FORTIS INC.

2006 ANNUAL REPORT

powering **performance**

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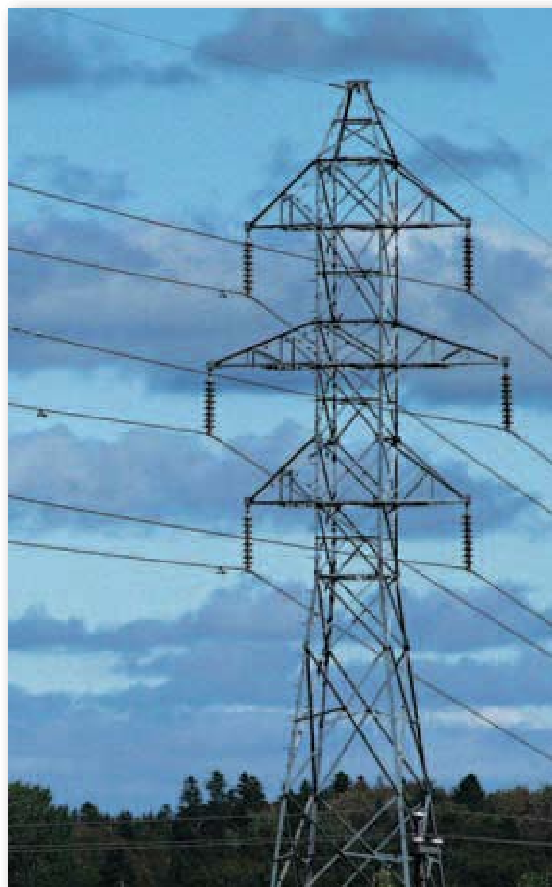
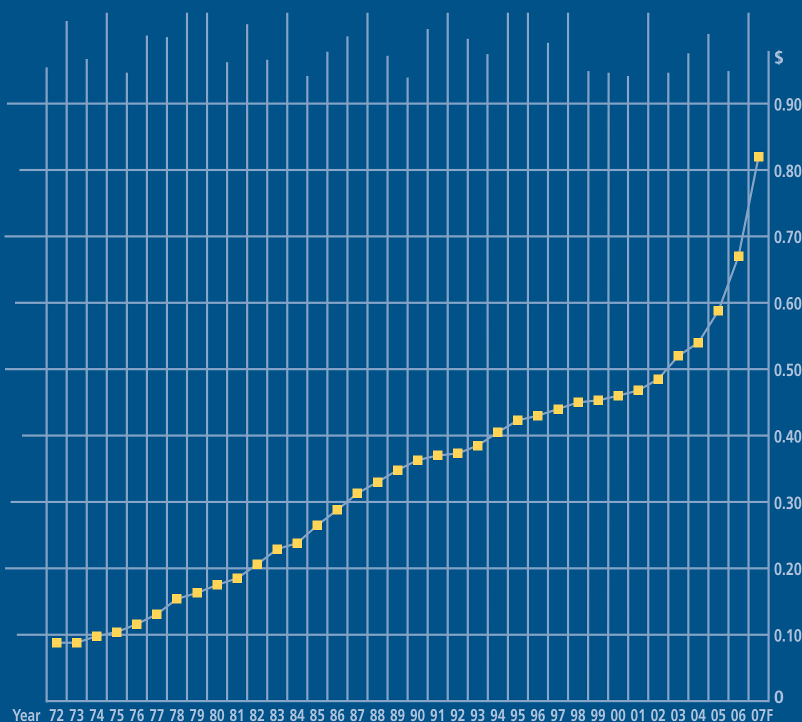


Dividends paid per common share



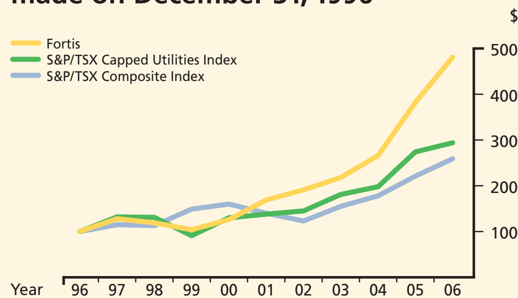
Fortis has increased its annual dividend paid to common shareholders for 34 consecutive years, the longest record of any public corporation in Canada.

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

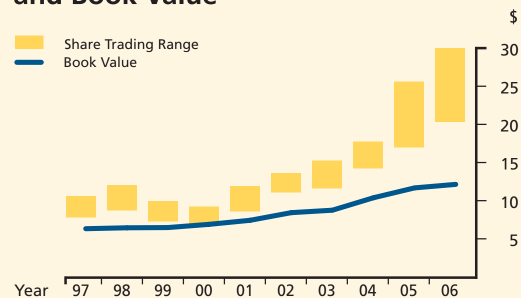
	2006	2005
Revenue and equity income	**1,472**	1,441
Net earnings applicable to common shares	**147**	137
Total assets	**5,447**	4,597
Total shareholders' equity	**1,398**	1,213
Cash flow from operations	**263**	304
Earnings per common share	**1.42**	1.35
Dividends paid per common share	**0.67**	0.59

Fortis Inc.

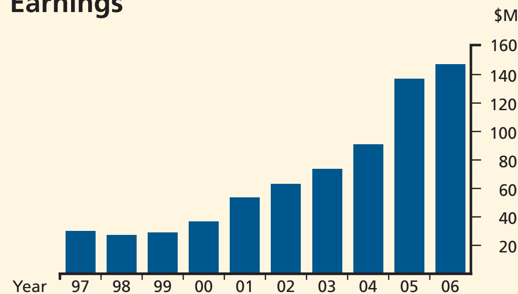
Value of an Investment of $100 made on December 31, 1996



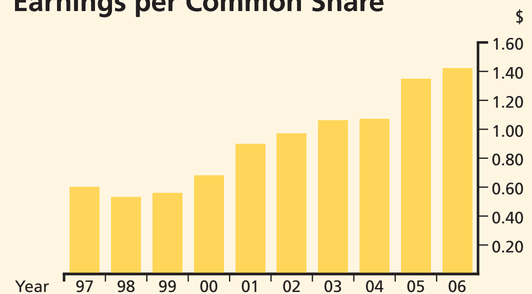
Share Trading Range and Book Value



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*

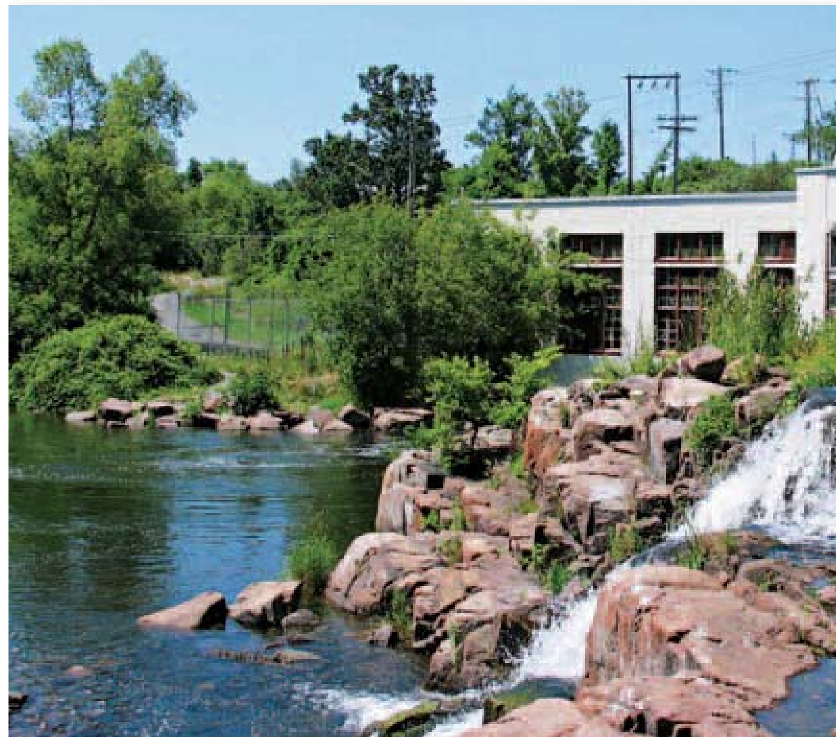
■▲ Alberta
■●▲ British Columbia
▲ Manitoba
■●▲ Newfoundland
■ Prince Edward Island
■●▲ Ontario
▲ New Brunswick
▲ Nova Scotia
● New York State
■ Turks and Caicos Islands
■ Cayman Islands
■● Belize
REPORT TO SHAREHOLDERS

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

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.

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

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.

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.

Customer Satisfaction Ratings for Fortis Properties' Hospitality Division showed continued improvement in 2006.

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.

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.

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.

OUR COMMUNITY

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

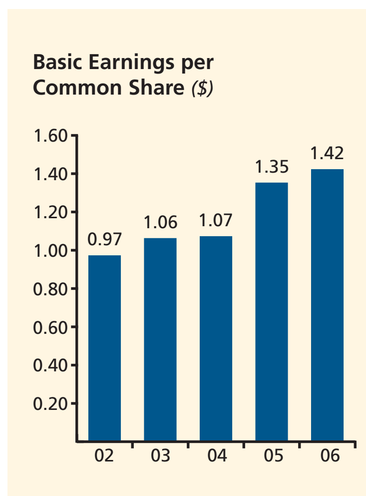
(%)	2004	2005	2006	2007
FortisAlberta	9.50	9.50	8.93	8.51
FortisBC	9.76	9.43	9.20	8.77
Newfoundland Power	9.75	9.24	9.24	8.60

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.

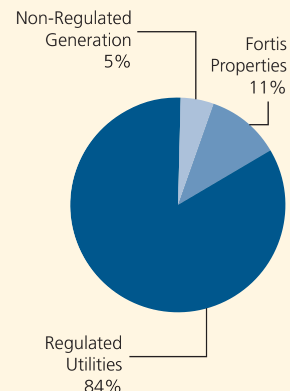
Dividends: Dividends paid per common share increased to 67 cents in 2006 from 59 cents last year. Commencing with the fourth quarter dividend paid on December 1, 2006, Fortis increased its quarterly common share dividend 18.75 per cent to 19 cents from 16 cents. The Corporation's dividend payout ratio 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.

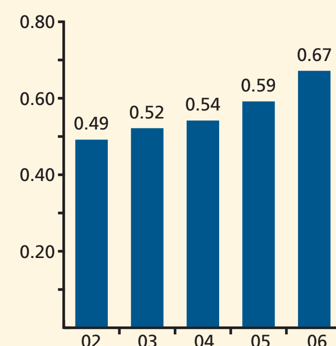
Asset Growth: Total assets increased 18.5 per cent to approximately $5.45 billion at year-end 2006 compared to $4.60 billion at year-end 2005. The increase was driven by the impact of consolidating the Corporation's investment in Caribbean Utilities, upon acquiring controlling ownership, compared to 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.

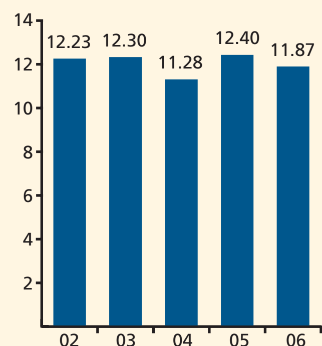
Total Revenue
(year ended December 31, 2006)



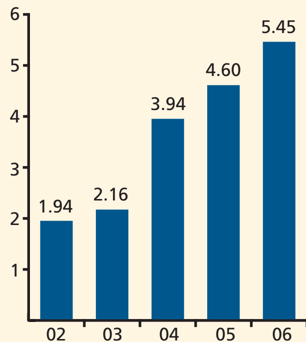
Dividends Paid per Common Share *($)*



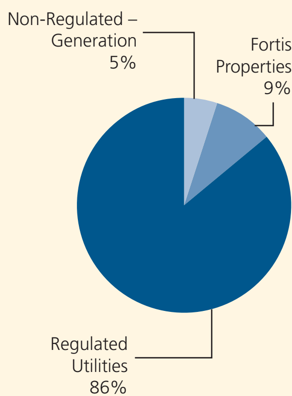
Return on Average Common Shareholders' Equity *(%)*



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.

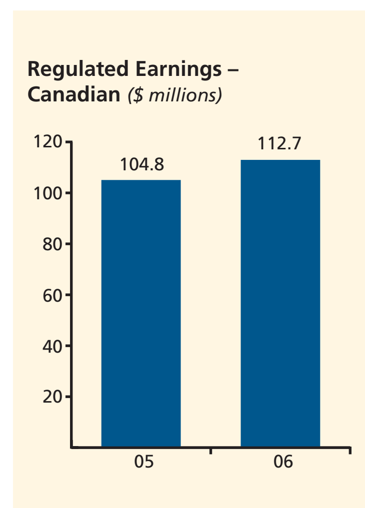
Regulated Utilities

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).

Regulated Earnings – Canadian *($ millions)*



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.

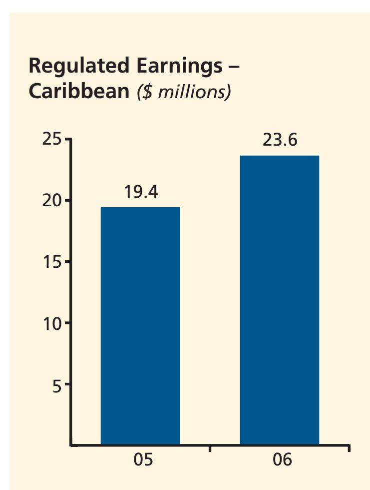
Operating expenses were $0.2 million higher than last year. Operating expenses last year included approximately $0.8 million in costs associated with an early retirement program. Operating expenses increased primarily due to higher payroll and benefit costs as a result of the transferring of certain 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

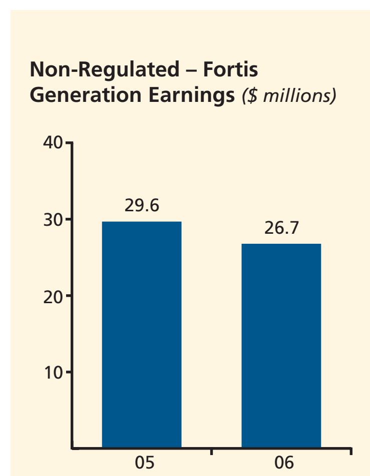
Fortis Generation consists of the Corporation's investment in non-regulated generation assets. The following table provides a summary of the Corporation's non-regulated generation assets by location.

	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.

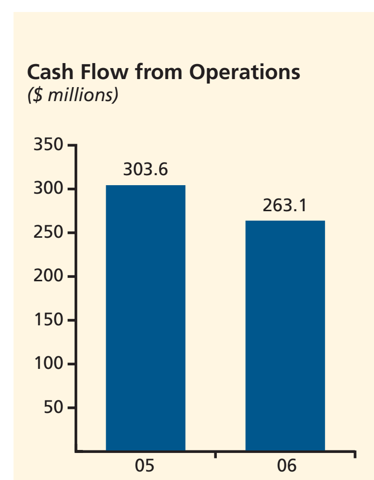
($ millions)	Increase (Decrease)	Explanation
Accounts receivable	73.9	The increase primarily related to accounts receivable of $21.3 million at Caribbean Utilities and $10.3 million at Fortis Turks and Caicos, higher transmission revenue accruals at FortisAlberta as a result of costs previously paid 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

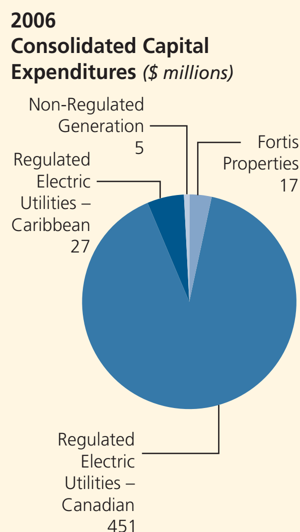
($ millions) **Utility**	**Nature of Project**	**Actual 2006**	**Expected costs to complete after 2006**	**Expected completion dates**
FortisAlberta	New operations facility in the City of Airdrie	**1.0**	28.0	2008
FortisAlberta	Automated Meter Infrastructure ("AMI") technology	**0.3**	85.0	2010
FortisBC	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.

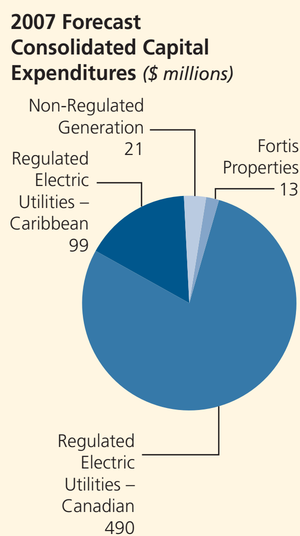
During 2006, work commenced at FortisBC on three new substations and associated transmission lines with an estimated total project cost of approximately $60 million, of which $2.5 million was spent in 2005 and $8.1 million was spent in 2006.

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 *($ millions)*	**2006** **Carrying Value**	**2006** **Fair Value**	2005 Carrying Value	2005 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 *($)*	Earnings per Common Share Diluted *($)*
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.

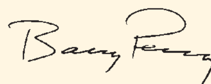
In meeting its responsibility for the reliability and integrity of the Consolidated Financial Statements, management has developed and maintains a system of accounting and reporting which provides for the necessary internal controls to ensure transactions are properly authorized and recorded, assets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

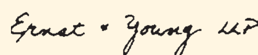
Auditors' Report

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)

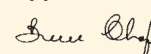
As at December 31 (in thousands)

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.

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.

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	

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).

December 31, 2006 and 2005

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.

December 31, 2006 and 2005

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.

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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)

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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.

December 31, 2006 and 2005

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							Non-Regulated			Inter-segment	
	Fortis Alberta	Fortis BC	NF Power	Maritime Electric	Fortis Ontario	Total Canadian	Total Caribbean[1]	Fortis Generation	Fortis Properties	Corporate	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.

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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.

HISTORICAL FINANCIAL SUMMARY

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

CORPORATE DIRECTORY

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*

FortisAlberta Inc.

Directors: H. Stanley Marshall (Chair), Donald G. Bacon, Brian F. Bietz, Gregory E. Conn, Al H. Duerr, Philip G. Hughes, Joanne R. Lemke, 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 and Treasurer
Robert J. Fink, Corporate Counsel and Corporate Secretary
Karl J. Bomhof, Corporate Counsel and Assistant Secretary

FortisBC Inc.

Directors: R. Harry McWatters (Chair), Beth D. Campbell, Richard (Kim) D. Deane, E. Walter Gray, Philip G. Hughes, H. Stanley Marshall, Roger Mayer, John S. McCallum, 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, Vice President, Regulatory Affairs and General Counsel

Newfoundland Power Inc.

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

Officers:
Karl W. Smith, President and Chief Executive Officer
Jocelyn H. Perry, Vice President, Finance and Chief Financial Officer
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: L. John Reddin (Chair), Harry D. Annear, Ronald J. Keefe, Earl A. Ludlow, R. Elmer MacDonald, H. Stanley Marshall, Fred J. O'Brien, Cheryl L. Paynter, Barbara F. Stephenson, Lynn R. Young

Officers:
Fred J. O'Brien, 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
Steve D. Loggie, 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, VP, Corporate Services, General Counsel and Corporate Secretary

Belize Electricity Limited

Directors: Robert Usher (Chair), J. F. Richard Hew, Philip G. Hughes, James A. Lea, H. Stanley Marshall, Karl H. Menzies, Dylan Reneau, Yasin Shoman, Lynn R. Young

Officers:
Lynn R. Young, President and Chief Executive Officer
Rene J. Blanco, Vice President, Finance & Administration and CFO
Felix J. Murrin, Vice President, Customer Care and Operations
Joseph Sukhnandan, Vice President, Engineering and Energy Supply
Juliet Estell, Manager, Executive Services and 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
Andrew E. Small, Vice President, Production
J. Lee Tinney, Vice President, Transmission and Distribution
Robert D. Imparato, Company Secretary and Chief Governance Officer

Fortis Turks and Caicos

Directors: H. Stanley Marshall, Barry V. Perry, Ronald W. McCabe

Officers:
H. Stanley Marshall, President
Barry V. Perry, Vice President
Ronald W. McCabe, Company Secretary

Fortis Properties Corporation

Directors: Linda L. Inkpen (Chair), Bruce Chafe, Earl A. Ludlow, H. Stanley Marshall, David G. Norris

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

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

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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

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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)
Jack LeClair, Charlottetown, PE
Blaine Desrosiers, Fort Erie, ON
Ned Pratt, St. John's, NL
Neil Murray, Grand Cayman, KY
Denise Vanzie, Belize City, BZ
Doug Greenslade, St. John's, NL
Chris Hammond, St. John's, NL
Marnie Burkhart, Calgary, AB
Danny Foster, Kelowna, BC
Lee Ann Surette, St. John's, NL
Bobb Barratt, Niagara Falls, ON
Courtney Bonita, Fort Erie, ON
Richard Holder, Belize City, BZ
Miguel Escalante, Grand Cayman, KY
Ron Kidd, Providenciales, TCI
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