners of Public Utilities ("PUB"). Newfoundland Power operates under cost of service regulation as prescribed by orders of the PUB. Earnings are regulated on the basis of rate of return on rate base.

In December 2003, the Government of Prince Edward Island proclaimed legislation returning Maritime Electric to a traditional cost of service regulatory model. Under this model, Maritime Electric's basic rates, which since 1994 had been based on 110 per cent of New Brunswick Power's rates, are now based on actual costs. 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 $0.05 per kilowatt hour. 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, became effective January 1, 2004 and will allow Maritime Electric to collect the $20.8 million in costs recoverable from customers deferred as at December 31, 2003 under terms and conditions to be set by the Island Regulatory and Appeals Commission ("IRAC").

Canadian Niagara Power and Cornwall Electric operate under the *Electricity Act (Ontario)* and the *Ontario Energy Board Act (Ontario)*. Canadian Niagara Power operates under cost of service regulation. Cornwall Electric has been given legislative exemption from many aspects of these Acts. Cornwall Electric is subject to a 35-year Franchise Agreement signed with the corporation of the City of Cornwall, dated July 31, 1998.

FortisAlberta is regulated by the Alberta Energy and Utilities Board ("AEUB"). FortisAlberta operates under cost of service regulation as prescribed by the AEUB. Earnings are determined on the basis of rate of return on rate base.

FortisBC is regulated by the British Columbia Utilities Commission ("BCUC"). FortisBC is regulated under cost of service regulation with a Performance-Based Rate Setting ("PBR") framework for annual rate adjustments. The PBR provides for a sharing of achieved savings or, in some cases, increased expenditures with ratepayers. Sharing applies only on certain components of operating expenditures and is subject to change as the regulatory framework evolves.

Belize Electricity operates under the *Electricity Act (Belize)* and is monitored by the Public Utilities Commission of Belize ("PUC"). Electricity rates of Belize Electricity are comprised of 2 components. The first, Value Added Delivery ("VAD"), is subject to a price cap mechanism and the second is the cost of fuel and purchase power, including the variable cost of generation, which is a flow through in customer rates.

Cash and Cash Equivalents

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

Materials and Supplies

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

Deferred Charges and Credits

Deferred charges and credits include deferred pension costs, deferred financing expenses and other deferred costs. Deferred financing expenses are amortized on a straight-line basis over the term of the related debt. Other deferred charges are recorded at cost and are amortized over their estimated useful lives. Deferred acquisition costs, upon close of acquisitions, are reallocated to the purchase price and deferred financing costs.

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 life of the $100 million Senior Unsecured Debentures, which mature in October 2010.

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

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.

The cost of utility capital assets retired, less net salvage, is charged to accumulated amortization. Maintenance and repairs are charged to operations while renewals and betterments are capitalized.

General expenses capitalized are capitalized overhead costs which are not directly attributable to specific capital assets, but relate to the overall capital program. The methodology for calculating and allocating these general expenses is established by the regulators. Entities not subject to rate regulation are not permitted to capitalize overhead costs which are not directly attributable to the asset.

Regulated utilities are also permitted to include an allowance for funds used during construction ("AFUDC") as 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.

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 seven months ended December 31, 2004, amortization expense was reduced by $3.1 million.

Amortization on utility capital assets is provided on a straight-line method based on the estimated service life of capital assets. Amortization rates range from 2.0 per cent to 20 per cent. The composite rate of amortization before reduction for amortization of contributions in aid of construction for 2004 was 3.4 per cent (2003 – 3.3 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 has changed from a sinking fund method of amortization to the straight-line method. This change, as required under the recommendations, has been 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.

Fortis Properties amortizes tenant inducements over the initial terms of the lease to which they relate, except where a write-down is required to reflect an 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 one to 15 years.

Investments

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

Effective January 30, 2003, the Corporation commenced accounting for its investment in Caribbean Utilities on the equity basis. Prior to January 30, 2003, the Corporation accounted for this investment on the cost basis of accounting including in its results only dividend income received. The Corporation reviews its equity investment on an annual basis for potential impairment in 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 the Rankine generating station in Ontario, which were acquired upon the acquisition of the remaining 50 per cent of Canadian Niagara Power Company, Limited. 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 has changed from a sinking fund method of amortization to the straight-line method. This change, as required under the recommendations, has been adopted with no restatement of prior period amounts. The change had no material impact on the financial statements.

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 2004, goodwill increased by $448.6 million as a result of the acquisition of FortisAlberta and FortisBC, for total goodwill of $514.0 million as at December 31, 2004. In accordance with the CICA's 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, 2004 (2003 – nil).

Employee Future Benefits

The Corporation maintains defined benefit and defined contribution pension plans and group Registered Retirement Savings Plans ("RRSPs") for its employees. The pension costs of the defined benefit 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. 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 is deferred and amortized over the average remaining service period of active employees. 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 three years. The costs of the defined contribution pension plans and group RRSPs are expensed as incurred.

The AEUB has ordered FortisAlberta to fund its contributions to the Company's defined benefit and defined contribution pension plans from the surplus of its pension plan and as such, FortisAlberta does not collect any amounts for these expenses in customer rates. FortisAlberta did not recognize any pension expense in 2004.

At Newfoundland Power, with the adoption of the recommendations of Section 3461 of the CICA Handbook on January 1, 2000, a one-time transitional obligation of $23.2 million was created to record the difference between the surplus in the plan and the deferred pension asset recorded as of December 31, 1999. This transitional obligation is being amortized on a straight-line basis over 18 years.

Post-retirement Benefits

The Corporation also offers other non-pension post-retirement benefits to employees through defined benefit plans. The costs associated with these other future benefits are actuarially determined using the projected benefits method prorated on service and best estimate assumptions, except for such costs incurred by Newfoundland Power, FortisAlberta and FortisBC which, in accordance with regulatory requirements, are expensed in the year paid. Entities not subject to rate regulation generally account for these costs on an accrual basis.

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

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

Liabilities and Equity

Effective December 31, 2004, the Corporation implemented the recommendations of the CICA on the classification of financial instruments as liabilities or equity. The recommendations require that certain financial instruments that are ultimately convertible into a variable number of common shares at the holders' option be classified as liabilities. As a result, the Corporation has reclassified all of its First Preference Shares from shareholders' equity to liabilities on December 31, 2004. The dividends on the First Preference Shares have also been reclassified as a deduction to arrive at net earnings. The change does not impact net earnings applicable to common shares as the dividends on the First Preference Shares were previously deducted to arrive at net earnings applicable to common shares. This change has been adopted retroactively with restatement of comparative figures.

Stock-based Compensation

The Corporation accounts for its grants under stock-based compensation plans using the fair value method and the compensation expense is amortized over the vesting period of the options granted.

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 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 this guideline did not have an impact on the Corporation's earnings or financial position at December 31, 2004.

At December 31, 2004, the Corporation's hedging relationships consisted of interest-rate swap contracts 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 in US dollar-denominated debt, of which approximately US$90 million has been designated as a hedge against the Corporation's net foreign investments. The remaining 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 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 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. The PUB has ordered the Company not to recognize future income taxes on differences between the tax and accounting bases of depreciable assets prior to January 1, 1981. The AEUB and the BCUC specifies FortisAlberta's and FortisBC's method of accounting for income taxes, respectively. The regulated operations follow the taxes payable method of accounting for income taxes. Future income taxes are generally recognized only to the extent they will not be recoverable in future rates charged to customers.

Entities not subject to rate regulation generally recognize future tax assets and liabilities for differences between the tax and accounting bases of all assets and liabilities. If this method were applied to Newfoundland Power, FortisAlberta and FortisBC, the future income tax liability would have increased by approximately $86.8 million at December 31, 2004 (December 31, 2003 – $83.7 million).

Revenue Recognition

Revenue from the sale of electricity by Newfoundland Power and Belize Electricity is recognized as monthly billings are rendered to customers as required by utility regulatory authorities. Revenue from the sale of electricity by Maritime Electric, FortisOntario, FortisAlberta and FortisBC is recognized on the accrual basis. For FortisAlberta, transmission revenue and expenses are recorded on a net basis in revenue. Entities not subject to rate regulation generally recognize such revenue on the accrual basis.

All of Fortis' non-regulated generating operations record revenue on an accrual basis.

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 defined overhead expenses. Certain retail tenants pay additional rent based on a percentage of the tenant's sales. Expenses recovered from tenants are recorded as revenue. Hospitality revenue is recognized when the service is provided.

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, for the year ended December 31, 2004, 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.

The Corporation has assessed the impact of the adoption of the accounting recommendations and, while some of the Corporation's long-lived tangible assets will have future legal retirement obligations, the final date of removal of the Corporation's 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 have been recognized upon adoption of the new recommendations. An asset retirement obligation and offsetting capital asset will be recognized when the timing and amount can be reasonably estimated.

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

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

Asset Impairment

Effective January 1, 2004, the Corporation prospectively adopted the recommendations of the CICA on accounting for asset impairment. The recommendations require an impairment of property, plant and equipment, intangible assets with finite lives, deferred operating costs and long-term prepaid expenses to be 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 has been no impact on the financial statements resulting from the adoption of the recommendations.

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 the current estimates. These estimates are reviewed periodically and, as adjustments become necessary, they are reported in earnings in the period in which they become known.

3. Other Regulatory Assets and Liabilities

Other regulatory assets and liabilities arise as a result of the rate-setting process. Other regulatory assets represent future revenues associated with certain costs, incurred in the current period or in prior periods that will be recovered from customers in future periods through the rate-setting process. Other regulatory liabilities represent future reductions or limitations of increases in revenues associated with amounts that are to be refunded to customers through the rate-setting process.

Other Regulatory Assets and Liabilities

(in thousands)	**2004**	2003
Other regulatory assets		
Current		
Rate stabilization account	**$ 8,763**	$ 6,497
Energy cost adjustment mechanism	**2,500**	1,500
Cost of Power Rate Stabilization Account ("CPRSA")	**–**	8,802
Other	**3,982**	347
	$ 15,245	$ 17,146
Long-term		
Energy cost adjustment mechanism	**19,509**	19,284
CPRSA	**8,311**	–
Weather normalization account	**10,477**	10,435
Other	**7,012**	717
	$ 45,309	$ 30,436
Other current regulatory liabilities	**$ 23,657**	$ 2,396

Other Regulatory Assets

Rate Stabilization Account

Newfoundland Power has a rate stabilization account, which passes through to customers fluctuations in the cost and quantity of fuel and municipal taxes. On July 1 of each year, rates charged to customers are recalculated to reflect changes in this account from year to year.

Energy Cost Adjustment Mechanism

As of December 31, 2003, Maritime Electric maintained an energy cost adjustment mechanism to adjust for the effect of variations in energy costs above or below $0.05/kWh. Maritime Electric also maintained a cost of capital adjustment account to adjust earnings based on a target return on average common equity. Under the new legislation effective January 1, 2004, IRAC issued a regulatory order which allows Maritime Electric to collect $1.5 million and $2.5 million of these recoverable costs in fiscal years 2004 and 2005, respectively. In addition, IRAC has ordered that $2.7 million of the 2004 energy costs be deferred for future recovery.

CPRSA

The PUC has allowed Belize Electricity to defer excess 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 CPRSA was established to regulate the manner in which these excess costs are passed on to customers. Similarly, the PUC has allowed a Hurricane Cost Rate Stabilization Account ("HCRSA") to regulate the manner in which hurricane costs are passed on to customers. Recovery of the balances in the CPRSA and HCRSA will be re-addressed in Belize Electricity's first full tariff review submission for the period July 1, 2005 to June 1, 2009.

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 stream-flow 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 balance in the weather normalization account is subject to annual approval by the PUB. In 2003, the PUB approved the amortization of $5.6 million of the balance in the account to revenue over a five-year period commencing January 1, 2003 on the basis that this balance would not reduce over time. Excluding this non-reversing portion, the remaining recovery period is not determinable because it is dependent on weather and stream-flow conditions in the future.

Other

Other regulatory assets, included as both current and long-term, primarily consist of costs incurred with respect to transmission services that exceeded the level of revenue received from customers, as well as costs associated with rate applications, system planning and negotiations of agreements. These costs are being deferred and amortized as required by the regulators. In addition, FortisBC provides energy management services to promote energy efficiency programs for its customers. As required by a BCUC order, all expenditures are capitalized, except for certain defined costs, and are amortized on a straight-line basis at 12.5 per cent.

Other Regulatory Liabilities

Other regulatory liabilities include amounts that are expected to be refunded to customers through the rate-setting process. FortisOntario maintains regulatory accounts to adjust for the effect of cost of power and related costs above or below amounts recovered in rates as approved by the OEB or allowed under franchise agreements. FortisAlberta has made estimates for certain expenses and electricity load that have not yet been finalized with the AEUB or with customers. FortisBC is regulated under a PBR mechanism that sets targets for various costs and the final disposition of costs is determined by a cost-sharing mechanism with customers as approved by the BCUC.

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

4. Deferred Charges

(in thousands)	**2004**	2003
Deferred pension costs *(Note 18)*	**$ 86,359**	$ 75,204
Unamortized debt discount and expenses	**24,045**	10,604
Deferred loss on interest rate swap contract	**13,852**	–
Deferred recoverable and project costs	**7,530**	6,003
Other deferred charges	**5,934**	3,644
Energy management loans	**3,616**	–
Capital charge – Point Lepreau	**3,362**	3,922
Deferred acquisition costs	**–**	12,674
	$ 144,698	$ 112,051

5. Utility Capital Assets

2004 *(in thousands)*	**Cost**	**Accumulated Amortization**	**Contributions in Aid of Construction (Net)**	**Regulatory Tax Base Adjustment (Net)**	**Net Book Value**
Distribution	**$ 3,388,049**	**$ 1,615,181**	**$ 353,248**	**$ 105,941**	**$ 1,313,679**
Transmission	**531,215**	**176,721**	**–**	**–**	**354,494**
Generation	**562,044**	**143,935**	**–**	**–**	**418,109**
Assets under construction	**95,074**	**–**	**–**	**–**	**95,074**
Other	**284,053**	**118,342**	**–**	**–**	**165,711**
	$ 4,860,435	**$ 2,054,179**	**$ 353,248**	**$ 105,941**	**$ 2,347,067**

2003 *(in thousands)*	Cost	Accumulated Amortization	Contributions in Aid of Construction (Net)	Regulatory Tax Base Adjustment (Net)	Net Book Value
Distribution	$ 1,018,965	$ 374,125	$ 46,784	$ –	$ 598,056
Transmission	267,071	115,632	–	–	151,439
Generation	413,915	106,129	–	–	307,786
Assets under construction	48,791	–	–	–	48,791
Other	208,610	85,593	–	–	123,017
	$ 1,957,352	$ 681,479	$ 46,784	$ –	$ 1,229,089

6. Income Producing Properties

(in thousands)		**2004**		2003
Land, buildings and tenant inducements	**$**	**380,597**	$	364,473
Accumulated amortization		**(39,528)**		(30,869)
	$	**341,069**	$	333,604

7. Investments

(in thousands)		**2004**		2003
Caribbean Utilities	**$**	**161,292**	$	165,213
Other investments		**2,477**		2,539
	$	**163,769**	$	167,752

8. Short-Term Borrowings

The credit facilities of the Corporation and its subsidiaries, consisting of bankers' acceptances and demand loans issued against unsecured bank lines of credit, bear interest at rates ranging from 2.7 per cent to 4.3 per cent at December 31, 2004 (2003 – 3.0 per cent to 5.0 per cent). The Corporation and its subsidiaries had authorized lines of credit of $543.2 million, of which $259.3 million was unused at year-end.

The following summary outlines the short-term credit facilities by the Corporation's reporting segments:

(in millions of dollars)	Regulated Utilities	Fortis Generation	Fortis Properties	Corporate	**Total 2004**	Total 2003
Total short-term facilities	374.7	11.0	12.5	145.0	**543.2**	314.5
Utilized – December 31, 2004	(111.6)	(4.4)	(8.4)	(68.5)	**(192.9)**	(104.5)
Letters of credit outstanding	(80.9)	–	(2.5)	(7.6)	**(91.0)**	(16.0)
Short-term facility available	182.2	6.6	1.6	68.9	**259.3**	194.0

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

9. Long-term Debt

(in thousands)	2004	2003
Regulated Utilities		
Newfoundland Power		
Secured First mortgage sinking fund bonds:		
11.875% Series AC, due 2007	**$ 32,670**	$ 33,070
10.550% Series AD, due 2014	**32,553**	32,953
10.900% Series AE, due 2016	**34,800**	35,200
9.000% Series AG, due 2020	**36,000**	36,400
10.125% Series AF, due 2022	**35,200**	35,600
8.900% Series AH, due 2026	**36,835**	37,235
6.800% Series AI, due 2028	**47,000**	47,500
7.520% Series AJ, due 2032	**73,500**	74,250
	328,558	332,208
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
Fortis Ontario		
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**	–
6.22% Senior Unsecured Debentures, due 2034	**200,000**	–
	400,000	–
FortisBC		
Secured Debentures:		
11.00% Series E, due 2009	**6,750**	–
9.65% Series F, due 2012	**15,000**	–
8.80% Series G, due 2023	**25,000**	–
Unsecured Debentures:		
6.75% Series J, due 2009	**50,000**	–
5.48% Series 1-04, due 2014	**140,000**	–
8.77% Series H, due 2016	**25,000**	–
7.81% Series I, due 2021	**25,000**	–
	286,750	–
Belize Electricity		
Secured		
RBTT Merchant Bank (BZ$22.6M)	**13,586**	18,275
First Caribbean International Bank (BZ$7.0M)	**4,207**	5,899
Other loans	**33**	384
Unsecured		
6.75% Term loan, due 2006 (BZ$2.0M)	**1,209**	1,790
12.00% Debentures, due 2012 (BZ$17.0M)	**10,226**	11,046
9.50% Debentures, due 2021 (BZ$19.5M)	**11,706**	12,637
10.00% Debentures, due 2022 (BZ$16.6M)	**9,958**	8,299

Notes to Consolidated Financial Statements

(in thousands)	**2004**	2003
Belize Electricity (cont'd)		
Unsecured (cont'd)		
Caribbean Development Bank (BZ$19.4M)	**11,688**	13,991
European Investment Bank (Euro 2.6M)	**4,004**	4,350
International Bank for Reconstruction and Development ("IBRD") (BZ$13.0M)	**7,820**	10,078
M&T All-First Bank ("AFB") (BZ$3.9M)	**2,334**	3,780
Belize Bank Limited ("BBL")	**–**	1,945
Toronto Dominion Bank ("TDB") (BZ$9.8M)	**5,884**	5,981
	82,655	98,455
Non-regulated – Fortis Generation		
Secured		
FortisOntario Inc.		
Term loan, due 2007	**22,500**	30,100
BECOL		
Term loan, due 2011 (US$36.4 M)	**43,765**	51,556
Exploits Partnership		
Construction and term loan, due 2028	**65,000**	65,000
Walden Power Partnership		
9.44% WPP Mortgage, due 2013	**6,923**	–
	138,188	146,656
Fortis Properties		
Secured		
6.85% First mortgage, due 2007	**5,014**	5,163
8.15% First mortgage, due 2010	**17,393**	18,197
9.47% First mortgage, due 2010	**11,464**	11,721
7.42% First mortgage bonds, due 2012	**27,186**	27,930
7.77% First mortgage bonds, due 2012	**22,375**	22,929
7.30% First mortgage, due 2013	**29,369**	29,953
6.58% First mortgage, due 2013	**33,758**	34,830
6.42% First mortgage, due 2014	**15,557**	–
7.50% First mortgage bonds, due 2017	**43,660**	44,761
7.32% Senior notes, due 2019	**19,343**	20,108
Obligations under capital leases	**5,426**	6,864
Unsecured		
Non-interest bearing note payable due 2006	**837**	1,282
	231,382	223,738
Fortis Inc.		
7.40% Senior Unsecured Debentures, due 2010	**100,000**	100,000
6.75% Unsecured Subordinated Convertible Debentures, due 2012 (US$10 million)	**11,261**	12,031
5.50% Unsecured Subordinated Convertible Debentures, due 2013 (US$10 million)	**11,607**	12,467
5.74% Senior Unsecured Notes, due 2014 (US$150 million)	**180,300**	–
	303,168	124,498
Total long-term debt	**1,914,701**	1,069,555
Less: Current installments of long-term debt	**36,062**	38,197
	$ 1,878,639	$ 1,031,358

9. Long-term Debt (cont'd)

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.

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 30, 2004, FortisBC issued $140 million, 5.48% Unsecured Debentures, 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.

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 10.5 per cent and matures 2008.

The 12% 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 2005 to 2014. The European Investment Bank loan bears interest at 5 per cent and matures in 2014.

The $7.8 million 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, 2004 was 5.31 per cent per annum (2003 – 7.16 per cent). As of December 31, 2004, Belize Electricity was not in compliance with the debt service ratio of 1.5 times as required by the loan covenant. At December 31, 2004, Belize Electricity's debt service ratio was 0.90 times. Discussions to cure and/or amend the covenants are ongoing with the IBRD. The M&T All-First 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.

The loans contain various negative and positive covenants by Belize Electricity or the Government of Belize regarding future action by Belize Electricity or the Government of Belize. They also contain various events of default, in the event of which the loan becomes due and payable.

Fortis Generation

FortisOntario Inc.

The FortisOntario Inc. term loan is secured by a general security agreement covering all the generating assets of the Company and a collateral mortgage on real property.

FortisOntario Inc. is party to an interest rate swap contract maturing April 30, 2005 to hedge against interest exposures on $20.0 million of term loan indebtedness. The contract has the effect of fixing the rate of interest at 6.27 per cent on $20.0 million of the $22.5 million term loans. The remaining $2.5 million of the term loans bear interest at a floating rate of bankers' acceptance plus 2.25 per cent. The interest rate swap contract is accounted for as a hedge against the long-term debt. At December 31, 2004, there was an unrecognized loss of $0.2 million (2003 – $1.0 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.

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, 2004, there was an unrecognized loss of US$2.3 million (CDN$2.8 million) [2003 – US$3.5 million (CDN$4.5 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, 2004, the partnership had drawn the full balance on the loan and held cash in escrow of $0.1 million (2003 – $3.8 million). A first, fixed and specific charge and security interest over all the assets of the 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. As of December 31, 2004, the WPP was not in compliance with its debt service ratio of 1.2 times as required by the loan covenant. At December 31, 2004, WPP's debt service ratio was 0.41 times. A waiver was obtained for December 2004. Compliance with the debt service covenant is required at the end of each fiscal year.

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 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$36.74 per share. The Debentures are subordinated to all other indebtedness of the Corporation, other than subordinated indebtedness ranking equally to the Debentures.

9. Long-term Debt (cont'd)

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$47.86 per share. 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.

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

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

2005	$36.1 million
2006	$37.1 million
2007	$67.4 million
2008	$28.9 million
2009	$80.7 million

Fair Values

While the Corporation's liability with respect to long-term debt is $1,915 million (2003 – $1,070 million), the estimated fair value of the long-term debt is $2,132 million at December 31, 2004 (2003 – $1,177 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.

10. Deferred Credits

(in thousands)	**2004**	2003
Other retirement benefit obligations *(Note 18)*	**$ 22,067**	$ 18,294
Deferred gain on foreign exchange swap contract	**4,268**	–
Other	**3,493**	1,811
	$ 29,828	$ 20,105

11. Non-controlling Interest

The non-controlling interest at December 31, 2004 consists of the non-controlling interest in the net assets of Belize Electricity, Exploits Partnership and preference shares of Newfoundland Power.

(in thousands)	**2004**	2003
Belize Electricity	**$ 26,583**	$ 25,397
BECOL	**–**	2,304
Exploits Partnership	**3,617**	1,845
Preference shares of Newfoundland Power	**7,287**	7,224
	$ 37,487	$ 36,770

On May 20, 2004, Fortis acquired the remaining 5 per cent interest in BECOL, making it a wholly owned, indirect subsidiary of the Corporation.

12. Equity 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		**2004**		2003
	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**	–	–
Total	**13,000,000**	**$ 319,530**	5,000,000	$ 122,992

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.

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 that number of 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 Share elects 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.

The quarterly cash dividend payable with respect to the Series D First Preference Shares that were not converted has been reduced to $0.01 per share, being equivalent to 0.64 per cent per annum per Series D First Preference Share.

12. Equity Preference Shares (cont'd)

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 and 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 and 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 that number of 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 that number of 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 Preference Shares elects to convert any of such shares into common shares, the Corporation can redeem such Preference Shares for cash or arrange for the sale of those shares to other purchasers.

Fair Values

Fair values for the equity preference shares, determined using quoted market prices, are $360.4 million at December 31, 2004 (2003 – $137.0 million).

13. Common Shares

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

Issued and Outstanding	2004			2003		
	Number of Shares		Amount *(in thousands)*	Number of Shares		Amount *(in thousands)*
Common Shares	**23,882,323**	**$**	**675,215**	17,380,419	$	329,660

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

	2004			2003		
	Number of Shares		Amount *(in thousands)*	Number of Shares		Amount *(in thousands)*
Opening balance	**17,380,419**	**$**	**329,660**	17,192,064	$	320,229
Conversion of Subscription Receipts	**6,310,000**		**335,793**	–		–
Consumer Share Purchase Plan	**26,558**		**1,640**	24,912		1,403
Dividend Reinvestment Plan	**49,794**		**3,074**	48,342		2,743
Employee Share Purchase Plan	**35,431**		**2,184**	29,305		1,621
Director Stock Option Plan	**6,750**		**233**	30,750		1,241
Executive Stock Option Plan	**73,371**		**2,631**	55,046		2,423
	23,882,323	**$**	**675,215**	17,380,419	$	329,660

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 $1.60 per common share, 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.

Earnings per Common Share

The Corporation has calculated earnings per Common Share on the weighted average number of Common Shares outstanding. The weighted average common shares outstanding were 21,184,383 and 17,308,850 for 2004 and 2003, respectively. 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:

	2004	2003
Basic	**$4.29**	$4.25
Diluted	**$4.04**	$4.10

	2004			2003		
	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	**$ 90,855**			$ 73,630		
Weighted average shares outstanding		**21,184**			17,309	
Basic Earnings per Common Share	**90,855**	**21,184**	**$4.29**	73,630	17,309	$4.25
Effect of dilutive securities						
Stock options	**–**	**136**		–	138	
Preference Shares	**12,319**	**4,039**		3,952	1,330	
Convertible debentures	**1,186**	**481**		1,067	402	
Diluted Earnings per Common Share	**$ 104,360**	**25,840**	**$4.04**	$ 78,649	19,179	$4.10

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

14. 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, 2004, the Corporation had the following stock-based compensation plans: Executive Stock Option Plan, Directors' Stock Option Plan, 2002 Stock Option Plan and Employee Share Purchase 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 and Directors' Stock Option Plans will cease to exist when all outstanding options are exercised or expire in or before 2011. At December 31, 2004, 1,761,645 common shares remained in the reserve for issue under the terms of the Corporation's stock-based compensation and share purchase plans.

Number of Options	**2004**	2003
Options outstanding at beginning of year	**602,213**	499,630
Granted	**209,239**	188,379
Exercised	**(80,121)**	(85,796)
Cancelled	**(10,684)**	–
Options outstanding at end of year	**720,647**	602,213
Options vested at end of year	**251,212**	206,589
Weighted Average Exercise Prices:		
Outstanding at beginning of year	**$44.67**	$41.86
Granted	**60.79**	51.24
Exercised	**35.74**	42.72
Cancelled	**48.72**	–
Outstanding at end of year	**50.28**	44.67

Details of stock options outstanding are as follows:	Number of Options	Exercise Price	Expiry Date
	10,660	$29.15	2005
	15,000	$38.27	2006
	131,957	$38.27	2011
	172,366	$48.14	2012
	182,562	$51.24	2013
	181,562	$61.12	2014
	3,000	$60.91	2014
	23,540	$58.20	2014
	720,647		

Stock-based Compensation

On March 10, 2004, the Corporation issued 182,699 options on common shares under its 2002 Stock Option Plan at the 5-day average trading price of $61.12. 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 $8.20 per option.

On May 12, 2004, the Corporation issued 3,000 options on common shares under its 2002 Stock Option Plan at the 5-day average trading price of $60.91. 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 $8.87 per option.

On July 7, 2004, the Corporation issued 23,540 options on common shares under its 2002 Stock Option Plan at the 5-day average trading price of $58.20. 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 $8.41 per option.

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

	March 10, 2004	**May 12, 2004**	**July 7, 2004**
Dividend yield (%)	3.48	3.55	3.71
Expected volatility (%)	14.0	13.8	14.8
Risk-free interest rate (%)	4.24	4.85	4.75
Weighted-average expected life (years)	7.5	7.5	7.5

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. Upon exercise, the proceeds of the option are credited to capital stock at the option price. Therefore, an exercise of options below the current market price has a dilutive effect on capital stock and shareholders' equity. Under the fair value method, compensation expense was $1.0 million for the year ended December 31, 2004 (2003 – $0.6 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.

15. Finance Charges

(in thousands)	**2004**	2003
Amortization of debt and stock issue expenses	**$ 1,984**	$ 426
Interest – long-term debt	**101,094**	85,383
– short-term debt	**17,181**	5,526
Interest charged to construction	**(4,895)**	(5,918)
Interest earned	**(4,081)**	(3,862)
Unrealized foreign exchange (gain) loss on long-term debt	**(1,229)**	780
	$ 110,054	$ 82,335

16. Foreign Currency Translation Adjustment

(in thousands)	**2004**	2003
Balance, beginning of year	**$ (12,515)**	$ 6,228
Effect of exchange rate changes	**(2,982)**	(18,743)
Balance, end of year	**$ (15,497)**	$ (12,515)

17. Income Taxes

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

(per cent)	**2004**	2003
Statutory income tax rate	**35.8**	38.2
Large corporations tax	**2.3**	2.0
Intangible and goodwill amortization	**–**	0.3
Pension costs	**(1.4)**	(2.5)
Non-controlling interest share of partnership income	**(0.4)**	–
Impact of change in tax rates on future income taxes	**(0.1)**	0.7
Difference between Canadian statutory rates and those applicable to foreign subsidiaries	**(2.3)**	(5.8)
Items capitalized for accounting but expensed for income tax purposes	**(1.6)**	(0.9)
Utilization of non-capital losses	**(1.3)**	–
Other	**(0.9)**	–
Effective income tax rate	**30.1**	32.0

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

(in thousands)	**2004**	2003
Canadian		
Current taxes	**$ 36,939**	$ 31,697
Future income taxes	**8,332**	4,555
	45,271	36,252
Foreign		
Current taxes	**982**	1,412
Future income taxes	**674**	572
	1,656	1,984
Income tax expense	**$ 46,927**	$ 38,236

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

(in thousands)	**2004**	2003
Future income tax (asset) liability		
Energy cost adjustment mechanism	**$ 8,390**	$ 7,923
Utility and income producing assets	**23,067**	25,411
Valuation allowance – Cornwall Electric *(Note 24)*	**4,900**	4,700
Water rights	**6,587**	8,107
Employee future benefits	**(7,299)**	(5,433)
Share issue and debt financing costs	**(1,760)**	(501)
Deferred charges	**1,521**	1,831
Tenant inducements	**2,388**	2,406
Losses carried forward	**(6,303)**	(4,065)
Other	**(924)**	2,534
Net future income tax liability	**30,567**	42,913
Current future income tax (asset) liability	**(4,204)**	1,062
Long-term future income tax liability	**34,771**	41,851
Net future income tax liability	**$ 30,567**	$ 42,913

18. Employee Future Benefits

For the defined benefit pension arrangements, the accrued benefit obligation and the market-related 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, 2002 for the Corporation; as of December 31, 2003 for Newfoundland Power, FortisOntario and FortisBC; and as of January 1, 2003 for FortisAlberta. 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

(per cent)	**2004**	2003
Equities	**48**	41
Fixed income	**37**	40
Foreign equities	**12**	17
Real estate	**3**	2
	100	100

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

						2004
(in thousands)	**Newfoundland Power**	**Fortis Inc.**	**FortisOntario**	**FortisAlberta**	**FortisBC**	**Total**
Accrued benefit obligation	**$ 182,961**	**$ 2,064**	**$ 20,846**	**$ 16,381**	**$ 96,398**	**$ 318,650**
Plan assets	**197,906**	**1,802**	**18,220**	**17,650**	**73,405**	**308,983**
Funded (unfunded)	**$ 14,945**	**$ (262)**	**$ (2,626)**	**$ 1,269**	**(22,993)**	**$ (9,667)**

						2003
(in thousands)	Newfoundland Power	Fortis Inc.	FortisOntario	FortisAlberta	FortisBC	Total
Accrued benefit obligation	$ 176,482	$ 1,868	$ 19,994	$ –	$ –	$ 198,344
Plan assets	178,960	1,526	17,854	–	–	198,340
Funded (unfunded)	$ 2,478	$ (342)	$ (2,140)	$ –	$ –	$ (4)

	Pension Benefit Plans		**Other Retirement Benefit Plans**	
(in thousands, except as indicated)	**2004**	2003	**2004**	2003
Change in accrued benefit obligation				
Balance, beginning of year	**$ 198,344**	$ 184,808	**$ 21,653**	$ 19,964
Liability associated with acquisitions	**106,667**	–	**–**	330
Current service costs	**6,491**	3,787	**1,147**	1,216
Interest costs	**15,961**	12,362	**1,557**	1,285
Benefits paid	**(13,626)**	(11,434)	**(981)**	(1,026)
Actuarial losses (gains)	**2,790**	8,821	**3,505**	(116)
Plan amendments	**824**	–	**–**	–
Net transfers in	**1,199**	–	**–**	–
Balance, end of year	**$ 318,650**	$ 198,344	**$ 26,881**	$ 21,653

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

18. Employee Future Benefits (cont'd)

	Pension Benefit Plans		Other Retirement Benefit Plans	
(in thousands, except as indicated)	**2004**	2003	**2004**	2003
Change in value of plan assets				
Balance, beginning of year	**$ 198,340**	$ 174,126	**$ –**	$ –
Assets associated with acquisitions	**92,058**	–	**–**	–
Expected return on plan assets	**18,657**	15,240	**–**	–
Benefits paid	**(13,560)**	(11,453)	**(311)**	(306)
Actuarial gains	**305**	8,309	**–**	–
Employee contributions	**3,360**	1,286	**–**	–
Employer contributions	**8,697**	10,832	**311**	306
Net transfers in	**1,126**	–	**–**	–
Balance, end of year	**$ 308,983**	$ 198,340	**$ –**	$ –
Funded status				
Deficit, end of year	**$ (9,667)**	$ (4)	**$ (26,881)**	$ (21,653)
Unamortized net actuarial loss	**73,679**	56,750	**3,921**	2,297
Unamortized past service costs	**3,815**	–	**–**	410
Unamortized transitional obligation	**24,792**	18,458	**893**	652
Employer contributions after measurement date	**(137)**	–	**–**	–
Regulatory adjustment	**(6,123)**	–	**–**	–
Accrued benefit asset (liability), end of year	**$ 86,359**	$ 75,204	**$ (22,067)**	$ (18,294)
Significant assumptions				
Discount rate during year *(%)*	**6.00–6.50**	6.50–6.75	**6.25–6.50**	6.25–6.75
Discount rate as at December 31 *(%)*	**6.00–6.50**	6.50	**6.25**	6.25–6.50
Expected long-term rate of return on plan assets *(%)*	**7.25–7.50**	7.25–8.00	**–**	–
Rate of compensation increase *(%)*	**3.50–4.50**	4.00–4.50	**4.00–4.50**	4.50
Expected average remaining service life of active employees *(years)*	**9–17**	13–17	**11–17**	9–17
Components of net benefit expense				
Current service costs	**$ 4,349**	$ 2,779	**$ 1,147**	$ 1,216
Interest costs	**15,961**	12,362	**1,557**	1,285
Actual return on plan assets	**(18,962)**	(23,549)	**–**	–
Actuarial loss	**2,790**	8,821	**–**	–
Costs arising in the year	**4,138**	413	**2,704**	2,501
Differences between costs arising and costs recognized in the year in respect of:				
Return on plan assets	**305**	8,309	**–**	–
Actuarial loss (gain)	**(473)**	(6,330)	**1,976**	439
Past service costs	**529**	–	**–**	–
Transitional obligation and amendments	**1,901**	1,306	**190**	356
Regulatory adjustment	**(266)**	–	**–**	–
Net benefit expense	**$ 6,134**	$ 3,698	**$ 4,870**	$ 3,296

During 2004, the Corporation expensed $3.1 million (2003 – $2.8 million) related to defined contribution pension plans.

19. Business Acquisitions

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.

FortisAlberta owns and operates the distribution system in a substantial portion of southern and central Alberta and FortisBC is an integrated utility operating in the southern interior of British Columbia.

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.

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 has been accounted for using the purchase method, whereby the remaining 5 per cent interest in BECOL has been 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.

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

19. Business Acquisitions (cont'd)

2003

Caribbean Utilities Company, Ltd.

On January 30, 2003, the Corporation acquired, through its wholly owned subsidiary, Fortis Energy (Bermuda) Ltd., an additional 3,863,695 Class A Ordinary Shares of Caribbean Utilities Company, Ltd. ("Caribbean Utilities") for a purchase price of $71 million. This acquisition represented approximately 16 per cent of the outstanding Class A Ordinary Shares of Caribbean Utilities, which increased the Corporation's holding to approximately 38 per cent at the time of purchase. As a result, Fortis commenced accounting for its investment in Caribbean Utilities on an equity basis effective February 1, 2003. Previously, the Corporation accounted for this investment on a cost basis whereby only the dividends received from Caribbean Utilities were recorded in earnings.

Granite Power and Rideau Falls

On April 1, 2003, FortisOntario acquired the operating subsidiaries of Granite Power Corporation ("Granite Power") for $8.8 million. Granite Power primarily consists of Granite Power Distribution Corporation and Granite Power Generation Corporation. Granite Power distributes electricity to approximately 3,800 customers primarily situated in Gananoque, Ontario and generates electricity from 5 hydroelectric generating stations with a combined capacity of 6 MW. On October 1, 2003, Granite Power Generation purchased the management contract and 14 of 17 partnership units of the Rideau Falls Limited Partnership ("Rideau Falls"). On December 29, 2003, the remaining 3 partnership units were purchased. The total cumulative purchase price of Rideau Falls was $2.3 million. Rideau Falls operates a 2-MW hydroelectric generating station in the City of Ottawa. On December 31, 2003, the partnership units were dissolved and the assets were combined with Granite Power Generation. The acquisitions were accounted for using the purchase method, whereby the results of full 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:	
Utility capital assets	$ 10,952
Current assets	1,838
Long-term investments	9
Goodwill	4,084
Other assets	156
Current liabilities	(2,575)
Future income taxes	(3,179)
Other liabilities	(330)
	10,955
Cash	216
	$ 11,171

Fortis Properties

On October 1, 2003, Fortis Properties purchased the assets comprising the businesses of 4 Holiday Inn hotels in Ontario for cash consideration of $42.5 million. The acquisition was accounted for using the purchase method, whereby the results of operations were consolidated 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	$ 43,073
Other assets	433
Other liabilities	(973)
	$ 42,533

20. Segmented Earnings 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, 2004 *(in thousands of dollars)*	Regulated Utilities Nfld Power	Regulated Utilities Maritime Electric	Regulated Utilities Fortis Ontario	Regulated Utilities Fortis Alberta	Regulated Utilities Fortis BC	Regulated Utilities Total Canadian	Regulated Utilities Total Caribbean	Non-regulated Fortis Generation	Non-regulated Fortis Properties	Corporate	Inter-segment elimi-nation	Consoli-dated
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
Interest	30,394	8,656	5,233	10,782	8,531	63,596	5,320	15,418	18,080	18,726	(9,857)	111,283
Foreign exchange loss (gain)	–	–	–	–	–	–	251	–	–	(1,480)	–	(1,229)
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
Preference share dividends	–	–	–	–	–	–	–	–	–	12,319	–	12,319
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	784,065	240,268	118,326	603,565	580,843	2,327,067	196,699	267,758	354,223	39,356	(22,440)	3,162,663
Equity investment assets	–	–	–	–	–	–	161,292	–	–	–	–	161,292
Capital expenditures	60,315	26,806	9,631	73,564	57,111	227,427	16,661	17,290	16,123	1,168	–	278,669

Year ended December 31, 2003 *(in thousands of dollars)*	Regulated Utilities Nfld Power	Regulated Utilities Maritime Electric	Regulated Utilities Fortis Ontario	Regulated Utilities Fortis Alberta	Regulated Utilities Fortis BC	Regulated Utilities Total Canadian	Regulated Utilities Total Caribbean	Non-regulated Fortis Generation	Non-regulated Fortis Properties	Corporate	Inter-segment elimi-nation	Consoli-dated
Operating revenues	384,150	96,270	119,826	–	–	600,246	72,491	57,087	113,685	11,166	(22,090)	832,585
Equity income	–	–	–	–	–	–	10,495	–	–	–	–	10,495
Energy supply costs	227,964	53,371	89,696	–	–	371,031	37,162	2,525	–	–	(10,065)	400,653
Operating expenses	51,799	12,183	12,620	–	–	76,602	11,632	13,993	72,614	4,963	(1,726)	178,078
Amortization	29,372	9,147	5,011	–	–	43,530	6,088	7,644	4,533	532	–	62,327
Operating income	75,015	21,569	12,499	–	–	109,083	28,104	32,925	36,538	5,671	(10,299)	202,022
Interest	30,009	9,021	3,982	–	–	43,012	5,946	13,224	17,117	12,555	(10,299)	81,555
Foreign exchange loss	–	–	–	–	–	–	780	–	–	–	–	780
Corporate income taxes	14,945	5,370	2,049	–	–	22,364	975	8,515	8,454	(2,072)	–	38,236
Non-controlling interest	601	–	9	–	–	610	3,159	251	–	(151)	–	3,869
Preference share dividends	–	–	–	–	–	–	–	–	–	3,952	–	3,952
Net earnings (loss)	29,460	7,178	6,459	–	–	43,097	17,244	10,935	10,967	(8,613)	–	73,630
Goodwill	–	19,858	45,577	–	–	65,435	–	–	–	–	–	65,435
Identifiable assets	741,978	223,896	110,594	–	–	1,076,468	214,041	254,928	344,374	64,942	(21,604)	1,933,149
Equity investment assets	–	–	–	–	–	–	165,213	–	–	–	–	165,213
Capital expenditures	64,750	16,530	9,068	–	–	90,348	37,260	30,665	47,897	1,570	–	207,740

21. Supplementary Information to Consolidated Statements of Cash Flows

(in thousands)	**2004**	2003
Interest paid	**$ 121,500**	$ 79,048
Income taxes paid	**$ 41,243**	$ 32,610

22. 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 value 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 income 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 exchange 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. 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.

23. Commitments

(in millions)	**Total**	< 1 Year	1–3 Years	4–5 Years	> 5 Years
Power purchase obligations					
FortisBC *(a)*	**$ 3,102.7**	$ 38.7	$ 115.9	$ 75.9	$ 2,872.2
FortisOntario *(b)*	**367.3**	23.0	63.7	45.1	235.5
Maritime Electric *(c)*	**26.8**	22.9	3.9	–	–
Capital cost *(d)*	**224.1**	16.5	45.6	30.0	132.0
Brilliant Terminal Station ("BTS") *(e)*	**65.3**	2.4	7.1	4.7	51.1
Joint use asset agreements *(f)*	**48.8**	3.7	6.7	6.0	32.4
Operating lease obligations *(g)*	**36.8**	6.9	14.0	10.4	5.5
Office lease – FortisBC *(h)*	**22.7**	0.9	2.8	2.7	16.3
Purchase of joint-use poles from Aliant Telecom Inc. *(i)*	**4.8**	4.8	–	–	–
Other	**1.8**	0.1	0.2	0.1	1.4
Total	**$ 3,901.1**	$ 119.9	$ 259.9	$ 174.9	$ 3,346.4

(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, B.C. 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. FortisBC is accounting for the contract as an operating lease as directed by the BCUC. In addition, FortisBC has a long-term, minimum-payment, firm power purchase contract with BC Hydro. This contract includes a take-or-pay provision based on a 5-year rolling nomination of capacity requirements.

(b) Power purchases primarily include a long-term contract with Hydro-Québec Energy Marketing for the supply of electrical energy 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 December 31, 2019, provides approximately one-third of Cornwall Electric's load.

(c) Maritime Electric has one take-or-pay contract for the purchase of either capacity or energy. The obligation is subjected to force majeure provisions that impact the ability of the supplier to deliver or Maritime Electric to receive the energy contracted for. This contract totals approximately $27 million through October 2006.

(d) Maritime Electric has entitlement to approximately 6.7 per cent of the output from the New Brunswick Power Dalhousie Generating Station and approximately 4.7 per cent from the New Brunswick 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.

(e) Under the Brilliant Terminal Station Facilities Interconnection and Investment Agreement dated January 31, 2002 with Columbia Power Corporation and the Columbia Basin Trust, which relates to the engineering, design, procurement, construction, maintenance and ownership of the BTS, the utility in B.C. has an exclusive license to operate and maintain the BTS and is subject to a 30-year obligation (the "BTS Obligation") to pay the BPC a charge related to the recovery of the capital cost of the BTS and related operating costs. FortisBC is accounting for the BTS Obligation as an operating lease, as directed by the BCUC.

(f) FortisAlberta and an Alberta transmission provider have entered into a number of service agreements to ensure operational efficiencies are maintained through coordinated operations. The agreements have minimum expiry terms of 20 years 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. On April 15, 2002, Canadian Niagara Power entered into a 10-year operating agreement to lease the electricity distribution assets of Port Colborne Hydro Inc. Minimum annual lease payments under the agreement, which runs until April 2012, amount to $1.6 million.

23. Commitments (cont'd)

(h) Under a sale-leaseback agreement, on September 29, 1993, the utility in B.C. began leasing its Trail, B.C. office building for a term of 30 years. The terms of the agreement grant FortisBC repurchase options at year 20 and year 30 of the lease term. FortisBC is accounting for the lease as an operating lease, as directed by the BCUC. On December 1, 2004, FortisBC also entered into a 5-year lease for the Kelowna head office. The terms of the lease allow for termination without penalty after 3 years.

(i) On September 13, 2001, Newfoundland Power and Fortis closed a $46 million transaction to purchase 102,000 poles and related infrastructure from Aliant Telecom Inc. in Newfoundland. On February 7, 2002 the Corporation closed a $2.2 million transaction to purchase 5,586 poles and related infrastructure from Aliant Telecom Inc. in Newfoundland. A final payment of $4.8 million is required in 2005 under the purchase agreements.

(j) On December 15, 2004, Fortis and Princeton Light and Power Company ("PLP") entered into an agreement in which Fortis will purchase all issued common and preferred shares of PLP. The PLP shareholders have the option of receiving cash or Fortis Inc. common shares or a combination thereof. The closing of the transaction is subject to approval of securities authorities, final due diligence and regulatory approval by the British Columbia Utilities Commission. The specific purchase price will be adjusted depending on the time of closing but is expected to result in a premium over rate base of approximately 14 per cent. The regulated rate base of PLP was approximately $6.2 million, as of March 31, 2004. PLP is an electric utility that serves approximately 3,200 customers in Princeton, B.C. and surrounding areas. PLP also provides utility service to customers of FortisBC in the Similkameen and Tulameen regions. PLP presently purchases its wholesale power from FortisBC under a long-term contract. This commitment has not been included in the summary table shown previously.

(k) As a primary electric utility holding company, 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 over $400 million in capital expenditures for 2005. This commitment has not been included in the summary table shown previously.

24. Contingent Liabilities

(a) Newfoundland Power

In 2002, the Canada Revenue Agency ("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.

Newfoundland Power believes it has reported its tax position appropriately and has filed a Notice of Appeal with the Tax Court of Canada. The Court action is not expected to begin until 2005. No provision has been made in the accounts for additional income taxes, if any, which may be determined to be payable. Should Newfoundland Power be unsuccessful in defending its method of recognizing its revenue, a liability of approximately $16.2 million, including accrued interest, would arise. In this event, Newfoundland Power would apply to the PUB to include the amount in the rate making process. Such an application might include a request to change the current practice of recognizing revenue when billed to the accrual method. If the PUB were to approve such a change in accounting practice, electricity consumed in December 2004 but billed in January 2005, valued at $23.1 million, would be included in revenue in 2004.

The provisions of the *Income Tax Act* require Newfoundland Power to deposit one half of the amount in dispute with CRA. The amount currently deposited with CRA arising from the reassessment is approximately $6.9 million.

(b) FortisUS Energy

Legal proceedings have been initiated against FortisUS Energy by the Village of Philadelphia, 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$8.5 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.

(c) Cornwall Electric

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. 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 is also being reduced from approximately \$19.4 million to nil. The future tax asset associated with this Class 14 asset, including valuation allowance, is currently valued at approximately \$1.4 million on Cornwall Electric's balance sheet.

Cornwall Electric believes it has reported its tax position appropriately and has filed a Notice of Objection with CRA. Should Cornwall Electric be unsuccessful in defending its position, Fortis would execute its indemnity under the purchase and sale agreement with the previous owner.

(d) FortisAlberta

In a statement of claim filed on August 18, 2003 in the Court of the Queen's Bench of Alberta, EPCOR Energy Services (Alberta) Inc. is pursuing damages of approximately \$83 million against FortisAlberta for alleged breaches of certain agreements between it and FortisAlberta, distribution tariff terms and conditions and fiduciary duty, as well as for negligence. FortisAlberta has not to date made a definitive assessment of potential liability with respect to this claim; however, management believes that these allegations are without merit.

(e) FortisBC

FortisBC has been advised of a pending inquiry by the B.C. Ministry of Forests into fire suppression costs associated with certain forest fires in FortisBC's service territory in 2003. FortisBC is in the preliminary stages of collecting and analyzing information and evidence surrounding these fires.

(f) 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.

25. Subsequent Events

(a) On January 25, 2005, Fortis entered into a \$50 million unsecured revolving/non-revolving term credit facility for its general corporate purposes, including acquisitions.

(b) On February 1, 2005, Fortis Properties acquired 3 hotels in western Canada from True North Properties Ltd. for an aggregate purchase price of \$62.6 million. The hotels, which were constructed between 1997 and 2000, operate under the independent brand of Greenwood Inn and are located in Edmonton, Calgary and Winnipeg. The properties have approximately 650 rooms and 27,000 square feet of banquet space. The acquisition was financed on an interim basis by an advance from Fortis.

(c) On February 18, 2005, Fortis, through its wholly owned subsidiary, FortisOntario Inc., completed an agreement with Ontario Power Generation Inc. ("OPGI") addressing the future disposition of FortisOntario Inc.'s water rights and facilities on the Niagara River. The Niagara Exchange Agreement facilitates the firm and irrevocable exchange of 75 MW of wholesale electric power supply to FortisOntario Inc. from OPGI until April 30, 2009 in exchange for the transfer of FortisOntario Inc.'s water entitlement to OPGI. FortisOntario Inc. also received a payment of \$10 million from OPGI resulting from the settlement of contractual matters.

(d) On March 1, 2005, Fortis issued 1,740,000 common shares of the Corporation for \$74.65 per common share. The common share issuance resulted in gross proceeds of \$129.9 million. The proceeds of the issuance will be used to repay outstanding indebtedness and for general corporate purposes, including utility-based capital expenditures.

26. Comparative Figures

Certain comparative figures have been reclassified to comply with current year's classifications.

Historical Financial Summary

Statements of Earnings *(in thousands $)*	**2004**	2003	2002	2001
Revenue, including equity income	**1,146,129**	843,080	715,465	628,254
Operating expenses	**766,628**	578,731	476,969	418,117
Amortization	**113,672**	62,327	65,063	62,495
Finance charges	**110,054**	82,335	70,728	62,655
Dividends on preference shares	**–**	–	2,736	2,975
Corporate income taxes	**46,927**	38,236	32,488	28,732
Results of discontinued operations and other unusual items	**–**	–	–	4,179
Non-controlling interest	**5,674**	3,869	4,229	3,862
Dividends on equity preference shares	**12,319**	3,952	–	–
Net earnings applicable to common shares	**90,855**	73,630	63,252	53,597
Balance Sheets *(in thousands $)*				
Current assets	**256,536**	191,032	180,122	134,935
Long-term investments	**163,769**	167,752	95,751	82,211
Other assets, including goodwill	**729,555**	242,320	204,837	123,011
Utility capital assets and income-producing properties	**2,688,136**	1,562,693	1,459,300	1,245,940
Total assets	**3,837,996**	2,163,797	1,940,010	1,586,097
Current liabilities	**537,629**	296,056	334,467	272,439
Long-term debt	**1,878,639**	1,031,358	940,910	746,092
Preference shares	**–**	–	–	50,000
Deposits due beyond one year	**–**	–	–	–
Deferred credits and future income taxes	**64,599**	61,956	38,835	31,628
Non-controlling interest	**37,487**	36,770	39,955	36,419
Equity preference shares	**319,530**	122,992	–	–
Shareholders' equity	**1,000,112**	614,665	585,843	449,519
Cash Flows *(in thousands $)*				
Operations	**271,319**	156,682	134,422	94,115
Financing activities	**794,171**	232,011	261,043	171,358
Investing activities	**1,042,434**	308,006	348,724	239,726
Dividends, excluding dividends on preference securities	**50,514**	38,456	35,070	29,913
Financial Statistics				
Return on average common shareholders' equity *(%)*	**11.28**	12.30	12.23	12.44
Capitalization Ratios *(%)* (year end)				
Long-term debt (excluding current portion)	**58.1**	57.1	60.1	58.2
Non-controlling interest	**1.2**	2.0	2.5	2.8
Preference securities and equity portion of convertible debentures	**9.9**	6.9	0.1	3.9
Common shareholders' equity	**30.8**	34.0	37.3	35.1
Interest Coverage *(x)*				
Debt	**2.3**	2.2	2.3	2.3
All fixed charges	**2.0**	2.1	2.2	2.2
Capital expenditures *(in thousands $)*	**278,669**	207,740	228,830	149,455
Common share data				
Book value per share (year end) *($)*	**41.81**	35.27	34.00	30.01
Average common shares outstanding *(in thousands)*	**21,184**	17,309	16,277	14,878
Earnings per common share *($)*	**4.29**	4.25	3.89	3.60
Dividends declared per common share *($)*	**2.19**	2.10	1.99	1.88
Dividends paid per common share *($)*	**2.16**	2.08	1.94	1.87
Dividend payout ratio *(%)*	**50.3**	48.9	49.9	51.9
Price earnings ratio *(x)*	**16.2**	13.9	13.5	13.0
Share trading summary				
Closing price *($)* (TSX)	**69.50**	58.90	52.50	46.95
Volume *(in thousands)*	**7,313**	7,795	5,419	5,365

Note: Certain comparative numbers have been reclassified to conform with the current year's presentation.

Historical Financial Summary

2000	1999	1998	1997	1996	1995	1994
580,197	505,218	472,725	486,662	474,293	447,035	388,558
417,607	356,227	339,429	341,024	334,388	315,003	271,607
52,513	45,407	42,428	41,147	35,993	37,998	32,722
52,737	43,090	40,662	38,658	38,487	37,246	28,814
2,975	2,975	2,975	6,232	7,325	4,448	4,350
17,228	27,476	22,998	29,449	28,029	20,334	23,040
2,771	(57)	3,696	369	–	–	–
3,149	803	515	515	1,026	1,414	1,062
–	–	–	–	–	–	–
36,759	29,183	27,414	30,006	29,045	30,592	26,963
165,814	92,862	94,123	78,603	70,456	72,659	78,230
81,515	–	–	–	–	–	–
116,912	160,998	162,487	160,445	160,470	120,289	94,618
1,056,291	929,909	750,223	747,461	736,338	693,178	634,626
1,420,532	1,183,769	1,006,833	986,509	967,264	886,126	807,474
224,431	229,569	147,764	172,158	172,493	153,368	160,864
678,349	487,828	424,275	385,627	335,654	285,343	264,699
50,000	50,000	50,000	50,000	100,000	100,000	50,000
–	15,640	15,745	20,444	17,448	16,703	18,172
24,110	27,538	21,942	23,307	23,388	17,024	18,250
31,502	29,381	8,430	8,430	8,430	18,990	20,702
–	–	–	–	–	–	–
412,140	343,813	338,677	326,543	309,851	294,698	274,787
97,499	84,679	68,898	63,202	86,351	60,701	62,134
177,820	66,797	15,858	16,721	33,992	60,057	64,557
240,698	122,469	65,882	54,093	95,838	103,078	106,405
27,661	24,303	23,824	22,968	22,416	22,048	19,786
9.73	8.55	8.24	9.43	9.61	10.74	10.71
57.8	53.5	51.7	50.0	44.5	41.8	44.3
2.7	3.2	1.0	1.1	1.1	2.7	3.3
4.3	5.5	6.1	6.5	13.3	14.1	8.1
35.2	37.8	41.2	42.4	41.1	41.4	44.3
2.1	2.3	2.2	2.6	2.6	2.4	2.8
1.9	2.1	2.0	2.0	1.9	2.0	2.2
157,652	86,475	65,468	49,773	53,420	89,893	51,249
27.89	26.21	26.09	25.58	24.83	24.18	23.29
13,517	13,047	12,908	12,623	12,319	12,100	10,949
2.72	2.24	2.12	2.38	2.36	2.53	2.46
1.84	1.82	1.80	1.77	1.72	1.70	1.64
1.84	1.81	1.80	1.76	1.72	1.69	1.62
67.6	80.8	84.9	73.9	72.9	66.8	65.9
13.2	14.0	18.0	17.6	14.4	10.8	10.5
36.00	31.40	38.25	42.00	34.00	27.25	25.75
6,690	2,256	3,089	3,380	3,405	2,018	2,030

Corporate Directory

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

Newfoundland Power Inc.

Directors: C. Bruce Chafe (Chair), Ed Drover, Peter W. Fenwick, Leslie E. Galway, Chris Griffiths, James A. Lea, H. Stanley Marshall, David G. Norris, Karl W. Smith, Dell Texmo, Lynn R. Young

Officers:
Karl W. Smith, President and Chief Executive Officer
Lisa A. Hutchens, Vice President, Finance and Chief Financial Officer
Phonse J. Delaney, Vice President, Engineering and Operations
Michael A. Mulcahy, Vice President, Customer and Corporate Services
Peter S. Alteen, Vice President, Regulatory Affairs and General Counsel

Maritime Electric Company, Limited

Directors: A. James Casey (Chair), William J. Daley, Kimberley D. Horrelt, James A. Lea, R. Elmer MacDonald, H. Stanley Marshall, Michael A. Pavey, David W. Rodd, Eugene P. Rossiter, John C. Walker

Officers:
James A. Lea, President and Chief Executive Officer
J. William Geldert, Vice President, Finance, CFO and Corporate Secretary
John D. Gaudet, Vice President, Operations

FortisOntario Inc.

Directors: Gilbert S. Bennett (Chair), Peter E. Case, William J. Daley, Philip G. Hughes, Geoffrey F. Hyland, H. Stanley Marshall, Karl W. Smith

Officers:
William J. Daley, President and Chief Executive Officer
Glen C. King, Vice President, Finance and Chief Financial Officer
Frederick J. O'Brien, Vice President, Operations
R. Scott Hawkes, Vice President, Corporate Services, General Counsel and Corporate Secretary

FortisAlberta Inc.

Directors: H. Stanley Marshall (Chair), Philip G. Hughes, Barry V. Perry

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
Earl A. Ludlow, Vice President, Operations
Michael G. Olsen, Controller
Steven A. Raniseth, Treasurer
Robert J. Fink, Corporate Counsel and Corporate Secretary
Kelly A. Cairns, Assistant Secretary

FortisBC Inc.

Directors: H. Stanley Marshall (Chair), C. Bruce Chafe, Karl E. Gustafson, Philip G. Hughes, John S. McCallum, Barry V. Perry

Officers:
Philip G. Hughes, President and Chief Executive Officer
Robert G. Meyers, Vice President, Finance and Chief Financial Officer
Earl A. Ludlow, Senior Vice President
Don L. Debienne, Vice President, Generation
Doyle O. Sam, Vice President, Transmission and Distribution
Kelly A. Cairns, Vice President, Customer and Corporate Services, General Counsel and Secretary
David C. Bennett, Assistant 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 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, Lewis M. Ebanks, J. F. Richard Hew, Philip G. Hughes, Joseph A. Imparato, H. Stanley Marshall, Raul O. Nicholson-Coe, Peter A. Thomson

Officers:
Peter A. Thomson, President and Chief Executive Officer
J. F. Richard Hew, Executive Vice President and Chief Operating Officer
Eddinton M. Powell, Vice President, Finance and Chief Financial Officer
Deborah E. Bergstrom, Vice President, Customer and Corporate Services
Robert L. Smith, Vice President, Production and Engineering
J. Lee Tinney, Vice President, Transmission and Distribution
Robert D. Imparato, Company Secretary

Fortis Properties Corporation

Directors: Linda L. Inkpen (Chair), Angus A. Bruneau, C. Bruce Chafe, H. Stanley Marshall, John C. Walker

Officers:
John C. Walker, 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

C. Bruce Chafe, John S. McCallum, Geoffrey F. Hyland, H. Stanley Marshall, Linda L. Inkpen, Roy P. Rideout, Michael A. Pavey, Angus A. Bruneau

C. Bruce Chafe

Corporate Director
St. John's, Newfoundland and Labrador

Mr. Chafe, 68, 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.

John S. McCallum

Professor of Finance, University of Manitoba
Winnipeg, Manitoba

Dr. McCallum, 61, 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. Dr. McCallum is a Director of FortisBC Inc. and also serves as a director of IGM Financial Inc., Toromont Industries Ltd. and Wawanesa.

Geoffrey F. Hyland

President and CEO, ShawCor Ltd.
Alton, Ontario

Mr. Hyland, 60, joined the Fortis Inc. Board in May 2001. He is a Director of FortisOntario Inc. In addition to serving on the board of ShawCor Ltd., Mr. Hyland also serves as a director of Enerflex Systems Ltd. and Exco Technologies Limited.

H. Stanley Marshall

President and CEO, Fortis Inc.
St. John's, Newfoundland and Labrador

Mr. Marshall, 54, 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.

Linda L. Inkpen

Medical Practitioner
St. John's, Newfoundland and Labrador

Dr. Inkpen, 57, joined the Fortis Inc. Board in 1994. She was appointed Chair of the Board of Fortis Properties Corporation in 2000 and is past Chair of Newfoundland Power Inc. Dr. Inkpen is a member of the National Roundtable on the Economy and the Environment.

Roy P. Rideout

Corporate Director
Halifax, Nova Scotia

Mr. Rideout, 57, joined the Fortis Inc. Board in May 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 and NAV CANADA.

Michael A. Pavey

Chief Financial Officer, Major Drilling Group International Inc., Moncton, New Brunswick

Mr. Pavey, 57, 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.

Angus A. Bruneau

Chair, Fortis Inc.
St. John's, Newfoundland and Labrador

Dr. Bruneau, 69, 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.

Investor Information

Working Together

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
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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	$ 6.125
February 22, 1994	$ 28.625

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

	High	Low	Close
2004	70.99	56.90	69.50
2003	60.95	46.50	58.90
2002	53.10	43.05	52.50
2001	47.55	34.25	46.95
2000	36.75	27.50	36.00
1999	39.70	29.15	31.40
1998	48.10	35.00	38.25
1997	42.50	31.30	42.00
1996	34.70	27.00	34.00
1995	27.75	24.25	27.25

Investor Information

Fortis Inc.

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Caribbean Utilities Company, Ltd.
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Expected Dividend* and Earnings Dates

Dividend Record Date

May 6, 2005	August 5, 2005
November 4, 2005	February 3, 2006

Dividend Payment Dates

June 1, 2005	September 1, 2005
December 1, 2005	March 1, 2006

Earnings Release Dates

May 5, 2005	August 5, 2005
November 1, 2005	February 7, 2006

* *The declaration and payment of dividends are subject to the Board of Directors' approval.*

Analyst and Investor Inquiries

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Annual General Meeting

Wednesday, May 11, 2005
11:00 a.m.
Holiday Inn St. John's
180 Portugal Cove Road
St. John's, NL Canada

Photography:
Neil Murray, Grand Cayman, Cayman Islands;
Ned Pratt, St. John's, NL
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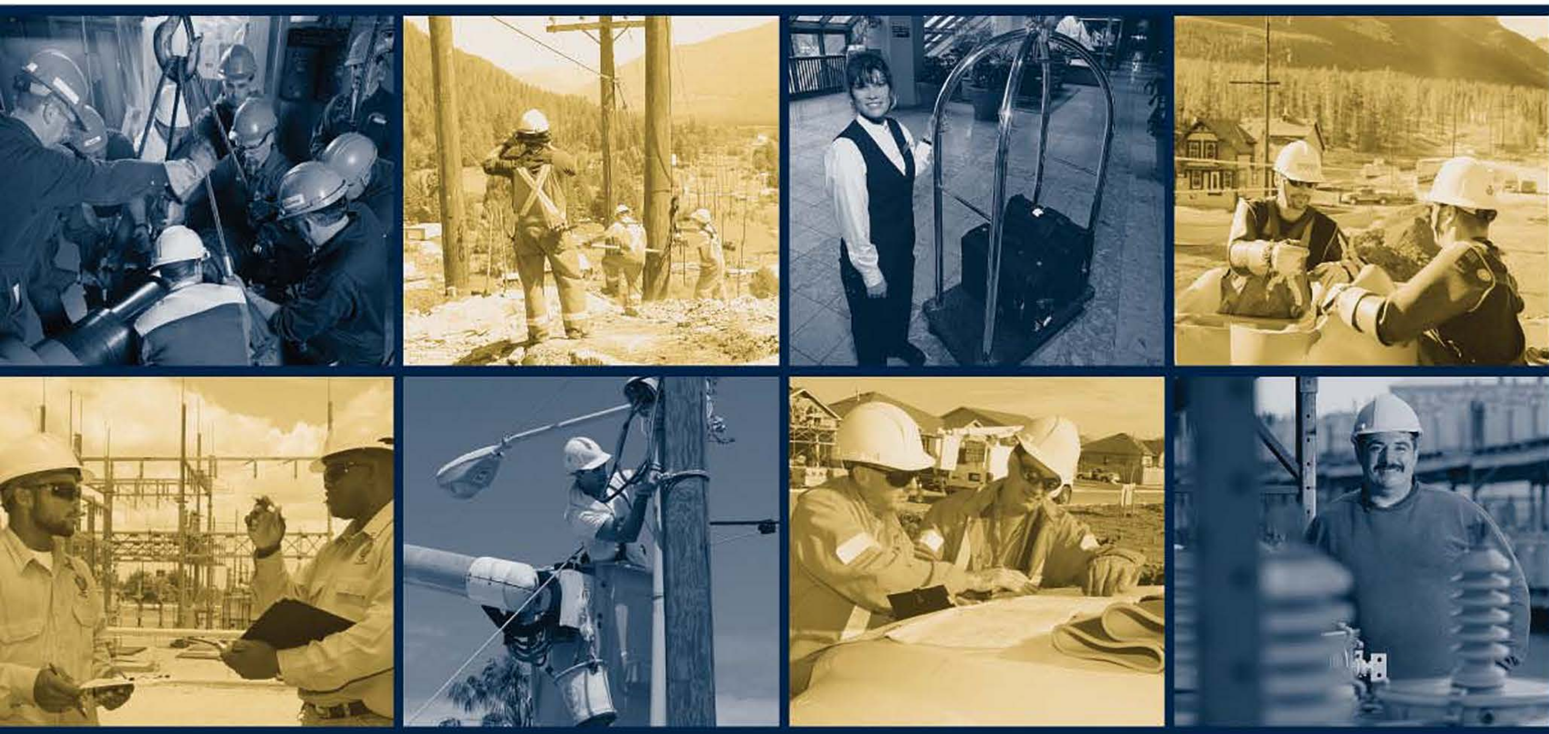

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