Second Quarter 2008

Stepping Forward

FORTIS INC.

Dear Shareholder:

Fortis recorded second quarter net earnings applicable to common shares of $29 million, or $0.19 per common share, compared to earnings of $41 million, or $0.31 per common share, for the second quarter of 2007. Year-to-date earnings applicable to common shares were $120 million, or $0.77 per common share, compared to earnings of $83 million, or $0.69 per common share, for the same period last year. Terasen was acquired on May 17, 2007 and, consequently, the Corporation's financial results for the prior period last year reflected earnings' contribution from Terasen for a partial second quarter.

Second quarter results included a $13 million, or $0.08 per common share, charge representing the Corporation's approximate 70 per cent share of disallowed previously incurred fuel and purchased power costs at Belize Electricity. The charge was the result of the decision by the Public Utilities Commission of Belize on Belize Electricity's 2008/2009 rate application. Belize Electricity filed an application for judicial review and appeal of the decision with the Supreme Court of Belize on July 25, 2008. At the end of the second quarter, Belize Electricity's assets represented approximately 2 per cent of the total assets of Fortis. Second quarter results also included a one-time charge of approximately $2 million at FortisOntario associated with the repayment of interconnection agreement amounts received in the fourth quarter of 2007.

Excluding the one-time items at Belize Electricity and FortisOntario, earnings for the second quarter were $44 million, or $0.28 per common share, compared to $41 million, or $0.31 per common share, for the same quarter last year. Earnings were favourably impacted by a full quarter of earnings' contribution from the Terasen Gas companies, higher earnings at Newfoundland Power associated with a shift in the quarterly distribution of annual purchased power expense, increased non-regulated hydroelectric production and improved performance at Fortis Properties. Partially offsetting these items were lower earnings at FortisAlberta associated with higher corporate income taxes, and higher corporate financing costs associated with the Terasen acquisition.

The Terasen Gas companies have contributed earnings of $120 million since acquisition almost 15 months ago and are now substantially integrated into the Fortis Group of Companies.

The Terasen Gas companies contributed earnings of $12 million for the second quarter, up $11 million from the same quarter last year; however, contributions last year were from May 17, 2007, the date of acquisition. On a full quarter-over-quarter basis, earnings of the Terasen Gas companies were comparable. In August 2008, Terasen settled certain historical corporate tax matters and, as a result, is expected to record an earnings' benefit of approximately $7.5 million in the third quarter of 2008.

Excluding the one-time item at FortisOntario, Canadian Regulated Electric Utilities' earnings were $28 million for the second quarter compared to $33 million for the same quarter last year. The decrease in earnings was mainly due to a $7.5 million increase in future income tax expense at FortisAlberta associated with regulator-approved deferral accounts and the timing of their collection. FortisAlberta is expected to record a future income tax recovery when the deferral accounts are collected. Partially offsetting the above decrease was the favourable impact of a shift in the quarterly distribution of annual purchased power expense at Newfoundland Power, which increased earnings during the second quarter of 2008 by approximately $2.5 million. Newfoundland Power's annual earnings are not expected to be impacted by the shift in quarterly earnings' distribution; however, earnings are expected to be lower in the first and fourth quarters and higher in the second and third quarters compared to the same periods last year.

Excluding the one-time item at Belize Electricity, Caribbean Regulated Electric Utilities' earnings were $8 million for the second quarter, comparable to earnings for the same quarter last year. The favourable impact of electricity sales growth and a change in the method of calculating fuel costs under Caribbean Utilities' new transmission and distribution licence was largely offset by higher operating expenses, increased amortization costs, and the 3.25 per cent reduction in basic electricity rates at Caribbean Utilities, effective January 1, 2008. Commencing June 1, 2009, Caribbean Utilities will be permitted to adjust basic electricity rates with a formula tied to inflation.

Year to date, Fortis and its utilities have raised almost $900 million in preferred equity and 30-year debt including the issuance of $230 million 5.25% First Preference Shares at Fortis Inc., $250 million 5.80% debentures at Terasen Gas Inc., $250 million 6.05% debentures at Terasen Gas (Vancouver Island) Inc., $100 million 5.85% debentures at FortisAlberta and $60 million 6.05% bonds at Maritime Electric.

In June 2008, Caribbean Utilities announced a rights offering to shareholders of record on July 14, 2008. The estimated net proceeds of approximately US$28 million will be used to repay credit facility borrowings and to finance capital expenditures. The rights offering closes on August 15, 2008.

Non-Regulated Fortis Generation contributed earnings of $7 million for the second quarter, up $2 million from the same quarter last year. Results reflected increased hydroelectric production in central Newfoundland due to higher rainfall.

Fortis Properties contributed earnings of $7 million for the second quarter, up $1 million from the same quarter in 2007. The increase reflected contributions from the Delta Regina in Saskatchewan, acquired on August 1, 2007, and improved performance at the Company's hospitality operations in Atlantic Canada.

Corporate and other expenses were $18 million for the second quarter compared to $12 million for the same quarter last year. The increase in corporate and other expenses was primarily driven by a full quarter of Terasen acquisition-related finance charges compared to a partial quarter last year.

Cash flow from operating activities was $244 million in the second quarter of 2008, up from $68 million in the same quarter last year. Cash flow from operating activities was $432 million year to date, up from $162 million in the same period last year. The improvement reflected seasonality of operations of the Terasen Gas companies and their contribution for all of the second quarter and year-to-date period in 2008 compared to a partial second quarter last year.

Consolidated capital expenditures, before customer contributions, were $389 million in the first half of 2008 and are expected to exceed $900 million for the year. Much of the consolidated capital program is being driven by the Terasen Gas companies, FortisAlberta, FortisBC, and regulated and non-regulated electric utility operations in the Caribbean. During the quarter, Terasen Gas (Vancouver Island) Inc. commenced construction of its $200 million liquefied natural gas storage facility.

Fortis is a leading energy infrastructure builder in Canada. The Corporation's consolidated capital expenditure program is expected to exceed $4.5 billion over the next five years which should drive earnings growth going forward.

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

Interim Management Discussion and Analysis

For the three and six months ended June 30, 2008
Dated August 8, 2008

The following analysis should be read in conjunction with the Fortis Inc. ("Fortis" or the "Corporation") interim unaudited consolidated financial statements and notes thereto for the three and six months ended June 30, 2008 and the Management Discussion and Analysis ("MD&A") and audited consolidated financial statements for the year ended December 31, 2007 included in the Corporation's 2007 Annual Report. This material has been prepared in accordance with National Instrument 51-102 - *Continuous Disclosure Obligations* relating to MD&As. Financial information in this release has been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") and is presented in Canadian dollars unless otherwise specified.

Fortis includes forward-looking information in the MD&A within the meaning of applicable securities laws in Canada ("forward-looking information"). The purpose of the forward-looking information is to provide management's expectations regarding the Corporation's future growth, results of operations, performance, business prospects and opportunities and may not be appropriate for other purposes. All forward-looking information is given pursuant to the "safe harbour" provisions of applicable Canadian securities legislation. The words "anticipates", "believes", "could", "estimates", "expects", "forecasts", "intends", "may", "might", "plans", "projects", "schedule", "should", "will", "would" and similar expressions are often intended to identify forward-looking information, although not all forward-looking information contains these identifying words. The forward-looking information reflects management's current beliefs and is based on information currently available to the Corporation's management. The forward-looking information in the MD&A includes, but is not limited to, statements regarding: that cash required to complete the consolidated capital expenditure program and to finance acquisitions is expected to be derived from a combination of borrowings under credit facilities and the issuance of common shares, preference shares and long-term debt; the belief of the Corporation and its subsidiaries that they do not anticipate any difficulties in accessing required capital on reasonable market terms; the Corporation's consolidated forecasted gross capital expenditures for 2008 and in total over the next five years and the Corporation's belief that its capital program should drive growth in earnings. The forecasts and projections that make up the forward-looking information are based on assumptions which include, but are not limited to: the receipt of applicable regulatory approvals and requested rate orders; no significant operational disruptions or environmental liability due to a catastrophic event or environmental upset caused by severe weather, other acts of nature or other major events; the Corporation's ability to maintain its gas and electricity systems to ensure their continued performance; the competitiveness of natural gas pricing when compared with electricity and other alternative sources of energy; the availability of natural gas supply; favourable economic conditions; the level of interest rates; the ability to hedge certain risks; access to capital; maintenance of adequate insurance coverage; the ability to obtain licences and permits; the level of energy prices; retention of existing service areas; favourable labour relations; and sufficient human resources to deliver service and execute the capital program. The forward-looking information is subject to risks, uncertainties and other factors that could cause actual results to differ materially from historical results or results anticipated by the forward-looking information. The factors which could cause results or events to differ from current expectations include, but are not limited to: regulation; operating and maintenance risks; natural gas prices and supply; economic conditions; weather and seasonality; interest rates; changes in tax legislation; derivative financial instruments and hedging; risks related to Terasen Gas (Vancouver Island) Inc.; capital resources; environment; insurance; licences and permits; energy prices and the cessation of the Niagara Exchange Agreement; loss of service area; First Nations Lands; counterparty risk; labour relations; human resources; and liquidity risk. For additional information with respect to the Corporation's risk factors, reference should be made to the Corporation's continuous disclosure materials filed from time to time with Canadian securities regulatory authorities and to the heading "Business Risk Management" in the MD&A for the three and six months ended June 30, 2008 and for the year ended December 31, 2007.

All forward-looking information in the MD&A is qualified in its entirety by the above cautionary statements and, except as required by law, the Corporation undertakes no obligation to revise or update any forward-looking information as a result of new information, future events or otherwise after the date hereof.

COMPANY OVERVIEW AND FINANCIAL HIGHLIGHTS

Fortis is the largest investor-owned distribution utility in Canada serving almost 2,000,000 gas and electricity customers. Its regulated holdings include a natural gas utility in British Columbia and electric utilities in five Canadian provinces and three Caribbean countries. Fortis owns non-regulated generation assets across Canada and in Belize and Upper New York State, and hotels and commercial real estate in Canada. In 2007, the Corporation's electricity distribution systems met a combined peak electricity demand of approximately 5,700 megawatts ("MW") and its gas distribution systems met a peak day demand of 1,360 terajoules ("TJ"). For additional information on the Corporation's business segments, refer to Note 1 to the Corporation's interim unaudited consolidated financial statements for the three and six months ended June 30, 2008.

The key goals of the Corporation's regulated utilities are to operate sound gas and electricity distribution systems, deliver gas and electricity safely and reliably to customers at reasonable rates, and conduct business in an environmentally responsible manner. The Corporation's core utility business is highly regulated. It is segmented by franchise area and, depending on regulatory requirements, by the nature of the assets.

Fortis has adopted a strategy of profitable growth with earnings per common share as the primary measure of performance. Key financial highlights, including earnings by reportable segment, for the second quarter and year-to-date periods ended June 30, 2008 and June 30, 2007, are provided in the table below.

Financial Highlights (Unaudited)
Periods Ended June 30

	Quarter			**Year-to-date**		
($ millions, except earnings per common share and common shares outstanding)	**2008**	2007	Variance	**2008**	2007	Variance
Revenue	**848**	566	282	**1,994**	1,049	945
Cash flow from operating activities	**244**	68	176	**432**	162	270
Net earnings applicable to common shares	**29**	41	(12)	**120**	83	37
Basic earnings per common share *($)*	**0.19**	0.31	(0.12)	**0.77**	0.69	0.08
Diluted earnings per common share *($)*	**0.18**	0.27	(0.09)	**0.75**	0.61	0.14
Weighted average number of common shares outstanding *(millions)*	**157.0**	131.1	25.9	**156.8**	120.2	36.6
	Segmented Net Earnings					
	Quarter			**Year-to-date**		
	2008	2007	Variance	**2008**	2007	Variance
Regulated Gas Utilities - Canadian						
Terasen Gas Companies [(1)]	**12**	1	11	**70**	1	69
Regulated Electric Utilities - Canadian						
FortisAlberta	*7*	*15*	*(8)*	*18*	*27*	*(9)*
FortisBC [(2)]	*7*	*6*	*1*	*19*	*18*	*1*
Newfoundland Power	*10*	*8*	*2*	*16*	*19*	*(3)*
Other Canadian [(3)]	*2*	*4*	*(2)*	*6*	*8*	*(2)*
	26	33	(7)	**59**	72	(13)
Regulated Electric Utilities - Caribbean [(4)]	**(5)**	8	(13)	**2**	12	(10)
Non-Regulated - Fortis Generation [(5)]	**7**	5	2	**13**	12	1
Non-Regulated - Fortis Properties [(6)]	**7**	6	1	**10**	8	2
Corporate and Other [(7)]	**(18)**	(12)	(6)	**(34)**	(22)	(12)
Net Earnings Applicable to Common Shares	**29**	41	(12)	**120**	83	37

(1) Comprised of Terasen Gas Inc. ("TGI"), Terasen Gas (Vancouver Island) Inc. ("TGVI") and Terasen Gas (Whistler) Inc. ("TGWI"). Financial results are reported from May 17, 2007, the date of acquisition.

(2) Includes the regulated operations of FortisBC Inc. and operating, maintenance and management services related to the Waneta, Brilliant and Arrow Lakes hydroelectric generating plants and the distribution system owned by the City of Kelowna. Excludes the non-regulated generation operations of FortisBC Inc.'s wholly owned partnership, Walden Power Partnership.

(3) Includes Maritime Electric and FortisOntario. FortisOntario includes Canadian Niagara Power and Cornwall Electric.

(4) Includes Belize Electricity, in which Fortis holds an approximate 70 per cent controlling interest; Caribbean Utilities on Grand Cayman, Cayman Islands, in which Fortis holds an approximate 54 per cent controlling interest; and wholly owned Fortis Turks and Caicos. Caribbean Utilities has an April 30 fiscal year end; therefore, Caribbean Utilities' financial statements are consolidated in the financial statements of Fortis on a two-month lag basis.

(5) Includes the operations of non-regulated generation assets in Belize, Ontario, central Newfoundland, British Columbia and Upper New York State, with a combined generating capacity of 195 MW, mainly hydroelectric.

(6) Includes 19 hotels with more than 3,500 rooms in eight Canadian provinces and approximately 2.8 million square feet of commercial real estate primarily in Atlantic Canada.

(7) Includes Fortis net corporate expenses and, from May 17, 2007, the net expenses of non-regulated Terasen Inc. ("Terasen") corporate-related activities and the financial results of Terasen's 30 per cent ownership interest in CustomerWorks Limited Partnership ("CWLP") and of Terasen's non-regulated wholly owned subsidiary Terasen Energy Services Inc. ("TES").

SEGMENTED RESULTS OF OPERATIONS

REGULATED GAS UTILITIES - CANADIAN

Terasen Gas Companies

Terasen Gas Companies [1] Financial Highlights (Unaudited) Periods Ended June 30						
	Quarter			Year-to-date		
	2008	2007	Variance	**2008**	2007	Variance
Gas Volumes (TJ)	**45,324**	17,744	27,580	**123,508**	17,744	105,764
($ millions)						
Revenue	**390**	130	260	**1,025**	130	895
Energy Supply Costs	**256**	73	183	**693**	73	620
Operating Expenses	**62**	28	34	**123**	28	95
Amortization	**25**	12	13	**49**	12	37
Finance Charges	**30**	15	15	**63**	15	48
Corporate Taxes	**5**	1	4	**27**	1	26
Earnings	**12**	1	11	**70**	1	69

[1] Financial results are reported from May 17, 2007, the date of acquisition.

On May 17, 2007, Fortis acquired all of the issued and outstanding common shares of Terasen. Terasen owns and operates a gas distribution business carried on by TGI, TGVI and TGWI, collectively referred to as the Terasen Gas companies, and is the principal distributor of natural gas in British Columbia.

Gas volumes: Gas volumes at the Terasen Gas companies were 45,324 TJ during the second quarter of 2008, up 846 TJ, or 1.9 per cent, from 44,478 TJ reported by the Terasen Gas companies for the full quarter last year. Gas volumes year to date were 123,508 TJ, up 3,080 TJ, or 2.6 per cent, from 120,428 TJ reported by the Terasen Gas companies for the full year-to-date period last year. The increases were driven by higher consumption due to cooler weather compared to the same periods last year.

Changes in consumption levels and energy supply costs from those forecasted to set gas distribution rates, do not materially impact earnings as a result of the operation of British Columbia Utilities Commission ("BCUC")-approved regulatory deferral mechanisms.

During the second quarter of 2008, net customer additions at TGI and TGVI totalled 845, bringing the total customer count to approximately 921,970 at June 30, 2008. Year-to-date 2008, net customer additions totalled 3,339, lower than net customer additions of 4,199 during the same period last year but in line with expectations. Favourable economic conditions and housing activity in British Columbia continue to positively impact customer growth in the region.

Revenue: The Terasen Gas companies contributed a full quarter and half year of revenue of approximately $390 million and $1.0 billion, respectively, compared to revenue of $130 million for a partial second quarter last year. Factors favourably impacting revenue during the second quarter and year-to-date period of 2008 included: (i) increased customer consumption due to cooler weather; (ii) higher gas commodity costs charged to customers; and (iii) an increase in gas distribution rates, effective January 1, 2008, associated with an increase in the 2008 allowed rates of return on common shareholders' equity ("ROE") for TGI and TGVI to 8.62 per cent and 9.32 per cent, respectively, from 8.37 per cent and 9.07 per cent, respectively.

Earnings: The Terasen Gas companies contributed a full quarter and half year of earnings of $12 million and $70 million, respectively, compared to earnings of $1 million for a partial second quarter last year. Seasonality materially impacts the earnings of the Terasen Gas companies as a major portion of the gas distributed is used for space heating. Virtually all of the annual earnings of the Terasen Gas companies occur in the first and fourth quarters. The significant factors favourably impacting earnings during the second quarter and year-to-date period of 2008 included the increase in the allowed ROEs, effective January 1, 2008, and lower effective corporate taxes,

partially offset by increased amortization costs associated with continued investment in capital assets, and higher finance charges reflective of higher borrowing rates and increased credit facility borrowings.

For a discussion of the nature of regulation and material regulatory decisions and applications pertaining to the Terasen Gas companies, refer to "Regulatory Highlights".

REGULATED ELECTRIC UTILITIES - CANADIAN

FortisAlberta

FortisAlberta Financial Highlights (Unaudited) Periods Ended June 30						
	Quarter			Year-to-date		
	2008	2007	Variance	**2008**	2007	Variance
Energy Deliveries (GWh)	**3,768**	3,650	118	**7,906**	7,595	311
($ millions)						
Revenue	**75**	68	7	**148**	132	16
Operating Expenses	**32**	30	2	**65**	59	6
Amortization	**21**	19	2	**41**	37	4
Finance Charges	**11**	9	2	**20**	18	2
Corporate Tax Expense (Recovery)	**4**	(5)	9	**4**	(9)	13
Earnings	**7**	15	(8)	**18**	27	(9)

Energy Deliveries: Energy deliveries at FortisAlberta increased 118 gigawatt hours ("GWh"), or 3.2 per cent, quarter over quarter and increased 311 GWh, or 4.1 per cent, year to date compared to the same period last year. The increases were due to increased energy demand attributable to customer growth. The number of customers at FortisAlberta increased by 5,500 to approximately 453,500 during the first half of 2008.

Revenue: Revenue was $7 million higher quarter over quarter and $16 million higher year to date compared to the same period last year. The increases were mainly due to customer growth; a 6.8 per cent increase in customer distribution rates, effective January 1, 2008; and the accrual of the impact for collection in future customer distribution rates of the increase in the 2008 allowed ROE to 8.75 per cent from 8.51 per cent, effective January 1, 2008.

Earnings: FortisAlberta's earnings were $8 million lower quarter over quarter, driven by increased corporate taxes, primarily associated with the regulator-approved Alberta Electric System Operator ("AESO") charges deferral account and the timing of its collection. Quarter over quarter, the impact of customer growth, the increase in customer distribution rates and a higher allowed ROE was partially offset by: (i) higher operating expenses due to increased contracted manpower costs, higher labour and employee-benefit costs associated with increased salaries and number of employees, partially offset by lower general operating expenses; (ii) increased amortization costs associated with continued investment in capital assets and higher amortization rates provided for in the 2008/2009 Negotiated Settlement Agreement ("NSA"); and (iii) increased finance charges due to higher debt levels in support of the Company's significant capital expenditure program.

Earnings were $9 million lower year to date compared to the same period last year mainly as a result of increased corporate taxes for the reasons described above for the quarter. Additionally, the impact of (i) higher operating expenses due to increased contracted manpower costs, higher labour and employee-benefit costs associated with increased salaries and number of employees, and higher general operating expenses; and (ii) increased amortization costs and finance charges for the reasons described above for the quarter was more than offset by the impact of customer growth, the increase in customer distribution rates and a higher allowed ROE.

FortisAlberta collects from customers and records income taxes on the cash taxes payable method, as approved by its regulator, except for certain regulator-approved deferral accounts whereby income taxes are recorded on the liability method. FortisAlberta does not expect to incur any cash income taxes in 2008. For the second quarter and

year-to-date period of 2008, the future corporate income tax expense of $4 million was primarily associated with an increase in the balance of deferred AESO charges. However, for the second quarter and year-to-date period of 2007, a recovery of future income tax expense of $3.5 million and $7 million, respectively, was recorded primarily due to a reduction in the balance of deferred AESO charges. FortisAlberta's AESO charges deferral account captures variances between amounts charged by the AESO to FortisAlberta for transmission tariffs and amounts collected from FortisAlberta's customers through the transmission tariff component of basic customer rates. Subject to regulatory approval, amounts charged by the AESO in excess of amounts collected from customers are deferred as a regulatory asset for future recovery from customers and amounts collected from customers in excess of amounts charged are deferred as a regulatory liability for future refund to customers.

Generally, there is a two-year regulatory lag between the deferral of amounts in the AESO charges deferral account and when they are collected from, or refunded to, customers in rates. In 2007, the 2005 deferred AESO charges receivable balance was collected in customer rates. Additionally, FortisAlberta received regulatory approval to sell amounts in its annual AESO charges deferral account. In September 2007 and December 2007, the 2006 deferred AESO charges receivable balance of $28 million and approximately $37 million of the 2007 deferred AESO charges receivable balance, respectively, were sold to a Canadian chartered bank and, as a result, the proceeds were recognized in 2007. To date, FortisAlberta has not entered into any transaction to sell its 2008 deferred AESO charges receivable balance.

For a discussion of the nature of regulation and material regulatory decisions and applications pertaining to FortisAlberta, refer to "Regulatory Highlights".

FortisBC

FortisBC
Financial Highlights (Unaudited)
Periods Ended June 30

	Quarter			**Year-to-date**		
	2008	2007	Variance	**2008**	2007	Variance
Electricity Sales (GWh)	**673**	670	3	**1,548**	1,549	(1)
($ millions)						
Revenue	**53**	52	1	**119**	115	4
Energy Supply Costs	**12**	13	(1)	**33**	33	-
Operating Expenses	**17**	17	-	**33**	33	-
Amortization	**8**	8	-	**17**	16	1
Finance Charges	**7**	6	1	**14**	12	2
Corporate Taxes	**2**	2	-	**3**	3	-
Earnings	**7**	6	1	**19**	18	1

Electricity Sales: Electricity sales at FortisBC were comparable quarter over quarter and year to date compared to the same period last year. Electricity sales during the first half of 2008 were impacted by reduced industrial customer loads, as a result of a general slowdown in the forestry sector, largely offset by residential, general service and wholesale customer growth primarily in the Okanagan region.

Revenue: Revenue was $1 million higher quarter over quarter and $4 million higher year to date compared to the same period last year. Revenue increased mainly due to: (i) a 2.9 per cent increase in customer rates, effective January 1, 2008, which included the impact of an increase in the 2008 allowed ROE to 9.02 per cent from 8.77 per cent; and (ii) a 0.8 per cent increase in customer rates, effective May 1, 2008, as a result of the flow through to customers of increased purchased power costs from BC Hydro. The increase was partially offset by lower revenue contributions from non-regulated operating, maintenance and management services.

Earnings: FortisBC's earnings were $1 million higher quarter over quarter. The impact of the 2.9 per cent increase in electricity rates and decreased energy supply costs, driven by lower average power purchase prices and the receipt of $0.6 million of insurance proceeds associated with a turbine generator failure in 2006, was partially offset by higher finance charges, reflective of the Company's significant capital expenditure program.

Earnings were $1 million higher year to date compared to the same period last year. The impact of the 2.9 per cent increase in electricity rates was partially offset by higher amortization costs and finance charges reflective of the Company's significant capital expenditure program.

Operating expenses were comparable quarter over quarter and year to date compared to the same period last year. The impact of the timing in 2008 of certain operating and maintenance projects combined with higher labour costs and general inflationary increases was largely offset by lower operating expenses associated with non-regulated operating maintenance and management services. Energy supply costs year to date were comparable to the same period last year. A higher proportion of energy generated from Company-owned hydroelectric generating plants versus power purchased period over period, combined with the receipt of insurance proceeds and lower electricity sales, were offset by higher average power purchase prices.

For a discussion of the nature of regulation and material regulatory decisions and applications pertaining to FortisBC, refer to "Regulatory Highlights".

Newfoundland Power

Newfoundland Power Financial Highlights (Unaudited) Periods Ended June 30						
	Quarter			Year-to-date		
	2008	2007	Variance	**2008**	2007	Variance
Electricity Sales (GWh)	**1,183**	1,172	11	**2,899**	2,835	64
($ millions)						
Revenue	**120**	115	5	**284**	269	15
Energy Supply Costs	**70**	74	(4)	**192**	180	12
Operating Expenses	**13**	13	-	**27**	27	-
Amortization	**12**	9	3	**22**	19	3
Finance Charges	**9**	8	1	**17**	16	1
Corporate Taxes	**6**	3	3	**10**	8	2
Earnings	**10**	8	2	**16**	19	(3)

Electricity Sales: Electricity sales at Newfoundland Power increased 11 GWh quarter over quarter, driven by customer growth, partially offset by lower average consumption. Electricity sales increased 64 GWh, or 2.3 per cent, year to date compared to the same period last year, largely due to the combined impact of customer growth and higher average consumption.

Revenue: Revenue was $5 million higher quarter over quarter and $15 million higher year to date compared to the same period last year. The increases were driven by electricity sales growth and an average increase in customer rates of 2.8 per cent, effective January 1, 2008, which included the impact of an increase in the 2008 allowed ROE to 8.95 per cent from 8.60 per cent. The increase in revenue also reflected higher amortization of regulatory liabilities in accordance with prescribed regulatory orders.

Earnings: Newfoundland Power's earnings were $2 million higher quarter over quarter, reflecting a quarterly shift in the distribution of annual purchased power expense which increased earnings by approximately $2.5 million during the second quarter of 2008. Under the regulated rate structure, annual purchased power expense per kilowatt hour ("kWh") is higher in the winter months and lower in the summer months. During 2007, Newfoundland Power estimated and recognized monthly purchased power expense based on forecast annual average cost per kWh. Differences between the estimated monthly purchased power expense and that based on the actual cost per kWh were adjusted to a regulatory reserve that was discontinued for use effective January 1, 2008. Monthly purchased power expense is now being recorded at actual cost per kWh. As a result of this change, earnings in 2008 are expected to be lower in the first and fourth quarters and higher in the second and third quarters compared to the same periods in 2007. Annual earnings will not be impacted by the shift in quarterly earnings.

Excluding the $2.5 million favourable shift in quarterly earnings, as described above, earnings were $7.5 million for the quarter, slightly lower than $8 million for the same quarter last year. Timing differences related to operating expenses and the rebasing of customer rates were partially offset by the 2.8 per cent increase in customer rates.

Newfoundland Power's earnings were $3 million lower year to date compared to the same period last year, reflecting the quarterly shift in the distribution of annual purchased power expense which decreased year-to-date earnings by approximately $3.5 million. Excluding the $3.5 million unfavourable shift in earnings, year-to-date earnings were approximately $19.5 million, slightly higher than $19 million for the same period last year. The increase was mainly the result of the 2.8 per cent increase in customer rates along with related timing differences associated with the rebasing of customer rates, and increased electricity sales, partially offset by timing differences related to operating expenses.

Amortization costs are allocated quarterly based on gross margin. Amortization costs have increased during 2008 reflecting the regulator-approved recovery of previously deferred amortization costs in customer rates, effective January 1, 2008. Higher effective corporate income tax rates quarter over quarter and year to date compared to the same period last year were driven by decreased deductions taken for tax purposes compared to accounting purposes.

For a discussion of the nature of regulation and material regulatory decisions and applications pertaining to Newfoundland Power, refer to "Regulatory Highlights".

Other Canadian Electric Utilities

Other Canadian Electric Utilities [1]
Financial Highlights (Unaudited)
Periods Ended June 30

	Quarter			Year-to-date		
	2008	2007	Variance	**2008**	2007	Variance
Electricity Sales (GWh)	**508**	516	(8)	**1,107**	1,118	(11)
($ millions)						
Revenue	**61**	65	(4)	**131**	135	(4)
Energy Supply Costs	**40**	43	(3)	**89**	91	(2)
Operating Expenses	**7**	7	-	**14**	14	-
Amortization	**5**	4	1	**9**	8	1
Finance Charges	**5**	5	-	**9**	9	-
Corporate Taxes	**2**	2	-	**4**	5	(1)
Earnings	**2**	4	(2)	**6**	8	(2)

[1] Includes Maritime Electric and FortisOntario

Electricity Sales: Electricity sales at Other Canadian Electric Utilities decreased 8 GWh, or 1.6 per cent, quarter over quarter, and decreased 11 GWh, or 1.0 per cent, year to date compared to the same period last year, driven by lower average consumption, in part due to warmer-than-normal weather conditions, the impact of a temporary shutdown of operations of an industrial customer in Ontario and an unscheduled maintenance outage by a large customer at Maritime Electric.

Revenue: Revenue was $4 million lower quarter over quarter and year to date compared to the same period last year. Revenue decreased approximately $3 million associated with the repayment, during the second quarter of 2008, of a refund FortisOntario had received during the fourth quarter of 2007. In April 2008, the US Federal Energy Regulatory Commission ("FERC") issued an order stating that the one-time refund of approximately $3 million ($2 million after-tax) received by FortisOntario in December 2007 from Niagara Mohawk Power Corporation ("NIMO"), associated with cross-border transmission interconnection agreements, should not have been originally ordered as FERC does not have jurisdiction over the interconnection agreements in question and, therefore, did not have jurisdiction to order the refund. In May 2008, FortisOntario repaid the refunded amounts to NIMO.

Revenue was also lower due to a decrease in customer rates at FortisOntario associated with the flow through to customers of lower energy supply costs in addition to lower electricity sales. The decrease was partially offset by

the impact of an average 1.1 per cent increase in basic electricity distribution rates at FortisOntario, effective May 1, 2008, and a 1.8 per cent increase in basic electricity rates at Maritime Electric, effective April 1, 2008.

Earnings: Earnings were $2 million lower quarter over quarter and year to date compared to the same period last year. Excluding the one-time $2 million after-tax repayment by FortisOntario of the refund described above, earnings were comparable, reflecting stable operating conditions.

In August 2008, FortisOntario and Grimsby Power Inc. entered into a non-binding letter of intent for the acquisition by FortisOntario of a 10 per cent minority interest in Grimsby Power Inc.'s electricity distribution business for a cash payment of approximately $1.1 million plus the provision of services to migrate Grimsby Power Inc.'s customer information system to FortisOntario's SAP-based system. Grimsby Power Inc. serves approximately 10,000 customers in a service territory that is in close proximity to FortisOntario's operations in Fort Erie. The transaction is structured to take advantage of the existing transfer tax holiday which expires in October 2008. The transaction is subject to the completion of due diligence, negotiation, board approval, signing of definitive documentation and receipt of regulatory approvals.

For a discussion of the nature of regulation and material regulatory decisions and applications pertaining to Maritime Electric and FortisOntario, refer to "Regulatory Highlights".

REGULATED ELECTRIC UTILITIES - CARIBBEAN

Regulated Electric Utilities - Caribbean [1]
Financial Highlights (Unaudited)
Periods Ended June 30

	Quarter			Year-to-date		
	2008	2007	Variance	**2008**	2007	Variance
Average US:CDN Exchange Rate [2]	**1.01**	1.10	(0.09)	**1.01**	1.13	(0.12)
Electricity Sales (GWh)	**276**	258	18	**534**	499	35
($ millions)						
Revenue	**78**	74	4	**153**	151	2
Energy Supply Costs	**64** [3]	41	23	**104** [3]	85	19
Operating Expenses	**12**	11	1	**23**	28 [4]	(5)
Amortization	**8**	7	1	**15**	14	1
Finance Charges	**2**	3	(1)	**7**	7	-
Corporate Taxes	**(1)**	1	(2)	**-**	1	(1)
Non-Controlling Interest	**(2)**	3	(5)	**2**	4	(2)
(Loss) Earnings	**(5)**	8	(13)	**2**	12	(10)

(1) Includes Belize Electricity, Caribbean Utilities and Fortis Turks and Caicos
(2) The reporting currency of Belize Electricity is the Belizean dollar which is pegged to the US dollar at BZ$2.00 = US$1.00. The reporting currency of Caribbean Utilities and Fortis Turks and Caicos is the US dollar. The Cayman Islands dollar is pegged to the US dollar at CI$1.00 = US$1.20.
(3) Energy supply costs during the second quarter of 2008 included an $18 million (BZ$36 million) charge as a result of a regulatory rate decision by the Public Utilities Commission ("PUC") in Belize in June 2008.
(4) Operating expenses during the first quarter of 2007 included a $4.4 million (US$3.7 million) charge on the disposal of steam-turbine assets at Caribbean Utilities.

Electricity Sales: Regulated Electric Utilities - Caribbean electricity sales increased 18 GWh, or 7 per cent, quarter over quarter and increased 35 GWh, or 7.0 per cent, year to date compared to the same period last year. The increases were primarily due to higher demand driven by customer growth. Electricity sales growth is expected to remain strong throughout the second half of 2008. Caribbean Utilities expects sales growth for its fiscal year ended April 30, 2009 to be approximately 5 per cent, slightly lower than sales growth experienced during its previous fiscal year, reflecting the impact of slowing construction trends and the expected impact on tourism of the current downturn being experienced in the U.S. economy.

Revenue: Revenue increased $4 million quarter over quarter and increased $2 million year to date compared to the same period last year. Excluding the unfavourable impact of foreign exchange during the second quarter and year to date period, associated with the translation of foreign currency-denominated revenue due to the strengthening of the

Canadian dollar against the US dollar compared to the same periods last year, revenue increased $11 million quarter over quarter and increased $21 million year to date compared to the same period last year.

Excluding foreign exchange impacts, factors increasing revenue were strong electricity sales growth, the full flow through of higher fuel and oil costs to customers at Caribbean Utilities under the terms of the Company's new transmission and distribution ("T&D") licence, and the flow through of higher fuel and oil costs at Fortis Turks and Caicos. Partially offsetting the above factors was a 3.25 per cent reduction in basic customer rates and the elimination of the hurricane cost recovery surcharge ("CRS") at Caribbean Utilities, effective January 1, 2008, under the terms of the Company's new T&D licence.

Earnings: Earnings' contribution was $13 million lower quarter over quarter. However, second quarter 2008 earnings were reduced by $13 million, representing the Corporation's approximate 70 per cent share of $18 million of disallowed previously incurred fuel and purchased power costs at Belize Electricity. The $18 million (BZ$36 million) charge was the result of the PUC's decision on Belize Electricity's 2008/2009 rate application. Excluding the $13 million charge, earnings' contribution was $8 million for the second quarter of 2008, comparable to the same quarter last year.

Earnings' contribution was $10 million lower year to date compared to the same period last year. Earnings' contribution year-to-date last year was reduced by approximately $2 million as a result of a charge on the disposal of steam-turbine assets at Caribbean Utilities. Excluding the above item and the $13 million charge associated with Belize Electricity, earnings' contribution increased $1 million year to date compared to the same period last year.

Excluding the one-time items in 2008 and 2007 described above and the unfavourable impact of foreign exchange, electricity sales growth and the favourable impact on energy supply costs associated with the movement in deferred fuel costs at Caribbean Utilities were largely offset by higher operating expenses, increased amortization costs, and the 3.25 per cent reduction in basic electricity rates at Caribbean Utilities. The movement in deferred fuel costs was the result of a change in the basis for calculating those costs under Caribbean Utilities' new T&D licence. Excluding the impact of foreign exchange, operating costs increased mainly due to increased activity associated with a high-growth environment, the timing of maintenance activities and increased provisions for bad debts. Amortization costs increased as a result of continued investment in capital assets.

In April 2008, Caribbean Utilities and the Government of the Cayman Islands entered into a new exclusive 20-year T&D licence and a new non-exclusive 21.5-year generation licence. Under the new T&D licence, customer rates will be set using an initial targeted rate of return on rate base assets ("ROA") of 10 per cent, down from 15 per cent as allowed under the previous licence.

Following the receipt of the new licences, Standard & Poor's ("S&P") affirmed its 'A' credit ratings on Caribbean Utilities' long-term corporate credit and senior unsecured debt and removed the ratings from credit watch.

In June 2008, Caribbean Utilities announced a rights offering to shareholders of record on July 14, 2008. The estimated net proceeds of approximately US$28 million will be used to repay credit facility borrowings and to finance capital expenditures. The rights offering closes on August 15, 2008.

For additional information on the impact of the new licences and the nature of regulation and material regulatory decisions and applications pertaining to Belize Electricity, Caribbean Utilities and Fortis Turks and Caicos, refer to "Regulatory Highlights".

NON-REGULATED - FORTIS GENERATION

Non-Regulated - Fortis Generation [(1)] Financial Highlights (Unaudited) Periods Ended June 30						
	Quarter			Year-to-date		
	2008	2007	Variance	**2008**	2007	Variance
Energy Sales (GWh)	**312**	274	38	**600**	565	35
($ millions)						
Revenue	**22**	18	4	**41**	39	2
Energy Supply Costs	**2**	2	-	**4**	4	-
Operating Expenses	**4**	4	-	**8**	8	-
Amortization	**3**	2	1	**5**	5	-
Finance Charges	**2**	2	-	**4**	5	(1)
Corporate Taxes	**2**	2	-	**5**	4	1
Non-Controlling Interest	**2**	1	1	**2**	1	1
Earnings	**7**	5	2	**13**	12	1

(1) Includes the operations of non-regulated generation assets in Belize, Ontario, central Newfoundland, British Columbia and Upper New York State.

Energy Sales: Energy sales from Non-Regulated - Fortis Generation increased 38 GWh, or 13.9 per cent, quarter over quarter and increased 35 GWh, or 6.2 per cent, year to date compared to the same period last year. The increases were mainly due to higher production in central Newfoundland during the second quarter of 2008 as a result of higher rainfall. At the end of July 2008, the reservoir at the Corporation's generating facility in central Newfoundland was at approximately two-thirds of its maximum energy supply level while the Chalillo reservoir in Belize was at its full supply level.

Revenue: Revenue was $4 million higher quarter over quarter. Factors increasing revenue were: (i) higher production; (ii) increased average wholesale energy prices per megawatt hour ("MWh") in Ontario of $46.86 during the second quarter of 2008 compared to $42.93 for the same quarter last year; and (iii) higher average wholesale energy prices per MWh in Upper New York State of US$80.89 for the second quarter of 2008 compared to US$56.97 for the same quarter last year. Partially offsetting the above factors was the unfavourable impact of foreign exchange associated with the translation of foreign currency-denominated revenue, due to the strengthening of the Canadian dollar against the US dollar compared to the same quarter last year.

Revenue was $2 million higher year to date compared to the same period last year. Factors increasing revenue were higher production and increased average wholesale energy prices per MWh in Upper New York State of US$76.90 year-to-date 2008 compared to US$56.92 for the same period last year. Partially offsetting the above factors was the unfavourable impact of foreign exchange.

Earnings: Earnings were $2 million higher quarter over quarter and $1 million higher year to date compared to the same period last year, driven by increased production and increased average wholesale energy prices, partially offset by the unfavourable impact of foreign exchange associated with the translation of foreign currency-denominated earnings.

NON-REGULATED - FORTIS PROPERTIES

Non-Regulated - Fortis Properties Financial Highlights (Unaudited) Periods Ended June 30						
	Quarter			Year-to-date		
($ millions)	**2008**	2007	Variance	**2008**	2007	Variance
Real Estate Revenue	**15**	14	1	**31**	28	3
Hospitality Revenue	**39**	33	6	**68**	59	9
Total Revenue	**54**	47	7	**99**	87	12
Operating Expenses	**35**	29	6	**66**	57	9
Amortization	**3**	3	-	**7**	6	1
Finance Charges	**6**	6	-	**12**	12	-
Corporate Taxes	**3**	3	-	**4**	4	-
Earnings	**7**	6	1	**10**	8	2

Revenue: Fortis Properties' Real Estate revenue was $1 million higher quarter over quarter and $3 million higher year to date compared to the same period last year. Revenue grew throughout the real estate portfolio and was also significantly impacted by the real estate operations acquired on August 1, 2007 as part of the Delta Regina acquisition. The occupancy rate of the Real Estate Division was 96.7 per cent as at June 30, 2008, up from 96.0 per cent as at June 30, 2007.

Hospitality Revenue was $6 million higher quarter over quarter and $9 million higher year to date compared to the same period last year, reflecting revenue contribution from the Delta Regina and improved performance at the Company's hospitality operations in Atlantic Canada.

On August 1, 2007, Fortis Properties purchased the Delta Regina in Saskatchewan for approximately $50 million, including acquisition costs. Delta Regina is comprised of 274 hotel rooms, the Saskatchewan Trade and Convention Centre, 52,000 square feet of Class A commercial office space and a parking garage.

Revenue per available room for the second quarter was $87.54 compared to $82.11 for the same quarter last year, and year to date was $77.68 compared to $73.84 for the same period last year. The increases were mainly due to higher average room rates.

Earnings: Fortis Properties' earnings were $1 million higher quarter over quarter and $2 million higher year to date compared to the same period last year. The increases reflected contributions from the Delta Regina and improved performance at the Company's hospitality operations in Atlantic Canada.

CORPORATE AND OTHER

Corporate and Other [(1)] Financial Highlights (Unaudited) Quarter Ended June 30						
	Quarter			Year-to-date		
($ millions)	**2008**	2007	Variance	**2008**	2007	Variance
Revenue	**5**	4	1	**12**	8	4
Operating Expenses	**3**	1	2	**6**	3	3
Amortization	**1**	1	-	**4**	2	2
Finance Charges [(2)]	**20**	15	5	**41**	26	15
Corporate Tax Recovery	**(4)**	(3)	(1)	**(9)**	(4)	(5)
Preference Share Dividends	**3**	2	1	**4**	3	1
Net Corporate and Other Expenses	**(18)**	(12)	(6)	**(34)**	(22)	(12)

[(1)] Includes non-regulated Terasen corporate-related activities and financial results of CWLP and TES from May 17, 2007, the date of acquisition
[(2)] Includes dividends on preference shares classified as long-term liabilities

The Corporate and Other segment captures expense and revenue items not specifically related to any reportable segment. Included in this segment are finance charges including interest on debt incurred directly by Fortis and Terasen Inc. and dividends on preference shares classified as long-term liabilities; dividends on preference shares classified as equity; other corporate expenses, including Fortis and Terasen corporate operating costs, net of recoveries from subsidiaries; interest and miscellaneous revenues; and corporate income taxes. Also included in the Corporate and Other segment are the financial results of CWLP. CWLP is a non-regulated shared-service business in which Terasen holds a 30 per cent interest. CWLP operates in partnership with Enbridge Inc. and provides customer service, meter reading, billing, credit, support and collection services to the Terasen Gas companies and several smaller third parties. CWLP's financial results are recorded using the proportionate consolidation method of accounting. While currently not significant, financial results of TES are also reported in the Corporate and Other segment. TES is a non-regulated wholly owned subsidiary of Terasen. TES expects to increase its activities in the development, building, owning and operating of innovative geoexchange energy systems, community piping and energy transfer systems to harness renewable energy sources. TES is entering into agreements with developers to provide alternative thermal energy systems for both residential and commercial development projects in British Columbia.

Revenue: Revenue was $1 million higher quarter over quarter and $4 million higher year to date compared to the same period last year. The increases were mainly due to a full quarter and half year of revenue contribution from CWLP compared to revenue contribution during the same periods last year being from May 17, 2007, the date of acquisition.

Net Corporate and Other Expenses: Net corporate and other expenses were $6 million higher quarter over quarter and $12 million higher year to date compared to the same period last year. The increases reflected a full quarter and half year of Terasen acquisition-related finance charges, Terasen corporate and CWLP amortization costs and operating expenses, less revenue contribution from CWLP. This compares to the inclusion, last year, of the above items in the Corporate and other segmented results from May 17, 2007, the date of acquisition.

During the second quarter, Fortis issued 9.2 million 5.25% Five-Year Rate Reset First Preference Shares, Series G ("First Preference Shares, Series G") for gross proceeds of $230 million. A significant portion of the proceeds were used to repay amounts outstanding under the Corporation's committed credit facility. The increase in preference share dividends quarter over quarter and year to date compared to the same period last year reflected dividends on the First Preference Shares, Series G.

REGULATORY HIGHLIGHTS

A summary of the nature of regulation and material regulatory decisions and applications for the Corporation's regulated utilities is as follows:

Nature of Regulation						
Regulated Utility	Regulatory Authority	Allowed Common Equity (%)	Allowed Returns (%) 2006	2007	2008	Supportive Features Future or Historical Test Year Used to Set Rates
			ROE			Cost of Service ("COS")/ROE
TGI	BCUC	35	8.80	8.37	8.62	PBR mechanisms through 2009: TGI: 50/50 sharing of earnings above or below the allowed ROE.
TGVI	BCUC	40	9.50	9.07	9.32	TGVI: 100 per cent retention of earnings from lower-than -forecasted operating and maintenance costs but no relief from increased operating and maintenance costs ROE automatic adjustment formula tied to long-term Canada bond yields
						Future Test Year
FortisBC	BCUC	40	9.20	8.77	9.02	COS/ROE PBR mechanism through 2008, with option to continue in 2009: 50/50 sharing of earnings above or below the allowed ROE up to an achieved ROE that is 200 basis points above or below the allowed ROE – excess to deferral account ROE automatic adjustment formula tied to long-term Canada bond yields
						Future Test Year
FortisAlberta	Alberta Utilities Commission ("AUC")	37	8.93	8.51	8.75	COS/ROE ROE automatic adjustment formula tied to long-term Canada bond yields
						Future Test Year
Newfoundland Power	Newfoundland and Labrador Board of Commissioners of Public Utilities ("PUB")	45	9.24 +/- 50 bps	8.60 +/- 50 bps	8.95 +/- 50 bps	COS/ROE ROE automatic adjustment formula tied to long-term Canada bond yields
						Future Test Year
Maritime Electric	Island Regulatory and Appeals Commission ("IRAC")	40	10.25	10.25	10.00	COS/ROE
						Future Test Year
FortisOntario	Ontario Energy Board ("OEB") (Canadian Niagara Power) Franchise Agreement (Cornwall Electric)	46.7	9.00	9.00	9.00	Canadian Niagara Power - COS/ROE Cornwall Electric - Price cap with commodity cost flow through
						Historical Test Year
			ROA			Four-year COS/ROA agreements
Belize Electricity	PUC	N/A	10.00 - 15.00	10.00 - 15.00	10.00	Future Test Year
Caribbean Utilities	Electricity Regulatory Authority ("ERA")	N/A	15.00	15.00	9.00 - 11.00	COS/ROA Rate-cap adjustment mechanism based on published consumer price indices
						Historical Test Year
Fortis Turks and Caicos	Utilities make annual filings with the Energy Commission	N/A	17.50	17.50	17.50	COS/ROA
						Future Test Year

Material Regulatory Decisions and Applications	
Regulated Utility	**Summary Description**
TGI TGVI	• In December 2007, the BCUC approved various rates at TGI, including those for mid-stream and delivery for residential customers in several service areas, effective January 1, 2008. Increased mid-stream costs are flowed through to customers without markup. The approved rates also reflect the impact of an increase in the allowed ROE for 2008 to 8.62 per cent. • Effective April 1, 2008 and July 1, 2008, the BCUC approved increases in the commodity rates charged to customers for natural gas and propane. The commodity cost of natural gas and propane are flowed through to customers without markup. Every three months TGI and TGVI review natural gas and propane commodity prices with the BCUC in order to ensure the flow through rates charged to customers are sufficient to cover the cost of purchasing gas and propane. • On April 1, 2008, final regulatory approval for the construction of the 1.5 billion-cubic foot liquefied natural gas ("LNG") facility on Vancouver Island was received for a total estimated cost of approximately $200 million.
FortisBC	• In December 2007, regulatory approval was received of the NSA associated with 2008 revenue requirements resulting in a customer rate increase of 2.9 per cent, effective January 1, 2008. The rate increase is primarily the result of the Company's capital investment program. Rates for 2008 reflect an allowed ROE of 9.02 per cent. • In April 2008, the BCUC approved an interim increase of 0.8 per cent to FortisBC's customer rates, effective May 1, 2008, as a result of BC Hydro's recent interim rate increase, which has increased FortisBC's cost to purchase power from BC Hydro by 5.06 per cent. • In June 2008, FortisBC filed its 2009 and 2010 Capital Plan for gross capital expenditures of approximately $193 million for 2009 and $196 million for 2010. A decision on the application is expected in the fourth quarter of 2008. • FortisBC expects to file a 2009 Revenue Requirements Application with the BCUC during the fourth quarter of 2008.
FortisAlberta	• Effective January 1, 2008, FortisAlberta is regulated by the AUC due to the separation of the Alberta Energy and Utilities Board into two separate regulatory bodies. • In February 2008, regulatory approval was received of the NSA associated with 2008/2009 revenue requirements resulting in distribution rate increases of 6.8 per cent, effective January 1, 2008, and 7.3 per cent, effective January 1, 2009. The approved NSA includes forecast gross capital expenditures of approximately $264 million for 2008 and $296 million for 2009, primarily to meet customer growth and improve system reliability. The 2008 revenue requirements included in the 2008/2009 NSA were determined using the 2007 ROE of 8.51 per cent. The impact of the increase in the ROE to 8.75 per cent for 2008 is subject to deferral-account treatment and, as such, is being recognized as earned in 2008 and is expected to be collected in future customer rates. • In June 2008, the AUC issued a decision, ruling that there is sufficient evidence that a review of the ROE level, the adjustment mechanism and utility capital structures in a generic proceeding would be appropriate. In July 2008, the AUC issued its notice of application, preliminary scoping document and minimum filing requirements for the 2009 Generic Cost of Capital Proceeding. The Proceeding applies to all gas, electric and pipeline utilities in Alberta that are regulated by the AUC. A hearing is scheduled for the first quarter of 2009.
Newfoundland Power	• In December 2007, the PUB approved the Company's NSA associated with the 2008 general rate application, resulting in an average 2.8 per cent increase in customer rates, effective January 1, 2008. The rate increase is largely driven by higher amortization costs. The rate increase also reflects the impact of an increase in the allowed ROE to 8.95 per cent for 2008. • The PUB-approved NSA will also result in, among other things: (i) the amortization of $7.2 million in 2008 and $4.6 million in each of 2009 and 2010 of the remaining $16.4 million balance of the original December 2005 unbilled revenue liability; (ii) amortization of approximately $3.9 million in each of 2008, 2009 and 2010 of previously deferred amortization expense; (iii) amortization over a period of three to five years of certain deferred regulatory balances; and (iv) for 2008 through 2010, the deferral of variations in purchase power expense caused by differences in the actual unit cost of energy and the unit cost reflected in customer rates to be recovered from, or refunded to, customers through operation of the Company's rate stabilization account. • Effective July 1, 2008, the PUB approved an average 5.9 per cent increase in customer electricity rates, reflecting the flow through to customers, by operation of the rate stabilization account, of variances in the cost of fuel used to generate electricity that Newfoundland and Labrador Hydro sells to Newfoundland Power. The increase in customer rates will have no impact on Newfoundland Power's earnings. • In July 2008, the Company filed its 2009 Capital Budget Application with the PUC for approximately $62 million, with more than half of the proposed capital expenditures relating to replacing aged and deteriorated components of the electricity system.
Maritime Electric	• In January 2008, IRAC approved, as filed, an increase in basic electricity rates of 1.8 per cent, effective April 1, 2008, and approved a maximum allowed ROE of 10.0 per cent for 2008. • In April 2008, IRAC ordered the energy cost adjustment mechanism ("ECAM") amortization period of 12 months to be set at eight months, effective May 1, 2008. The result is an increase in the flow through in customer rates of the recovery of ECAM over the shorter amortization period. • In July 2008, Maritime Electric filed its 2009 Capital Budget for approximately $20 million, before customer contributions. A decision on the Budget is expected late in 2008.

Material Regulatory Decisions and Applications (cont'd)	
Regulated Utility (cont'd)	**Summary Description (cont'd)**
FortisOntario	• In March 2008, the OEB issued its decision relating to the 2008 Incentive Regulation Mechanism ("IRM") application filed by Canadian Niagara Power. The result is an average 1.1 per cent increase in electricity distribution rates for operations in Fort Erie, Port Colborne and Gananoque, effective May 1, 2008. The increase is comprised of a 2.1 per cent increase for inflation, partially offset by a 1 per cent decrease for a productivity adjustment. Under the 2008 IRM, Canadian Niagara Power's capital structure will be deemed at 53.3 per cent debt and 46.7 per cent equity, as part of the OEB's plan to move to a 60 per cent debt and 40 per cent equity capital structure over a three-year period. • Effective July 1, 2008, retail rates at Cornwall Electric decreased by approximately 6.2 per cent, attributable to a new 11.5 year wholesale electricity supply contract negotiated with Hydro-Québec Energy Marketing by Cornwall Electric on behalf of its customers. The new long-term agreement replaces an existing short-term contract and ensures reliability of supply and rate stability. • Canadian Niagara Power expects to file a full COS rate application before the end of the third quarter of 2008, for rates effective May 1, 2009, which will result in the rebasing of distribution rates based on a future test year.
Belize Electricity	• In March 2008, the newly elected Government of Belize repealed December 2007 amendments to the *Electricity (Tariffs, Charges and Quality of Services Standards) Bylaws.* The amendments had simplified Belize Electricity's rate-setting methodology, allowed for improved rate stabilization and settled outstanding matters related to the PUC's Final Decision on electricity rates for the period July 1, 2007 through June 30, 2008. • In March 2008, Belize Electricity filed an application requesting an increase in the cost of power component of the average electricity rate by 15 per cent, or BZ6.5 cents per kWh, as a result of the rapid increase in the cost of power due to increasing world oil prices. The application was disallowed by the PUC who cited that, in the interim, a decrease in the Company's operating expenses and capital expenditures levels would help offset the impact on cash flow of the increasing cost of power. Additionally, the PUC indicated it would defer its detailed analysis of the high deferrals of cost of power into Belize Electricity's cost of power rate stabilization account ("CPRSA") until the Annual Tariff Review Proceeding for the annual tariff period for July 1, 2008 to June 30, 2009. • In April 2008, Belize Electricity filed its Annual Tariff Review Application for the annual tariff period from July 1, 2008 to June 30, 2009 ("2008/2009 Rate Application") requesting a 13.4 per cent increase in the average electricity rate, as a result of an increase in the cost of power component of the rate and an increase in the recovery of the CPRSA. • In May 2008, the PUC issued its Initial Decision on Belize Electricity's 2008/2009 Rate Application. The Initial Decision denied any average rate increase and approved, among other things, a retroactive adjustment to Belize Electricity's CPRSA. Belize Electricity objected to the Initial Decision, which resulted in a review of the Initial Decision by a PUC-appointed Independent Expert. The report of the Independent Expert echoed many of Belize Electricity's concerns pertaining to the Initial Decision. • In June 2008, the PUC issued its Final Decision on Belize Electricity's 2008/2009 Rate Application which rejected most of the recommendations of the Independent Expert and failed to increase the average electricity rate. The PUC also ordered a BZ$36 million retroactive adjustment associated with Belize Electricity's prior years' financial results. The adjustment, in substance, represented the disallowance of previously incurred fuel and purchased power costs. The PUC also reduced Belize Electricity's target allowed ROA to 10 per cent from 12 per cent. The Final Decision would have the impact of reducing Fortis' share of Belize Electricity's earnings by approximately $5 million over the next 12 months. The Final Decision also proposes the future use of an automatic mechanism to adjust on a monthly basis the cost of power component of rates to reflect actual costs of power. The Final Decision does not impact the Corporation's non-regulated generation operations in Belize. • As a direct result of the Final Decision, Belize Electricity has recorded an $18 million (BZ$36 million) charge ($13 million of which is Fortis' share) to energy supply costs during the second quarter of 2008. • Belize Electricity filed an application for judicial review and appeal of the Final Decision with the Supreme Court of Belize on July 25, 2008.
Caribbean Utilities	• In December 2007, an Agreement in Principle ("AIP") was reached with the Government of the Cayman Islands on the terms of a new exclusive T&D licence and a new non-exclusive generation licence. • In April 2008, the new licences were granted. The terms of the new licences include competition for future generation capacity and general promotion of renewable resources of energy. The T&D licence is for an initial period of 20 years, expiring April 2028, with a provision for automatic renewal. The generation licence is for a period of 21.5 years, expiring September 2029. The terms of the new licences remained substantially the same as the terms outlined in the AIP. • Effective January 1, 2008, as a result of the AIP and subsequent granting of the new licences, basic customer rates were reduced by 3.25 per cent, the CRS was removed, a fuel-duty rebate funded by the Government of the Cayman Islands was implemented for residential customers consuming less than 1,500 kWh monthly, and basic rates were restructured to extract all fuel costs and licence fee amounts which are now to be fully flowed through to customers. The 3.25 per cent reduction in basic rates will reduce annual revenue by approximately US$2.1 million. Additionally, Caribbean Utilities has forgone US$2.6 million of revenue in 2008 as a result of the early elimination of the CRS. A new fuel and oil rate factor was also established to provide for full flow through of fuel and oil costs to customers.

Material Regulatory Decisions and Applications (cont'd)	
Regulated Utility (cont'd)	**Summary Description (cont'd)**
Caribbean Utilities (cont'd)	• Following the initial basic rate reduction, customer rates will be frozen until May 31, 2009 and will be subject to annual review and adjustment each June thereafter. Under the new T&D licence, a mechanism will be used to adjust basic rates in accordance with a formula that is based on published consumer price indices, thereby taking inflation into account. The rate-adjustment mechanism is designed to maintain Caribbean Utilities' ROA in a targeted range of 9 per cent to 11 per cent, down from an allowed ROA of 15 per cent that was permitted under the previous licence. The recently amended *Electricity Regularity Authority Law* (2005 Revision) provides for the conduct of a competitive bid process to be managed by the ERA for new generating capacity and the replacement of retired generating capacity. The first competitive process under the new generation licence began in May 2008 with a filing of a Certificate of Need by Caribbean Utilities for the installation of 16 MW of additional generating capacity in each of 2011 and 2012. • In July 2008, Caribbean Utilities filed with the regulator a Five-Year Capital Investment Plan totalling US$255 million, including US$80 million related to new generation that is expected to be solicited. A decision on the Plan is expected during the second half of 2008. • In July 2008, Caribbean Utilities began a formal request for expressions of interest from qualified wind-generation developers for a wind-generation project for up to 10 MW. The ERA has endorsed this initiative and any power purchase agreements or generating licence arising from this initiative will be subject to ERA approval.
Fortis Turks and Caicos	• In March 2008, Fortis Turks and Caicos submitted its 2007 annual regulatory filing outlining the Company's performance in 2007 and its capital expansion plans for 2008. Fortis Turks and Caicos' achieved ROA in 2007 was less than that permitted under its licences; however, the Company did not seek any basic rate increases in 2008. • In May 2008, Fortis Turks and Caicos received approval from the Government of Turks and Caicos Islands to supply wholesale electricity under an exclusive licence to Dellis Cay on the Turks and Caicos Islands.

CONSOLIDATED FINANCIAL POSITION

The following table outlines the significant changes in the consolidated balance sheets between June 30, 2008 and December 31, 2007.

Fortis Inc.
Significant Changes in the Consolidated Balance Sheets (Unaudited)
between June 30, 2008 and December 31, 2007

Balance Sheet Account	Increase/ (Decrease) *($ millions)*	Explanation
Accounts receivable	101	The increase was primarily due to $208 million associated with recording an increase in the fair market value of the natural gas derivative contracts, which were in the money at June 30, 2008 and recorded in accounts receivable, versus out of the money at December 31, 2007 and recorded in accounts payable. The increase was partially offset by the impact of a seasonal reduction in sales driven by the Terasen Gas companies, FortisBC and Newfoundland Power.
Regulatory assets – current and long-term	(65)	The decrease was driven by a $79 million decrease in regulatory deferrals associated with the change in the fair market value of the natural gas derivative contracts, and the adjustment to Belize Electricity's CPRSA as a result of a regulatory rate decision. The decrease was partially offset by the deferral of an increase in cost of fuel and power at Maritime Electric and Caribbean Utilities and increased AESO charges deferral amounts at FortisAlberta.
Inventories of gas, materials and supplies	(15)	The decrease was driven by a normal seasonal reduction of gas in storage.
Deferred charges and other assets	19	The increase was mainly due to contributions made by FortisAlberta to the AESO for transmission capital projects, partially offset by amortization for the six months ended June 30, 2008.
Utility capital assets	214	The increase primarily related to $381 million invested in electricity and gas systems, partially offset by amortization for the six months ended June 30, 2008, and the impact of foreign exchange on the translation of US dollar-denominated utility capital assets.
Short-term borrowings	(196)	The decrease was primarily due to seasonality of operations at the Terasen Gas companies, including the impact of decreased purchases of gas inventories, in addition to the repayment of short-term borrowings by TGI and Maritime Electric with proceeds from the issuance of long-term debt.
Accounts payable and accrued charges	(108)	The decrease was driven by $79 million associated with recording the change in the fair market value of the natural gas derivative contracts, in addition to the timing of FortisAlberta's payments to the AESO for transmission costs and decreased amounts owing for purchased power at Newfoundland Power due to seasonality of operations.
Income taxes payable	29	The increase was mainly due to the timing of income tax payments and the accrual of current income tax expense at the Terasen Gas companies.
Regulatory liabilities – current and long-term	236	The increase was driven by a $208 million increase in regulatory deferrals associated with the change in the fair market value of the natural gas derivative contracts.
Long-term debt and capital lease obligations (including current portion)	(17)	The decrease was primarily due to a net $477 million decrease in committed credit-facility borrowings, driven by net repayments by the Terasen Gas companies and the Corporation, partially offset by the impact of the issuance of long-term debt. The issuance of long-term debt, primarily to repay committed credit-facility borrowings, short-term borrowings and $188 million of maturing long-term debt, was comprised of a $100 million senior unsecured debenture offering by FortisAlberta, a $60 million secured first mortgage bond issue by Maritime Electric, a $250 million unsecured debenture offering by TGVI and a $250 million unsecured debenture offering by TGI.
Shareholders' equity	292	The increase was driven by a $230 million preference share issue, $225 million net of after-tax expenses, combined with net earnings reported for the six months ended June 30, 2008, less common share dividends. The remainder of the increase related to the issuance of Common Shares under the Corporation's share purchase, dividend reinvestment and stock option plans.

LIQUIDITY AND CAPITAL RESOURCES

The following table outlines the summary of cash flows.

Fortis Inc. Summary of Cash Flows (Unaudited) Periods Ended June 30						
	Quarter			**Year-to-date**		
($ millions)	**2008**	2007	Variance	**2008**	2007	Variance
Cash, beginning of period	**67**	43	24	**58**	41	17
Cash provided by (used in)						
Operating activities	**244**	68	176	**432**	162	270
Investing activities	**(215)**	(1,429)	1,214	**(358)**	(1,547)	1,189
Financing activities	**(37)**	1,383	(1,420)	**(73)**	1,409	(1,482)
Foreign currency impact on cash balances	**-**	(2)	2	**-**	(2)	2
Cash, end of period	**59**	63	(4)	**59**	63	(4)

Operating Activities: Cash flow from operating activities, after working capital adjustments, was $176 million higher quarter over quarter. The Terasen Gas companies contributed $142 million of the increase, due to seasonality of operations and the fact that the Terasen Gas companies contributed to the financial results of the Corporation last year only from May 17, 2007, the date of acquisition. The remaining increase was driven by favourable working capital timing differences at Newfoundland Power and FortisAlberta.

Cash flow from operating activities, after working capital adjustments, was $270 million higher year to date compared to the same period last year. An increase in cash flow from operating activities, after working capital adjustments, of $296 million by the Terasen Gas companies, combined with the impact of favourable working capital timing differences and recovery of regulatory deferral balances at Newfoundland Power, was partially offset by the impact of the timing of the payment of AESO transmission cost accruals at FortisAlberta.

Investing Activities: Cash used in investing activities was $1.21 billion lower quarter over quarter and $1.19 billion lower year to date compared to the same period last year. Investing activities last year, however, included the impact of the May 2007 acquisition of Terasen for $3.7 billion, including assumed debt of $2.4 billion, net of cash acquired. The acquisition resulted in a cash payment, including acquisition costs, of approximately $1.25 billion. Excluding the impact of the investment in Terasen last year, cash used in investing activities was $37 million higher quarter over quarter and $64 million higher year to date compared to the same period last year. The increases were driven by higher utility capital expenditures and changes in deferred charges, other assets and deferred credits. Year to date, the increase was partially offset by an increase in proceeds from the sale of capital assets, driven by $14 million of proceeds received in January 2008 associated with the December 2007 sale of surplus land by TGI.

Gross utility capital expenditures were $219 million for the second quarter of 2008, $26 million higher than for the same quarter last year. Gross utility capital expenditures were $381 million year to date, $54 million higher than for the same period last year. The increases were driven by capital expenditures incurred at the Terasen Gas companies, partially offset by lower capital spending at FortisBC.

The net increase in the use of cash associated with changes in deferred charges, other assets and deferred credits of $10 million quarter over quarter and $14 million year to date compared to the same period last year was driven by higher contributions by FortisAlberta to AESO transmission capital projects.

Financing Activities: Cash used in financing activities was $37 million during the second quarter compared to cash provided by financing activities of $1.38 billion during the same quarter last year. Financing activities last year, however, included the impact of the issuance of Common Shares for gross proceeds of $1.15 billion, upon conversion of Subscription Receipts that were initially issued in March 2007, to finance a significant portion of the cash purchase price of Terasen. Excluding the impact of financing the acquisition of Terasen last year, cash used in financing activities was $293 million higher quarter over quarter and $380 million higher year to date compared to the same period last year.

Net repayments of short-term borrowings were $163 million for the second quarter of 2008 and $196 million year-to-date 2008. The net repayments were driven by the Terasen Gas companies and Maritime Electric. Net repayments of short-term borrowings were $26 million for the second quarter of 2007 and $70 million year-to-date 2007. The net repayments were mainly due to the Terasen Gas companies, partially offset by net borrowings by FortisBC.

Proceeds from long-term debt, net of issue costs, net (repayments) borrowings under committed credit facilities, and repayments of long-term debt and capital lease obligations for the quarter and year to date compared to the same periods last year are summarized in the following tables.

Proceeds from Long-Term Debt, Net of Issue Costs (Unaudited)
Periods Ended June 30

	Quarter			Year-to-date		
($ millions)	**2008**	2007	Variance	**2008**	2007	Variance
Terasen Gas companies	**247** [1]	-	247	**496** [1] [2]	-	496
FortisAlberta	**99** [3]	-	99	**99** [3]	110 [4]	(11)
Maritime Electric	**60** [5]	-	60	**60** [5]	-	60
Caribbean Utilities	**-**	32 [6]	(32)	**-**	32 [6]	(32)
Other	**3**	1	2	**4**	1	3
Total	**409**	33	376	**659**	143	516

[1] Issued May 2008, $250 million 5.80% Medium-Term Note Debentures by TGI, due May 2038. The net proceeds were primarily used to repay maturing $188 million 6.20% debentures and short-term borrowings.
[2] Issued February 2008, $250 million 6.05% Medium-Term Note Debentures by TGVI, due February 2038. The net proceeds were used to repay committed credit-facility borrowings.
[3] Issued April 2008, $100 million 5.85% Senior Unsecured Debentures, due April 2038. The net proceeds were used to repay committed credit-facility borrowings.
[4] Issued January 2007, $110 million 4.99% Senior Unsecured Debentures, due January 2047. The net proceeds were used to repay committed credit-facility borrowings.
[5] Issued April 2008, $60 million 6.05% Secured First Mortgage Bonds, due April 2038. The proceeds were used to repay short-term borrowings.
[6] Issued June 2007, US$30 million 5.65% Senior Unsecured Notes, due June 2022. The proceeds were used to repay debt and to finance capital expenditures.

Net (Repayments) Borrowings Under Committed Credit Facilities (Unaudited)
Periods Ended June 30

	Quarter			Year-to-date		
($ millions)	**2008**	2007	Variance	**2008**	2007	Variance
Terasen Gas companies	**4**	-	4	**(261)**	-	(261)
FortisAlberta	**(74)**	24	(98)	**(2)**	(72)	70
FortisBC	**8**	19	(11)	**8**	10	(2)
Newfoundland Power	**(34)**	14	(48)	**(14)**	31	(45)
Corporate	**(170)**	243	(413)	**(208)**	213	(421)
Total	**(266)**	300	(566)	**(477)**	182	(659)

Borrowings by the utilities under committed credit facilities are primarily in support of their respective capital expenditure programs and/or for working capital requirements. Repayments are primarily financed through the issuance of long-term debt and/or cash from operations. From time to time, proceeds from preference share, common share and long-term debt issuances are used to repay borrowings under the Corporation's committed credit facility. During the second quarter of 2008, a net repayment of $170 million under the Corporation's committed credit facility was financed with partial proceeds from the issuance of $230 million preference shares ($223 million net of costs). The remaining proceeds from the preference share offering were lent to Newfoundland Power to repay certain committed credit-facility borrowings, and were used for other general corporate purposes. During the second quarter last year, borrowings under the Corporation's committed credit facility primarily related to financing, on an interim basis, the remaining $125 million net cash purchase price of Terasen on May 17, 2007, in addition to certain acquisition costs and Common Share issuance costs; to repay certain short-term indebtedness assumed upon the acquisition of Terasen; and for general corporate purposes. During the first quarter last year, the Corporation repaid

approximately $84 million of committed credit-facility borrowings financed with partial proceeds from a 5.17 million Common Share issuance in January 2007.

Repayments of Long-Term Debt and Capital Lease Obligations (Unaudited) Periods Ended June 30						
	Quarter			**Year-to-date**		
($ millions)	**2008**	2007	Variance	**2008**	2007	Variance
Terasen Gas companies	**(194)**	-	(194)	**(194)**	-	(194)
Fortis Properties	**(3)**	(3)	-	**(6)**	(14)	8
Other	**(3)**	(13)	10	**(5)**	(19)	14
Total	**(200)**	(16)	(184)	**(205)**	(33)	(172)

In May 2008, partial proceeds from TGI's $250 million debenture offering were used to repay maturing $188 million 6.20% debentures.

Net proceeds associated with the issuance of Common Shares under the Corporation's share purchase and stock options plans during the second quarter were $5 million compared to $4 million for the same quarter last year and were $11 million year to date compared to $9 million for the same period last year. On May 17, 2007, the Corporation publicly issued 44.3 million Common Shares for gross proceeds of approximately $1.15 billion ($1.1 billion net of costs) upon conversion of Subscription Receipts that were initially issued in March 2007 to finance a significant portion of the net cash purchase price of Terasen. In January 2007, 5.17 million Common Shares were publicly issued for gross proceeds of approximately $150 million ($143 million net of costs). Partial net proceeds from the Common Share issue in January 2007 were used to repay indebtedness incurred under the Corporation's committed credit facility. The remainder of the net proceeds was utilized to fund equity requirements of the Corporation's regulated electric utilities in western Canada, in support of their respective capital expenditure programs, and for general corporate purposes.

Common Share dividends were $40 million during the second quarter of 2008, up $8 million from the same quarter last year. The increase was primarily due to a higher dividend per Common Share compared to the same quarter last year. Common share dividends were $79 million year to date, up $23 million from the same period last year. The increase was due to an increase in the number of Common Shares outstanding, primarily as a result of the issuance of Common Shares pursuant to the Terasen acquisition in May 2007, and a higher dividend per Common Share compared to the same period last year. The dividend per Common Share for each of the first and second quarters of 2008 was $0.25, while the dividend per Common Share for each of the first and second quarters of last year was $0.21.

Preference share dividends increased $1 million quarter over quarter and increased $1 million year to date compared to the same period last year related to the 9.2 million First Preference shares, Series G issued during the second quarter of 2008.

Contractual obligations: Consolidated contractual obligations of Fortis over the next five years and for periods thereafter, as at June 30, 2008, are outlined in the following table. The nature and amount of the contractual obligations are consistent with those disclosed in the MD&A for the year ended December 31, 2007, except for those described below for FortisOntario, Maritime Electric, Caribbean Utilities and Fortis Turks and Caicos.

Fortis Inc.
Contractual Obligations (Unaudited)
as at June 30, 2008

($ millions)	**Total**	≤ 1 year	>1-3years	4-5 years	> 5 years
Long-term debt	**5,043**	335	314	123	4,271
Brilliant Terminal Station	**64**	3	5	5	51
Gas purchase contract obligations (based on index prices as at June 30, 2008)	**639**	626	13	-	-
Power purchase obligations					
FortisBC	**2,835**	38	75	74	2,648
FortisOntario [(1)]	**583**	45	93	86	359
Maritime Electric [(2)]	**108**	71	18	2	17
Belize Electricity	**11**	1	2	2	6
Capital cost	**395**	14	37	37	307
Joint-use asset and shared service agreements	**66**	2	8	6	50
Office lease – FortisBC	**20**	-	4	2	14
Operating lease obligations	**167**	18	33	29	87
Equipment purchase commitment - Caribbean Utilities [(3)]	**20**	12	8	-	-
Other	**26**	5	9	7	5
Total	**9,977**	1,170	619	373	7,815

[(1)] Included in FortisOntario's power purchase obligations is a new 11.5 year take-or-pay contract between Cornwall Electric and Hydro-Québec Energy Marketing for the supply of electricity and capacity. The contract, which expires on December 31, 2019, replaces the previous two-year contract that expired on June 30, 2008. This take-or-pay contract provides energy up to 100 MW on an as-needed basis and provides a minimum 300,000 MWh of energy per contract year beginning July 1, 2008.

[(2)] Maritime Electric has two new take-or-pay contracts for the purchase of either energy or capacity. The contracts total approximately $108 million through November 30, 2032. The take-or-pay contract with New Brunswick Power includes, among other things, replacement energy and capacity for the Point Lepreau Nuclear Generating Station during its 18-month refurbishment outage. The other take-or-pay contract is for transmission capacity allowing Maritime Electric to reserve 30 MW of capacity on the new International Power Line into the United States.

[(3)] Caribbean Utilities has entered into a project agreement to purchase a 16-MW diesel generating unit and related equipment from a supplier in Germany for approximately US$24 million. The unit is expected to be commissioned in summer 2009. Approximately US$5 million has been incurred under the project as at June 30, 2008.

Other Contractual Obligations:
Caribbean Utilities has a primary fuel supply contract with a major supplier and is committed to purchase 80 per cent of the Company's fuel requirements from this supplier for the operation of Caribbean Utilities' diesel-fired generating plant. The contract is for three years terminating in April 2010. The remaining approximate quantities, in millions of imperial gallons, required to be purchased annually during Caribbean Utilities' fiscal years ended April 30 are: 2009 – 26 and 2010 – 28.

Fortis Turks and Caicos has a renewable contract with a major supplier for all of its diesel fuel requirements associated with the generation of electricity. The approximate fuel requirements under this contract are 12 million imperial gallons per annum.

Capital Structure: The Corporation's principal businesses of regulated gas and electricity distribution require ongoing access to capital to allow them to fund maintenance and expansion of infrastructure. Wherever possible, Fortis raises debt at the subsidiary level to ensure regulatory transparency, tax efficiency and financing flexibility. To help ensure access to capital, the Corporation targets a consolidated long-term capital structure containing approximately 40 per cent equity, including preference shares, 60 per cent debt and investment-grade credit ratings.

Each of the Corporation's regulated utilities maintains its own capital structure in line with the deemed capital structure reflected in the utility's customer rates. As well, the Corporation and its larger regulated utilities have secured multi-year committed credit facilities to support short-term financing of capital expenditures and seasonal working capital requirements. The committed credit facility at Fortis is available for interim financing of

acquisitions and for general corporate purposes. Fortis generally finances a significant portion of acquisitions with proceeds from common and preference share issuances.

The consolidated capital structure of Fortis is presented in the following table.

Fortis Inc. Capital Structure (Unaudited) As at				
	June 30, 2008		December 31, 2007	
	($ millions)	*(%)*	*($ millions)*	*(%)*
Total debt and capital lease obligations (net of cash) [(1)]	**5,262**	**61.2**	5,476	64.3
Preference shares [(2)]	**667**	**7.8**	442	5.2
Common shareholders' equity	**2,668**	**31.0**	2,601	30.5
Total	**8,597**	**100.0**	8,519	100.0

[(1)] Includes long-term debt, including current portion, and short-term borrowings, net of cash
[(2)] Includes preference shares classified as both long-term liabilities and equity

The improvement in the capital structure from December 2007 was primarily due to reduced consolidated debt driven by the repayment of credit facility borrowings by the Corporation with partial proceeds from the $230 million, $225 million net of after-tax expenses, issuance of preference shares combined with the seasonal reduction of credit facility borrowings at the Terasen Gas companies, partially offset by increased debt levels at FortisAlberta in support of its significant capital expenditure program. The capital structure was also favourably impacted by net earnings applicable to common shares, less common share dividends, of $41 million during the first half of 2008.

The Corporation's credit ratings are as follows:

S&P A- (long-term corporate and unsecured debt credit rating)
DBRS BBB(high) (unsecured debt credit rating)

The credit ratings reflect the diversity of the operations of Fortis, the stand-alone nature and financial separation of each of the regulated subsidiaries of Fortis, management's commitment to maintaining low levels of debt at the holding company level and the continued focus of Fortis on pursuing acquisitions in stable regulated utilities.

Capital Program: The Corporation's principal businesses of regulated gas and electricity distribution are capital intensive. Capital investment in infrastructure is required to ensure continued and enhanced performance, reliability and safety of the gas and electricity systems and to meet customer growth. All costs considered to be maintenance and repairs are expensed as incurred. Costs related to replacements, upgrades and betterments of capital assets are capitalized as incurred.

During the first half of 2008, gross consolidated capital expenditures were $389 million. A breakdown of gross capital expenditures for the first half of 2008 by segment is provided in the following table.

Gross Capital Expenditures (Unaudited)
Year-to-date June 30, 2008

($ millions)	Terasen Gas Companies[(1)]	Fortis Alberta[(1) (2)]	FortisBC[(1)]	NF Power[(1)]	Other Regulated Utilities - Canadian[(1)]	**Total Regulated Utilities - Canadian**	**Regulated Utilities - Caribbean**	**Non-Regulated – Utility[(3)]**	**Fortis Properties**	**Total[(4)]**
Total	96	144	50	30	17	**337**	**34**	**10**	**8**	**389**

[(1)] Includes removal and site restoration expenditures which are permissible in rate base
[(2)] Excludes payments of $14 million made to the AESO for investment in transmission capital projects
[(3)] Includes non-regulated generation, non-regulated gas utility and Corporate capital expenditures
[(4)] Includes expenditures associated with assets under construction

Gross consolidated capital expenditures for 2008 are expected to exceed $900 million. Planned capital expenditures are based on detailed forecasts of energy demand, weather, cost of labour and materials, as well as other factors

which could change and cause actual expenditures to differ from forecasts. The significant changes in the expected level, nature and timing of certain capital projects for 2008 from those disclosed in the MD&A for the year ended December 31, 2007, are described below.

In April 2008, TGVI received approval from the BCUC to proceed with the engineering, procurement and construction ("EPC") of the LNG storage facility on Vancouver Island for a total cost of approximately $200 million. As a result, the Company entered into an EPC contract with a third party for the construction of the facility. The contract includes approximately $55 million to be paid in US dollars. As a result, TGVI has entered into a three-year US dollar forward-purchase contract which will mitigate currency fluctuations on the US dollar portion of the EPC contract. During the second quarter, construction commenced on the LNG storage facility.

TGVI's construction of the 50-kilometre pipeline lateral from Squamish to Whistler continues and, as at the end of June 2008, approximately 37 kilometres of the pipeline had been constructed. Originally scheduled to be completed by summer 2008, the pipeline lateral is now expected to be completed in early 2009, slightly later than originally planned, due to changes in the way the Company can sequence the pipeline construction as a result of the Province's Sea-to-Sky Highway Improvement Project ("Highway Project") Plan. The pipeline is being built in conjunction with the Highway Project Plan and the pipeline route mainly falls within the highway right of way. Conversion of the Resort Municipality of Whistler from propane to natural gas will occur in spring 2009 and take approximately three months to complete. TGVI does not expect any material changes in the cost to complete this capital project as a result of this delay.

As disclosed in the MD&A for the year ended December 31, 2007, FortisAlberta plans to expend approximately $24 million in 2008 on the second phase of replacement of conventional meters with new Automated Meter Infrastructure ("AMI") technology as part of an overall $111 million project to convert approximately 435,000 customers to such technology over a four-year period that began in 2007. The second phase of the deployment of the AMI technology is expected to be concentrated during the second half of 2008. FortisAlberta's gross capital expenditures for 2008 are expected to be approximately $22 million higher than originally planned gross capital expenditures of $264 million, as disclosed at December 31, 2007, mainly due to customer growth and increased labour costs.

In April 2008, Caribbean Utilities entered into a project agreement to purchase a 16-MW diesel generating unit and related equipment from a supplier in Germany for approximately US$24 million over the period 2008 and 2009 with the unit expected to be commissioned by September 2009.

Maritime Electric expects gross capital expenditures for 2008 to be approximately $17 million higher than originally planned, mainly due to the construction of an approximate 66-kilometre transmission line for merchant wind developers. The project is being financed entirely by customer contributions.

Fortis expects gross consolidated capital expenditures to exceed $4.5 billion over the next five years and to be driven by the Terasen Gas companies, FortisAlberta, FortisBC and the Corporation's regulated and non-regulated electric utility operations in the Caribbean. The increase in the expected capital expenditures over the next five years from the original estimate of $4 billion arises from additional capital projects forecasted by the Terasen Gas companies, FortisBC and Caribbean Utilities.

Cash Flows: At the operating subsidiary level, it is expected that operating expenses and interest costs will generally be paid out of subsidiary operating cash flows, with varying levels of residual cash flow available for dividend payments to Fortis and/or for subsidiary capital expenditures. Borrowings under credit facilities may be required from time to time to support seasonal working capital requirements. Cash required to complete subsidiary capital expenditure programs is also expected to be financed from a combination of borrowings under credit facilities, equity injections from Fortis and long-term debt issuances.

The Corporation's ability to service its debt obligations and pay dividends on its common shares and preference shares is dependent on the financial results of the operating subsidiaries and the related cash payments from these subsidiaries. Certain regulated subsidiaries may be subject to restrictions which may limit their ability to distribute cash to Fortis. Cash required of Fortis to support subsidiary capital expenditure programs and to finance acquisitions is expected to be derived from a combination of borrowings under credit facilities and the issuance of common shares, preference shares and long-term debt. Depending on the timing of cash payments from the

subsidiaries, borrowings under the Corporation's credit facilities may be required from time to time to support the servicing of debt and payment of dividends. Fortis and its subsidiaries do not anticipate any difficulties accessing required capital at reasonable market terms.

As a result of the PUC's Final Decision on Belize Electricity's 2008/2009 rate application, Belize Electricity does not meet certain debt covenant financial ratios resulting in approximately $16 million (BZ$30 million) of indebtedness being in default as at June 30, 2008. In accordance with certain of these debt covenants, Belize Electricity is also prohibited from incurring new indebtedness or declaring dividends. The Company has informed the lenders of the situation and has requested appropriate waivers. As at June 30, 2008, $10 million of the above debt was reclassified from long-term to current on the balance sheet.

As at June 30, 2008, the Corporation and its subsidiaries had consolidated authorized lines of credit of $2.2 billion, of which $1.8 billion was unused. The following summary outlines the credit facilities of the Corporation and its subsidiaries.

Fortis Inc.
Credit Facilities (Unaudited)

($ millions)	Corporate and Other	Regulated Utilities	Fortis Properties	Total as at June 30, 2008	Total as at December 31, 2007
Total credit facilities	715	1,490	13	**2,218**	2,234
Credit facilities utilized:					
Short-term borrowings	-	(279)	-	**(279)**	(475)
Long-term debt (including current portion)	-	(54)	-	**(54)**	(530)
Letters of credit outstanding	(1)	(89)	(1)	**(91)**	(159)
Credit facilities available	714	1,068	12	**1,794**	1,070

At June 30, 2008 and December 31, 2007, certain borrowings under the Corporation's and subsidiaries' credit facilities have been classified as long-term debt. These borrowings are under long-term committed credit facilities and management's intention is to refinance these borrowings with long-term permanent financing during future periods.

Corporate and Other
Letters of credit of $50 million previously outstanding at Terasen Inc., related to its previously owned petroleum transportation business and secured by a letter of credit from the former parent company, were cancelled during the second quarter of 2008.

Regulated Utilities
In April 2008, FortisBC renegotiated and amended its $150 million unsecured committed revolving credit facility, extending the maturity date of the $50 million portion of the facility to May 2011 from May 2010 and extending the $100 million portion to May 2009 from May 2008. The Company has the option to increase the credit facility to an aggregate of $200 million, subject to bank approval.

In April 2008, Maritime Electric repaid all outstanding borrowings under its $25 million unsecured credit facility with partial proceeds from a $60 million bond issue. The credit facility matured in May 2008 and was not renewed. As at June 30, 3008, Maritime Electric had a $45 million unsecured revolving credit facility.

In July 2008, TGI renegotiated its $500 million unsecured committed revolving credit facility extending the maturity date of the facility to August 2013 from August 2012.

FINANCIAL INSTRUMENTS

The carrying values of financial instruments included in current assets, current liabilities, deferred charges and other assets, and deferred credits in the consolidated balance sheets of Fortis approximate their fair value, reflecting the short-term maturity, normal trade credit terms and/or nature of these instruments. The fair value of long-term debt is

calculated by using quoted market prices when available, or by discounting the future cash flow of each debt instrument at the estimated yield to maturity for the same or similar debt issues at the balance sheet date. Since the Corporation does not intend to settle the long-term debt prior to maturity, the fair value estimate does not represent an actual liability and, therefore, does not include exchange or settlement costs. The fair value of the Corporation's preference shares is determined using quoted market prices.

The carrying and fair values of the Corporation's long-term debt and preference shares are as follows.

Financial Instruments (Unaudited)
As at

	June 30, 2008		December 31, 2007	
($ millions)	**Carrying Value**	**Estimated Fair Value**	Carrying Value	Estimated Fair Value
Long-term debt	**5,006**	**5,483**	5,023	5,635
Preference shares, classified as debt [(1)]	**320**	**340**	320	346

[(1)] Preference shares classified as equity do not meet the definition of a financial instrument; however, the estimated fair value of the Corporation's $347 million preference shares classified as equity was $326 million as at June 30, 2008 (December 31, 2007: carrying value $122 million; fair value $107 million).

Risk Management: The Corporation's earnings from and net investment in self-sustaining foreign subsidiaries are exposed to changes in the US dollar-to-Canadian dollar exchange rate. The Corporation has effectively decreased the above exposure through the use of US dollar borrowings. As at June 30, 2008, all of the Corporation's US$390 million of long-term debt had been designated as a hedge of a portion of the Corporation's foreign net investments. Foreign currency exchange rate fluctuations associated with the translation of the Corporation's US dollar borrowings designated as hedges of the Corporation's foreign net investments are recorded in other comprehensive income. As at June 30, 2008, the Corporation had approximately US$72 million in foreign net investments remaining to be hedged.

The Corporation also hedges exposures to fluctuations in interest rates, foreign exchange rates and natural gas commodity prices through the use of derivative financial instruments. The Corporation does not hold or issue derivative financial instruments for trading purposes. The following table summarizes the valuation of the Corporation's derivative financial instruments.

Derivative Financial Instruments (Unaudited)
As at

	June 30, 2008				December 31, 2007	
(Liability) Asset	**Term to maturity** *(years)*	**Number of Contracts**	**Carrying Value** *($ millions)*	**Estimated Fair Value** *($ millions)*	Carrying Value *($ millions)*	Estimated Fair Value *($ millions)*
Interest rate swaps	**1 to 2**	**4**	**(1)**	**(1)**	-	-
Foreign exchange forward contract	**3**	**1**	**-**	**-**	-	-
Natural gas derivatives:						
Swaps and options	**Up to 3**	**214**	**212**	**212**	(79)	(79)
Gas purchase contract premiums	**<1**	**53**	**1**	**1**	5	5

Two of the four interest rate swaps are held by Fortis Properties and are designated as hedges of the cash flow risk related to floating-rate long-term debt. The effective portion of changes in the value of the interest rate swaps at Fortis Properties is recorded in other comprehensive income. The remaining interest rate swaps and all of the natural gas derivatives are held by the Terasen Gas companies. The interest rate swaps are designated as hedges of cash flow risk related to floating-rate debt instruments. The natural gas derivatives are used to fix the effective purchase price of natural gas, as the majority of the natural gas supply contracts have floating, rather than fixed, prices. The foreign exchange forward contract is held by TGVI and is designated as a hedge of the cash flow risk related to approximately US$55 million required to be paid under a contract for the construction of an LNG storage facility. The carrying value and estimated fair value of the foreign exchange forward contract were immaterial as at June 30, 2008.

At the Terasen Gas companies, changes in the fair value of the interest rate swaps, foreign exchange forward contracts and natural gas derivatives are deferred as a regulatory asset or liability, subject to regulatory approval, for

recovery from, or refund to, customers in future rates. The fair values of the natural gas derivatives were recorded in accounts receivable as at June 30, 2008 (December 31, 2007 – accounts payable and accounts receivable).

The interest rate swaps are valued at the present value of future cash flows based on published forward future interest rate curves. The foreign exchange forward contract is valued using the present value of future cash flows based on published forward future foreign exchange market rate curves. The fair values of the natural gas derivatives reflect the estimated amounts, based on published forward curves, that the Corporation would have to receive or pay if forced to settle all outstanding contracts at the balance sheet date.

The fair value of the Corporation's financial instruments, including derivatives, reflects a point-in-time estimate based on relevant market information about the instruments. The estimates cannot be determined with precision as they involve uncertainties and matters of judgment and, therefore, may not be relevant in predicting the Corporation's future earnings or cash flows.

OFF-BALANCE SHEET ARRANGEMENTS

As at June 30, 2008, the Corporation had no off-balance sheet arrangements such as transactions, agreements or contractual arrangements with unconsolidated entities, structured finance entities, special purpose entities or variable interest entities, that are reasonably likely to materially affect liquidity or the availability of, or requirements for, capital resources.

BUSINESS RISK MANAGEMENT

Changes in the Corporation's significant business risks during the six months ended June 30, 2008 from those disclosed in the Corporation's MD&A for the year ended December 31, 2007 are described below.

Regulation: The PUC's June 2008 Final Decision on Belize Electricity's rate application for the period July 1, 2008 through June 30, 2009 creates uncertainty in the regulatory regime and the rate setting process in Belize. The PUC ordered a BZ$36 million ($18 million; $13 million of which is Fortis' share) retroactive adjustment associated with Belize Electricity's prior years' financial results. The adjustment, in substance, represented the disallowance of previously incurred fuel and purchased power costs. The PUC also reduced Belize Electricity's allowed ROA to 10 per cent from 12 per cent. The Final Decision violates both established regulatory practice and contractual obligations made by the Government of Belize at the time Fortis made its initial investment in Belize Electricity. Belize Electricity filed an application for judicial review and appeal of the Final Decision with the Supreme Court of Belize on July 25, 2008.

Integration of Terasen: Management considers the integration of Terasen within the Fortis Group to be substantially complete and, therefore, the risk related to integration has been reduced.

Labour Relations: In July 2008, Belize Electricity and the Belize Energy Worker's Union, through a process of conciliation, entered into a new collective agreement, which provided for retroactive wage increases of 2.5 per cent, effective for each of June 1, 2006 and June 1, 2007, in addition to wage increases of 2 per cent and 1 per cent, effective June 1, 2008 and June 1, 2009, respectively. Reaching a new collective agreement concluded a negotiation and subsequent conciliation process that commenced in 2006. The next review of the collective agreement will be in 2011.

CHANGES IN ACCOUNTING STANDARDS

Inventories: Effective January 1, 2008, the Corporation adopted the new Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3031 - *Inventories*. The new standard requires inventories to be measured at the lower of cost or net realizable value; disallows the use of a last-in first-out inventory-costing methodology; and requires that, when circumstances which previously caused inventories to be written down below cost or net realizable value no longer exist, the amount of the write down is to be reversed. As at December 31, 2007, inventories of $26 million were reclassified to property, plant and equipment from inventory on the balance sheet as

they were held for the development, construction, maintenance and repair of other property, plant and equipment. This new standard did not have a material impact on the Corporation's earnings, cash flow or financial position.

Capital Disclosures: Effective January 1, 2008, the Corporation adopted the new CICA Handbook Section 1535 - *Capital Disclosures.* The new standard requires additional information to be disclosed in the Notes to the financial statements about the Corporation's capital and the manner in which it is managed. The additional disclosures include quantitative and qualitative information regarding the Corporation's objectives, policies and processes for managing capital. This new standard did not have a material impact on the Corporation's earnings, cash flow or financial position. The additional required disclosures are provided in Note 16 to the Corporation's unaudited interim consolidated financial statements for the three and six months ended June 30, 2008.

Disclosure and Presentation of Financial Instruments: Effective January 1, 2008, the Corporation adopted new accounting recommendations for disclosure and presentation of financial instruments provided in Sections 3862 and 3863 of the CICA Handbook. The new recommendations require disclosures of both qualitative and quantitative information that enables users of financial statements to evaluate the nature and extent of risks from financial instruments to which the Corporation is exposed. The new standards did not have a material impact on the Corporation's earnings, cash flow or financial position. The additional required disclosures are provided in Notes 17 and 18 to the Corporation's unaudited interim consolidated financial statements for the three and six months ended June 30, 2008.

FUTURE ACCOUNTING PRONOUNCEMENTS

International Financial Reporting Standards ("IFRS"): In February 2008, the Accounting Standards Board ("AcSB") confirmed that the use of IFRS will be required in 2011 for publicly accountable enterprises in Canada. In April 2008, the AcSB issued an IFRS Omnibus Exposure Draft proposing that publicly accountable enterprises be required to apply IFRS, in full and without modification, on January 1, 2011. The transition date of January 1, 2011 will require the restatement, for comparative purposes, of amounts reported by the Corporation for its year ended December 31, 2010, and of the opening balance sheet as at January 1, 2010. The AcSB proposes that CICA Handbook Section - *Accounting Changes*, paragraph 1506.30, which would require an entity to disclose information relating to a new primary source of GAAP that has been issued but is not yet effective and that the entity has not applied, not be applied with respect to this Exposure Draft. Fortis is continuing to assess the financial reporting impacts of the adoption of IFRS and, at this time, the impact on future financial position and results of operations is not reasonably determinable or estimable. Further, Fortis anticipates a significant increase in disclosure resulting from the adoption of IFRS and is continuing to assess the level of disclosure required and any necessary system changes to gather and process the information.

Fortis commenced its IFRS conversion project in 2007 and has established a formal project governance structure. Regular reporting will occur to the Audit Committee of the Board of Directors of Fortis Inc. and of the subsidiaries, where appropriate. An external expert advisor has been engaged to assist in the IFRS conversion project.

The Fortis IFRS conversion project consists of three phases: scoping and diagnostic, analysis and development, and implementation and review. Phase One has been completed which involved project planning and staffing, and identification of differences between current Canadian GAAP and IFRS. Currently, the identified areas of accounting difference of highest potential impact to Fortis are rate-regulated operations, property plant and equipment, investment property, intangible assets, employee benefits, impairment of assets, income taxes, business combinations, and initial adoption of IFRS under the provisions of IFRS 1 - *First-Time Adoption of IFRS*.

Phase Two, currently in progress, involves completion of detailed diagnostics and evaluation of the financial impacts of various options and alternative methodologies provided for under IFRS; identification and design of operational and financial business processes; and development of required solutions to address identified issues.

It is anticipated that the adoption of IFRS will have an impact on current and future system requirements. The degree of this impact is not reasonably determinable at this stage of the project.

During the first half of 2008, several regulatory authorities with jurisdiction over the Corporation's regulated utilities have begun their own IFRS projects to determine the nature of any changes that should be made in

regulatory accounting requirements in response to IFRS. The Corporation's regulated utilities will work with their respective regulatory authority to identify transitional issues and suggest how those issues might be addressed.

Fortis will continue to review all proposed and continuing projects of the International Accounting Standards Board, closely monitor any International Financial Reporting Interpretations Committee initiatives with the potential to impact rate-regulated accounting under IFRS, and will participate in any related processes, as appropriate.

Rate-Regulated Operations: In March 2007, the AcSB issued an Exposure Draft on rate-regulated operations that proposed: (i) the temporary exemption in Section 1100, *Generally Accepted Accounting Principles*, of the CICA Handbook providing relief to entities subject to rate regulation from the requirement to apply the Section to the recognition and measurement of assets and liabilities arising from rate regulation be removed; (ii) the explicit guidance for rate-regulated operations provided in Section 1600, *Consolidated Financial Statements*, Section 3061, *Property, Plant and Equipment*, Section 3465, *Income Taxe*s, and Section 3475, *Disposal of Long-Lived Assets and Discontinued Operations*, be removed; and (iii) Accounting Guideline 19, *Disclosures by Entities Subject to Rate Regulation* ("AcG-19"), be retained as is.

In August 2007, the AcSB issued a Decision Summary on the Exposure Draft that supported the removal of the temporary exemption in Section 1100, *Generally Accepted Accounting Principles,* and the amendment to Section 3465, *Income Taxes,* to recognize future income tax liabilities and assets as well as offsetting regulatory assets and liabilities by entities subject to rate regulation. Both changes will apply prospectively for fiscal years beginning on or after January 1, 2009. The AcSB also decided that the current guidance for rate-regulated operations pertaining to property, plant and equipment, disposal of long-lived assets and discontinued operations, and consolidated financial statements be maintained, and that the existing AcG-19 will not be withdrawn from the CICA Handbook but that the guidance will be updated as a result of the other changes. The AcSB also decided that the final Background Information and Basis for Conclusions associated with its rate-regulation project would not express any views of the AcSB regarding the status of US Statement of Financial Accounting Standards No. 71, *Accounting for the Effects of Certain Types of Regulation,* as "another source of GAAP" within the Canadian GAAP hierarchy.

Effective January 1, 2009, the impact on Fortis of the amendment to Section 3465, *Income Taxes*, will be the recognition of future income tax assets and liabilities and related regulatory liabilities and assets for the amount of future income taxes expected to be refunded to, or recovered from, customers in future gas and electricity rates. Currently, the Terasen Gas companies, FortisAlberta, FortisBC and Newfoundland Power use the taxes payable method of accounting for income taxes. The effect on the Corporation's interim unaudited consolidated financial statements, if it had adopted amended Section 3465, *Income Taxes*, as at June 30, 2008, would have been an increase in future income tax assets and future income tax liabilities of $37 million and $465 million, respectively, and a corresponding increase in regulatory liabilities and regulatory assets of $37 million and $465 million, respectively. Included in the amounts are the future income tax effects of the subsequent settlement of the related regulatory assets and liabilities through customer rates, and the separate disclosure of future income tax assets and liabilities that are currently not recognized. Fortis is continuing to assess and monitor any additional implications on its financial reporting related to accounting for rate-regulated operations.

Goodwill and Intangible Assets: Effective January 1, 2009, the Corporation will be adopting the new CICA Handbook Section 3064 - *Goodwill and Intangible Assets*. This Section, which replaces Section 3062, *Goodwill and Other Intangible Assets*, and Section 3450, *Research and Development Costs*, establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. The provisions related to the definition and initial recognition of intangible assets, including internally generated intangible assets, are equivalent to the corresponding provisions of International Accounting Standard 38, *Intangible Assets*. The Corporation is continuing to assess the financial reporting impact of adopting this standard.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the Corporation's interim unaudited consolidated financial statements in accordance with Canadian GAAP requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Estimates and judgments are based on

historical experience, current conditions and various other assumptions believed to be reasonable under the circumstances. Additionally, certain estimates and judgments are necessary since the regulatory environments in which the Corporation's utilities operate often require amounts to be recorded at estimated values until these amounts are finalized pursuant to regulatory decisions or other regulatory proceedings. Due to changes in facts and circumstances and the inherent uncertainty involved in making estimates, actual results may differ significantly from current estimates. Estimates and judgments are reviewed periodically and, as adjustments become necessary, are reported in earnings in the period they become known.

Interim financial statements may also employ a greater use of estimates than the annual financial statements. There were no material changes in the nature of the Corporation's critical accounting estimates during the six months ended June 30, 2008 from those disclosed in the Corporation's MD&A for the year ended December 31, 2007.

Contingencies: Fortis is subject to various legal proceedings and claims that arise in the ordinary course of business operations. Management believes that the amount of liability, if any, from these actions would not have a material effect on the Corporation's financial position or results of operations. There were no material changes in the Corporation's contingent liabilities during the six months ended June 30, 2008 from those disclosed in the MD&A for the year ended December 31, 2007.

QUARTERLY RESULTS

The following table sets forth unaudited quarterly information for each of the eight quarters ended September 30, 2006 through June 30, 2008. The quarterly information has been obtained from the Corporation's interim unaudited consolidated financial statements which, in the opinion of management, have been prepared in accordance with Canadian GAAP and as required by utility regulators. The timing of the recognition of certain assets, liabilities, revenues and expenses, as a result of regulation, may differ from that otherwise expected using Canadian GAAP for non-regulated entities. The differences and nature of regulation are disclosed in Notes 2 and 4 to the Corporation's 2007 annual audited consolidated financial statements. The quarterly operating results are not necessarily indicative of results for any future period and should not be relied upon to predict future performance.

Fortis Inc.
Summary of Quarterly Results (Unaudited)

Quarter Ended	Revenue and Equity Income *($ millions)*	Net Earnings Applicable to Common Shares *($ millions)*	Earnings per Common Share Basic *($)*	Earnings per Common Share Diluted *($)*
June 30, 2008	848	29	0.19	0.18
March 31, 2008	1,146	91	0.58	0.55
December 31, 2007	1,018	79	0.51	0.49
September 30, 2007	651	31	0.20	0.20
June 30, 2007	566	41	0.31	0.27
March 31, 2007	483	42	0.38	0.35
December 31, 2006	393	34	0.33	0.32
September 30, 2006	342	39	0.37	0.36

A summary of the past eight quarters reflects the Corporation's continued organic growth, growth from acquisitions, as well as the seasonality associated with its businesses. Interim results will fluctuate due to the seasonal nature of gas and electricity demand and water flows, as well as the timing and recognition of regulatory decisions. Given the diversified group of companies, seasonality may vary. Financial results from May 17, 2007 were impacted by the acquisition of Terasen. Virtually all of the annual earnings of the Terasen Gas companies occur in the first and fourth quarters. Financial results for the second quarter ended June 30, 2008, reflected the $13 million unfavourable impact to Fortis of a charge recorded at Belize Electricity as a result of the June 2008 regulatory rate decision. Due to a shift in the quarterly distribution of annual purchased power expense at Newfoundland Power, Newfoundland Power's earnings in 2008 will be lower in the first and fourth quarters and higher in the second and third quarters compared to the same periods in 2007. Newfoundland Power's annual earnings will not be impacted by the shift in quarterly earnings. Financial results from August 1, 2007 were impacted by the acquisition of the

Delta Regina in Saskatchewan and from November 1, 2006 were impacted by the acquisition of four hotels in western Canada. Financial results from August 28, 2006 were impacted by the acquisition of Fortis Turks and Caicos, while earnings from January 1, 2007 were impacted by the consolidation of an approximate 54 per cent controlling interest in Caribbean Utilities. The Corporation's previous approximate 37 per cent interest in Caribbean Utilities was accounted for on an equity basis.

June 30, 2008/June 30 2007 - Net earnings applicable to common shares were $29 million, or $0.19 per common share for the second quarter of 2008, compared to earnings of $41 million, or $0.31 per common share, for the second quarter of 2007. Second quarter results included a $13 million, or $0.08 per common share, charge representing the Corporation's approximate 70 per cent share of disallowed previously incurred fuel and purchased power costs at Belize Electricity, and included a $2 million one-time charge at FortisOntario associated with repayment of interconnection agreement amounts received in the fourth quarter of 2007. Excluding the above one-time items, earnings for the second quarter were $44 million, compared to $41 million for the same quarter last year. Earnings were favourably impacted by a full quarter of earnings' contribution from the Terasen Gas companies, higher earnings at Newfoundland Power associated with a shift in the quarterly distribution of annual purchased power expense, increased non-regulated hydroelectric production and improved performance at Fortis Properties. Partially offsetting these items were lower earnings at FortisAlberta associated with higher corporate income taxes, and higher corporate financing costs associated with the Terasen acquisition.

March 2008/March 2007 - Net earnings applicable to common shares were $91 million, or $0.58 per common share, for the first quarter of 2008, up $49 million from earnings of $42 million, or $0.38 per common share, for the first quarter of 2007. Growth in earnings was primarily attributable to the contribution from the Terasen Gas companies, acquired on May 17, 2007, and also reflected improved performance at Caribbean Utilities. The growth was partially offset by higher corporate financing costs associated with the Terasen acquisition and lower earnings at Newfoundland Power associated with a shift in the quarterly distribution of annual purchased power expense. Earnings' contribution from Caribbean Utilities during the first quarter of 2007 was reduced by $2 million associated with a charge on the disposal of steam-turbine assets.

December 2007/December 2006 - Net earnings applicable to common shares were $79 million, or $0.51 per common share, for the fourth quarter of 2007 compared to earnings of $34 million, or $0.33 per common share, for the fourth quarter of 2006. The increase in earnings was driven by the contribution from the Terasen Gas companies, including a $7 million after-tax gain on the sale of surplus land, partially offset by increased corporate costs driven by Terasen acquisition-related finance charges. Fourth quarter 2007 results also included a one-time gain at FortisOntario related to a refund received associated with an interconnection agreement.

September 2007/September 2006 - Net earnings applicable to common shares were $31 million, or $0.20 per common share, for the third quarter of 2007 compared to earnings of $39 million, or $0.37 per common share, for the third quarter of 2006. A $1.15 billion Common Share issue in May 2007, to fund a significant portion of the net cash purchase price of Terasen, combined with the seasonality of earnings of the Terasen Gas companies, diluted earnings per common share for the third quarter of 2007. Increased earnings' contribution from FortisAlberta, driven by customer growth and higher corporate income tax recoveries; increased earnings' contribution from Fortis Turks and Caicos, acquired in August 2006; and growth at Fortis Properties from expanded hospitality operations in western Canada were more than offset by higher finance charges associated with acquisitions, losses at the Terasen Gas companies due to seasonality of operations and lower non-regulated hydroelectric production due to lower rainfall.

SUBSEQUENT EVENT

Subsequent to June 30, 2008, Terasen reached a settlement with Revenu Québec and Canada Revenue Agency related to amounts owing as a result of retroactive amending Québec tax legislation. The legislation was passed in 2006 for the purpose of challenging certain inter-provincial Canadian tax structures. In 2006, Terasen had provided for amounts owing as a result of the retroactive legislation. In August 2008, Terasen made a payment of approximately $16.7 million to settle the tax liability. As a result of the tax settlement, an earnings' benefit of approximately $7.5 million is expected to be recorded during the third quarter of 2008.

OUTLOOK

The Corporation's principal businesses of regulated gas and electricity distribution are capital intensive. Over the next five years, the Corporation's consolidated capital program is expected to exceed $4.5 billion, with approximately $3.5 billion to be driven by FortisAlberta, FortisBC and the Corporation's regulated and non-regulated electric utility operations in the Caribbean. Gross gas utility capital expenditures are expected to exceed $1 billion. The Corporation's capital program should drive growth in earnings.

With Terasen now substantially integrated into the Fortis Group of Companies, Fortis is well positioned to pursue acquisitions for profitable growth, focusing on opportunities to acquire regulated natural gas and electric utilities in Canada, the United States and the Caribbean. Fortis will also pursue growth in its non-regulated businesses in support of its regulated utility growth strategy.

OUTSTANDING SHARE DATA

As at August 7, 2008, the Corporation had issued and outstanding 157.1 million Common Shares; 5.0 million First Preference Shares, Series C; 8.0 million First Preference Shares, Series E; 5.0 million First Preference Shares, Series F; and 9.2 million First Preference Shares, Series G.

The number of Common Shares of Fortis that would be issued if all outstanding share options, convertible debt and First Preference Shares, Series C and E were converted as at August 7, 2008 is as follows:

Fortis Inc.
Conversion of Securities into Common Shares
As at August 7, 2008 (Unaudited)

Security	**Number of Common Shares** *(millions)*
Stock Options	4.2
Convertible Debt	1.4
First Preference Shares, Series C	5.0
First Preference Shares, Series E	8.0
Total	18.6

Additional information, including the Fortis 2007 Annual Information Form, Management Information Circular and Annual Report, is available on SEDAR at www.sedar.com and on the Corporation's web site at www.fortisinc.com.

FORTIS INC.

Interim Consolidated Financial Statements
For the three and six months ended June 30, 2008 and 2007
(Unaudited)

Fortis Inc.
Consolidated Balance Sheets (Unaudited)
As at
(in millions of Canadian dollars)

	June 30 2008	December 31 2007
ASSETS		
Current assets		
Cash and cash equivalents	$ 59	$ 58
Accounts receivable	736	635
Prepaid expenses	15	19
Regulatory assets (Note 6)	85	119
Inventories of gas, materials and supplies	192	207
	1,087	1,038
Deferred charges and other assets	198	179
Regulatory assets (Note 6)	162	193
Future income taxes	39	37
Utility capital assets	6,962	6,748
Income producing properties	519	519
Intangibles, net of amortization	12	15
Goodwill	1,550	1,544
	$ 10,529	$ 10,273
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Short-term borrowings (Note 18)	$ 279	$ 475
Accounts payable and accrued charges	685	793
Dividends payable	42	43
Income taxes payable	59	30
Regulatory liabilities (Note 6)	245	20
Current installments of long-term debt and capital lease obligations (Note 7)	338	436
Future income taxes	11	7
	1,659	1,804
Deferred credits	270	261
Regulatory liabilities (Note 6)	383	372
Future income taxes	62	55
Long-term debt and capital lease obligations (Note 7)	4,704	4,623
Non-controlling interest	116	115
Preference shares	320	320
	7,514	7,550
Shareholders' equity		
Common shares (Note 8)	2,148	2,126
Preference shares (Note 9)	347	122
Contributed surplus	7	6
Equity portion of convertible debentures	5	6
Accumulated other comprehensive loss (Note 11)	(84)	(88)
Retained earnings	592	551
	3,015	2,723
	$ 10,529	$ 10,273

Contingent liabilities and commitments (Note 19)

See accompanying Notes to interim consolidated financial statements.

Fortis Inc.
Consolidated Statements of Earnings (Unaudited)
For the periods ended June 30
(in millions of Canadian dollars, except per share amounts)

	Quarter Ended		Six Months Ended	
	2008	2007	**2008**	2007
Operating revenues	**$ 848**	$ 566	**$ 1,994**	$ 1,049
Expenses				
Energy supply costs	**439**	242	**1,107**	457
Operating	**182**	139	**361**	254
Amortization	**86**	65	**169**	119
	707	446	**1,637**	830
Operating income	**141**	120	**357**	219
Finance charges (Note 13)	**90**	67	**181**	115
Earnings before corporate taxes and non-controlling interest	**51**	53	**176**	104
Corporate taxes (Note 14)	**19**	6	**48**	13
Net earnings before non-controlling interest	**32**	47	**128**	91
Non-controlling interest	**-**	4	**4**	5
Net earnings	**32**	43	**124**	86
Preference share dividends	**3**	2	**4**	3
Net earnings applicable to common shares	**$ 29**	$ 41	**$ 120**	$ 83
Earnings per common share (Note 8)				
Basic	**$ 0.19**	$ 0.31	**$ 0.77**	$ 0.69
Diluted	**$ 0.18**	$ 0.27	**$ 0.75**	$ 0.61

See accompanying Notes to interim consolidated financial statements.

Fortis Inc.
Consolidated Statements of Retained Earnings (Unaudited)
For the periods ended June 30
(in millions of Canadian dollars)

	Quarter Ended		Six Months Ended	
	2008	2007	**2008**	2007
Balance at beginning of period	**$ 603**	$ 504	**$ 551**	$ 486
Net earnings applicable to common shares	**29**	41	**120**	83
	632	545	**671**	569
Dividends on common shares	**(40)**	(32)	**(79)**	(56)
Balance at end of period	**$ 592**	$ 513	**$ 592**	$ 513

See accompanying Notes to interim consolidated financial statements.

Fortis Inc.

Consolidated Statements of Comprehensive Income (Unaudited)
For the periods ended June 30
(in millions of Canadian dollars)

	Quarter Ended		Six Months Ended	
	2008	2007	**2008**	2007
Net earnings	**$ 32**	$ 43	**$ 124**	$ 86
Unrealized foreign currency translation (losses) gains on net investments in self-sustaining foreign operations	**(3)**	(36)	**13**	(41)
Gains (losses) on hedges of net investments in self-sustaining foreign operations	**3**	19	**(11)**	21
Corporate tax (expense) recovery	**-**	(4)	**2**	(4)
Change in unrealized foreign currency translation (losses) gains, net of hedging activities and tax (Note 11)	**-**	(21)	**4**	(24)
Comprehensive income	**$ 32**	**$ 22**	**$ 128**	**$ 62**

See accompanying Notes to interim consolidated financial statements.

Fortis Inc.

Consolidated Statements of Cash Flows (Unaudited)
For the periods ended June 30
(in millions of Canadian dollars)

	Quarter Ended		Six Months Ended	
	2008	2007	**2008**	2007
Operating Activities				
Net earnings	**$ 32**	$ 43	**$ 124**	$ 86
Items not affecting cash				
Amortization - utility capital assets and income producing properties	**83**	62	**163**	114
Amortization - intangibles and other	**3**	3	**6**	5
Future income taxes	**12**	1	**15**	-
Non-controlling interest	**-**	4	**4**	5
Write-down of deferred power costs - Belize Electricity (Note 6)	**18**	-	**18**	-
Other	**1**	(1)	**(4)**	3
Change in long-term regulatory assets and liabilities	**1**	3	**10**	(8)
	150	115	**336**	205
Change in non-cash operating working capital	**94**	(47)	**96**	(43)
	244	68	**432**	162
Investing Activities				
Change in deferred charges, other assets and deferred credits	**(12)**	(2)	**(17)**	(3)
Utility capital expenditures	**(219)**	(193)	**(381)**	(327)
Contributions in aid of construction	**20**	18	**32**	39
Income-producing property capital expenditures	**(5)**	(3)	**(8)**	(6)
Proceeds on sale of capital assets	**1**	2	**16**	3
Business acquisition	**-**	(1,251)	**-**	(1,253)
	(215)	(1,429)	**(358)**	(1,547)
Financing Activities				
Change in short-term borrowings	**(163)**	(26)	**(196)**	(70)
Proceeds from long-term debt, net of issue costs	**409**	33	**659**	143
Repayments of long-term debt and capital lease obligations	**(200)**	(16)	**(205)**	(33)
Net (repayments) borrowings under committed credit facilities	**(266)**	300	**(477)**	182
Advances to non-controlling interest	**-**	(2)	**-**	(2)
Issue of common shares	**5**	1,131	**11**	1,254
Issue of preference shares	**223**	-	**223**	-
Dividends				
Common shares	**(40)**	(32)	**(79)**	(56)
Preference shares	**(3)**	(2)	**(4)**	(3)
Subsidiary dividends paid to non-controlling interest	**(2)**	(3)	**(5)**	(6)
	(37)	1,383	**(73)**	1,409
Effect of exchange rate changes on cash and cash equivalents	**-**	(2)	**-**	(2)
Change in cash and cash equivalents	**(8)**	20	**1**	22
Cash and cash equivalents, beginning of period	**67**	43	**58**	41
Cash and cash equivalents, end of period	**$ 59**	$ 63	**$ 59**	$ 63

See accompanying Notes to interim consolidated financial statements.

1. DESCRIPTION OF THE BUSINESS

Nature of Operations

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

REGULATED UTILITIES

The following summary describes the Corporation's interests in regulated gas and electric utilities in Canada and the Caribbean by utility:

Regulated Gas Utilities - Canadian

Terasen Gas Companies: Includes Terasen Gas Inc. ("TGI"), Terasen Gas (Vancouver Island) Inc. ("TGVI"), and Terasen Gas (Whistler) Inc. ("TGWI"), which Fortis acquired through the acquisition of Terasen Inc. ("Terasen") on May 17, 2007.

TGI is the largest distributor of natural gas in British Columbia, serving approximately 826,800 residential, commercial and industrial customers in a service area that extends from Vancouver to the Fraser Valley and the interior of British Columbia.

TGVI owns and operates the natural gas transmission pipeline from the Greater Vancouver area across the Georgia Strait to Vancouver Island and the distribution system on Vancouver Island and along the Sunshine Coast of British Columbia, serving approximately 92,800 residential, commercial and industrial customers.

In addition to providing transmission and distribution services to customers, TGI and TGVI also obtain natural gas supplies on behalf of most residential and commercial customers. Gas supplies are sourced primarily from northeastern British Columbia and, through TGI's Southern Crossing Pipeline, from Alberta.

TGWI owns and operates the propane distribution system in Whistler, British Columbia, providing service to approximately 2,400 residential and commercial customers.

Regulated Electric Utilities - Canadian

a. *FortisAlberta:* FortisAlberta owns and operates the electricity distribution system in a substantial portion of southern and central Alberta, serving approximately 453,500 customers.

b. *FortisBC*: Includes FortisBC Inc., an integrated electric utility operating in the southern interior of British Columbia, serving approximately 155,000 customers. FortisBC Inc. owns four hydroelectric generating plants with a combined capacity of 223 megawatts ("MW"). Included with the FortisBC component of the Regulated Electric Utilities - Canadian segment are the operating, maintenance and management services relating to the 450-MW Waneta hydroelectric generating facility owned by Teck Cominco Metals Ltd., the 149-MW Brilliant Hydroelectric Plant owned by Columbia Power Corporation and the Columbia Basin Trust ("CPC/CBT"), the 185-MW Arrow Lakes Hydroelectric Plant owned by CPC/CBT and the distribution system owned by the City of Kelowna.

1. DESCRIPTION OF THE BUSINESS (cont'd)

Regulated Electric Utilities - Canadian (cont'd)

c. *Newfoundland Power:* Newfoundland Power is the principal distributor of electricity in Newfoundland, serving more than 233,000 customers. Newfoundland Power has an installed generating capacity of approximately 139 MW, of which 96 MW is hydroelectric generation.

d. *Maritime Electric:* Maritime Electric is the principal distributor of electricity on Prince Edward Island, serving approximately 72,000 customers. Maritime Electric also maintains on-Island generating facilities with a combined capacity of 150 MW.

e. *FortisOntario:* FortisOntario provides an integrated electric utility service to approximately 52,000 customers in Fort Erie, Cornwall, Gananoque and Port Colborne in Ontario. FortisOntario operations include Canadian Niagara Power Inc. ("Canadian Niagara Power") and Cornwall Street Railway, Light and Power Company, Limited ("Cornwall Electric"). Included in Canadian Niagara Power's accounts is the operation of the electricity distribution business of Port Colborne Hydro Inc., which has been leased from the City of Port Colborne under a 10-year lease agreement that expires in April 2012. FortisOntario also owns a 10 per cent interest in each of Westario Power Inc. and Rideau St. Lawrence Holdings Inc., two regional electric distribution companies formed in 2000, serving more than 27,000 customers.

Regulated Electric Utilities - Caribbean

a. *Belize Electricity:* Belize Electricity is the principal distributor of electricity in Belize, Central America, serving approximately 73,500 customers. The Company has an installed generating capacity of 36 MW. Fortis holds an approximate 70 per cent controlling interest in Belize Electricity.

b. *Caribbean Utilities:* Caribbean Utilities is the sole provider of electricity on Grand Cayman, Cayman Islands, serving over 24,000 customers. The Company has an installed generating capacity of approximately 137 MW. Fortis has an approximate 54 per cent controlling ownership interest in Caribbean Utilities. Caribbean Utilities is a public company traded on the Toronto Stock Exchange (TSX:CUP.U) and has an April 30 fiscal year end. Fortis consolidates Caribbean Utilities' financial statements on a two-month lag basis.

c. *P.P.C. Limited and Atlantic Equipment & Power (Turks and Caicos) Ltd. (collectively referred to as Fortis Turks and Caicos):* Fortis Turks and Caicos is the principal distributor of electricity on the Turks and Caicos Islands, serving more than 9,000 customers. The Company has a combined diesel-fired generating capacity of 48 MW.

Non-Regulated - Fortis Generation

a. *Belize:* Operations consist of the 25-MW Mollejon and 7-MW Chalillo hydroelectric generating facilities in Belize. All of the facilities' output is sold to Belize Electricity under a 50-year power purchase agreement expiring in 2055. Hydroelectric generation operations in Belize are conducted through the Corporation's wholly owned indirect subsidiary, Belize Electric Company Limited ("BECOL"), under a Franchise Agreement with the Government of Belize.

b. *Ontario:* Includes 75 MW of water-right entitlement associated with the Niagara Exchange Agreement, which expires April 30, 2009, a 5-MW gas-fired cogeneration plant in Cornwall and six small hydroelectric generating stations in eastern Ontario with a combined capacity of 8 MW. Non-regulated generation operations in Ontario are conducted through FortisOntario Inc. and Fortis Properties.

1. DESCRIPTION OF THE BUSINESS (cont'd)

Non-Regulated - Fortis Generation (cont'd)

c. *Central Newfoundland:* Through the Exploits River Hydro Partnership ("Exploits Partnership"), a partnership between the Corporation, through its wholly owned subsidiary Fortis Properties, and Abitibi-Consolidated Company of Canada ("Abitibi-Consolidated"), 36 MW of additional capacity was developed and installed at two of Abitibi-Consolidated's hydroelectric generating plants in central Newfoundland. Fortis Properties holds directly a 51 per cent interest in the Exploits Partnership and Abitibi-Consolidated holds the remaining 49 per cent interest. The Exploits Partnership sells its output to Newfoundland and Labrador Hydro Corporation under a 30-year power purchase agreement expiring in 2033.

d. *British Columbia:* Includes the 16-MW run-of-river Walden hydroelectric power plant near Lillooet, British Columbia. This plant sells its entire output to BC Hydro under a long-term contract expiring in 2013. Hydroelectric generation operations in British Columbia are conducted through the Walden Power Partnership, a wholly owned partnership of FortisBC Inc.

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

Non-Regulated - Fortis Properties

Fortis Properties owns and operates 19 hotels with more than 3,500 rooms in eight Canadian provinces and approximately 2.8 million square feet of commercial real estate primarily in Atlantic Canada.

Corporate and Other

The Corporate and Other segment captures expense and revenue items not specifically related to any reportable segment. Included in this segment are finance charges including interest on debt incurred directly by Fortis and Terasen Inc. and dividends on preference shares classified as long-term liabilities; dividends on preference shares classified as equity; other corporate expenses, including Fortis and Terasen corporate operating costs, net of recoveries from subsidiaries; interest and miscellaneous revenues; and corporate income taxes. Also included in the Corporate and Other segment are the financial results of CustomerWorks Limited Partnership ("CWLP"). CWLP is a non-regulated shared-services business in which Terasen holds a 30 per cent interest. CWLP operates in partnership with Enbridge Inc. and provides customer service contact, meter reading, billing, credit, support and collection services to the Terasen Gas companies and several smaller third parties. CWLP's financial results are recorded using the proportionate consolidation method of accounting. While currently not significant, financial results of Terasen Energy Services Inc. ("TES") are also reported in the Corporate and Other segment. TES is a non-regulated wholly owned subsidiary of Terasen. TES expects to increase its activities in the development, building, owning and operating of innovative geoexchange energy systems, community piping and energy transfer systems to harness renewable energy sources. TES is entering into agreements with developers to provide alternative thermal energy systems for both residential and commercial development projects in British Columbia.

2. BASIS OF PRESENTATION

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") for interim financial statements and do not include all of the disclosures normally found in the Corporation's Annual Consolidated Financial Statements. These interim consolidated financial statements should be read in conjunction with the Corporation's 2007 Annual Consolidated Financial Statements. Interim results will fluctuate due to the seasonal nature of gas and electricity demand and water flows as well as the timing and recognition of regulatory decisions.

2. BASIS OF PRESENTATION (cont'd)

Virtually all of the annual earnings of the Terasen Gas companies occur in the first and fourth quarters due to seasonality of the business. Given the diversified group of companies, seasonality may vary.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These interim consolidated financial statements have been prepared in accordance with Canadian GAAP, including selected accounting treatments that differ from those used by entities not subject to rate regulation. The timing of the recognition of certain assets, liabilities, revenues and expenses, as a result of regulation, may differ from that otherwise expected using Canadian GAAP for entities not subject to rate regulation. The differences and nature of regulation are disclosed in Notes 2 and 4 to the Corporation's 2007 Annual Consolidated Financial Statements. These interim consolidated financial statements have been prepared following the same accounting policies and methods as those used in preparing the Corporation's 2007 Annual Consolidated Financial Statements except as described below. All amounts are presented in Canadian dollars unless otherwise stated.

Effective January 1, 2008, the Corporation adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA").

Inventories
Section 3031, *Inventories*, requires inventories to be measured at the lower of cost or net realizable value; disallows the use of a last-in first-out inventory-costing methodology; and requires that, when circumstances which previously caused inventories to be written down below cost or net realizable value no longer exist, the amount of the write-down is to be reversed. As at December 31, 2007, inventories of $26 million were reclassified to property, plant and equipment from inventory on the balance sheet as they are held for the development, construction, maintenance and repair of other property, plant and equipment. These inventories will be amortized using the straight-line method based on estimated service lives of the capital assets to which they are added when put in service. During the three and six months ended June 30, 2008, inventories of $256 million and $693 million, respectively, were expensed and reported in energy supply costs in the consolidated statement of earnings ($170 million for the three and six months ended June 30, 2007). Inventories expensed to operating expenses were $1.5 million and $2.5 million for the three and six months ended June 30, 2008, respectively ($1.6 million and $2.5 million for the three and six months ended June 30, 2007, respectively).

Capital Disclosures
Section 1535, *Capital Disclosures*, requires the Corporation to disclose additional information about its capital and the manner in which it is managed. The additional disclosure includes quantitative and qualitative information regarding the Corporation's objectives, policies and processes for managing capital. The new disclosures are provided in Note 16.

Disclosure and Presentation of Financial Instruments
Section 3862, *Financial Instruments - Disclosures*, and Section 3863, *Financial Instruments - Presentation*, require disclosures of both qualitative and quantitative information that enables users of financial statements to evaluate the nature and extent of risks from financial instruments to which the Corporation is exposed. The new disclosures are provided in Notes 17 and 18.

4. FUTURE ACCOUNTING POLICIES

International Financial Reporting Standards ("IFRS")

In February 2008, the Accounting Standards Board ("AcSB") confirmed that the use of IFRS will be required in 2011 for publicly accountable enterprises in Canada. In April 2008, the AcSB issued an IFRS Omnibus Exposure Draft proposing that publicly accountable enterprises be required to apply IFRS, in full and without modification, on January 1, 2011. The transition date of January 1, 2011 will require the restatement, for comparative purposes, of amounts reported by the Corporation for its year ended December 31, 2010, and of the opening balance sheet as at January 1, 2010. The AcSB proposes that CICA Handbook Section - *Accounting Changes*, paragraph 1506.30, which would require an entity to disclose information relating to a new primary source of GAAP that has been issued but is not yet effective and that the entity has not applied, not be applied with respect to this Exposure Draft. Fortis is continuing to assess the financial reporting impacts of the adoption of IFRS and, at this time, the impact on future financial position and results of operations is not reasonably determinable or estimable. Further, Fortis anticipates a significant increase in disclosure resulting from the adoption of IFRS and is continuing to assess the level of disclosure required and any necessary system changes to gather and process the information.

Rate-Regulated Operations

In March 2007, the AcSB issued an Exposure Draft on rate-regulated operations that proposed: (i) the temporary exemption in Section 1100, *Generally Accepted Accounting Principles*, of the CICA Handbook providing relief to entities subject to rate regulation from the requirement to apply the Section to the recognition and measurement of assets and liabilities arising from rate regulation be removed; (ii) the explicit guidance for rate-regulated operations provided in Section 1600, *Consolidated Financial Statements*, Section 3061, *Property, Plant and Equipment*, Section 3465, *Income Taxe*s, and Section 3475, *Disposal of Long-Lived Assets and Discontinued Operations*, be removed; and (iii) Accounting Guideline 19, *Disclosures by Entities Subject to Rate Regulation* ("AcG-19"), be retained as is.

In August 2007, the AcSB issued a Decision Summary on the Exposure Draft that supported the removal of the temporary exemption in Section 1100, *Generally Accepted Accounting Principles,* and the amendment to Section 3465, *Income Taxes,* to recognize future income tax liabilities and assets as well as offsetting regulatory assets and liabilities by entities subject to rate regulation. Both changes will apply prospectively for fiscal years beginning on or after January 1, 2009. The AcSB also decided that the current guidance for rate-regulated operations pertaining to property, plant and equipment, disposal of long-lived assets and discontinued operations, and consolidated financial statements be maintained, and that the existing AcG-19 will not be withdrawn from the CICA Handbook but that the guidance will be updated as a result of the other changes. The AcSB also decided that the final Background Information and Basis for Conclusions associated with its rate-regulation project would not express any views of the AcSB regarding the status of US Statement of Financial Accounting Standards No. 71, *Accounting for the Effects of Certain Types of Regulation,* as "another source of GAAP" within the Canadian GAAP hierarchy.

Effective January 1, 2009, the impact on Fortis of the amendment to Section 3465, *Income Taxes*, will be the recognition of future income tax assets and liabilities and related regulatory liabilities and assets for the amount of future income taxes expected to be refunded to, or recovered from, customers in future gas and electricity rates. Currently, the Terasen Gas companies, FortisAlberta, FortisBC and Newfoundland Power use the taxes payable method of accounting for income taxes. The effect on the Corporation's interim consolidated financial statements, if it had adopted amended Section 3465, *Income Taxes*, as at June 30, 2008, would have been an increase in future income tax assets and future income tax liabilities of $37 million and $465 million, respectively, and a corresponding increase in regulatory liabilities and regulatory assets of $37 million and $465 million, respectively. Included in the amounts are the future income tax effects of the subsequent settlement of the related regulatory assets and liabilities through customer rates, and the separate disclosure of future income tax assets and liabilities that are currently not recognized. Fortis is continuing to assess and monitor any additional implications on its financial reporting related to accounting for rate-regulated operations.

4. FUTURE ACCOUNTING POLICIES (cont'd)

Goodwill and Intangible Assets

Effective January 1, 2009, the Corporation will be adopting the new CICA Handbook Section 3064 - *Goodwill and Intangible Assets.* This Section, which replaces Section 3062, *Goodwill and Other Intangible Assets,* and Section 3450, *Research and Development Costs,* establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. The provisions related to the definition and initial recognition of intangible assets, including internally generated intangible assets, are equivalent to the corresponding provisions of International Accounting Standard 38, *Intangible Assets.* The Corporation is continuing to assess the financial reporting impact of adopting this standard.

5. USE OF ESTIMATES

The preparation of the Corporation's interim consolidated financial statements in accordance with Canadian GAAP requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Estimates and judgments are based on historical experience, current conditions and various other assumptions believed to be reasonable under the circumstances.

Additionally, certain estimates are necessary since the regulatory environments in which the Corporation's utilities operate often require amounts to be recorded at estimated values until these amounts are finalized pursuant to regulatory decisions or other regulatory proceedings. Due to changes in facts and circumstances and the inherent uncertainty involved in making estimates, actual results may differ significantly from current estimates. Estimates and judgments are reviewed periodically and, as adjustments become necessary, are reported in earnings in the period they become known.

Interim financial statements may also employ a greater use of estimates than the annual financial statements. There were no material changes to the Corporation's critical accounting estimates during the six months ended June 30, 2008 from those disclosed in the Corporation's Management Discussion and Analysis for the year ended December 31, 2007.

6. REGULATORY ASSETS AND LIABILITIES

A summary of the Corporation's regulatory assets and liabilities is provided below. A description of the nature of the regulatory assets and liabilities is provided in Note 4 to the Corporation's 2007 Annual Audited Consolidated Financial Statements.

($ millions)	**As at June 30, 2008**	As at December 31, 2007
Regulatory Assets		
Rate stabilization accounts - Terasen Gas companies *(1)*	**11**	99
Rate stabilization accounts - electric utilities *(2)*	**67**	55
Regulatory other post-employment benefit ("OPEB") asset	**48**	44
Income taxes recoverable on OPEB plans	**17**	16
Alberta Electric System Operator ("AESO") charges deferral	**20**	8
Deferred capital asset amortization	**10**	12
Weather normalization account	**8**	11
Residential unbundling	**7**	9
Deferred pension costs	**8**	8
Southern Crossing Pipeline tax reassessment	**7**	7
Energy management costs	**7**	6
Lease costs	**5**	5
Other regulatory assets	**32**	32
Total regulatory assets	**247**	312
Less: current portion	**(85)**	(119)
Long-term regulatory assets	**162**	193
Regulatory Liabilities		
Rate stabilization accounts - Terasen Gas companies *(3)*	**227**	-
Future removal and site restoration provision	**332**	319
Unbilled revenue liability	**19**	22
Pension deferral	**5**	6
Performance-based rate-setting incentive liabilities	**14**	14
Other regulatory liabilities	**31**	31
Total regulatory liabilities	**628**	392
Less: current portion	**(245)**	(20)
Long-term regulatory liabilities	**383**	372

(1) Rate stabilization asset accounts include the revenue deficiency deferral account and revenue stabilization adjustment mechanism account. At December 31, 2007, the rate stabilization accounts also included the midstream cost reconciliation account ("MCRA"), commodity cost reconciliation account ("CCRA") and gas cost variance account ("GCVA"). The decrease in the rate stabilization asset accounts from December 31, 2007 was mainly due to the shift in the MCRA and CCRA to payable balances at June 30, 2008 from receivable balances at December 31, 2007 as a result of recording the change in the fair market value of the natural gas derivative contracts, which were in the money at June 30, 2008 versus out of the money at December 31, 2007.

(2) During the three months ended June 30, 2008, a downward $18 million adjustment was made to Belize Electricity's cost of power rate stabilization account reflecting, in substance, the disallowance of previously incurred fuel and purchased power costs as a result of the Final Decision by the Public Utilities Commission ("PUC") of Belize on Belize Electricity's 2008/2009 rate application. Belize Electricity filed an application for judicial review and appeal of the Final Decision with the Supreme Court of Belize on July 25, 2008.

(3) Rate stabilization liability accounts include the MCRA, CCRA and GCVA.

7. LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS

($ millions)	**As at June 30, 2008**	As at December 31, 2007
Long-term debt and capital lease obligations	**5,024**	4,562
Long-term classification of committed credit facilities (Note 18)	**54**	530
Deferred debt financing costs	**(36)**	(33)
Total long-term debt and capital lease obligations	**5,042**	5,059
Less: Current installments of long-term debt and capital lease obligations	**(338)**	(436)
	4,704	4,623

In February 2008, TGVI issued $250 million 6.05% senior unsecured debentures, maturing in February 2038. The net proceeds of the debenture offering were used to repay committed credit-facility borrowings.

In April 2008, Maritime Electric issued $60 million 6.05% secured first mortgage bonds, maturing in April 2038. The net proceeds were used to repay short-term borrowings.

In April 2008, FortisAlberta issued $100 million 5.85% senior unsecured debentures, maturing in April 2038. The net proceeds were used to repay committed credit-facility borrowings.

In May 2008, TGI issued $250 million 5.80% senior unsecured debentures, maturing in May 2038. The net proceeds of the debenture offering were primarily used to repay maturing $188 million 6.20% debentures and short-term borrowings.

As at June 30, 2008, current installments of long-term debt and capital lease obligations included $10 million at Belize Electricity which was reclassified from long-term debt resulting from the default with certain debt covenants and where waivers of the default have not yet been obtained from the lenders (Note 16).

8. COMMON SHARES

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

Issued and Outstanding	**As at June 30, 2008**		As at December 31, 2007	
	Number of Shares *(in thousands)*	**Amount** *($ millions)*	Number of Shares *(in thousands)*	Amount *($ millions)*
Common Shares	**157,071**	**2,148**	155,521	2,126

Common Shares issued during the period were as follows:

	Quarter Ended June 30, 2008		**Year-to-Date June 30, 2008**	
	Number of Shares *(in thousands)*	**Amount** *($ millions)*	**Number of Shares** *(in thousands)*	**Amount** *($ millions)*
Opening balance	**156,754**	**2,142**	**155,521**	**2,126**
Conversion of debentures	**84**	**1**	**1,042**	**11**
Consumer Share Purchase Plan	**23**	**-**	**43**	**1**
Dividend Reinvestment Plan	**59**	**2**	**112**	**3**
Employee Share Purchase Plan	**50**	**1**	**157**	**4**
Stock Option Plans	**101**	**2**	**196**	**3**
Ending balance	**157,071**	**2,148**	**157,071**	**2,148**

8. COMMON SHARES (cont'd)

Earnings per Common Share

During the six months ended June 30, 2008, holders of the Corporation's 6.75% and 5.50% unsecured subordinated convertible debentures converted approximately US$11 million of the debentures into 1,041,871 Common Shares of the Corporation.

The Corporation calculates earnings per common share on the weighted average number of common shares outstanding. The weighted average number of common shares outstanding was 157.0 million and 131.1 million for the quarters ended June 30, 2008 and June 30, 2007, respectively, and 156.8 million and 120.2 million for year-to-date June 30, 2008 and June 30, 2007, respectively.

Diluted earnings per common share are calculated using the treasury stock method for options and the "if-converted" method for convertible securities.

Earnings per common share are as follows:

	Quarter Ended June 30					
	2008			2007		
	Earnings *($ millions)*	**Weighted Average Shares** *(in millions)*	**Earnings per Common Share**	Earnings *($ millions)*	Weighted Average Shares *(in millions)*	Earnings per Common Share
Net earnings applicable to common shares	**29**			41		
Weighted average shares outstanding		**157.0**			131.1	
Basic Earnings per Common Share			**$0.19**			$0.31
Effect of dilutive securities:						
Subscription receipts [(1)]	**-**	**-**		-	22.9	
Stock options	**-**	**1.1**		-	1.4	
Preference shares	**4**	**12.9**		4	11.4	
Convertible debentures	**1**	**1.4**		1	3.2	
	34	**172.4**		46	170.0	
Deduct anti-dilutive impacts:				-	-	
Preference shares	**(4)**	**(12.9)**		-	-	
Convertible debentures	**(1)**	**(1.4)**		-	-	
Diluted Earnings per Common Share	**29**	**158.1**	**$0.18**	46	170.0	$0.27

[(1)] Dilution relates to the period the Subscription Receipts were outstanding. The Subscription Receipts were outstanding from March 15, 2007 to May 16, 2007 and were converted into Common Shares on May 17, 2007.

8. COMMON SHARES (cont'd)

Earnings per Common Share

	Year-to-date June 30					
	2008			2007		
	Earnings *($ millions)*	**Weighted Average Shares** *(in millions)*	**Earnings per Common Share**	Earnings *($ millions)*	Weighted Average Shares *(in millions)*	Earnings per Common Share
Net earnings applicable to common shares	**120**			83		
Weighted average shares outstanding		**156.8**			120.2	
Basic Earnings per Common Share			**$0.77**			$0.69
Effect of dilutive securities:						
Subscription receipts [(1)]	**-**	**-**		-	15.7	
Stock options	**-**	**1.1**		-	1.4	
Preference shares	**8**	**12.9**		8	11.5	
Convertible debentures	**1**	**1.6**		2	3.2	
Diluted Earnings per Common Share	**129**	**172.4**	**$0.75**	93	152.0	$0.61

[(1)] Dilution relates to the period the Subscription Receipts were outstanding. The Subscription Receipts were outstanding from March 15, 2007 to May 16, 2007 and were converted into Common Shares on May 17, 2007.

9. PREFERENCE SHARES

On May 23, 2008, the Corporation issued 8 million 5.25% Five-Year Fixed Rate Reset First Preference Shares, Series G ("First Preference Shares, Series G") and on June 4, 2008 issued an additional 1.2 million First Preference Shares, Series G, following the exercise in full of an over-allotment option in connection with the offering of the 8 million of First Preference Shares, Series G. The 9.2 million First Preference Shares, Series G were issued, at $25.00 per share, for net after-tax proceeds of $225 million.

The holders of the First Preference Shares, Series G are entitled to receive fixed cumulative preferential cash dividends in the amount of $1.3125 per share per annum for each year up to and including August 31, 2013. For each five-year period after this date, the holders of First Preference Shares, Series G are entitled to receive fixed cumulative preferential cash dividends in the amount per share per annum determined by multiplying the $25.00 per share by the annual fixed dividend rate, which is the sum of the five-year Government of Canada Bond Yield on the applicable date plus 2.13 per cent.

On September 1, 2013, and on September 1 every five years thereafter, the Corporation may, at its option redeem for cash all or any part of the outstanding First Preference Shares, Series G by the payment of $25.00 per share plus all accrued and unpaid dividends.

As the First Preference Shares, Series G are not redeemable at the option of the shareholder, they are classified as equity and the associated dividends are deducted on the income statement immediately before arriving at net earnings applicable to common shares.

10. STOCK-BASED COMPENSATION PLANS

In February 2008, the Corporation granted 827,504 options on Common Shares under its 2006 Stock Option Plan at the five-day volume weighted average trading price immediately preceding the date of grant of $28.27. The options vest evenly over a four-year period on each anniversary of the date of grant. The options expire seven years after the date of grant. The fair value of each option granted, estimated using the Black-Scholes fair value option-pricing model, was $4.76 per option.

In March 2008, 18,019 Performance Share Units ("PSUs"), formerly named Restricted Share Units, were paid out to the President and CEO of the Corporation at $28.36 per PSU, for a total of approximately $0.5 million. The payout was made upon the three-year maturation period in respect of the PSU grant which was made in March 2005 and the President and CEO satisfying the payment requirements, as determined by the Human Resources Committee of the Board of Directors of Fortis.

In February 2008, 32,940 PSUs were granted to the President and CEO of the Corporation, which will mature in February 2011.

During the six months ended June 30, 2008, 27,223 Deferred Share Units were granted to the Corporation's directors representing the equity component of their annual compensation and their annual retainers in lieu of cash.

At June 30, 2008, 4.3 million stock options were outstanding and 2.4 million stock options were vested.

11. ACCUMULATED OTHER COMPREHENSIVE LOSS

Accumulated other comprehensive loss includes unrealized foreign currency translation gains and losses, net of hedging activities, gains and losses on cash flow hedging activities and gains and losses on discontinued cash flow hedging activities.

	Quarter 2008			Quarter 2007		
($ millions)	**Opening balance April 1**	**Net change**	**Ending balance June 30**	Opening balance April 1	Net change	Ending balance June 30
Unrealized foreign currency translation losses on net investments in self-sustaining foreign operations, net of after-tax hedging activities	**(78)**	**-**	**(78)**	(54)	(21)	(75)
Losses on derivative financial instruments designated as cash flow hedges, net of tax	**(1)**	**-**	**(1)**	(1)	-	(1)
Net losses on derivative financial instruments previously discontinued as cash flow hedges, net of tax	**(5)**	**-**	**(5)**	(5)	-	(5)
Accumulated Other Comprehensive Loss	**(84)**	**-**	**(84)**	(60)	(21)	(81)

11. ACCUMULATED OTHER COMPREHENSIVE LOSS (cont'd)

	Year-to-date 2008			Year-to-date 2007			
($ millions)	**Opening balance January 1**	**Net change**	**Ending balance June 30**	Opening balance January 1	Transition amount January 1	Net change	Ending balance June 30
Unrealized foreign currency translation (losses) gains on net investments in self-sustaining foreign operations, net of after-tax hedging activities	**(82)**	**4**	**(78)**	(51)	-	(24)	(75)
Losses on derivative financial instruments designated as cash flow hedges, net of tax	**(1)**	**-**	**(1)**	-	(1)	-	(1)
Net losses on derivative financial instruments previously discontinued as cash flow hedges, net of tax	**(5)**	**-**	**(5)**	-	(5)	-	(5)
Accumulated Other Comprehensive Loss	**(88)**	**4**	**(84)**	(51)	(6)	(24)	(81)

12. EMPLOYEE FUTURE BENEFITS

The Corporation and each of its subsidiaries maintain one or more defined benefit pension plans, defined contribution pension plans and group registered retirement savings plans ("RRSPs") for their employees. The cost of providing the defined benefit arrangements was $7 million for the quarter ended June 30, 2008 ($7 million for the quarter ended June 31, 2007) and $14 million year-to-date June 30, 2008 ($11 million year-to-date June 30, 2007). The cost of providing the defined contribution arrangements and group RRSPs for the quarter ended June 30, 2008 was $2 million ($2 million for the quarter ended June 30, 2007) and $5 million year-to-date June 30, 2008 ($5 million year-to-date June 30, 2007).

13. FINANCE CHARGES

	Quarter Ended June 30		**Year-to-date June 30**	
($ millions)	**2008**	2007	**2008**	2007
Interest - Long-term debt and capital lease obligations	**84**	60	**165**	104
- Short-term borrowings	**4**	6	**13**	8
Interest charged to construction	**(2)**	(2)	**(4)**	(3)
Interest earned	**-**	(1)	**(1)**	(2)
Dividends on preference shares classified as debt	**4**	4	**8**	8
	90	67	**181**	115

14. CORPORATE TAXES

Corporate taxes differ from the amount that would be expected to be generated by applying the enacted Canadian federal and provincial statutory tax rates to earnings before corporate taxes and non-controlling interest. The following is a reconciliation of consolidated statutory taxes to consolidated effective taxes:

	Quarter Ended June 30			
	2008		2007	
	(millions)	%	*(millions)*	%
Statutory taxes	**$16**	**31.2**	$18	35.0
Preference share dividends	**2**	**4.5**	2	2.8
Differences between Canadian statutory rates and those applicable to foreign subsidiaries [(1)]	**1**	**2.9**	(4)	(8.1)
Items capitalized for accounting but expensed for income tax purposes	**(6)**	**(11.7)**	(10)	(19.1)
Difference between capital cost allowance ("CCA") and other deductions claimed for income tax purposes, and amounts recorded for accounting purposes [(2)]	**4**	**8.8**	1	1.5
Regulatory deferrals at Newfoundland Power	**1**	**0.8**	-	-
Change in revenue recognition policy at Newfoundland Power	**-**	**0.1**	1	0.9
Pension costs	**-**	**(0.4)**	(1)	(0.8)
Other	**1**	**1.1**	(1)	(0.9)
Effective taxes	**$19**	**37.3**	$ 6	11.3

	Year-to-date June 30			
	2008		2007	
	(millions)	%	*(millions)*	%
Statutory taxes	**$56**	**31.7**	$36	35.0
Preference share dividends	**4**	**2.4**	3	2.9
Differences between Canadian statutory rates and those applicable to foreign subsidiaries [(1)]	**(2)**	**(1.3)**	(7)	(6.7)
Items capitalized for accounting but expensed for income tax purposes	**(16)**	**(9.1)**	(13)	(13.1)
Difference between capital cost allowance ("CCA") and other deductions claimed for income tax purposes, and amounts recorded for accounting purposes [(2)]	**5**	**2.7**	(5)	(4.9)
Regulatory deferrals at Newfoundland Power	**1**	**0.4**	-	-
Change in revenue recognition policy at Newfoundland Power	**-**	**-**	1	1.1
Pension costs	**(1)**	**(0.6)**	(1)	(0.8)
Other	**1**	**1.1**	(1)	(1.0)
Effective taxes	**$48**	**27.3**	$13	12.5

[(1)] Net losses at Belize Electricity during the three and six months ended June 30, 2008, as a result of a $13 million charge during the second quarter of 2008 representing the Corporation's approximate 70 per cent share of disallowed previously incurred fuel and purchased power costs, had the effect of increasing effective corporate taxes during the three and six months ended June 30, 2008 compared to the same periods last year.

[(2)] The increase in the effective tax rate quarter over quarter and year to date compared to the same period last year was driven by FortisAlberta. During the three and six months ended June 30, 2008, CCA deductions at FortisAlberta were lower than amortization expense. However, during the same periods last year, CCA deductions at FortisAlberta were higher than amortization expense. The higher CCA deductions last year were required to offset taxable income expected upon the sale, in 2007, of the 2006 AESO charges deferral receivable balance.

15. SEGMENTED INFORMATION

Information by reportable segment is as follows:

	REGULATED							NON-REGULATED				
	Gas Utilities	Electric Utilities										
Quarter ended June 30, 2008 *($ millions)*	**Terasen Gas Companies - Canadian** [1]	Fortis Alberta	Fortis BC	NF Power	Other Canadian [2]	**Total Electric Canadian**	**Electric Caribbean** [3]	**Fortis Generation**	**Fortis Properties**	**Corporate and Other**	**Inter-segment eliminations**	**Consolidated**
Operating revenues	390	75	53	120	61	309	78	22	54	5	(10)	848
Energy supply costs	256	-	12	70	40	122	64	2	-	-	(5)	439
Operating expenses	62	32	17	13	7	69	12	4	35	3	(3)	182
Amortization	25	21	8	12	5	46	8	3	3	1	-	86
Operating income	47	22	16	25	9	72	(6)	13	16	1	(2)	141
Finance charges	30	11	7	9	5	32	2	2	6	20	(2)	90
Corporate taxes (recoveries)	5	4	2	6	2	14	(1)	2	3	(4)	-	19
Non-controlling interest	-	-	-	-	-	-	(2)	2	-	-	-	-
Net earnings (loss)	12	7	7	10	2	26	(5)	7	7	(15)	-	32
Preference share dividends	-	-	-	-	-	-	-	-	-	3	-	3
Net earnings (loss) applicable to common shares	12	7	7	10	2	26	(5)	7	7	(18)	-	29
Goodwill	909	227	221	-	63	511	130	-	-	-	-	1,550
Identifiable assets	3,587	1,414	933	983	501	3,831	683	239	539	116	(16)	8,979
Total assets	4,496	1,641	1,154	983	564	4,342	813	239	539	116	(16)	10,529
Gross capital expenditures	56	81	26	17	10	134	23	4	5	2	-	224
Quarter ended June 30, 2007												
Operating revenues	130	68	52	115	65	300	74	18	47	4	(7)	566
Energy supply costs	73	-	13	74	43	130	41	2	-	-	(4)	242
Operating expenses	28	30	17	13	7	67	11	4	29	1	(1)	139
Amortization	12	19	8	9	4	40	7	2	3	1	-	65
Operating income	17	19	14	19	11	63	15	10	15	2	(2)	120
Finance charges	15	9	6	8	5	28	3	2	6	15	(2)	67
Corporate taxes (recoveries)	1	(5)	2	3	2	2	1	2	3	(3)	-	6
Non-controlling interest	-	-	-	-	-	-	3	1	-	-	-	4
Net earnings (loss)	1	15	6	8	4	33	8	5	6	(10)	-	43
Preference share dividends	-	-	-	-	-	-	-	-	-	2	-	2
Net earnings (loss) applicable to common shares	1	15	6	8	4	33	8	5	6	(12)	-	41
Goodwill	907	227	221	-	63	511	136	-	-	-	-	1,554
Identifiable assets	3,305	1,230	850	947	457	3,484	652	235	492	128	(19)	8,277
Total assets	4,212	1,457	1,071	947	520	3,995	788	235	492	128	(19)	9,831
Gross capital expenditures	14	74	41	20	8	143	29	7	3	-	-	196

[1] The Terasen Gas companies were acquired on May 17, 2007.
[2] Includes Maritime Electric and FortisOntario
[3] Includes Belize Electricity, Fortis Turks and Caicos, and Caribbean Utilities

15. SEGMENTED INFORMATION (cont'd)

	REGULATED							NON-REGULATED				
	Gas Utilities	Electric Utilities										
Year-to-date June 30, 2008 *($ millions)*	**Terasen Gas Companies - Canadian** [1]	Fortis Alberta	Fortis BC	NF Power	Other Canadian [2]	**Total Electric Canadian**	**Electric Caribbean** [3]	**Fortis Generation**	**Fortis Properties**	**Corporate and Other**	**Inter-segment eliminations**	**Consolidated**
Operating revenues	1,025	148	119	284	131	682	153	41	99	12	(18)	1,994
Energy supply costs	693	-	33	192	89	314	104	4	-	-	(8)	1,107
Operating expenses	123	65	33	27	14	139	23	8	66	6	(4)	361
Amortization	49	41	17	22	9	89	15	5	7	4	-	169
Operating income	160	42	36	43	19	140	11	24	26	2	(6)	357
Finance charges	63	20	14	17	9	60	7	4	12	41	(6)	181
Corporate taxes (recoveries)	27	4	3	10	4	21	-	5	4	(9)	-	48
Non-controlling interest	-	-	-	-	-	-	2	2	-	-	-	4
Net earnings (loss)	70	18	19	16	6	59	2	13	10	(30)	-	124
Preference share dividends	-	-	-	-	-	-	-	-	-	4	-	4
Net earnings (loss) applicable to common shares	70	18	19	16	6	59	2	13	10	(34)	-	120
Goodwill	909	227	221	-	63	511	130	-	-	-	-	1,550
Identifiable assets	3,587	1,414	933	983	501	3,831	683	239	539	116	(16)	8,979
Total assets	4,496	1,641	1,154	983	564	4,342	813	239	539	116	(16)	10,529
Gross capital expenditures	96	144	50	30	17	241	34	7	8	3	-	389
Year-to-date June 30, 2007												
Operating revenues	130	132	115	269	135	651	151	39	87	8	(17)	1,049
Energy supply costs	73	-	33	180	91	304	85	4	-	-	(9)	457
Operating expenses	28	59	33	27	14	133	28	8	57	3	(3)	254
Amortization	12	37	16	19	8	80	14	5	6	2	-	119
Operating income	17	36	33	43	22	134	24	22	24	3	(5)	219
Finance charges	15	18	12	16	9	55	7	5	12	26	(5)	115
Corporate taxes (recoveries)	1	(9)	3	8	5	7	1	4	4	(4)	-	13
Non-controlling interest	-	-	-	-	-	-	4	1	-	-	-	5
Net earnings (loss)	1	27	18	19	8	72	12	12	8	(19)	-	86
Preference share dividends	-	-	-	-	-	-	-	-	-	3	-	3
Net earnings (loss) applicable to common shares	1	27	18	19	8	72	12	12	8	(22)	-	83
Goodwill	907	227	221	-	63	511	136	-	-	-	-	1,554
Identifiable assets	3,305	1,230	850	947	457	3,484	652	235	492	128	(19)	8,277
Total assets	4,212	1,457	1,071	947	520	3,995	788	235	492	128	(19)	9,831
Gross capital expenditures	14	139	72	32	15	258	47	7	6	1	-	333

[1] The Terasen Gas companies were acquired on May 17, 2007. [2] Includes Maritime Electric and FortisOntario [3] Includes Belize Electricity, Fortis Turks and Caicos, and Caribbean Utilities

15. SEGMENTED INFORMATION (cont'd)

Inter-segment transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. The significant inter-segment transactions primarily related to the sale of energy from Fortis Generation to Belize Electricity and from Fortis Generation to FortisOntario, electricity sales from Newfoundland Power to Fortis Properties and finance charges on inter-segment borrowings. The significant inter-segment transactions for the three and six months ended June 30, 2008 and 2007 were as follows.

Inter-Segment Transactions	**Quarter Ended June 30**		**Year-to-date June 30**	
($ millions)	**2008**	2007	**2008**	2007
Sales from Fortis Generation to Belize Electricity	**4**	3	**7**	8
Sales from Fortis Generation to FortisOntario	**1**	1	**1**	1
Sales from Newfoundland Power to Fortis Properties	**1**	1	**2**	2
Inter-segment finance charges on borrowings from:				
Corporate to Regulated Electric Utilities - Canadian	**1**	-	**1**	1
Corporate to Regulated Electric Utilities - Caribbean	**2**	1	**2**	1
Corporate to Fortis Properties	**2**	2	**4**	4

16. CAPITAL MANAGEMENT

The Corporation's principal businesses of regulated gas and electricity distribution require ongoing access to capital in order to allow them to fund maintenance and expansion of infrastructure. Wherever possible, Fortis raises debt at the subsidiary level to ensure regulatory transparency, tax efficiency and financing flexibility. To help ensure access to capital, the Corporation targets a consolidated long-term capital structure containing approximately 40 per cent equity, including preference shares, 60 per cent debt and investment-grade credit ratings.

Each of the Corporation's regulated utilities maintains its own capital structure in line with the deemed capital structure reflected in the utility's customer rates. Fortis generally finances a significant portion of acquisitions with proceeds from common and preference share issuances.

The consolidated capital structure of Fortis is presented in the following table.

	As at June 30, 2008		As at December 31, 2007	
	($ millions)	*(%)*	*($ millions)*	*(%)*
Total debt and capital lease obligations (net of cash) [1]	**5,262**	**61.2**	5,476	64.3
Preference shares [2]	**667**	**7.8**	442	5.2
Common shareholders' equity	**2,668**	**31.0**	2,601	30.5
Total	**8,597**	**100.0**	8,519	100.0

[1] Includes long-term debt, including current portion, and short-term borrowings, net of cash
[2] Includes preference shares classified as both long-term liabilities and equity

Certain of the Corporation's long-term debt obligations have covenants restricting the issuance of additional debt such that consolidated debt cannot exceed 70 per cent of the Corporation's capital structure, as defined by the long-term debt agreements. As at June 30, 2008, the Corporation and its subsidiaries, except for Belize Electricity, were in compliance with their debt covenants.

16. CAPITAL MANAGEMENT (cont'd)

As a result of the PUC's Final Decision on Belize Electricity's 2008/2009 rate application, Belize Electricity does not meet certain debt covenant financial ratios resulting in approximately $16 million (BZ$30 million) of indebtedness being in default as at June 30, 2008. In accordance with certain of these debt covenants, Belize Electricity is also prohibited from incurring new indebtedness or declaring dividends. The Company has informed the lenders of the situation and has requested appropriate waivers. As at June 30, 2008, $10 million of the above debt was reclassified from long-term to current on the balance sheet.

The Corporation's credit ratings and consolidated credit facilities are discussed further under "Liquidity Risk" in Note 18.

17. FINANCIAL INSTRUMENTS

Fair Values

The Corporation has designated its financial instruments as follows:

	As at June 30, 2008		As at December 31, 2007	
($ millions)	**Carrying Value**	**Estimated Fair Value**	Carrying Value	Estimated Fair Value
Held for trading				
Cash and cash equivalents [(1)]	**59**	**59**	58	58
Derivative financial instruments				
Derivative financial instrument assets [(2) (3)]	**213**	**213**	5	5
Derivative financial instrument liabilities [(3) (4)]	**-**	**-**	79	79
Loans and receivables				
Trade and other accounts receivable [(1) (2) (5)]	**523**	**523**	630	630
Other receivables due from customers [(1) (5) (6)]	**7**	**7**	7	7
Other financial liabilities				
Short-term borrowings [(1) (5)]	**279**	**279**	475	475
Trade and other accounts payable [(1) (4) (5)]	**685**	**685**	714	714
Dividends payable [(1) (5)]	**42**	**42**	43	43
Customer deposits [(1) (5) (7)]	**6**	**6**	5	5
Long-term debt, including current portion [(8) (9)]	**5,006**	**5,483**	5,023	5,635
Preference shares, classified as debt [(8) (10)]	**320**	**340**	320	346

(1) Due to the nature and/or short-term maturity of these financial instruments, carrying value approximates fair value.
(2) Included in accounts receivable on the balance sheet
(3) Recorded at fair value
(4) Included in accounts payable and accrued charges on the balance sheet
(5) Carrying value approximates amortized cost.
(6) Included in deferred charges and other assets on the balance sheet
(7) Included in deferred credits on the balance sheet
(8) Carrying value is measured at amortized cost using the effective interest rate method.
(9) Carrying value at June 30, 2008 is net of unamortized deferred financing costs of $36 million (December 31, 2007 - $33 million).
(10) Preference shares classified as equity are excluded from the requirements of the CICA Handbook Section 3855, *Financial Instruments – Recognition and Measurement*; however, the estimated fair value of the Corporation's $347 million preference shares classified as equity was $326 million as at June 30, 2008 (December 31, 2007: carrying value $122 million; fair value $107 million).

17. FINANCIAL INSTRUMENTS (cont'd)

The carrying values of financial instruments included in current assets, current liabilities, deferred charges and other assets, and deferred credits in the consolidated balance sheets approximate their fair value, reflecting the short-term maturity, normal trade credit terms and/or the nature of these instruments. The fair value of long-term debt is calculated by using quoted market prices when available, or by discounting the future cash flow of each debt instrument at the estimated yield to maturity for the same or similar debt issues at the balance sheet date. Since the Corporation does not intend to settle the long-term debt prior to maturity, the fair value estimate does not represent an actual liability and, therefore, does not include exchange or settlement costs. The fair value of the Corporation's preference shares is determined using quoted market prices.

The Corporation and its subsidiaries hedge exposures to fluctuations in interest rates, foreign exchange rates and natural gas prices through the use of derivative financial instruments. The Corporation does not hold or issue derivative financial instruments for trading purposes. The following table summarizes the valuation of the Corporation's derivative financial instruments.

(Liability) Asset	Term to maturity *(years)*	Number of Contracts	**As at June 30, 2008** Carrying Value *($ millions)*	**As at June 30, 2008** Estimated Fair Value *($ millions)*	As at December, 31, 2007 Carrying Value *($ millions)*	As at December, 31, 2007 Estimated Fair Value *($ millions)*
Interest rate swaps	**1 to 2**	**4**	**(1)**	**(1)**	-	-
Foreign exchange forward contract	**3**	**1**	**-**	**-**	-	-
Natural gas derivatives:						
Swaps and options	**Up to 3**	**214**	**212**	**212**	(79)	(79)
Gas purchase contract premiums	**< 1**	**53**	**1**	**1**	5	5

Two of the four interest rate swaps are held by Fortis Properties and are designated as hedges of the cash flow risk related to floating-rate long-term debt. The effective portion of changes in the value of the interest rate swaps at Fortis Properties is recorded in other comprehensive income. The remaining interest rate swaps are held by the Terasen Gas companies. The interest rate swaps are designated as hedges of cash flow risk related to floating-rate debt instruments.

The foreign exchange forward contract is held by TGVI and is designated as a hedge of the cash flow risk related to approximately US$55 million required to be paid under a contract for the construction of a liquefied natural gas ("LNG") storage facility. The carrying value and estimated fair value of the forward contract were immaterial as at June 30, 2008.

The natural gas derivatives are used to fix the effective purchase price of natural gas, as the majority of the natural gas supply contracts have floating, rather than fixed, prices. At the Terasen Gas companies, changes in the fair value of the interest rate swaps, foreign exchange forward contracts and natural gas derivatives are deferred as a regulatory asset or liability, subject to regulatory approval, for recovery from, or refund to, customers in future rates. The fair values of the natural gas derivatives were recorded in accounts receivable as at June 30, 2008 (December 31, 2007 – in accounts payable and accounts receivable).

The interest rate swaps are valued at the present value of future cash flows based on published forward future interest rate curves. The foreign exchange forward contract is valued at the present value of future cash flows based on published forward future foreign exchange market rate curves. The fair values of the natural gas derivatives reflect the estimated amounts, based on published forward curves, that the Corporation would have to receive or pay if forced to settle all outstanding contracts at the balance sheet date.

17. FINANCIAL INSTRUMENTS (cont'd)

The fair value of the Corporation's financial instruments, including derivatives, reflects a point-in-time estimate based on relevant market information about the instruments. The estimates cannot be determined with precision as they involve uncertainties and matters of judgment and, therefore, may not be relevant in predicting the Corporation's future earnings or cash flows.

The Corporation's earnings from and net investment in self-sustaining foreign subsidiaries are exposed to fluctuations in the US dollar-to-Canadian dollar exchange rate. The Corporation has effectively decreased the above exposure through the use of US dollar borrowings. Foreign currency exchange rate fluctuations associated with the translation of the Corporation's US dollar borrowings designated as hedges of the Corporation's foreign net investments are recorded in other comprehensive income. The Corporation may also periodically enter into hedges of its foreign currency exposures by entering into forward foreign currency contracts.

18. FINANCIAL RISK MANAGMENT

The Corporation is primarily exposed to credit risk, liquidity risk and market risk as a result of holding financial instruments in the normal course of business.

Credit risk	Risk that a third party to a financial instrument might fail to meet its obligations under the terms of the financial instrument.
Liquidity risk	Risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments.
Market risk	Risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. The Corporation is exposed to the following market risks: • Foreign exchange risk • Interest rate risk • Commodity price risk

Credit Risk

For cash and cash equivalents, trade and other accounts receivable, and other receivables due from customers, the Corporation's credit risk is limited to the carrying value on the balance sheet. The Corporation generally has a large and diversified customer base, which minimizes the concentration of credit risk. The Corporation and its subsidiaries have various policies to minimize credit risk and these include requiring customer deposits and credit checks for certain customers and performing disconnections and/or using third-party collection agencies for overdue accounts.

FortisAlberta has a concentration of credit risk as a result of its distribution-service billings being to a relatively small group of retailers and, as at June 30, 2008, its gross exposure was approximately $84 million, representing the projected value of retailer billings over a 60-day period. The Company has reduced its exposure to less than $3 million by obtaining from the retailers either a cash deposit, bond, letter of credit, an investment-grade credit rating from a major rating agency or by having the retailers obtain a financial guarantee from an entity with an investment-grade credit rating.

The Terasen Gas companies are exposed to credit risk in the event of non-performance by counterparties to derivative financial instruments, including natural gas derivatives. The Terasen Gas companies are also exposed to significant credit risk on physical off-system sales. To mitigate credit risk, the Terasen Gas companies deal with high credit-quality institutions, in accordance with established credit-approval practices. The counterparties with which the Terasen Gas companies have significant transactions are A-rated entities or better. The Company uses netting arrangements to reduce credit risk and net settles payments with counterparties where net settlement provisions exist.

18. FINANCIAL RISK MANAGEMENT (cont'd)

Credit Risk (cont'd)

The aging analysis of the Corporation's consolidated trade and other accounts receivable, derivative financial instrument assets and other receivables due from customers is as follows:

($ millions)	**As at June 30, 2008**
Not past due	**647**
Past due 0-30 days	**66**
Past due 31-60 days	**18**
Past due 61 days and over	**26**
	757
Less: allowance for doubtful accounts	**(14)**
	743

Liquidity Risk

The Corporation's financial position could be adversely affected if it or its operating subsidiaries fail to arrange sufficient and cost-effective financing to fund, among other things, capital expenditures and the repayment of maturing debt. The ability to arrange sufficient and cost-effective financing is subject to numerous factors, including the results of operations and financial position of the Corporation and its subsidiaries, conditions in the capital and bank credit markets, ratings assigned by rating agencies and general economic conditions.

To mitigate this risk, the Corporation and its larger regulated utilities have secured multi-year committed credit facilities to support short-term financing of capital expenditures and seasonal working capital requirements. Committed credit facilities at Fortis are available for interim financing of acquisitions and for general corporate purposes.

As at June 30, 2008, the Corporation and its subsidiaries had consolidated authorized lines of credit of $2.2 billion, of which $1.8 billion was unused.

The following summary outlines the credit facilities of the Corporation and its subsidiaries.

($ millions)	Corporate and Other	Regulated Utilities	Fortis Properties	**Total as at June 30, 2008**	Total as at December 31, 2007
Total credit facilities	715	1,490	13	**2,218**	2,234
Credit facilities utilized:					
Short-term borrowings	-	(279)	-	**(279)**	(475)
Long-term debt (Note 7) [1]	-	(54)	-	**(54)**	(530)
Letters of credit outstanding	(1)	(89)	(1)	**(91)**	(159)
Credit facilities available	714	1,068	12	**1,794**	1,070

[1] As at June 30, 2008, credit -facility borrowings classified as long-term debt included $27 million that was included in current installments of long-term debt and capital lease obligations on the balance sheet.

At June 30, 2008 and December 31, 2007, certain borrowings under the Corporation's and subsidiaries' credit facilities have been classified as long-term debt. These borrowings are under long-term committed credit facilities and management's intention is to refinance these borrowings with long-term permanent financing during future periods.

18. FINANCIAL RISK MANAGEMENT (cont'd)

Liquidity Risk (cont'd)

Letters of credit of $50 million previously outstanding at Terasen Inc., related to its previously owned petroleum transportation business and secured by a letter of credit from the former parent company, were cancelled during the second quarter of 2008.

In April 2008, FortisBC renegotiated and amended its $150 million unsecured committed revolving credit facility, extending the maturity date of the $50 million portion of the facility to May 2011 from May 2010 and extending the $100 million portion to May 2009 from May 2008. The Company has the option to increase the credit facility to an aggregate of $200 million, subject to bank approval.

In April 2008, Maritime Electric repaid all outstanding borrowings under its $25 million unsecured credit facility with partial proceeds from a $60 million bond issue. The credit facility matured in May 2008 and was not renewed. As at June 30, 3008, Maritime Electric had a $45 million unsecured revolving credit facility.

In July 2008, TGI renegotiated its $500 million unsecured committed revolving credit facility extending the maturity date of the facility to August 2013 from August 2012.

Furthermore, the Corporation and its subsidiaries target investment-grade credit ratings to maintain capital market access at reasonable interest rates. As at June 30, 2008, the Corporation's credit ratings were as follows:

Standard & Poors	A- (long-term corporate and unsecured debt credit rating)
DBRS	BBB(high) (unsecured debt credit rating)

The credit ratings reflect the diversity of the operations of Fortis, the stand-alone nature and financial separation of each of the regulated subsidiaries of Fortis, management's commitment to maintaining low levels of debt at the holding company level and the continued focus of Fortis on pursuing acquisitions of stable regulated utilities.

The following is an analysis of the contractual maturities of the Corporation's financial liabilities as at June 30, 2008.

Financial Liabilities

($ millions)	≤ 1 year	>1-3 years	4-5 years	>5 years	**Total**
Short-term borrowings	279	-	-	-	**279**
Accounts payable and accrued charges	685	-	-	-	**685**
Dividends payable	42	-	-	-	**42**
Customer deposits	2	2	1	1	**6**
Long-term debt, including current portion [(1)]	335	314	123	4,271	**5,043**
Preference shares, classified as debt	-	-	-	320	**320**
	1,343	316	124	4,592	**6,375**

[(1)] Excluding deferred financing costs of $36 million included in the carrying value as per Note 17

Market Risk

Foreign Exchange Risk
The Corporation's earnings from and net investment in self-sustaining foreign subsidiaries are exposed to fluctuations in the US dollar-to-Canadian dollar exchange rate. The Corporation has effectively decreased the above exposure through the use of US dollar borrowings. The foreign exchange gain or loss on the translation of US dollar denominated interest expense partially offsets the foreign exchange gain or loss on the translation of US dollar denominated earnings derived from foreign investments.

18. FINANCIAL RISK MANAGEMENT (cont'd)

Market Risk (cont'd)

Foreign Exchange Risk (cont'd)
As at June 30, 2008, all of the Corporation's US$390 million of long-term debt had been designated as a hedge of a portion of the Corporation's foreign net investments. As at June 30, 2008, the Corporation had approximately US$72 million in foreign net investments remaining to be hedged.

As of January 1, 2008, an appreciation of 5 per cent of the US dollar-to-Canadian dollar exchange rate would not have had a material impact on earnings for the three and six months ended June 30, 2008 and would have decreased other comprehensive income by $20 million for the six months ended June 30, 2008. The impact on other comprehensive income for the three months ended June 30, 2008 was immaterial. This sensitivity analysis is limited to the impact of the translation of US dollar interest expense on earnings and the impact of the translation of the US dollar borrowings on other comprehensive income. The sensitivity analysis excludes the risk arising from the translation of self-sustaining foreign operations to the Canadian dollar because this exposure is limited to the net investment in these operations which is not a financial instrument.

TGVI's US dollar payments under a contract for construction of an LNG storage facility is exposed to fluctuations in the US dollar-to-Canadian dollar exchange rate. TGVI has entered into a foreign exchange forward contract to hedge this exposure. At June 30, 2008, a 50 basis point increase the US dollar-to-Canadian dollar exchange rate, as it impacts the measurement of the fair value of foreign exchange forward contract, in the absence of rate regulation and with all other variables constant, would not have had a material impact on other comprehensive income during the three and six months ended June 30, 2008. Furthermore, TGVI expects to obtain regulatory approval to defer any increase or decrease in the fair value of the foreign exchange forward contract for recovery from, or refund to, customers in future rates. Therefore, any change in fair value would have impacted regulatory assets or liabilities rather than other comprehensive income.

Interest Rate Risk
The Corporation and its operating subsidiaries are exposed to interest rate risk associated with short-term borrowings and floating-rate debt. The Corporation and its operating subsidiaries may enter into interest rate swap agreements to help reduce this risk and, during the first half of 2008, the Terasen Gas companies and Fortis Properties were parties to interest rate swap agreements that effectively fixed the interest rates on their variable-rate borrowings. As of January 1, 2008, a 50 basis point increase in interest rates associated with variable-rate debt, with all other variables remaining constant, would not have had a material impact on earnings for the three and six months ended June 30, 2008. Furthermore, certain regulated subsidiaries have regulatory approval to defer any increase or decrease in interest rate expense resulting from fluctuations in interest rates associated with variable rate debt, for recovery from, or refund to, customers in future rates.

As at June 30, 2008, a 50 basis point increase in interest rates as it impacts the measurement of fair value of the interest rate swap agreements, in the absence of rate regulation and with all other variables remaining constant, would not have had a material impact on other comprehensive income during the three and six months ended June 30, 2008. Furthermore, the Terasen Gas companies have regulatory approval to defer any increase or decrease in the fair value of the interest rate swap agreements for recovery from, or refund to, customers in future rates. Therefore, any change in fair value would have impacted regulatory assets or liabilities rather than other comprehensive income.

In addition, certain of the committed credit facilities have fees that are linked to the Corporation's or subsidiaries' credit ratings. As of January 1, 2008, a downward change in the credit ratings of the Corporation and its currently rated subsidiaries by one level, with all other variables remaining constant, would not have had a material impact on earnings for the three and six months ended June 30, 2008.

18. FINANCIAL RISK MANAGEMENT (cont'd)

Market Risk (cont'd)

Commodity Price Risk
The Terasen Gas companies are exposed to commodity price risk associated with changes in the market price of natural gas. This risk is minimized by entering into natural gas derivatives that effectively fix the price of natural gas purchases. The natural gas derivatives are recorded on the balance sheet at fair value and any change in the fair value is deferred as a regulatory asset or liability, subject to regulatory approval, for recovery from, or refund to, customers in future rates.

As of January 1, 2008, had the price of natural gas, with all other variables remaining constant, increased by $1 per gigajoule, the fair value of the natural gas derivatives would have increased and, in the absence of rate regulation, other comprehensive income would have increased by $1 million and $67 million for the three and six months ended June 30, 2008, respectively. However, the Terasen Gas companies defer any changes in fair value of the natural gas derivatives, subject to regulatory approval, for future recovery from, or refund to, customers in future rates. Therefore, instead of increasing other comprehensive income, the impact would have increased current regulatory liabilities.

19. CONTINGENT LIABILITIES AND COMMITMENTS

Contingent liabilities

The Corporation and its subsidiaries are subject to various legal proceedings and claims that arise in the ordinary course of business operations. The Corporation's contingent liabilities are consistent with disclosures in the Corporation's 2007 Annual Audited Consolidated Financial Statements.

Commitments

The nature and amount of the Corporation's commitments are comparable to those disclosed in the Corporation's Annual Consolidated Financial Statements for the year ended December 31, 2007, except for those described below for TGVI, FortisOntario, Maritime Electric, Caribbean Utilities and Fortis Turks and Caicos.

In April 2008, TGVI, after receiving regulatory approval, entered into a contract with a third party for the engineering procurement and construction of an LNG storage facility on Vancouver Island. The contract includes approximately $55 million to be paid in US dollars. To mitigate the currency fluctuations on the US dollar portion of the contract, the Company entered into a three-year US dollar forward-purchase contact (Note 17).

FortisOntario has entered into a new 11.5 year take-or-pay contract between Cornwall Electric and Hydro-Québec Energy Marketing for the supply of electricity and capacity. The contract, which expires on December 31, 2019, replaces the previous two-year contract that expired on June 30, 2008. This take-or-pay contract provides energy up to 100 MW on an as-needed basis and provides a minimum 300,000 megawatt hours of energy per contract year beginning July 1, 2008. The contract totals approximately $309 million.

Maritime Electric has two new take-or-pay contracts for the purchase of either capacity or energy. The contracts total approximately $108 million through November 30, 2032. The take-or-pay contract with New Brunswick Power includes, among other things, replacement energy and capacity for the Point Lepreau Nuclear Generating Station during its 18-month refurbishment outage. The other take-or-pay contract is for transmission capacity allowing Maritime Electric to reserve 30 MW of capacity on the new International Power Line into the United States.

Caribbean Utilities has entered into a project agreement to purchase a 16-MW diesel generating unit and related equipment from a supplier in Germany for approximately US$24 million. The unit is expected to be commissioned in summer 2009. Approximately US$5 million has been incurred under the project as at June 30, 2008.

19. CONTINGENT LIABILITIES AND COMMITMENTS (cont'd)

Commitments (cont'd)

Caribbean Utilities has a primary fuel supply contract with a major supplier and is committed to purchase 80 per cent of the Company's fuel requirements from this supplier for the operation of Caribbean Utilities' diesel-fired generating plant. The contract is for three years terminating in April 2010. The remaining approximate quantities, in millions of imperial gallons, required to be purchased annually during each of Caribbean Utilities' fiscal years ended April 30 are: 2009 – 26 and 2010 – 28.

Fortis Turks and Caicos has a renewable contract with a major supplier for all of its diesel fuel requirements associated with the generation of electricity. The approximate fuel requirements under this contract are 12 million imperial gallons per annum.

20. COMPARATIVE FIGURES

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

21. SUBSEQUENT EVENT

Subsequent to June 30, 2008, Terasen reached a settlement with Revenu Québec and Canada Revenue Agency related to amounts owing as a result of retroactive amending Québec tax legislation. The legislation was passed in 2006 for the purpose of challenging certain inter-provincial Canadian tax structures. In 2006, Terasen had provided for amounts owing as a result of the retroactive legislation. In August 2008, Terasen made a payment of approximately $16.7 million to settle the tax liability. As a result of the tax settlement, an earnings' benefit of approximately $7.5 million is expected to be recorded during the third quarter of 2008.

Dates – Dividends* and Earnings

Expected Earnings Release Dates

October 31, 2008 February 5, 2009
April 30, 2009 August 7, 2009

Dividend Record Dates

August 8, 2008 November 7, 2008
February 6, 2009 May 8, 2009

Dividend Payment Dates

September 1, 2008 December 1, 2008
March, 1, 2009 June 1, 2009

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

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Share Listings

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

Fortis Common Shares ($) Quarter Ended June 30		
	2008	**2007**
High	**29.94**	29.20
Low	**26.80**	25.98
Close	**27.16**	26.00