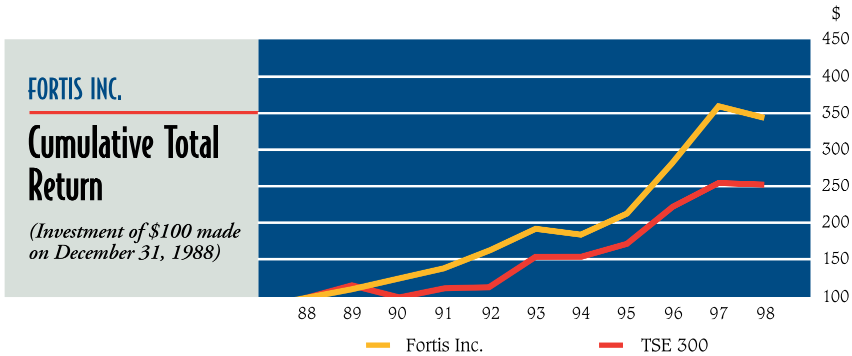
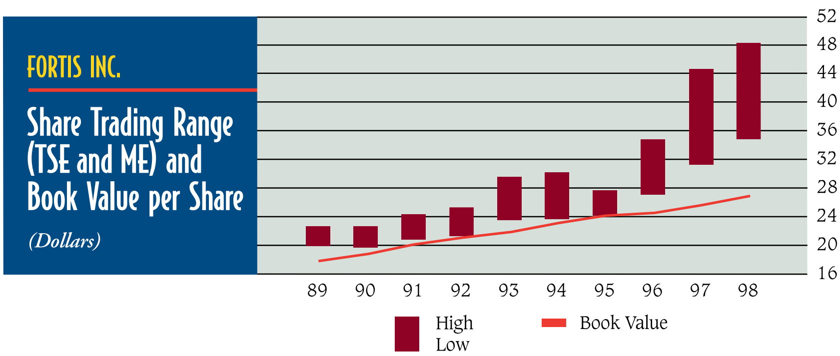
Financial Highlights





Annual Comparison

(in thousands)

	1998	1997
Operating revenues	**$ 474,354**	$ 486,662
Earnings applicable to common shares	**27,414**	30,006
Total assets	**1,037,192**	1,017,396
Common shareholders' equity	**338,677**	326,543
Cash from operations	**72,490**	63,202

Quarterly Earnings and Dividends Paid per Common Share

	1998		1997	
Quarter Ended	**Earnings**	**Dividends**	**Earnings**	**Dividends**
March 31	**$ 0.74**	**$ 0.45**	$ 0.90	$ 0.44
June 30	**0.51**	**0.45**	0.81	0.44
September 30	**0.33**	**0.45**	0.40	0.44
December 31	**0.54**	**0.45**	0.27	0.44
Annual Totals	**$ 2.12**	**$ 1.80**	$ 2.38	$ 1.76

Report to Shareholders

Energy distribution operations are fundamental to Fortis' future prospects and current strength. In 1998, our focus was on pursuing investment opportunities in utility assets and meeting challenges in existing operations. Regulatory decisions affecting Newfoundland Power, reductions in rates to customers of Maritime Electric, and expenses related to the assessment of investment opportunities combined to put pressure on earnings. This was partially offset by the gain realized on the sale of Fortis Properties' partnership interest in AT&T Canada (Newfoundland). These factors resulted in 1998 earnings applicable to common shares of $27.4 million compared to $30.0 million in 1997. Earnings per share were $2.12 in 1998 compared to $2.38 in 1997.

During the year, Fortis pursued acquisition opportunities associated with the electricity industry restructuring in the United States. Our interest was focused on hydroelectric generation assets located in the northeast and we participated in three divestiture auctions. Our approach to these auctions was to evaluate the quality and earnings potential of the assets, and to tender a price which would produce a reasonable return for our shareholders. The bidding process was very competitive with other bidders prepared to pay more for the assets than we believed to be prudent. Although we were successfully short-listed on all three bids and gained valuable experience through our participation, we were not successful in acquiring any of the assets. We will continue to identify opportunities for profitable expansion both within Canada and in the United States.

In December, Fortis Properties sold its telecommunication business to AT&T Canada for $15.5 million, generating an after-tax gain of $3.6 million. While our involvement in this business has produced satisfactory returns from the outset, this divestiture will enable Fortis Properties to concentrate future growth in areas that are consistent with the strategic direction of that Company.

Newfoundland Power was involved in two regulatory proceedings during 1998. The first hearing was held in the spring and dealt principally with the Company's cost of capital. The effect of that hearing was to lower Newfoundland Power's rate of return on common equity for rate making purposes to 9.25%. Although a reduction in the allowed rate of return was anticipated in light of current low long-term interest rates, this decision was recognized as harsh by most industry analysts. In the fourth quarter, a second proceeding was convened to deal with operating costs and rates. The second decision was issued in January 1999, and approved a 1% increase in rates effective February 1, 1999. Newfoundland Power's earnings applicable to common shares declined to $21.6 million from $24.9 million in 1997.

In December, Newfoundland Power completed construction of a 6.1 megawatt (MW) hydroelectric facility at Rose Blanche Brook. The $13 million capital project will provide increased reliability of supply to customers in southwestern Newfoundland.

On January 1, 1998 Maritime Electric implemented a 7% rate reduction to complete the four-year transition of electrical rates to the levels prescribed by the *Maritime Electric Company Limited Regulation Act.* On October 1, 1998 rates were increased by an average of 2.9% to coincide with an increase announced by New Brunswick Power. Service outages at New Brunswick Power's Point Lepreau Nuclear Generating Station resulted in higher than expected energy supply costs in 1998. Plant improvements have been made at Point Lepreau to improve performance in 1999. These factors combined to reduce Maritime Electric's earnings applicable to common shares to $5.2 million in 1998.

Canadian Niagara Power increased its revenues from wholesale marketing activities by 19% in 1998. Its energy trading activities produced strong results, benefiting from the relatively weak Canadian dollar and firm energy prices in the United States. The Company was strengthened by the addition of senior management from Newfoundland Power, Maritime Electric and our partner Niagara Mohawk. A number of initiatives were undertaken to improve operating systems and customer service. Canadian Niagara Power contributed $4.6 million to Fortis' 1998 earnings, unchanged from 1997.

ANGUS A. BRUNEAU
Chair of the Board of Fortis Inc.

H. STANLEY MARSHALL
President & Chief Executive Officer of Fortis Inc.

source of energy

The introduction of the *Energy Competition Act*, 1998 in June signaled the beginning of a new era in the structure of the electrical industry in Ontario. Through our involvement in Canadian Niagara Power, we are well positioned to pursue expected electric utility opportunities in that Province.

Fortis Properties achieved a solid financial performance in 1998. Rental rates and occupancy levels in both our real estate and hotel operations showed improvement. This, combined with the gain realized on the sale of our telecommunications operations, resulted in an improvement in earnings of $2 million over 1997 to $3.1 million. The Company owns and manages 1.4 million square feet of commercial and retail property and, with the acquisition of the Mount Peyton Hotel in Grand Falls-Windsor, Newfoundland, in early 1999, now owns and operates five hotels in the Atlantic Provinces.

Fortis Trust achieved its highest level of earnings since it was acquired by Fortis a decade ago. Earnings of $537,000 represented an increase of 13.5% over 1997.

Through our operating companies, Fortis serves more than 300,000 customers in five provinces. Our customers depend upon us for reliable and affordable service. Our ability to meet these expectations is due to the dedication and achievements

of over 1,500 employees. Their efforts are instrumental to our continuing success.

Again in 1998, our employees made valuable contributions to the communities in which they live and work. Fortis and its affiliates became a major sponsor of the 1999 Canada Winter Games in Corner Brook, Newfoundland and the sponsor of Team Prince Edward Island. In addition to our companies' financial contributions, many employees volunteered their time in support of this and many other events. We thank all of our employees for their ongoing contributions and commitment to our companies and the communities we serve.

There were a number of changes to your Board of Directors during 1998. We welcomed Mr. Darryl Fry and Mr. Stephen Bellringer to the Board in May. Mr. Fry, a native of Newfoundland, has worked principally in the chemical industry in the United States. He now resides in New Jersey and recently retired as Chairman and Chief Executive Officer of Cytec Industries, a global supplier of chemical products. Mr. Fry continues on the Board of Cytec and serves on the Board of North American Van Lines. Mr. Bellringer resides in Vancouver, British Columbia and is President of Orca Bay Entertainment, owners of GM Place and the Vancouver Canucks and the Vancouver Grizzlies.
He has considerable regulated industry experience having spent most of his career in the gas industry where he served as President of B.C. Gas, B.C. Gas Utility, Trans Mountain Pipeline and Union Gas. Fortis has benefited from the wisdom and experience of all its directors, and we wish to thank them for their significant contribution during the year.

Fortis and its predecessor companies have been providing reliable, quality service to our customers for more than 110 years. Our businesses have successfully weathered many economic and business cycles in challenging operating environments.
The challenges experienced during the past year were met by our management team. The growth and diversification within Fortis over the past several years has positioned the Company to meet the challenges that lie ahead. The Company remains strong, well capitalized, with sound financial indicators.

As we near the end of the millennium, the energy industry is in a period of transition and significant change.
The changes will bring exciting new opportunities for Fortis. We look ahead to 1999 and the turn of the century with confidence. This confidence is based on our financial capabilities and the strength of our people. We will build on our strengths to achieve new growth and continue to enhance value for our shareholders.

Angus A. Bruneau
Chair of the Board

Sharing Our Vision

Fortis Inc. was established as the parent company of Newfoundland Power in 1987 to pursue growth through diversification. Newfoundland Power and its predecessor companies have been distributors of electricity in Newfoundland since 1885. The utility provided a firm foundation on which to build an expanded enterprise. Fortis derived from Newfoundland Power a strong financial and managerial base with expertise in the operation and management of an electric utility. Our strategy in diversification was to utilize these strengths as we pursued other endeavors to create growth and added value for our shareholders.

Since the establishment of Fortis, we have pursued a strategy of expanding our electric utility business and diversifying into other service businesses. Today, Fortis owns, or has a major holding in, three electric utilities located in Newfoundland, Prince Edward Island and Ontario. Our non-utility businesses include commercial real estate, hotels and financial services, with operations throughout the Atlantic provinces. The Company's assets have more than doubled and now exceed $1 billion. Our growth and diversification have not only strengthened the Company, but have greatly enhanced earnings and shareholder value. Since 1987, Fortis has succeeded in increasing earnings applicable to common shares by approximately 55%. This has been reflected in a consistent pattern of dividend increases for our shareholders.

As we prepare to begin a new millennium, the electric industry is entering a period of significant change. The traditional industry structure, the approach to regulation and the nature and extent of government involvement in the industry are all being reassessed. Substantial changes have already occurred in the U.K. and are now taking place in the United States. Significant change can also be expected in Canada, although the speed and extent of such change is less clear. In Canada, government led energy policy reviews are currently taking place in many jurisdictions. Environmental concerns are also having a greater impact on the industry. While the changes expected in the future will create some challenges, they will undoubtedly also result in exciting new opportunities.

In many ways, Fortis has been on the leading edge of the changes occurring within the industry. The growth and diversification achieved over the past decade have positioned us to meet the challenges of a changing industry and to be successful in the business environment of the 21st century. We have created a solid foundation on which we can continue to build.

Our vision is to be a leader in energy distribution and the leading service provider within our service areas.

To achieve our vision, Fortis must continue to evolve within a changing industry. Our future course will seek to maximize our opportunities to enhance earnings and strengthen our position within the industry. We will continue to seek new investment opportunities.

As we chart our course, we will continue to be guided by three primary objectives:

Return – Earnings should continue at a rate at least commensurate with those of well-run Canadian utilities.

Fortis' earnings applicable to common shares have increased in 9 of the past 11 years. Since 1987, they have grown from $17 million to $27 million. The Company's financial returns compare favourably with other Canadian investor owned utilities.

PHILIP G. HUGHES
President &
Chief Executive Officer
Newfoundland Power

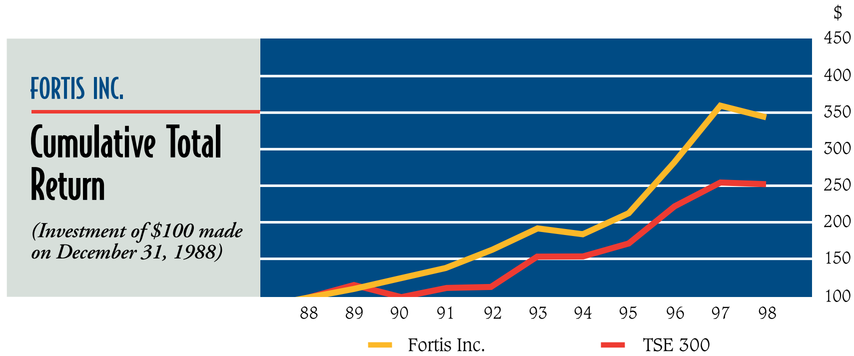
JAMES A. LEA
President &
Chief Executive Officer
Maritime Electric

JOHN C. WALKER
President &
Chief Executive Officer
Fortis Properties

H. STANLEY MARSHALL
President &
Chief Executive Officer
Fortis Inc.

MARDON J. ERBLAND
President &
Chief Executive Officer
Canadian Niagara Power

From a shareholder perspective, the most meaningful measure of performance is to compare the total return from an investment in Fortis with other investments on The Toronto Stock Exchange (TSE). A $100 investment in Fortis common shares made in 1988 would have grown to $344 by the end of 1998, if dividends had been reinvested. Over the same period the TSE 300 Index would have seen a $100 investment grow to $251. The total cumulative return of Fortis common shares continues to outperform the TSE 300 Index.



Risk – The financial and business risks should not be substantially greater than those associated with the operation of a Canadian utility.

At year-end 1998, our investment in Newfoundland Power, Maritime Electric and Canadian Niagara Power represented 93% of our total investment. Newfoundland Power continues to be regulated on a traditional cost of service basis. Allowed rates of return tend to reflect long-term interest rates and should remain comparable with allowed returns of other Canadian electric utilities operating under similar forms of regulation. Maritime Electric, which was effectively deregulated in 1994, has successfully met its commitment to bring power rates in PEI to not more than 110% of equivalent rates in New Brunswick by implementing the final transitional rate decrease of 7% on January 1, 1998. Given the trend to greater deregulation throughout the industry in North America, Maritime Electric, which has successfully made

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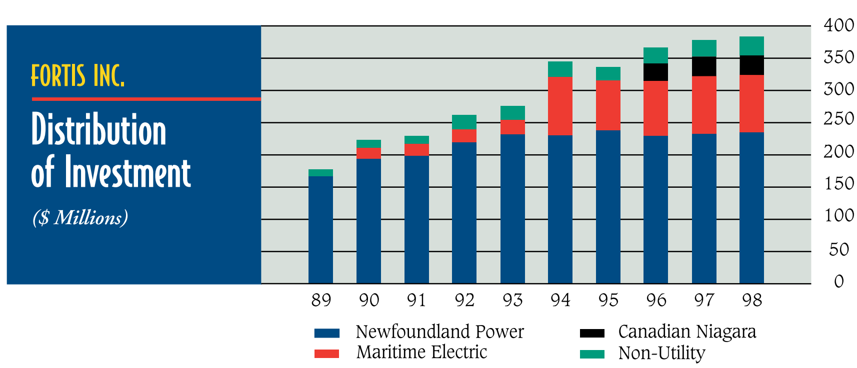


the transition, may face less business risk relative to regulated utilities over the long term. The rates charged by Canadian Niagara Power are governed by a franchise agreement with the Town of Fort Erie. Under this agreement, Canadian Niagara's rates are tied to rate levels of several other electric utilities operating on the Niagara Peninsula and have not increased since 1992.

Our approach is for each Fortis subsidiary to have sufficient resources to be self-supporting. This has always been true of our three utility investments, however, this is not always possible at the early stages of developing a new business. Also, some flexibility is necessary for Fortis to allocate its financial resources to maximize the overall benefit.

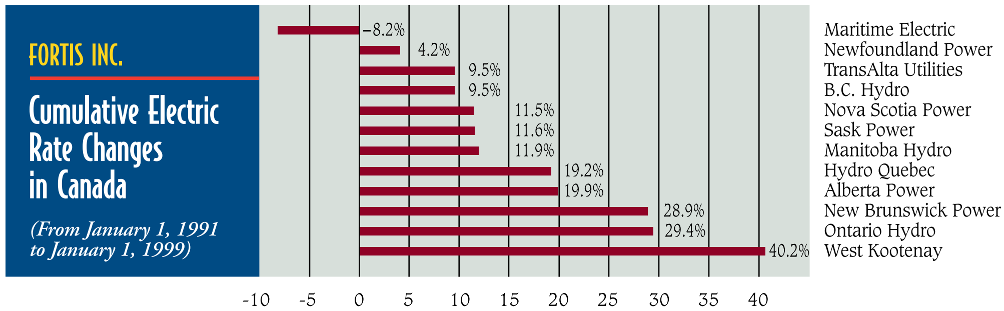
Growth – The growth in assets and market capitalization should be greater than the average of other Canadian public corporations of similar size.

Fortis has more than doubled its asset base since its creation in 1987. Through growth and diversification, we can continue to strengthen our Company. We will achieve this growth without disturbing the risk-reward balance associated with the operation of our utilities.

Fortis is first and foremost a service provider. We believe that the future success of the Company is dependent upon our ability to deliver quality services at competitive rates. For our, utility customers, the costs of generation, transmission and distribution blend to determine electricity rates, with sources of generation playing the most significant role. Through our efforts to maximize the efficiencies of our distribution systems and our dealings with other energy suppliers, we are constantly striving to ensure the delivery of the best possible service to our customers at the lowest cost. Rates charged by Newfoundland Power are comparable with the median of those charged across Canada. The rates charged by Maritime Electric are somewhat higher, but have been reduced by 17% since we acquired the Company

Our electric industry expertise makes Fortis a leader in energy distribution.

in 1994. The rates charged by Canadian Niagara Power are lower than those charged by neighbouring municipal utilities.



In contrast to absolute pricing comparisons, changes in rates provide a measure of a utility's ability to control costs and adapt to changes in the industry. Over the period January 1, 1991 to January 1, 1999, Newfoundland Power and Maritime Electric led the 12 major electric utilities in Canada in controlling rates. During this period Newfoundland Power's rates increased 4.2% while rates to Maritime Electric's customers decreased 8.2%. This compares to the average increase of 18.5% for the remaining 10 electric utilities.

growth and diversification

To achieve our vision, we will rely upon the capabilities and dedication of our employees. Through Newfoundland Power, Maritime Electric and Canadian Niagara Power, Fortis has a solid base in utility operations and management. Our non-utility businesses have also developed a sound base of expertise. The Company continues to emphasize human resource development and the recruitment of new talent to strengthen the organization. Our ability to attract, develop and retain capable staff is critical to the continued growth and success of the enterprise. Our well trained, highly motivated workforce is our most valuable resource.

Within the Fortis group, we have established a number of central values to enable our employees to operate effectively in a decentralized organization.

- We expect all employees to consistently observe the highest ethical standards. We strive to earn and retain the trust and respect of all those whom we encounter inside and outside the organization.
- We empower our people, giving them the tools to do their jobs effectively. Decision making is delegated within the organization to the group or person most knowledgeable about the situation.
- We encourage, recognize and reward superior performance. Group and individual performance are significant factors in determining compensation.
- We account for our actions both individually and corporately. All employees are expected to provide a full account of the financial and human resources entrusted to them.

Fortis has a proud history of delivering services of high quality and value to our customers, and good returns to our shareholders. Our goal is to maximize value for our shareholders over the long term. We have a clear vision of our future. We will continue to strengthen our existing operations while selectively pursuing profitable new growth opportunities in both our utility and non-utility businesses. We will build on our strengths, confident in our ability to achieve our vision while continuing to meet the expectations of our customers and our shareholders.

Substations such as King's Bridge Road, St. John's integrate equipment requirements with neighbourhood esthetics.

Operations

NEWFOUNDLAND POWER

Newfoundland Power operates an integrated system of generation, transmission and distribution. With more than 10,000 kilometres of distribution and transmission lines, Newfoundland Power provides electrical service to approximately 172,000 customers throughout 600 communities on the island portion of the Province of Newfoundland and Labrador. These customers constitute 85% of all electrical consumers in the province. The balance of the population is served by Newfoundland and Labrador Hydro, a Crown corporation that also serves several large industrial customers.

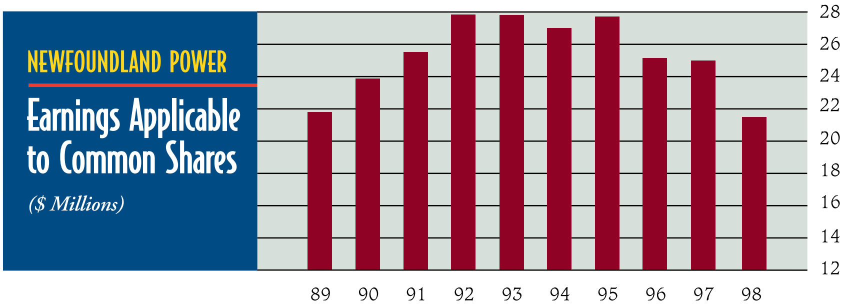
Newfoundland Power generates approximately 10% of its energy needs from twenty-three hydroelectric plants, seven diesel and three gas turbine units. These units have a total installed capacity of 148.4 megawatts (MW). The balance of energy required by Newfoundland Power's customers is purchased from Newfoundland and Labrador Hydro.

Financial Results

Net earnings applicable to common shares were $21.6 million in 1998, a $3.3 million decline from $24.9 million in 1997. Revenue in 1998 was $335.8 million compared to $343.7 million in 1997. The decline in earnings and revenue was a direct result of a July 1998 regulatory decision which lowered the Company's allowed return and reduced electrical rates by 2.1%.

Despite higher than normal regulatory costs in 1998, operating and depreciation expenses were $272.3 million compared to $275.1 million in 1997. This decrease was attributable to reductions in labor costs and allowances associated with early retirement programs offered in 1997 and productivity initiatives undertaken in 1998. Increases of $0.9 million and $1.3 million respectively, were experienced in purchased power costs and depreciation expense over 1997 levels. The increase in depreciation was a direct result of the continuing capital program aimed at improving reliability and customer service.

A corporate emphasis on managing operating expenses resulted in gross operating costs per customer decreasing by 12% from $294 per customer in 1990 to $259 per customer in 1998.



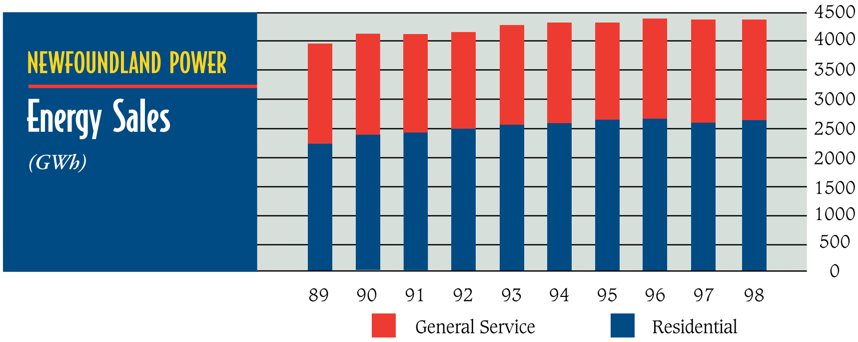
Energy Sales

Energy sales in 1998 totaled 4,440 gigawatt hours (GWh), relatively unchanged from 1997 energy sales of 4,438 GWh. Residential energy sales decreased by 17 GWh, or 0.6% due to a decline in average usage. Commercial energy sales increased by 19 GWh, or 1.1% over 1997 levels. While completion of construction at Hibernia Management and Development Co. Limited's Bull Arm site resulted in an 18 GWh reduction in sales, sales to customers in the fishing industry increased by 15 GWh and sales to other commercial customers increased by 22 GWh.

Energy Supply

In 1998, Newfoundland Power had a total of 4,688 GWh of energy available for distribution. The Company generated 429 GWh of this energy and purchased the remainder from Newfoundland and Labrador Hydro. The amount of energy generated by Newfoundland Power increased by 5 GWh in 1998 primarily

Newfoundland Power's Petty Harbour generating station, has produced electricity since 1900.



as a result of efficiency improvements at the Company's generating facilities.

Customer Service

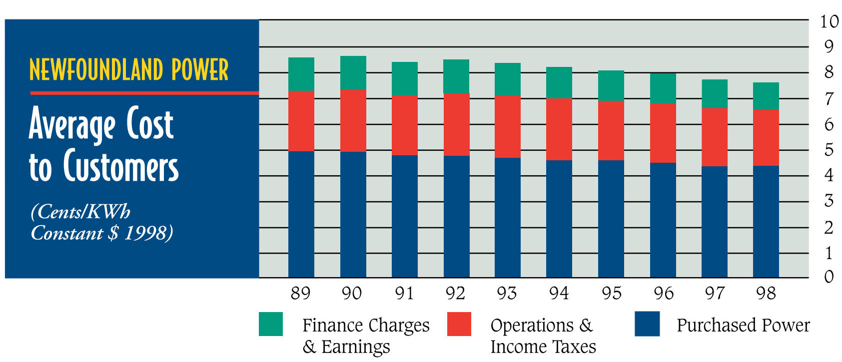
The objectives of Newfoundland Power's 1998 customer service strategy were to better understand customers' changing needs, to balance the use of customer service technology with traditional service values and to improve the reliability and quality of the Company's electrical supply.

reliability and quality

In December 1998, Newfoundland Power achieved a customer satisfaction rating of 86% – a 23% improvement over the Company's 1996 satisfaction rating. This dramatic increase is the result of the Company's efforts to improve overall service and its renewed emphasis on customer relations.

In response to customers' needs for faster, more convenient service, Newfoundland Power invested in call centre technology throughout 1998 which improved the level of customer service while controlling costs. New call centre technologies provide Newfoundland Power customers with 24-hour access to information on their accounts, and faster call routing to the service option of their choice. These improvements have made Newfoundland Power's customer service call centre the most technologically advanced in Newfoundland.

In 1998, Newfoundland Power further improved customer service by implementing a world class communications system to better manage service outage calls and minimize busy signals. Telephony Video Data (TVD) has the ability to provide up to 2,000 simultaneous callers with information on the cause, estimated duration and locations of outages by combining the capabilities of computers, telecommunications and the Company's System Control and Data Acquisition system.



Despite Newfoundland Power's commitment to improving reliability of supply to customers, reliability was negatively impacted in 1998 by major sleet and lightning storms, and outages originating with the Company's primary electrical supplier. However, an independent audit commissioned by the PUB on Newfoundland Power's *Quality of Service and Reliability of Supply* concluded that the Company is providing reliable electrical service to customers by effectively maintaining and operating its facilities. The October 1998 report also indicated that Newfoundland Power, although slightly below the Canadian reliability average, performed favorably in comparison to other Atlantic Canadian utilities.

In 1998, Newfoundland Power invested $44.3 million in capital programs, compared to $28.9 million in 1997, to carry out an aggressive electrical system upgrade program. This program included the replacement of equipment, improvements to the structural integrity of the Company's system against extreme weather, and the construction of a 6.1 MW hydroelectric generating plant at Rose Blanche Brook. In addition to producing a low-cost source of energy, this plant will improve reliability of supply for customers on the southwest coast of Newfoundland.

Preventive maintenance programs, including vegetation management, and power quality improvements continued throughout the year. Power quality has become an increasingly important customer service issue as customers become more dependent on technology and sensitive electronic equipment. In 1998, Newfoundland Power installed approximately 60 remote monitoring devices in customer and Company facilities as part of a pilot project to monitor power quality. In addition, the Company continued to use infra-red thermoscan technology throughout the year to identify and eliminate potential system disturbances before they occurred.

Our employees strive to deliver reliable, quality electrical service that customers can take for granted.

Environmental Initiatives

Newfoundland Power is committed to protecting and improving the environment. In 1998, the Company implemented an *Environmental Stewardship Program* aimed at meeting the standards identified by ISO 14001 or its equivalent. Through this program the Company will strive to reduce environmental risk, improve internal environmental management methods, prevent pollution and save resources and energy.

Other notable environmental targets achieved by Newfoundland Power in 1998 included: the continuation of a four-year program to proactively identify and replace distribution transformers at risk of spills; the removal of friable asbestos and halon from Company facilities; and the destruction or decontamination of PCB waste in storage. Approximately 150 employees were trained in spill response and the transportation of dangerous goods, and the Company updated its environmental emergency contingency plans.

Newfoundland Power's employee-driven *Environmental Commitment Program* continued throughout 1998. In just over one year, Company employees have initiated more than 50 environmental projects in partnership with community groups and schools across Newfoundland. More than 2,500 community members and 100 community groups took part in the Company's first annual celebration of the environment, EnviroFest'98.

environmental stewardship

Regulation

Regulatory challenges intensified for Newfoundland Power throughout 1998. In addition to increased regulatory costs of approximately $4.1 million, the Company was negatively impacted by a July 1998 PUB decision to reduce the Company's allowed rate of return on common equity from 11% to 9.25%. This decision directly impacted the Company's creditworthiness and resulted in the Canadian Bond Rating Service lowering Newfoundland Power's first mortgage bond and preferred share ratings from Single A to A (Low) and P-2 (High) to P-2, respectively.

In January 1999, the PUB finalized 1998 rates and set 1999 rates on the basis of a return on equity of 9.25%. This leaves Newfoundland Power at the lower end of allowed rates of return on common equity for Canadian gas and electric utilities for 1999.

Newfoundland Power believes the time is right for regulatory change in the Province of Newfoundland and Labrador as the relatively high cost of current regulation is inconsistent with customers' primary interests – namely reliability and price. The Company is hopeful that the *Energy Policy Review*, announced by the Government of Newfoundland and Labrador in August 1998, will provide a catalyst for such change.

Human Resources

The development of Newfoundland Power's workforce is essential to achieving the Company's strategic business goals. The Company places a priority on hiring people with experience from outside the utility business in an effort to diversify Newfoundland Power's corporate culture. In 1998, the Company expanded its mentoring program to include approximately 100 employees. This program matches employees with mentors to provide insight and guidance to assist with professional development and performance.

Throughout 1998, Newfoundland Power aggressively pursued superior safety standards and performance in all its operations. Over the past year, a Job Planning component was incorporated into the Company's safety management practices to reduce the risk of accidents through risk assessment, hazard identification and control, and improved communications between designers and builders.

Outlook

The strong growth experienced by the Newfoundland economy in 1998 will continue in 1999. The Conference Board of Canada predicts Newfoundland will lead the country in real GDP growth of 5.6%. This growth will be led by the goods-producing sector, particularly the mining and offshore oil industries. Steadily increasing oil production at Hibernia and the development of the Terra Nova oil field are the principal contributors to this growth. Growth in service sector GDP, which is a primary driver of Newfoundland Power's energy sales, is forecast to be 1.2% in 1999.

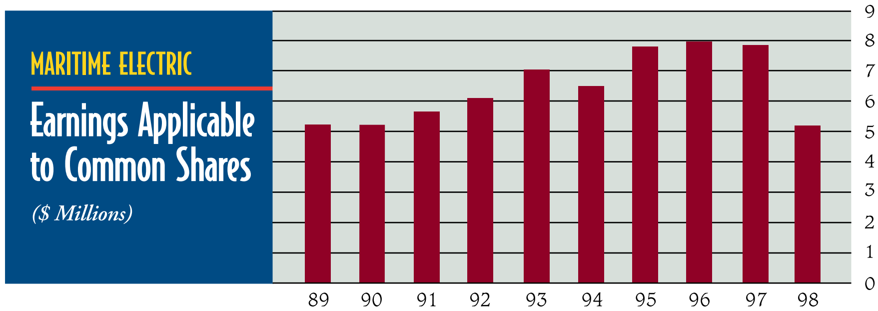
In 1999, Newfoundland Power will be an active participant in the Government of Newfoundland and Labrador's *Energy Policy Review*. This review will examine five elements which affect Newfoundland Power's business, including: electrical legislation and regulation; existing electrical industry structure; electrical supply in the province; pricing; and electricity as a tool for economic development.

The Rose Blanche hydroelectric generating station, completed in December 1998, enhances reliability of supply in southwest Newfoundland.

MARITIME ELECTRIC

Maritime Electric distributes electrical energy in the Province of Prince Edward Island. The Company serves more than 63,000 electrical consumers, and supplies wholesale energy to the City of Summerside, Prince Edward Island's only municipal electrical utility. Maritime Electric operates as an integrated electric utility maintaining 4,520 kilometres of distribution and 560 kilometres of transmission lines linked to the mainland power grid via two submarine cables. The Company operates a 65 MW oil fired generating plant in Charlottetown and a 40 MW gas turbine generating plant in Borden, however, more than 98% of its annual energy requirement is purchased from New Brunswick Power through several long-term energy supply agreements.

During 1998, two significant milestones were reached in the evolution of the electrical



industry on Prince Edward Island. In June, Maritime Electric celebrated 80 years of providing reliable electric service to Prince Edward Islanders. The other significant event was the completion of the transition period prescribed by the *Maritime Electric Company Limited Regulation Act* by implementation of a 7% reduction in rates on January 1, 1998. The legislation, introduced in 1994,

Our employees help ospreys move from a utility pole to a new home nearby.

establishes a prescribed standard of system reliability for the Company and requires that electric rates be no greater than 110% of New Brunswick Power rates for equivalent service in New Brunswick. The employees of Maritime Electric have responded to this deregulated environment by making productivity and reliability improvements that have generated satisfactory returns to the shareholder while meeting the Company's obligation to reduce rates. Since 1994, electricity rates in Prince Edward Island have been reduced by approximately 17%.

Financial Results

Earnings applicable to common shares in 1998 declined to $5.2 million from $7.9 million in 1997. Maritime Electric's revenue declined 6% in 1998 to $81.6 million, as a result of the rate decrease implemented January 1, 1998. The revenue reduction was partially offset by a 3.1% increase in energy sales and a 2.9% rate increase on October 1, 1998 that matched a similar increase by New Brunswick Power. Operating expenses for 1998 were $64.8 million, 1% less than 1997. Expenses included a $2.8 million premium paid for replacement energy during scheduled outages at New Brunswick Power's Point Lepreau Nuclear Generating Station. Maritime Electric employees continued their trend of reducing non-energy related expenses during 1998.

growth opportunities

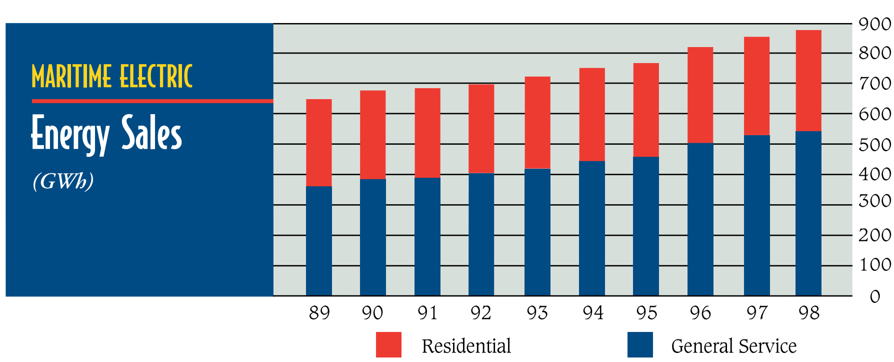
Net capital expenditures were $12.1 million during 1998 compared to $13.5 million in 1997. The primary focus of capital expenditures continues to be the upgrading of existing facilities and installation of equipment for new customers. These expenditures are having a positive impact as overall system reliability indices continue to improve.

Energy Sales

During 1998, the Company delivered 876 GWh of electricity to its customers. The increase in energy sales of 3.1% over 1997 was due primarily to a 4.9% gain in sales to residential customers. The system peak demand of 178 MW was an increase of 5.3% over 1997.

Energy Supply

Maritime Electric purchased and produced 950 GWh of electricity in 1998, an increase of 3% over 1997. New Brunswick Power's Point Lepreau Nuclear Generating Station continued to experience operating difficulties during the first half of 1998. Although there were no forced outages during the past year,

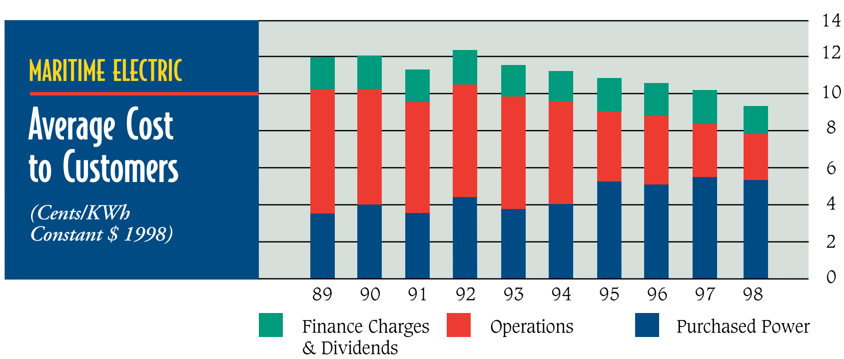


the station was out of service for maintenance for a total of 113 days. These outages required Maritime Electric to purchase replacement energy at a premium of $2.8 million. The performance of the plant has been satisfactory since it returned to service on July 15, 1998 with a capacity factor in excess of 98%.

Customer Service

Maritime Electric employees continued to improve the reliability of the Prince Edward Island electric system during 1998. The average customer experienced 1.9 hours of interrupted service during the year compared to 2.7 hours for 1997 and well below the benchmark 5.2 hours required by the *Maritime Electric Company Limited Regulation Act*.

In addition to improving reliability of electric service, Maritime Electric continued to implement programs designed to make the Company more accessible to its customers. A centralized call center was opened in March 1998. The call center has improved response time to customer inquiries and facilitated a more efficient deployment of customer service staff. The call center handled in excess of 75,000 calls during the eight months since it opened. Improvements to customer information systems and the addition of a service order management system have enhanced the tools available to respond to customer inquiries. Maritime Electric tests the effectiveness of its programs through regular focus group sessions and customer surveys. Over 83% of Maritime Electric's customers rated its service as good or excellent during 1998.



Environmental Initiatives

Maritime Electric's project to migrate its environmental management system to the ISO 14001 standard continued during 1998 through the identification of discrepancies in the current system and the development of an action plan to achieve compliance by December 31, 1999. An environmental compliance audit of the Charlottetown Plant was conducted during the year and all issues addressed. An audit of the waste water treatment process at the Charlottetown Plant indicated that waste water is being properly treated in compliance with Environment Canada guidelines. The permit to operate the Charlottetown Plant was renewed by the P.E.I. Department of Technology and Environment during 1998 for expiry on September 30, 2003. The Company's program to test, and if necessary replace, PCB contaminated transformers in selected sensitive areas was completed in February 1998.

Human Resources

Maritime Electric's work force on December 31, 1998 consisted of 171 employees. The Company is investing in information technology and provides its employees with the necessary training to ensure that full value is achieved from both technical and human resources. The Company supports employees wishing to further their education and, in addition to onsite training it has developed programs, in partnership with Holland College, to provide employees with the skills necessary to meet the increased demands of a changing industry.

The Charlottetown Plant is maintained to ensure a reliable source of energy for customers

Outlook

The Prince Edward Island GDP is forecast to grow by 2% in 1999. Residential construction, which directly benefits Maritime Electric, is expected to increase by 17.2% while investment spending is forecast to expand by 8.4% in 1999.

In the coming year, the Company will undertake a number of programs to enhance the reliability of its physical plant. The 69 kv transmission line from Sherbrooke to Wellington, in western P.E.I., will be rebuilt to address reliability issues in that area. A new System Control and Data Acquisition System will be installed and both generating plants will undergo enhancement projects.

Construction of the Maritimes & Northeast natural gas pipeline from the Nova Scotia gas fields through to New England is proceeding and is scheduled for completion in November 1999. In response, Maritime Electric has undertaken a review of the feasibility of a natural gas lateral pipeline to supply gas fired generation as well as gas distribution to consumers on the Island. The feasibility of on-Island gas fired generation will be measured against the cost of generation and energy purchase options available to the Company on the mainland. In 1998, New Brunswick Power published a transmission tariff permitting, for the first time, the transmission of energy through its system by third parties. Maritime Electric believes this will increase the options available to it for competitive energy supply from sources other than New Brunswick Power.

CANADIAN NIAGARA POWER

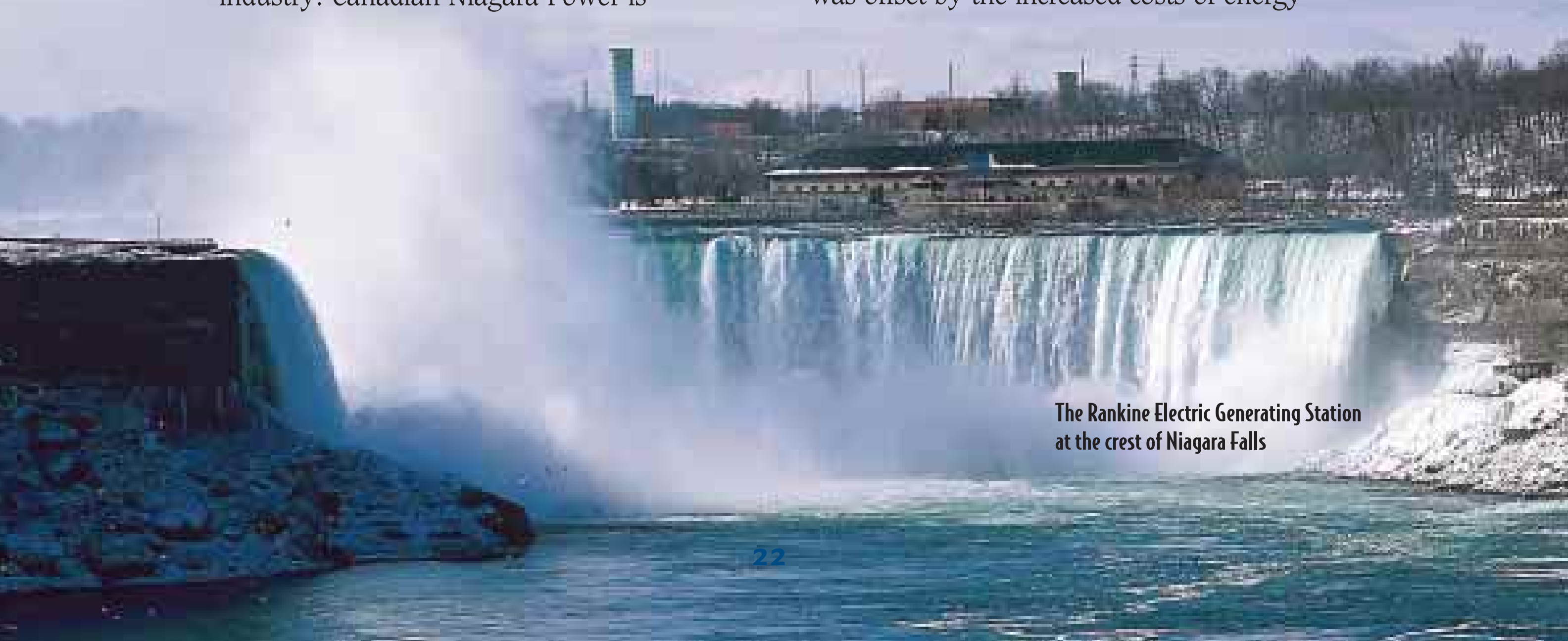
Canadian Niagara Power is an integrated electric utility based in Fort Erie, Ontario. The Company owns and operates the Rankine Electric Generating Station on the Niagara River in Niagara Falls, Ontario and a wind powered electric generating station at Cowley Ridge, Alberta. The Company distributes electricity in the Town of Fort Erie and engages in wholesale energy marketing activities in Ontario, Alberta, and the United States. Canadian Niagara Power is one of only four investor-owned electric utilities operating in Ontario, where the industry is dominated by Ontario Hydro Services Company, Ontario Power Generation Inc. (both successors of Ontario Hydro) and municipally owned distribution utilities. Fortis acquired 50% of Canadian Niagara Power in 1996 from its partner Niagara Mohawk Power Corporation, a major U.S. utility.

During 1998, the Government of Ontario introduced the *Energy Competition Act, 1998*, legislation designed to initiate restructuring of the provincial electrical industry. Canadian Niagara Power is uniquely situated to benefit from the coming restructuring. In 1998, the Company drew upon the resources of its shareholders to assemble an aggressive management team who have positioned Canadian Niagara Power to capitalize upon opportunities anticipated to evolve from industry restructuring. The Company has also built upon its over 90 years of hydroelectric generation and electricity distribution experience by increasing its capabilities in wholesale energy marketing and by investing heavily in its customer service software. The Company has undertaken a campaign of increasing awareness of its capabilities among hydro-electric generators, municipal governments and municipal electrical utilities that will be impacted by the new market structure.

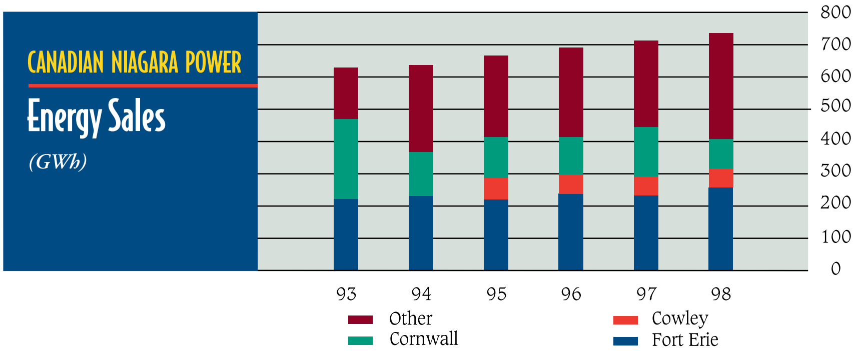
valuable expertise

Financial Results

Earnings applicable to common shares of $9.2 million for 1998 remained essentially unchanged from the prior year. A 7.4% increase in revenue to $39.4 million was offset by the increased costs of energy



The Rankine Electric Generating Station at the crest of Niagara Falls purchased for resale and by higher operating costs as Canadian Niagara Power positioned itself for the restructured environment.



Energy Sales

Canadian Niagara Power's energy sales in Ontario, Alberta, and to United States based utilities increased 3.5% during 1998 to 733 GWh. Residential sales to the Fort Erie distribution territory increased 3.1%

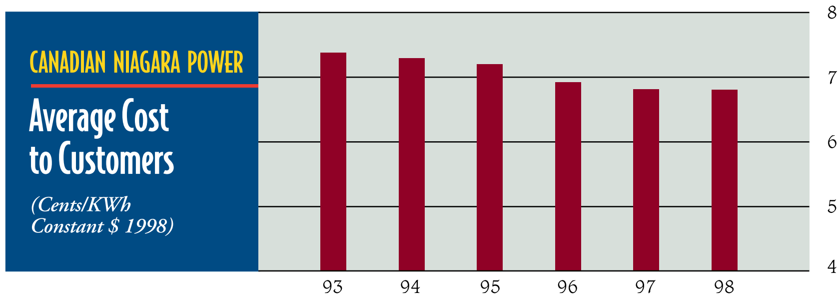

Canadian Niagara Power provides electrical services to Ontario and the Eastern United States

to 255 GWh. Wholesale energy sales in Ontario, Alberta and to United States based utilities increased 3.7% to 478 GWh. Reduced production at Cowley Ridge due to calm wind conditions, and the termination of the contract to supply electricity to the City of Cornwall following the sale of Cornwall Electric, were offset by increased sales to Niagara Mohawk and robust growth in Canadian Niagara Power's wholesale marketing activities. Third party wholesale sales grew 25.4% to 141 GWh. Canadian Niagara Power's experience trading electricity with United States customers will strengthen its capability to pursue opportunities in the evolving competitive electrical marketplace in Ontario. Although higher prices in the U.S. wholesale market and the weak Canadian dollar contributed to the revenue increase, gains from Fort Erie distribution were solely related to additional deliveries, as rates remained unchanged for the sixth consecutive year.

Energy Supply

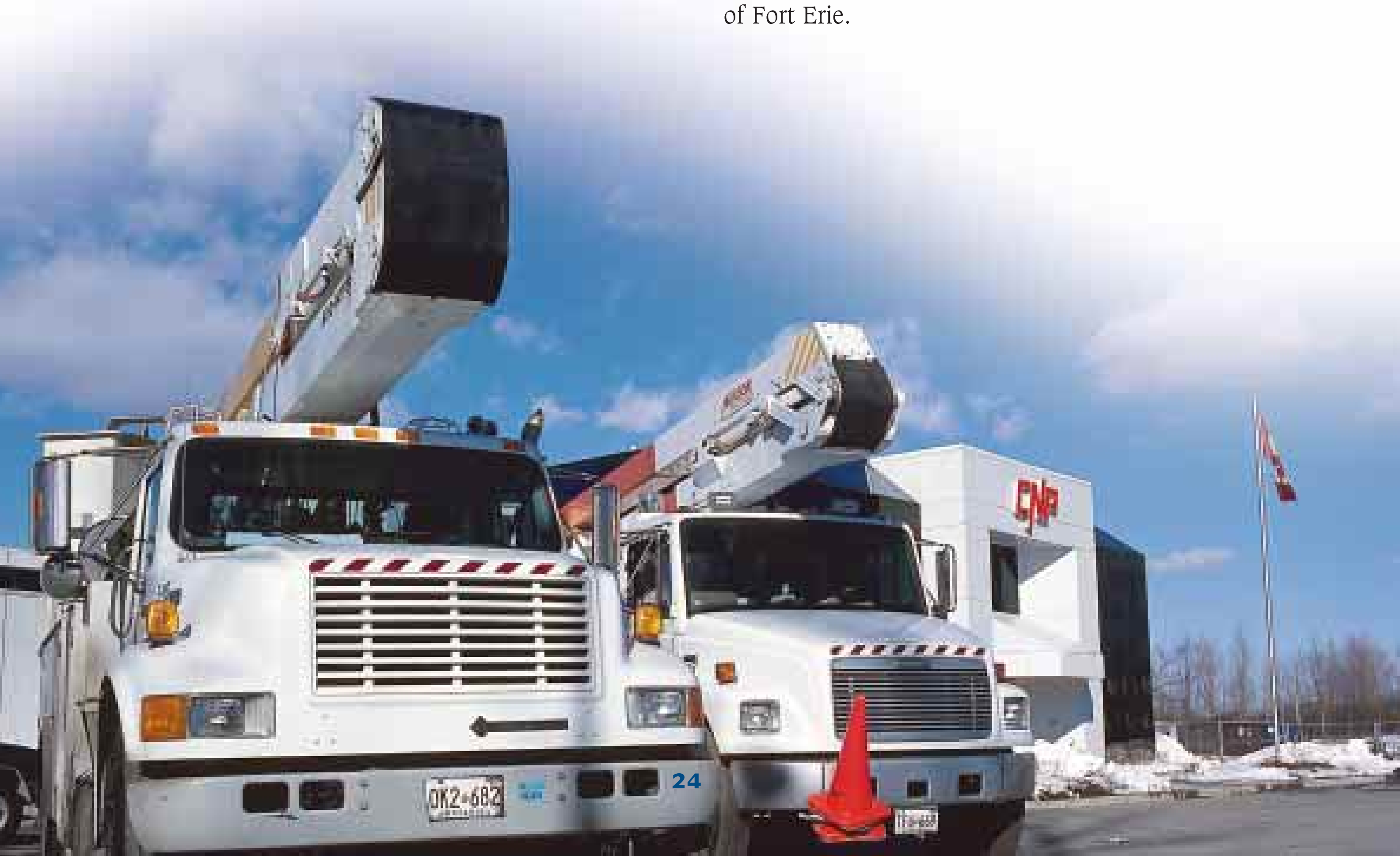
Energy provided by water and power exchange agreements with Ontario Hydro totaled 667 GWh. This was supplemented by open market purchases of 52 GWh for a total of 719 GWh. Lower wind levels in southern Alberta reduced generation from the Cowley Ridge wind turbine plant to 48 GWh from 61 GWh during 1997.

Customer Service



Canadian Niagara Power initiated a thorough review of its system and operating procedures in 1998. System improvement programs included vegetation management, distribution line re-arrangement and substation maintenance. These projects helped improve the reliability of Canadian Niagara Power's delivery system which will be further enhanced during 1999. Canadian Niagara Power also reviewed its customer service processes during 1998 and began installation of a fully integrated database system to enhance customer service and financial management applications. The new system was developed by SAP Canada and will be fully operational by April 1, 1999. Canadian Niagara Power is partnering with SAP Canada and Schlumberger to offer a full package of customer service and accounting systems to municipal electric utilities who will be required to adopt new operating procedures as a result of the changes brought about by the *Energy Competition Act, 1998*.

Incentive rate structures designed to attract industry to Fort Erie continued throughout 1998 as did Canadian Niagara Power's close working relationship with the Economic Development Corporation of Fort Erie.



In December 1998 Canadian Niagara Power completed a customer satisfaction survey and achieved an overall customer satisfaction rating of 91%.

Human Resources

As a consequence of changes made in 1998 at the executive level, Canadian Niagara Power has a strong management team to guide the Company in the evolving Ontario marketplace. Retraining and recruitment at other levels, have added further strength.

Regulation

The *Energy Competition Act, 1998* and ancillary legislation is causing fundamental changes in the Ontario energy industry. Electricity markets will become competitive and access to the Province's transmission system will be available to all market participants. One of Ontario Hydro's successor companies, Ontario Power Generation Inc., will be required to begin a process of reducing its share of control over the Province's generating capacity. Another successor company, Ontario Hydro Services Company, will be a major owner of transmission and distribution systems within the Province. Municipal utilities will be required to adopt an *Ontario Business Corporations Act* structure that includes payments in lieu of tax equivalent to the taxes paid by private utilities. Utilities will be required to segregate regulated activities of distribution and transmission from their unregulated retail marketing and generation activities. Canadian Niagara Power is taking steps to effect the necessary restructuring of its own business activities. The Company has developed an aggressive program of meetings with municipalities and utilities to discuss the impending changes and offer the capabilities of Canadian Niagara Power as either a purchaser of systems or a partner in the provision of services.

Outlook

The implementation of Ontario's industry restructuring plan will dramatically alter the electrical industry in the Province. Despite an aggressive timetable, complete restructuring will still take several years. Canadian Niagara Power has expressed its interest in purchasing utility assets in Ontario and has developed a plan to cultivate and rapidly respond to the opportunities that are expected to arise from industry restructuring.

While seeking opportunities for profitable growth through acquisition, Canadian Niagara Power will continue to focus on service to its customers. The simplification of systems and programs to enhance reliability will continue to improve customer service and create operating efficiencies.

customer satisfaction

FORTIS PROPERTIES CORPORATION

Fortis Properties is the primary vehicle for diversification and growth by Fortis outside the electric industry. During 1998, the Company had investments in commercial real estate, hotels and telecommunications through its partnership with AT&T Canada Long Distance Services. The Company sold its 50% partnership interest in AT&T Canada (Newfoundland) to its partner, in December 1998. The sale resulted in an after-tax gain of $3.6 million. The sale of this investment

continued focus

sharpens the focus of the Company to concentrate on strengthening and growing its real estate and hotel operations.

In 1998, Fortis Properties achieved its highest net income since its formation in 1989. While the increase in profitability was due substantially to the gain on the sale of the AT&T (Newfoundland) partnership interest, both real estate and hotel divisions recorded improvements in earnings from operations compared to 1997.

The Company was able to capitalize on the strengthening real estate market in Halifax, although the improvement in real estate results was dampened by the loss of a major tenant in the Newfoundland properties.

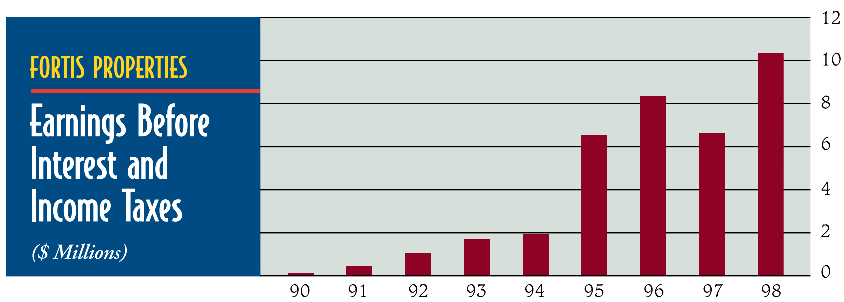
The hotel group also had a very successful year. Increased demand across most market segments resulted in higher occupancy and average room rate compared to 1997 results.

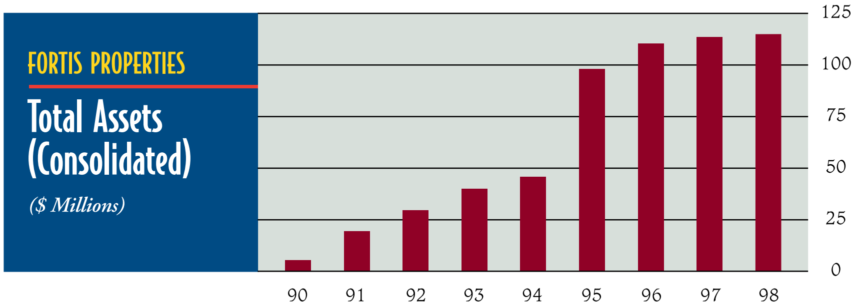
Fortis Properties success is highly dependent on continuing to meet customer expectations. In real estate, the key measure of success is tenant retention, and in hotels it is a combination of occupancy and room rate compared to the market. In 1998, the Company continued to improve on both of these measures.

Financial Results

Net income for 1998 was $3.1 million, an increase of $2.0 million over 1997. In addition to the gain on the sale of the AT&T Canada (Newfoundland) partnership interest, both real estate and hotel operations recorded improvements in earnings from operations of 4.7% and 20.0%, respectively over 1997.

Earnings before interest and income taxes, including the gain on the sale of the Company's interest in AT&T Canada (Newfoundland), increased to $10.4 million in 1998, compared to $6.8 million in 1997. In addition to the gain on disposition, positive impacts were realized from improved earnings of Fortis Hospitality, and higher





occupancy and rental rates in Nova Scotia real estate. These improvements were offset in part by charges related to the re-valuation of certain tenant inducements in the amount of $1.3 million.

Operating and depreciation expenses decreased by 3.7% to $27.7 million in 1998 from $26.7 million in 1997. Capital expenditures in 1998 were $2.4 million,


Fortis hotels offer meeting facilities and catering services tailored to specific needs.

down from $6.3 million in 1997. The decline in capital expenditures reflects the completion of capital improvements at most of the Company's properties and the absence of acquisitions during the year.

Real Estate

The overall vacancy rate of Company properties was 10.9%, down from 11.7% in 1997. There was a significant reduction in vacancy at the Nova Scotia properties. Positive leasing activity in Newfoundland was negated by the bankruptcy of a major tenant. The Company's continued focus on service and maintaining building quality was reflected in the renewal of expiring tenancies during 1998.

The Halifax market had its second consecutive strong year fueled primarily by offshore oil and gas, call centers, and information technology sectors. The Company's vacancy rate in Halifax declined to 3.5% from 8.6% at year-end 1997. The decrease in Halifax vacancy was the result of general improvement in economic conditions, improved demand for office space and strong tenant retention. For the second consecutive year Fortis Properties' reduction in vacancy outperformed the Halifax market. Vacancy in the Newfoundland properties increased to 20.1% from 15% in 1997.

Hotels

Fortis Properties' hotel operations are carried on through Fortis Hospitality Corporation, a wholly-owned subsidiary. At the end of 1998, Fortis Hospitality owned four hotels offering over 600 guest rooms in Newfoundland and Nova Scotia; Holiday Inn St. John's, Holiday Inn Corner Brook, Delta Sydney and Days Inn Sydney. All hotels compete in the mid-market segment. The Company completed acquisition of the 150 room Mount Peyton Hotel in Grand Falls-Windsor, Newfoundland in February 1999.

Fortis Hospitality's weighted average revenue per available room increased by 8.5% in 1998. This growth was achieved through both improved room rates and occupancy which increased 4.0% and 4.5% respectively over 1997. These increases correlate with capital renovations, service improvements, sales and marketing efforts, and improved market positioning. All hotels achieved growth in occupancy over 1997, with the exception of the Holiday Inn St. John's. The lack of growth in St. John's was anticipated, however, as 1997 was an exceptional year due to the Cabot 500 celebrations.

During 1998, efforts focused on strengthening operations by further improving service and better positioning the hotels in their target market segments. This was achieved by increasing employee training and strengthening sales and marketing efforts. All properties improved their service quality rankings within their respective systems.

East Side Mario's at the Holiday Inn St. John's

Telecommunications

In 1991, Fortis Properties formed a partnership with Unitel Communications, predecessor to AT&T Canada Long Distance Services, to bring competitive long distance telecommunications services to Newfoundland. While the partnership had a history of profitable growth, intensified competition in recent years resulted in a trend of flat revenues and increased costs that eroded the profitability of the business. The telecommunications industry continues to change at a rapid pace as mergers and acquisitions dominate the industry. Consistent with this trend, the Company reached agreement with its partner, AT&T Canada Long Distance Services, to purchase Fortis Properties' interest in the AT&T Canada (Newfoundland) partnership. The sale of the Company's interest was completed in December 1998.

Human Resources

Fortis Properties employs 405 people. In 1998, training, particularly within Fortis Hospitality, focused on the improvement of service delivery, yield management and employee development.

Four hotels, and the East Side Mario's restaurant, owned and operated by Fortis Hospitality, are unionized. A new collective agreement was negotiated for the Holiday Inn Corner Brook in the fall of 1998. The Company is presently negotiating with the union representing employees of the Days Inn Sydney.

Outlook

The real estate and hotel industries have continued to benefit from stronger market conditions. This trend is expected to continue into 1999. The lack of new construction for both real estate and hotels is expected to keep supply and demand in balance. This should further improve operating results in 1999.

Indications are that absorption in the Halifax market will continue, and with improving rental rates, another growth year is predicted. The Newfoundland economy is forecast to lead the country in 1999. This activity is expected to be focused primarily in the St. John's region.

Fortis Properties is committed to building on its success, and expanding its presence in the hotel industry. This

Fortis Properties meets the needs of present and future customers

FORTIS TRUST

Fortis Trust operates in the financial services industry as a niche player specializing in residential mortgages and fixed term deposits. The Company carries on business in Newfoundland at branches in St. John's and Corner Brook, and serves Prince Edward Island through an affiliation with Maritime Electric. The Company is a member of the Canada Deposit Insurance Corporation and is a lender approved by Canada Mortgage and Housing Corporation (CMHC) for participation in insured lending programs under the *National Housing Act* (NHA).

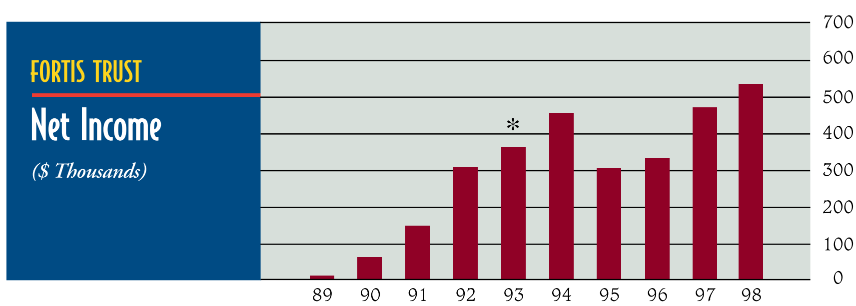
profitable performance

Financial Results

Fortis Trust realized its most profitable year since its founding in 1936 with earnings of $537,000, up 13.5% from 1997 earnings of $473,000. The record earnings are attributable to reduced expenses and credit losses, and an increase in other income. Net interest income declined during the year. The return on equity was 10.7%, compared to 9.4% in 1997. The Company is highly capitalized which reduces its return on equity measurement in comparison to other financial services companies. Return on average assets remained strong at 0.92% compared to the industry average of 0.60% in the prior year. The Company's return on average assets was 0.77% for 1997.

Operations

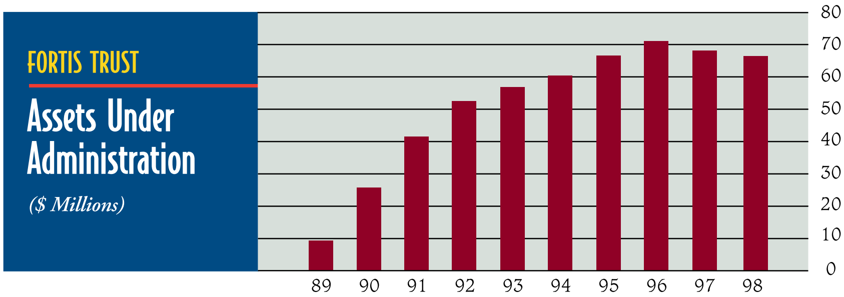
In spite of increased lending activity during the year, assets under administration declined 3.2% to $66.4 million from $68.6 million in 1997. The current low interest rate environment limits the supply of retail deposits which are used as a source of funding for growth. Aided by the introduction of the Canada Education Savings Grant for Registered Education Savings Plans (RESP), the Company enjoyed a significant increase in activity in the RESP product with transactions increasing by 36%. Fortis Trust continues to manage the Consumer and Employee Share Purchase Plans of Fortis Inc. and also administers four NHA Mortgage Backed Securities pools which provide a source of fee revenues.



*Before Extraordinary Gain

Risk Management

Fortis Trust has developed corporate policies and procedures for managing areas of significant risk including credit risk, interest rate risk and liquidity risk. These polices are reviewed regularly by senior management and the Policy Committee of the Board of Directors. Lending is primarily on residential first mortgages with 65.4% of the portfolio CMHC insured. A liquidity reserve is maintained to ensure future liquidity requirements are satisfied. A maturity analysis of deposit certificates and mortgage maturities is used to monitor interest rate risk positions.



Outlook

Fortis Trust anticipates continued strong earnings in 1999. No significant changes are forecast in the interest rate environment which does not favour GIC deposits, thereby hampering the ability of the Company to grow its mortgage portfolio.

Our Registered Education Savings Plan helps families to finance post-secondary education.

Our Community

Fortis and its employees work to improve the quality of life in our communities by supporting volunteer activities and initiatives.

Fortis and its employees work to improve the quality of life in our communities by supporting volunteer activities and initiatives. We support hundreds of community activities throughout the areas we serve. With the support of Fortis companies, our employees are actively involved in sports groups, scout and guide troops, schools, health care institutions and numerous other organizations. Our contributions are as diverse as our companies, and encompass financial assistance as well as employee time and use of resources. Pictured on these pages is a small sampling of the activities of Fortis and its employees during 1998.

Fortis community activities are delivered through the operating subsidiaries who are acutely aware of the needs of their areas. Special projects of a regional or national scope are embraced by the entire Fortis group. To commemorate the 500th anniversary of the discovery of Newfoundland, we sponsored a documentary television series entitled "East of Canada – The Story of Newfoundland." From February 20 through March 5, 1999 Canadian youth gathered in Corner Brook Newfoundland for the Canada Winter Games. Fortis was a major corporate sponsor of the Games. We made significant contributions of cash and product, as well as considerable volunteer efforts by our employees to ensure the success of this major national showcase. Fortis was the sponsor of Team P.E.I., providing uniforms to all athletes and staff from that Province.

a major corporate sponsor

This Management Discussion and Analysis for Fortis Inc. is supplemental to the Consolidated Financial Statements and related notes sections of the 1998 Annual Report, and should be read jointly with such sections on pages 39 through 51 of the Annual Report.

Fortis faced a number of challenges in 1998, but still achieved solid operating results for the year.

Consolidated earnings were $27.4 million compared to $30.0 million in 1997. The decrease in earnings resulted from lower electrical rates in effect at Newfoundland Power and Maritime Electric, and additional expenses related to the investigation of acquisition opportunities for hydroelectric generating assets. These impacts were partially offset by the gain on the sale of Fortis Properties' partnership interest in AT&T Canada (Newfoundland).

Management, Discussion & Analysis

1998 PERFORMANCE COMPARED WITH 1997

Consolidated Earnings

	Earnings Applicable to Common Shares (*in millions*)			Segmented Earnings Per Share	
	1998	1997	Change	1998	$ 1997
Wholly Owned Subsidiaries					
Newfoundland Power	**$ 21.6**	$ 24.9	$ (3.3)	**$ 1.67**	$ 1.97
Maritime Electric	**5.2**	7.9	(2.7)	**0.40**	0.63
Fortis Properties	**3.1**	1.1	2.0	**0.24**	0.09
Fortis Trust	**0.5**	0.5	0.0	**0.04**	0.04
	30.4	34.4	(4.0)	**2.35**	2.73
Share of Canadian Niagara Power	**4.6**	4.6	0.0	**0.36**	0.36
Corporate and Consolidation Adjustments	**(4.6)**	(2.8)	(1.8)	**(0.36)**	(0.22)
	30.4	36.2	(5.8)	**2.35**	2.87
Preferred Dividends	**(3.0)**	(6.2)	3.2	**(0.23)**	(0.49)
Earnings	**$ 27.4**	$ 30.0	$ (2.6)	**$ 2.12**	$ 2.38
Average Common Shares Outstanding (millions)	**12.9**	12.6	0.3		

Operating Revenues

	1998	1997	Change
	(in millions)		
Newfoundland Power	$335.8	$343.7	$ (7.9)
Maritime Electric	81.6	86.8	(5.2)
Canadian Niagara Power	19.7	18.2	1.5
Fortis Properties (1)	33.1	33.1	0.0
Fortis Trust	4.5	4.9	(0.4)
Corporate and Consolidation Adjustments	(0.3)		(0.3)
	$ 474.4	$ 486.7	$ (12.3)

(1) The 1997 figures have been restated to reflect discontinued operations

Expenses

	1998	1997	Change
	(in millions)		
Newfoundland Power	$ 272.3	$ 275.1	$ (2.8)
Maritime Electric	64.8	65.4	(0.6)
Canadian Niagara Power	9.9	8.4	1.5
Fortis Properties (1)	27.7	26.7	1.0
Fortis Trust	1.0	1.2	(0.2)
Corporate and Consolidation Adjustments	7.0	5.4	1.6
	$ 382.7	$ 382.2	$ 0.5

(1) The 1997 figures have been restated to reflect discontinued operations

The decrease in operating revenues is primarily attributable to lower electrical rates in effect at Newfoundland Power and Maritime Electric.

A regulatory decision in July 1998 reduced Newfoundland Power's rate of return on common equity for ratemaking purposes from 11% to 9.25%, and decreased electrical rates by 2.1% effective January 1, 1998.

On January 1, 1998, Maritime Electric completed the transition to price-cap regulation. Electricity rates were reduced an average of 7% in Prince Edward Island and are now set so as not to exceed 110% of rates charged by New Brunswick Power for equivalent service in New Brunswick. This reduction at the beginning of the year was partially offset on October 1, 1998 when rates were increased by 2.9% to coincide with an increase implemented by New Brunswick Power.

The increase in revenue of Canadian Niagara Power is a direct result of energy sales activity to the U.S. market.

Despite higher than normal regulatory costs, Newfoundland Power reduced operating expenses by $4.1 million. This decrease is attributable to reductions in labour costs and retirement programs offered in 1997. The decrease in operating expenses is partially offset by an increase in depreciation of $1.3 million resulting from the continuing capital program aimed at improving customer service and reliability.

The decrease in expenses of Maritime Electric is attributable to lower purchased power costs and lower operating costs. Maritime Electric purchases most of the electricity that it distributes from New Brunswick Power, approximately 30% of which is generated at New Brunswick Power's Point Lepreau Nuclear Generating Station. Although this station experienced outages again in 1998, the additional cost for replacement power was $2.8 million in 1998, compared to $3.5 million in 1997. Lower oil prices in effect during the year also contributed to lower purchased power costs.

The increase in the expenses of Canadian Niagara Power is due to increased purchase of power for resale and an increase in administration expenses.

Fortis Properties expenses include a one-time provision of $1.3 million against tenant inducements which were determined to have limited future economic value.

Corporate expenses include an

additional $1.8 million in 1998 incurred to pursue the acquisition of opportunities for hydroelectric generation assets in the U.S.

Finance Charges

(in millions)	1998	1997	Change
Interest on Long-Term Debt	$ 41.2	$ 38.7	$ 2.5
Dividends on Preference Shares	3.0	6.2	(3.2)
	$ 44.2	$ 44.9	$ (0.7)

Interest on long-term debt increased due to the issue of $50 million 7.5% First Mortgage Bonds by Fortis Properties in October 1997.

The proceeds from these bonds were used to redeem $50 million, 8.7% First Preference Shares, Series A of Fortis. As a result, dividends on preferred shares declined accordingly in 1998.

Discontinued Operations

On December 29, 1998, Fortis Properties sold its 50% interest in the AT&T Canada (Newfoundland) partnership for $15.5 million. Included in the 1998 results of discontinued operations is the after-tax gain on disposal of $3.6 million.

LIQUIDITY AND CAPITAL RESOURCES

Operating and capital expenditures were financed by cash from operations and the issuance of long-term debt and common equity.

A special dividend of $10 million was received by Fortis in March 1998 from Newfoundland Power. The July 1998 regulatory decision led Newfoundland Power to suspend the payment of regular dividends until the Company's common equity approaches the 45% maximum allowed by the regulator. Newfoundland Power expects that it will reach the 45% common equity level during 1999.

Included in accounts receivable at year-end is the $15.5 million selling price of Fortis Properties interest in the AT&T Canada (Newfoundland) partnership. This amount was collected subsequent to year-end.

External Financing

On November 20, 1998, Newfoundland Power issued $50 million 6.8% First Mortgage Sinking Fund Bonds, due 2028. Proceeds from this issue were used to finance the Company's ongoing capital programs.

In June 1998, Maritime Electric repaid $10 million 11.2% First Mortgage Bonds which matured.

During the year, Fortis issued 212,019 Common Shares (1997 – 290,628) under its Dividend Reinvestment, Share Purchase and Executive Stock Option Plans that contributed $8.0 million to equity (1997 – $9.1 million).

Capital Expenditures (net)

(in millions)	1998	1997	Change
Newfoundland Power	$ 44.3	$ 28.9	$ 15.4
Maritime Electric	12.1	13.5	(1.4)
Canadian Niagara Power	4.8	1.1	3.7
Fortis Properties	2.4	6.3	(3.9)
	$ 63.6	$ 49.8	$ 13.8

Investing

The increase in Newfoundland Power's capital program resulted from the construction of a 6.1 MW hydroelectric generating plant at Rose Blanche Brook. This plant will provide increased reliability of supply to customers on the southwest coast of Newfoundland.

Canadian Niagara Power implemented system improvement programs in 1998 increasing capital expenditures on distribution lines and substations. These programs improved reliability of the delivery system and will continue in 1999.

The decline in capital expenditures of Fortis Properties reflects the completion of capital improvements at the Company's properties.

Dividends

Dividend payments increased in 1998 to $23.3 million from $22.5 million due to an increase in the quarterly dividend from $0.44 to $0.45 per common share, and the issuance of additional common shares pursuant to the various Fortis share purchase plans.

RISK ANALYSIS

Fortis believes that its subsidiaries, and Canadian Niagara Power, are well positioned to meet the challenges resulting from changes in regulation, increased competition, and slow economic growth in parts of its service territory. A major risk facing the electric utility subsidiaries is the potential for competition in this traditionally regulated industry. Transmission access is currently in place in the United States and retail competition will be implemented in many states by 2000. During 1998, the Government of Ontario introduced the *Energy Competition Act, 1998*, legislation designed to initiate restructuring of the provincial electrical industry. Management is reviewing the Company's operations and making the organizational changes necessary to ensure that the electrical utility subsidiaries, and Canadian Niagara Power, respond positively to the new industry environment and capitalize on the opportunities presented.

The principal long-term risk facing Newfoundland Power is the recovery of current and past expenses incurred in the delivery of electrical services. This risk is affected by a number of factors including general economic conditions, potential changes in regulation and the regulatory system, and competition in the energy marketplace. Over 50% of Newfoundland Power's energy sales are subject to competitive end use in the space and water heating markets. In recent years the number of conversions from electric space heating to oil has declined while the number of customers installing electric space heating in new homes has remained strong. However, if the price of oil remains at current low levels the Company could be faced with increased competition in these markets.

Maritime Electric purchases the majority of its energy requirements from New Brunswick Power. Maritime Electric's rates for the energy it sells are not directly linked to its costs but are limited by legislation to not more than 110% of New Brunswick Power's rates for comparable service.
Two of the major risks facing the Company are its exposure to increases in the price of oil, and the availability of energy from New Brunswick Power's Point Lepreau Nuclear Generating Station. Management continues to take a proactive approach towards reducing the Company's exposure to these risks. To minimize the Company's exposure to increases in the price of oil, management is investigating a program of business risk management which would fix the Company's oil related costs.

Fortis continues to assess the strategic value of current and prospective non-utility investments. Fortis Properties has strategically positioned itself to manage risk by diversifying its business base and operating territory. The business base includes commercial and retail properties and hotel services. Fortis Properties' real estate and hotel assets are located in major service centers of Newfoundland and Nova Scotia. The divestiture of the Company's investment in the telecommunications industry will enable the Company to focus on growth in its real estate and hotel operations.

Fortis Trust faces interest rate risk and strives to minimize its exposure by matching the maturities of assets and liabilities. The Company's credit risk philosophy is conservative, with a primary focus on insured residential first mortgages.

YEAR 2000

A significant challenge to virtually all businesses is the need to prepare for the impact of the century change on computer systems. Many information systems in current use have been designed to identify calendar years by reference to only the last two digits of the year. Unless those systems are appropriately modified, the arrival of 2000 will create system confusion or failure, with attendant business disruptions. The Year 2000 issue impacts each of the Fortis subsidiary companies, and Canadian Niagara Power. The principal risks faced by the electrical utilities relate to complex computer applications used in the delivery of customer service and the ability of their generation suppliers to deliver electricity. All of the Fortis companies rely on information technology systems for financial management and reporting.

Committees have been formed in each of the companies to deal with this issue. Committee members include both information technology specialists and system users. During 1998, all major applications were assessed and potential problem areas and system corrections identified. Action plans have been formulated to mitigate the risks associated with the Year 2000 issue. The committees have outlined timetables for modification of existing systems or implementation of new systems. Testing will continue to be performed throughout the modification and implementation stages, with completion of all activities scheduled for June 1999.

Throughout 1998, the companies worked with key business partners and suppliers to ensure that they are prepared for 2000. During 1999, Fortis will continue to address the remaining risks associated with third parties with whom it does business.

The estimated total cost of modifications to existing systems and implementation of new systems amount to $3.5 million, of which approximately $1.8 million was incurred in 1998. Approximately $400,000 of this expenditure has been charged to income and $1.4 million capitalized.

OUTLOOK

Significant changes to Fortis' existing operations are not anticipated for 1999. Subsidiaries will focus on improving operations and continue to build solid foundations to take advantage of long term opportunities. Fortis will continue to explore opportunities to acquire utility assets which may become available in Canada or the United States as industry restructuring evolves.

Financials

Management Report

The accompanying financial statements of Fortis Inc. and its subsidiaries, and all information in the annual report, are the responsibility of management and have been approved by the Board of Directors. The financial statements include certain amounts that are based on management's best estimates and judgments.

The financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. Financial information contained elsewhere in the annual report is consistent with that in the financial statements.

Management maintains internal controls to provide reasonable assurance of the reliability and accuracy of the financial information and that the assets of the Corporation are properly safeguarded. The effectiveness of these internal controls is evaluated on an ongoing basis by the external auditors.

The Audit Committee, which is comprised solely of outside directors, reviews the annual consolidated financial statements and recommends their approval to the Board of Directors. The Committee meets with the external auditors, with and without management present, to discuss the results of the audits, the adequacy of the internal accounting controls and financial reporting matters.

The consolidated financial statements have been audited by Deloitte & Touche LLP and their report follows.

President and Chief Executive Officer

Vice President, Finance and
Chief Financial Officer

Auditors' Report

To the Shareholders,
Fortis Inc.

We have audited the consolidated balance sheets of Fortis Inc. as at December 31, 1998 and 1997 and the consolidated statements of earnings, retained earnings and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1998 and 1997 and the results of its operations and the changes in cash flows for the years then ended in accordance with generally accepted accounting principles.

St. John's, Newfoundland,
Deloitte & Touche LLP
February 26, 1999

FORTIS INC.

(Incorporated under the laws of the Province of Newfoundland and Labrador)

CONSOLIDATED BALANCE SHEETS

As at December 31

ASSETS	1998	*(in thousands)* 1997
Current Assets		
Cash	$ 6,961	$ 11,823
Accounts receivable	70,455	60,407
Materials and supplies	7,396	6,373
	84,812	78,603
Other Assets		
Mortgages receivable–Fortis Trust	54,999	57,568
Deferred charges (Note 1)	50,243	42,437
Corporate income tax deposit (Note 13)	15,595	15,595
	120,837	115,600
Utilities' Capital Assets (Note 2)	697,407	684,874
Income-Producing Properties (Note 3)	92,220	93,474
Goodwill	41,916	44,845
	$ 1,037,192	$ 1,017,396

LIABILITIES	1998	1997
Current Liabilities		
Bank indebtedness	$ 22,218	$ 46,433
Accounts payable and accrued charges	81,119	80,844
Deposits payable–Fortis Trust	31,301	29,820
Current instalments of long term debt (Note 4)	6,142	15,061
	140,780	172,158
Long Term Debt (Note 4)	479,485	435,627
Deposits Due Beyond One Year–Fortis Trust	15,745	20,444
Deferred Credits (Note 5)	54,075	54,194
Non-Controlling Interest (Note 6)	8,430	8,430
SHAREHOLDERS' EQUITY		
Common shares (Note 7)	149,092	141,063
Retained earnings	189,585	185,480
Common shareholders' equity	338,677	326,543
	$ 1,037,192	$ 1,017,396

Contingent liability (Note 13)

See accompanying notes to consolidated financial statements.

Approved on Behalf of the Board:

Director

Director

FORTIS INC.

CONSOLIDATED STATEMENTS OF EARNINGS

For the Year Ended December 31

	1998	(in thousands)	1997
Operating Revenues	**$ 474,354**		$ 486,662
Expenses			
Operating	**339,943**		341,024
Depreciation and amortization	**42,802**		41,147
	382,745		382,171
Operating Income	**91,609**		104,491
Finance Charges			
Interest and amortization (Note 8)	**41,252**		38,658
Dividends on preference shares	**2,975**		6,232
	44,227		44,890
Earnings Before Undernoted Items	**47,382**		59,601
Income Taxes (Note 9)	**23,066**		29,449
Earnings Before Discontinued Operations and Non-Controlling Interest	**24,316**		30,152
Results of Discontinued Operations (Note 17)	**3,613**		369
Earnings Before Non-Controlling Interest	**27,929**		30,521
Non-Controlling Interest	**515**		515
Earnings Applicable to Common Shares	**$ 27,414**		$ 30,006
Average Common Shares Outstanding	**12,908**		12,623
Earnings per Common Share	**$ 2.12**		$ 2.38

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

For the Year Ended December 31

	1998	(in thousands)	1997
Balance at Beginning of Year	**$ 185,480**		$ 177,927
Earnings applicable to common shares	**27,414**		30,006
Dividends on common shares	**(23,309)**		(22,453)
Balance at End of Year	**$ 189,585**		$ 185,480

See accompanying notes to consolidated financial statements.

FORTIS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Year Ended December 31

	1998	*(in thousands)* 1997
Cash from operations		
Earnings before discontinued operations and non-controlling interest	**$ 24,316**	$ 30,152
Items not affecting cash		
Depreciation and amortization	**42,802**	41,147
Deferred income taxes	**(1,398)**	(17)
Other	**850**	587
Change in non-cash working capital	**5,920**	(8,667)
	72,490	63,202
Cash from external financing		
Issue of common shares	**8,029**	9,139
Redemption of preference shares		(50,000)
Net proceeds from long term debt	**50,000**	66,508
Repayment of long term debt	**(15,060)**	(4,145)
Change in bank indebtedness	**(24,215)**	(7,777)
Change in deposits payable beyond one year	**(4,699)**	2,996
	14,055	16,721
Cash used in investing		
Capital additions (net)	**(63,644)**	(49,773)
Mortgages	**2,569**	3,403
Change in deferred charges	**(7,798)**	(7,723)
	(68,873)	(54,093)
Dividends		
Common shares	**(23,309)**	(22,453)
Subsidiaries to minority shareholders	**(515)**	(515)
	(23,824)	(22,968)
Change in cash before discontinued operations	**(6,152)**	2,862
Cash provided by discontinued operations	**1,290**	1,374
Change in cash	**(4,862)**	4,236
Cash, beginning of year	**11,823**	7,587
Cash, end of year	**$ 6,961**	$ 11,823

See accompanying notes to consolidated financial statements.

SUMMARY OF ACCOUNTING POLICIES

Consolidated Financial Statements

Consolidated financial statements include the accounts of Fortis Inc. (the "Corporation") and the following wholly owned subsidiaries:

Newfoundland Power Inc. ("Newfoundland Power")
Maritime Electric Company, Limited ("Maritime Electric")
Fortis Properties Corporation ("Fortis Properties")
Fortis Trust Corporation ("Fortis Trust")

The accounts of Fortis Properties include its wholly owned subsidiary, Fortis Hospitality Corporation. Fortis Properties sold its 50% interest in the AT&T Canada (Newfoundland) partnership during the year. The Company's share of income in the partnership and the gain on disposition are presented as discontinued operations (Note 17).

The Corporation's 50% interest in Canadian Niagara Power Company, Limited ("Canadian Niagara"), is reported on a proportionate consolidation basis.

Revenue – Real Estate

Real estate revenue is derived from leasing retail and office space to tenants for varying periods of time. The leases are primarily of a net nature with tenants paying basic rental plus a pro rata share of defined overhead expenses. Certain retail tenants pay additional rent based on a percentage of the tenant's sales. Expenses recovered from tenants are recorded as revenue and overhead costs as operating expenses.

Income-Producing Properties

Income-producing properties are recorded at cost.

Amortization

Fortis Properties depreciates income-producing buildings on the sinking fund method using an imputed interest rate of 6% over the estimated useful lives of twenty-five to forty years.

Goodwill

Goodwill, representing the excess of the acquisition cost of shares of Maritime Electric and Canadian Niagara over the assigned value of net assets acquired, is being amortized on a straight line basis over twenty-five and twelve years respectively. Expected future earnings support the carrying value of goodwill.

Statement of Cash Flows

Bank indebtedness is considered a non-current liability in the statement of cash flows as it is anticipated the indebtedness will be replaced by long term debt or capital stock.

The accounting policies which follow are principally related to Newfoundland Power, Maritime Electric and Canadian Niagara.

Regulation

Newfoundland Power is regulated by the Board of Commissioners of Public Utilities of the Province of Newfoundland and Labrador ("The P.U.B."). Accounting policies conform to generally accepted accounting principles and to accounting requirements established from time to time by The P.U.B. for Newfoundland Power.

Maritime Electric operates under the *Maritime Electric Company Limited Regulation Act* (Prince Edward Island) and is monitored by the Island Regulatory and Appeals Commission.

Revenue

Revenue from the sale of electricity by Newfoundland Power is recognized on billings rendered monthly, on a cyclical basis, to customers.

Revenue from the sale of electricity by Maritime Electric and Canadian Niagara is recognized on the accrual basis.

Utilities' Capital Assets

Capital assets of Newfoundland Power are stated at values approved by The P.U.B. as at June 30, 1966 with subsequent additions at cost. Capital assets at Maritime Electric and Canadian Niagara are stated at cost. The cost of capital assets retired, less net salvage, is charged to accumulated amortization.

Maintenance and repairs are charged against revenue, while renewals and betterments are capitalized.

Amortization

Amortization is provided in the accounts of Newfoundland Power, Maritime Electric and

Canadian Niagara primarily on a straight line method based on the estimated service life of capital assets.

The composite rate of amortization before reduction for amortization of contributions in aid of construction are:

	1998	1997
Newfoundland Power	3.7%	3.7%
Maritime Electric	3.3%	3.3%
Canadian Niagara	3.3%	3.5%

Interest Charged to Construction

On certain construction projects, Newfoundland Power records interest at varying rates as set out by The P.U.B.. Maritime Electric calculates interest during construction at a rate approximately equal to the cost of capital. Until the asset is available for service, such interest is capitalized and included as a cost in the appropriate capital asset account.

Contributions in Aid of Construction

Contributions represent the cost of property, plant and equipment contributed by customers and governments. Certain contributions by the Province of Newfoundland and Labrador to Newfoundland Power carry conditional options allowing the Province to reacquire the capital assets so contributed. These accounts are being reduced annually by an amount equal to the charge for amortization provided on the contributed portion of the cost of the assets involved.

Weather Normalization Account

The P.U.B. has ordered provision of a weather normalization account in Newfoundland Power to adjust for the effect of variations in weather and streamflow when compared to long term averages. The balance in the weather normalization account is subject to annual approval by The P.U.B..

Materials and Supplies

Materials and supplies are recorded at average cost.

Pension Costs

Newfoundland Power and Canadian Niagara maintain defined benefit pension plans for its employees.

Pension costs are actuarially determined using the projected benefit method prorated on service and management's best estimate assumptions.

Deferred Charges

Deferred pension costs represent the cumulative difference between pension fund contributions and pension costs recorded in the Corporation's accounts. Adjustments arising from plan amendments, experience gains and losses, changes in actuarial assumptions and the difference between the actuarial present value of accrued pension obligations and the market value of pension plan assets are amortized on a straight line basis over the expected average remaining service life of the employee group, except for early retirement offerings at Newfoundland Power, which are being amortized on a straight line basis over ten years.

Other deferred charges are amortized as follows:

Debt discount and expenses – over the life of each issue, except for realized exchange losses incurred by Newfoundland Power which were amortized, as approved by The P.U.B., over five years ending 1997.

Capital stock issue expenses – over a twenty year period from date of issue except for retractable preference shares which are amortized over the retraction period.

Deferred regulatory costs – Costs billed to Newfoundland Power by The P.U.B. with respect to 1998 regulatory proceedings are amortized over three years beginning in 1999.

Deferred Income Taxes

The Corporation, Canadian Niagara and the Corporation's subsidiaries, except Newfoundland Power, follow the tax allocation basis of providing for income taxes. The P.U.B. specifies Newfoundland Power's method of accounting for income taxes. Commencing January 1, 1981, The P.U.B. allowed the tax allocation method with respect to the timing difference between amortization and capital cost allowances for all depreciable assets. If the full tax allocation method of accounting had always been followed, the cumulative amount of the deferred income tax liability would have been increased by approximately $87.9 million to December 31, 1998 (1997 – $86.7 million).

1. Deferred Charges

		1998	December 31 (in thousands)		1997
Deferred pension costs	$	33,637		$	28,565
Deferred recoverable costs		1,903			2,919
Deferred regulatory costs and other		3,320			2,143
Unamortized capital stock issue expenses		825			912
Unamortized debt discount and expenses		5,536			4,192
Weather normalization account		5,022			3,706
	$	50,243		$	42,437

2. Utilities' Capital Assets

		1998	December 31 (in thousands)		1997
Utilities' capital assets	$	1,155,586		$	1,130,030
Accumulated amortization		458,179			445,156
	$	697,407		$	684,874

3. Income-Producing Properties

		1998	December 31 (in thousands)		1997
Land, buildings and tenant inducements	$	102,516		$	99,966
Accumulated amortization		10,296			6,492
	$	92,220		$	93,474

4. Long Term Debt

				1998	December 31 (in thousands)		1997
Fortis Inc.							
2,000,000 5.95% First Preference Shares, Series B			$	50,000		$	50,000
Newfoundland Power							
First mortgage sinking fund bonds:							
11.50%	Series AB,	due 2005		13,800			13,950
11.875%	Series AC,	due 2007		35,070			35,470
10.55%	Series AD,	due 2014		34,953			35,353
10.90%	Series AE,	due 2016		37,200			37,600
9.00%	Series AG,	due 2020		37,600			38,800
10.125%	Series AF,	due 2022		38,400			38,000
8.90%	Series AH,	due 2026		39,235			39,635
6.80%	Series AI,	due 2028		50,000			–
				286,258			238,808
Maritime Electric							
First mortgage bonds:							
11.20%	due 1998			–			10,000
12.00%	due 2010			15,000			15,000
11.50%	due 2016			12,000			12,000
8.55%	due 2018			15,000			15,000
8.625%	due 2027			15,000			15,000
8.92%	due 2031			20,000			20,000
				77,000			87,000

4. Long Term Debt *(continued)*

	1998	December 31 (in thousands)	1997
Fortis Properties			
7.5% First mortgage bonds, due 2017	**49,279**		50,000
Obligations under capital leases	**1,730**		1,884
	51,009		51,884
Canadian Niagara			
Term loan	**16,000**		17,500
Note payable–10.867% due 2013	**5,360**		5,496
	21,360		22,996
	485,627		450,688
Less: Current instalments	**6,142**		15,061
	$ 479,485		$ 435,627

First Preference Shares, Series B, are retractable at the holder's option on or before November 25, 2002 at $25.00 per share together with all accrued and unpaid dividends thereon. The Corporation may redeem any or all of the outstanding First Preference Shares, Series B, at any time on or after December 2, 2002 for a redemption price of $25.00 together with all accrued and unpaid dividends thereon.

The Newfoundland Power and Maritime Electric first mortgage bonds are secured by a first fixed and specific charge on utilities' capital assets owned or to be acquired and by a floating charge on all other assets.

The Fortis Properties first mortgage bonds are secured by a fixed and floating charge on specific income-producing properties.

The Canadian Niagara term loan is secured by a general security agreement covering all its assets and a collateral mortgage on real property. The note payable is secured by a charge on specific capital assets.

Canadian Niagara is party to two interest rate swap contracts with durations of ten years to hedge against interest exposures on $12.8 million of indebtedness. The separate contracts have the effect of fixing the rate of interest on $12.8 million of the $16 million term loan. The remaining $3.2 million of the term loan bears interest at a floating rate of banker's acceptance rate plus 1%.

The annual requirements to meet sinking fund payments and instalments in each of the next five years are as follows:

(in thousands)

	1999	2000	2001	2002	2003
Sinking fund payments and instalments	$ 6,142	$ 6,231	$ 6,327	$ 6,432	$ 6,509

The estimated fair value of long term debt was $594 million at December 31, 1998 (1997 - $583 million). Fair value was estimated using present value techniques based on borrowing rates at year end for debt with similar terms and maturities and quoted market value for those instruments which are publicly traded. Since the Corporation does not intend to settle the debt prior to maturity, the fair value estimate does not represent an actual liability and therefore does not include exchange or settlement costs.

5. Deferred Credits

	1998	December 31 (in thousands)	1997
Contributions in aid of construction	**$ 30,359**		$ 30,887
Deferred income taxes	**21,195**		21,221
Post retirement benefits–Canadian Niagara	**2,030**		2,086
Other	**491**		–
	$ 54,075		$ 54,194

6. Non-Controlling Interest

The non-controlling interest at December 31, 1998 and 1997 consists of preference shares of Newfoundland Power.

7. Capital Stock

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

Issued and Outstanding	December 31	*(in thousands)*	
	1998		1997
12,980,305 Common Shares (1997–12,768,286)	**$ 149,092**		$ 141,063

Common Shares were issued during the year for cash as follows:	**Number of Shares**	**Amount** *(in thousands)*
Consumer share purchase plan	62,849	$ 2,646
Dividend reinvestment plan	46,538	1,962
Employee share purchase plan	28,294	1,207
Executive stock option plan	74,338	2,214
	212,019	$ 8,029

At December 31, 1998, 2,138,371 common shares were reserved for issue under the terms of the above plans.

The Corporation is authorized to grant directors and certain key employees of Fortis Inc. and its subsidiaries options to purchase common shares.

The following stock options are outstanding as at December 31, 1998:

Number of Shares	**Exercise Price**	**Expiry Date**
9,908	$ 24.60	2000
19,527	$ 27.49	2001
14,594	$ 33.10	2002
53,349	$ 45.67	2003
40,000	$ 45.12	2003
137,378		

Issued and Outstanding	December 31	*(in thousands)*	
	1998		1997
2,000,000 5.95% First Preference Shares, Series B	**$ 50,000**		$ 50,000

The Corporation's preference shares are reported as long term debt in the consolidated financial statements (Note 4).

8. Interest and Amortization

	1998	December 31 (in thousands)	1997
Amortization of debt and stock issue expenses	**$ 238**		$ 288
Interest - long term debt	**41,050**		39,730
- other	**1,740**		722
Interest charged to construction	**(743)**		(490)
Interest earned	**(1,033)**		(1,592)
	$ 41,252		$ 38,658

9. Income Tax Rate

Taxes on income vary from the amount that would be determined by applying the combined statutory Canadian federal, Newfoundland, Nova Scotia, Prince Edward Island and Ontario provincial income tax rates to earnings. The following is a reconciliation of the combined statutory rates to the effective income tax rate:

	1998	December 31	1997
	%		%
Statutory income tax rate	**43.7**		43.7
Large corporations tax	**2.7**		1.9
General expenses capitalized	**(1.0)**		(1.9)
Pension costs	**(5.0)**		(3.0)
Dividends on preference shares	**2.8**		4.5
Other	**5.5**		4.2
Effective income tax rate	**48.7**		49.4

10. Financial Instruments

The Corporation and its subsidiaries do not utilize derivative financial instruments, however, Canadian Niagara, which is proportionately consolidated, is a party to interest rate swap contracts (Note 4) and forward exchange contracts.

11. Pensions

The Corporation and certain of its subsidiaries maintain contributory defined benefit pension plans covering regular employees. The plans provide pensions based on length of service and final average earnings.

The present value of the accrued pension benefits is $138.9 million (1997 - $135.1 million) and the value of the pension plan assets is $136.6 million (1997 – $126.4 million).

Pension costs charged to income and capital in 1998 amounted to $3.8 million (1997 - $4.6 million).

12. Commitments

Fortis Properties is committed to ground lease and parking lease payments with respect to leasehold land in annual amounts of approximately $135,000 to the year 2034. Fortis Properties has an income-producing building, with a cost of $35.3 million and a net book value of $34.3 million on this leasehold land. Fortis Properties granted the land owner the option to purchase the building and the remaining interest in the lease for a purchase price of $48.3 million with the option exercisable between January 15, 2019 and January 15, 2020 with closing to occur on January 15, 2021. If the option is not exercised, ownership of the building transfers to the owner of the land at the end of the ground lease term.

13. Contingent Liability

Newfoundland Power

In July 1995, Revenue Canada reassessed Newfoundland Power for the years 1988 to 1993 disallowing certain amounts capitalized for regulatory and accounting purposes but claimed as an expense for income tax purposes. The reassessments also included in income the value of electricity consumed in December but not billed to customers until January. Newfoundland Power's practice, which has been consistent and is in accordance with regulatory requirements, is to record revenue on a billed basis.

In management's opinion, Newfoundland Power has reported its tax position appropriately. In October 1995, Newfoundland Power filed Notices of Objection to the reassessments with the Minister of National Revenue. No provision has been made in the accounts for additional income taxes, if any, which may be determined to be payable.

Should Newfoundland Power be unsuccessful in defending its position, a liability of approximately $38.3 million, including interest to December 31, 1998, would arise offset by approximately $16.7 million related to recording electricity revenue on the accrual basis. Should this occur, Newfoundland Power would make application to The P.U.B. to have the amount considered in the rate making process.

In accordance with provisions of the Income Tax Act, Newfoundland Power paid $15,595,000 in 1995, representing one-half of the amount in dispute, pending resolution of this matter.

14. Related Party Transactions

During the year Canadian Niagara entered into transactions with other related parties in the normal course of operations. These transactions are measured at the exchange amount established and agreed to by the related parties.

15. Year 2000 Issue

The Year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using the year 2000 date is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date.

The effects of the Year 2000 issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. Management is addressing the Year 2000 issue, however, it is not possible to be certain that all aspects of the Year 2000 Issue affecting the Corporation, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

16. Segmented Information

The Corporation considers that its operations fall principally into one business segment – the sale of electricity. Markets served include Newfoundland, Prince Edward Island, Ontario, Alberta and the north eastern United States.

The Corporation's other operations include:

Fortis Properties – owners and managers of commercial real estate and hotels in Atlantic Canada.

Fortis Trust – a trust company dealing primarily in residential first mortgages and guaranteed investment certificates in Newfoundland and Prince Edward Island.

The accounting policies of the segments are described in the Summary of Accounting Policies. Information by reportable segment is as follows:

1998
(in thousands)

	Electric Utilities	All Other	Consolidated
Revenue	$ 437,065	$ 37,289	$ 474,354
Operating expenses	346,958	35,787	382,745
Operating income	$ 90,107	$ 1,502	$ 91,609
Finance charges			(44,227)
Income taxes			(23,066)
Results of discontinued operations			3,613
Non-controlling interest			(515)
Earnings			$ 27,414
Identifiable assets	$ 820,701	$ 216,491	$ 1,037,192
Capital expenditures	$ 61,253	$ 2,391	$ 63,644
Depreciation and amortization	$ 36,118	$ 6,684	$ 42,802

1997
(in thousands)

	Electric Utilities	All Other	Consolidated
Revenue	$ 448,816	$ 37,846	$ 486,662
Operating expenses	348,812	33,359	382,171
Operating income	$ 100,004	$ 4,487	$ 104,491
Finance charges			(44,890)
Income taxes			(29,449)
Results of discontinued operations			369
Non-controlling interest			(515)
Earnings			$ 30,006
Identifiable assets	$ 811,843	$ 205,553	$ 1,017,396
Capital expenditures	$ 43,524	$ 6,249	$ 49,773
Depreciation and amortization	$ 34,360	$ 6,787	$ 41,147

17. Discontinued Operations

On December 29, 1998, Fortis Properties sold its 50% interest in AT&T Canada(Newfoundland) Partnership (the "Partnership") for proceeds receivable of $15,500,000.

Earnings from discontinued operations includes the Company's share of the income of the Partnership for the period ending November 30, 1998. The 1997 consolidated statements of earnings, retained earnings and cash flows have been reclassified to conform with the 1998 presentation. The 1997 consolidated balance sheet has not been reclassified, and includes the Company's proportionate share of the Partnership as follows:

		1998	*(in thousands)*	1997
Balance Sheet				
Capital assets	**$**	–	$	11,606
Other assets		–		258
Accounts payable and accrued liabilities		–		60

The results of the discontinued operations which have been included in the consolidated statements of earnings and cash flows are as follows:

		1998	*(in thousands)*	1997
Statement of Earnings				
Operating revenues	$	**6,246**	$	7,163
Operating expenses		**5,221**		5,600
Partnership net revenue		**1,025**		1,563
Depreciation and amortization		**1,000**		1,105
Loss on retirement of capital assets		–		89
Partnership income		**25**		369
Gain on disposal of telecommunication assets		**4,960**		–
Deferred income taxes		**(1,372)**		–
Net gain on disposal of telecommunication assets		**3,588**		–
Results of discontinued operations	**$**	**3,613**	$	369

		1998	*(in thousands)*	1997
Statement of Cash Flows				
Partnership net revenue	**$**	**1,025**	$	1,563
Net change in non-cash working capital		**265**		(189)
Cash provided by discontinued operations	**$**	**1,290**	$	1,374

Historical Financial Summary

	1998	1997	1996	1995
Statement of Earnings (in thousands $)				
Operating Revenues	**474,354**	486,662	474,293	447,035
Expenses	**339,943**	341,024	334,388	315,003
Depreciation and Amortization	**42,802**	41,147	35,993	37,998
Finance Charges: Interest	**41,252**	38,658	38,487	37,246
Dividends on Preference Shares	**2,975**	6,232	7,325	4,448
Income Taxes	**23,066**	29,449	28,029	20,334
Results of Discontinued Operations	**3,613**	369		
Equity Income				
Non-controlling Interest	**515**	515	1,026	1,414
Earnings Applicable to Common Shares	**27,414**	30,006	29,045	30,592
Balance Sheet (in thousands $)				
Current Assets	**84,812**	78,603	70,456	72,659
Long Term Investments				
Other Assets	**162,753**	160,445	160,470	120,289
Capital Assets	**789,627**	778,348	766,608	723,461
Total Assets	**1,037,192**	1,017,396	997,534	916,409
Current Liabilities	**140,780**	172,158	172,493	153,368
Long Term Debt	**429,485**	385,627	335,654	285,343
Preference Shares	**50,000**	50,000	100,000	100,000
Deposits Due Beyond One Year	**15,745**	20,444	17,448	16,703
Deferred Credits	**54,075**	54,194	53,658	47,307
Non-controlling Interest	**8,430**	8,430	8,430	18,990
Common Shareholders' Equity	**338,677**	326,543	309,851	294,698
Cash Flow (in thousands $)				
Operations	**72,490**	63,202	86,351	60,701
External Financing	**14,055**	16,721	33,992	60,057
Investing Activities	**68,873**	54,093	95,838	103,078
Dividends	**23,824**	22,968	22,416	22,048
Financial Statistics				
Return on Average Common Equity	**8.24%**	9.43%	9.61%	10.74%
Capitalization Ratios (year end)				
Long Term Debt	**52.0%**	50.0%	44.5%	41.8%
Non-controlling Interest	**1.0%**	1.1%	1.1%	2.7%
Preference Shares	**6.0%**	6.5%	13.3%	14.1%
Common Shareholders' Equity	**41.0%**	42.4%	41.1%	41.4%
Interest Coverage				
Debt	**2.2**	2.6	2.6	2.4
All Fixed Charges	**2.0**	2.0	1.9	2.0
Capital Expenditures (in thousands $)	**63,644**	49,773	53,420	89,893
Common Share Data				
Book Value per Share–Year End ($)	**26.09**	25.58	24.83	24.18
Average Common Shares Outstanding (in thousands)	**12,908**	12,623	12,319	12,100
Earnings per Common Share ($)	**2.12**	2.38	2.36	2.53
Dividends Declared per Common Share ($)	**1.80**	1.77	1.72	1.70
Dividends Paid per Common Share ($)	**1.80**	1.76	1.72	1.69
Dividend Payout Ratio	**84.9%**	73.9%	72.9%	66.8%
Price Earnings Ratio	**18.0**	17.6	14.4	10.8
Share Trading Summary				
Closing Price ($) (TSE)	**38.25**	42.00	34.00	27.25
Volume (in thousands) (TSE & ME)	**3,089**	3,380	3,405	2,018

Note: Certain comparative figures have been reclassified to conform with the current year's presentation.

1994	1993	1992	1991	1990	1989	1988
388,558	343,252	337,405	324,774	309,853	278,815	265,879
271,607	241,310	240,045	232,081	223,957	203,018	193,483
32,722	27,513	26,396	24,942	24,242	20,996	19,046
28,814	25,885	24,778	23,531	22,603	18,914	18,145
4,350	4,350	4,350	4,350	1,207		
23,040	18,827	16,480	15,632	13,456	12,039	13,243
	2,396	2,387	1,920	863		
1,062	1,480	1,931	2,316	2,460	2,456	2,684
26,963	26,283	25,812	23,842	22,791	21,392	19,278
78,230	57,504	62,176	53,095	46,775	46,098	44,521
	36,574	35,526	30,755	17,007		
94,618	57,398	50,887	45,147	32,457	13,008	3,165
664,713	508,213	493,631	474,831	456,536	413,125	372,920
837,561	659,689	642,220	603,828	552,775	472,231	420,606
160,864	102,660	96,638	125,134	112,649	86,350	79,363
264,699	221,988	218,906	157,312	157,881	164,959	138,724
50,000	50,000	50,000	50,000	50,000		
18,172	19,683	13,517	13,213	1,600		
48,337	25,621	25,820	26,480	24,849	22,833	24,748
20,702	10,905	22,296	29,889	30,938	33,600	33,671
274,787	228,832	215,043	201,800	174,858	164,489	144,100
62,134	62,194	61,244	57,671	49,715	44,153	44,649
64,557	4,174	16,805	30,072	70,588	37,754	16,644
106,405	48,924	53,245	68,802	105,495	66,755	46,346
24,136	21,893	21,508	21,521	17,120	15,317	14,011
10.71%	11.84%	12.38%	12.66%	13.49%	13.93%	13.88%
44.3%	43.6%	43.5%	41.2%	38.9%	47.5%	44.1%
3.3%	2.2%	4.4%	6.2%	7.4%	8.9%	10.6%
8.1%	9.7%	9.8%	10.4%	11.9%		
44.3%	44.5%	42.3%	42.2%	41.8%	43.6%	45.3%
2.8	2.7	2.8	2.8	2.5	2.6	2.8
2.2	2.2	2.2	2.0	2.1	2.2	2.3
51,249	43,752	46,916	45,052	69,242	56,774	46,346
23.29	22.13	21.10	20.04	18.82	17.78	16.63
10,949	10,270	10,131	9,907	9,254	9,091	8,575
2.46	2.56	2.55	2.41	2.46	2.35	2.25
1.64	1.56	1.50	1.48	1.45	1.39	1.32
1.62	1.54	1.49	1.48	1.435	1.375	1.30
65.9%	60.2%	58.8%	61.4%	58.3%	59.1%	58.7%
10.5	11.2	9.6	9.9	8.8	9.5	8.9
25.75	28.75	24.50	24.00	21.63	22.38	20.13
2,030	3,041	2,186	1,773	1,802	1,578	1,050

Investor Information

Head Office

The Fortis Building
Suite 1201
139 Water Street
P.O. Box 8837
St. John's, NF A1B 3T2

1999 Annual Meeting

The Annual Meeting of Shareholders will be held on Wednesday, May 19, 1999 at the Holiday Inn St. John's, 180 Portugal Cove Road, St. John's, Newfoundland, Canada, at 11:00 a.m., St. John's time.

Shareholder Services

General Inquiries

Inquiries for general information or for any publication of the Corporation may be directed to the Corporate Secretary at the Head Office.

Financial Inquiries

Shareholders and financial analysts may obtain information by contacting Investor Relations at the Head Office address.

Stock Prices

	High	$ Low	Close
1998	48.00	35.00	38.25
1997	42.50	31.30	42.00
1996	34.70	27.00	34.00
1995	28.00	24.25	27.25
1994	30.00	23.75	25.25
1993	29.25	23.50	28.75
1992	24.50	22.00	24.50
1991	24.25	21.00	23.88
1990	22.75	19.38	21.63
1989	22.50	19.75	22.38
1988	20.75	17.25	20.00
1987	21.75	16.63	19.00

Duplicate Annual Reports

While every effort is made to avoid duplications, some shareholders may receive extra reports as a result of multiple share registrations. Shareholders wishing to consolidate these accounts should contact the Transfer Agent.

Important Dates – Dividend and Earnings

Expected Earnings Release Dates
May 21, 1999
August 21, 1999
November 20, 1999
March 16, 2000

Expected Dividend Record Dates*
May 7, 1999
August 6, 1999
November 5, 1999
February 4, 2000

Expected Dividend Payment Dates*
June 1, 1999
September 1, 1999
December 1, 1999
March 1, 2000

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

Exchange Listings

* Common (FTS) – The Toronto Stock Exchange and Montreal Exchange;
* First Preference, Series B (FTSPRB) – The Toronto Stock Exchange

Dividend Reinvestment Plan

Fortis Inc. offers a Dividend Reinvestment and Share Purchase Plan to Common Shareholders as a convenient method of increasing their investment in Fortis Inc. Participants have their dividends plus any optional cash payments (minimum of $100; annual maximum $20,000) automatically deposited in the plan to purchase additional Common Shares. Shares are sold quarterly on March 1, June 1, September 1, and December 1 at the average market price then prevailing on The Toronto Stock Exchange. Inquiries should be directed to Dividend Reinvestment Services, Montreal Trust Company.

Direct Deposit of Dividends

Shareholders may obtain automatic electronic deposit of dividends to their designated Canadian financial institution by contacting the Transfer Agent.

Valuation Day

For capital gains purposes, the valuation day prices are as follows:

December 22, 1971	$ 6.125
February 22, 1994	$28.625

Transfer Agent and Register

Montreal Trust Company Stock Transfer Services
Place Montreal Trust 7th Floor
1800 McGill College Avenue
Montreal, Quebec H3A 3K9
Telephone: (514) 982-7933
Facsimilie: (514) 982-7635
e-mail: faq@montrealtrust.com

Montreal Trust is responsible for the maintenance of shareholder records and the issue, transfer and cancellation of stock certificates. Transfers can be effected in their St. John's, Halifax, Charlottetown, Montreal, Toronto and Vancouver offices. Montreal Trust also distributes dividends and shareholder communications. Inquiries with respect to these matters and corrections to shareholder information should be addressed to the Transfer Agent.

Corporate Directory

FORTIS INC.

Directors

Angus A. Bruneau (Chair); Stephen T. Bellringer; Gilbert S. Bennett; Bruce Chafe; Darryl D. Fry; Linda L. Inkpen; H. Stanley Marshall; David A. Scales; James M. Stanford.

Officers

H. Stanley Marshall, *President & Chief Executive Officer,*
G. Wayne Watson, *Vice President, Finance & Chief Financial Officer,*
Ronald W. McCabe, *General Counsel & Corporate Secretary*

SUBSIDIARIES AND AFFILIATES

Newfoundland Power

Directors

Linda L. Inkpen (Chair); Frank J. Coleman; Rex G. Gibbons; Derrick E. Gill; Derek F. Hiscock; Frank P. Howard; Philip G. Hughes; Janet Kelly; James A. Lea; H. Stanley Marshall; Harold L. Wareham; Peter Woodward.

Officers

Philip G. Hughes, *President & Chief Executive Officer*
Nora A. Duke, *Vice President, Customer & Corporate Services*
John G. Evans, *Vice President, Engineering & Energy Supply*
Earl A. Ludlow, *Vice President, Operations*
Karl W. Smith, *Vice President, Finance & Chief Financial Officer*
Peter S. Alteen, *Corporate Counsel & Secretary*

Maritime Electric

Directors

David A. Scales (Chair); Beverley L. Deelstra; Philip G. Hughes; Frederick E. Hyndman; James A. Lea; W. David Loggie; N. Pauline MacDonald; H. Stanley Marshall; George A. MacMurdo; Raymond M. Murphy.

Officers

James A. Lea, *President & Chief Executive Officer*
John D. Gaudet, *Vice President, Operations*
J. William Geldert, *Vice President, Finance & Chief Financial Officer & Corporate Secretary*

Fortis Properties

Directors

Bruce Chafe (Chair); Norval R. Blair; Malcolm C. LeMessurier; H. Stanley Marshall; John C. Walker; G. Wayne Watson.

Officers

John C. Walker, *President & Chief Executive Officer*
Stanley D. Collins, *Vice President, Real Estate–Newfoundland*
Neal J. Jackman, *Vice President Finance & Chief Financial Officer*
Ronald W. McCabe, *General Counsel & Corporate Secretary*
Michael A. Mulcahy, *Vice President, Employee & Hospitality Services*
Wayne W. Myers, *Vice President, Real Estate–Nova Scotia*

Fortis Trust

Directors

David R. Baird (Chair); Philip G. Hughes; Malcolm C. LeMessurier; H. Stanley Marshall; A. Douglas Moores; Harold L. Wareham; Derek W. Young.

Officers

H. Stanley Marshall, *President & Chief Executive Officer*
Glen C. King, *Vice President, Finance & Chief Financial Officer*
Kelvin A. Marshall, *Assistant Secretary*
Ronald W. McCabe, *General Counsel & Corporate Secretary*
John E. Sargent, *Vice President & Branch Manager*

Canadian Niagara Power

Directors

Harry W. Macdonell (Chair); Gilbert S. Bennett; Albert J. Budney; William E. Davis; Richard Drouin; H. Stanley Marshall; Milan M. Nastich; Grant L. Reuber; G. Wayne Watson.

Officers

Mardon J. Erbland, *President & Chief Executive Officer*
Timothy B. Curtis, *Vice President, Finance & Chief Financial Officer*
William J. Daley, *Vice President, Corporate Development*
Ronald W. McCabe, *Corporate Secretary*
Frederick J. O'Brien, *Vice President, Engineering & Operations*

Board of Directors

Corporate Governance

The Board of Directors and management of Fortis have always recognized the importance of good corporate governance practices in the proper conduct of the affairs of the Corporation. The 1994 report of The Toronto Stock Exchange Committee on Corporate Governance provided guidelines for corporations to assess their governance practices. Fortis is in compliance with most of the 14 guidelines. A detailed assessment is set out in the Management Information Circular in respect of the May 19, 1999 Annual Meeting of Shareholders.

The Board annually appoints from its members a number of standing committees. Each committee has a written mandate that sets out in detail the activities or areas of the Corporation's business to which the committee is required to devote its attention. All of the committee mandates were reviewed and revised during 1998. With only minor exceptions, the committees' decision making is limited to the making of recommendations to the full Board. All committees are currently composed of unrelated directors.

The Board met six times during 1998, and there were eleven meetings of the board committees. All directors participated in each meeting of the Board and appropriate committees either in person or by telephone.

Committees of the Board of Directors

Nominating and Corporate Governance

This Committee is charged among other things, with,

i) proposing to the full Board new nominees for election to the Board;
ii) carrying out processes specified by the Board for assessing the effectiveness of the Board as a whole and each Board committee;
iii) reviewing and making recommendations to the Board with respect to the adequacy and form of the compensation of directors;
iv) developing and recommending the approach to corporate governance issues; and
iv) approving the engagement of an outside consultant by an individual director.

It is composed of Dr. Inkpen (Chair), and Messrs. Bruneau, Chafe, and Fry.

Audit

This Committee monitors most aspects of Fortis' financial activities and liaises with the external auditors to perform reviews of most financial related public documents. It is composed of Messrs. Bennett (Chair), Bruneau, Chafe, and Stanford.

Human Resources

This Committee reviews recommendations for the appointment of senior management and compensation policies for Fortis and its subsidiaries. It is responsible for the administration of Fortis' short term incentive, stock option, and pension plans. It is composed of Messrs. Scales (Chair), Bellringer, Bruneau, and Dr. Inkpen.

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