

# Working Together



First Quarter Report 2005

**FORTIS** INC.

**Dear Shareholder:**

*Earnings applicable to common shares grew to \$39.2 million for the first quarter of 2005, almost double earnings of \$20.3 million for the same quarter last year. Earnings per common share were \$1.60, 37.9 per cent higher than earnings per common share of \$1.16 for the first quarter last year.*

*Results this quarter include a \$7.9 million after-tax gain resulting from the settlement of contractual matters between FortisOntario and Ontario Power Generation Inc. FortisOntario also signed the Niagara Exchange Agreement which details a transition plan for FortisOntario's water rights on the Niagara River which have been in place for almost 100 years and are scheduled to expire April 30, 2009.*



*The Corporation's earnings, excluding the impact of the settlement of contractual matters between FortisOntario and Ontario Power Generation Inc., although not a measure under generally accepted accounting principles, would have been \$31.3 million in the first quarter, or \$1.28 per common share, 10.3 per cent higher than earnings per common share of \$1.16 for the first quarter last year.*

*Overall, our Regulated Utilities contributed \$36.4 million in earnings for the first quarter. All utilities in this segment delivered solid results. FortisAlberta and FortisBC, which were acquired on May 31, 2004, contributed \$16.7 million to earnings this quarter.*

*Results for the Regulated Utilities segment also include \$0.7 million in earnings associated with recovery of expenses relating to damages to Caribbean Utilities in Grand Cayman from Hurricane Ivan. Overall, the earnings from Caribbean Utilities, inclusive of business interruption insurance, are returning to normal as the recovery efforts from Hurricane Ivan continue. Caribbean Utilities reports that service has been restored to approximately 84 per cent of its customers and remaining customers will be connected as soon as they have re-established facilities to receive service.*

*The decrease in earnings of the Corporation's Non-regulated Generation segment, excluding the impact of the OPGI Settlement, was mainly due to the decline in hydroelectric production in Belize as a result of lower rainfall levels. The decrease was partially mitigated by higher hydroelectric production in central Newfoundland.*

*Fortis Properties achieved a milestone this quarter with its expansion into western Canada. In February 2005, the Company acquired 3 Greenwood Inn-branded hotels in Edmonton, Calgary and Winnipeg for approximately \$62.6 million. Consistent with the vision of Fortis and our long-term growth strategy, this investment is expected to be accretive to Fortis shareholders immediately. Over the longer term, it is expected to provide returns above those generated by our utility investments.*

*As we move through 2005, we continue to remain focused on serving our customers well while growing our business profitably and delivering good returns to our shareholders.*

A handwritten signature in blue ink, appearing to read 'H. Stanley Marshall', with a long horizontal flourish extending to the right.

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

## Fortis Inc.

### Interim Management Discussion and Analysis

For the three months ended March 31, 2005

Dated May 5, 2005

The following analysis should be read in conjunction with the Fortis Inc. (“Fortis” or the “Corporation”) interim unaudited consolidated financial statements for the three months ended March 31, 2005 and the Management Discussion and Analysis and audited consolidated financial statements for the year ended December 31, 2004 included in the Corporation’s 2004 Annual Report. This material has been prepared in accordance with National Instrument 51-102 relating to Management Discussion and Analysis.

*Fortis includes forward-looking statements in this material. By their very nature, forward-looking statements are based on underlying assumptions and are subject to inherent risks and uncertainties surrounding future expectations generally. Such events include, but are not limited to, general economic, market and business conditions, regulatory developments, weather and competition. Fortis cautions readers that should certain events or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary significantly from those expected. For additional information with respect to certain of these risks or factors, reference should be made to the Corporation’s continuous disclosure materials filed from time to time with Canadian Securities Regulatory Authorities. The Corporation disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.*

Financial information in this release has been prepared in accordance with generally accepted accounting principles (“Canadian GAAP”) and is presented in Canadian dollars unless otherwise specified.

<b>Financial Highlights (Unaudited)</b>		
<b>Quarter Ended March 31<sup>st</sup></b>		
<i>(\$ millions, except per common share amounts)</i>	<b>2005</b>	<b>2004</b>
Revenue and equity income	381.8	250.8
Cash flow from operations	79.3	21.8
Net earnings applicable to common shares	39.2	20.3
Basic earnings per common share (\$)	1.60	1.16
Diluted earnings per common share (\$)	1.45	1.12
<b>Segmented Net Earnings Contribution</b>		
	<b>2005</b>	<b>2004</b>
Regulated Utilities – Canadian <sup>(1)</sup>	32.9	15.3
Regulated Utilities – Caribbean <sup>(2)</sup>	3.5	3.0
Non-regulated – Fortis Generation <sup>(3)</sup>	10.0	2.9
Non-regulated – Fortis Properties	1.5	1.0
Corporate	(8.7)	(1.9)
<b>Net earnings applicable to common shares</b>	<b>39.2</b>	<b>20.3</b>
<sup>(1)</sup> Includes the operations of Newfoundland Power, Maritime Electric, FortisOntario (comprised of Canadian Niagara Power and Cornwall Electric), FortisAlberta and FortisBC. <sup>(2)</sup> Includes the operations of Belize Electricity and the Corporation’s 37.3 per cent equity investment in Caribbean Utilities Company, Ltd. <sup>(3)</sup> Includes the operations of non-regulated generating assets in British Columbia, Ontario, central Newfoundland, Upper New York State and Belize.		

Net earnings for the first quarter were \$39.2 million, or \$1.60 per common share compared to \$20.3 million, or \$1.16 per common share in the first quarter of 2004. In the first quarter, Fortis reported a \$7.9 million after-tax gain resulting from the settlement of contractual matters (“OPGI Settlement”) between FortisOntario and Ontario Power Generation Inc. (“OPGI”). FortisOntario also signed the Niagara Exchange Agreement (“NEA”) which assigns FortisOntario’s water rights on the Niagara River to OPGI and facilitates the irrevocable exchange of 75 megawatts (“MW”) of wholesale electric power supply to FortisOntario from OPGI until April 30, 2009 in exchange for FortisOntario’s agreement not to seek renewal of the water entitlement at that time.

The Corporation's earnings excluding the impact of the OPGI Settlement, although not a measure under Canadian GAAP, would have been \$31.3 million in the first quarter, or \$1.28 per common share, 10.3 per cent higher than earnings per common share of \$1.16 last year. Although the Corporation believes that it is useful supplemental information, readers should be cautioned that this information should not be confused with or used as an alternative for net earnings determined in accordance with Canadian GAAP.

The earnings contributions from FortisAlberta and FortisBC, as well as timing of recognition of earnings at Newfoundland Power, primarily contributed to this increase. Fortis also reported \$0.7 million in earnings related to the recovery of hurricane-related expenses, associated with damages to Caribbean Utilities in Grand Cayman from Hurricane Ivan. Fortis Properties reported improved earnings over the same quarter last year. The increase in earnings per common share was constrained by lower hydroelectric production in Belize and the dilution created by the common share issuance on March 1, 2005.

## REGULATED UTILITIES – CANADIAN <sup>1</sup>

<b>Regulated Utilities – Canadian Financial Highlights (Unaudited) Quarter Ended March 31<sup>st</sup></b>		
<i>(\$ millions)</i>	<b>Earnings</b>	
	<b>2005</b>	<b>2004</b>
Newfoundland Power	13.0	12.0
Maritime Electric	2.1	2.0
FortisOntario	1.1	1.3
FortisAlberta <sup>(1)</sup>	7.8	-
FortisBC <sup>(1)</sup>	8.9	-
<b>Earnings</b>	<b>32.9</b>	<b>15.3</b>

Earnings from Regulated Utilities in Canada were \$32.9 million for the first quarter compared to \$15.3 million for the same quarter last year. The increase in quarterly earnings from Regulated Utilities in Canada related to the acquisition of the utilities in western Canada on May 31, 2004 and timing of recognition of earnings at Newfoundland Power.

### Newfoundland Power

<b>Newfoundland Power Financial Highlights (Unaudited) Quarter Ended March 31<sup>st</sup></b>		
	<b>2005</b>	<b>2004</b>
<b>Electricity Sales (GWh)</b>	<b>1,700</b>	<b>1,664</b>
<i>(\$ millions)</i>		
Revenue	135.4	126.1
Energy Supply Costs	83.1	76.8
Operating Expenses	14.2	14.0
Amortization	10.6	9.4
Finance Charges	7.7	7.6
Corporate Taxes	6.7	6.2
Non-controlling Interest	0.1	0.1
<b>Earnings</b>	<b>13.0</b>	<b>12.0</b>

Newfoundland Power's earnings for the first quarter were \$13.0 compared to \$12.0 million for the same quarter last year. Effective January 1, 2005, the introduction of a new purchased power rate structure changed the basis upon

<sup>1</sup> Regulated Utilities in Canada include the operations of Newfoundland Power, Maritime Electric, FortisOntario (comprised of Canadian Niagara Power and Cornwall Electric), FortisAlberta and FortisBC. On May 31, 2004, Fortis completed the transaction to acquire Aquila, Inc.'s 2 utilities in western Canada (renamed FortisAlberta and FortisBC). Financial results for FortisAlberta and FortisBC are since June 1, 2004 only.

which Newfoundland and Labrador Hydro (“Newfoundland Hydro”) charges Newfoundland Power for purchased power. Earnings for the quarter were approximately \$1.2 million higher compared to what earnings would have been under the prior rate structure. The \$1.2 million increase in earnings, which represents the net after-tax impact of lower energy supply costs and amortization expense, is expected to fully reverse in the remainder of 2005 and result in lower earnings in the second and third quarters relative to the same periods in 2004. Had the prior purchase power rate structure been utilized in the current quarter, earnings applicable to common shares would have been \$11.8 million compared to \$12.0 million in the same quarter of 2004.

In addition to the change in the purchased power rate structure, increased electricity sales and revenue from pole attachments contributed to higher earnings for the quarter which were more than offset by a 0.5 per cent rate decrease effective January 1, 2005 and increased amortization expense.

Electricity sales for the first quarter increased to 1,700 gigawatt hours (“GWh”) from 1,664 GWh for the same quarter last year. Residential sales increased 2.2 per cent and commercial sales increased 1.9 per cent compared to the same quarter last year. The increase in residential electricity sales was primarily due to higher average usage levels and an increase in the number of customers. The increase in commercial sales was attributable to growth in the service sector of the economy and activity related to the White Rose offshore oil project.

Revenue for the first quarter was \$135.4 million compared to \$126.1 million for the same quarter last year. Effective July 1, 2004, electricity rates charged to customers increased by 5.4 per cent as a result of the flow-through of a 9.3 per cent increase in the rate charged by Newfoundland Hydro for purchased power. Both revenues and purchased power cost increased approximately \$7.2 million as a result of this change with no earnings impact.

In addition to the \$7.2 million impact noted above, increased electricity sales and pole attachment revenue contributed approximately \$2.6 million and \$0.2 million, respectively, to revenue growth. Partially offsetting this revenue growth was a decrease of \$0.7 million due to a 0.5 per cent reduction in customer electricity rates, effective January 1, 2005. This rate reduction resulted from the operation of the automatic adjustment formula, which reduced Newfoundland Power’s allowed rate of return on equity for the purpose of setting rates from 9.75 per cent in 2004 to 9.24 per cent in 2005.

Energy supply costs for the first quarter were \$83.1 million compared to \$76.8 million for the same quarter last year. In addition to the \$7.2 million impact noted above, energy supply costs increased primarily as a result of increased electricity sales offset by a \$2.3 million reduction associated with the change to the new purchased power rate structure. The reduction associated with the new purchased power rate structure is expected to fully reverse in 2005, resulting in higher purchased power costs in the second and third quarters relative to the same periods in 2004.

The new purchased power rate structure was the result of an order of the Newfoundland and Labrador Board of Commissioners of Public Utilities (“PUB”) in 2004 and was designed to provide an incentive to Newfoundland Power to promote conservation and demand management and to reduce long-term electricity system costs. Approximately one quarter of annual purchased power costs are now incurred as a fixed charge recognized evenly throughout the year, whereas purchased power costs were previously entirely variable, based on the amount of electricity used by Newfoundland Power’s customers. The change in the purchased power rate structure results in a portion of purchased power being incurred as a fixed charge based on maximum demand for the previous winter season.

Operating expenses for the first quarter increased \$0.2 million over the same quarter last year. Continued focus on cost management and control has partially offset normal wage and inflationary increases. During the quarter, 75 employees retired under a voluntary Early Retirement Program (“ERP”). Pension costs of \$10.8 million and retirement allowances of \$1.7 million resulting from the ERP are being amortized over 10 years and 24 months, respectively, beginning April 2005. This accounting treatment was approved by the PUB in 2004.

Amortization for the first quarter increased \$1.2 million over the same quarter last year primarily as a result of differences in timing of expense recognition. Annual amortization of capital assets is allocated over the 4 quarters based on expected net margin. Changes in net margin as a result of electricity sales growth and the new purchased power rate structure resulted in a \$0.8 million increase and amortization expense is expected to fully reverse in 2005, resulting in decreased amortization in later quarters.

Maritime Electric

<b>Maritime Electric Financial Highlights (Unaudited) Quarter Ended March 31<sup>st</sup></b>		
	<b>2005</b>	<b>2004</b>
<b>Electricity Sales (GWh)</b>	256	256
<i>(\$ millions)</i>		
Revenue	29.3	29.5
Energy Supply Costs	18.2	18.6
Operating Expenses	3.0	3.0
Amortization	2.4	2.3
Finance Charges	2.2	2.2
Corporate Taxes	1.4	1.4
<b>Earnings</b>	<b>2.1</b>	<b>2.0</b>

Maritime Electric’s earnings for the first quarter were \$2.1 million, comparable to the same quarter last year.

Electricity sales for the first quarter were 256 GWh, consistent with the same quarter last year. Residential sales were down 0.4 per cent while commercial sales increased 0.3 per cent compared to the same quarter last year.

Revenue for the first quarter was \$29.3 million compared to \$29.5 million for the same quarter last year. The decrease in revenue was associated with increased amortization of recoverable costs against revenue as permitted in the interim Order issued by the Island Regulatory and Appeals Commission on January 6, 2005. The interim Order allows Maritime Electric to establish an energy cost adjustment mechanism with application to the period commencing January 1, 2004 and to commence amortization of the \$20.8 million in recoverable costs to December 31, 2003 with \$1.5 million amortized in 2004 and a further \$2.5 million to be amortized in 2005.

Energy supply costs were \$18.2 million in the first quarter, down \$0.4 million over the same quarter last year. The decrease in energy supply costs was a result of the expiration of the Emera contract, the avoidance of the use of on-island peaking capacity and lower-than-anticipated curtailable energy costs compared to the same quarter last year. In the first quarter of 2005, Maritime Electric purchased the majority of its energy from New Brunswick Power Corporation (“NB Power”) through several energy purchase agreements.

Maritime Electric is currently in the construction phase for a new \$35 million 50-MW generating facility on Prince Edward Island. This facility, which can operate on light oil or natural gas, will address submarine cable loading issues and will reduce the Company’s reliance on imported electricity. The targeted in-service date is late 2005.

The Government of Prince Edward Island changed its electricity legislation in 2003 which resulted in a reversion to traditional cost of service regulation from price cap regulation, effective January 1, 2004. Interim rates became effective January 1, 2004. Maritime Electric filed a General Rate Application (“GRA”) in April 2004 requesting a 2 per cent increase in basic rates effective July 1, 2005 and the establishment of an appropriate capital structure and return on equity. Maritime Electric expects to receive a decision on its GRA in the second quarter of 2005.

FortisOntario

<b>FortisOntario</b> <b>Financial Highlights (Unaudited)</b> <b>Quarter Ended March 31<sup>st</sup></b>		
	2005	2004
<b>Electricity Sales (GWh)</b>	331	348
<i>(\$ millions)</i>		
Revenue	38.2	34.4
Energy Supply Costs	30.6	26.7
Operating Expenses	3.1	3.1
Amortization	1.3	1.2
Finance Charges	1.3	1.3
Corporate Taxes	0.8	0.8
<b>Earnings</b>	1.1	1.3

FortisOntario’s earnings for the first quarter were \$1.1 million compared to \$1.3 million for the same quarter last year. The decrease in earnings was primarily attributable to lower electricity sales. Electricity sales for the first quarter were 331 GWh compared to 348 GWh for the same quarter last year. The decrease primarily related to lower average customer usage compared to the same quarter last year.

Revenue for the first quarter was \$38.2 million compared to \$34.4 million for the same quarter last year. The decline in electricity sales was more than offset by increases in Cornwall Electric rates effective July 2004 and the change in the cost of power component billed to Canadian Niagara Power’s fixed-price customers effective March 1, 2004. The cost of power component changed from a fixed price of 4.3 cents per kilowatt hour (“kWh”) to a two-tier pricing regime of 4.7 cents per kWh for the first 750 kWh and 5.5 cents per kWh for the balance. This change increased both revenue and energy supply costs; however, it did not impact earnings.

On December 9, 2002, the Government of Ontario enacted *Bill 210, the Electricity Pricing, Conservation and Supply Act, 2002*, which implemented a freeze on transmission and distribution rate increases until May 1, 2006. FortisOntario expects to file a general rate application in 2005 to set rates for 2006.

FortisAlberta<sup>2</sup>

<b>FortisAlberta</b> <b>Financial Highlights (Unaudited)</b> <b>Quarter Ended March 31<sup>st</sup></b>		
	2005	2004
<b>Electricity Sales (GWh)</b>	3,685	-
<i>(\$ millions)</i>		
Revenue	58.6	-
Operating Expenses	26.9	-
Amortization	13.9	-
Finance Charges	6.0	-
Corporate Taxes	4.0	-
<b>Earnings</b>	7.8	-

On May 31, 2004, Fortis, through a wholly owned subsidiary, acquired all of the issued and outstanding shares of Aquila Networks Canada (Alberta) Ltd. (renamed “FortisAlberta”). FortisAlberta owns and operates the electricity distribution system in a substantial portion of southern and central Alberta and distributes electricity to over 400,000 customers using approximately 103,000 kilometers of power lines. FortisAlberta is regulated by the Alberta Energy and Utilities Board (“AEUB”) under traditional cost of service regulation.

<sup>2</sup> On May 31, 2004, Fortis completed the transaction to acquire Aquila, Inc.’s 2 utilities in western Canada (renamed FortisAlberta and FortisBC). Financial results for FortisAlberta and FortisBC are since June 1, 2004 only.

While the financial results of Fortis include the financial results of FortisAlberta from the date of acquisition only, certain of FortisAlberta’s comparative financial data for the quarter ended March 31, 2004 is provided below.

FortisAlberta’s earnings for the first quarter were \$7.8 million compared to \$8.3 million for the same quarter last year. Higher operating and amortization costs were partially offset by lower finance charges. Finance charges for the first quarter were lower than the same quarter last year due to the repayment of higher cost loans upon close of the acquisition. These loans were replaced with lower cost public debt. Concurrent with the Company’s purchase by Fortis on May 31, 2004, FortisAlberta borrowed \$393 million on a short-term basis from a syndicate of Canadian chartered banks. These funds were used to repay amounts owed to the Company’s former parent. The interest rate on the new debt was substantially less than the interest rate paid by FortisAlberta on the debt owed to its former parent. On October 25, 2004, FortisAlberta closed its \$400 million public debenture offering equally divided between 5.33 per cent Senior Unsecured Debentures due October 31, 2014 and 6.22 per cent Senior Unsecured Debentures due October 31, 2034. The proceeds from this offering were used to repay FortisAlberta’s short-term debt previously noted.

On April 13, 2005, FortisAlberta filed an application with the AEUB to approve a Negotiated Settlement Agreement (“Settlement”) dealing with all aspects of its 2005 Distribution Access Tariff Application (“Application”). If the Settlement is approved by the AEUB, there will be no need for a full-scale hearing process. The Settlement calls for a 2005 distribution revenue requirement of \$215.4 million which translates into a 2.1 percent increase on base rates for 2005. In reaching this Settlement, FortisAlberta has agreed to a level of operating expense of \$101.0 million and capital expenditures of \$134.3 million. The AEUB approval is expected by the end of the second quarter of 2005, provided there are no material objections to the Application.

**FortisBC**<sup>3</sup>

<b>FortisBC Financial Highlights (Unaudited) Quarter Ended March 31<sup>st</sup></b>		
	<b>2005</b>	<b>2004</b>
<b>Electricity Sales (GWh)</b>	832	-
<i>(\$ millions)</i>		
Revenue	55.4	-
Energy Supply Costs	18.6	-
Operating Expenses	16.1	-
Amortization	4.6	-
Finance Charges	4.5	-
Corporate Taxes	2.7	-
<b>Earnings</b>	<b>8.9</b>	<b>-</b>

On May 31, 2004, Fortis, through a wholly owned subsidiary, acquired all of the issued and outstanding shares of Aquila Networks Canada (British Columbia) Ltd. (renamed “FortisBC”). FortisBC is an integrated utility operating in the southern interior of British Columbia, serving directly and indirectly over 140,000 customers. FortisBC is regulated by the British Columbia Utilities Commission (“BCUC”).

While the financial results of Fortis include the financial results of FortisBC from the date of acquisition only, certain of FortisBC’s comparative financial data for the quarter ended March 31, 2004 is provided below.

Earnings for the first quarter were \$8.9 million compared to \$7.6 million for the same quarter last year. The increase in earnings primarily related to higher electricity revenue and lower finance charges, partially offset by increased operating and amortization expenses compared to the same quarter last year. Higher electricity revenue for the first quarter resulted from increased heating loads caused by cooler weather, customer growth of 3 per cent attributable to continued population growth in the Okanagan area and an interim rate increase of 3.7 per cent that was granted by the BCUC effective January 1, 2005.

<sup>3</sup> On May 31, 2004, Fortis completed the transaction to acquire Aquila, Inc.’s 2 utilities in western Canada (renamed FortisAlberta and FortisBC). Financial results for FortisAlberta and FortisBC are since June 1, 2004 only.

Finance charges were lower than the same quarter last year despite increased borrowings in the first quarter 2005 to finance the Company's significant capital expenditure program. The reduction in finance charges was due to lower cost public debt. In late 2004, FortisBC issued \$140 million of public debentures at an interest rate of 5.48 per cent. This debt primarily replaced debt owed to the previous shareholder which bore interest at a significantly higher interest rate.

FortisBC's revenue and rates are based on traditional cost of service regulation. However, the Company is also subject to a performance-based rate mechanism that is used in establishing annual rate adjustments. On April 26, 2004, the BCUC approved a 4.3 per cent rate increase, effective May 1, 2004. An interim rate increase of 3.6 per cent commenced on January 1, 2004. In November 2004, the Company applied to the BCUC for a 4.4 per cent rate increase effective January 1, 2005. An interim rate increase of 3.7 per cent was granted by the BCUC effective January 1, 2005. The Company has filed a revised application based on actual financial results for 2004. The revised application requests a rate increase of 4.1 per cent effective January 1, 2005. A hearing on the Company's application has been completed and a decision is expected during the second quarter of 2005.

#### REGULATED UTILITIES - CARIBBEAN <sup>4</sup>

<b>Regulated Utilities – Caribbean Financial Highlights (Unaudited) Quarter Ended March 31<sup>st</sup></b>		
	<b>2005</b>	<b>2004</b>
Average US Exchange Rate	1.23	1.32
<i>(\$ millions)</i>		
Belize Electricity	1.0	1.1
Caribbean Utilities – Equity Income	2.5	1.9
<b>Earnings</b>	<b>3.5</b>	<b>3.0</b>

For the first quarter of 2005, Regulated Utilities - Caribbean reported earnings of \$3.5 million compared to \$3.0 million for the same quarter last year. The slight decrease in earnings from Belize Electricity was offset by higher equity income from Caribbean Utilities. The increase in equity income from Caribbean Utilities was primarily related to the recovery of hurricane-related costs. Overall, the earnings from Caribbean Utilities, inclusive of business interruption insurance, are returning to normal as the recovery efforts from Hurricane Ivan continue. Both the earnings from Belize Electricity and Caribbean Utilities were also impacted by lower foreign exchange rates compared to the same quarter last year.

#### Belize Electricity

<b>Belize Electricity Financial Highlights (Unaudited) Quarter Ended March 31<sup>st</sup></b>		
	<b>2005</b>	<b>2004</b>
<b>Electricity Sales (GWh)</b>	<b>76</b>	<b>72</b>
<i>(\$ millions)</i>		
Revenue	15.4	15.9
Energy Supply Costs	8.1	8.3
Operating Expenses	2.8	3.0
Amortization	1.6	1.6
Finance Charges	1.4	1.4
Foreign Exchange Gain	(0.2)	(0.2)
Corporate Taxes and Non-controlling Interest	0.7	0.7
<b>Earnings</b>	<b>1.0</b>	<b>1.1</b>

<sup>4</sup> Regulated Utilities in the Caribbean include the operations of Belize Electricity and the Corporation's 37.3 per cent equity investment in Caribbean Utilities Company, Ltd.

Belize Electricity's earnings contribution for the first quarter was \$1.0 million (BZ\$1.5 million) compared to \$1.1 million (BZ\$1.7 million) for the same quarter last year. Excluding foreign exchange impacts, the decrease in quarterly earnings was primarily related to higher finance charges and amortization partially mitigated by higher electricity sales.

Electricity sales for the first quarter were 76 GWh, 5.6 per cent higher than the same quarter last year. The increased electricity sales in both the residential and commercial segments were driven by economic growth.

Revenue for the first quarter was \$15.4 million (BZ\$25.2 million) compared to \$15.9 million (BZ\$24.2 million) for the same quarter last year. Excluding foreign exchange impacts, revenue increased 4.1 per cent compared to the same quarter last year. The increase related to higher electricity sales and increased pole rental income, partially offset by a final reduction in electricity rates of BZ\$0.01 per kWh implemented in July 2004. Rates have been reduced by BZ\$0.05 per kWh, equal to the commitment provided by Fortis when it acquired Belize Electricity in October 1999.

Energy supply costs for the first quarter were \$8.1 million (BZ\$13.3 million) compared to \$8.3 million (BZ\$12.6 million) for the same quarter last year. The increase in energy supply costs was associated with higher electricity sales.

Operating expenses for the first quarter were \$2.8 million (BZ\$4.5 million) compared to \$3.0 million (BZ\$4.6 million) for the same quarter last year. Operating expenses are slightly lower compared to the same quarter last year reflecting management's focus on improving operating efficiencies and productivity.

Amortization expense for the first quarter was \$1.6 million (BZ\$2.7 million) compared \$1.6 million (BZ\$2.5 million) for the same quarter last year. Finance charges for the first quarter were \$1.4 million (BZ\$2.4 million) compared \$1.4 million (BZ\$2.1 million) for the same quarter last year. Excluding foreign exchange impacts, the increase in amortization expense and finance charges directly related to continued investments in Belize Electricity's capital program.

Belize Electricity is regulated by the Public Utilities Commission ("PUC") and electricity rates in Belize are comprised of 2 components. The first, Value Added Delivery, ("VAD"), is subject to price cap and the second is the cost of fuel and purchased power, including the variable cost of generation, which is a flow-through in customer rates. Belize Electricity filed its first full Tariff Application on March 2, 2005 to establish a new 4-year VAD tariff setting arrangement. On April 18, 2005, the PUC delivered its initial Decision on Tariff Application with respect to approval of regulated values, tariffs and other fees for the tariff period, July 1, 2005 through June 30, 2009.

Belize Electricity's Tariff Application proposed an increase in rates of approximately 14 per cent, inclusive of recovery of its rate stabilization account. This would result in an increase in rates in the first year of the tariff period from BZ\$0.349 per kWh to BZ\$0.40 per kWh. In its initial Decision, the PUC has approved an increase of 8.6 per cent resulting in rates of BZ\$0.379 per kWh. Belize Electricity has filed a written objection on the initial Decision with the PUC which will initiate the PUC to appoint an independent consultant to review the initial Decision.

**Caribbean Utilities**

<b>Caribbean Utilities Financial Highlights (Unaudited) Quarter Ended March 31<sup>st</sup></b>		
<i>(\$ millions)</i>	<b>2005</b>	<b>2004</b>
<b>Equity Income</b>	2.5	1.9

Fortis accounts for its 37.3 per cent interest in Caribbean Utilities on an equity basis. Equity earnings are recorded on a lag basis and, therefore, the quarterly earnings noted above represent the Corporation's share of Caribbean Utilities' earnings for its third quarter ended January 31, 2005.

This quarter was Caribbean Utilities' first quarter post-Hurricane Ivan and the earnings improvement over the same quarter last year was primarily due to the recovery of fuel costs that were expensed following the hurricane. Caribbean Utilities and the Cayman Islands are continuing to recover from the impact of Hurricane Ivan. Approximately 3,400 customers, or 16 per cent of pre-Ivan customers, remain without electricity. These customers have not yet re-established facilities to receive such service. Approximately 88 MW of generation capacity have been recovered and another 7.5 MW will become available in May 2005, which will bring total generating capacity to 77 per cent of pre-Ivan capacity.

The economy on Grand Cayman is starting to recover from Hurricane Ivan. Although Caribbean Utilities has business interruption insurance, with a 24-month indemnity period, its long-term recovery is intrinsically tied to the recovery of the economy.

Caribbean Utilities has made a claim for its business interruption loss. Typically, the ultimate recovery under a business interruption policy is judgmental and subject to negotiations between the insured and the insurance company. Caribbean Utilities filed a claim for a business interruption loss of US\$5 million for the third quarter and, under the terms of an interim agreement with the insurance adjustors and pending the finalization of the business interruption calculation methodology, the adjustors have accepted that the claim for the third quarter will not be less than US\$4 million. Although Caribbean Utilities' claim of US\$5 million of business interruption loss for the third quarter still stands, given the subjectivity as noted above, only \$4 million has been recognized in the third quarter financial report of Caribbean Utilities.

Caribbean Utilities submitted a proposal to the Cayman Islands Government in July 2002 to extend its current Licence and replace the 15 per cent return on rate base mechanism for adjusting consumer rates with a price cap mechanism. The non-binding tentative agreement signed by Caribbean Utilities and the Government in June 2004 expired following Hurricane Ivan. The Government recently passed a new *Electricity Regulatory Authority Bill* (the "*ERA Bill*") which purports to establish a new regulatory and licensing regime for the electricity industry in the Cayman Islands. The Company is currently assessing the *ERA Bill* to determine its potential impact on Caribbean Utilities' contractual rights under its existing Licence with the Cayman Islands Government. The current Licence is still in effect and is scheduled to expire in January 2011.

NON-REGULATED – FORTIS GENERATION <sup>5</sup>

<b>Non-Regulated - Fortis Generation Financial Highlights (Unaudited) Quarter Ended March 31<sup>st</sup></b>		
	<b>2005</b>	<b>2004</b>
<b>Energy Sales (GWh)</b>		
Central Newfoundland	35	19
Ontario	184	186
Belize	7	15
British Columbia <sup>(5)</sup>	5	-
Upper New York State	17	15
<b>Total</b>	<b>248</b>	<b>235</b>
<i>(\$ millions)</i>	<b>2005</b>	<b>2004</b>
Revenue	17.0	16.7
Energy Supply Costs	1.9	1.7
Operating Expenses	4.8	4.2
Amortization	2.6	2.5
Finance Charges	3.9	3.8
Gain on settlement of contractual matters	(10.0)	-
Corporate Taxes	3.5	1.9
Non-controlling Interest	0.3	(0.3)
<b>Earnings</b>	<b>10.0</b>	<b>2.9</b>

The earnings contribution from the Corporation's Non-regulated Generation segment for the first quarter was \$10 million compared to \$2.9 million for the same quarter last year. The increase in quarterly earnings was primarily due to a \$7.9 million after-tax gain resulting from the OPGI Settlement between FortisOntario and OPGI. FortisOntario also signed the NEA which assigns FortisOntario's water rights on the Niagara River to OPGI and facilitates the irrevocable exchange of 75 MW of wholesale electric power supply to FortisOntario from OPGI until April 30, 2009 in exchange for FortisOntario's agreement not to seek renewal of the water entitlement at that time.

Excluding the impact of the OPGI Settlement, the earnings contribution from the Non-regulated Generation segment for the first quarter decreased by approximately \$0.8 million. The decrease in earnings was primarily associated with lower hydroelectric production in Belize as a result of lower rainfall levels partially offset by higher hydroelectric production in central Newfoundland.

Generation revenue for the first quarter was \$17 million compared to \$16.7 million for the same quarter last year. The primary reason for the increase related to the increased production in central Newfoundland, partially offset by lower rainfall levels in Belize. The average market price in Ontario was \$55.99 per megawatt hour, comparable to the same quarter last year.

Operating expenses for the first quarter were \$4.8 million compared to \$4.2 million last year. The increase related to operations of the 16-MW run-of-river Walden hydroelectric power plant, which was acquired on May 31, 2004 as part of FortisBC, as well as increased business development costs in Ontario.

The Chalillo Project in Belize commenced construction in May 2003. The US\$30 million development is an upstream storage and hydroelectric generating facility that is expected to increase average annual energy production from the Macal River by approximately 90 GWh. Construction of the dam is scheduled for completion by the end of June 2005 with the 7-MW unit at the dam site scheduled for completion by the end of 2005.

<sup>5</sup> Fortis Generation includes the operations of non-regulated generating assets in central Newfoundland, Ontario, British Columbia, Belize and Upper New York State. The British Columbia energy sales represent energy sales from the 16-MW run-of-river Walden hydroelectric power plant, which was acquired on May 31, 2004 as part of FortisBC.

Operations in Upper New York State include the operations of the Dolgeville unit which went out of service late January 2005 as a result of flooding. The Dolgeville unit is expected to be operational late 2005 and operations are expected to be covered under business interruption insurance until that time.

**NON-REGULATED - FORTIS PROPERTIES**

<b>Non-Regulated - Fortis Properties Financial Highlights (Unaudited) Quarter Ended March 31<sup>st</sup></b>		
<i>(\$ millions)</i>	<b>2005</b>	<b>2004</b>
Real Estate Revenue	13.2	13.0
Hospitality Revenue	19.8	17.2
<b>Total Revenue</b>	<b>33.0</b>	<b>30.2</b>
Operating Expenses	22.8	21.3
Amortization	2.6	2.3
Finance Charges	4.9	4.7
Corporate Taxes	1.2	0.9
<b>Earnings</b>	<b>1.5</b>	<b>1.0</b>

Fortis Properties' earnings for the first quarter were \$1.5 million compared to \$1.0 million for the same quarter last year. Higher earnings from operations, including contributions from the acquisition of 3 hotels in western Canada in February 2005, contributed to the increase. On February 1, 2005, Fortis Properties acquired 3 Greenwood Inn-branded hotels located in western Canada for \$62.6 million. The acquisition expands the hospitality operations of Fortis Properties by approximately 650 rooms and 27,000 square feet of banquet space.

Real estate revenue for the first quarter was \$13.2 million compared to \$13.0 million for the same quarter last year. The occupancy level in the Real Estate Division was 95.1 per cent at March 31, 2005 compared to 94.7 per cent at March 31, 2004.

Hospitality revenue for the first quarter was \$19.8 million compared to \$17.2 million for the same quarter last year. Revenue per available room ("REVPAR") for the first quarter was \$60.15 compared to \$59.52 for the same quarter last year. The 1.1 per cent increase in REVPAR was attributable to an increase in average rate compared to the prior year.

The increase in operating expenses, amortization and finance charges for the first quarter primarily related to the hotel properties acquired in February 2005.

Fortis Properties has commenced an expansion of the Delta St. John's Hotel. The estimated \$15 million expansion entails the addition of 128 rooms and approximately 5,000 square feet of meeting space. The expansion is scheduled for completion mid-2005. Fortis Properties has also commenced a \$7 million expansion of the Holiday Inn Sarnia which is scheduled for completion late 2005. The revenue and earnings impact from the acquisition of hotels in western Canada in February 2005 as well as the expansion of the Delta St. John's Hotel are expected to provide the primary growth in 2005.

CORPORATE

<b>Corporate Financial Highlights (Unaudited) Quarter Ended March 31<sup>st</sup></b>		
<i>(\$ millions)</i>	<b>2005</b>	<b>2004</b>
<b>Total Revenue</b>	2.6	2.0
Operating Expenses	2.2	2.2
Amortization	0.7	0.2
Finance Charges	6.0	2.4
Foreign Exchange Loss	0.6	-
Corporate Taxes	(2.3)	(2.9)
Preference Share Dividends	4.2	2.1
Non-controlling Interest	(0.1)	(0.1)
<b>Net Corporate Expenses</b>	<b>(8.7)</b>	<b>(1.9)</b>

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

Net corporate expenses for the first quarter totaled \$8.7 million, \$6.8 million higher than the same quarter last year. The increase primarily related to acquisition financing costs, including amortization of deferred financing costs, associated with the purchase of FortisAlberta and FortisBC on May 31, 2004. On January 29, 2004, Fortis issued 4.9 per cent First Preference Units which were subsequently converted to 4.9 per cent Series E First Preference Shares in the last half of 2004. On October 28, 2004, Fortis issued US\$150 million of 10-year 5.74 per cent Senior Unsecured Notes due October 31, 2014. During the first quarter of 2005, Fortis also recorded a \$0.4 million after-tax unrealized foreign exchange loss related to foreign currency exchange rate fluctuations associated with US\$80 million of the Corporation's US-denominated long-term debt.

The net corporate expenses in the first quarter of 2004 were also positively impacted as Fortis recorded a \$1.8 million corporate income tax recovery related to the tax benefit associated with non-capital losses.

## CONSOLIDATED FINANCIAL POSITION

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

Balance Sheet Item	Increase (Decrease) <i>(Millions)</i>	Explanation
Cash and cash equivalents	27.0	The increase primarily related to the \$10 million OPGI settlement and the cash proceeds received from the issuance of common shares in March 2005 less issuance costs, repayment of short-term borrowings and advances to subsidiaries to support capital investments.
Accounts receivable	20.3	The increase primarily related to normal seasonal sales variances resulting from higher electricity sales during winter months, as well as timing of refunds to customers at FortisAlberta.
Utility capital assets	42.0	The increase related to \$86.4 million invested in electricity systems less contributions and amortization for the quarter.
Income producing properties	65.0	On February 1, 2005, Fortis Properties acquired 3 hotels located in western Canada for \$62.6 million. The remaining increase primarily related to the ongoing expansion of the Delta St. John's Hotel.
Short-term borrowings	(37.7)	The decrease primarily related to the repayment of short-term borrowings at the Corporate level with proceeds from the common share issuance, partially offset by higher borrowings at Newfoundland Power and FortisBC associated with the interim financing of capital projects.
Accounts payable, accruals and dividends payable	13.8	The increase primarily related to timing of income tax installments and interest payments, higher transmission cost accruals and timing of other vendor payments.
Long-term debt (including current portion)	23.7	In March 2005, Fortis Properties completed a long-term \$29.6 million financing of the Edmonton and Calgary Greenwood Inns that were acquired on February 1, 2005. Belize Electricity and the Exploits Partnership also drew down approximately \$0.7 million and \$0.1 million, respectively, on their existing facilities and the Corporation's US-denominated debt was translated at a higher foreign exchange rate at March 31, 2005 compared to December 31, 2004. These increases were partially offset by regular debt repayments during the quarter.
Shareholders' equity	154.9	The increase primarily related to the issuance of 1,740,000 common shares of the Corporation which resulted in gross proceeds of \$129.9 million. The remainder of the increase primarily related to the net earnings reported for the first quarter less common share dividends.

## LIQUIDITY AND CAPITAL RESOURCES

The following table outlines the summary of cash flow.

<b>Fortis Inc.</b>		
<b>Summary of Cash Flow (Unaudited)</b>		
<b>Quarter Ended March 31<sup>st</sup></b>		
<i>(\$ millions)</i>	<b>2005</b>	<b>2004</b>
<b>Cash, beginning of period</b>	37.2	65.1
<b>Cash provided by (used in)</b>		
Operating activities	79.3	21.8
Investing activities	(149.2)	(27.9)
Financing activities	96.8	(14.5)
Foreign currency impact on cash balances	0.1	0.3
<b>Cash, end of period</b>	64.2	44.8

*Operating Activities:* Cash flow from operations for the first quarter, after working capital adjustments, was \$79.3 million, up \$57.5 million from \$21.8 million for the same quarter last year. Operating cash flow from FortisAlberta and FortisBC contributed \$41.1 million to this increase. The remaining increase primarily related to the gain on the OPGI Settlement, increased earnings from Newfoundland Power and from higher hydroelectric production in central Newfoundland, partially mitigated by higher Corporate finance charges associated with the acquisition and lower hydroelectric production resulting from lower rainfall in Belize compared to the same quarter last year.

*Investing Activities:* Cash used in investing activities for the first quarter was \$149.2 million, up \$121.3 million compared to the same quarter last year. Utility capital expenditures of \$91.4 million were up \$64.7 million over the same quarter last year. The increase in utility capital expenditures primarily related to capital spending at FortisAlberta and FortisBC. In addition, Maritime Electric is currently constructing a new \$35 million 50-MW generating facility on Prince Edward Island and construction is continuing on the US\$30 million Chalillo Project in Belize.

Capital expenditures of \$67.4 million associated with income producing properties increased \$66.1 million compared to the same quarter last year. On February 1, 2005, Fortis Properties acquired 3 hotels located in western Canada for \$62.6 million and Fortis Properties is also continuing forward with the ongoing \$15 million expansion of the Delta St. John's Hotel.

During the first quarter, approximately \$10.9 million was received in contributions in aid of construction compared to \$0.8 million for the same quarter last year. The increase related to contributions associated with FortisAlberta's and FortisBC's capital programs.

*Financing Activities:* Cash provided from financing activities in the first quarter was \$96.8 million compared to cash used in financing activities of \$14.5 million for the same quarter last year. The increase in cash from financing activities primarily related to the issuance of 1,740,000 common shares of the Corporation which resulted in net proceeds after issuance costs of \$123.9 million. During the first quarter, Fortis Properties also completed a 5.1 per cent 5-year \$29.6 million loan related to the financing of the Edmonton and Calgary Greenwood Inns that were acquired on February 1, 2005. Belize Electricity and the Exploits Partnership also drew down approximately \$0.7 million and \$0.1 million, respectively, on their existing facilities.

The remaining financing activities during the first quarter primarily related to change in short-term borrowings and regular repayment of long-term debt and payment of common share dividends.

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

<b>Fortis Inc.</b>					
<b>Contractual Obligations (Unaudited)</b>					
<b>as at March 31<sup>st</sup>, 2005</b>					
<i>(\$ millions)</i>	<b>Total</b>	<b>&lt; 1 year</b>	<b>1-3 years</b>	<b>4-5 years</b>	<b>&gt; 5 years</b>
Long-term Debt	<b>1,933.3</b>	35.8	108.4	107.3	1,681.8
Capital Lease Obligations	<b>5.1</b>	1.5	2.4	1.2	-
Power Purchase Obligations					
FortisBC <sup>(1)</sup>	<b>3,091.7</b>	29.1	115.9	74.5	2,872.2
FortisOntario <sup>(2)</sup>	<b>360.2</b>	21.4	63.7	45.5	229.6
Maritime Electric <sup>(3)</sup>	<b>20.3</b>	17.6	2.7	-	-
Capital Cost <sup>(4)</sup>	<b>209.9</b>	15.7	43.8	26.6	123.8
Brilliant Terminal Station (“BTS”) <sup>(5)</sup>	<b>67.0</b>	1.8	4.7	4.7	55.8
Joint-use Asset Agreements <sup>(6)</sup>	<b>48.8</b>	3.7	6.7	6.0	32.4
Operating Lease Obligations <sup>(7)</sup>	<b>35.8</b>	6.4	13.5	10.6	5.3
Office Lease – FortisBC <sup>(8)</sup>	<b>22.7</b>	0.9	2.8	2.7	16.3
Other	<b>2.4</b>	1.1	0.2	0.1	1.0
<b>Total</b>	<b>5,797.2</b>	<b>135.0</b>	<b>364.8</b>	<b>279.2</b>	<b>5,018.2</b>

- (1) Power purchase obligations of FortisBC include the Brilliant Power Purchase Contract as well as Firm Power Purchase Contracts. On May 3, 1996, an Order was granted by the BCUC approving a 60-year power purchase contract for the output of the Brilliant hydroelectric plant located near Castlegar, BC. The Brilliant plant is owned by the Brilliant Power Corporation (“BPC”), a corporation owned as to 50 per cent by each of the Columbia Power Corporation and the Columbia Basin Trust. FortisBC operates and maintains the Brilliant plant for the BPC in return for a management fee. The contract requires fixed monthly payments based on specified natural flow take-or-pay amounts of energy. The contract includes a market-related price adjustment after 30 years of the 60-year term. In addition, FortisBC has a long-term minimum-payment firm power purchase contract with BC Hydro. This contract includes a take-or-pay provision based on a 5-year rolling nomination of capacity requirements.
- (2) Power purchases for FortisOntario primarily include a long-term contract with Hydro Quebec Energy Marketing for the supply of electricity and capacity. The contract provides approximately 237 GWh of energy per year and up to 45 MW of capacity at any one time. The contract, which expires December 31, 2019, provides approximately one-third of Cornwall Electric’s load.
- (3) Maritime Electric has one take-or-pay contract for the purchase of either capacity or energy. The obligation is subjected to force majeure provisions that impact the ability of the supplier to deliver or Maritime Electric to receive the energy contracted. This contract totals approximately \$20 million through October 2006.
- (4) Maritime Electric has entitlement to approximately 6.7 per cent of the output from the NB Power Dalhousie Generating Station and approximately 4.7 per cent from the NB Power Point Lepreau Generating Station for the life of each unit. As part of its participation agreement, Maritime Electric is required to pay its share of the capital costs of these units.
- (5) On July 15, 2003, the utility in B.C. began leasing the use of the BTS under a 30-year lease. The lease provides that FortisBC will pay the Brilliant Joint Venture a charge related to the recovery of the capital cost of the BTS and related operating costs.
- (6) FortisAlberta and an Alberta transmission provider have entered into a number of service agreements to ensure operational efficiencies are maintained through coordinated operations. The agreements have minimum expiry terms of 20 years and are subject to extension based on mutually agreeable terms.
- (7) Operating lease obligations include certain office, vehicle, and equipment leases as well as the lease of electricity distribution assets of Port Colborne Hydro Inc.
- (8) Under a sale-leaseback agreement, on September 29, 1993, the utility in B.C. began leasing its Trail, BC office building for a term of 30 years. The terms of the agreement grant FortisBC repurchase options at year 20 and year 30 of the lease term. On December 1, 2004, FortisBC also entered into a 5-year lease for the Kelowna head office. The terms of the lease allow for termination without penalty after 3 years.

## CAPITAL RESOURCES

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

Capital Structure	March 31, 2005		December 31, 2004	
	\$ millions	Per cent	\$ millions	Per cent
Total Debt (net of cash)	2,029.4	57.9	2,070.3	61.1
Equity Preference Shares	319.5	9.1	319.5	9.4
Shareholders' Equity	1,155.0	33.0	1,000.1	29.5
<b>Total</b>	<b>3,503.9</b>	<b>100.0</b>	<b>3,389.9</b>	<b>100.0</b>

The improvement in the Corporation's capital structure is primarily the result of the issuance of approximately 1.7 million common shares of the Corporation for net after-tax proceeds of \$126.1 million. The proceeds are being used to repay outstanding short-term indebtedness and for general corporate purposes, including capital expenditures. The Corporation also reported net earnings less common share dividends of \$24.6 million for the first quarter of 2005.

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

Standard & Poors ("S&P")	BBB(+)
Dominion Bond Rating Service ("DBRS")	BBB (high)

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

*Capital Program:* The Corporation's principal business of regulated electric utilities is capital intensive. Utility capital expenditures for 2005 are expected to be over \$400 million, of which approximately \$91 million was spent in the first quarter of 2005.

The Corporation's utility capital assets are expected to grow at an average annual rate of 6 per cent for the next 5 years. The significant capital programs at FortisAlberta and FortisBC are the primary drivers for this expected growth. The cash needed to complete the capital programs is expected to be supplied by a combination of long-term and short-term borrowings and internally generated funds. Fortis does not anticipate any issues with accessing the required capital.

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

As outlined in the Fortis Inc. 2004 Annual Report, Belize Electricity remains non-compliant with its debt service coverage ratio related to its BZ\$13.0 million loan with the International Bank for Reconstruction and Development ("IBRD"). The IBRD has acknowledged this non-compliance and has encouraged the Company to continue to improve its debt service ratio. Fortis does not expect any change in the regular debt repayment schedule relating to this loan.

The Walden Power Partnership (“WPP”) was not in compliance with its debt service ratio of 1.2 times as required by the loan covenant related to a \$6.9 million mortgage. Compliance with the debt service covenant is required at the end of each fiscal year. Fortis does not expect any change in the regular debt repayment schedule relating to this mortgage.

The Corporation and its subsidiaries had consolidated authorized lines of credit of \$641.4 million of which \$404.2 million was unused at March 31, 2005. The following summary outlines the short-term credit facilities by the Corporation’s reporting segments.

<b>Short-term Credit Facilities</b> <i>(\$ millions)</i>	Corporate	Regulated Utilities	Fortis Generation	Fortis Properties	Total
Total short-term facilities	210.0	410.9	8.0	12.5	641.4
Utilized at March 31, 2005	(18.5)	(132.0)	(3.6)	(1.1)	(155.2)
Letters of credit outstanding	(7.7)	(71.7)	-	(2.6)	(82.0)
<b>Short-term facilities available</b>	<b>183.8</b>	<b>207.2</b>	<b>4.4</b>	<b>8.8</b>	<b>404.2</b>

In January 2005, Fortis entered into a \$50 million unsecured revolving/non-revolving term credit facility for its general corporate purposes, including acquisitions. Fortis also entered into a \$15 million demand facility.

In January 2005, Newfoundland Power cancelled its \$110 million uncommitted lines of credit and entered into a syndicated \$100 million committed revolving term credit facility and a \$20 million uncommitted demand facility.

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

## OFF-BALANCE SHEET ARRANGEMENTS

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

## BUSINESS RISK MANAGEMENT

The Corporation’s significant business risks are regulation, the integration of FortisAlberta and FortisBC, use of derivative instruments and hedging, energy prices, weather and general economic conditions, loss of service territory, environmental, insurance, labour relations and liquidity risks. The geographic and regulatory diversity of the Corporation’s operations significantly mitigate any single business risk. There were no material changes to the Corporation’s significant business risks during the quarter from those disclosed in the 2004 Management Discussion and Analysis for the year ended December 31, 2004.

## CRITICAL ACCOUNTING ESTIMATES

The preparation of the Corporation’s unaudited interim consolidated financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Estimates are based on historical experience, current conditions and various other assumptions believed to be reasonable under the circumstances. Changes in facts and circumstances may result in revised estimates and actual results could differ from those estimates. There were no material changes to the Corporation’s critical accounting estimates during the quarter from those disclosed in the 2004 Management Discussion and Analysis for the year ended December 31, 2004; however, interim financial statements necessarily employ a greater use of estimates than the annual financial statements.

## QUARTERLY RESULTS

The following table sets forth unaudited quarterly information for each of the 8 quarters ended June 30, 2003 through March 31, 2005. This information has been obtained from the Corporation's unaudited interim consolidated financial statements which, in the opinion of management, have been prepared in accordance with Canadian GAAP and as required by utility regulators. The timing of the recognition of certain assets, liabilities, revenues and expenses as a result of regulation may differ from that otherwise expected using Canadian GAAP for non-regulated entities. These operating results are not necessarily indicative of results for any future period and should not be relied upon to predict future performance.

<b>Fortis Inc.</b>				
<b>Summary of Quarterly Results (Unaudited)</b>				
<b>Quarter Ended</b>	<b>Operating Revenue and Equity Income (\$000's)</b>	<b>Net Earnings applicable to Common Shares (\$000's)</b>	<b>Earnings per Common Share Basic (\$)</b>	<b>Earnings per Common Share Diluted (\$) <sup>(1)</sup></b>
March 31, 2005	381,789	39,196	1.60	1.45
December 31, 2004	337,170	21,176	0.89	0.85
September 30, 2004	303,653	25,452	1.07	1.00
June 30, 2004	254,513	23,946	1.22	1.15
March 31, 2004	250,793	20,281	1.16	1.12
December 31, 2003	210,624	14,760	0.85	0.82
September 30, 2003	191,445	18,114	1.05	0.99
June 30, 2003	205,582	20,796	1.20	1.15

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

A summary of the past 8 quarters reflects the Corporation's continued growth as well as the seasonality associated with its businesses. Most of the Corporation's utility investments produce their highest earnings in the first quarter. The June 2003 financial results were impacted by the 2003 General Rate Order at Newfoundland Power. From June 2004 through December 2004, financial results were impacted by the acquisition of FortisAlberta and FortisBC. The Corporation's non-utility investment, Fortis Properties, generally produces its highest earnings in the second and third quarters. Given the diversified group of companies, seasonality may vary. Each of the comparative quarterly earnings has increased as a result of both the Corporation's acquisition strategy as well as improved operating earnings at most subsidiaries.

*March 2004/March 2005* – Net earnings for the first quarter were \$39.2 million, or \$1.60 per common share, compared to \$20.3 million, or \$1.16 per common share, in the first quarter of 2004. In the first quarter, Fortis reported a \$7.9 million after-tax gain resulting from the OPGI Settlement between FortisOntario and OPGI.

The Corporation's earnings, excluding the impact of the OPGI settlement, although not a measure under Canadian GAAP, would have been \$31.3 million in the first quarter, or \$1.28 per common share, 10.3 per cent higher than earnings per common share of \$1.16 last year. Although the Corporation believes that it is useful supplemental information, readers should be cautioned that this information should not be confused with or used as an alternative for net earnings determined in accordance with Canadian GAAP.

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

*December 2003/December 2004* – For the quarter ended December 2004, earnings applicable to common shares were 43.5 per cent higher than the same quarter in 2003. Earnings per common share increased 4.7 per cent over the same quarter in 2003. The increase in earnings was primarily associated with the acquisition of FortisAlberta and FortisBC, as well as improved operating income at most subsidiaries. The increase in quarterly earnings was

affected by Hurricane Ivan. In September 2004, Grand Cayman was struck by Hurricane Ivan, a Category V hurricane that significantly affected Caribbean Utilities' distribution system. Equity earnings of Caribbean Utilities are recorded on a lag basis and, therefore, the Corporation's portion of the uninsured hurricane-related costs, which approximate \$8.2 million, reduced the Corporation's equity earnings from Caribbean Utilities for the first quarter of 2004.

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

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

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

## **PROPOSED ACQUISITION**

On December 15, 2004, Fortis and Princeton Light and Power ("PLP") entered into an agreement in which Fortis will purchase all issued common and preferred shares of PLP. The PLP shareholders have the option of receiving cash or common shares of Fortis or a combination thereof. The closing of the transaction is subject to approval of securities authorities, final due diligence and regulatory approval by the BCUC. The specific purchase price will be adjusted depending on the time of closing but is expected to result in a premium over rate base of approximately 14 per cent. The regulated rate base of PLP, net of customer contributions, was approximately \$6.4 million, as of March 31, 2005. On April 15, 2005, both PLP and Fortis filed applications with the BCUC seeking approval for the acquisition.

PLP is an electric utility that serves approximately 3,200 customers in Princeton, British Columbia and surrounding areas. PLP also provides utility service to customers of FortisBC in the Similkameen and Tulameen regions. PLP presently purchases its wholesale power from FortisBC under a long-term contract.

## **OUTLOOK**

The Corporation's principal business of regulated electric utilities is capital intensive and Fortis expects that most of its capital expenditures for the next 5 years will relate primarily to FortisAlberta and FortisBC. Consolidated utility capital expenditures for 2005 are expected to be over \$400 million.

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

## **OUTSTANDING SHARE DATA**

At May 5, 2005, the Corporation had issued and outstanding 25,699,926 common shares, 5,000,000 Series C First Preference Shares, 7,993,500 Series E First Preference Shares and 6,500 Series D First Preference Shares.

## **FORTIS INC.**

Interim Consolidated Financial Statements  
For the three months ended March 31, 2005  
(Unaudited)

Fortis Inc.  
Consolidated Balance Sheets (Unaudited)  
As at March 31  
*(in thousands)*

	March 31 2005	December 31 2004
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 64,204	\$ 37,203
Accounts receivable	189,967	169,649
Other regulatory assets	14,917	15,245
Materials and supplies	29,812	30,235
Future income taxes	4,590	4,204
	303,490	256,536
Corporate income tax deposit	6,949	6,949
Deferred charges	152,231	152,320
Other regulatory assets	46,264	45,309
Utility capital assets	2,389,101	2,347,067
Income producing properties	406,052	341,069
Investments	163,860	163,769
Intangibles, net of amortization	17,534	18,455
Goodwill	514,041	514,041
	\$ 3,999,522	\$ 3,845,515
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Short-term borrowings	\$ 155,196	\$ 192,858
Accounts payable and accrued charges	282,860	270,055
Dividends payable	16,012	14,997
Other regulatory liabilities	25,073	23,657
Current installments of long-term debt	37,336	36,062
	516,477	537,629
Deferred credits	36,901	37,347
Future income taxes	32,191	34,771
Long-term debt	1,901,082	1,878,639
Non-controlling interest	38,366	37,487
Equity preference shares	319,530	319,530
	2,844,547	2,845,403
<b>Shareholders' equity</b>		
Common shares	805,063	675,215
Contributed surplus	2,218	1,831
Equity portion of convertible debentures	1,560	1,550
Foreign currency translation adjustment	(15,432)	(15,497)
Retained earnings	361,566	337,013
	1,154,975	1,000,112
	\$ 3,999,522	\$ 3,845,515

See accompanying notes to interim consolidated financial statements.

Fortis Inc.  
Consolidated Statements of Earnings (Unaudited)  
For the three months ended March 31  
*(in thousands, except per share amounts)*

	Quarter Ended	
	2005	2004
<b>Operating revenues</b>	\$ 379,278	\$ 248,926
<b>Equity income</b>	<u>2,511</u>	<u>1,867</u>
	<u>381,789</u>	<u>250,793</u>
<b>Expenses</b>		
Operating	253,313	178,844
Amortization	<u>40,176</u>	<u>19,432</u>
	<u>293,489</u>	<u>198,276</u>
<b>Operating income</b>	88,300	52,517
<b>Finance charges (Note 7)</b>	35,898	21,250
<b>Gain on settlement of contractual matters (Note 9)</b>	<u>(10,000)</u>	<u>-</u>
	<u>25,898</u>	<u>21,250</u>
<b>Earnings before income taxes</b>	62,402	31,267
<b>Corporate income taxes</b>	<u>18,202</u>	<u>8,490</u>
<b>Net earnings before non-controlling interest and preference share dividends</b>	44,200	22,777
Non-controlling interest	852	378
Preference share dividends	<u>4,152</u>	<u>2,118</u>
<b>Net earnings applicable to common shares</b>	<u>\$ 39,196</u>	<u>\$ 20,281</u>
<b>Weighted average common shares outstanding</b>	<u>24,501</u>	<u>17,446</u>
<b>Earnings per common share</b>		
Basic	\$ 1.60	\$ 1.16
Diluted	\$ 1.45	\$ 1.12

Consolidated Statements of Retained Earnings (Unaudited)  
For the three months ended March 31  
*(in thousands)*

	2005	2004
<b>Balance at beginning of period</b>	\$ 337,013	\$ 294,986
Net earnings applicable to common shares	<u>39,196</u>	<u>20,281</u>
	<u>376,209</u>	<u>315,267</u>
Dividends on common shares	<u>(14,643)</u>	<u>(9,445)</u>
<b>Balance at end of period</b>	<u>\$ 361,566</u>	<u>\$ 305,822</u>

See accompanying notes to interim consolidated financial statements.

**Fortis Inc.**  
**Consolidated Statements of Cash Flows (Unaudited)**  
**For the three months ended March 31**  
*(in thousands)*

	Quarter Ended	
	2005	2004
<b>Operating Activities</b>		
Net earnings applicable to common shares	\$ 39,196	\$ 20,281
Items not affecting cash		
Amortization-capital assets, net of contributions in aid of construction	37,662	17,942
Amortization-intangibles	921	921
Amortization-other	1,593	569
Future income taxes	(1,189)	(2,860)
Accrued employee future benefits	(501)	(481)
Equity income, net of dividends	(56)	145
Stock-based compensation	387	148
Unrealized foreign exchange loss (gain) on long-term debt	397	(246)
Non-controlling interest	852	378
Other	(113)	(1,739)
	<u>79,149</u>	<u>35,058</u>
Change in non-cash operating working capital	189	(13,236)
	<u>79,338</u>	<u>21,822</u>
<b>Investing Activities</b>		
Change in deferred charges and credits	(1,559)	(692)
Purchase of utility capital assets	(91,371)	(26,693)
Purchase of income producing properties	(67,392)	(1,341)
Contributions in aid of construction	10,877	777
Proceeds on sale of utility capital assets	218	3
	<u>(149,227)</u>	<u>(27,946)</u>
<b>Financing Activities</b>		
Change in short-term borrowings	(37,658)	(49,870)
Proceeds from long-term debt	30,396	6,014
Repayment of long-term debt	(8,904)	(9,935)
Advances from non-controlling interest	303	166
Issue of preference shares	-	44,936
Issue of common shares	127,688	4,068
Dividends		
Common shares	(14,643)	(9,445)
Subsidiary dividends paid to non-controlling interest	(411)	(415)
	<u>96,771</u>	<u>(14,481)</u>
<b>Effect of exchange rate changes on cash</b>	<u>119</u>	<u>320</u>
<b>Change in cash and cash equivalents</b>	<u>27,001</u>	<u>(20,285)</u>
<b>Cash and cash equivalents, beginning of period</b>	<u>37,203</u>	<u>65,094</u>
<b>Cash and cash equivalents, end of period</b>	<u>\$ 64,204</u>	<u>\$ 44,809</u>

See accompanying notes to interim consolidated financial statements.

**FORTIS INC.**  
**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
For the three months ended March 31, 2005  
(Unaudited)

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**1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION**

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”) for interim financial statements and do not include all of the disclosures normally found in the Fortis Inc. (“Fortis” or the “Corporation”) annual consolidated financial statements. These interim consolidated financial statements should be read in conjunction with the Corporation’s consolidated financial statements for the year ended December 31, 2004. Interim results will fluctuate due to the seasonal nature of electricity demand and water flows as well as the timing and recognition of regulatory decisions. Consequently, interim results are not necessarily indicative of annual results.

Fortis is principally a diversified, international electric utility holding company. The Corporation segments its utility operations by franchise area and, depending on regulatory requirements, by the nature of the assets. Fortis also holds investments in commercial real estate and hotel properties which are treated as a separate segment. The operating segments allow senior management to evaluate the operational performance and assess the overall contribution of each segment to the Corporation’s long-term objectives.

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

**Regulated Utilities - Canadian**

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

- a. *Newfoundland Power*: Newfoundland Power is the principal distributor of electricity in Newfoundland.
- b. *Maritime Electric*: Maritime Electric is the principal distributor of electricity on Prince Edward Island.
- c. *FortisOntario*: FortisOntario provides an integrated electric utility service to customers in Fort Erie, Cornwall, Gananoque and Port Colborne in Ontario. FortisOntario includes the operations of Canadian Niagara Power Inc. (“Canadian Niagara Power”) and Cornwall Street Railway, Light and Power Company, Limited (“Cornwall Electric”). Included in Canadian Niagara Power’s accounts is the operations of the electricity distribution business of Port Colborne Hydro Inc., which has been leased from the City of Port Colborne under a 10-year lease agreement entered into in April 2002. FortisOntario also owns a 10 per cent interest in each of Westario Power and Rideau St. Lawrence, 2 regional electric distribution companies formed in 2000.
- d. *FortisAlberta*: On May 31, 2004, Fortis, through its wholly owned subsidiaries, acquired all of the issued and outstanding shares of Aquila Networks Canada (Alberta) Ltd. (renamed “FortisAlberta”). FortisAlberta owns and operates the distribution system in a substantial portion of southern and central Alberta.
- e. *FortisBC*: On May 31, 2004, Fortis, through its wholly owned subsidiaries, acquired all of the issued and outstanding shares of Aquila Networks Canada (British Columbia) Ltd. (renamed “FortisBC”). FortisBC is an integrated utility operating in the southern interior of British Columbia. Included with the FortisBC component of Regulated Utilities – Canadian segment are the non-regulated operating, maintenance and management services relating to the 450-megawatt (“MW”) Waneta hydroelectric generating facility owned by Teck Cominco, the 145-MW Brilliant Hydroelectric Plant owned by Columbia Power Corporation and the Columbia Basin Trust (“CPC/CBT”), the 150-MW Arrow Lakes Hydroelectric Plant owned by CPC/CBT and the distribution system owned by the City of Kelowna.

**FORTIS INC.**  
**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
For the three months ended March 31, 2005  
(Unaudited)

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**Regulated Utilities - Caribbean**

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

- a. *Belize Electricity*: Belize Electricity is the principal distributor of electricity in Belize, Central America. The Corporation holds a 68 per cent controlling interest in the Company.
- b. *Caribbean Utilities*: Caribbean Utilities is the sole provider of electricity on Grand Cayman, Cayman Islands. The Corporation's 37.3 per cent interest in the Company is accounted for on the equity basis of accounting.

**Non-regulated - Fortis Generation**

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

- a. *Ontario*: Operations include the 75-MW Rankine hydroelectric generating station at Niagara Falls, the 5-MW Cornwall District Heating cogeneration plant and 6 small hydroelectric generating stations in eastern Ontario with a combined capacity of 8 MW. Non-regulated generating operations in Ontario are conducted through FortisOntario Inc. and FortisOntario Generation Corporation.
- b. *Belize*: Operations consist of the 25-MW Mollejon hydroelectric facility in Belize. All of its electricity output is sold to Belize Electricity under a 50-year Power Purchase Agreement. Hydroelectric generation operations in Belize are conducted through the Corporation's wholly owned indirect subsidiary, Belize Electric Company Limited ("BECOL"), under a Franchise Agreement with the Government of Belize.
- c. *Central Newfoundland*: Through the Exploits River Hydro Partnership ("Exploits Partnership"), a partnership between the Corporation and Abitibi-Consolidated Company of Canada ("Abitibi-Consolidated"), 36 MW of additional capacity was developed and installed at 2 of Abitibi-Consolidated's hydroelectric plants in central Newfoundland. The Corporation holds a 51 per cent interest in the Exploits Partnership and Abitibi-Consolidated holds the remaining 49 per cent interest. The Exploits Partnership sells its output to Newfoundland and Labrador Hydro Corporation under a 25-year power purchase agreement.
- d. *Upper New York State*: Includes the operations of 4 hydroelectric generating stations in Upper New York State with a combined capacity of 23 MW operating under a license from the U.S. Federal Energy Regulatory Commission. Hydroelectric generation operations in Upper New York State are conducted through the Corporation's wholly owned indirect subsidiary, FortisUS Energy Corporation.
- e. *British Columbia*: Includes the 16-MW run-of-river Walden hydroelectric power plant near Lillooet, British Columbia. This plant sells its entire output to BC Hydro under a long-term contract. Hydroelectric generating operations in British Columbia are conducted through the Walden Power Partnership, a wholly owned subsidiary of FortisBC.

**Non-regulated - Fortis Properties**

Fortis Properties owns and operates hotels in 6 provinces in Canada and commercial real estate in Atlantic Canada. On February 1, 2005, Fortis Properties acquired 3 hotels in western Canada that have approximately 650 rooms and 27,000 square feet of banquet space.

**Corporate**

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

**FORTIS INC.**  
**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
For the three months ended March 31, 2005  
(Unaudited)

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

These interim consolidated financial statements have been prepared in accordance with Canadian GAAP, including selected accounting treatments that differ from those used by entities not subject to rate regulation. The timing of the recognition of certain assets, liabilities, revenues and expenses, as a result of regulation, may differ from that otherwise expected using Canadian GAAP for entities not subject to rate regulation. These interim consolidated financial statements have been prepared following the same accounting policies and methods as those used in preparing the most recent annual financial statements. All amounts are presented in Canadian dollars unless otherwise stated.

**3. USE OF ESTIMATES**

The preparation of the Corporation's interim consolidated financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Estimates are based on historical experience, current conditions and various other assumptions believed to be reasonable under the circumstances. Changes in facts and circumstances may result in revised estimates and actual results could differ from those estimates. There were no material changes to the Corporation's critical accounting estimates during the quarter from those disclosed in the 2004 Management Discussion and Analysis for the year ended December 31, 2004; however, interim financial statements necessarily employ a greater use of estimates than the annual financial statements.

**4. EQUITY PREFERENCE SHARES**

Authorized:

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

	March 31, 2005		December 31, 2004	
	Number of Shares	Amount (in thousands)	Number of Shares	Amount (in thousands)
Series C First Preference Shares	5,000,000	\$ 122,992	5,000,000	\$ 122,992
Series D First Preference Shares	6,500	38	6,500	38
Series E First Preference Shares	7,993,500	196,500	7,993,500	196,500
	<b>13,000,000</b>	<b>\$ 319,530</b>	<b>13,000,000</b>	<b>\$ 319,530</b>

**5. CAPITAL STOCK**

Authorized: an unlimited number of Common Shares without nominal or par value:

	March 31, 2005		December 31, 2004	
	Number of Shares	Amount (in thousands)	Number of Shares	Amount (in thousands)
<b>a) Issued and Outstanding</b>				
Common Shares	25,687,520	\$ 805,063	23,882,323	\$ 675,215

**FORTIS INC.**  
**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
For the three months ended March 31, 2005  
(Unaudited)

Common shares issued for cash during the period is as follows:

	<b>Quarter Ended March 31, 2005</b>	
	<b>Number of Shares</b>	<b>Amount (in thousands)</b>
Balance, beginning of period	23,882,323	\$ 675,215
Public Offering	1,740,000	126,072
Consumer Share Purchase Plan	6,357	468
Dividend Reinvestment Plan	11,390	839
Employee Share Purchase Plan	18,178	1,340
Director and Executive Stock Option Plans	29,272	1,129
	25,687,520	\$ 805,063

On March 1, 2005, Fortis issued 1,740,000 common shares of the Corporation at \$74.65 per common share. The common share issuance resulted in gross proceeds of \$129.9 million. Net proceeds after tax-effected issuance costs totalled \$126.1 million. The proceeds of the issuance were used to pay outstanding indebtedness and for general corporate purposes.

At March 31, 2005, 1,696,448 common shares remained in the reserve for issue under the terms of the above plans.

**b) Earnings per Common Share**

The Corporation calculates earnings per common share on the weighted average number of common shares outstanding. The weighted average common shares outstanding were 24,501,165 and 17,446,275 for the quarters ended March 31, 2005 and 2004, respectively. Diluted earnings per common share are calculated using the treasury stock method for options and the “if-converted” method for convertible securities.

**c) Stock Options**

The Corporation is authorized to grant, to the directors of Fortis and certain key employees of the Corporation and its subsidiaries, options to purchase common shares of the Corporation. At March 31, 2005, the Corporation had the following stock-based compensation plans: Executive Stock Option Plan, Directors’ Stock Option Plan, 2002 Stock Option Plan and Employee Share Purchase Plan. The 2002 Stock Option Plan was adopted at the Annual and Special General Meeting on May 15, 2002 to ultimately replace the Executive and Directors’ Stock Option Plans. The Executive and Directors’ Stock Options Plans will cease to exist when all outstanding options are exercised or expire in or before 2011.

	<b>Quarter Ended March 31, 2005</b>	
	Number of Options	Weighted Average Price
Outstanding at beginning of period	720,647	\$ 50.28
Granted	195,995	\$ 73.62
Exercised	(29,272)	\$ 38.57
Outstanding at end of period	887,370	\$ 55.82

**FORTIS INC.**  
**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
For the three months ended March 31, 2005  
(Unaudited)

Details of stock options outstanding are as follows:	Number of Options	Exercise Price	Expiry Date
	15,000	\$ 38.27	2006
	122,837	\$ 38.27	2011
	166,874	\$ 48.14	2012
	178,562	\$ 51.24	2013
	181,562	\$ 61.12	2014
	3,000	\$ 60.91	2014
	23,540	\$ 58.20	2014
	195,995	\$ 73.62	2015
	<u>887,370</u>		
Options vested at end of period	<u>272,591</u>		

**Stock-based Compensation**

On March 1, 2005, the Corporation issued 195,995 options on common shares under its 2002 Stock Option Plan at the 5-day average trading price immediately preceding the date of grant of \$73.62. These options vest evenly over a 4-year period on each anniversary of the date of grant. The options expire 10 years after the date of grant. The fair market value of each option granted was \$10.98 per option. The fair value was estimated on the date of grant using the Black-Scholes fair value option-pricing model and the following assumptions:

<u>March 1, 2005</u>	
Dividend yield (%)	3.44
Expected volatility (%)	15.3
Risk-free interest rate (%)	4.28
Weighted-average expected life (years)	7.5

The Corporation records compensation expense upon the issuance of stock options under its Stock Option Plans. Using the fair value method, the compensation expense is amortized over the 4-year vesting period of the options granted. Upon exercise, the proceeds of the options are credited to capital stock at the option price. Therefore, an exercise of options below the current market price has a dilutive effect on capital stock and shareholders' equity. Under the fair value method, \$0.4 million and \$0.1 million were recorded as compensation expense for the quarters ended March 31, 2005 and 2004, respectively.

**6. EMPLOYEE FUTURE BENEFITS**

The Corporation provides pension arrangements and other post-employment benefits to qualified employees through both defined contribution and defined benefit arrangements. The cost of providing the defined benefit arrangements for the quarter was \$3.4 million (\$2.3 million in first quarter 2004). The cost of providing the defined contribution arrangements for the quarter was \$0.8 million (\$0.6 million in first quarter 2004).

**7. FINANCE CHARGES**

For the three months ended March 31 <sup>st</sup> (in thousands)	2005	2004
Amortization of debt and stock issue expenses	252	119
Interest - long term debt	34,739	21,753
- short-term	1,990	609
Interest charged to construction	(1,190)	(620)
Interest earned	(290)	(365)
Unrealized foreign exchange loss (gain) on long-term debt	397	(246)
	<u>\$ 35,898</u>	<u>\$ 21,250</u>



**FORTIS INC.**  
**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
For the three months ended March 31, 2005  
(Unaudited)

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**8. b) Related Party Transactions**

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

**9. GAIN ON SETTLEMENT OF CONTRACTUAL MATTERS**

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

**10. SHORT-TERM AND LONG-TERM DEBT**

The Corporation and its subsidiaries had consolidated authorized lines of credit of \$641.4 million of which \$404.2 million was unused at March 31, 2005.

Fortis Properties completed a 5.1 per cent 5-year \$29.6 million loan related to the financing of the Edmonton and Calgary Greenwood Inns that were acquired on February 1, 2005.

**11. CONTINGENT LIABILITIES & COMMITMENTS**

Contingent liabilities and commitments as of March 31, 2005 are consistent with disclosures in the annual audited consolidated financial statements for the year ended December 31, 2004.

**12. SUBSEQUENT EVENTS**

On April 4, 2005, Fortis Properties completed a 5.35 per cent 5-year \$12.3 million loan related to the Winnipeg Greenwood Inn which was acquired on February 1, 2005.

On April 13, 2005, FortisAlberta filed an application with the Alberta Energy and Utilities Board (“AEUB”) to approve a Negotiated Settlement Agreement (“Settlement”) dealing with all aspects of its 2005 Distribution Access Tariff Application (“Application”). If the Settlement is approved, there will be no need for a full-scale hearing process. The Settlement calls for a 2005 distribution revenue requirement of \$215.4 million which translates to a 2.1 percent increase on base rates for 2005. In reaching this Settlement, FortisAlberta has agreed to a level of operating expense of \$101 million and capital expenditures of \$134.3 million. The AEUB approval is expected by the end of the second quarter 2005, provided there are no material objections to the Application.

**13. COMPARATIVE FIGURES**

Certain comparative figures have been reclassified to comply with current period’s classifications.

## Dates – Dividends\* and Earnings

### Earnings Release Dates

August 5, 2005                      November 1, 2005  
February 7, 2006                      April 26, 2006

### Dividend Record Dates

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

### Dividend Payment Dates

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

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

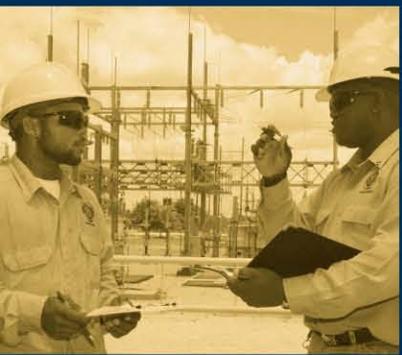
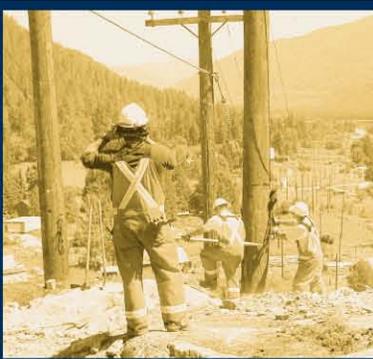
### Registrar and Transfer Agent

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E: [service@computershare.com](mailto:service@computershare.com)  
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### Share Listings

The Common Shares, Series C First Preference Shares and Series E First Preference Shares of Fortis Inc. trade on the Toronto Stock Exchange under the symbols FTS, FTS.PR.C and FTS.PR.E, respectively.

<b>Fortis Common Shares (\$)</b>		
<b>Quarter Ended March 31</b>		
	<b>2005</b>	<b>2004</b>
<b>High</b>	<b>75.50</b>	64.91
<b>Low</b>	<b>68.00</b>	58.00
<b>Close</b>	<b>71.40</b>	64.49



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