FORTIS INC.

ANNUAL INFORMATION FORM

FOR THE YEAR ENDED DECEMBER 31, 2005

March 29, 2006

ANNUAL INFORMATION FORM
FOR THE YEAR ENDED DECEMBER 31, 2005

TABLE OF CONTENTS

DEFINITIONS OF CERTAIN TERMS

Certain terms used in the Annual Information Form for the year ended December 31, 2005 are defined below:

"Abitibi-Consolidated" means Abitibi-Consolidated Company of Canada;

"AESO" means Alberta Electric System Operator;

"AEUB" means Alberta Energy and Utilities Board;

"BC Hydro" means BC Hydro and Power Authority;

"BCUC" means British Columbia Utilities Commission;

"BECOL" means Belize Electric Company Limited;

"Belize Electricity" means Belize Electricity Limited;

"BEWU" means Belize Energy Worker's Union;

"Board" means Board of Directors of Fortis Inc.;

"BZ$" means Belizean dollar, which is pegged to the United States dollar (BZ$1.00 = US$0.50);

"Canadian Niagara Power" means Canadian Niagara Power Inc.;

"Caribbean Utilities" means Caribbean Utilities Company, Limited;

"CAW" means Canadian Auto Workers-Retail/Wholesale;

"CDH" means Cornwall District Heating, Limited;

"CFE" means Comisión Federal de Electricidad;

"Chalillo Project" means Chalillo Hydroelectric Project development;

"CNE Energy" means CNE Energy Inc., formerly Central Newfoundland Energy Inc., which on December 1, 2005 changed its name to CNE Energy Inc.;

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

"COPE" means Canadian Office and Professional Employees;

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

"Corporation" means Fortis Inc.;

"CPC/CBT" means Columbia Power Corporation and the Columbia Basin Trust;

"CPA" means Canal Plant Agreement;

“CPRSA” means Cost of Power Rate Stabilization Account;

“CRA” means Canada Revenue Agency;

“CRS” means Cost Recovery Surcharge;

“DBRS” means Dominion Bond Rating Service;

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

“ECAM” means Energy Cost Adjustment Mechanism;

“EMS” means Environmental Management System;

“EPCOR” means EPCOR Energy Services (Alberta) Inc.;

“Exploits Partnership” means Exploits River Hydro Partnership Project between Abitibi-Consolidated and CNE Energy;

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

“FERC” means United States Federal Energy Regulatory Commission;

“Fortis” means Fortis Inc.;

“FortisAlberta” means FortisAlberta Inc.;

“FortisAlberta Holdings” means FortisAlberta Holdings Inc.;

“FortisBC” means the operations of FortisBC Inc., its parent company, Fortis Pacific Holdings Inc., Princeton Light and Power Company, Limited, and excluding its wholly owned partnership, Walden Power Partnership;

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

“FortisOntario Generation” means FortisOntario Generation Corporation, formerly Granite Power Generation Corporation;

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

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

“Fortis Properties” means Fortis Properties Corporation;

“FortisUS Energy” means FortisUS Energy Corporation;

“FortisWest” means FortisWest Inc.;

“GRA” means general rate application;

“Granite Power Distribution” means the distribution operations of Granite Power Distribution Corporation, subsequently renamed Eastern Ontario Power Corporation;

“Granite Power Generation” means Granite Power Generation Corporation and its subsidiary Gananoque Water Power Company;

“GWh” means gigawatt hour(s);

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

“IBEW” means International Brotherhood of Electrical Workers;

“IESO” means Independent Electricity System Operator of Ontario;

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

“IRAC” means Island Regulatory and Appeals Commission;

“ISO” means International Organization for Standardization;

“kWh” means kilowatt hour(s);

“MD&A” means the Corporation’s Management Discussion and Analysis, located on pages 36 through 73 of the Corporation’s 2005 Annual Report to Shareholders, prepared in accordance with National Instrument 51-102 – Continuous Disclosure Obligations, in respect of the Corporation’s annual and interim financial statements;

“Management” means Senior Officers of the Corporation;

“Maritime Electric” means Maritime Electric Company, Limited;

“Member” means a member of the Board appointed to the Audit Committee of the Corporation;

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

“**MW**” means megawatt(s);

“NB Power” means New Brunswick Power Corporation;

“Newfoundland Hydro” means Newfoundland and Labrador Hydro Corporation;

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

“OEB” means Ontario Energy Board;

“OPGI” means Ontario Power Generation Inc.;

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

“PCB(s)” means polychlorinated biphenyl(s);

“PLP” means Princeton Light and Power Company, Limited;

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

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

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

“PUC” means Public Utilities Commission (Belize);

“Rankine Station” means Rankine Generating Station;

“Rideau Falls” means Rideau Falls Limited Partnership;

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

“ROE” means rate of return on common equity;

“S&P” means Standard & Poors;

“Teck Cominco” means Teck Cominco Metals Ltd.;

“UFCW” means United Food and Commercial Workers;

“USWA” means United Steelworkers of America;

“UUWA” means United Utility Workers Association;

“VAD” means value-added delivery;

“Walden” means Walden Power Partnership;

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

“Westario Power” means Westario Power Holdings Inc.; and

“2005 Annual Information Form” means Fortis Annual Information Form for the year ended December 31, 2005.

1.0 CORPORATE STRUCTURE

This material has been prepared in accordance with National Instrument 51-102 – Continuous Disclosure Obligations and Multilateral Instrument 52-110 – Audit Committees. 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.

Except as otherwise stated, the information in the 2005 Annual Information Form is given as of December 31, 2005.

All figures are expressed in Canadian dollars unless otherwise stated.

1.1 Name and Incorporation

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

The articles of incorporation of the Corporation were amended to: (a) change its name to Fortis Inc. on October 12, 1987; (b) set out the rights, privileges and conditions attached to the Common Shares on October 15, 1987; (c) designate 2,000,000 First Preference Shares Series A on September 11, 1990; (d) replace the class rights, privileges, restrictions and conditions attaching to the First Preference Shares and the Second Preference Shares on July 22, 1991; (e) designate 2,000,000 First Preference Shares Series B on December 13, 1995; (f) designate 5,000,000 First Preference Shares Series C on May 27, 2003; (g) designate 8,000,000 First Preference Shares Series D and Series E on January 29, 2004; and (h) amend the redemption provisions attaching to the First Preference Shares Series D on July 14, 2005.

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

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

1.2 Inter-Corporate Relationships

Fortis is principally a diversified, international electric utility holding company that owns subsidiaries engaged in the regulated distribution of electricity. Regulated utility assets comprise approximately 84 per cent of the Corporation's total assets, with the balance comprised primarily of non-regulated electricity generating assets and commercial real estate and hotel investments owned and operated through its non-utility subsidiary.

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

In May 2004, Fortis acquired, through an indirect wholly owned subsidiary, all of the issued and outstanding shares of FortisAlberta (formerly Aquila Networks Canada (Alberta) Inc.) and FortisBC Inc. (formerly Aquila Networks Canada (British Columbia) Ltd.). FortisAlberta is a regulated electric utility that distributes electricity generated by other market participants in Alberta. FortisBC Inc. is a regulated electric utility that generates, transmits and distributes electricity in British Columbia.

The Corporation's regulated electric utility assets in the Caribbean consist of its ownership, through wholly owned subsidiaries, of a 68 per cent interest in Belize Electricity, the primary distributor of electricity in Belize, and a 37.0 per cent interest (as at January 31, 2006) in Caribbean Utilities, the sole provider of electricity to the island of Grand Cayman, Cayman Islands.

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

CNE Energy, a non-regulated indirect subsidiary, holds a 51 per cent interest in the Exploits Partnership. The Exploits Partnership was established with Abitibi-Consolidated, which holds the remaining 49 per cent interest, to develop additional capacity at Abitibi-Consolidated's hydroelectric plant at Grand Falls-Windsor and redevelop Abitibi-Consolidated's hydroelectric plant at Bishop's Falls, Newfoundland and Labrador. As of December 31, 2005, CNE Energy also included the non-regulated electricity generation operations of the former FortisOntario Generation, which consists of 6 small hydroelectric generating stations in eastern Ontario with a combined capacity of 8 MW.

BECOL owns and operates both the 25-MW Mollejon and 7-MW Chalillo hydroelectric facilities, located on the Macal River in Belize, Central America. Through FortisUS Energy, a wholly owned subsidiary of Fortis Properties, the Corporation owns and operates 4 hydroelectric generating stations in Upper New York State with a total combined capacity of 23 MW. FortisOntario Inc. includes 75 MW of water entitlement associated with the Rankine Station at Niagara Falls and the operation of a 5-MW gas-fired cogeneration plant that provides district heating to 17 commercial customers in Cornwall. During 2005, the Rankine Station assets were written down as a result of the implementation of the Niagara Exchange Agreement. The Niagara Exchange Agreement assigns FortisOntario Inc.'s water rights on the Niagara River to OPGI and facilitates the irrevocable exchange of 75 MW of wholesale electric power supply to FortisOntario Inc. from OPGI until April 30, 2009 in exchange for FortisOntario Inc.'s agreement not to seek renewal of the water entitlement at that time.

The non-regulated electricity generation operations of FortisBC Inc., conducted through Walden, its wholly owned partnership, include the 16-MW run-of-river Walden hydroelectric power plant near Lillooet, British Columbia.

Through its wholly owned subsidiary, Fortis Properties, the Corporation has investments in commercial real estate in Atlantic Canada and hotels in 6 provinces in Canada.

Principal Subsidiaries

The following table lists the principal subsidiaries of the Corporation, their jurisdictions of incorporation and the percentage of votes attaching to voting securities held directly or indirectly by the Corporation as at March 29, 2006. This list excludes certain subsidiaries, the total assets of which constituted less than 10 per cent of the Corporation's 2005 consolidated assets and the total revenues of which constituted less than 10 per cent of the Corporation's 2005 consolidated revenues.

Fortis
Principal Subsidiaries

Subsidiary	Jurisdiction of Incorporation	Percentage of votes attaching to voting securities beneficially owned, controlled or directed by the Corporation
Newfoundland Power	Newfoundland and Labrador	93.7 [(1)]
Maritime Electric [(2)]	Canada	100
FortisOntario Inc.	Ontario	100
FortisAlberta [(3)]	Alberta	100
FortisBC Inc. [(4)]	British Columbia	100
Fortis Properties	Newfoundland and Labrador	100

(1) *Fortis owns all of the common shares, 182,300 Series G First Preference Shares, 32,886 Series B First Preference Shares, 13,000 Series D First Preference Shares and 1,550 Series A First Preference Shares of Newfoundland Power, which, at March 29, 2006, represented 93.7 per cent of its voting securities. The remaining 6.3 per cent of Newfoundland Power's voting securities consist of Series A, B, D and G First Preference Shares, which are held by the public.*

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

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

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

2.0 GENERAL DEVELOPMENT OF THE BUSINESS

2.1 3-Year History

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

Over the past 3 years, the business operations of Fortis have increased significantly. Total assets have more than doubled, growing from $1.9 billion at December 31, 2002 to $4.3 billion at December 31, 2005. The Corporation's equity has also more than doubled from $586 million at December 31, 2002 to $1.2 billion at December 31, 2005. Over the past 3 years, earnings have increased from $63.3 million in 2002 to $137.1 million in 2005. Significant growth occurred in 2004, as a result of the approximate $1.5 billion acquisition of FortisAlberta and FortisBC Inc., and has continued in 2005. Fortis has also increased its utility investments in Ontario and Grand Cayman, as well as its hotel investments in Ontario, Manitoba and Alberta.

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

Regulated Utilities – Canadian

Newfoundland Power

Fortis holds all of the common shares of Newfoundland Power. Newfoundland Power is an electric utility that operates an integrated generation, transmission and distribution system throughout the island portion of the Province of Newfoundland and Labrador. Newfoundland Power serves approximately 227,000 customers, or 85 per cent of electricity customers in the Province, in approximately 600 communities, and met a peak demand of 1,124 MW in 2005. Approximately 90 per cent of the electricity that Newfoundland Power sells to its customers is purchased from Newfoundland Hydro. Newfoundland Power has an installed generating capacity of 146 MW, of which 95 MW is hydroelectric generation.

Maritime Electric

Through its subsidiary, Fortis Properties, Fortis owns all of the common shares of Maritime Electric, which is the principal distributor of electricity on Prince Edward Island. Maritime Electric directly supplies approximately 70,300 customers, or 90 per cent of the electricity consumers on the Island, and met a peak demand of 209 MW in 2005. The commissioning of the new 50-MW combustion turbine generator, located adjacent to the Charlottetown Thermal Generating Plant, was completed in early 2006.

FortisOntario

The Corporation's regulated utility investments in Ontario, collectively FortisOntario, are composed of Canadian Niagara Power, including the operations of Port Colborne Hydro and Cornwall Electric. In total, its distribution operations serve approximately 51,300 customers in the Fort Erie, Port Colborne, Cornwall and Gananoque areas of Ontario and met a combined peak demand of 249 MW in 2005. Canadian Niagara Power owns international transmission facilities at Fort Erie as well as a 10 per cent interest in each of Westario Power and Rideau St. Lawrence, 2 regional electric distribution companies formed in 2000 that, together, serve more than 27,000 customers.

The Corporation's utility investments in Ontario have evolved from a series of acquisitions since 1996. These investments have been organized such that its regulated utility operations are operated separately from its non-regulated generating activities.

The Corporation's utility investments in Ontario commenced in 1996 with the acquisition of a 50 per cent interest in Canadian Niagara Power Company, Limited. Canadian Niagara Power Company, Limited owned and operated the non-regulated 75-MW Rankine Station at Niagara Falls and distributed electricity to approximately 13,500 customers in the Town of Fort Erie at the time of purchase. In 2000, Canadian Niagara Power Company, Limited restructured and its transmission and distribution business continued operations through its wholly owned subsidiary, Canadian Niagara Power. In April 2002, Canadian Niagara Power entered into a 10-year agreement with the City of Port Colborne to lease the business of Port Colborne Hydro, which distributes electricity to approximately 9,200 customers in Port Colborne. In July 2002, Fortis acquired the remaining 50 per cent interest in Canadian Niagara Power Company, Limited.

On October 17, 2002, Fortis increased its regulated investment in Ontario by acquiring a 100 per cent interest in Cornwall Electric and its wholly owned non-regulated generating subsidiary CDH. Cornwall Electric is an Ontario-based electric transmission and distribution utility that supplies electricity to approximately 23,300 customers in the City of Cornwall, South Glengarry, South Stormont and the Ontario portion of the Mohawk Territory of Akwesasne. CDH operated the 5-MW gas-fired cogeneration plant that provides district heating to 17 commercial customers in Cornwall.

A series of reorganizations occurred in 2002 and 2003 in Ontario to separate regulated operations from non-regulated generating operations. On December 23, 2002, CDH, which was held by Cornwall Electric, was sold to Canadian Niagara Power Company, Limited. CDH was subsequently amalgamated on January 1, 2003 and continued its operations as Canadian Niagara Power Company, Limited. In addition, Fortis transferred its ownership interest in Cornwall Electric to Canadian Niagara Power Company, Limited. On April 1, 2003, Fortis further reorganized its utility investments in Ontario through the amalgamation of Canadian Niagara Power Company, Limited with FortisOntario Inc., a wholly owned subsidiary of Fortis, which continues operations as FortisOntario Inc.

On April 1, 2003, FortisOntario Inc. and Canadian Niagara Power acquired the operating subsidiaries of Granite Power Corporation. Granite Power Corporation primarily consisted of Granite Power Distribution and Granite Power Generation. Granite Power Distribution distributes electricity to approximately 3,600 customers primarily situated in Gananoque. On January 1, 2004, Canadian Niagara Power and Granite Power Distribution were amalgamated and continue operations as Canadian Niagara Power.

Granite Power Generation generates electricity from 5 hydroelectric generating stations with a combined capacity of 6 MW. On October 1, 2003, Granite Power Generation purchased the management contract and 14 of 17 partnership units of Rideau Falls. On December 29, 2003, the remaining 3 partnership units were purchased. Rideau Falls operates a 2-MW hydroelectric generating station in Ottawa. On December 31, 2003, the partnership was dissolved and the assets were combined with Granite Power Generation. On December 31, 2003, Granite Power Generation was renamed FortisOntario Generation.

As part of an internal restructuring, on December 14, 2005, FortisOntario transferred its ownership interest in FortisOntario Generation to Fortis Properties. Subsequently, on January 1, 2006, FortisOntario Generation amalgamated with CNE Energy, a wholly owned subsidiary of Fortis Properties and continues operations as CNE Energy. Currently, the Corporation's investments in Ontario are composed of FortisOntario Inc. and its wholly owned subsidiaries Canadian Niagara Power and Cornwall Electric, and Fortis Properties' wholly owned subsidiary CNE Energy.

The following table summarizes these acquisitions, as well as the current structure of FortisOntario.

Fortis Investments in Ontario				
Original Structure	**Location**	**Purchase Date**	**Purchase Price** *($ million)*	**Current Structure**
Canadian Niagara Power Company, Limited	Fort Erie	50 per cent acquired October 10, 1996	73.7	FortisOntario Inc.
		50 per cent acquired July 1, 2002		Canadian Niagara Power
Port Colborne Hydro [1]	Port Colborne	April 2, 2002	[1]	Canadian Niagara Power
Cornwall Electric	Cornwall	October 17, 2002	67.7	Cornwall Electric
CDH				FortisOntario Inc.
Granite Power Distribution Granite Power Generation	Gananoque	April 1, 2003	11.1	Canadian Niagara Power CNE Energy
Rideau Falls	Rideau Canal, Ottawa	October 1, 2003 and December 29, 2003		CNE Energy

[1] On April 2, 2002, Canadian Niagara Power leased the electricity distribution business of Port Colborne Hydro from the City of Port Colborne under a 10-year lease agreement with an option to purchase such assets at the end of its lease term for fair market value. The total value of the transaction is estimated at $15.6 million.

FortisAlberta

On May 31, 2004, Fortis, through an indirect wholly owned subsidiary, acquired all of the issued and outstanding shares of FortisAlberta (formerly Aquila Networks Canada (Alberta) Ltd.). FortisAlberta owns and operates the electricity distribution system in a substantial portion of southern and central Alberta. FortisAlberta distributes electricity to approximately 415,000 customers using approximately 103,000 kilometres of power lines. FortisAlberta's business is the ownership and operation of regulated electricity distribution facilities that distribute electricity generated by other market participants from high-voltage transmission substations to end-use customers. The Company is not involved in the generation, transmission or direct sale of electricity.

FortisBC

On May 31, 2004, Fortis, through an indirect wholly owned subsidiary, acquired all of the issued and outstanding shares of FortisBC Inc. (formerly Aquila Networks Canada (British Columbia Ltd.). FortisBC Inc. is an integrated regulated electric utility that owns a network of generation, transmission and distribution assets located in the southern interior of British Columbia. FortisBC Inc. serves a diverse mix of approximately 150,000 customers, with residential customers representing the largest customer segment. FortisBC Inc. owns 4 regulated hydroelectric generating plants with an aggregate capacity of 214 MW at year-end 2005, increasing to 235 MW in early 2006, that provide approximately 50 per cent of the Company's energy and 30 per cent of its capacity needs. FortisBC Inc.'s remaining electricity supply is acquired through long-term power purchase contracts and short-term market purchases.

FortisBC includes non-regulated operating, maintenance and management services relating to the 450-MW Waneta hydroelectric generation facility owned by Teck Cominco, the 149-MW Brilliant Hydroelectric Plant owned by CPC/CBT, the 185-MW Arrow Lakes Hydroelectric Plant owned by CPC/CBT and the distribution system owned by the City of Kelowna. The results of these hydroelectric generating facilities have been included in this Regulated Utilities - Canadian segment.

FortisBC also includes PLP. PLP was purchased on May 31, 2005 and is an electric utility that serves approximately 3,200 customers, mainly in Princeton, British Columbia. PLP presently purchases its wholesale power from FortisBC Inc. through a Power Purchase Agreement.

Regulated Utilities – Caribbean

Belize Electricity

Fortis, through wholly owned subsidiaries incorporated under the laws of the Cayman Islands, holds a 68 per cent interest in Belize Electricity. Belize Electricity is the primary distributor of electricity in the country of Belize, Central America. Belize Electricity directly supplies approximately 69,000 customers in Belize and meets a peak demand of 64 MW.

Caribbean Utilities

Fortis, as at January 31, 2006, through a wholly owned subsidiary, holds a 37.0 per cent interest in Caribbean Utilities, the only public electric utility on Grand Cayman, Cayman Islands. Caribbean Utilities has the exclusive right to generate, distribute, transmit and supply electricity to the island of Grand Cayman, Cayman Islands, pursuant to a 25-year exclusive licence issued in 1986. Caribbean Utilities and the Cayman Islands are continuing to recover from the impact of Hurricane Ivan, a Category V hurricane, which struck Grand Cayman in September 2004. Caribbean Utilities serves more than 20,000 customers. The Company has a generating capacity of 107 MW and met a peak load of 79 MW in the summer of 2005.

The Class A Ordinary Shares of Caribbean Utilities are listed for trading on the Toronto Stock Exchange under the symbol CUP.U. The Corporation's investment in Caribbean Utilities resulted from a series of transactions from March 2000 through January 2006. Following these transactions, Fortis beneficially owns 9,342,695 Class A Ordinary Shares, or 37.0 per cent of the outstanding Class A Ordinary Shares. At December 31, 2005, Fortis beneficially owned 36.9 per cent of the outstanding Class A Ordinary Shares of Caribbean Utilities.

Non-Regulated – Fortis Generation

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

Fortis
Non-Regulated Generation Assets

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

Ontario

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

FortisOntario Inc. includes 75 MW of water entitlement associated with the Rankine Station at Niagara Falls and the operation of a 5-MW gas-fired cogeneration plant that provides district heating to

17 commercial customers in Cornwall. During 2005, the Rankine Station assets were written down as a result of the implementation of the Niagara Exchange Agreement. The Niagara Exchange Agreement assigns FortisOntario Inc.'s water rights on the Niagara River to OPGI and facilitates the irrevocable exchange of 75 MW of wholesale electric power supply to FortisOntario Inc. from OPGI until April 30, 2009 in exchange for FortisOntario Inc.'s agreement not to seek renewal of the water entitlement at that time.

CNE Energy's operations in Ontario consist of 6 small hydroelectric generating stations, which were originally acquired as Granite Power Distribution and Rideau Falls, with a combined capacity of approximately 8 MW.

Belize

Non-regulated generation operations in Belize are conducted through the Corporation's wholly owned indirect subsidiary, BECOL, under a Franchise Agreement with the Government of Belize. Fortis acquired a 95 per cent interest in BECOL in 2001 for total consideration of approximately $103 million. On May 20, 2004, Fortis acquired the remaining 5 per cent interest in BECOL from the Social Security Board of the Government of Belize for $4.8 million, making it a wholly owned indirect subsidiary of the Corporation.

BECOL owns and operates the 25-MW Mollejon hydroelectric facility and the 7-MW Chalillo hydroelectric facility, which was inaugurated on November 15, 2005. Both facilities are located on the Macal River in Belize, Central America. These generating plants have the capability of delivering average annual energy production of approximately 160 GWh. BECOL sells its entire output to Belize Electricity under a 50-year Power Purchase Agreement.

Central Newfoundland

Non-regulated generation operations in central Newfoundland are conducted through the Corporation's indirect 51 per cent interest in the Exploits Partnership. The Exploits Partnership is a partnership with Abitibi-Consolidated that constructed, installed and operates additional capacity at Abitibi-Consolidated's hydroelectric plant at Grand Falls-Windsor and redeveloped the forestry company's hydroelectric plant at Bishop Falls, Newfoundland and Labrador. The 51 per cent interest in the partnership is through CNE Energy, a wholly owned subsidiary of Fortis Properties, which was transferred from the Corporation's direct control on December 1, 2005. On December 1, 2005, the name of CNE Energy replaced the previous name of Central Newfoundland Energy Inc. On January 1, 2006, CNE Energy and FortisOntario Generation amalgamated and continue to operate as CNE Energy.

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

Upper New York State

Non-regulated generation operations in Upper New York State are conducted through the Corporation's wholly owned indirect subsidiary FortisUS Energy, which became a direct subsidiary of Fortis Properties on January 1, 2005 by way of a transfer from its subsidiary, Maritime Electric. Generating operations in Upper New York State include the operations of 4 hydroelectric generating stations with a combined generating capacity of 23 MW operating under licences from FERC.

British Columbia

Non-regulated generation operations in British Columbia were acquired as part of FortisBC Inc. in May 2004.

Generating assets in British Columbia consist of the 16-MW run-of-river Walden hydroelectric power plant near Lillooet, British Columbia. This plant sells its entire output to BC Hydro under a Power Purchase Agreement.

Non-Regulated – Fortis Properties

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

Fortis Properties' real estate operations commenced in 1989 and have grown significantly over 16 years. Fortis Properties' acquisition of 4 hotels in Ontario in October 2003 marked the Company's first hotel acquisition outside Atlantic Canada. In February 2005, Fortis Properties acquired 3 hotels in Edmonton, Calgary and Winnipeg. This acquisition was a significant step in expanding the Company's hotel portfolio and broadening its geographic market base.

The following table summarizes hotels acquired since December 2002.

Fortis Properties
Hotels acquired since December 2002

Property	Location	Purchase Date	Price *($ million)*
Holiday Inn Kitchener-Waterloo	Kitchener-Waterloo, ON	October 2003	*(1)*
Holiday Inn Peterborough	Peterborough, ON	October 2003	*(1)*
Holiday Inn Sarnia	Point Edward, ON	October 2003	*(1)*
Holiday Inn Cambridge	Cambridge, ON	October 2003	*(1)*
Greenwood Inn	Calgary, AB	February 2005	*(2)*
Greenwood Inn	Edmonton, AB	February 2005	*(2)*
Greenwood Inn	Winnipeg, MB	February 2005	*(2)*

(1) Hotel was 1 of 4 hotels purchased for an aggregate purchase price of $43.2 million. The 4 hotels have a total of approximately 630 rooms.

(2) Hotel was 1 of 3 hotels purchased for an aggregate purchase price of approximately $63 million. The 3 hotels have a total of approximately 650 rooms and 27,000 square feet of banquet space.

In February 2005, with the purchase of the 3 Greenwood Inn hotels, Fortis Properties bought the Greenwood Inn & Suites brand. In December 2005, the Holiday Inn Corner Brook was rebranded the Greenwood Inn & Suites Corner Brook.

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

In 2005, Fortis Properties commenced an estimated $7.7 million 64-room expansion of the Holiday Inn Sarnia and an estimated $2.5 million 11,000-square foot expansion to the Holiday Inn Kitchener-Waterloo, primarily associated with expanded catering and conference facilities. These expansions are planned for completion in mid-2006. Fortis Properties also began construction on the $7.2 million expansion of the Blue Cross Centre in Moncton in 2005. The 56,000-square foot expansion is scheduled to be completed in mid-2006.

2.2 Acquisitions

Princeton Light and Power Company, Limited
On May 31, 2005, Fortis, through an indirect wholly owned subsidiary, acquired all issued common and preference shares of PLP for $3.7 million. PLP is an electric utility serving approximately 3,200 customers, mainly in Princeton, British Columbia. PLP presently purchases its wholesale power from FortisBC Inc. under a Power Purchase Agreement.

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

Fortis Properties - Greenwood Inn Acquisition
On February 1, 2005, Fortis Properties acquired 3 Greenwood Inn hotels, located in Manitoba and Alberta, for approximately $63 million. The acquisition expands the hospitality operations of Fortis Properties by approximately 650 rooms and 27,000 square feet of banquet space.

2.3 Outlook

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

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

3.0 NARRATIVE DESCRIPTION OF THE BUSINESS

Regulated Utilities – Canadian

3.1 Newfoundland Power

Newfoundland Power is the principal distributor of electricity in Newfoundland, serving approximately 227,000 customers on the island portion of the Province of Newfoundland and Labrador, or 85 per cent of the Province's electricity customers. The balance of the population is served by Newfoundland's other electric utility, Newfoundland Hydro, which also serves several larger industrial customers. Newfoundland Power owns and operates 30 small generating stations and approximately 10,700 kilometers of transmission and distribution lines. Approximately 90 per cent of the electricity that Newfoundland Power sells to its customers is purchased from Newfoundland Hydro. Newfoundland Power generates the remainder of its energy requirements.

Market and Sales

Annual weather-adjusted electricity sales increased to 5,004 GWh in 2005 from 4,979 GWh in 2004. Revenue increased to $420.0 million in 2005 from $404.4 million in 2004.

The following table compares the composition of Newfoundland Power's 2005 and 2004 revenue and electricity sales by customer class.

Newfoundland Power
Revenue and Electricity Sales by Customer Class

	Revenue [(1)] *(per cent)*		GWh Sales [(1)] *(per cent)*	
	2005	2004	**2005**	2004
Residential	**58.5**	58.8	**59.7**	59.7
Commercial	**35.8**	36.2	**39.6**	39.6
Street Lighting	**2.7**	2.8	**0.7**	0.7
Other [(2)]	**3.0**	2.2	**-**	-
Total	**100.0**	100.0	**100.0**	100.0

(1) *Revenue and electricity sales reflect weather-adjusted values pursuant to Newfoundland Power's weather normalization reserve.*
(2) *Includes revenue from sources other than from the sale of electricity; the most significant being Joint-Use of Pole revenue, which represents approximately 67 per cent of revenue in this category.*

Power Supply

Approximately 90 per cent of Newfoundland Power's power supply is purchased from Newfoundland Hydro. The principal terms of the supply arrangements with Newfoundland Hydro are regulated by the PUB on a basis similar to that upon which Newfoundland Power's service to its customers is regulated. Newfoundland Power operates 30 small generating stations which generate approximately 10 per cent of the electricity sold by Newfoundland Power. The Company's hydro plants have a total capacity of approximately 95 MW. The diesel plants and gas turbines have a total capacity of approximately 7 MW and 44 MW, respectively.

Effective January 1, 2005, the introduction of a new purchased power rate structure changed the basis upon which Newfoundland Hydro charges Newfoundland Power for purchased power. This change was the result of an order of the PUB and was intended to promote energy conservation. The change in the purchased power rate structure resulted in Newfoundland Power paying for both energy and demand purchased from Newfoundland Hydro.

Accordingly, a portion of the Company's annual purchased power cost, the demand charge, is set at a fixed amount based on peak billing demand for the previous winter season. Under the historic energy only rate structure, purchased power costs varied based on the amount of energy used by Newfoundland Power's customers.

Regulation

Overview

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

Revenue Recognition

Up to and including December 31, 2005, Newfoundland Power recognized revenue on the billed basis of accounting as approved by the PUB. In 2005, the Company received an order from the PUB to change its revenue recognition policy from the billed basis to the accrual basis for financial and regulatory purposes effective January 1, 2006. The Company also received approval to recognize $3.1 million of the 2005 unbilled revenue balance as revenue in 2006 to offset the impact of the transition to the accrual basis for income tax purposes, as discussed in the "Legal Proceedings" section below, and to defer recovery of approximately $5.8 million in increased amortization of capital assets in 2006. The disposition of the remaining 2005 unbilled revenue balance has been deferred until the Company's next GRA which is anticipated in 2006 for the purpose of setting electricity rates for 2007.

Other Post-Employment Benefits

The Company provides other post-employment benefits through defined benefit plans. The cost of these benefits is expensed in the year paid, as prescribed by a PUB order. Effective December 31, 2005, full and separate disclosure of the other post-employment benefits liability and an associated regulatory asset has been provided on the balance sheet. Under a PUB ruling, the Company was ordered to file a report no later than its next GRA, which addresses the use of the accrual method for other post-employment benefits as an alternative to the currently approved method of expensing the cost of these benefits in the year paid.

Automatic Adjustment Formula

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

In January 2006, Newfoundland Power received approval from the PUB of its final 2006 customer rates, which remain unchanged from 2005. The rates are based on a range of rate of return on rate base of 8.50 per cent to 8.86 per cent, which includes a rate of return on common equity of 9.24 per cent, also unchanged from 2005.

Weather Normalization Reserve
Newfoundland Power records a weather normalization reserve account in its financial statements. The weather normalization reserve is approved by the PUB to adjust for the financial effect of variations in weather and streamflow when measured against long-term averages. The operation of this reserve account reduces the Company's year-to-year income volatility that would otherwise result from abnormal weather conditions. The balance in the weather normalization reserve and the underlying calculations are reviewed by the PUB annually.

Rate Stabilization Account
Newfoundland Power also records a rate stabilization account in its financial statements. The rate stabilization account approved by the PUB passes through to the Company's customers, with no impact on the Company's net earnings, charges related to municipal taxes and fluctuations in the cost and quantity of fuel oil burned by Newfoundland Hydro to produce the power sold to the Company. The account operates to permit these fluctuations to be reflected, in part, in the rates Newfoundland Power charges its customers without the requirement of a rate hearing. Newfoundland Power's rates are adjusted on July 1st of each year to reflect changes in the rate stabilization account.

Income Taxes
Effective January 1, 1981, pursuant to PUB orders, future income tax liabilities are recognized solely on temporary differences on capital cost allowance in excess of amortization of capital assets excluding general expenses capitalized. As a result, the effective tax rate is subject to fluctuation. In 2005, the effective tax rate was 33 per cent, which remains unchanged from the 33 per cent reported in 2004. The effective tax rate is expected to remain at approximately 34 per cent in the near term.

Legal Proceedings

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

Newfoundland Power entered into an agreement with the CRA that provided for the full settlement of this issue on a prospective basis beginning in 2006. Under the terms of the settlement, CRA cancelled all outstanding reassessments related to Newfoundland Power's revenue recognition policy in past years and refunded the income tax deposit it held on behalf of the Company along with interest.

Newfoundland Power will record revenue for income tax purposes on the accrual basis starting in 2006 and, in each of the 2006, 2007 and 2008 taxation years, will include, as revenue for income tax purposes, one-third of the value of electricity consumed by its customers in December 2005 but not billed until January 2006.

Human Resources

At December 31, 2005, Newfoundland Power had 544 employees of which 306 were members of bargaining units represented by the IBEW, Local 1620.

The Company has 2 collective agreements governing its craft and clerical union employees. Both contracts are effective up to September 30, 2008. Newfoundland Power did not experience any material labour issues in 2005.

On April 1, 2005, 76 employees voluntarily retired under an early retirement program. The Company received PUB approval to: (i) amortize the incremental pension costs associated with the early retirement program over 10 years; and (ii) amortize the related retirement allowances on a straight-line basis over 24 months.

Environmental Matters

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

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

In 2005, an independent certified environmental auditor conducted an audit of Newfoundland Power's EMS in accordance with the requirements of the ISO 14001 standard. The Company uses the results of this annual audit to identify areas to which continual improvement to its EMS can be made. No opportunities for improvement or non-conformances were noted during this year's audit.

A registration audit of the Company's EMS for its generation system was conducted by an ISO 14001 Registrar in 2005. Based on the results of this audit, Newfoundland Power has retained its ISO 14001 registration for its generation function. An environmental compliance audit was conducted in 2005 for the Company. This audit occurs on a 3-year cycle and fulfils the ISO 14001 requirement for evaluation of compliance. This audit focused on the legal requirements that pertain to the Company and is a large driver for continual improvement.

Newfoundland Power has an ongoing program to identify and replace distribution transformers at risk of spillage. In addition, PCBs continue to be removed from service and disposed of through a licenced PCB-waste disposal company. Future PCB waste generated as a result of the Company's PCB phase-out and destruction program will be addressed on an ongoing basis. The Company has many small initiatives occurring in its generating plants to minimize contamination of the environment.

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

Environmental laws and regulations had no material effect on the capital expenditures, earnings or competitive position of Newfoundland Power in 2005 and, based on current laws, facts and circumstances, are not expected to have any material effect in the foreseeable future.

3.2 Maritime Electric

Maritime Electric operates an integrated electric utility, which directly supplies approximately 70,300 customers, constituting 90 per cent of the electricity consumers on Prince Edward Island. Maritime Electric purchases most of the energy it distributes to its customers from NB Power, a provincial Crown Corporation. Maritime Electric's system is connected to the mainland power grid via

2 submarine cables between Prince Edward Island and New Brunswick, which are leased from the Government of Prince Edward Island. Maritime Electric owns and operates generating plants on Prince Edward Island with a total capacity of 100 MW as at December 31, 2005. A new 50-MW combustion turbine generator was commissioned in early 2006.

Market and Sales

Maritime Electric serves residential, commercial and industrial electricity customers. Annual electricity sales increased to 989 GWh in 2005 from 977 GWh in 2004. Revenue was $116.7 million for 2005 compared to $115.4 million last year.

The following table compares the composition of Maritime Electric's 2005 and 2004 revenue and electricity sales by customer class.

Maritime Electric
Revenue and Electricity Sales by Customer Class

	Revenue *(per cent)*		**GWh Sales** *(per cent)*	
	2005	2004	**2005**	2004
Residential	**47.0**	47.7	**41.7**	42.1
Commercial	**50.2**	50.4	**57.7**	57.4
Street Lighting	**1.4**	1.4	**0.6**	0.5
Other [(1)]	**1.4**	0.5	**-**	-
Total	**100.0**	100.0	**100.0**	100.0

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

Power Supply

In 2005, Maritime Electric met its energy supply requirements through purchases from NB Power with the balance supplied from generation facilities located on Prince Edward Island. Maritime Electric purchased 1,025.2 GWh of the 1,072.5 GWh required to meet its customers' needs from NB Power in 2005. The balance was met through the Company's on-Island generation facilities, as well as the purchase of 40.5 GWh of wind energy produced on Prince Edward Island. Maritime Electric's generation facilities are located in Charlottetown and have a total installed capacity of approximately 100 MW as at December 31, 2005, with its oil-fired steam plant and gas turbines having a total capacity of 60 MW and 40 MW, respectively. As of early 2006, there is a further 50 MW of generating capacity due to the commissioning of a new combustion turbine generator. The new combustion turbine generator can operate on light oil or natural gas and is located at the Company's Charlottetown Plant. The Company's generating capacity is used primarily for peaking, submarine cable loading issues and emergency purposes.

In 2005, approximately 18.9 per cent of the energy that Maritime Electric purchased from NB Power came from the Point Lepreau Station. During 2005, the Point Lepreau Station had an annual capacity factor of 80.1 per cent compared to 77.2 per cent in 2004.

During 1998, NB Power announced the results of an independent consultant audit of the Point Lepreau Station, which concluded that its remaining life was less than the estimate that had been used by NB Power for the purposes of calculating depreciation. Accordingly, the consultant and NB Power's external auditors recommended that NB Power reduce the Point Lepreau Station's net book value by $450 million. Maritime Electric's obligations in respect of the Point Lepreau Station Unit Participation Agreement required a payment of approximately $6.0 million in 2001, which is being amortized over the estimated life of the Point Lepreau Station.

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

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

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

Regulation

For the period 1994 through 2003, Maritime Electric was regulated by the *Maritime Electric Company Limited Regulation Act* (Prince Edward Island). This legislation replaced the traditional cost of service form of regulation with a form of price cap regulation under which the rates charged by Maritime Electric decreased by 1 per cent every 6 months until the rates reached a level of not more than 110 per cent of the rates charged by NB Power for equivalent service to New Brunswick consumers.

Legislative changes proclaimed in October 2001 provided Maritime Electric with the ability to recover, from customers, 90 per cent of energy-related costs above 5 cents per kWh. In addition, the legislation provided for a further adjustment to rates to bring Maritime Electric's ROE 75 per cent of the way towards a target return of 11 per cent on average common equity. These adjustments helped reduce Maritime Electric's exposure to increases in energy-related costs and provide earnings stability.

In December 2003, the Government of Prince Edward Island proclaimed legislation returning Maritime Electric to traditional cost of service regulation. Under the new regulatory model, rates on Prince Edward Island are no longer linked to rates in New Brunswick but are based on the actual costs incurred to provide service on the Island and provide an approved rate of return on approved rate base assets. Maritime Electric believes that this change will result in more certainty and predictability and, ultimately, a more stable regulatory environment. On January 1, 2004, the *Maritime Electric Company Limited Regulation Act* (Prince Edward Island) was repealed and Maritime Electric is now regulated by IRAC under the provisions of the *Electric Power Act* (Prince Edward Island). The rates charged to customers as at December 31, 2003 were adopted as basic rates.

In January 2005, the Company received an Interim Order which established a new ECAM with application to the period commencing January 1, 2004. This ECAM will help mitigate the impact of fluctuating energy costs as it will allow the Company to collect (or rebate) energy costs from (or to) customers at levels above (or below) a base rate of 6.73 cents per kWh. The Interim Order also allowed the Company to commence the amortization of the $20.8 million in recoverable costs accumulated as at December 31, 2003 in the amounts of $1.5 million and $2.5 million, for the fiscal years 2004 and 2005, respectively. On June 24, 2005, the Company was also given an Order to allow for a 2 per cent basic electricity rate increase effective July 1, 2005 with the new ECAM, effective January 1, 2004, to remain in effect until June 30, 2006.

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

The *Electric Power Act* (Prince Edward Island) requires Maritime Electric to maintain at least 40 per cent of its capital structure in the form of common equity. At December 31, 2005, the common equity component of Maritime Electric's capital structure was 42.7 per cent compared to 42.6 per cent at December 31, 2004.

Human Resources

At December 31, 2005, Maritime Electric had 175 full-time employees, of which 122 employees were represented by IBEW, Local 1432. A new collective agreement covering the period ending December 31, 2008 was negotiated and signed with the IBEW, Local 1432 in 2005.

Environmental Matters

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

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

During 2005, Maritime Electric continued its program of environmental audits and site assessments on selected properties. Environmental laws and regulations had no material effect on the capital expenditures, earnings or competitive position of Maritime Electric in 2005 and, based on current laws, facts and circumstances, are not expected to have any material effect in the future.

3.3 FortisOntario

The Corporation's regulated utility investments in Ontario, collectively FortisOntario, are composed of Canadian Niagara Power, including the operations of Port Colborne Hydro and Cornwall Electric. In total, FortisOntario's distribution operations serve approximately 51,300 customers in the Fort Erie, Port Colborne, Cornwall and Gananoque areas of Ontario and met a peak demand of 249 MW in 2005. Canadian Niagara Power owns international transmission facilities at Fort Erie, Ontario and owns a 10 per cent interest in each of Westario Power and Rideau St. Lawrence, 2 regional electric distribution companies formed in 2000 that, together, serve more than 27,000 customers.

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

FortisOntario
Regulated Utility Operations

Company	Service Territory	Customers (#)	Peak Demand (MW)	Employees (#)
Canadian Niagara Power [(1)]	Fort Erie	15,200	58.9	66
	Port Colborne [(2)]	9,200	40.8	4
	Gananoque	3,600	16.5	10
Cornwall Electric	Cornwall	23,300	133.0	47
Total		**51,300**	**249.2**	**140** [(3)]

(1) Canadian Niagara Power also owns a 10 per cent interest in each of Westario Power and Rideau St. Lawrence.
(2) Canadian Niagara Power signed a 10-year operating lease agreement with the City of Port Colborne in 2002.
(3) Includes 13 employees in Corporate and Non-Regulated Generation operations in Ontario.

Market and Sales

Total annual electricity sales for 2005 were 1,195 GWh, comparable to 1,198 GWh in 2004. FortisOntario's revenue increased to $139.7 million in 2005 from $125.2 million in 2004.

The following table compares the composition of FortisOntario's 2005 and 2004 revenue and electricity sales by service territory.

FortisOntario
Revenue and Electricity Sales by Service Territory

	Revenue *(per cent)*		**GWh Sales** *(per cent)*	
	2005	2004	**2005**	2004
Fort Erie	**22.3**	25.0	**24.2**	23.9
Port Colborne	**14.0**	12.6	**15.9**	15.1
Gananoque	**6.6**	6.3	**7.1**	7.1
Cornwall	**57.1**	56.1	**52.8**	53.9
Total	**100.0**	100.0	**100.0**	100.0

The following table compares the composition of FortisOntario's 2005 and 2004 revenue and electricity sales by customer class.

FortisOntario
Revenue and Electricity Sales by Customer Class

	Revenue *(per cent)*		**GWh Sales** *(per cent)*	
	2005	2004	**2005**	2004
Residential	**44.6**	41.2	**41.7**	40.9
Commercial	**54.7**	54.1	**57.7**	59.1
Other [(1)]	**0.7**	4.7	**0.6**	-
Total	**100.0**	100.0	**100.0**	100.0

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

Power Supply

Canadian Niagara Power purchases its power requirements for Fort Erie and Port Colborne from the IESO. Under the Standard Supply Code of the OEB, Canadian Niagara Power is obliged to provide Standard Service Supply to all its customers who do not choose to contract with an electricity retailer. This energy is provided to customers at either regulated or market prices. Designated customers and low-volume customers with annual usage less than 250,000 kWh receive this power at a two-tiered pricing regime. For residential customers, the first 1,000 kWh per month is currently priced at 5.0 cents per kWh and any consumption above that amount is priced at 5.8 cents per kWh. The threshold of the two-tiered pricing regime changes twice a year. In May, the first block drops to 600 kWh and, in November, it returns to 1,000 kWh. For non-residential and designated customers, the first 750 kWh is currently priced at 5.0 cents per kWh and any consumption above that amount is priced at 5.8 cents per kWh. The Government of Ontario subsidizes the difference between the competitive wholesale price paid to generators and the fixed commodity price received from customers. This difference is settled monthly with the IESO.

In Gananoque, Canadian Niagara Power's distribution system is embedded within Hydro One Networks. Energy requirements for Gananoque are met through monthly energy purchases from Hydro One Networks (85 per cent) and CNE Energy (15 per cent). The energy is purchased at the hourly Ontario Energy Price. Energy sales to customers in Gananoque are treated in the same manner as those in Fort Erie and Port Colborne. Cost differences arising from sales at the regulated prices are settled with the IESO through the monthly invoicing process with Hydro One Networks.

Cornwall Electric purchases 98 per cent of its power requirements from Hydro-Québec under 2 fixed-term contracts. The first contract, which represents approximately 35 per cent of the power supply, expires in 2019. The second contract, which supplies the remainder of the power from Hydro-Québec, is a 12-month rolling contract. FortisOntario Inc.'s 5-MW gas-fired cogeneration plant generates the remaining 2 per cent of the power requirement in Cornwall.

Regulation

Canadian Niagara Power's operations in Fort Erie were historically subject to minimal regulation in connection with its energy activities and were not subject to any form of rate regulation, other than under a franchise agreement with the Town of Fort Erie. Under the *Electricity Act* (Ontario) and the *Ontario Energy Board Act* (Ontario), Canadian Niagara Power is now subject to the same regulation as all distributors and transmitters of electricity in Ontario.

As a result of regulatory changes implemented on May 1, 2002, Canadian Niagara Power restructured and continues to operate its generation business separate from its transmission and distribution businesses. Its transmission and distribution businesses operate under Canadian Niagara Power, a wholly owned subsidiary of FortisOntario Inc. Distribution and transmission assets remain regulated on a cost of service basis.

On December 9, 2002, the *Electricity Pricing, Conservation and Supply Act, 2002* (Ontario) came into force, introducing a 4.3 cent per kWh retail commodity price cap for low-volume and designated customers and implementing a freeze on transmission and distribution rate increases until May 1, 2006. During the period of the rate freeze, the Government of Ontario subsidized the difference between the competitive wholesale price paid to generators and the fixed commodity price charged to low-volume and designated customers. For 2005, the transmission rates and Fort Erie and Gananoque distribution rates were set based on a 9.88 per cent ROE. In 2005, Port Colborne applied for and received approval by the OEB for the recovery of the final one-third of the phase-in to the 9.88 per cent ROE. However, in order to qualify, Canadian Niagara Power had to submit in 2004, for approval, a Conservation and Demand Management Plan to the OEB. This Plan was approved by the OEB in 2005. It includes a required investment equal to the value of the final one-third of ROE for 1 year, which may be spread over a 3-year period ending in September 2007.

On December 18, 2003, the *Ontario Energy Board Amendment Act, 2003* (Ontario) came into force. This legislation replaced the 4.3 cent per kWh commodity price cap with a two-tiered commodity pricing structure implemented April 1, 2004. Low-volume and designated customers who were capped at 4.3 cents per kWh began paying 4.7 cents per kWh for the first 750 kWh of electricity consumed each month, while electricity consumed in excess of this ceiling was priced at 5.5 cents per kWh. Any difference between the wholesale price and the fixed two-tiered pricing is subject to a true-up process administered by the IESO and financed by the Ontario Electricity Financial Corporation. Additionally, this legislation allowed electricity distributors to begin to recover a portion of the distribution costs incurred in preparing for the introduction of competition in the Ontario electricity market in May 2002. Starting April 1, 2004, distributors were permitted to recover amounts incurred up to and including December 31, 2002 with recovery over a 4-year period. In March 2004, Canadian Niagara Power received an OEB Decision and Order, and Interim Rate Schedule for transitional rates to recover its transitional costs in Fort Erie and Port Colborne. There were no transitional costs associated with Gananoque for the period prior to December 31, 2002.

In March 2005, Canadian Niagara Power received an OEB Decision and Order, and Interim Rate Schedule for transitional rates to continue the recovery of transitional costs in Fort Erie and Port Colborne.

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

In June 2004, the OEB initiated a process to establish approved rates for electricity distributors based on updated revenue requirements, with the intent that the rates will be effective May 1, 2006. Canadian Niagara Power filed separate rate applications for each of its 3 operating areas - Fort Erie, Port Colborne and Gananoque. Coincident with filing the 2006 distribution rate applications, Canadian Niagara Power made applications to the OEB for disposition of its regulatory asset and liability balances in each of its 3 operating areas including final recovery of its transitional costs, those costs incurred in preparation of the open market in May 2002. Canadian Niagara Power has acknowledged to the OEB that its transition costs for Fort Erie and Port Colborne are in excess of $60 per customer and that the OEB will conduct a comprehensive review of Canadian Niagara Power's regulatory asset claims.

Cornwall Electric has been given legislative exemption from a number of aspects of the Acts and is instead subject to a 35-year Franchise Agreement with the City of Cornwall, dated July 31, 1998, and franchise agreements with neighboring townships. Rates under the Franchise Agreement are determined based on the aggregate of a flow through of the contracted cost of power and a revenue requirement for other operating costs. The revenue requirement is reset each year based on a formula including adjustments for inflation, load growth and customer growth. In November 2004, the OEB granted Cornwall Electric a Distribution Licence valid until December 2019. The Distribution Licence acknowledges the existing service territory and franchise agreements. Prior to this date, Cornwall Electric had been granted an Interim Distribution Licence.

Human Resources

At December 31, 2005, FortisOntario had 140 employees, of which 33 were represented by Canadian Union of Public Employees, Local 137, 49 were represented by IBEW, Local 636 in the Niagara Region and 6 were represented by IBEW, Local 636 in Gananoque. The collective agreements governing these employees expire on April 30, 2009, May 31, 2006 and July 31, 2006, respectively.

Environmental Matters

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

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

Environmental laws and regulations had no material effect on the capital expenditures, earnings or competitive position of FortisOntario in 2005 and, based on current laws, facts and circumstances, are not expected to have any material effect in the future.

3.4 FortisAlberta

FortisAlberta is a regulated electricity distribution utility in the Province of Alberta. Its business is the ownership and operation of regulated electricity distribution facilities that distribute electricity generated by other market participants from high-voltage transmission substations to end-use customers. FortisAlberta is not involved in generation, transmission or the direct sale of electricity. It is intended that FortisAlberta will remain a regulated electric distribution utility for the foreseeable future, focusing on the delivery of safe, reliable and cost-effective services to its customers in Alberta.

FortisAlberta owns and/or operates a largely rural, low-voltage distribution network in central and southern Alberta, totaling approximately 103,000 kilometres of distribution power lines. The Company's distribution network serves approximately 415,000 electricity customers, comprising of residential, commercial, farm and industrial consumers of electricity.

Market and Sales

FortisAlberta's annual customer electricity sales increased to 14,445 GWh in 2005 from 13,908 GWh in 2004. Revenue increased to $259.8 million in 2005 from $223.4 million in 2004. Financial results for FortisAlberta are included in the consolidated financial statements of the Corporation from the date of acquisition, which occurred on May 31, 2004. FortisAlberta's electricity sales and revenue for the 7-month period ended December 31, 2004 was 7,964 GWh and $129.7 million, respectively.

The following table compares the composition of FortisAlberta's 2005 and 2004 electric rate revenue and electricity sales by customer class.

FortisAlberta

Electric Rate Revenue and Electricity Sales by Customer Class

	Revenue *(per cent)*		**GWh Sales** [(1)] *(per cent)*	
	2005	2004 [(2)]	**2005**	2004 [(2)]
Residential	**30.1**	31.7	**15.3**	15.1
Large commercial and industrial	**23.8**	25.4	**60.9**	60.7
Farms	**11.4**	12.5	**8.5**	8.7
Small commercial	**12.0**	12.7	**7.9**	7.9
Small oil and gas	**8.0**	8.9	**6.3**	6.5
Other [(3)]	**14.7**	8.8	**1.1**	1.1
Total	**100.0**	100.0	**100.0**	100.0

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

(2) *The 2004 figures are for the year ended December 31, 2004. Fortis acquired FortisAlberta on May 31, 2004, therefore, only sales from the date of acquisition onward are reflected in the Annual Consolidated Financial Statements of Fortis.*

(3) *Other revenue in 2005 included amounts associated with the resolution of tax matters associated with prior periods and the finalization of certain load settlement amounts.*

Regulation

FortisAlberta is regulated by the AEUB pursuant to the *Electric Utilities Act* (Alberta), the *Public Utilities Board Act* (Alberta) and the *Hydro and Electric Energy Act* (Alberta). FortisAlberta operates under cost of service regulation as prescribed by the AEUB. The revenue requirement for the Company provides for the recovery of all prudently incurred operating expenses, depreciation and amortization, income tax, interest on debt supporting regulated assets and an AEUB-approved allowed ROE applied to approved rate base assets. The regulated capital structure for FortisAlberta has been set as 63 per cent debt and 37 per cent equity in the Generic Cost of Capital Decision dated July 2, 2004. The same order set the formula for establishing FortisAlberta's regulated ROE for future years. For 2005, FortisAlberta's regulated ROE was confirmed at 9.50 per cent by AEUB Order U2004-423. FortisAlberta's allowed ROE is adjusted annually through the operation of an automatic adjustment formula to adjust for forecast changes in long-term Canada bond yields. The Company believes that the formulaic approach to rate setting enhances the transparency and predictability of the regulatory process and will, in many cases, reduce the complexity and cost of regulatory proceedings.

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

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

FortisAlberta filed an application with the AEUB for its 2006 and 2007 electricity rates on December 12, 2005. The 2006 and 2007 rate application includes a 2006 distribution revenue requirement of $221.2 million (excluding miscellaneous revenue and adjustment riders) and an allowed ROE of 8.93 per cent. Although the base rates remain constant in 2006, revenue is forecast to be $5.8 million higher than the 2005 approved revenue due to forecasted increases in the number of customers and the associated increase in energy deliveries. The revenue requirement reflects a forecast level of operating expenses of $103.6 million included in base rates and $13.0 million that will be collected by separate riders. Gross capital expenditures are forecasted to be $193.0 million and customer contributions are forecasted to be $23.3 million. In addition, FortisAlberta also expects to contribute $10.7 million to AESO projects. Until 2006 and 2007 rates are approved, the Company will be on interim rates starting January 1, 2006. These interim rates were approved by the AEUB on December 20, 2005. FortisAlberta expects a decision from the AEUB on rates for 2006 and 2007 in the latter part of 2006.

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

Legal Proceedings

On August 8, 2005, FortisAlberta announced that an agreement was reached with EPCOR to settle all aspects of the claim filed on August 18, 2003 in the Court of Queen's Bench of Alberta. On October 3, 2005, FortisAlberta signed an agreement with Aquila, Inc. and its insurers, which partitioned an insurance policy intended to cover legal expenses incurred to defend the lawsuit, as well as any amounts rendered against FortisAlberta by way of a legal ruling, or agreed to in a settlement. The proceeds received under this insurance policy have partially offset the settlement of the EPCOR claim.

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

Human Resources

At December 31, 2005, FortisAlberta had 760 full-time employees, 40 part-time employees and 105 temporary and term employees. The majority of employees are represented by the UUWA, with approximately 244 employees not represented by any labour association. There are 2 collective agreements with the UUWA. The Dispatch/Contact Centre Collective Agreement expired December 31, 2004 and the main Collective Agreement expired December 31, 2005. The Company is currently in negotiations to renew both of these agreements and expects to enter into new contracts in the first half of 2006.

Franchise Agreements

Most of the Company's residential, commercial and industrial customers located within a municipal boundary are served through franchise agreements between the Company and customers' municipality of residence. In Alberta, the standard franchise agreement, which could include a franchise fee payable to the municipality, is generally for 10 years and can be renewed for 5 years upon mutual consent of the parties. All municipal franchises are governed by legislation that requires the municipality or the utility to give notice, and obtain AEUB approval, if it intends to terminate its franchise agreement. Any agreement that is not renewed continues in effect until either the Company or the municipality terminates it with AEUB permission. If a franchise agreement is terminated and the municipality subsequently exercises its right under the *Municipal Government Act* (Alberta) to purchase the Company's distribution network within the municipality's boundaries, the Company is required to be compensated in respect of such purchases.

FortisAlberta serves over 145 municipalities, of which 130 are on standardized individual franchise agreements. Substantially all of these agreements expire between 2011 and 2015. The Company is currently in the process of renewing another 12 franchise agreements. It is anticipated that these agreements will be finalized by the end of 2006. The Company is in discussions with the remaining municipalities regarding franchise agreements. In June 2005, the City of Airdrie, which had previously provided notice to the Company of its intention to terminate its franchise agreement, signed a 10-year franchise agreement with the Company, effective August 8, 2005.

Environmental Matters

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

FortisAlberta follows the guidelines of the "Industrial Treated Wood Users Guidance Document" provided by Environment Canada. The Company's handling of treated wood is designed to promote public and employee safety, provide system reliability and prevent undue environmental impact. As the Company continues to meet the needs of customers through its rural service territory, the environmental concerns surrounding waste management and wildlife impacts are reviewed to prevent the compromising of relevant legislation.

During 2005, the Company made progress in establishing and implementing an EMS consistent with ISO 14001 guidelines. The Company is not seeking certification under these standards. ISO 14001 is an international standard for an EMS. The EMS provides a framework that allows for the identification of environmental impacts, the establishment of processes and programs to mitigate those impacts and the monitoring of performance to aid in the continual improvement of the Company's environmental performance. The programs designed to achieve these objectives are in various stages of implementation or completion. In response to the current risks and priorities, this EMS is continually reviewed and tested. The Company is expecting to initialize an EMS-audit process by the last quarter of 2006 which will assess the effectiveness of the EMS program.

3.5 FortisBC

FortisBC includes FortisBC Inc, an integrated, regulated electric utility that owns a network of generation, transmission and distribution assets located in the southern interior of British Columbia. FortisBC Inc. serves a diverse mix of approximately 150,000 customers, approximately 100,000 of whom are served directly by the Company's assets while the remainder are served through the wholesale supply of power to municipal distributors. Residential customers represent the largest customer segment of the Company. FortisBC Inc.'s generation assets consist of 4 regulated hydroelectric generating plants on the Kootenay River with an aggregate capacity of 214 MW at year-end 2005, increasing to 235 MW in early 2006, and an annual energy output of approximately 1,600 GWh. FortisBC Inc. meets the balance of its requirements through a portfolio of long-term and short-term power purchase contracts approved by the BCUC, the costs of which are flowed through to customers. The transmission and distribution assets consist of approximately 1,400 kilometres of transmission lines and approximately 5,000 kilometres of distribution power lines and include 11 terminal substations, 4 generation substations, 64 distribution substations, 30,000 distribution service transformers and over 78,000 support structures. FortisBC also includes PLP. PLP, which was purchased on May 31, 2005, is an electric utility that serves approximately 3,200 customers, mainly in Princeton, British Columbia.

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

Market and Sales

FortisBC has a diverse customer base composed of residential, general service, industrial and municipal/wholesale customers. Annual electricity sales increased to 2,968 GWh in 2005 from 2,873 GWh in 2004. Revenue increased to $194.7 million in 2005 from $184.5 million in 2004. Financial results for FortisBC are included in the consolidated financial statements of the Corporation from the date of acquisition, which occurred on May 31, 2004. FortisBC's electricity sales and revenue for the 7-month period ended December 31, 2004 were 1,662 GWh and $109.5 million, respectively.

The following table compares the composition of FortisBC's 2005 and 2004 revenue and electricity sales by customer class.

FortisBC Revenue and Electricity Sales by Customer Class				
	Revenue *(per cent)*		GWh Sales *(per cent)*	
	2005 *(1)*	2004 *(2)*	**2005** *(1)*	2004 *(2)*
Residential	**41.2**	38.6	**36.4**	35.9
General service	**23.9**	20.9	**22.2**	20.6
Wholesale	**20.4**	23.2	**29.4**	31.7
Industrial	**9.2**	9.0	**12.0**	11.8
Other *(3)*	**5.3**	8.3	**-**	-
Total	**100.0**	100.0	**100.0**	100.0

(1) The 2005 figures include the results of PLP from May 31, 2005 onward.
(2) The 2004 figures are for the year ended December 31, 2004. Fortis acquired FortisBC on May 31, 2004; therefore, only sales from the date of acquisition onward are reflected in the Annual Consolidated Financial Statements of Fortis.
(3) Other includes revenue from sources other than from the sale of electricity, consisting of revenue from Fortis Pacific Holdings.

Generation and Power Supply

FortisBC Inc. meets the electricity supply requirements of its customers through a mix of owned generation and short-term and long-term power purchase contracts. FortisBC Inc. owns 4 regulated hydroelectric generating plants on the Kootenay River with an aggregate installed capacity of 214 MW at year-end 2005, increasing to 235 MW in early 2006, that provide approximately 50 per cent of the Company's energy needs and 30 per cent of its capacity needs.

FortisBC Inc.'s 4 hydroelectric generation facilities are governed by the CPA. The CPA is a multi-party agreement that enables the 4 separate owners of 7 major hydroelectric generating plants (with a combined capacity of approximately 1,400 MW and located in relatively close proximity to each other) to coordinate the operation and dispatch of their plants. FortisBC Inc. and the other parties have negotiated an amended and restated CPA, dated July 1, 2005, and are currently awaiting the outcome of the regulatory process. In the meantime, the parties are operating under the terms of the restated CPA.

The following table lists the plants and their owners.

Plant	Capacity (MW)	Owners
Canal Plant	580	BC Hydro
Waneta Dam	450	Teck Cominco
Kootenay River System	214	FortisBC Inc.
Brilliant Dam	149	Brilliant Power Corporation

Brilliant Power Corporation, Teck Cominco and FortisBC Inc. are collectively defined in the CPA as the Entitlement Parties. The CPA enables BC Hydro and the Entitlement Parties, through coordinated use of water flows subject to the 1961 Columbia River Treaty between Canada and the United States and storage reservoirs, and through the coordinated operation of generating plants, to generate more power from their respective generating resources than they could if they operated independently. Under the CPA, BC Hydro takes into its system all power actually generated by all 6 plants owned by the Entitlement Parties. In exchange for permitting BC Hydro to determine the output of these facilities, each of the Entitlement Parties is contractually entitled to a fixed annual entitlement of capacity and energy from BC Hydro. The Entitlement Parties receive their entitlements irrespective of actual water flows to the Entitlement Parties' generating plants and are, accordingly, insulated from the hydrology risk of water availability.

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

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

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

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

Regulation

FortisBC Inc. is regulated by the BCUC which operates under and administers the *Utilities Commission Act* (British Columbia). FortisBC Inc. is required to regularly file rate applications with the BCUC. FortisBC Inc.'s rates are established pursuant to both a cost of service methodology and a PBR framework. In short, the rate process first requires FortisBC Inc. to establish and have its annual revenue requirements approved by the BCUC. These annual revenue requirements include the recovery of prudently incurred operating expenses, power purchase costs, depreciation and amortization, income tax, interest on debt and a reasonable ROE. The PBR framework, which in part governs FortisBC Inc.'s rates, is intended to encourage FortisBC Inc. to operate efficiently by permitting its shareholders and customers to share in cost savings if specific targets are met. FortisBC Inc.'s allowed ROE is adjusted annually through the operation of an automatic adjustment formula to adjust for forecast changes in long-term Canada bond yields.

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

In June 2005, a British Columbia utility applied to the BCUC for, among other things, a review of the current ROE adjustment mechanism that also applies to FortisBC Inc. The application was subject to a regulatory process in which FortisBC Inc. participated to the extent that the proceedings affected FortisBC Inc. On March 2, 2006, the BCUC issued its Decision on this matter. The Decision, when applied to FortisBC Inc., increases the Company's allowed ROE from 8.69 per cent to 9.20 per cent, effective January 1, 2006. FortisBC Inc.'s deemed common equity component was not impacted by the Decision and remains at 40 per cent.

FortisBC Inc. is focused on responding to customer growth and enhancing system reliability and safety through its extensive capital program. FortisBC Inc. expects to spend approximately $500 million on capital projects over the next 5 years. Due to the size of the forecast capital program relative to the size of the Company, its implementation, financing and customer rate impacts present key challenges to FortisBC Inc. On January 31, 2006, the Company received approval from the BCUC for its $111.7 million 2006 Capital Plan, net of contributions in aid of construction, with approximately $27 million in projects subject to a further approval process.

FortisBC Inc. filed its 2006 Revenue Requirement Application in November 2005 seeking approval of a 5.9 per cent increase in electricity rates effective January 1, 2006. The rate increase is primarily driven by the extensive capital program planned for 2006. In December, the BCUC approved an interim refundable rate increase of 5.9 per cent, effective January 1, 2006. The 2006 Revenue Requirement Application was reviewed with the BCUC in February 2006, with a negotiation or a hearing scheduled thereafter, and includes a proposed new PBR mechanism to determine revenue requirements for 2007 through 2009. The 2006 Application was based on the continuation of the generic ROE mechanism and a cost of capital for rate-making purposes to reflect a capital structure of 40 per cent equity and 60 per cent debt. The ROE used in the 2006 Application was 8.69 per cent, down from 9.43 per cent for 2005. This decrease is directly related to lower long-term Canada bond yields. Now that the BCUC has rendered its final Decision on the appropriate ROE for the benchmark low-risk utility, FortisBC Inc.'s allowed ROE will be established at 9.20 per cent, effective January 1, 2006.

Legal Proceedings

FortisBC Inc. has received correspondence and met with the B.C. Ministry of Forests to discuss the possibility of an invoice being issued to the Company for costs incurred by the Ministry of Forests in 2003 in relation to a forest fire near Vaseux Lake. The Ministry of Forests has alleged breaches of the Forest Practices Code and negligence and has filed, but not served, a writ and statement of claim against FortisBC Inc. FortisBC Inc. is currently communicating with the Ministry of Forests and its insurers. In addition, FortisBC Inc. has become aware of 2 writs and statements of claim filed, but not served, by private land owners in relation to the same matter. The outcome cannot be reasonably determined and estimated at this time and, accordingly, no amount has been accrued in the consolidated financial statements.

On January 5, 2006, FortisBC Inc. was served a writ and statement of claim filed with the B.C. Supreme Court under the *Class Proceedings Act*, *1995* on behalf of a class consisting of all persons who are or were customers of FortisBC Inc. and who paid or have been charged FortisBC Inc.'s late payment penalties at any time between April 1, 1981 and the date of any judgment in this action. The claim is that forfeitures of the prompt payment discount offered to customers constitute "interest" within the meaning of section 347 of the Criminal Code and, since the effective annual rate of such interest exceeds 60 per cent, they are illegal and void. In the action, the class seeks damages and restitution of all late payment penalties which were forfeited. The outcome cannot be reasonably determined and estimated at this time and, accordingly, no amount has been accrued in the consolidated financial statements.

Human Resources

At December 31, 2005, FortisBC Inc. had 516 employees. FortisBC Inc. has separate collective agreements with IBEW, Local 213 and COPE Union, Local 378, covering 410 employees. There are 106 employees who are not represented by any union.

The Collective Agreement between the Company and IBEW expired on January 31, 2005. IBEW represents 259 employees in specified occupations in the areas of generation, transmission and distribution. The Company and IBEW reached an agreement which was ratified in early January 2006. The agreement expires on January 31, 2008.

The Collective Agreement between the Company and COPE expired on January 31, 2006. COPE represents 151 employees in office and professional occupations. Discussions between the Company and COPE commenced in March 2006.

Environmental Matters

Although primarily regulated at the provincial level, Canadian federal, provincial and local governments share jurisdiction over the environment. As a result, FortisBC is subject to extensive federal, provincial and local regulation relating to the protection of the environment, including air emissions, water discharges and the generation, storage, transportation, disposal and release of various substances. In addition, both the provincial and federal governments have environmental assessment legislation which is designed to foster better planning and identify and mitigate potential environmental impacts of projects and undertakings prior to commencement.

ISO 14001 is an international standard for EMS. FortisBC has developed an EMS that is consistent with the ISO 14001 standard. The intent of the system is to provide a framework that allows for the monitoring of performance and the establishment of processes to enhance that performance. The essence of FortisBC's management system is the "plan, check, do and review" cycle, which is the core of continuous improvement. This system is continually being refined in order to enhance FortisBC's environmental performance and to reflect organizational changes as they occur.

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

Regulated Utilities – Caribbean

3.6 Belize Electricity

Belize Electricity is the primary commercial transmitter and distributor of electricity in Belize, Central America. Serving approximately 69,000 customers, Belize Electricity meets a peak demand of 64 MW from multiple sources, which include power purchases from: (i) the Mollejon and Chalillo hydroelectric facilities owned and operated by BECOL; (ii) CFE, the Mexican state-owned power company; and (iii) its own diesel-fired and gas turbine generation. All major load centers are connected to Belize's national electricity system, which is connected to the Mexican electricity system, allowing Belize Electricity to optimize its power supply options.

Market and Sales

Annual electricity sales increased to 350 GWh in 2005 from 330 GWh in 2004. Revenue increased to BZ$125.4 million in 2005 from BZ$110.1 million in 2004.

The following table compares the composition of Belize Electricity's 2005 and 2004 revenue and electricity sales by customer class.

Belize Electricity Revenue and Electricity Sales by Customer Class				
	Revenue *(per cent)*		GWh Sales *(per cent)*	
	2005	2004	**2005**	2004
Residential	**55.7**	54.5	**57.9**	57.5
Commercial (1)	**32.7**	32.4	**35.4**	35.2
Street Lighting	**7.7**	8.9	**6.7**	7.3
Other (2)	**3.9**	4.2	**-**	-
Total	**100.0**	100.0	**100.0**	100.0

(1) *Includes revenue sources classified as commercial and industrial.*
(2) *Includes revenue from sources other than from the sale of electricity.*

Sales were positively impacted by economic growth in the commercial and industrial sector, particularly aquaculture, tourism, and agricultural processing, as well as residential growth.

Power Supply

Belize Electricity purchased and produced 404 GWh of electricity in 2005. Belize Electricity purchased 68 GWh from the Mollejon and Chalillo hydroelectric facilities and 254 GWh from CFE. The balance, 82 GWh, was produced by Belize Electricity's diesel-fired generation, which has an installed capacity of 43.5 MW, including a 22.8-MW gas turbine generating facility commissioned in 2003.

With Belize Electricity experiencing annual growth in energy demand of 6 per cent to 10 per cent over the past 3 years, the Company continues to pursue initiatives to increase in-country generation supply to enhance its ability to meet demand once the supply from the Mexican State-owned CFE terminates on August 20, 2006. In July 2005, a request for proposals for 25 MW of baseload generation in 2007 and 15 MW in 2009 was issued to potential independent power producers. Six responses were received by October 31, 2005 and are currently under evaluation by the Company and the PUC.

The Mollejon hydroelectric facility was enhanced with the construction of the Chalillo Project which is expected to double hydroelectric output. The Chalillo facility was completed on September 12, 2005. Hydro Maya, a private small hydroelectric developer in southern Belize with which Belize Electricity has a Power Purchase Agreement, is constructing a 4-MW run-of-river hydroelectric plant. Hydro Maya is expected to commission the plant by August 2006. On December 1, 2004, an agreement was signed with Belize Cogeneration Energy Limited for the supply of 13.5 MW of capacity and energy to come on line late 2007.

Regulation

Belize Electricity is regulated by the PUC under the terms of the *Electricity Act* (Belize), the *Electricity (Tariffs, Charges and Quality of Service Standards) By-Laws* (Belize) and the *Public Utilities Commission Act* (Belize). Basic electricity rates at Belize Electricity are composed of 2 components. The first component is VAD and the second is cost of fuel and purchased power, including the variable cost of generation, which is a flow through in customer rates. The VAD component of the tariff allows the Company to recover its operating expenses, transmission and distribution expenses, taxes and amortization and rate of return on regulated rate base in the range of 10 per cent to 15 per cent. The regulations include transparent tariff-setting methodologies and provide incentive to Belize Electricity to deliver reliable power and quality service to customers and to manage the electricity delivery process as efficiently as possible.

Effective January 1, 2000, the PUC established the CPRSA which is designed to normalize changes in the price of electricity due to fluctuating cost of power. Through the operation of the CPRSA, consumer electricity rates are stabilized and Belize Electricity is provided with a mechanism that permits, over time, the full recovery of its cost of power. Effective July 1, 2002, the Hurricane Cost of Power Rate Stabilization Account was also established to normalize and allow for recovery of hurricane reconstruction costs over time.

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

The tariffs, rates and charges by-laws mandated a BZ$0.05 per kWh decrease in electricity rates for the period 2000 through 2005. Rates have been reduced by BZ$0.05 per kWh, in total, since Fortis acquired the Company in October 1999.

The Company filed its full Tariff Application with the PUC on March 2, 2005 as required by tariff by-laws. On July 14, 2005, the PUC delivered its final decision approving an overall 11 per cent increase in electricity rates, inclusive of the recovery of rate stabilization account balances, to BZ39.0 cents per kWh from BZ34.9 cents per kWh, effective July 1, 2005 through June 30, 2006. On December 19, 2005, revised tariff by-laws allowing for faster recovery of excess cost of power in the CPRSA and adjustment to rates for the cost of power component of the tariff outside of normal tariff applications were made law. On December 20, 2005, Belize Electricity filed an application with the PUC for a Threshold Event Review Proceeding as provided for in the by-laws. The PUC issued its final decision on December 31, 2005 for an additional 13 per cent increase in tariffs, effective January 1, 2006. The PUC also approved a reduction in the Threshold Event level from BZ$6.0 million to BZ$3.0 million and approved that there will be no electricity rate decreases until the CPRSA is fully repaid.

Human Resources

At December 31, 2005, Belize Electricity had more than 250 employees, of which 136 were represented by the BEWU. Belize Electricity's collective agreement with the BEWU was signed on November 29, 2000 and is to be reviewed every 5 years. Preparations are underway for union negotiations which are expected to commence by mid-year 2006.

Environment

As part of its ongoing commitment to fully comply with internationally acceptable environmental standards, Belize Electricity focused environmental initiatives on generating plants. An EMS plan was fully implemented in the generation departments in 2004 and early 2005. The EMS plan was extended to the substation and garage department in late 2005. Belize Electricity intends to have its operations ISO 14001 compliant by the end of 2007. In an effort to achieve this, an environmental audit, in accordance with the ISO standard, was completed in May 2005 and the Company demonstrated above-average compliance with the EMS plan.

Environmental laws and regulations had no material effect on the capital expenditures, earnings or competitive position of Belize Electricity in 2005 and, based on current law, facts and circumstances, are not expected to have any material effect in the future.

3.7 Caribbean Utilities

Caribbean Utilities operates the only public electric utility on the island of Grand Cayman, Cayman Islands. Caribbean Utilities and the Cayman Islands are continuing to recover from the impact of Hurricane Ivan, a Category V hurricane, which struck Grand Cayman in September 2004.

Caribbean Utilities serves more than 20,000 customers and met a peak load of 79 MW in the summer of 2005. As at December 31, 2005, approximately 107 MW of generating capacity had been restored or leased. The Company expects electricity sales to achieve 100 per cent of pre-Ivan sales by the end of April 2006. The aggregate annual energy sold by Caribbean Utilities was 376 GWh for the fiscal year ended April 30, 2005 as compared to 450 GWh pre-Ivan.

Power Supply

Caribbean Utilities relies upon diesel generation to produce electricity for the island of Grand Cayman. Grand Cayman has neither hydroelectric potential nor inherent thermal resources and the Company must rely upon diesel fuel imported to Grand Cayman primarily from refineries in the Caribbean and the Gulf of Mexico. The fuel is shipped by pipeline from suppliers' tanker terminals to Caribbean Utilities' centralized generating plant located on the outskirts of George Town.

As of December 31, 2005, Caribbean Utilities has recovered 95.4 MW in generating capacity as compared to pre-Ivan owned capacity of 123 MW. The Company has leased an additional 11.4 MW of capacity to ensure reliability as generation becomes available. Caribbean Utilities has also contracted to repair 4 hurricane-damaged Caterpillar units totaling 16.8 MW to be completed in April 2006, and to add an 8.4-MW gas turbine unit for standby purposes which is expected to be commissioned in April 2006. These projects will return total owned capacity to approximately 120 MW, or 98 per cent of pre-Ivan capacity, by the summer of 2006.

Regulation

Caribbean Utilities operates the only public electric utility on Grand Cayman, Cayman Islands pursuant to a 25-year exclusive Licence from the Government of the Cayman Islands, expiring in 2011. The Licence incorporates a schedule of customer tariffs to which the Company must adhere until such time as an amendment to such rates is effected in accordance with the terms of the Licence. There is provision in the Licence for customer tariffs to be adjusted upward or downward each year to provide Caribbean Utilities with a rate of return of 15 per cent on the allowable assets that comprise its rate base, which is fixed for the term of the Licence.

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

Upon submitting its Final Return to Government on July 21, 2005 for its 2005 fiscal year end, Caribbean Utilities determined that, under its current Licence, it was permitted a rate increase of 9.5 per cent, effective August 1, 2005, as a result of substantial costs incurred from Hurricane Ivan. The Company determined, without prejudice to its rights under its existing Licence, that given the post-hurricane economic realities, it would not have been in the best interest of the Cayman Islands and its residents, or in the longer-term interest of the Company, to implement the rate increase as allowed under the Licence. The Company and the Government agreed on a CRS of US0.89 cents per kWh for each kWh of electricity consumed by customers. The CRS represents a 4.7 per cent average increase in base electricity rates, less than half of the 9.5 per cent permitted under the Licence. The CRS became effective for August 2005 billings and will continue for a period of approximately 3 years. It has also been agreed with the Government that there will be no increases in basic billing rates until July 31, 2008 and no retroactive increases in billing rates are permitted after the CRS has been fully recovered. Caribbean Utilities had direct uninsured hurricane losses of US$14.0 million. By agreement with the Government, Caribbean Utilities will recover US$13.4 million of the US$14.0 million uninsured losses through the CRS. In addition, Caribbean Utilities has agreed to absorb US$3.6 million of indirect costs incidental to the hurricane which will not be recovered from customer rates. These indirect costs were recorded in Caribbean Utilities' fiscal year ended April 30, 2005.

Human Resources

Caribbean Utilities has 192 non-unionized full-time employees, approximately 90 per cent of whom are Caymanian.

Environmental Matters

Caribbean Utilities received ISO 14001:1996 certification of its electric power generation and other Caribbean Utilities' activities, products and services at the North Sound Road site in May 2004. This initiative was undertaken in 2002 as part of the Company's commitment to environmental responsibility and community leadership. ISO 14001 is an internationally recognized environmental standard developed by the International Organization for Standardization and was confirmed to Caribbean Utilities by the Quality Management Institute, a subsidiary of the Canadian Standards Association.

Caribbean Utilities launched several major environmental initiatives throughout the ISO 14001 certification process, including the implementation of an EMS as required by the standard. Caribbean Utilities is the only organization in the Cayman Islands to receive ISO 14001 certification.

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

Non-Regulated – Fortis Generation

Annual energy sales from non-regulated generation assets for 2005 were 1,049 GWh compared to 1,028 GWh last year. Revenue was $84.0 million in 2004 compared to $69.2 million last year.

The following table compares the composition of Fortis Generation's 2005 and 2004 revenue and energy sales by location.

Fortis Generation

Revenue and Energy Sales by Location

	Revenue *(per cent)*		**GWh Sales** *(per cent)*	
	2005	2004	**2005**	2004
Ontario	**58.6**	55.5	**67.5**	70.1
Belize	**12.5**	14.8	**6.5**	6.1
Central Newfoundland	**19.6**	22.1	**15.2**	14.8
Upper New York State	**7.1**	6.0	**7.1**	6.7
British Columbia	**2.2**	1.6	**3.7**	2.3
Total	**100.0**	100.0	**100.0**	100.0

3.8 Ontario

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

FortisOntario Inc. includes 75 MW of water entitlement associated with the Rankine Station at Niagara Falls and the operation of a 5-MW gas-fired cogeneration plant that provides district heating to 17 commercial customers in Cornwall. CNE Energy operations in Ontario consist of 6 small hydroelectric generating stations, which were originally acquired as Granite Power Distribution and Rideau Falls, with a combined capacity of approximately 8 MW.

With respect to the water entitlement associated with the 75-MW Rankine Station, energy provided by a water and power exchange agreement with OPGI totaled 653.5 GWh in 2005. Under this agreement, water, which would otherwise be used at FortisOntario Inc.'s Rankine Station, is diverted to OPGI's Sir Adam Beck hydro plants where it can produce substantially more energy due to the relative locations on the Niagara River of OPGI's and FortisOntario Inc.'s generating stations. FortisOntario Inc. receives energy from OPGI that is essentially equivalent to that which would have been generated at the Rankine Station from the same water supply.

Up to February 18, 2005, the water agreement, formally entered into in 1971, was automatically renewed on a yearly basis unless terminated by written notice given by either party prior to the end of March in each year. On February 18, 2005, FortisOntario Inc. completed the Niagara Exchange Agreement with OPGI addressing the future disposition of FortisOntario Inc.'s water rights and facilities on the Niagara River. The Niagara Exchange Agreement facilitates the firm and irrevocable exchange of 75 MW of wholesale electric power supply to FortisOntario Inc. from OPGI until April 30, 2009 in exchange for the transfer of FortisOntario Inc.'s water entitlement to OPGI. FortisOntario Inc. also received a payment of $10 million from OPGI resulting from the settlement of other contractual matters. During 2005, the Rankine Station assets were written down as a result of the implementation of the Niagara Exchange Agreement.

The energy from the 5-MW plant is sold to Cornwall Electric. The energy from CNE Energy's 6-MW plants in Gananoque is sold to Canadian Niagara Power and energy from the 2-MW Rideau plant is sold to the market.

3.9 Belize

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

BECOL was incorporated under the laws of Belize in 1991 with Dominion Energy Central America Inc., a wholly owned subsidiary of Dominion Energy Group Inc. of Virginia (USA) owning 95 per cent of the ordinary shares and the remaining 5 per cent owned by the Social Security Board of Belize, a statutory body controlled by the Government of Belize. In November 1999, Dominion Energy Group Inc. sold all of its interest in BECOL to Duke Energy International, which in turn sold this interest to Fortis in January 2001. The Social Security Board's remaining 5 per cent interest held in BECOL was acquired by Fortis in May 2004.

BECOL was originally formed to develop and manage the hydroelectric potential of the Macal River in western Belize. The first project undertaken by BECOL was the 25-MW run-of-river hydroelectric plant at Mollejon and a 115-kilovolt transmission line which was later sold to Belize Electricity. The Mollejon hydroelectric facility was commissioned with all units operational in November 1995 and began commercial operations in April 1996. After facing many environmental challenges, on May 2003 BECOL embarked on its second hydroelectric facility, Chalillo, some 16 kilometers upstream of the Mollejon hydroelectric facility. This 7-MW hydroelectric facility, which was completed in September 2005 and officially commissioned in November 2005, will serve as an upstream storage facility expecting to double the energy output of the Mollejon hydroelectric facility to an average of 160 GWh annually. Both hydroelectric facilities were developed under a build, own and operate arrangement with the Government of Belize. Mollejon is subject to a further transfer arrangement with the Government of Belize. BECOL currently employs 24 full-time personnel, none of whom participate in a collective agreement.

BECOL is a leader in environmental management in Belize and made its operations compliant with the ISO 14001 international environmental standards in 2002. Regular audits by external environmental auditors are conducted to ensure continued compliance.

3.10 Central Newfoundland

Non-regulated generation operations in central Newfoundland are conducted through the Corporation's indirect 51 per cent interest in the Exploits Partnership. The Exploits Partnership is a partnership with Abitibi-Consolidated that constructed, installed and operates additional capacity at Abitibi-Consolidated's hydroelectric plant at Grand Falls-Windsor and redeveloped the forestry company's hydroelectric plant at Bishop Falls, Newfoundland and Labrador. The 51 per cent interest in the partnership is through CNE Energy, a wholly owned subsidiary of Fortis Properties, which was transferred from the Corporation's direct control on December 1, 2005. On December 1, 2005, the name of CNE Energy replaced the previous name of Central Newfoundland Energy Inc. On January 1, 2006, CNE Energy and FortisOntario Generation amalgamated and continue to operate as CNE Energy.

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

3.11 Upper New York State

Non-regulated generation operations in Upper New York State include the operations of 4 hydroelectric generating stations with a combined generating capacity of 23 MW operating under licences from FERC. These generating stations operate as FortisUS Energy, which became a direct subsidiary of Fortis Properties on January 1, 2005 by way of a transfer from its subsidiary, Maritime Electric.

3.12 British Columbia

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

Non-Regulated – Fortis Properties

3.13 Fortis Properties

Fortis Properties owns and operates hotels in 6 provinces in Canada and commercial real estate in Atlantic Canada. Its holdings include 15 hotels with more than 2,900 rooms and approximately 2.7 million square feet of commercial real estate. As a wholly owned subsidiary of Fortis, Fortis Properties is the Corporation's vehicle for non-utility diversification and growth. In 2005, Fortis Properties derived approximately 34 per cent of its revenue from real estate operations and 66 per cent of its revenue from hotel operations. Fortis Properties derived approximately 49 per cent of its operating earnings from real estate operations and 51 per cent of its operating earnings from hotel operations.

Real Estate Division

Fortis Properties' Real Estate Division is anchored by high-quality tenants under long-term leases. Strong retention of tenants enabled the Division to end the year with 95.9 per cent occupancy, compared to 95.0 per cent in 2004. Rental rates remained stable during the year. In contrast, the average national occupancy rate was approximately 91 per cent at the end of 2005, compared to approximately 88 per cent at the end of 2004. Vacancy rates are continuing to decrease as tenants take advantage of the discounted rental rates and tenant inducements. Over the next few years, it is expected that major urban centers will experience large construction projects to satisfy tenant demands.

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

Fortis Properties Office and Retail Properties			
Property	**Location**	**Type of Property**	**Gross Lease Area** *(square feet 000's)*
Fort William Building	St. John's, NL	Office	188
Cabot Place I	St. John's, NL	Office	133
TD Place	St. John's, NL	Office	93
Fortis Building	St. John's, NL	Office	82
Multiple Office	St. John's, NL	Office and Retail	70
Millbrook Mall	Corner Brook, NL	Retail	122
Fraser Mall	Gander, NL	Retail	102
Marystown Mall	Marystown, NL	Retail	87
Fortis Tower	Corner Brook, NL	Office	70
Viking Mall	St. Anthony, NL	Retail	68
Maritime Centre	Halifax, NS	Office and Retail	561
Brunswick Square	Saint John, NB	Office and Retail	511
Kings Place	Fredericton, NB	Office and Retail	292
Blue Cross Centre	Moncton, NB	Office and Retail	266
Total			**2,645**

Hospitality Division

Fortis Properties' Hospitality Division remained relatively stable in occupancy and achieved modest improvement in average room rates in 2005. Average occupancy for 2005 was 63.9 per cent, which is consistent with 2004, while the average daily rate increased slightly to $111.07 from $110.65 in 2004. These improvements resulted in revenue per available room increasing for the tenth consecutive year to $70.95 from $70.72 in 2004.

During the year, Fortis Properties expanded its hotel portfolio to 15 hotels and more than 2,900 rooms with the purchase of 3 hotels in Manitoba and Alberta. Acquired for the purchase price of approximately $63 million, these hotels are located in Winnipeg, Edmonton, and Calgary.

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

Fortis Properties Hotels			
Hotels	**Location**	**Number of Guest Rooms**	**Conference Facilities** *(square feet 000's)*
Delta St. John's Hotel and Conference Center	St. John's, NL	403	21
Holiday Inn St. John's	St. John's, NL	252	11
Mount Peyton	Grand Falls-Windsor, NL	150	4.4
Greenwood Inn Corner Brook	Corner Brook, NL	102	4.9
Four Points by Sheraton Halifax	Halifax, NS	177	5.5
Days Inn Sydney	Sydney, NS	165	1.0
Delta Sydney	Sydney, NS	152	6.3
Delta Brunswick	Saint John, NB	255	12.8
Holiday Inn Kitchener-Waterloo	Kitchener-Waterloo, ON	182	7.8
Holiday Inn Peterborough	Peterborough, ON	153	6.6
Holiday Inn Sarnia	Point Edward, ON	151	8.4
Holiday Inn Cambridge	Cambridge, ON	143	5.8
Greenwood Inn Calgary	Calgary, AB	210	8.5
Greenwood Inn Edmonton	Edmonton, AB	224	8.0
Greenwood Inn Winnipeg	Winnipeg, MB	213	10.0
Total		**2,932**	**122**

Human Resources

At December 31, 2005, Fortis Properties employed approximately 1,400 employees, 472 of whom are represented by the unions listed in the following table.

Fortis Properties Unions			
Property	**Union**	**Expiry of Agreement**	**Number of Unionized Employees**
Holiday Inn St. John's	CAW	August 31, 2006	44
Delta St. John's	UFCW	December 31, 2006	201
Greenwood Inn Corner Brook	CAW	March 11, 2007	44
East Side Mario's St. John's	CAW	July 31, 2007	70
Days Inn Sydney	UFCW	December 31, 2007	30
Delta Sydney	CAW	September 30, 2005 (1)	73
St. John's Real Estate	IBEW	April 17, 2010	10
Delta Brunswick	USWA	(2)	(2)
Total			**472**

(1) *Negotiations with Delta Sydney commenced in November 2005 and remain in progress.*
(2) *Union is newly formed and no agreement has been negotiated to date.*

Environmental Matters

Fortis Properties is committed to meeting the requirements of environmental standards related to its business operations. In assessing new properties, all buildings and hotels must meet environmental standards. This process is also applied to existing properties, ensuring environmental compliance of all facilities. Environmental laws and regulations had no material effect on the capital expenditures, earnings or competitive position of Fortis Properties in 2005 and, based on current law, facts and circumstances, are not expected to have any material effect in the future.

4.0 RISK FACTORS

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

Regulation: The Corporation's key business risk is regulation. Regulated assets were approximately 84 per cent of total assets at December 31, 2005. Each of the Corporation's utilities is subject to some form of regulation which can impact future revenues and earnings. Management at each operating utility is responsible for working closely with regulators and local governments to ensure both compliance with existing regulations and the proactive management of regulatory issues.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Insurance: While the Corporation maintains insurance, the insurance is subject to coverage limits as well as time-sensitive claims discovery and reporting provisions and there can be no assurance that the possible types of liabilities that may be incurred by the Corporation will be covered by its insurance. The Corporation's utilities would likely apply to their respective regulators to recover the losses (or liabilities) through increased rates. However, there can be no assurance that regulators would approve any such applications, in whole or in part. Any major damage to the Corporation's facilities could result in repair costs and customer claims that are substantial in amount and which could have an adverse effect on the Corporation's business, results of operations, financial position and prospects.

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

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

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

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

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

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

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

Human Resources: The ability of Fortis to deliver superior operating performance in a cost-effective manner is dependent on the Corporation's ability to attract, develop and retain a skilled workforce. Like other utilities across Canada, Fortis utilities are faced with demographic challenges relating to trades, technical staff and engineers. The growing size of the Corporation and an increasingly competitive marketplace present certain recruitment challenges going forward. The Corporation's significant consolidated capital expenditure program over the next several years will present challenges in ensuring the Corporation has the qualified workforce necessary to complete the capital work initiatives. In particular, the Alberta market is a highly competitive job market where it is difficult to attract new employees. During 2005, a strategic review of human resources throughout the Fortis Group of Companies was completed. The specific focus of the review was to ensure that Fortis has the necessary line staff, engineering technicians and engineers needed to complete future work plans pertaining to both organic and new growth initiatives and assume future leadership roles within the organization.

5.0 GENERAL DESCRIPTION OF SHARE CAPITAL STRUCTURE

Share Capital

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

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

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

At March 29, 2006, there were 103,384,041 Common Shares, 5,000,000 First Preference Shares Series C, and 7,993,500 First Preference Shares Series E outstanding.

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

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

Holders of the Common Shares are entitled to receive notice of and to attend all annual and special meetings of the shareholders of Fortis, other than separate meetings of holders of any other class or series of shares, and are entitled to 1 vote in respect of each Common Share held at such meetings.

The 5,000,000 First Preference Shares Series C are entitled to fixed cumulative preferential cash dividends at a rate of $1.3625 per share per annum. On or after June 1, 2010, the Corporation may, at its option, redeem for cash the First Preference Shares Series C, in whole at any time or in part from time to time, at $25.75 per share if redeemed before June 1, 2011, at $25.50 per share if redeemed on or after June 1, 2011 but before June 1, 2012, at $25.25 per share if redeemed on or after June 1, 2012 but before June 1, 2013 and at $25.00 per share if redeemed on or after June 1, 2013 plus, in each case, all accrued and unpaid dividends up to but excluding the date fixed for redemption. On or after June 1, 2010, the Corporation may, at its option, convert all or from time to time any part of the outstanding First Preference Shares Series C into fully paid and freely tradable common shares of the Corporation. The number of common shares into which each Preference Share may be so converted will be determined by dividing the then-applicable redemption price per Preference Share, together with all accrued and unpaid dividends up to but excluding the date fixed for conversion, by the greater of $1.00 and 95 per cent of the then-current market price of the common shares at such time. On or after September 1, 2013, each First Preference Share Series C will be convertible at the option of the holder on the first business day of September, December, March and June of each year, into freely tradable common shares determined by dividing $25.00, together with all accrued and unpaid dividends up to but excluding the date fixed for conversion, by the greater of $1.00 and 95 per cent of the then-current market price of the common shares. If a holder of First Preference Shares Series C elects to convert any of such shares into common shares, the Corporation can redeem such First Preference Shares Series C for cash or arrange for the sale of those shares to substitute purchasers.

The 7,993,500 First Preference Shares Series E are entitled to receive fixed cumulative preferential cash dividends in the amount of $1.2250 per share per annum. On or after June 1, 2013, the Corporation may, at its option, redeem all or from time to time any part of the outstanding First Preference Shares Series E by the payment in cash of a sum per redeemed share equal to $25.75 if redeemed during the 12 months commencing June 1, 2013, $25.50 if redeemed during the 12 months commencing June 1, 2014, $25.25 if redeemed during the 12 months commencing June 1, 2015, and $25.00 if redeemed on or after June 1, 2016 plus, in each case, all accrued and unpaid dividends up to but excluding the date fixed for redemption. On or after June 1, 2013, the Corporation may, at its option, convert all, or from time to time any part of the outstanding First Preference Shares Series E into fully paid and freely tradable common shares of the Corporation. The number of common shares into which each Preference Share may be so converted will be determined by dividing the then-applicable redemption price per First Preference Share Series E, together with all accrued and unpaid dividends up to but excluding the date fixed for conversion, by the greater of $1.00 and 95 per cent of the then-current market price of the common shares at such time. On or after September 1, 2016, each First Preference Share Series E will be convertible at the option of the holder on the first business day of September, December, March and June of each year, into fully paid and freely tradable common shares determined by dividing $25.00, together with all accrued and unpaid dividends up to but excluding the date fixed for conversion, by the greater of $1.00 and 95 per cent of the then-current market price of the common shares. If a holder of First Preference Shares Series E elects to convert any of such shares into common shares, the Corporation can redeem such First Preference Shares E for cash or arrange for the sale of those shares to other purchasers.

Convertible Debentures

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

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

Debt Covenant Restrictions on Dividend Distributions

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

In May 2005, Fortis renegotiated its $145 million unsecured revolving/term credit facility to a $145 million term credit facility that matures in May 2008. This facility can be used for general corporate purposes, including acquisitions. The credit agreement contains a covenant which provides that Fortis shall not declare or pay any dividends or make any other restricted payments if, immediately thereafter, consolidated debt to consolidated capitalization ratio would exceed 75 per cent, within the first year, and 70 per cent at any time thereafter.

In January 2005, Fortis entered into a $50 million unsecured revolving/term credit facility for its general corporate purposes, including acquisitions. In December 2005, Fortis renegotiated the $50 million unsecured revolving/term credit facility to an unsecured term credit facility that matures in January 2009. The credit agreement contains a covenant which provides that Fortis shall not declare or pay any dividends or make any other restricted payments if, immediately thereafter, consolidated debt to consolidated capitalization ratio would exceed 70 per cent at any time.

6.0 DIVIDEND POLICY

Dividends on Common Shares of Fortis are declared at the discretion of the Board. Fortis paid cash dividends on its Common Shares of $0.59 in 2005, $0.54 in 2004 and $0.52 in 2003 (adjusted for stock split). On September 28, 2005, the Board declared an increase in the regular quarterly dividend to $0.16 per Common Share, with the first payment occurring on December 1, 2005. On December 8, 2005 the Board declared a regular quarterly dividend of $0.16 per Common Share, which was paid on March 1, 2006 to holders of record on February 3, 2006. On February 28, 2006, the Board also declared a regular quarterly dividend of $0.16 per Common Share which is payable on June 1, 2006 to holders of record on May 5, 2006.

Regular quarterly dividends at the prescribed annual rate of 5.45 per cent, or $0.34 per share, and 4.9 per cent, or $0.31 per share, are paid on all of the First Preference Shares Series C and First Preference Shares Series E, respectively. On September 20, 2005, the 6,500 First Preference Shares Series D were redeemed, without premium, at a redemption price of $6.25 per First Preference Share Series D. Prior to the redemption, the quarterly cash dividend payable with respect to the First Preference Shares Series D that were not converted was reduced to $0.01 per share, being equivalent to 0.64 per cent per annum per First Preference Share Series D.

On December 8, 2005, the Board also declared a first quarter 2006 dividend on the First Preference Shares Series C and First Preference Shares Series E in accordance with the applicable prescribed annual rate. In each case, the first quarter 2006 dividend was paid on March 1, 2006 to holders of record on February 3, 2006. On February 28, 2006, the Board also declared a second quarter 2006 dividend on the First Preference Shares Series C and E in accordance with the applicable annual prescribed rate and is payable on June 1, 2006 to holders of record on May 5, 2006.

7.0 CREDIT RATINGS

Securities issued by Fortis and its subsidiaries are rated by DBRS, S&P and Moody's. The ratings assigned to securities issued by Fortis are reviewed by these agencies on an ongoing basis. Credit ratings are intended to provide investors with an independent measure of credit quality of an issue of securities and are not recommendations to buy, sell or hold securities. Ratings may be subject to revision or withdrawal at any time by the rating organization. The following table summarizes, as at December 31, 2005, the Corporation's credit ratings.

Fortis Credit Ratings

Company	DBRS	S&P	Moody's
Fortis	BBB (high), stable (unsecured debt)	BBB+, stable (issuer credit rating)	N/A
Newfoundland Power	A, stable (first mortgage bonds)	BBB+, stable (issuer credit rating)	N/A
Maritime Electric	N/A	BBB+, stable (issuer credit rating)	N/A
FortisAlberta	A (low), stable (senior unsecured debt)	N/A	Baa 1, stable (senior unsecured debt)
FortisBC	BBB (high), stable (secured & unsecured debt)	N/A	Baa 3, stable (unsecured debt)

DBRS rates debt instruments by rating categories ranging from AAA to D, which represents the range from highest to lowest quality of such securities. DBRS states that its long-term debt ratings are meant to give an indication of the risk that the borrower will not fulfill its obligations in a timely manner with respect to both interest and principal commitments. DBRS ratings do not take factors such as pricing or market risk into consideration and are expected to be used by purchasers as one part of their investment decision. Every DBRS rating is based on quantitative and qualitative considerations that are relevant for the borrowing entity. According to DBRS, a rating of A by DBRS is in the middle of 3 subcategories within the third highest of 9 major categories. Such rating is assigned to debt instruments considered to be of satisfactory credit quality and for which protection of interest and principal is still substantial, but the degree of strength is less than with AA rated entities. Entities in the A category are considered to be more susceptible to adverse economic conditions and have greater cyclical tendencies than higher-rated entities. The assignment of a "(high)" or "(low)" modified within each rating category indicates relative standing within such category. In February 2006, DBRS confirmed the rating on the Corporation's unsecured debentures at BBB (high). DBRS ratings for the Corporation and its subsidiaries remain stable.

S&P long-term debt ratings are on a scale that ranges from AAA to C, which represents the range from highest to lowest quality of such securities. S&P uses "+" or "-" designations to indicate the relative standing of securities within a particular rating category. S&P credit ratings are current opinions of the financial security characteristics with respect to the ability to pay under contracts in accordance with their terms. This opinion is not specific to any particular contract, nor does it address the suitability of a particular contract for a specific purpose or purchaser. An issuer rated BBB or higher is regarded as having financial security characteristics that outweigh any vulnerabilities and is highly likely to have the ability to meet financial commitments. In December 2005, S&P confirmed its corporate credit rating on the Corporation at BBB(+) and revised its outlook from negative to stable. The outlook was revised based on greater stability in the business and financial risk profiles of Fortis and reduced concerns surrounding the level of operational and funding risk involved with the Corporation's major capital expenditure program.

Moody's long-term debt ratings are on a rating scale that ranges from Aaa to C, which represents the range from highest to lowest quality of such securities. In addition, Moody's applies numerical modifiers 1, 2 and 3 in each generic rating classification from Aa to Caa to indicate relative standing within such classification. The modifier 1 indicates that the security ranks in the higher end of its generic rating category, the modifier 2 indicates a mid-range ranking and the modifier 3 indicates that the security ranks in the lower end of its generic rating category. Moody's long-term debt ratings are opinions of relative risk of fixed-income obligations with an original maturity of 1 year or more. Such ratings reflect both the likelihood of default and any financial loss suffered in the event of default. According to Moody's, a rating of Baa is the fourth highest of 9 major categories. Such a debt rating is assigned to debt instruments considered to be medium grade. Debt instruments rated Baa are subject to moderate credit risk and may possess certain speculative characteristics.

8.0 MANAGEMENT DISCUSSION AND ANALYSIS

Reference is made to the MD&A on pages 36 through 73 of the 2005 Fortis Inc. Annual Report to Shareholders, which pages are incorporated herein by reference. The Corporation's MD&A can be found on SEDAR at www.sedar.com.

9.0 MARKET FOR SECURITIES

The Common Shares, First Preference Shares Series C and First Preference Shares Series E of Fortis are listed on the Toronto Stock Exchange under the symbols FTS, FTS.PR.C and FTS.PR.E, respectively. The following table sets forth the reported high and low trading prices and trading volumes for the Common Shares, First Preference Shares Series C and First Preference Shares Series E on a monthly basis for the year ended December 31, 2005.

Fortis
2005 Trading Prices and Volumes

Month	Common Shares [(1)]			First Preference Shares Series C			First Preference Shares Series E		
	High ($)	Low ($)	Volume	High ($)	Low ($)	Volume	High ($)	Low ($)	Volume
Jan	18.62	17.00	1,666,088	29.00	27.86	38,511	28.00	26.85	649,621
Feb	18.88	18.16	3,050,760	29.30	27.80	113,057	27.75	26.55	1,030,114
Mar	18.50	17.25	3,568,316	29.30	27.00	47,130	27.60	27.15	788,530
Apr	18.36	17.51	2,526,884	28.45	27.05	21,876	28.00	27.01	777,754
May	18.85	17.82	2,077,856	28.00	27.00	19,274	27.50	26.90	66,152
Jun	20.19	18.27	2,690,864	29.00	27.50	28,348	27.75	26.90	363,911
Jul	20.81	19.13	2,496,608	27.99	26.60	84,196	27.75	27.35	318,853
Aug	21.25	20.33	3,310,440	27.89	27.40	24,128	27.59	27.01	392,108
Sep	25.19	20.65	4,551,012	27.99	27.50	17,155	27.39	27.08	202,793
Oct	25.49	21.50	4,424,066	28.03	27.60	51,800	27.31	27.10	87,254
Nov	25.50	22.00	4,436,979	28.90	27.25	22,401	27.99	27.00	125,829
Dec	25.64	23.38	2,905,980	29.69	27.51	16,408	27.85	27.60	4,318

(1) On October 12, 2005, Fortis Common Shares commenced trading on a 4-for-1 split basis. All Common Share trading prices and volumes as detailed above have been adjusted to reflect the stock split.

10.0 DIRECTORS AND OFFICERS

All Directors are elected annually. In 1998, the Board adopted a policy, effective from May 1999, that Directors would normally retire after a term of 10 years or the year following their 70th birthday. The following chart sets out the name and municipality of residence of each of the Directors of Fortis and indicates their principal occupations within 5 preceding years.

Fortis Directors

Name	Principal Occupations Within 5 Preceding Years
ANGUS A. BRUNEAU [(1)(2)(3)] St. John's, Newfoundland and Labrador	Dr. Bruneau, 70, joined the Fortis Inc. Board in 1987 and is Chair of the Board. He retired as CEO of Fortis Inc. in 1996. Dr. Bruneau is a director of Fortis Properties Corporation, and is a director of Petro-Canada, SNC-Lavalin Group Inc., Inco Limited, The Canadian Institute of Child Health and Sustainable Development Technology Canada. Dr. Bruneau will be retiring from the Fortis Inc. Board at the Annual Meeting at which Special Business will be conducted on May 2, 2006.
PETER E. CASE [(1)] Freelton, Ontario	Mr. Case, 51, Principal of Peter Case Consulting, joined the Fortis Inc. Board in May 2005. He has been providing consulting services to the utility industry since 2003, following his retirement as Executive Director, Institutional Equity Research at CIBC World Markets. Prior to this position, he was Managing Director at BMO Nesbitt Burns. Mr. Case has been a director of FortisOntario Inc. since March 2003 and assumed the Chair of the FortisOntario Inc. Audit Committee in January 2004.

Fortis Directors *(continued)*	
Name	**Principal Occupations Within 5 Preceding Years**
BRUCE CHAFE [(1)(2)] St. John's, Newfoundland and Labrador	Mr. Chafe, 69, a Corporate Director, joined the Fortis Inc. Board in 1997 and is a retired senior partner of Deloitte & Touche LLP. Mr. Chafe is the Chair of the Audit Committee and has held that position since May 2000. He was appointed Chair of the Board of Newfoundland Power Inc. in 2000 and is a director of Fortis Properties Corporation and FortisBC Inc. Mr. Chafe is also a director of several private investment firms.
GEOFFREY F. HYLAND [(3)] Caledon, Ontario	Mr. Hyland, 61, a Corporate Director, joined the Fortis Inc. Board in May 2001. He retired as President and CEO of Shawcor Ltd. in June 2005 after 37 years of service. Mr. Hyland is a director of FortisOntario Inc. He continues to serve on the board of ShawCor Ltd. and is a director of Enerflex Systems Ltd. and Exco Technologies Limited.
LINDA L. INKPEN [(2)] St. John's, Newfoundland and Labrador	Dr. Inkpen, 58, medical professional and educator, joined the Fortis Inc. Board in 1994. She has been a physician in private practice since 1975 and is a member of the National Roundtable on the Economy and the Environment and is Chair of the Medical Advisory Committee of the St. John's, Newfoundland and Labrador area hospitals. She was appointed Chair of the Board of Fortis Properties Corporation in 2000 and is a past Chair of the Board of Newfoundland Power Inc.
H. STANLEY MARSHALL St. John's, Newfoundland and Labrador	Mr. Marshall, 55, has served on the Fortis Inc. Board since 1995. He is President and CEO of the Corporation. Mr. Marshall joined Newfoundland Power Inc. in 1979 and was appointed President and CEO of Fortis Inc. in 1996. He serves on the Boards of all Fortis companies and is a director of Caribbean Utilities Company, Ltd. and Toromont Industries Ltd.
JOHN S. McCALLUM [(1)(2)] Winnipeg, Manitoba	Mr. McCallum, 62, joined the Fortis Inc. Board in July 2001. He has been a Professor of Finance at the University of Manitoba since July 1973. He served as Chairman of the Board of Manitoba Hydro from 1991 to 2000 and as Policy Advisor to the Federal Minister of Finance from 1984 to 1991. Mr. McCallum was appointed Chair of the Governance and Nominating Committee in May 2005. Mr. McCallum is a director of FortisBC Inc. and FortisAlberta Inc. and chairs the Audit, Risk and Environment Committees of both companies. He also serves as a director of IGM Financial Inc., Wawanesa and Toromont Industries Ltd.
DAVID G. NORRIS [(1)(3)] St. John's, Newfoundland and Labrador	Mr. Norris, 58, a Corporate Director, joined the Fortis Inc. Board in May 2005. He has been a financial and management consultant since 2001, prior to which he was Executive Vice-President, Finance and Business Development, Fishery Products International Limited. Previously, he held Deputy Minister positions with Department of Finance and Treasury Board, Government of Newfoundland and Labrador. Mr. Norris has been a director of Newfoundland Power Inc. since 2003, and was appointed Chair of the Audit and Risk Committee of Newfoundland Power Inc. in July 2005.
MICHAEL A. PAVEY [(3)] Moncton, New Brunswick	Mr. Pavey, 58, joined the Fortis Inc. Board in May 2004. He is Executive Vice President and Chief Financial Officer of Major Drilling Group International Inc. Prior to joining Major Drilling Group International Inc. in 1999, he held senior executive positions with TransAlta Corporation. Mr. Pavey has been a director of Maritime Electric Company, Limited since 2001 and was appointed Chair of the Audit and Environment Committee of Maritime Electric in February 2003.
ROY P. RIDEOUT [(2)(3)] Halifax, Nova Scotia	Mr. Rideout, 58, a Corporate Director, joined the Fortis Inc. Board in March 2001. He retired as Chairman and CEO of Clarke Inc. in October 2002. Prior to 1998, Mr. Rideout served as President of Newfoundland Capital Corporation Limited. He is Chair of the Human Resources Committee and has held that position since May 2003. Mr. Rideout also serves as a director of the Halifax International Airport Authority, Oceanex Inc. and NAV CANADA.

[(1)] *Serves on the Audit Committee*
[(2)] *Serves on the Governance and Nominating Committee*
[(3)] *Serves on the Human Resources Committee*

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

Fortis Officers	
Name and Municipality of Residence	**Office Held**
H. Stanley Marshall Paradise, Newfoundland and Labrador	President and Chief Executive Officer (1)
Barry V. Perry Mount Pearl, Newfoundland and Labrador	Vice President, Finance and Chief Financial Officer (2)
Ronald W. McCabe St. John’s, Newfoundland and Labrador	General Counsel and Corporate Secretary (3)
Donna G. Hynes St. John’s, Newfoundland and Labrador	Assistant Secretary (4)

(1) *Mr. Marshall was appointed President and Chief Operating Officer, effective October 1, 1995. Effective May 1, 1996, Mr. Marshall became Chief Executive Officer.*
(2) *Mr. Perry was appointed Vice President, Finance and Chief Financial Officer effective January 1, 2004. Prior to that time, Mr. Perry was Vice President, Finance and Chief Financial Officer of Newfoundland Power.*
(3) *Mr. McCabe was appointed General Counsel and Corporate Secretary effective January 1, 1997.*
(4) *Ms. Hynes was appointed Assistant Secretary effective December 8, 1999. She joined Fortis as Manager, Investor and Public Relations in October 1999 and prior to that time was employed by Newfoundland Power.*

As at December 31, 2005, the directors and officers of Fortis, as a group, beneficially own, directly or indirectly, or exercise control or direction over 594,010 Common Shares, representing 0.58 per cent of the issued and outstanding Common Shares of Fortis. The Common Shares are the only voting securities of the Corporation.

11.0 AUDIT COMMITTEE

11.1 Education and Experience

The education and experience of each Audit Committee Member that is relevant to such Member's responsibilities as a Member of the Audit Committee are set out below. As at December 31, 2005, the Audit Committee was composed of the following persons.

Fortis Audit Committee	
Name	**Relevant Education and Experience**
ANGUS A. BRUNEAU St. John's, Newfoundland and Labrador	Dr. Bruneau is a retired executive, former President and CEO of Fortis and past Chair of Newfoundland Power Inc. Dr. Bruneau is also currently a director of Petro-Canada, the SNC-Lavalin Group Inc., Inco Limited, The Canadian Institute of Child Health and Sustainable Development Technology Canada.
PETER E. CASE Freelton, Ontario	Mr. Case has provided consulting services to the utility industry since 2003, following his retirement as Executive Director, Institutional Equity Research at CIBC World Markets. Mr. Case was awarded a Bachelor of Arts and a Master of Business Administration from Queen's University and a Master of Divinity from Wycliffe College, University of Toronto.
BRUCE CHAFE *(Chair)* St. John's, Newfoundland and Labrador	Mr. Chafe is a Chartered Accountant and was appointed Fellow of the Chartered Accountants in 1990. He is a retired senior partner of Deloitte & Touche LLP.
JOHN S. McCALLUM Winnipeg, Manitoba	Mr. McCallum is a Professor of Finance at the University of Manitoba. Mr. McCallum graduated from the University of Montreal with a Bachelor of Arts (Economics) and a Bachelor of Science (Mathematics). He was awarded a Master of Business Administration from Queen's University and a PhD in Finance from the University of Toronto.
DAVID G. NORRIS St. John's, Newfoundland and Labrador	Mr. Norris graduated with a Bachelor of Commerce from Memorial University of Newfoundland and a Master of Business Administration from McMaster University. Mr. Norris has been a financial and management consultant since 2001, prior to which he was Executive Vice-President, Finance and Business Development, Fishery Product International Limited.

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

11.2 Audit Committee Mandate

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

Objective

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

Definitions

In this mandate:

"AIF" means the Annual Information Form filed by the Corporation;

"Committee" means the Audit Committee appointed by the Board pursuant to this mandate;

"Board" means the board of directors of the Corporation;

"CICA" means the Canadian Institute of Chartered Accountants or any successor body;

"Corporation" means Fortis Inc.;

"**Director"** means a member of the Board;

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

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

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

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

"Management" means the senior officers of the Corporation;

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

"Member" means a Director appointed to the Committee.

Composition and Meetings

1. The Committee shall be appointed annually by the Board and shall be comprised of three (3) or more Directors; all of whom are Independent and Financially Literate and none of whom is a member of Management or an employee of the Corporation or of any affiliate of the Corporation.

2. The Board shall appoint a Chair of the Committee on the recommendation of the Corporation's Governance and Nominating Committee, or such other committee as the Board may authorize.

3. The Committee shall meet at least four times each year and shall meet at such other times during the year as it deems appropriate. Meetings of the Committee shall be held at the call (i) of the Chair of the Committee, or (ii) of any two (2) Members, or (iii) of the External Auditor.

4. The President and Chief Executive Officer, the Vice President, Finance and Chief Financial Officer, the External Auditor and the Internal Auditor, shall receive notice of, and (unless otherwise determined by the Chair of the Committee) shall attend all meetings of the Committee.

5. At any meeting of the Committee, a quorum shall be a simple majority of the Members.

6. The Chair of the Committee shall act as chair of all meetings of the Committee at which the Chair is present. In the absence of the Chair from any meeting of the Committee, the Members present at the meeting shall appoint one of their Members to act as Chair of the meeting.

7. Unless otherwise determined by the Chair of the Committee, the Secretary of the Corporation shall act as secretary of all meetings of the Committee.

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

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

1. Oversight of the External Audit

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

   1.1. The Committee is responsible for the evaluation and recommendation of the External Auditor to be proposed by the Board for appointment by the shareholders.

   1.2. In advance of each audit, the Committee shall review the External Auditor's audit plan including the general approach, scope and areas subject to risk of material misstatement.

   1.3. The Committee is responsible for approving the terms of engagement and fees of the External Auditor.

   1.4. The Committee shall review and discuss the Corporation's annual audited financial statements, together with the External Auditor's report thereon, and MD&A with Management and the External Auditor to gain reasonable assurance as to the accuracy, consistency and completeness thereof. The Committee shall meet privately with the External Auditor. The Committee shall oversee the work of the External Auditor and resolve any disagreements between Management and the External Auditor.

   1.5. The Committee shall use reasonable efforts, including discussion with the External Auditor, to satisfy itself as to the External Auditor's independence as defined in the CICA Assurance Handbook Section 5751.

   1.6. The Committee shall be responsible for the oversight of the Internal Auditor.

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

   2.1. The Committee shall recommend the annual audited financial statements together with the MD&A for approval by the Board.

   2.2. The Committee shall review the interim unaudited financial statements with the External Auditor and Management, together with the External Auditor's review engagement report thereon.

   2.3. The Committee shall review and approve publication of the interim unaudited financial statements together with the interim MD&A and earnings press release on behalf of the Board.

   2.4. The Committee shall review and recommend approval by the Board of the Corporation's AIF, Management Information Circular, any prospectus and other financial information or disclosure documents to be issued by the Corporation prior to their public release.

   2.5. The Committee shall use reasonable efforts to satisfy itself as to the integrity of the Corporation's financial information systems and the competence of the Corporation's accounting personnel and senior financial management responsible for accounting and financial reporting.

3. Oversight of Policies

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

   3.1. the establishment and implementation of procedures for the receipt, retention and treatment of complaints received regarding accounting, internal control or auditing matters and the confidential and anonymous submission of concerns regarding questionable accounting or auditing matters;

   3.2. the delegation of authority to the Committee regarding the use of financial derivative instruments and designation of hedging relationships;

   3.3. the Corporation's pre-approval of audit and non-audit services provided by the External Auditor; and,

   3.4. the review, approval and monitoring of hiring personnel from the External Auditor.

Other

1. The Committee shall perform such other functions, including the periodic review of this mandate, as may from time to time be assigned to the Committee by the Board.

2. The Committee shall have the authority to engage independent counsel and other advisors as it determines necessary to carry out its duties and to set and authorize compensation for any such counsel or advisors engaged by the Committee.

Reporting

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

11.3 Pre-Approval Policies and Procedures

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

11.4 External Auditor Service Fees

The fees paid by the Corporation to Ernst & Young LLP, the Corporation's External Auditors, during each of the last 2 fiscal years for audit, audit-related, tax and non-audit services were as follows:

Fortis
External Auditor Service Fees

Ernst & Young LLP	**2005**	2004
Audit Fees	**$1,066,803** (1)	$595,419 (1)
Audit-Related Fees	**339,383** (2)	111,780 (2)
Tax Fees	**135,789**	49,116
Non-Audit Fees	-	-
Total	**$1,541,975**	$756,315

(1) Audit fees paid to Ernst & Young LLP in 2005 include fees paid by FortisAlberta and FortisBC Inc. Audit fees in the amount of $569,500 related to FortisAlberta and FortisBC Inc. are excluded from the 2004 summary of fees paid to Ernst & Young LLP as both companies were audited by KPMG in 2004, at both December 31, 2004 and May 31, 2004.

(2) The increase in audit-related fees in 2005 as compared to 2004 primarily related to Multilateral Instrument 52-111 consulting services and services related to an issue of Common Shares on March 1, 2005.

12.0 TRANSFER AGENT AND REGISTRAR

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

13.0 EXPERTS

Ernst & Young LLP, The Fortis Building, 7th Floor, 139 Water Street, St. John's, NL A1C 1B2 are the External Auditors of the Corporation.

14.0 ADDITIONAL INFORMATION

Additional information relating to the Corporation may be found on SEDAR at www.sedar.com.

Further additional information, including officers' and directors' remuneration and indebtedness, principal holders of the securities of Fortis, options to purchase securities and interests of insiders in material transactions, where applicable, is contained in the Management Information Circular of Fortis dated March 17, 2006 for the May 2, 2006 Annual Meeting of Shareholders at which Special Business will be conducted. Additional financial information is also provided in the comparative financial statements for the year ended December 31, 2005 and the MD&A of such financial results.

Requests for additional copies of the above-mentioned documents as well as the 2005 Annual Information Form, should be directed to the Corporate Secretary, Fortis, P.O. Box 8837, St. John's, NL A1B 3T2 (telephone: 709.737.2800). In addition, such documentation and additional information relating to the Corporation is contained on the Internet at the Corporation's website at www.fortisinc.com and at an Internet site maintained by the Canadian Securities Administrators at www.sedar.com.