



ANNUAL INFORMATION FORM

FOR THE YEAR ENDED DECEMBER 31, 2006

March 28, 2007

**ANNUAL INFORMATION FORM
FOR THE YEAR ENDED DECEMBER 31, 2006**

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DEFINITIONS OF CERTAIN TERMS

Certain terms used in the Annual Information Form for the year ended December 31, 2006 are defined below:

“2006 Annual Information Form” means this Fortis Annual Information Form for the year ended December 31, 2006;

“Abitibi-Consolidated” means Abitibi-Consolidated Company of Canada;

“AESO” means Alberta Electric System Operator;

“Atlantic” means Atlantic Equipment & Power (Turks and Caicos) Ltd;

“AEUB” means Alberta Energy and Utilities Board;

“BC Hydro” means BC Hydro and Power Authority;

“BCUC” means British Columbia Utilities Commission;

“BECOL” means Belize Electric Company Limited;

“Belize Electricity” means Belize Electricity Limited;

“BEWU” means Belize Energy Workers Union;

“Board” means Board of Directors of Fortis Inc.;

“BZ\$” means Belizean dollar, which is pegged to the United States dollar (BZ\$2.00 = US\$1.00);

“Canadian Niagara Power” means Canadian Niagara Power Inc.;

“Caribbean Utilities” means Caribbean Utilities Company, Limited;

“CAW” means Canadian Auto Workers-Retail/Wholesale;

“CFE” means Comisión Federal de Electricidad;

“Chalillo Project” means Chalillo Hydroelectric Project development;

“CNE Energy” means CNE Energy Inc., formerly Central Newfoundland Energy Inc., which on December 1, 2005 changed its name to CNE Energy Inc. On January 1, 2007, CNE Energy Inc. amalgamated with Fortis Properties;

“Committee” means Audit Committee of Fortis Inc., as appointed by the Board;

“COP” means cost of fuel and purchased power;

“COPE” means Canadian Office and Professional Employees;

“Cornwall Electric” means Cornwall Street Railway, Light and Power Company, Limited;

“Corporation” means Fortis Inc.;

“**CPC/CBT**” means Columbia Power Corporation and the Columbia Basin Trust;

“**CPA**” means Canal Plant Agreement;

“**CPRSA**” means Cost of Power Rate Stabilization Account;

“**CRA**” means Canada Revenue Agency;

“**CRS**” means Cost Recovery Surcharge;

“**CUPE**” means Canadian Union of Public Employees;

“**DBRS**” means DBRS Limited;

“**Delta St. John’s**” means Delta St. John’s Hotel and Conference Centre;

“**ECAM**” means Energy Cost Adjustment Mechanism;

“**EMS**” means Environmental Management System;

“**Exploits Partnership**” means Exploits River Hydro Partnership Project between Abitibi-Consolidated and CNE Energy. On January 1, 2007, CNE Energy amalgamated with Fortis Properties, which now holds directly the 51 per cent interest in the Exploits River Hydro Partnership;

“**External Auditor**” means the firm of chartered accountants, registered with the Canadian Public Accountability Board or its successor, and appointed by the shareholders of the Corporation to act as external auditor of the Corporation;

“**FERC**” means United States Federal Energy Regulatory Commission;

“**Fortis**” means Fortis Inc.;

“**FortisAlberta**” means FortisAlberta Inc., formerly Aquila Networks Canada (Alberta) Ltd.;

“**FortisAlberta Holdings**” means FortisAlberta Holdings Inc.;

“**FortisBC**” means collectively, the operations of FortisBC Inc., formerly Aquila Networks Canada (British Columbia) Ltd., its parent company, Fortis Pacific Holdings Inc., Princeton Light and Power Company, Limited, but excluding its wholly owned partnership, Walden Power Partnership;

“**FortisBC Inc.**” means FortisBC Inc., formerly Aquila Networks Canada (British Columbia) Ltd.;

“**FortisOntario**” means collectively, the operations of Canadian Niagara Power and Cornwall Electric. Included in Canadian Niagara Power’s accounts is the operation of the electricity distribution business of Port Colborne Hydro Inc.;

“**FortisOntario Generation**” means FortisOntario Generation Corporation;

“**FortisOntario Inc.**” means the successor to Canadian Niagara Power Company, Limited and the parent company of Canadian Niagara Power and Cornwall Electric;

“**Fortis Pacific Holdings**” means Fortis Pacific Holdings Inc.;

“Fortis Properties” means Fortis Properties Corporation;

“Fortis Turks and Caicos” means, collectively, P.P.C. Limited and Atlantic Equipment & Power (Turks and Caicos) Ltd.;

“FortisUS Energy” means FortisUS Energy Corporation;

“FortisWest” means FortisWest Inc.;

“GWh(s)” means gigawatt hour(s);

“HCPRSA” means Hurricane Cost of Power Rate Stabilization Account;

“Hydro One Networks” means Hydro One Networks Inc.;

“IBEW” means International Brotherhood of Electrical Workers;

“IESO” means Independent Electricity System Operator of Ontario;

“Internal Auditor” means the person(s) employed or engaged by the Corporation to perform the internal audit function of the Corporation;

“IRAC” means Island Regulatory and Appeals Commission;

“ISO” means International Organization for Standardization;

“kV(s)” means kilovolt(s);

“kWh(s)” means kilowatt hour(s);

“MD&A” means the Corporation’s Management Discussion and Analysis, located on pages 38 through 87 of the Corporation’s 2006 Annual Report to Shareholders, prepared in accordance with National Instrument 51-102 – Continuous Disclosure Obligations, in respect of the Corporation’s annual and interim financial statements;

“Management” means Senior Officers of the Corporation;

“Maritime Electric” means Maritime Electric Company, Limited;

“Moody’s” means Moody’s Investors Service;

“MW” means megawatt(s);

“NB Power” means New Brunswick Power Corporation;

“Newfoundland Hydro” means Newfoundland and Labrador Hydro Corporation;

“Newfoundland Power” means Newfoundland Power Inc., formerly Newfoundland Light and Power Co. Limited;

“OEB” means Ontario Energy Board;

“OPGI” means Ontario Power Generation Inc.;

“PBR” means performance-based rate-setting methodology for regulation of public utilities;

“PLP” means Princeton Light and Power Company, Limited. Effective January 1, 2007, PLP was amalgamated with FortisBC Inc. as part of an internal corporate reorganization;

“Point Lepreau Station” means NB Power Point Lepreau Nuclear Generating Station;

“Port Colborne Hydro” means Port Colborne Hydro Inc.;

“PPC” means P.P.C. Limited;

“PUB” means Newfoundland and Labrador Board of Commissioners of Public Utilities;

“PUC” means Public Utilities Commission (Belize);

“Rideau St. Lawrence” means Rideau St. Lawrence Holdings Inc.;

“ROE” means rate of return on common equity;

“S&P” means Standard & Poor’s;

“Teck Cominco” means Teck Cominco Metals Ltd.;

“UFCW” means United Food and Commercial Workers;

“UUWA” means United Utility Workers Association;

“VAD” means value-added delivery;

“Walden” means Walden Power Partnership;

“Warrant” means First Preference Share Series E Purchase Warrant; and

“Westario Power” means Westario Power Holdings Inc.

1.0 CORPORATE STRUCTURE

The following material should be read in conjunction with the Management Discussion and Analysis, Consolidated Financial Statements and Notes to the Consolidated Financial Statements included in the Fortis 2006 Annual Report. This material has been prepared in accordance with National Instrument 51-102 – Continuous Disclosure Obligations and Multilateral Instrument 52-110 – Audit Committees. Financial information in this material has been prepared in accordance with Canadian generally accepted accounting principles and is presented in Canadian dollars unless otherwise specified. Fortis 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 risk, 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 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 “Risk Factors” in the following 2006 Annual Information Form. 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.

Except as otherwise stated, the information in the 2006 Annual Information Form is given as of December 31, 2006.

1.1 Name and Incorporation

Fortis is a holding company that was incorporated as 81800 Canada Ltd. under the *Canada Business Corporations Act* on June 28, 1977 and continued under the *Corporations Act* (Newfoundland) on August 28, 1987.

The articles of incorporation of the Corporation were amended to: (a) change its name to Fortis Inc. on October 13, 1987; (b) set out the rights, privileges, restrictions and conditions attached to the Common Shares on October 15, 1987; (c) designate 2,000,000 First Preference Shares, Series A on September 11, 1990; (d) replace the class rights, privileges, restrictions and conditions attaching to the First Preference Shares and the Second Preference Shares on July 22, 1991; (e) designate 2,000,000 First Preference Shares, Series B on December 13, 1995; (f) designate 5,000,000 First Preference Shares, Series C on May 27, 2003; (g) designate 8,000,000 First Preference Shares, Series D and First Preference Shares, Series E on January 23, 2004; (h) amend the redemption provisions attaching to the First Preference Shares, Series D on July 15, 2005; and (i) designate 5,000,000 First Preference Shares, Series F on September 22, 2006.

Fortis redeemed 100 per cent of its outstanding First Preference Shares, Series A and First Preference Shares, Series B on September 30, 1997 and December 2, 2002, respectively. On June 3, 2003, Fortis issued 5,000,000 First Preference Shares, Series C. On January 29, 2004, Fortis issued 8,000,000 First Preference Units, each unit consisting of one First Preference Share, Series D and one Warrant. During 2004, 7,993,500 First Preference Units were converted into 7,993,500 First Preference Shares, Series E and 6,500 First Preference Shares, Series D remained outstanding. On September 20, 2005, the 6,500 First Preference Shares, Series D were redeemed by the Corporation. On September 28, 2006, Fortis issued 5,000,000 First Preference Shares, Series F.

The corporate head and registered office of Fortis is located at the Fortis Building, Suite 1201, 139 Water Street, P.O. Box 8837, St. John's, NL, Canada, A1B 3T2.

1.2 Inter-Corporate Relationships

Fortis is principally a diversified, international distribution utility holding company with investments primarily in regulated distribution utilities in Canada and the Caribbean region. Regulated utility assets comprise approximately 86 per cent of the Corporation's total assets, with the balance comprised of non-regulated generating assets and commercial real estate and hotels.

In May 2004, Fortis acquired, through an indirect wholly owned subsidiary, all of the issued and outstanding shares of FortisAlberta and FortisBC Inc. FortisAlberta is a regulated electric utility that operates the electricity distribution system in a substantial portion of southern and central Alberta. FortisBC Inc. is a regulated electric utility that generates, transmits and distributes electricity in the southern interior of British Columbia.

Fortis holds all of the common shares of Newfoundland Power and, through Fortis Properties, all of the common shares of Maritime Electric, which are the principal distributors of electricity in Newfoundland and Prince Edward Island, respectively. As well, through its wholly owned subsidiary FortisOntario Inc., its subsidiaries, Canadian Niagara Power and Cornwall Electric, Fortis provides an integrated electric utility service to customers primarily in Fort Erie, Cornwall, Gananoque and Port Colborne in Ontario.

The Corporation's regulated electric utility assets in the Caribbean consist of its ownership interests, through wholly owned subsidiaries, in Belize Electricity, Caribbean Utilities and Fortis Turks and Caicos. Fortis holds a 70.1 per cent controlling interest in Belize Electricity, the principal distributor of electricity in Belize, Central America (December 31 – 68.5 per cent). On November 7, 2006, Fortis acquired 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 is the sole provider of electricity on Grand Cayman, Cayman Islands. Fortis Turks and Caicos was acquired on August 28, 2006 by Fortis through a wholly owned subsidiary. Fortis Turks and Caicos is the principal distributor of electricity in the Turks and Caicos Islands.

The Corporation's non-regulated electricity generation operations consist of its 100 per cent interest in each of BECOL, FortisOntario Inc. and FortisUS Energy, as well as non-regulated electricity generation assets owned by Fortis Properties and FortisBC Inc.

BECOL, a wholly owned indirect subsidiary, owns and operates the 25-MW Mollejon and the 7-MW Chalillo hydroelectric generating facilities, both of which are located on the Macal River in Belize, Central America. Fortis also holds all of the common shares of FortisOntario Inc., which includes 75 MW of water-right entitlement associated with the Niagara Exchange Agreement and the operation of a 5-MW gas-fired cogeneration plant in Cornwall.

Fortis Properties, a non-regulated wholly owned subsidiary, holds a 51 per cent interest in the Exploits Partnership. The Exploits Partnership was established with Abitibi-Consolidated, which holds the remaining 49 per cent interest, to develop additional capacity at Abitibi-Consolidated's hydroelectric generating plant at Grand Falls-Windsor, Newfoundland and Labrador and redevelop Abitibi-Consolidated's hydroelectric plant at Bishop's Falls, Newfoundland and Labrador. 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. Previously, the 51 per cent interest was held by CNE Energy Inc. Fortis Properties' assets also include the non-regulated electricity generation operations of the former FortisOntario Generation, which consists of 6 small hydroelectric generating stations in eastern Ontario with a combined capacity of 8 MW.

The non-regulated electricity generation operations of FortisBC Inc., conducted through Walden, its wholly owned partnership, consist of the 16-MW run-of-river Walden hydroelectric power plant near Lillooet, British Columbia. Through FortisUS Energy, a wholly owned subsidiary of Fortis Properties, the Corporation owns and operates 4 hydroelectric generating stations in Upper New York State with a combined capacity of 23 MW.

Through its wholly owned subsidiary, Fortis Properties, the Corporation has investments in hotels in seven Canadian provinces and commercial real estate in Atlantic Canada.

Principal Subsidiaries

The following table lists the principal subsidiaries of the Corporation, their jurisdictions of incorporation and the percentage of votes attaching to voting securities held directly or indirectly by the Corporation as at March 28, 2007. This table excludes certain subsidiaries, the total assets of which constituted less than 10 per cent of the Corporation's 2006 consolidated assets and the total revenues of which constituted less than 10 per cent of the Corporation's 2006 consolidated revenues.

Fortis Principal Subsidiaries		
Subsidiary	Jurisdiction of Incorporation	Percentage of votes attaching to voting securities beneficially owned, controlled or directed by the Corporation
FortisAlberta ⁽¹⁾	Alberta	100
FortisBC Inc. ⁽²⁾	British Columbia	100
Newfoundland Power	Newfoundland and Labrador	93.7 ⁽³⁾
Maritime Electric ⁽⁴⁾	Canada	100
Caribbean Utilities ⁽⁵⁾	Grand Cayman, Cayman Islands	54
Fortis Properties	Newfoundland and Labrador	100

⁽¹⁾ FortisAlberta Holdings, an Alberta corporation, owns all of the shares of FortisAlberta. FortisWest, a Canadian corporation, owns all of the shares of FortisAlberta Holdings. Fortis owns all of the shares of FortisWest.

⁽²⁾ Fortis Pacific Holdings, a British Columbia corporation, owns all of the shares of FortisBC Inc. FortisWest, a Canadian corporation, owns all of the shares of Fortis Pacific Holdings. Fortis owns all of the shares of FortisWest.

⁽³⁾ Fortis owns all of the common shares, 182,300 Series G First Preference Shares, 32,886 Series B First Preference Shares, 13,000 Series D First Preference Shares and 1,550 Series A First Preference Shares of Newfoundland Power which, at March 27, 2007, represented 93.7 per cent of its voting securities. The remaining 6.3 per cent of Newfoundland Power's voting securities consist of Series A, B, D and G First Preference Shares, which are primarily held by the general public.

⁽⁴⁾ Maritime Electric is a wholly owned subsidiary of Fortis Properties.

⁽⁵⁾ On November 7, 2006, Fortis, through a wholly owned subsidiary, acquired an additional 16 per cent ownership interest in Caribbean Utilities and now owns an approximate 54 per cent controlling interest in the Company.

2.0 GENERAL DEVELOPMENT OF THE BUSINESS

2.1 Three-Year History

Fortis 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 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 operating segments of the Corporation are: (i) Regulated Utilities - Canadian, (ii) Regulated Utilities - Caribbean, (iii) Non-Regulated - Fortis Generation; and (iv) Non-Regulated - Fortis Properties.

Over the past three years, the business operations of Fortis have increased significantly. Total assets have more than doubled, growing from \$2.2 billion at December 31, 2003 to \$5.4 billion at December 31, 2006. The Corporation's shareholders' equity has also more than doubled from \$0.6 billion at December 31, 2003 to \$1.4 billion at December 31, 2006. Over the past three years, earnings have doubled from \$73.6 million in 2003 to \$147.2 million in 2006. Significant growth occurred in 2004 as a result of the approximate \$1.5 billion acquisition of FortisAlberta and FortisBC Inc. Fortis has significantly increased its utility investments in the Caribbean through the acquisition of Fortis Turks and Caicos and the acquisition of a controlling interest in Caribbean Utilities and has increased its investments in hotels in Alberta and British Columbia.

The following is an overview of the Corporation's operating segments and the significant developments in each segment.

Regulated Utilities – Canadian

FortisAlberta

On May 31, 2004, Fortis, through an indirect wholly owned subsidiary, acquired all of the issued and outstanding shares of FortisAlberta, which owns and operates the electricity distribution system in a substantial portion of southern and central Alberta. FortisAlberta distributes electricity to approximately 430,000 customers using approximately 104,000 kilometres of power lines and met a peak demand of 2,584 MW in 2006. FortisAlberta's business is the ownership and operation of regulated electricity distribution facilities that distribute electricity generated by other market participants from high-voltage transmission substations to end-use customers. The Company is not involved in generation, transmission or the direct sale of electricity.

FortisBC

On May 31, 2004, Fortis, through an indirect wholly owned subsidiary, acquired all of the issued and outstanding shares of FortisBC Inc., which is an integrated regulated electric utility that owns a network of generation, transmission and distribution assets located in the southern interior of British Columbia. FortisBC Inc. serves a diverse mix of more than 152,000 customers, with residential customers representing the largest customer segment, and met a peak demand of 718 MW in 2006. FortisBC Inc. owns four regulated hydroelectric generating plants with an aggregate capacity of 235 MW, which provides approximately 45 per cent of the Company's energy and 30 per cent of its capacity needs. FortisBC Inc.'s remaining electricity supply is acquired through long-term power purchase contracts and short-term market purchases.

Included with the FortisBC component of the Regulated Utilities - Canadian segment are the non-regulated operating, maintenance and management services relating to the 450-MW Waneta

hydroelectric generating facility owned by Teck Cominco, the 149-MW Brilliant Hydroelectric Plant owned by CPC/CBT, the 185-MW Arrow Lakes Hydroelectric Plant owned by CPC/CBT and the distribution system owned by the City of Kelowna.

FortisBC also includes the regulated electric utility formerly operated as PLP, which was purchased on May 31, 2005, that serves approximately 3,500 customers, mainly in Princeton, British Columbia. Throughout 2005 and 2006, PLP purchased its wholesale power from FortisBC Inc. through a power purchase agreement. Effective January 1, 2007, PLP was amalgamated with FortisBC Inc. as part of an internal corporate reorganization.

Newfoundland Power

Fortis holds all of the common shares of Newfoundland Power, which is an electric utility that operates an integrated generation, transmission and distribution system throughout the island portion of Newfoundland and Labrador. Newfoundland Power serves approximately 230,000 customers, or 85 per cent of electricity consumers in the Province, in approximately 600 communities, and met a peak demand of 1,166 MW in 2006. Approximately 90 per cent of the electricity that Newfoundland Power sells to its customers is purchased from Newfoundland Hydro. Newfoundland Power has an installed generating capacity of 136 MW, of which 92 MW is hydroelectric generation.

Maritime Electric

Through its subsidiary, Fortis Properties, Fortis owns all of the common shares of Maritime Electric, which is the principal distributor of electricity on Prince Edward Island. Maritime Electric directly supplies approximately 71,000 customers, or 90 per cent of electricity consumers on the Island, and met a peak demand of 216 MW in 2006. The commissioning of a new 50-MW combustion turbine generator was completed in early 2006.

FortisOntario

The Corporation's regulated utility investments in Ontario, collectively FortisOntario, are composed of Canadian Niagara Power and Cornwall Electric. In total, its distribution operations serve approximately 52,000 customers in Fort Erie, Port Colborne, Cornwall and Gananoque in Ontario and met a combined peak demand of 233 MW in 2006. Included as part of Canadian Niagara Power is the operation of the electricity distribution business of Port Colborne Hydro, which has been leased from the City of Port Colborne under a 10 year lease agreement entered into in April 2002. FortisOntario also owns a 10 per cent interest in each of Westario Power and Rideau St. Lawrence, two regional electric distribution companies formed in 2000 serving more than 27,000 customers.

Regulated Utilities – Caribbean

Belize Electricity

Fortis, through wholly owned subsidiaries, holds a 70.1 per cent controlling interest in Belize Electricity. Belize Electricity is the primary distributor of electricity in Belize, Central America, serving more than 71,000 customers and met a peak demand of 67 MW in 2006.

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 and met a peak demand of 87 MW in 2006. Caribbean Utilities is a public company traded on the Toronto Stock Exchange (TSX:CUP.U) with an April 30th fiscal year end. On November 7, 2006, Fortis, through a wholly owned subsidiary, acquired an additional 16 per cent ownership interest in Caribbean Utilities and now owns approximately 54 per cent of the Company. The Corporation's investment in Caribbean Utilities resulted from a series of transactions from March 2000 through November 2006. 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 an equity basis under a

two-month lag.

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 consumers, in the Turks and Caicos Islands. The Company has an installed diesel-fired generating capacity of approximately 37 MW and met a peak demand of 25 MW in 2006. 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.

Non-Regulated – Fortis Generation

The following table summarizes the Corporation's non-regulated generation assets by location.

Fortis Non-Regulated Generation Assets			
Location	Plants	Fuel	Capacity (MW)
Belize	2	hydro	32
Ontario	8	hydro, thermal	88
Central Newfoundland	2	hydro	36
British Columbia	1	hydro	16
Upper New York State	4	hydro	23
Total	17		195

Belize

Non-regulated generation operations in Belize are conducted through the Corporation's wholly owned indirect subsidiary, BECOL, under a Franchise Agreement with the Government of Belize. BECOL owns and operates the 25-MW Mollejon hydroelectric facility and the 7-MW Chalillo hydroelectric facility, which was inaugurated on November 15, 2005. Both facilities are located on the Macal River in Belize, Central America. These generating plants have the capability of delivering average annual energy production of approximately 160 GWh. BECOL sells its entire output to Belize Electricity under a 50-year power purchase agreement expiring in 2055.

Ontario

Non-regulated generation assets in Ontario include the operations of FortisOntario Inc. and the former FortisOntario Generation. On December 14, 2005, FortisOntario Generation was transferred from FortisOntario Inc. to Fortis Properties and, on January 1, 2006, FortisOntario Generation was amalgamated with CNE Energy. On January 1, 2007, CNE Energy amalgamated with Fortis Properties.

FortisOntario Inc. includes 75 MW of water-right entitlement associated with the Niagara Exchange Agreement and the operation of a 5-MW gas-fired cogeneration plant in Cornwall. During 2005, the assets related to the 75 MW of water-right entitlement were written down as a result of the implementation of the Niagara Exchange Agreement. The Niagara Exchange Agreement assigns FortisOntario Inc.'s water rights on the Niagara River to 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.

Fortis Properties' generating operations in Ontario consist of six small hydroelectric generating stations in eastern Ontario with a combined capacity of 8 MW.

Central Newfoundland

Non-regulated generation operations in central Newfoundland are conducted through the Corporation's indirect 51 per cent interest in the Exploits Partnership. The Exploits Partnership is a partnership with Abitibi-Consolidated that constructed, installed and operates additional capacity at Abitibi-Consolidated's hydroelectric generating plant at Grand Falls-Windsor and redeveloped the forestry company's hydroelectric generating plant at Bishop Falls, Newfoundland and Labrador. Up to December 31, 2006, the 51 per cent interest in the partnership was held through CNE Energy, which was transferred from the Corporation's direct control to Fortis Properties on December 1, 2005. On January 1, 2007, CNE Energy amalgamated with Fortis Properties, which now directly holds the 51 per cent interest in the Exploits Partnership.

The project undertaken by the Exploits Partnership was completed in November 2003. Abitibi-Consolidated continues to utilize the historical annual generation of approximately 450 GWh while the additional energy produced from the new facilities, approximately 140 GWh, is sold to Newfoundland Hydro under a 30-year take-or-pay power purchase agreement expiring in 2033, which is exempt from regulation.

British Columbia

Non-regulated generation operations in British Columbia were acquired as part of FortisBC Inc. in May 2004. Generating assets in British Columbia consist of 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 generating operations in British Columbia are conducted through Walden, a wholly owned partnership of FortisBC Inc.

Upper New York State

Non-regulated generation operations in Upper New York State are conducted through the Corporation's wholly owned indirect subsidiary FortisUS Energy, which became a direct subsidiary of Fortis Properties on January 1, 2005 by way of a transfer from its subsidiary, Maritime Electric. Generating operations in Upper New York State include the operations of four hydroelectric generating stations with a combined generating capacity of 23 MW operating under licences from FERC. Effective January 1, 2007, all energy produced by FortisUS Energy is sold to National Grid at market prices.

Non-Regulated – Fortis Properties

Fortis has owned all the issued and outstanding shares of Fortis Properties since its inception in 1989. Fortis Properties owns and manages commercial real estate in Atlantic Canada and hotels in Newfoundland, Nova Scotia, New Brunswick, Ontario, Manitoba, Alberta and British Columbia.

Fortis Properties' hotel operations have grown significantly over the last three years. In February 2005, Fortis Properties acquired three hotels in Edmonton, Calgary and Winnipeg. This acquisition was a significant step in expanding the Company's hotel portfolio and broadening its geographic market base. To further increase its presence in Western Canada, in November 2006, Fortis Properties acquired four internationally branded hotels in Alberta and British Columbia, located in Lethbridge, Medicine Hat and Kelowna.

The following table summarizes hotels acquired since December 2003.

Fortis Properties			
Hotels acquired since December 2003			
Property	Location	Purchase Date	Price (\$ million)
Greenwood Inn Calgary	Calgary, AB	February 2005	(1)
Greenwood Inn Edmonton	Edmonton, AB	February 2005	(1)
Greenwood Inn Winnipeg	Winnipeg, MB	February 2005	(1)
Ramada Hotel and Suites Lethbridge	Lethbridge, AB	November 2006	(2)
Holiday Inn Express and Suites Medicine Hat	Medicine Hat, AB	November 2006	(2)
Best Western Medicine Hat	Medicine Hat, AB	November 2006	(2)
Holiday Inn Express Kelowna	Kelowna, BC	November 2006	(2)
<i>(1) Hotel was 1 of 3 hotels purchased for an aggregate purchase price of approximately \$63 million. The 3 hotels have a total of approximately 650 rooms and 27,000 square feet of conference space.</i>			
<i>(2) Hotel was 1 of 4 hotels purchased for an aggregate purchase price of approximately \$52 million. The 4 hotels have a total of 454 rooms and 5,500 square feet of conference space.</i>			

In February 2005, with the purchase of the three Greenwood Inn hotels, Fortis Properties bought the Greenwood Inn & Suites brand. In December 2005, the Holiday Inn Corner Brook was rebranded the Greenwood Inn & Suites Corner Brook.

In June 2005, Fortis Properties completed the expansion of the Delta St. John's, with the addition of 128 rooms and 3,000 square feet of conference space, making the Delta St. John's the largest hotel and conference centre in Atlantic Canada. The total cost of the expansion was approximately \$15 million.

During 2006, Fortis Properties completed the expansions of the Blue Cross Centre, the Holiday Inn Sarnia and the Holiday Inn Kitchener-Waterloo. The Blue Cross expansion opened on July 1, 2006 with the addition of 57,000 square feet of additional space at a total cost of approximately \$6.2 million. By the end of 2006, all 57,000-square feet of space had been committed for lease. In April 2006, Holiday Inn Sarnia opened its expansion with a new five-storey 70-room tower and an additional 3,000 square feet of banquet space. The total cost of the expansion was approximately \$7.8 million. Also, the 11,000-square feet expansion of conference facilities at the Holiday Inn Kitchener-Waterloo opened in April 2006. The cost to complete this expansion was approximately \$2.3 million.

On June 28, 2006, Fortis Properties sold the Days Inn Sydney for gross proceeds of \$4.5 million, resulting in a gain of \$2.1 million (\$1.6 million after-tax).

2.2 Acquisitions

Fortis Turks and Caicos

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 consumers, in the Turks and Caicos Islands pursuant to 50-year licences that expire in 2036 and 2037.

Fortis Properties

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.

Caribbean Utilities

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.

Terasen Inc.

On February 26, 2007, Fortis entered into an agreement (the “Acquisition Agreement”) with 3211953 Nova Scotia Company and Kinder Morgan, Inc. (NYSE:KMI), a US 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, Inc. 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, Inc. 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 the Underwriters 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. On March 15, 2007, the Subscription Receipt offering closed, the Underwriters exercised the Over-Allotment and, therefore, \$1,151,150,000 was placed into escrow. The gross proceeds from the sale of Subscription Receipts 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.

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.

On March 20, 2007, Fortis received a no-action letter from the Competition Bureau of Canada in respect of the acquisition of Terasen Inc. The no-action letter confirms the finding of the Commissioner of Competition that no grounds exist at this time for the Commissioner to initiate proceedings before the Competition Tribunal under the merger provisions of the *Competition Act* (Canada) in respect of this transaction. The granting of this no-action letter satisfies one of the closing conditions in the Acquisition Agreement between Fortis and Kinder Morgan, Inc.

2.3 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.

3.0 NARRATIVE DESCRIPTION OF THE BUSINESS

Regulated Utilities – Canadian

3.1 FortisAlberta

FortisAlberta is a regulated electricity distribution utility in the Province of Alberta. Its business is the ownership and operation of regulated electricity distribution facilities that distribute electricity generated by other market participants from high-voltage transmission substations to end-use customers. FortisAlberta is not involved in generation, transmission or the direct sale of electricity. FortisAlberta owns and/or operates a largely rural, low-voltage distribution network in central and southern Alberta, totaling approximately 104,000 kilometres of power lines. The Company's distribution network serves approximately 430,000 electricity customers, comprising residential, commercial, farm and industrial consumers of electricity.

Market and Sales

FortisAlberta's annual customer electricity sales increased to 14,851 GWh in 2006 from 14,445 GWh in 2005. Revenue was \$250.8 million in 2006 compared to \$259.8 million in 2005.

The following table compares the composition of FortisAlberta's 2006 and 2005 electric rate revenue and electricity sales by customer class.

FortisAlberta				
Electric Rate Revenue and Electricity Sales by Customer Class				
	Revenue <i>(per cent)</i>		GWh Sales ⁽¹⁾ <i>(per cent)</i>	
	2006	2005	2006	2005
Residential	31.7	30.1	15.6	15.3
Large commercial and industrial ⁽²⁾	25.9	23.8	60.9	60.9
Farms	11.7	11.4	8.4	8.5
Small commercial	12.6	12.0	8.0	7.9
Small oil and gas	8.2	8.0	6.1	6.3
Other	9.9	14.7 ⁽³⁾	1.0	1.1
Total	100.0	100.0	100.0	100.0

⁽¹⁾ GWh percentages presented exclude FortisAlberta's GWh sales to "transmission connected" customers. These sales consist primarily of large-scale industrial customers directly connected to the transmission grid. The Company collects energy sales information and discloses it as the volume risk on transmission throughput that resides with the distribution utility. This transmission revenue is recorded net of expenses in other revenue in FortisAlberta's financial statements.

⁽²⁾ Included in the large commercial and industrial customer class are large oil and gas customers.

⁽³⁾ Other includes revenue from sources other than the sale of electricity, including that related to street lighting services, net transmission revenue, rate riders, deferrals and adjustments. During 2005, other revenue included amounts associated with the resolution of tax-related matters associated with prior periods and the finalization of certain load settlement amounts and billing adjustments.

Regulation

FortisAlberta is regulated by the 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 in 2006, FortisAlberta's allowed ROE for 2006 was set at 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 contributions to 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, rather they are recovered in customer distribution rates when they become payable.

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.

Legal Proceedings

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 of the Corporation.

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

Human Resources

At December 31, 2006, FortisAlberta had 813 full-time employees, 38 part-time employees and 92 temporary and term employees. Approximately 74 per cent of the employees of the Company are members of a labour association represented by the UUWA. On February 28, 2006, FortisAlberta successfully ratified a two-year collective agreement which covers all UUWA employees and expires on December 31, 2007.

Franchise Agreements

Most of FortisAlberta's residential, commercial and industrial customers located within municipal boundaries are served through franchise agreements between the Company and the customers' municipality of residence. In Alberta, the standard franchise agreement, which could include a franchise fee payable to the municipality, is generally for 10 years and can be renewed for five years upon mutual consent of the parties. All municipal franchises are governed by legislation that requires the municipality or the utility to give notice and obtain AEUB approval if it intends to terminate its franchise agreement. Any agreement that is not renewed continues in effect until either the Company or the municipality terminates it with AEUB permission. If a franchise agreement is terminated and the municipality subsequently exercises its right under the *Municipal Government Act* (Alberta) to purchase the Company's distribution network within the municipality's boundaries, the Company must be compensated for such purchases.

FortisAlberta serves over 145 municipalities, of which 135 are on standardized individual franchise agreements. Substantially all of these agreements expire between 2011 and 2018. The Company is in the process of renewing or negotiating franchise agreements with eight additional municipalities and two summer villages, which are expected to be in place by the end of 2007.

Environmental Matters

Although primarily regulated at the provincial level, Canadian federal, provincial and municipal governments share jurisdiction over matters affecting the environment. As a result, the Company is subject to extensive federal, provincial and municipal regulations relating to the protection of the environment, including, but not limited to, air emissions, wildlife, water and land protection and the proper storage, transportation, disposal and release of hazardous and non-hazardous substances. In addition, both the provincial and federal governments have environmental assessment legislation, which is designed to foster better land-use planning, and to identify and mitigate potential environmental impacts of projects or undertakings prior to and after commencement.

The identification and mitigation of the potential environmental impacts of projects or undertakings is best addressed within the context of a formal system. FortisAlberta continues to establish and implement programs and procedures within the context of an EMS. The EMS is consistent with the guidelines of ISO 14001, an international standard for environmental management systems. The EMS provides a framework that allows for the identification of potential environmental impacts, the establishment of processes and programs to mitigate those impacts and the monitoring of performance to aid in the

continual improvement of FortisAlberta's environmental performance. The EMS is an evergreen system that continually incorporates the changing needs of the Company's business risks and priorities and the needs of its people. The strength of an EMS is tested by an audit of its programs and procedures. FortisAlberta anticipates completing the development of necessary audit protocols by the fourth quarter of 2007. The Company anticipates the commencement of an audit of the effectiveness of the EMS program in the first quarter of 2008.

3.2 FortisBC

FortisBC includes FortisBC Inc., an integrated, regulated electric utility that owns a network of generation, transmission and distribution assets located in the southern interior of British Columbia. FortisBC Inc. serves a diverse mix of more than 152,000 customers, approximately 102,000 of whom are served directly by the Company's assets while the remainder are served through the wholesale supply of power to municipal distributors. Residential customers represent the largest customer segment of the Company. FortisBC Inc.'s generation assets consist of four regulated hydroelectric generating plants on the Kootenay River with an aggregate capacity of 235 MW and annual energy output of approximately 1,580 GWh. FortisBC Inc. meets the balance of its requirements through a portfolio of long-term and short-term power purchase contracts approved by the BCUC, the costs of which are flowed through to customers. The transmission and distribution assets consist of approximately 6,750 kilometres of transmission and distribution power lines and 64 distribution substations. FortisBC also includes the regulated electric utility formerly operated as PLP, which was purchased on May 31, 2005, that serves approximately 3,500 customers, mainly in Princeton, British Columbia. Effective January 1, 2007, PLP was amalgamated with FortisBC Inc.

FortisBC also includes non-regulated operating, maintenance and management services relating to the 450-MW Waneta hydroelectric generation facility owned by Teck Cominco, the 149-MW Brilliant Hydroelectric Plant owned by CPC/CBT, the 185-MW Arrow Lakes Hydroelectric Plant owned by CPC/CBT and the distribution system owned by the City of Kelowna.

Market and Sales

FortisBC has a diverse customer base composed of residential, general service, industrial and municipal wholesale customers. Annual electricity sales increased to 3,038 GWh in 2006 from 2,968 GWh in 2005. Revenue increased to \$215.6 million in 2006 from \$194.7 million in 2005.

The following table compares the composition of FortisBC's 2006 and 2005 revenue and electricity sales by customer class.

FortisBC				
Revenue and Electricity Sales by Customer Class				
	Revenue (per cent)		GWh Sales (per cent)	
	2006	2005 ⁽¹⁾	2006	2005 ⁽¹⁾
Residential	41.6	41.2	36.8	36.4
General service	25.2	23.9	23.2	22.2
Wholesale	19.9	20.4	28.7	29.4
Industrial	8.8	9.2	11.3	12.0
Other ⁽²⁾	4.5	5.3	-	-
Total	100.0	100.0	100.0	100.0
⁽¹⁾ The 2005 figures include the results of PLP from May 31, 2005 onward.				
⁽²⁾ Other includes revenue from sources other than from the sale of electricity, including revenue of Fortis Pacific Holdings.				

Generation and Power Supply

FortisBC Inc. meets the electricity supply requirements of its customers through a mix of owned generation and short-term and long-term power purchase contracts. FortisBC Inc. owns four regulated hydroelectric generating plants on the Kootenay River with an aggregate installed capacity of 235 MW which provide approximately 45 per cent of the Company's energy needs and 30 per cent of its capacity needs.

FortisBC Inc.'s four hydroelectric generation facilities are governed by the CPA. The CPA is a multi-party agreement that enables the four separate owners of seven major hydroelectric generating plants (with a combined capacity of approximately 1,400 MW and located in relatively close proximity to each other) to coordinate the operation and dispatch of their plants.

The following table lists the plants and their owners.

Plant	Capacity (MW)	Owners
Canal Plant	580	BC Hydro
Waneta Dam	450	Teck Cominco
Kootenay River System	235	FortisBC Inc.
Brilliant Dam	149	CPC/CBT

Brilliant Power Corporation, Teck Cominco and FortisBC Inc. are collectively defined in the CPA as the Entitlement Parties. The CPA enables BC Hydro and the Entitlement Parties, through coordinated use of water flows subject to the 1961 Columbia River Treaty between Canada and the United States and storage reservoirs, and through the coordinated operation of generating plants, to generate more power from their respective generating resources than they could if they operated independently. Under the CPA, BC Hydro takes into its system all power actually generated by all six plants owned by the Entitlement Parties. In exchange for permitting BC Hydro to determine the output of these facilities, each of the Entitlement Parties is contractually entitled to a fixed annual entitlement of capacity and energy from BC Hydro, which is currently based on 30-year historical water flows. The Entitlement Parties receive their defined entitlements irrespective of actual water flows to the Entitlement Parties' generating plants and are, accordingly, insulated from the hydrology risk of water availability.

The majority of FortisBC Inc.'s remaining electricity supply is acquired through long-term power purchase contracts, consisting of the following:

- a 129-MW power purchase agreement with Brilliant Power Corporation, a long-term contract terminating in 2056;
- an additional ongoing agreement to purchase 20 MW of power pursuant to the Brilliant Power Purchase Agreement;
- a 200-MW power purchase agreement with BC Hydro terminating in 2013; and
- a number of small power purchase contracts with independent power producers.

The majority of these purchase contracts have been approved by the BCUC and prudently incurred costs thereunder flow through to customers through FortisBC's Inc.'s electricity rates. FortisBC Inc.'s contracts provide the Company with the flexibility to respond to changes in demand and the ability to manage commodity exposure.

Although FortisBC Inc. can currently meet the substantial majority of its customer supply requirements from its own generation and the long-term power purchase agreements described above, a portion of the customer load during the summer and winter peak-demand periods may need to be supplied from the market in the form of short-term power purchases. Costs related to such purchases, provided they are prudently incurred and accurately forecast, are largely flowed through to customers. FortisBC Inc. generally makes arrangements prior to the winter season to acquire power at known prices should the need arise.

Regulation

FortisBC Inc. is regulated by the BCUC, which administers acts and regulations pursuant to the *Utilities Commission Act* (British Columbia). FortisBC Inc. operates under both cost of service and PBR regulation 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 Inc.'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 Inc. increasing from 8.69 per cent to 9.20 per cent. FortisBC's allowed ROE has been reduced to 8.77 per cent for 2007 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 May 23, 2006, FortisBC Inc. 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 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 CPA between FortisBC Inc. 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.

Legal Proceedings

The B.C. Ministry of Forests 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 Inc. The Company is currently communicating with the B.C. Ministry of Forests and its insurers. In addition, FortisBC Inc. 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 of the Corporation.

On January 5, 2006, FortisBC Inc. was served 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 Inc. and who paid or have been charged FortisBC Inc.'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 which 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 of the Corporation.

Human Resources

At December 31, 2006, FortisBC, including PLP, had 573 employees. FortisBC has two separate collective agreements with IBEW, Local 213, one expiring on January 31, 2008 and the other expiring on March 31, 2009. FortisBC, including PLP, also has a collective agreement with COPE, Local 378, covering 456 employees which expires on January 31, 2011.

Environmental Matters

Although primarily regulated at the provincial level, Canadian federal, provincial and municipal governments share jurisdiction over matters affecting the environment. As a result, FortisBC is subject to extensive federal, provincial and municipal regulations relating to the protection of the environment including, but not limited to, air emissions, wildlife, water discharges and the generation, storage, transportation, disposal and release of various substances. In addition, both the provincial and federal governments have environmental assessment legislation which is designed to foster better planning and identify and mitigate potential environmental impacts of projects and undertakings prior to commencement.

FortisBC has developed an EMS that is consistent with the ISO 14001 standard. The intent of the EMS is to provide a framework that allows for the monitoring of performance and the establishment of processes to enhance that performance. The essence of FortisBC's EMS is the "plan, check, do and review" cycle,

which is the core of continuous improvement. This EMS is continually being refined in order to enhance FortisBC's environmental performance and to reflect organizational changes as they occur.

The EMS includes an environmental policy, a summary of the major environmental aspects of FortisBC's business, a summary of relevant environmental legislation and an internal reporting system, which includes reporting to the Board of Directors of FortisBC Inc. The environmental management programs, designed to achieve the objectives, measures and targets of the system, are in various stages of implementation. Reporting procedures and an environmental information management system are being developed, tested and implemented. The purpose of the environmental information management system is to identify environmental impacts and aid in the continual improvement of FortisBC's environmental performance.

3.3 Newfoundland Power

Newfoundland Power is the principal distributor of electricity on the island portion of Newfoundland and Labrador, serving approximately 230,000 customers, or 85 per cent of the Province's electricity consumers. The balance of the population is served by Newfoundland's other electric utility, Newfoundland Hydro, which also serves several larger industrial customers. Newfoundland Power owns and operates 30 small generating stations and over 10,000 kilometers of transmission and distribution lines. Approximately 90 per cent of the electricity that Newfoundland Power sells to its customers is purchased from Newfoundland Hydro. Newfoundland Power generates the remainder of its energy requirements.

Market and Sales

Annual weather-adjusted electricity sales decreased to 4,995 GWh in 2006 from 5,004 GWh in 2005. Revenue increased to \$421.3 million in 2006 from \$420.0 million in 2005.

The following table compares the composition of Newfoundland Power's 2006 and 2005 revenue and electricity sales by customer class.

Newfoundland Power				
Revenue and Electricity Sales by Customer Class				
	Revenue ⁽¹⁾ (per cent)		GWh Sales ⁽¹⁾ (per cent)	
	2006	2005	2006	2005
Residential	58.4	58.5	59.7	59.7
Commercial	35.6	35.8	39.6	39.6
Street Lighting	2.8	2.7	0.7	0.7
Other ⁽²⁾	3.2	3.0	-	-
Total	100.0	100.0	100.0	100.0

⁽¹⁾ Revenue and electricity sales reflect weather-adjusted values pursuant to Newfoundland Power's weather normalization reserve. Electricity sales and associated revenue for 2006 were recorded on an accrual basis (i.e. as service is delivered to customers). Corresponding amounts for 2005 were recorded on a billed basis (i.e. as customers are billed for the service they receive). The change to the accrual method had no material impact on annual electricity sales and revenue.

⁽²⁾ Includes revenue from sources other than from the sale of electricity, the most significant being joint-use of pole revenue.

Power Supply

Approximately 90 per cent of Newfoundland Power's power supply is purchased from Newfoundland Hydro. The principal terms of the supply arrangements with Newfoundland Hydro are regulated by the PUB on a basis similar to that upon which Newfoundland Power's service to its customers is regulated.

The purchased power rate structure includes charges for both demand and energy purchased from Newfoundland Hydro. The demand charge is based on applying a rate to the peak billing demand for the most recent winter season. The energy charge is a two-block charge with a higher second block charge set to reflect Newfoundland Hydro's marginal cost of generating electricity.

Newfoundland Power operates 30 small generating stations which generate approximately 10 per cent of the electricity sold by Newfoundland Power. The Company's hydro plants have a total capacity of approximately 92 MW. The diesel plants and gas turbines have a total capacity of approximately 7 MW and 37 MW, respectively.

Regulation

Under the provisions of the *Public Utilities Act* (Newfoundland and Labrador), the PUB has regulatory jurisdiction over the Company in respect of customer rates, capital expenditures, issuance of securities, terms of service and related matters. In exercising its jurisdiction over customer rates, the PUB is required to observe the power policy declared by the Government of Newfoundland and Labrador in the *Electrical Power Control Act, 1994* which includes the policy that rates should: (i) be reasonable and not unjustly discriminatory; (ii) be sufficient to provide a just and reasonable return to the producer or retailer; and (iii) not require that industrial customers subsidize the cost of power provided to rural customers.

In 1998, the PUB approved the use of an automatic adjustment formula in the rate-setting process to change the Company's allowed rate of return on rate base to reflect changes in 30-year Government of Canada bond yields. The automatic adjustment formula is based on an equity risk premium approach where the Company's return on common equity is based on the sum of the risk-free cost of capital, long-term Government of Canada bond yields, and a risk premium which varies based on changes to the risk-free cost of capital. In 2003, the PUB completed a review of the automatic adjustment formula and ordered its continued use, with some modifications, in setting rates for 2005, 2006 and 2007.

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. On December 7, 2006, the Company received an order from the PUB reducing its allowed return on rate base from 8.68 per cent for 2006 to 8.47 per cent for 2007 pursuant to the operation of the automatic adjustment formula. This reduction is based on a change in the allowed ROE for rate-setting purposes from 9.24 per cent for 2006 to 8.60 per cent for 2007.

Effective January 1, 2006, Newfoundland Power 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 the practice of mainstream Canadian utilities. 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 ("2005 Unbilled Revenue"). Pursuant to an Order of 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.

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.

Legal Proceedings

Newfoundland Power settled its outstanding tax dispute with the CRA in the second quarter of 2005. At issue was the method used by the Company to recognize revenue from electricity sales. The Company's practice had been to record revenue on a billed basis, consistent with how customer rates were established by the PUB. CRA's position was that revenue should be recorded on an accrual basis for income tax purposes.

Newfoundland Power entered into an agreement with the CRA that provided for the full settlement of this issue on a prospective basis. Under the terms of the settlement, CRA cancelled all outstanding reassessments related to Newfoundland Power's revenue recognition policy in past years and refunded the income tax deposit it held on behalf of the Company along with interest.

Newfoundland Power now records revenue for income tax purposes on the accrual basis starting in 2006 and, in each of the 2006, 2007 and 2008 taxation years, includes as revenue for income tax purposes, one-third of the unbilled revenue at December 31, 2005.

Human Resources

At December 31, 2006, Newfoundland Power had 552 employees of which 305 were members of bargaining units represented by the IBEW, Local 1620.

The Company has two collective agreements governing its union employees represented by IBEW. Both contracts are effective up to September 30, 2008. Newfoundland Power did not experience any significant labour issues in 2006.

Environmental Matters

Newfoundland Power is subject to various federal, provincial and local laws and regulations pertaining to the environment, including those relating to the generation, storage, handling, disposal and emission of various substances and wastes.

The Company's policy is to provide electricity service to its customers in an environmentally responsible manner and to meet the requirements of all environmental legislation and comply with all accepted standards of environmental protection. To fulfill these policy objectives, Newfoundland Power has created and implemented an EMS, portions of which utilize documented procedures to control activities that can affect the environment. These procedures include emergency response procedures that would be used in the event of an adverse environmental occurrence. Newfoundland Power conducts ongoing education programs for its employees to inform them of environmental issues and to encourage environmental responsibility at all levels of the Company.

The Company retained independent certified environmental auditors to conduct audits of Newfoundland Power's EMS in accordance with the requirements of the ISO 14001 standard. The Company uses the results of such audits to identify areas in which continual improvement to its EMS can be made.

Newfoundland Power continues to monitor changes in environmental compliance requirements and to implement procedures and safeguards necessary to ensure ongoing compliance with environmental requirements, to prevent environmental problems to the extent reasonably possible and to address expeditiously any such problems that may arise.

Environmental laws and regulations had no material effect on the capital expenditures, earnings or competitive position of Newfoundland Power in 2006 and, based on current laws, facts and circumstances, are not expected to have any material effect in the foreseeable future.

3.4 Maritime Electric

Maritime Electric operates an integrated electric utility, which directly supplies approximately 71,000 customers, constituting 90 per cent of electricity consumers on Prince Edward Island. Maritime Electric purchases most of the energy it distributes to its customers from NB Power, a provincial Crown Corporation. Maritime Electric's system is connected to the mainland power grid via two submarine cables between Prince Edward Island and New Brunswick, which are leased from the Government of Prince Edward Island. Maritime Electric owns and operates generating plants with a combined capacity of 150 MW on Prince Edward Island.

Market and Sales

Maritime Electric serves residential, commercial and industrial electricity customers. Annual electricity sales increased to 999 GWh in 2006 from 989 GWh in 2005. Revenue increased to \$122.4 million in 2006 from \$116.7 million in 2005.

The following table compares the composition of Maritime Electric's 2006 and 2005 revenue and electricity sales by customer class.

Maritime Electric				
Revenue and Electricity Sales by Customer Class				
	Revenue <i>(per cent)</i>		GWh Sales <i>(per cent)</i>	
	2006	2005	2006	2005
Residential	46.7	47.0	41.4	41.7
Commercial and industrial	50.1	50.2	57.9	57.7
Street Lighting	1.6	1.4	0.7	0.6
Other ⁽¹⁾	1.6	1.4	-	-
Total	100.0	100.0	100.0	100.0

⁽¹⁾ Includes revenue from sources other than from the sale of electricity.

Power Supply

Maritime Electric purchased 1,045.0 GWh of the 1,086.5 GWh required to meet its customers' needs from NB Power in 2006. The balance was met through Maritime Electric's on-Island generation facilities, as well as the purchase of 38.9 GWh of wind energy produced on Prince Edward Island. Maritime Electric's generation facilities are located in Charlottetown and Borden Carleton and have a total installed capacity of approximately 150 MW, with its oil-fired steam plant and gas turbines having a total capacity of 60 MW and 90 MW, respectively. The new 50-MW combustion turbine generator, commissioned early in 2006, can operate on light oil or natural gas and is located at the Company's Charlottetown Plant. The Company's generating capacity is used primarily for peaking, submarine cable loading issues and emergency purposes.

In 2006, approximately 19.3 per cent of the energy that Maritime Electric purchased from NB Power came from the Point Lepreau Station. During 2006, the Point Lepreau Station had an annual capacity factor of 78.8 per cent compared to 80.1 per cent in 2005.

In 1998, NB Power announced the results of an independent consultant audit of the Point Lepreau Station, which concluded that its remaining life was less than the estimate that had been used by NB Power for the purposes of calculating depreciation. Accordingly, the consultant and NB Power's external auditors recommended that NB Power reduce the Point Lepreau Station's net book value by \$450 million. Maritime Electric's obligations in respect of the Point Lepreau Station Unit Participation Agreement required a payment of approximately \$6 million in 2001, which is being amortized over the estimated life of the Point Lepreau Station.

The Point Lepreau Station is scheduled for a major refurbishment in 2008 that will extend its estimated life to 2035.

Legislation proclaimed by the Government of Prince Edward Island will see an increased reliance by Maritime Electric on renewable energy sources, such as wind-powered energy, located on Prince Edward Island. By 2010, Maritime Electric will be required to obtain at least 15 per cent of its annual energy requirements from renewable sources. In 2006, the Company signed an agreement with PEI Energy Corporation which will see the Company purchase 39 MW of wind-powered energy from PEI Energy Corporation's new wind farm.

In 2005, Maritime Electric signed a Memorandum of Understanding with the Government of Prince Edward Island in respect of a \$30 million upgrade of the Island's transmission system to accommodate large-scale commercial wind-power development. This upgrade, which commenced in 2006, is expected to take place over a five-year period.

Regulation

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 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 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 also approved Maritime Electric's maximum allowed ROE at 10.25 per cent for 2006 and 2007 and 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 December 2006, IRAC approved, for 2007, 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.

In November 2006, IRAC approved a new energy purchase agreement with NB Power covering the period from November 2006 to March 2008. The cost of energy under the new energy purchase agreement is subject to the operation of the ECAM.

The *Electric Power Act* (Prince Edward Island) requires Maritime Electric to maintain at least 40 per cent of its capital structure in the form of common equity. At December 31, 2006, the common equity component of Maritime Electric's capital structure was 40.8 per cent compared to 42.7 per cent at December 31, 2005.

Legal Proceedings

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.

Human Resources

At December 31, 2006, Maritime Electric had 175 full-time employees, of which 123 employees were represented by IBEW, Local 1432. A new collective agreement covering the period ending December 31, 2008 was negotiated and signed with the IBEW, Local 1432 in 2005.

Environmental Matters

Maritime Electric is subject to environmental regulation under various federal, provincial and local laws and regulations, including those relating to the generation, storage, handling, disposal and emission of various substances and wastes.

Maritime Electric conducts its operations with a view to complying with all applicable federal, provincial and local environmental laws and regulations. Environmental policies and procedures are reviewed

periodically and updated as required. New procedures are developed as required and employees affected by the new or updated procedures receive appropriate training.

During 2006, Maritime Electric continued its program of environmental audits and site assessments on selected properties. Environmental laws and regulations had no material effect on the capital expenditures, earnings or competitive position of Maritime Electric in 2006 and, based on current laws, facts and circumstances, are not expected to have any material effect in the future.

3.5 FortisOntario

The Corporation's regulated utility investments in Ontario, collectively FortisOntario, are composed of Canadian Niagara Power, including the operations of Port Colborne Hydro, and Cornwall Electric. In total, FortisOntario's distribution operations serve approximately 52,000 customers in the Fort Erie, Port Colborne, Cornwall and Gananoque areas of Ontario. Canadian Niagara Power owns international transmission facilities at Fort Erie, Ontario and owns a 10 per cent interest in each of Westario Power and Rideau St. Lawrence, two regional electric distribution companies formed in 2000 serving over 27,000 customers.

The following table provides an overview of FortisOntario's regulated utility operations.

FortisOntario Regulated Utility Operations				
Company	Service Territory	Customers (#)	Peak Demand (MW)	Employees (#)
Canadian Niagara Power ⁽¹⁾	Fort Erie	15,400	58.8	79
	Port Colborne ⁽²⁾	9,200	41.7	1
	Gananoque	3,600	13.8	6
Cornwall Electric	Cornwall	23,400	119.0	47
Total		51,600	233.3	133 ⁽³⁾
⁽¹⁾ Canadian Niagara Power also owns a 10 per cent interest in each of Westario Power and Rideau St. Lawrence.				
⁽²⁾ Canadian Niagara Power signed a 10-year operating lease agreement with the City of Port Colborne in 2002.				
⁽³⁾ Includes seven employees in Corporate and Non-Regulated Generation operations in Ontario.				

Market and Sales

Annual electricity sales were 1,163 GWh in 2006 compared to 1,195 GWh in 2005. FortisOntario's revenue was \$130.0 million in 2006 compared to \$139.7 million in 2005.

The following table compares the composition of FortisOntario's 2006 and 2005 revenue and electricity sales by service territory.

FortisOntario				
Revenue and Electricity Sales by Service Territory				
	Revenue <i>(per cent)</i>		GWh Sales <i>(per cent)</i>	
	2006	2005	2006	2005
Fort Erie	24.0	22.3	24.7	24.2
Port Colborne	15.0	14.0	16.9	15.9
Gananoque	6.3	6.6	6.5	7.1
Cornwall	54.7	57.1	51.9	52.8
Total	100.0	100.0	100.0	100.0

The following table compares the composition of FortisOntario's 2006 and 2005 revenue and electricity sales by customer class.

FortisOntario				
Revenue and Electricity Sales by Customer Class				
	Revenue <i>(per cent)</i>		GWh Sales <i>(per cent)</i>	
	2006	2005	2006	2005
Residential	44.2	41.7	41.7	42.3
Commercial	51.2	51.0	57.6	57.1
Other ⁽¹⁾	4.6	7.3	0.7	0.6
Total	100.0	100.0	100.0	100.0

⁽¹⁾ Includes revenue from sources other than from the sale of electricity.

Power Supply

Canadian Niagara Power purchases its power requirements for Fort Erie and Port Colborne from the IESO. Under the Standard Supply Code of the OEB, Canadian Niagara Power is obliged to provide Standard Service Supply to all its customers who do not choose to contract with an electricity retailer. This energy is provided to customers at either regulated or market prices. Designated customers and low-volume customers with annual usage less than 250,000 kWh receive this power at a two-tiered pricing regime. For residential customers, the first 1,000 kWh per month is currently priced at 5.5 cents per kWh and any consumption above that amount is priced at 6.4 cents per kWh. The threshold of the two-tiered pricing regime changes twice a year. In May, the first block drops to 600 kWh and, in November, it returns to 1,000 kWh. For non-residential and designated customers, the first 750 kWh is currently priced at 5.5 cents per kWh and any consumption above that amount is priced at 6.4 cents per kWh.

In Gananoque, Canadian Niagara Power's distribution system is embedded within Hydro One Networks. Approximately 83 per cent of energy requirements for Gananoque are met through monthly energy purchases from Hydro One Networks and the remaining 17 per cent is purchased from six hydroelectric generating plants owned by Fortis Properties. The energy is purchased at the hourly Ontario Energy Price. Energy sales to customers in Gananoque are treated in the same manner as those in Fort Erie and Port Colborne. Cost differences arising from sales at the regulated prices are settled with the IESO through the monthly invoicing process with Hydro One Networks.

Cornwall Electric purchases 98 per cent of its power requirements from Hydro-Québec Energy Marketing under two fixed-term contracts. The first contract, which represents approximately 38 per cent of the power supply, expires in 2019. The second contract, which supplies the remainder of the power from Hydro-Québec Energy Marketing, is a 24-month rolling contract expiring in 2008. FortisOntario Inc.'s 5-MW gas-fired cogeneration plant generates the remaining two per cent of the power requirement in Cornwall.

Regulation

Canadian Niagara Power and Cornwall Electric operate under the *Electricity Act* (Ontario) and the *Ontario Energy Board Act* (Ontario) as administered by the OEB. Canadian Niagara Power operates under cost of service regulation and earnings are regulated on the basis of rate of return on rate base, plus a recovery of allowable distribution costs. Cornwall Electric is exempt from many aspects of these Acts and is also subject to a 35-year Franchise Agreement with the City of Cornwall, dated July 31, 1998. Rates under the Franchise Agreement are subject to 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 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 and designated 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 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.

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 to submit in three tranches 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.

Human Resources

At December 31, 2006, FortisOntario had 133 employees, of which 31 were represented by CUPE, Local 137, 44 were represented by IBEW, Local 636 in the Niagara Region and 6 were represented by IBEW, Local 636 in Gananoque. The collective agreements governing these employees expire on April 30, 2009, May 31, 2009 and July 31, 2009, respectively.

Environmental Matters

FortisOntario is subject to various federal, provincial and local laws and regulations pertaining to the environment including those relating to the generation, storage, handling, disposal and emission of various substances and wastes.

FortisOntario conducts its operations with a view to complying with all applicable federal, provincial and local environmental laws and regulations. Environmental policies and procedures are reviewed periodically and are updated as required. New procedures are developed as required and employees affected by the new or updated procedures receive appropriate training.

Environmental laws and regulations had no material effect on the capital expenditures, earnings or competitive position of FortisOntario in 2006 and, based on current laws, facts and circumstances, are not expected to have any material effect in the future.

Regulated Utilities – Caribbean

3.6 Belize Electricity

Belize Electricity is the primary commercial transmitter and distributor of electricity in Belize, Central America, serving more than 71,000 customers. Belize Electricity meets its energy demand from multiple sources, which include power purchases from: (i) CFE, the Mexican state-owned power company; (ii) the Mollejon and Chalillo hydroelectric facilities owned and operated by BECOL; and (iii) its own diesel-fired and gas turbine generation. All major load centers are connected to Belize's national electricity system, which is connected to the Mexican electricity system, allowing Belize Electricity to optimize its power supply options.

Market and Sales

Annual electricity sales increased to 360 GWh in 2006 from 350 GWh in 2005. Revenue increased to BZ\$156.1 million in 2006 from BZ\$125.4 million in 2005.

The following table compares the composition of Belize Electricity's 2006 and 2005 revenue and electricity sales by customer class.

Belize Electricity				
Revenue and Electricity Sales by Customer Class				
	Revenue (per cent)		GWh Sales (per cent)	
	2006	2005	2006	2005
Residential	55.3	55.7	56.6	57.9
Commercial and industrial	33.1	32.7	36.8	35.4
Street Lighting	7.4	7.7	6.6	6.7
Other ⁽¹⁾	4.2	3.9	-	-
Total	100.0	100.0	100.0	100.0

⁽¹⁾ Includes revenue from sources other than from the sale of electricity.

Power Supply

Belize Electricity purchased and produced 418 GWh of electricity in 2006. Belize Electricity purchased 210 GWh from CFE and 178 GWh from the Mollejon and Chalillo hydroelectric generating facilities. The balance of 30 GWh was produced by Belize Electricity's diesel-fired generation, which has an installed capacity of 37 MW.

With Belize Electricity experiencing annual growth in energy demand of approximately three per cent to seven per cent over the past three years, the Company continues to pursue initiatives to increase in-country generation supply to enhance its ability to meet demand. In July 2005, a request for proposals for 25 MW of baseload generation in 2007 and 15 MW in 2009 was issued to potential independent power producers. Since the Company did not finalize any power purchase agreements with potential suppliers in 2006 as a result of this request, Belize Electricity entered into a two-year contract with CFE in August 2006 for the supply of 15 MW of firm energy and up to a maximum of 40 MW on an economic basis if no firm energy is utilized.

The Chalillo hydroelectric facility, which was completed on September 12, 2005, provided the Company with additional power supply during 2006. In addition to the Mollejon plant, the combined energy supplied from hydroelectric sources was approximately 43 per cent of the total system during 2006 compared to 17 per cent during 2005. Hydro Maya, a private small hydroelectric developer in southern Belize with which Belize Electricity has a power purchase agreement, has constructed a 3-MW run-of-river hydroelectric plant. The facility became operational in February 2007. On December 1, 2004, an agreement was signed with Belize Cogeneration Energy Limited for the supply of approximately 14 MW of capacity and energy which is scheduled to commence in mid-2009.

Regulation

Belize Electricity is regulated by the 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 VAD and the second is 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 10.0 per cent to 15.0 per cent. Belize Electricity's regulation includes a CPRSA designed to normalize changes in the price of electricity due to fluctuating cost of power. The CPRSA stabilizes electricity rates for consumers while providing Belize Electricity with a mechanism which permits the recovery of its cost of power.

Effective July 1, 2002, a 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 recovery are reviewed at each annual rate proceeding and at Threshold Event Review Proceedings which can occur at any time that deferrals of COP into the rate stabilization account 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 rate stabilization account 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 through 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.

Human Resources

At December 31, 2006, Belize Electricity had 254 permanent employees, including apprentices, of which 151 were represented by the BEWU. The Company's collective agreement with the BEWU was signed on November 29, 2000 and is to be reviewed every 5 years. Union negotiations commenced during the third quarter of 2006 for a new collective agreement and are ongoing.

Environment

As part of its ongoing commitment to fully comply with internationally acceptable environmental standards, Belize Electricity focused environmental initiatives on its generating plants. An EMS plan was fully implemented in the generation departments in 2004 and early 2005. The EMS plan was extended to the substation and garage departments in late 2005. Belize Electricity intends to have its operations ISO 14001 compliant by 2008. In an effort to achieve this, annual environmental audits, in accordance with the ISO standard, are completed.

During 2006, another environmental audit was completed and the Company demonstrated above-average compliance with the EMS plan.

Environmental laws and regulations had no material effect on the capital expenditures, earnings or competitive position of Belize Electricity in 2006 and, based on current law, facts and circumstances, are not expected to have any material effect in the future.

3.7 Caribbean Utilities

Caribbean Utilities is the sole provider of electricity on Grand Cayman, Cayman Islands, serving more than 22,000 customers. 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.

Market and Sales

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 an equity basis under a two-month lag.

The following table compares the composition of Caribbean Utilities' fiscal year ended April 30, 2006 and April 30, 2005 electricity revenue and electricity sales by customer class.

Caribbean Utilities				
Electricity Revenue and Electricity Sales by Customer Class				
	Revenue (per cent)		GWh Sales (per cent)	
	2006 ⁽¹⁾	2005 ⁽¹⁾	2006 ⁽¹⁾	2005 ⁽¹⁾
Residential	47.8	47.0	46.6	45.7
Commercial	51.1	52.0	52.3	53.1
Street lighting	1.1	1.0	1.1	1.2
Total	100.0	100.0	100.0	100.0
⁽¹⁾ For the years ended December 31, 2006 and 2005, Fortis reflected the Corporation's previous approximate 37 per cent ownership interest in Caribbean Utilities, on an equity basis under a two-month lag. The table above reflects Caribbean Utilities' electricity revenue and GWh sales for its years ended April 30, 2006 and 2005.				

Power Supply

Caribbean Utilities relies upon diesel generation to produce electricity for Grand Cayman. Grand Cayman has neither hydroelectric potential nor inherent thermal resources and the Company must rely upon diesel fuel imported to Grand Cayman primarily from refineries in the Caribbean and the Gulf of Mexico. The Company has an installed generating capacity of 120 MW.

During 2006, Caribbean Utilities entered into a project agreement with MAN B&W 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 related to this project.

Regulation

Caribbean Utilities operates the only electric utility on Grand Cayman, Cayman Islands pursuant to a 25-year exclusive Licence from the Government of the Cayman Islands, expiring in 2011. Provisions under the Licence allow 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. Additionally, 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 Government of the Cayman Islands 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 non-binding tentative agreement signed by Caribbean Utilities and the Government of the Cayman Islands in June 2004 expired following Hurricane Ivan. The current Licence is still in effect and is scheduled to expire in January 2011 or when replaced by a new Licence by mutual agreement. The Company resumed Licence renewal discussions with the Government of the Cayman Islands in November 2005.

In 2005, Caribbean Utilities and the Government of the Cayman Islands agreed on a 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 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 of the Cayman Islands 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.

Human Resources

Caribbean Utilities has 187 non-unionized full-time employees, approximately 90 per cent of whom are Caymanian.

Environmental Matters

Caribbean Utilities received ISO 14001:2004 certification of its electric power generation and other activities, products and services at the North Sound Road site in July 2005. The Company's ISO certification initiative was undertaken in 2002 as part of the Company's commitment to environmental responsibility and community leadership.

Caribbean Utilities launched several major environmental initiatives throughout the ISO 14001 certification process, including the implementation of an EMS as required by the standard.

Management of Caribbean Utilities believes that the Company conforms to all Cayman Islands planning regulations. There are environmental risks associated with Caribbean Utilities' operations, such as risks involved in the storage and handling of diesel fuel, emissions resulting from the burning of such fuel and the disposal of waste oil. Although environmental regulations in the Cayman Islands are less onerous than those in North America, Caribbean Utilities believes it acts responsibly in environmental matters and continues to monitor its operations in this regard.

3.8 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 consumers, in the Turks and Caicos Islands. 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.

Market and Sales

Annual electricity sales increased to 125 GWh in 2006 from 104 GWh in 2005. Electricity revenue increased to US\$29.8 million in 2006 from US\$25.3 million in 2005.

The following table compares the composition of Fortis Turks and Caicos' annual electricity revenue and electricity sales for 2006 and 2005 by customer class.

Fortis Turks and Caicos				
Electricity Revenue and Electricity Sales by Customer Class				
	Revenue (per cent)		GWh Sales (per cent)	
	2006 ⁽¹⁾	2005 ⁽¹⁾	2006 ⁽¹⁾	2005 ⁽¹⁾
Residential	36.6	37.3	33.6	34.7
Commercial	62.2	61.4	65.2	64.0
Street lighting	1.2	1.3	1.2	1.3
Total	100.0	100.0	100.0	100.0
⁽²⁾ The 2005 and 2006 figures are for the years ended December 31, 2005 and 2006, respectively. The Corporation acquired Fortis Turks and Caicos on August 28, 2006, therefore, only sales from August 28, 2006 onward are reflected in the Annual 2006 Consolidated Financial Statements of Fortis.				

Power Supply

Fortis Turks and Caicos relies upon diesel-fired generation with a generating capacity of approximately 37 MW to produce electricity for the Turks and Caicos Islands. In 2006, Fortis Turks and Caicos met a peak demand of 25 MW.

Fortis Turks and Caicos invested US\$13.8 million in capital projects during 2006 to meet customers' 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 in 2006 and preparations are underway for the installation of the remaining two units. A new 35-kV substation was energized in 2006 to meet the energy demand created by resort construction. In addition, three mobile generators were acquired to provide flexibility and respond to continued load growth. Requisite overhauls of the diesel-generator sets were completed and a specialized engine analysis was conducted to detect engine failure or defects.

Regulation

Fortis Turks and Caicos provides electricity to Providenciales, North Caicos and Middle Caicos through PPC and provides electricity to South Caicos through Atlantic for terms of 50 years under licenses dated October 1987 and November 1986, respectively. Among other matters, these licences 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 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.

Fortis Turks and Caicos makes annual submissions to the Government of the Turks and Caicos Islands calculating the amount of the allowable operating profits and the cumulative shortfalls. The submissions for 2006 calculated the allowable operating profits 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 licences 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.

Human Resources

Fortis Turks and Caicos has 79 non-unionized full-time employees, approximately 89 per cent of whom are Turks and Caicos Islanders.

Environmental Matters

Environmental regulations in the Turks and Caicos Islands are less onerous than those in North America, and accordingly, Fortis Turks and Caicos does not currently have a formal EMS. There are environmental risks associated with Fortis Turks and Caicos' operations, such as risks involved in the storage and handling of diesel fuel, emissions resulting from the burning of such fuel and the disposal of waste oil. Management believes that the Company acts responsibly in environmental matters and conforms to all Turks and Caicos Islands regulations.

Non-Regulated – Fortis Generation

Annual energy sales from non-regulated generation assets increased to 1,203 GWh in 2006 from 1,049 GWh in 2005. Revenue decreased to \$79.4 million in 2006 from \$84.0 million in 2005.

The following table compares the composition of Fortis Generation's 2006 and 2005 revenue and energy sales by location.

Fortis Generation				
Revenue and Energy Sales by Location				
	Revenue <i>(per cent)</i>		GWh Sales <i>(per cent)</i>	
	2006	2005	2006	2005
Belize	21.9	12.5	14.8	6.5
Ontario	42.7	58.6	60.0	67.5
Central Newfoundland	23.9	19.6	14.0	15.2
British Columbia	1.9	2.2	2.5	3.7
Upper New York State	9.6	7.1	8.7	7.1
Total	100.0	100.0	100.0	100.0

3.9 Belize

Non-regulated generation operations in Belize consist of the operations of BECOL. BECOL operates both the 25-MW Mollejon hydroelectric generating facility and the 7-MW Chalillo hydroelectric generating facility and sells the entire output to Belize Electricity under a 50-year power purchase agreement and a Franchise Agreement. Under these agreements, the Mollejon hydroelectric facility will be transferred to the Government of Belize in 2037 after which it will be leased by BECOL for a further 15 years. In September 2005, construction of the Chalillo hydroelectric facility was completed extending the terms of the revised power purchase agreement to the 50th anniversary of the Chalillo Project commencement date. The Franchise Agreement grants BECOL the right to use the water in the Macal River, upstream of the Mollejon hydroelectric facility, for hydroelectric generation. The Government of Belize has agreed not to grant any rights or take any action that would impede the amount or quality of water flow on the upper Macal River. BECOL was afforded full duty-free and tax-free status and the Government of Belize warrants that there is no limitation upon the repatriation or free exchange of funds.

BECOL was originally formed to develop and manage the hydroelectric potential of the Macal River in western Belize. The first project undertaken by BECOL was the 25-MW run-of-river hydroelectric plant at Mollejon and a 115-kV transmission line which was later sold to Belize Electricity. The Mollejon hydroelectric generating facility was commissioned with all units operational in November 1995 and began commercial operations in April 1996. After facing many environmental challenges, in May 2003 BECOL embarked on its second hydroelectric generating facility, Chalillo, upstream of the Mollejon hydroelectric generating facility. This 7-MW hydroelectric generating facility, which was completed in September 2005 and officially commissioned in November 2005, serves as an upstream storage facility which has enabled the energy output from the hydroelectric generating facilities on the Macal River to double to an average of 160 GWh annually.

BECOL received approval of the Environmental Impact Assessment for 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. Construction 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 90 GWh to approximately 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.

BECOL currently employs 25 full-time personnel, none of whom participate in a collective agreement. BECOL is a leader in environmental management in Belize and made its operations compliant with the ISO 14001 international environmental standards in 2002. Regular audits by external environmental auditors are conducted to ensure continued compliance.

3.10 Ontario

Non-regulated generation operations in Ontario include the operations of FortisOntario Inc. and the former FortisOntario Generation. On December 14, 2005, FortisOntario Generation was transferred from FortisOntario Inc. to Fortis Properties and was amalgamated with CNE Energy on January 1, 2006. On January 1, 2007, CNE Energy amalgamated with Fortis Properties. FortisOntario Inc. includes 75 MW of water-right entitlement associated with the Niagara Exchange Agreement and the operation of a 5-MW gas-fired cogeneration plant in Cornwall. Fortis Properties' generating operations in Ontario consist of six small hydroelectric generating stations with a combined capacity of approximately 8 MW.

During 2005, the assets related to the 75 MW of water-right entitlement were written down as a result of the implementation of the Niagara Exchange Agreement. The Niagara Exchange Agreement assigns FortisOntario Inc.'s water rights on the Niagara River to 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. During 2006, earnings contribution associated with the Rankine Generating Station under the Niagara Exchange Agreement was \$14.2 million.

The energy from the 5-MW gas-fired cogeneration plant is sold to Cornwall Electric. The energy from Fortis Properties' 6-MW plants in Gananoque is sold to Canadian Niagara Power and energy from the 2-MW Rideau plant is sold to the market.

3.11 Central Newfoundland

Non-regulated generation operations in central Newfoundland are conducted through the Corporation's indirect 51 per cent interest in the Exploits Partnership. The Exploits Partnership is a partnership with Abitibi-Consolidated that constructed, installed and operates additional capacity at Abitibi-Consolidated's hydroelectric generating plant at Grand Falls-Windsor, Newfoundland and Labrador and redeveloped the forestry company's hydroelectric generating plant at Bishop Falls, Newfoundland and Labrador. Up to December 31, 2006, the 51 per cent interest in the partnership was held through CNE Energy, which was transferred from the Corporation's direct control to Fortis Properties on December 1, 2005. On January 1, 2007, CNE Energy amalgamated with Fortis Properties, which now directly holds the 51 per cent interest in the Exploits Partnership.

The project undertaken by the Exploits Partnership was completed in November 2003. Abitibi-Consolidated continues to utilize the historical annual generation of approximately 450 GWh while the additional energy, approximately 140 GWh, produced from the new facilities is sold to Newfoundland Hydro under a 30-year take-or-pay power purchase agreement, which is exempt from regulation, expiring in 2033.

3.12 British Columbia

Non-regulated generation operations in British Columbia consist of the 16-MW run-of-river Walden hydroelectric power plant near Lillooet, British Columbia. This plant is a non-regulated operation that sells its entire output to BC Hydro under a power purchase agreement expiring in 2013. Generation operations in British Columbia were acquired as part of FortisBC Inc. in May 2004.

3.13 Upper New York State

Non-regulated generation operations in Upper New York State include the operations of four hydroelectric generating stations with a combined generating capacity of 23 MW operating under licences from FERC. These generating stations operate as FortisUS Energy, which became a direct subsidiary of Fortis Properties on January 1, 2005 by way of a transfer from its subsidiary, Maritime Electric. Effective January 1, 2007, two of the power purchase agreements were renewed and all four plants are now selling energy to National Grid at market rates.

Non-Regulated – Fortis Properties

3.14 Fortis Properties

Fortis Properties owns and operates 18 hotels with more than 3,200 rooms in seven Canadian provinces and approximately 2.7 million square feet of commercial real estate in Atlantic Canada. Included in Fortis Properties' holdings are the four hotels the Company acquired in Alberta and British Columbia on

November 1, 2006. As a wholly owned subsidiary of Fortis, Fortis Properties is the Corporation's vehicle for non-utility diversification and growth. In 2006, Fortis Properties derived approximately 34 per cent of its revenue from real estate operations and 66 per cent of its revenue from hotel operations. Fortis Properties derived approximately 48 per cent of its operating income from real estate operations and 52 per cent of its operating income from hotel operations.

Real Estate Division

Fortis Properties' Real Estate Division is anchored by high-quality tenants under long-term leases. The Real Estate Division ended 2006 with 94.9 per cent occupancy, compared to 95.9 per cent in 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. The average national occupancy rate was approximately 92.3 per cent at the end of 2006, compared to 90.8 per cent at the end of 2005. The average national occupancy rate at the end of 2006 was the highest national occupancy rate in over 20 years and, as a result, rental rates are expected to rise.

The following table sets out the office and retail properties owned by Fortis Properties, in each case as legal and beneficial owner.

Fortis Properties Office and Retail Properties			
Property	Location	Type of Property	Gross Lease Area (square feet 000's)
Fort William Building	St. John's, NL	Office	188
Cabot Place I	St. John's, NL	Office	133
TD Place	St. John's, NL	Office	93
Fortis Building	St. John's, NL	Office	82
Multiple Office	St. John's, NL	Office and Retail	70
Millbrook Mall	Corner Brook, NL	Retail	122
Fraser Mall	Gander, NL	Retail	102
Marystown Mall	Marystown, NL	Retail	87
Fortis Tower	Corner Brook, NL	Office	70
Viking Mall	St. Anthony, NL	Retail	69
Maritime Centre	Halifax, NS	Office and Retail	562
Brunswick Square	Saint John, NB	Office and Retail	512
Kings Place	Fredericton, NB	Office and Retail	292
Blue Cross Centre	Moncton, NB	Office and Retail	323
Total			2,705

Hospitality Division

At Fortis Properties' Hospitality Division, occupancy rates increased slightly in 2006 and improvements in average room rates were achieved. Average occupancy for 2006 was 64.2 per cent, which is slightly higher than 63.9 per cent for 2005, while the average daily rate increased to \$113.18 in 2006 from \$111.07 in 2005. These improvements resulted in revenue per available room increasing for the eleventh consecutive year to \$72.67 in 2006 from \$70.95 in 2005.

During the year, Fortis Properties expanded its hotel portfolio to 18 hotels and more than 3,200 rooms with the purchase of four internationally branded hotels in Alberta and British Columbia. Acquired for the purchase price of approximately \$52 million, these hotels are located in Lethbridge, Medicine Hat and Kelowna.

The hotels owned and managed by Fortis Properties are summarized as follows.

Fortis Properties Hotels			
Hotels	Location	Number of Guest Rooms	Conference Facilities (square feet 000's)
Delta St. John's	St. John's, NL	403	21
Holiday Inn St. John's	St. John's, NL	252	11
Mount Peyton	Grand Falls-Windsor, NL	150	3
Greenwood Inn Corner Brook	Corner Brook, NL	102	5
Four Points by Sheraton Halifax	Halifax, NS	177	2
Delta Sydney	Sydney, NS	152	10
Delta Brunswick	Saint John, NB	254	18
Holiday Inn Kitchener-Waterloo	Kitchener-Waterloo, ON	183	13
Holiday Inn Peterborough	Peterborough, ON	153	7
Holiday Inn Sarnia	Point Edward, ON	217	11
Holiday Inn Cambridge	Cambridge, ON	143	6
Greenwood Inn Calgary	Calgary, AB	210	9
Greenwood Inn Edmonton	Edmonton, AB	224	8
Greenwood Inn Winnipeg	Winnipeg, MB	213	10
Ramada Hotel and Suites Lethbridge	Lethbridge, AB	119	5
Holiday Inn Express and Suites Medicine Hat	Medicine Hat, AB	93	1
Best Western Medicine Hat	Medicine Hat, AB	122	-
Holiday Inn Express Kelowna	Kelowna, BC	120	-
Total		3,287	140

Human Resources

At December 31, 2006, Fortis Properties employed approximately 1,500 employees, 378 of whom are represented by the unions listed in the following table.

Fortis Properties Unions			
Property	Union	Expiry of Agreement	Number of Unionized Employees
Holiday Inn St. John's	CAW	August 31, 2009	48
Delta St. John's	UFCW	December 31, 2006	185
Greenwood Inn Corner Brook	CAW	March 11, 2007	36
East Side Mario's St. John's	CAW	July 31, 2007	57
Delta Sydney	CAW	September 30, 2008	41
St. John's Real Estate	IBEW	April 17, 2010	11
Total			378

Union negotiations commenced with CAW at the Delta St. John's in February 2007 as the union contract expired December 31, 2006.

Environmental Matters

Fortis Properties is committed to meeting the requirements of environmental standards related to its business operations. In assessing new properties, all buildings and hotels must meet environmental standards. This process is also applied to existing properties, ensuring environmental compliance by all facilities. Environmental laws and regulations had no material effect on the capital expenditures, earnings or competitive position of Fortis Properties in 2006 and, based on current law, facts and circumstances, are not expected to have any material effect in the future.

4.0 RISK FACTORS

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. Electricity 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 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 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 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 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 four-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 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 to 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 Electricity 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 Electricity 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 Government 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 effect 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 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 that was ratified in early January 2006 and expires on January 31, 2008. The collective agreement between FortisBC and Local 378 of COPE expired on January 31, 2006. COPE represents employees in office and professional occupations. The Company and COPE reached an agreement that was ratified in early July 2006 and expires on January 31, 2011.

The majority of employees at FortisAlberta are represented by the 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 that 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 BEWU 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.

5.0 GENERAL DESCRIPTION OF SHARE CAPITAL STRUCTURE

Share Capital

The authorized share capital of the Corporation consists of the following:

- (a) an unlimited number of Common Shares without nominal or par value;
- (b) an unlimited number of First Preference Shares without nominal or par value; and
- (c) an unlimited number of Second Preference Shares without nominal or par value.

On March 7, 2007, the Corporation issued a Final Prospectus qualifying for distribution 44,275,000 Subscription Receipts, including over-allotment, each of which will enable the holder thereof to receive one Common Share of the Corporation upon satisfaction of certain release conditions, including regulatory approval, pertaining to the Corporation's pending acquisition of the shares of Terasen Inc., a wholly owned subsidiary of Kinder Morgan, Inc, which is expected to close in mid-2007. The Subscription Receipt offering closed on March 15, 2007.

At March 27, 2007, the following Common Shares, Subscription Receipts and Preference Shares were issued and outstanding.

Share Capital	Issued and Outstanding	Votes per Share
Common Shares	109,554,402	One
Subscription Receipts	44,275,000	None
First Preference Shares, Series C	5,000,000	None
First Preference Shares, Series E	7,993,500	None
First Preference Shares, Series F	5,000,000	None

Holders of Common Shares are entitled to dividends on a pro rata basis if, as and when declared by the Board. Subject to the rights of the holders of the First Preference Shares and Second Preference Shares and any other class of shares of the Corporation entitled to receive dividends in priority to or rateably with the holders of the Common Shares, the Board may declare dividends on the Common Shares to the exclusion of any other class of shares of the Corporation.

On the liquidation, dissolution or winding-up of Fortis, holders of Common Shares are entitled to participate rateably in any distribution of assets of Fortis, subject to the rights of holders of First Preference Shares and Second Preference Shares and any other class of shares of the Corporation entitled to receive the assets of the Corporation on such a distribution in priority to or rateably with the holders of the Common Shares.

Holders of the Common Shares are entitled to receive notice of and to attend all annual and special meetings of the shareholders of Fortis, other than separate meetings of holders of any other class or series of shares, and are entitled to one vote in respect of each Common Share held at such meetings.

Each Subscription Receipt will entitle the holder thereof to receive, on satisfaction of certain 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 agreement pertaining to the acquisition of Terasen Inc. 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.

The 5,000,000 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. 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 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.

The 7,993,500 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. 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 E for cash or arrange for the sale of those shares to other purchasers.

On September 28, 2006, the Corporation issued 5,000,000 First Preference Shares, Series F at \$25.00 per share for proceeds of \$122.5 million, net of after-tax expenses. 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.

Convertible Debentures

The US\$10 million 6.75% Unsecured Subordinated Convertible Debentures are redeemable by the Corporation at par at any time on or after March 12, 2007 and are convertible, at the option of the holder, into the Corporation's Common Shares at US\$9.19 per share. The Debentures are subordinated to all other indebtedness of the Corporation, other than subordinated indebtedness ranking equally to the Debentures. There is no provision associated with these Debentures that restricts the payment of dividends.

The US\$10 million 5.50% Unsecured Subordinated Convertible Debentures are redeemable by the Corporation at par at any time on or after May 20, 2008 and are convertible, at the option of the holder, into the Corporation's Common Shares at US\$11.97 per share. The Debentures are subordinated to all other indebtedness of the Corporation, other than subordinated indebtedness ranking equally to the Debentures. There is no provision associated with these Debentures that restricts the payment of dividends.

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 annum. 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 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. There is no provision associated with these Debentures that restricts the payment of dividends.

Debt Covenant Restrictions on Dividend Distributions

In October 2000, Fortis issued \$100 million of 7.4% Senior Unsecured Debentures due October 2010. The Trust Indenture pertaining to the issue of such debentures contains a covenant which provides that Fortis shall not declare or pay any dividends (other than stock dividends or cumulative preferred dividends on preferred shares not issued as stock dividends) or make any other distribution on its shares if, immediately thereafter, its consolidated funded obligations would be in excess of 75 per cent of its total consolidated capitalization.

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. The \$250 million and \$50 million credit facilities can be used for general corporate purposes, including acquisitions. The credit facilities each contains a covenant which provides that Fortis shall not declare or pay any dividends or make any other restricted payments if, immediately thereafter, consolidated debt to consolidated capitalization ratio would exceed 70 per cent at any time.

In February 2007, Fortis 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 of Terasen Inc. The net proceeds from the Subscription Receipt offering and funds to be advanced under the acquisition credit facility will be used to finance the cash portion of the acquisition purchase price. The \$1.425 billion non-revolving credit facilities will contain covenants which provide that Fortis will be required to maintain a consolidated debt to consolidated capitalization ratio of not more than 85 per cent after the date of the acquisition agreement until the first anniversary of the closing of the acquisition of Terasen Inc. and 75 per cent at any time thereafter. These ratios will reduce automatically to 75 per cent and 70 per cent at any time during those respective periods if Fortis has received, free from any escrow conditions, aggregate proceeds from equity issuances of at least \$700 million.

6.0 DIVIDEND POLICY

Dividends on Common Shares of Fortis are declared at the discretion of the Board. Fortis paid cash dividends on its Common Shares of \$0.67 in 2006, \$0.59 in 2005 and \$0.54 in 2004. On September 28, 2006, the Board declared an increase in the regular quarterly dividend to \$0.19 per Common Share, with the first payment occurring on December 1, 2006. On December 7, 2006, the Board declared a regular quarterly dividend of \$0.19 per Common Share, which was paid on March 1, 2007 to holders of record on February 2, 2007. On February 8, 2007, Fortis announced that the Board declared a further increase in the regular quarterly dividend to \$0.21 per Common Share, which is payable on June 1, 2007 to holders of record on May 4, 2007.

Regular quarterly dividends at the prescribed annual rate of 5.45 per cent, or \$0.34 per share, 4.9 per cent, or \$0.31 per share, and 4.9 per cent or \$0.31 per share are paid on all of the First Preference Shares, Series C, First Preference Shares, Series E and First Preference Shares, Series F, respectively. The First Preference Shares, Series F were issued on September 28, 2006 and, accordingly, the first quarterly dividend paid on December 1, 2006 was prorated in the amount of \$0.21 per share.

On December 7, 2006, the Board declared a first quarter 2007 dividend on the First Preference Shares, Series C, First Preference Shares, Series E and First Preference Shares, Series F in accordance with the applicable prescribed annual rate. In each case, the first quarter 2007 dividend was paid on March 1, 2007 to holders of record on February 2, 2007. On March 9, 2007, the Board declared a second quarter 2007 dividend on the First Preference Shares, Series C, E and F in accordance with the applicable annual prescribed rate and is payable on June 1, 2007 to holders of record on May 4, 2007.

All dividends paid by the Corporation on its common shares and preference shares in the 2006 fiscal year have been, or will be, designated as “eligible dividends” for the purpose of entitling shareholders of the Corporation to a higher dividend tax credit in accordance with certain amendments to the *Income Tax Act* (Canada) and, where applicable, similar provisions of provincial or territorial income tax legislation.

7.0 CREDIT RATINGS

Securities issued by Fortis and its subsidiaries are rated by one or more credit rating agencies namely DBRS, S&P and/or Moody's. The ratings assigned to securities issued by Fortis are reviewed by these agencies on an ongoing basis. Credit ratings and stability ratings are intended to provide investors with an independent measure of credit quality of an issue of securities and are not recommendations to buy, sell or hold securities. Ratings may be subject to revision or withdrawal at any time by the rating organization. The following table summarizes, as at December 31, 2006, the Corporation's credit ratings.

Fortis Credit Ratings			
Company	DBRS	S&P	Moody's
Fortis	BBB (high), stable (unsecured debt)	BBB (unsecured debt)	N/A
FortisAlberta	A (low), stable (senior unsecured debt)	N/A	Baa 1, stable (senior unsecured debt)
FortisBC	BBB (high), stable (secured & unsecured debt)	N/A	Baa 3, stable (unsecured debt)
Newfoundland Power	A, stable (first mortgage bonds)	N/A	Baa 1, stable (first mortgage bonds)
Maritime Electric	N/A	A- (senior secured debt)	N/A
Caribbean Utilities	A (low), stable (senior unsecured debt)	A (senior unsecured debt)	N/A

DBRS rates debt instruments by rating categories ranging from AAA to D, which represents the range from highest to lowest quality of such securities. DBRS states that its long-term debt ratings are meant to give an indication of the risk that the borrower will not fulfill its obligations in a timely manner with respect to both interest and principal commitments. DBRS ratings do not take factors such as pricing or market risk into consideration and are expected to be used by purchasers as one part of their investment decision. Every DBRS rating is based on quantitative and qualitative considerations that are relevant for the borrowing entity. According to DBRS, a rating of A by DBRS is in the middle of three subcategories within the third highest of nine major categories. Such rating is assigned to debt instruments considered to be of satisfactory credit quality and for which protection of interest and principal is still substantial, but the degree of strength is less than with AA rated entities. Entities in the A category are considered to be more susceptible to adverse economic conditions and have greater cyclical tendencies than higher-rated entities. The assignment of a “(high)” or “(low)” modified within each rating category indicates relative standing within such category.

S&P long-term debt ratings are on a scale that ranges from AAA to C, which represents the range from highest to lowest quality of such securities. S&P uses “+” or “-” designations to indicate the relative standing of securities within a particular rating category. S&P credit ratings are current opinions of the financial security characteristics with respect to the ability to pay under contracts in accordance with their terms. This opinion is not specific to any particular contract, nor does it address the suitability of a particular contract for a specific purpose or purchaser. An issuer rated BBB or higher is regarded as having financial security characteristics that outweigh any vulnerabilities and is highly likely to have the ability to meet financial commitments.

Moody's long-term debt ratings are on a rating scale that ranges from Aaa to C, which represents the range from highest to lowest quality of such securities. In addition, Moody's applies numerical modifiers 1, 2 and 3 in each generic rating classification from Aa to Caa to indicate relative standing within such classification. The modifier 1 indicates that the security ranks in the higher end of its generic rating category, the modifier 2 indicates a mid-range ranking and the modifier 3 indicates that the security ranks in the lower end of its generic rating category. Moody's long-term debt ratings are opinions of relative risk of fixed-income obligations with an original maturity of one year or more. Such ratings reflect both the likelihood of default and any financial loss suffered in the event of default. According to Moody's, a rating of Baa is the fourth highest of nine major categories. Such a debt rating is assigned to debt instruments considered to be medium grade. Debt instruments rated Baa are subject to moderate credit risk and may possess certain speculative characteristics.

8.0 MARKET FOR SECURITIES

The Common Shares, First Preference Shares, Series C, First Preference Shares, Series E and First Preference Shares, Series F of Fortis are listed on the Toronto Stock Exchange under the symbols FTS, FTS.PR.C, FTS.PR.E and FTS.PR.F, respectively. On March 15, 2007, Fortis closed its Subscription Receipt offering and the Subscription Receipts commenced trading on the Toronto Stock Exchange on that date under the symbol FTS.R.

The following table sets forth the reported high and low trading prices and trading volumes for the Common Shares, First Preference Shares, Series C, First Preference Shares, Series E and First Preference Shares, Series F on a monthly basis for the year ended December 31, 2006.

Fortis						
2006 Trading Prices and Volumes						
Month	Common Shares			First Preference Shares, Series C		
	High (\$)	Low (\$)	Volume	High (\$)	Low (\$)	Volume
Jan	24.60	22.76	3,981,812	29.25	28.41	23,678
Feb	23.76	22.00	7,087,013	29.00	28.01	26,565
Mar	23.50	21.65	6,775,211	28.99	28.40	112,103
Apr	22.95	20.89	3,813,271	28.61	27.11	15,213
May	24.84	20.36	7,241,148	27.55	26.82	42,090
Jun	24.60	21.16	3,707,157	27.97	27.07	25,517
Jul	23.40	21.99	2,328,812	27.49	26.76	38,682
Aug	25.48	22.15	6,214,513	27.50	26.64	23,959
Sep	25.40	24.00	2,553,872	27.84	26.93	30,320
Oct	25.65	24.12	7,362,894	28.08	27.03	37,702
Nov	28.74	25.15	6,234,745	28.21	27.36	13,241
Dec	30.00	28.01	2,793,265	27.97	27.39	23,130
Month	First Preference Shares, Series E			First Preference Shares, Series F		
	High (\$)	Low (\$)	Volume	High (\$)	Low (\$)	Volume
Jan	28.09	27.66	92,956	-	-	-
Feb	27.85	27.50	107,070	-	-	-
Mar	28.00	27.54	131,543	-	-	-
Apr	27.99	27.01	49,210	-	-	-
May	27.35	27.00	25,600	-	-	-
Jun	27.60	26.99	47,500	-	-	-
Jul	27.00	26.75	79,785	-	-	-
Aug	27.45	26.75	20,174	-	-	-
Sep	28.00	27.00	81,255	25.25	25.00	185,920
Oct	27.50	27.00	17,900	25.55	25.03	355,525
Nov	27.49	27.24	148,890	25.94	25.18	154,980
Dec	27.90	27.31	63,793	25.80	25.50	106,155

9.0 DIRECTORS AND OFFICERS

All Directors are elected annually. In 1998, the Board adopted a policy, effective from May 1999 that Directors would normally retire at the shareholder meeting next following the date on which they achieve age 70 or the tenth anniversary of their initial election to the Board. The following chart sets out the name and municipality of residence of each of the Directors of Fortis and indicates their principal occupations within five preceding years.

Fortis Directors	
Name	Principal Occupations Within Five Preceding Years
PETER E. CASE ⁽¹⁾ Freelton, Ontario	Mr. Case, 52, Principal of Peter Case Consulting, has been providing consulting services to the utility industry since 2003, following his retirement as Executive Director, Institutional Equity Research at CIBC World Markets. During his 17-year career as senior investment analyst with CIBC World Markets and BMO Nesbitt Burns and its predecessors, Mr. Case's coverage of Canadian and selected US pipeline and energy utilities was consistently rated among the top rankings. He was awarded a Bachelor of Arts and a Master of Business Administration from Queen's University and a Master of Divinity from Wycliffe College, University of Toronto. Mr. Case was appointed to the Board of Directors of FortisOntario Inc. in March 2003 and assumed the Chair of the FortisOntario Inc. Audit Committee in January 2004. Mr. Case does not serve as a director of any other reporting issuer.
BRUCE CHAFE ⁽¹⁾⁽²⁾⁽³⁾ St. John's, Newfoundland and Labrador	Mr. Chafe, 70, a Corporate Director, is a retired senior partner of Deloitte & Touche LLP. He achieved designation as a Chartered Accountant in 1960 and was engaged in the practice of public accounting with Deloitte & Touche LLP and predecessor firms throughout his career. Mr. Chafe's contribution to the profession was recognized with his appointment as Fellow of the Chartered Accountants in 1990. During 2006, Mr. Chafe was appointed Chair of the Board of Directors. Mr. Chafe is a director of Fortis Properties Corporation. He has served as a director of reporting issuers Newfoundland Power Inc. and FortisBC Inc. but does not serve as a director of any other reporting issuer.
GEOFFREY F. HYLAND ⁽³⁾ Caledon, Ontario	Mr. Hyland, 62, a Corporate Director, retired as President and Chief Executive Officer of ShawCor Ltd. in June 2005 after 37 years of service. He graduated from McGill University with a Bachelor of Engineering (Chemical) and from York University with a Master of Business Administration. 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, SCII Total Return Trust and Exco Technologies Limited.
LINDA L. INKPEN ⁽²⁾ St. John's, Newfoundland and Labrador	Dr. Inkpen, 59, a medical professional and educator, has been a physician in private practice since 1975. She has served as a Commissioner of the Royal Commission on Employment and Unemployment, Province of Newfoundland and Labrador and was President of the College of the North Atlantic. She is Chair of the Medical Advisory Committee of the St. John's, Newfoundland and Labrador area hospitals. Dr. Inkpen was named a member of the Order of Canada in 1998 and awarded the Queen's Jubilee Medal. She graduated from Memorial University of Newfoundland with a Bachelor of Science, a Bachelor of Education and a Bachelor of Medical Science and a Doctor of Medicine. Dr. Inkpen was appointed Chair of the Board of Fortis Properties Corporation in 2000 and is a past Chair of Newfoundland Power Inc. She does not serve as a director of any other reporting issuer.
H. STANLEY MARSHALL St. John's, Newfoundland and Labrador	Mr. Marshall, 56, is President and Chief Executive Officer of the Corporation. He joined Newfoundland Power Inc. in 1979 and was appointed President and Chief Executive Officer of Fortis Inc. in 1996. Mr. Marshall graduated from University of Waterloo with a Bachelor of Applied Science and from Dalhousie University with a Bachelor of Laws. He is a member of the Law Society of Newfoundland and Labrador and a Registered Professional Engineer in the Province of Newfoundland and Labrador. Mr. Marshall serves on the Boards of all Fortis companies (including Caribbean Utilities Company, Ltd.) and Toromont Industries Ltd.

Fortis Directors (continued)

Name	Principal Occupations Within Five Preceding Years
<p>JOHN S. McCALLUM ⁽¹⁾⁽²⁾ Winnipeg, Manitoba</p>	<p>Mr. McCallum, 63, has been a Professor of Finance at the University of Manitoba since July 1973. He served as Chairman of Manitoba Hydro from 1991 to 2000 and as Policy Advisor to the Federal Minister of Finance from 1984 to 1991. Mr. McCallum graduated from University of Montreal with a Bachelor of Arts (Economics) and a Bachelor of Science (Mathematics). He was awarded a Master of Business Administration from Queen's University and a PhD in Finance from University of Toronto. Mr. McCallum was appointed Chair of the Governance and Nominating Committee in May 2005. He is a director of FortisBC Inc. and FortisAlberta Inc. and chairs the Audit, Risk and Environment Committees of both companies. He also serves as a director of IGM Financial Inc., Wawanesa and Toromont Industries Ltd.</p>
<p>DAVID G. NORRIS ⁽¹⁾⁽³⁾ St. John's, Newfoundland and Labrador</p>	<p>Mr. Norris, 59, a Corporate Director, 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 the Department of Finance and Treasury Board, Government of Newfoundland and Labrador. Mr. Norris graduated with a Bachelor of Commerce from Memorial University of Newfoundland and a Master of Business Administration from McMaster University. On May 2, 2006, Mr. Norris was appointed Chair of the Audit Committee of the Corporation. He has been a director of Newfoundland Power Inc. since 2003, and was appointed Chair of that company's Board on April 26, 2006. Mr. Norris was appointed to the Board of Fortis Properties Corporation in 2006. He does not serve as a director of any other reporting issuer.</p>
<p>MICHAEL A. PAVEY ⁽³⁾ Moncton, New Brunswick</p>	<p>Mr. Pavey, 59, retired as Executive Vice President and Chief Financial Officer of Major Drilling Group International Inc. in September 2006. Prior to joining Major Drilling Group International Inc. in 1999, he held senior executive positions with TransAlta Corporation. Mr. Pavey graduated from University of Waterloo with a Bachelor of Applied Science (Mechanical Engineering) and from McGill University with a Master of Business Administration. He has been a director of Maritime Electric Company, Limited since 2001 and was appointed Chair of that company's Audit and Environment Committee in February 2003. Mr. Pavey does not serve as a director of any other reporting issuer.</p>
<p>ROY P. RIDEOUT ⁽²⁾⁽³⁾ Halifax, Nova Scotia</p>	<p>Mr. Rideout, 59, a Corporate Director, retired as Chairman and Chief Executive Officer of Clarke Inc. in October 2002. Prior to 1998, he served as President of Newfoundland Capital Corporation Limited. Mr. Rideout graduated with a Bachelor of Commerce from Memorial University of Newfoundland and obtained designation as a Chartered Accountant. He is the Chair of the Human Resources Committee and has held that position since May 2003. Mr. Rideout serves as a director of the Halifax International Airport Authority, Oceanex Inc. and NAV CANADA.</p>

⁽¹⁾ Serves on the Audit Committee

⁽²⁾ Serves on the Governance and Nominating Committee

⁽³⁾ Serves on the Human Resources Committee

The following table sets out the name and municipality of residence of each of the officers of Fortis and indicates the office held.

Fortis Officers	
Name and Municipality of Residence	Office Held
H. Stanley Marshall Paradise, Newfoundland and Labrador	President and Chief Executive Officer ⁽¹⁾
Barry V. Perry Mount Pearl, Newfoundland and Labrador	Vice President, Finance and Chief Financial Officer ⁽²⁾
Ronald W. McCabe St. John's, Newfoundland and Labrador	General Counsel and Corporate Secretary ⁽³⁾
Donna G. Hynes St. John's, Newfoundland and Labrador	Assistant Secretary ⁽⁴⁾
<p>⁽¹⁾ Mr. Marshall was appointed President and Chief Operating Officer, effective October 1, 1995. Effective May 1, 1996, Mr. Marshall became Chief Executive Officer.</p> <p>⁽²⁾ Mr. Perry was appointed Vice President, Finance and Chief Financial Officer effective January 1, 2004. Prior to that time, Mr. Perry was Vice President, Finance and Chief Financial Officer of Newfoundland Power.</p> <p>⁽³⁾ Mr. McCabe was appointed General Counsel and Corporate Secretary effective January 1, 1997.</p> <p>⁽⁴⁾ Ms. Hynes was appointed Assistant Secretary effective December 8, 1999. She joined Fortis as Manager, Investor and Public Relations in October 1999 and prior to that time was employed by Newfoundland Power.</p>	

As at December 31, 2006, the directors and officers of Fortis, as a group, beneficially owned, directly or indirectly, or exercised control or direction over 617,952 Common Shares, representing 0.6 per cent of the issued and outstanding Common Shares of Fortis. The Common Shares are the only voting securities of the Corporation.

10.0 AUDIT COMMITTEE

10.1 Education and Experience

The education and experience of each Audit Committee Member that is relevant to such Member's responsibilities as a Member of the Audit Committee are set out below. As at December 31, 2006, the Audit Committee was composed of the following persons.

Fortis Audit Committee	
Name	Relevant Education and Experience
PETER E. CASE Freelton, Ontario	Mr. Case has provided consulting services to the utility industry since 2003, following his retirement as Executive Director, Institutional Equity Research at CIBC World Markets. Mr. Case was awarded a Bachelor of Arts and a Master of Business Administration from Queen's University and a Master of Divinity from Wycliffe College, University of Toronto.
BRUCE CHAFE St. John's, Newfoundland and Labrador	Mr. Chafe is a Chartered Accountant and was appointed Fellow of the Chartered Accountants in 1990. He is a retired senior partner of Deloitte & Touche LLP.
JOHN S. McCALLUM Winnipeg, Manitoba	Mr. McCallum is a Professor of Finance at the University of Manitoba. Mr. McCallum graduated from the University of Montreal with a Bachelor of Arts (Economics) and a Bachelor of Science (Mathematics). He was awarded a Master of Business Administration from Queen's University and a PhD in Finance from the University of Toronto.
DAVID G. NORRIS (<i>Chair</i>) St. John's, Newfoundland and Labrador	Mr. Norris graduated with a Bachelor of Commerce from Memorial University of Newfoundland and a Master of Business Administration from McMaster University. Mr. Norris 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.

The Board has determined that each of the Audit Committee Members is independent and financially literate. Independent means free from any direct or indirect material relationship with the Corporation which, in the view of the Board, could reasonably be expected to interfere with the exercise of a Member's independent judgment as more particularly described in Multilateral Instrument 52-110-Audit Committees. Financially literate means having the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Corporation's financial statements.

10.2 Audit Committee Mandate

The text of the Corporation's Audit Committee Mandate is detailed below.

Objective

The Committee shall provide assistance to the Board by overseeing the external audit of the Corporation's annual financial statements and the accounting and financial reporting and disclosure processes and policies of the Corporation.

Definitions

In this mandate:

“**AIF**” means the Annual Information Form filed by the Corporation;

“**Committee**” means the Audit Committee appointed by the Board pursuant to this mandate;

“**Board**” means the board of directors of the Corporation;

“**CICA**” means the Canadian Institute of Chartered Accountants or any successor body;

“**Corporation**” means Fortis Inc.;

“**Director**” means a member of the Board;

“**Financially Literate**” means having the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breath and complexity of the issues that can reasonably be expected to be present in the Corporation’s financial statements;

“**External Auditor**” means the firm of chartered accountants, registered with the Canadian Public Accountability Board or its successor, and appointed by the shareholders of the Corporation to act as External Auditor of the Corporation;

“**Independent**” means free from any direct or indirect material relationship with the Corporation which, in the view of the Board, could reasonably be expected to interfere with the exercise of a Member’s independent judgment as more particularly described in Multilateral Instrument 52-110;

“**Internal Auditor**” means the person employed or engaged by the Corporation to perform the internal audit function of the Corporation;

“**Management**” means the senior officers of the Corporation;

“**MD&A**” means the Corporation’s management discussion and analysis prepared in accordance with National Instrument 51-102F1 in respect of the Corporation’s annual and interim financial statements; and

“**Member**” means a Director appointed to the Committee.

Composition and Meetings

1. The Committee shall be appointed annually by the Board and shall be comprised of three (3) or more Directors; all of whom are Independent and Financially Literate and none of whom is a member of Management or an employee of the Corporation or of any affiliate of the Corporation.
2. The Board shall appoint a Chair of the Committee on the recommendation of the Corporation’s Governance and Nominating Committee, or such other committee as the Board may authorize.

3. The Committee shall meet at least four (4) times each year and shall meet at such other times during the year as it deems appropriate. Meetings of the Committee shall be held at the call (i) of the Chair of the Committee, or (ii) of any two (2) Members, or (iii) of the External Auditor.
4. The President and Chief Executive Officer, the Vice President, Finance and Chief Financial Officer, the External Auditor and the Internal Auditor shall receive notice of, and (unless otherwise determined by the Chair of the Committee) shall attend all meetings of the Committee.
5. At any meeting of the Committee, a quorum shall be a simple majority of the Members.
6. The Chair of the Committee shall act as chair of all meetings of the Committee at which the Chair is present. In the absence of the Chair from any meeting of the Committee, the Members present at the meeting shall appoint one of their Members to act as Chair of the meeting.
7. Unless otherwise determined by the Chair of the Committee, the Secretary of the Corporation shall act as secretary of all meetings of the Committee.

Oversight of the External Audit and the Accounting and Financial Reporting and Disclosure Processes and Policies

The primary purpose of the Committee is oversight of the Corporation's external audit and the accounting and financial reporting and disclosure processes and policies on behalf of the Board. Management of the Corporation is responsible for maintaining appropriate accounting and financial reporting principles, policies, internal controls and procedures that provide for compliance with accounting standards and applicable laws and regulations. Management is responsible for the preparation and integrity of the financial statements of the Corporation.

1. Oversight of the External Audit

The oversight of the external audit pertains to the audit of the Corporation's annual financial statements.

- 1.1. The Committee is responsible for the evaluation and recommendation of the External Auditor to be proposed by the Board for appointment by the shareholders.
- 1.2. In advance of each audit, the Committee shall review the External Auditor's audit plan including the general approach, scope and areas subject to risk of material misstatement.
- 1.3. The Committee is responsible for approving the terms of engagement and fees of the External Auditor.
- 1.4. The Committee shall review and discuss the Corporation's annual audited financial statements, together with the External Auditor's report thereon, and MD&A with Management and the External Auditor to gain reasonable assurance as to the accuracy, consistency and completeness thereof. The Committee shall meet privately with the External Auditor. The Committee shall oversee the work of the External Auditor and resolve any disagreements between Management and the External Auditor.
- 1.5. The Committee shall use reasonable efforts, including discussion with the External Auditor, to satisfy itself as to the External Auditor's independence as defined in the CICA Assurance Handbook Section 5751.
- 1.6. The Committee shall be responsible for the oversight of the Internal Auditor.

2. Oversight of the Accounting and Financial Reporting and Disclosure Processes

- 2.1. The Committee shall recommend the annual audited financial statements together with the MD&A for approval by the Board.
- 2.2. The Committee shall review the interim unaudited financial statements with the External Auditor and Management, together with the External Auditor's review engagement report thereon.
- 2.3. The Committee shall review and approve publication of the interim unaudited financial statements together with the interim MD&A and earnings media release on behalf of the Board.
- 2.4. The Committee shall review and recommend approval by the Board of the Corporation's AIF, Management Information Circular, any prospectus and other financial information or disclosure documents to be issued by the Corporation prior to their public release.
- 2.5. The Committee shall use reasonable efforts to satisfy itself as to the integrity of the Corporation's financial information systems, internal control over financial reporting and the competence of the Corporation's accounting personnel and senior financial management responsible for accounting and financial reporting.

3. Oversight of Policies

The Committee shall review and report to the Board on policies relating to the accounting and financial reporting and disclosure processes and the oversight of the external audit of the Corporation's financial statements. In particular, the Committee shall review and report on policies dealing with:

- 3.1. the establishment and implementation of procedures for the receipt, retention and treatment of complaints received regarding accounting, internal control or auditing matters and the confidential and anonymous submission of concerns regarding questionable accounting or auditing matters;
- 3.2. the delegation of authority to the Committee regarding the use of financial derivative instruments and designation of hedging relationships;
- 3.3. the Corporation's pre-approval of audit and non-audit services provided by the External Auditor; and
- 3.4. the review, approval and monitoring of hiring personnel from the External Auditor.

Other

1. The Committee shall perform such other functions, including the periodic review of this mandate, as may from time to time be assigned to the Committee by the Board.
2. The Committee shall have the authority to engage independent counsel and other advisors as it determines necessary to carry out its duties and to set and authorize compensation for any such counsel or advisors engaged by the Committee.

Reporting

The Chair of the Committee, or another designated Member, shall report to the Board at each regular meeting on those matters which were dealt with by the Committee since the last regular meeting of the Board.

10.3 Pre-Approval Policies and Procedures

The Audit Committee has established a policy which requires pre-approval of all audit and non-audit services provided to the Corporation and its subsidiaries by the Corporation's external auditor. The Pre-Approval of Audit and Non-Audit Services Policy describes the services which may be contracted from the external auditor and the limitations and authorization procedures related thereto. This policy defines services such as bookkeeping, valuations, internal audit and management functions which may not be contracted from the External Auditor and establishes an annual limit for permissible non-audit services not greater than the total fee for audit services. Audit Committee pre-approval is required for all audit and non-audit services.

10.4 External Auditor Service Fees

The fees paid by the Corporation to Ernst & Young LLP, the Corporation's External Auditors, during each of the last two fiscal years for audit, audit-related, tax and non-audit services were as follows:

Fortis		
External Auditor Service Fees		
Ernst & Young LLP	2006	2005
Audit Fees	\$ 1,114,148	\$ 1,066,803
Audit-Related Fees	239,900	339,383
Tax Fees	232,797	135,789
Non-Audit Fees	-	-
Total	\$ 1,586,845	\$ 1,541,975

11.0 TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the Common Shares of Fortis is Computershare Trust Company of Canada in Montréal and Toronto.

12.0 AUDITORS

The auditors of the Corporation are Ernst & Young LLP, Chartered Accountants, The Fortis Building, 7th Floor, 139 Water Street, St. John's, NL A1C 1B2. The financial statements of the Corporation for the fiscal year ended December 31, 2006 have been audited by Ernst & Young. Ernst & Young report that they are independent of the Corporation in accordance with the Rules of Professional Conduct of the Institute of Chartered Accountants of Newfoundland.

13.0 ADDITIONAL INFORMATION

Reference is made to the MD&A on pages 38 through 87 of the 2006 Fortis Inc. Annual Report to Shareholders, which pages are incorporated herein by reference. The Corporation's MD&A and other additional information relating to the Corporation can be found on SEDAR at www.sedar.com.

Further additional information, including officers' and directors' remuneration and indebtedness, principal holders of the securities of Fortis, options to purchase securities and interests of insiders in material transactions, where applicable, is contained in the Management Information Circular of Fortis dated April 2, 2007 for the May 8, 2007 Annual Meeting of Shareholders. Additional financial information is also provided in the comparative financial statements of Fortis for the year ended December 31, 2006 and the MD&A related to such financial results.

Requests for additional copies of the above-mentioned documents as well as the 2006 Annual Information Form, should be directed to the Corporate Secretary, Fortis, P.O. Box 8837, St. John's, NL A1B 3T2 (telephone: 709.737.2800). In addition, such documentation and additional information relating to the Corporation is contained on the Internet at the Corporation's website at www.fortisinc.com.