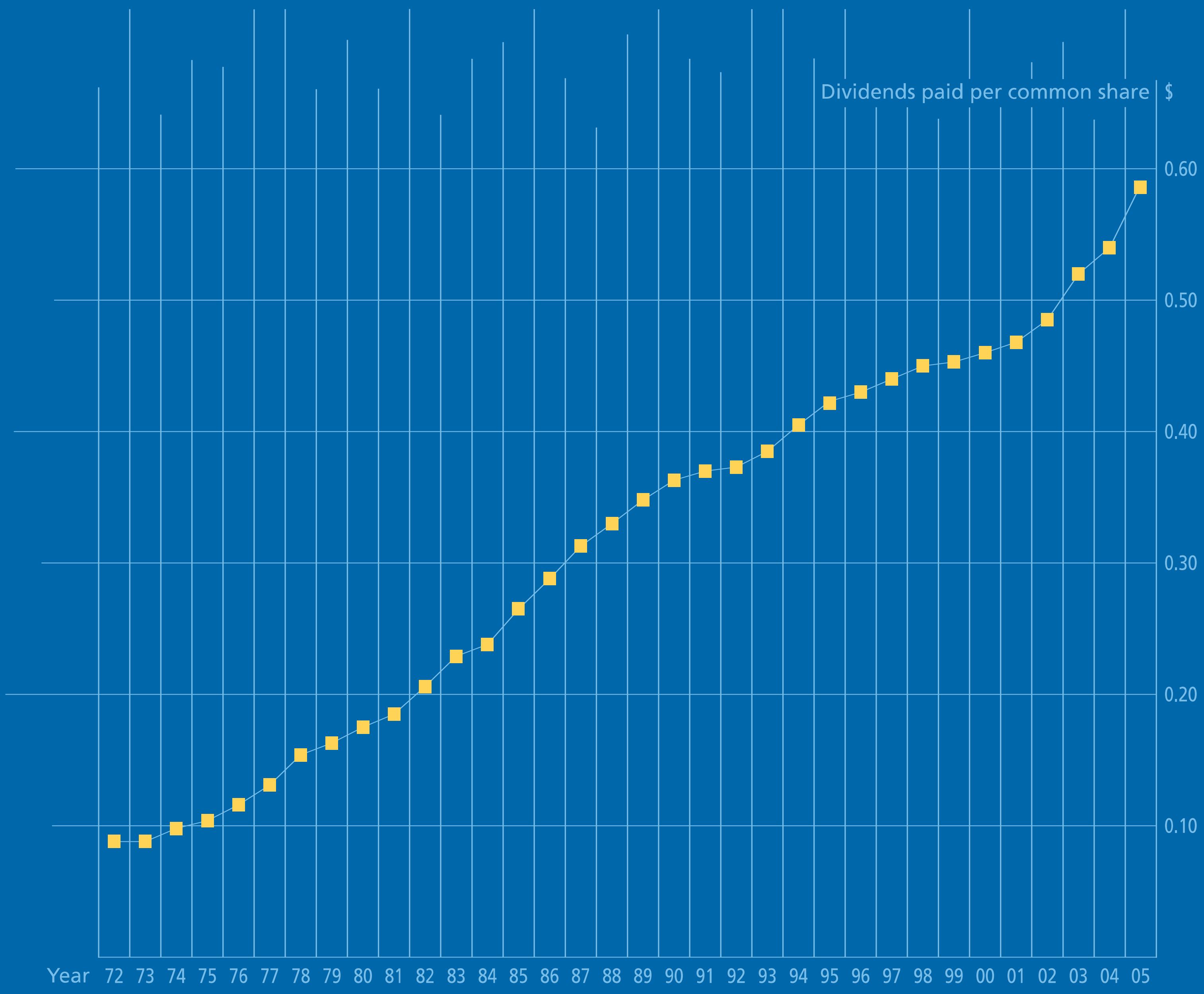
FORTIS INC.

3rd Quarter 2006



Paying Dividends

Dear Shareholder:

Earnings applicable to common shares were $38.8 million, or $0.37 per common share, for the third quarter of 2006 compared to earnings of $37.4 million, or $0.36 per common share, for the third quarter of 2005. Year-to-date earnings applicable to common shares were $113.3 million, or $1.09 per common share, compared to earnings of $114.8 million, or $1.13 per common share, for the same period last year.

Canadian Regulated Utilities contributed $25.3 million to earnings for the third quarter compared to $22.4 million for the same quarter last year. Excluding $1.6 million of earnings during the third quarter last year associated with the favourable resolution of a corporate income tax reassessment at FortisOntario, earnings were $4.5 million higher quarter over quarter. The increase was largely driven by lower corporate taxes at FortisAlberta and increased electricity rates at FortisBC and FortisOntario.

On August 28, 2006, Fortis acquired 2 electric utilities, P.P.C. Limited and Atlantic Equipment & Power (Turks and Caicos) Ltd., in the Turks and Caicos Islands for aggregate consideration of approximately US$90 million. The utilities serve approximately 7,500 customers, or 80 per cent of electricity customers, in the Turks and Caicos Islands pursuant to 50-year licences that expire in 2036 and 2037. The Turks and Caicos Islands is experiencing rapid growth in electricity demand, driven by its strong local economy. The acquisition is immediately accretive to earnings.

Caribbean Regulated Utilities delivered earnings of $7.7 million, $1.5 million higher than earnings of $6.2 million for the third quarter of 2005. The increase was largely driven by one month of earnings contribution from the utilities in the Turks and Caicos Islands and improved earnings at Belize Electricity primarily due to lower finance charges.

In our regulated utility business, which accounts for 84 per cent of our assets, FortisAlberta and FortisBC were the main drivers of performance this quarter. The robust economic growth in western Canada continues to translate into significant capital investment and strong earnings for our western utilities.

Non-regulated Fortis Generation contributed earnings of $7.8 million, comparable to the same quarter last year. Improved earnings from Belize, driven by increased hydroelectric production, virtually offset the impact of lower average wholesale energy prices in Ontario. During the third quarter of 2006, the average wholesale energy price per megawatt hour in Ontario was $46.59 compared to $85.91 for the same quarter last year.

Our hydroelectric generating facilities in Belize have generated 125 gigawatt hours of production year to date. In 2006, production from our Belize operations is expected to be more than double that experienced in 2005, primarily due to the operation of the Chalillo storage facility.

Fortis Properties delivered earnings of $6.3 million compared to $4.9 million for the third quarter of 2005. The $1.4 million increase in earnings was primarily due to contributions from expansions to hotel and real estate properties and lower effective corporate income taxes.

On October 19, 2006, Fortis Properties announced an agreement to purchase 4 internationally branded hotels in Alberta and British Columbia for an aggregate purchase price of $51.6 million, including assumed debt. The acquisition enables Fortis Properties to continue to grow earnings while building on its reputation for superior customer service combined with high-quality, well-situated hotels. It is expected to be immediately accretive to earnings of Fortis.

Corporate expenses were $8.3 million compared to $3.9 million for the third quarter last year. Corporate expenses during the third quarter of 2005 were reduced by a $3.8 million ($3.1 million after-tax) unrealized foreign currency translation gain associated with unhedged US dollar-denominated debt.

Our history of profitable growth has enabled Fortis to increase annual dividend payments for 33 consecutive years, the longest record of any public corporation in Canada.

On September 28, 2006, the Board of Directors of Fortis declared an 18.75 per cent increase in the quarterly common share dividend to 19 cents per common share from 16 cents per common share, commencing with the fourth quarter dividend payable December 1, 2006.

Also on September 28, 2006, Fortis issued 5,000,000 4.90% First Preference Shares, Series F for gross proceeds of $125 million. The net proceeds were largely used to partially fund the recent acquisition of the utilities in the Turks and Caicos Islands and to fund equity injections into FortisAlberta and FortisBC in support of their extensive capital expenditure programs.

By year end, Fortis will have invested approximately $475 million in its 2006 consolidated capital program. More than 70 per cent of this investment is being driven by our western utilities to meet customer growth and enhance reliability of their electricity systems. Over the next 5 years, more than $2 billion of utility capital projects is expected to drive organic earnings growth.

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

Fortis Inc.
Interim Management Discussion and Analysis

For the three and nine months ended September 30, 2006
Dated October 31, 2006

The following analysis should be read in conjunction with the Fortis Inc. ("Fortis" or the "Corporation") interim unaudited consolidated financial statements for the three and nine months ended September 30, 2006 and the Management Discussion and Analysis and audited consolidated financial statements for the year ended December 31, 2005 included in the Corporation's 2005 Annual Report. This material has been prepared in accordance with National Instrument 51-102 relating to Management Discussion and Analysis. 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 statements in this material. By their very nature, forward-looking statements are based on underlying assumptions and are subject to inherent risks and uncertainties surrounding future expectations generally. Such events include, but are not limited to, general economic, market and business conditions, regulatory developments, weather and competition. Fortis cautions readers that should certain events or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary significantly from those expected. For additional information with respect to certain of these risks or factors, reference should be made to the Corporation's continuous disclosure materials filed from time to time with Canadian securities regulatory authorities. The Corporation disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Fortis is principally a diversified, international electric utility holding company with investments primarily in regulated electric distribution utilities in Canada and the Caribbean region. The Corporation serves more than 1,000,000 electricity customers and meets a peak demand of approximately 5,000 megawatts ("MW"). Fortis also owns and operates non-regulated generation assets, commercial real estate and hotels.

The key goals of the Corporation's regulated utilities are to operate sound electricity systems and deliver safe, reliable electricity to customers at reasonable, prudently incurred costs. Its core business of electricity distribution is highly regulated and Fortis segments its utility operations by franchise area and, depending on regulatory requirements, by the nature of the assets. The operating and reporting segments of the Corporation are: (i) Regulated Utilities - Canadian, (ii) Regulated Utilities - Caribbean, (iii) Non-Regulated - Fortis Generation, (iv) Non-Regulated - Fortis Properties, and (v) Corporate. The Corporation's Canadian regulated utilities operate in 5 provinces, making Fortis the leader in its business segment in Canada. The utility operations comprising the Corporation's Regulated Utilities - Canadian operating segment are FortisAlberta, FortisBC, Newfoundland Power, FortisOntario and Maritime Electric on Prince Edward Island ("PEI"). The Corporation's Regulated Utilities - Caribbean operating segment is comprised of Belize Electricity, in which Fortis holds a 70.1 per cent controlling interest; Caribbean Utilities, the sole provider of electricity on Grand Cayman, in which Fortis holds a 37.4 per cent equity interest; and 2 utilities in the Turks and Caicos Islands, in which Fortis holds a 100 per cent interest. The earnings of the Corporation's regulated utilities are primarily determined under traditional cost of service and rate of return methodologies. Earnings of the Canadian regulated utilities are generally exposed to changes in interest rates associated with the rate-setting mechanisms.

The Corporation's non-regulated generation assets, operating in 3 countries, are mainly hydroelectric with a combined generating capacity of 195 MW. Including the 4 hotels for which an agreement to purchase has been entered into on October 19, 2006, the Corporation, through its non-regulated subsidiary Fortis Properties, owns and operates 18 hotels with over 3,200 rooms in 7 Canadian provinces and 2.7 million square feet of commercial real estate in Atlantic Canada.

Fortis has adopted a strategy of profitable growth with earnings per common share as the primary measure of performance. Key financial highlights, including segmented earnings, for the third quarter and year-to-date periods ended September 30, 2006 and September 30, 2005 are provided in the following table.

Financial Highlights (Unaudited) Period Ended September 30th						
	Quarter			Year-to-date		
($ millions, except earnings per common share amounts)	**2006**	2005	Variance	**2006**	2005	Variance
Revenue and equity income	**341.9**	341.7	0.2	**1,078.6**	1,088.4	(9.8)
Cash flow from operations	**96.4**	99.8	(3.4)	**203.6**	229.0	(25.4)
Net earnings applicable to common shares	**38.8**	37.4	1.4	**113.3**	114.8	(1.5)
Basic earnings per common share ($)	**0.37**	0.36	0.01	**1.09**	1.13	(0.04)
Diluted earnings per common share ($)	**0.36**	0.33	0.03	**1.05**	1.03	0.02
Segmented Net Earnings						
	Quarter			Year-to-date		
	2006	2005	Variance	**2006**	2005	Variance
FortisAlberta	**12.3**	9.3	3.0	**33.1**	31.9	1.2
FortisBC [(1)]	**5.7**	4.6	1.1	**21.0**	18.9	2.1
Newfoundland Power	**2.6**	3.4	(0.8)	**21.3**	27.8	(6.5)
Maritime Electric	**3.1**	3.0	0.1	**7.4**	7.4	-
FortisOntario [(2)]	**1.6**	2.1	(0.5)	**3.1**	4.2	(1.1)
Regulated Utilities - Canadian	**25.3**	22.4	2.9	**85.9**	90.2	(4.3)
Belize Electricity	**3.8**	3.2	0.6	**7.6**	6.0	1.6
Caribbean Utilities - Equity Income	**3.2**	3.0	0.2	**6.9**	8.6	(1.7)
Turks and Caicos utilities [(3)]	**0.7**	-	0.7	**0.7**	-	0.7
Regulated Utilities - Caribbean	**7.7**	6.2	1.5	**15.2**	14.6	0.6
Total Regulated Utilities	**33.0**	28.6	4.4	**101.1**	104.8	(3.7)
Non-Regulated - Fortis Generation [(4)]	**7.8**	7.8	-	**19.9**	21.0	(1.1)
Non-Regulated - Fortis Properties	**6.3**	4.9	1.4	**15.9**	11.2	4.7
Corporate	**(8.3)**	(3.9)	(4.4)	**(23.6)**	(22.2)	(1.4)
Net earnings applicable to common shares	**38.8**	37.4	1.4	**113.3**	114.8	(1.5)

(1) Includes the regulated operations of FortisBC Inc. and non-regulated operating, maintenance and management services related to the Waneta, Brilliant and the Arrows Lake hydroelectric plants and the distribution system owned by the City of Kelowna. Also includes Princeton Light and Power Company, Limited ("PLP"), but excludes the non-regulated generation operations of FortisBC Inc.'s wholly owned partnership, Walden Power Partnership. Financial results for PLP are included in the FortisBC segmented results from May 31, 2005, the date of acquisition of PLP by Fortis, through an indirect wholly owned subsidiary.

(2) FortisOntario includes Canadian Niagara Power Inc. ("Canadian Niagara Power") and Cornwall Street Railway, Light and Power Company, Limited ("Cornwall Electric").

(3) On August 28, 2006, Fortis, through a wholly owned subsidiary, acquired all of the issued and outstanding shares of P.P.C. Limited ("PPC") and Atlantic Equipment & Power (Turks and Caicos) Ltd. ("Atlantic"), 2 utilities serving approximately 7,500 customers in the Turks and Caicos Islands. Financial results for PPC and Atlantic are from August 28, 2006.

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

OVERVIEW OF CONSOLIDATED RESULTS

Net earnings applicable to common shares were $38.8 million, or $0.37 per common share, for the third quarter of 2006 compared to earnings of $37.4 million, or $0.36 per common share, for the third quarter of 2005. Excluding $1.6 million of earnings during the third quarter last year associated with the favourable resolution of a corporate income tax reassessment at FortisOntario, earnings were $3.0 million higher quarter over quarter The increase was largely driven by improved hydroelectric production in Belize, lower corporate taxes at FortisAlberta, increased electricity rates at FortisBC, higher earnings from Fortis Properties, higher earnings from Regulated Utilities - Caribbean, due in part to the recent acquisition of 2 electric utilities in the Turks and Caicos Islands, and increased electricity rates at FortisOntario. The increase in quarterly earnings was partially offset by higher corporate expenses and lower average wholesale energy prices in Ontario. Corporate expenses during the third quarter of 2005 were reduced by a $3.8 million ($3.1 million after-tax) unrealized foreign currency translation gain associated with unhedged US dollar-denominated debt.

Year-to-date net earnings were $113.3 million, or $1.09 per common share, compared to $114.8 million, or $1.13 per common share, for the same period in 2005. Year-to-date earnings last year included a $7.9 million after-tax gain resulting from the settlement of contractual matters ("Ontario Settlement") between FortisOntario and Ontario Power Generation Inc., a $7.0 million positive after-tax adjustment to FortisAlberta's earnings driven largely by the resolution of tax-related matters pertaining to prior years, $1.6 million associated with the favourable resolution of a corporate income tax reassessment at FortisOntario and a $1.1 million positive adjustment to equity income from Caribbean Utilities related to a change in accounting practice for recognizing unbilled revenue. Excluding these items, earnings were higher year to date compared to the same period last year primarily due to lower corporate income taxes largely at FortisAlberta, improved hydroelectric production in Belize, higher earnings at Fortis Properties, increased electricity rates at FortisBC, the favourable impact of the 11 per cent overall increase in electricity rates at Belize Electricity, effective July 1, 2005, and earnings from the recently acquired Turks and Caicos utilities. The increase was partially offset by lower average wholesale energy prices in Ontario, lower earnings at Newfoundland Power largely related to the shifting of revenue from the first half of 2006 to the second half of 2006 upon adopting the accrual method of recognizing revenue, effective January 1, 2006, and higher corporate expenses.

REGULATED UTILITIES - CANADIAN

FortisAlberta

FortisAlberta Financial Highlights (Unaudited) Period Ended September 30th						
	Quarter			Year-to-date		
	2006	2005	Variance	**2006**	2005	Variance
Energy Deliveries (GWh)	**3,658**	3,525	133	**10,950**	10,612	338
($ millions)						
Revenue	**64.6**	66.8	(2.2)	**185.0**	201.1	(16.1)
Operating Expenses	**28.8**	28.2	0.6	**84.4**	83.0	1.4
Amortization	**16.9**	14.9	2.0	**51.2**	45.6	5.6
Finance Charges	**7.8**	6.1	1.7	**22.0**	17.9	4.1
Corporate Taxes	**(1.2)**	8.3	(9.5)	**(5.7)**	22.7	(28.4)
Earnings	**12.3**	9.3	3.0	**33.1**	31.9	1.2

Regulation: On June 29, 2006, FortisAlberta received approval from the Alberta Energy and Utilities Board ("AEUB") of the 2006/2007 Negotiated Settlement Agreement associated with the Company's 2006/2007 Distribution Access Tariff Application. The 2006/2007 Negotiated Settlement Agreement, effective January 1, 2006 and based on an allowed rate of return on common equity ("ROE") of 8.93 per cent, provided for distribution revenue requirements, excluding miscellaneous revenue and adjustment riders, of $217.1 million for 2006 and $228.2 million for 2007. These items translate into a 1.9 per cent distribution rate reduction in 2006 and a 0.7 per cent distribution rate increase in 2007. The revenue requirements reflect AEUB-approved forecast operating expenses of $100.8 million for 2006 and $100.1 million for 2007. Additional operating expenses of $13.0 million in 2006 and $13.5 million in 2007 will be collected by separate rate riders during those years. The revenue requirements also reflect AEUB-approved forecast capital expenditures of approximately $184.5 million, before forecast customer contributions of $23.3 million, for 2006, and approximately $191.2 million, before forecast customer contributions of $24.0 million, for 2007. Additionally, the 2006/2007 Negotiated Settlement Agreement included contributions to Alberta Electric System Operator ("AESO") projects of $10.7 million in 2006 and $10.0 million in 2007. The AESO contributions represent payments made to the AESO for investment in transmission facilities that are needed for reliability or contingency planning in accordance with the AESO Terms and Conditions of Service.

During the second quarter of 2006, FortisAlberta recorded the impact of the AEUB-approved 2006/2007 Negotiated Settlement Agreement. Year to date, the 2006/2007 Negotiated Settlement Agreement resulted in a $3.2 million reduction in revenue as a result of providing for the difference between interim rates and those in the 2006/2007 Negotiated Settlement Agreement, which will be refunded to customers in 2007.

The approved 2006/2007 Negotiated Settlement Agreement also resulted in changes in depreciation rates and pension and income tax methodologies. The move to the taxes payable method for federal income taxes simplifies FortisAlberta's accounting for income taxes. Additionally, it reduced the Company's revenue requirements for 2006 and 2007, as future income tax expenses are no longer recovered in current customer electricity rates, rather they are recovered in customer electricity rates when they become payable.

FortisAlberta intends on filing its 2008/2009 Distribution Access Tariff Application during the second quarter of 2007 for AEUB approval of customer rates and capital expenditures for 2008 and 2009.

Earnings: FortisAlberta's earnings were $3.0 million and $1.2 million higher for the quarter and year to date, respectively, compared to the same periods last year, primarily due to lower effective corporate income taxes and increased energy deliveries, partially offset by the impact of a 1.9 per cent decrease in distribution rates, effective January 1, 2006, and higher amortization costs, finance charges and operating expenses. Additionally, third quarter and year-to-date results last year included earnings related to the finalization of load settlement amounts and billing adjustments in addition to a favourable adjustment recorded in the second quarter of 2005 largely associated with the resolution of tax-related matters pertaining to prior periods.

Energy Deliveries: Energy deliveries were 133 gigawatt hours ("GWh"), or 3.8 per cent, higher quarter over quarter, and 338 GWh, or 3.2 per cent, higher year to date compared to the same period last year. The increases were primarily due to growth in the number of customers in the residential, commercial, industrial, and oil sectors as a result of a strong provincial economy.

Revenue: Revenue was $2.2 million lower quarter over quarter. Revenue decreased approximately $6.5 million largely related to the finalization of load settlement amounts and billing adjustments that favorably impacted revenue during the third quarter of last year. Revenue also decreased $1.1 million due to the 1.9 per cent decrease in distribution rates, effective January 1, 2006. These decreases were partially offset by the impact of increased energy deliveries, reduced revenue deferrals of $1.2 million and increased franchise fee revenue of $0.6 million.

Revenue was $16.1 million lower year to date compared to the same period last year. Revenue decreased approximately $20.4 million largely related to the resolution of tax-related matters pertaining to prior years and the finalization of load settlement amounts and billing adjustments that favorably impacted revenue year to date last year. Revenue also decreased $3.2 million related to the 1.9 per cent decrease in distribution rates, effective January 1, 2006, and decreased $1.0 million primarily due to reduced inter-company billings. These decreases in revenue were partially offset by the impact of increased energy deliveries, reduced revenue deferrals of $1.3 million, increased franchise fee revenue of $1.0 million, and the recognition of $1.0 million of revenue during the first quarter of 2006 upon AEUB approval of the Company's 2004 AESO Charges Deferral Account Application.

Expenses: Operating expenses were $0.6 million and $1.4 million higher for the quarter and year to date, respectively, compared to the same periods last year, primarily due to higher labour, and employee benefit and contracted manpower costs, partially offset by an increase in the volume and level of labour and overhead charged to capital projects as a result of FortisAlberta's intensive capital program.

Amortization costs were $2.0 million and $5.6 million higher for the quarter and year to date, respectively, compared to the same periods last year, primarily due to an increase in capital assets as a result of load growth within FortisAlberta's service territory, combined with higher overall depreciation rates as approved by the AEUB in the 2006/2007 Negotiated Settlement Agreement.

Finance charges were $1.7 million and $4.1 million higher for the quarter and year to date, respectively, compared to the same periods last year, primarily due to higher debt levels arising from increased drawings under the Company's long-term credit facility and the issuance of long-term debt to finance capital projects required to satisfy FortisAlberta's obligations to serve its customers. On April 21, 2006, FortisAlberta issued $100 million unsecured debentures bearing interest at 5.40% per annum, due April 21, 2036. The net proceeds of the offering were used primarily to repay existing indebtedness on FortisAlberta's long-term credit facility.

Corporate taxes were $9.5 million and $28.4 million lower for the quarter and year to date, respectively, compared to the same periods last year. The decreases were due to lower earnings before income taxes and more significantly due to the result of increased deductions taken for income tax purposes in excess of amounts for accounting purposes in 2006 as compared to 2005, including the impact of increased capital cost allowance ("CCA") rates for income tax deduction purposes related to specific asset classes.

In addition, in 2006 these timing differences are accounted for entirely on the taxes payable method compared to the use in 2005 of the tax liability method for federal income taxes and the taxes payable method for provincial income taxes. The change in the income tax methodology has resulted in the cessation of recognizing future income tax expense for federal income tax which would have partially offset the effects of these timing differences.

In May 2006, FortisAlberta announced its intention to build a new operations' facility in Airdrie, pending receipt of all necessary permits and approvals, at a cost currently estimated at approximately $30 million. The facility will accommodate approximately 250 FortisAlberta employees with occupancy of the facility expected in 2008.

FortisBC

FortisBC Financial Highlights (Unaudited) Period Ended September 30th						
	Quarter			Year-to-date		
	2006	2005	Variance	**2006**	2005	Variance
Electricity Sales (GWh)	**694**	674	20	2,196	2,148	48
($ millions)						
Revenue	**48.7**	45.1	3.6	**157.3**	144.6	12.7
Energy Supply Costs	**14.3**	13.9	0.4	**47.4**	44.5	2.9
Operating Expenses	**14.8**	16.0	(1.2)	**46.2**	48.0	(1.8)
Amortization	**6.7**	4.8	1.9	**20.4**	14.1	6.3
Finance Charges	**6.1**	4.4	1.7	**17.4**	13.2	4.2
Corporate Taxes	**1.1**	1.4	(0.3)	**4.9**	5.9	(1.0)
Earnings	**5.7**	4.6	1.1	**21.0**	18.9	2.1

Regulation: On May 23, 2006, FortisBC received approval from the British Columbia Utilities Commission ("BCUC") of the 2006 Negotiated Settlement Agreement associated with the Company's 2006 Revenue Requirements Application ("2006 Application"). The 2006 Negotiated Settlement Agreement, effective January 1, 2006 and based on an approved ROE of 9.20 per cent, resulted in a 5.9 per cent increase in electricity rates, an increase in the Company's composite depreciation rate from 2.6 per cent to 3.2 per cent and an increase in the amount of capitalized overhead from approximately 9 per cent of BCUC-approved 2005 forecast gross operating and maintenance expenses to 20 per cent of BCUC-approved 2006 forecast gross operating and maintenance expenses. Additionally, a new performance-based rate-setting ("PBR") mechanism for the years 2007 and 2008, and optionally for 2009, was approved whereby a 2 percentage point band has been set around the allowed ROE whereby variances (adjusted for certain cost variances which flow through to customers) as a result of actual financial performance, positive or negative, will be shared equally between customers and the Company. If the variance exceeds the 2 percentage point band, the excess will be placed in a deferral account for review during the next rate-setting process. The 5.9 per cent electricity rate increase was largely driven by the Company's extensive capital expenditure program and was the same as the refundable interim electricity rate increase previously approved by the BCUC.

On September 29, 2006, FortisBC filed its preliminary 2007 Revenue Requirements Application requesting a 2.9 per cent increase in electricity rates, effective January 1, 2007. The proposed rate increase largely reflects the impacts of the Company's capital program in addition to increased power purchase expenses due to increased electricity demand. Additionally, the rate increase was calculated using the new PBR mechanism described above.

On July 26, 2006, FortisBC applied to the BCUC for approval of its 2007 and 2008 Capital Expenditure Plan ("Capital Plan") to spend approximately $240 million, net of customer contributions of approximately $15 million, over the 2-year period. The capital expenditures address the expansion and upgrade of the transmission and distribution systems to keep pace with load growth and improve customer service, and the continuation of the life extension program at the Company's generating plants. A decision on the Capital Plan by the BCUC is expected in the fourth quarter of 2006.

On April 12, 2006, the Canal Plant Agreement ("CPA") between BC Hydro, FortisBC, Teck Cominco and Columbia Power Corporation and Columbia Basin Trust became effective and continues in force until terminated by any of the parties by giving no less than 5 years notice at any time on or after December 31, 2030. The CPA governs the coordinated operations of 7 major hydroelectric plants owned by the 4 parties to the CPA.

Earnings: FortisBC's earnings were $1.1 million and $2.1 million higher for the quarter and year to date, respectively, compared to the same periods last year, primarily due to a 5.9 per cent increase in electricity rates, effective January 1, 2006, electricity sales growth, lower operating expenses and lower effective corporate income taxes, partially offset by higher amortization costs, finance charges, power purchase expenses and the impact of implementing the new PBR mechanism.

Electricity Sales: Electricity sales were 20 GWh, or 3.0 per cent, higher quarter over quarter, and 48 GWh, or 2.2 per cent, higher year to date compared to the same period last year. Sales growth was primarily attributable to continued customer growth in the Okanagan area.

Revenue: Revenue was $3.6 million and $12.7 million higher for the quarter and year to date, respectively, compared to the same periods last year. The increases were primarily due to a 5.9 per cent increase in electricity rates, effective January 1, 2006, customer growth and higher revenue contributions from non-regulated operating, maintenance and management services and Princeton Light and Power Company, Limited ("PLP"). These increases were partially offset by a $1.4 million and $2.6 million decrease in other revenue for the quarter and year to date, respectively, compared to the same periods last year, primarily due to increased PBR-incentive adjustments owing to customers as a result of the new PBR mechanism approved by the BCUC, effective January 1, 2006.

Expenses: Energy supply costs were $0.4 million higher quarter over quarter, primarily as a result of higher summer market power purchase prices. Energy supply costs were $2.9 million higher year to date compared to the same period last year, primarily due to a higher proportion of purchased versus generated volumes in the first half of 2006 compared to the first half of 2005, increased electricity sales and higher summer market prices. Energy supply costs represent the cost of purchasing energy and capacity from third parties. Hydroelectric facilities owned by FortisBC generate approximately 50 per cent of the energy and 30 per cent of the capacity necessary to meet existing customer demand. The majority of the additional energy and capacity required to meet existing customer demand is purchased under firm, long-term power purchase contracts. Any remaining energy and capacity required is purchased on the open market and is subject to fluctuations in market rates.

Operating expenses were $1.2 million lower quarter over quarter, primarily due to increased capitalized overhead costs of $1.1 million, as approved in the 2006 Negotiated Settlement Agreement, effective January 1, 2006, the favourable impact of a difference in the timing of system maintenance activities of $0.4 million and decreased PLP operating expenses of $0.3 million, partially offset by increased expenses related to non-regulated operating, maintenance and management services of approximately $0.6 million. Operating expenses were $1.8 million lower year to date compared to the same period last year, due to increased capitalized overhead costs of $3.7 million, partially offset by $0.3 million associated with increased customer service activities and general inflationary increases, higher PLP operating expenses of $0.3 million, increased expenses related to non-regulated operating, maintenance and management services of $0.8 million, and a $0.5 million B.C. capital tax appeal refund recorded during the second quarter of 2005.

Amortization costs were $1.9 million and $6.3 million higher for the quarter and year to date, respectively, compared to the same periods last year. The increases were primarily due to the increase in the Company's composite depreciation rate from 2.6 per cent to 3.2 per cent, as approved in the 2006 Negotiated Settlement Agreement, effective January 1, 2006, and an increase in FortisBC's depreciable asset base due to its capital expenditure program.

Finance charges were $1.7 million and $4.2 million higher for the quarter and year to date, respectively, compared to the same periods last year, primarily due to the cost of increased borrowings to finance the Company's capital expenditure program and a decrease in the amount of interest capitalized associated with assets under construction compared to the same periods last year.

Corporate taxes decreased $0.3 million and $1.0 million for the quarter and year to date, respectively, compared to the same periods last year, primarily due to the elimination of the Federal Large Corporations' Tax, effective January 1, 2006, and an increase in the allowable income tax deductions, including the impact of increased CCA rates for income tax deduction purposes, partially offset by an increase in earnings before corporate income taxes.

Newfoundland Power

Newfoundland Power Financial Highlights (Unaudited) Period Ended September 30th						
	Quarter			Year-to-date		
	2006	2005	Variance	**2006**	2005	Variance
Electricity Sales (GWh)	**871**	873	(2)	**3,642**	3,813	(171)
($ millions)						
Revenue	**78.5**	77.5	1.0	**307.6**	318.6	(11.0)
Energy Supply Costs	**47.7**	46.3	1.4	**188.0**	186.9	1.1
Operating Expenses	**12.1**	11.9	0.2	**39.2**	40.0	(0.8)
Amortization	**6.5**	6.0	0.5	**24.2**	25.9	(1.7)
Finance Charges	**8.2**	8.0	0.2	**24.4**	23.4	1.0
Corporate Taxes	**1.2**	1.7	(0.5)	**10.0**	14.2	(4.2)
Non-Controlling Interest	**0.2**	0.2	-	**0.5**	0.4	0.1
Earnings	**2.6**	3.4	(0.8)	**21.3**	27.8	(6.5)

Regulation: In January 2006, Newfoundland Power received approval from the Newfoundland and Labrador Board of Commissioners of Public Utilities ("PUB") of its final 2006 electricity rates, which remain unchanged from 2005. The rates are based on a range of rate of return on rate base of 8.50 per cent to 8.86 per cent, which includes an allowed ROE of 9.24 per cent, also unchanged from 2005.

Effective January 1, 2006, the Company changed its revenue recognition policy from the billed basis to the accrual basis, as approved by the PUB on December 23, 2005. The use of the accrual method for recognizing revenue is consistent with mainstream Canadian utility practice. In conjunction with the change in the revenue recognition policy, the PUB approved an unbilled revenue accrual of $3.1 million in 2006. This amount represents that portion of unbilled revenue, as at December 31, 2005, of $23.6 million, required to offset the 2006 income tax impact of changing to the accrual method for revenue recognition. Disposition of the remaining 2005 unbilled revenue balance will be determined by future orders of the PUB. The PUB also ordered, in effect, that the Company defer recovery of a $5.8 million increase in 2006 capital asset amortization. The deferral establishes a regulatory asset to be recovered in future customer rates. During the third quarter and year to date, $1.1 million and $4.2 million, respectively, of the $5.8 million deferral was recognized which offset what would otherwise have been an increase in amortization costs during these periods.

On September 13, 2006, Newfoundland Power filed with the PUB a 2007 Amortization and Cost Deferral Application ("2007 Application"). The 2007 Application proposes amortization of $2.7 million of the 2005 unbilled revenue balance to offset the 2007 income tax impact of changing to the accrual method for revenue recognition, the deferred recovery of capital asset amortization of $5.8 million due to the conclusion of an amortization true-up in 2005 and the deferred recovery of $1.1 million related to the cost of replacement energy while the Rattling Brook hydroelectric generating facility is being refurbished. The 2007 Accounting Application, if approved, will allow the Company to achieve a fair and reasonable ROE in 2007 without the need to increase customer electricity rates in 2007. Newfoundland Power anticipates filing a general rate application in 2007 for the purpose of establishing customer rates for 2008.

Customer electricity rates increased by an average rate of 4.8 per cent, effective July 1, 2006, as a result of the normal annual operation of the Rate Stabilization Plan of Newfoundland and Labrador Hydro ("Newfoundland Hydro"). Variances in the cost of fuel used by Newfoundland Hydro to generate the electricity it sells to Newfoundland Power are captured and flowed through to Newfoundland Power's customers through the operation of the Rate Stabilization Plan. The increase in customer rates will have no direct impact on Newfoundland Power's earnings.

During the third quarter, the PUB approved Newfoundland Power's $62.2 million 2007 Capital Budget. Approximately $18.8 million of the 2007 Capital Budget relates to the cost of refurbishing the Company's Rattling Brook hydroelectric plant in central Newfoundland.

Earnings: Newfoundland Power's earnings were $0.8 million lower quarter over quarter. The decrease was primarily due to increased energy supply costs, partially offset by higher earnings due to the adoption of the accrual method for revenue recognition, effective January 1, 2006. Earnings were $6.5 million lower year to date compared to the same period last year. The decrease was primarily due to the adoption of the accrual method for revenue recognition, effective January 1, 2006, increased energy supply costs, a reduction in interest revenue, lower electricity sales and higher finance charges, partially offset by lower effective corporate income taxes and reduced operating expenses.

The transition to recording revenue on the accrual basis results in a shift in 2006 quarterly earnings compared to 2005. During the first half of 2006, earnings were reduced by approximately $5.6 million compared to the first half of 2005, while earnings during the third quarter were increased by approximately $0.2 million compared to the same quarter last year, as a result of the adoption of the accrual method for revenue recognition. The adoption of the accrual method for revenue recognition will not have a material impact on annual earnings as fourth quarter earnings are expected to offset the net $5.4 million year-to-date decrease in earnings.

Electricity Sales: Electricity sales were 2 GWh, or 0.2 per cent, lower quarter over quarter. Electricity sales increased 5 GWh due to the adoption of the accrual method for revenue recognition, effective January 1, 2006, representing the difference between electricity delivered to customers during the latter half of June 2006 and the latter half of September 2006. This increase was more than offset by a 7-GWh decrease in electricity billed quarter over quarter as a result of decreased average consumption primarily due to a general slowdown in economic activity. Electricity sales were 171 GWh, or 4.5 per cent, lower year to date compared to the same period last year, primarily due to the adoption of the accrual method for revenue recognition, effective January 1, 2006, which reduced electricity sales by 146 GWh. This reduction represented the difference between electricity delivered to customers during the latter half of December 2005 and the latter half of September 2006. The remaining 25 GWh reduction in year-to-date electricity sales was the result of decreased average consumption. Annual electricity sales for 2006 are not expected to be materially different from 2005 as a result of the adoption of the accrual method for revenue recognition.

Revenue: Revenue was $1.0 million higher quarter over quarter, primarily due to the recognition of $0.6 million of the $3.1 million unbilled revenue accrual, as approved by the PUB, a $0.5 million increase in other revenue related to third-party provisioning services and gains realized on land sales, and a $0.4 million increase related to the adoption of the accrual method for revenue recognition, partially offset by lower average consumption. Revenue was $11.0 million lower year to date compared to the same period last year, primarily due to a $10.3 million reduction related to the adoption of the accrual method for revenue recognition, lower interest revenue and lower average consumption, partially offset by the recognition of $2.2 million of the unbilled revenue accrual. The year-to-date decrease in revenue associated with the adoption of the accrual method for revenue recognition is expected to reverse with the accrual of higher sales and associated revenue in the last quarter of 2006. In addition, interest revenue during the second quarter of 2005 included $2.1 million ($1.4 million after-tax) as a result of an income tax settlement with the Canada Revenue Agency ("CRA").

Expenses: Energy supply costs were $1.4 million and $1.1 million higher for the quarter and year to date, respectively, compared to the same periods last year, primarily due to a change in quarterly allocation of the Company's own energy production. The change affects the comparability of quarterly and year-to-date energy supply costs with the same periods last year but annually is not expected to have a material impact. The remaining increase in energy supply costs was due to additional charges under the wholesale demand and energy rate structure compared to 2005, partially offset by the impact of lower electricity sales.

Operating expenses were $0.2 million higher quarter over quarter and $0.8 million lower year to date compared to the same period last year. The year-to-date decrease in operating expenses was primarily due to lower labour costs resulting from a 2005 early retirement program, a reduction in PUB assessments in 2006 and the Company's ongoing focus on initiatives to reduce operating expenses, partially offset by normal inflationary increases and higher pension costs.

Amortization costs increased $0.5 million quarter over quarter and decreased $1.7 million year to date compared to the same period last year. The quarterly and year-to-date variances over the same periods last year were primarily due to the allocation of amortization based on contribution margin and the impact of continued investment in the Company's capital assets. The year-to-date decrease in amortization costs, due to the allocation of amortization costs to the quarters based on contribution margin, is expected to reverse in the fourth quarter of 2006.

Finance charges were $0.2 million and $1.0 million higher for the quarter and year to date, respectively, compared to the same periods last year, due to the replacement in August 2005 of lower-cost short-term borrowings with 30-year 5.441% $60 million first mortgage sinking fund bonds.

Corporate taxes decreased $0.5 million and $4.2 million for the quarter and year to date, respectively, compared to the same periods last year, largely due to lower earnings before corporate income taxes, elimination of the Federal Large Corporations' Tax, effective January 1, 2006, and increased CCA rates.

Maritime Electric

Maritime Electric
Financial Highlights (Unaudited)
Period Ended September 30th

	Quarter			Year-to-date		
	2006	2005	Variance	**2006**	2005	Variance
Electricity Sales (GWh)	**255**	250	5	**751**	747	4
($ millions)						
Revenue	**32.2**	30.2	2.0	**91.2**	87.8	3.4
Energy Supply Costs	**18.5**	18.2	0.3	**54.0**	53.3	0.7
Operating Expenses	**3.1**	3.0	0.1	**9.5**	9.2	0.3
Amortization	**2.6**	2.4	0.2	**7.6**	7.2	0.4
Finance Charges	**2.8**	1.6	1.2	**7.8**	5.8	2.0
Corporate Taxes	**2.1**	2.0	0.1	**4.9**	4.9	-
Earnings	**3.1**	3.0	0.1	**7.4**	7.4	-

Regulation: On June 27, 2006, the Island Regulatory and Appeals Commission ("IRAC") issued its Order with respect to Maritime Electric's general rate application filed on January 31, 2006, approving an overall average decrease in customer electricity rates of 1.2 per cent, effective July 1, 2006. The 1.2 per cent decrease is the result of the impact of the refund to customers of energy-related costs associated with the operation of the energy cost adjustment mechanism ("ECAM"), partially offset by a 3.35 per cent increase in basic electricity rates. IRAC also approved Maritime Electric's maximum allowed ROE at 10.25 per cent for 2006 and 2007 and approved continuation of the amortization of the $20.8 million in deferred costs recoverable from customers accumulated as at December 31, 2003 in the amount of $1.5 million in 2006. IRAC also ordered the continuation of the interim and transitional ECAM currently in effect, with the amortization period contained in the ECAM to decrease from 18 months to 12 months, effective January 1, 2007.

On August 22, 2006, Maritime Electric received approval from IRAC of a 39-MW Wind Power Purchase Agreement ("Agreement") with the PEI Energy Corporation. The Agreement will take effect on January 1, 2007. Recent legislation proclaimed by the Government of PEI will require Maritime Electric to obtain at least 15 per cent of its annual energy requirements from renewable sources such as wind-powered energy by 2010. This Agreement will help the Company reach this 15 per cent target. Energy from this Agreement will be subject to the operation of the ECAM.

Earnings: Maritime Electric's earnings of $3.1 million for the third quarter and $7.4 million year to date were comparable to the same periods last year.

Electricity Sales: Electricity sales were 5 GWh, or 2.0 per cent, higher quarter over quarter, and 4 GWh, or 0.5 per cent, higher year to date compared to the same period last year. The increase quarter over quarter was due to customer growth in the residential sector and higher consumption by customers in the general service sector. Year to date, the increase was partially offset by a slight decrease in residential sales during the first half of the year due to a milder-than-normal winter and spring.

Revenue: Revenue increased $2.0 million quarter over quarter due to the 3.35 per cent increase in basic electricity rates, effective July 1, 2006, a decrease in the amortization of pre-2004 deferred costs recoverable from customers of $0.3 million and increased electricity sales. Revenue increased $3.4 million year to date compared to the same period last year as a result of a 2.0 per cent and 3.35 per cent increase in basic electricity rates, effective July 1, 2005 and July 1, 2006, respectively, and a decrease in the amortization of pre-2004 deferred costs recoverable from customers of $0.8 million.

Expenses: Energy supply costs (adjusted for the ECAM) were $0.3 million and $0.7 million higher for the quarter and year to date, respectively, compared the same periods last year, primarily due to increased electricity sales. Gross energy supply costs before ECAM adjustments, however, were $0.4 million and $2.2 million lower for the quarter and year to date, respectively, compared to the same periods last year, primarily due to lower-than-anticipated curtailable energy costs and the favourable impact of foreign exchange. Maritime Electric pays for the majority of its energy supply costs in US dollars. During 2006 and 2005, Maritime Electric purchased the majority of its energy from New Brunswick Power Corporation ("NB Power") under several energy purchase agreements.

Amortization costs increased slightly over the same periods last year, reflecting the addition of the 50-MW combustion turbine generating facility.

Finance charges increased $1.2 million and $2.0 million for the quarter and year to date, respectively, compared to the same periods last year, primarily due to financing associated with the Company's capital expenditure program.

FortisOntario

FortisOntario Financial Highlights (Unaudited) Period Ended September[th]						
	Quarter			Year-to-date		
	2006	2005	Variance	**2006**	2005	Variance
Electricity Sales (GWh)	**296**	296	-	**882**	899	(17)
($ millions)						
Revenue	**32.0**	36.6	(4.6)	**98.2**	106.8	(8.6)
Energy Supply Costs	**23.4**	28.9	(5.5)	**73.9**	84.4	(10.5)
Operating Expenses	**3.7**	4.3	(0.6)	**10.9**	10.4	0.5
Amortization	**1.3**	1.3	-	**4.0**	3.8	0.2
Finance Charges	**1.3**	1.2	0.1	**3.8**	3.8	-
Corporate Taxes	**0.7**	(1.2)	1.9	**2.5**	0.2	2.3
Earnings	**1.6**	2.1	(0.5)	**3.1**	4.2	(1.1)

Regulation: On April 28, 2006, the Ontario Energy Board ("OEB") issued its Decision and Order concerning Canadian Niagara Power's application for new electricity rates, effective May 1, 2006. The Decision and Order also approved the final recovery from customers of regulatory assets including the transitional costs incurred in preparation for the open market in May 2002. The impact of the Decision and Order on a typical residential customer with average monthly consumption of 1,000 kilowatt hours ("kWh") in Fort Erie, Port Colbourne and Gananoque was an increase in customer rates, effective May 1, 2006, of 17.5 per cent, 17.5 per cent, and 10.8 per cent, respectively. The rate increases also included the impact associated with the flow through to specified low-volume customers of increased power prices paid to the Independent Electricity System Operator as set under the OEB's Regulated Price Plan ("RPP"). The new electricity distribution rates are based on 2004 costs using a deemed capital structure at 50 per cent long-term debt and 50 per cent common equity, with an allowed ROE of 9.0 per cent.

Earnings: Earnings were $0.5 million lower quarter over quarter. Earnings for the third quarter of 2005 included $1.6 million related to the recognition of a future tax asset associated with the favourable resolution of a CRA reassessment related to Cornwall Electric. Excluding this item, earnings were $1.1 million higher quarter over quarter, primarily due to the increases in distribution electricity rates, effective May 1, 2006, and lower operating expenses. Earnings were $1.1 million lower year to date compared to the same period last year. Excluding the $1.6 million adjustment recorded during the third quarter of 2005, earnings were $0.5 million higher year to date compared to the same period last year, primarily due to the increases in distribution electricity rates, effective May 1, 2006, partially offset by higher operating expenses and reduced electricity sales.

Electricity Sales: Electricity sales were comparable quarter over quarter and 17 GWh, or 1.9 per cent, lower year to date compared to the same period last year. The decrease was primarily due to the impact of moderate weather conditions compared to last year and the loss in December 2005 of an industrial customer.

Revenue: Revenue was $4.6 million lower quarter over quarter, primarily due to decreased market energy costs billed to customers, partially offset by higher electricity rates, effective May 1, 2006.

Revenue decreased $8.6 million year to date compared to the same period last year, primarily due to decreased market energy costs billed to customers and reduced electricity sales, partially offset by higher electricity rates, effective May 1, 2006, and an increase in other revenue.

Expenses: Energy supply costs decreased $5.5 million quarter over quarter, primarily due to lower market energy prices, partially offset by an RPP rate increase, effective May 1, 2006. Energy supply costs decreased $10.5 million year to date compared to the same period last year, primarily due to lower market energy prices and reduced electricity sales, partially offset by an RPP rate increase, effective May 1, 2006.

Operating expenses were $0.6 million lower quarter over quarter, primarily due to a year-to-date adjustment recorded during the third quarter last year to increase operating expenses due to a change in the allocation of shared-service costs between regulated and non-regulated Ontario operations as a result of an internal cost-allocation study. Operating expenses were $0.5 million higher year to date compared to the same period last year, primarily due to increased payroll and benefit costs as a result of the transferring of certain Rankine Generating Station employees to Canadian Niagara Power.

Corporate taxes were $1.9 million and $2.3 million higher for the quarter and year to date, respectively, compared to the same periods last year. During the third quarter of last year, a $1.6 million future tax asset and corresponding decrease in corporate income taxes were recorded associated with the favourable resolution of a CRA assessment of a tax asset created when Cornwall Electric was acquired by a previous owner. Corporate taxes were also higher year to date compared to the same period last year due the reduction of future income tax asset balances during the second quarter of 2006 resulting from enacted future Federal income tax rate reductions.

REGULATED UTILITIES - CARIBBEAN

Belize Electricity

Belize Electricity Financial Highlights (Unaudited) Period Ended September 30th						
	Quarter			Year-to-date		
	2006	2005	Variance	**2006**	2005	Variance
Average US:CDN Exchange Rate	**1.12**	1.20	(0.08)	**1.13**	1.22	(0.09)
Electricity Sales (GWh)	**96**	95	1	**269**	263	6
($ millions)						
Revenue	**23.5**	21.9	1.6	**66.3**	56.0	10.3
Energy Supply Costs	**13.6**	11.9	1.7	**38.7**	30.1	8.6
Operating Expenses	**2.3**	2.2	0.1	**7.8**	7.9	(0.1)
Amortization	**1.4**	1.3	0.1	**4.1**	4.5	(0.4)
Finance Charges	**0.4**	1.5	(1.1)	**3.3**	4.3	(1.0)
Foreign Exchange Loss (Gain)	**-**	-	-	**0.3**	(0.4)	0.7
Corporate Taxes and Non-Controlling Interest	**2.0**	1.8	0.2	**4.5**	3.6	0.9
Earnings	**3.8**	3.2	0.6	**7.6**	6.0	1.6

Regulation: Belize Electricity's base electricity rates are comprised of 2 components. The first component is Value Added Delivery ("VAD") and the second is the cost of fuel and purchased power ("COP"), including the variable cost of generation, which is a flow through in customer rates.

On December 31, 2005, the PUC approved a BZ0.6 cent per kWh, or 1.5 per cent, increase in electricity rates associated with the recovery of excess deferrals to the Cost of Power Rate Stabilization Account ("CPRSA") and a BZ4.5 cent per kWh, or 11.5 per cent, increase in electricity rates related to COP. There was no increase in the VAD component of rates. The result was an overall 13 per cent increase in electricity rates to BZ44.1 cents per kWh from BZ39.0 cents per kWh, effective January 1, 2006. This increase in electricity rates was the result of the PUC's Final Decision on Belize Electricity's Threshold Event Review Application filed on December 20, 2005 and had no impact on the Company's earnings due to the flow through of cost of power to customers.

On May 9, 2006, the PUC issued its Final Decision approving, as filed, Belize Electricity's Annual Tariff Review Application for the annual tariff period July 1, 2006 through June 30, 2007. The Final Decision confirmed that the average mean electricity rate, at BZ44.1 cents per kWh, remain unchanged from that in effect at January 1, 2006. The COP component of rates, however, decreased slightly from BZ25.5 cents per kWh to BZ25.3 cents per kWh, while an Annual Correction rate, at BZ0.2 cents per kWh, was introduced to collect from customers the differences between actual expenses and revenues from original forecasts for the immediately preceding annual tariff period. The tariff can only be revisited before June 30, 2007 by way of a Threshold Event Review Proceeding based on fluctuations in the cost of power and fuel.

Earnings: Belize Electricity's earnings were $0.6 million (BZ$1.6 million) higher quarter over quarter. Excluding the impact of foreign currency exchange upon the translation of Belize Electricity's results into Canadian dollars, Belize Electricity's earnings increased primarily due to lower finance charges and electricity sales growth, partially offset by increased operating expenses. Earnings were $1.6 million (BZ$3.9 million) higher year to date compared to the same period last year. Excluding foreign currency translation impacts, the increase in earnings was driven by the 11 per cent overall increase in electricity rates, effective July 1, 2005, as a result of the new 4-year tariff agreement, higher electricity sales and lower finance charges, partially offset by the foreign exchange impact associated with the Company's Euro and Canadian dollar-denominated debt and increased operating expenses. The translation of Belize Electricity's results during the quarter and year to date was unfavourably impacted by the weakening of the US dollar against the Canadian dollar compared to the same periods last year.

Electricity Sales: Electricity sales were 1 GWh, or 1.0 per cent, higher quarter over quarter, and 6 GWh, or 2.3 per cent, higher year to date compared to the same period last year. The rate of sales growth has been declining during 2006, driven by a slowdown in economic growth and possible customer energy conservation efforts as a result of the rate increases in July 2005 and January 2006.

Revenue: Revenue was $1.6 million (BZ$5.2 million) higher quarter over quarter. Excluding foreign currency translation impacts, revenue increased 14.1 per cent, primarily due to the increase in the COP component of electricity rates, effective January 1, 2006, and a slight increase in electricity sales and in other revenue. Revenue was $10.3 million (BZ$25.3 million) higher year to date compared to the same period last year. Excluding foreign currency translation impacts, revenue increased 27.5 per cent, largely driven by the increase in the VAD and COP components of electricity rates, effective July 1, 2005, the increase in the COP component of electricity rates, effective January 1, 2006, and electricity sales growth.

Expenses: Energy supply costs were $1.7 million (BZ$4.2 million) higher quarter over quarter. Excluding foreign currency translation impacts, energy supply costs increased 21.0 per cent, primarily due to the increase in the COP component of electricity rates, effective January 1, 2006, and slight electricity sales growth. Energy supply costs were $8.6 million (BZ$19.0 million) higher year to date compared to the same period last year. Excluding foreign currency translation impacts, energy supply costs increased 38.5 per cent, primarily due to increases in the COP component of electricity rates, effective July 1, 2005 and January 1, 2006, and electricity sales growth. The BZ0.2 cents per kWh decrease in the COP component of rates, effective July 1, 2006, did not have a significant impact on energy supply costs during the quarter and year to date.

Operating expenses were $0.1 million higher quarter over quarter and $0.1 million lower year to date compared to the same period last year. Excluding foreign currency translation impacts, operating expenses increased BZ$0.4 million and BZ$0.8 million for the quarter and year to date, respectively, compared to the same periods last year, primarily due to increased licences and fees, higher employee costs and general increases in the cost of goods and services.

Amortization costs were slightly higher quarter over quarter, primarily due to the impact of capital asset growth, partially offset by foreign currency translation impacts. Year to date, amortization costs decreased slightly compared to the same period last year, due to the recovery of all generation equipment depreciation through cost of power, as a result of the July 1, 2005 Final Tariff Decision and foreign currency translation impacts, partially offset by the impact of capital asset growth.

Finance charges decreased $1.1 million (BZ$1.7 million) quarter over quarter and $1.0 million (BZ$1.3 million) year to date compared to the same period last year, primarily due to the repayment, with proceeds from a recent share offering, of certain trade payables, inter-company and external loans, and overdraft facilities incurred primarily to finance the CPRSA for the cost of power and fuel. Additionally, during the third quarter, excess funds from the share offering were invested in a demand note and various certificates of deposit.

In June 2006, Belize Electricity received gross proceeds of approximately $37.2 million (BZ$66.8 million) upon the closing of a share offering in which approximately 97 per cent of share purchase rights issued were exercised. Under the offering, Belize Electricity issued a right to acquire one Ordinary Share of the Company at par value BZ$2.00 for every Ordinary Share issued and outstanding. The ownership level of Belize Electricity by Fortis increased slightly from 68.5 per cent to 70.1 per cent as a result of Fortis purchasing all of the Ordinary Shares on which it had rights, in addition to shares acquired under rights purchased from other shareholders. The result was a $26.8 million increase in the Corporation's investment in common shares of Belize Electricity. The proceeds from the share offering will allow Belize Electricity to continue with capital projects to improve service reliability and meet growing energy demand.

The foreign exchange losses and gains primarily related to foreign currency exchange rate fluctuations associated with Belize Electricity's Euro and Canadian dollar-denominated debt. Year to date, net foreign exchange losses were $0.3 million (BZ$0.5 million) compared to a net foreign exchange gain of $0.4 million (BZ$0.7 million) for the same period last year. Year to date, the US dollar weakened relative to the Euro and Canadian dollar compared to the same period last year.

Belize Electricity signed a new Power Purchase Agreement ("PPA") with Comisión Federal de Electricidad ("CFE") of Mexico following the expiration of the previous PPA with the CFE on August 20, 2006. The new PPA, for the provision of up to 15 MW of firm power and 25 MW on an economic basis, is effective until August 20, 2008, and is subject to regulatory approval. Under the new PPA, the cost of power to Belize Electricity will be based on international fuel prices which will increase the average cost of power from CFE by approximately 59 per cent. As a result, Belize Electricity has reduced its supply of power from CFE from 25 MW to 15 MW of firm power. Increased power purchases from Belize Electricity Company Limited ("BECOL") at a lower cost are expected to offset the increased cost of power from CFE and stabilize rates for the remainder of 2006. Any decreases or increases in the cost of power above the reference cost of power, currently set at BZ25.3 cents per kWh, flows through to customers through the operation of the CPRSA.

Caribbean Utilities

Caribbean Utilities Financial Highlights (Unaudited) Period Ended September 30th						
	Quarter			Year-to-date		
	2006	2005	Variance	**2006**	2005	Variance
Average US:CDN Exchange Rate	**1.12**	1.24	(0.12)	**1.15**	1.23	(0.08)
Equity Income	**3.2**	3.0	0.2	**6.9**	8.6	(1.7)

Fortis accounts for its 37.4 per cent interest in Caribbean Utilities on an equity basis. Equity income is recorded on a lag basis and, as a result, the quarterly equity income noted above represents the Corporation's share of Caribbean Utilities' earnings for its first quarters ended July 31, 2006 and July 31, 2005.

Regulation: Licence negotiations between Caribbean Utilities and the Government of the Cayman Islands recommenced in November 2005. The Company's Licence remains in full force and effect until January 2011 or until replaced by a new Licence by mutual agreement.

Equity Income: In June 2006, the number of customers at Caribbean Utilities surpassed pre-Hurricane Ivan levels. At the end of July 2006, the Company's total owned generating capacity reached 120 MW compared to 123 MW pre-Hurricane Ivan.

Equity income recorded from Caribbean Utilities was $0.2 million higher quarter over quarter due to earnings growth at Caribbean Utilities, partially offset by foreign currency translation impacts associated with the weakening of the US dollar against the Canadian dollar compared to the same quarter last year. The increase in Caribbean Utilities earnings was primarily due to sales growth, the hurricane cost-recovery surcharge ("CRS") implemented on August 1, 2005 and lower maintenance costs, partially offset by increased amortization costs. Basic electricity sales at Caribbean Utilities increased 15 per cent during its first quarter ended July 31, 2006 compared to the same quarter last year, due to strong residential and commercial sales growth. During its first quarter ended July 31, 2006, Caribbean Utilities recorded approximately US$1.2 million in revenue associated with the CRS, with approximately US$9.2 million, as of July 31, 2006, of direct uninsured Hurricane Ivan losses remaining to be collected from customers through the CRS. The CRS is expected to remain in place until 2008. Under its current Licence, Caribbean Utilities was entitled to a 2.0 per cent basic electricity rate increase, effective August 1, 2006, primarily as a result of increased operating expenses and investment in fixed assets. Caribbean Utilities has not implemented this basic electricity rate increase, as it had agreed with the Government of the Cayman Islands that it would freeze basic rates during the period of the hurricane CRS. Maintenance costs were higher in the first quarter of last year primarily due to the failures of 2 of the Company's generating units during that period. Amortization costs were higher quarter over quarter due to assets coming back into service post-Hurricane Ivan and continued capital expenditures.

Equity income was $1.7 million lower year to date compared to the same period last year. Excluding the $1.1 million positive adjustment to equity income in the second quarter of 2005 related to a change in Caribbean Utilities' accounting practice for recognizing unbilled revenue, equity income was $0.6 million lower year to date compared to the same period last year.

This $0.6 million decrease in equity income was primarily due to foreign currency translation impacts associated with the weakening of the US dollar against the Canadian dollar compared to the same year-to-date period last year. At Caribbean Utilities, the impact of sales growth, revenue associated with the CRS and lower maintenance costs was largely offset by higher lease costs, insurance premiums, insurance-related consulting fees, interest expense and amortization costs. Also, during its fourth quarter ended April 30, 2006, Caribbean Utilities recorded a US$1.2 million gain on disposal of assets associated with the insurance settlement compared to a US$1.5 million favourable adjustment associated with a reduction of Hurricane Ivan loss estimates during the same quarter in 2005. Future lease costs at Caribbean Utilities will decline as temporary leased generation has now been replaced with owned-generation capacity.

In June 2006, Caribbean Utilities received its final payment of US$9.0 million associated with the net US$31.1 million of property and business interruption ("BI") insurance loss claims associated with damage from Hurricane Ivan. The final impact of BI insurance loss claims was last recorded during Caribbean Utilities' fourth quarter ended April 30, 2006. There will be no further BI insurance loss claims related to Hurricane Ivan in Caribbean Utilities' future earnings.

In May 2006, Caribbean Utilities entered into a project agreement with its strategic alliance partner, MAN B&W Diesel AG of Germany, for the purchase of a 16-MW diesel generating unit and auxiliary equipment to be commissioned in the summer of 2007 for a total project cost of approximately US$22.2 million.

Turks and Caicos Utilities

Turks and Caicos Utilities Financial Highlights (Unaudited) Period Ended September 30th (1)	
	Quarter
	2006
Average US:CDN Exchange Rate	**1.13**
Electricity Sales (GWh)	**11**
($ millions)	
Revenue	**3.1**
Energy Supply Costs	**1.4**
Operating Expenses	**0.6**
Amortization	**0.3**
Finance Charges	**0.1**
Earnings	**0.7**
(1) Earnings from the Turks and Caicos utilities are from August 28, 2006.	

On August 28, 2006, Fortis, through a wholly owned subsidiary, acquired all of the outstanding shares of P.P.C. Limited ("PPC") and Atlantic Equipment & Power (Turks and Caicos) Ltd. ("Atlantic") for aggregate consideration of approximately $97.4 million (US$87.6 million). The purchase price net of assumed debt and acquisition costs was $75.4 million (US$67.8 million). The acquisition was initially financed through borrowings under the Corporation's credit facilities. A portion of such borrowings was repaid with partial proceeds of a preference share offering that was completed by the Corporation on September 28, 2006. Together, PPC and Atlantic serve almost 7,500 customers, or 80 per cent of electricity customers, in the Turks and Caicos Islands. PPC is the sole provider of electricity in Providenciales, North Caicos and Middle Caicos pursuant to a 50-year licence that expires in 2037. Atlantic is the sole provider of electricity in South Caicos pursuant to a 50-year licence that expires in 2036. Each utility is regulated under a traditional rate of return on rate base approach, with a fixed rate of return of 17.5 per cent on a defined asset base of approximately US$50 million.

Earnings from the Turks and Caicos utilities are from August 28, 2006 and were $0.7 million during the third quarter of 2006. The acquisition of the 2 utilities is immediately accretive to earnings. Electricity sales growth at the Turks and Caicos utilities is expected to be strong over the next 5 years with investment in capital assets expected to average approximately $9.0 million annually.

NON-REGULATED - FORTIS GENERATION

Non-Regulated - Fortis Generation Financial Highlights (Unaudited) Period Ended September 30th						
	Quarter			Year-to-date		
Energy Sales (GWh)	**2006**	2005	Variance	**2006**	2005	Variance
Belize	**65**	18	47	**125**	32	93
Ontario	**172**	166	6	**536**	526	10
Central Newfoundland	**32**	26	6	**109**	109	-
British Columbia	**9**	15	(6)	**26**	31	(5)
Upper New York State	**10**	7	3	**67**	40	27
Total	**288**	232	56	**863**	738	125
	Quarter			Year-to-date		
($ millions)	**2006**	2005	Variance	**2006**	2005	Variance
Revenue	**19.3**	21.7	(2.4)	**59.2**	57.9	1.3
Energy Supply Costs	**1.4**	0.9	0.5	**4.8**	4.6	0.2
Operating Expenses	**3.2**	2.5	0.7	**11.2**	11.7	(0.5)
Amortization	**2.6**	2.6	-	**7.9**	7.8	0.1
Finance Charges	**2.5**	3.5	(1.0)	**7.7**	11.4	(3.7)
Gain on Settlement of Contractual Matters	**-**	-	-	**-**	(10.0)	10.0
Corporate Taxes	**1.6**	4.4	(2.8)	**6.6**	10.3	(3.7)
Non-Controlling Interest	**0.2**	-	0.2	**1.1**	1.1	-
Earnings	**7.8**	7.8	-	**19.9**	21.0	(1.1)

Earnings: Non-Regulated - Fortis Generation contributed earnings of $7.8 million for the quarter, comparable to the same quarter last year. Higher production largely in Belize, lower finance charges and lower effective corporate income taxes were primarily offset by the impact of lower average wholesale energy prices in Ontario and higher operating costs. Year to date, earnings contribution decreased $1.1 million from the same period last year. Earnings for the first quarter last year included the $10.0 million ($7.9 million after-tax) Ontario Settlement. Excluding the impact in the first quarter of 2005 of the Ontario Settlement, earnings were $6.8 million higher year to date compared to the same period last year. The increase was primarily due to higher production in Belize, lower finance charges, the receipt of insurance proceeds, and lower effective corporate income taxes, partially offset by lower average wholesale energy prices in Ontario.

Energy Sales: Energy sales were 56 GWh, or 24.1 per cent, higher quarter over quarter, primarily as a result of higher hydroelectric production at the Mollejon and Chalillo generating facilities in Belize, due to the operation of the Chalillo storage facility and higher rainfall levels. Energy sales were 125 GWh, or 16.9 per cent, higher year to date compared to the same period last year, primarily due to higher hydroelectric production in Belize and Upper New York State. The increase in production in Belize was due to the factors described for the quarter. Annual hydroelectric production for 2006 by the Belize operations is expected to be more than double that experienced in 2005. Production in Upper New York State increased primarily due to year-to-date 2006 results including nearly 6 months of operations of the Dolgeville plant compared to 1 month during the same period last year, and higher production at the Moose River plant. In late January 2005, the Dolgeville plant went out of service as a result of flooding and did not resume production until October 2005. In late June 2006, the Dolgeville plant experienced another flood and resumed production late in the third quarter of 2006.

Revenue: Revenue was $2.4 million lower quarter over quarter, primarily due to lower average wholesale energy prices in Ontario, partially offset by higher hydroelectric production in Belize. Revenue was $1.3 million higher year to date compared to the same period last year, primarily due to higher hydroelectric production in Belize, insurance proceeds of $1.2 million ($0.7 million after-tax), and higher production in Upper New York State, partially offset by the impact of lower average wholesale energy prices in Ontario. The insurance proceeds related to the Dolgeville plant in Upper New York State as a result of the 2005 flood. The proceeds represented the final amounts received related to property damage and business interruption insurance claims.

The average wholesale energy price per megawatt hour ("MWh") in Ontario was $46.59 compared to $85.91 for the same quarter last year, resulting in a decrease in revenue of approximately $6.5 million quarter over quarter. Year-to-date 2006, the average wholesale energy price per MWh in Ontario was $47.63 compared to $67.49 for the same period in 2005, resulting in a decrease in revenue of approximately $9.7 million year to date.

Expenses: Operating expenses were $0.7 million higher quarter over quarter. During the third quarters of 2006 and 2005, favourable year-to-date adjustments to water right fees were recorded as a result of confirmation by the Government of Ontario, effective January 1, 2005 and January 1, 2006, of the continuation of the fixed price upon which these fees are assessed. The adjustment to decrease water right fees during the third quarter of 2006 was lower than the adjustment to decrease water right fees during the same quarter last year. Additionally, a year-to-date adjustment was recorded during the third quarter last year to decrease operating expenses due to a change in the allocation of shared-service costs between regulated and non-regulated Ontario operations as a result of an internal cost-allocation study. The above items were partially offset by cost savings during the third quarter of 2006 associated with the cessation of operations at the Rankine Generating Station, upon implementation of the Niagara Exchange Agreement in late 2005. Operating expenses were $0.5 million lower year to date compared to the same period last year, primarily due to cost savings associated with the Rankine Generating Station and lower business development costs in Ontario.

Finance charges were $1.0 million lower quarter over quarter, primarily due to a reduction of inter-company finance charges in the Belizean operations. Finance charges were $3.7 million lower year to date compared to the same period last year, primarily due to a reduction of inter-company finance charges in the Belizean operations and the early repayment of a $22.5 million term loan in the second quarter of 2005 associated with the Ontario operations.

Corporate taxes were $2.8 million and $3.7 million lower for the quarter and year to date, respectively, compared to the same periods last year, primarily due to lower earnings before income taxes and an increase in the proportion of earnings derived from tax-exempt Belizean operations to total earnings.

NON-REGULATED - FORTIS PROPERTIES

Non-Regulated - Fortis Properties
Financial Highlights (Unaudited)
Period Ended September 30th

	Quarter			Year-to-date		
($ millions)	**2006**	2005	Variance	**2006**	2005	Variance
Real Estate Revenue	**13.7**	13.1	0.6	**40.9**	39.7	1.2
Hospitality Revenue	**30.3**	29.2	1.1	**80.1**	76.4	3.7
Total Revenue	**44.0**	42.3	1.7	**121.0**	116.1	4.9
Operating Expenses	**26.1**	26.2	(0.1)	**77.0**	74.3	2.7
Amortization	**3.1**	2.8	0.3	**8.9**	8.2	0.7
Finance Charges	**5.3**	5.2	0.1	**15.4**	14.8	0.6
Gain on Sale of Income Producing Property	**-**	-	-	**(2.1)**	-	(2.1)
Corporate Taxes	**3.2**	3.2	-	**5.9**	7.6	(1.7)
Earnings	**6.3**	4.9	1.4	**15.9**	11.2	4.7

Earnings: Fortis Properties' earnings were $1.4 million higher quarter over quarter, primarily due to higher earnings from operations including contributions from the expansions of the Holiday Inn Sarnia, Holiday Inn Kitchener-Waterloo and Blue Cross Centre, and lower effective corporate income taxes. Earnings were $4.7 million higher year to date compared to the same period last year, primarily due to the factors described for the quarter in addition to a $2.1 million ($1.6 million after-tax) gain on the sale of Days Inn Sydney during the second quarter of 2006.

Revenue: Real estate revenue was $0.6 million and $1.2 million higher for the quarter and year to date, respectively, compared to the same periods last year, due to contributions from the expansion to the Blue Cross Centre and growth experienced in all of the Company's operating regions.

The occupancy level in the Real Estate Division was 94.7 per cent as at September 30, 2006, down from 96.0 per cent as at September 30, 2005. The decrease in occupancy was attributable to an increase in gross leaseable area resulting from the Blue Cross Centre expansion. The expansion opened at the beginning of July 2006 and was 55.3 per cent occupied as at September 30, 2006.

Hospitality revenue was $1.1 million higher quarter over quarter, primarily due to growth experienced in all of the Company's operating regions including contributions from the expansions of the Holiday Inn Sarnia and Holiday Inn Kitchener-Waterloo, partially offset by the elimination of revenue following the sale of Days Inn Sydney. Hospitality revenue was $3.7 million higher year to date compared to the same period last year, primarily due to contributions from the expansions of the Holiday Inn Sarnia and the Delta St. John's and year-to-date results including the operations of the 3 Greenwood Inns for 9 months compared to 8 months in 2005, partially offset by the elimination of revenue following the sale of Days Inn Sydney. Revenue per available room ("REVPAR") for the third quarter of 2006 was $88.09 compared to $82.18 for the same quarter last year. The 7.2 per cent increase in REVPAR was attributable to increases in average occupancy and average room rates.

Expenses: Operating expenses were comparable quarter over quarter. An increase in operating expenses associated with the Company's property expansions was primarily offset by the elimination of operating expenses following the sale of Days Inn Sydney. Operating expenses were $2.7 million higher year to date compared to the same period last year primarily due to costs associated with the Company's property expansions and year-to-date results including the operations of the 3 Greenwood Inns for 9 months compared to 8 months in 2005.

Amortization costs were $0.3 million and $0.7 million higher for the quarter and year to date, respectively, compared to the same periods last year, primarily due to amortization costs associated with the Company's property expansions.

Finance charges were comparable quarter over quarter and $0.6 million higher year to date compared to the same period last year. The increase was primarily due to the acquisition of the Greenwood Inns and the Company's property expansions.

Corporate taxes were comparable quarter over quarter; however, the effective corporate income tax rate was lower, largely as a result of the elimination of the Federal Large Corporations' Tax, effective January 1, 2006. Corporate taxes were $1.7 million lower year to date compared to the same period last year, largely due to a lower effective corporate income tax rate as a result of the reduction of future income tax liability balances during the second quarter of 2006 resulting from enacted future Federal income tax rate reductions, and the elimination of the Federal Large Corporations' Tax.

In May 2006, Fortis Properties completed the $7.7 million expansion of the Holiday Inn Sarnia which included a new 5-storey tower with 70 rooms and an additional 3,000 square feet of ballroom space. In June 2006, the Company also completed the $2.5 million 11,000-square foot expansion of the conference facilities at the Holiday Inn Kitchener-Waterloo and substantially completed the $7.2 million 57,000-square foot expansion of the Blue Cross Centre in Moncton. Capital expenditures related to these projects were approximately $1.0 million in the third quarter of 2006 and $8.7 million year to date.

CORPORATE

Corporate Financial Highlights (Unaudited) Period Ended September 30th						
	Quarter			Year-to-date		
($ millions)	**2006**	2005	Variance	**2006**	2005	Variance
Total Revenue	**2.2**	2.9	(0.7)	**6.4**	8.1	(1.7)
Operating Expenses	**2.0**	1.2	0.8	**7.5**	6.5	1.0
Amortization	**0.7**	0.7	-	**2.2**	2.1	0.1
Finance Charges (1)	**10.3**	9.4	0.9	**29.7**	29.3	0.4
Foreign Exchange Gain	**(0.3)**	(3.8)	3.5	**(2.1)**	(2.0)	(0.1)
Corporate Taxes	**(2.2)**	(0.7)	(1.5)	**(7.2)**	(5.5)	(1.7)
Non-Controlling Interest	-	-	-	**(0.1)**	(0.1)	-
Net Corporate Expenses	**(8.3)**	(3.9)	(4.4)	**(23.6)**	(22.2)	(1.4)

(1) Includes dividends on preference shares classified as long-term liabilities.

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

Net corporate expenses were $4.4 million higher quarter over quarter, primarily due to decreased unrealized foreign exchange gains, increased finance charges, higher operating expenses, and lower inter-company interest revenue, partially offset by a higher corporate income tax recovery. The foreign exchange gains related to the foreign currency translation of unhedged US dollar-denominated corporate long-term debt. From July 1, 2006 to the end of August 2006, unhedged US dollar-denominated debt decreased from US$38 million to nil, while the US dollar weakened approximately 1 cent against the Canadian dollar during this period. During the third quarter last year, unhedged US dollar-denominated debt decreased from US$80 million to US$75 million, while the US dollar weakened approximately 6 cents. Operating expenses were higher, primarily due to pension assumption changes during the third quarter of last year that resulted in reduced pension costs during that quarter. Finance charges increased due to higher drawings on corporate credit facilities, partially offset by lower interest costs on US dollar-denominated debt as a result of continued weakening of the US dollar. Corporate income tax recovery was higher quarter over quarter, primarily due to higher net corporate expenses and the difference in the timing of recognition of certain items for income tax purposes compared to accounting purposes.

Net corporate expenses were $1.4 million higher year to date compared to the same period last year, primarily due to lower inter-company interest revenue, higher operating expenses and increased finance charges, partially offset by a higher corporate income tax recovery. Operating expenses increased largely due to higher business development costs. Finance charges increased for the reasons described for the quarter. Corporate income tax recovery was higher year to date compared to the same period last year, primarily due to higher net corporate expenses, the difference in the timing of recognition of certain items for income tax purposes compared to accounting purposes, and the decrease of future income tax liability balances during the second quarter of 2006 resulting from enacted future Federal income tax rate reductions.

On September 28, 2006, Fortis issued 5,000,000 4.90% First Preference Shares, Series F for gross proceeds of $125 million, or approximately $122.5 million net of after-tax expenses. The net proceeds were largely used to partially fund the recent acquisition of the Turks and Caicos utilities and to fund equity injections into FortisAlberta and FortisBC in support of their extensive capital expenditure programs. The First Preference Shares, Series F are classified as equity on the balance sheet as they are not redeemable at the option of the shareholder. The Corporation's previously issued First Preference Shares, Series C and Series E, however, are redeemable at the option of the shareholder and, therefore, are classified as long-term liabilities on the balance sheet.

CONSOLIDATED FINANCIAL POSITION

The following table outlines the significant changes in the consolidated balance sheets between September 30, 2006 and December 31, 2005.

Fortis Inc.
Significant Changes in the Consolidated Balance Sheets (Unaudited)
between September 30, 2006 and December 31, 2005

($ millions)	Increase (Decrease)	Explanation
Cash and cash equivalents	28.0	The increase primarily related to partial proceeds from the Corporation's September 2006 preference share issue, partial proceeds from Belize Electricity's June 2006 share offering and cash associated with the Turks and Caicos utilities. The increase was partially offset by the timing of working capital receipts and payments across the Corporation's subsidiaries.
Prepaid expenses	11.7	The increase primarily related to the timing of payments for property taxes and insurance at FortisBC, Fortis Properties and FortisAlberta, combined with prepaid expenses associated with the Turks and Caicos utilities.
Deferred charges and other assets	13.8	The increase primarily related to the undepreciated balance of contributions made by FortisAlberta to the AESO, pension funding in excess of pension expense at Newfoundland Power and an investment at Fortis Properties related to the defeasance of debt associated with the Days Inn Sydney. The increase was partially offset by amortization for the nine-month period.
Regulatory assets – long-term	21.1	The increase primarily related to an increase in AESO charges deferrals at FortisAlberta, the deferred recovery of utility capital asset amortization and an increase in the regulatory asset associated with other post-employment benefits at Newfoundland Power.
Future income tax asset – long-term	(50.8)	The decrease primarily related to the conversion to the taxes payable method of accounting for federal income taxes from the tax liability method for regulatory purposes at FortisAlberta. As a result, the future income tax asset and the corresponding offsetting regulatory liability at FortisAlberta were each reduced by approximately $50.7 million during the second quarter of 2006.
Utility capital assets	211.8	The increase primarily related to $330.6 million invested in electricity systems and $45.8 million of utility capital assets acquired upon the acquisition of the Turks and Caicos utilities, less customer contributions and amortization for the nine-month period.
Goodwill	38.7	The increase related to US$34.6 million of goodwill recorded upon the acquisition of the Turks and Caicos utilities in August 2006.
Short-term borrowings	21.8	The increase related to short-term borrowings at Maritime Electric, FortisBC and FortisAlberta, primarily to fund utility capital expenditures and operating activities and to fund Maritime Electric's $5.9 million corporate income tax deposit. The increase was partially offset by repayment of short-term borrowings at Belize Electricity and Fortis Generation.
Income taxes payable	(16.9)	The decrease primarily related to the payment of income taxes at FortisAlberta, Newfoundland Power, FortisOntario and Maritime Electric during the nine-month period, partially offset by the receipt of an income tax refund by FortisAlberta during the third quarter of 2006.
Deferred credits	12.9	The increase primarily related to the accrual of post-employment benefits at Newfoundland Power and the Corporation, combined with customer deposits associated with the Turks and Caicos utilities.
Regulatory liabilities – long-term	(53.2)	The decrease primarily related to the conversion to the taxes payable method of accounting for federal income taxes from the tax liability method for regulatory purposes at FortisAlberta. As a result, both the future income tax asset and the corresponding offsetting regulatory liability at FortisAlberta were each reduced by approximately $50.7 million during the second quarter of 2006.
Long-term debt and capital lease obligations (including current portion)	119.8	The increase primarily related to the issuance of $100 million unsecured public debentures by FortisAlberta on April 21, 2006, increased net drawings on long-term credit facilities of $30.0 million, $10.0 million and $4.5 million by the Corporation, FortisBC and Newfoundland Power, respectively, and long-term debt of $23.0 million at the Turks and Caicos utilities. Proceeds from the $100 million debenture issue were primarily used to repay indebtedness on FortisAlberta's long-term credit facility. The increase was partially offset by regular debt repayments during the nine-month period, combined with the impact of the translation of the Corporation's US dollar-denominated debt at a lower foreign exchange rate at September 30, 2006 compared to December 31, 2005.
Non-controlling interest	10.8	The increase primarily related to the non-controlling interest portion of Belize Electricity's share offering in June 2006.
Shareholders' equity	191.7	The increase primarily related to the $125 million preference share issue, $122.5 million net of after-tax expenses, combined with net earnings reported for the nine-month period, less common share dividends. The remainder of the increase primarily related to the issuance of common shares under the Corporation's share purchase, dividend reinvestment and stock option plans.

LIQUIDITY

The following table outlines the summary of cash flows.

Fortis Inc. Summary of Cash Flows (Unaudited) Period Ended September 30th						
	Quarter			Year-to-date		
($ millions)	**2006**	2005	Variance	**2006**	2005	Variance
Cash, beginning of period	**27.4**	26.8	0.6	**33.4**	37.2	(3.8)
Cash provided by (used in)						
Operating activities	**96.4**	99.8	(3.4)	**203.6**	229.0	(25.4)
Investing activities	**(179.5)**	(96.4)	(83.1)	**(390.7)**	(343.3)	(47.4)
Financing activities	**117.1**	(11.3)	128.4	**215.5**	95.9	119.6
Foreign currency impact on cash balances	**-**	(0.3)	0.3	**(0.4)**	(0.2)	(0.2)
Cash, end of period	**61.4**	18.6	42.8	**61.4**	18.6	42.8

Operating Activities: Cash flow from operations, after working capital adjustments, decreased $3.4 million quarter over quarter. During the third quarter last year, cash flow from operations, after working capital adjustments, was increased by the receipt of a corporate income tax refund and related interest revenue at Newfoundland Power. The impact of the above item was partially offset by an increase during the quarter in cash earnings across most of the Corporation's operating subsidiaries compared to the same quarter last year.

Cash flow from operations, after working capital adjustments, decreased $25.4 million year to date compared to the same period last year. Year to date, cash flow from operations was unfavourably impacted by increased cash taxes paid at FortisAlberta, the payment of a $5.9 million corporate income tax deposit at Maritime Electric and the impact of lower average wholesale energy prices in Ontario. Year to date last year, cash flow from operations, after working capital adjustments, was favourably impacted by the receipt of the $10 million Ontario Settlement at FortisOntario and the corporate income tax refund and related interest at Newfoundland Power. Year to date compared to the same period last year, the impact of the above items was partially offset by the recovery of higher depreciation expense through customer rates at FortisBC and higher cash earnings at BECOL due to improved hydrology and operation of the Chalillo storage facility.

Investing Activities: Cash used in investing activities was $83.1 million higher quarter over quarter. The increase was primarily due to the acquisition of the Turks and Caicos utilities in August 2006 for a net purchase price of $75.4 million and increased utility capital expenditures, partially offset by higher contributions in aid of construction.

Cash used in investing activities was $47.4 million higher year to date compared to the same period last year. The increase was primarily due to the acquisition of the Turks and Caicos utilities, increased utility capital expenditures, and an increase in deferred charges at FortisAlberta related to payments made to the AESO associated with capital projects. The increase was partially offset by lower capital expenditures associated with income-producing properties, increased contributions in aid of construction and proceeds from the sale of Days Inn Sydney in June 2006.

Gross utility capital expenditures were $114.8 million for the third quarter of 2006, $13.1 million higher than gross utility capital expenditures for the same quarter last year. Gross utility capital expenditures were $330.6 million year to date, $39.8 million higher than gross utility capital expenditures for the same period last year. The increase in gross utility capital expenditures primarily related to capital spending at FortisAlberta, largely driven by customer growth, rising material and labour costs and capital upgrades and improvements. The increase was partially offset by decreased utility capital expenditures at Maritime Electric and BECOL due to the substantial completion during 2005 of the construction of the 50-MW combustion turbine generating facility on PEI and the Chalillo Project in Belize, respectively.

Capital expenditures associated with income-producing properties were $1.3 million higher quarter over quarter. The increase was the result of capital expenditures primarily associated with the completion of the expansion of the Blue Cross Centre in Moncton.

Capital expenditures associated with income-producing properties were $61.2 million lower year to date compared to the same period last year, primarily related to the acquisition of the 3 Greenwood Inns in Alberta and Manitoba for approximately $63 million in February 2005.

Contributions received in aid of construction were $5.9 million and $6.4 million higher for the quarter and year to date, respectively, compared to the same periods last year, primarily due to increased contributions associated with FortisAlberta's capital expenditure program.

Financing Activities: Cash provided from financing activities was $128.4 million higher quarter over quarter, primarily driven by $121.1 million of net proceeds from the preference share issue in September 2006. Also during the third quarter, the Corporation drew approximately $77.5 million under long-term credit facilities primarily to finance on an interim basis the acquisition of the Turks and Caicos utilities. The remaining borrowings under long-term credit facilities during the quarter related primarily to Newfoundland Power and FortisBC to fund their respective capital expenditure programs. Repayment of long-term debt for the quarter primarily related to the Corporation's repayment of approximately $71.5 million of amounts previously borrowed under its long-term credit facilities associated with equity injections into the western utilities in support of their capital expenditure programs, a portion of funds borrowed for the acquisition of the Turks and Caicos utilities, and general corporate activities. The remainder of the funds from the preference share issue in September 2006 will be utilized to fund additional equity injections and for general corporate purposes. During the third quarter last year, Newfoundland Power repaid short-term indebtedness with proceeds from a $60 million bond issue and proceeds from the corporate income tax refund.

Cash provided from financing activities was $119.6 million higher year to date compared to the same period last year. The increase was primarily due to proceeds from the September 2006 preference share issue, less a portion of such proceeds used to repay certain indebtedness under long-term credit facilities, proceeds from additional debt incurred in support of increased capital expenditures and amounts received from non-controlling interests, augmented by the impact during the first quarter of 2005 of the repayment of short-term indebtedness associated with the acquisition of FortisAlberta and FortisBC in 2004. Year to date, proceeds from long-term debt related primarily to drawings of approximately $101.5 million under the Corporation's long-term credit facilities to finance on an interim basis the acquisition of the Turks and Caicos utilities, an equity injection into one of the Corporation's western utilities and for general corporate purposes, the issue of $100 million in unsecured debentures by FortisAlberta in April 2006 and approximately $88.7 million of drawings under long-term credit facilities at FortisAlberta, FortisBC and Newfoundland Power to fund their respective capital expenditure programs. During the same period in 2005, proceeds from long-term debt primarily related to the $60 million bond issue at Newfoundland Power, $41.9 million of financing related to the acquisition of the Greenwood Inns and approximately $90.9 million of drawings under long-term credit facilities at FortisAlberta and FortisBC to fund their respective capital expenditure programs. Year to date, repayment of long-term debt and capital lease obligations primarily related to the repayment by the Corporation of approximately $71.5 million under its long-term credit facilities with partial proceeds from the preference share offering, as described above, and the repayment by FortisAlberta of approximately $97.1 million of indebtedness under its long-term credit facility primarily with proceeds from the $100 million unsecured debenture issue. During the second quarter of 2006, the Corporation also received approximately $10.6 million in advances from non-controlling shareholders related to Belize Electricity's share offering in June 2006. During the first quarter of 2005, the Corporation issued 6.9 million common shares for net proceeds of approximately $123.9 million which were used, in part, to repay short-term indebtedness associated with the acquisition of FortisAlberta and FortisBC in 2004. Additionally, long-term debt and capital lease repayments year to date last year included the early repayment by FortisOntario of a $22.5 million term loan in May 2005.

The remaining finance activities during the third quarter and year to date periods in 2006 and 2005 largely related to dividends on common shares, normal course issuance of common shares through the Corporation's share purchase and stock option plans, regularly scheduled long-term debt repayments and normal course changes in short-term borrowings.

Contractual Obligations: The consolidated contractual obligations over the next 5 years and for periods thereafter, as at September 30, 2006, are outlined in the following table.

Fortis Inc.
Contractual Obligations (Unaudited)
as at September 30, 2006

($ millions)	**Total**	≤ 1 year	>1-3 years	4-5 years	> 5 years
Long-term debt	**2,257.3**	31.4	224.3	210.7	1,790.9
Brilliant Terminal Station ("BTS") (1)	**68.7**	2.6	5.1	5.1	55.9
Power purchase obligations					
FortisBC (2)	**2,890.0**	36.5	73.9	71.4	2,708.2
FortisOntario (3)	**307.2**	22.5	67.6	46.9	170.2
Belize Electricity (4)	**19.9**	2.7	3.7	2.2	11.3
Maritime Electric (5)	**0.4**	0.4	-	-	-
Capital cost (6)	**444.2**	19.3	50.1	36.5	338.3
Joint-use asset and shared service agreements (7)	**63.3**	3.7	7.5	6.7	45.4
Operating lease obligations (8)	**18.5**	4.5	9.0	4.9	0.1
Office lease – FortisBC (9)	**22.0**	1.1	2.5	2.5	15.9
Other	**6.0**	3.0	1.8	0.1	1.1
Total	**6,097.5**	127.7	445.5	387.0	5,137.3

(1) On July 15, 2003, FortisBC began operating the BTS under an agreement, the term of which expires in 2056 (unless the Company has earlier terminated the agreement by exercising its right, at any time after the anniversary date of the agreement in 2029, to give 36 months notice of termination). The BTS is jointly owned by the Columbia Power Corporation and the Columbia Basin Trust (the "Owners") and is used by the Company on its own behalf and on behalf of the Owners. The agreement provides that FortisBC will pay the Owners a charge related to the recovery of the capital cost of the BTS and related operating costs.

(2) Power purchase obligations of FortisBC include the Brilliant Power Purchase Agreement (the "BPPA") as well as the Power Purchase Agreement with BC Hydro. On May 3, 1996, an Order was granted by the BCUC approving a 60-year BPPA for the output of the Brilliant hydroelectric plant located near Castlegar, British Columbia. The BPPA requires monthly payments based on the operation and maintenance costs and a return on capital for the plant in exchange for the specified natural flow take-or-pay amounts of power. The BPPA includes a market-related price adjustment after 30 years of the 60-year term. The Power Purchase Agreement with BC Hydro, which expires in 2013, provides for any amount of supply up to a maximum of 200 MW, but includes a take-or-pay provision based on a 5-year rolling nomination of the capacity requirements.

(3) Power purchase obligations for FortisOntario primarily include a long-term take-or-pay contract between Cornwall Electric and Hydro-Québec Energy Marketing for the supply of electricity and capacity. The contract provides approximately 237 GWh of energy per year and up to 45 MW of capacity at any one time. The contract, which expires December 31, 2019, provides approximately one-third of Cornwall Electric's load. Cornwall Electric also has a 2-year contract in place with Hydro-Québec Energy Marketing which expires June 30, 2008. This take-or-pay contract provides energy on an as-needed basis but charges for 100 MW of capacity at $0.14 million per month.

(4) Power purchase obligations for Belize Electricity include a 15-year power purchase agreement between Belize Electricity and Hydra Maya for the supply of 3 MW of capacity, which is scheduled to commence at the end of 2006, and a 2-year power purchase agreement between Belize Electricity and the CFE of Mexico, expiring August 2008, for the supply of 15 MW of firm capacity. Belize Electricity has also signed a 15-year power purchase agreement with Belize Cogeneration Energy Limited ("Belcogen") that provides for the supply of approximately 14 MW of capacity, which scheduled to commence in the second half of 2008. Belcogen has not yet commenced construction of the related bagasse-fired electric generating facility, therefore, the obligation related to the purchase power agreement with Belcogen has not been included in the Corporation's contractual obligations.

(5) Maritime Electric has 1 take-or-pay contract for the purchase of either capacity or energy. This contract totals approximately $0.4 million through October 2006.

(6) Maritime Electric has entitlement to approximately 6.7 per cent of the output from the NB Power Dalhousie Generating Station and approximately 4.7 per cent from the NB Power Point Lepreau Generating Station for the life of each unit. As part of its participation agreement, Maritime Electric is required to pay its share of the capital costs of these units.

(7) FortisAlberta and an Alberta transmission service provider have entered into an agreement in consideration for joint attachments of distribution facilities to the transmission system. The expiry terms of this agreement state that the agreement remains in effect until the Company no longer has attachments to the transmission facilities. Due to the unlimited term of this contract, the calculation of future payments after 2010 includes payments to the end of 20 years. However, the payments under this agreement may continue for an indefinite period of time. FortisAlberta and an Alberta transmission service provider have also entered into a number of service agreements to ensure operational efficiencies are maintained through coordinated operations. The service agreements have minimum expiry terms of 5 years from September 1, 2005 and are subject to extensions based on mutually agreeable terms.

(8) Operating lease obligations include certain office, vehicle and equipment leases as well as the lease of electricity distribution assets of Port Colborne Hydro Inc.

(9) Under a sale-leaseback agreement, on September 29, 1993, FortisBC began leasing its Trail, British Columbia office building for a term of 30 years. The terms of the agreement grant FortisBC repurchase options at approximately year 20 and approximately year 28 of the lease term. On December 1, 2004, FortisBC also entered into a 5-year lease for the Kelowna, British Columbia head office. The terms of the lease allow for termination without penalty after 3 years.

CAPITAL RESOURCES

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

Fortis Inc. Capital Structure (Unaudited)				
	September 30, 2006		December 31, 2005	
	($ millions)	*(%)*	*($ millions)*	*(%)*
Total debt and capital lease obligations (net of cash)	**2,296.1**	**57.1**	2,182.5	58.7
Preference shares [(1)]	**442.0**	**11.0**	319.5	8.6
Common shareholders' equity	**1,282.7**	**31.9**	1,213.4	32.7
Total	**4,020.8**	**100.0**	3,715.4	100.0

[(1)] Includes preference shares classified as both long-term liabilities and equity

The change in the Corporation's capital structure is primarily the result of the issue in September 2006 of 5,000,000 4.90% First Preference Shares, Series F for proceeds of $122.5 million, net of after-tax expenses, increased debt primarily to finance the consolidated capital program of Fortis and debt assumed upon the acquisition of the Turks and Caicos utilities, combined with net earnings, less common share dividends, of $60.5 million during the nine-month period ended September 30, 2006.

As at September 30, 2006, the Corporation's unsecured debt credit ratings were as follows:

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

In December 2005, S&P confirmed its credit rating on the Corporation's unsecured debt at BBB and revised its outlook from negative to stable. The outlook was revised based on greater stability in the business and financial risk profiles of Fortis and reduced concerns surrounding the level of operational and funding risk involved with the Corporation's major capital expenditure program. In February 2006, DBRS confirmed the rating on the Corporation's unsecured debt at BBB(high).

Capital Program: The Corporation's principal business of regulated electric utilities is capital intensive. Gross consolidated capital expenditures of Fortis for 2006 are expected to be approximately $475 million, of which $346 million has been incurred year to date. Approximately $340 million is expected to be invested by FortisAlberta and FortisBC combined during 2006.

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

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

At December 31, 2005, as outlined in the Fortis Inc. 2005 Annual Report, Belize Electricity was non-complaint with its debt service coverage ratio of 1.5 times related to its loans with the International Bank for Reconstruction and Development and with the Caribbean Development Bank.

Belize Electricity's debt service coverage ratio improved during 2006 and for the nine-month period ended September 30, 2006, it was above the minimum debt service coverage ratio of 1.5 times.

The Corporation and its subsidiaries had consolidated authorized lines of credit of $923.9 million, of which $682.2 million was unused at September 30, 2006. The following summary outlines the Corporation's credit facilities by reporting segments.

Fortis Inc. Credit Facilities (Unaudited)						
($ millions)	**Corporate**	**Regulated Utilities**	**Fortis Generation**	**Fortis Properties**	**Total as at September 30, 2006**	**Total as at December 31, 2005**
Total credit facilities	315.0	594.2	2.2	12.5	**923.9**	747.1
Credit facilities utilized						
Short-term borrowings	(4.1)	(66.6)	-	-	**(70.7)**	(48.9)
Long-term debt	(48.2)	(59.4)	-	-	**(107.6)**	(85.8)
Letters of credit outstanding	(4.5)	(56.8)	-	(2.1)	**(63.4)**	(73.6)
Credit facilities available	258.2	411.4	2.2	10.4	**682.2**	538.8

At September 30, 2006 and December 31, 2005, certain borrowings under the Corporation's and subsidiaries' credit facilities have been classified as long-term debt. These borrowings are under long-term credit facilities and management's intention is to refinance these borrowings with long-term permanent financing during future periods.

In January 2006, Newfoundland Power renegotiated its syndicated $100 million committed revolving term credit facility extending the term from 1 year to 3 years, with maturity now in January 2009.

In January 2006, Maritime Electric's $25 million non-revolving unsecured short-term bridge financing, primarily in support of the construction of the 50-MW combustion turbine generating facility, was extended until July 2007. In August 2006, the amount available on Maritime Electric's operating credit facilities was increased to $30 million from $25 million.

In March 2006, FortisAlberta amended its unsecured term syndicated credit facility increasing the amount available to $200 million from $150 million and extending the maturity date from May 2008 to May 2010. In addition, the Company, with the consent of the lenders, has the ability to request an increase in the limit of this credit facility by $50 million under the same terms of the existing credit facility. In July 2006, FortisAlberta entered into a demand credit facility for $10 million increasing the amount available to the Company under unsecured demand credit facilities to $20 million.

In May 2006, the maturity date of FortisBC's $50 million 364-day operating credit facility was extended to May 2007.

In June 2006, Fortis renegotiated and amended its $145 million and $50 million unsecured term credit facilities extending the maturity dates of these facilities from May 2008 and January 2009 to May 2010 and January 2011, respectively. Additionally, in July 2006, the amount available under the $145 million facility was increased to $250 million. These credit facilities can be used for general corporate purposes, including acquisitions.

On April 21, 2006, FortisAlberta issued $100 million in unsecured debentures bearing interest at 5.40% per annum, payable semi-annually on April 21 and October 21, due April 21, 2036. The net proceeds of the offering were used primarily to repay existing indebtedness on FortisAlberta's term syndicated credit facility.

At September 30, 2006, total credit facilities included both a US$2 million overdraft facility and a US$9 million standby credit facility for hurricane damage at PPC. No drawings were made on these facilities as at September 30, 2006.

OFF-BALANCE SHEET ARRANGEMENTS

Disclosure is required of all off-balance sheet arrangements such as transactions, agreements or contractual arrangements with unconsolidated entities, structured finance entities, special purpose entities or variable interest entities that are reasonably likely to materially affect liquidity or the availability of, or requirements for, capital resources. The Corporation had no such off-balance sheet arrangements as at September 30, 2006.

BUSINESS RISK MANAGEMENT

There were no material changes to the Corporation's significant business risks for the nine-month period ended September 30, 2006 from those disclosed in the Corporation's Management Discussion and Analysis for the year ended December 31, 2005, except for those described below.

Regulation: Rate applications that establish revenue requirements may be subject to negotiated settlement procedures as well as pursued through public hearing processes. During the second quarter of 2006, regulation risk for 2006 was reduced due to the receipt of regulatory approvals of rate applications at FortisAlberta, FortisBC, Maritime Electric, Canadian Niagara Power and Belize Electricity.

Hedging: In August 2006, the impact on future earnings of any foreign currency exchange rate fluctuations associated with the translation of US dollar borrowings was reduced upon the designation of the Corporation's remaining unhedged US dollar borrowings and the designation of new US dollar borrowings incurred by the Corporation upon acquisition of the Turks and Caicos utilities, as hedges against the Corporation's net investment in these utilities.

Separation of FortisBC from FortisAlberta: The final step required in the separation of FortisBC operations from FortisAlberta operations was completed during 2006 upon the repatriation of FortisBC's information technology systems from FortisAlberta.

Labour Relations: The collective agreement between FortisBC and Local 213 of the International Brotherhood of Electrical Workers ("IBEW") expired on January 31, 2005. IBEW represents employees in specified occupations in the areas of generation, transmission and distribution. The Company and IBEW reached an agreement which was ratified in early January 2006. The agreement expires on January 31, 2008. The collective agreement between FortisBC and Local 378 of the Canadian Office and Professional Employees Union ("COPE") expired on January 31, 2006. COPE represents employees in office and professional occupations. The Company and COPE reached an agreement which was ratified in early July 2006. The agreement expires on January 31, 2011.

The majority of employees at FortisAlberta are represented by the United Utility Workers Association ("UUWA"). There were 2 collective agreements with UUWA. The Dispatch/Contact Centre Collective Agreement expired December 31, 2004 and the main collective agreement expired December 31, 2005. A new combined agreement was reached with UUWA during the second quarter of 2006. The new agreement expires on December 31, 2007.

Belize Electricity's collective agreement with the Belize Energy Workers Union was signed on November 29, 2000 and is to be reviewed every 5 years. Union negotiations commenced during the third quarter of 2006 for a new collective agreement.

CHANGES IN ACCOUNTING POLICIES

Revenue Recognition: Effective January 1, 2006, Newfoundland Power prospectively changed its revenue recognition policy from a billed basis to an accrual basis, as approved by the PUB. The transition to recording revenue on an accrual basis, while having no material impact on Newfoundland Power's annual earnings, results in a shift in the Company's 2006 quarterly earnings compared to 2005. The PUB also approved an unbilled revenue accrual of $3.1 million in 2006. This amount represents that portion of unbilled revenue, as at December 31, 2005, of $23.6 million, required to offset the 2006 income tax impact of changing to the accrual method for revenue recognition. The disposition of the remaining 2005 unbilled revenue balance will be determined by future orders of the PUB.

Conditional Asset Retirement Obligations: On April 1, 2006, Fortis retroactively adopted EIC 159, *Conditional Asset Retirement Obligations* ("EIC 159"). EIC 159 requires an entity to recognize a liability for the fair value of an asset retirement obligation ("ARO") even though the timing and/or method of settlement are conditional on future events. While conditional AROs have been identified, no amounts have been recorded as they are immaterial to the Corporation's results of operations and financial position.

Corporate Income Taxes: Effective January 1, 2006, FortisAlberta is following the taxes payable method of accounting for federal income taxes. As prescribed by the 2006/2007 Negotiated Settlement Agreement, approved by the AEUB on June 29, 2006, corporate income tax expenses are now recovered through customer rates based only on income taxes that are currently payable for regulatory purposes. Therefore, current rates do not include the recovery of future income taxes related to certain temporary differences between the tax basis of assets and liabilities and their carrying amounts for regulatory purposes, as these taxes are expected to be collected in customer rates when they become payable. Accordingly, FortisAlberta no longer recognizes income taxes deferred to future years as a result of the specified temporary differences. The Company only recognizes future income taxes for certain deferral amounts where the future income taxes will not be collected in future customer rates.

In 2005, FortisAlberta followed the taxes payable method of accounting for provincial income taxes and federal income tax expenses were recovered through customer rates based on a modified liability method. Under the modified liability method, customer rates included the recovery of future federal income taxes related to specified temporary differences between the tax basis of assets and liabilities and their carrying amounts for regulatory purposes. As a result of collecting a portion of future federal income taxes within customer rates in 2005, FortisAlberta previously recognized future federal income taxes within the 2005 financial statements and also set up a regulatory liability equal to the amount of future federal income taxes recognized that had not yet been reflected in customer rates. However, due to the 2006/2007 Negotiated Settlement Agreement, the future income tax asset and the offsetting regulatory liability are no longer recognized.

Employee Future Benefits: Effective January 1, 2006, as prescribed by the AEUB-approved 2006/2007 Negotiated Settlement Agreement, FortisAlberta is recovering in customer rates other post-employment benefits and supplemental pension plan costs based on the cash payments made. However, any difference between the expense recognized under Canadian GAAP and that recovered from customers in current customer rates for other post-employment and pension plans, which is expected to be recovered or refunded in future customer rates, is subject to deferral treatment and is recorded as a regulatory asset on the balance sheet.

FUTURE ACCOUNTING PRONOUNCEMENTS

During the nine-month period ended September 30, 2006, there were no changes to the Corporation's disclosure of future accounting pronouncements from those disclosed in the Corporation's Management Discussion and Analysis for the year ended December 31, 2005 except as described below:

Rate-Regulated Operations: The Canadian Accounting Standards Board ("AcSB") recently considered the effects on its rate-regulated operations project of its recently adopted Strategic Plan and decided that the project, as originally planned, should be discontinued. It further decided, subject to exposure of its proposals, that: (i) the temporary exemption in Section 1100 of the Canadian Institute of Chartered Accountants Handbook ("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 should be removed; (ii) the explicit guidance for rate-regulated operations provided in Section 1600, *Consolidated Financial Statements*, Section 3061, *Property, Plant and Equipment*, Section 3465, *Income Taxes*, and Section 3475, *Disposal of Long-Lived Assets and Discontinued Operations*, should be removed; and (iii) Accounting Guideline 19, *Disclosures by Entities Subject to Rate Regulation*, should be retained as is. An Exposure Draft for public comment based on these preliminary decisions is now expected during the fourth quarter of 2006. The AcSB also observed that relying on US Statement of Financial Accounting Standards No. 71, *Accounting for the Effects of Certain Types of Regulation* ("FAS 71"), as another source of Canadian GAAP in the absence of Handbook guidance addressing the specific circumstances of entities subject to rate regulation, is consistent with Section 1100 when the qualifying criteria of FAS 71 are met. The Corporation is following these developments closely and is in the process of assessing the potential impact on its financial statements.

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 assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Estimates are based on historical experience, current conditions and various other assumptions believed to be reasonable under the circumstances. Additionally, certain estimates are necessary since the regulatory environments in which the Corporation's utilities operate often require amounts to be recorded at estimated values until these amounts are finalized pursuant to regulatory decisions or other regulatory proceedings.

Due to changes in facts and circumstances and the inherent uncertainty involved in making estimates, actual results may differ significantly from current estimates. Estimates are reviewed periodically and, as adjustments become necessary, are reported in earnings in the period 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 for the nine-month period ended September 30, 2006 from those disclosed in the Corporation's Management Discussion and Analysis for the year ended December 31, 2005, except as discussed below.

Rates: On May 23, 2006 and June 29, 2006, FortisBC and FortisAlberta, respectively, received approval for final rates to be charged to customers in 2006 as a result of the respective regulators' approval of the Negotiated Settlement Agreements. At FortisBC, the 5.9 per cent interim increase in electricity rates charged to customers, effective January 1, 2006, and the 2006 final approved rate increase were the same. At FortisAlberta, the AEUB approved a 1.9 per cent decrease in distribution rates, effective January 1, 2006. FortisAlberta has been charging interim rates which are the same as those charged in 2005. The impact of the decrease in rates at FortisAlberta, effective January 1, 2006, was a reduction of revenue of $1.1 million and $3.2 million in the Corporation's third quarter and year-to-date consolidated financial statements, respectively, compared to the same periods last year, which will be refunded to customers during 2007.

Amortization and Capitalized Overhead: FortisBC recently completed a depreciation study on the estimated useful life of its property, plant and equipment recommending an increase in the Company's composite depreciation rate. The BCUC-approved 2006 Negotiated Settlement Agreement resulted in an increase in the composite depreciation rate from 2.6 per cent to 3.2 per cent, effective January 1, 2006, the impact of which has increased amortization costs in the Corporation's third quarter and year-to-date consolidated financial statements by approximately $1.2 million and $3.5 million, respectively, compared to the same periods last year.

FortisBC also recently completed an analysis of its capitalized overhead allocation method. This analysis supported a change in the estimate of capitalized overhead. The changed estimate calculates capitalized overhead as a percentage of all corporate overhead, whereas previously the percentage was applied to a limited pool of corporate costs. The BCUC-approved 2006 Negotiated Settlement Agreement resulted in an increase in the amount of capitalized overhead, effective January 1, 2006, from approximately 9 per cent of BCUC-approved 2005 forecast gross operating and maintenance expenses to 20 per cent of BCUC-approved 2006 forecast gross operating and maintenance expenses. The impact of this change in estimate has decreased operating costs in the Corporation's third quarter and year-to-date consolidated financial statements by approximately $1.1 million and $3.7 million, respectively, compared to the same periods last year.

Contingencies: Fortis is a party to a number of disputes and lawsuits in the normal course of business. The Corporation's contingent liabilities are consistent with disclosures in the Corporation's 2005 annual audited consolidated financial statements except as noted below.

Maritime Electric

In April 2006, CRA reassessed Maritime Electric's 1997-2004 taxation years. The reassessment encompasses the Company's tax treatment, specifically the Company's timing of deductions, with respect to: (i) the ECAM in the 2001-2004 taxation years, (ii) customer rebate adjustments in the 2001-2003 taxation years, and (iii) the Company's payment of approximately $6 million on January 2, 2001 associated with a settlement with NB Power regarding its $450 million write down of the Point Lepreau Nuclear Generating Station in 1998. Maritime Electric believes it has reported its tax position appropriately in all aspects of the reassessment and filed a Notice of Objection with the

Chief of Appeals at CRA. Should the Company be unsuccessful in defending all aspects of the reassessment, the Company would be required to pay approximately $12 million in taxes and accrued interest. Year-to-date September 30, 2006, Maritime Electric has provided for, through future and current income taxes payable, approximately $11.5 million and, therefore, an additional liability of $0.5 million would arise. In this event, the Company would apply to IRAC to include this amount in the regulatory rate-making process. The provisions of the *Income Tax Act* require the Company to deposit one-half of the assessment under objection with CRA and the Company made a payment on deposit of $5.9 million with CRA on June 29, 2006.

FortisAlberta

On March 24, 2006, Her Majesty the Queen in Right of Alberta filed a statement of claim in the Court of Queen's Bench of Alberta in the Judicial District of Edmonton against FortisAlberta. The Crown's claim is that the Company is responsible for a fire that occurred in October 2003 in an area of the Province of Alberta commonly referred to as Poll Haven Community Pasture. The Crown is seeking approximately $2.7 million in fire-fighting and suppression costs and approximately $2.4 million in timber losses, as well as interest and other costs. Given the preliminary stage of the proceedings, FortisAlberta has not made any definitive assessment of potential liability with respect to the litigation. However, management does not believe that the Company contributed to, or is responsible for, the fire and, therefore, management is of the view that the allegations are without merit. No amount, therefore, has been accrued in the consolidated financial statements.

FortisBC

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

QUARTERLY RESULTS

The following table sets forth unaudited quarterly information for each of the 8 quarters ended December 31, 2004 through September 30, 2006. The quarterly information has been obtained from the Corporation's interim unaudited consolidated financial statements which, in the opinion of management, have been prepared in accordance with Canadian GAAP and as required by utility regulators. The timing of the recognition of certain assets, liabilities, revenues and expenses, as a result of regulation, may differ from that otherwise expected using Canadian GAAP for non-regulated entities. These differences are disclosed in the Notes to the Corporation's 2005 annual audited consolidated financial statements. These 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 *($ thousands)*	Net Earnings Applicable to Common Shares *($ thousands)*	Earnings per Common Share Basic *($)*	Earnings per Common Share Diluted *($)*
September 30, 2006	341,947	38,750	0.37	0.36
June 30, 2006	345,851	37,946	0.37	0.35
March 31, 2006	390,827	36,605	0.35	0.34
December 31, 2005	353,084	22,263	0.22	0.21
September 30, 2005	341,650	37,450	0.36	0.33
June 30, 2005	364,948	38,188	0.37	0.34(1)
March 31, 2005	381,789	39,196	0.40	0.36(1)
December 31, 2004	337,170	21,176	0.22	0.21(1)

(1) Earnings per common share data have been restated to reflect the 4-for-1 stock split completed in October 2005.

A summary of the past 8 quarters reflects the Corporation's continued growth as well as the seasonality associated with its businesses. Interim results will fluctuate due to the seasonal nature of electricity demand and water flows as well as the timing and recognition of regulatory decisions. Given the diversified group of companies, seasonality may vary. Most of the Corporation's utility investments produce their highest earnings in the first quarter. The Corporation's non-utility investment, Fortis Properties, generally produces its highest earnings in the second and third quarters. Financial results from February 1, 2005 were impacted by the acquisition of 3 Greenwood Inns. Also, the comparability of 2006 and 2005 quarterly earnings and revenue has been somewhat impacted by the shift in reported revenue at Newfoundland Power resulting from the change to the accrual basis for revenue recognition from the billed basis. The comparability of 2005 and 2004 quarterly earnings was somewhat impacted by the seasonal effects of the new wholesale demand and energy rate structure at Newfoundland Power, effective January 1, 2005. Each of the comparative quarterly earnings, except for the comparative quarters ended March 31, 2006 and March 31, 2005 and comparative quarters ended June 30, 2006 and June 30, 2005, have increased as a result of both the Corporation's acquisition strategy and improved operating earnings at most subsidiaries. Results for the first quarter of 2005 included the $7.9 million after-tax Ontario Settlement. Revenue and equity income and earnings were higher during the second quarter ended June 30, 2005 compared to the same quarter in 2006, primarily due to a $7.0 million positive after-tax adjustment to FortisAlberta's earnings driven largely by the resolution of tax-related matters pertaining to prior years.

September 2006/September 2005 - Net earnings applicable to common shares were $38.8 million, or $0.37 per common share, for the third quarter of 2006 compared to earnings of $37.4 million, or $0.36 per common share, for the third quarter of 2005. Excluding $1.6 million of earnings during the third quarter last year associated with the favourable resolution of a corporate income tax reassessment at FortisOntario, earnings were $3.0 million higher quarter over quarter The increase was largely driven by improved hydroelectric production in Belize, lower corporate taxes at FortisAlberta, increased electricity rates at FortisBC, higher earnings from Fortis Properties, higher earnings from Regulated Utilities - Caribbean, due in part to the recent acquisition of 2 electric utilities in the Turks and Caicos Islands, and increased electricity rates at FortisOntario. The increase in quarterly earnings was partially offset by higher corporate expenses and lower average wholesale energy prices in Ontario. Corporate expenses during the third quarter of 2005 were reduced by a $3.8 million ($3.1 million after-tax) unrealized foreign currency translation gain associated with unhedged US dollar-denominated debt.

June 2006/June 2005 - Net earnings applicable to common shares were $37.9 million, or $0.37 per common share, for the second quarter of 2006 compared to earnings of $38.2 million, or $0.37 per common share, for the second quarter of 2005. Earnings for the second quarter last year included a $7.0 million positive after-tax adjustment to FortisAlberta's earnings, driven largely by the resolution of tax-related matters pertaining to prior years, which favourably impacted revenue. Earnings for the second quarter last year also included a $1.1 million positive adjustment to equity income from Caribbean Utilities related to a change in accounting practice for recognizing unbilled revenue. Excluding these items, the Corporation's earnings were $7.8 million higher in the second quarter of 2006 compared to the second quarter of 2005. The increase was driven by lower corporate income taxes largely at FortisAlberta, improved hydroelectric production in Belize, higher earnings at Fortis Properties and an unrealized foreign exchange gain on the translation of US dollar-denominated long-term corporate debt. The increase was partially offset by lower earnings at Newfoundland Power related to the shifting of revenue from the first half of 2006 to the second half of 2006 upon adopting the accrual method of recognizing revenue, effective January 1, 2006, and the impact of recording the cumulative effects of the regulator-approved Negotiated Settlement Agreements during the second quarter of 2006 at FortisAlberta and FortisBC.

March 2006/March 2005 - Net earnings applicable to common shares were $36.6 million, or $0.35 per common share, for the first quarter of 2006 compared to earnings of $39.2 million, or $0.40 per common share, for the first quarter of 2005. Earnings for the first quarter last year included the $7.9 million after-tax Ontario Settlement. Excluding the Ontario Settlement in 2005, earnings increased quarter over quarter primarily due to higher earnings at FortisBC and FortisAlberta, and increased non-regulated hydroelectric production in Belize. The increase in earnings was also due to an 11 per cent overall increase in electricity rates, effective July 1, 2005, and higher electricity sales at Belize Electricity. Partially offsetting the earnings increase was an anticipated decline in earnings at Newfoundland Power as a result of a change in the Company's revenue recognition policy, a decrease in equity income from Caribbean Utilities, driven by higher fuel costs, and the impact of lower average wholesale energy prices in Ontario. Earnings per common share for the first quarter of 2006 were impacted by the dilution created by the $130 million issue of common shares on March 1, 2005.

December 2005/December 2004 - Net earnings applicable to common shares for the fourth quarter of 2005 were $22.3 million, or $0.22 per common share, compared to $21.2 million, or $0.22 per common share, for the same quarter last year. Higher earnings from Non-Regulated - Fortis Generation, largely driven by higher average wholesale energy prices in Ontario and Upper New York State and increased production, were partially offset by decreased earnings from Regulated Utilities and higher corporate expenses. The decrease in earnings from Regulated Utilities was primarily driven by lower earnings at FortisAlberta and FortisBC, partially offset by higher equity income from Caribbean Utilities. FortisAlberta's earnings for the fourth quarter of 2005 were reduced by a one-time adjustment of approximately $3.0 million, largely related to the implementation of the Negotiated Settlement Agreement reached on May 23, 2005. Additionally, during the fourth quarter of 2004, FortisBC recorded a $3.7 million after-tax increase to earnings related to the refinement of the process of estimating unbilled electricity revenue. Also, equity income in the fourth quarter of 2004 included an $8.2 million charge associated with the damage from Hurricane Ivan. Earnings per common share for the fourth quarter of 2005 were impacted by the dilution created by the $130 million issue of common shares on March 1, 2005.

SUBSEQUENT EVENT

On October 19, 2006, Fortis Properties announced an agreement to purchase 4 internationally branded hotels in Alberta and British Columbia from Lodge Motel (Kelowna) Ltd. for an aggregate purchase price of $51.6 million, including assumed debt. The acquisition is expected to be immediately accretive to earnings of Fortis and is scheduled to close in November 2006. The 4 hotels are Holiday Inn Express and Suites, and Best Western in Medicine Hat, Alberta; Ramada Hotel and Suites in Lethbridge, Alberta; and Holiday Inn Express in Kelowna, British Columbia. The acquisition expands the hospitality operations of Fortis Properties by 454 rooms.

OUTLOOK

The Corporation's principal business of regulated electric utilities is capital intensive and Fortis expects that most of its capital expenditures for the next 5 years will relate primarily to FortisAlberta and FortisBC. Gross consolidated capital expenditures for 2006 are expected to be approximately $475 million, approximately $340 million of which is expected to be invested in the western utilities.

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

OUTSTANDING SHARE DATA

At October 30, 2006, the Corporation had issued and outstanding 103,798,757 Common Shares, 5,000,000 First Preference Shares, Series C; 7,993,500 First Preference Shares, Series E; and 5,000,000 First Preference Shares, Series F. As at September 30, 2006, the number of Common Shares that would be issued upon conversion of share options, convertible debt and First Preference Shares, Series C and Series E is described in the Notes to the interim unaudited consolidated financial statements for the three and nine months ended September 30, 2006.

FORTIS INC.

Interim Consolidated Financial Statements
For the three and nine months ended September 30, 2006 and 2005
(Unaudited)

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

	September 30 2006	December 31 2005
ASSETS		
Current assets		
Cash and cash equivalents	$ 61,394	$ 33,416
Accounts receivable	207,306	204,169
Prepaid expenses	21,474	9,786
Regulatory assets	29,317	33,289
Materials and supplies	25,623	18,614
	345,114	299,274
Corporate income tax deposit (Note 16 (a))	5,922	-
Deferred charges and other assets	161,946	148,140
Regulatory assets	103,437	82,315
Future income taxes	7,991	58,815
Utility capital assets	2,831,319	2,619,480
Income producing properties	418,795	414,608
Investments	170,715	167,393
Intangibles, net of amortization	10,871	14,027
Goodwill	550,853	512,139
	$ 4,606,963	$ 4,316,191
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Short-term borrowings (Note 5)	$ 70,677	$ 48,868
Accounts payable and accrued charges	264,243	265,223
Dividends payable	21,120	17,924
Income taxes payable	5,933	22,785
Regulatory liabilities	25,510	19,392
Current instalments of long-term debt and capital lease obligations	32,830	31,392
Future income taxes	-	6,714
	420,313	412,298
Deferred credits	77,161	64,261
Regulatory liabilities	33,551	86,780
Future income taxes	46,904	44,718
Long-term debt and capital lease obligations (Note 5)	2,254,017	2,135,674
Non-controlling interest	50,404	39,555
Preference shares (Note 8 (i) and (ii))	319,492	319,492
	3,201,842	3,102,778
Shareholders' equity		
Common shares (Note 6)	822,518	813,304
Preference shares (Note 8 (iii))	122,466	-
Contributed surplus	4,264	3,179
Equity portion of convertible debentures	1,441	1,500
Foreign currency translation adjustment	(17,779)	(16,312)
Retained earnings	472,211	411,742
	1,405,121	1,213,413
	$ 4,606,963	$ 4,316,191

Contingent liabilities and commitments (Note 16)
Subsequent event (Note 17)

See accompanying notes to interim consolidated financial statements.

Fortis Inc.
Consolidated Statements of Earnings (Unaudited)
For the periods ended September 30
(in thousands, except per share amounts)

	Quarter Ended		Nine Months Ended	
	2006	2005	**2006**	2005
Operating revenues	**$ 338,749**	$ 338,610	**$ 1,071,725**	$ 1,079,775
Equity income	**3,198**	3,040	**6,900**	8,612
	341,947	341,650	**1,078,625**	1,088,387
Expenses				
Operating	**209,241**	212,018	**684,338**	685,176
Amortization	**42,289**	36,837	**130,914**	119,168
	251,530	248,855	**815,252**	804,344
Operating income	**90,417**	92,795	**263,373**	284,043
Finance charges (Note 10)	**43,072**	34,294	**124,392**	113,650
Gain on sale of income producing property (Note 11)	**-**	-	**(2,088)**	-
Gain on settlement of contractual matters (Note 12)	**-**	-	**-**	(10,000)
	43,072	34,294	**122,304**	103,650
Earnings before income taxes	**47,345**	58,501	**141,069**	180,393
Corporate income taxes (Note 13)	**6,719**	19,535	**23,048**	61,380
Net earnings before non-controlling interest	**40,626**	38,966	**118,021**	119,013
Non-controlling interest	**1,876**	1,516	**4,720**	4,179
Net earnings applicable to common shares	**$ 38,750**	**$ 37,450**	**$ 113,301**	$ 114,834
Weighted average common shares outstanding (Note 6)	**103,646**	103,010	**103,451**	101,293
Earnings per common share (Note 6)				
Basic	**$ 0.37**	$ 0.36	**$ 1.09**	$ 1.13
Diluted	**$ 0.36**	$ 0.33	**$ 1.05**	$ 1.03

Consolidated Statements of Retained Earnings (Unaudited)
For the periods ended September 30
(in thousands)

	Quarter Ended		Nine Months Ended	
	2006	2005	**2006**	2005
Balance at beginning of period	**$ 453,211**	$ 385,111	**$ 411,742**	$ 337,013
Net earnings applicable to common shares	**38,750**	37,450	**113,301**	114,834
	491,961	422,561	**525,043**	451,847
Dividends on common shares	**(19,750)**	(16,541)	**(52,832)**	(45,827)
Balance at end of period	**$ 472,211**	$ 406,020	**$ 472,211**	$ 406,020

See accompanying notes to interim consolidated financial statements.

Fortis Inc.
Consolidated Statements of Cash Flows (Unaudited)
For the periods ended September 30
(in thousands)

	Quarter Ended		Nine Months Ended	
	2006	2005	**2006**	2005
Operating Activities				
Net earnings applicable to common shares	**$ 38,750**	$ 37,450	**$ 113,301**	$ 114,834
Items not affecting cash				
Amortization - capital assets, net of contributions in aid of construction	**39,810**	34,201	**123,176**	111,400
Amortization - intangibles	**1,052**	921	**3,156**	2,763
Amortization - other	**1,427**	1,715	**4,582**	5,005
Future income taxes	**(979)**	(153)	**(5,358)**	9,282
Accrued employee future benefits	**(733)**	(1,874)	**(2,485)**	(2,902)
Equity income, net of dividends	**(1,460)**	(1,144)	**(1,601)**	(2,387)
Stock-based compensation	**387**	387	**1,159**	1,177
Unrealized foreign exchange gain on long-term debt (Note 10)	**(369)**	(3,765)	**(1,808)**	(2,406)
Non-controlling interest	**1,876**	1,516	**4,720**	4,179
Gain on sale of income producing property	**-**	-	**(2,088)**	-
Other	**(101)**	20	**(743)**	314
Increase in corporate income tax deposit	**-**	-	**(5,922)**	-
	79,660	69,274	**230,089**	241,259
Change in non-cash operating working capital	**16,822**	30,532	**(26,450)**	(12,229)
	96,482	99,806	**203,639**	229,030
Investing Activities				
Change in deferred charges and credits	**(1,884)**	(2,603)	**(12,712)**	(5,904)
Purchase of utility capital assets	**(114,774)**	(101,652)	**(330,621)**	(290,804)
Purchase of income producing properties	**(3,542)**	(2,283)	**(15,349)**	(76,500)
Contributions in aid of construction	**15,431**	9,528	**38,630**	32,209
Proceeds on sale of capital assets	**621**	628	**6,530**	982
Business acquisitions, net of cash acquired (Note 14)	**(75,357)**	(50)	**(75,357)**	(3,298)
Increase in investments	**-**	-	**(1,893)**	-
	(179,505)	(96,432)	**(390,772)**	(343,315)
Financing Activities				
Change in short-term borrowings	**388**	(82,855)	**19,888**	(137,592)
Proceeds from long-term debt	**89,725**	96,361	**300,312**	194,377
Repayment of long-term debt and capital lease obligations	**(77,488)**	(9,907)	**(190,163)**	(45,150)
Redemption of preference shares	**-**	(38)	**-**	(38)
Advances from (to) non-controlling interest	**485**	211	**9,535**	(853)
Issue of common shares	**3,277**	2,013	**9,141**	132,327
Issue of preference shares	**121,117**	-	**121,117**	-
Dividends				
Common shares	**(19,750)**	(16,541)	**(52,832)**	(45,827)
Subsidiary dividends paid to non-controlling interest	**(667)**	(573)	**(1,477)**	(1,362)
	117,087	(11,329)	**215,521**	95,882
Effect of exchange rate changes on cash	**(35)**	(270)	**(410)**	(178)
Change in cash and cash equivalents	**34,029**	(8,225)	**27,978**	(18,581)
Cash and cash equivalents, beginning of period	**27,365**	26,847	**33,416**	37,203
Cash and cash equivalents, end of period	**$ 61,394**	$ 18,622	**$ 61,394**	$ 18,622

See accompanying notes to interim consolidated financial statements.

1. DESCRIPTION OF THE BUSINESS

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

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

Regulated Utilities - Canadian

The following summary describes the Corporation's interest in Regulated Utilities in Canada by utility:

a. *FortisAlberta:* FortisAlberta owns and operates the electricity distribution system in a substantial portion of southern and central Alberta.

b. *FortisBC*: Includes FortisBC Inc., an integrated electric utility operating in the southern interior of British Columbia. FortisBC Inc. owns 4 hydroelectric generation plants with a combined total capacity of 235 megawatts ("MW"). Included with the FortisBC component of the Regulated Utilities - Canadian segment are the non-regulated operating, maintenance and management services relating to the 450-MW Waneta hydroelectric generating facility owned by Teck Cominco, 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. Commencing May 31, 2005, the FortisBC component of Regulated Utilities - Canadian segment also includes Princeton Light and Power Company, Limited ("PLP"). On May 31, 2005, Fortis, through an indirect wholly owned subsidiary, acquired all issued common and preference shares of PLP. PLP is an electric utility serving customers, mainly in Princeton, British Columbia. PLP presently purchases its wholesale power from FortisBC Inc. under a Power Purchase Agreement ("PPA").

c. *Newfoundland Power:* Newfoundland Power is the principal distributor of electricity in Newfoundland. Newfoundland Power also has an installed generating capacity of 136 MW of which 92 MW is hydroelectric generation.

d. *Maritime Electric:* Maritime Electric is the principal distributor of electricity on Prince Edward Island. Maritime Electric also maintains on-Island generating facilities at Charlottetown and Borden-Carleton with a combined total capacity of 150 MW.

e. *FortisOntario:* FortisOntario provides an integrated electric utility service to 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. Included in Canadian Niagara Power's accounts is the operation of the electricity distribution business of Port Colborne Hydro Inc., which has been leased from the City of Port Colborne under a 10-year lease agreement entered into in April 2002. FortisOntario also owns a 10 per cent interest in each of Westario Power Holdings Inc. and Rideau St. Lawrence Holdings Inc., 2 regional electrical distribution companies formed in 2000.

1. DESCRIPTION OF THE BUSINESS (cont'd)

Regulated Utilities - Caribbean

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

a. *Belize Electricity Limited ("Belize Electricity"):* Belize Electricity is the principal distributor of electricity in Belize, Central America. The Corporation holds a 70.1 per cent controlling interest in the Company.

b. *Caribbean Utilities Company, Ltd. ("Caribbean Utilities"):* Caribbean Utilities is the sole provider of electricity on Grand Cayman, Cayman Islands. Fortis holds a 37.4 per cent equity interest in the Company.

c. *P.P.C. Limited ("PPC") and Atlantic Equipment & Power (Turks and Caicos) Ltd. ("Atlantic"):* PPC and Atlantic were acquired on August 28, 2006 by Fortis through a wholly owned subsidiary. PPC and Atlantic serve almost 7,500 customers, or 80 per cent of electricity customers, in the Turks and Caicos Islands. PPC is the sole provider of electricity in Providenciales, North Caicos and Middle Caicos pursuant to a 50-year licence that expires in 2037. Atlantic is the sole provider of electricity in South Caicos pursuant to a 50-year licence that expires in 2036.

Non-Regulated - Fortis Generation

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

a. *Belize:* Operations consist of the 25-MW Mollejon and 7-MW Chalillo hydroelectric facilities in Belize. All of the electricity output is sold to Belize Electricity under a 50-year PPA. 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, the 5-MW Cornwall District Heating cogeneration plant and 6 small hydroelectric generating stations in eastern Ontario with a combined capacity of 8 MW. Non-regulated generating operations in Ontario are conducted through FortisOntario Inc. and the former FortisOntario Generation Corporation. In January 2006, FortisOntario Generation Corporation was amalgamated with CNE Energy Inc.

c. *Central Newfoundland:* Through the Exploits River Hydro Partnership ("Exploits Partnership"), a partnership between the Corporation, through an indirect wholly owned subsidiary, CNE Energy Inc., and Abitibi-Consolidated Company of Canada ("Abitibi-Consolidated"), 36 MW of additional capacity was developed and installed at 2 of Abitibi-Consolidated's hydroelectric plants in central Newfoundland. The Corporation holds an indirect 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 PPA.

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. Hydroelectric generating 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 4 hydroelectric generating stations in Upper New York State with a combined capacity of 23 MW operating under licences from the US Federal Energy Regulatory Commission. Hydroelectric generation operations in Upper New York State are conducted through the Corporation's indirect wholly owned subsidiary, FortisUS Energy Corporation.

1. DESCRIPTION OF THE BUSINESS (cont'd)

Non-Regulated - Fortis Properties

Including the 4 hotels for which an agreement to purchase has been entered into on October 19, 2006, Fortis Properties owns and operates hotels in 7 Canadian provinces and commercial real estate in Atlantic Canada. Its holdings include 18 hotels with more than 3,200 rooms and approximately 2.7 million square feet of commercial real estate (Note 17).

Corporate

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

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 2005 annual audited consolidated financial statements. Interim results will fluctuate due to the seasonal nature of electricity demand and water flows as well as the timing and recognition of regulatory decisions. Given the diversified group of companies, seasonality may vary. Most of the Corporation's utility investments produce their highest earnings in the first quarter. The Corporation's non-utility investment, Fortis Properties, generally produces its highest earnings in the second and third quarters.

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. These differences and nature of regulation are disclosed in Notes 2 and 4 to the Corporation's 2005 annual audited 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 2005 annual audited consolidated financial statements except as described below. All amounts are presented in Canadian dollars unless otherwise stated.

Revenue Recognition

Effective January 1, 2006, Newfoundland Power prospectively changed its revenue recognition policy from a billed basis to an accrual basis, as approved by the Newfoundland and Labrador Board of Commissioners of Public Utilities ("PUB"). The transition to recording revenue on an accrual basis, while having no material impact on Newfoundland Power's annual earnings, results in a shift in the Company's 2006 quarterly earnings compared to 2005. The change in the revenue recognition policy resulted in a $0.4 million increase in revenue quarter over quarter, and a $10.3 million decrease in revenue year to date compared to the same period last year. The PUB also approved an unbilled revenue accrual of $3.1 million in 2006. This amount represents that portion of unbilled revenue, as at December 31, 2005, of $23.6 million, required to offset the 2006 income tax impact of changing to the accrual method for revenue recognition. A total of $0.6 million and $2.2 million of the unbilled revenue accrual was recognized during the third quarter and year to date, respectively. The disposition of the remaining 2005 unbilled revenue balance will be determined by future orders of the PUB. The change in the revenue recognition policy, including the impact of the recognition of a portion of the one-time revenue accrual, resulted in an increase in earnings of $0.2 million quarter over quarter and a net $5.4 million decrease in earnings year to date compared to the same period last year.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Conditional Asset Retirement Obligations

On April 1, 2006, Fortis retroactively adopted EIC 159, *Conditional Asset Retirement Obligations* ("EIC 159"). EIC 159 requires an entity to recognize a liability for the fair value of an asset retirement obligation ("ARO") even though the timing and/or method of settlement are conditional on future events. While conditional AROs have been identified, no amounts have been recorded as they are immaterial to the Corporation's results of operations and financial position.

Corporate Income Taxes

Effective January 1, 2006, FortisAlberta is following the taxes payable method of accounting for federal income taxes. As prescribed by the 2006/2007 Negotiated Settlement Agreement, approved by the Alberta Electric Utility Board ("AEUB") on June 29, 2006, corporate income tax expenses are now recovered through customer rates based only on income taxes that are currently payable for regulatory purposes. The cumulative impact of the change in the income tax methodology for the first half of 2006 was recorded by the Corporation during the second quarter of 2006. Under the new methodology, current rates do not include the recovery of future income taxes related to certain temporary differences between the tax basis of assets and liabilities and their carrying amounts for regulatory purposes, as these taxes are expected to be collected in customer rates when they become payable. Accordingly, FortisAlberta no longer recognizes income taxes deferred to future years as a result of the specified temporary differences. The Company only recognizes future income taxes for certain deferral amounts where the future income taxes will not be collected in future customer rates.

In 2005, FortisAlberta followed the taxes payable method of accounting for provincial income taxes and federal income tax expenses were recovered through customer rates based on a modified liability method. Under the modified liability method, customer rates included the recovery of future federal income taxes related to specified temporary differences between the tax basis of assets and liabilities and their carrying amounts for regulatory purposes. As a result of collecting a portion of future federal income taxes within customer rates in 2005, FortisAlberta previously recognized future federal income taxes within the 2005 financial statements and also set up a regulatory liability equal to the amount of future federal income taxes recognized that had not yet been reflected in customer rates. However, due to the 2006/2007 Negotiated Settlement Agreement, the future income tax asset and offsetting regulatory liability are no longer recognized which resulted in a $50.7 million reduction in the Corporation's future income tax assets and regulatory liabilities during the second quarter of 2006. Had FortisAlberta accounted for its regulated operations using the liability method in 2006, the Company would have had additional future income tax assets of approximately $60.2 million at September 30, 2006 and would have recognized additional future income tax expense of approximately $3.9 million and $16.5 million for the third quarter and year-to-date period ended September 30, 2006, respectively (Note 13). Had the liability method been used during 2006, there would have been no net earnings impact associated with the additional future income tax expense as FortisAlberta would have recorded an offsetting regulatory asset for future recovery in customer rates.

Employee Future Benefits

Effective January 1, 2006, as prescribed by the AEUB-approved 2006/2007 Negotiated Settlement Agreement, FortisAlberta is recovering in customer rates other post-employment benefits and supplemental pension plan costs based on the cash payments made. However, any difference between the expense recognized under Canadian GAAP and that recovered from customers in current customer rates for other post-employment and pension plans, which is expected to be recovered or refunded in future customer rates, is subject to deferral treatment and is recorded as a regulatory asset on the balance sheet.

4. USE OF ESTIMATES

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

4. USE OF ESTIMATES (cont'd)

Additionally, certain estimates are necessary since the regulatory environments in which the Corporation's utilities operate often require amounts to be recorded at estimated values until these amounts are finalized pursuant to regulatory decisions or other regulatory proceedings.

Due to changes in facts and circumstances and the inherent uncertainty involved in making estimates, actual results may differ significantly from current estimates. Estimates are reviewed periodically and, as adjustments become necessary, are reported in earnings in the period 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 nine-month period ended September 30, 2006 from those disclosed in the Corporation's Management Discussion and Analysis for the year ended December 31, 2005, except as discussed below and as described in Note 16 to these interim consolidated financial statements.

Rates

On May 23, 2006 and June 29, 2006, FortisBC and FortisAlberta, respectively, received approval for final rates to be charged to customers in 2006 as a result of the respective regulators' approval of the Negotiated Settlement Agreements. At FortisBC, the 5.9 per cent interim increase in electricity rates charged to customers, effective January 1, 2006, and the 2006 final approved rate increase were the same. At FortisAlberta, the AEUB approved a 1.9 per cent decrease in distribution rates, effective January 1, 2006. FortisAlberta has been charging interim rates which are the same as those charged in 2005. The impact of the decrease in rates at FortisAlberta, effective January 1, 2006, was a reduction of revenue of $1.1 million and $3.2 million in the Corporation's third quarter and year-to-date consolidated financial statements, respectively, compared to the same periods last year, which will be refunded to customers during 2007.

Amortization and Capitalized Overhead

FortisBC recently completed a depreciation study on the estimated useful life of its property, plant and equipment recommending an increase in the Company's composite depreciation rate. The BCUC-approved 2006 Negotiated Settlement Agreement resulted in an increase in the composite depreciation rate from 2.6 per cent to 3.2 per cent, effective January 1, 2006, the impact of which has increased amortization costs in the Corporation's third quarter and year-to-date consolidated financial statements by approximately $1.2 million and $3.5 million, respectively, compared to the same periods last year.

FortisBC also recently completed an analysis of its capitalized overhead allocation method. This analysis supported a change in the estimate of capitalized overhead. The changed estimate calculates capitalized overhead as a percentage of all corporate overhead, whereas previously the percentage was applied to a limited pool of corporate costs. The 2006 Negotiated Settlement Agreement resulted in an increase in the amount of capitalized overhead, effective January 1, 2006, from approximately 9 per cent of BCUC-approved 2005 forecast gross operating and maintenance expenses to 20 per cent of BCUC-approved 2006 forecast gross operating and maintenance expenses. The impact of this change in estimate has decreased operating costs in the Corporation's third quarter and year-to-date consolidated financial statements by approximately $1.1 million and $3.7 million, respectively, compared to the same periods last year.

5. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

The Corporation and its subsidiaries had consolidated authorized lines of credit of $923.9 million, of which $682.2 million was unused at September 30, 2006. The following summary outlines the Corporation's credit facilities by reporting segments.

5. SHORT-TERM BORROWINGS AND LONG-TERM DEBT (cont'd)

Credit Facilities *($ millions)*	Corporate	Regulated Utilities	Fortis Generation	Fortis Properties	**Total as at September 30, 2006**	Total as at December 31, 2005
Total credit facilities	315.0	594.2	2.2	12.5	**923.9**	747.1
Credit facilities utilized						
Short-term borrowings	(4.1)	(66.6)	-	-	**(70.7)**	(48.9)
Long-term debt	(48.2)	(59.4)	-	-	**(107.6)**	(85.8)
Letters of credit outstanding	(4.5)	(56.8)	-	(2.1)	**(63.4)**	(73.6)
Credit facilities available	258.2	411.4	2.2	10.4	**682.2**	538.8

At September 30, 2006 and December 31, 2005, certain borrowings under the Corporation's and subsidiaries' credit facilities have been classified as long-term debt. These borrowings are under long-term credit facilities and management's intention is to refinance these borrowings with long-term permanent financing during future periods.

In January 2006, Newfoundland Power renegotiated its syndicated $100 million committed revolving term credit facility extending the term from 1 year to 3 years, with maturity now in January 2009.

In January 2006, Maritime Electric's $25 million non-revolving unsecured short-term bridge financing, primarily in support of the construction of the 50-MW combustion turbine generating facility, was extended until July 2007. In August 2006, the amount available on Maritime Electric's operating credit facilities was increased to $30 million from $25 million.

In March 2006, FortisAlberta amended its unsecured term syndicated credit facility increasing the amount available to $200 million from $150 million and extending the maturity date from May 2008 to May 2010. In addition, the Company, with the consent of the lenders, has the ability to request an increase in the limit of this credit facility by $50 million under the same terms of the existing credit facility. In July 2006, FortisAlberta entered into a demand credit facility for $10 million increasing the amount available to the Company under unsecured demand credit facilities to $20 million.

In May 2006, the maturity date of FortisBC's $50 million 364-day operating credit facility was extended to May 2007.

In June 2006, Fortis renegotiated and amended its $145 million and $50 million unsecured term credit facilities extending the maturity dates of these facilities from May 2008 and January 2009 to May 2010 and January 2011, respectively. Additionally, in July 2006, the amount available under the $145 million facility was increased to $250 million. These credit facilities can be used for general corporate purposes, including acquisitions.

On April 21, 2006, FortisAlberta issued $100 million in unsecured debentures bearing interest at 5.40% per annum, payable semi-annually on April 21 and October 21, due April 21, 2036. The net proceeds of the offering were used primarily to repay existing indebtedness on FortisAlberta's term syndicated credit facility.

At September 30, 2006, total credit facilities included both a US$2 million overdraft facility and a US$9 million standby credit facility for hurricane damage at PPC. No drawings were made on these facilities as at September 30, 2006.

6. COMMON SHARES

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

a)

	September 30, 2006		December 31, 2005	
Issued and Outstanding	**Number of Shares**	**Amount** *(in thousands)*	Number of Shares	Amount *(in thousands)*
Common Shares	**103,706,052**	**$ 822,518**	103,203,981	$ 813,304

Common Shares issued during the period were as follows:

	Quarter Ended September 30, 2006		**Year-to-date September 30, 2006**	
	Number of Shares	**Amount** *(in thousands)*	**Number of Shares**	**Amount** *(in thousands)*
Opening balance	**103,489,080**	**$ 819,227**	**103,203,981**	**$ 813,304**
Consumer Share Purchase Plan	**17,636**	**429**	**59,203**	**1,387**
Dividend Reinvestment Plan	**41,775**	**1,017**	**133,023**	**3,119**
Employee Share Purchase Plan	**19,925**	**484**	**110,340**	**2,567**
Directors' and Executive Stock Option Plans	**137,636**	**1,361**	**199,505**	**2,141**
	103,706,052	**$ 822,518**	**103,706,052**	**$ 822,518**

At September 30, 2006, 11,344,396 Common Shares remained reserved for issue under the terms of the above-noted share purchase, dividend reinvestment and stock option plans.

b) Earnings per Common Share

The Corporation calculates earnings per common share on the weighted average number of common shares outstanding. The year-to-date weighted average number of common shares outstanding was 103,451,471 and 101,293,188 at September 30, 2006 and September 30, 2005, respectively. The weighted average number of common shares outstanding was 103,645,612 and 103,009,732 for the quarters ended September 30, 2006 and September 30, 2005, respectively.

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

6. COMMON SHARES (cont'd)

b) Earnings per Common Share

Earnings per common share are as follows:

	Quarter Ended September 30					
	2006			2005		
	Earnings *(in thousands)*	**Weighted Average Shares** *(in thousands)*	**Earnings per Common Share**	Earnings *(in thousands)*	Weighted Average Shares *(in thousands)*	Earnings per Common Share
Earnings	**$ 38,750**			$ 37,450		
Weighted average shares outstanding		**103,646**			103,010	
Basic Earnings per Common Share			**$ 0.37**			$ 0.36
Effect of dilutive securities:						
Stock options	**-**	**1,196**		-	920	
Preference Shares (Note 8 (i) and (ii))	**4,152**	**14,096**		4,152	19,688	
Convertible debentures	**255**	**1,925**		273	1,924	
Diluted Earnings per Common Share	**$ 43,157**	**120,863**	**$ 0.36**	$ 41,875	125,542	$ 0.33

	Year-to-date September 30					
	2006			2005		
	Earnings *(in thousands)*	**Weighted Average Shares** *(in thousands)*	**Earnings per Common Share**	Earnings *(in thousands)*	Weighted Average Shares *(in thousands)*	Earnings per Common Share
Earnings	**$ 113,301**			$ 114,834		
Weighted average shares outstanding		**103,451**			101,293	
Basic Earnings per Common Share			**$ 1.09**			$1.13
Effect of dilutive securities:						
Stock options	**-**	**1,196**		-	920	
Preference Shares (Note 8 (i) and (ii))	**12,455**	**14,096**		12,455	19,688	
Convertible debentures	**774**	**1,925**		836	1,924	
Diluted Earnings per Common Share	**$ 126,530**	**120,668**	**$ 1.05**	$ 128,125	123,825	$ 1.03

7. STOCK OPTIONS

The Corporation is authorized to grant certain key employees and directors of Fortis Inc. and its subsidiaries options to purchase Common Shares of the Corporation. At September 30, 2006, the Corporation had the following stock-based compensation plans: Executive Stock Option Plan, 2002 Stock Option Plan and 2006 Stock Option Plan. The 2002 Stock Option Plan was adopted at the Annual and Special General Meeting on May 15, 2002 to ultimately replace the Executive and the former Directors' Stock Option Plans. The Executive Stock Option Plan will cease to exist when all outstanding options are exercised or expire in or before 2011. A new 2006 Stock Option Plan ("2006 Plan") was approved at the May 2, 2006 Annual Meeting at which Special Business was conducted. The 2006 Plan will ultimately replace the Executive Stock Option Plan and 2002 Stock Option Plan. The Corporation has ceased the grant of options under the 2002 Stock Option Plan and all new options to be granted by Fortis will be granted under the 2006 Stock Option Plan. Options granted under the 2006 Plan will have a maximum term of 7 years, which is reduced from 10 years under the 2002 Stock Option Plan, and will expire no later than 3 years after the termination, death or retirement of the optionee compared to no later than 1 year under the 2002 Stock Option Plan. Directors are not eligible to receive grants of options under the 2006 Plan.

	Quarter Ended September 30, 2006		Year-to-date September 30, 2006	
	Number of Options	Weighted Average Price	Number of Options	Weighted Average Price
Options outstanding at beginning of period	**3,986,768**	**$ 15.60**	**3,421,876**	**$ 14.18**
Granted	**-**	**$ -**	**626,761**	**$ 22.94**
Cancelled	**-**	**$ -**	**-**	**$ -**
Exercised	**(137,636)**	**$ 9.78**	**(199,505)**	**$ 10.36**
Options outstanding at end of period	**3,849,132**	**$ 15.80**	**3,849,132**	**$ 15.80**

Details of stock options outstanding are as follows:	Number of Options	Exercise Price	Expiry Date
	288,696	$ 9.57	2011
	624,348	$ 12.03	2012
	695,789	$ 12.81	2013
	704,852	$ 15.28	2014
	12,000	$ 15.23	2014
	68,557	$ 14.55	2014
	766,389	$ 18.40	2015
	28,000	$ 18.11	2015
	33,740	$ 20.82	2015
	626,761	$ 22.94	2016
	3,849,132		
Options vested at end of period	2,008,836		

Stock-Based Compensation

On February 28, 2006, the Corporation granted 626,761 options on common shares under its 2002 Stock Option Plan at the 5-day average trading price immediately preceding the date of grant of $22.94. These options vest evenly over a 4-year period on each anniversary of the date of grant. The options expire 10 years after the date of grant. The fair market value of each option granted was $3.90 per option.

7. STOCK OPTIONS (cont'd)

The fair value was estimated on the date of grant using the Black-Scholes fair value option-pricing model and the following assumptions:

	February 28, 2006
Dividend yield (%)	3.02
Expected volatility (%)	16.7
Risk-free interest rate (%)	4.12
Weighted-average expected life (years)	7.5

The Corporation records compensation expense upon the issuance of stock options under its 2002 and 2006 Stock Option Plans. Using the fair value method, the compensation expense is amortized over the 4-year vesting period of the options. Under the fair value method, $0.4 million and $1.2 million were recorded as compensation expense for the three and nine months ended September 30, 2006, respectively ($0.4 million and $1.2 million for the three and nine months ended September 30, 2005, respectively).

8. PREFERENCE SHARES

Authorized

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

		September 30, 2006		December 31, 2005	
Issued and Outstanding	Balance Sheet Classification	Number of Shares	Amount *(in thousands)*	Number of Shares	Amount *(in thousands)*
(i) First Preference Shares, Series C	**Debt**	**5,000,000**	**$122,992**	5,000,000	$122,992
(ii) First Preference Shares, Series E	**Debt**	**7,993,500**	**196,500**	7,993,500	196,500
Total classified as debt		**12,993,500**	**$319,492**	12,993,500	$319,492
(iii) First Preference Shares, Series F	**Equity**	**5,000,000**	**$122,466**	-	-

(i) First Preference Shares, Series C

The First Preference Shares, Series C are entitled to fixed cumulative preferential cash dividends at a rate of $1.3625 per share per annum. On or after June 1, 2010, the Corporation may, at its option, redeem for cash the First Preference Shares, Series C, in whole at any time or in part from time to time, at $25.75 per share if redeemed before June 1, 2011, at $25.50 per share if redeemed on or after June 1, 2011 but before June 1, 2012, at $25.25 per share if redeemed on or after June 1, 2012 but before June 1, 2013 and at $25.00 per share if redeemed on or after June 1, 2013 plus, in each case, all accrued and unpaid dividends up to but excluding the date fixed for redemption.

On or after June 1, 2010, the Corporation may, at its option, convert all, or from time to time any part of the outstanding First Preference Shares, Series C into fully paid and freely tradable common shares of the Corporation. The number of common shares into which each Preference Share may be so converted will be determined by dividing the then-applicable redemption price per Preference Share, together with all accrued and unpaid dividends up to but excluding the date fixed for conversion, by the greater of $1.00 and 95 per cent of the then-current market price of the common shares at such time.

8. PREFERENCE SHARES (cont'd)

(i) First Preference Shares, Series C (cont'd)

On or after September 1, 2013, each First Preference Share, Series C will be convertible at the option of the holder on the third day of September, December, March and June of each year into freely tradable common shares determined by dividing $25.00, together with all accrued and unpaid dividends up to but excluding the date fixed for conversion, by the greater of $1.00 and 95 per cent of the then-current market price of the common shares.

If a holder of First Preference Shares, Series C elects to convert any of such shares into common shares, the Corporation can redeem such First Preference Shares, Series C for cash or arrange for the sale of those shares to substitute purchasers.

As the First Preference Shares, Series C are redeemable at the option of the shareholder, they meet the definition of a financial liability and, therefore, are classified as long-term liabilities with associated dividends classified as finance charges.

(ii) First Preference Shares, Series E

The First Preference Shares, Series E are entitled to receive fixed cumulative preferential cash dividends in the amount of $1.2250 per share per annum.

On or after June 1, 2013, the Corporation may, at its option, redeem all, or from time to time any part of, the outstanding First Preference Shares, Series E by the payment in cash of a sum per redeemed share equal to $25.75 if redeemed during the 12 months commencing June 1, 2013, $25.50 if redeemed during the 12 months commencing June 1, 2014, $25.25 if redeemed during the 12 months commencing June 1, 2015, and $25.00 if redeemed on or after June 1, 2016 plus, in each case, all accrued and unpaid dividends up to but excluding the date fixed for redemption.

On or after June 1, 2013, the Corporation may, at its option, convert all, or from time to time any part of the outstanding First Preference Shares, Series E into fully paid and freely tradable common shares of the Corporation. The number of common shares into which each Preference Share may be so converted will be determined by dividing the then-applicable redemption price per First Preference Share, Series E, together with all accrued and unpaid dividends up to but excluding the date fixed for conversion, by the greater of $1.00 and 95 per cent of the then-current market price of the common shares at such time.

On or after September 1, 2016, each First Preference Share, Series E will be convertible at the option of the holder on the first business day of September, December, March and June of each year, into fully paid and freely tradable common shares determined by dividing $25.00, together with all accrued and unpaid dividends up to but excluding the date fixed for conversion, by the greater of $1.00 and 95 per cent of the then-current market price of the common shares. If a holder of Preference Shares, Series E elects to convert any of such shares into common shares, the Corporation can redeem such Preference Shares, Series E for cash or arrange for the sale of those shares to other purchasers.

As the First Preference Shares, Series E are redeemable at the option of the shareholder, they meet the definition of a financial liability and, therefore, are classified as long-term liabilities with associated dividends classified as finance charges.

(iii) First Preference Shares, Series F

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

The First Preference Shares, Series F are entitled to receive fixed cumulative preferential cash dividends in the amount of $1.2250 per share per annum.

8. PREFERENCE SHARES (cont'd)

(iii) First Preference Shares, Series F (cont'd)

On or after December 1, 2011, the Corporation may, at its option, redeem for cash the First Preference Shares, Series F, in whole at any time or in part from time to time, at $26.00 per share if redeemed before December 1, 2012, at $25.75 per share if redeemed on or after December 1, 2012 but before December 1, 2013, at $25.50 per share if redeemed on or after December 1, 2013 but before December 1, 2014, at $25.25 per share if redeemed on or after December 1, 2014 but before December 1, 2015, and at $25.00 per share if redeemed on or after December 1, 2015 plus, in each case, all accrued and unpaid dividends up to but excluding the date fixed for redemption.

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

9. EMPLOYEE FUTURE BENEFITS

The Corporation provides pension arrangements and other post-employment benefits to qualified employees through both defined contribution and defined benefit arrangements. The cost of providing the defined benefit arrangements was $4.6 million and $14.1 million for the three and nine months ended September 30, 2006, respectively ($2.5 million and $10.7 million for the three and nine months ended September 30, 2005, respectively). The cost of providing the defined contribution arrangements for the three and nine months ended September 30, 2006 was $0.9 million and $2.5 million, respectively ($0.7 million and $2.3 million for the three and nine months ended September 30, 2005, respectively).

10. FINANCE CHARGES

	Quarter Ended September 30		**Year-to-date September 30**	
(in thousands)	**2006**	2005	**2006**	2005
Amortization of debt and stock issue expenses	**$ 158**	$ 147	**$ 467**	$ 493
Interest - Long-term debt and capital lease obligations	**38,995**	35,560	**114,333**	105,281
- Short-term borrowings	**1,960**	1,116	**4,972**	5,397
Interest charged to construction	**(982)**	(2,016)	**(3,079)**	(4,684)
Interest earned	**(842)**	(900)	**(2,948)**	(2,886)
Unrealized foreign exchange gain on long-term debt	**(369)**	(3,765)	**(1,808)**	(2,406)
Dividends on preference shares (Note 8 (i) and (ii))	**4,152**	4,152	**12,455**	12,455
	$43,072	$34,294	**$124,392**	$113,650

11. GAIN ON SALE OF INCOME PRODUCING PROPERTY

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

12. GAIN ON SETTLEMENT OF CONTRACTUAL MATTERS

In the first quarter of 2005, Fortis recorded a $10.0 million ($7.9 million after-tax) gain resulting from the settlement of contractual matters between FortisOntario and Ontario Power Generation Inc.

13. CORPORATE TAXES

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

	Quarter Ended September 30 *(%)*		**Year-to-date September 30** *(%)*	
	2006	2005	**2006**	2005
Statutory income tax rate	**35.2**	35.2	**35.2**	35.3
Preference share dividends	**3.2**	2.6	**3.2**	2.5
Large corporations' tax	**-**	1.5	**-**	1.9
Differences between Canadian statutory rates and those applicable to foreign subsidiaries	**(9.8)**	(4.5)	**(6.4)**	(2.7)
Items capitalized for accounting but expensed for income tax purposes	**(10.6)**	4.8	**(12.3)**	-
Other timing differences	**(1.8)**	(0.6)	**(1.5)**	(0.3)
Impact of reduction in income tax rates on future income tax balances	**-**	-	**(2.8)**	-
Change in revenue recognition policy at Newfoundland Power (Note 3)	**0.3**	-	**0.8**	-
Maritime Electric tax reassessment (Note 16)	**0.1**	-	**1.2**	-
Cornwall Electric tax reassessment	**-**	(2.7)	**-**	(0.9)
Pension costs	**0.3**	(0.8)	**(0.4)**	(0.9)
Other	**(2.7)**	(2.1)	**(0.7)**	(0.9)
Effective income tax rate	**14.2**	33.4	**16.3**	34.0

During the second quarter of 2006, FortisAlberta recorded the impact associated with the first and second quarters of 2006, relating to the June 29, 2006 AEUB-approved 2006/2007 Negotiated Settlement Agreement, effective January 1, 2006. The approved 2006/2007 Negotiated Settlement Agreement resulted in a change in the income tax methodology whereby future income tax expense for federal income tax, associated with specified timing differences, is no longer being recognized. The effect of the change in income tax methodology has been a decrease in income tax expense during the quarter and year to date compared to the same periods last year, primarily associated with the timing of recognition for income tax purposes of those items capitalized for accounting purposes (Note 3).

14. BUSINESS ACQUISITION

P.P.C Limited and Atlantic Equipment & Power (Turks and Caicos) Ltd.

On August 28, 2006, Fortis, through a wholly owned subsidiary, acquired all issued and outstanding common shares of P.P.C. Limited ("PPC") and Atlantic Equipment & Power (Turks and Caicos) Ltd. ("Atlantic") for aggregate consideration of approximately $97.4 million (US$87.6 million). The purchase price net of assumed debt and acquisition costs of $75.4 million (US$67.8 million) was initially financed through cash consideration by way of drawings on the Corporation's credit facilities that were repaid in part, with partial proceeds from the issuance of First Preference Share, Series F of Fortis on September 28, 2006.

Together, PPC and Atlantic serve almost 7,500 customers, or 80 per cent of electricity customers, in the Turks and Caicos Islands. PPC is the sole provider of electricity in Providenciales, North Caicos and Middle Caicos pursuant to a 50-year licence that expires in 2037. Atlantic is the sole provider of electricity in South Caicos pursuant to a 50-year licence that expires in 2036. The licences provide for a 17.5 per cent return on a defined asset base.

14. BUSINESS ACQUISITION (cont'd)

The acquisition has been accounted for using the purchase method, whereby the results of full operations have been included in the consolidated financial statements of Fortis in the Regulated Utilities - Caribbean segment commencing August 28, 2006. The book value of the net assets included in the defined asset base for the purpose of calculating the permitted 17.5 per cent return have been assigned as fair value for purchase price allocation. The regulated nature of PPC and Atlantic and the determination of revenues and earnings are based on historic values and do not change with market conditions or change of ownership. Therefore, no fair market value increments were recorded as part of the purchase price on those net assets included in the defined asset base as all economic benefits associated with them will accrue to the customers.

The preliminary purchase price allocation to net assets based on their fair values, subject to finalization during the fourth quarter 2006, is as follows:

(in thousands)	PPC	Atlantic	Total
Fair value assigned to net assets:			
Utility capital assets	**$ 45,196**	**$ 605**	**$ 45,801**
Current assets	**17,787**	**815**	**18,602**
Goodwill	**38,520**	**-**	**38,520**
Other assets	**905**	**-**	**905**
Current liabilities	**(3,162)**	**(105)**	**(3,267)**
Assumed debt (including current portion)	**(22,072)**	**-**	**(22,072)**
Other liabilities	**(2,057)**	**(1,075)**	**(3,132)**
	$ 75,117	**$ 240**	**$ 75,357**

15. SEGMENTED INFORMATION

a) Information by reportable segment is as follows

Quarter ended	Regulated Utilities							Non-Regulated			**Inter-**	
(in thousands of dollars)	Fortis	Fortis	Nfld	Maritime	Fortis	**Total**	**Total**	**Fortis**	**Fortis**		**segment**	
September 30, 2006	Alberta	BC	Power	Electric	Ontario	**Canadian**	**Caribbean** [1]	**Generation**	**Properties**	**Corporate**	**eliminations**	**Consolidated**
Operating revenues	64,580	48,734	78,450	32,162	32,057	255,983	26,617	19,304	43,962	2,176	(9,293)	338,749
Equity income	-	-	-	-	-	-	3,198	-	-	-	-	3,198
Energy supply costs	-	14,274	47,651	18,496	23,413	103,834	14,975	1,422	-	-	(6,545)	113,686
Operating expenses	28,786	14,785	12,126	3,052	3,726	62,475	2,941	3,243	26,114	2,027	(1,245)	95,555
Amortization	16,951	6,757	6,517	2,547	1,340	34,112	1,692	2,595	3,143	747	-	42,289
Operating income	18,843	12,918	12,156	8,067	3,578	55,562	10,207	12,044	14,705	(598)	(1,503)	90,417
Finance charges	7,778	6,130	8,275	2,793	1,281	26,257	558	2,445	5,283	10,032	(1,503)	43,072
Gain on sale of income producing property	-	-	-	-	-	-	-	-	-	-	-	-
Corporate income taxes	(1,215)	1,052	1,171	2,116	702	3,826	405	1,587	3,145	(2,244)	-	6,719
Non-controlling interest	-	-	147	-	-	147	1,585	186	-	(42)	-	1,876
Net earnings (loss)	12,280	5,736	2,563	3,158	1,595	25,332	7,659	7,826	6,277	(8,344)	-	38,750
Goodwill	228,615	220,719	-	19,858	42,947	512,139	38,714	-	-	-	-	550,853
Identifiable assets	845,595	768,625	850,352	283,394	119,261	2,867,227	288,133	235,129	437,616	75,100	(15,282)	3,887,923
Equity investment assets	-	-	-	-	-	-	168,187	-	-	-	-	168,187
Total assets	1,074,210	989,344	850,352	303,252	162,208	3,379,366	495,034	235,129	437,616	75,100	(15,282)	4,606,963
Capital expenditures	59,821	24,825	14,206	7,425	2,589	108,866	4,908	322	3,542	678	-	118,316
September 30, 2005												
Operating revenues	66,778	45,120	77,462	30,221	36,589	256,170	21,858	21,731	42,289	2,890	(6,328)	338,610
Equity income	-	-	-	-	-	-	3,040	-	-	-	-	3,040
Energy supply costs	-	13,873	46,308	18,194	28,855	107,230	11,912	941	-	-	(2,515)	117,568
Operating expenses	28,230	16,011	11,840	2,989	4,263	63,333	2,230	2,465	26,218	1,170	(966)	94,450
Amortization	14,872	4,772	6,019	2,419	1,276	29,358	1,305	2,652	2,824	698	-	36,837
Operating income	23,676	10,464	13,295	6,619	2,195	56,249	9,451	15,673	13,247	1,022	(2,847)	92,795
Finance charges	6,062	4,422	8,031	1,603	1,228	21,346	1,472	3,479	5,187	5,657	(2,847)	34,294
Corporate income taxes	8,325	1,411	1,735	2,025	(1,202)	12,294	379	4,394	3,197	(729)	-	19,535
Non-controlling interest	-	-	149	-	-	149	1,429	(20)	-	(42)	-	1,516
Net earnings (loss)	9,289	4,631	3,380	2,991	2,169	22,460	6,171	7,820	4,863	(3,864)	-	37,450
Goodwill	229,097	220,745	-	19,858	42,947	512,647	-	-	-	-	-	512,647
Identifiable assets	708,736	685,756	817,328	263,374	118,936	2,594,130	206,279	262,577	427,226	43,099	(26,543)	3,506,768
Equity investment assets	-	-	-	-	-	-	163,599	-	-	-	-	163,599
Total assets	937,833	906,501	817,328	283,232	161,883	3,106,777	369,878	262,577	427,226	43,099	(26,543)	4,183,014
Capital expenditures	39,806	25,990	11,813	12,300	2,716	92,625	3,227	5,116	2,283	684	-	103,935

[1] Includes consolidated earnings of Belize Electricity and the Turks and Caicos utilities, and equity income from Caribbean Utilities in Grand Cayman.

FORTIS INC.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2006 and 2005 (unless otherwise stated)
(Unaudited)

15. SEGMENTED INFORMATION (cont'd)

Year to date	Regulated Utilities							Non-Regulated			Inter-	
(in thousands of dollars)	Fortis	Fortis	Nfld	Maritime	Fortis	**Total**	**Total**	**Fortis**	**Fortis**		**segment**	
September 30, 2006	Alberta	BC	Power	Electric	Ontario	**Canadian**	**Caribbean [1]**	**Generation**	**Properties**	**Corporate**	**eliminations**	**Consolidated**
Operating revenues	184,984	157,291	307,601	91,203	98,224	**839,303**	**69,396**	**59,151**	**121,026**	**6,381**	**(23,532)**	**1,071,725**
Equity income	-	-	-	-	-	**-**	**6,900**	**-**	**-**	**-**	**-**	**6,900**
Energy supply costs	-	47,425	187,980	53,982	73,961	**363,348**	**40,073**	**4,767**	**-**	**-**	**(14,158)**	**394,030**
Operating expenses	84,397	46,162	39,249	9,514	10,910	**190,232**	**8,377**	**11,165**	**76,981**	**7,548**	**(3,995)**	**290,308**
Amortization	51,151	20,439	24,191	7,642	4,014	**107,437**	**4,482**	**7,877**	**8,878**	**2,240**	**-**	**130,914**
Operating income	49,436	43,265	56,181	20,065	9,339	**178,286**	**23,364**	**35,342**	**35,167**	**(3,407)**	**(5,379)**	**263,373**
Finance charges	22,044	17,397	24,448	7,761	3,771	**75,421**	**3,707**	**7,672**	**15,405**	**27,566**	**(5,379)**	**124,392**
Gain on sale of income producing property	-	-	-	-	-	**-**	**-**	**-**	**(2,088)**	**-**	**-**	**(2,088)**
Corporate income taxes	(5,720)	4,873	10,028	4,879	2,517	**16,577**	**1,151**	**6,651**	**5,957**	**(7,288)**	**-**	**23,048**
Non-controlling interest	-	-	442	-	-	**442**	**3,315**	**1,088**	**-**	**(125)**	**-**	**4,720**
Net earnings (loss)	33,112	20,995	21,263	7,425	3,051	**85,846**	**15,191**	**19,931**	**15,893**	**(23,560)**	**-**	**113,301**
Goodwill	228,615	220,719	-	19,858	42,947	**512,139**	**38,714**	**-**	**-**	**-**	**-**	**550,853**
Identifiable assets	845,595	768,625	850,352	283,394	119,261	**2,867,227**	**288,133**	**235,129**	**437,616**	**75,100**	**(15,282)**	**3,887,923**
Equity investment assets	-	-	-	-	-	**-**	**168,187**	**-**	**-**	**-**	**-**	**168,187**
Total assets	1,074,210	989,344	850,352	303,252	162,208	**3,379,366**	**495,034**	**235,129**	**437,616**	**75,100**	**(15,282)**	**4,606,963**
Capital expenditures	175,930	72,984	41,231	18,029	6,331	**314,505**	**11,665**	**2,800**	**15,349**	**1,651**	**-**	**345,970**
September 30, 2005												
Operating revenues	201,107	144,601	318,552	87,811	106,763	**858,834**	**55,954**	**57,912**	**116,116**	**8,093**	**(17,134)**	**1,079,775**
Equity income	-	-	-	-	-	**-**	**8,612**	**-**	**-**	**-**	**-**	**8,612**
Energy supply costs	-	44,478	186,900	53,300	84,414	**369,092**	**30,056**	**4,569**	**-**	**-**	**(6,147)**	**397,570**
Operating expenses	83,019	47,957	39,859	9,155	10,441	**190,431**	**7,875**	**11,719**	**74,284**	**6,463**	**(3,166)**	**287,606**
Amortization	45,607	14,114	25,876	7,237	3,763	**96,597**	**4,542**	**7,757**	**8,175**	**2,097**	**-**	**119,168**
Operating income	72,481	38,052	65,917	18,119	8,145	**202,714**	**22,093**	**33,867**	**33,657**	**(467)**	**(7,821)**	**284,043**
Finance charges	17,873	13,163	23,444	5,785	3,804	**64,069**	**3,873**	**11,370**	**14,800**	**27,359**	**(7,821)**	**113,650**
Gain on settlement of contractual matters	-	-	-	-	-	**-**	**-**	**(10,000)**	**-**	**-**	**-**	**(10,000)**
Corporate income taxes	22,708	5,937	14,192	4,949	170	**47,956**	**919**	**10,312**	**7,647**	**(5,454)**	**-**	**61,380**
Non-controlling interest	-	-	441	-	-	**441**	**2,706**	**1,156**	**-**	**(124)**	**-**	**4,179**
Net earnings (loss)	31,900	18,952	27,840	7,385	4,171	**90,248**	**14,595**	**21,029**	**11,210**	**(22,248)**	**-**	**114,834**
Goodwill	229,097	220,745	-	19,858	42,947	**512,647**	**-**	**-**	**-**	**-**	**-**	**512,647**
Identifiable assets	708,736	685,756	817,328	263,374	118,936	**2,594,130**	**206,279**	**262,577**	**427,226**	**43,099**	**(26,543)**	**3,506,768**
Equity investment assets	-	-	-	-	-	**-**	**163,599**	**-**	**-**	**-**	**-**	**163,599**
Total assets	937,833	906,501	817,328	283,232	161,883	**3,106,777**	**369,878**	**262,577**	**427,226**	**43,099**	**(26,543)**	**4,183,014**
Capital expenditures	106,752	77,104	37,828	33,741	5,648	**261,073**	**8,367**	**19,382**	**76,500**	**1,982**	**-**	**367,304**

[1] Includes consolidated earnings of Belize Electricity and the Turks and Caicos utilities, and equity income from Caribbean Utilities in Grand Cayman.

15. SEGMENTED INFORMATION (cont'd)

b) Inter-Segment Transactions

Inter-segment transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. The significant inter-segment transactions primarily related to the sale of energy from Fortis Generation to Belize Electricity and FortisOntario, electricity sales from Newfoundland Power to Fortis Properties and finance charges on inter-segment borrowings. The significant inter-segment transactions for the three and nine months ended September 30, 2006 and 2005 are detailed below.

Inter-segment transactions *(in thousands)*	**Quarter Ended September 30**		**Year-to-date September 30**	
	2006	2005	**2006**	2005
Sales from Fortis Generation to Belize Electricity	**$6,184**	$2,104	**$13,180**	$3,882
Sales from Fortis Generation to FortisOntario	**384**	49	**1,022**	1,505
Sales from Newfoundland Power to Fortis Properties	**853**	779	**2,778**	2,600
Inter-segment finance charges on borrowings from:				
Corporate to Fortis Properties	**1,135**	886	**3,203**	2,837
Corporate to Fortis Generation	**-**	797	**-**	2,222
Fortis Generation to Belize Electricity	**-**	866	**742**	1,788

16. CONTINGENT LIABILITIES AND COMMITMENTS

Contingent liabilities and commitments are consistent with disclosures in the Fortis annual audited consolidated financial statements for the year ended December 31, 2005, except as described below.

Contingent liabilities

(a) Maritime Electric
In April 2006, Canada Revenue Agency ("CRA") reassessed Maritime Electric's 1997-2004 taxation years. The reassessment encompasses the Company's tax treatment, specifically the Company's timing of deductions, with respect to: (i) the ECAM in the 2001-2004 taxation years, (ii) customer rebate adjustments in the 2001-2003 taxation years, and (iii) the Company's payment of approximately $6 million on January 2, 2001 associated with a settlement with New Brunswick Power regarding its $450 million write down of the Point Lepreau Nuclear Generating Station in 1998.

Maritime Electric believes it has reported its tax position appropriately in all aspects of the reassessment and filed a Notice of Objection with the Chief of Appeals at CRA. Should the Company be unsuccessful in defending all aspects of the reassessment, Maritime Electric would be required to pay approximately $12 million in taxes and accrued interest. Year-to-date September 30, 2006, the Company has provided for, through future and current income taxes payable, approximately $11.5 million and, therefore, an additional liability of $0.5 million would arise. In this event, the Company would apply to the Island Regulatory and Appeals Commission to include this amount in the regulatory rate-making process. The provisions of the *Income Tax Act* require the Company to deposit one-half of the assessment under objection with CRA and the Company made a payment on deposit of $5.9 million with CRA on June 29, 2006.

16. CONTINGENT LIABILITIES AND COMMITMENTS (cont'd)

(b) FortisAlberta
On March 24, 2006, Her Majesty the Queen in Right of Alberta filed a statement of claim in the Court of Queen's Bench of Alberta in the Judicial District of Edmonton against FortisAlberta. The Crown's claim is that the Company is responsible for a fire that occurred in October 2003 in an area of the Province of Alberta commonly referred to as Poll Haven Community Pasture. The Crown is seeking approximately $2.7 million in fire fighting and suppression costs and approximately $2.4 million in timber losses, as well as interest and other costs. Given the preliminary stage of the proceedings, FortisAlberta has not made any definitive assessment of potential liability with respect to the litigation. However, management does not believe that the Company contributed to, or is responsible for, the fire and, therefore, management is of the view that the allegations are without merit. No amount, therefore, has been accrued in the consolidated financial statements.

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

Commitments

Belize Electricity has a 15-year power purchase agreement with Hydra Maya for the supply of 3 MW of capacity, which is scheduled to commence at the end of 2006. Additionally, Belize Electricity has entered into a 2-year power purchase agreement, expiring August 2008, with the Comisión Federal de Electricidad of Mexico for the supply of 15 MW of firm capacity. Commitments under these power purchase agreements total approximately $19.9 million.

17. SUBSEQUENT EVENT

On October 19, 2006, Fortis Properties announced an agreement to purchase 4 internationally branded hotels in Alberta and British Columbia from Lodge Motel (Kelowna) Ltd. for an aggregate purchase price of $51.6 million, including assumed debt. The acquisition is expected to be immediately accretive to earnings of Fortis and is scheduled to close in November 2006. The 4 hotels are Holiday Inn Express and Suites, and Best Western, in Medicine Hat, Alberta; Ramada Hotel and Suites, in Lethbridge, Alberta; and Holiday Inn Express, in Kelowna, British Columbia. The acquisition expands the hospitality operations of Fortis Properties by 454 rooms.

18. COMPARATIVE FIGURES

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

Dates – Dividends* and Earnings

Expected Earnings Release Dates

February 6, 2007	May 1, 2007
August 3, 2007	November 2, 2007

Dividend Record Dates

November 3, 2006	February 2, 2007
May 4, 2007	August 10, 2007

Dividend Payment Dates

December 1, 2006	March 1, 2007
June 1, 2007	September 1, 2007

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

Fortis Common Shares ($) Quarter Ended September 30		
	2006	**2005**
High	**25.48**	25.19
Low	**21.99**	19.13
Close	**24.44**	24.11

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