1 **RFIs of a General Nature**
2
3 **Q. Please provide a copy of the Annual reports of Fortis Inc. from 2004 to current.**
4
5 A. Copies of the Fortis Inc. Annual Reports for the years 2004, 2005 and 2006 inclusive are
6 attached as Attachments A, B and C, respectively.

Fortis Inc.
2004 Annual Report

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.

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Financial Highlights

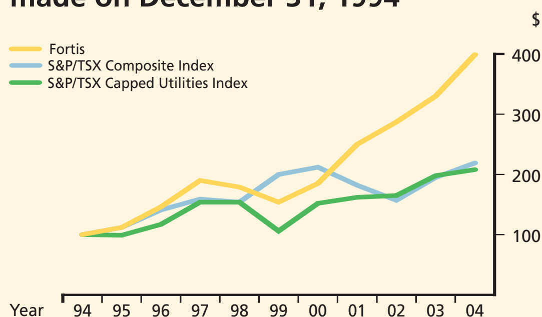
Annual Comparison *($ millions except per share amounts)*

	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

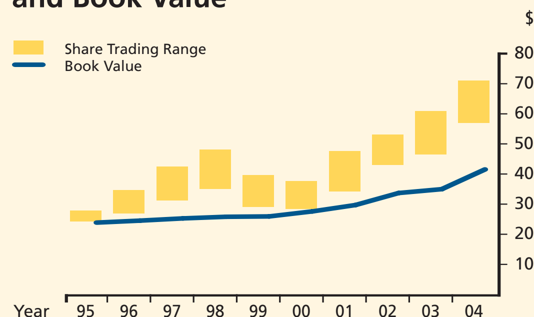
(1) Amount restated to reflect reclassification of contributions in aid of construction.
(2) Amount restated to reflect reclassification of equity preference shares.
(3) Amount restated to reflect reclassification of dividends on equity preference shares.

Fortis Inc.

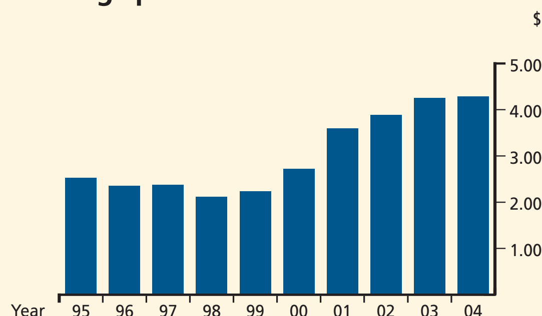
Value of an Investment of $100 made on December 31, 1994



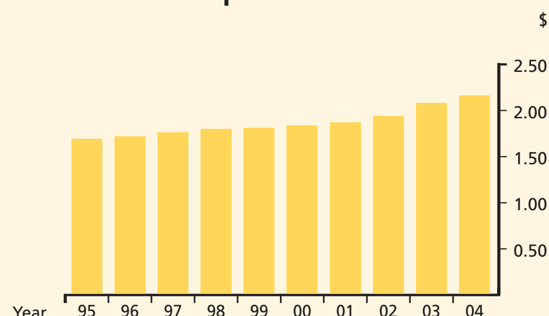
Share Trading Range and Book Value



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

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.

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.

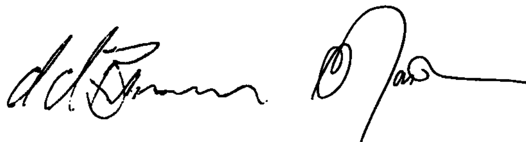
We also welcome Mr. Michael Pavey to our Board of Directors and thank all our members for their valued contribution.

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)

Vision

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.

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.

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

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.

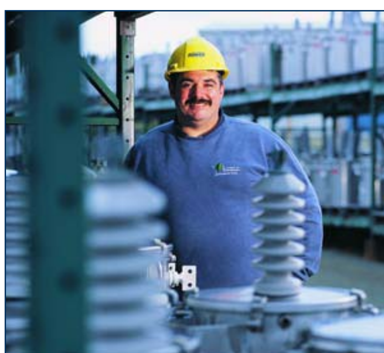
In 2004, we devoted significant energy to reducing costs. The Company's gross operating cost per customer has decreased approximately 30 per cent over the past 10 years on an inflation-adjusted basis.

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.

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.

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.

Reliability

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

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.

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

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.

Regulated Utilities – Operations

FortisOntario

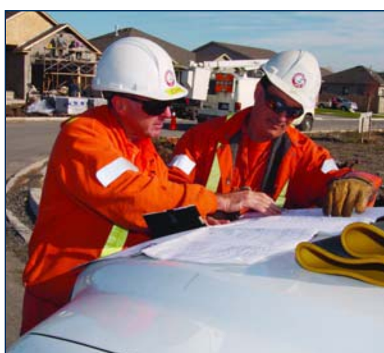
FortisOntario is an integrated electric utility which owns and operates the electric distribution businesses of Canadian Niagara Power and Cornwall Electric. The Company serves approximately 51,600 customers primarily located in Fort Erie, Port Colborne, Cornwall and Gananoque, Ontario and meets a combined 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.

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.

Customer Satisfaction

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

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.

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

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.

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

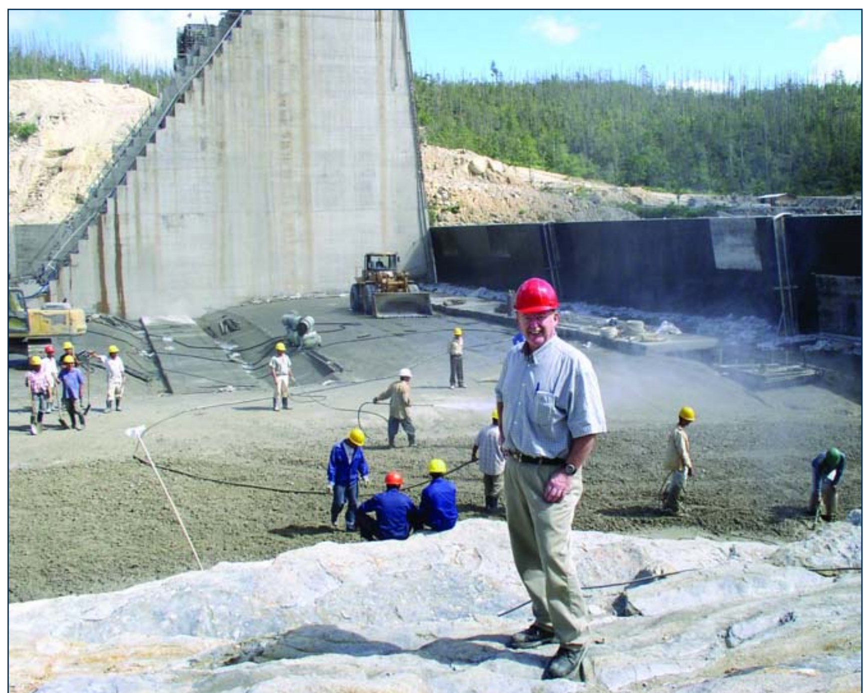
The generating capacity of Fortis Generation's non-regulated assets is 188 MW, 183 MW of which is hydroelectric generation.

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.

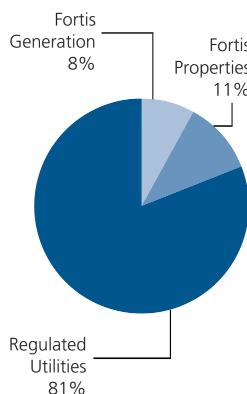
Significant One-time Item

Hurricane Ivan

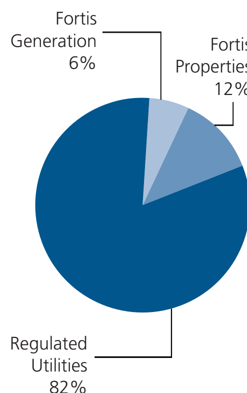
In September 2004, Grand Cayman was struck by Hurricane Ivan, a Category V hurricane that significantly affected the distribution system of Caribbean Utilities. The total uninsured cost of the hurricane for Caribbean Utilities was approximately US$17.8 million, which the Company expensed for its quarter 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.

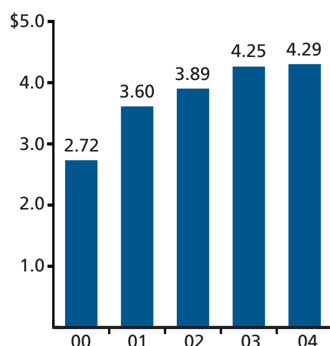
Assets
(at December 31, 2004)



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.

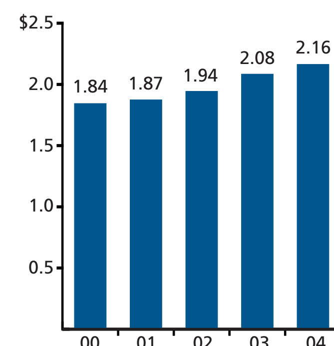
Cash from Operations: Cash from operations was $271.3 million in 2004 compared to $156.7 million last year. The 2004 acquisitions, as well as improved operating earnings at most subsidiaries, contributed to the improvement in cash flow from operations.

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.

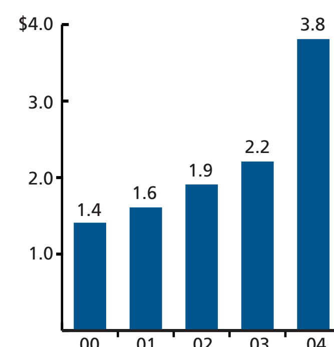
Capital Expenditures: Total consolidated capital expenditures for 2004, before contributions in aid of construction, were $278.7 million of which $244.1 million related to the Corporation's regulated utility operations. The non-regulated generation operations incurred $17.3 million, primarily related 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.

Dividends Paid per Common Share *($)*



Consolidated Assets *($ billions)*



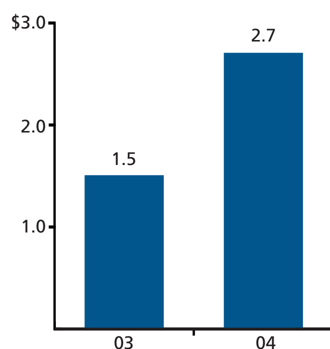
Segmented Results of Operations

The segmented results of the Corporation are outlined below.

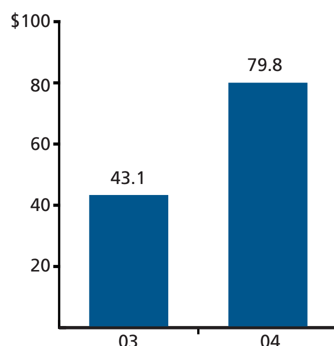
($ millions)	**2004**	2003
Regulated Utilities – Canadian [(1)]		
Newfoundland Power	**31.1**	29.5
Maritime Electric	**8.2**	7.2
FortisOntario	**4.2**	6.4
FortisAlberta	**18.6**	–
FortisBC	**17.7**	–
	79.8	43.1
Regulated Utilities – Caribbean		
Belize Electricity	**7.2**	6.7
Caribbean Utilities	**0.8**	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.

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.

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.

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

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.

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.

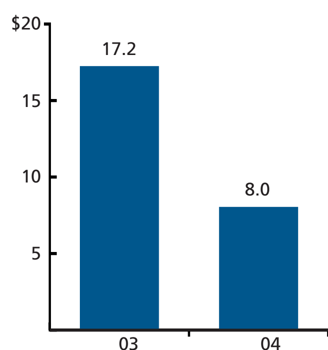
Outlook: In order to establish 2005 rates, FortisBC filed a GRA with the BCUC on November 26, 2004. FortisBC's application seeks approval of a 4.4 per cent rate increase effective January 1, 2005. The BCUC approved an interim refundable rate increase of 3.7 per cent effective January 1, 2005 pending 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

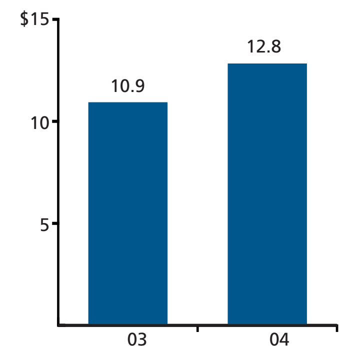
Fortis Generation consists of the Corporation's investment in non-regulated generation assets. The following table provides a summary of the Corporation's non-regulated generation assets by location.

	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.

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

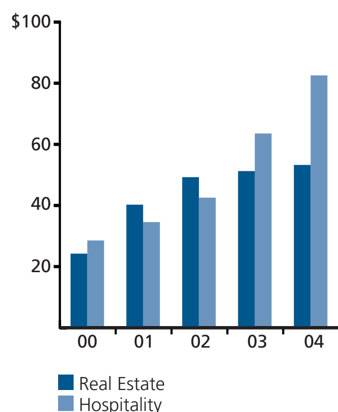
Fortis Properties consists of the Corporation's investment in non-regulated real estate and hospitality assets.

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.

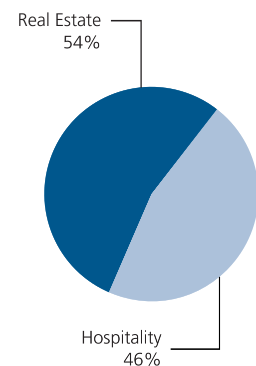
Finance charges were $18.1 million compared to $17.1 million last year. The increase in finance charges related primarily to the first full year of financing costs for the Ontario hotels, partially offset by lower principal balances of scheduled debt and lower finance rates.

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.

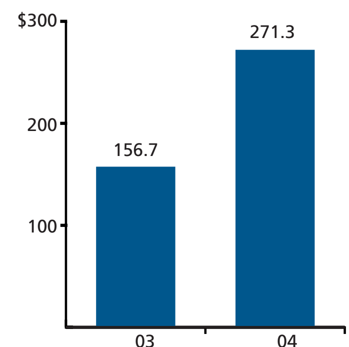
Liquidity

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:

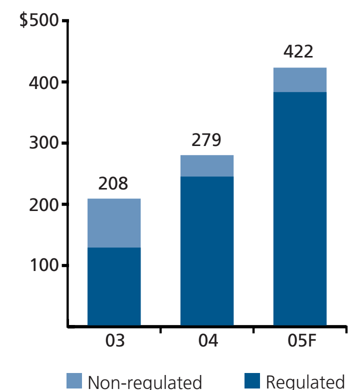
Standard & Poor's ("S&P")	BBB(+)
Dominion Bond Rating Service ("DBRS")	BBB(high)

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.

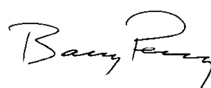
In meeting its responsibility for the reliability and integrity of the Consolidated Financial Statements, management has developed and maintains a system of accounting and reporting which provides for the necessary internal controls to ensure transactions are properly authorized and recorded, assets 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
President and Chief Executive Officer



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

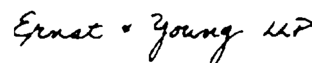
Auditors' Report

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.



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)

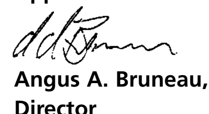
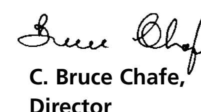
As at December 31 (in thousands)

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.

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.

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.

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

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

(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

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

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.

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							Non-regulated			Inter-segment elimi-nation	Consoli-dated
	Nfld Power	**Maritime Electric**	**Fortis Ontario**	**Fortis Alberta**	**Fortis BC**	**Total Canadian**	**Total Caribbean**	**Fortis Generation**	**Fortis Properties**	**Corporate**		
Operating revenues	**404,447**	**115,407**	**125,250**	**129,738**	**109,522**	**884,364**	**71,945**	**69,170**	**134,363**	**10,175**	**(24,730)**	**1,145,287**
Equity income	**–**	**–**	**–**	**–**	**–**	**–**	**842**	**–**	**–**	**–**	**–**	**842**
Energy supply costs	**244,012**	**71,345**	**96,543**	**–**	**32,901**	**444,801**	**37,711**	**5,849**	**–**	**–**	**(11,011)**	**477,350**
Operating expenses	**51,755**	**12,459**	**12,273**	**60,177**	**33,432**	**170,096**	**11,033**	**16,083**	**87,237**	**8,691**	**(3,862)**	**289,278**
Amortization	**30,987**	**9,176**	**4,751**	**31,356**	**9,893**	**86,163**	**6,127**	**10,189**	**9,711**	**1,482**	**–**	**113,672**
Operating income	**77,693**	**22,427**	**11,683**	**38,205**	**33,296**	**183,304**	**17,916**	**37,049**	**37,415**	**2**	**(9,857)**	**265,829**
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							Non-regulated			Inter-segment elimi-nation	Consoli-dated
	Nfld Power	**Maritime Electric**	**Fortis Ontario**	**Fortis Alberta**	**Fortis BC**	**Total Canadian**	**Total Caribbean**	**Fortis Generation**	**Fortis Properties**	**Corporate**		
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.

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

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

Transfer Agent and Registrar

Computershare Trust Company of Canada ("Computershare") is responsible for the maintenance of shareholder records and the issue, transfer and cancellation of stock certificates. Transfers can be effected at its Halifax, Montreal and Toronto offices. Computershare also distributes dividends and shareholder communications. Inquiries with respect to these matters and corrections to shareholder information should be addressed to the Transfer Agent.

Computershare Trust Company of Canada

9th Floor, 100 University Avenue
Toronto, ON M5J 2Y1
T: 514.982.7555 or 1.866.586.7638
F: 416.263.9394 or 1.888.453.0330
E: service@computershare.com
W: www.computershare.com

Direct Deposit of Dividends

Shareholders may obtain automatic electronic deposit of dividends to their designated Canadian financial institutions by contacting the Transfer Agent.

Duplicate Annual Reports

While every effort is made to avoid duplications, some shareholders may receive extra reports as a result of multiple share registrations. Shareholders wishing to consolidate these accounts should contact the Transfer Agent.

Dividend Reinvestment Plan and Consumer Share Purchase Plan

Fortis Inc. offers a Dividend Reinvestment Plan(1) and a Consumer Share Purchase Plan(2) to Common Shareholders as a convenient method of increasing their investments in Fortis Inc. Participants have dividends plus any optional cash payments (minimum of $100, maximum of $20,000 annually) automatically deposited in the Plans to purchase additional Common Shares. Shares are sold quarterly on March 1, June 1, September 1 and December 1 at the average market price then prevailing on the Toronto Stock Exchange. Inquiries should be directed to the Transfer Agent, Computershare Trust Company of Canada.

(1) All registered shareholders of Common Shares who are residents of Canada are eligible to participate in the Dividend Reinvestment Plan. Shareholders residing outside Canada may also participate unless participation is not allowed in that jurisdiction. Residents of the United States, its territories or possessions are not eligible to participate.

(2) The Consumer Share Purchase Plan is offered to residents of the provinces of Newfoundland and Labrador and Prince Edward Island.

Valuation Day

For capital gains purposes, the valuation day prices are as follows:

December 22, 1971	$ 6.125
February 22, 1994	$ 28.625

Fortis Inc.

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Kelowna, BC
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F: 250.717.0802
W: www.fortisbc.com

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F: 709.737.3785
W: www.fortisproperties.com

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

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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Ned Pratt, St. John's, NL
Barrett & MacKay, Charlottetown, PE;
Donna Hynes, St. John's, NL;
Brian Harder, Calgary, AB;
Joseph Sukhnandan, Belize City, Belize;
Richard Holder, Belize City, Belize;
Bobb Barratt, Niagara Falls, ON;
Michael Fiala, Toronto, ON;
Roy White, Calgary, AB;
Don Wert, Warfield, BC;
Larry Doell, Rossland, BC;
Caren Thompson, Grand Cayman, Cayman Islands;
Peter Robbins, Grand Falls-Windsor, NL;
Alan E. Lincourt, Cooperstown, NY

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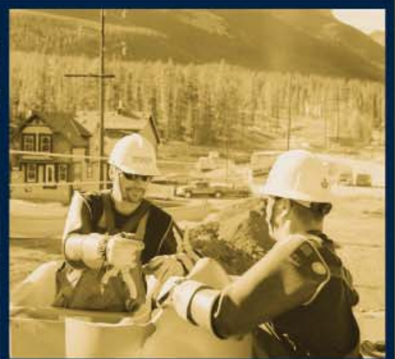

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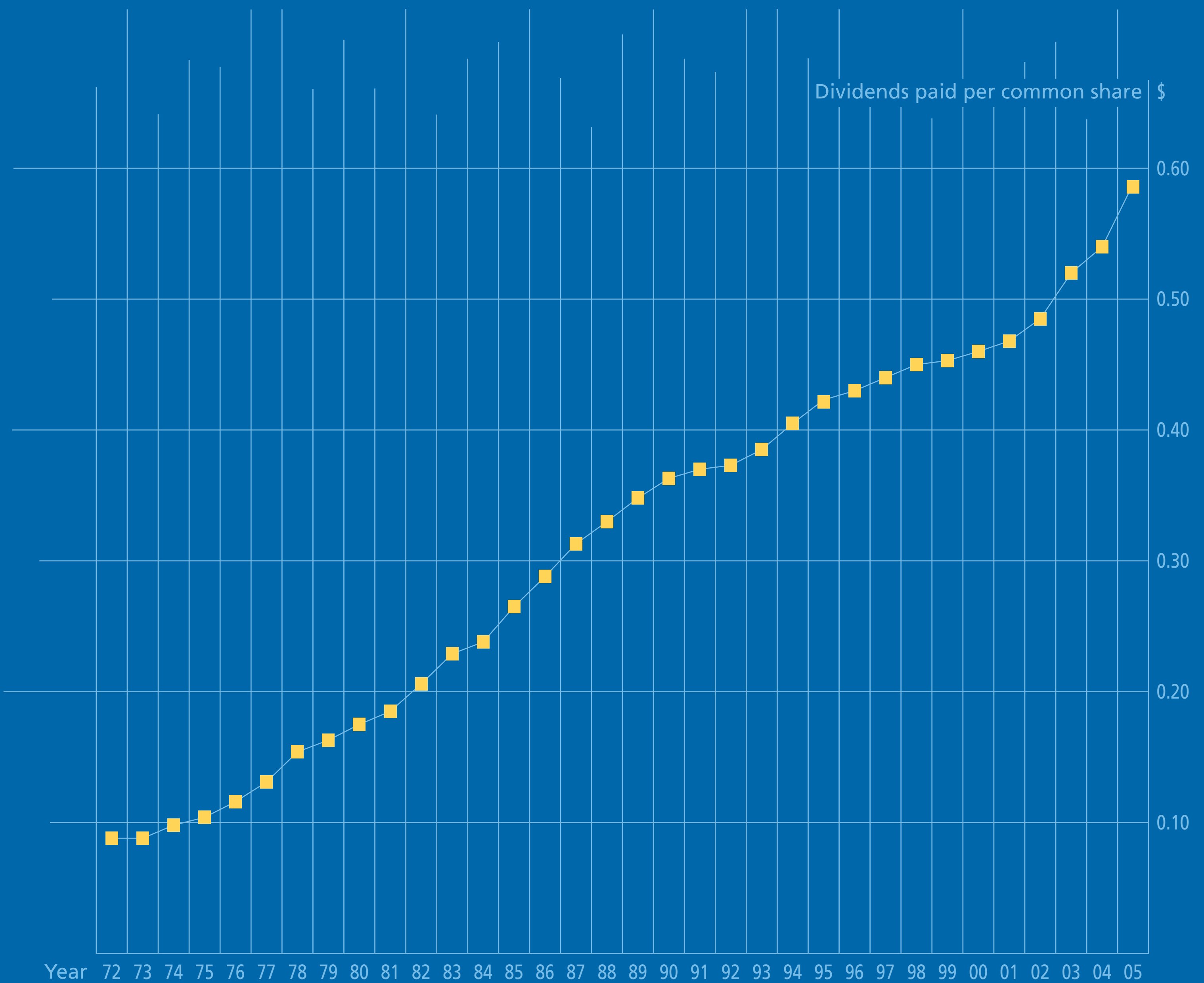
Fortis Inc.
2005 Annual Report

FORTIS INC.

Annual Report 2005



Paying Dividends

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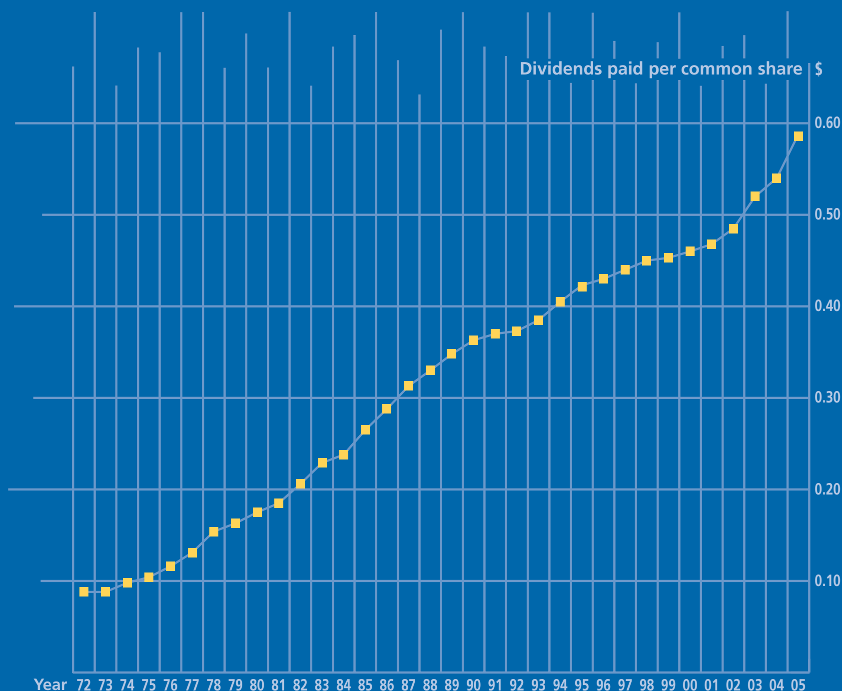
Paying Dividends



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

Financial Highlights

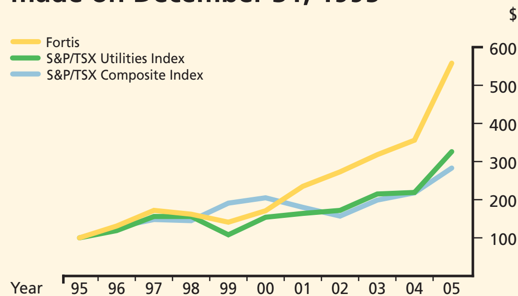
Annual Comparison *($ millions except per share amounts)*

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

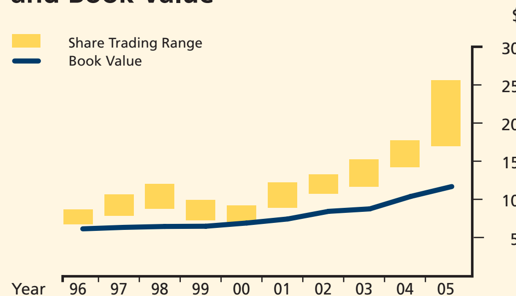
**Reflects 4-for-1 stock split in October 2005*

Fortis Inc.

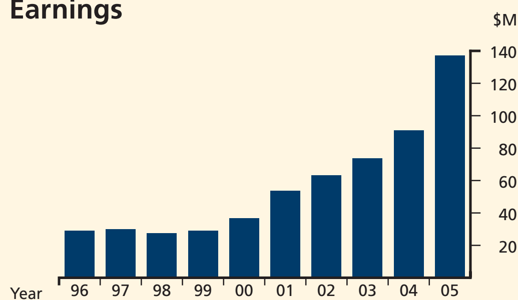
Value of an Investment of $100 made on December 31, 1995



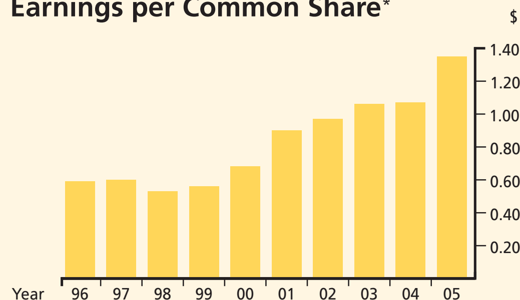
Share Trading Range and Book Value*



Earnings



Earnings per Common Share*



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

Corporate Profile

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

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

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

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

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

Regulated Utility Operations ■

Newfoundland Power
Newfoundland

Maritime Electric
Prince Edward Island

FortisOntario
Ontario

FortisAlberta
Alberta

FortisBC
British Columbia

Belize Electricity
Belize

Caribbean Utilities
Grand Cayman

Non-regulated Operations

Generation ●
Production Areas

Central Newfoundland
Ontario
British Columbia
Upper New York State
Belize

Fortis Properties ▲
Real Estate

Atlantic Canada

Hotels

Eastern Canada
Manitoba
Alberta

Report to Shareholders

Report to Shareholders

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Report to Shareholders

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

On behalf of the Board of Directors,

Angus A. Bruneau
Chair of the Board
Fortis Inc.

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

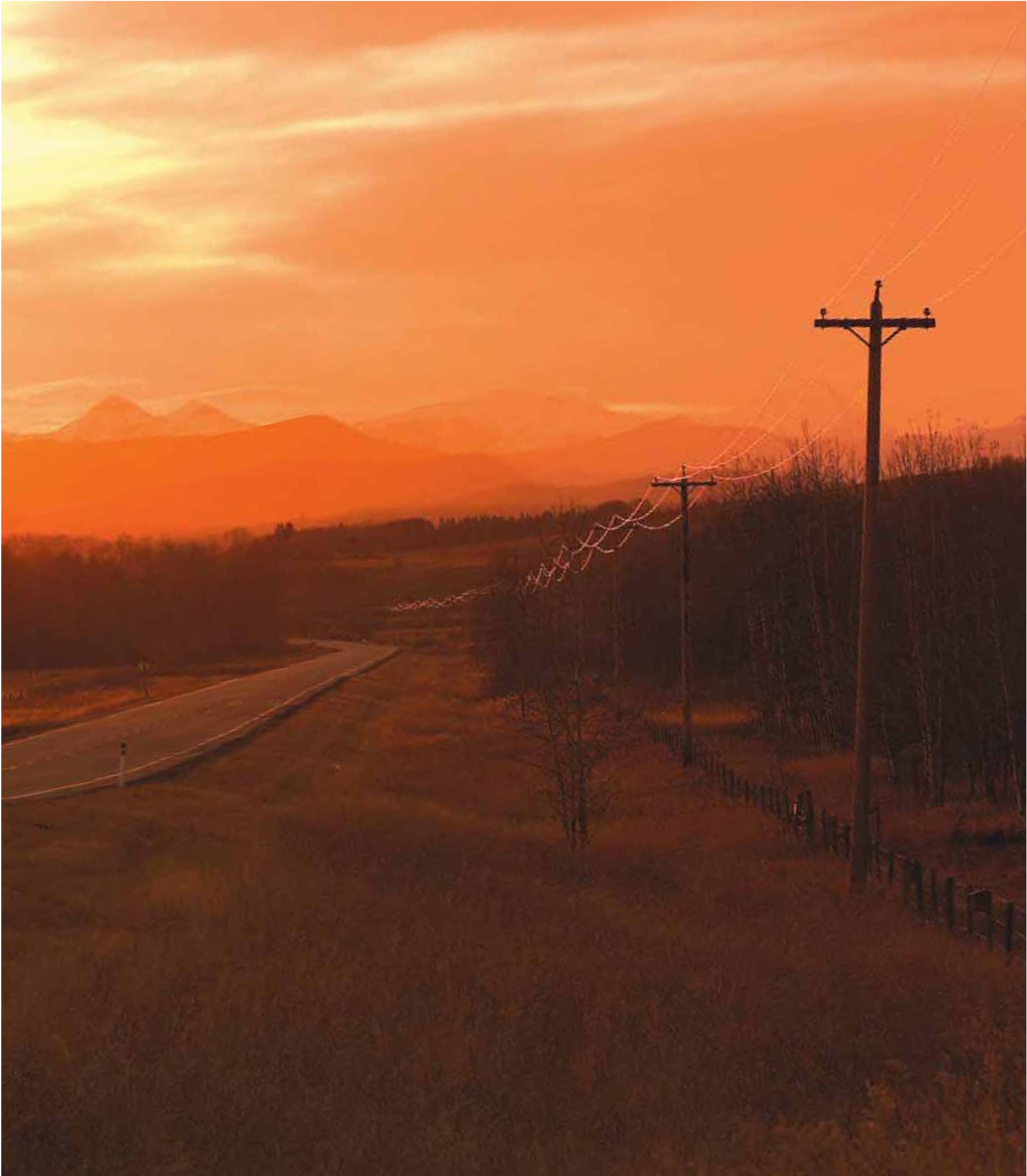
As this Report will be my last as Chairman, I take this opportunity to acknowledge the contribution of employees throughout the Fortis Group, both past and present, whose hard work and commitment have produced the Corporation's performance.

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

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

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

Angus A. Bruneau
Chair of the Board
Fortis Inc.

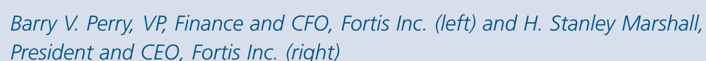


Vision

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

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

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



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

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

Vision

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

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

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

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

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

The Corporation will continue to focus on 3 primary objectives:

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

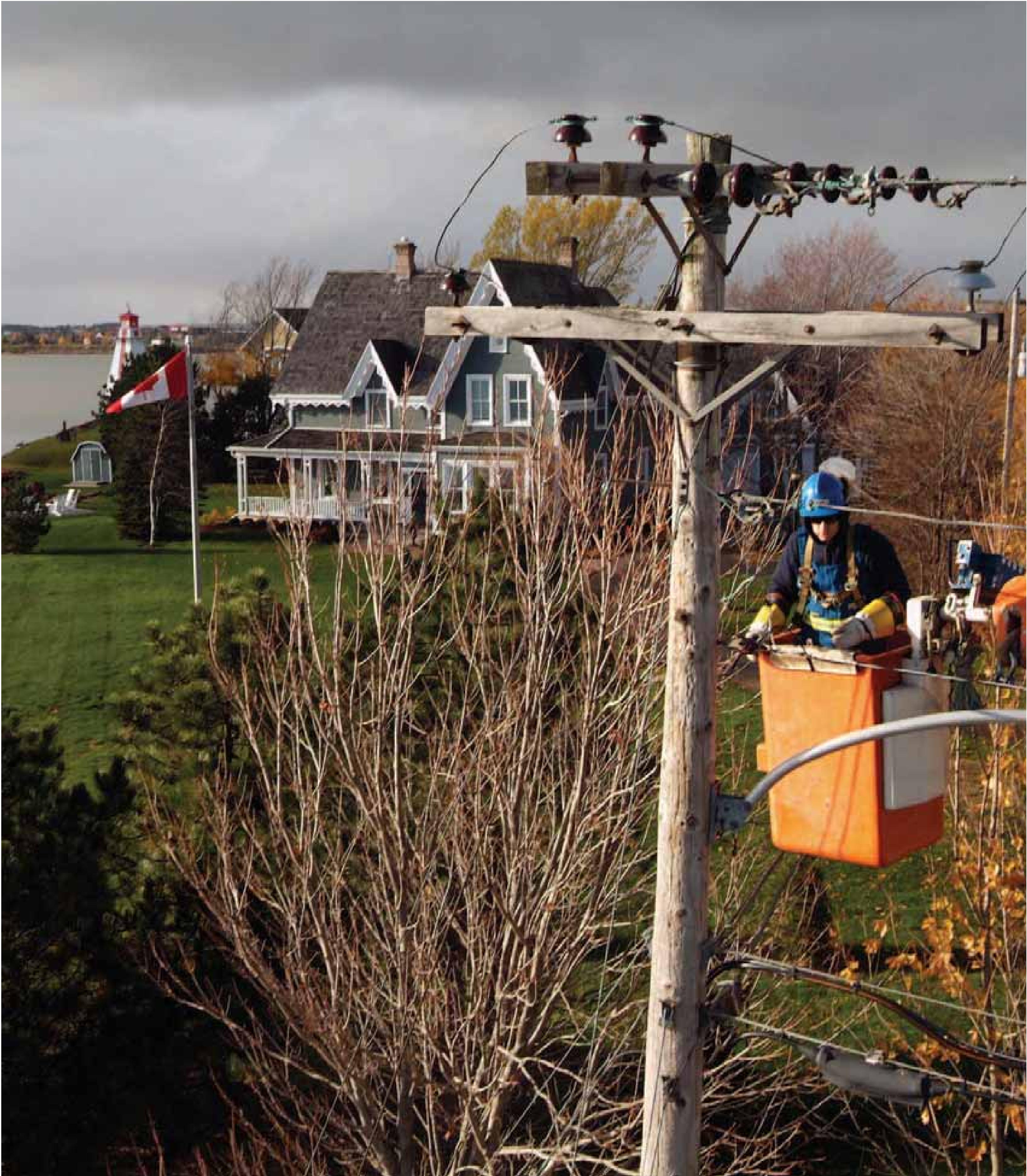
ii) The financial and business risks of the overall operations of Fortis should not be substantially greater than those associated with the operation of a Canadian utility.

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

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

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

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



Regulated Utility Operations

Newfoundland Power

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Maritime Electric

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

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

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

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

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

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

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

Regulated Utility Operations

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

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

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

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

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

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

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

FortisOntario

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

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

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

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

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

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

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

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

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

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

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

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

FortisAlberta

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

FortisBC

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Belize Electricity

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Caribbean Utilities

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

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

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

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

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

Non-regulated Operations

Fortis Generation

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

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

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

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

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

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

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

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

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

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

Fortis Properties

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

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

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

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

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

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

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

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

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

Non-regulated Operations

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

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

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

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

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

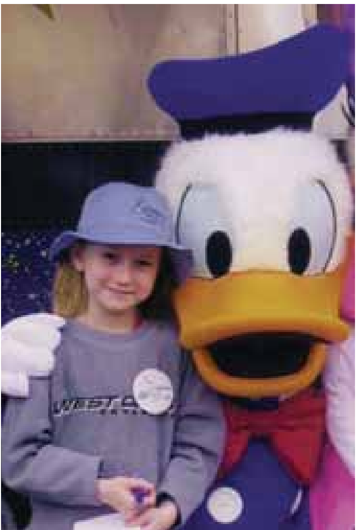
All branded properties within the Hospitality Division experienced an improvement in guest satisfaction levels.

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

Our Community

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

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



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

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

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

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

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

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

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

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

Management Discussion and Analysis

Management Discussion and Analysis

Dated February 28, 2006

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

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

Corporate Overview

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

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

Regulated Utilities – Canadian

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

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

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

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

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

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

Regulated Utilities – Caribbean

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

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

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

Non-regulated – Fortis Generation

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

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

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

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

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

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

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

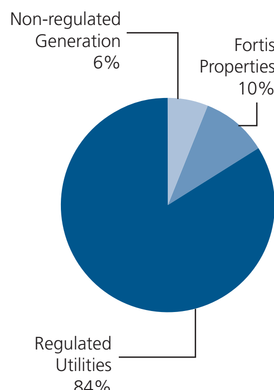
Non-regulated – Fortis Properties

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

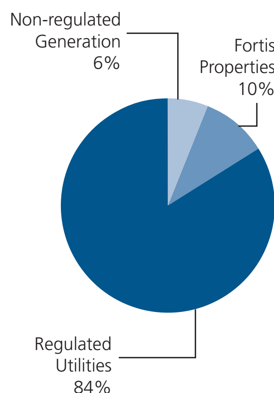
Corporate

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

Total Assets
(at December 31, 2005)



Revenue
(year ended December 31, 2005)



2005 Financial Highlights

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

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

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

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

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

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

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

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

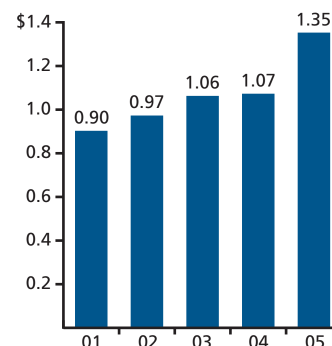
Revenue and Equity Income: Revenue, including equity income from Caribbean Utilities, increased 25.8 per cent to approximately $1.4 billion from approximately $1.2 billion last year. A full year of operations for FortisAlberta and FortisBC, increased wholesale energy prices in Ontario, increased electricity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

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

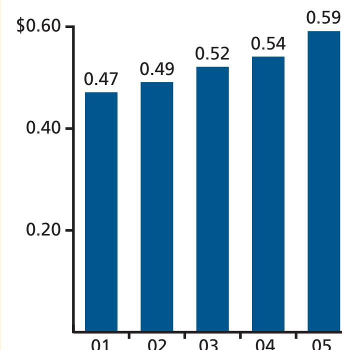
Return on Average Common Shareholders' Equity: Return on average common shareholders' equity was 12.4 per cent in 2005 compared to 11.3 per cent last year.

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

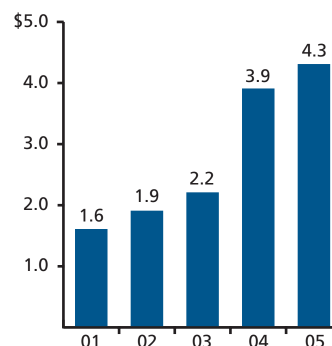
Earnings per Common Share *($)*



Dividends Paid per Common Share *($)*



Consolidated Assets
($ billions)



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

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

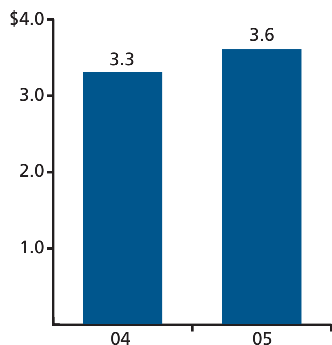
Financing: During 2005, Fortis and its subsidiaries were active in the capital markets, raising approximately $484 million from a combination of common share and long-term debt issues. The $130 million gross proceeds from the common share issue in March 2005 were used primarily to pay certain outstanding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

Segmented Results of Operations

The segmented results of the Corporation are outlined below.

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

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



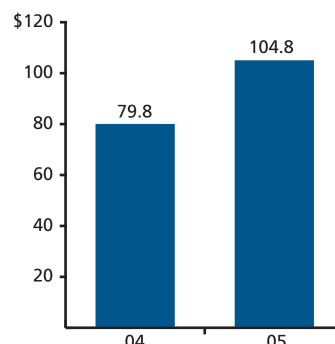
Regulated Utilities

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

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

Regulated Utilities – Canadian

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



Newfoundland Power

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Maritime Electric

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

FortisOntario

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

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

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

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

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

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

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

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

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

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

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

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

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

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

FortisAlberta

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

FortisBC

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

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

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

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

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

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

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

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

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

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

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

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

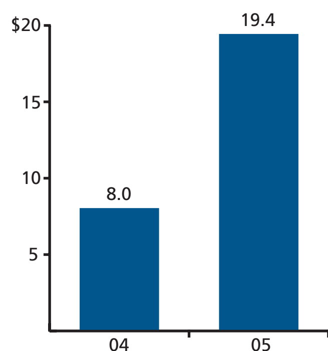
In order to establish 2006 rates, FortisBC filed a Revenue Requirements Application ("2006 Application") with the BCUC on November 24, 2005. FortisBC's 2006 Application seeks approval of a 5.9 per cent electricity rate increase, effective January 1, 2006. The rate increase is primarily related to the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

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

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

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

Regulated Earnings – Caribbean
($ millions)



Regulated Utilities – Caribbean

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

Belize Electricity

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Caribbean Utilities

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

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

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

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

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

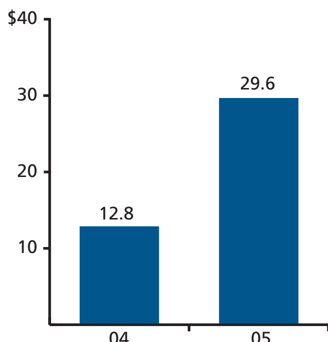
Equity Income: Caribbean Utilities and the Cayman Islands are continuing to recover from the impact of Hurricane Ivan, which struck Grand Cayman in September 2004. Approximately 5 per cent of the Company's pre-Ivan customers remained without electricity at the end of October 31, 2005, with approximately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

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

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

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

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



Non-regulated – Fortis Generation

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

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

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

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

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

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

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

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

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

Non-regulated – Fortis Properties

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

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

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

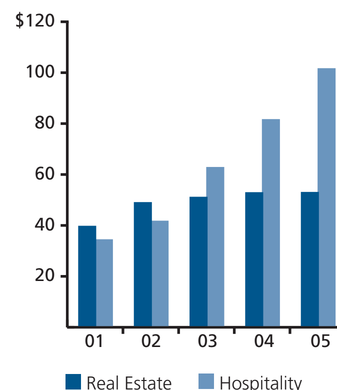
[1] Earnings before interest, taxes and amortization

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

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

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

Fortis Properties Revenue
($ millions)



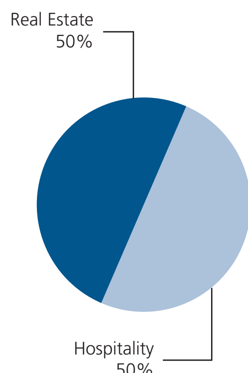
Hospitality Division: Hospitality revenue was $101.5 million compared to $81.5 million last year. The growth was primarily attributable to the acquisition of the 3 hotels in Manitoba and Alberta in February 2005 and the expanded Delta St. John's Hotel operations. Revenue per available room ("REVPAR")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

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

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

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

Fortis Properties 2005 Asset Mix



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

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

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

Corporate

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

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

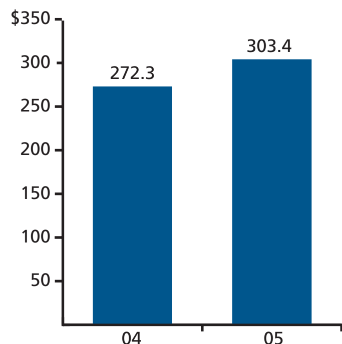
Annual net corporate expenses for 2004 were also positively impacted as Fortis recorded a $1.8 million corporate income tax recovery related to the tax benefit associated with non-capital losses.

Consolidated Financial Position

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

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

Cash Flow from Operations
($ millions)



Liquidity

The following table outlines the summary of cash flows.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Capital Resources

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

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

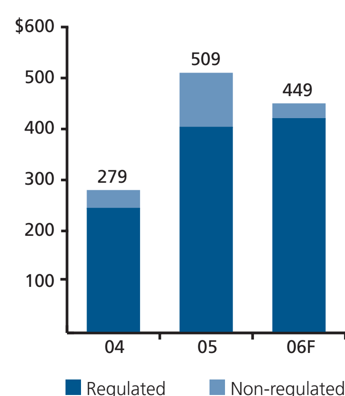
The improvement in the Corporation's capital structure is primarily the result of the issuance of 6.96 million common shares of the Corporation (adjusted for stock split) for net after-tax proceeds of $126.1 million in March 2005. The proceeds were used to repay outstanding short-term indebtedness and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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

Off-balance Sheet Arrangements

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

Related Party Transactions

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

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

Business Risk Management

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Changes in Accounting Policies

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

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

Future Accounting Pronouncements

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

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

Change in Presentation

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

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

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

Critical Accounting Estimates

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Selected Annual Financial Information

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

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

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

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

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

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

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

Quarterly Results

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

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

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

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

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

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

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

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

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

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

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

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

Outlook

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

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

Outstanding Share Data

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

Management's Report

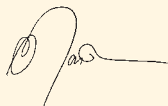
The accompanying Consolidated Financial Statements of Fortis Inc. and all information in the 2005 Annual Report have been prepared by management, who are responsible for the integrity of the information presented including the amounts that must of necessity be based on estimates and informed judgments.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

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

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

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

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



H. Stanley Marshall
President and Chief Executive Officer

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

St. John's, Canada

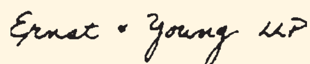
Auditors' Report

To the Shareholders of Fortis Inc.

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

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

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



St. John's, Canada
January 27, 2006

Chartered Accountants

Consolidated Balance Sheets

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

As at December 31 (in thousands)

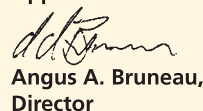
ASSETS	2005	2004 (Note 3)
Current assets		
Cash and cash equivalents	$ 33,416	$ 37,203
Accounts receivable	204,169	190,565
Prepaids	9,786	6,534
Regulatory assets *(Note 4)*	33,289	24,682
Materials and supplies	32,033	30,235
Future income taxes *(Note 19)*	–	4,204
	312,693	293,423
Corporate income tax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

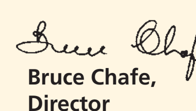
Commitments *(Note 25)*

Contingent liabilities *(Note 26)*

See accompanying notes to consolidated financial statements

Approved on Behalf of the Board





Angus A. Bruneau,
Director

Bruce Chafe,
Director

Consolidated Statements of Earnings

FORTIS INC.

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

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

Consolidated Statements of Retained Earnings

FORTIS INC.

For the Years Ended December 31 (in thousands)

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

See accompanying notes to consolidated financial statements

Consolidated Statements of Cash Flows

FORTIS INC.

For the Years Ended December 31 (in thousands)

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

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

See accompanying notes to consolidated financial statements

Notes to Consolidated Financial Statements

December 31, 2005 and 2004

1. Description of the Business

Nature of Operations

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

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

Regulated Utilities – Canadian

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

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

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

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

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

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

Regulated Utilities – Caribbean

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

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

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

1. Description of the Business (cont'd)

Non-regulated – Fortis Generation

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

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

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

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

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

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

Non-regulated – Fortis Properties

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

Corporate

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

2. Summary of Significant Accounting Policies

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

All amounts presented are in Canadian dollars unless otherwise stated.

Regulation

Newfoundland Power

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

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

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

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

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

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

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

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

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

Cash and Cash Equivalents

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

Materials and Supplies

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

Deferred Charges and Credits

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

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

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

Utility Capital Assets and Income Producing Properties

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

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

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

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

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

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

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

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

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

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

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

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

Investments

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

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

Intangibles

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

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

Goodwill

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

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

Employee Future Benefits

Defined Benefit and Defined Contribution Pension Plans

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

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

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

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

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

Other Post-employment Benefits

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

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

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

Stock-based Compensation

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

Foreign Currency Translation

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

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

Hedging Relationships

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

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

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

Income Taxes

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

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

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

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

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

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

Revenue Recognition

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

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

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

Hospitality revenue is recognized when services are provided.

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

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

Asset Retirement Obligations

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

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

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

Asset Impairment

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

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

Variable Interest Entities

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

Use of Accounting Estimates

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

3. Change in Presentation

Accounting for Rate Regulated Operations

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

Preference Share Dividends

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

4. Regulatory Assets and Liabilities

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

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

Regulatory Assets

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

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

Regulatory Liabilities

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

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

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

(ii) Municipal Tax Asset and Liability

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

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

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

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

(iv) *Rate Stabilization Account*

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

(v) *Commodity Cost Deferral*

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

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

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

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

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

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

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

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

(viii) Weather Normalization Account

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

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

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

(ix) Energy Management Costs

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

(x) Lease Costs

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

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

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

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

(xii) Other Regulatory Assets

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

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

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

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

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

(xiii) Regulatory Future Income Tax Liability

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

4. Regulatory Assets and Liabilities (cont'd)

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

(xiv) Regulatory Pension Deferral

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

(xv) Unbilled Revenue Liability

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

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

(xvi) Other Regulatory Liabilities

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

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

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

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

5. Deferred Charges

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

6. Utility Capital Assets

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

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

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

7. Income Producing Properties

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

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

8. Investments

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

9. Short-term Borrowings

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

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

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

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

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

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

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

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

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

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

10. Long-term Debt and Capital Lease Obligations

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

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

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

Regulated Utilities

Newfoundland Power and Maritime Electric

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

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

FortisAlberta

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

FortisBC

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

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

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

Belize Electricity

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

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

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

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

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

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

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

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

Fortis Generation

FortisOntario Inc.

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

BECOL

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

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

Exploits Partnership

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

Walden Power Partnership

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

Fortis Properties

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

Fortis Inc.

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

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

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

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

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

Repayment of Long-term Debt and Capital Lease Obligations

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

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

Fair Values

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

11. Deferred Credits

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

12. Non-controlling Interest

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

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

13. Preference Shares

Authorized

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

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

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

Series C First Preference Shares

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

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

13. Preference Shares (cont'd)

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

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

Series D First Preference Shares

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

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

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

Series E First Preference Shares

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

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

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

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

Fair Values

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

14. Common Shares

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

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

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

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

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

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

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

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

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

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

14. Common Shares (cont'd)

Earnings per Common Share

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

Earnings per common share are as follows:

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

15. Stock Options

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

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

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

Stock-based Compensation

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

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

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

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

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

16. Foreign Currency Translation Adjustment

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

17. Finance Charges

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

18. Gain on Settlement of Contractual Matters

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

19. Income Taxes

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

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

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

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

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

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

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

20. Employee Future Benefits

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

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

Plan assets as at December 31

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

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

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

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

20. Employee Future Benefits (cont'd)

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

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

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

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

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

21. Business Acquisitions

2005

Acquisition of Princeton Light and Power Company, Limited

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

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

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

21. Business Acquisitions (cont'd)

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

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

Fortis Properties

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

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

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

2004

Acquisition of the Alberta and British Columbia Utilities

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

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

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

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

Acquisition of Remaining 5 Per cent Interest in BECOL

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

22. a) Segmented Information

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

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

22. a) Segmented Information (cont'd)

Year ended December 31, 2004 *(in thousands of dollars)*	Regulated Utilities							Non-regulated			Inter-segment	
	Nfld Power	Maritime Electric	Fortis Ontario	Fortis Alberta	Fortis BC	Total Canadian	Total Caribbean	Fortis Generation	Fortis Properties	Corporate	elimi-nations	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
Finance charges	30,394	8,656	5,233	10,782	8,531	63,596	5,571	15,418	18,080	17,246	(9,857)	110,054
Preferences share dividends	–	–	–	–	–	–	–	–	–	12,319	–	12,319
Corporate income taxes	15,586	5,591	2,197	8,856	7,058	39,288	982	6,977	7,519	(7,839)	–	46,927
Non-controlling interest	591	–	–	–	–	591	3,358	1,891	–	(166)	–	5,674
Net earnings (loss)	31,122	8,180	4,253	18,567	17,707	79,829	8,005	12,763	11,816	(21,558)	–	90,855
Goodwill	–	19,858	45,577	229,097	219,509	514,041	–	–	–	–	–	514,041
Identifiable assets	825,310	240,268	118,326	612,480	613,436	2,409,820	200,305	267,758	354,223	53,017	(22,440)	3,262,683
Equity investment assets	–	–	–	–	–	–	161,292	–	–	–	–	161,292
Total assets	825,310	260,126	163,903	841,577	832,945	2,923,861	361,597	267,758	354,223	53,017	(22,440)	3,938,016
Capital expenditures	60,315	26,806	9,631	73,564	57,111	227,427	16,661	17,290	16,123	1,168	–	278,669

22. b) Related Party Transactions

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

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

23. Supplementary Information to Consolidated Statements of Cash Flows

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

24. Financial Instruments

Fair Values

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

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

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

Risk Management

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

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

Interest Rate Risk

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

Credit Risk

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

Rate Regulation

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

25. Commitments

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

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

25. Commitments (cont'd)

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

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

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

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

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

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

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

(i) The regulated subsidiaries of the Corporation are obligated to provide service to customers within their respective service territories. These regulated subsidiaries' capital expenditures are largely driven by customer requests or include large capital projects specifically approved by their respective regulators. The consolidated capital program of the Corporation, including non-regulated segments, is forecast to include almost $450 million in capital expenditures for 2006. This commitment has not been included in the summary table shown previously.

26. Contingent Liabilities

FortisUS Energy

Legal proceedings have been initiated against FortisUS Energy by the Village of Philadelphia ("Village"), New York. The Village claims that FortisUS Energy should honour a series of current and future payments set out in an agreement between the Village and a former owner of the hydro site, located in the Village of Philadelphia municipality, now owned by FortisUS Energy, totalling approximately US$7.1 million (CDN$8.6 million). The First American Title Insurance Company is defending the action on behalf of FortisUS Energy. Management believes that the claim will not be successful and, therefore, no provision has been made in these consolidated financial statements. Any amount that FortisUS Energy could be required to pay would be charged to earnings in the year such determination is made.

FortisBC

FortisBC has received correspondence and met with the B.C. Ministry of Forests (the "Ministry") to discuss the possibility of an invoice being issued to the Company related to fire suppression costs associated with certain forest fires in FortisBC's service territory in 2003. The Ministry has alleged breaches of the Forest Practices Code and negligence and has filed, but not served, a writ and statement of claim against FortisBC. FortisBC is currently communicating with the Ministry and its insurers. In addition, FortisBC has become aware of 2 writs and statements of claim filed, but not served, by private land owners in relation to the same matter. The outcome cannot be reasonably determined and estimated at this time and, accordingly, no amount has been accrued in the consolidated financial statements.

On January 5, 2006, FortisBC was served a writ and statement of claim filed with the B.C. Supreme Court under the *Class Proceedings Act, 1995* on behalf of a class consisting of all persons who are or were customers of FortisBC and who paid or have been charged FortisBC's late payment penalties at any time between April 1, 1981 and the date of any judgment in this action. The claim is that forfeitures of the prompt payment discount offered to customers constitute "interest" within the meaning of section 347 of the Criminal Code and, since the effective annual rate of such interest exceeds 60 per cent, they are illegal and void. In the action, the class seeks damages and restitution of all late payment penalties which were forfeited. The outcome cannot be reasonably determined and estimated at this time and, accordingly, no amount has been accrued in the consolidated financial statements.

Regulated Utilities

The regulated utilities are subject to various legal proceedings and claims that arise in the ordinary course of business operations. Management believes that the amount of liability, if any, from these actions would not have a material effect on the Corporation's financial position or results of operations.

27. Comparative Figures

Certain comparative figures have been reclassified to comply with the current year's classifications, including certain changes in the basis of presentation as described in Note 3.

Historical Financial Summary

Statements of Earnings *(in thousands $)*	**2005**	2004 [1]	2003	2002
Revenue, including equity income	**1,441,471**	1,146,129	843,080	715,465
Operating expenses	**926,295**	766,628	578,731	476,969
Amortization	**157,622**	113,672	62,327	65,063
Finance charges	**137,219**	110,054	82,335	70,728
Preference share dividends	**16,606**	12,319	3,952	2,736
Gain on settlement of contractual matters	**10,000**	–	–	–
Corporate income taxes	**70,416**	46,927	38,236	32,488
Results of discontinued operations				
and other unusual items	–	–	–	–
Non-controlling interest	**6,216**	5,674	3,869	4,229
Net earnings applicable to common shares	**137,097**	90,855	73,630	63,252
Balance Sheets *(in thousands $)*				
Current assets	**312,693**	293,423	191,032	180,122
Other long-term assets, including goodwill	**815,436**	768,077	242,320	204,837
Long-term investments	**167,393**	163,769	167,752	95,751
Utility capital assets and income producing properties	**3,020,669**	2,712,747	1,562,693	1,459,300
Total assets	**4,316,191**	3,938,016	2,163,797	1,940,010
Current liabilities	**423,298**	538,258	296,056	334,467
Deposits due beyond one year	–	–	–	–
Deferred credits, regulatory liabilities				
and future income taxes	**195,759**	138,198	61,956	38,835
Long-term debt and capital lease obligations	**2,124,674**	1,904,431	1,031,358	940,910
Non-controlling interest	**39,555**	37,487	36,770	39,955
Preference shares	**319,492**	319,530	122,992	–
Shareholders' equity	**1,213,413**	1,000,112	614,665	585,843
Cash Flows *(in thousands $)*				
Operations	**303,425**	272,268	156,682	134,422
Financing activities	**224,088**	777,044	232,011	261,043
Investing activities	**466,944**	1,026,256	308,006	348,724
Dividends, excluding preference share dividends	**64,171**	50,514	38,456	35,070
Financial Statistics				
Return on average common shareholders' equity *(%)*	**12.40**	11.28	12.30	12.23
Capitalization Ratios *(%)* (year end)				
Long-term debt and capital lease obligations				
(excluding current portion)	**57.5**	58.1	57.1	60.1
Non-controlling interest	**1.1**	1.2	2.0	2.5
Preference securities and equity portion of				
convertible debentures	**8.7**	9.9	6.9	0.1
Common shareholders' equity	**32.7**	30.8	34.0	37.3
Interest Coverage *(x)*				
Debt	**2.5**	2.3	2.2	2.3
All fixed charges	**2.1**	2.0	2.1	2.2
Capital expenditures *(in thousands $)*	**508,629**	278,669	207,740	228,830
Common share data [2]				
Book value per share (year end) *($)*	**11.74**	10.45	8.82	8.50
Average common shares outstanding *(in thousands)*	**101,750**	84,738	69,236	65,108
Earnings per common share *($)*	**1.35**	1.07	1.06	0.97
Dividends declared per common share *($)*	**0.605**	0.548	0.525	0.498
Dividends paid per common share *($)*	**0.588**	0.540	0.520	0.485
Dividend payout ratio *(%)*	**43.7**	50.3	48.9	49.9
Price earnings ratio *(x)*	**18.0**	16.2	13.9	13.5
Share trading summary [2]				
Closing price *($)* (TSX)	**24.27**	17.38	14.73	13.13
Volume *(in thousands)*	**37,706**	29,254	31,180	21,676

[1] Certain 2004 comparative numbers have been reclassified to conform with the current year's presentation as a result of the adoption of CICA AcG-19 for the year ended December 31, 2005.

[2] For all periods presented, certain common share data and the share trading summary information have been restated to reflect the 4-for-1 stock split completed in October 2005.

Historical Financial Summary

2001	2000	1999	1998	1997	1996	1995
628,254	580,197	505,218	472,725	486,662	474,293	447,035
418,117	417,607	356,227	339,429	341,024	334,388	315,003
62,495	52,513	45,407	42,428	41,147	35,993	37,998
62,655	52,737	43,090	40,662	38,658	38,487	37,246
2,975	2,975	2,975	2,975	6,232	7,325	4,448
–	–	–	–	–	–	–
28,732	17,228	27,476	22,998	29,449	28,029	20,334
4,179	2,771	(57)	3,696	369	–	–
3,862	3,149	803	515	515	1,026	1,414
53,597	36,759	29,183	27,414	30,006	29,045	30,592
134,935	165,814	92,862	94,123	78,603	70,456	72,659
123,011	116,912	160,998	162,487	160,445	160,470	120,289
82,211	81,515	–	–	–	–	–
1,245,940	1,056,291	929,909	750,223	747,461	736,338	693,178
1,586,097	1,420,532	1,183,769	1,006,833	986,509	967,264	886,126
272,439	224,431	229,569	147,764	172,158	172,493	153,368
–	–	15,640	15,745	20,444	17,448	16,703
31,628	24,110	27,538	21,942	23,307	23,388	17,024
746,092	678,349	487,828	424,275	385,627	335,654	285,343
36,419	31,502	29,381	8,430	8,430	8,430	18,990
50,000	50,000	50,000	50,000	50,000	100,000	100,000
449,519	412,140	343,813	338,677	326,543	309,851	294,698
94,115	97,499	84,679	68,898	63,202	86,351	60,701
171,358	177,820	66,797	15,858	16,721	33,992	60,057
239,726	240,698	122,469	65,882	54,093	95,838	103,078
29,913	27,661	24,303	23,824	22,968	22,416	22,048
12.44	9.73	8.55	8.24	9.43	9.61	10.74
58.2	57.8	53.5	51.7	50.0	44.5	41.8
2.8	2.7	3.2	1.0	1.1	1.1	2.7
3.9	4.3	5.5	6.1	6.5	13.3	14.1
35.1	35.2	37.8	41.2	42.4	41.1	41.4
2.3	2.1	2.3	2.2	2.6	2.6	2.4
2.2	1.9	2.1	2.0	2.0	1.9	2.0
149,455	157,652	86,475	65,468	49,773	53,420	89,893
7.50	6.97	6.55	6.52	6.40	6.21	6.05
59,512	54,068	52,188	51,632	50,492	49,276	48,400
0.90	0.68	0.56	0.53	0.60	0.59	0.63
0.470	0.460	0.455	0.450	0.443	0.430	0.425
0.468	0.460	0.453	0.450	0.440	0.430	0.423
51.9	67.6	80.8	84.9	73.9	72.9	66.8
13.0	13.2	14.0	18.0	17.6	14.4	10.8
11.74	9.00	7.85	9.56	10.50	8.5	6.81
21,460	26,760	9,024	12,356	13,520	13,620	8,072

Corporate Directory

Fortis Inc. *Officers (l-r): Ronald W. McCabe, General Counsel and Corporate Secretary; Barry V. Perry, VP, Finance and CFO; H. Stanley Marshall, President and CEO; Donna G. Hynes, Assistant Secretary and Manager, Investor and Public Relations*

Newfoundland Power Inc.

Directors: Bruce Chafe (Chair), Peggy Bartlett, William J. Daley, Ed Drover, Peter W. Fenwick, Chris Griffiths, H. Stanley Marshall, David G. Norris, Karl W. Smith, Dell Texmo, John C. Walker

Officers:
Karl W. Smith, President and Chief Executive Officer
Jocelyn H. Perry, Vice President, Finance
Lisa A. Hutchens, Vice President, Customer Relations and Corporate Services
Phonse J. Delaney, Vice President, Engineering and Operations
Peter S. Alteen, Vice President, Regulatory Affairs and General Counsel

Maritime Electric Company, Limited

Directors: A. James Casey (Chair), Kimberley D. Horrelt, James A. Lea, Earl A. Ludlow, R. Elmer MacDonald, H. Stanley Marshall, Michael A. Pavey, Cheryl L. Paynter, L. John Reddin, David W. Rodd, Eugene P. Rossiter, Lynn R. Young

Officers:
James A. Lea, President and Chief Executive Officer
J. William Geldert, Vice President, Finance, CFO and Corporate Secretary
John D. Gaudet, Vice President, Corporate Planning and Energy Supply
Fred J. O'Brien, Vice President, Customer Service

FortisOntario Inc.

Directors: Gilbert S. Bennett (Chair), Peter E. Case, William J. Daley, Geoffrey F. Hyland, James A. Lea, H. Stanley Marshall, Oskar T. Sigvaldason, Karl W. Smith

Officers:
William J. Daley, President and Chief Executive Officer
Glen C. King, Vice President, Finance and Chief Financial Officer
Angus S. Orford, Vice President, Operations
R. Scott Hawkes, Vice President, Corporate Services, General Counsel and Corporate Secretary

FortisAlberta Inc.

Directors: H. Stanley Marshall (Chair), Donald G. Bacon, Brian F. Bietz, Gregory E. Conn, Philip G. Hughes, John S. McCallum, Barry V. Perry, John C. Walker

Officers:
Philip G. Hughes, President and Chief Executive Officer
D. James Harbilas, Vice President, Finance and Chief Financial Officer
Karin C. F. Gashus, Vice President, Customer Service
Cynthia Johnston, Vice President, Corporate Services and Regulatory
Alan M. Skiffington, Vice President, Information Technology and CIO
Gary J. Smith, Vice President, Operations and Engineering
Mike G. Olson, Controller
Robert J. Fink, Corporate Counsel and Corporate Secretary

FortisBC Inc.

Directors: H. Stanley Marshall (Chair), Beth D. Campbell, Bruce Chafe, Richard (Kim) D. Deane, Philip G. Hughes, Roger Mayer, John S. McCallum, R. Harry McWatters, Barry V. Perry, John C. Walker

Officers:
John C. Walker, President and Chief Executive Officer
Michele I. Leeners, Vice President, Finance and Chief Financial Officer
Don L. Debienne, Vice President, Generation
Michael A. Mulcahy, Vice President, Customer and Corporate Services
Doyle O. Sam, Vice President, Transmission and Distribution
David C. Bennett, General Counsel and Corporate Secretary

Belize Electricity Limited

Directors: Robert Usher (Chair), Fernando E. Coye, J. F. Richard Hew, Philip G. Hughes, James A. Lea, H. Stanley Marshall, Karl H. Menzies, Yasin Shoman, Lynn R. Young

Officers:
Lynn R. Young, President and Chief Executive Officer
Rene J. Blanco, Vice President, Finance and Chief Financial Officer
Felix J. Murrin, Vice President, Operations
Joseph Sukhnandan, Vice President, Engineering and Energy Supply
Juliet Estell, Company Secretary

Caribbean Utilities Company, Ltd.

Directors: David E. Ritch (Chair), Frank J. Crothers (Vice Chair), Philip A. Barnes, J. Bryan Bothwell, Sheree L. Ebanks, J. F. Richard Hew, Philip G. Hughes, Joseph A. Imparato, H. Stanley Marshall, Peter A. Thomson, Anna Rose S. Washburn

Officers:
J. F. Richard Hew, President and Chief Executive Officer
Eddinton M. Powell, Senior VP, Finance & Corporate Services and CFO
Robert L. Smith, Vice President, Production and Engineering
J. Lee Tinney, Vice President, Transmission and Distribution
Robert D. Imparato, Company Secretary and Chief Governance Officer

Fortis Properties Corporation

Directors: Linda L. Inkpen (Chair), Angus A. Bruneau, Bruce Chafe, Earl A. Ludlow, H. Stanley Marshall

Officers:
Earl A. Ludlow, President and Chief Executive Officer
Neal J. Jackman, Vice President, Finance and Chief Financial Officer
Nora M. Duke, Vice President, Hospitality Services
Wayne W. Myers, Vice President, Real Estate
Ronald W. McCabe, General Counsel and Corporate Secretary

Board of Directors

Angus A. Bruneau ∗ ★ ✷
Chair, Fortis Inc., St. John's, Newfoundland and Labrador

Dr. Bruneau, 70, joined the Fortis Inc. Board in 1987 and is Chair of the Board. He retired as CEO of Fortis Inc. in 1996. Dr. Bruneau is a Director of Fortis Properties Corporation, and is a director of Petro-Canada, SNC-Lavalin Group Inc., Inco Limited, The Canadian Institute of Child Health and Sustainable Development Technology Canada. Dr. Bruneau will be retiring from the Board at the Annual and Special Meeting on May 2, 2006.

Peter E. Case ∗
Corporate Director, Freelton, Ontario

Mr. Case, 51, joined the Fortis Inc. Board in May 2005. He has been a consultant to the utility industry since 2003, following his retirement as Executive Director, Institutional Equity Research at CIBC World Markets. Prior to this position, he was Managing Director at BMO Nesbitt Burns. Mr. Case has been a Director of FortisOntario Inc. since March 2003.

Bruce Chafe ∗ ★
Corporate Director, St. John's, Newfoundland and Labrador

Mr. Chafe, 69, joined the Fortis Inc. Board in 1997. He was appointed Chair of the Board of Newfoundland Power Inc. in 2000 and is a Director of Fortis Properties Corporation and FortisBC Inc. Mr. Chafe is also a director of several private investment firms. He is a retired senior partner of Deloitte & Touche LLP.

Geoffrey F. Hyland ✷
Corporate Director, Caledon, Ontario

Mr. Hyland, 61, joined the Fortis Inc. Board in May 2001. He retired as President and CEO of Shawcor Ltd. in June 2005. Mr. Hyland is a Director of FortisOntario Inc. He continues to serve on the board of ShawCor Ltd. and is a director of Enerflex Systems Ltd. and Exco Technologies Limited.

Linda L. Inkpen ★
Medical Practitioner, St. John's, Newfoundland and Labrador

Dr. Inkpen, 58, joined the Fortis Inc. Board in 1994. She was appointed Chair of the Board of Fortis Properties Corporation in 2000 and is a past Chair of Newfoundland Power Inc. Dr. Inkpen is a member of the National Roundtable on the Economy and the Environment.

H. Stanley Marshall
President and CEO, Fortis Inc., St. John's, Newfoundland and Labrador

Mr. Marshall, 55, has served on the Fortis Inc. Board since 1995. He joined Newfoundland Power Inc. in 1979 and was appointed President and CEO of Fortis Inc. in 1996. Mr. Marshall serves on the Boards of all Fortis companies and is a director of Toromont Industries Ltd.

John S. McCallum ∗ ★
Professor of Finance, University of Manitoba, Winnipeg, Manitoba

Mr. McCallum, 62, joined the Fortis Inc. Board in July 2001. He was Chairman of Manitoba Hydro from 1991 to 2000 and Policy Advisor to the Federal Minister of Finance from 1984 to 1991. Mr. McCallum is a Director of FortisBC Inc., FortisAlberta Inc. and also serves as a director of IGM Financial Inc., Toromont Industries Ltd. and Wawanesa.

David G. Norris ∗ ✷
Corporate Director, St. John's, Newfoundland and Labrador

Mr. Norris, 58, joined the Fortis Inc. Board in May 2005. He has been a financial and management consultant since 2001, prior to which he was Executive Vice-President, Finance and Business Development, Fishery Products International Limited. Previously, he held Deputy Minister positions with Department of Finance and Treasury Board, Government of Newfoundland and Labrador. Mr. Norris has been a Director of Newfoundland Power Inc. since 2003.

Michael A. Pavey ✷
Executive Vice President & Chief Financial Officer,
Major Drilling Group International Inc., Moncton, New Brunswick

Mr. Pavey, 58, joined the Fortis Inc. Board in May 2004. Prior to joining Major Drilling Group International Inc. in 1999, he held senior executive positions with TransAlta Corporation. Mr. Pavey has been a Director of Maritime Electric Company, Limited since 2001.

Roy P. Rideout ★ ✷
Corporate Director, Halifax, Nova Scotia

Mr. Rideout, 58, joined the Fortis Inc. Board in March 2001. He retired as Chairman and CEO of Clarke Inc. in October 2002. Prior to 1998, Mr. Rideout served as President of Newfoundland Capital Corporation Limited. He also serves as a director of the Halifax International Airport Authority, Oceanex Inc. and NAV CANADA.

∗ Audit Committee ★ Governance and Nominating Committee ✷ Human Resources Committee

Board of Directors (l-r): Geoffrey F. Hyland, Bruce Chafe, John S. McCallum, H. Stanley Marshall, Roy P. Rideout, David G. Norris, Angus A. Bruneau, Peter E. Case, Linda L. Inkpen, Michael A. Pavey

Investor Information

Transfer Agent and Registrar

Computershare Trust Company of Canada ("Computershare") is responsible for the maintenance of shareholder records and the issue, transfer and cancellation of stock certificates. Transfers can be effected at its Halifax, Montreal and Toronto offices. Computershare also distributes dividends and shareholder communications. Inquiries with respect to these matters and corrections to shareholder information should be addressed to the Transfer Agent.

Computershare Trust Company of Canada

9th Floor, 100 University Avenue
Toronto, ON M5J 2Y1
T: 514.982.7555 or 1.866.586.7638
F: 416.263.9394 or 1.888.453.0330
E: service@computershare.com
W: www.computershare.com

Direct Deposit of Dividends

Shareholders may obtain automatic electronic deposit of dividends to their designated Canadian financial institutions by contacting the Transfer Agent.

Duplicate Annual Reports

While every effort is made to avoid duplications, some shareholders may receive extra reports as a result of multiple share registrations. Shareholders wishing to consolidate these accounts should contact the Transfer Agent.

Dividend Reinvestment Plan and Consumer Share Purchase Plan

Fortis Inc. offers a Dividend Reinvestment Plan (1) and a Consumer Share Purchase Plan (2) to Common Shareholders as a convenient method of increasing their investments in Fortis Inc. Participants have dividends plus any optional cash payments (minimum of $100, maximum of $20,000 annually) automatically deposited in the Plans to purchase additional Common Shares. Shares are sold quarterly on March 1, June 1, September 1 and December 1 at the average market price then prevailing on the Toronto Stock Exchange. Inquiries should be directed to the Transfer Agent, Computershare Trust Company of Canada.

(1) All registered shareholders of Common Shares who are residents of Canada are eligible to participate in the Dividend Reinvestment Plan. Shareholders residing outside Canada may also participate unless participation is not allowed in that jurisdiction. Residents of the United States, its territories or possessions are not eligible to participate.

(2) The Consumer Share Purchase Plan is offered to residents of the provinces of Newfoundland and Labrador and Prince Edward Island.

Valuation Day

For capital gains purposes, the valuation day prices are as follows:

December 22, 1971	$ 1.531
February 22, 1994	$ 7.156

Share Listings

The Common Shares, Series C First Preference Shares and Series E First Preference Shares of Fortis Inc. are listed on the Toronto Stock Exchange and trade under the ticker symbols FTS, FTS.PR.C and FTS.PR.E, respectively.

Common Share Prices*

Year	High	Low	Close
2005	25.64	17.00	24.27
2004	17.75	14.23	17.38
2003	15.24	11.63	14.73
2002	13.28	10.76	13.13
2001	11.89	8.56	11.74
2000	9.19	6.88	9.00
1999	9.93	7.29	7.85
1998	12.03	8.75	9.56
1997	10.63	7.83	10.50
1996	8.68	6.75	8.50

** Reflects 4-for-1 stock split in October 2005*

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Expected Dividend* and Earnings Dates

Dividend Record Date

May 5, 2006	August 4, 2006
November 3, 2006	February 3, 2007

Dividend Payment Dates

June 1, 2006	September 1, 2006
December 1, 2006	March 1, 2007

Earnings Release Dates

May 1, 2006	August 4, 2006
October 31, 2006	February 6, 2007

* *The declaration and payment of dividends are subject to the Board of Directors' approval.*

Analyst and Investor Inquiries

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Annual and Special Meeting

Tuesday, May 2, 2006
11:00 a.m.
Holiday Inn St. John's
180 Portugal Cove Road
St. John's, NL Canada

Photography:
Marnie Burkhart, Calgary, AB
Liam Sharpe, Toronto, ON
Jack LeClair, Charlottetown, PE
Richard Holder, Belize City, BZ
Larry Doell, Trail, BC
Ned Pratt, St. John's, NL
Bobb Barratt, Niagara Falls, ON
Bernie Haines, Fort Erie, ON
Blaine Desrosiers, Fort Erie, ON
Wayne Duchart, Kelowna, BC
Neil Murray, Grand Cayman, CI
Gerry Boland, St. John's, NL
Alan Lincourt, Cooperstown, NY
Monty Hunter, St. John's, NL
Josée and Steve Brunet, Kensington, PE
Robert Ferguson, Belize City, BZ

Design and Production:
CCL Group – Colour, St. John's, NL
Moveable Inc., Toronto, ON

Printer:
Transcontinental, St. John's, NL

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Fortis Inc.
2006 Annual Report

FORTIS INC.

2006 ANNUAL REPORT

powering **performance**

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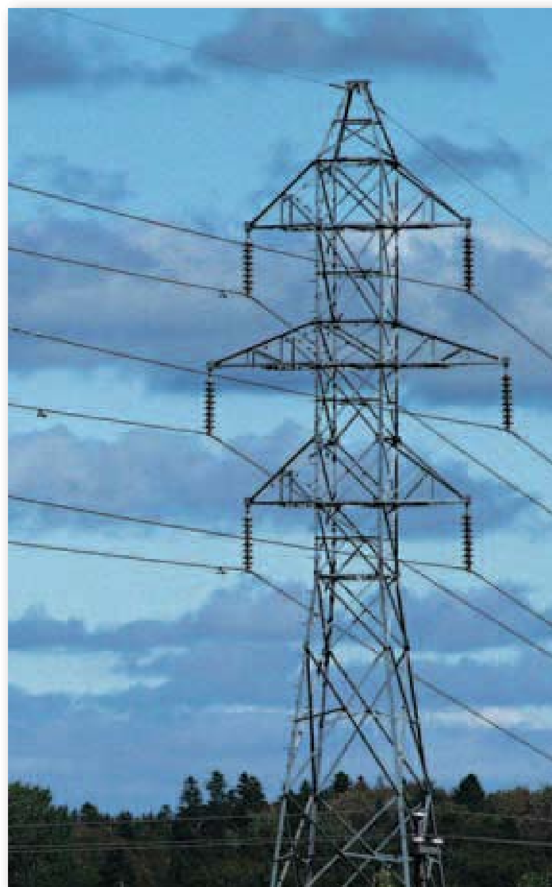
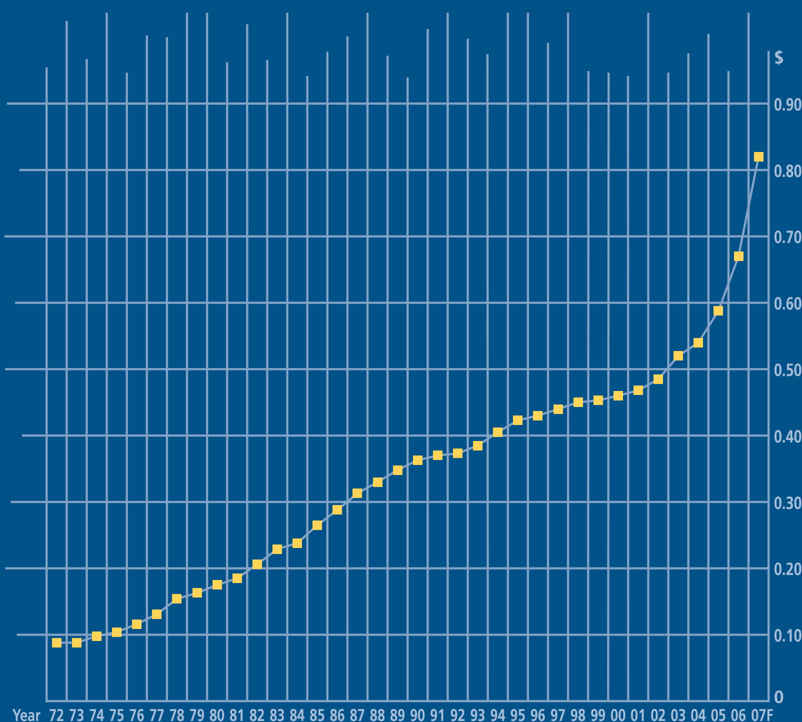


Dividends paid per common share



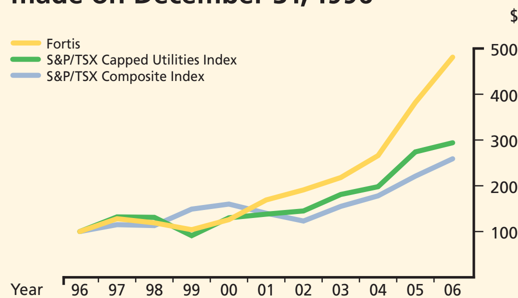
Fortis has increased its annual dividend paid to common shareholders for 34 consecutive years, the longest record of any public corporation in Canada.

Annual Comparison *($ millions except per share amounts)*

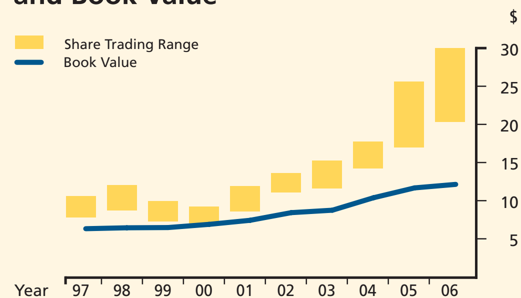
	2006	2005
Revenue and equity income	**1,472**	1,441
Net earnings applicable to common shares	**147**	137
Total assets	**5,447**	4,597
Total shareholders' equity	**1,398**	1,213
Cash flow from operations	**263**	304
Earnings per common share	**1.42**	1.35
Dividends paid per common share	**0.67**	0.59

Fortis Inc.

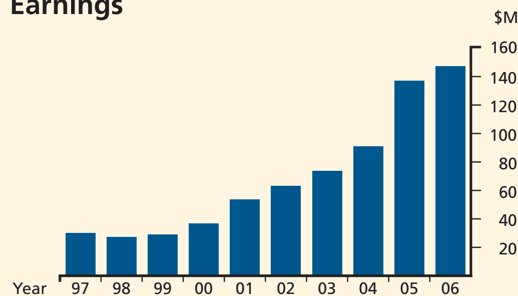
Value of an Investment of $100 made on December 31, 1996



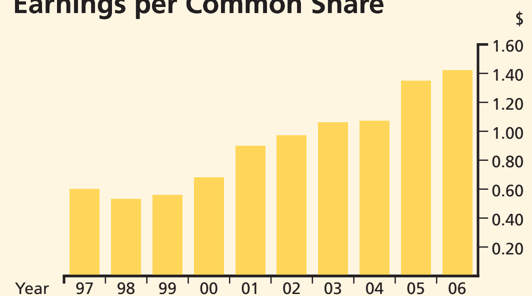
Share Trading Range and Book Value



Earnings



Earnings per Common Share



Unless otherwise specified, all dollar amounts in this Annual Report are expressed in Canadian dollars.

Fortis Inc. ("Fortis" or the "Corporation") is principally a diversified, international distribution utility holding company with assets exceeding $5.4 billion and annual revenues of approximately $1.5 billion.

Fortis has holdings in eight regulated electric distribution utilities. **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. **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. **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 Turks and Caicos** is the principal distributor of electricity in the Turks and Caicos Islands.

Fortis Generation includes the operations of non-regulated generating assets in Belize, Ontario, central Newfoundland, British Columbia and Upper New York State. The generating capacity of these assets is 195 megawatts ("MW"), 190 MW of which is hydroelectric.

Fortis Properties owns and operates 18 hotels in seven Canadian provinces and 2.7 million square feet of commercial real estate in Atlantic Canada.

The Fortis Group of Companies has approximately 4,400 employees. Fortis utilities serve more than 1,000,000 customers and met a combined peak demand of approximately 5,100 MW in 2006.

On February 26, 2007, Fortis entered into an agreement with Kinder Morgan, Inc. to buy Terasen Gas, one of the largest natural gas distribution utilities in Canada. Terasen Gas is the principal natural gas distribution utility in British Columbia, serving approximately 900,000 customers or 95 per cent of natural gas users in the province. Its service territory includes the populous lower mainland, Vancouver Island and the southern interior of the province. The acquisition is expected to close in mid-2007.

Regulated Utility Operations ■

FortisAlberta
Alberta

FortisBC
British Columbia

Newfoundland Power
Newfoundland

Maritime Electric
Prince Edward Island

FortisOntario
Ontario

Belize Electricity
Belize

Caribbean Utilities
Grand Cayman

Fortis Turks and Caicos
Turks and Caicos Islands

Non-Regulated Operations

Generation ●
Production Areas
- *Belize*
- *Ontario*
- *Central Newfoundland*
- *British Columbia*
- *Upper New York State*

Fortis Properties ▲
Real Estate
- *Atlantic Canada*

Hotels
- *Eastern Canada*
- *Manitoba*
- *Alberta*
- *British Columbia*

REPORT TO SHAREHOLDERS

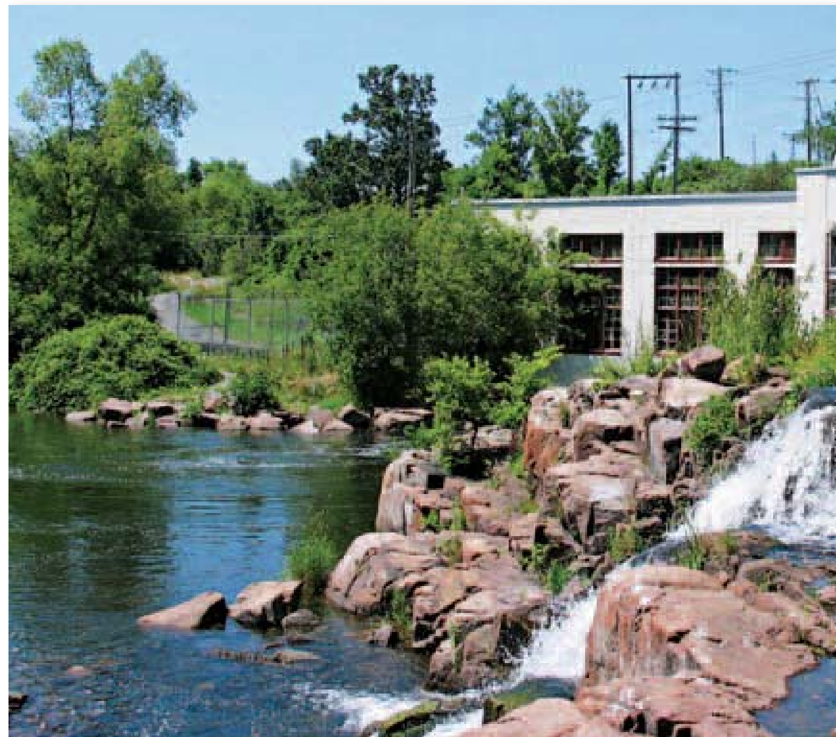
REPORT TO SHAREHOLDERS

For the seventh consecutive year, Fortis has delivered record earnings to shareholders. Earnings applicable to common shares were $147.2 million, 7.4 per cent higher than earnings of $137.1 million last year. Earnings in 2005 included a $7.9 million after-tax gain resulting from the settlement of contractual matters between FortisOntario and Ontario Power Generation Inc. Earnings per common share were $1.42 compared to $1.35 last year.

Dividends paid to common shareholders in 2006 increased to 67 cents per common share from 59 cents per common share last year. Commencing with the second quarter dividend payable on June 1, 2007, Fortis increased its quarterly common share dividend 10.5 per cent to 21 cents from 19 cents. Our history of profitable growth has enabled Fortis to increase its annual dividend paid for 34 consecutive years, the longest record of any public corporation in Canada. The dividend payout ratio remained stable at 47.2 per cent in 2006.

Fortis delivered a total return to shareholders of 26 per cent in 2006, outperforming the S&P/TSX Composite Index and S&P/TSX Utilities Index, which delivered total returns of 17.3 per cent and 6.8 per cent, respectively. Over the past five years,

H. Stanley Marshall, President and CEO, Fortis Inc. (left) and Bruce Chafe, Chair of the Board, Fortis Inc. (right)



Fortis owns non-regulated generation assets in Belize, Ontario, central Newfoundland, British Columbia and Upper New York State.

Fortis has delivered an average annualized total return of 24.5 per cent, again exceeding the S&P/TSX Utilities Index and S&P/TSX Composite Index performance of 15.6 per cent and 13.1 per cent, respectively, over the same period.

Our common share market capitalization increased to approximately $3.1 billion from $2.5 billion last year. Fortis common shares reached an all-time high of $30.00 on December 27, 2006 and closed for the year at $29.77. Our average daily trading volume approached 240,000 common shares, almost 60 per cent higher than in 2005.

Fortis has grown rapidly in Canada and the Caribbean over the past decade. Total assets exceeding $5.4 billion at year end are more than five times asset size a decade ago. Our asset growth has been driven by profitable acquisitions, including the $1.5 billion purchase of our two utilities in Western Canada in May 2004. Asset growth also arises organically from the continued investment in the distribution systems of our utilities. The rate bases of FortisAlberta and FortisBC have increased approximately 29 per cent and 36 per cent, respectively, since the utilities were acquired. Over the next two years, each utility's rate base is expected to grow approximately 30 per cent.

The diversification of our operations significantly reduces the impact of changes in regional economies, weather and regulation. Regulated electric utilities, which have been our main business, comprise approximately 86 per cent of the total assets of Fortis. Regulated electric utility assets in Canada comprise 71 per cent of total assets. The regulated rate base of Fortis utilities exceeds $3.0 billion.

Fortis owns and/or operates more than 131,000 kilometres of transmission and distribution lines. Consolidated energy sales and deliveries totalled approximately 27,000 gigawatt hours ("GWh") and our utilities met a combined peak demand of approximately 5,100 MW in 2006. Our regulated utilities serve more than 1,000,000 customers in five Canadian provinces and three Caribbean countries.

We achieved a new milestone this year when we expanded our business to a third Caribbean country, the Turks and Caicos Islands. In August, Fortis acquired two electric utilities in the Turks and Caicos Islands, P.P.C. Limited and Atlantic Equipment & Power (Turks and Caicos) Ltd., (collectively referred to as "Fortis Turks and Caicos"), for aggregate consideration of

Our asset growth has been driven by profitable acquisitions, including the $1.5 billion purchase of FortisAlberta and FortisBC in May 2004.

approximately US$90 million. This acquisition was immediately accretive to earnings. Fortis Turks and Caicos serves approximately 7,700 customers, or 80 per cent of electricity users, in the Turks and Caicos Islands pursuant to 50-year licences that expire in 2036 and 2037. The Turks and Caicos Islands is experiencing rapid growth in energy demand, driven by a strong developing economy. With well-established distribution utilities in Belize and Grand Cayman, Fortis has considerable experience meeting the energy needs of growing communities in the Caribbean region. Our customers in the Turks and Caicos Islands will benefit from the expertise of Fortis in delivering reliable service.

In November, Fortis increased its investment in Caribbean Utilities to approximately 54 per cent to become controlling shareholder. This investment, which was also immediately accretive to earnings, reflects our confidence in the future of Grand Cayman and the ability of Caribbean Utilities to meet the existing and future energy needs of its customers.

Fortis is the leading operator of electric distribution utilities in Canada. Our increased investment in Caribbean Utilities, combined with our investments in Belize Electricity and Fortis Turks and Caicos, positions Fortis as a leading utility operator in the Caribbean region.

Significant capital investments in utility infrastructure and growth from acquisitions were the major drivers of performance this year.

Canadian Regulated Utilities contributed $112.7 million to earnings this year, 7.5 per cent higher than earnings of $104.8 million last year. Underpinning the results of our Canadian Regulated Utilities was the performance of FortisAlberta and FortisBC which contributed $41.4 million and $27.4 million, respectively, to earnings. Our western utilities, especially FortisAlberta, continue to maintain, enhance and expand their distribution systems at an unprecedented pace to accommodate new customers and improve system reliability. Lower corporate income taxes and a 5.9 per cent increase in electricity rates at FortisBC also favourably impacted earnings at our western utilities.

Newfoundland Power's earnings of $30.1 million were slightly lower than last year, mainly due to a decline in energy sales, lower interest revenue and higher costs.

Maritime Electric delivered earnings of $9.8 million this year. Growth in earnings was largely driven by the impact of the 3.35 per cent increase in basic electricity rates, effective July 1, 2006.

Our regulated utilities serve more than 1,000,000 customers in five Canadian provinces and three Caribbean countries.

Fortis owns and/or operates more than 131,000 kilometres of transmission and distribution lines.

In early 2006, Maritime Electric commissioned its new $35 million 50-MW combustion turbine generator, which will address issues associated with the loading of the submarine cables to Prince Edward Island and provide increased reliability and security of energy supply. In August, the Company received regulatory approval of its application for a 39-MW Wind Power Purchase Agreement (the "Agreement") with PEI Energy Corporation. Recent legislation by the Government of Prince Edward Island will require Maritime Electric to obtain at least 15 per cent of its annual energy requirements from renewable sources, such as wind-powered energy, by 2010. The Agreement, in conjunction with the existing wind-energy purchase agreements, enables the Company to reach this target.

At FortisOntario, excluding the $1.6 million adjustment recorded in 2005 related to taxes, earnings of $4.0 million were higher year over year primarily as a result of increases in distribution rates, effective May 1, 2006.

All five of our Canadian Regulated Utilities were involved in significant rate proceedings in 2006. In the first half of 2006, FortisAlberta and FortisBC each reached Negotiated Settlement Agreements with their customers and stakeholders, which were approved by the utilities' respective regulators, thereby eliminating the need for full-scale hearings. At FortisBC, a new

multi-year performance-based rate-setting mechanism was also approved. The allowed rate of return on common equity ("ROE") for each of our three largest utilities, FortisAlberta, FortisBC and Newfoundland Power, is formula based and tied to long-term Canada bond yields. The 2006 allowed ROEs for FortisAlberta and FortisBC were set at 8.93 per cent and 9.2 per cent, respectively. Given the lower bond yields, the 2007 allowed ROEs for FortisAlberta and FortisBC have declined to 8.51 per cent and 8.77 per cent, respectively.

In January 2006, Newfoundland Power received regulatory approval of its final 2006 electricity rates, which remained unchanged from 2005. The allowed ROE for the purpose of setting rates was 9.24 per cent. The Company's 2007 allowed ROE has declined to 8.6 per cent, reflecting lower bond yields.

Our Caribbean Regulated Utilities contributed $23.6 million to earnings this year, $4.2 million higher than earnings in 2005. Earnings growth was largely driven by four months of contributions from Fortis Turks and Caicos and improved earnings at Belize Electricity, primarily due to lower finance charges, growth in energy sales and an overall 11 per cent increase in electricity rates, effective July 1, 2005.

Fortis increased its ownership in Caribbean Utilities to approximately 54 per cent in 2006. Caribbean Utilities serves more than 22,000 customers including the Ritz-Carlton on world-famous Seven Mile Beach in Grand Cayman, Cayman Islands.

Belize Electricity received regulatory approval of an overall 13 per cent increase in electricity rates, effective January 1, 2006. The increase reflected rising fuel costs, which flow through in customer rates and, therefore, had no impact on the Company's earnings. In May, the utility's regulator issued its final decision regarding Belize Electricity's Annual Tariff Review Application. Electricity rates remain unchanged for the period July 1, 2006 through June 30, 2007 from those in effect at January 1, 2006. Belize Electricity is allowed to earn a rate of return on assets of 15 per cent.

Peak energy demand in Belize rose to 67 MW this year, 1.6 times the level of demand when Fortis invested in Belize Electricity in 1999. The Company benefited from lower-cost energy generated by the hydroelectric plants of Belize Electric Company Limited ("BECOL") this year. Belize Electricity continues to pursue opportunities to strengthen its energy supply sources to meet growing energy demand in the country.

Fortis began consolidating its 54 per cent interest in Caribbean Utilities upon acquiring control of the utility in November. Prior to acquiring controlling interest, Fortis accounted for its investment in the Company on an equity basis.

Equity income from Caribbean Utilities was $1.7 million lower than last year. Excluding the $1.1 million positive adjustment to equity income in 2005 related to a change in the Company's accounting practice for recognizing unbilled revenue, equity income decreased $0.6 million due to the impact of foreign currency translation.

Licence negotiations between Caribbean Utilities and the Government of the Cayman Islands recommenced in November 2005 and are ongoing. The Company's Licence remains in full force and effect until January 2011 or until it is replaced with a new licence by mutual agreement.

In June, the number of customers at Caribbean Utilities surpassed pre-Hurricane Ivan levels. At the end of July, the Company's total owned generating capacity reached 120 MW compared to 123 MW before Hurricane Ivan.

Fortis invested approximately $500 million in its consolidated capital program in 2006. The majority of this investment was driven by robust customer growth in Western Canada and the continuing need to maintain and enhance the reliability of distribution systems. FortisAlberta's gross investment in capital projects was approximately $243 million this year, an increase of 47 per cent over 2005. New customer connections accounted for almost half of the Company's capital projects this year. FortisAlberta also invested $73 million related to capital upgrades and replacements, and to increase the capacity of its distribution network. FortisBC's gross investment in capital projects was approximately $111 million this year.

We remain focused on operating efficient utilities while meeting the growing energy needs of our customers.

Fortis invested approximately $500 million in its consolidated capital program in 2006.

Among the initiatives undertaken, work valued at $60 million commenced on three new large substations and associated transmission lines to meet growing demand in the Okanagan and Boundary areas. FortisBC also invested approximately $11 million as part of its generation asset upgrade life-extension program. Newfoundland Power invested approximately $60 million in its capital projects, primarily to upgrade distribution feeders to enhance reliability performance.

Annual energy sales from Non-regulated Fortis Generation operations exceeded 1,200 GWh this year. Approximately 60 per cent of energy sales were into the Ontario marketplace. The generating capacity of the Non-regulated Fortis Generation business is 195 MW, 190 MW of which is hydroelectric.

Non-regulated Fortis Generation contributed earnings of $26.7 million this year compared to $29.6 million last year. Excluding the $7.9 million after-tax gain recorded last year, earnings were $5.0 million higher year over year. Improved performance in Belize, driven by increased hydroelectric production and lower finance charges, was partially offset by the impact of lower average wholesale energy prices in Ontario. The average annual wholesale energy price per megawatt hour in Ontario was $46.38 in 2006 compared to $68.49 last year.

Our hydroelectric production in Belize climbed to 178 GWh this year, more than two-and-a-half times the level of production in 2005. The increased production was primarily due to the first full year of operations of the Chalillo storage facility which, at full supply level, contains the equivalent of approximately 45 GWh of hydroelectric production. Hydroelectricity, the least cost and most environmentally responsible energy source, now accounts for approximately 43 per cent of the energy supply of Belize. Fortis will continue to work with the Government of Belize to identify potential energy developments that will help address the growing energy demands of Belize and maintain stable electricity rates for customers.

This year marked the ninth consecutive year of record earnings for Fortis Properties. The Company delivered earnings of $18.7 million, 32.6 per cent higher than earnings in 2005. The growth in earnings was largely driven by a $1.6 million after-tax gain on the sale of the Days Inn Sydney hotel, reduced corporate income taxes and growth at hotel operations in Western Canada.

Fortis Properties completed an acquisition of four hotels in Alberta and British Columbia in November for approximately $52 million. This acquisition strengthens the Company's presence in Western Canada, an area of strong economic activity. It enables Fortis Properties to continue to grow its earnings while building on its reputation for superior customer service at high-quality, well-positioned, mid-market hotels. The addition of these hotels increases the Company's portfolio to 18 hotels in seven Canadian provinces, operating more than 3,200 rooms.

Fortis Properties completed the acquisition of four hotels in Alberta and British Columbia in 2006 for approximately $52 million.

Investors have demonstrated confidence in our strategy of profitable growth. In September, Fortis raised $125 million through the issuance of 5 million perpetual Preferred Shares that carry a dividend rate of 4.9 per cent. The net proceeds of the issue were used principally to support the acquisition of Fortis Turks and Caicos and to fund equity injections into FortisAlberta and FortisBC in support of the utilities' extensive capital expenditure programs. In January 2007, Fortis issued 5.17 million common shares at $29.00 per common share, resulting in gross proceeds of approximately $150 million. The net proceeds of the issue were used to repay indebtedness incurred for acquisitions, to support the capital expenditure programs of our western utilities and for general corporate purposes.

The corporate credit ratings of the unsecured debt of Fortis are stable at BBB(high) from DBRS and BBB from Standard & Poor's.

We welcome our new employees at Fortis Turks and Caicos and at Fortis Properties' recently acquired hotels in Alberta and British Columbia. We also welcome our employees at Caribbean Utilities to the Fortis Group of Companies. To each and every one of our 4,400 employees, we extend our thanks and congratulations for your commitment to deliver first-class service to our customers and to adhere to the highest levels of health, safety and environmental standards as we go about our daily business.

Dr. Angus Bruneau retired as Chair of the Board of Fortis Inc. at our Annual Meeting in May. Dr. Bruneau served as Chair of Fortis for the past 18 years. It was his vision that led our Company to grow from one utility, Newfoundland Power, to the Newfoundland-based international operations of today. We have seen tremendous change in both our Company and our industry over the past 20 years. One thing that never changed was Dr. Bruneau's unwavering commitment to the success of Fortis. We thank him for his leadership and commitment and extend our best wishes to him.

In recognition of the contribution Dr. Bruneau has made to our organization, Fortis pledged a $100,000 donation to Memorial University of Newfoundland in his honour. The donation was directed towards a complete remodelling of the main lecture theatre in the Engineering Building at Memorial University, which was renamed the *Angus Bruneau Engineering Lecture Theatre*. Dr. Bruneau was the founding Dean of Engineering at Memorial University.

Dedication ceremony for the Angus Bruneau Engineering Lecture Theatre *(l-r): Dr. Axel Meisen, President and Vice-Chancellor, Memorial University of Newfoundland; Dr. Angus Bruneau, past Chair of the Board, Fortis Inc.; H. Stanley Marshall, President and CEO, Fortis Inc.*

Following the retirement of Dr. Bruneau, your Board of Directors appointed Mr. Bruce Chafe as Chair of the Board of Fortis Inc. Mr. Chafe has served as a Director of Fortis since 1997. We express our thanks to all members of our Board of Directors for their continued guidance and leadership.

On February 26, 2007, Fortis entered into an agreement with Kinder Morgan, Inc. to buy Terasen Gas for a total purchase price of $3.7 billion, including the assumption of $2.3 billion in debt. Terasen Gas is the principal natural gas distribution utility in British Columbia, serving approximately 900,000 customers or 95 per cent of natural gas users in the province. Terasen Gas is a well-run utility which will give Fortis a platform for further growth in the natural gas distribution business. It will complement our electric utilities, providing value for our customers and shareholders. The acquisition, which is expected to close in mid-2007, will significantly increase the earnings of Fortis from regulated utilities and be immediately accretive to earnings per common share of Fortis.

Going forward, organic earnings growth will be driven by significant infrastructure investment at our regulated utilities in Western Canada and at our regulated and non-regulated utilities in the Caribbean. We remain focused on doing what we do best – operating efficient utilities while meeting the growing needs of our customers. Fortis will continue to seek regulated utility acquisitions in Canada, the Caribbean and the United States that provide opportunities to continue to grow our business profitably. We will also pursue growth in our non-regulated business in support of our regulated utility growth strategy.

On behalf of the Board of Directors,

Bruce Chafe
Chair of the Board
Fortis Inc.

H. Stanley Marshall
President and Chief Executive Officer
Fortis Inc.

VISION

In 1987, Fortis was structured as a holding company to pursue profitable growth and diversification. Today, the Corporation is an international distribution utility holding company with electric utilities serving more than 1,000,000 customers in Canada and the Caribbean region and with significant non-utility operations in non-regulated hydroelectric generation, commercial real estate and hotels.

Fortis has holdings in eight regulated electric distribution utilities in Alberta, British Columbia, Newfoundland, Prince Edward Island, Ontario, Belize, Cayman Islands and the Turks and Caicos Islands. The Corporation also owns non-regulated generation assets in Belize, Ontario, central Newfoundland, British Columbia and Upper New York State. Fortis Properties, the Corporation's vehicle for non-utility growth and diversification, owns and operates commercial real estate in Atlantic Canada and hotels in seven provinces in Canada.

H. Stanley Marshall, President and CEO, Fortis Inc. (left) and Barry V. Perry, VP, Finance and CFO, Fortis Inc. (right)

On February 26, 2007, Fortis entered into an agreement with Kinder Morgan, Inc. to buy Terasen Gas, the largest natural gas distribution utility in British Columbia. The acquisition is expected to close in mid-2007.

The principal business of Fortis is and will remain the ownership and operation of regulated utilities. The first priority remains the continued profitable expansion of existing operations. The Corporation will also pursue opportunities to acquire other utilities in Canada, the Caribbean and the United States. A higher return criteria will be applied to international assets to offset the increase in the risk profile.

The non-utility business operations of Fortis support the Corporation's utility growth and acquisition strategy. Fortis Properties will continue to grow in size and profitability, providing flexibility in financial and tax planning not generally possible with respect to utilities because of regulatory and public policy constraints. Fortis will maintain approximately 15 per cent to 20 per cent of its assets in non-utility businesses.

The vision of Fortis is to be the world leader in those segments of the regulated utility industry in which it operates and the leading service provider within its service areas. In all its operations, Fortis will manage resources prudently and deliver quality service to maximize value to customers and shareholders. The Corporation will continue to focus on three primary objectives:

i) Earnings should continue at a rate commensurate with that of a well-run Canadian utility.

ii) The financial and business risks of the overall operations of Fortis should not be substantially greater than those associated with the operation of a Canadian utility.

iii) The growth in assets and market capitalization should be greater than the average of other Canadian public corporations of similar size.

Fortis utilities provide a good mix of established, low-risk domestic operations and high-growth international assets. The corporate philosophy is to grow only if it can be done profitably. The Corporation has a strong record of profitable growth. Fortis will continue to build upon its record without significantly disturbing the risk-reward balance traditionally associated with the operation of regulated utilities.

Employees' commitment to serve customers well, combined with their knowledge and skills, fortify the reputation Fortis has achieved as an efficient utility operator. Integrity, accountability and autonomy are the core values that continue to underpin performance.

REGULATED UTILITY OPERATIONS

FortisAlberta is an electric distribution utility which owns and/or operates more than 104,000 kilometres of distribution lines and distributes electricity generated by other market participants to end-use customers in southern and central Alberta. The Company serves approximately 430,000 customers and met a peak demand of 2,584 MW in 2006.

Operating in a robust economy, FortisAlberta invested approximately $243 million, before customer contributions, in its electricity system in 2006 to improve reliability of service and meet new load growth. This investment, which represents a 47 per cent increase over the level of investment in 2005, provides the infrastructure to support Alberta's rapid growth while ensuring continued safe, reliable electricity service to customers.

Officers of FortisAlberta (l-r): Cynthia Johnston, VP, Corporate Services and Regulatory; Gary Smith, VP, Operations and Engineering; Philip Hughes, President and CEO; Karin Gashus, VP, Customer Service; James Harbilas, VP, Finance and CFO; Alan Skiffington, VP, Information Technology and CIO

Capital projects totalling approximately $116 million were undertaken to meet growth in customer demand driven by activity in the oil and gas industry and a residential housing boom. As part of the Company's multi-year program to improve system reliability, approximately $73 million was invested for capital upgrades and replacements, and to increase the capacity of its distribution network. More than 45 kilometres of heavy-load circuits were upgraded and 1,500 poles were replaced. Alternate feeder lines were built in high-growth areas to improve system reliability, including the Leduc/Nisku area which experienced a 10 per cent increase in load growth. FortisAlberta energized its 25-kilovolt ("kV") distribution line from Altalink's new Bassano substation, boosting Alberta's electricity system capacity by an additional 25 MW. This $0.6 million project enabled the Company to meet increased energy demand and improve reliability of service to residential, farm and oil sector customers in the Bassano area.

FortisAlberta completed a $100 million debenture offering in April 2006 and a $110 million debenture offering subsequent to year end. The proceeds from the offerings were used to refinance debt and to fund operating and capital expenditures to meet rapid growth within the utility's service territory.

The Company received a record Customer Satisfaction Rating of 78 per cent in 2006. Despite the operational challenges associated with substantial growth in energy demand, customers experienced, on average, 1.86 hours of outage time during the year, which represented approximately a five per cent improvement over the three-year average for the utility and was about one-half of the three-year average for the Canadian Electrical Association. The number of pre-planned outages was reduced by 19 per cent this year due to enhanced work methods and the use of innovative tools and equipment, including live-line equipment that allowed field personnel to work on many capital growth projects without service interruption.

FortisAlberta continued to introduce productivity initiatives to better serve customers. Engineering processes and work practices were revised, which reduced the time to complete construction projects and enhanced work capacity. Updated screening technology reduced the number of field visits required to locate underground cables and new equipment improved vegetation management practices, resulting in increased efficiency and higher quality work. The Company improved its ability to assign resources, bundle work and reduce employee travel time.

FortisAlberta made significant progress in improving its internal safety record during a year when more than 200 employees were hired or changed roles, including 56 employees who were assigned to high-risk line positions. The Company recorded

an All-Injury Frequency Rate of 1.98 in 2006, a 29 per cent improvement from 2005, which resulted from improved work practices, increased training and investment in tools and equipment. Nineteen field offices were recognized for achieving three or more years without lost-time incidents.

Significant growth in Alberta's construction industry caused public safety concerns for FortisAlberta in 2006 as the Company experienced, on average, one public contact with its power lines daily. FortisAlberta led a Joint-Utility Safety Team with participation from the Government of Alberta and other Alberta utilities. In the fall, the Team launched a province-wide advertising campaign and a public-service television program to reinforce its message about the hazards of high-voltage lines.

The Company formed a partnership with the Alberta Birds of Prey Centre to improve reliability of service for customers. FortisAlberta has pledged $200,000 over five years to the Centre for projects directed towards helping the utility design poles and wires to prevent bird injuries and, thereby, reduce unplanned outages. The monies will also assist the Centre in its education outreach programs and its work to rescue and rehabilitate birds.

The Company improved its ability to deploy resources in the field by upgrading a computerized dispatch tool which provides control centre and field personnel with a single computerized map showing resources, facilities and work assignments. In 2007, this dispatch tool will be used in the utility's outage-management program to improve system reliability.

FortisAlberta's role in Alberta's deregulated market environment involves accountability for meter data collection of more than 200,000 meters per month, data distribution, tariff billing and load settlement for more than 80 retailers. The Automated Meter Infrastructure ("AMI") technology, an innovative system which bills customers with AMI meters on actual reads and eliminates estimated bills, was launched in December. This major technology initiative will reduce overall operating costs associated with manual meter reading and improve accuracy of revenue recognition. Early in 2007, the Company began the first phase of the AMI installation by replacing 30,000 manually read meters for residential, farm, irrigation and commercial customers. The first phase is expected to be completed by mid-2007. Pending regulatory approval, AMI meters will be installed for all customers by the end of 2010.

FortisAlberta, in partnership with the City of Airdrie, received approval for a new operations facility in Airdrie's Kingsview Business Park. The facility, expected to open in 2008, will house approximately 300 FortisAlberta employees, enabling the utility to better serve customers in the service area.

FortisAlberta invested approximately $243 million, before customer contributions, in its electricity system in 2006 to improve reliability of service and meet new load growth.

In light of Alberta's highly competitive labour market, the Company continued to focus on the recruitment and retention of employees to meet workforce requirements. An enhanced employee-referral program and increased participation in career fairs attracted candidates who filled more than 200 positions in 2006. Career development, front-line leadership workshops and ongoing technical training, such as the Journeyman Upgrade Program, have enabled FortisAlberta to further develop the knowledge and skills of its 943 employees while retaining employees who view FortisAlberta as a key contributor to their professional development.

FortisBC is an integrated regulated utility operating in the southern interior of British Columbia, serving more than 152,000 customers directly and indirectly. Its utility assets include more than 6,750 kilometres of transmission and distribution power lines and four hydroelectric generating plants with a combined capacity of 235 MW. The Company generates approximately 45 per cent of its electricity requirements with the balance met through power purchase agreements. FortisBC met a peak demand of 718 MW in 2006, which matched the historical peak set in 2004.

This year marked the first full year of operations for the Customer Contact Centre since being re-established in British Columbia in 2005. Employees answered more than 139,000 customer calls and responded to over 64,000 other contacts, including emails and letters. Incoming calls were answered, on average, within 32 seconds. The Company received a Customer Satisfaction Rating of 85 per cent in 2006, four per cent higher than last year's rating. Customer service agents were trained to respond to first-level inquiries related to energy-efficiency programs and an automated telephone notification system streamlined the customer notification process for planned outages.

Officers of FortisBC (l-r): Michael Mulcahy, VP, Customer and Corporate Services; David Bennett, VP, Regulatory Affairs and General Counsel; Don Debienne, VP, Generation; John Walker, President and CEO; Doyle Sam, VP, Transmission and Distribution; Michele Leeners, VP, Finance and CFO

A monthly meter reading schedule was implemented, which reduced the time between reading the meter and issuing a bill by five days. A meter reading route optimization project provided further efficiencies and services at no incremental cost to customers. Significant improvements continued to be made to new-customer connection times and outage emergency-response times.

FortisBC invested approximately $111 million, before customer contributions, in capital projects this year. The utility's long-term capital program responds to increased energy demand driven by customer growth and the need to enhance the reliability of its electricity system.

A number of transformer upgrades and replacements were completed in the Okanagan region. During the year, work commenced on three substations and associated transmission lines with an estimated project cost of $60 million, of which $8.1 million was invested in 2006. Distribution-line rebuilds and protection upgrades were completed to further improve reliability of service in the Kootenay region.

FortisBC experienced a record summer-peak demand of 554 MW this year, eight per cent higher than last year. A fusing and coordination initiative was launched in the Okanagan region to improve system response to power-line faults and contribute to fewer customer interruptions.

The Company invested approximately $11 million in its generation-asset Upgrade and Life-Extension ("ULE") program. The program effectively rebuilds the generating units and all auxiliary systems, extending the life of the infrastructure for at least an additional 40 years.

FortisBC operates 15 generating units in its four hydroelectric power plants. Six generating unit rebuilds have been completed under the ULE program to date. In 2006, this program resulted in an incremental increase in generating capacity of more than 20 MW for a combined generating capacity of 235 MW.

The Canal Plant Agreement (the "Agreement") between FortisBC and BC Hydro was renewed for an additional 30 years and officially came into effect in April 2006, following an extensive negotiation process. The Agreement provides electrical capacity and energy entitlements to FortisBC, Teck Cominco Metals Ltd., Columbia Power Corporation and Columbia Basin Trust.

The Company's All-Injury Frequency Rate was reduced to 1.8 from 2.0 in 2005. This improvement was a substantial achievement for the utility's 506 employees given the extensive capital projects that were undertaken in 2006.

FortisBC led a cooperative safety program in partnership with other British Columbia utilities and safety organizations to improve public awareness of electrical safety practices and potential hazards. The program was promoted through an extensive advertising campaign and included the launch of a new website, *www.coopsafetyprogram.ca*. Employees delivered electrical safety seminars to various community groups including schools and emergency responders.

FortisBC continues to address the issue of power theft and its impact on public safety and customer rates. In 2006, 46 incidents of bypassed electrical services were identified and discontinued. The Company also led the development and distribution of a joint-industry letter regarding safety issues related to copper theft from utilities.

FortisBC and the Canadian electricity industry are facing a growing shortage of skilled tradespeople, in particular power-line technicians. An aging workforce also challenges recruitment initiatives. The utility continues to support apprenticeship programs and hired seven power-line technician apprentices during the year. The Company participates in cooperative education programs. A new engineer-in-training program was developed in 2006 to strengthen the utility's engineering group and focus on employee development.

FortisBC's utility assets include more than 6,750 kilometres of transmission and distribution power lines and four hydroelectric generating plants with a combined capacity of 235 MW.

In 2006, new collective agreements were ratified with the International Brotherhood of Electrical Workers and the Canadian Office and Professional Employees Union. The agreements are effective until January 31, 2008 and January 31, 2011, respectively.

FortisBC is committed to operating its business in an environmentally responsible manner. In 2006, the utility partnered with the South Okanagan-Similkameen Invasive-Plant Society, the Boundary Weed-Management Committee and the Central Kootenay Invasive-Plant Committee on several invasive-plant control programs. The promotion of natural, appropriate vegetation controls the growth of invasive plants and trees that may interfere with the performance of the electricity system.

FortisBC worked with the Provincial Ministry of Environment and wildlife biologists to minimize power outages and reduce electrocution risk to osprey. An osprey risk-management standard was developed and implemented to reduce future electrical outages and contacts.

The Company launched its *Bright Ideas* energy-efficiency public-awareness campaign during the year. Employees were also active in the community promoting energy-efficiency initiatives, which helped customers conserve approximately 23 GWh of energy in 2006.

Newfoundland Power operates an integrated generation, transmission and distribution system in Newfoundland. The Company serves approximately 230,000 customers, or 85 per cent of electricity consumers in the Province, and met a peak demand of approximately 1,166 MW in 2006. 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 approximately 136 MW, of which 92 MW is hydroelectric generation.

While challenged with increased energy prices, the Company achieved a Customer Satisfaction Rating of 89 per cent in 2006. For the past 10 years, the utility has placed near the top of industry rankings for overall customer service. Initiatives focused on maximizing the quality of customer service, reducing the cost of service delivery and providing energy-efficiency information and programs to customers.

Newfoundland Power's *Bright Ideas* campaign helped customers manage their energy usage by sharing easy, practical tips on how to conserve energy in homes and businesses. Employees talked one-on-one with customers, delivered seminars to seniors and special interest groups and appeared on local television and radio broadcasts to deliver information on energy efficiency. Throughout the year, thousands of customers at more than 50 trade shows and public events received information on ways to reduce their energy consumption. The *Bright Ideas* campaign was recognized by the Newfoundland and Labrador Chapter of the International Association of Business Communicators for Marketing Excellence for its effectiveness in promoting easy and practical energy-saving tips to customers.

Officers of Newfoundland Power (l-r): Peter Alteen, VP, Regulatory Affairs and General Counsel; Jocelyn Perry, VP, Finance and CFO; Karl Smith, President and CEO; Lisa Hutchens, VP, Customer Relations and Corporate Services; Phonse Delaney; VP, Engineering and Operations

The Company also worked closely with its energy supplier, Newfoundland Hydro, to deliver advice on energy-efficiency initiatives to all customers throughout the Province. Over 1,000,000 brochures were distributed directly to customers through Newfoundland Power's billing system, trade shows and other public events.

The utility's website was enhanced to give more visibility to the importance of electrical safety and to improve public access to information. A new *KidZone* was launched on the website to give children an opportunity to learn more about electrical safety through interactive computer games. Parents and educators can access teaching tools there as well.

Wireless technology was used to improve customer response times by enabling Contact Centre employees to quickly assign customer requests to the appropriate technicians in the field. Upgrades were made to the Company's Integrated Voice Response telephone system to provide more self-serve options, such as enabling customers to request final meter readings.

More and more customers are choosing to use the Company's on-line services. Customer visits to Newfoundland Power's website increased 24 per cent in 2006 compared to 2005. The number of customers who received their bills electronically also increased by 58 per cent compared to 2005. This billing option is more convenient for customers and is cost effective, which helps keep electricity rates down.

Newfoundland Power experienced the best reliability performance in the history of the Company in 2006 with respect to the duration of outages. The Company decreased the length of outages by 12 per cent compared to 2005, which meant

the electricity system was operating successfully and delivering power to customers 99.96 per cent of the time in 2006.

The Company invested approximately $60 million, before customer contributions, in its electricity system in 2006. A primary focus in improving the distribution system included the refurbishment of seven rural distribution lines with the poorest reliability performance. Three major transmission lines were also substantially rebuilt at a total cost of approximately $2.8 million. The Petty Harbour plant, commissioned in 1900 as the Province's first hydroelectric plant, received a $1.8 million overhaul this year. Small hydroelectric developments like the Petty Harbour plant enable the Company to provide low-cost, renewable electricity to customers.

The Petty Harbour plant, commissioned in 1900 as Newfoundland's first hydroelectric plant, received a $1.8 million overhaul in 2006.

Newfoundland Power developed new safety procedures and purchased innovative protective clothing to address hazards associated with high-voltage switchgear located in substations and generating plants. Safe-work procedures were implemented and new equipment was purchased to reduce the risk of injury and to improve control during wire installation near energized lines.

The Company responded to an increase in public contacts involving the electricity system. A number of incidents involved cut trees falling into power lines while other incidents involved contractors. Throughout the year, safety information and advertising efforts were increased to remind the general public, employers and contractors about the dangers involving the electricity system. Newfoundland Power partnered with Newfoundland Hydro, the Newfoundland and Labrador Construction Council, the Workplace Health, Safety and Compensation Commission and others to promote electrical safety.

Newfoundland Power's 552 employees continued to deliver quality service to customers. Training was provided to improve the leadership and coaching skills of front-line supervisors. A Benefits Strategy was implemented to ensure the continuation of a competitive benefits program at a reasonable cost and to engage employees and retirees in managing the future cost of benefits.

A long-term workforce strategy is in place to address the Company's future hiring needs should a labour shortage occur. Newfoundland Power is focused on the recruitment of power-line technicians and apprentices.

The Company continued to work towards achieving its goal to phase out polychlorinated biphenyls ("PCBs") in all oil-filled distribution equipment by 2009. PCBs were removed from 28 distribution feeders and four substations and have been phased out of all major substation equipment, such as breakers and substation transformers.

The Government of Newfoundland and Labrador recognized Newfoundland Power employees with the *2006 Environmental Award* in the Business category for their unwavering commitment to the environment. This honour was the eighth environmental award received by the Company in the past eight years.

Newfoundland Power's Bright Ideas *campaign helped customers manage their energy usage by sharing easy and practical tips on how to conserve energy in homes and businesses.*

Maritime Electric, the principal electric utility on Prince Edward Island, serves approximately 71,000 customers, or 90 per cent of electricity consumers in the Province, and met a peak demand of 216 MW in 2006. The utility owns and operates a fully integrated system providing for the generation, transmission and distribution of electricity across the Island. Maritime Electric maintains on-Island generating facilities at Charlottetown and Borden-Carleton with a combined capacity of 150 MW. The electricity system is connected to the mainland power grid via two submarine cables under the Northumberland Strait.

The Company purchases more than 95 per cent of the energy required to serve customers from New Brunswick Power ("NB Power"). It has entitlement to energy and capacity from NB Power's Point Lepreau and Dalhousie Generating Stations through agreements that extend for the life of these Stations. The Point Lepreau Station will undergo an 18-month refurbishment beginning in 2008 that will extend its life by 25 years, providing additional stability with respect to long-term energy supply.

Officers of Maritime Electric (l-r): Bill Geldert, VP, Finance, CFO and Corporate Secretary; Fred O'Brien, President and CEO; John Gaudet, VP, Corporate Planning and Energy Supply; Steve Loggie, VP, Customer Service

The remainder of off-Island energy purchases is made at market prices under an agreement with NB Power. Maritime Electric obtains the balance of its energy requirements either from its own generating plants or from on-Island wind-powered electricity generation facilities.

Maritime Electric invested approximately $27 million, before customer contributions, in 2006 primarily to improve system reliability and customer service. The new 50-MW combustion turbine generator was brought on-line in early 2006 to address issues associated with the loading of the submarine cables between Prince Edward Island and the mainland power grid. It provides increased reliability and security of energy supply. Construction commenced on a 138-kV transmission line to the eastern part of the Province to enable the utility to purchase energy from PEI Energy Corporation's new 30-MW wind farm.

In August, the Island Regulatory and Appeals Commission approved Maritime Electric's application to recover through rates the costs associated with a 39-MW Wind Power Purchase Agreement (the "Agreement") between the utility and PEI Energy Corporation. Recent legislation proclaimed by the Government of Prince Edward Island under the terms of the *Renewable Energy Act* will require Maritime Electric to obtain at least 15 per cent of its annual energy requirements from renewable sources, such as wind-powered energy, by 2010. The Agreement, in conjunction with the existing wind-energy purchase agreements, will enable the Company to reach this 15 per cent target. Maritime Electric has committed $3.6 million towards infrastructure to enable customers to benefit from on-Island wind-powered electricity generation. Further development of the Province's wind-power regime by commercial developers will be supported by the utility through infrastructure investment in its transmission system.

Maritime Electric received a Customer Satisfaction Rating of 79.5 per cent in 2006, up from 77.7 per cent last year. This year marked the 13th consecutive year that the utility's system reliability exceeded the benchmark established under the former *Maritime Electric Company Limited Regulation Act*. Customers experienced, on average, 4.96 hours of interrupted service in 2006.

Two additional customer automated-payment sites were opened this year, bringing the total number of sites to 12 across the Province. Information technology enhancements now enable customers to receive billing information via email or on-line at the Company's website.

Building on the benefits of the technology-based Geographic Information System ("GIS"), a Planned Outage System was implemented that enables Customer Service Representatives to identify and contact customers to be affected by a planned outage. The improved availability of information enables enhanced communication with customers about planned outages.

The implementation of a new Service Order System has expanded payment options for customers and improved the billing of service orders within the Customer Information System. It will also enable the future integration of work management modules and GIS data.

Maritime Electric is the principal electric utility on Prince Edward Island, serving approximately 71,000 customers, or 90 per cent of electricity consumers in the Province.

Maritime Electric continues to work closely with all levels of government to explore opportunities to protect the environment. In partnership with government and environment stakeholders, *A Bright Idea* pilot project was completed this year, whereby 95 participating households each received up to 20 compact fluorescent light bulbs. Participants each reduced their daily consumption by an average of 2.6 kilowatts per hour, translating into annual savings of 0.7 tonnes of greenhouse gas emissions per household.

As part of its Demand Side Management initiative, the Company partnered with the PEI Women's Institute to develop Island-wide holiday-lighting promotional workshops to educate customers about their energy consumption and to encourage the use of energy-efficient Light Emitting Diodes ("LED") holiday lighting.

During the year, power-line technicians received training in safe-driving skills and heavy-equipment operation, and production employees received training in power-plant operations. Maritime Electric continued to address its human resource planning issues. Fifteen employees participated in an early-retirement incentive program this year. The hiring of new apprentices and increased training for its 175 employees will ensure the Company maintains the technical skills and knowledge needed to serve customers in the future.

An Executive Safety and Environment Committee, chaired by the President and Chief Executive Officer and consisting of members of the Executive team, was established this year. Health, safety and environmental personnel provide valuable input and support to the Committee in its efforts to enhance the utility's health and safety processes.

Maritime Electric has committed $3.6 million towards infrastructure to enable customers to benefit from on-Island wind-powered electricity generation.

FortisOntario is an integrated electric utility which owns and operates the regulated distribution businesses of Canadian Niagara Power and Cornwall Electric. Its utilities serve approximately 52,000 customers mainly in Fort Erie, Port Colborne, Cornwall and Gananoque, Ontario and met a combined peak demand of 233 MW in 2006. FortisOntario owns regulated transmission assets in the Niagara and Cornwall regions including an interconnection between New York State and Fort Erie, Ontario. The Company owns a 10 per cent interest in each of Westario Power Holdings Inc. and Rideau St. Lawrence Holdings Inc., two regional electric distribution companies serving more than 27,000 customers.

FortisOntario invested more than $10 million in capital projects, before customer contributions, in 2006 primarily to enhance the reliability and efficiency of its electricity systems. In Fort Erie, extensive voltage conversions and upgrades were completed to substation equipment to improve overall operating performance and life expectancy. The Fort Erie Service Centre was upgraded to a centralized system control centre for the utility's Niagara Region distribution systems.

Officers of FortisOntario (l-r): Scott Hawkes, VP, Corporate Services, General Counsel and Corporate Secretary; Glen King, VP, Finance and CFO; William Daley, President and CEO; Angus Orford, VP, Operations

Construction commenced on a new $1.4 million distribution substation in Gananoque to improve reliability. Renovations began on a facility which will serve as an upgraded and lower-cost service centre for Gananoque field employees. In Cornwall, capital work focused on new connections, including a mix of residential and three-phase commercial services. Cornwall crews also completed the reconstruction of a rural distribution feeder in support of improved system reliability and accessibility.

FortisOntario received a Customer Satisfaction Rating of 84 per cent in 2006. Customers continue to rate reliability/safe delivery of electricity and quality of service as high priorities at 94 per cent and 87 per cent, respectively. The Company once again exceeded performance standards set by the Ontario Energy Board ("OEB") with respect to response times, service connections and telephone response statistics.

A number of manual work methods were eliminated through automation and several customer service processes were modified to minimize redundancies and reduce errors and workload. The Gananoque Customer Service Centre was consolidated with the nearby Cornwall office. The Information Technology Department initiated a comprehensive information technology consolidation plan to reduce operating costs in licensing and administration and to improve technology within the main data centre.

In October, an extreme snowstorm hit Fort Erie and Port Colborne, delivering more than 30 centimetres of wet, heavy snow on fully leaved trees. All customers in Fort Erie and a third of the utility's customers in Port Colborne were directly affected by the worst October storm recorded since the 1870s. Through a significant 24/7 recovery effort, power was restored to the majority of customers within five days. Support was marshalled from several Ontario utilities, deploying close to 100 additional line technicians plus a number of tree trimmers and customer service staff to help replace approximately 100 broken poles and more than three kilometres of service lines. FortisOntario expresses thanks and appreciation to everyone who assisted with these restoration efforts. The Company made application to the OEB in January 2007 to recover the storm costs through future rate adjustments.

FortisOntario met or exceeded all of its health, safety and environment key performance targets for 2006, including zero lost-time injuries for all work locations. The *Safety First* software program was installed to track and report on training initiatives, safety incidents and work inspections. The program will be used to manage overall safety and environmental performance. A drivers' education program contributed to a 33 per cent reduction in vehicle incidents in 2006.

The Company took the first major step towards establishing an integrated occupational health, safety and environmental management system by successfully completing a system manual. Once fully implemented, the integrated system will be consistent with Occupational Health and Safety Assessment Series 18001 and International Organization for Standardization 14001 ("ISO 14001").

FortisOntario customers continue to rate reliability/safe delivery of electricity and quality of service high priorities at 94 per cent and 87 per cent, respectively, in 2006.

A history of harmonious labour relations continued with the ratification of two new labour agreements between Canadian Niagara Power and the International Brotherhood of Electrical Workers, Local 636 in the Niagara and Gananoque regions. In support of ongoing succession planning initiatives, a 360-degree assessment program was implemented to develop the leadership skills of managers. To promote employee wellness, fitness challenges and other workplace wellness programs were launched for the Company's 133 employees.

FortisOntario continues to lobby the Government of Ontario to institute a new exemption-based transfer-tax policy in Ontario's electricity distribution sector, which would include the participation of the Canadian-owned private-sector distributors. The Company continues to pursue opportunities to partner with and acquire small publicly owned utilities in an effort to grow its distribution business. FortisOntario entered into strategic service arrangements with several distribution companies to provide them with ancillary services such as finance, regulatory and human resource expertise.

FortisOntario expresses thanks and appreciation to everyone who assisted in the significant 24/7 recovery effort of restoring power to the majority of Fort Erie and Port Colborne customers within five days following the worst October storm recorded since the 1870s.

Belize Electricity is the primary distributor of electricity in Belize, Central America. Serving more than 71,000 customers, the utility met a peak demand of 67 MW in 2006 from multiple sources of energy including power purchases from Belize Electric Company Limited ("BECOL"), Comisión Federal de Electricidad ("CFE"), the Mexican state-owned power company, and 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 70.1 per cent interest in Belize Electricity.

Officers of Belize Electricity (l-r): Joseph Sukhnandan, VP, Engineering and Energy Supply; Felix Murrin, VP, Customer Care and Operations; Lynn Young, President and CEO; Juliet Estell, Manager, Executive Services and Company Secretary; Rene Blanco, VP, Finance and CFO

In June, Belize Electricity completed a US$33.4 million Recapitalization Plan, the proceeds from which allowed the Company to continue its capital expenditure program to improve service reliability and meet growing energy demand.

Capital investments of US$16 million were undertaken this year to upgrade and expand the electricity system to improve service performance. One major project completed was the US$2.4 million upgrade of the southern transmission line to 69 kV from 34.5 kV. The completion of this project, a subcomponent of the Fifth Power Development Project ("Power V"), helps the Company keep pace with load growth, improves energy supply quality and reduces system losses in the southern service areas of the country. Power V incorporates the majority of Belize Electricity's substation modification, reliability and process improvement initiatives.

More than 93 kilometres of new power lines were constructed to upgrade and replace aging distribution systems in order to minimize potential hurricane damage. New line extensions were also built to connect several housing and tourism development projects.

In 2006, 206 kilometres of transmission lines were upgraded to help reduce electricity system losses. With assistance from sister companies, Newfoundland Power and Caribbean Utilities, Belize Electricity's Revenue Protection Team increased its inspection of meters. As a result of these initiatives, the Company anticipates reducing system losses in 2007.

In February 2007, the Company connected to Hydro Maya Limited's 3-MW run-of-river hydroelectric facility in southern Belize. In 2006, Belize Electricity sourced 43 per cent of its energy from hydroelectricity and is able to meet the country's peak demand with local generation when necessary.

In August, a new Power Purchase Agreement ("PPA") with CFE went into effect. Under this PPA, the Mexican utility provides Belize Electricity with up to 15 MW of firm energy and up to a maximum of 40 MW on an economic basis if no firm energy is utilized. While the unit cost of firm energy has increased, due mostly to escalating oil prices, the Company has the option to purchase economic energy, if available and cheaper, before purchasing firm energy. Under the previous agreements, 25 MW of firm energy and 14 MW of energy on an economic basis, which could only be dispatched after exhausting the use of firm energy, were provided.

Belize Electricity was awarded a Customer Satisfaction Rating of 84.1 per cent in 2006. A new Customer Information and Billing System was implemented this year, which has elevated customer-care processes to generate quick reports on meter readings, payment history and other account information in reader-friendly formats at the request of customers.

A software application was developed to deliver improved eBills to customers. The revised eBills replicate the easy-to-read format of paper bills. With this application in place, the Company is able to automatically notify customers via email of approaching due dates for bill payments.

Belize Electricity was awarded a Customer Satisfaction Rating of 84.1 per cent in 2006.

Service reliability is a critical performance parameter. Line staff was trained in the use of hot stick and rubber glove techniques on energized power lines. More than half of the Company's line staff are now certified for this work, which benefits customers by reducing the number of planned power outages.

In 2006, the Environmental Management System ("EMS") continued to be implemented in several high-risk areas of the Company. Employees received practical training in ISO 14001 policies and procedures. External auditors reported that the initiatives and activities under the utility's EMS successfully addressed areas needing improvement as identified during the 2005 initial audit. Belize Electricity plans to become compliant with ISO 14001 by 2008.

In 2006, the Environmental Management System continued to be implemented in several high-risk areas of Belize Electricity as part of the Company's goal to become compliant with ISO 14001 by 2008.

Developing human resource competencies is essential to achieving high performance standards. This year, emphasis was placed on enhancing the leadership skills of management employees by identifying top performers and implementing action plans to further develop their potential to assume greater responsibilities. Operations staff participated in a training session on information technology and customer service with other Fortis utilities. The knowledge and best practices obtained from this session were integrated into improvement action plans for these operational areas.

A health and safety culture continues to be a mainstay in day-to-day operations. *Get Movin'*, a health and safety initiative, was launched to promote the importance of physical health and fitness for employees. A Drug-Free Workplace Policy was implemented as part of the utility's commitment to protect the health and safety of customers and its 254 employees. A series of public presentations on electrical safety was well received by participants and will continue in 2007.

Caribbean Utilities generates, transmits and distributes electricity to more than 22,000 customers on Grand Cayman, Cayman Islands. The Company is one of the most reliable and efficient utilities in the Caribbean region. Its electricity system has a generating capacity of 120 MW and met a record peak demand of 87 MW in October 2006.

The Class A Ordinary Shares of Caribbean Utilities are listed in US funds on the Toronto Stock Exchange under the symbol CUP.U.

Officers of Caribbean Utilities (l-r): Lee Tinney, VP, Transmission and Distribution; Andrew Small, VP, Production; Richard Hew, President and CEO; Eddinton Powell, Senior VP, Finance & Corporate Services and CFO; Robert Imparato, Company Secretary and CGO

In November, Fortis became controlling shareholder of the Company by increasing its ownership in Caribbean Utilities to approximately 54 per cent.

Caribbean Utilities operates under a 25-year exclusive Licence with the Government of the Cayman Islands (the "Government"). The Company is entitled to earn a 15 per cent rate of return on rate base. The utility reconvened Licence renewal negotiations with the Government in November 2005 and discussions between the two parties are ongoing. The current Licence remains in full force and effect until January 2011 or until replaced with a new licence by mutual agreement.

Caribbean Utilities achieved an 87 per cent Customer Satisfaction Rating in May 2006. Customer service initiatives undertaken throughout the year included the direct marketing of convenient external payment options, such as bill payment at local banks. New automatic meters continued to be installed, which reduce reading times and increase billing accuracy. The Company's *Energy Smart* program, designed to help customers conserve energy, was further promoted. Management conducted energy conservation seminars in the summer as fuel prices escalated and directly impacted customer bills. Caribbean Utilities offers free residential and commercial energy audits to all customers as part of its *Energy Smart* activities. Electricity service was available to customers 99.92 per cent of the time in 2006.

Capital investments for the fiscal year ended April 30, 2006 totalled US$33.9 million. Major capital projects included the restoration of four hurricane-damaged generating units, totalling 16.8 MW, which are housed in a refurbished and upgraded engine room; the commissioning of a new 8.4-MW gas turbine; and the expansion of the bulk fuel storage facility at North Sound.

The Company's fiscal 2007 capital budget is US$38 million. Ongoing projects include the US$22 million purchase and installation of a 16-MW medium-speed diesel generating unit and auxiliary equipment. This unit is scheduled for installation to meet energy demand for the summer 2007.

Caribbean Utilities' commitment to excellence in employee and public safety practices remains a priority. Safety initiatives this year included the implementation of a Contractor Safety Program, revisions to energy control procedures and updates to the Employee Health and Safety Manual.

The Company has a comprehensive EMS and is ISO 14001 certified (2004 standard) for its power generation, and transmission and distribution systems. Caribbean Utilities is the only organization in the Cayman Islands that currently has ISO 14001 certification. EMS initiatives in 2006 included the shipment of more than 45,400 kilograms of scrap aluminum and 350 hurricane-damaged transformers to Florida for recycling, which generated approximately US$0.3 million in revenue. Other initiatives included ongoing emergency-preparedness planning, a continuous employee-education program and stringent environmental and structural design standards.

Caribbean Utilities continues to monitor the development of alternative-energy sources for Grand Cayman. The Company signed a non-binding memorandum of understanding with Sea Solar Power International ("SSP") in 2004 to purchase power from a prototype 10-MW ocean thermal-energy conversion plant to be commissioned by SSP in early 2009, subject to government licencing and other approvals.

With 187 employees, more than 90 per cent of whom are Caymanian, Caribbean Utilities recorded more than 12,000 employee training hours for the fiscal year ended April 30, 2006. Training initiatives included information technology instruction to a diverse group of employees, as well as a comprehensive apprenticeship program for plant operators, line staff and fleet mechanics.

The Company achieved *Investors in People* certification in early 2006. This internationally recognized standard aligns the utility's human resource strategies with its business objectives. A People Strategy Action Plan was completed, which addresses human resource issues related to recruitment and retention of key personnel, employee and leadership development, and compensation and rewards. Employee development initiatives will continue throughout 2007 as the utility strives to maintain its employer-of-choice position in the country.

Information technology projects undertaken in 2006 included the development of business continuity plans for several departments, with crisis management and emergency response procedures to follow in 2007. Other initiatives included the completion of a disaster recovery centre to protect the utility's critical server data and the installation of the TeleLink customer service system. The automated system uses interactive voice-recognition technology to provide value-added services, such as billing enquiries and credit card bill payments, via telephone.

Caribbean Utilities was honoured in January 2006 by the Edison Electric Institute of the United States with the *Emergency Recovery Award* in recognition of the Company's achievements during its electricity service restoration efforts following Hurricane Ivan in 2004. More than 140 Fortis employees helped personnel from Caribbean Utilities restore electricity service in under three months.

Caribbean Utilities' electricity system has a generating capacity of 120 MW and met a record peak demand of 87 MW in October 2006.

FORTIS TURKS AND CAICOS

On August 28, 2006, Fortis acquired two electric utilities, P.P.C. Limited and Atlantic Equipment & Power (Turks and Caicos) Ltd., (collectively referred to as "Fortis Turks and Caicos"), for aggregate consideration of approximately US$90 million.

The Turks and Caicos Islands, a British Overseas Territory located about 575 miles southeast of Miami, consists of two major island groups with an area of approximately 270 square miles. The two island groups are comprised of approximately 40 islands, eight of which are inhabited. The Turks and Caicos Islands has a population of approximately 33,000 permanent residents; however, the population increases significantly during the country's peak tourism season running from October through March. About 75 per cent of inhabitants live on Providenciales, the most developed and commercialized island of the Turks and Caicos Islands.

The Turks and Caicos Islands is a world-class tourist destination that has been experiencing significant growth in high-end resort condominium development. Gross domestic product grew by approximately 14 per cent (real growth) in 2005 to US$570 million.

Fortis Turks and Caicos serves approximately 7,700 customers, or 80 per cent of electricity customers, in the Turks and Caicos Islands. The Company has a combined diesel-fired generating capacity of approximately 37 MW and met a combined peak demand of 25 MW in 2006.

Fortis Turks and Caicos owns and operates a fully integrated system providing for the generation and distribution of energy in Providenciales, North Caicos and Middle Caicos pursuant to a 50-year licence that expires in 2037. The Company also owns and operates an independent generating station and distribution system on South Caicos and is the sole provider of electricity for that island pursuant to a 50-year licence that expires in 2036.

Fortis Turks and Caicos is the principal distributor of electricity in the Turks and Caicos Islands pursuant to 50-year licences that expire in 2036 and 2037.

The robust growth in energy demand is being driven by tourism and the high level of condominium and hotel development.

Energy sales on Providenciales, where the majority of customers reside, have increased, on average, 15 per cent annually for the last 12 years. The robust growth in energy demand is being driven by tourism and the high level of condominium and hotel development. While construction activity in the Turks and Caicos Islands has been vigorous for several years now, 2006 saw an accelerated pace of development due to the high level of government-funded public works initiatives.

Fortis Turks and Caicos invested US$13.8 million in capital projects this year to meet customers' energy needs and ensure system reliability given the sustained level of growth in energy demand. The first of three generator sets purchased from Guyana was installed and preparations are underway for the installation of the remaining two units. A new 35-kV substation was energized in Grace Bay to meet the energy demand created by resort construction. Three mobile generators were acquired to provide flexibility and respond to load growth on various islands of the Turks and Caicos Islands. Requisite overhauls of the diesel-generator sets were completed and a specialized engine analysis was conducted to detect engine failure or defects. A state-of-the-art fire-protection system was commissioned at the Providenciales Generating Station.

During the year, the Company completed a number of major capital initiatives in tandem with government-funded public works transportation projects. Part of the overhead distribution system was replaced with an underground system during the paving of an extensive section of roadway through the developed area of Providenciales. A new section of cable was installed between Dellis Cay and North Caicos following the dredging of a channel from the deeper water northeast of Dellis Cay to Belfield Landing on North Caicos for the development of a new commercial port. A four-kilometre distribution line was constructed to connect the new port with the Company's distribution system at Kew.

The Turks and Caicos Islands is a world-class tourist destination.

Fortis Turks and Caicos is committed to ensuring employees have the skills and expertise needed to meet the challenges of delivering safe, reliable electricity service to customers as the Turks and Caicos Islands continues to experience strong growth in energy demand. Throughout the year, training continued to be provided to meter technicians, operators, customer service agents and information systems staff. With a team of 79 employees, Fortis Turks and Caicos will continue to support employee development initiatives to ensure customers' service expectations continue to be met.

TURKS AND CAICOS ISLANDS

Location: Approximately 575 miles southeast of Miami and 70 miles north of the Dominican Republic. It consists of two island groups with an area of approximately 270 square miles. The two island groups are comprised of approximately 40 islands, eight of which are inhabited: Salt Cay, Grand Turk, South Caicos, Middle Caicos, North Caicos, Providenciales, Parrot Cay and Pine Cay. The capital is Cockburn Town, Grand Turk.

Language: English (official)

Climate: tropical, marine, moderated by trade winds, sunny and relatively dry

Natural Resources: spiny lobster, conch

Agriculture: corn, beans, cassava (tapioca), citrus fruits

Economy: Tourism and offshore financial activities are the dominant industries and there is a modest fishing industry (lobster and crayfish). The Turks and Caicos Islands is a world-class tourist destination that has been experiencing significant growth in high-end resort condominium development. Major sources of government revenue include fees from offshore financial activities and customs receipts. The Turks and Caicos Islands does not have income, corporate, capital gains, dividend, inheritance or real estate taxes.

Currency: US dollar

Legal System: Based on laws of England and Wales, with a few adopted from Jamaica and the Bahamas

Transportation: Three international airports. Miami is the main gateway and charter flights are also available from New York and Canada. The national airport offers regular flights to other Caribbean destinations. There are also flights from the Bahamas, Haiti and the Dominican Republic.

The Turks and Caicos Islands has a population of approximately 33,000 permanent residents. The population increases significantly during the country's peak tourism season running from October through March.

NON-REGULATED OPERATIONS

Fortis Generation includes the operations of non-regulated generating assets in Belize, Ontario, central Newfoundland, British Columbia and Upper New York State. The generating capacity of these non-regulated assets is 195 MW, 190 MW of which is hydroelectric generation.

In Belize, BECOL owns and operates the 25-MW Mollejon and 7-MW Chalillo hydroelectric facilities, located on the Macal River. Mollejon and Chalillo are the largest commercial hydroelectric generating facilities in Belize. Energy production increased to 178 GWh in 2006, more than two-and-a-half times the level of production for 2005. The increased production was made possible through the operation of the Chalillo hydroelectric facility, which was commissioned in September 2005. BECOL sells its entire output to Belize Electricity under a 50-year PPA.

Hydroelectric production is contributing significantly to stabilizing energy prices in a country faced with escalating oil prices. Since September 2005, the Chalillo hydroelectric facility has saved Belize Electricity customers US$4 million in energy costs by providing the least-cost source of energy available. The Chalillo development has also helped with flood control. In July, the National Meteorological Service confirmed that the presence of the facility considerably minimized the impact of flood waters in San Ignacio after heavy rains.

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 Environmental Impact Assessment for the Vaca facility received approval during the year. Construction of the 18-MW hydroelectric generating facility, situated approximately five kilometres downstream of Mollejon, is scheduled to commence in 2007, pending regulatory approval. It represents the final phase of the three-phase hydroelectric development plan for the Macal River. The Vaca facility is expected to enable BECOL to address the energy demands of Belize in an economic and environmentally sound manner and reduce dependence on foreign energy supply by using generation available in-country.

In central Newfoundland, Fortis Generation holds a 51 per cent interest in the Exploits River Hydro Partnership.

In Ontario, non-regulated operations include the 75 MW of water-right entitlement associated with the Niagara Exchange Agreement, a 5-MW gas-fired cogeneration plant in Cornwall and six small hydroelectric generating stations in eastern Ontario with a combined capacity of 8 MW.

With the exception of the cogeneration plant in Cornwall, the electricity produced from these facilities is sold in Ontario at market prices.

In central Newfoundland, Fortis Generation holds a 51 per cent interest in the Exploits River Hydro Partnership ("Exploits Partnership") with Abitibi-Consolidated Company of Canada ("Abitibi-Consolidated"). The Exploits Partnership was established in 2001 to develop additional capacity at Abitibi-Consolidated's hydroelectric generating plant at Grand Falls-Windsor and to redevelop the forestry company's 50-hertz hydroelectric generating plant at Bishop's Falls to increase annual energy production by approximately 140 GWh to 600 GWh. The Exploits Partnership project commenced operations in November 2003. Abitibi-Consolidated continues to use the historical annual generation while the additional energy produced as a result of the project is sold to Newfoundland Hydro under a 30-year PPA. The Exploits Partnership achieved record annual production of 168 GWh in 2006.

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 four hydroelectric generating stations located in Moose River, Philadelphia, Dolgeville and Diana. The plants have a combined capacity of approximately 23 MW. The average annual 85 GWh of energy output of these modern facilities is sold at the wholesale level through a series of contracts. In June, the Dolgeville plant was shut down as a result of flooding on East Canada Creek. While the powerhouse escaped damage, recovery work was required at the plant's intake and tailrace and the plant returned to full operation within three months.

The Chalillo hydroelectric facility in Belize considerably minimized the impact of flood waters in San Ignacio after heavy rains.

Fortis Properties owns and operates 18 hotels, offering more than 3,200 rooms, in seven Canadian provinces and 2.7 million square feet of commercial office and retail space in Atlantic Canada. The Company, a wholly owned subsidiary of Fortis, is the primary vehicle for non-utility diversification and growth.

In November, Fortis Properties expanded its presence in Western Canada with the acquisition of four internationally branded hotels, operating 454 rooms, in Alberta and British Columbia. The approximate $52.0 million transaction included the purchase of Holiday Inn Express and Suites, and Best Western, in Medicine Hat, Alberta; Ramada Hotel and Suites in Lethbridge, Alberta; and Holiday Inn Express in Kelowna, British Columbia. The hotels are leaders in their respective markets, enabling Fortis Properties to continue to build on its reputation for high-quality, well-situated hotels.

The $2.3 million, 11,000-square foot conference centre expansion at Holiday Inn Kitchener-Waterloo and the addition of a $7.8 million, 70-room tower at Holiday Inn Sarnia were officially opened in 2006. The enhanced product offerings of the hotels will increase their ability to attract larger-scale events. Fortis Properties disposed of the Days Inn in Sydney, Nova Scotia for gross proceeds of $4.5 million. The Company maintains its presence in Sydney as the owner/operator of the Delta Sydney.

Officers of Fortis Properties (l-r): Earl Ludlow, President and CEO; Neal Jackman, VP, Finance and CFO; Nora Duke, VP, Hospitality Services; Wayne Myers, VP, Real Estate

Customer Satisfaction Ratings for the Hospitality Division showed continued improvement in 2006. The Company's three Delta hotels were recognized by the brand with *Most Improved Guest Satisfaction* and *Hotel of the Year* awards for superior performance. The Delta St. John's Hotel and Conference Centre placed first in both categories.

Revenue per Available Room ("REVPAR") increased for the 11th consecutive year, reaching $72.67. REVPAR growth was primarily due to an increase in average daily room rates.

The Real Estate Division continued its strong and stable operations throughout the year. Occupancy was 94.9 per cent as of December 31, 2006, outpacing the national rate of 92.3 per cent.

Fortis Properties continues to build upon its strong tenant relationships with proactive negotiations for early tenant renewals. Long-term leasing provides for stable annual earnings and reflects the Company's commitment to customer service and product quality.

Growth in the Real Estate Division was primarily derived from completion of the $6.2 million, 57,000-square foot expansion of the Blue Cross Centre in Moncton, New Brunswick. Within four months of opening, signed lease agreements were obtained for 100 per cent of the expansion. A $60,000 incentive was received under the Government of Canada's Commercial Building Incentive Program for the expansion's energy-efficient design, which is 29.9 per cent more efficient than the Model National Energy Code for Buildings.

The Building Owners and Managers Association ("BOMA") Atlantic recognized the Maritime Centre in Halifax, Nova Scotia with the BOMA Atlantic Award of Excellence for 2006–2009. The Award acknowledges superior quality in property and facility management. Kings Place in Fredericton, New Brunswick received recognition in BOMA Atlantic's Environmental

Stewardship category for its chiller replacement project which will result in 69,000 kilowatt hours of energy being conserved each year. Brunswick Square in Saint John, New Brunswick helped a major tenant implement a composting and waste management initiative, which was also recognized in BOMA Atlantic's Environmental Stewardship category.

Customer Satisfaction Ratings for Fortis Properties' Hospitality Division showed continued improvement in 2006.

Opportunities were identified to mitigate the impact of increasing operating costs associated with higher energy prices and rising property taxes. Energy-efficiency programs, tax-assessment reviews and operational improvements helped to control costs throughout the year.

Several technology enhancements were made to improve the quality of service. More than $0.6 million was invested in the installation of new property management systems at eight of the Company's hotels. The new systems will enhance reservation and check-in services and improve property operating efficiencies. The installation of new backup software and a Storage Area Network was completed during the year. This new infrastructure will strengthen application and data management operations. In 2006, a new payroll system was installed to provide more self-service options for payroll information and improve information management.

Health and safety initiatives for the year focused on education and accountability. Ten-point safety audits were conducted for the majority of the Company's properties in Atlantic Canada and Ontario and will continue in 2007 for the remainder. On-line training modules were implemented to highlight safe work-practices and procedures and the role Fortis Properties' 1,500 employees play in creating a safe and healthy work environment.

Growth in the Real Estate Division was primarily derived from completion of the $6.2 million, 57,000-square foot expansion of the Blue Cross Centre in Moncton, New Brunswick.

A mentoring program was launched in 2006, which provides an opportunity for participants, considered to be top performers within the Company, to partner with other employees for the purpose of career and personal development.

Employee communication initiatives continue to be a priority. A corporate newsletter was launched in the spring to communicate business messages and highlight employee successes. Throughout the year, employees participated in town-hall meetings, brown-bag lunches and employee orientation sessions to learn more about the Company and their role in it.

Fortis believes in the power of giving back to our communities. Each and every day, Fortis employees roll up their sleeves and work with other community-minded people to make our communities better and brighter. Here are just a few of the initiatives we were proud to support in 2006.

Our employees and their families and friends laced up their runners and hit the pavement in support of the *2006 CIBC Run for the Cure*, raising approximately $15,000 in aid of breast cancer research and treatment in addition to $25,000 pledged corporately. Since coming on board as *First Regional Sponsor in Atlantic Canada* in 2001, Fortis and our employees have pledged approximately $307,000 to the cause.

FortisAlberta employees delivered *Zap*, an electrical safety education program, to more than 5,000 elementary students. The trivia-style board game challenges young people to identify and avoid electrical hazards. The Alberta Centre for Injury Control and Research bestowed FortisAlberta with the *Injury Control Champion Award* for increasing public awareness of electrical safety.

FortisBC launched the first annual *FortisBC Wild Festival for Youth Writing and Art Contest*. More than 400 submissions were received from children who demonstrated their knowledge of wildlife and the environment through art and essays. Six winners were recognized at the *FortisBC Wild Festival for Youth*, currently the largest Canadian environmental festival solely for children.

Newfoundland Power marked its fourth anniversary of *The Power of Life Project* with a $53,000 donation for two newly renovated cancer centres in central Newfoundland. The contribution will be used to purchase chemotherapy chairs, furnishings and equipment for the centres.

The *11th Annual Maritime Electric Charity Golf Tournament* raised $30,000 for the Heart and Stroke Foundation, Canadian Cancer Society PEI Division and Children's Wish Foundation. Maritime Electric also supported a local athlete who won four medals, including a gold medal, at the 2006 World Cup Bobsleigh Championship and later competed at the Winter Olympics in Italy, finishing in fourth place, missing the bronze medal by .05 seconds!

FortisOntario raised almost $32,000 for the *2006 United Way Campaign* and was recognized by the *United Way of Greater Niagara* for its dedication and commitment to the Campaign's effort. FortisOntario also hosted the *United Way Golf Tournament* for the second straight year, raising $10,000 for worthy community initiatives.

Belize Electricity was proud to sponsor the first-ever *School Band Fest Competition* held in Belize. More than ten schools participated in the event, which raised awareness for the development of the musical talents of young Belizean students.

Caribbean Utilities was the main sponsor of the *Primary Football League*, featuring more than 300 players from 14 schools across Grand Cayman. Many Company employees volunteered as coaches and referees throughout the season.

Fortis Turks and Caicos continued to support several cultural activities and events such as the *South Caicos Regatta* and the local *Conch Festival*. The Company also sponsored *Education and You*, a local television program highlighting the value of education.

Fortis Properties partnered with the *Military Family Service Centre* in Newfoundland and Labrador to fill gift boxes for military personnel serving in Afghanistan. More than 100 boxes were packaged as a result of the collaborative efforts of Fortis Properties employees and military personnel.

Thank you to our employees and to all volunteers who contribute to powering our communities.

MANAGEMENT DISCUSSION AND ANALYSIS

Dated March 15, 2007

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. 2006 Annual Report. This material has been prepared in accordance with National Instrument 51-102 – Continuous Disclosure Obligations relating to Management Discussion and Analysis. Financial information in this material has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and is presented in Canadian dollars unless otherwise specified. Fortis Inc. ("Fortis" or the "Corporation") includes forward-looking statements in this material which reflect management's expectations regarding the Corporation's future growth, results of operations, performance, business prospects and opportunities. Wherever possible, words such as "anticipate", "believe", "expects", "intend" and similar expressions have been used to identify the forward-looking statements. These statements reflect management's current beliefs and are based on information currently available to the Corporation's management. Forward-looking statements involve significant risks, uncertainties and assumptions. Certain material factors or assumptions have been applied in drawing the conclusions contained in the forward-looking statements. These factors or assumptions are subject to inherent risks and uncertainties surrounding future expectations generally. Such risk factors or assumptions include, but are not limited to, regulation, energy prices, general economic conditions, weather, derivatives and hedging, capital resources, loss of service area, licences and permits, environment, insurance, labour relations, human resources and liquidity risk. Fortis cautions readers that a number of factors could cause actual results, performance or achievements to differ materially from the results discussed or implied in the forward-looking statements. These factors should be considered carefully and undue reliance should not be placed on the forward-looking statements. 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 including those factors described under the heading "Business Risk Management" in the following Management Discussion and Analysis for the year ended December 31, 2006. 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.

A discussion of the financial condition and results of operations for the fourth quarter of 2006 is contained in the Corporation's Interim Management Discussion and Analysis for the three and twelve months ended December 31, 2006 dated and filed on SEDAR at www.sedar.com on February 8, 2007.

Barry V. Perry, VP, Finance and CFO, Fortis Inc.

Corporate Overview and Strategy

Fortis is principally a diversified, international distribution utility holding company with investments primarily in regulated distribution utilities in Canada and the Caribbean region. The Corporation serves more than 1,000,000 electricity customers and meets a combined peak demand of approximately 5,100 megawatts ("MW"). Fortis also owns and operates non-regulated generation assets, commercial real estate and hotels.

The vision of Fortis is to be a world leader in those segments of the regulated utility industry in which it operates and the leading service provider within its service areas. Fortis has adopted a strategy of profitable growth with earnings per common share as the primary measure of performance. The Corporation's first priority is to pursue organic growth opportunities in existing operations. Additionally, the Corporation pursues growth through acquisitions. The key objectives of Fortis are:

- Earnings should continue at a rate commensurate with that of a well-run Canadian utility.
- 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.
- The growth in assets and market capitalization should be greater than the average of other Canadian public corporations of similar size.

The key goals of the Corporation's regulated utilities are to operate sound distribution systems and to deliver safe, reliable electricity to customers at reasonable rates. The Corporation's core business is highly regulated. It is segmented by franchise area and, depending on regulatory requirements, by the nature of the assets. The Corporation's regulated utilities are segmented between Regulated Utilities – Canadian and Regulated Utilities – Caribbean. The earnings of the Corporation's regulated utilities are primarily determined under traditional cost of service and rate of return methodologies. Earnings of the Canadian regulated utilities are generally exposed to changes in interest rates associated with the rate-setting mechanisms.

Fortis also holds investments in non-regulated generation assets and commercial real estate and hotels, which are treated as two separate segments. The Corporation has non-regulated generation assets operating in three countries with a combined generating capacity of 195 MW, principally hydroelectric. Except for non-regulated hydroelectric generation operations in Belize and British Columbia, the Corporation's non-regulated generation operations are owned and/or managed by Fortis Properties Corporation ("Fortis Properties") to ensure standard operating practices, enable leveraging of expertise across the various jurisdictions and to allow the pursuit of non-regulated hydroelectric projects. The Corporation's investments in non-regulated assets provide for financial, tax and regulatory flexibility and enhance shareholder return.

The Corporation's operating segments allow senior management to evaluate the operational performance and assess the overall contribution of each segment to the Corporation's long-term objectives. Each operating segment operates as an autonomous unit, assumes profit and loss responsibility and is accountable for its own resource allocation.

The following summary briefly describes the operations included in each of the Corporation's operating and reportable segments.

Regulated Utilities – Canadian

The following summary describes the Corporation's interests in Regulated Utilities in Canada by utility:

a. *FortisAlberta:* FortisAlberta owns and operates the electricity distribution system in a substantial portion of southern and central Alberta, serving approximately 430,000 customers.

b. *FortisBC:* Includes FortisBC Inc., an integrated electric utility operating in the southern interior of British Columbia serving more than 152,000 customers. FortisBC Inc. owns four hydroelectric generating plants with a combined capacity of 235 MW. Included with the FortisBC component of the Regulated Utilities – Canadian segment are the non-regulated operating, maintenance and management services relating to the 450-MW Waneta hydroelectric generating facility owned by Teck Cominco Metals Ltd., the 149-MW Brilliant Hydroelectric Plant owned by Columbia Power Corporation and the Columbia Basin Trust ("CPC/CBT"), the 185-MW Arrow Lakes Hydroelectric Plant owned by CPC/CBT and the distribution system owned by the City of Kelowna. FortisBC's assets also include the regulated electric utility formerly operated as Princeton Light and Power Company, Limited (''PLP"). PLP was purchased by Fortis through an indirect subsidiary on May 31, 2005. Effective January 1, 2007, PLP was amalgamated with FortisBC Inc. as part of an internal corporate reorganization.

c. *Newfoundland Power:* Newfoundland Power is the principal distributor of electricity in Newfoundland, serving approximately 230,000 customers. Newfoundland Power has an installed generating capacity of 136 MW, of which 92 MW is hydroelectric generation.

d. *Maritime Electric:* Maritime Electric is the principal distributor of electricity on Prince Edward Island ("PEI"), serving approximately 71,000 customers. Maritime Electric also maintains on-Island generating facilities at Charlottetown and Borden-Carleton with a combined capacity of 150 MW.

e. *FortisOntario:* FortisOntario provides an integrated electric utility service to approximately 52,000 customers in Fort Erie, Cornwall, Gananoque and Port Colborne in Ontario. FortisOntario operations include Canadian Niagara Power Inc. ("Canadian Niagara Power") and Cornwall Street Railway, Light and Power Company, Limited ("Cornwall Electric"). Included in Canadian Niagara Power's accounts is the operation of the electricity distribution business of Port Colborne Hydro Inc., which has been leased from the City of Port Colborne under a 10-year lease agreement entered into in April 2002. FortisOntario also owns a 10 per cent interest in each of Westario Power Holdings Inc. and Rideau St. Lawrence Holdings Inc., two regional electric distribution companies formed in 2000 serving more than 27,000 customers.

Regulated Utilities – Caribbean

The following summary describes the Corporation's interests in Regulated Utilities in the Caribbean by utility:

a. *Belize Electricity:* Belize Electricity is the principal distributor of electricity in Belize, Central America, serving more than 71,000 customers. The Company has an installed generating capacity of 37 MW. Fortis holds a 70.1 per cent controlling interest in Belize Electricity (December 31, 2005 – 68.5 per cent).

b. *Caribbean Utilities:* Caribbean Utilities is the sole provider of electricity on Grand Cayman, Cayman Islands, serving more than 22,000 customers. The Company has an installed generating capacity of 120 MW. On November 7, 2006, Fortis acquired an additional 16 per cent ownership interest in Caribbean Utilities and now owns approximately 54 per cent of the Company. Caribbean Utilities is a public company traded on the Toronto Stock Exchange (TSX:CUP.U) and has an April 30th fiscal year end. Caribbean Utilities' balance sheet as at November 7, 2006 has been consolidated in the December 31, 2006 balance sheet of Fortis. Beginning with the first quarter of 2007, Fortis will consolidate Caribbean Utilities' financial statements on a two-month lag basis and will include Caribbean Utilities' January 31, 2007 balance sheet and statements of earnings and cash flows for the three-month period ended January 31, 2007. During 2006 and 2005, the statements of earnings of Fortis reflected the Corporation's previous approximate 37 per cent ownership interest in Caribbean Utilities, previously accounted for on a two-month equity lag basis.

c. *P.P.C. Limited and Atlantic Equipment & Power (Turks and Caicos) Ltd. (collectively referred to as "Fortis Turks and Caicos"):* Fortis Turks and Caicos was acquired on August 28, 2006 by Fortis through a wholly owned subsidiary. Fortis Turks and Caicos serves approximately 7,700 customers, or 80 per cent of electricity customers, in the Turks and Caicos Islands and has an installed diesel-fired generating capacity of approximately 37 MW. The Company is the principal distributor of electricity in the Turks and Caicos Islands pursuant to 50-year licences that expire in 2036 and 2037.

Non-Regulated – Fortis Generation

The following summary describes the Corporation's non-regulated generation assets by location:

a. *Belize:* Operations consist of the 25-MW Mollejon and 7-MW Chalillo hydroelectric generating facilities in Belize. All of the electricity output is sold to Belize Electricity under a 50-year power purchase agreement expiring in 2055. 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.

b. *Ontario:* Includes 75 MW of water-right entitlement associated with the Niagara Exchange Agreement, a 5-MW gas-fired cogeneration plant in Cornwall and six 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 Fortis Properties. On January 1, 2006, the former FortisOntario Generation Corporation was amalgamated with CNE Energy Inc. and, effective January 1, 2007, CNE Energy Inc. was amalgamated with Fortis Properties.

c. *Central Newfoundland:* Through the Exploits River Hydro Partnership ("Exploits Partnership"), a partnership between the Corporation, through a wholly owned subsidiary, Fortis Properties, and Abitibi-Consolidated Company of Canada ("Abitibi-Consolidated"), 36 MW of additional capacity was developed and installed at two of Abitibi-Consolidated's hydroelectric plants in central Newfoundland. Upon the amalgamation of CNE Energy Inc. with Fortis Properties on January 1, 2007, Fortis Properties now directly holds the 51 per cent interest in the Exploits Partnership and Abitibi-Consolidated holds the remaining 49 per cent interest. Previously, the 51 per cent interest was held by CNE Energy Inc. The Exploits Partnership sells its output to Newfoundland and Labrador Hydro Corporation ("Newfoundland Hydro") under a 30-year power purchase agreement expiring in 2033.

d. *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 expiring in 2013. Hydroelectric generation operations in British Columbia are conducted through the Walden Power Partnership, a wholly owned partnership of FortisBC Inc.

e. *Upper New York State:* Includes the operations of four hydroelectric generating stations in Upper New York State with a combined capacity of approximately 23 MW operating under licences from the US Federal Energy Regulatory Commission. Hydroelectric generation operations in Upper New York State are conducted through the Corporation's indirect wholly owned subsidiary, FortisUS Energy Corporation ("FortisUS Energy").

Non-Regulated – Fortis Properties

Fortis Properties owns and operates 18 hotels with more than 3,200 rooms in seven Canadian provinces and 2.7 million square feet of commercial real estate in Atlantic Canada. Included are the four hotels in Alberta and British Columbia acquired by Fortis Properties on November 1, 2006.

Corporate

The Corporate segment captures expense and revenue items not specifically related to any operating segment. Included in the Corporate segment are finance charges, including interest on debt incurred directly by Fortis and dividends on preference shares classified as long-term liabilities, foreign exchange gains or losses, dividends on preference shares classified as equity, other corporate expenses net of recoveries from subsidiaries, interest and miscellaneous revenues, and corporate income taxes.

Financial Highlights

For the Years Ended December 31st

	2006	2005	Variance *(%)*
Net earnings applicable to common shares *($ millions)*	**147.2**	137.1	7.4
Basic earnings per common share *($)*	**1.42**	1.35	5.2
Diluted earnings per common share *($)*	**1.37**	1.24	10.5
Weighted average # of common shares outstanding *(millions)*	**103.6**	101.8	1.8
Revenue and equity income *($ millions)*	**1,471.7**	1,441.5	2.1
Dividends paid per common share *($)*	**0.67**	0.59	13.6
Return on average common shareholders' equity *(%)*	**11.87**	12.40	(4.3)
Total assets *($ millions)*	**5,447.4**	4,597.1	18.5
Cash flow from operations *($ millions)*	**263.1**	303.6	(13.3)

Acquisitions: On August 28, 2006, Fortis, through a wholly owned subsidiary, acquired all issued and outstanding shares of Fortis Turks and Caicos for aggregate consideration of approximately $97.7 million (US$87.8 million). Fortis Turks and Caicos serves approximately 7,700 customers, or 80 per cent of electricity customers, in the Turks and Caicos Islands pursuant to 50-year licences that expire in 2036 and 2037.

On November 1, 2006, Fortis Properties purchased four hotels in Alberta and British Columbia for an aggregate purchase price of approximately $52 million. The four hotels acquired were the Holiday Inn Express and Suites, and Best Western in Medicine Hat, Alberta; Ramada Hotel and Suites in Lethbridge, Alberta; and Holiday Inn Express in Kelowna, British Columbia. The acquisition increased the hospitality operations of Fortis Properties by 454 rooms.

On November 7, 2006, Fortis acquired an additional 16 per cent ownership interest in Caribbean Utilities for $55.7 million (US$49.0 million), including acquisition costs, and now owns approximately 54 per cent of the Company.

On February 1, 2005, Fortis Properties acquired three Greenwood Inn hotels located in Manitoba and Alberta for approximately $63 million. On May 31, 2005, Fortis, through an indirect wholly owned subsidiary, acquired all issued and outstanding common and preference shares of PLP for $3.7 million. Effective January 1, 2007, PLP was amalgamated with FortisBC Inc. as part of an internal corporate reorganization.

Key Trends and Risks: The recent downward trend of long-term interest rates in Canada has negatively impacted the allowed rates of return on common shareholders' equity ("ROEs") used to set customer rates at the Corporation's three largest regulated utilities. During the fourth quarter of 2006, the allowed ROEs at FortisAlberta, FortisBC and Newfoundland Power were reduced, for the purpose of setting customer rates in 2007, in accordance with the automatic adjustment formulas approved by their respective regulators. The chart below highlights the trend in regulator-allowed ROEs for the purpose of setting customer rates at the above named utilities since 2004:

Regulator-Allowed ROEs

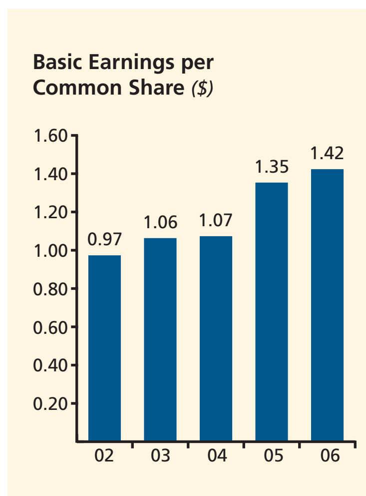
(%)	2004	2005	2006	2007
FortisAlberta	9.50	9.50	8.93	8.51
FortisBC	9.76	9.43	9.20	8.77
Newfoundland Power	9.75	9.24	9.24	8.60

The impact on the Corporation's earnings of decreased allowed ROEs has largely been offset by increasing rate bases and energy sales and the realization of operating cost efficiencies.

Economic growth in the province of Alberta has been robust, translating into strong customer and sales growth in FortisAlberta's service territory. This service territory largely surrounds Calgary and Edmonton and includes the corridor between these cities. A healthy provincial economy and population growth in the Okanagan region of British Columbia has favourably impacted customer and sales growth at FortisBC over the past few years. As a result, organic earnings growth derived from net investment in utility infrastructure (also known as rate base) at the Corporation's Canadian regulated electric utilities is expected to be primarily driven by FortisAlberta and FortisBC. The Corporation's other Canadian regulated electric utilities – Newfoundland Power, Maritime Electric and FortisOntario – operate in more mature, stable environments resulting in slower earnings growth.

The Corporation's acquisition of Fortis Turks and Caicos and increased ownership in Caribbean Utilities to an approximate 54 per cent controlling interest during the second half of 2006 (see "Acquisitions"), has seen the percentage of the Corporation's regulated assets in the Caribbean region of total regulated assets increase from approximately 10 per cent at December 31, 2005 to approximately 18 per cent at December 31, 2006. The rate of return achieved on rate base assets is higher in the Caribbean region compared to those achieved in Canada. The higher return is correlated with increased operating risks associated with such factors as local economic, political and weather conditions. The Corporation's operations in the Caribbean are exposed to hurricane risk. Fortis uses external insurance to help mitigate the impact on its operations of potential hurricane damage and related business interruption. While Caribbean Utilities was significantly impacted by Hurricane Ivan, a Category V storm which struck in September 2004, service was restored, assets rebuilt and insurance proceeds received within management's expectations considering the magnitude of the damage.

The key business risk to Fortis is regulatory risk. The Corporation's utilities are regulated by different regulatory authorities. Relationships with the regulatory authorities are managed at the local utility level and such relationships have generally been positive. In 2005 and 2006, FortisAlberta reached regulator-approved Negotiated Settlement Agreements with stakeholders associated with the Company's 2005 and 2006/2007 Distribution Access Tariff Applications, respectively. Similarly at FortisBC, a regulator-approved Negotiated Settlement Agreement was reached relating to FortisBC's 2006 Revenue Requirements Application. Achieving regulator-approved Negotiated Settlement Agreements eliminated the cost of full-scale public hearing processes. Although the potential receipt of an adverse regulatory decision may materially impact the ability of any utility to recover the cost of providing its services and achieve a reasonable rate of return, the impact on the Corporation as a whole is lessened due to the geographic and regulatory diversity of the Corporation's operations. For a complete discussion of the Corporation's business risks, see the "Business Risks" section of this Management Discussion and Analysis.



Net Earnings Applicable to Common Shares and Earnings per Common Share: Fortis achieved record net earnings applicable to common shares of $147.2 million in 2006, a 7.4 per cent increase over net earnings applicable to common shares of $137.1 million last year. Basic earnings per common share were $1.42, a 5.2 per cent increase over basic earnings per common share of $1.35 last year.

Earnings in 2005 included a $7.9 million, or $0.08 per common share, after-tax gain resulting from the settlement of contractual matters between FortisOntario Inc. and Ontario Power Generation Inc. (the "Ontario Settlement"). Growth in earnings was primarily driven by strong electricity sales growth at FortisAlberta and FortisBC, lower corporate income taxes at FortisAlberta, improved non-regulated hydroelectric generation in Belize, earnings growth at Fortis Properties, the overall 11 per cent increase in electricity rates at Belize Electricity, effective July 1, 2005, and four months of earnings contribution from Fortis Turks and Caicos. The increase was partially offset by lower average wholesale energy prices in Ontario and higher corporate costs.

Revenue and Equity Income: Revenue, including equity income from Caribbean Utilities, increased 2.1 per cent to approximately $1.47 billion from approximately $1.44 billion last year; however, revenue at FortisAlberta last year included approximately $19.7 million largely related to the resolution of tax-related matters pertaining to prior years and the finalization of load settlement amounts and billing adjustments. The increase in revenue was largely driven by electricity sales growth at FortisAlberta and FortisBC, electricity rate increases at FortisBC and Belize Electricity and four months of revenue contribution from Fortis Turks and Caicos, partially offset by lower average wholesale energy prices in Ontario. Equity income from Caribbean Utilities was $1.7 million lower than last year; however, equity income last year included a $1.1 million positive adjustment related to a change in Caribbean Utilities' accounting practice for recognizing unbilled revenue. Excluding this adjustment, equity income for Caribbean Utilities decreased $0.6 million due to foreign currency translation impacts.

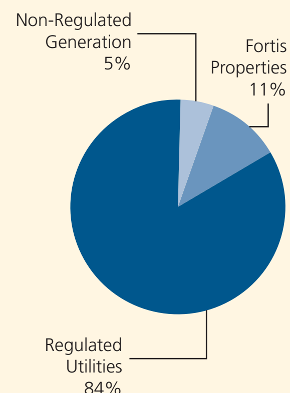
Dividends: Dividends paid per common share increased to 67 cents in 2006 from 59 cents last year. Commencing with the fourth quarter dividend paid on December 1, 2006, Fortis increased its quarterly common share dividend 18.75 per cent to 19 cents from 16 cents. The Corporation's dividend payout ratio was 47.2 per cent in 2006 compared to 43.7 per cent last year. Commencing with the second quarter dividend payable on June 1, 2007, Fortis increased its quarterly common share dividend 10.5 per cent from 19 cents per common share to 21 cents per common share.

Return on Average Common Shareholders' Equity: Return on average common shareholders' equity was 11.87 per cent in 2006 compared to 12.40 per cent last year.

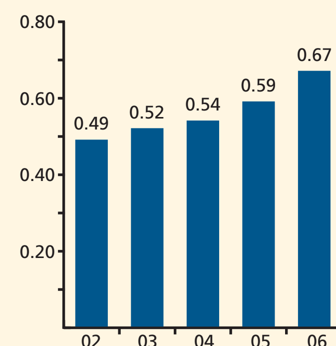
Asset Growth: Total assets increased 18.5 per cent to approximately $5.45 billion at year-end 2006 compared to $4.60 billion at year-end 2005. The increase was driven by the impact of consolidating the Corporation's investment in Caribbean Utilities, upon acquiring controlling ownership, compared to the previous method of equity accounting, and the purchase of Fortis Turks and Caicos. Asset growth associated with Caribbean Utilities and Fortis Turks and Caicos, including goodwill, was approximately $411 million year over year. The remaining growth in assets of $439 million was primarily due to the Corporation's continued investment in electricity systems, driven by the capital expenditure programs at FortisAlberta and FortisBC, and the acquisition of four hotels in Western Canada.

Cash Flow from Operations: Cash flow from operations, after working capital adjustments, was $263.1 million in 2006, 13.3 per cent lower than $303.6 million last year. Cash flow from operations, after working capital adjustments, during 2005 included the $10 million ($7.9 million after-tax) Ontario Settlement gain and a corporate income tax refund and related interest at Newfoundland Power of approximately $9 million. The decrease in cash flow from operations, after working capital adjustments, was primarily due to: (i) timing differences between when transmission costs were paid and transmission revenues were collected at FortisAlberta; (ii) higher cash taxes paid at FortisAlberta related to the previous taxation year; (iii) the payment of a $5.9 million corporate income tax deposit at Maritime Electric; (iv) the impact of lower average wholesale energy prices in Ontario; and (v) the timing of amounts due from customers, income taxes payable and accounts payable at Maritime Electric and FortisOntario. The decrease was partially offset by the recovery of higher amortization expense through customer rates at FortisBC, the impact of increased electricity rates at Belize Electricity, higher earnings at BECOL due to the operation of the Chalillo storage facility and improved hydrology, and earnings contribution from Fortis Turks and Caicos.

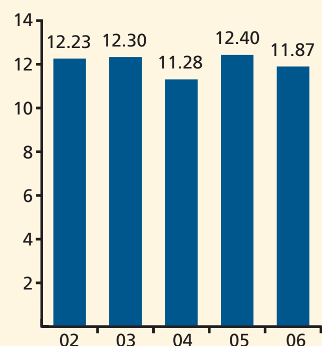
Total Revenue
(year ended December 31, 2006)



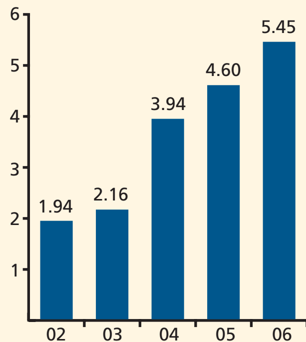
Dividends Paid per Common Share *($)*



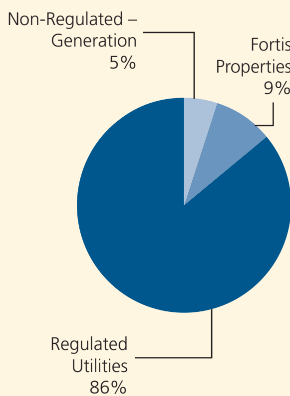
Return on Average Common Shareholders' Equity *(%)*



Total Assets *($ billions)*
(year ended December 31, 2006)



Total Assets
(year ended December 31, 2006)



2006 Capital Expenditures: During 2006, consolidated electric utility capital expenditures, before customer contributions ("gross electric utility capital expenditures"), were $483.1 million. Including $16.9 million of capital expenditures related to hotel and real estate properties, total consolidated capital expenditures were $500 million. Capital investment at FortisAlberta and FortisBC was approximately $354 million in total, representing approximately 73 per cent of gross consolidated electric utility capital expenditures. Much of this capital investment was driven by robust customer growth and the need to enhance the reliability of electricity systems. Capital expenditures at Fortis Properties primarily related to the completion of the expansions to Holiday Inn Sarnia, Holiday Inn Kitchener-Waterloo and Blue Cross Centre in Moncton.

Financing: During 2006, Fortis and its subsidiaries raised approximately $605 million of capital from a combination of preference share, common share and long-term debt issues and drawings on long-term credit facilities. A portion of the drawings on long-term credit facilities were repaid with proceeds from a 5.40% 30-year $100 million unsecured debenture issue by FortisAlberta in April 2006 and with partial proceeds from the $125 million 4.90% First Preference Share issue by the Corporation in September 2006. Consolidated drawings under long-term credit facilities were incurred largely to finance the capital expenditure programs at the regulated utilities; to finance, in part, the acquisitions of Fortis Turks and Caicos, the four hotels in Western Canada and the additional 16 per cent ownership interest in Caribbean Utilities; to fund an equity injection into one of the Corporation's Western Canadian utilities; and for general corporate purposes. In November 2006, Fortis also issued 5.50% 10-year US$40 million of unsecured subordinated convertible debentures to fund, in part, the acquisition of the additional 16 per cent ownership interest in Caribbean Utilities. 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.

Segmented Net Earnings
Years Ended December 31st

($ millions)	2006	2005	Variance
FortisAlberta	**41.4**	36.1	5.3
FortisBC[(1)]	**27.4**	24.6	2.8
Newfoundland Power	**30.1**	30.7	(0.6)
Maritime Electric	**9.8**	9.1	0.7
FortisOntario	**4.0**	4.3	(0.3)
Regulated Utilities – Canadian	**112.7**	104.8	7.9
Belize Electricity	**10.4**	8.0	2.4
Caribbean Utilities[(2)]	**9.7**	11.4	(1.7)
Fortis Turks and Caicos[(3)]	**3.5**	–	3.5
Regulated Utilities – Caribbean	**23.6**	19.4	4.2
Total Regulated Utilities	**136.3**	124.2	12.1
Non-Regulated – Fortis Generation	**26.7**	29.6	(2.9)
Non-Regulated – Fortis Properties	**18.7**	14.1	4.6
Corporate	**(34.5)**	(30.8)	(3.7)
Net Earnings Applicable to Common Shares	**147.2**	137.1	10.1

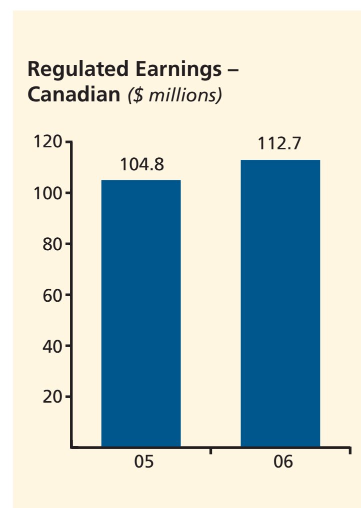
(1) Includes results for PLP from May 31, 2005, the date of acquisition of PLP by Fortis, through an indirect wholly owned subsidiary. Effective January 1, 2007, PLP was amalgamated with FortisBC Inc. as part of an internal corporate reorganization.

(2) On November 7, 2006, Fortis acquired an additional 16 per cent ownership interest in Caribbean Utilities and now owns approximately 54 per cent of the Company. Caribbean Utilities' balance sheet as at November 7, 2006 has been consolidated in the December 31, 2006 balance sheet of Fortis. During 2006 and 2005, the statements of earnings of Fortis reflected the Corporation's previous approximate 37 per cent ownership interest in Caribbean Utilities, previously accounted for on a two-month equity lag basis.

(3) On August 28, 2006, Fortis, through a wholly owned subsidiary, acquired all issued and outstanding shares of Fortis Turks and Caicos. Financial results for Fortis Turks and Caicos are from August 28, 2006.

Regulated Utilities

The Corporation's primary business is regulated utilities. The regulated earnings in Canada and the Caribbean represented approximately 75 per cent of the Corporation's earnings from its operating segments in 2006 (2005 – 74 per cent). Total regulated assets represented approximately 86 per cent of the Corporation's total assets as at December 31, 2006 (December 31, 2005 – 85 per cent). As no one utility is expected to contribute more than 25 per cent of operating earnings and cash flow of the Corporation, the effect of any single adverse regulatory event is mitigated.



Regulated Utilities – Canadian

Regulated Utilities – Canadian earnings during 2006 were $112.7 million (2005 – $104.8 million), which represented approximately 83 per cent (2005 – 84 per cent) of the Corporation's total regulated earnings. Regulated Utilities – Canadian assets were approximately 82 per cent of the Corporation's total regulated assets as at December 31, 2006 (December 31, 2005 – 90 per cent).

FortisAlberta

Financial Highlights

Years Ended December 31st	2006	2005	Variance
Energy Deliveries *(GWh)*	**14,851**	14,445	406
($ millions)			
Revenue	**250.8**	259.8	(9.0)
Operating Expenses	**115.2**	113.0	2.2
Amortization	**68.8**	61.4	7.4
Finance Charges	**30.1**	24.2	5.9
Corporate Taxes	**(4.7)**	25.1	(29.8)
Earnings	**41.4**	36.1	5.3

Regulation: FortisAlberta is regulated by the Alberta Energy Utilities Board ("AEUB"), pursuant to the *Electric Utilities Act* (Alberta), the *Public Utilities Board Act* (Alberta) and the *Hydro and Electric Energy Act* (Alberta). FortisAlberta operates under cost of service regulation as prescribed by the AEUB. Rate orders issued by the AEUB establish the Company's revenue requirements, being those revenues required to recover approved costs associated with the distribution business and provide a rate of return on a deemed capital structure applied to approved rate base assets. The Company applies for tariff revenue based on estimated cost of service. Once the tariff is approved, it is not adjusted as a result of actual cost of service being different from that which was estimated, other than for certain prescribed costs that are eligible for deferral account treatment. FortisAlberta's allowed ROE is adjusted annually through the operation of an automatic adjustment formula to adjust for forecast changes in long-term Canada bond yields and is based on a deemed capital structure of 63 per cent debt and 37 per cent equity. As a result of the operation of the automatic adjustment formula, FortisAlberta's allowed ROE for 2006 was 8.93 per cent, down from 9.50 per cent in 2005.

On June 29, 2006, FortisAlberta received approval from the AEUB of the 2006/2007 Negotiated Settlement Agreement associated with the Company's 2006/2007 Distribution Access Tariff Application. The 2006/2007 Negotiated Settlement Agreement, effective January 1, 2006 and based on an allowed ROE of 8.93 per cent for 2006, provided for distribution revenue requirements, excluding miscellaneous revenue and adjustment riders, of $217.1 million for 2006 and $228.2 million for 2007. These items translated into a 1.9 per cent reduction in distribution rates in 2006 and a 0.7 per cent increase in distribution rates in 2007. The revenue requirements reflect AEUB-approved forecast operating expenses of $100.8 million for 2006 and $100.1 million for 2007. Additional operating expenses of $13.0 million in 2006 and $13.5 million in 2007 will be collected by separate rate riders during those years. The revenue requirements also reflect AEUB-approved forecast capital expenditures of approximately $184.5 million, before customer contributions of $23.3 million, for 2006, and approximately $191.2 million, before customer contributions of $24.0 million, for 2007. Additionally, the AEUB-approved 2006/2007 Negotiated Settlement Agreement included forecast contributions to Alberta Electric System Operator ("AESO") projects of $10.7 million in 2006 and $10.0 million in 2007. The AESO contributions represent payments made to the AESO for investment in transmission facilities that are needed for reliability or contingency planning in accordance with the AESO Terms and Conditions of Service.

During the second quarter of 2006, FortisAlberta recorded the impact of the AEUB-approved 2006/2007 Negotiated Settlement Agreement. During 2006, the AEUB-approved 2006/2007 Negotiated Settlement Agreement resulted in a $4.2 million reduction in revenue as a result of providing for the difference between interim rates and those in the AEUB-approved 2006/2007 Negotiated Settlement Agreement, which will be refunded to customers in 2007 as ordered by the AEUB.

The AEUB-approved 2006/2007 Negotiated Settlement Agreement also resulted in changes in amortization rates and pension and income tax accounting methodologies. The move to the taxes payable method for federal income taxes simplified FortisAlberta's accounting for income taxes and reduced the Company's revenue requirements for 2006 and 2007, as future income tax expenses are no longer recovered in current customer distribution rates, but are recovered in customer distribution rates when they become payable.

Earnings: FortisAlberta's earnings were $5.3 million higher than last year, driven by lower corporate income taxes, increased energy deliveries and reduced revenue deferrals, partially offset by higher amortization costs, finance charges and operating expenses, and the impact of the 1.9 per cent decrease in distribution rates. Also, last year's results included earnings related to the resolution of tax-related matters pertaining to prior years and the finalization of load settlement amounts and billing adjustments.

Energy Deliveries: Energy deliveries were 406 GWh, or 2.8 per cent, higher than last year. The increase was primarily due to growth in the number of customers in the residential, commercial, industrial and oilfield sectors as a result of a strong provincial economy. The Company added approximately 15,000 customers during the year, bringing the total number of customers at FortisAlberta to approximately 430,000.

Revenue: Revenue was $9.0 million lower than last year; however, revenue last year included approximately $19.7 million related largely to the resolution of tax-related matters pertaining to prior years and the finalization of load settlement amounts and billing adjustments. Revenue also decreased $4.2 million related to the 1.9 per cent decrease in distribution rates, effective January 1, 2006. These items were partially offset by the $7.8 million impact of increased energy deliveries, reduced revenue deferrals of $4.6 million, increased franchise fee revenue of $1.7 million and the recognition of $1.0 million of revenue during the first quarter of 2006 upon AEUB approval of the Company's 2004 AESO Charges Deferral Account Application. As a result of the AEUB-approved 2005 Negotiated Settlement Agreement, approximately $3.0 million of revenue related to future income taxes collected in customer rates was deferred last year. No similar revenue deferral was recorded in 2006.

Expenses: Operating expenses were $2.2 million higher than last year, primarily due to higher labour, employee benefit and contracted manpower costs, partially offset by an increase in the amount of labour and overhead costs charged to capital projects as a result of FortisAlberta's intensive capital program. Labour costs increased due to higher salaries and additional employees. Employee benefit costs increased primarily due to the expensing of employer contributions associated with the defined benefit pension plan, partially offset by the recording of other post-employment benefit and supplemental pension plan expenses on a cash basis in 2006 compared to the accrual basis in 2005. This change in pension accounting methodology resulted from the AEUB-approved 2006/2007 Negotiated Settlement Agreement. Contracted manpower costs associated with brushing and meter reading activities increased as a result of higher contracted labour rates due to Alberta's inflationary economy. An increase in corporate governance activities during 2006, related to compliance with Multilateral Instrument 52-109, also contributed to higher contracted manpower costs.

Amortization costs were $7.4 million higher year over year, primarily due to an increase in capital assets, largely the result of load growth within FortisAlberta's service territory, combined with the impact of higher overall amortization rates that resulted from the AEUB-approved 2006/2007 Negotiated Settlement Agreement.

Finance charges were $5.9 million higher year over year, primarily due to higher debt levels arising from increased drawings under the Company's committed unsecured credit facility and the issuance of long-term debt to finance capital projects required to satisfy FortisAlberta's obligations to serve its customers. On April 21, 2006, FortisAlberta issued $100 million of unsecured debentures bearing interest at 5.40 per cent per annum, due April 21, 2036. The net proceeds of the offering were used primarily to repay existing indebtedness on FortisAlberta's committed unsecured credit facility.

Corporate taxes were $29.8 million lower than last year. The decrease was primarily due to increased deductions taken for corporate income tax purposes in excess of amounts taken for accounting purposes in 2006 as compared to 2005 and the impact of lower earnings before corporate income taxes. The difference in the deductions taken for corporate income tax purposes and those taken for accounting purposes in 2006 was accounted for entirely by the taxes payable method compared to the use in 2005 of the tax liability method for federal income taxes and the taxes payable method for provincial income taxes. The change in the income tax accounting methodology as a result of the AEUB-approved 2006/2007 Negotiated Settlement Agreement resulted in the cessation of recognizing future income tax expense for federal income tax, which would have partially offset the effects of the timing differences.

Outlook: Energy sales for FortisAlberta are heavily influenced by oil and gas sector activity and overall economic conditions within the Company's service territory. With commodity prices in the oil and gas sector expected to remain high, the Gross Domestic Product ("GDP") in Alberta is forecasted to grow by 4.7 per cent in 2007. Growth in energy deliveries at FortisAlberta is estimated at 3.0 per cent for 2007.

The Company's 2007 distribution revenue requirement, as approved in the 2006/2007 Negotiated Settlement Agreement, was based upon using the 2006 allowed ROE of 8.93 per cent. FortisAlberta's allowed ROE has been reduced to 8.51 per cent, effective January 1, 2007, due to the impact of lower long-term Canada bond yields on the automatic adjustment formula used to calculate the allowed ROE. As a result of the lower allowed ROE, FortisAlberta expects it will have to refund approximately $1.9 million of the revenue collected in base rates in 2007 to customers in future rates by including this refund in its 2008/2009 Distribution Access Tariff Application.

FortisAlberta expects gross capital expenditures during 2007 to increase to $255.6 million, up from $191.2 million as previously forecasted. The increase is primarily driven by customer growth and will be included in FortisAlberta's 2008 rate application for the purpose of setting customer rates for that year.

FortisAlberta intends to file its 2008/2009 Distribution Access Tariff Application during the second quarter of 2007 for AEUB approval of customer rates and capital expenditures for 2008 and 2009.

FortisBC

Financial Highlights

Years Ended December 31st	2006	2005	Variance
Electricity Sales *(GWh)*	**3,038**	2,968	70
($ millions)			
Revenue	**215.6**	194.7	20.9
Energy Supply Costs	**67.6**	60.4	7.2
Operating Expenses	**63.1**	64.8	(1.7)
Amortization	**27.3**	19.0	8.3
Finance Charges	**23.4**	18.5	4.9
Corporate Taxes	**6.8**	7.4	(0.6)
Earnings	**27.4**	24.6	2.8

Regulation: FortisBC is regulated by the British Columbia Utilities Commission ("BCUC"), which administers acts and regulations pursuant to the *Utilities Commission Act* (British Columbia). FortisBC operates under both cost of service regulation and a performance-based rate-setting ("PBR") methodology as prescribed by the BCUC. The Company applies to the BCUC for annual revenue requirements based on estimated cost of service. The PBR framework allows for the equal sharing between customers and the Company of variances above or below the allowed ROE within a prescribed band. The PBR framework is subject to change as the Company's regulatory framework evolves. FortisBC's allowed ROE is adjusted annually through the operation of an automatic adjustment formula to adjust for forecast changes in long-term Canada bond yields and is based on a deemed capital structure of 60 per cent debt and 40 per cent equity.

In June 2005, a British Columbia utility applied to the BCUC for, among other things, a review of the current ROE mechanism applicable to regulated utilities in British Columbia. On March 2, 2006, the BCUC issued an order approving adjustments to the ROE mechanism, which resulted in the 2006 ROE for FortisBC increasing from 8.69 per cent to 9.20 per cent.

On May 23, 2006, FortisBC received approval from the BCUC of the 2006 Negotiated Settlement Agreement associated with the Company's 2006 Revenue Requirements Application. The 2006 Negotiated Settlement Agreement, effective January 1, 2006 and based on an allowed ROE of 9.20 per cent, resulted in a 5.9 per cent increase in electricity rates, an increase in the Company's composite amortization rate from 2.6 per cent to 3.2 per cent and an increase in the amount of capitalized overhead from approximately 9 per cent of BCUC-approved 2005 forecast gross operating and maintenance expenses to 20 per cent of BCUC-approved 2006 forecast gross operating and maintenance expenses. Additionally, a new PBR mechanism for the years 2006 through 2008, and optionally for 2009, was approved to allow a two percentage point band around the allowed ROE, whereby variances (adjusted for certain cost variances which flow through to customer electricity rates) as a result of actual financial performance, positive or negative, will be shared equally between customers and the Company. If the variance exceeds the two percentage point band, the excess will be placed in a deferral account for review and disposition during the next rate-setting process. The 5.9 per cent electricity rate increase was primarily driven by the Company's ongoing capital expenditure program and was the same as the refundable interim electricity rate increase previously approved by the BCUC.

On April 12, 2006, the amended and restated Canal Plant Agreement ("CPA") between FortisBC and BC Hydro became effective and continues in force until terminated by any of the parties upon giving not less than five years' notice at any time on or after December 31, 2030. The CPA governs the coordinated operations of seven major hydroelectric plants owned by FortisBC, BC Hydro, Teck Cominco Metals Ltd. and CPC/CBT.

Earnings: FortisBC's earnings were $2.8 million higher than last year. The increase was due to the 5.9 per cent increase in electricity rates, effective January 1, 2006, electricity sales growth, lower operating expenses and lower corporate income taxes, partially offset by increased amortization costs, higher finance charges and lower other revenue.

Electricity Sales: Electricity sales were 70 GWh, or 2.4 per cent, higher than last year. Sales growth was primarily attributable to continued customer growth in the Okanagan area.

Revenue: Revenue was $20.9 million higher than last year, primarily due to the 5.9 per cent increase in electricity rates, effective January 1, 2006, customer growth, higher revenue contributions of $3.1 million from non-regulated operating, maintenance and management services and PLP, and increased management fees on third-party contracts of $0.9 million. The increase was partially offset by lower other revenue due to increased PBR-incentive adjustments owing to customers of $3.7 million as a result of the new PBR mechanism approved by the BCUC, effective January 1, 2006.

Expenses: Energy supply costs were $7.2 million higher than last year, primarily as a result of increased electricity sales, higher average prices for purchased power and a higher proportion of purchased energy versus energy generated from Company-owned plants. Energy supply costs for 2006 included an accrual of $1.2 million to recognize expected insurance proceeds, which directly offset the incremental power purchase costs incurred in 2006 due to a turbine failure at the Lower Bonnington generation plant. Hydroelectric facilities owned by FortisBC generate approximately 45 per cent of the energy and 30 per cent of the capacity necessary to meet existing customer demand. The majority of the additional energy and capacity required to meet existing customer demand is purchased under firm, long-term power purchase contracts. Any remaining energy and capacity required is purchased on the open market and is subject to fluctuations in market rates.

Operating expenses were $1.7 million lower than last year. The decrease was primarily due to increased capitalized overhead costs of $5.0 million, as a result of the BCUC-approved 2006 Negotiated Settlement Agreement, effective January 1, 2006, and operating cost efficiencies of approximately $0.3 million, partially offset by increased water fees and property taxes of $0.9 million, higher PLP operating expenses and expenses related to non-regulated operating, maintenance and management services totalling approximately $2.2 million, and a $0.5 million provincial capital tax appeal refund recorded during the second quarter of 2005.

Amortization costs were $8.3 million higher than last year, primarily due to the increase in the Company's composite amortization rate from 2.6 per cent to 3.2 per cent as a result of the BCUC-approved 2006 Negotiated Settlement Agreement, effective January 1, 2006, and an increase in FortisBC's capital assets due to its capital expenditure program.

Finance charges were $4.9 million higher than last year, primarily due to the cost of increased borrowings to finance the Company's capital expenditure program and a decrease in the amount of interest capitalized as a result of fewer assets under construction compared to last year.

Corporate taxes decreased $0.6 million from last year, primarily due to the elimination of the Federal Large Corporations' Tax, effective January 1, 2006, partially offset by the impact of increased earnings before corporate income taxes.

Outlook: Customer and electricity sales growth at FortisBC are influenced by general economic growth. Economic growth in British Columbia was strong in 2006 and is expected to continue into 2007 with GDP growth forecast at more than 3.2 per cent. Electricity sales growth at FortisBC is forecasted at approximately 1.6 per cent for 2007.

On September 29, 2006, FortisBC filed its 2007 Preliminary Revenue Requirements Application requesting a 2.9 per cent increase in electricity rates, effective January 1, 2007. The proposed rate increase was primarily driven by FortisBC's ongoing capital expenditure program. Additionally, the rate increase was calculated using the new PBR mechanism described above. On December 19, 2006, an updated 2007 Revenue Requirements Application was filed requesting a 1.2 per cent rate increase which was approved by the BCUC on December 20, 2006. The difference in the revenue requirements between the two filings largely related to increased incentives owing to customers and reduced power purchase costs. On March 9, 2007, the BCUC issued an order requiring FortisBC to increase its customer rates by 2.1 per cent. The increase is the result of a change in the treatment of financing costs related to large capital projects during the period of construction and will become effective in April 2007.

FortisBC's allowed ROE for 2007 has been reduced to 8.77 per cent from 9.20 per cent for 2006 due to the impact of lower long-term Canada bond yields on the automatic adjustment formula used to calculate the allowed ROE.

On November 24, 2006, the BCUC approved FortisBC's 2007 and 2008 Capital Expenditure Plan ("Capital Plan"), filed on July 26, 2006, to spend approximately $135.8 million, before customer contributions of $7.2 million, in 2007 and $119.6 million, before customer contributions of $8.0 million, in 2008. The Capital Plan was approved with six projects totalling $61.2 million subject to further approval processes. The Capital Plan expenditures address the expansion and upgrade of the transmission and distribution systems to keep pace with load growth, while improving customer service, and the continuation of the life-extension program of the Company's hydroelectric generating plants.

Newfoundland Power

Financial Highlights

Years Ended December 31st	2006	2005	Variance
Electricity Sales *(GWh)*	**4,995**	5,004	(9)
($ millions)			
Revenue	**421.3**	420.0	1.3
Energy Supply Costs	**257.2**	256.0	1.2
Operating Expenses	**54.0**	53.8	0.2
Amortization	**33.1**	32.1	1.0
Finance Charges	**32.7**	31.4	1.3
Corporate Taxes	**13.6**	15.4	(1.8)
Non-Controlling Interest	**0.6**	0.6	–
Earnings	**30.1**	30.7	(0.6)

Regulation: Newfoundland Power operates under cost of service regulation as administered by the Newfoundland and Labrador Board of Commissioners of Public Utilities ("PUB") under the *Public Utilities Act* (Newfoundland and Labrador). The Company's earnings are regulated on the basis of rate of return on rate base. The determination of the forecast rate of return on rate base, together with the forecast of all reasonable and prudent costs, establishes the revenue requirement upon which customer rates are determined. An automatic adjustment formula, based on observed long-term Canada bond yields, is utilized annually to determine the permitted rate of return for those years between general rate applications. The formula sets an appropriate ROE which is used to determine the rate of return on rate base.

In January 2006, Newfoundland Power received approval from the PUB of its final 2006 electricity rates. The rates were based on an allowed ROE of 9.24 per cent, which remained unchanged from 2005.

Effective January 1, 2006, the Company changed its revenue recognition policy from the billed basis to the accrual basis, as approved by the PUB on December 23, 2005. The use of the accrual method for revenue recognition better matches revenue and expenses and is consistent with mainstream Canadian utilities' practice. Adoption of the accrual method for revenue recognition gave rise to a $23.6 million balance sheet accrual for unbilled revenue at December 31, 2005 (the "2005 Unbilled Revenue"). Pursuant to an Order by the PUB, Newfoundland Power recorded $3.1 million of the 2005 Unbilled Revenue as revenue in 2006 to offset the income tax impact of changing to the accrual method for revenue recognition. The PUB also ordered that the Company defer recovery of a $5.8 million increase in 2006 capital asset amortization. The deferral establishes a regulatory asset to be recovered in a future period.

Earnings: Newfoundland Power's earnings were $0.6 million lower than last year due to lower electricity sales, lower interest revenue and increased costs associated with purchased power, amortization and finance charges, partially offset by the impact of a lower effective income tax rate. Adoption of the accrual method for revenue recognition did not have a material impact on 2006 annual earnings.

Electricity Sales: Electricity sales were 9 GWh, or 0.2 per cent, lower than last year, primarily due to a decrease in average consumption, partially offset by an increase in the number of customers. Adoption of the accrual method for revenue recognition did not have a material impact on 2006 annual electricity sales.

Revenue: Revenue was $1.3 million higher than last year, primarily due to the recognition of $3.1 million of 2005 Unbilled Revenue, partially offset by lower electricity sales and lower interest revenue. Interest revenue during the second quarter of 2005 included $2.1 million ($1.4 million after-tax) as a result of an income tax settlement with the Canada Revenue Agency ("CRA"). Adoption of the accrual method for revenue recognition did not have a material impact on 2006 annual electricity revenue.

Expenses: Newfoundland Power purchases approximately 90 per cent of its energy requirements from Newfoundland Hydro. Energy supply costs were $1.2 million higher than last year, primarily due to an increase in demand charges under the wholesale demand and energy rate structure. As a result, the unit cost of purchased power increased to 5.289 cents per kilowatt hour ("kWh") compared to 5.261 cents per kWh last year.

Operating expenses were $0.2 million higher than last year. Higher pension and early retirement program costs of approximately $0.9 million were partially offset by lower labour costs resulting from a 2005 early retirement program, a reduction in PUB assessments in 2006 and the reduction of other non-labour costs due to the Company's ongoing focus on initiatives to reduce operating expenses. Pension costs increased primarily due to a reduction in the discount rate used in 2006 to determine annual pension expense.

Amortization costs increased $1.0 million over last year, primarily due to the impact of continued investment in capital assets.

Finance charges were $1.3 million higher than last year due to the replacement in August 2005 of lower-cost revolving credit facility borrowings with 30-year 5.441% first mortgage sinking fund bonds in the amount of $60 million and additional credit facility borrowings used to finance the Company's capital expenditure program.

Corporate taxes were $1.8 million lower than last year, primarily due to the elimination of the Federal Large Corporations' Tax, effective January 1, 2006, increased capital cost allowance rates and the income tax treatment of regulatory amortizations and deferrals.

Outlook: The growth in electricity sales at Newfoundland Power in 2007 is expected to be approximately 1.0 per cent.

In September 2006, the PUB approved Newfoundland Power's $62.2 million 2007 Capital Program, which will focus on the replacement of aging equipment to strengthen the electricity system and the Company's obligation to meet the demands of customer and electricity sales growth. Approximately $18.8 million of the 2007 Capital Program will be spent to refurbish the Company's Rattling Brook hydroelectric generating plant in central Newfoundland.

On December 5, 2006, the PUB approved, as filed on September 13, 2006, Newfoundland Power's 2007 Amortization and Cost Deferral Application (the "2007 Application"). The approved 2007 Application allows for amortization of $2.7 million of the 2005 Unbilled Revenue to offset the 2007 income tax impact of changing to the accrual method for revenue recognition, and the deferred recovery of capital asset amortization of $5.8 million, similar to 2006. The approval also allows for the deferred recovery of $1.1 million related to the cost of replacement energy while the Company's Rattling Brook hydroelectric generating facility is being refurbished. Disposition of the remaining 2005 Unbilled Revenue will be determined by future orders of the PUB.

Newfoundland Power's allowed ROE has been reduced to 8.60 per cent, effective January 1, 2007, due to the impact of lower long-term Canada bond yields on the automatic adjustment formula used to calculate the allowed ROE.

On December 14, 2006, the PUB approved, on an interim basis, an average 0.07 per cent increase in customer electricity rates, effective January 1, 2007. The increase is the result of the flow-through of increased costs from Newfoundland Hydro, which will have no impact on Newfoundland Power's earnings, partially offset by a 0.5 per cent decrease due to the reduction in Newfoundland Power's allowed ROE to 8.60 per cent, effective January 1, 2007. The decrease in the allowed ROE is anticipated to reduce Newfoundland Power's revenue by approximately $2.5 million in 2007.

During 2007, Newfoundland Power expects to file a general rate application with the PUB for the purpose of setting customer rates for 2008.

Maritime Electric

Financial Highlights

Years Ended December 31st	**2006**	2005	Variance
Electricity Sales *(GWh)*	**999**	989	10
($ millions)			
Revenue	**122.4**	116.7	5.7
Energy Supply Costs	**73.0**	71.6	1.4
Operating Expenses	**12.8**	12.5	0.3
Amortization	**10.1**	9.7	0.4
Finance Charges	**10.3**	7.6	2.7
Corporate Taxes	**6.4**	6.2	0.2
Earnings	**9.8**	9.1	0.7

Regulation: In December 2003, the Government of PEI proclaimed legislation returning Maritime Electric to traditional cost of service regulation. Maritime Electric is regulated by the Island Regulatory and Appeals Commission ("IRAC") under the provisions of the *Electric Power Act* (Prince Edward Island), effective January 1, 2004. Maritime Electric's basic electricity rates are based on estimated cost of service and provide for an approved rate of return on approved rate base assets. The new legislation, which provided for an orderly transition from the previous regulatory model, also 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 set by IRAC. Effective January 1, 2004, as ordered by IRAC, Maritime Electric maintains an energy cost adjustment mechanism ("ECAM") that helps mitigate the impact of fluctuating energy costs on the Company's financial results as it allows Maritime Electric to collect/rebate energy costs above/below a base rate of 6.73 cents per kWh.

On June 27, 2006, IRAC issued its Order with respect to Maritime Electric's general rate application filed on January 31, 2006. The impact was an overall average decrease in customer electricity rates of 1.2 per cent, effective July 1, 2006. The 1.2 per cent decrease was the result of the impact of the refund to customers of energy-related costs associated with the operation of the ECAM, partially offset by a 3.35 per cent increase in basic electricity rates. IRAC approved Maritime Electric's maximum allowed ROE at 10.25 per cent for 2006 and 2007. IRAC also approved continuation of the amortization of the $20.8 million in deferred costs recoverable from customers accumulated as at December 31, 2003 in the amount of $1.5 million in 2006. IRAC ordered the continuation of the ECAM currently in effect, with the amortization period contained in the ECAM to decrease from 18 months to 12 months, effective January 1, 2007.

In November 2006, IRAC approved a new Energy Purchase Agreement ("EPA") with New Brunswick Power ("NB Power") covering the period from November 2006 to March 2008. The cost of energy under the new EPA is subject to the operation of the ECAM.

Earnings: Maritime Electric's earnings were $0.7 million higher than last year, primarily due to the 3.35 per cent increase in basic electricity rates, effective July 1, 2006, and higher electricity sales, partially offset by increased finance charges.

Electricity Sales: Electricity sales were 10 GWh, or 1.0 per cent, higher than last year. The increase was driven by customer growth in the residential sector. Customer energy conservation practices have tempered sales growth during 2006 with average consumption remaining stable year over year.

Revenue: Revenue was $5.7 million higher than last year, primarily as a result of increased electricity sales, the 3.35 per cent increase in basic electricity rates, effective July 1, 2006, and a $1.0 million decrease in the amortization of pre-2004 deferred costs recoverable from customers.

Expenses: Energy supply costs, adjusted for the ECAM, were $1.4 million higher than last year, primarily due to increased electricity sales. Gross energy supply costs, before ECAM adjustments, however, were $4.0 million higher than last year, primarily due to increased electricity sales and higher prices paid for energy under the new EPA with NB Power that came into effect in November 2006. During 2006 and 2005, Maritime Electric purchased the majority of its energy from NB Power under several energy purchase agreements.

Operating expenses were $0.3 million higher than last year, driven by costs associated with an extensive tree trimming program during 2006 and increased insurance and regulatory costs.

Amortization costs were $0.4 million higher than last year. The increase reflected the addition of the 50-MW combustion turbine generating facility and expenditures associated with the Company's ongoing capital program, partially offset by a $0.5 million reduction in the amortization of the deferred charge related to the Point Lepreau Nuclear Generating Station as the expected life of the Station will be extended to 2035 upon its refurbishment by NB Power.

Finance charges were $2.7 million higher than last year, primarily due to financing associated with the Company's capital expenditure program.

Outlook: GDP growth for PEI in 2007 is forecast to be approximately 2.2 per cent. Electricity sales growth at Maritime Electric in 2007 is forecast to be 1.1 per cent, comparable to the growth rate experienced in 2006.

On August 22, 2006, Maritime Electric received approval from IRAC of a 39-MW Wind Power Purchase Agreement (the "Agreement") with PEI Energy Corporation for energy deliveries commencing on or after January 1, 2007. Recent legislation proclaimed by the Government of PEI will require Maritime Electric to obtain at least 15 per cent of its annual energy requirements from renewable sources, such as wind-powered energy, by 2010. The Agreement, in conjunction with the existing wind-energy purchase agreements, will enable the Company to reach this 15 per cent target. Energy from the Agreement is subject to the operation of the ECAM.

In November 2006, the Company filed its 2007 Capital Budget Application ("2007 Capital Budget") for approximately $20.5 million, before customer contributions of $2.7 million. On March 1, 2007, IRAC approved the 2007 Capital Budget at $19.7 million, before customer contributions of $2.7 million.

In December 2006, IRAC approved the amortization of $1.3 million of the deferred costs recoverable from customers accumulated as at December 31, 2003 and increased the amortization to $2.0 million in 2008 and each year thereafter. Deferred costs recoverable from customers totalled $15.3 million at the end of 2006.

Maritime Electric expects to file a rate application with IRAC in the fall of 2007 for the purpose of setting customer rates for 2008.

FortisOntario

Financial Highlights

Years Ended December 31st	**2006**	2005	Variance
Electricity Sales *(GWh)*	**1,163**	1,195	(32)
($ millions)			
Revenue	**130.0**	139.7	(9.7)
Energy Supply Costs	**97.7**	110.2	(12.5)
Operating Expenses	**14.7**	14.5	0.2
Amortization	**5.4**	5.1	0.3
Finance Charges	**5.1**	5.1	–
Corporate Taxes	**3.1**	0.5	2.6
Earnings	**4.0**	4.3	(0.3)

Regulation: FortisOntario includes the regulated operations of Canadian Niagara Power and Cornwall Electric both of which operate under the *Electricity Act* (Ontario) and the *Ontario Energy Board Act* (Ontario) as administered by the Ontario Energy Board ("OEB"). Canadian Niagara Power operates under cost of service regulation and earnings are regulated on rate of return on rate base, plus a recovery of allowable distribution costs. Cornwall Electric is exempt from many aspects of these Acts and is also governed by a 35-year Franchise Agreement with the City of Cornwall, dated July 31, 1998. Rates under the Franchise Agreement are subject to a price cap with commodity cost flow-through. The base revenue requirement is adjusted annually for inflation, load growth and customer growth. In November 2004, the OEB granted Cornwall Electric a Distribution Licence valid until December 2019. The Licence acknowledges the existing service territory and franchise agreements. Prior to this date, Cornwall Electric had been granted an Interim Distribution Licence.

On December 9, 2004, the *Electricity Restructuring Act, 2004* (Ontario) came into force amending certain prior Acts. It reorganized the Province of Ontario's electricity sector and introduced the Regulated Price Plan, which was later developed and announced by the OEB on March 11, 2005. The Regulated Price Plan is intended to reflect the true cost of electricity. It has replaced the interim two-tiered commodity pricing structure that had been in place since April 2004. Effective November 1, 2006, eligible residential customers pay 5.5 cents per kWh for a threshold amount of electricity used each month and 6.4 cents per kWh for electricity consumed over the threshold amount. The threshold is 1,000 kWh per month for November through April and 600 kWh per month for May through October. The threshold for non-residential customers is 750 kWh year-round.

On April 28, 2006, the OEB issued its Decision and Order concerning Canadian Niagara Power's application for new electricity rates, effective May 1, 2006. The Decision and Order also approved the final recovery from customers of regulatory assets including the transitional costs incurred in preparation for the open market in May 2002. The impact of the Decision and Order on a typical residential customer with average monthly consumption of 1,000 kWh in Fort Erie, Port Colborne and Gananoque was an increase in customer rates, effective May 1, 2006, of 17.5 per cent, 17.5 per cent, and 10.8 per cent, respectively. The rate increases also included the impact associated with the flow-through to specified low-volume customers of increased power prices paid to the Independent Electricity System Operator ("IESO") as set under the OEB's Regulated Price Plan. The new distribution electricity rates were based on 2004 costs using a deemed capital structure at 50 per cent long-term debt and 50 per cent common equity, with an allowed ROE of 9.0 per cent. The approved rate increases represented the first time that the Company had been allowed to rebase its rates since 2001.

Earnings: FortisOntario's earnings were $0.3 million lower than last year. Earnings last year included $1.6 million related to the recognition of a future income tax asset associated with the favourable resolution of a CRA reassessment related to Cornwall Electric. Excluding this item, earnings were $1.3 million higher than last year, primarily due to increased distribution electricity rates, effective May 1, 2006, partially offset by increased corporate taxes and reduced electricity sales.

Electricity Sales: Electricity sales were 32 GWh, or 2.7 per cent, lower than last year, primarily due to the impact of moderate weather conditions and the loss of an industrial customer in December 2005.

Revenue: Revenue was $9.7 million lower than last year, primarily due to decreased market energy costs billed to customers and lower electricity sales, partially offset by higher distribution electricity rates, effective May 1, 2006, and increased other revenue. An increase in other revenue of $0.8 million was associated with street lighting maintenance and other miscellaneous customer billings and interest revenue.

Expenses: Energy supply costs were $12.5 million lower than last year, primarily due to lower market energy prices and reduced electricity sales, partially offset by the impact of increased power purchase rates under the OEB's Regulated Price Plan.

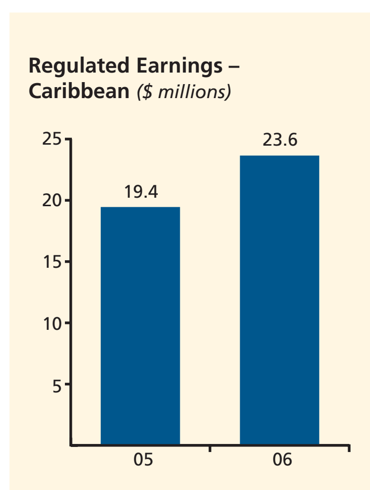
Operating expenses were $0.2 million higher than last year. Operating expenses last year included approximately $0.8 million in costs associated with an early retirement program. Operating expenses increased primarily due to higher payroll and benefit costs as a result of the transferring of certain former Rankine Generating Station employees to Canadian Niagara Power, increased internal labour costs associated with repairing damage to a portion of the distribution system caused by an early winter storm that occurred in October 2006 and other miscellaneous cost increases.

Corporate taxes were $2.6 million higher than last year. Last year, a $1.6 million future income tax asset and corresponding decrease in corporate income taxes were recorded in connection with the favourable resolution of a CRA reassessment of a tax asset created when Cornwall Electric was acquired by a previous owner. Excluding this item, corporate taxes were higher than last year because of higher earnings before corporate taxes and the impact of the reduction of future income tax asset balances during the second quarter of 2006 resulting from enacted future Federal income tax rate reductions.

Outlook: FortisOntario is projecting economic growth of approximately 1.0 per cent in 2007 in the regions it serves. FortisOntario expects to spend approximately $10 million on its 2007 capital program. The 2007 capital program is primarily for continued sustainment of the Company's electricity system.

In December 2006, the OEB issued its final "Report of the Board on Cost of Capital and Second Generation Incentive Regulation for Ontario's Electricity Distributors". The report sets out a three-year price cap plan that maintains the current cost of capital and introduces an inflation measure coupled with a productivity factor for rate-setting purposes. Over that three-year period distributors will be required, in three tranches, to submit a full cost of service application to set new distribution rates. This will be followed by a third-generation incentive mechanism. On January 26, 2007, Canadian Niagara Power filed applications with the OEB requesting a 0.2 per cent average increase in distribution electricity rates, effective May 1, 2007, associated with its operations in Fort Erie, Port Colborne and Gananoque. The rate increase reflects the application of second-generation incentive regulation. Canadian Niagara Power also applied to the OEB to recover in customer rates the extraordinary costs incurred as a result of the early winter storm that occurred in October 2006.

There are approximately 90 municipally owned local distribution companies in Ontario. Management believes further consolidation of municipal electric utilities is likely and FortisOntario will continue to pursue opportunities to lease or acquire local distribution companies as they become available.



Regulated Utilities – Caribbean

Earnings contributions from Regulated Utilities – Caribbean during 2006 were $23.6 million (2005 – $19.4 million), which represented approximately 17 per cent (2005 – 16 per cent) of the Corporation's total regulated earnings. Regulated Utilities – Caribbean assets were approximately 18 per cent of the Corporation's total regulated assets as at December 31, 2006 (December 31, 2005 – 10 per cent).

Belize Electricity[1]

Financial Highlights

Years Ended December 31st	2006	2005	Variance
Average US:CDN Exchange Rate[2]	**1.13**	1.21	(0.08)
Electricity Sales *(GWh)*	**360**	350	10
($ millions)			
Revenue	**88.5**	75.8	12.7
Energy Supply Costs	**51.7**	40.8	10.9
Operating Expenses	**10.8**	10.7	0.1
Amortization	**5.4**	5.8	(0.4)
Finance Charges	**3.8**	6.0	(2.2)
Foreign Exchange Loss (Gain)	**0.4**	(0.4)	0.8
Corporate Taxes and Non-Controlling Interest	**6.0**	4.9	1.1
Earnings	**10.4**	8.0	2.4

(1) Fortis holds a 70.1 per cent controlling interest in Belize Electricity.

(2) The Belizean dollar is pegged to the US dollar at BZ$2.00 = US$1.00.

Regulation: Belize Electricity is regulated by the Public Utilities Commission ("PUC") under the terms of the *Electricity Act* (Belize), the *Electricity (Tariffs, Charges and Quality of Service Standards) By-Laws* (Belize) and the *Public Utilities Commission Act* (Belize). Basic electricity rates at Belize Electricity are comprised of two components. The first component is Value-Added Delivery ("VAD") and the second is cost of fuel and purchased power ("COP"), including the variable cost of generation, which is a flow-through in customer rates. The VAD component of the tariff allows the Company to recover its operating expenses, transmission and distribution expenses, taxes, amortization and rate of return on regulated asset base in the range of 10 per cent to 15 per cent. Belize Electricity's regulation includes a Cost of Power Rate Stabilization Account ("CPRSA") designed to normalize changes in the price of electricity due to the fluctuating cost of power. The CPRSA stabilizes electricity rates for consumers while providing Belize Electricity with a mechanism that permits the recovery of its cost of power. Effective July 1, 2002, a Hurricane Cost of Power Rate Stabilization Account ("HCPRSA") was also established to normalize hurricane reconstruction costs. The VAD component of the tariff is normally reviewed every four years, while the COP component and rate stabilization account ("RSA") recovery are reviewed at each annual rate proceeding and at Threshold Event Review Proceedings, which can occur at any time when deferrals of COP into the RSA exceed $1.7 million (BZ$3.0 million). Adjustments to the tariff as a result of a Threshold Event may require adjustments to the COP component of the tariff and additional CPRSA recovery surcharges at any time during a calendar year.

Belize Electricity filed its first full Tariff Application on March 2, 2005 to establish a new four-year VAD tariff setting arrangement. On July 14, 2005, the PUC delivered its Final Tariff Decision approving an overall 11 per cent increase in electricity rates, inclusive of the recovery of RSA balances, to BZ39.0 cents per kWh from BZ34.9 cents per kWh, effective July 1, 2005 through June 30, 2006.

On December 31, 2005, the PUC approved a BZ0.6 cent per kWh, or 1.5 per cent, increase in electricity rates associated with the recovery of excess deferrals to the CPRSA and a BZ4.5 cent per kWh, or 11.5 per cent, increase in electricity rates related to COP. There was no increase in the VAD component of rates. The result was an overall 13 per cent increase in electricity rates to BZ44.1 cents per kWh from BZ39.0 cents per kWh, effective January 1, 2006. This increase in electricity rates was the result of the PUC's Final Decision on Belize Electricity's Threshold Event Review Application filed on December 20, 2005, and had no impact on the Company's earnings due to the flow-through of cost of power to customers.

On May 9, 2006, the PUC issued its Final Decision approving, as filed, Belize Electricity's Annual Tariff Review Application for the annual tariff period from July 1, 2006 to June 30, 2007. The Final Decision confirmed that the average mean electricity rate of BZ44.1 cents per kWh would remain unchanged from that in effect at January 1, 2006. The COP component of rates, however, decreased slightly from BZ25.5 cents per kWh to BZ25.3 cents per kWh, while an Annual Correction Rate, at BZ0.2 cents per kWh, was introduced to collect from customers the differences of actual expenses and revenues from original forecasts for the immediately preceding annual tariff period.

Belize Electricity's Licence to generate, transmit, distribute and supply electricity in Belize expires in 2015. Under the terms of the Licence, the Company has a right of first refusal on any replacement licence. If the current Licence is not renewed for any reason, Belize Electricity will be entitled to receive, upon the transfer of its electric utility assets to a new operator, the greater of market value or 120 per cent of the net book value of these assets.

Earnings: Belize Electricity's earnings were $2.4 million (BZ$5.4 million) higher than last year. Excluding the impact of foreign currency exchange upon the translation of Belize Electricity's results into Canadian dollars, the increase in Belize Electricity's earnings was driven by the overall 11 per cent increase in electricity rates, effective July 1, 2005, as a result of the new four-year tariff agreement, electricity sales growth and lower finance charges, partially offset by the foreign exchange impact associated with the Company's Euro and Canadian dollar-denominated debt and increased operating expenses. The translation of Belize Electricity's results was unfavourably impacted by the weakening of the US dollar against the Canadian dollar compared to last year.

Electricity Sales: Electricity sales were 10 GWh, or 2.9 per cent, higher than last year, driven by growth in sales in the commercial and industrial sectors. The rate of sales growth for 2006 was lower than the rate of sales growth for last year, due to a slowdown in economic growth and customer energy-conservation efforts resulting from the rate increases in July 2005 and January 2006.

Revenue: Revenue was $12.7 million (BZ$30.7 million) higher than last year. Excluding foreign currency translation impacts, revenue increased 24.5 per cent, largely driven by the increase in the VAD and COP components of electricity rates, effective July 1, 2005, the increase in the COP component of electricity rates, effective January 1, 2006, and electricity sales growth.

Expenses: Energy supply costs were $10.9 million (BZ$23.7 million) higher than last year. Excluding foreign currency translation impacts, energy supply costs increased 35.1 per cent, primarily due to increases in the COP component of electricity rates, effective July 1, 2005 and January 1, 2006, and electricity sales growth. On July 1, 2006, the COP component of electricity rates decreased BZ0.2 cents per kWh and did not have a significant impact on energy supply costs year over year. Belize Electricity purchases the majority of its energy requirements from Comisión Federal de Electricidad ("CFE"), the Mexican state-owned power company, and from BECOL.

Operating expenses were $0.1 million (BZ$1.2 million) higher than last year. Excluding foreign currency translation impacts, operating expenses increased primarily due to increased licences and fees, increased line maintenance activities, new customer service and loss reduction initiatives, higher employee costs and general increases in the cost of goods and services.

Excluding foreign currency translation impacts, amortization costs were comparable year over year. The impact of capital asset growth was offset by the recovery of all generation equipment amortization through cost of power, as a result of the July 1, 2005 Final Tariff Decision.

Finance charges were $2.2 million (BZ$3.2 million) lower than last year. The decrease was primarily due to the repayment, with proceeds from a recent share offering, of certain trade payables, inter-company and external loans, and overdraft facilities incurred primarily to finance the CPRSA for the cost of power and fuel. Additionally, during the last half of 2006, excess funds from the share offering were invested on a short-term basis.

In June 2006, Belize Electricity received gross proceeds of approximately $37.2 million (US$33.4 million) upon the closing of a share offering in which approximately 97 per cent of the share purchase rights issued to shareholders were exercised. Under the offering, Belize Electricity issued a right to acquire one Ordinary Share of the Company at par value of BZ$2.00 for every issued and outstanding Ordinary Share. The ownership level in Belize Electricity by Fortis increased from 68.5 per cent to 70.1 per cent as a result of Fortis purchasing all of the Ordinary Shares on which it had rights and acquiring shares under rights purchased from other shareholders. The result was a $26.8 million increase in the Corporation's investment in Ordinary Shares of Belize Electricity. The proceeds from the share offering allow Belize Electricity to continue its capital projects to improve service reliability and meet growing energy demand.

The foreign exchange losses and gains primarily related to foreign currency exchange rate fluctuations associated with Belize Electricity's Euro and Canadian dollar-denominated debt. During 2006, net foreign exchange losses were $0.4 million (BZ$0.6 million) compared to net foreign exchange gains of $0.4 million (BZ$0.6 million) last year. During 2006, the US dollar weakened relative to the Euro and Canadian dollar.

Outlook: The GDP of Belize is estimated to grow between 2.0 per cent and 3.0 per cent in 2007. Belize Electricity anticipates electricity sales growth in 2007 to be approximately 4.7 per cent, compared to 2.9 per cent in 2006.

Belize Electricity expects to spend approximately $28.0 million (BZ$48.0 million) on its 2007 capital program. The 2007 capital program includes approximately $7.0 million (BZ$12.0 million) associated with an upgrade to a gas turbine to increase its capacity by 5.5 MW to 27 MW.

Belize Electricity signed a new Power Purchase Agreement ("PPA") with CFE following the expiration of the previous agreement with CFE on August 20, 2006. The PPA is effective until August 20, 2008 for the provision of up to 15 MW of firm energy and up to a maximum of 40 MW on an economic basis if no firm energy is utilized. Belize Electricity's cost of power under the PPA is based on international fuel prices, which increased the average cost of power from CFE by approximately 59 per cent in 2006. As a result, Belize Electricity has reduced its supply of power from CFE from 25 MW to 15 MW of firm energy. Increased power purchases from BECOL have offset the increased cost of power from CFE and stabilized rates during the latter part of 2006. Any fluctuations in the cost of power above or below the reference cost of power, currently set at BZ25.3 cents per kWh, flows through to customers through the operation of the CPRSA. The balance in the CPRSA declined from BZ$28.2 million at the beginning of 2006 to BZ$18.4 million at the end of 2006.

The Company's continued long-term strategy is to mitigate the risk of fuel price increases to customers by diversifying its sources of energy supply. During 2007, BECOL is expected to commence the construction of a $61 million (US$52.5 million) 18-MW hydroelectric generating facility at a location on the Macal River in Belize called Vaca, pending regulatory approval. BECOL has signed a 50-year power sales agreement with Belize Electricity for the sale of the energy generated by the Vaca facility, commencing in late 2009. The run-of-river Vaca facility is expected to increase annual energy production from the Macal River by approximately 90 GWh to 250 GWh. In 2004, Belize Electricity signed a power purchase agreement with Hydro Maya Limited to purchase output from a 3-MW run-of-river hydroelectric plant in the Punta Gorda District of southern Belize. This facility became operational in February 2007. Additionally, Belize Electricity signed a power purchase agreement with Belize Cogeneration Energy Limited ("Belcogen") in December 2004 for the supply of approximately 14 MW of power. This facility is scheduled to become operational in mid-2009.

Caribbean Utilities

Financial Highlights

Years Ended December 31st	**2006**	2005	Variance
Average US:CDN Exchange Rate[(1)]	**1.14**	1.22	(0.08)
Electricity Sales *(GWh)*[(2)]	**485**	402	83
($ millions)			
Equity Income	**9.7**	11.4	(1.7)

[(1)] The Cayman Island dollar is pegged to the US dollar at CI$0.84 = US$1.00.

[(2)] As reported by Caribbean Utilities for the twelve-month periods ended October 31, 2006 and October 31, 2005.

During 2006 and 2005, Fortis accounted for its previous approximate 37 per cent ownership interest in Caribbean Utilities on an equity basis. Equity income was recorded on a two-month lag and, as a result, the equity income noted above represented the Corporation's share of Caribbean Utilities' earnings for the twelve-month periods ended October 31, 2006 and October 31, 2005. On November 7, 2006, Fortis acquired an additional 16 per cent ownership interest in Caribbean Utilities for $55.7 million (US$49.0 million), including acquisition costs, and now owns approximately 54 per cent of the Company. Caribbean Utilities' balance sheet as at November 7, 2006 has been consolidated in the December 31, 2006 balance sheet of Fortis. Beginning with the first quarter of 2007, Fortis will consolidate Caribbean Utilities' financial statements on a two-month lag basis.

Regulation: Caribbean Utilities operates the only electric utility on Grand Cayman, Cayman Islands pursuant to a 25-year exclusive Licence, expiring in 2011. The Licence allows for the annual adjustment of tariffs to provide the Company with a rate of return of 15 per cent on capital employed, as defined in the Licence. The 15 per cent rate of return is for the fixed term of the Licence and does not take into consideration actual interest charges, unless they are in excess of 15 per cent per annum, and costs of capital incurred by Caribbean Utilities. The Licence provides for monthly adjustments to be made to electricity rates to reflect variations in the cost of diesel fuel used in the generation of electricity.

Caribbean Utilities submitted a proposal to the Cayman Islands Government (the "Government") in July 2002 to extend its current Licence and replace the 15 per cent rate of return on capital employed mechanism for adjusting customer rates with a price cap mechanism. The resulting non-binding tentative agreement signed by Caribbean Utilities and the Government in June 2004 expired following Hurricane Ivan in September 2004. The current Licence is still in effect and is scheduled to expire in January 2011 or until replaced with a new licence by mutual agreement. The Company resumed Licence renewal discussions with the Government in November 2005.

In 2005, Caribbean Utilities and the Government agreed on a Cost Recovery Surcharge ("CRS") of US0.89 cents per kWh for each kWh of electricity consumed by customers to recover US$13.4 million of direct uninsured Hurricane Ivan losses incurred in 2004. Hurricane Ivan was a Category V hurricane that struck the Cayman Islands in September 2004. The CRS

came into effect on August 1, 2005 and will continue for a period of approximately three years. As of October 31, 2006, approximately US$8.0 million of direct uninsured Hurricane Ivan losses remained to be collected from customers through the CRS. It has also been agreed with the Government that there will be no increases in basic billing rates until July 31, 2008 and no retroactive increases in billing rates are permitted after the CRS has been fully recovered. Under its current Licence, Caribbean Utilities was entitled to a 2.0 per cent basic electricity rate increase, effective August 1, 2006, primarily as a result of increased operating expenses and investment in fixed assets. Caribbean Utilities did not implement this basic electricity rate increase, due to the freeze in basic rates during the period of the CRS.

Equity Income: Equity income from Caribbean Utilities during 2006 was $1.7 million lower than last year. Excluding the $1.1 million positive adjustment to equity income last year related to a change in Caribbean Utilities' accounting practice for recognizing unbilled revenue, equity income from Caribbean Utilities decreased $0.6 million due to foreign currency translation impacts associated with the weakening of the US dollar against the Canadian dollar compared to the same period last year. The impact of strong electricity sales growth, revenue associated with the CRS and lower maintenance costs was offset largely by higher insurance premiums, amortization costs and finance charges. During the twelve-month period ended October 31, 2006, electricity sales at Caribbean Utilities were 485 GWh, approximately 21 per cent higher than electricity sales of 402 GWh reported in the same period last year, due to strong residential and commercial sales growth post Hurricane Ivan. Business interruption insurance revenue during the twelve-month period ended October 31, 2006 was US$10 million lower than the same period last year, due to the final impact of business interruption insurance loss claims being recorded during the fourth quarter ended April 30, 2006. Revenue associated with the CRS was US$3.3 million higher period over period due to the CRS becoming effective August 1, 2005.

In May 2006, Caribbean Utilities entered into a project agreement with its strategic alliance partner, MAN B&W Diesel AG of Germany, for the purchase of a 16-MW diesel generating unit and auxiliary equipment to be installed to meet the summer 2007 energy demand for a total project cost of approximately US$22.2 million. As at October 31, 2006, approximately US$5.7 million had been spent by Caribbean Utilities on this project.

Outlook: The Cayman Islands' economy continues to show strong growth in the tourism and financial services sectors which, together with the construction industry, are the pillars of the Cayman Islands' economy and drive Caribbean Utilities' electricity sales growth. Tourist arrivals increased 11 per cent during the nine months ended September 30, 2006 compared to the same period last year. The Cayman Islands is considered one of the leading jurisdictions in the hedge fund industry with more than 8,000 registered hedge funds as of September 2006. A 20 per cent growth in new companies registered in the Cayman Islands was reported in 2006. Construction is robust, with major projects in progress in the tourism, general commercial and residential sectors. Government and the private sector are adding much-needed infrastructure, while supporting a growing economy, through the development of roads, schools, shopping centres, restaurants, commercial buildings and warehouses, hotels and condominiums.

Caribbean Utilities expects electricity sales growth for its 2006/2007 fiscal year to be between 9 per cent and 10 per cent and expects to invest approximately $221.4 million (US$190.0 million) in its capital program over the next five years primarily in support of sales growth.

Fortis Turks and Caicos [(1)]

Financial Highlights

Period Ended December 31st	2006
Average US:CDN Exchange Rate	**1.13**
Electricity Sales *(GWh)*	**44**
($ millions)	
Revenue	**12.6**
Energy Supply Costs	**5.1**
Operating Expenses	**2.0**
Amortization	**1.4**
Finance Charges	**0.6**
Earnings	**3.5**

(1) Financial data is from the date of acquisition on August 28, 2006.

On August 28, 2006, Fortis, through a wholly owned subsidiary, acquired all issued and outstanding shares of Fortis Turks and Caicos for aggregate consideration of approximately $97.7 million (US$87.8 million). The purchase price, net of assumed debt and acquisition costs, was $75.6 million (US$68.0 million). The acquisition was initially financed

through borrowings under the Corporation's credit facilities. A portion of such borrowings was repaid with partial proceeds of a preference share offering that was completed by the Corporation on September 28, 2006. The acquisition was immediately accretive to earnings.

Regulation: Fortis Turks and Caicos serves approximately 7,700 customers, or 80 per cent of electricity customers, in the Turks and Caicos Islands pursuant to 50-year licences that expire in 2036 and 2037. Fortis Turks and Caicos is regulated under a traditional rate of return on rate base approach, with a fixed rate of return of 17.5 per cent on a defined asset base.

Earnings: Earnings from Fortis Turks and Caicos were $3.5 million (US$3.0 million) for the four-month period ended December 31, 2006. Earnings from Fortis Turks and Caicos are being favourably impacted by economic growth throughout the utility's service territories.

Electricity Sales: Electricity sales were 44 GWh during the four-month period ended December 31, 2006, up approximately 26 per cent, or 9 GWh, from electricity sales of 35 GWh during the same period last year. Most of the growth in electricity sales was due to new construction taking place primarily on the island of Providenciales.

Outlook: Electricity sales growth at Fortis Turks and Caicos is expected to average in excess of 15 per cent annually over the next five years with investment in capital assets expected to average approximately US$15 million annually over the same time period.

Non-Regulated

Non-Regulated – Fortis Generation

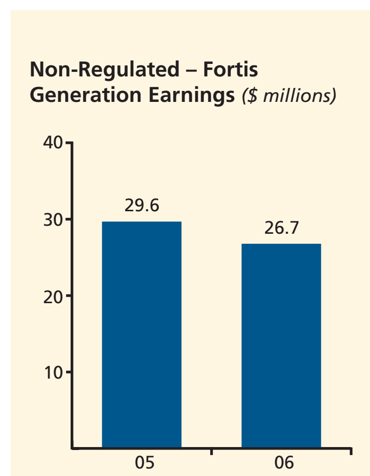
Fortis Generation consists of the Corporation's investment in non-regulated generation assets. The following table provides a summary of the Corporation's non-regulated generation assets by location.

	Plants	Capacity *(MW)*
Belize	2	32
Ontario	8	88
Central Newfoundland	2	36
British Columbia	1	16
Upper New York State	4	23
Total	**17**	**195**

Financial Highlights

Years Ended December 31st	2006	2005	Variance
Energy Sales *(GWh)*			
Belize	**178**	68	110
Ontario	**722**	708	14
Central Newfoundland	**168**	159	9
British Columbia	**30**	39	(9)
Upper New York State	**105**	75	30
Total	**1,203**	1,049	154
($ millions)			
Revenue	**79.4**	84.0	(4.6)
Energy Supply Costs	**6.2**	6.2	–
Operating Expenses	**15.2**	17.8	(2.6)
Amortization	**10.5**	10.4	0.1
Finance Charges	**10.0**	14.0	(4.0)
Gain on Settlement of Contractual Matters	**–**	(10.0)	10.0
Corporate Taxes	**8.1**	13.8	(5.7)
Non-Controlling Interest	**2.7**	2.2	0.5
Earnings	**26.7**	29.6	(2.9)

Earnings: Earnings from Non-Regulated – Fortis Generation were $2.9 million lower than last year. Earnings last year included the $10.0 million ($7.9 million after-tax) Ontario Settlement gain. Excluding the impact of the Ontario Settlement gain, earnings were $5.0 million higher than last year. The increase was primarily due to higher production and decreased finance charges largely in Belize, lower operating expenses and lower effective corporate income taxes, partially offset by the impact of lower average wholesale energy prices in Ontario.



Energy Sales: Energy sales were 154 GWh, or 14.7 per cent, higher than last year, largely driven by higher hydroelectric production in Belize and Upper New York State. The increase in production in Belize was due to the first full year of operations of the Chalillo storage facility and higher rainfall levels, with production in 2006 more than two-and-a-half times that experienced in 2005. Production in Upper New York State increased primarily due to nearly nine months of operations of the Dolgeville plant in 2006 compared to almost four months last year, and higher production at the Moose River plant. In late January 2005, the Dolgeville plant went out of service as a result of flooding and did not resume production until October 2005. In late June 2006, the Dolgeville plant experienced a disruption in water supply due to flooding and resumed production late in the third quarter of 2006.

Revenue: Revenue was $4.6 million lower than last year, driven by lower average wholesale energy prices in Ontario, partially offset by increased production largely in Belize and the receipt of $1.2 million in insurance proceeds. The average annual wholesale energy price per megawatt hour ("MWh") in Ontario during 2006 was $46.38 compared to $68.49 last year, resulting in a decrease in revenue of approximately $14.2 million. The insurance proceeds related to the Dolgeville plant in Upper New York State as a result of the 2005 flood and represented the final amounts received related to property damage and business interruption loss insurance claims.

Expenses: Operating expenses were $2.6 million lower than last year; however, operating expenses last year included a $1.7 million write-down of assets associated with the lay-up of the Rankine Generating Station and $0.5 million and $0.3 million of costs related to an early retirement program and business development activities, respectively, in Ontario, partially offset by a $0.8 million insurance gain related to the involuntary disposition of assets associated with the 2005 Dolgeville flood. Additionally, operating expenses in 2006 were favourably impacted by cost savings of approximately $1.0 million associated with the cessation of operations at the Rankine Generating Station upon implementation of the Niagara Exchange Agreement in late 2005.

Finance charges were $4.0 million lower than last year, primarily due to the reduction of inter-company finance charges in the Belizean operations and the early repayment of a $22.5 million term loan in the second quarter of 2005 associated with the Ontario operations.

Corporate taxes were $5.7 million lower than last year, primarily due to lower earnings before corporate taxes at the taxable jurisdictions and an increase in the proportion of tax-exempt Belizean earnings.

Outlook: Fortis expects to pursue opportunities associated with non-regulated hydroelectric operations in 2007, including commencement of the construction of the 18-MW hydroelectric generating facility at Vaca on the Macal River in Belize, pending regulatory approval, as well as continuing to develop and enhance existing operations.

Non-Regulated – Fortis Properties

Fortis Properties consists of the Corporation's investment in non-regulated commercial real estate and hotel assets.

Financial Highlights

Years Ended December 31st

($ millions)	**2006**	2005	Variance
Real Estate Revenue	**54.8**	52.9	1.9
Hospitality Revenue	**108.1**	101.5	6.6
Total Revenue	**162.9**	154.4	8.5
Operating Expenses	**105.3**	100.0	5.3
Amortization	**12.4**	11.2	1.2
Finance Charges	**21.0**	20.0	1.0
Gain on Sale of Income Producing Property	**(2.1)**	–	(2.1)
Corporate Taxes	**7.6**	9.1	(1.5)
Earnings	**18.7**	14.1	4.6

Earnings: Fortis Properties' earnings were $4.6 million higher than last year, primarily due to a $2.1 million ($1.6 million after-tax) gain on the sale of Days Inn Sydney during the second quarter of 2006, lower corporate income taxes, growth in the Company's hotel operations in Western Canada driven by the Greenwood Inns and contributions from the operations of several expanded properties. The increase was partially offset by higher amortization costs and finance charges.

On November 1, 2006, Fortis Properties purchased four hotels in Alberta and British Columbia from Lodge Motel (Kelowna) Ltd. for an aggregate purchase price of approximately $52.0 million, including assumed debt. The four acquired hotels were the Holiday Inn Express and Suites, and Best Western in Medicine Hat, Alberta; Ramada Hotel and Suites in Lethbridge, Alberta; and Holiday Inn Express in Kelowna, British Columbia. This acquisition increased the hospitality operations of Fortis Properties by 454 rooms.

During the second quarter of 2006, Fortis Properties completed the expansion of the Holiday Inn Sarnia with a new five-storey 70-room tower and an additional 3,000 square feet of banquet space, and the 11,000-square foot expansion of the conference facilities at the Holiday Inn Kitchener-Waterloo. The 57,000-square foot expansion of the Blue Cross Centre in Moncton was completed during the third quarter of 2006. Total capital expenditures related to these projects were approximately $16.3 million, with approximately $9.3 million spent in 2006.

Revenue: Real Estate Division revenue was $1.9 million higher than last year, due to the leasing of the Blue Cross Centre expansion and growth experienced in most of the Company's operating regions.

The occupancy rate in the Real Estate Division was 94.9 per cent as at December 31, 2006, down from 95.9 per cent as at December 31, 2005. The decrease in occupancy was primarily attributable to vacancies at rural Newfoundland mall properties and recent lease expiries at the Brunswick Square property in New Brunswick.

Hospitality Division revenue was $6.6 million higher than last year, driven by growth experienced in the Company's hotel operations in Western Canada, the first full year of operations of the expanded Delta St. John's Hotel and the impact of the expanded Ontario hotels, partially offset by the elimination of revenue following the sale of Days Inn Sydney. Revenue per available room ("REVPAR") for 2006 was $72.67 compared to $70.95 for 2005. The 2.4 per cent increase in REVPAR was due to increases in both average occupancy and average room rates.

Expenses: Operating expenses were $5.3 million higher than last year, driven primarily by the Company's hotel operations in Western Canada and the impact of the expanded hotel properties. The increase was partially offset by the elimination of operating expenses following the sale of Days Inn Sydney.

Amortization costs were $1.2 million higher than last year, primarily due to the Company's capital program, including property expansions, and acquisition of hotels.

Finance charges were $1.0 million higher than last year, primarily due to financing associated with the four recently acquired hotels and property expansions.

Corporate taxes were $1.5 million lower than last year, largely due to the reduction of future income tax liability balances resulting from enacted future Federal income tax rate reductions and the elimination of the Federal Large Corporations' Tax, effective January 1, 2006.

Outlook: The revenue and earnings impacts from the four recently acquired hotels in Western Canada and the Blue Cross Centre expansion are expected to provide the primary sources of growth at Fortis Properties in 2007.

The Real Estate Division operates in three provinces in Atlantic Canada, with the majority of its properties located in large regional markets that contain a broad economic base. The buildings are occupied by a diversified tenant base characterized by long-term leases with staggered maturity dates to reduce the risk of vacancy exposure. There is a continued focus in this Division of a strategy of early tenant renewals.

The Hospitality Division currently operates in seven Canadian provinces. The hospitality industry is impacted by economic factors such as fluctuating energy costs and increasing municipal taxes. Increased supply of hotel rooms in many of the markets in which the Hospitality Division operates has created competitive challenges in recent years and will continue to do so in 2007. The Hospitality Division operates in the mid-to-upper market which targets a large customer base, allowing the Company to reduce exposure to risk associated with a specific market segment. The acquisitions of properties in Western Canada over the last two years have strengthened the Company's geographic diversification.

Corporate

Financial Highlights

Years Ended December 31st

($ millions)	**2006**	2005	Variance
Total Revenue	**9.0**	10.0	(1.0)
Operating Expenses	**10.6**	9.5	1.1
Amortization	**3.0**	2.9	0.1
Finance Charges[(1)]	**40.5**	38.9	1.6
Foreign Exchange Gain	**(2.1)**	(2.0)	(0.1)
Corporate Tax Recovery	**(9.9)**	(8.3)	(1.6)
Non-Controlling Interest	**(0.2)**	(0.2)	–
Preference Share Dividends	**1.6**	–	1.6
Net Corporate Expenses	**(34.5)**	(30.8)	(3.7)

[(1)] Includes dividends on preference shares classified as long-term liabilities

The Corporate segment captures expense and revenue items not specifically related to any operating segment. Included in the Corporate segment are finance charges, including interest on debt incurred directly by Fortis and dividends on preference shares classified as long-term liabilities, foreign exchange gains or losses, dividends on preference shares classified as equity, other corporate expenses net of recoveries from subsidiaries, interest and miscellaneous revenues, and corporate income taxes.

Net corporate expenses were $3.7 million higher than last year, primarily due to increased finance charges, higher preference share dividends associated with the issue of the First Preference Shares, Series F, higher operating expenses and lower inter-company interest revenue. Finance charges were higher than last year due to increased drawings on corporate credit facilities and interest on US$40 million of unsecured subordinated convertible debentures issued in November 2006, partially offset by lower interest costs of $0.8 million on US dollar-denominated debt as a result of the weakening of the US dollar against the Canadian dollar during 2006. Operating expenses last year included $1.8 million of charges resulting from restructuring and related costs associated with the Western Canadian electric utilities which had not been provided for in the acquisition purchase price. The increase in operating expenses was driven by business development costs of $1.7 million incurred in 2006 and an increase in pension and compensation expenses of $1.8 million, partially offset by miscellaneous credits recorded during 2006 that reduced operating expenses by approximately $0.6 million. Pension expense increased largely due to pension plan changes and a decrease in the assumed discount rate used to calculate pension expense. Compensation expense increased due to the impact of the appreciation of the Corporation's Common Shares on the measurement and expensing of Restricted Share Units ("RSU") and Directors' Deferred Share Units ("DSU") issued under the Corporation's RSU Plan and Directors' DSU Plan.

On September 28, 2006, Fortis issued 5,000,000 4.90% First Preference Shares, Series F for gross proceeds of $125 million, or approximately $122.5 million net of after-tax expenses. The net proceeds were largely used to partially fund the recent acquisition of Fortis Turks and Caicos and to fund equity injections into FortisAlberta and FortisBC in support of their extensive capital expenditure programs. The First Preference Shares, Series F are classified as equity on the balance sheet as they are not redeemable at the option of the shareholder. The Corporation's previously issued First Preference Shares, Series C and First Preference Shares, Series E are redeemable at the option of the shareholder and are therefore classified as long-term liabilities on the balance sheet.

Consolidated Financial Position

The following table outlines the significant changes in the consolidated balance sheets between December 31, 2006 and December 31, 2005.

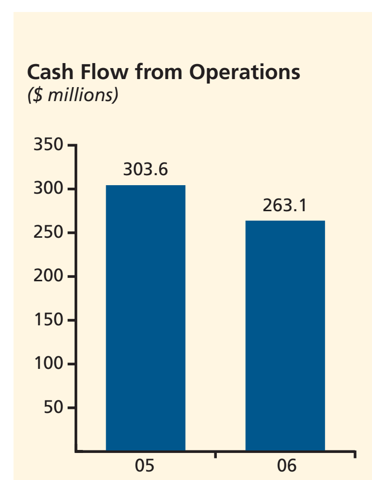
($ millions)	Increase (Decrease)	Explanation
Accounts receivable	73.9	The increase primarily related to accounts receivable of $21.3 million at Caribbean Utilities and $10.3 million at Fortis Turks and Caicos, higher transmission revenue accruals at FortisAlberta as a result of costs previously paid by generators now being paid by load customers and higher accounts receivable balances at most of the regulated utilities due to higher revenues.
Materials and supplies	14.1	The increase primarily related to materials and supplies of $6.1 million at Caribbean Utilities and $5.0 million at Fortis Turks and Caicos.
Deferred charges and other assets	26.7	The increase primarily related to the undepreciated balance of contributions made by FortisAlberta to the AESO for investment in transmission facilities, pension funding in excess of pension expense at Newfoundland Power, an investment at Fortis Properties required as collateral for debt associated with Days Inn Sydney and $1.9 million of deferred charges and other assets at Caribbean Utilities. The increase was partially offset by amortization during 2006.
Regulatory assets – long-term	50.7	The increase primarily related to an increase in AESO charges deferrals at FortisAlberta, the deferred recovery of utility capital asset amortization at Newfoundland Power and an increase in regulatory assets associated with other post-employment benefits at Newfoundland Power, FortisAlberta and FortisBC, combined with $13.7 million of regulatory assets at Caribbean Utilities. The increase was partially offset by a $6.1 million reduction in the CPRSA at Belize Electricity.
Future income tax asset – long-term	(51.8)	The decrease primarily related to the conversion to the taxes payable method of accounting for federal income taxes from the tax liability method for regulatory purposes at FortisAlberta. As a result, the future income tax asset and the corresponding offsetting regulatory liability at FortisAlberta were each reduced by approximately $50.7 million during the second quarter of 2006.
Utility capital assets	674.5	The increase primarily related to $483.1 million invested in electricity systems, $45.8 million of utility capital assets acquired upon the acquisition of Fortis Turks and Caicos and $318.6 million of utility assets acquired upon the acquisition of a controlling interest in Caribbean Utilities. The increase was partially offset by customer contributions and amortization for 2006.
Income producing properties	54.4	On November 1, 2006, Fortis Properties acquired four hotels in Alberta and British Columbia for an aggregate purchase price of approximately $52 million. The remainder of the increase related to the expansions of Holiday Inn Sarnia, Holiday Inn Kitchener-Waterloo and the Blue Cross Centre, partially offset by the sale of Days Inn Sydney and amortization.
Investments	(164.9)	The decrease related to the Corporation's investment in Caribbean Utilities which, upon acquiring a controlling interest in November 2006, has been consolidated in the financial statements of the Corporation. Previously, the Corporation's investment in Caribbean Utilities was accounted for on the equity basis.
Goodwill	149.2	The increase related to US$34.8 million of goodwill recorded upon the acquisition of Fortis Turks and Caicos in August 2006, US$93.2 million of goodwill recorded upon the acquisition of a controlling interest in Caribbean Utilities in November 2006 and the impact of foreign exchange on the translation of the US dollar-denominated goodwill amounts.
Short-term borrowings	48.8	The increase related to short-term borrowings at Maritime Electric, FortisBC and FortisAlberta, primarily to fund utility capital expenditures and operating activities, and to fund Maritime Electric's $5.9 million corporate income tax deposit. The increase also related to short-term borrowings of $9.3 million at Caribbean Utilities. The increase was partially offset by repayment of short-term borrowings at Belize Electricity, Fortis Generation and the Corporation.
Accounts payable and accrued charges	68.5	The increase primarily related to accounts payable and accrued charges of $29.5 million at Caribbean Utilities and $6.6 million at Fortis Turks and Caicos. The increase also related to higher accounts payable and accrued charges at FortisAlberta as a result of the Company's capital expenditure program and costs previously paid by generators now being paid by load customers, and the impact of higher purchased power costs at Newfoundland Power.
Income taxes payable	(22.8)	The decrease primarily related to the payment of income taxes at FortisAlberta, Newfoundland Power, FortisOntario and Maritime Electric during 2006.
Deferred credits	14.7	The increase primarily related to the accrual of post-employment benefits at Newfoundland Power, FortisBC and the Corporation, combined with customer deposits associated with Fortis Turks and Caicos.
Regulatory liabilities – long-term	(28.8)	The decrease related to the conversion to the taxes payable method of accounting for federal income taxes from the tax liability method for regulatory purposes at FortisAlberta. As a result, the future income tax asset and the corresponding offsetting regulatory liability at FortisAlberta were each reduced by approximately $50.7 million during the second quarter of 2006. The decrease was partially offset by an increase in the future removal and site restoration provision at FortisAlberta, FortisBC, Newfoundland Power and Maritime Electric.

($ millions)	Increase (Decrease)	Explanation
Future income tax liability – long-term	13.0	The increase primarily related to a taxable temporary difference related to the AESO charges deferrals at FortisAlberta.
Long-term debt and capital lease obligations (including current portion)	476.2	The increase related to long-term debt of $173.4 million at Caribbean Utilities and $23.1 million at Fortis Turks and Caicos, combined with increased net drawings on long-term credit facilities of $66.1 million, $39.2 million, $23.4 million and $21.0 million by the Corporation, FortisAlberta, Newfoundland Power and FortisBC, respectively. The increase also related to $100 million of unsecured public debentures issued by FortisAlberta on April 21, 2006, US$40 million of unsecured subordinated convertible debentures issued by the Corporation on November 7, 2006, $11.6 million in long-term debt assumed by Fortis Properties upon the acquisition of the four hotels on November 1, 2006 and approximately $8.5 million in new long-term debt at Belize Electricity. The increase was partially offset by regular debt repayments during the year.
Non-controlling interest	90.9	The increase primarily related to the 46 per cent non-controlling interest in Caribbean Utilities recognized upon consolidation of the financial results of Caribbean Utilities upon Fortis acquiring controlling interest in the Company in November 2006, combined with the non-controlling proceeds related to Belize Electricity's share offering in June 2006.
Shareholders' equity	184.7	The increase primarily related to the $125 million preference share issue, $122.5 million net of after-tax expenses, combined with net earnings reported for 2006, less common share dividends. The remainder of the increase primarily related to the issuance of Common Shares under the Corporation's share purchase, dividend reinvestment and stock option plans, combined with an increase in the equity portion of convertible debentures associated with the Corporation's US$40 million of unsecured subordinated convertible debentures issued on November 7, 2006. The increase was partially offset by a foreign currency translation adjustment of $39.3 million upon consolidation of the previously reported equity investment in Caribbean Utilities.

Liquidity

The following table outlines the summary of cash flows.

Years Ended December 31st ($ millions)	2006	2005	Variance
Cash, beginning of year	**33.4**	37.2	(3.8)
Cash provided by (used in)			
Operating activities	**263.1**	303.6	(40.5)
Investing activities	**(634.1)**	(467.1)	(167.0)
Financing activities	**378.4**	159.9	218.5
Foreign currency impact on cash balances	**0.1**	(0.2)	0.3
Cash, end of year	**40.9**	33.4	7.5



Operating Activities: Cash flow from operations, after working capital adjustments, was $40.5 million lower than last year. Cash flow from operations, after working capital adjustments, during 2005 included the $10.0 million Ontario Settlement gain and a corporate income tax refund and related interest at Newfoundland Power of approximately $9.0 million. The decrease in cash flow from operations, after working capital adjustments, was primarily due to: (i) timing differences between when transmission costs were paid and when transmission revenues were collected at FortisAlberta; (ii) higher cash taxes paid at FortisAlberta related to the previous taxation year; (iii) the payment of a $5.9 million corporate income tax deposit at Maritime Electric; (iv) the impact of lower average wholesale energy prices in Ontario; and (v) the timing of amounts due from customers, income taxes payable and accounts payable at Maritime Electric and FortisOntario. The decrease was partially offset by the recovery of higher amortization expense through electricity rates at FortisBC, the impact of increased electricity rates at Belize Electricity, higher earnings at BECOL due to the operation of the Chalillo storage facility and improved hydrology, and earnings contribution from Fortis Turks and Caicos.

Investing Activities: Cash used in investing activities was $167.0 million higher than last year. The increase was primarily due to the acquisition of Fortis Turks and Caicos in August 2006 for a net purchase price of $75.6 million, the acquisition of an additional 16 per cent ownership interest in Caribbean Utilities in November 2006 for a net purchase price of $53.0 million, the purchase of four hotels in Alberta and British Columbia in November 2006 for a net purchase price of $40.4 million, increased electric utility capital expenditures and increased deferred charges at FortisAlberta related to payments made to the AESO associated with transmission capital projects. The increase was partially offset by lower capital expenditures associated with income producing properties, increased contributions in aid of construction and proceeds from the sale of Days Inn Sydney in June 2006.

Gross electric utility capital expenditures were $483.1 million, $58.3 million higher than last year. The increase in gross electric utility capital expenditures primarily related to capital spending at FortisAlberta, largely driven by customer growth, rising material and labour costs, capacity increases, system improvements and substation upgrades. The increase was partially offset by decreased utility capital expenditures at Maritime Electric and BECOL due to the substantial completion during 2005 of the construction of the 50-MW combustion turbine generating facility on PEI and the Chalillo Project in Belize, respectively.

Capital expenditures associated with income producing properties were $4.4 million lower than last year. During 2006 and 2005, capital expenditures associated with income producing properties included expenditures related to the expansions of Holiday Inn Sarnia, Holiday Inn Kitchener-Waterloo and the Blue Cross Centre in Moncton, which were completed in 2006. Capital expenditures associated with income producing properties during 2005 also included expenditures related to the completion of the expansion of the Delta St. John's Hotel.

Contributions received in aid of construction were $8.4 million higher than last year, primarily due to increased contributions associated with FortisAlberta's capital expenditure program.

Financing Activities: Cash provided from financing activities was $378.4 million, $218.5 million higher than last year.

In September 2006, the Corporation issued preference shares for net proceeds of approximately $121.1 million. A portion of the proceeds were used to repay certain indebtedness under Corporate long-term credit facilities as outlined below. In March 2005, the Corporation issued 6.9 million Common Shares for net proceeds of approximately $123.9 million which was used, in part, to repay short-term indebtedness associated with the acquisition of FortisAlberta and FortisBC in 2004.

During 2006, the Corporation issued, by way of private placement, US$40 million of unsecured subordinated convertible debentures to fund, in part, the acquisition in November 2006 of an additional 16 per cent ownership interest in Caribbean Utilities. Additionally, the Corporation drew approximately $135.3 million under long-term credit facilities to finance, on an interim basis, the acquisition of Fortis Turks and Caicos; to finance, in part, the acquisition by Fortis Properties of four hotels in Alberta and British Columbia in November 2006 and the acquisition of an additional 16 per cent ownership interest in Caribbean Utilities in November 2006; to fund an equity injection into one of the Corporation's Western Canadian utilities; and for general corporate purposes. Additionally, FortisAlberta issued $100 million in unsecured debentures in April 2006. The net proceeds of the debenture offering were used primarily to repay existing indebtedness on FortisAlberta's long-term credit facility. Belize Electricity also issued approximately $8.5 million in debentures during 2006. During 2006, an aggregate of $176.3 million was drawn under long-term credit facilities at FortisAlberta, FortisBC and Newfoundland Power, primarily to fund their respective capital expenditure programs. During 2005, proceeds from long-term debt primarily related to the issue by FortisBC of 30-year 5.6% $100 million senior unsecured debentures, the proceeds of which were primarily used to repay borrowings under FortisBC's long-term credit facilities; a $60 million bond issue at Newfoundland Power; a $41.9 million financing related to the acquisition of the Greenwood Inns; and approximately $126.8 million of drawings under long-term credit facilities at FortisAlberta and FortisBC, primarily to fund their respective capital expenditure programs. The Corporation also drew $18.0 million under long-term credit facilities during 2005, primarily to fund equity injections into subsidiaries.

During 2006, significant repayments of long-term debt and capital lease obligations primarily related to the repayment by the Corporation, with partial proceeds from the preference share offering, of approximately $71.5 million of indebtedness under long-term credit facilities, and the repayment by FortisAlberta of approximately $97.1 million of indebtedness under a long-term credit facility primarily with proceeds from the $100 million unsecured debenture issue. During 2005, long-term debt and capital lease repayments included the early repayment by FortisOntario of a $22.5 million term loan in May 2005.

During 2006, the Corporation also received approximately $10.6 million in proceeds from non-controlling shareholders related to Belize Electricity's share offering in June 2006.

The remaining financing activities during 2006 and 2005 largely related to dividend payments, normal course issues of common shares through the Corporation's share purchase and stock option plans, regularly scheduled long-term debt repayments and normal course changes in short-term borrowings.

Contractual Obligations: Consolidated contractual obligations over the next five years and for periods thereafter, as at December 31, 2006, are outlined in the following table.

($ millions)	**Total**	≤ 1 year	>1–3 years	4–5 years	> 5 years
Long-term debt	**2,614.1**	83.6	205.6	392.8	1,932.1
Brilliant Terminal Station ("BTS")(1)	**68.2**	2.6	5.1	5.1	55.4
Power purchase obligations					
FortisBC(2)	**2,884.6**	38.6	74.1	76.0	2,695.9
FortisOntario(3)	**310.7**	21.9	42.7	44.5	201.6
Maritime Electric(4)	**38.7**	30.1	8.6	–	–
Belize Electricity(5)	**20.2**	2.7	3.4	2.3	11.8
Capital cost(6)	**426.5**	15.7	27.9	35.4	347.5
Joint-use asset and shared service agreements(7)	**64.5**	3.8	7.7	6.7	46.3
Office lease – FortisBC(8)	**21.7**	1.1	2.6	2.4	15.6
Caribbean Utilities(9)	**19.2**	7.7	11.5	–	–
Operating lease obligations(10)	**18.0**	4.5	7.6	5.2	0.7
Other	**4.2**	1.4	1.6	0.1	1.1
Total	**6,490.6**	213.7	398.4	570.5	5,308.0

(1) On July 15, 2003, FortisBC began operating the BTS under an agreement, the term of which expires in 2056 (unless the Company has earlier terminated the agreement by exercising its right, at any time after the anniversary date of the agreement in 2029, to give 36 months' notice of termination). The BTS is jointly owned by CPC/CBT and is used by the Company on its own behalf and on behalf of CPC/CBT. The agreement provides that FortisBC will pay CPC/CBT a charge related to the recovery of the capital cost of the BTS and related operating costs.

(2) Power purchase obligations of FortisBC include the Brilliant Power Purchase Agreement (the "BPPA") as well as the Power Purchase Agreement with BC Hydro. On May 3, 1996, an Order was granted by the BCUC approving a 60-year BPPA for the output of the Brilliant hydroelectric plant located near Castlegar, British Columbia. The BPPA requires monthly payments based on the operation and maintenance costs and a return on capital for the plant in exchange for the specified natural flow take-or-pay amounts of power. The BPPA includes a market-related price adjustment after 30 years of the 60-year term. The Power Purchase Agreement with BC Hydro, which expires in 2013, provides for any amount of supply up to a maximum of 200 MW, but includes a take-or-pay provision based on a five-year rolling nomination of the capacity requirements.

(3) Power purchase obligations for FortisOntario primarily include a long-term take-or-pay contract between Cornwall Electric and Hydro-Québec Energy Marketing for the supply of electricity and capacity. The contract provides approximately 237 GWh of energy per year and up to 45 MW of capacity at any one time. The contract, which expires December 31, 2019, provides approximately one-third of Cornwall Electric's load. Cornwall Electric also has a two-year contract in place with Hydro-Québec Energy Marketing, which expires June 30, 2008. This take-or-pay contract provides energy on an as-needed basis but charges for 100 MW of capacity at $0.14 million per month.

(4) Maritime Electric has one take-or-pay contract for the purchase of either capacity or energy. This contract totals approximately $38.7 million through March 31, 2008.

(5) Power purchase obligations for Belize Electricity include a 15-year power purchase agreement between Belize Electricity and Hydro Maya Limited for the supply of 3 MW of capacity, which commenced in February 2007, and a two-year power purchase agreement between Belize Electricity and CFE of Mexico, expiring August 2008, for the supply of 15 MW of firm energy. Belize Electricity has also signed a 15-year power purchase agreement with Belcogen that provides for the supply of approximately 14 MW of capacity, which is scheduled to commence in mid-2009. Belcogen has not yet commenced construction of the related bagasse-fired electric generating facility; therefore, the obligation related to the power purchase agreement with Belcogen has not been included in the Corporation's contractual obligations.

(6) 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.

(7) FortisAlberta and an Alberta transmission service provider have entered into an agreement in consideration for joint attachments of distribution facilities to the transmission system. The expiry terms of this agreement state that the agreement remains in effect until the Company no longer has attachments to the transmission facilities. Due to the unlimited term of this contract, the calculation of future payments after 2011 includes payments to the end of 20 years. However, the payments under this agreement may continue for an indefinite period of time. FortisAlberta and an Alberta transmission service provider have also entered into a number of service agreements to ensure operational efficiencies are maintained through coordinated operations. The service agreements have minimum expiry terms of five years from September 1, 2005 and are subject to extensions based on mutually agreeable terms.

(8) Under a sale-leaseback agreement, on September 29, 1993, FortisBC began leasing its Trail, British Columbia office building for a term of 30 years. The terms of the agreement grant FortisBC repurchase options at approximately year 20 and year 28 of the lease term. On December 1, 2004, FortisBC also entered into a five-year lease for the Kelowna, British Columbia head office. The terms of the lease allow for termination without penalty after three years.

(9) During 2006, Caribbean Utilities entered into a project agreement for the purchase and turnkey installation of one 16-MW medium-speed diesel generating unit and auxiliary equipment. This unit is scheduled for installation to meet the summer 2007 energy demand. The contract cost is US$18.4 million and the total estimated cost for completion of the project is US$22.2 million. As at October 31, 2006, approximately US$5.7 million had been spent by Caribbean Utilities on this project.

(10) Operating lease obligations include certain office, vehicle and equipment leases and the lease of electricity distribution assets of Port Colborne Hydro Inc.

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 its electricity systems. In order to ensure access to capital is maintained, the Corporation targets a long-term capital structure that includes a minimum of 40 per cent equity and 60 per cent debt as well as investment-grade credit ratings. The Corporation targets the equity component of its capital structure to consist of at least 75 per cent common share equity. The capital structure of Fortis is presented in the following table.

	December 31, 2006		December 31, 2005	
	($ millions)	*(%)*	*($ millions)*	*(%)*
Total debt and capital lease obligations (net of cash)	**2,700.0**	**61.1**	2,182.5	58.7
Preference shares (1)	**442.0**	**10.0**	319.5	8.6
Common shareholders' equity (2)	**1,275.6**	**28.9**	1,213.4	32.7
Total	**4,417.6**	**100.0**	3,715.4	100.0

(1) Includes preference shares classified as both long-term liabilities and equity

(2) On January 18, 2007, Fortis issued 5,170,000 Common Shares for proceeds of $149.9 million, $145.6 million net of after-tax expenses, improving the common shareholders' equity component of the capital structure to approximately 32 per cent and total preferred and common shareholders' equity to approximately 42 per cent.

The change in the Corporation's capital structure is primarily the result of the issue in September 2006 of 5,000,000 4.90% First Preference Shares, Series F for proceeds of $122.5 million, net of after-tax expenses, increased debt primarily to finance the consolidated capital program of Fortis and debt associated with Fortis Turks and Caicos and Caribbean Utilities, combined with net earnings, less common share dividends, of $74.6 million during 2006.

As at December 31, 2006, the Corporation's unsecured debt credit ratings were as follows:

Standard & Poor's	BBB
DBRS	BBB(high)

Capital Program: The Corporation's principal business of regulated utilities is capital intensive. Capital investment in electrical infrastructure is required to ensure continued and enhanced performance, reliability and safety of the electricity systems, and to meet customer growth. All costs considered to be maintenance and repairs are expensed as incurred.

Costs related to replacements, upgrades and betterments of capital assets are capitalized as incurred. During 2006, gross consolidated electric utility capital expenditures of Fortis were $483.1 million. Approximately 38 per cent of these expenditures was incurred to ensure the continued and enhanced performance, reliability and safety of the Corporation's generation, transmission and distribution assets; 45 per cent was incurred to meet customer growth; and the remaining 17 per cent was related to facilities, equipment, vehicles and information technology systems. Gross consolidated electric utility capital expenditures for 2007 are expected to be approximately $610 million. Approximately 33 per cent of these expenditures is expected to be incurred to ensure the continued and enhanced performance, reliability and safety of the Corporation's generation, transmission and distribution assets; 46 per cent is expected to meet customer growth; and the remaining 21 per cent is expected to relate to facilities, equipment, vehicles and information technology systems. Planned capital expenditures are based on detailed forecasts such as customer demand, weather, cost of labour and materials, as well as other factors which could change and cause actual expenditures to differ from forecasts.

Capital investment at FortisAlberta and FortisBC represented approximately 73 per cent of gross consolidated electric utility capital expenditures in 2006 and is expected to represent approximately 65 per cent of gross consolidated electric utility capital expenditures in 2007. The rate bases of FortisAlberta and FortisBC have increased approximately 29 per cent and 36 per cent, respectively, since the utilities were acquired in May 2004. Over the next two years, each utility's rate base is expected to grow by approximately 30 per cent.

Gross consolidated electric utility capital expenditures over the next five years are expected to surpass $2.6 billion. The Corporation's total electric utility capital assets are expected to grow at an average annual rate of approximately 7 per cent over the next five years. Growth in electric utility capital assets is expected to be driven by FortisAlberta and FortisBC and their need to enhance electrical system reliability and meet strong customer growth.

Generally, the regulatory processes at the Corporation's regulated utilities allow for a recovery of the cost of capital assets through amortization and/or a rate of return on the unamortized balance of capital assets. FortisBC, Newfoundland Power and Maritime Electric require regulatory approval of their capital expenditure plans. At the Corporation's other regulated electric utilities, prior regulatory approval of capital expenditure plans is not required. Instead, the regulatory authorities approve revenue requirements for the purpose of setting electricity rates which include the impact of capital expenditures on rate base and/or cost of service. There is no assurance that capital projects perceived as required or completed by the Corporation's regulated utilities will be approved or that conditions to such approval will not be imposed. Capital cost overruns might not be recoverable in future customer electricity rates.

Actual gross consolidated electric utility capital expenditures for 2006 exceeded planned gross consolidated electric utility capital expenditures of $430 million by approximately $53 million. The increase was driven by FortisAlberta and the need to connect new customers as a result of strong economic growth experienced in Alberta. Capital expenditures at FortisAlberta in excess of those forecasted when customer rates were last approved by the AEUB are expected to be included in rate base in 2008 for the purpose of establishing customer rates for that year.

A summary of gross electric utility capital expenditures for 2006 by segment and asset category is illustrated in the following table.

Gross Electric Utility Capital Expenditures
Year Ended December 31, 2006

($ millions)	Fortis Alberta[1][2]	FortisBC[1]	NF Power[1]	Other Regulated Utilities Canadian[1]	**Total Regulated Utilities Canadian**	**Regulated Utilities Caribbean**	**Non-Regulated**	**Total[3]**
Generation	–	13.8	6.2	4.4	**24.4**	**3.7**	**3.2**	**31.3**
Transmission	–	44.1	9.1	7.2	**60.4**	**4.4**	**–**	**64.8**
Distribution	190.5	39.4	35.4	23.3	**288.6**	**13.1**	**1.6**	**303.3**
Facilities, equipment and vehicles	33.6	8.6	5.5	1.8	**49.5**	**4.7**	**–**	**54.2**
Information technology	19.1	5.0	4.0	0.5	**28.6**	**0.9**	**–**	**29.5**
Total	**243.2**	**110.9**	**60.2**	**37.2**	**451.5**	**26.8**	**4.8**	**483.1**

(1) At FortisAlberta, FortisBC, Newfoundland Power and Maritime Electric, gross utility capital expenditures included removal and site restoration expenditures. These expenditures are permissible in rate base.

(2) Excludes payments of $17.5 million made to the AESO for investment in transmission facilities

(3) Includes expenditures associated with assets under construction

A summary of forecast gross electric utility capital expenditures for 2007 by segment and asset category is illustrated in the following table.

Forecast Gross Electric Utility Capital Expenditures
Year Ended December 31, 2007

($ millions)	Fortis Alberta[(1)(2)]	FortisBC[(1)(3)]	NF Power[(1)]	Other Regulated Utilities Canadian[(1)]	**Total Regulated Utilities Canadian**	**Regulated Utilities Caribbean**	**Non-Regulated**	**Total**
Generation	–	21.9	19.8	2.5	**44.2**	**29.7**	**19.6**	**93.5**
Transmission	–	64.4	8.3	5.5	**78.2**	**9.6**	**–**	**87.8**
Distribution	185.0	30.3	27.5	20.7	**263.5**	**36.8**	**1.3**	**301.6**
Facilities, equipment and vehicles	51.5	16.3	4.4	1.2	**73.4**	**21.9**	**–**	**95.3**
Information technology	19.1	6.0	3.5	1.7	**30.3**	**1.5**	**–**	**31.8**
Total	**255.6**	**138.9**	**63.5**	**31.6**	**489.6**	**99.5**	**20.9**	**610.0**

(1) At FortisAlberta, Newfoundland Power and Maritime Electric, forecast gross utility capital expenditures include removal and site restoration expenditures. These expenditures are permissible in rate base.

(2) Excludes forecast payments of approximately $17 million to the AESO for investment in transmission facilities

(3) At FortisBC, forecast gross utility capital expenditures reflect the 2007 Capital Plan submitted to the BCUC and subsequently approved, subject to further regulatory processes on certain projects. It also includes forecast removal and site restoration expenditures. These expenditures are permissible in rate base.

The Corporation's individually significant gross electric utility capital expenditure projects are summarized in the table below.

Gross Electric Utility Capital Expenditures
Individual Projects >$10 million

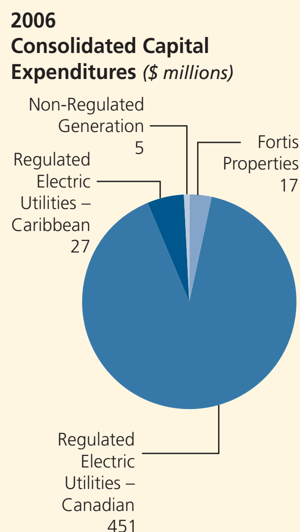
($ millions) **Utility**	**Nature of Project**	**Actual 2006**	**Expected costs to complete after 2006**	**Expected completion dates**
FortisAlberta	New operations facility in the City of Airdrie	**1.0**	28.0	2008
FortisAlberta	Automated Meter Infrastructure ("AMI") technology	**0.3**	85.0	2010
FortisBC	Three new substations and associated transmission lines	**8.1**	49.1	2007 and 2008
FortisBC	Generation asset upgrade and life-extension program	**10.8**	30.4	2011
Newfoundland Power	Rattling Brook hydroelectric generating plant refurbishment	**–**	18.8	2007
Caribbean Utilities	New 16-MW diesel generating unit	**6.5**	19.2	2007
Non-Regulated – Fortis Generation	New 18-MW hydroelectric generating facility – Vaca, Belize	**–**	61.0	2009

During 2007, FortisAlberta expects to spend $5.0 million associated with Phase 1 of the implementation of AMI technology. AMI technology will allow for more accurate reporting of customer consumption to retailers based on actual rather than estimated usage. AMI technology, once fully implemented, will reduce the costs of the current manual meter reading practice. FortisAlberta received AEUB approval to initiate Phase 1 of this project in 2007 and, based on the successful implementation of this first phase, Fortis will seek AEUB approval for the implementation of AMI technology to its remaining customers as part of its 2008/2009 Distribution Access Tariff Application. AMI technology is expected to be fully implemented by 2010 at an expected cost to complete after 2007 of approximately $80 million. A significant portion of FortisAlberta's 2006 and forecast 2007 capital expenditures is comprised of numerous smaller projects largely related to connecting new customers and capital replacements and upgrades.

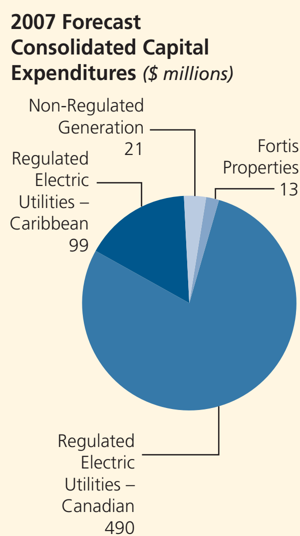
During 2006, work commenced at FortisBC on three new substations and associated transmission lines with an estimated total project cost of approximately $60 million, of which $2.5 million was spent in 2005 and $8.1 million was spent in 2006.

Since 1998, hydroelectric generating facilities at FortisBC have been subject to an upgrade and life-extension program which is forecast to conclude in 2011. Newly installed equipment is projected to enhance reliability and efficiency, while the use of standardized components is expected to reduce future maintenance and capital expenditures. No expenditures beyond 2008 have been included in the above table as they have not yet received regulatory approval.

2006 Consolidated Capital Expenditures *($ millions)*



2007 Forecast Consolidated Capital Expenditures *($ millions)*



During the year Fortis, through its indirect wholly owned subsidiary, BECOL, received approval of the Environmental Impact Assessment for the Vaca hydroelectric generating facility. Construction of the $61 million (US$52.5 million) 18-MW hydroelectric generating facility is expected to commence in 2007, pending regulatory approval. The run-of-river facility is expected to increase annual energy production from the Macal River by approximately 90 GWh to 250 GWh. BECOL has signed a 50-year power sales agreement with Belize Electricity for the sale of the energy generated by the Vaca facility, commencing in late 2009.

Consolidated maintenance and repairs expensed in 2006 associated with capital assets were approximately $58.7 million compared to approximately $53.8 million in 2005. Maintenance and repair expenses are generally determined by physical inspections and engineering assessments of the assets and are impacted by weather conditions and age of the assets. The Corporation expects the level of maintenance and repair expenses for 2007 for its existing operations to be higher than for 2006, driven primarily by the inclusion of Caribbean Utilities' results in the financial statements of Fortis on a consolidated basis in 2007.

The cash needed to complete the Corporation's consolidated capital expenditure program is expected to be supplied by a combination of long-term and short-term borrowings, internally generated funds and the issuance of common and preference shares. Fortis does not anticipate any difficulties with accessing the required capital.

Cash Flows: The Corporation's ability to service debt obligations and pay dividends on its common and preference shares is dependent on the financial results of the operating subsidiaries and the related cash payments from these subsidiaries. Certain regulated subsidiaries may be subject to restrictions which may limit their ability to distribute cash to Fortis.

At December 31, 2005, Belize Electricity was non-compliant with its debt service coverage ratio of 1.5 times related to its loans with the International Bank for Reconstruction and Development ("IBRD") and with the Caribbean Development Bank. A waiver was obtained for December 31, 2005 from IBRD. Belize Electricity's debt service coverage ratio improved during 2006 and, at December 31, 2006, Belize Electricity was compliant with its debt service coverage ratio of 1.5 times.

As at December 31, 2006, the Corporation and its subsidiaries had consolidated authorized lines of credit of $952.0 million, of which $546.7 million was unused. The following summary outlines the Corporation's credit facilities by reporting segments as at December 31st.

Credit Facilities

($ millions)	Corporate	Regulated Utilities	Fortis Generation	Fortis Properties	**Total 2006**	Total 2005
Total credit facilities	315.0	622.2	2.3	12.5	**952.0**	747.1
Credit facilities utilized						
Short-term borrowings	–	(94.3)	–	(3.4)	**(97.7)**	(48.9)
Long-term debt	(84.1)	(151.4)	–	–	**(235.5)**	(85.8)
Letters of credit outstanding	(4.6)	(65.3)	–	(2.2)	**(72.1)**	(73.6)
Credit facilities available	226.3	311.2	2.3	6.9	**546.7**	538.8

At December 31, 2006 and December 31, 2005, certain borrowings under the Corporation's and subsidiaries' credit facilities have been classified as long-term debt. These borrowings are under long-term credit facilities and management's intention is to refinance these borrowings with long-term permanent financing during future periods.

In January 2006, Newfoundland Power renegotiated its $100 million committed credit facility, extending the term from one year to three years, with maturity now in January 2009.

In January 2006, Maritime Electric's $25 million non-revolving unsecured short-term bridge financing was extended until July 2007. In August 2006, the amount available on Maritime Electric's operating credit facilities was increased to $30 million from $25 million.

In March 2006, FortisAlberta amended its committed unsecured credit facility, increasing the amount available to $200 million from $150 million and extending the maturity date from May 2008 to May 2010. In addition, the Company, with the consent of the lenders, has the ability to request an increase in the limit of this credit facility by $50 million under the same terms as the existing credit facility. In July 2006, FortisAlberta entered into a demand credit facility for $10 million, increasing the amount available to the Company under unsecured demand credit facilities to $20 million.

In May 2006, the maturity date of FortisBC's $50 million 364-day operating credit facility was extended to May 2007.

In June 2006, Fortis renegotiated and amended its $145 million and $50 million unsecured credit facilities, extending the maturity dates of these facilities from May 2008 and January 2009 to May 2010 and January 2011, respectively. Additionally, in July 2006, the amount available under the committed unsecured $145 million facility was increased to $250 million. These credit facilities can be used for general corporate purposes, including acquisitions.

At December 31, 2006, Regulated Utilities' credit facilities included both a US$2.0 million overdraft facility and a US$9.0 million standby credit facility for hurricane damage at Fortis Turks and Caicos. No drawings were made on these facilities as at December 31, 2006.

At December 31, 2006, Regulated Utilities' credit facilities included a total of US$22.7 million related to Caribbean Utilities, consisting of a US$10.0 million capital expenditures line of credit, a US$5.0 million operating line of credit, a US$5.0 million catastrophe standby loan and US$2.7 million in letters of credit and corporate credit card line. On November 27, 2006, Caribbean Utilities renegotiated its credit facilities, increasing its capital expenditures line of credit to US$17.0 million and increasing each of its US$5.0 million operating line of credit and US$5.0 million catastrophe standby loan to US$7.5 million, for total credit facilities of US$34.7 million. These changes to the credit facilities in November 2006 have not been reflected in the table above as the Corporation consolidated the balance sheet of Caribbean Utilities as at November 7, 2006.

Off-Balance Sheet Arrangements

Disclosure is required of all off-balance sheet arrangements such as transactions, agreements or contractual arrangements with unconsolidated entities, structured finance entities, special purpose entities or variable interest entities that are reasonably likely to materially affect liquidity or the availability of, or requirements for, capital resources. The Corporation had no such off-balance sheet arrangements as at December 31, 2006.

Business Risk Management

The following is a summary of the Corporation's significant business risks.

Regulation: The Corporation's key business risk is regulation. Total regulated assets were approximately 86 per cent of total assets as at December 31, 2006 (December 31, 2005 – 85 per cent). Each of the Corporation's regulated 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 regulators and local governments to ensure both compliance with existing regulations and the proactive management of regulatory issues.

Approximately 84 per cent of the Corporation's operating revenue and equity income was derived from regulated utility operations in 2006 (2005 – 84 per cent), while approximately 75 per cent of the Corporation's operating earnings was derived from regulated utility operations in 2006 (2005 – 74 per cent). These regulated operations – FortisAlberta, FortisBC, Newfoundland Power, Maritime Electric, FortisOntario, Belize Electricity, Caribbean Utilities and Fortis Turks and Caicos – are subject to the normal uncertainties faced by regulated entities. These uncertainties include approvals by the respective regulatory authorities of electricity rates that permit a reasonable opportunity to recover, on a timely basis, the estimated costs of providing services, including a fair rate of return on rate base and, in the case of Caribbean Utilities and Fortis Turks and Caicos, continuation of licences. 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 electricity systems and facilities and the addition of new electrical infrastructure and facilities require the approval of the regulatory authorities either through the approval of capital expenditure plans or through regulatory approval of revenue requirements for the purpose of setting electricity rates, which include the impact of capital expenditures on rate base and/or cost of service. There is no assurance that capital projects perceived as required or completed by the

Corporation's regulated utilities will be approved or that conditions to such approvals will not be imposed. Capital cost overruns subject to such approvals 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. There can be no assurance that rate orders issued will permit the Corporation's 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 the utilities, the undertaking or timing of proposed capital projects, ratings assigned by rating agencies, the issue and sale of securities, and other matters which may, in turn, negatively affect 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 Alberta and Ontario have undergone significant changes since the deregulation of 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 FortisAlberta and FortisOntario to recover costs or to earn reasonable returns on capital. As these companies and their applicable regulators work through the regulatory processes, it is expected that there will be more certainty in evolving regulatory frameworks and environments.

Although all of the Corporation's regulated utilities currently operate under traditional cost of service and/or return on rate base methodologies, PBR and other rate-setting mechanisms, such as automatic rate of return formulas, are also being employed to varying degrees, which could adversely affect the ability of the utilities to earn reasonable returns on capital.

Generally, allowed returns for regulated utilities in North America are exposed to changes in the general level of interest rates. Earnings of such regulated utilities are exposed to changes in interest rates associated with rate-setting mechanisms. The rate of return is either directly impacted through automatic adjustment mechanisms or indirectly through regulatory determinations of what constitutes appropriate returns on investment. Automatic adjustment mechanisms currently apply to FortisAlberta, FortisBC and Newfoundland Power. Due to declining long-term Canada bond yields and the operation of the automatic adjustment mechanisms, the allowed ROEs for these utilities have been reset. The 2006 allowed ROEs for FortisAlberta, FortisBC and Newfoundland Power were 8.93 per cent, 9.20 per cent and 9.24 per cent, respectively. Effective January 1, 2007, the allowed ROEs for FortisAlberta, FortisBC and Newfoundland Power have been lowered to 8.51 per cent, 8.77 per cent and 8.60 per cent, respectively. Strong rate base growth at the Western Canadian utilities is expected to more than offset the impact of the lower allowed ROEs, while earnings at Newfoundland Power are expected to be slightly lower in 2007.

Energy Prices: The Corporation's primary exposure to changes in energy prices relates to its non-regulated energy sales in Ontario. Energy is sold to the IESO at market prices. The sensitivity of the Corporation's earnings to each $1 per MWh change in the annual average wholesale market price of electricity in Ontario is expected to be approximately $0.4 million. Non-regulated energy sales in Ontario largely relate to a power-for-water exchange agreement, known as the Niagara Exchange Agreement, associated with the Rankine Generating Station. In accordance with this agreement, FortisOntario's water entitlement on the Niagara River will not be renewed, effective May 1, 2009. During 2006, earnings contribution associated with the Niagara Exchange Agreement was $14.2 million. To a lesser degree, the Corporation is also exposed to changes in energy prices related to energy sales from its non-regulated generation assets in Upper New York State. Effective January 1, 2007, all energy produced by these assets is sold to National Grid at market prices. Energy from the Corporation's non-regulated generation assets in Belize, central Newfoundland and British Columbia is sold under medium- and long-term fixed-price contracts.

Economic Conditions: Typical of electric utilities, the general economic conditions of the Corporation's service territories 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 and commitment to productivity improvement reduce the exposure to industry fluctuations and possible downturns. Fortis Properties' real estate investments are anchored by high-quality tenants with long-term leases. Exposure to lease expiries averages approximately 10 per cent per annum over the next five years. Approximately 52 per cent of Fortis Properties' operating income was derived from hotel investments in 2006 (2005 – 51 per cent). 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 $1.3 million.

Weather: The physical assets of the Corporation and its operating subsidiaries are exposed to the effects of severe weather conditions and other acts of nature. Although the physical assets have been constructed, operated and maintained to withstand severe weather, there is no assurance that they will successfully do so in all circumstances. At Newfoundland Power, exposure to climatic factors is addressed by a regulatory mechanism, as approved by the PUB, through the operation of a weather normalization reserve. The operation of this reserve mitigates year-over-year volatility in earnings that would otherwise be caused by variations in weather conditions.

Despite preparation for severe weather, extraordinary conditions, like Hurricane Ivan in September 2004, and other natural disasters will always remain a risk to utilities. Upon acquiring controlling interest in Caribbean Utilities and upon the acquisition of Fortis Turks and Caicos, the Corporation's exposure to risks from natural disasters in the Caribbean region has increased. Except for Caribbean Utilities and Fortis Turks and Caicos, 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, Caribbean Utilities and Fortis Turks and Caicos are subject to hurricane risk. Similar to other Fortis utilities, these companies manage weather risks through insurance on generation assets, business interruption insurance and self-insurance on transmission and distribution assets. The PUC provides for recovery of certain costs arising from hurricanes through a surcharge on electricity rates, thereby mitigating the financial impact to Belize Electricity. In 2005, the Government of the Cayman Islands approved a hurricane CRS for a period of approximately three years, effective August 1, 2005. This CRS recovers a significant portion of previously expensed direct uninsured Hurricane Ivan losses.

Earnings from non-regulated generation assets are sensitive to rainfall levels; however, the geographic diversity of the Corporation's generation assets mitigates the risk associated with rainfall levels.

Derivative Instruments and Hedging: Derivative instruments, such as interest rate swap contracts, are used only to manage risk and are not used 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 earnings concurrently with the hedged item. Subsequent changes in the value of the derivative instrument are reflected in earnings. 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 earnings.

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 11 to the 2006 Fortis Inc. Annual Consolidated Financial Statements, are accounted for as hedges against the associated long-term debt. Changes in the market value of the interest rate swap contracts, which fluctuate over time, are not recognized until 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 74 per cent of the Corporation's long-term debt facilities and capital lease obligations have maturities beyond five years. The Corporation's exposure to interest rate risk is primarily associated with short-term borrowings and other variable interest credit facilities.

The following table outlines the nature of the Corporation's debt as at December 31, 2006.

Total Debt

at December 31, 2006	*($ millions)*	*(%)*
Short-term borrowings	**97.7**	**3.6**
Utilized variable rate credit facilities classified as long-term	**235.5**	**8.6**
Variable rate long-term debt and capital lease obligations (including current portion)	**17.0**	**0.6**
Fixed rate long-term debt and capital lease obligations (including current portion)	**2,390.7**	**87.2**
Total	**2,740.9**	**100.0**

The Corporation's earnings from its foreign net investments are exposed to changes in US dollar exchange rates. The Corporation has effectively decreased its exposure to foreign currency exchange rate fluctuations associated with earnings from its foreign net investments through the use of US dollar borrowings. As a result of the Corporation's hedging strategy, the estimated annual sensitivity to each 4-cent increase in the US dollar exchange rate will result in approximately a 1-cent

increase in the Corporation's earnings per common share. As at December 31, 2006, the US dollar to Canadian dollar foreign exchange rate was US$1.00 = CDN$1.17 (December 31, 2005 – US$1.00 = CDN$1.16).

Prior to the acquisition of Fortis Turks and Caicos in August 2006 and controlling interest in Caribbean Utilities in November 2006, the Corporation's earnings were impacted by foreign currency exchange rate fluctuations associated with the translation of US dollar borrowings not designated as a hedge against the Corporation's foreign net investments. Immediately prior to the acquisition of Fortis Turks and Caicos, Fortis had US$32 million (December 31, 2005 – US$55 million) of US dollar borrowings in excess of the Corporation's foreign net investments, which did not qualify for hedge accounting. Consequently, fluctuations in the carrying value of this debt, resulting from foreign currency exchange rate fluctuations, were recorded in earnings in each reporting period. The Corporation's foreign net investments increased upon the acquisition of Fortis Turks and Caicos, thereby allowing the US$32 million and the incremental US dollar borrowings associated with the acquisition of Fortis Turks and Caicos to be designated as a hedge against this foreign net investment. The US dollar debt associated with the acquisition of controlling interest in Caribbean Utilities qualified for hedge accounting and was designated as a hedge against this foreign net investment. Previously, the Corporation's equity accounted investment in Caribbean Utilities did not qualify for hedge accounting purposes as a foreign net investment. As at December 31, 2006, all of the Corporation's US$258.6 million of long-term debt had been designated as a hedge of a portion of the Corporation's foreign net investments. Foreign currency exchange rate fluctuations associated with the translation of the Corporation's US dollar borrowings designated as hedges are recorded in the Corporation's foreign currency translation adjustment account in shareholders' equity. As at December 31, 2006, the Corporation had approximately US$121 million in foreign net investments available to be hedged.

Management will continue to hedge future exchange rate fluctuations related to its foreign net investments and US dollar earnings streams, where possible, through the use of future US dollar borrowings and will monitor the exposure of Fortis to foreign currency fluctuations on a regular basis.

Capital Resources: The Corporation's financial position could be adversely affected if it or its operating subsidiaries fail to arrange sufficient and cost-effective financing to fund, among other things, capital expenditures and the repayment of maturing debt. Funds generated from operations after payment of expected expenses (including interest payments on any outstanding debt) will not be sufficient to fund the repayment of all outstanding liabilities when due and anticipated capital expenditures. The ability to arrange sufficient and cost-effective financing is subject to numerous factors including the results of operations and financial position of the Corporation and its subsidiaries, conditions in the capital and bank credit markets, ratings assigned by rating agencies and general economic conditions. There can be no assurance that sufficient capital will be available on acceptable terms to fund such capital expenditures and to repay existing debt.

Generally, the Corporation and its regulated utilities are subject to financial risk associated with changes to the credit ratings assigned to them by credit rating agencies. A change in the credit ratings could potentially affect access to various sources of capital and increase or decrease finance charges of the Corporation.

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 Government Act* (Alberta). Under the *Hydro and Electric Energy Act* (Alberta), if a municipality that owns an electric utility expands its boundaries, it can acquire FortisAlberta's assets in the annexed area. In such circumstances, the *Hydro and Electric Energy Act* (Alberta) provides for compensation, including payment for FortisAlberta's assets on the basis of replacement cost, less depreciation. Given the historical growth of Alberta and its municipalities, FortisAlberta may be affected by transactions of this type.

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. No transactions are currently initiated pursuant to the *Municipal Act* (Alberta). However, upon expiration of franchise agreements, there is a risk that municipalities will opt to purchase the distribution assets existing within the boundaries of the municipality, the loss of which could have a material adverse affect on the financial condition and results of operations of FortisAlberta.

Licences and Permits: The acquisition, ownership and operation of electric utilities and assets require numerous licences, permits, approvals and certificates from various levels of government and government agencies. The Corporation's regulated utilities and non-regulated generation operations may not be able to obtain or maintain all required regulatory approvals. If there is a delay in obtaining any required regulatory approval or if there is a failure to obtain or maintain any required approval or to comply with any applicable law, regulation or condition of an approval, the operation of the assets and the

sale of electricity could be prevented or become subject to additional costs, any of which could have a material adverse effect on the Corporation.

Environment: The Corporation and its operating subsidiaries are subject to numerous laws, regulations and guidelines governing the generation, management, storage, transportation, recycling 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. The process of obtaining environmental, health and safety regulatory approvals, including any necessary environmental assessments, can be lengthy, contentious and expensive. Environmental damage and other costs could potentially arise due to a variety of events, including severe weather, human error or misconduct, and equipment failure. However, there can be no assurance that such costs will be recoverable through customer rates at the regulated utilities and, if substantial, unrecovered costs may have a material adverse effect on the business, results of operations, financial condition and prospects of the Corporation.

Insurance: While the Corporation and its operating subsidiaries maintain insurance, a significant portion of the Corporation's regulated utilities' transmission and distribution assets are not covered under insurance, as is customary in North America, as the cost of the coverage is not considered economical. Insurance is subject to coverage limits as well as time-sensitive claims discovery and reporting provisions and there can be no assurance that the types of liabilities that may be incurred by the Corporation and its operating subsidiaries will be covered by insurance. The Corporation's regulated utilities would likely apply to their respective regulatory authorities to recover the loss (or liability) through increased customer rates. However, there can be no assurance that regulatory authorities would approve any such application, in whole or in part. Any major damage to the physical assets of the Corporation and its operating subsidiaries 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 condition and prospects.

It is anticipated that such insurance coverage will be maintained. However, there can be no assurance that the Corporation and its operating subsidiaries will be able to obtain or maintain adequate insurance in the future at rates considered reasonable or that insurance will continue to be available on terms as favourable as the existing arrangements.

Labour Relations: Approximately 50 per cent of the employees of the Corporation's operating subsidiaries are members of labour unions or associations which have entered into collective bargaining agreements with the operating subsidiaries. The provisions of such collective bargaining agreements affect the flexibility and efficiency of the business carried out by the subsidiaries. The Corporation considers the relationships of its subsidiaries with its labour unions and associations 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 that are not provided for in approved rate orders at the regulated utilities and which could have an adverse effect on the results of operations, cash flow and earnings of the Corporation.

The collective agreement between FortisBC and Local 213 of the International Brotherhood of Electrical Workers ("IBEW") expired on January 31, 2005. IBEW represents employees in specified occupations in the areas of generation, transmission and distribution. The Company and IBEW reached an agreement, which was ratified in early January 2006, which expires on January 31, 2008. The collective agreement between FortisBC and Local 378 of the Canadian Office and Professional Employees Union ("COPE") expired on January 31, 2006. COPE represents employees in office and professional occupations. The Company and COPE reached an agreement which was ratified in early July 2006 and expires on January 31, 2011.

The majority of employees at FortisAlberta are represented by the United Utility Workers' Association ("UUWA"). There were two collective agreements with the UUWA. The Dispatch/Contact Centre Collective Agreement expired December 31, 2004 and the main collective agreement expired December 31, 2005. A new combined agreement was reached with the UUWA during the second quarter of 2006 and expires on December 31, 2007. FortisAlberta plans to initiate bargaining with the UUWA in the fall of 2007.

Belize Electricity's collective agreement with the Belize Energy Workers Union was signed on November 29, 2000 and is to be reviewed every five years. Negotiations commenced during the third quarter of 2006 for a new collective agreement and are ongoing.

Human Resources: The ability of Fortis to deliver superior operating performance in a cost-effective manner is dependent on the ability of its operating subsidiaries to attract, develop and retain a skilled workforce. Like other utilities across Canada and the Caribbean, Fortis' utilities are faced with demographic challenges relating to trades, technical staff and engineers. The growing size of the Corporation and an increasingly competitive job market present ongoing recruitment challenges.

The Corporation's significant consolidated capital expenditure program over the next several years will present challenges in ensuring the Corporation's utilities have the qualified workforce necessary to complete the capital work initiatives. In particular, Alberta has a highly competitive job market where the demand for certain job skills exceeds the supply making it difficult to attract new employees.

Liquidity Risk: Earnings from Belize Electricity are denominated in Belizean dollars, earnings from Caribbean Utilities are denominated in Cayman Island dollars and earnings from FortisUS Energy, BECOL and Fortis Turks and Caicos are denominated in US dollars. As at December 31, 2006, both the Cayman Island dollar and the Belizean dollar are pegged to the US dollar: CI$0.84 = US$1.00; BZ$2.00 = US$1.00. Foreign earnings derived in currencies other than the US dollar must be converted into US dollars before repatriation, presenting temporary liquidity risks. Due to the small size and cyclical nature of the economy in Belize, conversion of local currency into US dollars may be subject to restrictions from time to time.

Change in Presentation

Prior to December 31, 2006, the regulatory provision at FortisAlberta, FortisBC, Newfoundland Power and Maritime Electric for future removal and site restoration costs was part of amortization expense and was recorded in accumulated amortization, as these costs were recoverable in amortization rates from customers. Actual costs of removal and site restoration incurred, net of salvage proceeds, were recorded against this provision in accumulated amortization. In accordance with Canadian GAAP, FortisOntario, Belize Electricity, Caribbean Utilities and Fortis Turks and Caicos record removal and site restoration costs in earnings as incurred. In the absence of rate regulation, removal and site restoration costs, net of salvage proceeds, at FortisAlberta, FortisBC, Newfoundland Power and Maritime Electric would be recognized as incurred rather than over the life of the asset through amortization expense. The Corporation has changed the presentation of the provision for future removal and site restoration as a regulatory liability rather than including it with accumulated amortization. This change in presentation has been applied retroactively, with restatement of 2005 comparative balances, and has had no impact on earnings. The effect of this change in presentation at December 31, 2006 was a $306.5 million (December 31, 2005 – $280.9 million) increase in long-term regulatory liabilities and a corresponding $306.5 million (December 31, 2005 – $280.9 million) increase in net utility capital assets resulting from a decrease in accumulated amortization.

Changes in Accounting Policies

Revenue Recognition: Effective January 1, 2006, Newfoundland Power prospectively changed its revenue recognition policy from a billed basis to an accrual basis, as approved by the PUB. The transition to recording revenue on an accrual basis had no material impact on Newfoundland Power's annual earnings, but resulted in a shift in the Company's 2006 quarterly earnings compared to 2005. Adoption of the accrual method for revenue recognition gave rise to a $23.6 million balance sheet accrual for unbilled revenue at December 31, 2005. The PUB approved the recognition of $3.1 million in 2006 and $2.7 million in 2007 of the 2005 unbilled revenue as revenue in these years to offset the income tax impact of changing to the accrual method for revenue recognition. The disposition of the remaining 2005 unbilled revenue will be determined by future orders of the PUB.

Conditional Asset Retirement Obligations: On April 1, 2006, Fortis retroactively adopted Emerging Issues Committee Abstract – 159, *Conditional Asset Retirement Obligations* ("EIC 159"). EIC 159 requires an entity to recognize a liability for the fair value of an asset retirement obligation ("ARO") even though the timing and/or method of settlement are conditional on future events. While conditional AROs have been identified, no amounts have been recorded as they are immaterial to the Corporation's results of operations and financial position. The Corporation also has AROs that cannot be reasonably estimated at this time as the final date of removal of the related assets and the costs to do so cannot be reasonably determined, as the assets are reasonably expected to operate in perpetuity due to the nature of their operation.

Corporate Income Taxes: Effective January 1, 2006, FortisAlberta is following the taxes payable method of accounting for federal income taxes. As prescribed by the 2006/2007 Negotiated Settlement Agreement, approved by the AEUB on June 29, 2006, corporate income tax expenses are now recovered through customer rates based only on income taxes that are currently payable for regulatory purposes. Therefore, current rates do not include the recovery of future income taxes related to certain temporary differences between the tax basis of assets and liabilities and their carrying amounts for regulatory purposes, as these taxes are expected to be collected in customer rates when they become payable. Accordingly, FortisAlberta no longer recognizes income taxes deferred to future years as a result of the specified temporary differences. The Company only recognizes future income taxes for certain deferral amounts where the future income taxes will not be collected in future customer rates.

In 2005, FortisAlberta followed the taxes payable method of accounting only for provincial income taxes because federal income tax expenses were recovered through customer rates based on a modified liability method. Under the modified liability method, customer rates included the recovery of future federal income taxes related to specified temporary differences between the tax basis of assets and liabilities and their carrying amounts for regulatory purposes. As a result, FortisAlberta previously recognized future federal income taxes and set up a regulatory liability equal to the amount of future federal income taxes recognized that had not yet been reflected in customer rates. However, due to the AEUB-approved 2006/2007 Negotiated Settlement Agreement, the future income tax asset and offsetting regulatory liability were no longer recognized, which resulted in a $50.7 million reduction in the Corporation's future income tax assets and regulatory liabilities during the second quarter of 2006. Had FortisAlberta accounted for its regulated operations using the liability method in 2006, the Corporation would have had additional future income tax assets of approximately $56.3 million at December 31, 2006 and would have recognized additional future income tax expense of approximately $17.7 million for the year ended December 31, 2006. However, there would have been no net earnings impact associated with the additional future income tax expense as FortisAlberta would have recorded an offsetting regulatory asset for future recovery in customer rates.

Employee Future Benefits: Effective January 1, 2006, as prescribed by the AEUB-approved 2006/2007 Negotiated Settlement Agreement, FortisAlberta is recovering in customer rates other post-employment benefits and supplemental pension plan costs based on the cash payments made. However, any difference between the expense recognized under Canadian GAAP and that recovered from customers in current customer rates for other post-employment and pension plans, which is expected to be recovered or refunded in future customer rates, is subject to deferral treatment and is recorded as a regulatory asset on the balance sheet. The change in how other post-employment benefits and supplemental pension plan costs are recovered in customer rates had no impact on the Corporation's earnings in 2006.

Future Accounting Pronouncements

Comprehensive Income, Financial Instruments and Hedges: New accounting standards for comprehensive income, financial instruments (recognition, measurement, presentation and disclosure) and hedges have been issued by the Canadian Institute of Chartered Accountants ("CICA") and are effective for the Corporation for the fiscal year beginning January 1, 2007. These standards are intended to harmonize Canadian GAAP with US GAAP and with International Financial Reporting Standards.

The new comprehensive income standard provides guidance for the reporting and display of other comprehensive income. Comprehensive income represents the change in equity of an enterprise during a period from transactions and other events arising from non-owner sources including unrealized foreign currency translation amounts, net of hedging arising from self-sustaining foreign operations, and changes in the fair value of the effective portion of cash flow hedging instruments. The Corporation expects to report a Statement of Comprehensive Income upon adoption of this new standard.

The financial instruments standards address the criteria for recognition and presentation of financial instruments on the balance sheet and the measurement of financial instruments according to prescribed classifications. The standards also address how the financial instruments are measured subsequent to initial recognition and how the gains and losses are recognized. All financial instruments, including derivatives and derivative features embedded in financial instrument or other contracts but which are not considered closely related to the host financial instrument or contract, are required to be initially recorded at fair value. The classification of financial instruments determines whether they are to be remeasured at each balance sheet date at fair value or at amortized cost and whether any resulting gains or losses are recognized in earnings or in other comprehensive income. Based on the expected classification of the Corporation's financial assets and liabilities, these financial assets and liabilities would be recorded at amortized cost, which is not expected to be materially different than the carrying value of these items. Under the new standards, deferred financing costs are no longer recognized as a deferred charge and Fortis expects to recognize unamortized deferred financing costs as part of its debt balances. These costs are required to be amortized using the effective interest method versus the straight-line method. This change in methodology is not expected to have a material impact on the Corporation's earnings. Currently, the Corporation limits the use of free-standing derivative financial instruments and, therefore, does not expect that the recognition of derivatives at fair value upon adoption of the new financial instrument standards will have a material impact on the Corporation. The Corporation is in the process of finalizing its assessment of contracts for embedded derivatives, including debt prepayment options, to determine whether or not they are considered closely related to the host contract and require fair value recognition.

The new accounting standard for hedges specifies the criteria under which hedge accounting is applied, how hedge accounting should be performed under permitted hedging strategies and the required disclosures. The Corporation expects its three existing interest rate swaps will continue to qualify for hedge accounting as cash flow hedges under the new standard. Gains or losses on the interest rate swaps would be recorded in other comprehensive income and reclassified to earnings in the periods in which earnings are effected by the variable-rate interest payments. Under the new standard, the Corporation expects that foreign exchange gains or losses on its US dollar borrowings designated as hedges of the Corporation's net investment in US dollar-denominated self-sustaining foreign operations will be recognized in other comprehensive income.

Rate-Regulated Operations: The Canadian Accounting Standards Board ("AcSB") recently considered the effects on its rate-regulated operations project of its recently adopted Strategic Plan and decided that the project, as originally planned, should be discontinued. It further decided, subject to exposure of its proposals, that: (i) the temporary exemption in Section 1100 of the CICA Handbook providing relief to entities subject to rate regulation from the requirement to apply that Section to the recognition and measurement of assets and liabilities arising from rate regulation should be removed; (ii) the explicit guidance for rate-regulated operations provided in Section 1600, *Consolidated Financial Statements*, Section 3061, *Property, Plant and Equipment*, Section 3465, *Income Taxes*, and Section 3475, *Disposal of Long-Lived Assets and Discontinued Operations*, should be removed; and (iii) Accounting Guideline 19, *Disclosures by Entities Subject to Rate Regulation*, should be retained as is. The Canadian AcSB also observed that relying on US Statement of Financial Accounting Standards No. 71, *Accounting for the Effects of Certain Types of Regulation* ("FAS 71"), as another source of Canadian GAAP in the absence of CICA Handbook guidance addressing the specific circumstances of entities subject to rate regulation, is consistent with Section 1100 when the qualifying criteria of FAS 71 are met.

The Corporation is following these developments closely and is in the process of assessing the potential impact on its financial statements. No Exposure Draft for public comment based on these preliminary decisions has been issued to date.

Financial Instruments

The carrying values of financial instruments included in current assets and current liabilities in the consolidated balance sheets of Fortis 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 and capital lease obligations is based on current pricing of financial instruments with comparable terms. The fair value of the preference shares is determined using quoted market prices. The fair values of interest rate swap contracts reflect the estimated amount that the Corporation would have to pay if forced to settle all outstanding contracts at year end. This fair value reflects a point-in-time estimate that may not be relevant in predicting the Corporation's future earnings or cash flows.

The carrying and fair values of the Corporation's long-term debt and capital lease obligations, preference shares and interest rate swap contracts as at December 31st were as follows.

As at December 31st	**2006**	**2006**	2005	2005
($ millions)	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
Long-term debt and capital lease obligations	**2,643.2**	**2,968.6**	2,167.1	2,492.6
Preference shares[(1)]	**442.0**	**483.9**	319.5	369.1
Interest rate swap contracts	**–**	**(0.5)**	–	(0.9)

[(1)] Includes preference shares classified as both equity and long-term liabilities

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 reporting periods. Estimates are based on historical experience, current conditions and various other assumptions believed to be reasonable under the circumstances. Due to changes in facts and circumstances and the inherent uncertainty involved in making estimates, actual results may differ significantly from current estimates. Estimates are reviewed periodically and, as adjustments become necessary, are reported in earnings in the period in which they become known. The Corporation's critical accounting estimates are discussed below.

Regulation: Generally, the accounting policies of the Corporation's regulated utilities are subject to examination and approval by the respective regulatory authorities. These accounting policies may 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. Regulatory assets and regulatory liabilities arise as a result of the rate-setting process at the regulated utilities and have been recorded based on previous, existing or expected future regulatory orders or decisions. Certain estimates are necessary since the regulatory environments in which the Corporation's regulated utilities operate often require amounts to be recorded at estimated values until these amounts are finalized pursuant to regulatory decisions or other regulatory proceedings. The final amounts approved by the regulatory authorities for deferral as regulatory assets and regulatory liabilities and the approved recovery or settlement periods may differ from those originally expected. Any resulting adjustments to original estimates are reported in earnings in the period in which they become known. As at December 31, 2006, Fortis recorded $168.7 million in current and long-term regulatory assets (December 31, 2005 – $115.6 million) and $365.3 million in current and long-term regulatory liabilities (December 31, 2005 – $387.1 million). The nature of the Corporation's regulatory assets and liabilities is described in Note 4 to the 2006 Fortis Inc. Annual Consolidated Financial Statements.

Capital Asset Amortization: Amortization, by its nature, is an estimate based primarily on the useful life of assets. Estimated useful lives are based on current facts and historical information and take into consideration the anticipated physical life of the assets. The Corporation's consolidated utility and income producing capital assets represented approximately 74 per cent of total consolidated assets as at December 31, 2006 (December 31, 2005 – 72 per cent). Amortization expense associated with capital assets was $167.0 million during 2006 (2005 – $147.2 million). Due to the size of the Corporation's capital assets, changes in amortization rates can have a significant impact on amortization expense.

As part of the customer rate setting process at the Corporation's regulated utilities, appropriate amortization rates are approved by the respective regulatory authorities. As required by the respective regulators, amortization rates at FortisAlberta, FortisBC, Newfoundland Power and Maritime Electric include an amount to provide for future removal and site restoration costs, net of salvage proceeds, over the life of the assets. Actual costs, net of salvage proceeds, are recorded against the provision when incurred. The accrual of the estimated costs is included with amortization expense and the provision balance is recorded as a long-term regulatory liability. The estimate of the future removal and site restoration costs, net of salvage proceeds, is based on historical experience and future expected cost trends. The balance of this regulatory liability at December 31, 2006 was $306.5 million (December 31, 2005 – $280.9 million). The amount of future removal and site restoration costs provided for and reported in amortization expense during 2006 was $29.5 million (2005 – $21.7 million).

The amortization periods used and the associated rates are reviewed on an ongoing basis to ensure they continue to be appropriate. From time to time, third-party depreciation studies are performed at the regulated utilities. Based on the results of these depreciation studies, the impact of any over or under amortization as a result of actual experience differing from that expected and provided for in previous amortization rates is generally reflected in future amortization rates and amortization expense, when the differences are refunded or collected in customer rates.

FortisBC recently completed a depreciation study on the estimated useful life of its utility capital assets which recommended an increase in the Company's composite amortization rate. The BCUC-approved 2006 Negotiated Settlement Agreement resulted in an increase in the composite amortization rate from 2.6 per cent to 3.2 per cent, effective January 1, 2006, the impact of which increased the Corporation's amortization costs by approximately $4.6 million over last year. The impact of increased amortization rates was reflected in FortisBC's 2006 BCUC-approved customer electricity rates.

Capitalized Overhead: As required by their respective regulators, FortisBC, Newfoundland Power, Maritime Electric, FortisOntario and Belize Electricity capitalize overhead costs which are not directly attributable to specific capital assets, but which relate to the overall capital expenditure program. These general expenses capitalized ("GEC") are allocated over constructed capital assets and amortized over their estimated service lives. The methodology for calculating and allocating these general expenses to utility capital assets is established by the respective regulators. In 2006, GEC totalled $18.2 million (2005 – $11.8 million). Any change in the methodology of calculating and allocating general overhead costs to utility capital assets could have a significant impact on the amount recorded as operating expenses and utility capital assets. FortisBC recently completed an analysis of its capitalized overhead allocation method. This analysis supported a change in the estimate of capitalized overhead. The changed estimate calculates capitalized overhead as a percentage of all FortisBC corporate overhead, whereas previously the percentage was applied to a limited pool of FortisBC corporate costs. The BCUC-approved 2006 Negotiated Settlement Agreement resulted in an increase in the amount of capitalized overhead, effective January 1, 2006, from approximately 9 per cent of BCUC-approved 2005 forecast gross operating and maintenance expenses to 20 per cent of BCUC-approved 2006 forecast gross operating and maintenance expenses. The impact of this change in estimate has decreased operating expenses by approximately $5.0 million compared to last year. The impact of the increased capitalized overhead rate was reflected in FortisBC's 2006 BCUC-approved customer electricity rates.

Goodwill Impairment Assessments: Goodwill represents the excess, at the dates of acquisition, of the purchase price over the fair value of the net amounts assigned to individual assets acquired and liabilities assumed relating to business acquisitions. Goodwill is carried at initial cost, less any previous amortization and write-down for impairment. The Corporation is required to perform an annual impairment test and at such time any event occurs or if circumstances change that would indicate that the fair value of a reporting unit was below its carrying value. In July of each year, the Corporation reviews for impairment of goodwill, which is based on current information and fair market value assessments of the reporting units being reviewed. Fair market value is determined using net present value financial models and management's assumption of future profitability of the reporting units. There was no impairment provision required on $661.3 million in goodwill recorded on the Corporation's balance sheet as at December 31, 2006.

Employee Future Benefits: The Corporation's defined benefit pension plans and other post-employment benefit plans are subject to judgments utilized in the actuarial determination of the expense and related obligation. The main assumptions utilized by management in determining pension expense and obligations were the discount rate for the accrued benefit obligation and the expected long-term rate of return on plan assets. Other assumptions applied were average rate of compensation increase, average remaining service life of the active employee group, and employee and retiree mortality rates. Except for the assumptions of the expected long-term rate of return on plan assets and average rate of compensation increase, the above assumptions were also utilized by management in determining other post-employment benefit plan expense and obligations. Assumptions were also made regarding the health care cost trend increase. FortisAlberta and Newfoundland Power record the cost of pension and/or other post-employment benefit plan expense on a cash basis. Therefore, changes in assumptions do not impact earnings of those subsidiaries. As at December 31, 2006, the Corporation had a consolidated accrued benefit asset of $102.0 million (December 31, 2005 – $97.2 million) and a consolidated accrued benefit liability of $63.7 million (December 31, 2005 – $53.6 million). During 2006, the Corporation recorded consolidated net benefit expenses of $19.7 million (2005 – $16.2 million).

The following tables reflect the sensitivities associated with a 0.5 per cent increase and a 0.5 per cent decrease in the expected long-term rate of return on plan assets and discount rate on 2006 net benefit expense, accrued benefit pension asset and liability recorded in the Corporation's consolidated financial statements as well as the impact on the benefit obligation. The sensitivity analysis primarily applies to the Corporation's Regulated Utilities – Canadian segment.

Sensitivity Analysis of Changes in Rate of Return on Plan Assets and Discount Rate

Year Ended December 31, 2006

($ millions)	**Net benefit expense**	**Accrued benefit asset**	**Accrued benefit liability**	**Benefit obligation**
Impact of increasing the rate of return assumption by 0.5 per cent	(1.7)	1.5	(0.2)	–
Impact of decreasing the rate of return assumption by 0.5 per cent	1.7	(1.5)	0.2	–
Impact of increasing the discount rate assumption by 0.5 per cent	(2.7)	1.8	(0.9)	(33.5)
Impact of decreasing the discount rate assumption by 0.5 per cent	3.0	(2.0)	1.0	37.1

Asset Retirement Obligations: In measuring the fair value of AROs, the Corporation is required to make reasonable estimates concerning the method of settlement and settlement dates associated with the legally obligated asset retirement costs. While the Corporation has AROs associated with hydroelectric generating facilities, interconnection facilities, wholesale energy supply agreements, removal of certain distribution system assets from rights of way at the end of the life of the system and the remediation of certain leased land, there were no amounts recorded as at December 31, 2006 and 2005. The nature, amount and timing of costs associated with land and environmental remediation and/or removal of assets cannot be reasonably estimated at this time as the hydroelectric generation facilities are reasonably expected to operate in perpetuity due to the nature of their operation; applicable licences, permits, interconnection facilities agreements and wholesale energy supply agreements are reasonably expected to be renewed or extended indefinitely to maintain the integrity of the related assets and to ensure the continued provision of electricity service to customers; and the land lease agreement at Maritime Electric is expected to be renewed indefinitely. In the event that environmental issues are identified, hydroelectric generating facilities are decommissioned or the applicable licences, permits, agreements or leases are terminated, AROs will be recorded at that time provided the costs can be reasonably estimated.

Revenue Recognition: All of the Corporation's regulated utilities, except for Belize Electricity, recognize electricity revenue on an accrual basis. As required by the PUC, Belize Electricity recognizes electricity revenue on a billed basis. Prior to January 1, 2006, Newfoundland Power also recognized electricity revenue on a billed basis. Effective January 1, 2006, Newfoundland Power adopted, on a prospective basis, the accrual method for recognizing revenue as approved by the PUB. Recording revenue on an accrual basis requires use of estimates and assumptions. Customer bills are issued throughout the month based on meter readings that establish electricity consumption by the customer since the last meter reading. The unbilled revenue accrual for the period is based on estimated electricity sales to customers for the period since the last meter reading at the rates approved by the respective regulatory authorities. The development of the electricity sales estimates requires analysis of electricity consumption on a historical basis in relation to key inputs such as the current price of electricity, population growth, economic activity, weather conditions and system losses. The estimation process for accrued unbilled electricity consumption will result in adjustments of electricity revenue in the periods they become known when actual results differ from the estimates. As at December 31, 2006, the amount of accrued unbilled revenue recorded in accounts receivable was approximately $131.8 million (December 31, 2005 – $99.5 million) on annual consolidated operating revenues of $1.46 billion (2005 – $1.43 billion).

Contingencies: Fortis is a party to a number of disputes and lawsuits in the normal course of business. The following describes the nature of the Corporation's significant contingent liabilities.

Maritime Electric

In April 2006, CRA reassessed Maritime Electric's 1997–2004 taxation years. The reassessment encompasses the Company's tax treatment, specifically the Company's timing of deductions, with respect to: (i) the ECAM in the 2001–2004 taxation years; (ii) customer rebate adjustments in the 2001–2003 taxation years; and (iii) the Company's payment of approximately $6 million on January 2, 2001 associated with a settlement with NB Power regarding its $450 million write-down of the Point Lepreau Nuclear Generating Station in 1998. Maritime Electric believes it has reported its tax position appropriately in all aspects of the reassessment and filed a Notice of Objection with the Chief of Appeals at CRA. Should the Company be unsuccessful in defending all aspects of the reassessment, the Company would be required to pay approximately $12.1 million in taxes and accrued interest. As at December 31, 2006, Maritime Electric has provided for, through future and current income taxes payable, approximately $11.6 million and, therefore, an additional liability of $0.5 million would arise. In this event, the Company would apply to IRAC to include this amount in the regulatory rate-making process. The provisions of the *Income Tax Act* (Canada) require the Company to deposit one-half of the assessment under objection with CRA and the Company made a payment on deposit of $5.9 million with CRA on June 29, 2006.

FortisAlberta

On March 24, 2006, Her Majesty the Queen in Right of Alberta (the "Crown") filed a statement of claim in the Court of Queen's Bench of Alberta in the Judicial District of Edmonton against FortisAlberta. The Crown's claim is that the Company is responsible for a fire that occurred in October 2003 in an area of the Province of Alberta commonly referred to as Poll Haven Community Pasture. The Crown is seeking approximately $2.7 million in fire-fighting and suppression costs and approximately $2.4 million in timber losses, as well as interest and other costs. FortisAlberta and the Crown have exchanged several investigation and expert reports. Both the factual evidence and expert opinion received to date leads management to believe that FortisAlberta is not responsible for the cause of the fire and has no liability for the damages. However, given the preliminary stage of the proceedings, FortisAlberta has not made any definitive assessment of potential liability with respect to the claim. No amount, therefore, has been accrued in the consolidated financial statements.

FortisBC

The B.C. Ministry of Forests (the "Ministry") has alleged breaches of the Forest Practices Code and negligence relating to a fire near Vaseux Lake and has filed and served a writ and statement of claim against FortisBC. The Company is currently communicating with the Ministry and its insurers. In addition, FortisBC has been served with two filed writs and statements of claim by private land owners in relation to this matter. The outcome cannot be reasonably determined and estimated at this time and, accordingly, no amount has been accrued in the consolidated financial statements.

On January 5, 2006, FortisBC was served with a writ and statement of claim filed with the B.C. Supreme Court under the *Class Proceedings Act, 1995* (British Columbia) on behalf of a class consisting of all persons who are or were customers of FortisBC and who paid or have been charged FortisBC's late payment penalties at any time between April 1, 1981 and the date of any judgment in this action. The claim is that forfeitures of the prompt payment discount offered to customers constitute "interest" within the meaning of section 347 of the *Criminal Code* (Canada) and, since the effective annual rate

of such interest exceeds 60 per cent, they are illegal and void. In the action, the Plaintiff seeks damages and restitution of all late payment penalties that were forfeited. On December 13, 2006, the application to certify the action as a class action was heard in the B.C. Supreme Court. In a decision delivered on January 11, 2007, the B.C. Supreme Court dismissed the application to certify the action as a class suit. The Plaintiff has filed an appeal of the decision with the B.C. Court of Appeal. The final outcome cannot be reasonably determined and estimated at this time and, accordingly, no amount has been accrued in the consolidated financial statements.

FortisUS Energy

Legal proceedings were initiated against FortisUS Energy by the Village of Philadelphia (the "Village"), New York. The Village claimed 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$8.0 million). The First American Title Insurance Company is defending the action on behalf of FortisUS Energy. A memorandum Decision and Order was filed by the State of New York Supreme Court of Jefferson County on December 21, 2006 granting summary judgment to FortisUS Energy dismissing the action by the Village. The Village, however, filed a notice of appeal in January 2007. Management believes that the appeal will not be successful and, therefore, no provision has been made in the consolidated financial statements.

Selected Annual Financial Information

The following table sets forth the annual financial information for the years ended December 31, 2006, 2005 and 2004. 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.

Years Ended December 31st *($ millions, except per share amounts)*	**2006**	2005	2004
Revenue and Equity Income[(1)]	**1,471.7**	1,441.5	1,146.1
Net earnings	**148.8**	137.1	90.9
Net earnings applicable to common shares	**147.2**	137.1	90.9
Total assets	**5,447.4**[(2)]	4,597.1[(2)]	3,938.0
Long-term debt and capital lease obligations (net of current portion)	**2,558.5**	2,135.7	1,904.4
Preference shares[(3)]	**442.0**	319.5	319.5
Common shareholders' equity	**1,275.6**	1,213.4	1,000.1
Earnings per common share	**1.42**	1.35	1.07
Diluted earnings per common share	**1.37**	1.24	1.01
Dividends declared per common share	**0.70**	0.61	0.55
Dividends declared per First Preference Share, Series C	**1.3625**	1.3625	1.3625
Dividends declared per First Preference Share, Series D	**–**	0.03[(4)]	0.1706[(5)]
Dividends declared per First Preference Share, Series E	**1.2250**	1.2250	0.7733[(5)]
Dividends declared per First Preference Share, Series F[(6)]	**0.5211**	–	–

(1) Revenue reflects weather-adjusted values related to Newfoundland Power's Weather Normalization Reserve.

(2) As at December 31, 2006, the regulatory provision for future site removal and restoration costs at FortisAlberta, FortisBC, Newfoundland Power and Maritime Electric has been reallocated from accumulated amortization to long-term regulatory liabilities, with 2005 comparative figures restated. This change in presentation resulted in an increase in total assets of $306.5 million (2005 – $280.9 million) and an increase in long-term regulatory liabilities of $306.5 million (2005 – $280.9 million).

(3) Includes preference shares classified as equity and as long-term debt

(4) The First Preference Shares, Series D were redeemed in September 2005.

(5) The First Preference Shares, Series D and First Preference Shares, Series E were issued at various times during 2004 based on the exercise of warrants under the issuance of First Preference Units in January 2004.

(6) 5,000,000 First Preference Shares, Series F were issued on September 28, 2006, at $25.00 per share for net after-tax proceeds of $122.5 million and are entitled to receive cumulative dividends in the amount of $1.2250 per annum.

2006/2005 – Revenue, including equity income, increased 2.1 per cent over 2005. However, revenue at FortisAlberta last year included approximately $19.7 million largely related to the resolution of tax-related matters pertaining to prior years and the finalization of load settlement amounts and billing adjustments. The increase in revenue was largely driven by electricity sales growth at FortisAlberta and FortisBC, increased electricity rates at FortisBC and Belize Electricity and four months of revenue contribution from Fortis Turks and Caicos, partially offset by lower average wholesale energy prices in Ontario. Equity income from Caribbean Utilities was $1.7 million lower than last year; however, equity income last year included a $1.1 million positive adjustment related to a change in Caribbean Utilities' accounting practice for recognizing unbilled revenue. Net earnings applicable to common shares grew 7.4 per cent; however, earnings last year included the $7.9 million after-tax Ontario Settlement gain. Growth in earnings was primarily driven by strong electricity sales growth at FortisAlberta and FortisBC, lower corporate income taxes at FortisAlberta, improved non-regulated hydroelectric generation in Belize, earnings growth at Fortis Properties, the overall 11 per cent increase in electricity rates at Belize Electricity, effective July 1, 2005, and four months of earnings contribution from Fortis Turks and Caicos. The increase was partially offset by lower average wholesale energy prices in Ontario and higher corporate costs. The growth in total assets and increase in long-term debt was primarily associated with the extensive capital expenditure programs at FortisAlberta and FortisBC, the acquisition of an additional 16 per cent ownership interest in Caribbean Utilities and the assumption of long-term debt upon consolidating the Corporation's resulting controlling ownership interest in Caribbean Utilities, and the acquisition of Fortis Turks and Caicos and four hotels in Western Canada and the assumption of related long-term debt. The Corporation also issued $122.5 million in preference shares in 2006 to partially fund the acquisition of Fortis Turks and Caicos and to fund equity injections into FortisAlberta and FortisBC in support of their extensive capital expenditure programs.

2005/2004 – Revenue, including equity income, and net earnings applicable to common shares in 2005 grew 25.8 per cent and 50.8 per cent, respectively, over 2004. A full year of operations for FortisAlberta and FortisBC, increased average wholesale energy prices in Ontario, increased electricity sales and/or rates in the Corporation's regulated utilities and the addition of revenue associated with the three Greenwood Inn hotels acquired on February 1, 2005 were the primary contributors to increased revenues. Equity income from Caribbean Utilities increased $10.6 million from 2004, primarily as a result of the recovery from Hurricane Ivan and the recognition in 2005 of the impact of a change in accounting practice for recognizing unbilled revenue. The increase in earnings in 2005 was due to a full year of earnings contributions from FortisAlberta and FortisBC, higher average wholesale energy prices in Ontario, higher equity income from Caribbean Utilities and the $7.9 million after-tax Ontario Settlement gain. The increase was partially offset by higher corporate finance charges associated with the acquisition of FortisAlberta and FortisBC in 2004. With the exception of Newfoundland Power, all operating segments reported improved financial results over 2004. Newfoundland Power's earnings declined slightly mainly due to a 51 basis point formula-driven reduction in its allowed ROE in 2005. The growth in total assets and long-term liabilities was primarily associated with the extensive capital programs at FortisAlberta and FortisBC and the acquisition of the three Greenwood Inn hotels.

The Corporation's dividend payout ratio was 47.2 per cent in 2006 compared to 43.7 per cent in 2005. In September 2006, Fortis declared an increase in the regular quarterly dividend to 19 cents per common share from 16 cents per common share, with the first payment occurring on December 1, 2006.

On February 8, 2007, Fortis announced that its Board of Directors had declared a 10.5 per cent increase in the quarterly common share dividend, increasing the amount from 19 cents per common share to 21 cents per common share, commencing with the second quarter dividend payable on June 1, 2007.

Quarterly Results

The following table sets forth unaudited quarterly information for each of the eight quarters ended March 31, 2005 through December 31, 2006. The quarterly information has been obtained from the Corporation's interim unaudited 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.

Summary of Quarterly Results

(Unaudited)

Quarter Ended	Revenue and Equity Income *($ thousands)*	Net Earnings Applicable to Common Shares *($ thousands)*	Earnings per Common Share Basic *($)*	Diluted *($)*
December 31, 2006	393,111	33,886	0.33	0.32
September 30, 2006	341,947	38,750	0.37	0.36
June 30, 2006	345,851	37,946	0.37	0.35
March 31, 2006	390,827	36,605	0.35	0.34
December 31, 2005	353,084	22,263	0.22	0.21
September 30, 2005	341,650	37,450	0.36	0.33
June 30, 2005	364,948	38,188	0.37	0.34
March 31, 2005	381,789	39,196	0.40	0.36

A summary of the past eight quarters reflects the Corporation's continued growth as well as the seasonality associated with its businesses. Interim results will fluctuate due to the seasonal nature of electricity demand and water flows as well as the timing and recognition of regulatory decisions. Given the diversified group of companies, seasonality may vary. The Corporation's non-utility investment, Fortis Properties, generally produces its highest earnings in the second and third quarters. Financial results from February 1, 2005 were impacted by the acquisition of three Greenwood Inns. Also, the comparability of 2006 and 2005 quarterly earnings and revenue has been somewhat impacted by the shift in reported revenue at Newfoundland Power resulting from the change to the accrual basis for revenue recognition from the billed basis. Each of the comparative quarterly earnings, except for the comparative quarters ended March 31, 2006 and March 31, 2005 and comparative quarters ended June 30, 2006 and June 30, 2005, have increased as a result of both the Corporation's acquisition strategy and improved operating earnings at most subsidiaries. Results for the first quarter ended March 31, 2005 included the $7.9 million after-tax Ontario Settlement gain. Revenue and equity income and earnings were higher during the second quarter ended June 30, 2005 compared to the same quarter in 2006, primarily due to a $7.0 million positive after-tax adjustment to FortisAlberta's earnings driven largely by the resolution of tax-related matters pertaining to prior years.

December 2006/December 2005 – Net earnings applicable to common shares were $33.9 million, or $0.33 per common share, for the fourth quarter of 2006 compared to earnings of $22.3 million, or $0.22 per common share, for the fourth quarter of 2005. The increase in earnings was largely driven by Newfoundland Power due to a change in the Company's revenue recognition policy to the accrual method effective January 1, 2006, earnings growth at FortisAlberta and contributions from Fortis Turks and Caicos, acquired on August 28, 2006, partially offset by the impact of lower average wholesale energy prices in Ontario and increased corporate expenses. The change in the revenue recognition policy did not have a material impact on Newfoundland Power's annual earnings.

September 2006/September 2005 – Net earnings applicable to common shares were $38.8 million, or $0.37 per common share, for the third quarter of 2006 compared to earnings of $37.4 million, or $0.36 per common share, for the third quarter of 2005. Excluding $1.6 million of earnings during the third quarter of 2005 associated with the favourable resolution of a corporate income tax reassessment at FortisOntario, earnings were $3.0 million higher quarter over quarter. The increase was largely driven by improved non-regulated hydroelectric production in Belize, lower corporate taxes at FortisAlberta, increased electricity rates at FortisBC, higher earnings from Fortis Properties, higher earnings from Regulated Utilities – Caribbean due, in part, to the recent acquisition of Fortis Turks and Caicos and increased electricity rates at FortisOntario. The increase in quarterly earnings was partially offset by higher corporate expenses and lower average wholesale energy prices in Ontario. Corporate expenses during the third quarter of 2005 were reduced by a $3.8 million ($3.1 million after-tax) unrealized foreign currency translation gain associated with unhedged US dollar-denominated debt.

June 2006/June 2005 – Net earnings applicable to common shares were $37.9 million, or $0.37 per common share, for the second quarter of 2006 compared to earnings of $38.2 million, or $0.37 per common share, for the second quarter of 2005. Earnings for the second quarter of 2005 included a $7.0 million positive after-tax adjustment to FortisAlberta's earnings, driven largely by the resolution of tax-related matters pertaining to prior years, which favourably impacted revenue. Earnings for the second quarter of 2005 also included a $1.1 million positive adjustment to equity income from Caribbean Utilities related to a change in accounting practice for recognizing unbilled revenue. Excluding these items, the Corporation's earnings were $7.8 million higher in the second quarter of 2006 compared to the second quarter of 2005. The increase was driven by lower corporate income taxes largely at FortisAlberta, improved non-regulated hydroelectric production in Belize, higher earnings at Fortis Properties and an unrealized foreign exchange gain on the translation of US dollar-denominated long-term corporate debt. The increase was partially offset by lower earnings at Newfoundland Power related to the shifting of revenue from the first half of 2006 to the second half of 2006 upon adopting the accrual method of recognizing revenue, effective January 1, 2006, and the impact of recording the cumulative effects of the regulator-approved Negotiated Settlement Agreements during the second quarter of 2006 at FortisAlberta and FortisBC.

March 2006/March 2005 – Net earnings applicable to common shares were $36.6 million, or $0.35 per common share, for the first quarter of 2006 compared to earnings of $39.2 million, or $0.40 per common share, for the first quarter of 2005. Earnings for the first quarter of 2005 included the $7.9 million after-tax Ontario Settlement gain. Excluding the Ontario Settlement gain in 2005, earnings increased quarter over quarter primarily due to higher earnings at FortisBC and FortisAlberta, and increased non-regulated hydroelectric production in Belize. The increase in earnings was also due to an 11 per cent overall increase in electricity rates, effective July 1, 2005, and higher electricity sales at Belize Electricity. Partially offsetting the earnings increase was an anticipated decline in earnings at Newfoundland Power as a result of a change in the Company's revenue recognition policy, a decrease in equity income from Caribbean Utilities driven by higher fuel costs and the impact of lower average wholesale energy prices in Ontario. Earnings per common share for the first quarter of 2006 were impacted by the dilution created by the $130 million issue of common shares on March 1, 2005.

Management's Evaluation of Disclosure Controls and Procedures and Internal Controls over Financial Reporting

Disclosure Controls and Procedures

The President and Chief Executive Officer ("CEO") and the Vice President, Finance and Chief Financial Officer ("CFO") of Fortis, together with management, have established and maintained disclosure controls and procedures for the Corporation in order to provide reasonable assurance that material information relating to the Corporation is made known to them in a timely manner, particularly during the period in which the annual filings are being prepared. The CEO and CFO, together with management, have evaluated the effectiveness of the Corporation's disclosure controls and procedures as of December 31, 2006 and, based on that evaluation, have concluded that these controls and procedures are effective in providing such reasonable assurance.

Internal Controls over Financial Reporting

The CEO and the CFO of Fortis, together with management, are also responsible for the design of internal controls over financial reporting within the Corporation in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. The CEO and CFO of Fortis, together with management, have evaluated the design of the Corporation's internal controls over financial reporting as of December 31, 2006 and, based on that evaluation, have concluded that the design of these controls is effective to provide such reasonable assurance.

There has been no change in the Corporation's internal controls over financial reporting during the fourth quarter of 2006 that has materially affected, or is reasonably likely to materially affect, the Corporation's internal controls over financial reporting.

Recent Acquisitions

On August 28, 2006, Fortis, through a wholly owned subsidiary, acquired all issued and outstanding shares of Fortis Turks and Caicos for aggregate consideration of approximately $97.7 million (US$87.8 million). On November 1, 2006, Fortis Properties, a wholly owned subsidiary of Fortis, purchased four hotels located in Alberta and British Columbia for aggregate consideration of approximately $52 million. Management of Fortis is assisting financial management of the acquired entities in developing systems of internal controls appropriate for operations of a subsidiary or division of a public company as these operations transition from private ownership. Fortis expects these systems of internal controls will be implemented during 2007. Management expects that the likelihood of a material misstatement occuring as a result of control weaknesses associated with these acquired entities' operations is low because of the nature and the relative size of those entities.

Fortis acquired an additional 16 per cent ownership interest in Caribbean Utilities on November 7, 2006 and now owns an approximate 54 per cent controlling interest in the Company. Caribbean Utilities is a public company traded on the Toronto Stock Exchange (TSX:CUP.U) and has an April 30th fiscal year end. The CEO and CFO of Caribbean Utilities have evaluated the effectiveness of disclosure controls and procedures and concluded, with reasonable assurance, that the disclosure controls and procedures of Caribbean Utilities were effective and adequate as of the Company's fiscal year ended April 30, 2006.

Subsequent Events

On January 3, 2007, FortisAlberta closed a $110 million senior unsecured debenture offering. The debentures bear interest at a rate of 4.99 per cent, to be paid semi-annually, and mature on January 3, 2047. The proceeds of the offering were used to repay existing indebtedness incurred under the Company's committed unsecured credit facility, which was incurred primarily to fund capital expenditures, and for general corporate purposes.

On January 18, 2007, Fortis issued 5,170,000 Common Shares for $29.00 per common share. The common share issue resulted in gross proceeds of $149.9 million, or approximately $145.6 million net of after-tax expenses. The net proceeds of the offering were used to repay indebtedness incurred for recent acquisitions, to support the capital expenditure programs of the Corporation's regulated utilities in Western Canada and for general corporate purposes.

On February 8, 2007, Fortis announced that its Board of Directors had declared a 10.5 per cent increase in the quarterly common share dividend, increasing the amount from 19 cents per common share to 21 cents per common share, commencing with the second quarter dividend payable on June 1, 2007, to shareholders of record on May 4, 2007.

On February 26, 2007, Fortis entered into an agreement (the "Acquisition Agreement") with 3211953 Nova Scotia Company and Kinder Morgan, Inc. ("Kinder Morgan") (NYSE:KMI), a U.S. energy transportation, storage and distribution company based in Houston, Texas, for the purchase (the "Acquisition") of all the issued and outstanding shares of Terasen Inc. for aggregate consideration of $3.7 billion, including the assumption of approximately $2.3 billion of consolidated indebtedness of Terasen Inc. Terasen Inc. is a holding company headquartered in Vancouver, British Columbia, operating two principal lines of business – natural gas distribution and petroleum transportation. Prior to the closing of the Acquisition, Kinder Morgan will cause Terasen Inc. to divest itself of its petroleum transportation operations. The closing of the Acquisition, which is expected to occur in mid-2007, is subject to receipt of required regulatory and other approvals, including that of the BCUC, and the satisfaction of certain closing conditions. Under the Acquisition Agreement, Kinder Morgan or Fortis may elect to terminate the Acquisition Agreement if the Acquisition is not completed prior to November 30, 2007.

To finance a portion of the Acquisition, Fortis entered into an agreement on February 27, 2007 with CIBC World Markets Inc., Scotia Capital Inc., TD Securities Inc., BMO Nesbitt Burns Inc., RBC Dominion Securities Inc., National Bank Financial Inc., Canaccord Capital Corporation, Beacon Securities Limited and HSBC Securities (Canada) Inc. (collectively the "Underwriters") pursuant to which they agreed to purchase from Fortis and sell to the public 38,500,000 Subscription Receipts of the Corporation for a purchase price of $26.00 per Subscription Receipt. The Underwriters also had the option to purchase up to an additional 5,775,000 Subscription Receipts at the purchase price of $26.00 per Subscription Receipt to cover over-allotments, if any, at any time until 30 days following the closing of the Subscription Receipt offering. The gross proceeds from the sale of Subscription Receipts of $1,001,000,000 ($1,151,150,000 if the Over-Allotment Option is exercised in full) will be held by an escrow agent pending, among other things, receipt of all regulatory and government approvals required to finalize the Acquisition and fulfillment or waiver of all other outstanding conditions precedent to closing the Acquisition (collectively, the "Release Conditions"). Each Subscription Receipt will entitle the holder thereof to receive, on satisfaction of the Release Conditions, and without payment of additional consideration, one Common Share of Fortis and a cash

payment equal to the dividends declared on Fortis Common Shares to holders of record during the period from the closing of the Subscription Receipt offering to the date of issuance of the Common Shares in respect of the Subscription Receipts. In the event that the Release Conditions are not satisfied by November 30, 2007, or if the Acquisition Agreement is terminated prior to such time, the holders of Subscription Receipts will be entitled to receive an amount equal to the full subscription price thereof plus their pro rata share of the interest earned or income generated on such amount. On March 15, 2007, the Subscription Receipt offering closed, the Underwriters exercised the Over-Allotment Option and therefore $1,151,150,000 was placed into escrow.

Fortis has also obtained a commitment from Canadian Imperial Bank of Commerce providing for an aggregate of $1.425 billion non-revolving term credit facilities in favour of Fortis to fund, if necessary, the full cash purchase price for the Acquisition. The net proceeds from the Subscription Receipt offering and funds to be advanced under the acquisition credit facilities will be used to finance the cash portion of the acquisition purchase price.

Outlook

The Corporation's business of regulated utilities is capital intensive and Fortis expects that most of its electric utility capital expenditures of more than $2.6 billion over the next five years will be driven by FortisAlberta and FortisBC. Gross consolidated utility capital expenditures for 2007, excluding Terasen, are expected to exceed $600 million, approximately $256 million and $139 million of which are expected to be invested in FortisAlberta and FortisBC, respectively. Capital expenditures related to income producing properties are expected to be approximately $13 million in 2007. Upward pressure on future capital expenditures may be experienced by FortisAlberta in response to expected continued robust economic growth in Alberta, driven by the expansion of the oil and gas industry in that province.

Organic earnings growth at Fortis will be driven by significant infrastructure investment at the regulated utilities in Western Canada and at the regulated and non-regulated utilities in the Caribbean.

Over the next several quarters the Corporation will focus on closing and integrating the Terasen Inc. acquisition. The addition of the natural gas distribution business will double the Corporation's investment in regulated rate base assets. Going forward, the Corporation will continue to pursue organic and acquisition growth opportunities in regulated gas and electric utility businesses in Canada, the Caribbean and the United States. Fortis will also pursue growth in its non-regulated businesses in support of its regulated utility growth strategy.

Outstanding Share Data

At March 15, 2007, the Corporation had issued and outstanding 109,422,397 Common Shares, 5,000,000 First Preference Shares, Series C; 7,993,500 First Preference Shares, Series E; 5,000,000 First Preference Shares, Series F; and 44,275,000 Subscription Receipts. As at December 31, 2006, the number of Common Shares that would be issued upon conversion of share options, convertible debt and First Preference Shares, Series C and First Preference Shares, Series E is described in the Notes to the 2006 Fortis Inc. Annual Consolidated Financial Statements.

Additional information, including the Fortis Inc. 2006 Annual Information Form and Management Information Circular, is available on SEDAR at www.sedar.com and on the Corporation's web site at www.fortisinc.com.

Management's Report

The accompanying Consolidated Financial Statements of Fortis Inc. and all information in the 2006 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 2006 Annual Report is consistent with that in the Consolidated Financial Statements.

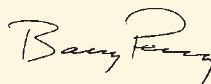
In meeting its responsibility for the reliability and integrity of the Consolidated Financial Statements, management has developed and maintains a system of accounting and reporting which provides for the necessary internal controls to ensure transactions are properly authorized and recorded, assets 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, 2006 Consolidated Financial Statements and Management Discussion and Analysis contained in the 2006 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 2006 Consolidated Financial Statements and their report follows.

H. Stanley Marshall
President and Chief Executive Officer



Barry V. Perry
Vice President, Finance and Chief Financial Officer

St. John's, Canada

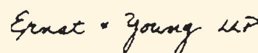
Auditors' Report

To the Shareholders of Fortis Inc.

We have audited the consolidated balance sheets of Fortis Inc. as at December 31, 2006 and 2005 and the consolidated statements of earnings, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants

St. John's, Canada,
January 26, 2007 (except for Note 29 (c) and (d), which are as at March 15, 2007)

Consolidated Balance Sheets

FORTIS INC.
(Incorporated under the laws of the Province of Newfoundland and Labrador)

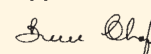
As at December 31 (in thousands)

ASSETS	2006	2005 *(Note 3)*
Current assets		
Cash and cash equivalents	**$ 40,921**	$ 33,416
Accounts receivable	**278,114**	204,169
Income taxes receivable	**7,505**	–
Prepaid expenses	**14,255**	9,786
Regulatory assets *(Note 4)*	**35,669**	33,289
Materials and supplies	**32,675**	18,614
	409,139	299,274
Corporate income tax deposit *(Note 28 (a))*	**5,922**	–
Deferred charges and other assets *(Note 5)*	**174,835**	148,140
Regulatory assets *(Note 4)*	**132,991**	82,315
Future income taxes *(Note 21)*	**7,053**	58,815
Utility capital assets *(Note 6)*	**3,574,851**	2,900,393
Income producing properties *(Note 7)*	**468,984**	414,608
Investments *(Note 8)*	**2,536**	167,393
Intangibles, net of amortization *(Note 2)*	**9,819**	14,027
Goodwill *(Note 9)*	**661,311**	512,139
	$ 5,447,441	$ 4,597,104
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Short-term borrowings *(Note 10)*	**$ 97,669**	$ 48,868
Accounts payable and accrued charges	**333,755**	265,223
Dividends payable	**21,705**	17,924
Income taxes payable	**–**	22,785
Regulatory liabilities *(Note 4)*	**26,380**	19,392
Current instalments of long-term debt and capital lease obligations *(Note 11)*	**84,786**	31,392
Future income taxes *(Note 21)*	**959**	6,714
	565,254	412,298
Deferred credits *(Note 12)*	**78,987**	64,261
Regulatory liabilities *(Note 4)*	**338,901**	367,693
Future income taxes *(Note 21)*	**57,737**	44,718
Long-term debt and capital lease obligations *(Note 11)*	**2,558,463**	2,135,674
Non-controlling interest *(Note 13)*	**130,505**	39,555
Preference shares *(Note 14 (i) and (ii))*	**319,492**	319,492
	4,049,339	3,383,691
Shareholders' equity		
Common shares *(Note 15)*	**828,985**	813,304
Preference shares *(Note 14 (iii))*	**122,466**	–
Contributed surplus	**4,687**	3,179
Equity portion of convertible debentures *(Note 11)*	**7,175**	1,500
Foreign currency translation adjustment *(Note 17)*	**(51,508)**	(16,312)
Retained earnings	**486,297**	411,742
	1,398,102	1,213,413
	$ 5,447,441	$ 4,597,104

Commitments *(Note 27)*
Contingent liabilities *(Note 28)*

See accompanying Notes to consolidated financial statements

Approved on Behalf of the Board



Bruce Chafe,
Director

David G. Norris,
Director

Consolidated Statements of Earnings

FORTIS INC.

For the Years Ended December 31 (in thousands, except per share amounts)

	2006	2005
Operating Revenues	**$ 1,461,998**	$ 1,430,005
Equity Income	**9,738**	11,466
	1,471,736	1,441,471
Expenses		
Energy supply costs	**540,485**	533,915
Operating	**398,587**	392,380
Amortization	**177,511**	157,622
	1,116,583	1,083,917
Operating Income	**355,153**	357,554
Finance charges *(Note 18)*	**168,329**	153,825
Gain on sale of income producing property *(Note 19)*	**(2,088)**	–
Gain on settlement of contractual matters *(Note 20)*	**–**	(10,000)
	166,241	143,825
Earnings Before Corporate Taxes	**188,912**	213,729
Corporate taxes *(Note 21)*	**32,538**	70,416
Net Earnings Before Non-Controlling Interest	**156,374**	143,313
Non-controlling interest	**7,602**	6,216
Net Earnings	**148,772**	137,097
Preference share dividends	**1,585**	–
Net Earnings Applicable to Common Shares	**$ 147,187**	$ 137,097
Weighted Average Common Shares Outstanding *(Note 15)*	**103,578**	101,750
Earnings Per Common Share *(Note 15)*		
Basic	**$ 1.42**	$ 1.35
Diluted	**$ 1.37**	$ 1.24

Consolidated Statements of Retained Earnings

FORTIS INC.

For the Years Ended December 31 (in thousands)

	2006	2005
Balance at Beginning of Year	**$ 411,742**	$ 337,013
Net Earnings Applicable to Common Shares	**147,187**	137,097
	558,929	474,110
Dividends on Common Shares	**(72,632)**	(62,368)
Balance at End of Year	**$ 486,297**	$ 411,742

See accompanying Notes to consolidated financial statements

Consolidated Statements of Cash Flows

FORTIS INC.

For the Years Ended December 31 (in thousands)

	2006	2005
Operating Activities		
Net earnings	**$ 148,772**	$ 137,097
Items not Affecting Cash		
Amortization – capital assets, net of contributions in aid of construction	**166,954**	147,222
Amortization – intangibles	**4,208**	4,428
Amortization – other	**6,349**	5,972
Future income taxes *(Note 21)*	**10,257**	12,322
Accrued employee future benefits	**(2,738)**	1,915
Equity income, net of dividends	**(2,635)**	(3,426)
Stock-based compensation	**1,965**	1,569
Unrealized foreign exchange gain on long-term debt *(Note 18)*	**(1,725)**	(2,335)
Non-controlling interest	**7,602**	6,216
Gain on sale of income producing property *(Note 19)*	**(2,088)**	–
Other	**(681)**	1,653
Change in long-term regulatory assets and liabilities	**(30,594)**	(3,160)
Increase in corporate income tax deposit *(Note 28 (a))*	**(5,922)**	–
	299,724	309,473
Change in non-cash operating working capital	**(36,587)**	(5,888)
	263,137	303,585
Investing Activities		
Change in deferred charges and credits and other assets	**(25,028)**	(1,550)
Purchase of utility capital assets	**(483,103)**	(424,754)
Purchase of income producing properties	**(16,887)**	(21,275)
Contributions in aid of construction	**53,564**	45,130
Proceeds on sale of capital assets	**8,196**	1,556
Business acquisitions, net of cash acquired	**(168,931)**	(66,018)
Increase in investments	**(1,893)**	(193)
	(634,082)	(467,104)
Financing Activities		
Change in short-term borrowings	**37,557**	(132,818)
Proceeds from long-term debt	**468,823**	348,698
Repayment of long-term debt and capital lease obligations	**(197,270)**	(126,411)
Redemption of preference shares	**–**	(38)
Advances from (to) non-controlling interest	**9,535**	(596)
Issue of common shares	**15,224**	135,253
Issue of preference shares	**121,117**	–
Dividends		
Common shares	**(72,632)**	(62,368)
Preference shares	**(1,585)**	–
Subsidiary dividends paid to non-controlling interest	**(2,407)**	(1,803)
	378,362	159,917
Effect of exchange rate changes on cash	**88**	(185)
Change in Cash and Cash Equivalents	**7,505**	(3,787)
Cash and Cash Equivalents, Beginning of Year	**33,416**	37,203
Cash and Cash Equivalents, End of Year	**$ 40,921**	$ 33,416

Supplementary Information to Consolidated Statements of Cash Flows *(Note 25)*

See accompanying Notes to consolidated financial statements

December 31, 2006 and 2005

1. Description of the Business

Nature of Operations

Fortis Inc. ("Fortis" or the "Corporation") is principally a diversified, international distribution utility holding company. Fortis segments its utility operations by franchise area and, depending on regulatory requirements, by the nature of the assets. Fortis also holds investments in non-regulated generation and commercial real estate and hotels, which are treated as two separate segments. The Corporation's operating segments allow senior management to evaluate the operational performance and assess the overall contribution of each segment to the Corporation's long-term objectives. Each operating segment operates as an autonomous unit, assumes profit and loss responsibility and is accountable for its own resource allocation.

The following summary briefly describes the operations included in each of the Corporation's operating and reportable segments.

Regulated Utilities – Canadian

The following summary describes the Corporation's interests in Regulated Utilities in Canada by utility:

(a) *FortisAlberta:* FortisAlberta owns and operates the electricity distribution system in a substantial portion of southern and central Alberta, serving approximately 430,000 customers.

(b) *FortisBC:* Includes FortisBC Inc., an integrated electric utility operating in the southern interior of British Columbia serving more than 152,000 customers. FortisBC Inc. owns four hydroelectric generating plants with a combined capacity of 235 megawatts ("MW"). Included with the FortisBC component of the Regulated Utilities – Canadian segment are the non-regulated operating, maintenance and management services relating to the 450-MW Waneta hydroelectric generating facility owned by Teck Cominco Metals Ltd., the 149-MW Brilliant Hydroelectric Plant owned by Columbia Power Corporation and the Columbia Basin Trust ("CPC/CBT"), the 185-MW Arrow Lakes Hydroelectric Plant owned by CPC/CBT and the distribution system owned by the City of Kelowna. FortisBC's assets also include the regulated electric utility formerly operated as Princeton Light and Power Company, Limited ("PLP"). PLP was purchased by Fortis through an indirect subsidiary on May 31, 2005. Effective January 1, 2007, PLP was amalgamated with FortisBC Inc. as part of an internal corporate reorganization.

(c) *Newfoundland Power:* Newfoundland Power is the principal distributor of electricity in Newfoundland, serving approximately 230,000 customers. Newfoundland Power has an installed generating capacity of 136 MW, of which 92 MW is hydroelectric generation.

(d) *Maritime Electric:* Maritime Electric is the principal distributor of electricity on Prince Edward Island, serving approximately 71,000 customers. Maritime Electric also maintains on-Island generating facilities at Charlottetown and Borden-Carleton with a combined capacity of 150 MW.

(e) *FortisOntario:* FortisOntario provides an integrated electric utility service to approximately 52,000 customers in Fort Erie, Cornwall, Gananoque and Port Colborne in Ontario. FortisOntario operations include Canadian Niagara Power Inc. ("Canadian Niagara Power") and Cornwall Street Railway, Light and Power Company, Limited ("Cornwall Electric"). Included in Canadian Niagara Power's accounts is the operation of the electricity distribution business of Port Colborne Hydro Inc., which has been leased from the City of Port Colborne under a 10-year lease agreement entered into in April 2002. FortisOntario also owns a 10 per cent interest in each of Westario Power Holdings Inc. and Rideau St. Lawrence Holdings Inc., two regional electrical distribution companies formed in 2000 serving more than 27,000 customers.

Regulated Utilities – Caribbean

The following summary describes the Corporation's interest in Regulated Utilities in the Caribbean by utility:

(a) *Belize Electricity:* Belize Electricity is the principal distributor of electricity in Belize, Central America, serving more than 71,000 customers. The Company has an installed generating capacity of 37 MW. Fortis holds a 70.1 per cent controlling interest in Belize Electricity (December 31, 2005 – 68.5 per cent).

(b) *Caribbean Utilities:* Caribbean Utilities is the sole provider of electricity on Grand Cayman, Cayman Islands, serving more than 22,000 customers. The Company has an installed generating capacity of 120 MW. On November 7, 2006, Fortis acquired an additional 16 per cent ownership interest in Caribbean Utilities and now owns approximately 54 per cent of the Company. Caribbean Utilities is a public company traded on the Toronto Stock Exchange (TSX:CUP.U) and has an April 30th fiscal year end. Caribbean Utilities' balance sheet as at November 7, 2006 has been consolidated in the December 31, 2006 balance sheet of Fortis. Beginning with the first quarter of 2007, Fortis will consolidate Caribbean Utilities' financial statements on a two-month lag basis and will include Caribbean Utilities' January 31, 2007 balance sheet and statements of earnings and cash flows for the three-month period ended January 31, 2007. During 2006 and 2005, the statements of earnings of Fortis reflected the Corporation's previous approximate 37 per cent ownership interest in Caribbean Utilities, previously accounted for on a two-month equity lag basis.

(c) *P.P.C. Limited ("PPC") and Atlantic Equipment & Power (Turks and Caicos) Ltd. ("Atlantic") (collectively referred to as "Fortis Turks and Caicos")*: Fortis Turks and Caicos was acquired on August 28, 2006 by Fortis through a wholly owned subsidiary. Fortis Turks and Caicos serves approximately 7,700 customers, or 80 per cent of electricity customers, in the Turks and Caicos Islands and has an installed diesel-fired generating capacity of approximately 37 MW. The Company is the principal distributor of electricity in the Turks and Caicos Islands pursuant to 50-year licences that expire in 2036 and 2037.

Non-Regulated – Fortis Generation

The following summary describes the Corporation's non-regulated generation assets by location:

(a) *Belize:* Operations consist of the 25-MW Mollejon and 7-MW Chalillo hydroelectric facilities in Belize. All of the electricity output is sold to Belize Electricity under a 50-year power purchase agreement expiring in 2055. 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.

(b) *Ontario:* Includes 75 MW of water-right entitlement associated with the Niagara Exchange Agreement ("NEA"), a 5-MW gas-fired cogeneration plant in Cornwall and six 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 Fortis Properties. On January 1, 2006, the former FortisOntario Generation Corporation was amalgamated with CNE Energy Inc. and, effective January 1, 2007, CNE Energy Inc. was amalgamated with Fortis Properties.

(c) *Central Newfoundland:* Through the Exploits River Hydro Partnership ("Exploits Partnership"), a partnership between the Corporation, through a wholly owned subsidiary, Fortis Properties, and Abitibi-Consolidated Company of Canada ("Abitibi-Consolidated"), 36 MW of additional capacity was developed and installed at two of Abitibi-Consolidated's hydroelectric plants in central Newfoundland. Upon the amalgamation of CNE Energy Inc. with Fortis Properties on January 1, 2007, Fortis Properties now directly holds the 51 per cent interest in the Exploits Partnership and Abitibi-Consolidated holds the remaining 49 per cent interest. Previously, the 51 per cent interest was held by CNE Energy Inc. The Exploits Partnership sells its output to Newfoundland and Labrador Hydro Corporation ("Newfoundland Hydro") under a 30-year power purchase agreement expiring in 2033.

(d) *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 expiring in 2013. Hydroelectric generation operations in British Columbia are conducted through the Walden Power Partnership ("WPP"), a wholly owned partnership of FortisBC Inc.

(e) *Upper New York State:* Includes the operations of four hydroelectric generating stations in Upper New York State with a combined capacity of approximately 23 MW operating under licences from the US Federal Energy Regulatory Commission. Hydroelectric generation operations in Upper New York State are conducted through the Corporation's indirect wholly owned subsidiary, FortisUS Energy Corporation ("FortisUS Energy").

Non-Regulated – Fortis Properties

Fortis Properties owns and operates 18 hotels with more than 3,200 rooms in seven Canadian provinces and 2.7 million square feet of commercial real estate in Atlantic Canada. Included are the four hotels in Alberta and British Columbia acquired by Fortis Properties on November 1, 2006.

Corporate

The Corporate segment captures expense and revenue items not specifically related to any operating segment. Included in the Corporate segment are finance charges, including interest on debt incurred directly by Fortis and dividends on preference shares classified as long-term liabilities, foreign exchange gains or losses, dividends on preference shares classified as equity, other corporate expenses net of recoveries from subsidiaries, interest and miscellaneous revenues, and corporate income taxes.

2. Summary of Significant Accounting Policies

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"), including selected accounting treatments that differ from those used by entities not subject to rate regulation. The timing of the recognition of certain assets, liabilities, revenues and expenses, as a result of regulation, may differ from that otherwise expected using Canadian GAAP for entities not subject to rate regulation. These differences are described in Note 2, under the headings "Regulation", "Utility Capital Assets", "Employee Future Benefits", "Income Taxes" and "Revenue Recognition", and in Note 4.

All amounts presented are in Canadian dollars unless otherwise stated.

2. Summary of Significant Accounting Policies (cont'd)

Regulation

FortisAlberta

FortisAlberta is regulated by the Alberta Energy Utilities Board ("AEUB"), pursuant to the *Electric Utilities Act* (Alberta), the *Public Utilities Board Act* (Alberta) and the *Hydro and Electric Energy Act* (Alberta). The AEUB administers these acts and regulations covering such matters as tariffs, rates, construction, operations and financing. FortisAlberta operates under cost of service regulation as prescribed by the AEUB. Rate orders issued by the AEUB establish the Company's revenue requirements, being those revenues required to recover approved costs associated with the distribution business, and provide a rate of return on a deemed capital structure applied to approved rate base assets. FortisAlberta's allowed rate of return on common equity ("ROE") was 8.93 per cent for 2006 (2005 – 9.50 per cent). FortisAlberta's allowed ROE is adjusted annually through the operation of an automatic adjustment formula to adjust for forecast changes in long-term Canada bond yields. The Company applies for tariff revenue based on estimated cost of service. Once the tariff is approved, it is not adjusted as a result of actual cost of service being different from that which was estimated, other than for certain prescribed costs that are eligible for deferral account treatment.

FortisBC

FortisBC is regulated by the British Columbia Utilities Commission ("BCUC"). The BCUC administers acts and regulations pursuant to the *Utilities Commission Act* (British Columbia), covering such matters as tariffs, rates, construction, operations, financing and accounting. FortisBC operates primarily under cost of service regulation as prescribed by the BCUC. The Company applies to the BCUC for annual revenue requirements based on estimated cost of service, including, but not limited to, operating expenses, power purchases, depreciation and amortization, property taxes, income taxes, interest on debt and an allowed ROE. FortisBC's allowed ROE was 9.20 per cent for 2006 (2005 – 9.43 per cent). FortisBC's allowed ROE is adjusted annually through the operation of an automatic adjustment formula to adjust for forecast changes in long-term Canada bond yields. In addition, the regulatory framework includes some performance-based rate-setting ("PBR") attributes. PBR is subject to change as the Company's regulatory framework evolves.

Newfoundland Power

Newfoundland Power operates under cost of service regulation as administered by the Newfoundland and Labrador Board of Commissioners of Public Utilities ("PUB") under the *Public Utilities Act* (Newfoundland and Labrador). The *Public Utilities Act* (Newfoundland and Labrador) provides for the PUB's general supervision of the Company's utility operation and requires the PUB to approve, among other things, customer rates, capital expenditures and the issue of securities of Newfoundland Power. The *Public Utilities Act* (Newfoundland and Labrador) also entitles the Company an opportunity to recover all reasonable and prudent costs incurred in providing electricity service to its customers, including a just and reasonable return on its rate base. The determination of the forecast rate of return on rate base, together with the forecast of all reasonable and prudent costs, establishes the revenue requirement upon which Newfoundland Power's customer rates are determined through a general rate application. In between general rate applications, customer rates are adjusted annually through the operation of an automatic adjustment formula that sets an appropriate annual rate of return on rate base based on the forecast cost of common equity and adjusts for changes in observed long-term Canada bond yields. The allowed ROE reflected in customer rates for 2006 was 9.24 per cent (2005 – 9.24 per cent).

Maritime Electric

In December 2003, the Government of Prince Edward Island proclaimed legislation returning Maritime Electric to traditional cost of service regulation. Maritime Electric is regulated by the Island Regulatory and Appeals Commission ("IRAC") under the provisions of the *Electric Power Act* (Prince Edward Island), effective January 1, 2004. On January 1, 2004, the *Maritime Electric Company Limited Regulation Act* was repealed. Under the new regulatory model, Maritime Electric's basic rates, as set by rate orders by IRAC, are now based on actual costs and provide an approved rate of return on approved rate base assets. Maritime Electric's allowed ROE was 10.25 per cent for 2006 (2005 – 10.25 per cent). Maritime Electric applies for tariff revenue based on estimated cost of service. Once the tariff is approved, it is not adjusted as a result of actual cost of service being different from that which was estimated, other than for certain prescribed costs that are eligible for deferral account treatment. The *Electric Power Act* (Prince Edward Island) provides for an orderly transition from the previous regulatory model and allows the Company to collect the $20.8 million in Costs Recoverable From Customers deferred as at December 31, 2003 under terms and conditions to be set out by IRAC. IRAC has allowed Maritime Electric to collect $1.5 million, $2.5 million and $1.5 million of these recoverable costs in fiscal years 2004, 2005 and 2006, respectively.

FortisOntario

Canadian Niagara Power and Cornwall Electric operate under the *Electricity Act* (Ontario) and the *Ontario Energy Board Act* (Ontario) as administered by the Ontario Energy Board ("OEB"). Canadian Niagara Power operates under cost of service regulation and earnings are regulated on the basis of rate of return on rate base, plus a recovery of allowable distribution costs. On April 28, 2006, the OEB issued its Decision and Order concerning Canadian Niagara Power's application for new electricity

rates, effective May 1, 2006. The new distribution electricity rates were based on 2004 costs using a deemed capital structure at 50 per cent long-term debt and 50 per cent common equity, with an allowed ROE of 9.0 per cent. The Decision and Order also approved the final recovery from customers of regulatory assets including the transitional costs incurred in preparation for the open market in May 2002. Cornwall Electric is exempt from many aspects of these Acts and is also subject to a 35-year Franchise Agreement with the City of Cornwall, dated July 31, 1998. The rate-setting mechanism is subject to price cap with commodity cost flow-through. The base revenue requirement is adjusted annually for inflation, load growth and customer growth.

Belize Electricity

Belize Electricity is regulated by the Public Utilities Commission ("PUC") under the terms of the *Electricity Act* (Belize), the *Electricity (Tariffs, Charges and Quality of Service Standards) By-Laws* (Belize) and the *Public Utilities Commission Act* (Belize). The primary duty of the PUC is to ensure that the services rendered by the Company are satisfactory and that the charges imposed in respect of those services are fair and reasonable. The PUC oversees the rates that may be charged in respect of utility services and the standards that must be maintained in relation to such services. In addition, the PUC is responsible for the award of licences and for monitoring and enforcing compliance with licences' conditions. Basic electricity rates for Belize Electricity are comprised of two components. The first component is Value-Added Delivery ("VAD") and the second is the cost of fuel and purchased power ("COP"), including the variable cost of generation, which is a flow-through in customer rates. The VAD component of the tariff allows the Company to recover its operating expenses, transmission and distribution expenses, taxes and amortization and rate of return on regulated asset base in the range of 10 per cent to 15 per cent. The VAD component of the tariff is normally reviewed every four years, while the COP component and any rate stabilization account ("RSA") recovery are reviewed at each annual rate proceeding and at Threshold Event Review Proceedings, which can occur at any time when deferrals of COP into the RSA exceed $1.7 million (BZ$3.0 million).

Caribbean Utilities

Caribbean Utilities generates and distributes electricity in its exclusive licence area of Grand Cayman, Cayman Islands, under a licence from the Government of the Cayman Islands (the "Government") originally dated May 10, 1966, amended November 1, 1979 and renewed for a further 25 years on January 17, 1986 (collectively, the "Licence"). The Licence allows for subscribers' tariffs to be adjusted annually to provide Caribbean Utilities with a rate of return of 15 per cent on capital employed, as defined in the Licence. The 15 per cent rate of return is for the fixed term of the Licence and does not take into consideration actual interest charges, unless they are in excess of 15 per cent per annum, and costs of capital incurred by Caribbean Utilities. Additionally, the Licence provides for monthly adjustments to be made to the rates billed to consumers to reflect variations in the cost to Caribbean Utilities of diesel fuel used in the generation of electricity.

In January 2006, the Government exercised its right under the current Licence to increase the duty rate paid by Caribbean Utilities on foreign purchases from 10 per cent to 15 per cent. Under the terms of the Licence, customs duties are included in the rate base for capital expenditures and allowable operating expenditures in determining earnings.

Fortis Turks and Caicos

Fortis Turks and Caicos provides electricity to Providenciales, North and Middle Caicos through PPC and provides electricity to South Caicos through Atlantic for terms of 50 years under licences dated October 1987 and November 1986 (collectively, the "Agreements"), respectively. Among other matters, these Agreements describe how electricity rates are to be set by the Government of the Turks and Caicos Islands in order to provide Fortis Turks and Caicos with a return of 17.5 per cent (the "Allowable Operating Profit") based on a calculated rate base, and including interest on the amounts by which actual operating profits fall short of Allowable Operating Profits on a cumulative basis (the "cumulative shortfall").

Fortis Turks and Caicos makes annual submissions to the Government of the Turks and Caicos Islands calculating the amount of the Allowable Operating Profit and the cumulative shortfalls. The submissions for 2006 calculated the Allowable Operating Profit for 2006 to be $11.0 million and $0.2 million (US$9.5 million and US$0.1 million) and the cumulative shortfalls at December 31, 2006 to be $2.9 million and $1.3 million (US$2.5 million and US$1.2 million) for PPC and Atlantic, respectively. The companies have a legal right under the Agreements to request an increase in electricity rates to begin to recover the cumulative shortfalls. The recovery would, however, be dependent on future sales volumes and expenses.

Cash and Cash Equivalents

Cash and cash equivalents include cash and short-term deposits with maturities of three months or less from the date of acquisition.

Materials and Supplies

Materials and supplies are valued at the lower of average cost and market value, determined on the basis of estimated net realizable value.

December 31, 2006 and 2005

2. Summary of Significant Accounting Policies (cont'd)

Deferred Charges and Credits and Other Assets

Deferred charges and credits and other assets include deferred pension costs, accrued pension obligations, unamortized debt discounts and deferred financing expenses, Alberta Electric System Operator ("AESO") contributions, deferred recoverable and project costs, energy management loans, an investment held at Fortis Properties as collateral for a loan, customer deposits, and other deferred charges and credits. Debt discounts and deferred financing expenses are amortized on a straight-line basis over the term of the related debt. AESO contributions represent payments to the AESO by FortisAlberta for investment in transmission facilities that are needed for reliability or contingency planning in accordance with AESO Terms and Conditions of Service. These assets are recovered in customer rates through AEUB-approved amortization rates. Prior to 2006, AESO contributions were included with the AESO charges deferral regulatory asset or liability. Deferred recoverable project costs are amortized over the estimated remaining useful lives of the projects. Project costs are deferred until a capital project has been identified, at which time the costs are transferred to utility capital assets or income producing properties. Energy management loans range in terms from one year to five years and are deferred until they are recovered from customers. Other deferred charges and credits are recorded at cost and are amortized over the estimated period of future benefit.

Deferred charges and credits also include deferred gains and losses on the cancellation of swap contracts. In December 2003, Fortis entered into a forward interest rate swap agreement that swapped 90-day bankers' acceptance interest rate payments on $200 million of long-term debt to 5.6 per cent. In October 2004, upon the completion of the long-term acquisition financing for FortisAlberta and FortisBC, the forward interest rate swap agreement was terminated and a cash payment of $14.1 million made upon termination of the swap is being amortized on a straight-line basis over 10 years, the term of the related financing.

In October 2004, Fortis cancelled its US dollar currency swap agreement, under which the interest payments on the Corporation's $100 million Senior Unsecured Debentures were converted into US dollar interest payments. The cancellation of the US dollar currency swap agreement resulted in a gain of $4.7 million, which is being amortized on a straight-line basis over the remaining term of the $100 million Senior Unsecured Debentures, which mature in October 2010.

Utility Capital Assets

Utility capital assets of Newfoundland Power are stated at values approved by the PUB as at June 30, 1966 with subsequent additions at cost. Utility capital assets of Caribbean Utilities are stated on the basis of appraised values at November 30, 1984 with subsequent additions at cost. Utility capital assets of Fortis Turks and Caicos are stated at appraised values at September 18, 1986. Subsequent additions are at cost except for the distribution systems on Middle, North and South Caicos, transferred by the Government of the Turks and Caicos Islands to Fortis Turks and Caicos by agreements dated November 29, 1986 and October 8, 1987 for US two dollars, in aggregate, as valued in the books of the companies. Utility 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 utility capital assets and are being reduced annually by an amount equal to the charge for amortization provided on the related assets.

As required by their respective regulators, amortization expense at FortisAlberta, FortisBC, Newfoundland Power and Maritime Electric includes an amount allowed for regulatory purposes to provide for future removal and site restoration costs, net of salvage proceeds. The amount provided for in amortization expense is recorded as a long-term regulatory liability. Actual removal and site restoration costs, net of salvage proceeds, are recorded against the regulatory liability when incurred. At December 31, 2006, the long-term regulatory liability for future removal and site restoration costs was $306.5 million (December 31, 2005 – $280.9 million) (Note 4 *(xix)*). FortisOntario, Belize Electricity, Caribbean Utilities and Fortis Turks and Caicos record removal and site restoration costs in earnings when incurred and these costs did not have a material impact on the Corporation's 2006 and 2005 earnings.

Upon retirement or disposal of utility capital assets, the capital cost of the assets is charged to accumulated amortization by FortisAlberta, FortisBC, Newfoundland Power, Maritime Electric and Belize Electricity, as required by the respective regulators, with no loss, if any, reflected in earnings. It is expected that any loss charged to accumulated amortization will be reflected in future amortization expense when it is collected in customer electricity rates. At FortisOntario, Caribbean Utilities and Fortis Turks and Caicos, any remaining net book value, less salvage proceeds, upon retirement or disposal of utility capital assets, is recorded immediately in earnings. In the absence of rate regulation, any loss on the retirement or disposal of utility capital assets at FortisAlberta, FortisBC, Newfoundland Power, Maritime Electric and Belize Electricity would be recognized in the current period. The loss charged to accumulated amortization in 2006 was approximately $22.1 million (2005 – $27.3 million).

Maintenance and repairs of utility capital assets are charged to earnings in the period incurred while replacements and betterments are capitalized.

As required by their respective regulators, FortisBC, Newfoundland Power, Maritime Electric, FortisOntario and Belize Electricity capitalize overhead costs that are not directly attributable to specific utility capital assets, but which relate to the overall capital expenditure program. The methodology for calculating and allocating capitalized general overhead costs to utility capital assets is established by the respective regulators. In the absence of rate regulation, only those overhead costs directly attributable to construction activity would be capitalized. These general expenses capitalized ("GEC") are allocated over constructed capital assets and amortized over their estimated service lives. In 2006, GEC totalled $18.2 million (2005 – $11.8 million).

FortisAlberta, FortisBC, Newfoundland Power, Maritime Electric and Belize Electricity, as required by their respective regulators, include an equity component in the allowance for funds used during construction ("AFUDC") that is included in the cost of utility capital assets. Since AFUDC includes both an interest component and an equity component, it exceeds the amount allowed to be capitalized in similar circumstances by entities not subject to rate regulation. AFUDC is deducted from finance charges, and AFUDC capitalized during 2006 was $4.4 million (2005 – $6.7 million) (Note 18), including an equity component of $1.8 million (2005 – $3.3 million). AFUDC is charged to operations through amortization expense over the estimated service lives of the applicable utility capital assets.

FortisAlberta maintains a regulatory tax basis adjustment account, which represents the excess of the deemed tax basis of the Company's utility capital assets 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 utility capital assets by an offset against the provision for depreciation and amortization. The regulatory tax basis adjustment is recorded as a reduction in utility capital assets. During 2006, amortization expense was reduced by $4.8 million (2005 – $5.0 million) for the amortization of the regulatory tax basis adjustment.

Utility capital assets are being amortized using the straight-line method based on the estimated service lives of the capital assets. Amortization rates range from 1.4 per cent to 24.2 per cent. The composite rate of amortization before reduction for amortization of contributions in aid of construction for 2006 was 4.2 per cent (2005 – 4.0 per cent).

The service life ranges and average remaining service life of the Corporation's distribution, transmission and generation assets as at December 31st were as follows.

	As at December 31st			
	2006		2005	
	Service Life Ranges (Years)	**Average Remaining Service Life (Years)**	**Service Life Ranges (Years)**	**Average Remaining Service Life (Years)**
Distribution	**10-75**	**27**	10-75	27
Transmission	**10-75**	**30**	10-75	31
Generation	**5-75**	**31**	10-75	36

Income Producing Properties

Income producing properties of Fortis Properties, which include office buildings, shopping malls, hotels, land and related equipment and tenant inducements, are recorded at cost. Buildings are being amortized using the straight-line method over an estimated useful life of 60 years. Fortis Properties amortizes tenant inducements over the initial terms of the leases to which they relate, except where a write-down is required to reflect a permanent impairment. The lease terms vary to a maximum of 20 years. Equipment is recorded at cost and is amortized on a straight-line basis over a range of two years to 20 years.

Maintenance and repairs of income producing properties are charged to earnings in the period incurred while replacements and betterments are capitalized.

Intangibles

Intangibles represent the estimated fair value of water rights associated with the Rankine Generating Station in Ontario. As at December 31, 2006, the net book value of intangibles was $9.8 million (net of accumulated amortization of $15.1 million) [2005 – $14.0 million (net of accumulated amortization of $10.9 million)]. The water rights are being amortized using the straight-line method over the estimated life of the asset to April 30, 2009. Effective May 1, 2009, in accordance with the NEA, FortisOntario's water entitlement on the Niagara River associated with the Rankine Generating Station will not be renewed.

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.

December 31, 2006 and 2005

Asset Impairment

The Corporation reviews the valuation of utility capital assets, income producing properties, intangible assets with finite lives, deferred charges and other assets when events or changes in circumstances may indicate that the asset's carrying value exceeds the total cash flows expected from its use and eventual disposition. An impairment loss, calculated as the difference between the asset's carrying value and its fair value, which is determined using present value techniques, is recognized in earnings in the period it is identified. There was no impact on the financial statements as a result of asset impairments for the year ended December 31, 2006.

During 2005, the remaining value of the Rankine Generating Station assets, located on the Niagara River, was written down as a result of the implementation of the NEA. The NEA assigns FortisOntario's water rights on the Niagara River to Ontario Power Generation Inc. ("OPGI") and facilitates the irrevocable exchange of 75 MW of wholesale electric power supply to FortisOntario Inc. from OPGI until April 30, 2009 in exchange for FortisOntario Inc.'s agreement not to seek renewal of the water entitlement at that time. The write-down totalled $1.7 million ($1.1 million after tax) in 2005.

The process for asset impairment testing differs for non-regulated generation assets compared to regulated utility assets. Since each non-regulated generating facility provides an individual cash inflow stream, such asset is tested individually and an impairment is recorded if the future cash inflows are no longer sufficient to recover the economic value of the generating facility. Asset impairment testing at the regulated utilities is carried out at the enterprise level to determine if assets are impaired. The recovery of a regulated asset's economic value, including a fair return on capital, is provided through customer electricity rates approved by the respective regulatory authorities. The cash inflows for regulated enterprises are not asset specific but are pooled for the entire regulated enterprise.

Investments

Portfolio investments are accounted for on the cost basis. Declines in value considered to be other than temporary are recorded in the period in which such determinations are made.

Goodwill

Goodwill represents the excess, at the dates of acquisition, of the purchase price over the fair value of the net amounts assigned to individual assets acquired and liabilities assumed relating to business acquisitions. Goodwill is carried at initial cost less any previous amortization and any write-down for impairment.

The Corporation is required to perform an annual impairment test and any impairment provision is charged to earnings. 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, 2006 (2005 – nil).

Employee Future Benefits

Defined Benefit and Defined Contribution Pension Plans

The Corporation and its subsidiaries each maintain one or a combination of defined benefit pension plans, defined contribution pension plans and group Registered Retirement Savings Plans ("RRSPs") for its employees. The costs of the defined contribution pension plans and RRSPs are expensed as incurred. The accrued benefit obligation and the value of pension costs of the defined benefit pension plans are actuarially determined using the projected benefits method prorated on service and management's best estimate of expected plan investment performance, salary escalation and retirement ages of employees. With the exception of Newfoundland Power, pension plan assets are valued at fair value. At Newfoundland Power, 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 excess of any cumulative net actuarial gain (loss) over 10 per cent of the greater of the benefit obligation and the fair value of plan assets (the market-related value of plan assets at Newfoundland Power), at the beginning of the fiscal year, along with unamortized past service costs, are deferred and amortized over the average remaining service period of active employees.

On January 1, 2000, Newfoundland Power prospectively applied Section 3461 of the Canadian Institute of Chartered Accountants' Handbook. The Company is amortizing the resulting transitional obligation on a straight-line basis over 18 years, the expected average remaining service period of the plan members at that time. At FortisAlberta, as approved by the AEUB, the cost of the defined benefit and defined contribution pension plans is being recovered in customer rates based on employer cash contributions made into the defined benefit pension plan, while the cost of the defined contribution pension plan is being recovered based on the filed amount of the funding requirements.

Any difference between the expense recognized under Canadian GAAP and that recovered from customers in current rates for defined benefit and defined contribution pension plans, which is expected to be recovered or refunded in future customer rates, is subject to deferral treatment (Note 4 *(xviii)*).

Other Post-Employment Benefits
The Corporation, FortisAlberta, FortisBC, Newfoundland Power, Maritime Electric and FortisOntario also offer other non-pension post-employment benefits through defined benefit plans including certain health and dental coverage for qualifying members. Additionally, the Corporation, FortisAlberta, Newfoundland Power and Maritime Electric provide for retirement allowances and supplemental retirement plans for certain of its executive employees. The accrued benefit obligation and the value of the costs associated with these other post-employment benefit plans are actuarially determined using the projected benefits method prorated on service and best estimate assumptions. 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, at the beginning of the fiscal year, along with unamortized past service costs, are deferred and amortized over the average remaining service period of active employees.

In 2006, FortisAlberta, as approved by the AEUB, recovered in customer rates the costs of other post-employment benefit and supplemental pension plans based on the cash payments made. In 2005, FortisAlberta, as approved by the AEUB, recovered in customer rates the costs of other post-employment benefit and supplemental pension plans based on the accrual method of accounting. The change in how other post-employment benefits and supplemental pension plan costs are recovered in customer rates had no impact on the Corporation's earnings in 2006.

Any difference between the expense recognized under Canadian GAAP and that recovered from customers in current rates for other post-employment benefit and supplemental pension plans, which is expected to be recovered or refunded in future customer rates, is subject to deferral treatment (Note 4 *(viii)*).

Stock-Based Compensation

The Corporation records compensation expense upon the issuance of stock options under its 2002 Stock Option Plan. Beginning in 2007, all new stock options will be granted under the Corporation's 2006 Stock Option Plan (Note 16). Compensation expense is measured at the date of grant using the Black Scholes fair value option pricing model and is amortized over the four-year vesting period of the options granted. The offsetting entry is an increase to contributed surplus for an amount equal to the annual compensation expense related to the issuance of stock options. Upon exercise, the proceeds of the options are credited to capital stock at the option price and the fair value of the options, as previously recorded, is reclassified from contributed surplus to capital stock. An exercise of options below the current market price has a dilutive effect on capital stock and shareholders' equity.

The Corporation also records compensation expense associated with its Directors' Deferred Share Unit ("DSU") and Restricted Share Unit ("RSU") Plans using the fair value method, recognizing compensation expense over the vesting period on a straight-line basis. The fair value of the DSU and RSU liabilities is based on the Corporation's closing Common Share price at the end of each reporting period.

Foreign Currency Translation

The assets and liabilities of foreign operations, all of which are self-sustaining, are translated at the exchange rate in effect at the balance sheet dates. The exchange rate in effect at December 31, 2006 was US$1.00 = CDN$1.17 (December 31, 2005 – US$1.00 = CDN$1.16). The resulting unrealized translation gains and losses are accumulated as a separate component of shareholders' equity as a foreign currency translation adjustment. Revenue and expense items are translated at the average exchange rate in effect during the period.

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.

Foreign exchange translation gains and losses on foreign currency denominated long-term debt that is designated as a hedge of foreign net investments are recorded as foreign currency translation adjustments in shareholders' equity.

Hedging Relationships

At December 31, 2006, the Corporation's hedging relationships consisted of interest-rate swap contracts and US dollar borrowings. Derivative instruments, such as interest rate swap contracts, are used only to manage risk and are not used 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

2. *Summary of Significant Accounting Policies (cont'd)*

or ceases to be effective as a hedge prior to maturity, the gain or loss at that date is deferred and recognized in earnings concurrently with the hedged item. Subsequent changes in the value of the derivative instrument are reflected in earnings. 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 earnings. The change in the market value of the interest rate swap contracts, which fluctuates over time, is not recognized until interest payments are made.

The Corporation's foreign net investments are exposed to changes in the US dollar exchange rate and the Corporation has reduced its exposure to foreign currency exchange rate fluctuations on a substantial portion of its foreign net investments through the use of US dollar borrowings. As at December 31, 2006, all of the Corporation's US$258.6 million of long-term debt had been designated as a hedge of a portion of the Corporation's foreign net investments. As at December 31, 2006, the Corporation had approximately US$121 million in foreign net investments available to be hedged.

Income Taxes

Except as described below for FortisAlberta, FortisBC and Newfoundland Power, the Corporation and its subsidiaries follow the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are recognized for temporary differences between the tax and accounting basis 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 earnings in the period that the change occurs. Current income tax expense is recognized for the estimated income taxes payable in the current year.

Effective January 1, 2006, FortisAlberta is following the taxes payable method of accounting for federal income taxes. As prescribed by the 2006/2007 Negotiated Settlement Agreement, approved by the AEUB on June 29, 2006, corporate income tax expenses are now recovered through customer rates based only on income taxes that are currently payable for regulatory purposes. Under the new methodology, current rates do not include the recovery of future income taxes related to certain temporary differences between the tax basis of assets and liabilities and their carrying amounts for regulatory purposes, as these taxes are expected to be collected in customer rates when they become payable. Accordingly, FortisAlberta no longer recognizes income taxes deferred to future years as a result of the specified temporary differences. The Company only recognizes future income taxes for certain deferral amounts where the future income taxes will not be collected in future customer rates.

In 2005, FortisAlberta followed the taxes payable method of accounting only for provincial income taxes because federal income tax expenses were recovered through customer rates based on a modified liability method. Under the modified liability method, customer rates included the recovery of future federal income taxes related to specified temporary differences between the tax basis of assets and liabilities and their carrying amounts for regulatory purposes. As a result, FortisAlberta previously recognized future federal income taxes and set up a regulatory liability equal to the amount of future federal income taxes recognized that had not yet been reflected in customer rates. However, due to the AEUB-approved 2006/2007 Negotiated Settlement Agreement, the future income tax asset and offsetting regulatory liability were no longer recognized, which resulted in a $50.7 million reduction in the Corporation's future income tax assets and regulatory liabilities during the second quarter of 2006. Had FortisAlberta accounted for its regulated operations using the liability method in 2006, the Corporation would have recognized additional future income tax expense of approximately $17.7 million for the year ended December 31, 2006 (Note 21); however, there would have been no earnings impact associated with the additional future income tax expense as FortisAlberta would have recorded an offsetting regulatory asset for future recovery in customer rates.

As ordered by the BCUC, FortisBC follows the taxes payable method of accounting for income taxes on regulated earnings. Therefore, customer rates do not include the recovery of future income taxes related to temporary differences between the tax basis of regulated assets and liabilities and their carrying amounts for accounting purposes.

The PUB specifies Newfoundland Power's method of accounting for income taxes. Effective January 1, 1981, pursuant to PUB order, future income tax liabilities at Newfoundland Power are recognized solely on temporary differences in capital cost allowance in excess of amortization of capital assets, excluding GEC. Current customer rates do not include the recovery of future income taxes related to certain temporary differences between the tax basis of assets and liabilities and their carrying amounts for regulatory purposes, but these taxes are expected to be collected in future customer rates when the taxes become payable.

Entities not subject to rate regulation generally recognize future income tax assets and liabilities for temporary differences between the tax and accounting basis of all assets and liabilities. If this method was applied at FortisAlberta, FortisBC and Newfoundland Power, future income tax liabilities and future income tax assets would have increased by approximately $121.8 million and $56.3 million, respectively, at December 31, 2006 (December 31, 2005 – $126.2 million and $29.0 million, respectively).

Belize Electricity is subject to income tax; however, effective March 1, 2005, it is capped at 1.75 per cent of gross revenues. Caribbean Utilities and Fortis Turks and Caicos are not subject to income tax as they operate in tax-free jurisdictions. BECOL is not subject to income tax as it was granted tax-exempt status by the Government of Belize for the term of the 50-year power purchase agreement.

Revenue Recognition

Revenue at the Corporation's regulated utilities is recognized in a manner approved by each utility's regulatory authority. Revenue at the regulated utilities is billed at rates approved by the applicable regulatory authorities and is generally bundled to include service associated with generation, transmission and distribution, except at FortisAlberta and FortisOntario. Transmission is the conveyance of electricity at high voltages (generally at voltage levels of 69 kilovolts ("kV") and above) and distribution is the conveyance of electricity at lower voltages (generally at voltage levels below 69 kV). Distribution networks convey electricity from transmission systems to end-use customers.

As required by the respective regulatory authorities, revenue from the sale of electricity by FortisAlberta, FortisBC, Newfoundland Power, Maritime Electric, FortisOntario, Caribbean Utilities and Fortis Turks and Caicos is recognized on the accrual basis. Electricity is metered upon delivery to customers and is recognized as revenue using approved rates when consumed. Meters are read periodically, usually monthly, and bills are issued to customers based on these readings. At the end of each period, a certain amount of consumed electricity will not have been billed. Electricity that is consumed but not yet billed to customers is estimated and accrued as revenue at each period end.

Prior to January 1, 2006, as required by the PUB, revenue derived from electricity sales at Newfoundland Power was recognized as bills were rendered to customers. The difference between revenue recognized on a billed basis versus an accrual basis ("unbilled revenue") was deferred and reported on the balance sheet as a regulatory liability (Note 4 *(xx)*). Effective January 1, 2006, Newfoundland Power received approval from the PUB to change its revenue recognition policy for financial and regulatory reporting purposes from a billed basis to an accrual basis. The transition to recording revenue on an accrual basis had no material impact on Newfoundland Power's 2006 annual earnings. In conjunction with this change in accounting policy, a portion of the unbilled revenue as of December 31, 2005 will be recognized as revenue in future periods, as approved by the PUB. The Company received PUB approval to recognize $3.1 million as revenue in 2006 and $2.7 million as revenue in 2007, to offset the income tax impact associated with the transition to the accrual basis of revenue recognition for income tax purposes in these years. Disposition of the remaining regulatory liability has been deferred until the Company's next general rate application, which is currently anticipated to be filed in 2007 for the purpose of setting electricity rates for 2008.

As required by the PUC, revenue from the sale of electricity by Belize Electricity is recognized as monthly billings are rendered to customers. In the absence of rate regulation, revenue would be recorded on an accrual basis. The difference between recognizing revenue on a billed versus an accrual basis is recorded on the balance sheet as a regulatory liability (Note 4 *(xx)*).

FortisAlberta reports revenues and expenses related to transmission services on a net basis in other revenue. At the Corporation's other regulated utilities, transmission revenues and expenses are recorded on a gross basis. As stipulated by the AEUB, FortisAlberta is required to arrange and pay for transmission service with AESO and collect transmission revenue from its customers, which is done through invoicing the customers' retailers through FortisAlberta's transmission component of its AEUB-approved rates. FortisAlberta is solely a distribution company and, as such, does not operate or provide any transmission or generation services. The Company is a conduit for the pass-through of transmission costs to end-use customers as the transmission provider does not have a direct relationship with these customers. The rates collected are based on forecasted transmission expenses and, for certain elements of the transmission costs, FortisAlberta is subject to the risk of actual expenses being different from the forecast revenue relating to transmission services. All other differences are subject to deferral treatment and are either collected or refunded in future customer rates.

FortisOntario's regulated operations are primarily comprised of the operations of Cornwall Electric and Canadian Niagara Power. Electricity rates at Cornwall Electric are bundled due to the nature of the Franchise Agreement with the City of Cornwall. Electricity rates at Canadian Niagara Power are not bundled. At Canadian Niagara Power, the cost of power and transmission are a flow-through to customers and these costs, and revenue associated with the recovery of these costs, are tracked and recorded separately. This treatment is consistent with other regulated utilities in Ontario as required under OEB regulation. The amount of transmission revenue tracked separately at Canadian Niagara Power is not significant in relation to the consolidated revenue of Fortis.

All of the Corporation's non-regulated generating operations record revenue on an accrual basis, and revenue is recognized on delivery of output at rates fixed under contract or based on observed market prices as stipulated in contractual arrangements. Generally, production from the Corporation's generating stations is metered at or very near month end and production data is used to record revenue earned.

2. Summary of Significant Accounting Policies (cont'd)

Hospitality revenue is recognized when services are provided. Real estate revenue is derived from leasing retail and office space to tenants for varying periods of time. Revenue is recorded in the month that it is earned at rates in accordance with lease agreements. The leases are primarily of a net nature, with tenants paying basic rental plus a pro rata share of certain defined overhead expenses. Certain retail tenants pay additional rent based on a percentage of the tenant's sales. Expenses recovered from tenants are recorded as revenue.

The escalation of lease rates included in long-term leases is recorded in earnings using the straight-line method over the term of the lease.

Asset Retirement Obligations

Asset retirement obligations are recorded as a liability at fair value, with a corresponding increase to utility capital assets and income producing properties. 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 asset retirement obligations associated with hydroelectric generating facilities and with interconnection facilities and wholesale energy supply agreements. While each of the foregoing will have legal asset retirement obligations, including land and environmental remediation and/or removal of assets, the final date and cost of remediation and/or removal of the related assets cannot be reasonably determined at this time.

No significant environmental issues have been identified to date in respect of the Corporation's hydroelectric generating facilities. These facilities are reasonably expected to operate in perpetuity due to the nature of their operation. The licences, permits, interconnection facilities agreements and wholesale energy supply agreements are reasonably expected to be renewed or extended indefinitely to maintain the integrity of the assets and to ensure the continued provision of electricity service to customers. In the event that environmental issues are identified, hydroelectric generating facilities are decommissioned or the applicable licences, permits or agreements are terminated, asset retirement obligations will be recorded at that time provided the costs can be reasonably estimated.

The Corporation also has asset retirement obligations associated with the removal of certain distribution system assets from rights of way at the end of the life of the system. As it is expected that the system will be in service indefinitely, an estimate of the fair value of removal costs cannot be reasonably determined at this time.

The Corporation has determined that an asset retirement obligation exists regarding the remediation of leased land on which a pumphouse is currently situated at Maritime Electric. The pumphouse is integral to the Company's operations and it is reasonably expected that the land lease agreement will be renewed indefinitely; therefore, an estimate of fair value of remediation costs cannot be reasonably determined at this time. An asset retirement obligation associated with land remediation will be recorded when the lease is terminated at the request of the lessor and the costs are reasonably estimable.

On April 1, 2006, Fortis retroactively adopted Emerging Issues Committee Abstract EIC 159, Conditional Asset Retirement Obligations ("EIC 159"). EIC 159 requires an entity to recognize a liability for the fair value of an asset retirement obligation even though the timing and/or method of settlement are conditional on future events. While conditional asset retirement obligations have been identified, no amounts have been recorded as they are immaterial to the Corporation's results of operations and financial position.

Variable Interest Entities

Effective January 1, 2005, the Corporation adopted the recommendations of Accounting Guideline 15 ("AcG-15") on accounting for variable interest entities. The Corporation performed a review of its business arrangements with other entities and concluded that the entities do not require consolidation and that no variable interests are required to be disclosed under the requirements of AcG-15. There was no impact, therefore, to the financial statements upon the adoption of AcG-15.

Use of Accounting Estimates

The preparation of 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 revenues and expenses during the reporting periods. Estimates are based on historical experience, current conditions and various other assumptions believed to be reasonable under the circumstances. Additionally, certain estimates are necessary since the regulatory environments in which the Corporation's utilities operate often require amounts to be recorded at estimated values until these amounts are finalized pursuant to regulatory decisions or other regulatory proceedings. Due to changes in facts and circumstances and the inherent uncertainty involved in making estimates, actual results may differ significantly from current estimates. Estimates are reviewed periodically and, as adjustments become necessary, are reported in earnings in the period in which they become known.

3. Change in Presentation

Prior to December 31, 2006, the regulatory provision at FortisAlberta, FortisBC, Newfoundland Power and Maritime Electric for future removal and site restoration costs was part of amortization expense and was recorded in accumulated amortization, as these costs were recoverable in amortization rates from customers. Actual costs of removal and site restoration incurred, net of salvage proceeds, were recorded against this provision in accumulated amortization. In accordance with Canadian GAAP, FortisOntario, Belize Electricity, Caribbean Utilities and Fortis Turks and Caicos record removal and site restoration costs in earnings as incurred. In the absence of rate regulation, removal and site restoration costs, net of salvage proceeds, at FortisAlberta, FortisBC, Newfoundland Power and Maritime Electric would be recognized as incurred rather than over the life of the asset through amortization expense. The Corporation has changed the presentation of the provision for future removal and site restoration as a regulatory liability rather than including it with accumulated amortization. This change in presentation has been applied retroactively, with restatement of 2005 comparative balances, and has had no impact on earnings. The effect of this change in presentation at December 31, 2006 was a $306.5 million (December 31, 2005 – $280.9 million) increase in long-term regulatory liabilities and a corresponding $306.5 million (December 31, 2005 – $280.9 million) increase in net utility capital assets resulting from a decrease in accumulated amortization (Note 4 *(xix)*).

4. Regulatory Assets and Liabilities

Regulatory assets and liabilities arise as a result of the rate-setting process at the Corporation's regulated utilities. Regulatory assets represent future revenues associated with certain costs incurred in the current or prior periods that will be or are expected to be recovered from customers in future periods through the rate-setting process. Regulatory liabilities represent future reductions or limitations of increases in revenues associated with amounts that will be or are expected to be refunded to customers through the rate-setting process.

All amounts deferred as regulatory assets and liabilities are subject to regulatory approval. As such, the regulatory authorities could alter the amounts subject to deferral, at which time the change would be reflected in the financial statements. Certain remaining recovery and settlement periods are those expected by management and the actual recovery or settlement periods could differ based on regulatory approval. Based on previous, existing or expected future regulatory orders or decisions, the Corporation has recorded the following amounts expected to be recovered by or refunded to customers in future periods.

Regulatory Assets *(in thousands)*	**2006**	2005	**Remaining recovery period (Years)**
AESO charges deferral *(i)*	**$ 12,524**	$ 11,778	
Municipal tax asset *(ii)*	**7,239**	6,879	
Cost of Power and Hurricane Cost Rate Stabilization Accounts *(iii)*	**5,216**	5,004	
Rate stabilization account *(iv)*	**3,554**	2,405	
Deferred fuel costs *(v)*	**1,485**	–	
Energy cost adjustment mechanism (pre 2004) *(vi)*	**1,300**	1,500	
Commodity cost deferral *(vii)*	**–**	2,225	
Other *(xiv)*	**4,351**	3,498	
Current regulatory assets	**$ 35,669**	$ 33,289	1
Regulatory other post-employment benefit asset *(viii)*	**$ 36,416**	$ 29,401	Not determinable
AESO charges deferral *(i)*	**27,044**	–	2
Energy cost adjustment mechanism (pre 2004) *(vi)*	**13,984**	15,284	8
Deferred fuel costs *(v)*	**12,387**	–	Not determinable
Weather normalization account *(ix)*	**11,809**	10,100	Not determinable
Energy management costs *(x)*	**6,008**	5,413	8
Cost of Power and Hurricane Cost Rate Stabilization Accounts *(iii)*	**5,903**	11,979	Not determinable
Regulatory deferred capital asset amortization *(xi)*	**5,793**	–	Not determinable
Lease costs *(xii)*	**4,403**	3,786	17-29
Capital charge – Point Lepreau Station *(xiii)*	**2,708**	2,801	Not determinable
Commodity cost deferral *(vii)*	**2,298**	–	2
Other *(xiv)*	**4,238**	3,551	Various
Long-term regulatory assets	**$ 132,991**	$ 82,315	

December 31, 2006 and 2005

4. *Regulatory Assets and Liabilities (cont'd)*

Regulatory Liabilities *(in thousands)*	**2006**	2005	**Remaining settlement period (Years)**
Municipal tax liability *(ii)*	**$ 11,328**	$ 10,966	
Revenue deferral for 2006 rate reduction *(xv)*	**4,200**	–	
Regulatory future income tax liability *(xvi)*	**3,100**	900	
Energy cost adjustment mechanism (post 2003) *(vi)*	**2,991**	3,343	
Regulatory incentives *(xvii)*	**2,502**	469	
Regulatory pension deferral *(xviii)*	**–**	524	
Other *(xxi)*	**2,259**	3,190	
Current regulatory liabilities	**$ 26,380**	$ 19,392	1
Regulatory future removal and site restoration provision *(xix)*	**$ 306,467**	$ 280,913	Not determinable
Regulatory future income tax liability *(xvi)*	**–**	52,899	–
Unbilled revenue liability *(xx)*	**24,579**	27,760	Not determinable
Regulatory pension deferral *(xviii)*	**4,429**	5,065	7
Other *(xxi)*	**3,426**	1,056	Various
Long-term regulatory liabilities	**$ 338,901**	$ 367,693	

(i) *AESO Charges Deferral*

FortisAlberta maintains an AESO charges deferral account that represents expenses incurred in excess of revenues collected for various items, such as transmission costs incurred and billed through to customers, that are subject to deferral. It also includes deferrals for contributions paid to the AESO for investment in transmission facilities up to December 31, 2005, and certain riders and other miscellaneous charges related to the period from 2004 through 2006. To the extent that actual costs incurred exceeded the amount collected in revenue, the excess costs have been deferred as a regulatory asset and will be recognized when collected in future customer rates. In the event that the amount of revenue collected in rates for these items exceeds actual costs incurred, the excess is deferred as a regulatory liability. The liability will either be refunded to customers through a reduction in future rates or will be recognized when additional costs are incurred. The 2005 AESO charges deferral, which includes the carry forward of the 2004 AESO charges deferral balance, was approved by the AEUB in the amount of approximately $12.9 million. This balance, which includes an estimate for 2007 carrying costs of approximately $0.4 million, will be collected from customers through a 2007 transmission adjustment rider. The filing for the 2006 AESO charges deferral will not be made until 2007. Once approved, the 2007 deferral is expected to be collected in rates through a transmission adjustment rider, at which time these deferred costs will be recognized. In the absence of rate regulation, FortisAlberta would have recognized $27.8 million less in other revenue during 2006 (2005 – $13.4 million).

(ii) *Municipal Tax Asset and Liability*

At Newfoundland Power, as allowed by the PUB, a predetermined percentage of current-year electricity revenue is accrued to cover the following year's business and property taxes, as collectible from customers and payable to municipalities. The asset, net of amounts already collected from customers in the current year, is classified as a current regulatory asset. The liability of $11.3 million at December 31, 2006 (2005 – $11.0 million) is classified as a current regulatory liability. In the absence of rate regulation, these balances would be reversed with no earnings impact.

(iii) *Cost of Power and Hurricane Cost Rate Stabilization Accounts*

The PUC has allowed Belize Electricity to defer fuel costs, power purchases and diesel operating and maintenance expenses that are different from those amounts included in electricity rates when the rates were last set. These deferrals will be recovered from or rebated to customers. The Cost of Power Rate Stabilization Account ("CPRSA") was established to regulate the manner in which these differences in costs are recovered from or rebated to customers. Similarly, the PUC has allowed a Hurricane Cost Rate Stabilization Account ("HCRSA") to regulate the manner in which expenses associated with hurricane damage and recovery are recovered from customers. The rate of recovery or rebate is recalculated on July 1st of each year based on the balance in the CPRSA and HCRSA as of the preceding year end, but may be adjusted at any time as a result of reaching a certain threshold level. A $1.7 million (BZ$3.0 million) threshold level was established for the CPRSA, with effect from July 1, 2005, that allows for adjustments to the tariff once new deferrals to the CPRSA reach this level. Adjustments to the tariff as a result of reaching the threshold level may include adjustments to the COP component of the tariff and additional CPRSA recovery surcharges. In the absence of rate regulation, cost of power and

hurricane costs would be expensed in the period incurred. During 2006, $1.0 million (BZ$1.8 million) of reductions in cost of power, interest and hurricane costs were deferred as compared to the deferral of excess costs of $15.7 million (BZ$26.0 million) during 2005. During 2006, $4.9 million (BZ$8.3 million) of previously deferred cost of power and hurricane costs was recovered through customer rates compared to $6.4 million (BZ$10.6 million) recovered during 2005.

The PUC regulates the recovery of the balance in the CPRSA and HCRSA. The outstanding balances at July 1, 2005 were approved for full recovery by June 30, 2009. In October 2005, excess deferrals into the CPRSA reached a threshold level and, on December 20, 2005, Belize Electricity filed an application with the PUC for a tariff adjustment to recover the excess deferrals and to increase the COP component of rates. The PUC subsequently approved a 13 per cent increase in average tariffs, effective January 1, 2006. The PUC will address subsequent balances in future annual rate submissions or threshold events, and recovery will be dependent on future operational circumstances that cannot be determined at this time.

(iv) *Rate Stabilization Account*

Newfoundland Power has a rate stabilization account that passes through to customers charges or reductions related to changes in the cost and quantity of fuel burned by Newfoundland Hydro to produce the electricity sold to the Company. Operation of this account has no earnings impact on Newfoundland Power. On July 1st of each year, the rate charged to Newfoundland Power's customers is recalculated in order to amortize, over the subsequent 12 months, the balance in the rate stabilization account as of December 31st of the previous year. In the absence of rate regulation, these charges would be accounted for in a similar manner; however, the amount recovered, or refunded, and the recovery, or refund, period would not be subject to regulatory approval. This regulatory asset is not subject to a regulatory return.

(v) *Deferred Fuel Costs*

Pursuant to the terms of their respective licences, Caribbean Utilities and Fortis Turks and Caicos are entitled to recover from customers any increase in the cost of fuel over a base amount, as defined in the licence agreements. The costs are recovered in the form of a surcharge on customer bills. Costs incurred and not yet recovered from customers are deferred as regulatory assets. In the absence of rate regulation, these costs would be expensed in the period incurred and energy supply costs at Fortis Turks and Caicos, from the date of acquisition by Fortis, would have been $2.0 million lower in 2006 and energy supply costs at Caribbean Utilities would have been $0.9 million higher.

(vi) *Energy Cost Adjustment Mechanism ("ECAM")*

Until December 31, 2003, Maritime Electric maintained an ECAM account to adjust for and recover from or return to customers the effect of variations in energy costs above or below 5 cents per kilowatt hour ("kWh"). Maritime Electric also maintained a cost of capital adjustment account to adjust earnings based on a target rate of return on average common equity. In the absence of rate regulation, these items would be recorded in the period incurred. Under the new legislation effective January 1, 2004, IRAC issued a regulatory order that allowed Maritime Electric to amortize to earnings $1.5 million of these pre-2004 recoverable costs in 2006 (2005 – $2.5 million). During 2006, IRAC issued a regulatory order approving the amortization of $1.3 million of these pre-2004 recoverable costs in 2007 and $2.0 million in 2008 and each year thereafter until the amount is collected. In the absence of rate regulation, revenue would have been $1.5 million higher in 2006 (2005 – $2.5 million).

Beginning in 2004, IRAC authorized the recovery from or return to customers of energy costs above or below an approved amount of 6.73 cents per kWh, over a rolling 18-month period, under the operation of a new ECAM. In 2006, IRAC ordered the continuation of the interim and transitional ECAM currently in effect, with the amortization period contained in the ECAM to decrease from 18 months to 12 months, effective January 1, 2007. The amounts removed from the ECAM account will be recoverable through basic customer rates. In the absence of rate regulation, energy supply costs would be expensed in the period incurred and would have been $3.1 million lower in 2006 (2005 – $5.7 million), and revenue would have been $3.5 million lower in 2006 (2005 – $0.4 million higher).

(vii) *Commodity Cost Deferral*

The commodity cost deferral represents the remaining balance of the commodity costs incurred in 2000 by FortisAlberta's former retail operations in excess of amounts recovered from customers. These commodity cost deferrals were collected from customers during the period from 2001 through 2003. In 2004, the AEUB approved the collection of additional recoverable costs from customers. As directed by the AEUB, FortisAlberta is expecting to submit an application in the first quarter of 2007 to collect the remaining balance of the deferred costs from customers by way of a rate rider. In the absence of rate regulation, FortisAlberta would have recognized these costs in the years incurred and no amount would be recorded on the balance sheet. The remaining deferred costs will be recognized when they are collected in rates. In the absence of rate regulation, revenue would have been $0.1 million lower in 2006 (2005 – $0.1 million).

4. Regulatory Assets and Liabilities (cont'd)

(viii) Regulatory Other Post-Employment Benefit ("OPEB") Asset

At FortisAlberta and Newfoundland Power and, prior to 2005 at FortisBC, the cash cost of providing OPEBs was collected in customer rates as permitted by the regulators. For 2005 and 2006, as permitted by the BCUC, the recovery from customers of the cost of OPEBs at FortisBC was based on cash costs plus a partial recovery of the full accrual cost of OPEBs. In 2005, as permitted by the AEUB, the recovery from customers of the cost of OPEBs at FortisAlberta was based on the accrual method of accounting. Effective January 1, 2006, as prescribed by the AEUB-approved 2006/2007 Negotiated Settlement Agreement, FortisAlberta is recovering from customers OPEB and supplemental pension plan costs based on the cash payments made.

The regulatory OPEB asset represents the deferred portion of the benefit expense at FortisAlberta, FortisBC and Newfoundland Power that is expected to be recovered from customers in future rates. Upon recovery in customer rates, these deferred expenses will be recognized in earnings. In the absence of rate regulation, operating expenses in 2006 would have been $7.0 million (2005 – $6.0 million) higher as the benefit expense would be recognized on an accrual basis as actuarially determined with no deferral of costs recorded on the balance sheet. This regulatory asset is not subject to a regulatory return.

Newfoundland Power is required to file a report with the PUB no later than its next general rate application that addresses the potential use of the accrual method as an alternative to the currently approved method of expensing the costs of OPEBs in the year paid.

(ix) 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 conditions when compared to long-term averages. This reduces Newfoundland Power's year-to-year earnings volatility that would otherwise result from such fluctuations in revenue and purchased power. The methodology of this account anticipates that these variations will correct themselves over time. In the absence of rate regulation, these fluctuations would be recorded in earnings in the period in which they occurred.

As part of Newfoundland Power's 2003 general rate application, it was determined that $5.6 million of the balance of this account was not expected to reduce over time. This non-reversing portion of the balance is being amortized and recovered through rates on a straight-line basis over a five-year period ending in 2007. This amortization increases purchased power expenses by approximately $1.7 million per year and decreases income tax expense by approximately $0.6 million per year, for a net reduction of the non-reversing portion of the account balance of approximately $1.1 million per year.

Excluding the non-reversing portion, the remaining recovery period of the weather normalization account is not determinable, as it depends on weather conditions in the future. In the absence of rate regulation, revenue and energy supply costs in 2006 would have been $16.5 million (2005 – $10.6 million) lower and $13.3 million (2005 – $11.2 million) lower, respectively.

(x) Energy Management Costs

FortisBC provides energy management services to promote energy-efficiency programs to its customers. As required by a BCUC order, the Company has capitalized all related expenditures (except certain defined costs) and is amortizing these expenditures on a straight-line basis at 12.5 per cent per annum. This regulatory asset represents the unamortized balance of the energy management costs. The unamortized energy management costs are expected to be recovered from customers in rates over an average of eight years, based on the terms of the currently approved BCUC order. In the absence of rate regulation, the costs of the energy management services would have been expensed in the period incurred, which would have resulted during 2006 in increased operating expenses of $2.2 million (2005 – $2.4 million), decreased amortization expense of $1.1 million (2005 – $1.0 million) and decreased income taxes of $0.7 million (2005 – $0.8 million).

(xi) Regulatory Deferred Capital Asset Amortization

In 2006, Newfoundland Power deferred recovery of a $5.8 million increase in capital asset amortization in accordance with a PUB order. This amount will be recovered in a future period as determined by the PUB. In the absence of rate regulation, the deferral of the capital asset amortization would not have been recorded and amortization costs in 2006 would have been $5.8 million higher (2005 – nil).

(xii) *Lease Costs*

On July 15, 2003, FortisBC began operating the Brilliant Terminal Station ("BTS") under an agreement, the term of which expires in 2056 (unless the Company has earlier terminated the agreement by exercising its right, at any time after the anniversary date of the agreement in 2029, to give 36 months' notice of termination) (the "BTS Obligation") (Note 11). The agreement provides that FortisBC will pay a charge related to the recovery of the capital cost of the BTS and related operating costs. The recovery of the capital cost of the BTS, the cost of financing the BTS Obligation and the related operating costs are not being fully recovered by the Company in current customer rates since the rates include only the BTS lease payments on a cash basis. Of the regulatory deferred lease cost balance at December 31, 2006, $2.7 million (December 31, 2005 – $2.1 million) represented the deferred portion of the cost of the lease that is expected to be recovered from customers in future rates. In the absence of rate regulation, amortization of the BTS and interest on the BTS Obligation would have been recorded, resulting in an increase in 2006 finance charges of $2.3 million (2005 – $2.2 million), a decrease in 2006 operating expenses of $2.6 million (2005 – $2.4 million) and an increase in 2006 amortization expense of $0.9 million (2005 – $0.9 million).

Under a sale-leaseback agreement, on September 29, 1993, FortisBC began leasing its Trail, British Columbia office building for a term of 30 years (Notes 12 and 27). The Company is accounting for the lease as an operating lease. The terms of the agreement require increasing stepped lease payments during the lease term. As ordered by the BCUC, FortisBC recovers the Trail office lease payments from customers and records the lease costs on a cash basis. In the absence of rate regulation, the lease costs would be recorded on a straight-line basis, which would not result in any change in the expense recorded because the lease payments, on a cash basis, equalled the cost on a straight-line basis in both 2006 and 2005. Of the regulatory deferred lease cost balance at December 31, 2006, $1.7 million (December 31, 2005 – $1.7 million) represented the deferred portion of the lease payments that is expected to be recovered from customers in future rates as the stepped lease payments increase. The regulatory deferred lease cost asset is not subject to a regulatory return.

(xiii) *Capital Charge – Point Lepreau Nuclear Generating Station ("Point Lepreau Station")*

In 2001, Maritime Electric recorded a deferred asset in the amount of approximately $6.0 million with respect to the $450 million write-down of the Point Lepreau Station in 1998 by New Brunswick Power ("NB Power"), subject to an Entitlement Agreement between the two companies. Under the provisions of the *Electric Power Act* (Prince Edward Island), effective January 1, 2004, Maritime Electric was permitted to recover these deferred costs but under such terms, timelines and conditions as determined by IRAC. IRAC has issued two Orders permitting the continued amortization of the deferred asset based on the estimated useful life of the Point Lepreau Station which will be extended to 2035 after its scheduled refurbishment in 2008. In the absence of rate regulation, amortization expense in 2006 would have been $0.1 million lower (2005 – $0.6 million).

(xiv) *Other Regulatory Assets*

Other regulatory assets, included as current and/or long-term, primarily relate to FortisAlberta, FortisBC and FortisOntario.

FortisAlberta's other regulatory assets relate to rate hearing costs, self-insurance costs and a uniform system of accounts cost deferral. These expenses will be recognized in earnings when collected from customers in future rates upon approval by the AEUB. In the absence of rate regulation, these costs would be expensed in the period incurred.

FortisBC's other regulatory assets include costs deferred, as allowed by the BCUC, associated with developing a long-term transmission and distribution system plan, renewing the Canal Plant Agreement with BC Hydro and annual rate application proceedings. The other regulatory asset balances at FortisBC will be recovered from customers in future rates as approved by or upon approval by the BCUC. In the absence of rate regulation, the costs would have been expensed in the period incurred.

FortisOntario maintains regulatory accounts, as approved by the OEB, to adjust for the effect of cost of power and related costs above or below amounts recovered in rates and to defer transition costs associated with preparing for the competitive electricity market. In the absence of rate regulation, cost of power would be expensed in the period incurred and the transition costs would be appropriately deferred due to their capital nature; however, the amount to be recovered and the recovery period would not be subject to regulatory approval. Other regulatory assets at FortisOntario also included extraordinary costs of $1.6 million incurred as a result of an early winter storm that occurred in October 2006. FortisOntario filed an application in January 2007 seeking approval from the OEB to recover these storm costs through future customer rates. In the absence of rate regulation, these costs would be expensed in the period incurred.

Of the total balance of current and long-term other regulatory assets at December 31, 2006, $3.7 million is not subject to a regulatory return (2005 – $0.5 million). In the absence of rate regulation, the above current and long-term other regulatory assets would not be allowed, and during 2006 revenue would have been $0.4 million lower (2005 – $0.2 million), operating expenses would have been $4.3 million higher (2005 – $2.2 million), amortization expense would have been $0.7 million lower (2005 – $0.5 million) and corporate taxes would have been $0.5 million lower (2005 – $0.6 million).

4. Regulatory Assets and Liabilities (cont'd)

(xv) Revenue Deferral for 2006 Rate Reduction

During 2006, FortisAlberta received revenue based on interim customer rates. On June 29, 2006, as part of the 2006/2007 Negotiated Settlement Agreement, the AEUB approved a 2006 rate reduction resulting in the deferral of $4.2 million in 2006 electricity rate revenue that will be refunded to customers in 2007. In the absence of rate regulation, revenue would have been $4.2 million higher in 2006 (2005 – nil). This revenue deferral is not subject to a regulatory return.

(xvi) Regulatory Future Income Tax Liability

During 2005, FortisAlberta collected in its approved customer rates $3.1 million relating to future income tax expense, which was recognized as a liability for customer rate-making purposes. For financial statement purposes, only $0.1 million of the $3.1 million was recognized as a future income tax expense. As such, the remaining $3.0 million of revenue was deferred. In the absence of rate regulation, revenue would have been $3.0 million higher in 2005. In accordance with the AEUB-approved 2006/2007 Negotiated Settlement Agreement, this balance is being refunded to customers in 2007 and therefore is classified as a current regulatory liability at December 31, 2006.

In 2005, as a result of collecting a portion of federal future income taxes within current rates, FortisAlberta had recognized all federal future income taxes within the financial statements. As a result, FortisAlberta had set up a regulatory liability equal to the amount of federal future income taxes recognized in the financial statements that had not yet been reflected in customer rates. These amounts would have been reflected in future rates to customers as timing differences reversed. As prescribed by the AEUB in the 2006/2007 Negotiated Settlement Agreement, effective January 1, 2006, FortisAlberta is now recovering income taxes through customer rates based only on income taxes that are currently payable for regulatory purposes and, as a result, the regulatory future income tax liability balance of $50.7 million was no longer recognized in 2006. This portion of the regulatory future income tax liability was not subject to a regulatory return.

(xvii) Regulatory Incentives

FortisBC's regulatory framework includes PBR mechanisms that allow for the recovery from or refund to customers of a portion of certain increased or decreased costs, as compared to the forecast costs used to set customer rates. The final disposition of amounts deferred as regulatory PBR incentive assets and regulatory PBR incentive liabilities is determined by the sharing mechanisms with customers as approved per BCUC orders. The 2005 regulatory PBR incentive liability was approved by the BCUC for repayment through reductions in 2006 electricity revenue, with an offsetting increase in other revenue. The 2006 regulatory PBR incentive liability has been approved by the BCUC for settlement in 2007 through a reduction in 2007 electricity revenue. In the absence of rate regulation, the regulatory PBR incentive amounts would not be recorded, which would have increased other revenue by $2.6 million in 2006 and decreased other revenue by $1.2 million in 2005.

(xviii) Regulatory Pension Deferral

This regulatory liability represents pension surplus at FortisAlberta that has not been reflected in customer rates and will result in a reduction of future customer rates when recognized. When future customer rates are reduced, this liability will be drawn down and reflected as a reduction of pension expense. In the absence of rate regulation, additional operating expenses of $0.6 million would have been recognized in 2006 (2005 – $3.6 million). This regulatory pension deferral is not subject to a regulatory return.

In 2005, the regulatory pension deferral at FortisAlberta also consisted of a current regulatory liability of $0.5 million resulting from the collection of pension expense in customer rates that had not yet been contributed into the pension plan. This portion of the balance was refunded to customers in 2006 through a reduction in customer rates. Therefore, in the absence of rate regulation, 2006 operating costs would have been $0.5 million higher (2005 – nil).

(xix) Regulatory Future Removal and Site Restoration Provision

As required by the respective regulators, this regulatory liability represents amounts collected in customer electricity rates over the life of certain utility capital assets at FortisAlberta, FortisBC, Newfoundland Power and Maritime Electric attributable to removal and site restoration costs that are expected to be incurred in the future. As required by the respective regulators, amortization expense at FortisAlberta, FortisBC, Newfoundland Power and Maritime Electric includes an amount allowed for regulatory purposes to provide for these future removal and site restoration costs, net of salvage proceeds. Actual removal and site restoration costs, net of salvage proceeds, are recorded against this regulatory liability when incurred. This regulatory liability represents the amount of expected future removal and site restoration costs associated with utility capital assets in service as at the balance sheet date, calculated using current amortization rates as approved by the respective regulators. Any difference between actual costs incurred and those assumed in the collected amounts, and any cumulative adjustments resulting from changes to the regulator-approved amortization rates at which these costs are collected, are reflected in this regulatory liability with the offset recorded as an adjustment to accumulated

amortization. In the absence of rate regulation, removal and site restoration costs, net of salvage proceeds, would have been recognized in earnings as incurred rather than over the life of the assets through amortization expense. During 2006, the amount included in amortization expense associated with the provision for future removal and site restoration costs was $29.5 million (2005 – $21.7 million). During 2006, actual removal and site restoration costs, net of salvage proceeds, were $4.4 million (2005 – $1.9 million). In the absence of rate regulation, amortization expense would have been $29.5 million lower (2005 – $21.7 million) and operating expenses would have been $4.4 million higher (2005 – $1.9 million). In the absence of rate regulation, the provision for future removal and site restoration would not be recognized; therefore, long-term regulatory liabilities would have been $306.5 million lower (2005 – $280.9 million) and retained earnings would have been $306.5 million higher (2005 – $280.9 million).

(xx) Unbilled Revenue Liability

Belize Electricity records revenue derived from electricity sales on a billed basis (Note 2). Prior to January 1, 2006, Newfoundland Power also recorded revenue from electricity sales on a billed basis. The difference between revenue recognized on a billed basis and revenue recognized on an accrual basis is recorded on the balance sheet as a regulatory liability. Effective January 1, 2006, Newfoundland Power prospectively changed its revenue recognition policy to an accrual basis, as approved by the PUB (Note 2). As a result, the $23.6 million cumulative difference between billed revenue as of December 31, 2005 and revenue that would have been recognized to December 31, 2005 on the accrual basis was recorded as a regulatory liability. As ordered by the PUB, Newfoundland Power amortized $3.1 million of this regulatory liability in 2006. In the absence of rate regulation, revenue recorded on an accrual basis for 2006 would have been $1.8 million lower (2005 – $0.6 million higher).

(xxi) Other Regulatory Liabilities

Other regulatory liabilities, included as current and/or long-term, primarily relate to FortisOntario, FortisAlberta and Newfoundland Power.

As allowed under Cornwall Electric's Franchise Agreement, FortisOntario is guaranteed an annual gross margin on energy sold, subject to regulatory adjustments, and maintains a regulatory account to adjust for variances in actual gross margins from the guaranteed gross margins. In the absence of rate regulation, a guaranteed gross margin would not be allowed.

At FortisAlberta, other regulatory liabilities primarily include an amount owing to customers, as prescribed by the AEUB, relating to the difference in the actual amounts of certain deductions which are expected to be claimed for income tax purposes versus those that were included in 2006 customer rates. The 2005 balance of $0.9 million was refunded to customers in 2006 through a reduction in 2006 customer rates. During 2006, an additional $1.9 million of revenue was deferred due to the effect of the change in certain capital cost allowance rates. In the absence of rate regulation, these balances would not be deferred.

At Newfoundland Power, other regulatory liabilities include a PUB-approved purchased power unit cost variance reserve to limit variations in the cost of purchased power associated with the implementation of a demand and energy wholesale rate structure, effective January 1, 2005. Operation of the reserve limits purchased power cost volatility within a range approved by the PUB. The balance in reserve is reviewed by the PUB each year for disposition at their discretion. In the absence of rate regulation, fluctuations in purchased power cost would be recorded in earnings in the period in which they occurred.

Of the total balance of current and long-term other regulatory liabilities at December 31, 2006, $4.3 million is not subject to a regulatory return (2005 – $4.2 million). In the absence of rate regulation, current and long-term other regulatory liabilities would not be allowed, and during 2006 revenue would have been $0.8 million higher (2005 – $2.4 million), energy supply costs would have been $2.1 million lower (2005 – nil) and operating expenses would not have been impacted (2005 – $0.4 million higher).

December 31, 2006 and 2005

5. Deferred Charges and Other Assets

(in thousands)	**2006**	2005
Deferred pension costs *(Note 22)*	**$ 102,048**	$ 97,194
Unamortized debt discounts and deferred financing expenses	**22,617**	21,937
AESO contributions	**17,270**	–
Deferred loss on interest rate swap contract	**11,035**	12,443
Deferred recoverable and project costs	**10,055**	8,357
Energy management loans	**4,314**	3,944
Investment held as collateral	**2,792**	–
Other deferred charges	**4,704**	4,265
	$ 174,835	$ 148,140

6. Utility Capital Assets

2006 *(in thousands)*	**Cost**	**Accumulated Amortization**	**Contributions in Aid of Construction (Net)**	**Regulatory Tax Basis Adjustment (Net)**	**Net Book Value**
Distribution	**$ 3,190,900**	**$ (881,978)**	**$ (425,641)**	**$ (96,119)**	**$ 1,787,162**
Transmission	**849,834**	**(210,579)**	**–**	**–**	**639,255**
Generation	**903,273**	**(245,156)**	**–**	**–**	**658,117**
Assets under construction	**130,026**	**–**	**–**	**–**	**130,026**
Other	**551,470**	**(191,179)**	**–**	**–**	**360,291**
	$ 5,625,503	**$ (1,528,892)**	**$ (425,641)**	**$ (96,119)**	**$ 3,574,851**

2005 *(in thousands)*	Cost	Accumulated Amortization	Contributions in Aid of Construction (Net)	Regulatory Tax Basis Adjustment (Net)	Net Book Value
Distribution	$ 2,804,748	$ (781,196)	$ (398,418)	$ (100,913)	$ 1,524,221
Transmission	689,295	(182,377)	–	–	506,918
Generation	604,291	(137,722)	–	–	466,569
Assets under construction	95,052	–	–	–	95,052
Other	465,041	(157,408)	–	–	307,633
	$ 4,658,427	$ (1,258,703)	$ (398,418)	$ (100,913)	$ 2,900,393

The Corporation's distribution assets are those used to distribute electricity at lower voltages (generally below 69 kV). These assets include poles, towers and fixtures, low-voltage wires, transformers, overhead and underground conductors, street lighting, meters, metering equipment and other related equipment. Transmission assets are those used to transmit electricity at higher voltages (generally at 69 kV and above). These assets include poles, wires and conductors, substations, support structures and other related equipment. Generation assets are those used to generate electricity. These assets include hydroelectric and thermal generating stations, gas and combustion turbines, dams, reservoirs and other related equipment.

The cost of utility capital assets under capital lease at December 31, 2006 was $27.2 million (2005 – $26.2 million) and related accumulated amortization was $3.4 million (2005 – $2.5 million).

7. Income Producing Properties

	2006			2005
(in thousands)	**Cost**	**Accumulated Amortization**	**Net Book Value**	Net Book Value
Buildings	**$ 421,361**	**$ (35,441)**	**$ 385,920**	$ 334,452
Land	**51,365**	**–**	**51,365**	45,208
Tenant inducements	**17,457**	**(11,133)**	**6,324**	6,578
Equipment	**39,454**	**(14,907)**	**24,547**	20,582
Construction in progress	**828**	**–**	**828**	7,788
	$ 530,465	**$ (61,481)**	**$ 468,984**	$ 414,608

The cost of income producing property assets under capital lease at December 31, 2006 was $11.0 million (2005 – $11.3 million) and related accumulated amortization was $6.6 million (2005 – $5.7 million).

8. Investments

(in thousands)	**2006**	2005
Caribbean Utilities	**$ –**	$ 164,808
Other investments	**2,536**	2,585
	$ 2,536	$ 167,393

On November 7, 2006, the Corporation, through a wholly owned subsidiary, acquired approximately an additional 16 per cent ownership interest in Caribbean Utilities and now owns an approximate 54 per cent controlling interest in the Company. Caribbean Utilities' balance sheet as at November 7, 2006 has been consolidated in the December 31, 2006 balance sheet of Fortis (Note 23). Prior to the acquisition of its controlling interest in Caribbean Utilities, Fortis accounted for its investment in Caribbean Utilities on an equity basis.

9. Goodwill

(in thousands)	**2006**	2005
Balance, beginning of year	**$ 512,139**	$ 514,041
Acquisition of controlling interest in Caribbean Utilities *(Note 23)*	**105,859**	–
Acquisition of Fortis Turks and Caicos *(Note 23)*	**38,747**	–
Acquisition of PLP *(Note 23)*	**–**	1,210
Cornwall Electric tax reassessment	**–**	(2,630)
Finalization of acquisition restructuring accruals	**–**	(482)
Foreign exchange translation impacts	**4,566**	–
Balance, end of year	**$ 661,311**	$ 512,139

Goodwill associated with the acquisition of a controlling interest in Caribbean Utilities on November 7, 2006 and the acquisition of Fortis Turks and Caicos on August 28, 2006 is denominated in US dollars as the investment in these companies is held through a wholly owned subsidiary of Fortis with a reporting currency in US dollars. Foreign currency translation impacts in 2006 were the result of the translation of US dollar-denominated goodwill and the impact of the depreciation of the Canadian dollar relative to the US dollar from the date of the acquisitions to December 31, 2006.

In 2005, goodwill was reduced by approximately $2.6 million upon the recognition of a future income tax asset as a result of a favourable resolution of a Canada Revenue Agency ("CRA") reassessment of a tax asset created when Cornwall Electric was acquired by a previous owner. A further $0.5 million reduction in goodwill during 2005 was a result of the finalization of certain restructuring cost accruals related to the acquisition of FortisAlberta and FortisBC.

10. Credit Facility Borrowings

The credit facilities of the Corporation and its subsidiaries, as detailed below, bear interest at rates ranging from 4.5 per cent to 6.8 per cent at December 31, 2006 (December 31, 2005 – 3.3 per cent to 5.3 per cent). As at December 31, 2006, the Corporation and its subsidiaries had consolidated authorized lines of credit of $952.0 million, of which $546.7 million was unused.

The following summary outlines the Corporation's credit facilities by reporting segment as at December 31st.

($ millions)	Corporate	Regulated Utilities	Fortis Generation	Fortis Properties	**Total 2006**	Total 2005
Total credit facilities	315.0	622.2	2.3	12.5	**952.0**	747.1
Credit facilities utilized						
Short-term borrowings	–	(94.3)	–	(3.4)	**(97.7)**	(48.9)
Long-term debt *(Note 11)*	(84.1)	(151.4)	–	–	**(235.5)**	(85.8)
Letters of credit outstanding	(4.6)	(65.3)	–	(2.2)	**(72.1)**	(73.6)
Credit facilities available	226.3	311.2	2.3	6.9	**546.7**	538.8

At December 31, 2006 and December 31, 2005, certain borrowings under the Corporation's and subsidiaries' credit facilities have been classified as long-term debt. These borrowings are under long-term credit facilities and management's intention is to refinance these borrowings with long-term permanent financing during future periods.

In January 2006, Newfoundland Power renegotiated its $100 million committed credit facility, extending the term from one year to three years, with maturity now in January 2009.

In January 2006, Maritime Electric's $25 million non-revolving unsecured short-term bridge financing was extended until July 2007. In August 2006, the amount available on Maritime Electric's operating credit facilities was increased to $30 million from $25 million.

In March 2006, FortisAlberta amended its committed unsecured credit facility, increasing the amount available to $200 million from $150 million and extending the maturity date from May 2008 to May 2010. In addition, the Company, with the consent of the lenders, has the ability to request an increase in the limit of this credit facility by $50 million under the same terms as the existing credit facility. In July 2006, FortisAlberta entered into a demand credit facility for $10 million, increasing the amount available to the Company under unsecured demand credit facilities to $20 million.

In May 2006, the maturity date of FortisBC's $50 million 364-day operating credit facility was extended to May 2007.

In June 2006, Fortis renegotiated and amended its $145 million and $50 million unsecured credit facilities, extending the maturity dates of these facilities from May 2008 and January 2009 to May 2010 and January 2011, respectively. Additionally, in July 2006, the amount available under the committed unsecured $145 million facility was increased to $250 million. These credit facilities can be used for general corporate purposes, including acquisitions.

At December 31, 2006, Regulated Utilities' credit facilities included both a US$2.0 million overdraft facility and a US$9.0 million standby credit facility for hurricane damage at Fortis Turks and Caicos. No drawings were made on these facilities as at December 31, 2006.

At December 31, 2006, Regulated Utilities' credit facilities included a total of US$22.7 million related to Caribbean Utilities, consisting of a US$10.0 million capital expenditures line of credit, a US$5.0 million operating line of credit, a US$5.0 million catastrophe standby loan and US$2.7 million in letters of credit and corporate credit card line. On November 27, 2006, Caribbean Utilities renegotiated its credit facilities, increasing its capital expenditures line of credit to US$17.0 million and increasing each of its US$5.0 million operating line of credit and US$5.0 million catastrophe standby loan to US$7.5 million, for total credit facilities of US$34.7 million. These changes to the credit facilities in November 2006 have not been reflected in the table above as the Corporation has consolidated the balance sheet of Caribbean Utilities as at November 7, 2006.

11. Long-Term Debt and Capital Lease Obligations

(in thousands)		2006		2005
Regulated Utilities				
FortisAlberta				
5.33% Senior Unsecured Debentures, due 2014	**$**	**200,000**	$	200,000
6.22% Senior Unsecured Debentures, due 2034		**200,000**		200,000
5.40% Senior Unsecured Debentures, due 2036		**100,000**		–
		500,000		400,000
FortisBC				
Secured Debentures:				
11.00% Series E, due 2009		**5,250**		6,000
9.65% Series F, due 2012		**15,000**		15,000
8.80% Series G, due 2023		**25,000**		25,000
Unsecured Debentures:				
6.75% Series J, due 2009		**50,000**		50,000
5.48% Series 04-1, due 2014		**140,000**		140,000
8.77% Series H, due 2016		**25,000**		25,000
7.81% Series I, due 2021		**25,000**		25,000
5.60% Series 05-1, due 2035		**100,000**		100,000
Obligation under capital lease		**26,410**		25,792
		411,660		411,792
Newfoundland Power				
Secured first mortgage sinking fund bonds:				
11.875% Series AC, due 2007		**31,870**		32,270
10.550% Series AD, due 2014		**31,753**		32,153
10.900% Series AE, due 2016		**34,000**		34,400
9.000% Series AG, due 2020		**35,200**		35,600
10.125% Series AF, due 2022		**34,400**		34,800
8.900% Series AH, due 2026		**36,035**		36,435
6.800% Series AI, due 2028		**46,000**		46,500
7.520% Series AJ, due 2032		**72,000**		72,750
5.441% Series AK, due 2035		**58,800**		59,400
		380,058		384,308
Maritime Electric				
Secured first mortgage bonds:				
12.000% Series – due 2010		**15,000**		15,000
11.500% Series – due 2016		**12,000**		12,000
8.550% Series – due 2018		**15,000**		15,000
7.570% Series – due 2025		**15,000**		15,000
8.625% Series – due 2027		**15,000**		15,000
8.920% Series – due 2031		**20,000**		20,000
		92,000		92,000
FortisOntario				
7.092% Senior Unsecured Notes, due 2018		**30,000**		30,000
7.092% Senior Unsecured Notes, due 2018		**22,000**		22,000
		52,000		52,000

December 31, 2006 and 2005

11. Long-Term Debt and Capital Lease Obligations (cont'd)

(in thousands)	**2006**	2005
Belize Electricity		
Secured:		
RBTT Merchant Bank (BZ$15.2M)	**8,869**	10,997
First Caribbean International Bank	**–**	2,908
Unsecured:		
12.00% Debentures, due 2012 (BZ$17.0M)	**9,909**	9,888
9.50% Debentures, due 2021 (BZ$19.4M)	**11,318**	11,307
10.00% Debentures, due 2022 (BZ$23.9M)	**13,920**	11,378
Caribbean Development Bank (BZ$15.3M)	**8,915**	10,419
European Investment Bank (Euro 2.1M)	**3,254**	3,190
International Bank for Reconstruction and Development ("IBRD") (BZ$8.2M)	**4,799**	6,178
Toronto Dominion Bank (BZ$5.4M)	**3,172**	4,429
The Bank of Nova Scotia (BZ$4.4M)	**2,592**	–
Scotiabank & Trust (Cayman) Limited (BZ$6.0M)	**3,496**	–
M&T Bank (formerly All-First Bank), repaid during 2006	**–**	1,119
6.75% Term loan, repaid during 2006	**–**	443
	70,244	72,256
Caribbean Utilities		
Unsecured:		
3.00% European Investment Bank #3, due 2009 (US$1.3M)	**1,505**	–
8.47% Senior Loan Notes, due 2010 (US$6.0M)	**6,992**	–
6.47% Senior Loan Notes, due 2013 (US$17.5M)	**20,395**	–
7.64% Senior Loan Notes, due 2014 (US$24M)	**27,970**	–
6.67% Senior Loan Notes, due 2016 (US$30M)	**34,962**	–
5.09% Senior Loan Notes, due 2018 (US$40M)	**46,616**	–
5.96% Senior Loan Notes, due 2020 (US$30M)	**34,962**	–
	173,402	–
Fortis Turks and Caicos		
Unsecured:		
First Caribbean International Bank (US$5.2M)	**6,025**	–
Scotiabank (Turks and Caicos) Ltd. (US$14.7M)	**17,118**	–
	23,143	–
Non-Regulated – Fortis Generation		
Secured:		
BECOL		
Term loan, due 2011 (US$28.5M)	**33,161**	37,972
Exploits Partnership		
Term loan, due 2028	**62,912**	63,994
Walden Power Partnership		
9.44% WPP Mortgage, due 2013	**5,817**	6,397
	101,890	108,363

(in thousands)	**2006**	2005
Non-Regulated – Fortis Properties		
Secured:		
6.42% First mortgage, due 2007	**3,789**	–
6.85% First mortgage, due 2007	**4,685**	4,855
5.10% First mortgage, due 2010	**28,163**	29,068
5.35% First mortgage, due 2010	**11,729**	12,097
8.15% First mortgage, due 2010	**15,579**	16,522
9.47% First mortgage, due 2010	**10,871**	11,181
7.42% First mortgage, due 2012	**25,535**	26,383
7.77% First mortgage, due 2012	**21,134**	21,779
6.58% First mortgage, due 2013	**31,394**	32,614
7.30% First mortgage, due 2013	**28,069**	28,742
6.42% First mortgage, due 2014	**15,006**	15,290
7.50% First mortgage, due 2017	**41,134**	42,433
7.32% Senior notes, due 2019	**17,635**	18,521
Obligation under capital leases	**2,602**	3,885
Non-revolving credit facilities, due 2009 to 2010	**7,693**	–
Non-interest bearing note, repaid during 2006	**–**	428
	265,018	263,798
Fortis Inc.		
7.40% Senior Unsecured Debentures, due 2010	**100,000**	100,000
6.75% Unsecured Subordinated Convertible Debentures, due 2012 (US$10 million)	**11,123**	10,998
5.50% Unsecured Subordinated Convertible Debentures, due 2013 (US$10 million)	**11,349**	11,278
5.74% Senior Unsecured Notes, due 2014 (US$150 million)	**174,810**	174,450
5.50% Unsecured Subordinated Convertible Debentures, due 2016 (US$40 million)	**41,039**	–
	338,321	296,726
Long-term classification of credit facilities *(Note 10)*	**235,513**	85,823
Total long-term debt and capital lease obligations	**2,643,249**	2,167,066
Less: Current instalments of long-term debt and capital lease obligations	**84,786**	31,392
	$ 2,558,463	$ 2,135,674

Regulated Utilities

FortisAlberta

On April 21, 2006, FortisAlberta issued $100 million in Unsecured Debentures bearing interest at 5.40 per cent per annum, due April 21, 2036.

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 the Series E Secured Debentures.

On November 10, 2005, FortisBC issued $100 million in Unsecured Debentures bearing interest at 5.60 per cent, due November 9, 2035.

FortisBC has a capital lease obligation with respect to the BTS (Note 4 *(xii)*). Future minimum lease payments associated with this capital lease obligation are approximately $2.6 million per year over the remaining term of the lease agreement to 2032. The BTS lease obligation bears interest at a composite rate of 8.62 per cent.

11. Long-Term Debt and Capital Lease Obligations (cont'd)

Newfoundland Power and Maritime Electric
The Newfoundland Power and Maritime Electric first mortgage bonds are secured by a first fixed and specific charge on the respective utility's capital assets owned or to be acquired and by a floating charge on all other assets.

On August 15, 2005, Newfoundland Power closed a private placement of 5.441% $60 million first mortgage sinking fund bonds, due August 15, 2035.

Belize Electricity
The RBTT Merchant Bank 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 12.00% Unsecured Debentures can be called by Belize Electricity at any time after June 30, 2003 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 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 9.50% 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 10.00% 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 6.25 per cent to 8.50 per cent and mature from 2007 to 2014. The European Investment Bank loan bears interest at 5.00 per cent and matures in 2014. The IBRD loan bears interest at 0.50 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, 2006 was 5.35 per cent per annum (December 31, 2005 – 5.46 per cent). The Toronto Dominion Bank loan bears interest at 5.75 per cent and matures in 2009. The Bank of Nova Scotia loan bears interest at the prevailing six-month LIBOR plus 0.50 per cent per annum and matures in 2008. The Scotiabank & Trust (Cayman) Limited loan bears interest at the prevailing six-month LIBOR plus 5.00 per cent per annum and matures in 2010.

Fortis Turks and Caicos
The First Caribbean International Bank debt consists of two loans, one bearing interest at a floating rate of 0.75 per cent above LIBOR and the other bearing interest at a fixed rate of 5.65 per cent per annum. The First Caribbean International Bank loans are due in 2007 and 2015. The Scotiabank (Turks and Caicos) Ltd. debt consists of three loans, bearing interest at a floating rate of 1.00 per cent above LIBOR, a fixed rate of 6.04 per cent per annum and a fixed rate of 6.10 per cent per annum. The Scotiabank (Turks and Caicos) Ltd. loans have maturity dates between 2013 and 2016.

Fortis Generation

BECOL
The BECOL term loan, bearing interest at the prevailing six-month LIBOR plus 4.00 per cent, 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.

Exploits Partnership
The Exploits Partnership non-recourse 25-year amortizing term loan bears interest at 7.55 per cent. A first, fixed and specific charge and security interest over all the assets of the Exploits Partnership and assignment of various agreements has been provided as security.

Walden Power Partnership
The WPP mortgage is secured by a fixed and floating charge over the assets of the WPP.

Fortis Properties

Fortis Properties' first mortgages 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 non-revolving credit facilities at Fortis Properties, bearing interest at Canadian Bankers' Acceptance rates, are secured by specific income producing properties. Fortis Properties is party to two interest rate swap contracts maturing on July 28, 2009 and October 15, 2010 to hedge against interest exposures on the non-revolving credit facilities. The contracts have the effect of fixing the rate of interest on the non-revolving credit facilities at 5.32 per cent and 6.16 per cent, respectively.

Fortis Properties has capital lease obligations which require future minimum lease payments of approximately $1.3 million in 2007 and a final payment of $1.5 million in 2008.

Fortis Inc.

The 7.40% 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 an 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 $10.71 per share (US$9.19 per share). The Debentures are subordinated to all other indebtedness of the Corporation, other than subordinated indebtedness ranking equally to the Debentures.

The 5.50% Unsecured Subordinated Convertible Debentures are redeemable by the Corporation at par at any time on or after May 20, 2008, and are convertible, at the option of the holder, into the Corporation's Common Shares at $13.95 per share (US$11.97 per share). The Debentures are subordinated to all other indebtedness of the Corporation, other than subordinated indebtedness ranking equally to the Debentures.

The 5.74% Senior Unsecured Notes have stated limitations for additional borrowings, dividend payments, share distributions and redemptions and the prepayment of subordinated debt.

On November 7, 2006, the Corporation issued, by way of private placement, US$40 million of Unsecured Subordinated Convertible Debentures bearing interest at 5.5 per cent per annum, due November 7, 2016. The Debentures are redeemable by the Corporation at par at any time on or after November 7, 2011, and are convertible, at the option of the holder, into the Corporation's Common Shares at $33.92 per share (US$29.11 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. The equity portion of convertible debentures was $7.2 million at December 31, 2006 (December 31, 2005 – $1.5 million).

Repayment of Long-Term Debt and Capital Lease Obligations

The consolidated annual requirements to meet principal repayments and maturities in each of the next five years are as follows:

2007	$ 84.8 million
2008	$ 66.7 million
2009	$ 140.3 million
2010	$ 309.3 million
2011	$ 83.5 million

December 31, 2006 and 2005

12. Deferred Credits

(in thousands)		**2006**		2005
Other post-employment benefit obligations *(Note 22)*	**$**	**51,517**	$	43,743
Supplementary defined benefit obligations *(Note 22)*		**12,188**		9,882
Customer deposits		**4,772**		2,483
Deferred gain on foreign currency swap contract		**2,784**		3,526
Trail lease costs *(Note 4 (xii))*		**1,691**		1,730
Other deferred credits		**6,035**		2,897
	$	**78,987**	$	64,261

13. Non-Controlling Interest

The non-controlling interest consists of the non-controlling interest in the net assets of Caribbean Utilities, Belize Electricity, Exploits Partnership and preference shares of Newfoundland Power.

(in thousands)		**2006**		2005
Caribbean Utilities *(Note 23)*	**$**	**78,803**	$	–
Belize Electricity		**42,206**		28,370
Exploits Partnership		**2,357**		3,989
Preference shares of Newfoundland Power		**7,139**		7,196
	$	**130,505**	$	39,555

14. 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		**2006**			2005		
	Balance Sheet Classification	**Number of Shares**		**Amount *(in thousands)***	Number of Shares		Amount *(in thousands)*
(i) First Preference Shares, Series C	Debt	**5,000,000**	**$**	**122,992**	5,000,000	$	122,992
(ii) First Preference Shares, Series E	Debt	**7,993,500**		**196,500**	7,993,500		196,500
Total classified as debt		**12,993,500**	**$**	**319,492**	12,993,500	$	319,492
(iii) First Preference Shares, Series F	Equity	**5,000,000**	**$**	**122,466**	–	$	–

(i) First Preference Shares, Series C

The First Preference Shares, Series C 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 First Preference Shares, Series C, 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 First Preference Shares, Series C 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 First Preference Share, Series C will be convertible at the option of the holder on the first day of September, December, March and June of each year into fully paid and freely tradable common shares determined by dividing $25.00, together with all accrued and unpaid dividends up to but excluding the date fixed for conversion, by the greater of

$1.00 and 95 per cent of the then-current market price of the common shares. If a holder of First Preference Shares, Series C elects to convert any of such shares into common shares, the Corporation can redeem such First Preference Shares, Series C for cash or arrange for the sale of those shares to substitute purchasers.

As the First Preference Shares, Series C are redeemable at the option of the shareholder, they meet the definition of a financial liability and, therefore, are classified as long-term liabilities with associated dividends classified as finance charges.

(ii) First Preference Shares, Series E

The First Preference Shares, Series E are entitled to receive fixed cumulative preferential cash dividends in the amount of $1.2250 per share per annum.

On or after June 1, 2013, the Corporation may, at its option, redeem all, or from time to time any part of, the outstanding First Preference Shares, Series E by the payment in cash of a sum per redeemed share equal to $25.75 if redeemed during the 12 months commencing June 1, 2013, $25.50 if redeemed during the 12 months commencing June 1, 2014, $25.25 if redeemed during the 12 months commencing June 1, 2015, and $25.00 if redeemed on or after June 1, 2016 plus, in each case, all accrued and unpaid dividends up to but excluding the date fixed for redemption.

On or after June 1, 2013, the Corporation may, at its option, convert all, or from time to time any part of the outstanding First Preference Shares, Series E 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 First Preference Share, Series E, 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 First Preference Share, Series E will be convertible at the option of the holder on the first business day of September, December, March and June of each year, into fully paid and freely tradable common shares determined by dividing $25.00, together with all accrued and unpaid dividends up to but excluding the date fixed for conversion, by the greater of $1.00 and 95 per cent of the then-current market price of the common shares. If a holder of First Preference Shares, Series E elects to convert any of such shares into common shares, the Corporation can redeem such First Preference Shares, Series E for cash or arrange for the sale of those shares to other purchasers.

As the First Preference Shares, Series E are redeemable at the option of the shareholder, they meet the definition of a financial liability and, therefore, are classified as long-term liabilities with associated dividends classified as finance charges.

(iii) First Preference Shares, Series F

On September 28, 2006, the Corporation issued 5,000,000 First Preference Shares, Series F at $25.00 per share for net after-tax proceeds of $122.5 million.

The First Preference Shares, Series F are entitled to receive fixed cumulative preferential cash dividends in the amount of $1.2250 per share per annum.

On or after December 1, 2011, the Corporation may, at its option, redeem for cash the First Preference Shares, Series F, in whole at any time or in part from time to time, at $26.00 per share if redeemed before December 1, 2012, at $25.75 per share if redeemed on or after December 1, 2012 but before December 1, 2013, at $25.50 per share if redeemed on or after December 1, 2013 but before December 1, 2014, at $25.25 per share if redeemed on or after December 1, 2014 but before December 1, 2015, and at $25.00 per share if redeemed on or after December 1, 2015 plus, in each case, all accrued and unpaid dividends up to but excluding the date fixed for redemption.

As the First Preference Shares, Series F are not redeemable at the option of the shareholder, they are classified as equity and the associated dividends are deducted on the statement of earnings immediately before arriving at net earnings applicable to common shares.

December 31, 2006 and 2005

15. Common Shares

Authorized: an unlimited number of Common Shares without nominal or par value.

Issued and Outstanding	**2006**		2005	
	Number of Shares	**Amount *(in thousands)***	Number of Shares	Amount *(in thousands)*
Common Shares	**104,091,542**	**$ 828,985**	103,203,981	$ 813,304

Common Shares issued during the year were as follows:

	2006		2005	
	Number of Shares	**Amount *(in thousands)***	Number of Shares	Amount *(in thousands)*
Opening balance	**103,203,981**	**$ 813,304**	95,529,292	$ 675,215
Public offering	–	–	6,960,000	126,072
Partial consideration in business acquisition *(Note 23)*	–	–	23,668	443
Consumer Share Purchase Plan	**77,213**	**1,896**	86,588	1,799
Dividend Reinvestment Plan	**176,264**	**4,342**	171,301	3,526
Employee Share Purchase Plan	**135,502**	**3,279**	151,724	3,088
Stock Option Plans	**498,582**	**6,164**	281,408	3,161
Ending balance	**104,091,542**	**$ 828,985**	103,203,981	$ 813,304

On March 1, 2005, Fortis issued 6,960,000 Common Shares of the Corporation at $18.66 per common share. The common share issue resulted in gross proceeds of approximately $130 million. Net proceeds after tax-effected issuance costs totalled $126.1 million. The proceeds of the issuance were used to pay outstanding indebtedness and for general corporate purposes.

On May 31, 2005, Fortis issued 23,668 Common Shares of the Corporation at a fair value of $18.71 per common share, the five-day average trading price of the Corporation's Common Shares for the last five trading days immediately preceding the acquisition, to the shareholders of PLP, combined with a cash payment, to acquire all of the issued and outstanding common and preference shares of PLP.

At December 31, 2006, 10,958,906 Common Shares remained reserved for issuance under the terms of the above-noted share purchase, dividend reinvestment and stock option plans.

As at December 31, 2006, $0.7 million (December 31, 2005 – $1.3 million) of common share equity had not been fully paid relating to amounts outstanding under employee share purchase and executive stock option loans.

Earnings per Common Share

The Corporation calculates earnings per common share on the weighted average number of common shares outstanding. The weighted average number of common shares outstanding was 103,578,222 and 101,749,758 for 2006 and 2005, respectively.

Diluted earnings per common share are calculated using the treasury stock method for options and the "if-converted" method for convertible securities.

Earnings per common share are as follows:

	2006			2005		
	Earnings *(in thousands)*	**Weighted Average Shares** *(in thousands)*	**Earnings per Common Share**	Earnings *(in thousands)*	Weighted Average Shares *(in thousands)*	Earnings per Common Share
Net earnings applicable to common shares	**$ 147,187**			$ 137,097		
Weighted average shares outstanding		**103,578**			101,750	
Basic Earnings per Common Share			**$ 1.42**			$ 1.35
Effect of dilutive securities:						
Stock options	**–**	**1,160**		–	1,046	
Preference Shares *(Notes 14 (i) and (ii) and 18)*	**16,606**	**14,096**		16,606	19,689	
Convertible debentures	**1,364**	**2,128**		1,104	1,925	
Diluted Earnings per Common Share	**$ 165,157**	**120,962**	**$ 1.37**	$ 154,807	124,410	$ 1.24

16. Stock-Based Compensation Plans

Stock Options

The Corporation is authorized to grant officers and certain key employees of Fortis Inc. and its subsidiaries options to purchase Common Shares of the Corporation. At December 31, 2006, the Corporation had the following stock option plans: 2006 Stock Option Plan ("2006 Plan"), 2002 Stock Option Plan ("2002 Plan") and Executive Stock Option Plan. The 2002 Plan was adopted at the Annual and Special General Meeting on May 15, 2002 to ultimately replace the Executive and the former Directors' Stock Option Plans. The Executive Stock Option Plan will cease to exist when all outstanding options are exercised or expire in or before 2011. The 2006 Plan was approved at the May 2, 2006 Annual Meeting at which Special Business was conducted. The 2006 Plan will ultimately replace the Executive Stock Option Plan and the 2002 Plan. The 2002 Plan will cease to exist when all outstanding options are exercised or expire in or before 2016. The Corporation has ceased to grant options under the Executive Stock Option Plan and 2002 Plan and all new options to be granted by Fortis will be granted under the 2006 Plan. Options granted under the 2006 Plan will have a maximum term of seven years, which is reduced from 10 years under the 2002 Plan, and will expire no later than three years after the termination, death or retirement of the optionee. Directors are not eligible to receive grants of options under the 2006 Plan.

Number of Options:	**2006**	2005
Options outstanding, beginning of year	**3,421,876**	2,882,588
Granted	**626,761**	845,720
Cancelled	**–**	(25,024)
Exercised	**(498,582)**	(281,408)
Options outstanding, end of year	**3,550,055**	3,421,876
Options vested, end of year	**1,739,759**	1,452,602

Weighted Average Exercise Prices:		
Outstanding, beginning of year	**$ 14.18**	$ 12.57
Granted	**22.94**	18.49
Cancelled	**–**	16.56
Exercised	**11.45**	10.44
Outstanding, end of year	**16.11**	14.18

16. Stock-Based Compensation Plans (cont'd)

Details of stock options outstanding as at December 31, 2006 are as follows:

Number of Options	Exercise Price	Expiry Date
209,984	$ 9.57	2011
515,148	$ 12.03	2012
627,500	$ 12.81	2013
675,648	$ 15.28	2014
12,000	$ 15.23	2014
68,557	$ 14.55	2014
752,717	$ 18.40	2015
28,000	$ 18.11	2015
33,740	$ 20.82	2015
626,761	$ 22.94	2016
3,550,055		

Details of stock options vested as at December 31, 2006 are as follows:

Number of Options	Exercise Price	Expiry Date
209,984	$ 9.57	2011
515,148	$ 12.03	2012
453,020	$ 12.81	2013
329,628	$ 15.28	2014
6,000	$ 15.23	2014
29,467	$ 14.55	2014
181,077	$ 18.40	2015
7,000	$ 18.11	2015
8,435	$ 20.82	2015
1,739,759		

The weighted average exercise price of stock options vested as at December 31, 2006 was $13.34.

On February 28, 2006, the Corporation granted 626,761 options on Common Shares under its 2002 Stock Option Plan at the five-day average trading price immediately preceding the date of grant of $22.94. These options vest evenly over a four-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 $3.90 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:

	February 28, 2006
Dividend yield (%)	3.02
Expected volatility (%)	16.7
Risk-free interest rate (%)	4.12
Weighted-average expected life (years)	7.5

Under the fair value method, compensation expense associated with stock options was $2.0 million for the year ended December 31, 2006 (2005 – $1.6 million).

Directors' DSU Plan

In 2004, the Corporation introduced the Directors' DSU Plan as an optional vehicle for directors to elect to receive credit of their annual retainer to a notional account of DSUs in lieu of cash. The Corporation may also determine from time to time that special circumstances exist that would reasonably justify the grant of DSUs to a director as compensation in addition to any regular retainer or fee to which the director is entitled.

Each DSU represents a unit with an underlying value equivalent to the value of the Common Shares of the Corporation. DSUs are credited to participating directors as of January 1st of each year by dividing the total applicable annual retainer by the daily average of the high and low board lot trading prices of the Common Shares for the last five trading days immediately preceding the date of grant of the DSUs. Notional dividends are assumed to accrue to the holder of the DSU and be reinvested on the quarterly dividend payment dates of the Corporation's Common Shares. Upon retirement from the Board of Directors, a director participant in the DSU Plan will receive a cash payment equivalent to the number of DSUs credited to the notional account multiplied by the daily average of the high and low board lot trading prices of the Corporation's Common Shares for the last five trading days immediately preceding the date of payment.

Number of DSUs:	**2006**	2005
DSUs outstanding, beginning of year	**24,986**	13,312
Granted	**22,101**	10,998
Dividends credited	**1,198**	676
DSUs paid out	**(1,326)**	–
DSUs outstanding, end of year	**46,959**	24,986

For the year ended December 31, 2006, expenses of $0.8 million were recorded in relation to the Directors' DSU Plan (2005 – $0.4 million).

RSU Plan

In 2004, the Corporation introduced the RSU Plan, which is included as a component of the long-term incentives awarded only to the President and Chief Executive Officer ("CEO") of the Corporation. Each RSU represents a unit with an underlying value equivalent to the value of the Common Shares of the Corporation. Notional dividends are assumed to accrue to the holder of the RSU and be reinvested on the quarterly dividend payment dates of the Corporation's Common Shares. The RSU maturation period is three years from the date of grant, at which time a cash payment is made to the President and CEO based on the number of RSUs outstanding multiplied by the daily average of the high and low board lot trading prices of the Corporation's Common Shares for the last five trading days immediately preceding the date of payment.

Number of RSUs:	**2006**	2005
RSUs outstanding, beginning of year	**36,855**	19,428
Granted	**28,400**	16,520
Dividends credited	**1,590**	907
RSUs outstanding, end of year	**66,845**	36,855

For the year ended December 31, 2006, expenses of $0.7 million were recorded in relation to the RSU Plan (2005 – $0.3 million).

December 31, 2006 and 2005

17. Foreign Currency Translation Adjustment

(in thousands)	2006	2005
Balance, beginning of year	**$ (16,312)**	$ (15,497)
Effect of exchange rate changes on the translation of foreign net investments	**(30,061)**	(4,666)
Effect of exchange rate changes on the translation of long-term debt hedged against foreign net investments	**(5,135)**	3,851
Balance, end of year	**$ (51,508)**	$ (16,312)

On November 7, 2006, the Corporation, through a wholly owned subsidiary, acquired approximately an additional 16 per cent ownership interest in Caribbean Utilities and now holds an approximate 54 per cent controlling interest in the Company. On this date, $39.3 million was charged to the foreign currency translation adjustment account, representing the impact of the appreciation of the Canadian dollar relative to the US dollar between the original share purchase dates and the recording of the net investment in Caribbean Utilities as a self-sustaining foreign operation, effective November 7, 2006.

18. Finance Charges

(in thousands)	2006	2005
Amortization of debt and stock issue expenses	**$ 683**	$ 1,093
Interest – Long-term debt and capital lease obligations	**154,308**	142,710
– Short-term borrowings	**6,339**	5,912
Interest charged to construction *(Note 2)*	**(4,389)**	(6,727)
Interest earned	**(3,493)**	(3,434)
Unrealized foreign exchange gain on long-term debt	**(1,725)**	(2,335)
Dividends on preference shares *(Notes 14 (i) and (ii) and 15)*	**16,606**	16,606
	$ 168,329	$ 153,825

19. Gain on Sale of Income Producing Property

On June 28, 2006, Fortis Properties sold the Days Inn Sydney for gross proceeds of $4.5 million, resulting in a $2.1 million ($1.6 million after-tax) gain.

20. Gain on Settlement of Contractual Matters

In the first quarter of 2005, Fortis recorded a $10.0 million ($7.9 million after-tax) gain resulting from the settlement of contractual matters between FortisOntario Inc. and OPGI.

21. Corporate Taxes

Corporate taxes differ from the amount that would be expected by applying the enacted Canadian federal and provincial statutory tax rates to earnings before corporate taxes. The following is a reconciliation of the consolidated statutory tax rate to the consolidated effective tax rate:

(%)	**2006**	2005
Statutory tax rate	**35.2**	35.3
Preference share dividends	**3.2**	2.8
Large corporations' tax	**–**	2.1
Difference between Canadian statutory rates and those applicable to foreign subsidiaries	**(6.8)**	(3.6)
Items capitalized for accounting but expensed for income tax purposes	**(10.7)**	(0.1)
Other timing differences	**(1.2)**	(1.6)
Impact of reduction in income tax rates on future income tax balances	**(2.4)**	–
Change in revenue recognition policy at Newfoundland Power *(Note 2)*	**0.8**	–
Maritime Electric tax reassessment *(Note 28 (a))*	**0.9**	–
Cornwall Electric tax reassessment	**–**	(0.8)
Pension costs	**(0.4)**	(0.8)
Other	**(1.4)**	(0.4)
Effective tax rate	**17.2**	32.9

The AEUB-approved 2006/2007 Negotiated Settlement Agreement, effective January 1, 2006, resulted in a change in the income tax methodology used at FortisAlberta whereby future income tax expense for federal income tax, associated with specified timing differences, is no longer being recognized. The effect of the change in income tax methodology has been a decrease in income tax expense during the year compared to 2005, primarily associated with the timing of recognition for income tax purposes of those items capitalized for accounting purposes (Note 2).

The components of the provision for corporate taxes are as follows:

(in thousands)	**2006**	2005
Canadian		
Current taxes	**$ 19,495**	$ 55,768
Future income taxes	**9,697**	11,792
	29,192	67,560
Foreign		
Current taxes	**2,786**	2,326
Future income taxes	**560**	530
	3,346	2,856
Corporate tax expense	**$ 32,538**	$ 70,416

21. Corporate Taxes (cont'd)

Future income taxes are provided for temporary differences. Future income tax assets and liabilities are comprised of the following:

(in thousands)	**2006**	2005
Future income tax liability (asset)		
Utility capital assets and income producing properties	**$ 45,869**	$ (9,570)
ECAM	**4,370**	5,123
Other regulatory assets and liabilities	**10,980**	3,826
Intangible assets	**3,449**	5,067
Tenant inducements	**2,171**	2,382
Deferred charges	**954**	981
Employee future benefits	**(8,873)**	(8,400)
Losses carried forward	**(8,378)**	(8,151)
Share issue and debt financing costs	**(930)**	(2,010)
Other	**2,031**	3,369
Net future income tax liability (asset)	**$ 51,643**	$ (7,383)
Current future income tax liability	**$ 959**	$ 6,714
Long-term future income tax asset	**(7,053)**	(58,815)
Long-term future income tax liability	**57,737**	44,718
Net future income tax liability (asset)	**$ 51,643**	$ (7,383)

As at December 31, 2006, the Corporation had approximately $24.4 million (2005 – $26.7 million) in non-capital and capital losses carried forward, of which $0.3 million (2005 – $0.6 million) in capital losses has not been recognized in the financial statements. The non-capital loss carry forwards expire between 2008 and 2016.

22. Employee Future Benefits

The Corporation and its subsidiaries each maintain one or a combination of defined benefit pension plans, defined contribution pension plans and group RRSPs for its employees. The Corporation, FortisAlberta, FortisBC, Newfoundland Power, Maritime Electric and FortisOntario also offer other post-employment benefit plans for qualifying employees.

For the defined benefit pension arrangements, the accrued benefit obligation and the market-related value or fair value of plan assets are measured for accounting purposes as at December 31st of each year for the Corporation and Newfoundland Power; as at September 30th of each year for FortisAlberta, FortisBC and FortisOntario; and as at April 30th of each year for Caribbean Utilities. The most recent actuarial valuation of the pension plans for funding purposes was as of December 31, 2003 for FortisOntario; as of December 31, 2004 for FortisAlberta and FortisBC; as of December 31, 2005 for the Corporation and Newfoundland Power; and as of April 30, 2006 for Caribbean Utilities. The next required valuations will be, at the latest, three 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 31st *(%)*	**2006**	2005
Canadian equities	**45**	46
Fixed income	**39**	38
Foreign equities	**15**	14
Real estate	**1**	1
Cash	**–**	1
	100	100

The following is a breakdown of the Corporation's defined benefit pension plans and their respective funded or unfunded status:

				2006			
($ thousands)	**Fortis Alberta**	**FortisBC**	**NF Power**	**Fortis Ontario**	**Caribbean Utilities**	**Fortis Inc.**	**Total**
Accrued benefit obligation	**21,275**	**117,928**	**239,176**	**24,928**	**5,796**	**4,266**	**413,369**
Plan assets	**18,560**	**94,714**	**250,226**	**20,970**	**2,370**	**3,752**	**390,592**
Funded (unfunded)	**(2,715)**	**(23,214)**	**11,050**	**(3,958)**	**(3,426)**	**(514)**	**(22,777)**

				2005			
($ thousands)	Fortis Alberta	FortisBC	NF Power	Fortis Ontario	Caribbean Utilities	Fortis Inc.	Total
Accrued benefit obligation	19,815	114,324	226,725	24,708	–	4,218	389,790
Plan assets	17,285	86,136	223,370	19,896	–	3,261	349,948
Unfunded	(2,530)	(28,188)	(3,355)	(4,812)	–	(957)	(39,842)

December 31, 2006 and 2005

22. Employee Future Benefits (cont'd)

	Defined Benefit Pension Plans Funded		Supplementary Defined Benefit Plans Unfunded		Other Post-Employment Benefit Plans Unfunded	
(in thousands, except as indicated)	**2006**	2005	**2006**	2005	**2006**	2005
Change in accrued benefit obligation						
Balance, beginning of year	**$ 389,790**	$ 317,145	**$ 13,887**	$ 13,191	**$ 102,617**	$ 82,442
Liability associated with acquisitions	**5,796**	–	**–**	–	**–**	–
Current service costs	**7,480**	5,387	**673**	470	**2,769**	1,680
Employee contributions	**3,418**	3,077	**–**	–	**–**	–
Interest costs	**19,948**	19,756	**819**	727	**5,272**	4,856
Benefits paid	**(18,610)**	(17,557)	**(419)**	(386)	**(4,118)**	(2,221)
Actuarial loss (gain)	**1,912**	50,070	**235**	(115)	**1,989**	15,762
Plan amendments	**3,538**	11,277	**1,517**	–	**–**	98
Special termination benefits	**–**	635	**–**	–	**–**	–
Net transfers in	**97**	–	**–**	–	**–**	–
Balance, end of year	**$ 413,369**	$ 389,790	**$ 16,712**	$ 13,887	**$ 108,529**	$ 102,617
Change in value of plan assets						
Balance, beginning of year	**$ 349,948**	$ 308,983	**$ –**	$ –	**$ –**	$ –
Assets associated with acquisitions	**2,370**	–	**–**	–	**–**	–
Actual return on plan assets	**35,361**	42,768	**–**	–	**–**	–
Benefits paid	**(18,610)**	(17,557)	**(419)**	(386)	**(4,118)**	(2,221)
Employee contributions	**3,418**	3,077	**–**	–	**–**	–
Employer contributions	**18,008**	12,677	**419**	386	**4,118**	2,221
Net transfers in	**97**	–	**–**	–	**–**	–
Balance, end of year	**$ 390,592**	$ 349,948	**$ –**	$ –	**$ –**	$ –
Funded status						
Deficit, end of year	**$ (22,777)**	$ (39,842)	**$ (16,712)**	$ (13,887)	**$ (108,529)**	$ (102,617)
Unamortized net actuarial loss	**85,354**	98,940	**3,026**	3,303	**38,210**	38,254
Unamortized past service costs	**17,689**	13,748	**986**	–	**274**	319
Unamortized transitional obligation	**20,724**	23,047	**512**	702	**18,384**	20,176
Employer contributions after measurement date	**1,058**	1,301	**–**	–	**144**	125
Accrued benefit asset (liability), end of year *(Notes 5 and 12)*	**$ 102,048**	$ 97,194	**$ (12,188)**	$ (9,882)	**$ (51,517)**	$ (43,743)
Significant assumptions						
Discount rate during year *(%)*	**5.00–5.25**	6.00–6.25	**5.00–5.25**	6.00–6.25	**5.00–5.25**	6.00–6.25
Discount rate as at December 31st *(%)*	**5.00–5.25**	5.00–5.25	**5.25**	5.00–5.25	**5.00–5.25**	5.00–5.25
Expected long-term rate of return on plan assets *(%)*	**6.50–7.50**	7.00–7.50	**–**	–	**–**	–
Rate of compensation increase *(%)*	**3.50–4.00**	3.50–4.50	**3.50–4.00**	3.50–4.50	**3.50–4.00**	3.50–4.00
Health care cost trend increase as at December 31st *(%)*	**–**	–	**–**	–	**4.50–10.00**	4.50–10.00
Expected average remaining service life of active employees *(years)*	**12–15**	12–16	**3–15**	4–16	**11–17**	12–17

	Defined Benefit Pension Plans Funded		Supplementary Defined Benefit Plans Unfunded		Other Post-Employment Benefit Plans Unfunded	
(in thousands)	**2006**	2005	**2006**	2005	**2006**	2005
Components of net benefit expense						
Current service costs	**$ 7,480**	$ 5,387	**$ 673**	$ 470	**$ 2,769**	$ 1,680
Interest costs	**19,948**	19,756	**819**	727	**5,272**	4,856
Actual return on plan assets	**(35,361)**	(42,768)	**–**	–	**–**	–
Actuarial loss (gain)	**1,912**	50,070	**235**	(115)	**1,989**	15,762
Costs arising in the year	**(6,021)**	32,445	**1,727**	1,082	**10,030**	22,298
Differences between costs arising and costs recognized in the year in respect of:						
Return on plan assets	**10,692**	20,432	**–**	–	**–**	–
Actuarial gain (loss)	**3,547**	(46,609)	**277**	279	**44**	(14,694)
Past service costs	**2,079**	1,345	**532**	–	**–**	–
Special termination benefits	**–**	635	**–**	–	**–**	–
Transitional obligation and amendments	**2,323**	2,325	**190**	191	**1,838**	1,838
Settlements and curtailments	**–**	49	**–**	–	**–**	–
Regulatory adjustment	**(1,531)**	(40)	**(463)**	30	**(5,552)**	(5,425)
Net benefit expense	**$ 11,089**	$ 10,582	**$ 2,263**	$ 1,582	**$ 6,360**	$ 4,017

For 2006, the effects of changing the health care cost trend rate by a 1 per cent increase and a 1 per cent decrease are as follows:

(in thousands)	**1 per cent increase in rate**	**1 per cent decrease in rate**
Increase (decrease) in accrued benefit obligation	**$ 18,054**	**$ (14,386)**
Increase (decrease) in service and interest costs	**$ 1,534**	**$ (1,140)**

During 2006, the Corporation expensed $4.0 million (2005 – $3.5 million) related to defined contribution pension plans.

23. Business Acquisitions

2006

Caribbean Utilities

On November 7, 2006, Fortis, through a wholly owned subsidiary, acquired an aggregate of 4,113,116 of the outstanding Class A Ordinary Shares of Caribbean Utilities for US$11.89 per share under a private agreement with International Power Holdings Ltd. ("IPHL") and four other vendors affiliated with IPHL. The aggregate purchase price of $55.7 million (US$49.0 million), including acquisition costs, was financed through cash consideration from the issuance of US$40 million Unsecured Subordinated Convertible Debentures, combined with drawings on the Corporation's credit facilities.

Following this acquisition, Fortis controls Caribbean Utilities by beneficially owning 13,565,511, or approximately 54 per cent, of the outstanding Class A Ordinary Shares of Caribbean Utilities.

The acquisition has been accounted for using the purchase method. Caribbean Utilities' balance sheet as at November 7, 2006 has been consolidated in the December 31, 2006 balance sheet of Fortis. Beginning with the first quarter of 2007, Fortis will consolidate Caribbean Utilities' financial statements on a two-month lag basis and will include Caribbean Utilities' January 31, 2007 balance sheet and statements of earnings and cash flows for the three-month period ended January 31, 2007. During 2006 and 2005, the statement of earnings of Fortis reflected the Corporation's previous approximate 37 per cent ownership interest in Caribbean Utilities, previously accounted for on a two-month equity lag basis. Caribbean Utilities' financial results are reported in the Corporation's Regulated Utilities – Caribbean operating segment.

23. Business Acquisitions (cont'd)

The determination of revenues and earnings of Caribbean Utilities is based on a regulated rate of return that is applied to historic values and does not change with a change of ownership. Therefore, no fair market value adjustments were recorded as part of the purchase price on those net assets included in the defined asset base upon which the Company is permitted to earn a regulated rate of return, as all economic benefits associated with them beyond the regulated rate of return will accrue to customers. The book value of the net assets included in the defined asset base has been assigned as fair value for purchase price allocation. The book value of net assets not included in the defined asset base approximate fair value. Therefore, no fair market value adjustments have been recorded as part of the purchase price associated with these items.

The Corporation has accounted for the acquisition of the controlling interest in Caribbean Utilities as a two-step acquisition for the purpose of purchase price allocation and the assigning of costs to identifiable assets, goodwill and intangible assets, if any.

Upon acquiring additional Class A Ordinary Shares of Caribbean Utilities in January 2003, the Corporation's ownership interest in Caribbean Utilities increased to approximately 37 per cent. As of January 2003, this investment was accounted for on an equity basis and, therefore, was considered the first step in the two-step acquisition process. Previous to January 2003, the Corporation's approximate 22 per cent ownership interest in Caribbean Utilities was accounted for on a cost basis. On November 7, 2006, the Corporation increased its ownership interest in Caribbean Utilities to approximately 54 per cent, representing a controlling interest in the Company and, therefore, was considered the second step in the two-step acquisition process.

The total purchase price allocation, subject to final adjustments, if any, to be made by September 30, 2007, is estimated as follows:

(in thousands)	
Fair value assigned to net assets:	
Utility capital assets	**$ 318,587**
Current assets	**29,704**
Goodwill	**105,859**
Regulatory assets	**13,367**
Other assets	**1,850**
Current liabilities	**(28,764)**
Assumed long-term debt (including current portion)	**(178,146)**
Non-controlling interest	**(76,836)**
Other liabilities	**(190)**
	185,431
Cash	**2,676**
	$ 188,107

Fortis Turks and Caicos

On August 28, 2006, Fortis, through a wholly owned subsidiary, acquired all issued and outstanding common shares of P.P.C. Limited and Atlantic Equipment & Power (Turks and Caicos) Ltd. (collectively referred to as "Fortis Turks and Caicos") for aggregate consideration of approximately $97.7 million (US$87.8 million). The purchase price, net of assumed debt and acquisition costs, of $75.6 million (US$68.0 million) was initially financed, through cash consideration, by way of drawings on the Corporation's credit facilities that were repaid in part, with partial proceeds from the issuance of First Preference Shares, Series F of Fortis on September 28, 2006.

The acquisition has been accounted for using the purchase method, whereby the results of full operations of Fortis Turks and Caicos have been included in the consolidated financial statements of Fortis in the Regulated Utilities – Caribbean segment, commencing August 28, 2006. The determination of revenues and earnings of Fortis Turks and Caicos is based on a regulated rate of return that is applied to historic values and does not change with a change of ownership. Therefore, no fair market value adjustments were recorded as part of the purchase price on those net assets included in the defined asset base upon which the Company is permitted to earn a regulated rate of return, as all economic benefits associated with them beyond the regulated rate of return will accrue to customers. The book value of the net assets included in the defined asset base has been assigned as fair value for purchase price allocation. The book value of net assets not included in the defined asset base approximate fair value. Therefore, no fair market value adjustments have been recorded as part of the purchase price associated with these items.

The purchase price allocation, subject to final adjustments, if any, to be made by June 30, 2007, is estimated as follows:

(in thousands)	PPC	Atlantic	Total
Fair value assigned to net assets:			
Utility capital assets	$ 45,196	$ 605	**$ 45,801**
Current assets	17,787	815	**18,602**
Goodwill	38,747	–	**38,747**
Other assets	905	–	**905**
Current liabilities	(3,162)	(105)	**(3,267)**
Assumed long-term debt (including current portion)	(22,072)	–	**(22,072)**
Other liabilities	(2,057)	(1,075)	**(3,132)**
	$ 75,344	$ 240	**$ 75,584**

Fortis Properties

On November 1, 2006, Fortis Properties purchased assets comprised of four hotels in Alberta and British Columbia for an aggregate cash purchase price of approximately $52.0 million, including assumed debt and acquisition costs. The four hotels were the Holiday Inn Express and Suites, and Best Western in Medicine Hat, Alberta; Ramada Hotel and Suites in Lethbridge, Alberta; and Holiday Inn Express in Kelowna, British Columbia.

The acquisition has been accounted for using the purchase method, whereby the results of full operations of the hotels have been included in the consolidated financial statements of Fortis from the date of acquisition, commencing November 1, 2006.

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	**$ 51,803**
Other assets	**362**
Other liabilities	**(245)**
Assumed long-term debt (including current portion)	**(11,571)**
	$ 40,349

2005

Acquisition of Princeton Light and Power Company, Limited

On May 31, 2005, Fortis, through an indirect wholly owned subsidiary, acquired all issued and outstanding common and preference shares of PLP for an aggregate purchase price of $3.7 million. PLP is an electric utility that serves approximately 3,500 customers, mainly in Princeton, British Columbia. Effective January 1, 2007, PLP was amalgamated with FortisBC Inc. as part of an internal corporate reorganization.

The acquisition was financed through a combination of cash consideration of $3.3 million and the issuance of 23,668 Common Shares of the Corporation at a fair value of $18.71 per common share, the five-day average trading price of the Corporation's Common Shares for the last five trading days immediately preceding the acquisition.

The acquisition has been accounted for using the purchase method, whereby the results of full operations of PLP have been included in the consolidated financial statements of Fortis in the Regulated Utilities – Canadian segment, commencing May 31, 2005. The determination of revenues and earnings of PLP is based on a regulated rate of return that is applied to historic values and does not change with a change of ownership. Therefore, no fair market value adjustments were recorded as part of the purchase price on individual assets and liabilities because all economic benefits and obligations associated with them beyond the regulated rate of return will accrue to customers. The book value of PLP's assets and liabilities has been assigned as fair value for purchase price allocation.

23. Business Acquisitions (cont'd)

The purchase price allocation to net assets, based on their fair values, is as follows:

(in thousands)		
Fair value assigned to net assets:		
Utility capital assets	$	6,381
Current assets		1,168
Goodwill		1,210
Other assets		445
Current liabilities		(1,109)
Assumed long-term debt (including current portion)		(3,990)
Future income taxes		(329)
Other liabilities		(75)
	$	3,701

Fortis Properties

On February 1, 2005, Fortis Properties purchased assets comprising the businesses of one Greenwood Inn hotel in Manitoba and two Greenwood Inn hotels in Alberta for cash consideration of $62.8 million. The acquisition has been accounted for using the purchase method, whereby the results of full operations of the hotels have been included in the consolidated financial statements of Fortis from the date of acquisition, commencing February 1, 2005.

The purchase price allocation to net assets, based on their fair values, is as follows:

(in thousands)		
Fair value assigned to net assets:		
Income producing properties	$	62,600
Other assets		229
Other liabilities		(69)
	$	62,760

24. a) Segmented Information

Information by reportable segment is as follows:

Year ended December 31, 2006 *(in thousands of dollars)*	Regulated Utilities Fortis Alberta	Fortis BC	NF Power	Maritime Electric	Fortis Ontario	Total Canadian	Total Caribbean[1]	Non-Regulated Fortis Generation	Fortis Properties	Corporate	Inter-segment elimi-nations	Consoli-dated
Operating revenues	**250,776**	**215,618**	**421,264**	**122,407**	**130,034**	**1,140,099**	**101,039**	**79,387**	**162,928**	**9,037**	**(30,492)**	**1,461,998**
Equity income	**–**	**–**	**–**	**–**	**–**	**–**	**9,738**	**–**	**–**	**–**	**–**	**9,738**
Energy supply costs	**–**	**67,576**	**257,157**	**72,980**	**97,762**	**495,475**	**56,823**	**6,233**	**–**	**–**	**(18,046)**	**540,485**
Operating expenses	**115,230**	**63,103**	**53,996**	**12,828**	**14,642**	**259,799**	**12,778**	**15,150**	**105,323**	**10,592**	**(5,055)**	**398,587**
Amortization	**68,766**	**27,333**	**33,129**	**10,148**	**5,407**	**144,783**	**6,807**	**10,496**	**12,456**	**2,969**	**–**	**177,511**
Operating income	**66,780**	**57,606**	**76,982**	**26,451**	**12,223**	**240,042**	**34,369**	**47,508**	**45,149**	**(4,524)**	**(7,391)**	**355,153**
Finance charges	**30,118**	**23,423**	**32,677**	**10,255**	**5,074**	**101,547**	**4,742**	**10,013**	**20,973**	**38,445**	**(7,391)**	**168,329**
Gain on sale of income producing property	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(2,088)**	**–**	**–**	**(2,088)**
Corporate taxes	**(4,734)**	**6,767**	**13,639**	**6,429**	**3,082**	**25,183**	**1,525**	**8,125**	**7,563**	**(9,858)**	**–**	**32,538**
Non-controlling interest	**–**	**–**	**588**	**–**	**–**	**588**	**4,490**	**2,690**	**–**	**(166)**	**–**	**7,602**
Net earnings (loss)	**41,396**	**27,416**	**30,078**	**9,767**	**4,067**	**112,724**	**23,612**	**26,680**	**18,701**	**(32,945)**	**–**	**148,772**
Preference share dividends	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,585**	**–**	**1,585**
Net earnings (loss) applicable to common shares	**41,396**	**27,416**	**30,078**	**9,767**	**4,067**	**112,724**	**23,612**	**26,680**	**18,701**	**(34,530)**	**–**	**147,187**
Goodwill	**228,615**	**220,719**	**–**	**19,858**	**42,947**	**512,139**	**149,172**	**–**	**–**	**–**	**–**	**661,311**
Identifiable assets	**1,158,546**	**809,923**	**936,300**	**317,331**	**128,653**	**3,350,753**	**678,803**	**245,854**	**485,732**	**43,368**	**(18,380)**	**4,786,130**
Total assets	**1,387,161**	**1,030,642**	**936,300**	**337,189**	**171,600**	**3,862,892**	**827,975**	**245,854**	**485,732**	**43,368**	**(18,380)**	**5,447,441**
Capital expenditures	**243,151**	**110,914**	**60,235**	**26,853**	**10,357**	**451,510**	**26,764**	**3,153**	**16,887**	**1,676**	**–**	**499,990**
Year ended December 31, 2005 *(in thousands of dollars)*												
Operating revenues	259,775	194,765	419,963	116,693	139,668	1,130,864	75,790	83,955	154,403	9,977	(24,984)	1,430,005
Equity income	–	–	–	–	–	–	11,466	–	–	–	–	11,466
Energy supply costs	–	60,412	255,954	71,568	110,164	498,098	40,845	6,204	–	–	(11,232)	533,915
Operating expenses	113,006	64,738	53,812	12,535	14,520	258,611	10,725	17,812	99,967	9,490	(4,225)	392,380
Amortization	61,395	19,038	32,143	9,670	5,100	127,346	5,770	10,380	11,244	2,882	–	157,622
Operating income	85,374	50,577	78,054	22,920	9,884	246,809	29,916	49,559	43,192	(2,395)	(9,527)	357,554
Finance charges	24,198	18,513	31,369	7,614	5,058	86,752	5,614	14,051	19,988	36,947	(9,527)	153,825
Gain on settlement of contractual matters	–	–	–	–	–	–	–	(10,000)	–	–	–	(10,000)
Corporate taxes	25,105	7,424	15,368	6,224	493	54,614	1,261	13,811	9,077	(8,347)	–	70,416
Non-controlling interest	–	–	588	–	–	588	3,610	2,183	–	(165)	–	6,216
Net earnings (loss) applicable to common shares	36,071	24,640	30,729	9,082	4,333	104,855	19,431	29,514	14,127	(30,830)	–	137,097
Goodwill	228,615	220,719	–	19,858	42,947	512,139	–	–	–	–	–	512,139
Identifiable assets	970,738	722,392	895,892	290,356	120,867	3,000,245	212,157	267,049	427,753	41,655	(28,702)	3,920,157
Equity investment assets	–	–	–	–	–	–	164,808	–	–	–	–	164,808
Total assets	1,199,353	943,111	895,892	310,214	163,814	3,512,384	376,965	267,049	427,753	41,655	(28,702)	4,597,104
Capital expenditures	164,962	115,989	55,399	40,369	10,913	387,632	15,197	19,310	21,275	2,615	–	446,029

[1] Includes Belize Electricity, Fortis Turks and Caicos, and Caribbean Utilities in Grand Cayman.

December 31, 2006 and 2005

24. b) Inter-Segment Transactions

Inter-segment transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. The significant inter-segment transactions primarily related to the sale of energy from Fortis Generation to Belize Electricity and FortisOntario, electricity sales from Newfoundland Power to Fortis Properties and finance charges on inter-segment borrowings. The significant inter-segment transactions during the year were as follows:

(in thousands)	**2006**	2005
Sales from Fortis Generation to Belize Electricity	**$ 16,629**	$ 8,217
Sales from Fortis Generation to FortisOntario	**1,481**	2,032
Sales from Newfoundland Power to Fortis Properties	**3,422**	3,474
Inter-segment finance charges on borrowings from:		
Corporate to Fortis Properties	**4,751**	3,763
Corporate to Fortis Generation	**–**	2,222
Fortis Generation to Belize Electricity	**742**	2,266

25. Supplementary Information to Consolidated Statements of Cash Flows

(in thousands)	**2006**	2005
Interest paid	**$ 160,931**	$ 146,687
Income taxes paid	**$ 54,498**	$ 38,281

26. 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 and capital lease obligations is estimated using present value techniques based on current pricing of financial instruments with comparable terms. 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. The fair value of preference shares is determined using quoted market prices. The fair value of interest rate swap contracts reflects the estimated amount that the Corporation would have to pay if forced to settle all outstanding contracts at year end. This fair value reflects a point-in-time estimate that may not be relevant in predicting the Corporation's future earnings or cash flows.

The carrying and fair values of the Corporation's long-term debt and capital lease obligations, preference shares and interest rate swap contracts as at December 31st were as follows.

	2006		2005	
(in millions)	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
Long-term debt and capital lease obligations *(Note 11)*	**$ 2,643.2**	**$ 2,968.6**	$ 2,167.1	$ 2,492.6
Preference shares *(Note 14)* (1)	**442.0**	**483.9**	319.5	369.1
Interest rate swap contracts	**–**	**(0.5)**	–	(0.9)

(1) Includes preference shares classified as both equity and long-term liabilities

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 net investments by entering into offsetting forward exchange contracts and through the use of US dollar borrowings. The Corporation does not hold or issue derivative financial instruments for trading purposes.

The Corporation's earnings from its foreign net investments are exposed to changes in US dollar exchange rates. The Corporation has effectively decreased its exposure to foreign currency exchange rate fluctuations associated with earnings from its foreign net investments through the use of US dollar borrowings.

Prior to the acquisition of Fortis Turks and Caicos in August 2006 and controlling interest in Caribbean Utilities in November 2006, the Corporation's earnings were impacted by foreign currency exchange rate fluctuations associated with the translation of US dollar borrowings not designated as a hedge against the Corporation's foreign net investments. Immediately prior to the acquisition of Fortis Turks and Caicos, Fortis had US$32 million (December 31, 2005 – US$55 million) of US dollar borrowings in excess of the Corporation's foreign net investments, which did not qualify for hedge accounting. Consequently, fluctuations in the carrying value of this debt, resulting from foreign currency exchange rate fluctuations, were recorded in earnings in each reporting period. The Corporation recorded an unrealized foreign exchange gain of $2.1 million up to August 2006 on US dollar borrowings not in a hedging relationship.

The Corporation's foreign net investments increased upon the acquisition of Fortis Turks and Caicos, thereby allowing the US$32 million and the incremental US dollar borrowings associated with the acquisition of Fortis Turks and Caicos to be designated as a hedge against this foreign net investment. The US dollar debt associated with the acquisition of a controlling interest in Caribbean Utilities qualified for hedge accounting and was designated as a hedge against this foreign net investment. Previously, the Corporation's equity accounted investment in Caribbean Utilities did not qualify for hedge accounting purposes as a foreign net investment. As at December 31, 2006, all of the Corporation's US$258.6 million of long-term debt had been designated as a hedge of a portion of the Corporation's foreign net investments. Foreign currency exchange rate fluctuations associated with the translation of the Corporation's US dollar borrowings designated as hedges are recorded in the Corporation's foreign currency translation adjustment account in shareholders' equity. As at December 31, 2006, the Corporation had approximately US$121 million in foreign net investments available to be hedged.

Interest Rate Risk

Long-term debt is primarily issued at fixed interest rates, thereby minimizing cash flow and interest rate exposure. The Corporation is primarily subject to risks associated with fluctuating interest rates on its short-term borrowings and other variable interest credit facilities. The Corporation designates its interest rate swap contracts 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 of the Corporation.

December 31, 2006 and 2005

27. Commitments

(in millions)	**Total**	< 1 year	1–3 years	4–5 years	> 5 years
Power purchase obligations					
FortisBC (1)	**$ 2,884.6**	$ 38.6	$ 74.1	$ 76.0	$ 2,695.9
FortisOntario (2)	**310.7**	21.9	42.7	44.5	201.6
Maritime Electric (3)	**38.7**	30.1	8.6	–	–
Belize Electricity (4)	**20.2**	2.7	3.4	2.3	11.8
Capital cost (5)	**426.5**	15.7	27.9	35.4	347.5
Joint-use asset and shared service agreements (6)	**64.5**	3.8	7.7	6.7	46.3
Office lease – FortisBC (7)	**21.7**	1.1	2.6	2.4	15.6
Caribbean Utilities (8)	**19.2**	7.7	11.5	–	–
Operating lease obligations (9)	**18.0**	4.5	7.6	5.2	0.7
Other	**1.4**	0.1	0.1	0.1	1.1
Total	**$ 3,805.5**	$ 126.2	$ 186.2	$ 172.6	$ 3,320.5

(1) Power purchase obligations of FortisBC include the Brilliant Power Purchase Agreement (the "BPPA") as well as the Power Purchase Agreement with BC Hydro. On May 3, 1996, an Order was granted by the BCUC approving a 60-year BPPA for the output of the Brilliant hydroelectric plant located near Castlegar, British Columbia. The BPPA requires monthly payments based on the operation and maintenance costs and a return on capital for the plant in exchange for the specified natural flow take-or-pay amounts of power. The BPPA includes a market-related price adjustment after 30 years of the 60-year term. The Power Purchase Agreement with BC Hydro, which expires in 2013, provides for any amount of supply up to a maximum of 200 MW, but includes a take-or-pay provision based on a five-year rolling nomination of the capacity requirements.

(2) Power purchase obligations for FortisOntario primarily include a long-term take-or-pay contract between Cornwall Electric and Hydro-Québec Energy Marketing for the supply of electricity and capacity. The contract provides approximately 237 GWh of energy per year and up to 45 MW of capacity at any one time. The contract, which expires December 31, 2019, provides approximately one-third of Cornwall Electric's load. Cornwall Electric also has a two-year contract in place with Hydro-Québec Energy Marketing, which expires June 30, 2008. This take-or-pay contract provides energy on an as-needed basis but charges for 100 MW of capacity at $0.14 million per month.

(3) Maritime Electric has one take-or-pay contract for the purchase of either capacity or energy. This contract totals approximately $38.7 million through March 31, 2008.

(4) Power purchase obligations for Belize Electricity include a 15-year power purchase agreement between Belize Electricity and Hydro Maya Limited for the supply of 3 MW of capacity, which commenced in February 2007, and a two-year power purchase agreement between Belize Electricity and Comisión Federal de Electricidad of Mexico, expiring August 2008, for the supply of 15 MW of firm energy. Belize Electricity has also signed a 15-year power purchase agreement with Belize Cogeneration Energy Limited ("Belcogen") that provides for the supply of approximately 14 MW of capacity, which is scheduled to commence in mid-2009. Belcogen has not yet commenced construction of the related bagasse-fired electric generating facility; therefore, the obligation related to the power purchase agreement with Belcogen has not been included in the Corporation's contractual obligations.

(5) Maritime Electric has entitlement to approximately 6.7 per cent of the output from the NB Power Dalhousie Generating Station and approximately 4.7 per cent from the NB Power Point Lepreau Generating Station for the life of each unit. As part of its participation agreement, Maritime Electric is required to pay its share of the capital costs of these units.

(6) FortisAlberta and an Alberta transmission service provider have entered into an agreement in consideration for joint attachments of distribution facilities to the transmission system. The expiry terms of this agreement state that the agreement remains in effect until the Company no longer has attachments to the transmission facilities. Due to the unlimited term of this contract, the calculation of future payments after 2011 includes payments to the end of 20 years. However, the payments under this agreement may continue for an indefinite period of time. FortisAlberta and an Alberta transmission service provider have also entered into a number of service agreements to ensure operational efficiencies are maintained through coordinated operations. The service agreements have minimum expiry terms of five years from September 1, 2005 and are subject to extensions based on mutually agreeable terms.

(7) Under a sale-leaseback agreement, on September 29, 1993, FortisBC began leasing its Trail, British Columbia office building for a term of 30 years (Note 4 *(xii)*). The terms of the agreement grant FortisBC repurchase options at approximately year 20 and year 28 of the lease term. On December 1, 2004, FortisBC also entered into a five-year lease for the Kelowna, British Columbia head office. The terms of the lease allow for termination without penalty after three years.

(8) During 2006, Caribbean Utilities entered into a project agreement for the purchase and turnkey installation of one 16 MW medium-speed diesel generating unit and auxiliary equipment. This unit is scheduled for installation to meet the summer 2007 energy demand. The contract cost is US$18.4 million, and the total estimated cost for completion of the project is US$22.2 million. As at October 31, 2006, approximately US$5.7 million had been spent by Caribbean Utilities on this project.

(9) Operating lease obligations include certain office, vehicle and equipment leases and the lease of electricity distribution assets of Port Colborne Hydro Inc.

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 approximately $623 million in capital expenditures for 2007. This commitment has not been included in the summary table shown above.

28. Contingent Liabilities

The Corporation and its subsidiaries 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.

The following describes the nature of the Corporation's contingent liabilities.

(a) **Maritime Electric**

In April 2006, CRA reassessed Maritime Electric's 1997–2004 taxation years. The reassessment encompasses the Company's tax treatment, specifically the Company's timing of deductions, with respect to: (i) the ECAM in the 2001–2004 taxation years; (ii) customer rebate adjustments in the 2001–2003 taxation years; and (iii) the Company's payment of approximately $6 million on January 2, 2001 associated with a settlement with NB Power regarding its $450 million write-down of the Point Lepreau Station in 1998.

Maritime Electric believes it has reported its tax position appropriately in all aspects of the reassessment and filed a Notice of Objection with the Chief of Appeals at CRA. Should the Company be unsuccessful in defending all aspects of the reassessment, the Company would be required to pay approximately $12.1 million in taxes and accrued interest. As at December 31, 2006, Maritime Electric has provided for, through future and current income taxes payable, approximately $11.6 million and, therefore, an additional liability of $0.5 million would arise. In this event, the Company would apply to IRAC to include this amount in the regulatory rate-making process. The provisions of the *Income Tax Act* (Canada) require the Company to deposit one-half of the assessment under objection with CRA and the Company made a payment on deposit of $5.9 million with CRA on June 29, 2006.

28. Contingent Liabilities (cont'd)

(b) **FortisAlberta**

On March 24, 2006, Her Majesty the Queen in Right of Alberta (the "Crown") filed a statement of claim in the Court of Queen's Bench of Alberta in the Judicial District of Edmonton against FortisAlberta. The Crown's claim is that the Company is responsible for a fire that occurred in October 2003 in an area of the Province of Alberta commonly referred to as Poll Haven Community Pasture. The Crown is seeking approximately $2.7 million in fire-fighting and suppression costs and approximately $2.4 million in timber losses, as well as interest and other costs. FortisAlberta and the Crown have exchanged several investigation and expert reports. Both the factual evidence and expert opinion received to date leads management to believe that FortisAlberta is not responsible for the cause of the fire and has no liability for the damages. However, given the preliminary stage of the proceedings, FortisAlberta has not made any definitive assessment of potential liability with respect to the claim. No amount, therefore, has been accrued in the consolidated financial statements.

(c) **FortisBC**

The B.C. Ministry of Forests (the "Ministry") has alleged breaches of the Forest Practices Code and negligence relating to a fire near Vaseux Lake and has filed and served a writ and statement of claim against FortisBC. The Company is currently communicating with the Ministry and its insurers. In addition, FortisBC has been served with two filed writs and statements of claim by private land owners in relation to this matter. The outcome cannot be reasonably determined and estimated at this time and, accordingly, no amount has been accrued in the consolidated financial statements.

On January 5, 2006, FortisBC was served with a writ and statement of claim filed with the B.C. Supreme Court under the *Class Proceedings Act, 1995* (British Columbia) on behalf of a class consisting of all persons who are or were customers of FortisBC and who paid or have been charged FortisBC's late payment penalties at any time between April 1, 1981 and the date of any judgment in this action. The claim is that forfeitures of the prompt payment discount offered to customers constitute "interest" within the meaning of section 347 of the *Criminal Code* (Canada) and, since the effective annual rate of such interest exceeds 60 per cent, they are illegal and void. In the action, the Plaintiff seeks damages and restitution of all late payment penalties that were forfeited. On December 13, 2006, the application to certify the action as a class action was heard in the B.C. Supreme Court. In a decision delivered on January 11, 2007, the B.C. Supreme Court dismissed the application to certify the action as a class suit. The Plaintiff has filed an appeal of the decision with the B.C. Court of Appeal. The final outcome cannot be reasonably determined and estimated at this time and, accordingly, no amount has been accrued in the consolidated financial statements.

(d) **FortisUS Energy**

Legal proceedings were initiated against FortisUS Energy by the Village of Philadelphia (the "Village"), New York. The Village claimed 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$8.0 million). The First American Title Insurance Company is defending the action on behalf of FortisUS Energy. A memorandum Decision and Order was filed by the State of New York Supreme Court of Jefferson County on December 21, 2006 granting summary judgment to FortisUS Energy dismissing the action by the Village. The Village, however, filed a notice of appeal in January 2007. Management believes that the appeal will not be successful and, therefore, no provision has been made in the consolidated financial statements.

29. Subsequent Events

(a) On January 3, 2007, FortisAlberta closed a $110 million senior unsecured debenture offering. The debentures bear interest at a rate of 4.99 per cent, to be paid semi-annually, and mature on January 3, 2047. The proceeds of the offering were used to repay existing indebtedness incurred under the Company's committed unsecured credit facility, which was incurred primarily to fund capital expenditures, and for general corporate purposes.

(b) On January 18, 2007, Fortis issued 5,170,000 Common Shares for $29.00 per common share. The common share issue resulted in gross proceeds of $149.9 million, or approximately $145.6 million net of after-tax expenses. The net proceeds of the offering were used to repay indebtedness incurred for recent acquisitions, to support the capital expenditure programs of the Corporation's regulated utilities in Western Canada and for general corporate purposes.

(c) On February 8, 2007, Fortis announced that its Board of Directors had declared a 10.5 per cent increase in the quarterly common share dividend, increasing the amount from 19 cents per common share to 21 cents per common share, commencing with the second quarter dividend payable on June 1, 2007, to shareholders of record on May 4, 2007.

(d) On February 26, 2007, Fortis entered into an agreement (the "Acquisition Agreement") with 3211953 Nova Scotia Company and Kinder Morgan, Inc. ("Kinder Morgan") (NYSE:KMI), a U.S. energy transportation, storage and distribution company based in Houston, Texas, for the purchase (the "Acquisition") of all the issued and outstanding shares of Terasen Inc. for aggregate consideration of $3.7 billion, including the assumption of approximately $2.3 billion of consolidated indebtedness of Terasen Inc. Terasen Inc. is a holding company headquartered in Vancouver, British Columbia, operating two principal lines of business – natural gas distribution and petroleum transportation. Prior to the closing of the Acquisition, Kinder Morgan will cause Terasen Inc. to divest itself of its petroleum transportation operations. The closing of the Acquisition, which is expected to occur in mid-2007, is subject to receipt of required regulatory and other approvals, including that of the BCUC, and the satisfaction of certain closing conditions. Under the Acquisition Agreement, Kinder Morgan or Fortis may elect to terminate the Acquisition Agreement if the Acquisition is not completed prior to November 30, 2007.

To finance a portion of the Acquisition, Fortis entered into an agreement on February 27, 2007 with CIBC World Markets Inc., Scotia Capital Inc., TD Securities Inc., BMO Nesbitt Burns Inc., RBC Dominion Securities Inc., National Bank Financial Inc., Canaccord Capital Corporation, Beacon Securities Limited and HSBC Securities (Canada) Inc. (collectively the "Underwriters") pursuant to which they agreed to purchase from Fortis and sell to the public 38,500,000 Subscription Receipts of the Corporation for a purchase price of $26.00 per Subscription Receipt. The Underwriters also had the option to purchase up to an additional 5,775,000 Subscription Receipts at the purchase price of $26.00 per Subscription Receipt to cover over-allotments, if any, at any time until 30 days following the closing of the Subscription Receipt offering. The gross proceeds from the sale of Subscription Receipts of $1,001,000,000 ($1,151,150,000 if the Over-Allotment Option is exercised in full) will be held by an escrow agent pending, among other things, receipt of all regulatory and government approvals required to finalize the Acquisition and fulfillment or waiver of all other outstanding conditions precedent to closing the Acquisition (collectively, the "Release Conditions"). Each Subscription Receipt will entitle the holder thereof to receive, on satisfaction of the Release Conditions, and without payment of additional consideration, one Common Share of Fortis and a cash payment equal to the dividends declared on Fortis Common Shares to holders of record during the period from the closing of the Subscription Receipt offering to the date of issuance of the Common Shares in respect of the Subscription Receipts. In the event that the Release Conditions are not satisfied by November 30, 2007, or if the Acquisition Agreement is terminated prior to such time, the holders of Subscription Receipts will be entitled to receive an amount equal to the full subscription price thereof plus their pro rata share of the interest earned or income generated on such amount. On March 15, 2007, the Subscription Receipt offering closed, the Underwriters exercised the Over-Allotment Option and therefore $1,151,150,000 was placed into escrow.

Fortis has also obtained a commitment from Canadian Imperial Bank of Commerce providing for an aggregate of $1.425 billion non-revolving term credit facilities in favour of Fortis to fund, if necessary, the full cash purchase price for the Acquisition. The net proceeds from the Subscription Receipt offering and funds to be advanced under the acquisition credit facilities will be used to finance the cash portion of the acquisition purchase price.

30. Comparative Figures

Certain comparative figures have been reclassified to comply with the current year's classifications.

Statements of Earnings *(in thousands $)*	**2006**[1]	2005[1]	2004	2003
Revenue, including equity income	**1,471,736**	1,441,471	1,146,129	843,080
Energy supply costs and operating expenses	**939,072**	926,295	766,628	578,731
Amortization	**177,511**	157,622	113,672	62,327
Finance charges	**168,329**	153,825	122,373	86,287
Gain on settlement of contractual matters	**–**	10,000	–	–
Corporate taxes	**32,538**	70,416	46,927	38,236
Results of discontinued operations, gains on sales and other unusual items	**2,088**	–	–	–
Non-controlling interest	**7,602**	6,216	5,674	3,869
Preference share dividends	**1,585**	–	–	–
Net earnings applicable to common shares	**147,187**	137,097	90,855	73,630
Balance Sheets *(in thousands $)*				
Current assets	**409,139**	299,274	293,423	191,032
Other long-term assets, including goodwill	**991,931**	815,436	768,077	242,320
Long-term investments	**2,536**	167,393	163,769	167,752
Utility capital assets and income producing properties	**4,043,835**	3,315,001	2,712,747	1,562,693
Total assets	**5,447,441**	4,597,104	3,938,016	2,163,797
Current liabilities	**565,254**	412,298	538,258	296,056
Deposits due beyond one year	**–**	–	–	–
Deferred credits, regulatory liabilities and future income taxes	**475,625**	476,672	138,198	61,956
Long-term debt and capital lease obligations	**2,558,463**	2,135,674	1,904,431	1,031,358
Non-controlling interest	**130,505**	39,555	37,487	36,770
Preference shares (classified as debt)	**319,492**	319,492	319,530	122,992
Shareholders' equity	**1,398,102**	1,213,413	1,000,112	614,665
Cash Flows *(in thousands $)*				
Operations	**263,137**	303,585	272,268	156,682
Financing activities	**454,986**	224,088	777,044	232,011
Investing activities	**634,082**	467,104	1,026,256	308,006
Dividends, excluding dividends on preference shares classified as debt	**76,624**	64,171	50,514	38,456
Financial Statistics				
Return on average common shareholders' equity *(%)*	**11.87**	12.40	11.28	12.30
Capitalization Ratios *(%)* (year end)[2]				
Total debt and capital lease obligations (net of cash)	**61.1**	58.7	61.4	60.0
Preference shares (classified as debt and equity)	**10.0**	8.6	9.4	6.7
Common shareholders' equity	**28.9**	32.7	29.2	33.3
Interest Coverage *(x)*				
Debt	**2.2**	2.5	2.3	2.2
All fixed charges	**2.0**	2.1	2.0	2.1
Capital expenditures *(in thousands $)*	**499,990**	446,029	278,669	207,740
Common share data				
Book value per share (year end) *($)*	**12.19**	11.74	10.45	8.82
Average common shares outstanding *(in thousands)*	**103,578**	101,750	84,738	69,236
Earnings per common share *($)*	**1.42**	1.35	1.07	1.06
Dividends declared per common share *($)*	**0.700**	0.605	0.548	0.525
Dividends paid per common share *($)*	**0.670**	0.588	0.540	0.520
Dividend payout ratio *(%)*	**47.2**	43.7	50.3	48.9
Price earnings ratio *(x)*	**21.0**	18.0	16.2	13.9
Share trading summary				
Closing price *($)* (TSX)	**29.77**	24.27	17.38	14.73
Volume *(in thousands)*	**60,094**	37,706	29,254	31,180

[1] As at December 31, 2006, the regulatory provision for future site removal and restoration costs was reallocated from accumulated amortization to long-term regulatory liabilities, with 2005 comparative figures restated. The effect of this change in presentation at December 31, 2006 was a $306.5 million (December 31, 2005 – $280.9 million) increase in long-term regulatory liabilities and a $306.5 million (December 31, 2005 – $280.9 million) increase in net utility capital assets.

[2] Comparative capitalization ratios have been restated to comply with the current year's calculation methodology.

2002	2001	2000	1999	1998	1997	1996
715,465	628,254	580,197	505,218	472,725	486,662	474,293
476,969	418,117	417,607	356,227	339,429	341,024	334,388
65,063	62,495	52,513	45,407	42,428	41,147	35,993
73,464	65,630	55,712	46,065	43,637	44,890	45,812
–	–	–	–	–	–	–
32,488	28,732	17,228	27,476	22,998	29,449	28,029
–	4,179	2,771	(57)	3,696	369	–
4,229	3,862	3,149	803	515	515	1,026
–	–	–	–	–	–	–
63,252	53,597	36,759	29,183	27,414	30,006	29,045
180,122	134,935	165,814	92,862	94,123	78,603	70,456
204,837	123,011	116,912	160,998	162,487	160,445	160,470
95,751	82,211	81,515	–	–	–	–
1,459,300	1,245,940	1,056,291	929,909	750,223	747,461	736,338
1,940,010	1,586,097	1,420,532	1,183,769	1,006,833	986,509	967,264
334,467	272,439	224,431	229,569	147,764	172,158	172,493
–	–	–	15,640	15,745	20,444	17,448
38,835	31,628	24,110	27,538	21,942	23,307	23,388
940,910	746,092	678,349	487,828	424,275	385,627	335,654
39,955	36,419	31,502	29,381	8,430	8,430	8,430
–	50,000	50,000	50,000	50,000	50,000	100,000
585,843	449,519	412,140	343,813	338,677	326,543	309,851
134,422	94,115	97,499	84,679	68,898	63,202	86,351
261,043	171,358	177,820	66,797	15,858	16,721	33,992
348,724	239,726	240,698	122,469	65,882	54,093	95,838
35,070	29,913	27,661	24,303	23,824	22,968	22,416
12.23	12.44	9.73	8.55	8.24	9.43	9.61
65.2	63.9	60.4	59.6	53.4	53.6	48.4
–	3.6	4.3	5.1	6.0	6.2	12.6
34.8	32.5	35.3	35.3	40.6	40.2	39.0
2.3	2.3	2.1	2.3	2.2	2.6	2.6
2.2	2.2	1.9	2.1	2.0	2.0	1.9
228,830	149,455	157,652	86,475	65,468	49,773	53,420
8.50	7.50	6.97	6.55	6.52	6.40	6.21
65,108	59,512	54,068	52,188	51,632	50,492	49,276
0.97	0.90	0.68	0.56	0.53	0.60	0.59
0.498	0.470	0.460	0.455	0.450	0.443	0.430
0.485	0.468	0.460	0.453	0.450	0.440	0.430
49.9	51.9	67.6	80.8	84.9	73.9	72.9
13.5	13.0	13.2	14.0	18.0	17.6	14.4
13.13	11.74	9.00	7.85	9.56	10.50	8.50
21,676	21,460	26,760	9,024	12,356	13,520	13,620

Fortis Inc. *Officers (l-r): Ronald W. McCabe, General Counsel and Corporate Secretary; H. Stanley Marshall, President and CEO; Donna G. Hynes, Assistant Secretary and Manager, Investor and Public Relations; Barry V. Perry, VP, Finance and CFO*

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J. Lee Tinney, Vice President, Transmission and Distribution
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Wayne W. Myers, Vice President, Real Estate
Ronald W. McCabe, General Counsel and Corporate Secretary

BOARD OF DIRECTORS

Bruce Chafe ∗ ⋆ ✱
Chair, Fortis Inc., St. John's, Newfoundland and Labrador

Mr. Chafe, 70, joined the Fortis Inc. Board in 1997 and was appointed Chair of the Board in May 2006. He is past Chair of the Audit Committee of the Board. Mr. Chafe has been a director of Fortis Properties Corporation since 1997. He has served on the Boards of Newfoundland Power Inc. and FortisBC Inc. Mr. Chafe is also a Director of several private investment firms. He is a retired senior partner of Deloitte & Touche LLP.

Peter E. Case ∗
Corporate Director, Freelton, Ontario

Mr. Case, 52, joined the Fortis Inc. Board in May 2005. He has been a consultant to the utility industry since 2003, following his retirement as Executive Director, Institutional Equity Research at CIBC World Markets. Prior to that position, he was Managing Director at BMO Nesbitt Burns. Mr. Case has been a Director of FortisOntario Inc. since March 2003.

Geoffrey F. Hyland ✱
Corporate Director, Caledon, Ontario

Mr. Hyland, 62, joined the Fortis Inc. Board in May 2001. He retired as President and CEO of ShawCor Ltd. in June 2005. Mr. Hyland is a Director of FortisOntario Inc. He continues to serve on the Board of ShawCor Ltd. and is a Director of Enerflex Systems Income Fund, SCITI Total Return Trust and Exco Technologies Limited.

Linda L. Inkpen ⋆
Medical Practitioner, St. John's, Newfoundland and Labrador

Dr. Inkpen, 59, joined the Fortis Inc. Board in 1994. She was appointed Chair of the Board of Fortis Properties Corporation in 2000 and is a past Chair of Newfoundland Power Inc.

H. Stanley Marshall
President and CEO, Fortis Inc., St. John's, Newfoundland and Labrador

Mr. Marshall, 56, has served on the Fortis Inc. Board since 1995. He joined Newfoundland Power Inc. in 1979 and was appointed President and CEO of Fortis Inc. in 1996. Mr. Marshall serves on the Boards of all Fortis companies and is a Director of Toromont Industries Ltd.

John S. McCallum ∗ ⋆
Professor of Finance, University of Manitoba, Winnipeg, Manitoba

Mr. McCallum, 63, joined the Fortis Inc. Board in July 2001 and is Chair of the Governance and Nominating Committee of the Board. He was Chairman of Manitoba Hydro from 1991 to 2000 and Policy Advisor to the Federal Minister of Finance from 1984 to 1991. Mr. McCallum is a Director of FortisBC Inc. and FortisAlberta Inc. He also serves as a Director of IGM Financial Inc., Toromont Industries Ltd. and Wawanesa.

David G. Norris ∗ ✱
Corporate Director, St. John's, Newfoundland and Labrador

Mr. Norris, 59, joined the Fortis Inc. Board in May 2005 and was appointed Chair of the Audit Committee of the Board in May 2006. He has been a financial and management consultant since 2001, prior to which he was Executive Vice-President, Finance and Business Development, Fishery Products International Limited. Previously, he held Deputy Minister positions with Department of Finance and Treasury Board, Government of Newfoundland and Labrador. Mr. Norris was appointed Chair of the Board of Newfoundland Power Inc. in 2006. He has been a Director of Newfoundland Power Inc. since 2003 and a Director of Fortis Properties Corporation since 2006.

Michael A. Pavey ✱
Corporate Director, Moncton, New Brunswick

Mr. Pavey, 59, joined the Fortis Inc. Board in May 2004. He retired as Executive Vice-President and Chief Financial Officer of Major Drilling Group International Inc. in 2006. Prior to joining Major Drilling in 1999, he held senior executive positions with TransAlta Corporation. Mr. Pavey has served as a Director of Maritime Electric Company, Limited.

Roy P. Rideout ⋆ ✱
Corporate Director, Halifax, Nova Scotia

Mr. Rideout, 59, joined the Fortis Inc. Board in March 2001 and is Chair of the Human Resources Committee of the Board. He retired as Chairman and CEO of Clarke Inc. in October 2002. Prior to 1998, Mr. Rideout served as President of Newfoundland Capital Corporation Limited. He also serves as a Director of the Halifax International Airport Authority, Oceanex Inc. and NAV CANADA.

∗ Audit Committee ⋆ Governance and Nominating Committee ✱ Human Resources Committee

Board of Directors (l-r): John S. McCallum, Peter E. Case, H. Stanley Marshall, Roy P. Rideout, Linda L. Inkpen, Bruce Chafe, Michael A. Pavey, David G. Norris, Geoffrey F. Hyland

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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T: 514.982.7555 or 1.866.586.7638
F: 416.263.9394 or 1.888.453.0330
E: service@computershare.com
W: www.computershare.com

Direct Deposit of Dividends

Shareholders may obtain automatic electronic deposit of dividends to designated Canadian financial institutions by contacting the Transfer Agent.

Duplicate Annual Reports

While every effort is made to avoid duplication, some shareholders may receive extra reports as a result of multiple share registrations. Shareholders wishing to consolidate these accounts should contact the Transfer Agent.

Dividend Reinvestment Plan and Consumer Share Purchase Plan

Fortis Inc. offers a Dividend Reinvestment Plan(1) and a Consumer Share Purchase Plan(2) to Common Shareholders as a convenient method of increasing their investments in Fortis Inc. Participants have dividends plus any optional cash payments (minimum of $100, maximum of $20,000 annually) automatically deposited in the Plans to purchase additional Common Shares. Shares are sold quarterly on March 1, June 1, September 1 and December 1 at the average market price then prevailing on the Toronto Stock Exchange. Inquiries should be directed to the Transfer Agent, Computershare Trust Company of Canada.

(1) All registered shareholders of Common Shares who are residents of Canada are eligible to participate in the Dividend Reinvestment Plan. Shareholders residing outside Canada may also participate unless participation is not allowed in that jurisdiction. Residents of the United States, its territories or possessions are not eligible to participate.

(2) The Consumer Share Purchase Plan is offered to residents of the provinces of Newfoundland and Labrador and Prince Edward Island.

Valuation Day

For capital gains purposes, the valuation day prices are as follows:

December 22, 1971	$ 1.531
February 22, 1994	$ 7.156

Share Listings

The Common Shares, First Preference Shares, Series C; First Preference Shares, Series E; First Preference Shares, Series F; and Subscription Receipts of Fortis Inc. are listed on the Toronto Stock Exchange and trade under the ticker symbols FTS, FTS.PR.C, FTS.PR.E, FTS.PR.F and FTS.R, respectively.

Common Share Prices

Year	High	Low	Close
2006	30.00	20.36	29.77
2005	25.64	17.00	24.27
2004	17.75	14.23	17.38
2003	15.24	11.63	14.73
2002	13.28	10.76	13.13
2001	11.89	8.56	11.74
2000	9.19	6.88	9.00
1999	9.93	7.29	7.85
1998	12.03	8.75	9.56
1997	10.63	7.83	10.50

Fortis Inc.

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W: www.maritimeelectric.com

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F: 709.737.3785
W: www.fortisproperties.com

Design and Production:
CCL Group – Colour, St. John's, NL
Moveable Inc., Toronto, ON

Printer:
The Lowe-Martin Group, Ottawa, ON

Expected Dividend* and Earnings Dates

Dividend Record Date

May 4, 2007	August 10, 2007
November 9, 2007	February 8, 2008

Dividend Payment Dates

June 1, 2007	September 1, 2007
December 1, 2007	March 1, 2008

Earnings Release Dates

May 3, 2007	August 3, 2007
November 2, 2007	February 6, 2008

** The declaration and payment of dividends are subject to the Board of Directors' approval.*

Analyst and Investor Inquiries

Manager, Investor and Public Relations
T: 709.737.2800
F: 709.737.5307
E: investorrelations@fortisinc.com

Annual Meeting

Tuesday, May 8, 2007
10:30 a.m.
Delta St. John's
120 New Gower Street
St. John's, NL Canada

Photography:

Cover: Wayne Duchart, Kelowna, BC (wayne@photographywest.ca)
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Monty Hunter, St. John's, NL
Dawn Sampson, Belize City, BZ
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