FORTIS INC.

ANNUAL INFORMATION FORM

FOR THE YEAR ENDED DECEMBER 31, 2007

March 28, 2008

ANNUAL INFORMATION FORM
FOR THE YEAR ENDED DECEMBER 31, 2007

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DEFINITIONS OF CERTAIN TERMS

Certain terms used in the Annual Information Form for the year ended December 31, 2007 are defined below:

"2007 Annual Information Form" means the Fortis Inc. Annual Information Form for the year ended December 31, 2007;

"Abitibi" means Abitibi-Consolidated Company of Canada;

"AESO" means Alberta Electric System Operator;

"AEUB" means Alberta Energy and Utilities Board;

"AIP" means agreement in principle;

"Atlantic" means Atlantic Equipment & Power (Turks and Caicos) Ltd.;

"AUC" means Alberta Utilities Commission;

"BC Hydro" means BC Hydro and Power Authority;

"BCUC" means British Columbia Utilities Commission;

"BECOL" means Belize Electric Company Limited;

"Belize Electricity" means Belize Electricity Limited;

"BEPC" means Brilliant Expansion Power Corporation;

"BEWU" means Belize Energy Workers Union;

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

"BPC" means Brilliant Power Corporation;

"BZ$" means Belizean dollar, which is pegged to the United States dollar (BZ$2.00 = US$1.00);

"Canadian GAAP" means Canadian generally accepted accounting principles;

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

"Caribbean Utilities" means Caribbean Utilities Company, Ltd.;

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

"CEP" means Communications, Energy and Paperworkers Union of Canada;

"CFE" means Comisión Federal de Electricidad;

"Challillo Project" means Chalillo Hydroelectric Project;

“CNE Energy” means CNE Energy Inc., formerly Central Newfoundland Energy Inc., which on December 1, 2005 changed its name to CNE Energy Inc. On January 1, 2007, CNE Energy Inc. amalgamated with Fortis Properties;

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

“COP” means cost of fuel and purchased power;

“COPE” means Canadian Office and Professional Employees;

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

“Corporation” means Fortis Inc.;

“COS” means cost of service;

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

“CPA” means Canal Plant Agreement;

“CPRSA” means Cost of Power Rate Stabilization Account;

“CRA” means Canada Revenue Agency;

“CRS” means Hurricane Ivan Cost-Recovery Surcharge;

“CUPE” means Canadian Union of Public Employees;

“DBRS” means DBRS Limited;

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

“ECAM” means Energy Cost Adjustment Mechanism;

“EMS” means Environmental Management System;

“Exploits Partnership” means Exploits River Hydro Partnership between Abitibi and CNE Energy. On January 1, 2007, CNE Energy amalgamated with Fortis Properties Corporation, which now holds directly the 51 per cent interest in the Exploits River Hydro Partnership;

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

“FERC” means United States Federal Energy Regulatory Commission;

“Fortis” means Fortis Inc.;

“FortisAlberta” means FortisAlberta Inc.;

“FortisAlberta Holdings” means FortisAlberta Holdings Inc.;

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

“FortisBC Inc.” means FortisBC Inc., formerly Aquila Networks Canada (British Columbia) Ltd.;

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

“FortisOntario Generation” means FortisOntario Generation Corporation;

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

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

“Fortis Properties” means Fortis Properties Corporation;

“Fortis Turks and Caicos” means, collectively, P.P.C. Limited and Atlantic;

“FortisUS Energy” means FortisUS Energy Corporation;

“FortisWest” means FortisWest Inc.;

“GWh” means gigawatt hour(s);

“Hydro One” means Hydro One Networks Inc.;

“IBEW” means International Brotherhood of Electrical Workers;

“IESO” means Independent Electricity System Operator of Ontario;

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

“IRAC” means Island Regulatory and Appeals Commission;

“ISO” means International Organization for Standardization;

“kV” means kilovolt(s);

“kWh” means kilowatt hour(s);

“LNG” means liquefied natural gas;

“MD&A” means the Corporation’s Management Discussion and Analysis, located on pages 25 through 77 of the Corporation’s 2007 Annual Report to Shareholders, prepared in accordance with National Instrument 51-102 – Continuous Disclosure Obligations, in respect of the Corporation’s annual and interim financial statements;

“Management” means, collectively, Senior Officers of the Corporation;

"Maritime Electric" means Maritime Electric Company, Limited;

"Moody's" means Moody's Investors Service;

"MW" means megawatt(s);

"NB Power" means New Brunswick Power Corporation;

"Newfoundland Hydro" means Newfoundland and Labrador Hydro Corporation;

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

"NSA" means Negotiated Settlement Agreement;

"OEB" means Ontario Energy Board;

"OPGI" means Ontario Power Generation Inc.;

"Other Canadian Electric Utilities" means, collectively, the operations of FortisOntario and Maritime Electric;

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

"PCB" means polychlorinated biphenyl(s);

"PJ" means petajoule(s);

"PLP" means Princeton Light and Power Company, Limited. Effective January 1, 2007, FortisBC Inc. wound up PLP and assumed its assets, liabilities and operations as part of an internal corporate reorganization;

"Point Lepreau Station" means NB Power Point Lepreau Nuclear Generating Station;

"Port Colborne Hydro" means Port Colborne Hydro Inc.;

"PPC" means P.P.C. Limited;

"PUB" means Newfoundland and Labrador Board of Commissioners of Public Utilities;

"PUC" means Public Utilities Commission (Belize);

"Regulated Electric Utilities - Caribbean" means, collectively, the operations of Belize Electricity, Caribbean Utilities, and Fortis Turks and Caicos;

"Rideau St. Lawrence" means Rideau St. Lawrence Holdings Inc.;

"ROA" means regulated rate of return on rate base assets;

"ROE" means rate of return on common shareholders' equity;

"S&P" means Standard & Poor's;

"Teck Cominco" means Teck Cominco Metals Ltd.;

"Terasen Gas Companies" means, collectively, the operations of Terasen Gas Inc., Terasen Gas (Vancouver Island) Inc. and Terasen Gas (Whistler) Inc.;

"Terasen" means Terasen Inc., the holding company of the Terasen Gas companies;

"TGI" means Terasen Gas Inc.;

"TGVI" means Terasen Gas (Vancouver Island) Inc.;

"TGWI" means Terasen Gas (Whistler) Inc.;

"TJ" means terajoule(s);

"UFCW" means United Food and Commercial Workers;

"UUWA" means United Utility Workers Association;

"VAD" means value-added delivery;

"VCR" means Voluntary Climate Change Challenge and Registry;

"VINGPA" means Vancouver Island Natural Gas Pipeline Agreement;

"Walden" means Walden Power Partnership;

"Warrant" means First Preference Share Series E Purchase Warrant; and

"Westario Power" means Westario Power Holdings Inc.

1.0 CORPORATE STRUCTURE

Financial information in the 2007 Annual Information Form has been prepared in accordance with Canadian GAAP and is presented in Canadian dollars unless otherwise specified. Fortis includes forward-looking information in the 2007 Annual Information Form within the meaning of applicable securities laws in Canada ("forward-looking information"). The purpose of the forward-looking information is to provide management's expectations regarding the Corporation's future growth, results of operations, performance, business prospects and opportunities, and may not be appropriate for other purposes. All forward-looking information is given pursuant to the "safe harbour" provisions of applicable Canadian securities legislation. The words "anticipates", "believes", "budgets", "could", "estimates", "expects", "forecasts", "intends", "may", "might", "plans", "projects", "schedule", "should", "will", "would" and similar expressions are often intended to identify forward-looking information, although not all forward-looking information contains these identifying words. The forward-looking information reflects Management's current beliefs and is based on information currently available to the Corporation's Management. The forward-looking information in the 2007 Annual Information Form includes, but is not limited to, statements regarding: the Corporation's consolidated forecasted gross capital expenditures for 2008 and in total over the next five years; the Corporation's belief that its capital program should drive growth in earnings and dividends; and the Corporation's expectation of the impact of foreign exchange on 2008 basic earnings per common share. The forecasts and projections that make up the forward-looking information are based on assumptions which include, but are not limited to: the receipt of applicable regulatory approvals and requested rate orders; no significant operational disruptions or environmental liability due to a catastrophic event or environmental upset caused by severe weather, other acts of nature or other major events; the Corporation's ability to maintain its gas and electricity systems to ensure their continued performance; the competitiveness of natural gas pricing when compared with electricity and other alternative sources of energy; the availability of natural gas supply; favourable economic conditions; the level of interest rates; the ability to hedge certain risks; access to capital; maintenance of adequate insurance coverage; the ability to obtain licences and permits; the level of energy prices; retention of existing service areas; favourable labour relations; and sufficient human resources to deliver service and execute the capital program. The forward-looking information is subject to risks, uncertainties and other factors that could cause actual results to differ materially from historical results or results anticipated by the forward-looking information. The factors which could cause results or events to differ from current expectations include, but are not limited to: regulation; integration of Terasen and management of expanded operations; operating and maintenance risks; natural gas prices and supply; economic conditions; weather and seasonality; interest rates; changes in tax legislation; derivative instruments and hedging; risks related to TGVI; capital resources; environment; insurance; licences and permits; energy prices and the cessation of the Niagara Exchange Agreement; loss of service area; First Nations Lands; counterparty risk; labour relations; human resources; and liquidity risk. For additional information with respect to the Corporation's risk factors, reference should be made to the Corporation's continuous disclosure materials filed from time to time with Canadian securities regulatory authorities and to the heading "Risk Factors" in the 2007 Annual Information Form.

All forward-looking information in the 2007 Annual Information Form is qualified by its entirety by the above cautionary statements and, except as required by law, the Corporation undertakes no obligation to revise or update any forward-looking information as a result of new information, future events or otherwise.

Except as otherwise stated, the information in the 2007 Annual Information Form is given as of December 31, 2007.

1.1 Name and Incorporation

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

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

Shares, Series E on January 23, 2004; (h) amend the redemption provisions attaching to the First Preference Shares, Series D on July 15, 2005; and (i) designate 5,000,000 First Preference Shares, Series F on September 22, 2006.

Fortis redeemed all of its outstanding First Preference Shares, Series A and First Preference Shares, Series B on September 30, 1997 and December 2, 2002, respectively. On June 3, 2003, Fortis issued 5,000,000 First Preference Shares, Series C. On January 29, 2004, Fortis issued 8,000,000 First Preference Units, each unit consisting of one First Preference Share, Series D and one Warrant. During 2004, 7,993,500 First Preference Units were converted into 7,993,500 First Preference Shares, Series E and 6,500 First Preference Shares, Series D remained outstanding. On September 20, 2005, the 6,500 First Preference Shares, Series D were redeemed by the Corporation. On September 28, 2006, Fortis issued 5,000,000 First Preference Shares, Series F.

The corporate head and registered office of Fortis is located at the Fortis Building, Suite 1201, 139 Water Street, P.O. Box 8837, St. John's, NL, Canada, A1B 3T2.

1.2 Inter-Corporate Relationships

Fortis is principally an international distribution utility holding company with investments primarily in regulated distribution utilities in Canada and the Caribbean region. Regulated utility assets comprise approximately 92 per cent of the Corporation's total assets, with the balance primarily comprised of non-regulated generation assets and commercial real estate and hotels.

In May 2007, Fortis acquired all of the issued and outstanding shares of Terasen, formerly a wholly owned subsidiary of Kinder Morgan, Inc. Terasen owns and operates a gas distribution business carried on by TGI, TGVI and TGWI. Terasen is the principal natural gas distributor in British Columbia, serving more than 918,000 customers, or 96 per cent of gas users in the province. The acquisition did not include the petroleum transportation assets of Kinder Morgan Canada (formerly Terasen Pipelines), which are comprised primarily of refined and crude oil pipelines.

In May 2004, Fortis acquired, through an indirect wholly owned subsidiary, all of the issued and outstanding shares of FortisAlberta and FortisBC Inc. FortisAlberta is a regulated electric utility that operates the electricity distribution system in a substantial portion of southern and central Alberta. FortisBC Inc. is a regulated electric utility that generates, transmits and distributes electricity in the southern interior of British Columbia.

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

The Corporation's regulated electric utility assets in the Caribbean consist of its ownership interests, through wholly owned subsidiaries, in Belize Electricity, Caribbean Utilities and Fortis Turks and Caicos. Fortis holds a 70.1 per cent controlling interest in Belize Electricity, the principal distributor of electricity in Belize, Central America. On November 7, 2006, Fortis acquired an additional approximate 16 per cent ownership interest in Caribbean Utilities and now owns an approximate 54 per cent controlling interest in the Company. Caribbean Utilities is the sole provider of electricity on Grand Cayman, Cayman Islands. Fortis Turks and Caicos was acquired on August 28, 2006. Fortis Turks and Caicos is the principal distributor of electricity on the Turks and Caicos Islands.

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

BECOL, a wholly owned indirect subsidiary, owns and operates the 25-MW Mollejon and the 7-MW Chalillo hydroelectric generating facilities, both of which are located on the Macal River in Belize, Central America. Construction of the 18-MW Vaca hydroelectric generating facility, also located on the Macal River, commenced in 2007 and is expected to come into service late in 2009.

Fortis also holds all of the common shares of FortisOntario Inc., which includes 75 MW of water-right entitlement associated with the Niagara Exchange Agreement, which expires April 30, 2009, and the operation of a 5-MW gas-fired cogeneration plant in Cornwall.

Fortis Properties, a non-regulated wholly owned subsidiary, holds a 51 per cent interest in the Exploits Partnership. The Exploits Partnership was established with Abitibi, which holds the remaining 49 per cent interest, to develop additional capacity at Abitibi's hydroelectric generating plant at Grand Falls-Windsor, Newfoundland and Labrador and redevelop Abitibi's hydroelectric plant at Bishop's Falls, Newfoundland and Labrador. Since the amalgamation of CNE Energy with Fortis Properties on January 1, 2007, Fortis Properties has held directly a 51 per cent interest in the Exploits Partnership. Fortis Properties' assets also include the non-regulated electricity generation operations of the former FortisOntario Generation, which consists of six small hydroelectric generating stations in eastern Ontario with a combined capacity of 8 MW.

The non-regulated electricity generation operations of FortisBC Inc., conducted through Walden, its wholly owned partnership, consist of the 16-MW run-of-river Walden hydroelectric generating plant near Lillooet, British Columbia. Through FortisUS Energy, a wholly owned subsidiary of Fortis Properties, the Corporation owns and operates four hydroelectric generating stations in Upper New York State with a combined capacity of approximately 23 MW.

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

Principal Subsidiaries

The following table lists the principal subsidiaries of the Corporation, their jurisdictions of incorporation and the percentage of votes attaching to voting securities held directly or indirectly by the Corporation as at March 28, 2008. This table excludes certain subsidiaries, the total assets of which individually constituted less than 10 per cent of the Corporation's 2007 consolidated assets, or the total revenues of which individually constituted less than 10 per cent of the Corporation's 2007 consolidated revenues as at December 31, 2007.

Fortis
Principal Subsidiaries

Subsidiary	**Jurisdiction of Incorporation**	**Percentage of votes attaching to voting securities beneficially owned, controlled or directed by the Corporation**
Terasen	British Columbia	100
FortisAlberta [(1)]	Alberta	100
FortisBC Inc. [(2)]	British Columbia	100
Newfoundland Power	Newfoundland and Labrador	93.7 [(3)]

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

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

(3) *Fortis owns all of the common shares; 182,300 First Preference Shares, Series G; 32,886 First Preference Shares, Series B; 13,000 First Preference Shares, Series D and 1,550 First Preference Shares, Series A of Newfoundland Power which, at March 28, 2008, represented 93.7 per cent of its voting securities. The remaining 6.3 per cent of Newfoundland Power's voting securities consist of First Preference Shares, Series A, B, D and G which are primarily held by the public.*

2.0 GENERAL DEVELOPMENT OF THE BUSINESS

2.1 Three-Year History

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

The reportable segments of the Corporation are: (i) Regulated Gas Utilities - Canadian, (ii) Regulated Electric Utilities - Canadian, (iii) Regulated Electric Utilities - Caribbean, (iv) Non-Regulated - Fortis Generation; (v) Non-Regulated - Fortis Properties, and (vi) Corporate and Other.

Over the past three years, the business operations of Fortis have increased significantly. Total assets have grown more than 2.6 times from $3.9 billion at December 31, 2004 to $10.3 billion at December 31, 2007. The Corporation's shareholders' equity has also grown 2.7 times from $1.0 billion at December 31, 2004 to $2.7 billion at December 31, 2007. Over the past three years, net earnings applicable to common shares have increased from $91 million in 2004 to $193 million in 2007. Significant growth occurred in 2007 as a result of the approximate $3.7 billion acquisition of Terasen. Fortis has significantly increased its utility investments in the Caribbean through the acquisition of Fortis Turks and Caicos and the acquisition of a controlling interest in Caribbean Utilities and has increased its investments in hotels in western Canada.

The following is an overview of the Corporation's reportable segments and the significant developments in each segment. A more detailed description is provided in Section 3.0 *Description of the Business*.

Regulated Gas Utilities – Canadian

<u>Terasen Gas Companies</u>

The Regulated Gas Utilities - Canadian segment comprises the gas distribution business of Terasen carried out by TGI, TGVI and TGWI, collectively referred to as the Terasen Gas companies.

On May 17, 2007, Fortis acquired all of the issued and outstanding common shares of Terasen which owns and operates a gas distribution business in British Columbia, serving more than 918,000 customers or 96 per cent of gas users in the Province. A more detailed description of the acquisition is provided in Section 2.2 *Significant Acquisitions*.

TGI provides gas distribution services to a service area that extends from Vancouver to the Fraser Valley and the interior of British Columbia. TGVI owns a combined gas distribution and transmission system serving customers along the Sunshine Coast and in various communities on Vancouver Island, including Victoria and surrounding areas. TGWI owns and operates the propane distribution system in Whistler, British Columbia, providing service to approximately 2,400 residential and commercial customers.

Regulated Electric Utilities – Canadian

An overview of the utilities comprising the Regulated Electric Utilities - Canadian segment is as follows:

<u>FortisAlberta</u>
On May 31, 2004, Fortis, through an indirect wholly owned subsidiary, acquired all of the issued and outstanding shares of FortisAlberta, which owns and operates the electricity distribution system in a substantial portion of southern and central Alberta.

<u>FortisBC</u>
On May 31, 2004, Fortis, through an indirect wholly owned subsidiary, acquired all of the issued and outstanding shares of FortisBC Inc., which is an integrated electric utility that owns a network of generation, transmission and distribution assets located in the southern interior of British Columbia.

<u>Newfoundland Power</u>
Fortis holds all of the common shares of Newfoundland Power, which is an electric utility that operates an integrated generation, transmission and distribution system throughout the island portion of Newfoundland and Labrador.

<u>Other Canadian Electric Utilities</u>
Other Canadian Electric Utilities include the operations of Maritime Electric and FortisOntario.

Through its subsidiary, Fortis Properties, Fortis owns all of the common shares of Maritime Electric, which is the principal distributor of electricity on Prince Edward Island.

FortisOntario is composed of Canadian Niagara Power and Cornwall Electric and its distribution operations serve customers in Fort Erie, Port Colborne, Cornwall and Gananoque in Ontario.

Regulated Electric Utilities – Caribbean

The Regulated Electric Utilities – Caribbean segment includes the operations of Belize Electricity, Caribbean Utilities and Fortis Turks and Caicos.

Fortis, through wholly owned subsidiaries, holds a 70.1 per cent controlling interest in Belize Electricity. Belize Electricity is the primary distributor of electricity in Belize, Central America.

Caribbean Utilities is the sole provider of electricity on Grand Cayman, Cayman Islands. Caribbean Utilities is a public company traded on the Toronto Stock Exchange (TSX:CUP.U) and has an April 30 fiscal year end. On November 7, 2006, Fortis, through a wholly owned subsidiary, acquired an additional approximate 16 per cent ownership interest in Caribbean Utilities and now owns approximately 54 per cent of the Company. The Corporation's investment in Caribbean Utilities resulted from a series of transactions from March 2000 through November 2006.

Fortis Turks and Caicos was acquired on August 28, 2006 by Fortis through a wholly owned subsidiary. Fortis Turks and Caicos serves approximately 85 per cent of electricity consumers on the Turks and Caicos Islands.

Non-Regulated – Fortis Generation

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

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

[(1)] *Construction of the 18-MW Vaca hydroelectric generating facility commenced in 2007 and is expected to come into service late in 2009.*

Non-Regulated – Fortis Properties

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

Fortis Properties' hotel operations have grown significantly over the last three years. In February 2005, Fortis Properties acquired three hotels in Edmonton, Calgary and Winnipeg. This acquisition was a significant step in expanding the Company's hotel portfolio and broadening its geographic market base. To further increase its presence in western Canada, in November 2006, Fortis Properties acquired four internationally branded hotels in Alberta and British Columbia, located in Lethbridge, Medicine Hat and Kelowna. In August 2007, Fortis Properties acquired the Delta Regina, which is comprised of 274 hotel rooms, the Saskatchewan Trade and Convention Centre, commercial office space and a parking garage.

The following table summarizes hotels acquired since December 2004.

Fortis Properties Hotels Acquired since December 2004			
Property	**Location**	**Purchase Date**	**Price** *($ millions)*
Greenwood Inn Calgary	Calgary, AB	February 2005	*(1)*
Greenwood Inn Edmonton	Edmonton, AB	February 2005	*(1)*
Greenwood Inn Winnipeg	Winnipeg, MB	February 2005	*(1)*
Ramada Hotel and Suites Lethbridge	Lethbridge, AB	November 2006	*(2)*
Holiday Inn Express and Suites Medicine Hat	Medicine Hat, AB	November 2006	*(2)*
Best Western Medicine Hat	Medicine Hat, AB	November 2006	*(2)*
Holiday Inn Express Kelowna	Kelowna, BC	November 2006	*(2)*
Delta Regina	Regina, SK	August 2007	*(3)*

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

(2) *Hotel was one of four hotels purchased for an aggregate purchase price of approximately $52 million. The four hotels have a total of 454 rooms and 5,500 square feet of conference space.*

(3) *Hotel was purchased for an aggregate purchase price of approximately $50 million. The hotel has 274 rooms and 52,000 square feet of commercial office space and a parking garage.*

2.2 Significant Acquisitions

Terasen

On May 17, 2007, Fortis acquired all the issued and outstanding shares of Terasen, formerly a wholly owned subsidiary of Kinder Morgan, Inc., for aggregate consideration of approximately $3.7 billion, including the assumption of approximately $2.4 billion of consolidated debt.

A significant portion of the net cash purchase price of Terasen was satisfied with the net proceeds of the public offering of Subscription Receipts completed by Fortis on March 15, 2007. Fortis issued 44,275,000 Subscription Receipts for gross proceeds of approximately $1.15 billion. Upon closing of the acquisition on May 17, 2007, each Subscription Receipt was automatically exchanged, without payment of additional consideration, for one Common Share of Fortis. Each Subscription Receipt holder also received a cash payment of $0.21 per Subscription Receipt, which was an amount equal to the dividend declared per Common Share of Fortis to holders of record as of May 4, 2007. The remaining net cash purchase price was financed, on an interim basis, by drawing $125 million on the Corporation's existing credit facility.

Fortis filed a Business Acquisition Report, Form 51-102 F4, with respect to this acquisition, which is available on SEDAR at www.sedar.com.

2.3 Outlook

The Corporation's principal businesses of regulated gas and electricity distribution are capital intensive. Over the next five years, the Corporation's consolidated utility capital program is expected to exceed $4 billion. Most of its more than $3 billion gross electric utility capital expenditures will be driven by FortisAlberta, FortisBC and the Corporation's regulated and non-regulated electric utility operations in the Caribbean. Gross gas utility capital expenditures are expected to exceed $1 billion. The Corporation’s capital program should drive growth in earnings and dividends.

Gross consolidated utility capital expenditures for 2008 are expected to be $890 million, as summarized in the following table.

Fortis Inc. **Gross Utility Capital Expenditures - 2008**	
	($ millions)
Terasen Gas Companies	250
FortisAlberta	264
FortisBC	136
Newfoundland Power	53
Other Canadian Electric Utilities	38
Regulated Electric Utilities - Caribbean	101
Non-Regulated	48
Total	**890**

Capital expenditures related to income producing properties are expected to be approximately $11 million in 2008.

The Corporation continues to integrate Terasen within the Fortis Group. The addition of the gas distribution business doubled the Corporation’s investment in regulated rate base assets to approximately $6.3 billion. The Corporation is pursuing acquisitions for profitable growth, focusing on opportunities to acquire regulated natural gas and electric utilities in Canada, the United States and the Caribbean. Fortis will also pursue growth in its non-regulated businesses in support of its regulated utility growth strategy.

3.0 DESCRIPTION OF THE BUSINESS

3.1 Regulated Gas Utilities - Canadian

3.1.1 *Terasen Gas Companies*

The Terasen Gas companies are regulated gas transmission and distribution utilities in British Columbia.

TGI is the largest distributor of natural gas in British Columbia, serving approximately 825,000 residential, commercial and industrial customers in a service area that extends from Vancouver to the Fraser Valley and the interior of British Columbia.

TGVI owns and operates the natural gas transmission pipeline from the Greater Vancouver area across the Georgia Strait to Vancouver Island and the distribution system on Vancouver Island and along the Sunshine Coast of British Columbia, serving approximately 91,200 residential, commercial and industrial customers.

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

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

The Terasen Gas companies own and operate more than 45,000 kilometers of natural gas distribution and transmission pipelines and met a peak day demand of 1,360 TJ in 2007.

Market and Sales

The Terasen Gas companies' annual customer gas volumes increased to 220,977 TJ in 2007 from 209,013 TJ in 2006. Revenue was $1.75 billion in 2007 compared to $1.74 billion in 2006. Financial results for the Terasen Gas companies are included in the consolidated financial statements of the Corporation from the date of acquisition, May 17, 2007. The Terasen Gas companies' gas volumes and revenue from the date of acquisition to December 31, 2007 were 118,309 TJ and $905 million, respectively.

The following table compares the composition of 2007 and 2006 gas rate revenue and gas volumes by customer class of the Terasen Gas companies.

Terasen Gas Companies Gas Rate Revenue and Gas Volumes by Customer Class				
	Revenue [1] *(per cent)*		PJ Volumes [1] *(per cent)*	
	2007	2006	**2007**	2006
Residential	**57.1**	57.2	**33.9**	35.1
Commercial	**32.9**	31.8	**19.1**	22.2
Small industrial	**1.9**	2.4	**1.6**	1.8
Large industrial and other	**0.1**	0.1	**0.1**	0.1
Total natural gas sales	**92.0**	91.5	**54.7**	59.2
Transportation and other	**8.0**	8.5	**45.3**	40.8
Total natural gas	**100.0**	100.0	**100.0**	100.0

[1] *The 2007 and 2006 figures are for the years ended December 31, 2007 and 2006, respectively. The Corporation acquired the Terasen Gas companies on May 17, 2007; therefore, only sales from May 17, 2007 are reflected in the Annual 2007 Consolidated Financial Statements of Fortis.*

Legal Proceedings

On March 26, 2007, the Minister of Small Business and Revenue and Minister Responsible for Regulatory Reform (the “Minister”) in British Columbia issued a decision in respect of the appeal by TGI of an assessment of additional British Columbia Social Service Tax in the amount of approximately $37 million associated with the Southern Crossing Pipeline, which was completed in 2000. The Minister has reduced the assessment to $7 million, including interest, which has been paid in full to avoid accruing further interest and recorded as a long-term regulatory deferral asset. On June 22, 2007, TGI filed an appeal of the assessment with the British Columbia Supreme Court.

A non-regulated subsidiary of Terasen received Notices of Assessment from CRA for additional taxes related to the taxation years 1999 through 2003. The exposure has been fully provided for in the consolidated financial statements. Terasen has begun the appeal process associated with the assessments.

Gas Purchase Agreements

In order to acquire supply resources that ensure reliable natural gas deliveries to its customers, the Terasen Gas companies purchase supply from a select list of producers, aggregators and marketers by adhering to strict standards of counterparty creditworthiness and contract execution/management procedures. TGI contracts for approximately 130 PJ of baseload and seasonal supply, of which 87 PJ is delivered off the Spectra Energy (formerly Duke Energy) Gas Transmission system and 24 PJ is comprised primarily of Alberta-sourced supply transported into British Columbia via TransCanada Pipelines Limited (TransCanada) Alberta and British Columbia systems. The remaining 19 PJ of baseload and seasonal supply is sourced at Sumas, British Columbia. TGVI contracts for approximately 42 TJ per day of seasonal supply off the Spectra Energy Gas Transmission system. Through the operation of regulatory deferrals, any difference between the forecasted cost of natural gas purchases, as reflected in customer rates, and the actual cost of natural gas purchases is recovered from, or refunded to, customers in future rates. The majority of supply contracts in the current portfolio are one year in length.

The Spectra Energy and TransCanada transportation tolls are regulated by the National Energy Board, whose responsibilities include regulating pipeline tolls. The Terasen Gas companies pay both fixed and variable charges for use of the pipelines, which are recovered through rates paid by its customers.

Peak Shaving Arrangements

TGI incorporates peak shaving and gas storage facilities into its portfolio to:

i. manage the load factor of baseload supply contracts throughout the year;
ii. eliminate the risk of supply shortages during a peak throughput day;
iii. reduce the cost of gas during winter months; and
iv. balance daily supply and demand on the distribution system.

The Terasen Gas companies' peak shaving and storage assets and contracts for 2008 include up to 31 PJ in storage capacity at various locations throughout British Columbia, Alberta and the Pacific Northwest of the United States. These facilities can deliver a maximum daily rate of 430 TJ on a combined basis.

TGVI maintains storage contracts with Unocal Canada Limited at the Aitken Creek Storage facility in Northern British Columbia and Northwest Natural Gas Company at the Mist Storage facility in Oregon, United States. TGVI's Aitken Creek storage contract consists of 2 PJ of capacity with 13.1 TJ of daily deliverability and its Mist storage agreement consists of 0.69 PJ of capacity with 26.3 TJ of daily deliverability. TGVI also has access to an estimated 26 TJ of daily peak supply deliverability from various peak supply arrangements.

Off-System Sales

TGI is in its twelfth year of off-system sales activities, in which any daily excess supply of gas is sold at the market spot rate and allows for the recovery or mitigation of costs on unutilized supply and/or pipeline capacity. During 2006 and 2007, TGI marketed approximately 25.5 PJ of surplus gas and 45.9 PJ of excess pipeline capacity for a net pre-tax recovery of approximately $185 million. Through the Gas Supply Mitigation Incentive Plan established with the BCUC, $1.2 million (pre-tax) of these benefits accrued to shareholders in 2007.

Unbundling

Over the past several years, TGI, the BCUC and other interested parties have laid the groundwork for the introduction of natural gas commodity unbundling in British Columbia. On November 1, 2004, commercial customers of TGI became eligible to buy their natural gas commodity supply from third-party suppliers. TGI continues to provide delivery of the natural gas. Approximately 79,000 commercial customers are eligible to participate in commodity unbundling. By December 31, 2007, approximately 19,800 customers had elected to participate in this program.

During 2006, the BCUC approved the offering of commodity supply choice to residential customers. The BCUC agreed to open a portion of the Province's residential natural gas market to competition, allowing homeowners to sign long-term fixed-price contracts for natural gas with companies other than TGI, starting in May 2007. Consumers can choose to remain with TGI or sign with another market participant, in which case they began receiving gas at that market participant's rate beginning in November 2007. TGI will continue to provide delivery service to unbundled customers and delivery margins are not expected to be impacted by migration of residential customers to alternative commodity suppliers. Approximately 740,000 residential customers are eligible to participate in commodity unbundling. By December 31, 2007, approximately 84,200 customers had elected to participate in this program.

Human Resources

At December 31, 2007, the Terasen Gas companies employed approximately 1,200 full-time equivalent employees. Approximately 75 per cent of the employees are represented by IBEW, Local 213 and COPE, Local 378. The collective agreement with IBEW, Local 213, expires on March 31, 2011. On November 19, 2007, the organized employees represented by COPE, Local 378, ratified a new five-year collective agreement, expiring on March 31, 2012, ending limited job action that began September 23, 2007.

3.2 Regulated Electric Utilities - Canadian

3.2.1 *FortisAlberta*

FortisAlberta is a regulated electricity distribution utility in the Province of Alberta. Its business is the ownership and operation of regulated electricity distribution facilities that distribute electricity generated by other market participants from high-voltage transmission substations to end-use customers. FortisAlberta is not involved in generation, transmission or the direct sale of electricity. FortisAlberta owns and/or operates a largely rural, low-voltage distribution network in central and southern Alberta, totalling approximately 106,000 kilometres of distribution lines. The Company's distribution network serves more than 448,000 electricity customers, comprising residential, commercial, farm and industrial consumers of electricity, and met a peak demand of 3,182 MW in 2007.

Market and Sales

FortisAlberta's annual energy deliveries increased to 15,378 GWh in 2007 from 14,851 GWh in 2006. Revenue was $270 million in 2007 compared to $251 million in 2006.

The following table compares the composition of FortisAlberta's 2007 and 2006 electric rate revenue and energy sales by customer class.

FortisAlberta
Electric Rate Revenue and Energy Deliveries by Customer Class

	Revenue *(per cent)*		**GWh Deliveries** [(1)] *(per cent)*	
	2007	2006	**2007**	2006
Residential	**30.8**	31.7	**16.2**	15.6
Large commercial and industrial [(2)]	**22.4**	25.9	**60.8**	60.9
Farms	**13.3**	11.7	**8.5**	8.4
Small commercial	**12.0**	12.6	**8.1**	8.0
Small oil and gas	**9.8**	8.2	**6.0**	6.1
Other [(3)]	**11.7**	9.9	**0.4**	1.0
Total	**100.0**	100.0	**100.0**	100.0

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

(2) Included in the large commercial and industrial customer class are large oil and gas customers.

(3) "Other" includes revenue from sources other than the delivery of electricity, including that related to street-lighting services, net transmission revenue, rate riders, deferrals and adjustments.

Legal Proceedings

On March 24, 2006, Her Majesty the Queen in Right of Alberta (the "Crown") filed a statement of claim in the Court of Queen's Bench of Alberta in the Judicial District of Edmonton against FortisAlberta. The Crown's claim is that the Company is responsible for a fire that occurred in October 2003 in an area of the Province of Alberta commonly referred to as Poll Haven Community Pasture. The Crown is seeking approximately $3 million in firefighting and suppression costs and approximately $2 million in timber losses, as well as interest and other costs. FortisAlberta and the Crown have exchanged several investigation and expert reports. Both the factual evidence and expert opinion received to date lead Management to believe that FortisAlberta is not responsible for the cause of the fire and has no liability for the damages. However, FortisAlberta has not made any definitive assessment of potential liability, and the outcome with regard to the Company's liability for the claims made by the Crown is indeterminable. No amount, therefore, has been accrued in the Consolidated Financial Statements of the Corporation.

Human Resources

At December 31, 2007, FortisAlberta had 999 full-time equivalent employees. Approximately 75 per cent of the employees of the Company are members of a labour association represented by UUWA, Local 200. On February 1, 2008, FortisAlberta entered into a three-year collective agreement which covers all UUWA employees and expires on December 31, 2010. FortisAlberta did not experience any significant labour issues in 2007.

Franchise Agreements

Most of FortisAlberta's residential, commercial and industrial customers located within a city, town, or village boundary are served through franchise agreements between the Company and the customers' municipality of residence. From time to time, municipal governments in Alberta give consideration to creating their own electric distribution utilities by purchasing the assets of Fortis Alberta that are located in their municipal boundaries. In Alberta, the standard franchise agreement, which could include a franchise fee payable to the municipality, is generally for 10 years and may be renewed for five years upon mutual consent of the parties. All municipal franchises are governed by legislation that requires the municipality or the utility to give notice and obtain AUC approval if it intends to terminate its franchise agreement. Any franchise agreement that is not renewed continues in effect until either the Company or the municipality terminates it with AUC permission. If a franchise agreement is terminated and the municipality subsequently exercises its right under the *Municipal Government Act* (Alberta) to purchase the Company's distribution network within the municipality's boundaries or annexed area, the Company must be compensated. Compensation would include payment for the Company's assets on the basis of replacement cost less depreciation.

FortisAlberta serves over 143 municipalities, of which 140 are on standardized individual franchise agreements. Substantially all of these agreements expire between 2011 and 2018. The Company is in the process of renewing or negotiating franchise agreements with one additional municipality and two summer villages.

3.2.2 *FortisBC*

FortisBC includes FortisBC Inc., an integrated, regulated electric utility that owns a network of generation, transmission and distribution assets located in the southern interior of British Columbia. FortisBC Inc. serves a diverse mix of approximately 154,000 customers, approximately 108,000 of whom are served directly by the Company's assets while the remainder are served through the wholesale supply of power to municipal distributors. In 2007, Fortis BC Inc. met a peak demand of 683 MW. Residential customers represent the largest customer segment of the Company. The Company's transmission and distribution assets include 6,900 kilometres of transmission and distribution lines and 64 distribution substations. FortisBC also includes the regulated electric utility formerly operated as PLP, which was purchased on May 31, 2005.

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

Market and Sales

FortisBC has a diverse customer base composed primarily of residential, general service, industrial and municipal wholesale, and other industrial customers. Annual electricity sales increased to 3,091 GWh in 2007 from 3,038 GWh in 2006. Revenue increased to $229 million in 2007 from $216 million in 2006.

The following table compares the composition of FortisBC's 2007 and 2006 revenue and electricity sales by customer class.

FortisBC
Revenue and Electricity Sales by Customer Class

	Revenue *(per cent)*		**GWh Sales** *(per cent)*	
	2007	2006	**2007**	2006
Residential	**40.7**	41.6	**37.5**	36.8
General service	**23.6**	25.2	**22.6**	23.2
Wholesale	**19.0**	19.9	**28.5**	28.7
Industrial	**8.4**	8.8	**11.4**	11.3
Other [1]	**8.3**	4.5	**-**	-
Total	**100.0**	100.0	**100.0**	100.0

(1) "Other" includes revenue from sources other than from the sale of electricity, including revenue of Fortis Pacific Holdings and revenue from non-regulated operating, maintenance and management services.

Generation and Power Supply

FortisBC Inc. meets the electricity supply requirements of its customers through a mix of owned generation and short-term and long-term power purchase contracts. FortisBC Inc. owns four regulated hydroelectric generating plants on the Kootenay River with an aggregate installed capacity of 223 MW and annual energy output of approximately 1,591 GWh, which provide approximately 45 per cent of the Company's energy needs and 30 per cent of its capacity needs. FortisBC Inc. meets the balance of its requirements through a portfolio of long-term and short-term power purchase contracts approved by the BCUC, the costs of which are flowed through to customers.

FortisBC Inc.'s four hydroelectric generation facilities are governed by the CPA. The CPA is a multi-party agreement that enables the five separate owners of eight major hydroelectric generating plants (with a combined capacity of more than 1,500 MW and located in relatively close proximity to each other) to coordinate the operation and dispatch of their plants.

The following table lists the plants and their owners.

Plant	Capacity (MW)	Owners
Canal Plant	580	BC Hydro
Waneta Dam	450	Teck Cominco
Kootenay River System	223	FortisBC Inc.
Brilliant Dam	149	BPC
Brilliant Expansion	120	BEPC
Total	**1,522**	

BPC, BEPC, Teck Cominco and FortisBC Inc. are collectively defined in the CPA as the Entitlement Parties. The CPA enables BC Hydro and the Entitlement Parties, through coordinated use of water flows, subject to the 1961 Columbia River Treaty between Canada and the United States, and storage reservoirs, and through the coordinated operation of generating plants, to generate more power from their respective generating resources than they could if they operated independently. Under the CPA, BC Hydro takes into its system all power actually generated by all seven plants owned by the Entitlement Parties. In exchange for permitting BC Hydro to determine the output of these facilities, each of the Entitlement Parties is contractually entitled to a fixed annual entitlement of capacity and energy from BC Hydro, which is currently based on 50-year historical water flows. The Entitlement Parties receive their defined entitlements irrespective of actual water flows to the Entitlement Parties' generating plants and are, accordingly, insulated from the risk of water availability.

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

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

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

Although FortisBC Inc. can currently meet most of its customer supply requirements from its own generation and the long-term power purchase agreements described above, a portion of the customer load during the summer and winter peak-demand periods may need to be supplied from the market in the form of short-term power purchases. Costs related to such purchases, provided they are prudently incurred and accurately forecasted, are largely flowed through to customers. FortisBC Inc. generally makes arrangements prior to the winter season to acquire power at known prices should the need arise.

Legal Proceedings

The B.C. Ministry of Forests has alleged breaches of the Forest Practices Code and negligence relating to a fire near Vaseux Lake and has filed and served a writ and statement of claim against FortisBC Inc. In addition, the Company has been served with two filed writs and statements of claim by private landowners in relation to the same matter. The Company is currently communicating with its insurers and has filed a statement of defence in relation to all of the actions. The outcome cannot be reasonably determined and estimated at this time and, accordingly, no amount has been accrued in the Consolidated Financial Statements of the Corporation.

In January 2006, FortisBC Inc. was served a writ and statement of claim filed with the B.C. Supreme Court under the *Class Proceedings Act, 1995* (British Columbia) on behalf of a class consisting of all persons who are or were customers of FortisBC Inc. and who paid or have been charged FortisBC Inc.'s late payment penalties at any time between April 1, 1981 and the date of any judgment in this action. The claim was that forfeitures of the prompt payment discount offered to customers constituted "interest" within the meaning of section 347 of the *Criminal Code* (Canada) and, since the effective annual rate of such interest exceeded 60 per cent, they were illegal and void. In the action, the Plaintiff sought damages and restitution of all late payment penalties which were forfeited. On December 13, 2006, the application to certify the action as a class action was heard in the B.C. Supreme Court. In a decision delivered on January 11, 2007, the B.C. Supreme Court dismissed the application to certify the action as a class suit. The Plaintiff filed an appeal of the decision with the B.C. Court of Appeal. The Plaintiff's appeal was abandoned on May 29, 2007 and a Consent Dismissal Order was entered on June 6, 2007 dismissing the proceeding without costs to either party.

Human Resources

At December 31, 2007, FortisBC had 532 full-time equivalent employees. FortisBC has a collective agreement with IBEW, Local 213, expiring on January 31, 2009, and a collective agreement with COPE, Local 378, expiring on January 31, 2011. The two collective agreements cover approximately 80 per cent of employees.

3.2.3 *Newfoundland Power*

Newfoundland Power is the principal distributor of electricity on the island portion of Newfoundland and Labrador, serving approximately 232,000 customers, or 85 per cent of the Province's electricity consumers, and met a peak demand of 1,142 MW in 2007. The balance of the population is served by Newfoundland's other electric utility, Newfoundland Hydro, which also serves several larger industrial customers. Newfoundland Power owns and operates approximately 11,000 kilometres of transmission and distribution lines.

Market and Sales

Annual weather-adjusted electricity sales increased to 5,093 GWh in 2007 from 4,995 GWh in 2006. Revenue increased to $490 million in 2007 from $421 million in 2006.

The following table compares the composition of Newfoundland Power's 2007 and 2006 revenue and electricity sales by customer class.

Newfoundland Power Revenue and Electricity Sales by Customer Class				
	Revenue [1] *(per cent)*		**GWh Sales** [1] *(per cent)*	
	2007	2006	**2007**	2006
Residential	**58.7**	58.4	**59.8**	59.7
Commercial and Street Lighting	**38.6**	38.4	**40.2**	40.3
Other [2]	**2.7**	3.2	**-**	-
Total	**100.0**	100.0	**100.0**	100.0

[1] *Revenue and electricity sales reflect weather-adjusted values pursuant to Newfoundland Power's weather normalization reserve.*
[2] *Includes revenue from sources other than from the sale of electricity, the most significant being joint-use of pole revenue.*

Power Supply

Approximately 90 per cent of Newfoundland Power's power supply is purchased from Newfoundland Hydro. The principal terms of the supply arrangements with Newfoundland Hydro are regulated by the PUB on a basis similar to that upon which Newfoundland Power's service to its customers is regulated.

Newfoundland Power operates 29 small generating stations which generate approximately 10 per cent of the electricity sold by Newfoundland Power. The Company's hydroelectric generating plants have a total capacity of approximately 96 MW. The diesel plants and gas turbines have a total capacity of approximately 7 MW and 36 MW, respectively.

The City of St. John's has given formal notice of its intention to terminate Newfoundland Power's rights to use the Mobile River watershed for the generation of electricity. The effective date of the notice to terminate the lease is March 1, 2009. The Company held these rights under a lease dated November 23, 1946, which was amended by an agreement dated October 21, 1949. The two hydroelectric plants affected by the lease have a combined capacity of approximately 12 MW and generate annual production of 49 GWh, representing less than one per cent of the Company's total energy requirements. To exercise the termination provision of the lease, the City of St. John's is required to pay to the Company the value of all works and erections employed in the generation and transmission of electricity using the water of the Mobile River watershed. The lease provides for determination of the value of the assets by arbitration in the event that the City of St. John's chooses to exercise its right to terminate the lease. Discussions with the City of St. John's are at a preliminary stage, and the value of the affected assets has not been established.

Human Resources

At December 31, 2007, Newfoundland Power had 555 full-time equivalent employees of which approximately 54 per cent were members of bargaining units represented by IBEW, Local 1620.

The Company has two collective agreements governing its unionized employees represented by IBEW, Local 1620. Both contracts expire September 30, 2008. Newfoundland Power did not experience any significant labour issues in 2007.

3.2.4 *Other Canadian Electric Utilities*

Other Canadian Electric Utilities includes the operations of Maritime Electric and FortisOntario.

Maritime Electric
Maritime Electric operates an integrated electric utility which directly supplies approximately 72,000 customers, constituting 90 per cent of electricity consumers on Prince Edward Island. Maritime Electric purchases most of the energy it distributes to its customers from NB Power, a provincial Crown Corporation. Maritime Electric's system is connected to the mainland power grid via two submarine cables between Prince Edward Island and New Brunswick, which are leased from the Government of Prince Edward Island. Maritime Electric owns and operates generating plants with a combined capacity of 150 MW on Prince Edward Island and met a peak demand of 218 MW in 2007.

FortisOntario
The Corporation's regulated utility investments in Ontario, collectively FortisOntario, are composed of Canadian Niagara Power, including the operations of Port Colborne Hydro, and Cornwall Electric. Canadian Niagara Power services Fort Erie, Port Colborne and Gananoque, while Cornwall Electric services Cornwall. In total, FortisOntario's distribution operations serve approximately 52,000 customers. Canadian Niagara Power owns international transmission facilities at Fort Erie, Ontario and owns a 10 per cent interest in each of Westario Power and Rideau St. Lawrence, two regional electric distribution companies formed in 2000 serving more than 27,000 customers. FortisOntario met a combined peak demand of 234 MW in 2007.

Market and Sales

Annual electricity sales increased to 2,209 GWh in 2007 from 2,168 GWh in 2006. Revenue increased to $263 million in 2007 from $252 million in 2006.

The following table compares the composition of Other Canadian Electric Utilities' 2007 and 2006 revenue and electricity sales by customer class.

Other Canadian Electric Utilities
Revenue and Electricity Sales by Customer Class

	Revenue *(per cent)*		**GWh Sales** *(per cent)*	
	2007	2006	**2007**	2006
Residential	**44.0**	44.0	**42.1**	41.5
Commercial and industrial	**49.8**	50.0	**57.6**	57.7
Other [(1)]	**6.2**	6.0	**0.3**	0.8
Total	**100.0**	100.0	**100.0**	100.0

(1) Includes revenue from sources other than from the sale of electricity, including a $3 million refund received at FortisOntario in 2007.

Power Supply

Maritime Electric
Maritime Electric purchased more than 87 per cent of the electricity required to meet its customers' needs from NB Power in 2007. The balance was met through Maritime Electric's on-Island generation facilities and the purchase of wind energy produced on Prince Edward Island. Maritime Electric's generation facilities have a total installed capacity of 150 MW. The Company's generating capacity is used primarily for peaking, submarine-cable loading issues and emergency purposes.

In 2007, approximately 17 per cent of the energy that Maritime Electric purchased from NB Power came from the Point Lepreau Station. During 2007, the Point Lepreau Station had an annual capacity factor of 74.8 per cent compared to 78.8 per cent in 2006. The Point Lepreau Station is scheduled for a major refurbishment in 2008 that will extend its estimated life to 2035. The cost of replacement energy during the refurbishment of the Point Lepreau Station is expected to be recovered from customers through the operation of the ECAM.

Legislation proclaimed by the Government of Prince Edward Island will see an increased reliance by Maritime Electric on renewable energy sources, such as wind-powered energy, located on Prince Edward Island. By 2010, Maritime Electric will be required to obtain at least 15 per cent of its annual energy requirements from renewable sources. In 2006, the Company signed an agreement with PEI Energy Corporation which will see the Company purchase 39 MW of wind-powered energy from PEI Energy Corporation's new wind farm. In 2007, 12.2 per cent of the Island's energy-supply requirements were generated by wind.

FortisOntario

The power requirements of FortisOntario's service areas are provided from various sources. Canadian Niagara Power purchases its power requirements for Fort Erie and Port Colborne from the IESO. Under the Standard Supply Code of the OEB, Canadian Niagara Power is obliged to provide Standard Service Supply to all its customers who do not choose to contract with an electricity retailer. This energy is provided to customers at either regulated or market prices.

Canadian Niagara Power purchases approximately 83 per cent of energy requirements for Gananoque through monthly energy purchases from Hydro One and the remaining 17 per cent is purchased from six hydroelectric generating plants owned by Fortis Properties.

Cornwall Electric purchases 98 per cent of its power requirements from Hydro-Québec Energy Marketing under two fixed-term contracts. The first contract, which represents approximately 37 per cent of the power supply, expires in 2019. The second contract, which supplies the remainder of the power from Hydro-Québec Energy Marketing, is a 24-month rolling contract expiring in 2008. FortisOntario Inc.'s 5-MW gas-fired cogeneration plant generates the remaining two per cent of the power requirement in Cornwall.

Legal Proceedings

In April 2006, CRA reassessed Maritime Electric's 1997-2004 taxation years. The reassessment encompasses the Company's tax treatment, specifically the Company's timing of deductions, with respect to: (i) the ECAM in the 2001-2004 taxation years; (ii) customer rebate adjustments in the 2001-2003 taxation years; and (iii) the Company's payment of approximately $6 million on January 2, 2001 associated with a settlement with NB Power regarding the $450 million write-down of the Point Lepreau Station in 1998. Maritime Electric believes it has reported its tax position appropriately in all aspects of the reassessment and filed a Notice of Objection with the Chief of Appeals at CRA. Should the Company be unsuccessful in defending all aspects of the reassessment, the Company would be required to pay approximately $13 million in taxes and accrued interest. As at December 31, 2007, Maritime Electric has provided for this amount through future and current income taxes payable. The provisions of the *Income Tax Act* (Canada) require the Company to deposit one-half of the assessment under objection with CRA. The amount currently on deposit with the CRA arising from the reassessment is approximately $6 million.

Human Resources

At December 31, 2007, Maritime Electric had 179 full-time employees, of which approximately 70 per cent were represented by IBEW, Local 1432. The collective agreement with IBEW, Local 1432, expires on December 31, 2008.

At December 31, 2007, FortisOntario had 124 employees, of which approximately 65 per cent were represented by CUPE, Local 137, IBEW, Local 636, in the Niagara Region and IBEW, Local 636, in Gananoque. The collective agreements governing these employees expire on April 30, 2009, May 31, 2009 and July 31, 2009, respectively.

3.3 Regulated Electric Utilities - Caribbean

Regulated Electric Utilities - Caribbean operations are comprised of Belize Electricity, Caribbean Utilitities and Fortis Turks and Caicos.

Belize Electricity
Belize Electricity is the principal distributor of electricity in Belize, Central America, serving approximately 73,000 customers and met a peak demand of 70 MW in 2007. Belize Electricity meets its energy demand from multiple sources, which include power purchases from: (i) CFE, the Mexican state-owned power company; (ii) the Mollejon and Chalillo hydroelectric generating facilities owned and operated by BECOL; and (iii) its own diesel-fired and gas turbine generation. All major load centers are connected to Belize's national electricity system, which is connected to the Mexican electricity system, allowing Belize Electricity to optimize its power supply options.

Caribbean Utilities
Caribbean Utilities is the sole provider of electricity on Grand Cayman, Cayman Islands, serving more than 23,000 customers. The Company met a record peak demand of approximately 93 MW in August 2007.

Fortis Turks and Caicos
Fortis Turks and Caicos was acquired on August 28, 2006 by Fortis through a wholly owned subsidiary. Fortis Turks and Caicos serves more than 8,700 customers, or 85 per cent of electricity consumers, on the Turks and Caicos Islands and met a peak demand of 28 MW in 2007. The Company is the principal distributor of electricity on the Turks and Caicos Islands pursuant to 50-year licences that expire in 2036 and 2037.

Market and Sales

Beginning with the first quarter of 2007, the Corporation has been consolidating Caribbean Utilities' financial statements on a two-month lag. During 2006, the statement of earnings of the Corporation reflected the previous approximate 37 per cent interest in Caribbean Utilities, accounted for on an equity basis on a two-month lag. Caribbean Utilities has an April 30 fiscal year end and, therefore, the data for 2007 and 2006 below includes financial results for Caribbean Utilities for the 12-month periods ended October 31.

In addition, the 2006 financial results for Fortis Turks and Caicos were included in the 2006 Consolidated Financial Statements of the Corporation from the date of acquisition, which occurred on August 28, 2006. Fortis Turks and Caicos' sales and revenue for the four-month period ending December 31, 2006 were 44 GWh and $13 million, respectively.

Total annual electricity sales reported by Belize Electricity, Caribbean Utilities and Fortis Turks and Caicos increased to 1,054 GWh in 2007 from 970 GWh in 2006. Total annual revenue reported by Belize Electricity, Caribbean Utilities and Fortis Turks and Caicos increased to $307 million in 2007 from $301 million in 2006. The Regulated Electric Utilities - Caribbean segment contributed $307 million and $101 million in 2007 and 2006, respectively, to the consolidated revenue of Fortis.

The following table compares the composition of Regulated Electric Utilities - Caribbean's revenue and electricity sales by customer class for the years ended 2007 and 2006.

Regulated Electric Utilities - Caribbean
Revenue and Electricity Sales by Customer Class

	Revenue [1] *(per cent)*		**GWh Sales** [1] *(per cent)*	
	2007	2006	**2007**	2006
Residential	**48.1**	48.7	**48.4**	48.6
Commercial, industrial and street lighting	**50.6**	50.1	**51.6**	51.4
Other [2]	**1.3**	1.2	**-**	-
Total	**100.0**	100.0	**100.0**	100.0

(1) *The 2007 and 2006 figures are for the years ended December 31, 2007 and 2006, respectively, and include 100 per cent of the revenue and electricity sales of Belize Electricity, Caribbean Utilities and Fortis Turks and Caicos.*
(2) *Includes revenue from sources other than from the sale of electricity*

Power Supply

In 2007, 68 per cent of the electricity needs of Regulated Electric Utilities - Caribbean was produced from gas and diesel-fired generation. The remainder was produced from hydroelectric generating facilities in Belize.

Belize Electricity purchased and produced 439 GWh of electricity in 2007, of which 89 per cent was purchased from CFE and from the Mollejon and Chalillo hydroelectric generating facilities. The balance was produced by Belize Electricity's installed capacity of 36 MW, including a 23-MW gas-turbine generating facility. The Company met a peak demand of 70 MW in 2007.

Caribbean Utilities relies upon diesel generation to produce electricity for Grand Cayman. Grand Cayman has neither hydroelectric potential nor inherent thermal resources and the Company must rely upon diesel fuel imported to Grand Cayman primarily from refineries in the Caribbean and the Gulf of Mexico. The Company has an installed generating capacity of approximately 137 MW and met a record peak demand of 93 MW in August 2007.

Fortis Turks and Caicos relies upon diesel-fired generation, which has a combined generating capacity of 48 MW, to produce electricity for the Turks and Caicos Islands. In 2007, Fortis Turks and Caicos met a combined peak demand of 28 MW.

Human Resources

At December 31, 2007, Regulated Electric Utilities - Caribbean employed 547 full-time equivalent employees.

At December 31, 2007, Belize Electricity had 274 full-time equivalent employees of which approximately 59 per cent were represented by BEWU. The Company's collective agreement with

BEWU was signed on November 29, 2000 and is to be reviewed every five years. Union negotiations commenced during the third quarter of 2006 for a new collective agreement and are still ongoing.

At December 31, 2007, Caribbean Utilities had 193 non-unionized full-time equivalent employees, more than 90 per cent of whom were Caymanian.

At December 31, 2007, Fortis Turks and Caicos had 80 non-unionized full-time equivalent employees, approximately 89 per cent of whom were Turks and Caicos Islanders.

3.4 Non-Regulated – Fortis Generation

Annual energy sales from non-regulated generation assets were 1,122 GWh in 2007 compared to 1,203 GWh in 2006. Revenue was $75 million in 2007 compared to $80 million in 2006.

The following table compares the composition of Fortis Generation's 2007 and 2006 revenue and energy sales by location.

Fortis Generation
Revenue and Energy Sales by Location

	Revenue *(per cent)*		**GWh Sales** *(per cent)*	
	2007	2006	**2007**	2006
Belize	**21.2**	21.9	**14.9**	14.8
Ontario	**46.4**	42.7	**63.0**	60.0
Central Newfoundland	**23.0**	23.9	**12.2**	14.0
British Columbia	**2.3**	1.9	**3.0**	2.5
Upper New York State	**7.1**	9.6	**6.9**	8.7
Total	**100.0**	100.0	**100.0**	100.0

Belize

Non-regulated generation operations in Belize consist of the operations of BECOL, which operates both the 25-MW Mollejon hydroelectric generating facility and the 7-MW Chalillo hydroelectric generating facility. BECOL sells its entire output to Belize Electricity under a 50-year power purchase agreement and a franchise agreement. Under these agreements, the Mollejon hydroelectric facility will be transferred to the Government of Belize in 2037, after which it will be leased by BECOL for a further 15 years. The franchise agreement grants BECOL the right to use the water in the Macal River, upstream of the Mollejon hydroelectric generating facility, for hydroelectric generation. The Government of Belize has agreed not to grant any rights or take any action that would impede the amount or quality of water flow on the upper Macal River. BECOL was afforded full duty-free and tax-free status and the Government of Belize warrants that there is no limitation upon the repatriation or free exchange of funds.

In May 2007, BECOL received all major approvals for the construction of an estimated $57 million (US$53 million) 18-MW hydroelectric generating facility at Vaca on the Macal River in Belize. In 2008, BECOL is expected to spend $30 million (US$28 million) on the construction of this generating facility. Belize Electricity has signed a 50-year power purchase agreement with BECOL for the purchase of the energy to be generated by the Vaca facility. The facility is being constructed downstream from the Chalillo and Mollejon hydroelectric generating facilities and is expected to increase average annual energy production from the Macal River by approximately 80 GWh to 240 GWh.

Assuming normal hydrology, the facility is expected to be immediately accretive to earnings per common share of Fortis when it comes into service late in 2009.

BECOL currently employs 24 full-time personnel, none of whom participate in a collective agreement. BECOL is a leader in environmental management in Belize and made its operations compliant with ISO 14001 in 2002. Regular audits by external environmental auditors are conducted to ensure continued compliance.

Ontario

Non-regulated generation operations in Ontario include 75 MW of water-right entitlement associated with the Niagara Exchange Agreement, which expires on April 30, 2009, the operation of a 5-MW gas-fired cogeneration plant in Cornwall and six small hydroelectric generating stations with a combined capacity of approximately 8 MW.

Central Newfoundland

Non-regulated generation operations in central Newfoundland are conducted through the Corporation's indirect 51 per cent interest in the Exploits Partnership. These operations generate approximately 590 GWh annually, of which 450 GWh is utilized by Abitibi, while the remainder is sold to Newfoundland Hydro under a 30-year take-or-pay power purchase agreement, expiring in 2033, which is exempt from regulation.

British Columbia

Non-regulated generation operations in British Columbia consist of the 16-MW run-of-river Walden hydroelectric power plant near Lillooet. This plant is a non-regulated operation that sells its entire output to BC Hydro under a power purchase agreement expiring in 2013.

Upper New York State

Non-regulated generation operations in Upper New York State include the operations of four hydroelectric generating stations with a combined generating capacity of 23 MW operating under licences from FERC. Since January 1, 2007, all four plants have been selling energy at current market rates.

Legal Proceedings

Legal proceedings were initiated against FortisUS Energy by the Village of Philadelphia (the "Village"), New York. The Village claimed that FortisUS Energy should honour a series of current and future payments set out in an agreement between the Village and a former owner of the hydroelectric site, located in the municipality of the Village, now owned by FortisUS Energy, totalling approximately $7 million (US$7 million). The First American Title Insurance Company is defending the action on behalf of FortisUS Energy. A Memorandum Decision and Order was filed by the State of New York Supreme Court of Jefferson County on December 21, 2006 granting summary judgment to FortisUS Energy dismissing the action by the Village. An appeal of the summary judgment dismissal of the claim filed by the Village in January 2007 was heard by the Appellate Division, Fourth Judicial Department of the Supreme Court of the State of New York in December 2007. The Appellate Division delivered its Memorandum and Order on February 1, 2008 modifying the initial decision by dismissing the Village's appeal regarding its main claim, but reinstating a secondary cause of action dismissed by the summary judgment order. Further appeals to the New York State Court of Appeal may be forthcoming. Management believes that potential further legal actions will not be successful and, therefore, no provision has been made in the Consolidated Financial Statements of the Corporation.

3.5 Non-Regulated – Fortis Properties

Fortis Properties owns and operates 19 hotels with more than 3,500 rooms in eight Canadian provinces and approximately 2.8 million square feet of commercial real estate primarily in Atlantic Canada. As a wholly owned subsidiary of Fortis, Fortis Properties is the Corporation's vehicle for non-utility diversification and growth. In 2007, Fortis Properties derived approximately 31 per cent of its revenue from real estate operations and 69 per cent of its revenue from hotel operations. Fortis Properties derived approximately 42 per cent of its operating income from real estate operations and 58 per cent of its operating income from hotel operations.

Real Estate Division

Fortis Properties' Real Estate Division is anchored by high-quality tenants under long-term leases. The Real Estate Division ended 2007 with 96.8 per cent occupancy compared to 94.9 per cent at the end of 2006. In contrast, the average national occupancy rate was approximately 93.8 per cent at the end of 2007 compared to 92.3 per cent at the end of 2006.

The following table sets out the office and retail properties owned by Fortis Properties.

Fortis Properties
Office and Retail Properties

Property	Location	Type of Property	Gross Lease Area *(square feet 000s)*
Fort William Building	St. John's, NL	Office	188
Cabot Place I	St. John's, NL	Office	133
TD Place	St. John's, NL	Office	93
Fortis Building	St. John's, NL	Office	82
Multiple Office	St. John's, NL	Office and Retail	69
Millbrook Mall	Corner Brook, NL	Retail	120
Fraser Mall	Gander, NL	Retail	99
Marystown Mall	Marystown, NL	Retail	87
Fortis Tower	Corner Brook, NL	Office	69
Viking Mall	St. Anthony, NL	Retail	69
Maritime Centre	Halifax, NS	Office and Retail	562
Brunswick Square	Saint John, NB	Office and Retail	512
Kings Place	Fredericton, NB	Office and Retail	292
Blue Cross Centre	Moncton, NB	Office and Retail	324
Delta Regina	Regina, SK	Office	52
Total			**2,751**

Hospitality Division

Fortis Properties' Hospitality Division achieved improvements in occupancy and average room rates in 2007. Average occupancy for 2007 was 68.6 per cent, which is significantly higher than the 64.2 per cent achieved in 2006, while the average daily rate increased to $115.67 in 2007 from $113.18 in 2006. These improvements resulted in revenue per available room increasing for the twelfth consecutive year to $79.31 in 2007 from $72.67 in 2006.

During 2007, Fortis Properties expanded its hotel portfolio by one hotel and 274 rooms with the purchase of the Delta Regina, comprising the Delta Regina hotel, the Saskatchewan Trade and Convention Centre, commercial office space and a parking garage.

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

Fortis Properties Hotels			
Hotels	**Location**	**Number of Guest Rooms**	**Conference Facilities** *(square feet 000's)*
Delta St. John's	St. John's, NL	403	21
Holiday Inn St. John's	St. John's, NL	252	11
Mount Peyton	Grand Falls-Windsor, NL	150	3
Greenwood Inn Corner Brook	Corner Brook, NL	102	5
Four Points by Sheraton Halifax	Halifax, NS	177	2
Delta Sydney	Sydney, NS	152	10
Delta Brunswick	Saint John, NB	254	18
Holiday Inn Kitchener-Waterloo	Kitchener-Waterloo, ON	184	13
Holiday Inn Peterborough	Peterborough, ON	153	7
Holiday Inn Sarnia	Point Edward, ON	217	11
Holiday Inn Cambridge	Cambridge, ON	143	6
Greenwood Inn Calgary	Calgary, AB	210	9
Greenwood Inn Edmonton	Edmonton, AB	224	8
Greenwood Inn Winnipeg	Winnipeg, MB	213	10
Ramada Hotel & Suites Lethbridge	Lethbridge, AB	119	5
Holiday Inn Express Medicine Hat	Medicine Hat, AB	93	1
Best Western Medicine Hat	Medicine Hat, AB	122	-
Holiday Inn Express Kelowna	Kelowna, BC	120	-
Delta Regina	Regina, SK	274	24
Total		**3,562**	**164**

Human Resources

At December 31, 2007, Fortis Properties employed approximately 1,800 employees, approximately 43 per cent of whom are represented by the unions listed in the following table.

Fortis Properties Unions			
Property	**Union**	**Expiry of Agreement**	**Number of Unionized Employees**
Holiday Inn St. John's	CAW	August 31, 2009	65
Delta St. John's	UFCW	December 31, 2009	230
Greenwood Inn Corner Brook	CAW	March 11, 2010	39
East Side Mario's St. John's	CAW	July 31, 2010	70
Delta Sydney	CAW	September 30, 2008	75
Delta Brunswick & Brunswick Square	USW	June 10, 2010	110
Delta Regina	CEP	November 30, 2007 [(1)]	165
St. John's Real Estate	IBEW	April 17, 2010	11
Total			**765**

[(1)] *Delta Regina commenced union contract negotiations January 2008*

4.0 REGULATION

The nature of regulation and a summary of material regulatory decisions and applications associated with each of the Corporation's regulated gas and electric utilities are summarized as follows:

Nature of Regulation

Regulated Utility	Regulatory Authority	Allowed Common Equity (%)	Allowed Returns (%) 2006	2007	2008	Supportive Features / Future or Historical Test Year Used to Set Rates
			ROE			COS/ROE PBR mechanism through 2009:
TGI	BCUC	35	8.80	8.37	8.62	TGI: 50/50 sharing of earnings above or below the allowed ROE.
TGVI	BCUC	40	9.50	9.07	9.32	TGVI: 100 per cent retention of earnings from lower-than-forecasted operating and maintenance costs but no relief from increased operating and maintenance costs. ROE automatic adjustment formula tied to long-term Canada bond yields
						Future Test Year
FortisBC	BCUC	40	9.20	8.77	9.02	COS/ROE PBR mechanism through 2008, with option to continue in 2009 - 50/50 sharing of earnings above or below the allowed ROE up to an achieved ROE that is 200 basis points above or below the allowed ROE – excess to deferral account ROE automatic adjustment formula tied to long-term Canada bond yields
						Future Test Year
FortisAlberta	AEUB (to December 31, 2007) AUC (effective January 1, 2008)	37	8.93	8.51	8.75	COS/ROE ROE automatic adjustment formula tied to long-term Canada bond yields
						Future Test Year
Newfoundland Power	PUB	45	9.24 +/- 50 bps	8.60 +/- 50 bps	8.95 +/- 50 bps	COS/ROE ROE automatic adjustment formula tied to long-term Canada bond yields
						Future Test Year
Maritime Electric	IRAC	40	10.25	10.25	10.00	COS/ROE
						Future Test Year
FortisOntario	OEB (Canadian Niagara Power) Franchise Agreement (Cornwall Electric)	50	9.00	9.00	9.00	Canadian Niagara Power - COS/ROE Cornwall Electric - Price cap with commodity cost flow through
						Historical Test Year

Nature of Regulation (cont'd)						
Regulated Utility	**Regulatory Commission**	**Allowed Common Equity (%)**	**Allowed Returns (%)**			**Supportive Features**
			2006	**2007**	**2008**	**Future or Historical Test Year Used to Set Rates**
Belize Electricity	PUC	N/A	**ROA**			Four-year COS/ROA agreements with market-based returns
			10.00 - 15.00	10.00 - 15.00	10.00 - 15.00	Future Test Year
Caribbean Utilities	Electricity Regulatory Authority (effective 2008 under proposed new licences)	N/A	15.00	15.00	10.00 [(1)]	COS/ROA Price-cap adjustment mechanism tied to consumer price indices (effective 2008 under proposed new licences)
						Historical Test Year
Fortis Turks and Caicos	Utilities make annual filings with the Energy Commission	N/A	17.50	17.50	17.50	COS/ROA
						Future Test Year

[(1)] *As per proposed new licences*

Material Regulatory Decisions and Applications	
Regulated Utility	**Summary Description**
TGI and TGVI	• March 2007, BCUC approval of extension of PBR mechanisms through 2009 for both TGI and TGVI. • November 2007, TGVI received conditional BCUC approval for the construction of a 1.5 billion-cubic foot LNG storage facility on Vancouver Island for a total estimated cost of between $175 million and $200 million. • BCUC approval of various rates at TGI, including those for mid-stream and delivery for residential customers in several service areas, effective January 1, 2008. Increased mid-stream costs are flowed through to customers without markup. The approved rates also reflect the impact of an increase in the allowed ROE for 2008 to 8.62 per cent.
FortisBC	• December 2006, BCUC approval of a 1.2 per cent increase in customer rates, effective January 1, 2007. • March 2007, BCUC order changing the treatment of financing costs associated with large capital projects during the period of construction. Result was an additional 2.1 per cent increase in 2007 customer rates, effective April 1, 2007. The impact of the increase in electricity rates relating to the period January 1, 2007 through March 31, 2007 will be recovered in 2008 customer rates. The amount to be recovered was accrued in the first quarter of 2007. • Preliminary 2008 Revenue Requirements Application filed on October 1, 2007 and updated by FortisBC on November 1, 2007. • December 2007, BCUC approval of an NSA associated with 2008 revenue requirements resulting in a rate increase of 2.9 per cent, effective January 1, 2008. The rate increase was primarily the result of the Company's extensive capital investment program and higher power purchase costs due to ongoing customer growth and increased electricity demand. Rates for 2008 reflect an allowed ROE of 9.02 per cent. • BCUC-approved NSA included updated 2007 gross capital expenditures of approximately $147 million for 2007 and $132 million for 2008. • FortisBC intends on filing a 2009 and 2010 Capital Plan and a 2009 Revenue Requirements Application with the BCUC in the second half of 2008.

Material Regulatory Decisions and Applications (cont'd)	
Regulated Utility	**Summary Description**
FortisAlberta	• June 2006, AEUB-approved 2006/2007 NSA associated with 2006/2007 revenue requirements, providing for a 0.7 per cent distribution rate increase, effective January 1, 2007. • AEUB initially approved 2007 distribution revenue requirements based on an allowed ROE of 8.93 per cent. The ROE was reduced to 8.51 per cent, effective January 1, 2007, due to the impact of lower long-term Canada bond yields on the automatic adjustment formula used to calculate the allowed ROE. As a result of the lower allowed ROE, FortisAlberta will refund to customers in 2008 rates approximately $1 million of revenue collected in base rates in 2007. • June 2007, AEUB approval to sell amounts in annual AESO Charges Deferral Account. In September 2007, approximately $28 million of the 2006 AESO Charges Deferral Account was sold to a Canadian chartered bank for cash consideration of approximately $27 million and a receivable of approximately $1 million, due February 15, 2009. In December 2007, approximately $37 million of the 2007 AESO Charges Deferral Account was sold to a Canadian chartered bank for cash consideration of approximately $36 million and a receivable of approximately $1 million, due February 15, 2010. • June 2007, filing of 2008/2009 revenue requirements requesting an increase in base distribution rates of 8.5 per cent, effective January 1, 2008, and 9.0 per cent, effective January 1, 2009. • November 2007, filing of an NSA associated with 2008/2009 revenue requirements. • December 2007, regulatory approval of interim distribution rates, effective January 1, 2008. • February 2008, regulatory approval of NSA associated with 2008/2009 revenue requirements resulting in distribution rate increases of 6.8 per cent, effective January 1, 2008, and 7.3 per cent, effective January 1, 2009. The approved NSA includes forecast gross capital expenditures of approximately $264 million for 2008 and $296 million for 2009, primarily to meet customer growth and improve system reliability. The 2008 revenue requirements included in the 2008/2009 NSA were determined using the 2007 ROE of 8.51 per cent. The impact of the increase in the ROE for 2008 to 8.75 per cent is subject to deferral-account treatment and, as such, will be recognized as earned and is expected to be collected in future customer rates. • Effective January 1, 2008, FortisAlberta is regulated by the AUC due to the separation of the AEUB into two separate regulatory bodies.
Newfoundland Power	• December 2006, PUB approval, on an interim basis, of an average 0.07 per cent increase in customer electricity rates, effective January 1, 2007. The increase was due to a change in the flow through of costs from Newfoundland Hydro, driven by increased purchased power costs and the resulting change in the wholesale purchased power rate, partially offset by the impact of a reduction in Newfoundland Power's allowed ROE to 8.60 per cent, effective January 1, 2007. There was no impact on Newfoundland Power's earnings in 2007 due to the change in the flow through of costs from Newfoundland Hydro. In April 2007, the PUB ordered the final approval of the average 0.07 per cent increase in customer electricity rates, effective January 1, 2007. • December 2006, PUB approval of an application requesting amortization of $2.7 million of unrecognized 2005 unbilled revenue as revenue in 2007 to offset the 2007 income tax impact of changing to the accrual method for revenue recognition, the deferred recovery of capital asset amortization of $5.8 million similar to 2006 and the deferred recovery of $1.8 million associated with the cost of replacement energy required to be purchased while the Company's Rattling Brook hydroelectric generating facility is being refurbished. • September 2007, PUB approval of 2008 Capital Budget totalling approximately $51 million. • December 2007, PUB approval of NSA associated with 2008 General Rate Application resulting in an average 2.8 per cent increase in customer rates, effective January 1, 2008. The rate increase is largely driven by higher amortization costs. The rate increase reflects an allowed ROE of 8.95 per cent for 2008. • PUB approval of the NSA will also result in, among other things: (i) the amortization of $7.2 million in 2008 and $4.6 million in each of 2009 and 2010 of the remaining $16.4 million balance of the original December 2005 unbilled revenue liability; (ii) amortization of approximately $3.9 million in each of 2008, 2009 and 2010 of previously deferred amortization expense; (iii) amortization over a period of three to five years of certain deferred regulatory balances; (iv) for 2008 through 2010, the deferral of variations in purchased power expense caused by differences in the actual unit cost of energy and the unit cost reflected in customer rates to be recovered from, or refunded to, customers through operation of the Company's rate stabilization account.
Maritime Electric	• October 2007, IRAC approval of 2008 gross capital expenditures of approximately $19 million. • October 2007, filing for customer rates for the period April 1, 2008 through March 31, 2009, requesting an increase in basic electricity rates of 1.8 per cent. • January 2008, IRAC approval, as filed, of a 1.8 per cent increase in basic electricity rates, effective April 1, 2008, and approval of a maximum allowed ROE of 10.00 per cent for 2008.

Material Regulatory Decisions and Applications (cont'd)	
Regulated Utility	**Summary Description**
FortisOntario	• April 2007, OEB approval of an average 0.9 per cent increase in electricity distribution rates, effective May 1, 2007, for operations in each of Fort Erie, Port Colborne and Gananoque. Increase determined using OEB's incentive rate mechanism, comprised of a 1.9 per cent increase for inflation, partially offset by a 1 per cent decrease for a productivity adjustment. • July 2007, OEB approval for the recovery in customer rates, as requested, of approximately $2 million in extraordinary costs incurred as a result of the snowstorm in October 2006. The extraordinary costs, which had been previously deferred, are being recovered mostly over a period of two years, beginning September 2007.
Belize Electricity	• June 2007, PUC Final Decision on tariffs for the period July 1, 2007 to June 30, 2008 approving changes to tariffs for certain customer classes while maintaining the average electricity rate at BZ44.1 cents per kWh. • Final Decision reflected many recommendations provided by an independent expert who was appointed by the PUC, subsequent to the objection by Belize Electricity and the Government of Belize of the PUC's Initial Decision on the Tariff Application. • Belize Electricity objected to and appealed the Final Decision associated with adjustments for cost of power, commercial loss targets and penalties associated with reliability targets. • In December 2007, amendments to the *Electricity (Tariffs, Charges and Quality of Services Standards) By-Laws* (Belize) affecting the tariff-setting process at Belize Electricity were enacted. The result is a simplified tariff-setting methodology allowing for improved rate stabilization. The amendments settled outstanding matters related to the PUC's June 2007 Final Decision on tariffs, effective July 1, 2007. • The overall average electricity rate of BZ44.1 cents per kWh remains in effect for the period July 1, 2007 to June 30, 2008. The recovery of the cost of power component of rates remained at BZ25.3 cents per kWh, while the value-added component of rates increased BZ0.6 cents per kWh to BZ16.8 cents per kWh and the component of rates associated with the recovery of rate stabilization accounts decreased BZ0.6 cents per kWh to BZ2.0 cents per kWh.
Caribbean Utilities	• Under its existing licence, Caribbean Utilities was entitled to a 4.5 per cent rate increase, effective August 1, 2007, primarily due to the cost associated with the write-down of the steam-turbine assets, increased operating costs and investment in capital assets. • Basic rate increase not implemented August 1, 2007, due to freezing of basic electricity rates during the period that the CRS is effective. • An AIP was reached with the Government of the Cayman Islands in December 2007 on the terms of a new generation licence, initially to be granted for up to 25 years, and, under new arrangements, a new exclusive 20-year transmission and distribution licence. The terms of the AIP include competition for future generating capacity and the general promotion of renewable resources. The new licences are expected to be issued in the first half of 2008. • Effective January 1, 2008, as a result of the AIP, basic customer rates were reduced by 3.25 per cent, the CRS was removed and a fuel-duty rebate funded by the Government of the Cayman Islands was implemented for residential customers consuming less than 1,500 kWh monthly, resulting in average monthly savings to residential customers of approximately 15 per cent. The 3.25 per cent reduction in basic rates will reduce annual revenue by approximately US$2 million. Additionally, Caribbean Utilities has forgone US$2.6 million of revenue in 2008 as a result of the early elimination of the CRS. Following the initial basic rate reduction, customer rates will be frozen until May 31, 2009 and will be subject to annual review thereafter. • The AIP will see the replacement of the current allowed ROA of 15 per cent with a rate cap and adjustment mechanism based on published consumer price indices. Customer rates will now be set using an initial targeted ROA of 10 per cent beginning in 2008.

5.0 ENVIRONMENTAL MATTERS

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

These environmental considerations are best addressed within the context of a formal environmental management system. The Terasen Gas companies, FortisAlberta, FortisBC, Newfoundland Power, Maritime Electric and FortisOntario have each developed an EMS designed to manage the impact of their activities on the environment consistent with the guidelines of ISO 14001, an internationally recognized standard for environmental management systems. As part of their respective EMS, these subsidiaries are continuously establishing and implementing programs and procedures to identify potential environmental impacts, mitigate those impacts and monitor environmental performance. The Terasen Gas companies, FortisBC, Newfoundland Power and FortisOntario have external audits of their EMS conducted on a three to five year cycle to ensure compliance with ISO 14001. FortisAlberta expects to have its first external audit of its EMS completed in 2009. Belize Electricity has also implemented an EMS with the intention of it becoming ISO 14001 compliant by the end of 2009. Caribbean Utilities was ISO 14001 certified in May 2007 with respect to the Company's North Sound Road Station site, which is responsible for 100 per cent of the Company's electricity generation, and is in the process of implementing an overall EMS consistent with ISO 14001. Fortis Turks and Caicos does not currently have an EMS; however, plans are in place for the Company to be ISO 14001 certified by the end of 2010.

The environmental policies vary among the Corporation's subsidiaries depending on the environmental laws and regulations applicable to their operations and jurisdiction. For the Corporation's regulated gas utilities, air emissions management is the main environmental concern primarily due to the uncertainties relating to emerging federal and provincial greenhouse gas regulations. While governmental policy direction is starting to unfold, it remains to be determined if, or to what extent, an air emissions cap will impact these utilities. To mitigate this uncertainty, the Terasen Gas companies are participating in sectoral and industry groups to help develop the emerging regulation. In addition, TGI was an active participant in Canada's VCR and its successor, the Canadian Greenhouse Gas Challenge Registry.

For the Corporation's regulated electric utilities, the potential risk of spills associated with fuel and oil-filled equipment is the primary environmental concern. To mitigate this risk, the Corporation's regulated electric utilities in Canada have each developed an EMS which, among other things, promotes environmental responsibility; asset management programs, which include regular inspections of fuel and oil-filled equipment in order to identify and correct for potential spills; and spill response systems to ensure that all spills are addressed, and the associated cleanup is conducted, in a prompt and environmentally responsible manner. In addition, Newfoundland Power operates a hydroelectric generating plant inside a protected public water supply, and as such, has addressed the risk of water contamination in its EMS, which was implemented approximately 10 years ago for its generation assets.

Systems to address environmental standards vary among the utilities comprising the Corporation's Regulated Electric Utilities - Caribbean segment and, while the environmental concerns are similar to those of the Corporation's electric utilities in Canada, the environmental regulations in the relevant jurisdictions are not as developed. However, the environmental matters are being addressed by each subsidiary through the implementation of an EMS and/or compliance with ISO 14001.

For the Corporation's Non-Regulated – Fortis Generation segment, the potential risk of spills associated with fuel and oil-filled equipment is the primary environmental concern. The Corporation's non-regulated generation operations are covered by an EMS of the Corporation's regulated electric utilities and by Fortis Properties.

Fortis Properties is committed to meeting the requirements of environmental standards related to its business operations. In assessing new properties, all buildings and hotels must meet environmental standards, including, but not limited to, the appropriate federal, provincial and municipal standards for asbestos, fuel storage, lead paint and urea-formaldehyde insulation. This process is also applied to existing properties, ensuring environmental compliance by all facilities.

The Corporation has asset retirement obligations as disclosed in the Notes to the 2007 Consolidated Financial Statements of Fortis. However, liabilities with respect to these asset retirements obligations have not been recorded in the 2007 Consolidated Financial Statements as they could not be reasonably estimated or were determined to be immaterial to the Corporations earnings, financial position and cash flow.

Compliance with environmental laws and regulations (including the development and implementation of an EMS) did not have a material effect on the capital expenditures, earnings or competitive position of the Corporation in 2007 and, based on current laws, facts and circumstances, is not expected to have a material effect in the future. At the Corporation's regulated utilities, prudently incurred operating and capital costs, associated with complying with environmental laws and regulations, are generally recoverable in customer rates. The Corporation believes that it and its operating subsidiaries are materially compliant with environmental laws and regulations applicable to them in the various jurisdictions in which they operate.

6.0 RISK FACTORS

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

Regulation: The Corporation's key business risk is regulation. Each of the Corporation's regulated utilities is subject to some form of regulation which can impact future revenues and earnings. Management at each operating utility is responsible for working closely with regulators and local governments to ensure both compliance with existing regulations and the proactive management of regulatory issues.

Approximately 90 per cent of the Corporation's operating revenue and equity income was derived from regulated utility operations in 2007 (2006 - 84 per cent), while approximately 81 per cent of the Corporation's operating earnings were derived from regulated utility operations in 2007 (2006 - 75 per cent). These regulated operations, the Terasen Gas companies, FortisAlberta, FortisBC, Newfoundland Power, Maritime Electric, FortisOntario, Belize Electricity, Caribbean Utilities and Fortis Turks and Caicos, are subject to the normal uncertainties faced by regulated entities. These uncertainties include approvals by the respective regulatory authorities of gas and electricity rates that permit a reasonable opportunity to recover, on a timely basis, the estimated costs of providing services, including a fair rate of return on rate base. The ability of the utilities to recover the actual costs of providing services and to earn the approved rates of return depends on achieving the forecasts established in the rate-setting processes. Upgrades of existing gas and electricity systems and facilities and the addition of new infrastructure and facilities require the approval of the regulatory authorities either through the approval of capital expenditure plans or through regulatory approval of revenue requirements for the purpose of setting rates, which include the impact of capital expenditures on rate base and/or cost of service. There is no assurance that capital projects perceived as required or completed by the Corporation's regulated utilities will be approved or that conditions to such approvals will not be imposed. Capital cost overruns subject to such approvals might not be recoverable.

Rate applications that establish revenue requirements may be subject to negotiated settlement procedures, as well as pursued through public hearing processes. There can be no assurance that rate orders issued will permit the Corporation's utilities to recover all costs actually incurred and to earn the expected rates of return. A failure to obtain acceptable rate orders may adversely affect the business carried on by the utilities, the undertaking or timing of proposed capital projects, ratings assigned by rating agencies, the issuance and sale of securities, and other matters which may, in turn, negatively affect the Corporation's results of operations or financial position.

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

Although all of the Corporation's regulated utilities currently operate under traditional cost of service and/or rate of return on rate base methodologies, PBR and other rate-setting mechanisms, such as automatic rate of return formulas, are also being employed to varying degrees.

TGI, TGVI and FortisBC are regulated by the BCUC and are subject to approved PBR mechanisms. The PBR mechanisms at TGI and TGVI have been extended through 2009. The PBR mechanism at FortisBC runs through 2008, with an option to extend the term through 2009. The PBR mechanisms provide the utilities an opportunity to earn returns in excess of the allowed ROEs determined by the BCUC. Upon expiry of the PBR mechanisms, there is no certainty as to whether new PBR mechanisms will be entered into or the particular terms of any such PBR mechanisms.

Integration of Terasen and Management of Expanding Operations: Fortis continues to integrate Terasen within the Fortis Group. As a result of the acquisition, significant demands may be placed on the managerial, operational and financial personnel and systems of the Corporation. No assurance can be given that the Corporation's systems, procedures and controls will be adequate to support the expansion of the Corporation's operations resulting from the acquisition. The Corporation's future operating results will be affected by the ability of its officers and key employees to manage changing business conditions and to implement and improve its operational and financial controls and reporting systems.

Operating and Maintenance Risks: Terasen is exposed to various operational risks, such as pipeline leaks; accidental damage to, or fatigue cracks in mains and service lines; corrosion in pipes; pipeline or equipment failure; other issues that can lead to outages and/or leaks; and any other accidents involving natural gas, which could result in significant operational and environmental liability. The business of electricity distribution is also subject to operational risks including the potential to cause fires, mainly as a result of equipment failure, falling trees and lightning strikes. The facilities of the operating subsidiaries are also exposed to the effects of severe weather conditions and other acts of nature. In addition, many of these facilities are located in remote areas, which may make access difficult for repair of damage due to weather conditions and other acts of nature. The Terasen Gas companies and FortisBC operate facilities in a terrain with a risk of loss or damage from earthquakes, forest fires, floods, washouts, landslides, avalanches and similar acts of nature. The Corporation and its operating subsidiaries have insurance which provides coverage for business interruption, liability and property damage, although the coverage offered by this insurance is limited. In the event of a large uninsured loss caused by severe weather conditions or other natural disasters, application will be made to the respective regulatory authority for the recovery of these costs through higher rates to offset any loss. However, there can be no assurance that the regulatory authorities would approve any such application in whole or in part.

The Corporation's gas and electricity systems require maintenance, improvement and replacement. Accordingly, to ensure the continued performance of the physical assets, the operating subsidiaries determine expenditures that must be made to maintain and replace the assets. If the systems are not able to be maintained, service disruptions and increased costs may be experienced. The inability to obtain regulatory approval to reflect in rates the capital expenditures which the operating subsidiaries believe are necessary to maintain, improve and replace their assets; the failure by the operating subsidiaries to properly implement or complete approved capital expenditure programs; or the occurrence of significant unforeseen equipment failures despite maintenance programs could have a material adverse effect on the Corporation.

Natural Gas Prices: At times in the past, the price of natural gas has been only marginally lower than the comparable price for electricity for residential customers in British Columbia, especially on Vancouver Island. There is no assurance that natural gas will continue to maintain a competitive price advantage in the future. If natural gas pricing becomes uncompetitive with electricity pricing, the ability of the Terasen Gas companies to add new customers could be impaired, and existing customers could reduce their consumption of natural gas or eliminate its usage altogether as furnaces, water heaters and other appliances are replaced. This may result in higher rates and, in an extreme case, could ultimately lead to an inability to fully recover the cost of service of the Terasen Gas companies in rates charged to customers. The ability of the Terasen Gas companies to add new customers and sales volumes could also be affected by lower prices of other competitive energy sources, as some commercial and industrial customers have the ability to switch to an alternative fuel. The Terasen Gas companies employ a number of tools to reduce exposure to natural gas price volatility. These tools include purchasing gas for storage and adopting hedging strategies to reduce price volatility and ensure, to the extent possible, that natural gas commodity costs remain competitive with electricity rates. Activities related to the hedging of gas prices are currently approved by the BCUC and gains or losses effectively accrue entirely to customers. The operation of BCUC-approved rate stabilization accounts therefore serves to mitigate the effect on earnings of natural gas cost volatility. Future BCUC determinations could materially impact the ability of the Terasen Gas companies to recover the future cost of natural gas delivered to customers.

Natural Gas Supply: The Terasen Gas companies are dependent on a limited number of pipeline and storage providers, particularly in the Vancouver, Fraser Valley and Vancouver Island service areas where the majority of the natural gas distribution customers of the Terasen Gas companies are located. As a result, regional market prices have been higher from time to time than prices elsewhere in North America as a result of insufficient seasonal and peak storage and pipeline capacity to serve the increasing demand for natural gas in British Columbia. In addition, the Terasen Gas companies are dependent on a single-source transmission pipeline. In the event of a prolonged service disruption of the Spectra Pipeline System, residential customers of the Terasen Gas companies could experience outages, thereby affecting revenues and incurring costs to safely relight customers.

Economic Conditions: Typical of utilities, the general economic conditions of the Corporation's service territories influence energy sales. Gas and electricity sales are influenced by economic factors such as changes in employment levels, personal disposable income, energy prices and housing starts. A general and extended decline in the economy in the Corporation's service territories would be expected to have the effect of reducing demand for gas and electricity over time. Such reduced demand could negatively impact revenue. However, the regulated nature of utility operations helps to reduce the impact that economic downturns may have on the Corporation's earnings. A prolonged downturn in the economy in the Corporation's service territories could adversely affect the business, results of operations and financial condition of the Corporation, despite the possibility of regulatory-approved means of compensating for reduced demand.

Fortis also holds investments in both commercial real estate and hotel properties. The hotel properties, in particular, are subject to operating risks associated with industry fluctuations. The high quality of the real estate and hotel assets and commitment to productivity improvements reduce the exposure to industry fluctuations. Fortis Properties' real estate investments are anchored by high-quality tenants with long-term leases. Exposure to lease expiries averages approximately 10 per cent per annum over the next five years. Approximately 58 per cent of Fortis Properties' operating income was derived from hotel investments in 2007 (2006 – 52 per cent). Management believes that, based on the geographic diversity of its Hospitality Division with locations in Atlantic Canada, Ontario, Manitoba, Saskatchewan, Alberta and British Columbia, the Company is not exposed to a significant reduction in revenues. A 5 per cent decrease in revenues from the Hospitality Division would decrease basic earnings per common share of Fortis by approximately 1 cent.

Weather and Seasonality: The physical assets of the Corporation and its operating subsidiaries are exposed to the effects of severe weather conditions and other acts of nature. Although the physical assets have been constructed and are operated and maintained to withstand severe weather, there is no assurance that they will successfully do so in all circumstances. At Newfoundland Power, exposure to climatic factors is addressed by the operation of a weather normalization reserve, a regulatory mechanism approved by the PUB. The operation of this reserve mitigates year-to-year volatility in earnings that would otherwise be caused by variations in weather conditions. At TGI, a BCUC-approved rate stabilization account serves to mitigate the effect on earnings of volume volatility, caused principally by weather, by allowing TGI to accumulate the margin impact of variations in the actual-versus-forecast gas volumes consumed by customers.

At the Terasen Gas companies, weather has a significant impact on distribution volume, as a major portion of the gas distributed by the Terasen Gas companies is ultimately used for space heating. Because of gas-consumption patterns, the Terasen Gas companies normally generate quarterly earnings that vary by season and may not be an indicator of annual earnings. Virtually all of the earnings of the Terasen Gas companies are generated in the first and fourth quarters.

Despite preparation for severe weather, extraordinary conditions (such as Hurricane Ivan in September 2004) and other natural disasters will always remain a risk to utilities. Upon acquiring controlling interest in Caribbean Utilities and upon the acquisition of Fortis Turks and Caicos, the Corporation's exposure to risks from natural disasters in the Caribbean region increased. The Corporation uses a centralized insurance management function to create a higher level of insurance expertise and to reduce its liability exposure.

The assets and earnings of Belize Electricity, Caribbean Utilities and Fortis Turks and Caicos are subject to hurricane risk. Similar to other Fortis utilities, these companies manage weather risks through insurance on generation assets, business-interruption insurance and self-insurance on transmission and distribution assets. In Belize, the PUC provides for recovery of certain costs arising from hurricanes through a surcharge on electricity rates, thereby mitigating the financial impact to Belize Electricity.

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

Interest Rates: Generally, allowed returns for regulated utilities in North America are exposed to changes in the general level of long-term interest rates. Earnings of such regulated utilities are exposed to changes in long-term interest rates associated with rate-setting mechanisms. The rate of return is either directly impacted through automatic adjustment mechanisms or indirectly through regulatory determinations of what constitutes an appropriate rate of return on investment. Automatic adjustment mechanisms currently apply to the Terasen Gas companies, FortisAlberta, FortisBC and Newfoundland Power. Due to an increase in long-term Canada bond yields during 2007 and the operation of the automatic adjustment mechanisms, the allowed ROE at each of the above utilities has been reset. The 2007 allowed ROEs for the Corporation's four largest utilities, TGI, FortisAlberta, FortisBC and Newfoundland Power, were 8.37 per cent, 8.51 per cent, 8.77 per cent and 8.60 per cent, respectively. Effective January 1, 2008, the allowed ROEs for TGI, FortisAlberta, FortisBC and Newfoundland Power have increased to 8.62 per cent, 8.75 per cent, 9.02 per cent and 8.95 per cent, respectively. A significant decline in long-term interest rates could adversely affect the Corporation's ability to earn a reasonable ROE which, in turn, could have a material adverse effect on the Corporation's financial condition and results of operations.

The Corporation and its operating subsidiaries are also exposed to interest rate risk associated with short-term borrowings and floating rate debt. As described under "Derivatives Instruments and Hedging", the Corporation and its operating subsidiaries may enter into interest rate swaps to help reduce this risk. Approximately 74 per cent of the Corporation's long-term debt facilities and capital lease obligations have maturities beyond five years.

The following table outlines the nature of the Corporation's consolidated debt at December 31, 2007.

Total Debt at December 31, 2007		
	($ millions)	(%)
Short-term borrowings	**475**	**8.6**
Utilized variable-rate credit facilities classified as long-term	**530**	**9.6**
Variable-rate long-term debt and capital lease obligations (including current portion)	**14**	**0.2**
Fixed-rate long-term debt and capital lease obligations (including current portion)	**4,515**	**81.6**
Total	**5,534**	**100.0**

The Terasen Gas companies use a BCUC-approved interest rate deferral account to absorb interest rate fluctuations, thereby effectively fixing the rate of interest on short-term and variable-rate credit-facility borrowings.

Derivative Instruments and Hedging: From time to time, the Corporation and its subsidiaries hedge exposures to fluctuations in interest rates and natural gas prices through the use of derivative financial instruments. Derivative financial instruments, such as interest rate swap contracts and natural gas commodity swaps and options, are used only to manage risk and are not used for trading purposes. All derivative financial instruments must be measured at fair value, with changes in fair value being recorded in earnings. If a derivative financial instrument is designated as a hedging item in a qualifying cash flow hedging relationship, the effective portion of changes in fair value is recorded in other comprehensive income. Any change in fair value relating to the ineffective portion is recorded immediately in earnings. At rate-regulated utilities, any difference between the amount recognized upon a change in the fair value of a derivative financial instrument, whether or not in a qualifying hedging relationship, and the amount recovered from customers in current rates is subject to regulatory deferral treatment to be recovered from, or refunded to, customers in future rates.

The Corporation's earnings from its foreign investments are exposed to changes in the US dollar to Canadian dollar exchange rate. The Corporation has effectively decreased its exposure to foreign currency exchange rate fluctuations associated with earnings from its foreign net investments through the use of US dollar borrowings.

It is expected that a 4-cent change in the value of the US dollar would have an approximate 1-cent impact on basic earnings per common share of Fortis in 2008.

Fortis has also designated its corporate-held US dollar-denominated long-term debt as a hedge of the foreign currency exchange risk related to its net investments in US dollar-denominated self-sustaining foreign operations. This hedge allows unrealized gains and losses on the translation of the US dollar-denominated long-term debt to be offset against unrealized foreign currency exchange gains and losses on the foreign net investments. The unrealized foreign currency exchange gains and losses on US dollar-denominated long-term debt and foreign net investments are recognized in other comprehensive income. As at December 31, 2007, approximately US$50 million in foreign net investments remained available to be hedged.

Management will continue to hedge future exchange rate fluctuations related to its foreign net investments and US dollar earnings streams, where possible, through the use of future US dollar borrowings and will monitor the exposure of Fortis to foreign currency fluctuations on a regular basis.

Risks Related to TGVI: TGVI is a franchise under development in the price-competitive service area of Vancouver Island, with a customer base and revenue that is insufficient to meet the Company's current cost of service and to recover revenue deficiencies from prior years. Recovery of accumulated revenue deficiencies from prior years puts gas at a cost disadvantage relative to electricity. To assist with competitive rates during franchise development, the VINGPA provides royalty revenues from the Government of British Columbia which currently cover approximately 20 per cent of the current cost of service. These revenues are due to expire at the end of 2011, after which time TGVI's customers will be required to absorb the full commodity cost of gas and the recovery of any remaining accumulated revenue deficiencies. When VINGPA expires in 2011, the remaining $67 million non-interest bearing senior government debt, which is currently treated as a government contribution against rate base, will be required to be fully repaid. As this debt is repaid, the cost of the higher rate base will increase the cost of service and customer rates, making gas less competitive with electricity on Vancouver Island.

Capital Resources: The Corporation's financial position could be adversely affected if it or its operating subsidiaries fail to arrange sufficient and cost-effective financing to fund, among other things, capital expenditures and the repayment of maturing debt. Funds generated from operations after payment of expected expenses (including interest payments on any outstanding debt) will not be sufficient to fund the repayment of all outstanding liabilities when due as well as anticipated capital expenditures. The ability to arrange sufficient and cost-effective financing is subject to numerous factors, including the results of operations and financial position of the Corporation and its subsidiaries, conditions in the capital and bank credit markets, ratings assigned by rating agencies and general economic conditions. There can be no assurance that sufficient capital will be available on acceptable terms to fund such capital expenditures and to repay existing debt.

Generally, the Corporation and its regulated utilities are subject to financial risk associated with changes in the credit ratings assigned to them by credit rating agencies. A change in the credit ratings could potentially affect access to various sources of capital and increase or decrease the Corporation's finance charges.

Environment: The Corporation and its operating subsidiaries are subject to numerous laws, regulations and guidelines governing the generation, management, storage, transportation, recycling and disposal of hazardous substances and other waste materials and otherwise relating to the protection of the environment and health and safety. The Corporation believes that it and its operating subsidiaries are materially compliant with environmental laws, regulations and guidelines applicable to them in the various jurisdictions in which they operate. Nevertheless, from time to time it is possible that the Corporation and its operating subsidiaries may become subject to government orders, investigations, inquiries or other proceedings relating to environmental matters. The occurrence of any of these events, or any changes in applicable environmental laws, regulations and guidelines or their enforcement or regulatory interpretation, could have a significant impact on operations. The costs arising from compliance with any such laws, regulations and guidelines, while not currently considered material, may become material to the Corporation. In addition, the process of obtaining environmental, health and safety regulatory approvals, including any necessary environmental assessments, can be lengthy, contentious and expensive, and environmental damage and other costs could potentially arise due to a variety of events, including severe weather, human error or misconduct, and equipment failure. There can be no assurance that any such costs will be fully recoverable through customer rates at the regulated utilities and, if substantial, unrecovered costs may have a material adverse effect on the business, results of operations and financial condition of the Corporation.

Insurance: While the Corporation and its operating subsidiaries maintain insurance, a significant portion of the Corporation's regulated electric utilities' transmission and distribution assets are not covered under insurance, as is customary in North America, as the cost of the coverage is not considered economical. Insurance is subject to coverage limits as well as time-sensitive claims discovery and reporting provisions and there can be no assurance that the types of liabilities that may be incurred by the

Corporation and its operating subsidiaries will be covered by insurance. The Corporation's regulated utilities would likely apply to their respective regulatory authorities to recover the loss (or liability) through increased customer rates. However, there can be no assurance that regulatory authorities would approve any such application in whole or in part. Any major damage to the physical assets of the Corporation and its operating subsidiaries could result in repair costs and customer claims that are substantial in amount and which could have an adverse effect on the Corporation's business, results of operations and financial condition.

It is anticipated that such insurance coverages will be maintained. However, there can be no assurance that the Corporation and its operating subsidiaries will be able to obtain or maintain adequate insurance in the future at rates considered reasonable or that insurance will continue to be available on terms as favourable as the existing arrangements.

Licences and Permits: The acquisition, ownership and operation of gas and electric utilities and assets require numerous licences, permits, approvals and certificates from various levels of government and government agencies. The Corporation's regulated utilities and non-regulated generation operations may not be able to obtain or maintain all required regulatory approvals. If there is a delay in obtaining any required regulatory approval, or if there is a failure to obtain or maintain any required approval or to comply with any applicable law, regulation or condition of an approval, the operation of the assets and the sale of gas and electricity could be prevented or become subject to additional costs, any of which could have a material adverse effect on the Corporation.

Energy Prices and the Cessation of the Niagara Exchange Agreement: The Corporation's primary exposure to changes in energy prices relates to its non-regulated energy sales in Ontario. Energy is sold to the IESO at market prices. The sensitivity of the Corporation's earnings to each $1 per MWh change in the annual average wholesale market price of electricity in Ontario is expected to be approximately $0.4 million. Non-regulated energy sales in Ontario largely relate to a power-for-water exchange agreement, known as the Niagara Exchange Agreement, associated with the Rankine Generating Station. In accordance with this agreement, FortisOntario's water entitlement on the Niagara River will not be renewed, effective May 1, 2009. During 2007, earnings' contribution associated with the Niagara Exchange Agreement was approximately $15 million. This earnings' contribution will cease effective May 1, 2009. To a lesser degree, the Corporation is also exposed to changes in energy prices related to energy sales from its non-regulated generation assets in Upper New York State. All energy produced by these assets is sold to National Grid at market prices. Energy from the Corporation's non-regulated generation assets in Belize, central Newfoundland and British Columbia is sold under medium- and long-term fixed-price contracts.

The regulated utilities of Fortis flow through gas, energy and fuel costs to customers in their respective gas and electricity rates.

Loss of Service Area: FortisAlberta serves a number of direct customers that reside within various municipalities throughout its service areas. From time to time, municipal governments in Alberta give consideration to creating their own electric distribution utilities by purchasing the assets of FortisAlberta that are located within their municipal boundaries. Upon the termination of its franchise agreement, a municipality has the right, subject to AUC approval, to purchase FortisAlberta's assets within its municipal boundaries pursuant to the *Municipal Government Act* (Alberta). Under the *Hydro and Electric Energy Act* (Alberta), if a municipality that owns an electric utility expands its boundaries, it can acquire FortisAlberta's assets in the annexed area. In such circumstances, the *Hydro and Electric Energy Act* (Alberta) provides for compensation, including payment for FortisAlberta's assets on the basis of replacement cost less depreciation. Given the historical growth of Alberta and its municipalities, FortisAlberta may be affected by transactions of this type.

The consequence to FortisAlberta of a municipality purchasing its distribution assets would be an erosion of the Company's rate base, which would reduce the capital upon which FortisAlberta could earn a regulated return. No transactions are currently initiated pursuant to the *Municipal Government Act* (Alberta). However, upon expiration of franchise agreements, there is a risk that municipalities will opt to purchase the distribution assets existing within their boundaries, the loss of which could have a material adverse effect on the financial condition and results of operations of FortisAlberta.

First Nations Lands: The Terasen Gas companies and FortisBC provide service to customers on First Nations lands and maintain gas and electric distribution facilities on lands that are subject to land claims by various First Nations. A treaty negotiation process involving various First Nations and the Government of British Columbia is underway, but the basis upon which settlements might be reached in the service areas of the Terasen Gas companies and FortisBC is not clear. Furthermore, not all First Nations are participating in the process. To date, the policy of the Government of British Columbia has been to endeavour to structure settlements without prejudicing existing rights held by third parties such as the Terasen Gas companies and FortisBC. However, there can be no certainty that the settlement process will not adversely affect the business of the Terasen Gas companies and FortisBC. In addition, FortisAlberta has distribution assets on First Nations lands with access permits to these lands held by FortisAlberta's predecessor, TransAlta Utilities Corporation. In order for FortisAlberta to acquire these access permits, both the Department of Indian and Northern Affairs Canada and the individual Band councils must grant approval. FortisAlberta may not be able to acquire the access permits from TransAlta Utilities Corporation and may be unable to negotiate land-usage agreements with property owners or, if negotiated, such agreements may be on terms that are less than favourable to FortisAlberta and, therefore, may have a material adverse effect on the business of FortisAlberta.

Counterparty Risk: The Terasen Gas companies are exposed to credit risk in the event of non-performance by counterparties to derivative financial instruments, including natural gas commodity swaps and options. The Terasen Gas companies are also exposed to significant credit risk on physical off-system sales. Because the Terasen Gas companies deal with high credit-quality institutions, in accordance with established credit-approval practices, the Terasen Gas companies do not expect any counterparties to fail to meet their obligations. FortisAlberta is exposed to credit risk associated with sales to retailers. Significantly all of FortisAlberta's distribution-service billings are to a relatively small group of retailers. As required under regulation, FortisAlberta minimizes its credit exposure associated with retailer billings by obtaining from the retailer a cash deposit, bond, letter of credit, an investment-grade credit rating from a major rating agency or by having the retailer obtain a financial guarantee from an entity with an investment-grade credit rating.

Labour Relations: Approximately 59 per cent of the employees of the Corporation's operating subsidiaries are members of labour unions or associations which have entered into collective bargaining agreements with the operating subsidiaries. The provisions of such collective bargaining agreements affect the flexibility and efficiency of the businesses carried out by the subsidiaries. The Corporation considers the relationships of its subsidiaries with its labour unions and associations to be satisfactory but there can be no assurance that current relations will continue in future negotiations or that the terms under the present collective bargaining agreements will be renewed. The inability to maintain or to renew the collective bargaining agreements on acceptable terms could result in increased labour costs or service interruptions arising from labour disputes that are not provided for in approved rate orders at the regulated utilities and which could have a material adverse effect on the results of operations, cash flow and earnings of the Corporation.

Human Resources: The ability of Fortis to deliver superior operating performance in a cost-effective manner is dependent on the ability of its operating subsidiaries to attract, develop and retain skilled workforces. Like other utilities across Canada and the Caribbean, Fortis utilities are faced with demographic challenges relating to trades, technical staff and engineers. The growing size of the Corporation and an increasingly competitive job market present ongoing recruitment challenges. The

Corporation's significant consolidated capital expenditure program over the next several years will present challenges in ensuring the Corporation's utilities have the qualified workforce necessary to complete the capital work initiatives. In particular, Alberta has a highly competitive job market where the demand for certain job skills exceeds the supply, making it difficult to attract new employees.

Liquidity Risk: Earnings from Belize Electricity are denominated in Belizean dollars, earnings from Caribbean Utilities are denominated in Cayman Island dollars and earnings from FortisUS Energy, BECOL and Fortis Turks and Caicos are denominated in US dollars. As at December 31, 2007, the Cayman Island dollar and the Belizean dollar were pegged to the US dollar at CI$0.84 = US$1.00 and BZ$2.00 = US$1.00, respectively. Foreign earnings derived in currencies other than the US dollar must be converted into US dollars before repatriation, presenting temporary liquidity risks. Due to the small size and cyclical nature of the economy in Belize, conversion of local currency into US dollars may be subject to restrictions from time to time.

7.0 GENERAL DESCRIPTION OF SHARE CAPITAL STRUCTURE

Share Capital

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

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

At March 27, 2008, the following Common Shares and Preference Shares were issued and outstanding.

Share Capital	Issued and Outstanding	Votes per Share
Common Shares	156,753,899	One
First Preference Shares, Series C	5,000,000	None
First Preference Shares, Series E	7,993,500	None
First Preference Shares, Series F	5,000,000	None

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

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

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

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

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

The 5,000,000 First Preference Shares, Series F are entitled to receive fixed cumulative preferential cash dividends in the amount of $1.2250 per share per annum. On or after December 1, 2011, the Corporation may, at its option, redeem for cash the First Preference Shares, Series F, in whole at any time or in part from time to time, at $26.00 per share if redeemed before December 1, 2012, at $25.75 per share if redeemed on or after December 1, 2012 but before December 1, 2013, at $25.50 per share if redeemed on or after December 1, 2013 but before December 1, 2014, at $25.25 per share if redeemed on or after December 1, 2014 but before December 1, 2015, and at $25.00 per share if redeemed on or after December 1, 2015 plus, in each case, all accrued and unpaid dividends up to but excluding the date fixed for redemption.

Convertible Debentures

As at March 27, 2008, the US$10 million 6.75% Unsecured Subordinated Convertible Debentures had been fully converted by the debenture holders into 1,088,728 Common Shares of the Corporation at US$9.19 per share. The conversions occurred in September and October 2007, and January 2008.

As at March 27, 2008, the US$10 million 5.50% Unsecured Subordinated Convertible Debentures had been 90 per cent converted by the debenture holders into 752,192 Common Shares of the Corporation at US$11.97 per share. The conversions occurred in March and October 2007, and January 2008. The remaining US$1 million is redeemable by the Corporation at par at any time on or after May 20, 2008 and are convertible, at the option of the holder, into the Corporation's Common Shares at US$11.97 per share. The Debentures are subordinated to all other indebtedness of the Corporation, other than subordinated indebtedness ranking equally to the Debentures. There is no provision associated with these Debentures that restricts the payment of dividends.

The US$40 million 5.50% Unsecured Subordinated Convertible Debentures are redeemable by the Corporation at par at any time on or after November 7, 2011 and are convertible, at the option of the holder, into the Corporation's Common Shares at US$29.11 per share. The Debentures are subordinated to all other indebtedness of the Corporation, other than subordinated indebtedness ranking equally to the Debentures.

There is no provision associated with these Debentures that restricts the payment of dividends.

Debt Covenant Restrictions on Dividend Distributions

In October 2000, Fortis issued $100 million of 7.40% Senior Unsecured Debentures due October 2010 and, in September 2007, issued US$200 million of 6.60% Senior Unsecured Debentures due September 2037. The Trust Indenture pertaining to the issue of such debentures contains a covenant which provides that Fortis shall not declare or pay any dividends (other than stock dividends or cumulative preferred dividends on preferred shares not issued as stock dividends) or make any other distribution on its shares if, immediately thereafter, its consolidated funded obligations would be in excess of 75 per cent of its total consolidated capitalization.

During 2007, Fortis cancelled its $50 million unsecured revolving committed credit facility and renegotiated and amended its $250 million unsecured committed credit facility, extending the maturity date to May 2012 and increasing the amount available to $600 million. The $600 million credit facility can be used for general corporate purposes, including acquisitions. The credit facility contains a covenant which provides that Fortis shall not declare or pay any dividends or make any other restricted payments if, immediately thereafter, consolidated debt to consolidated capitalization ratio would exceed 70 per cent at any time.

8.0 DIVIDENDS

Dividends on Common Shares are declared at the discretion of the Board. Fortis paid cash dividends on its Common Shares of $0.82 in 2007, $0.67 in 2006 and $0.59 in 2005. On December 11, 2007, the Board declared an increase in the regular quarterly dividend to $0.25 per Common Share, with the first payment occurring on March 1, 2008, which was paid to holders of record on February 8, 2008.

Regular quarterly dividends at the prescribed annual rate of 5.45 per cent, or $0.34 per share, 4.9 per cent, or $0.31 per share, and 4.9 per cent or $0.31 per share are paid on all of the First Preference Shares, Series C; First Preference Shares, Series E and First Preference Shares, Series F, respectively.

On December 11, 2007, the Board declared a first quarter 2008 dividend on the First Preference Shares, Series C, First Preference Shares, Series E and First Preference Shares, Series F in accordance with the applicable prescribed annual rate. In each case, the first quarter 2008 dividend was paid on March 1, 2008 to holders of record on February 8, 2008. On March 14, 2008, the Board declared a second quarter 2008 dividend on the First Preference Shares, Series C, E and F in accordance with the applicable annual prescribed rate and is payable on June 1, 2008 to holders of record on May 9, 2008.

All dividends paid by the Corporation on its Common Shares and Preference Shares in the 2007 fiscal year have been, or will be, designated as "eligible dividends" for the purpose of entitling shareholders of the Corporation to a higher dividend tax credit in accordance with certain amendments to the *Income Tax Act* (Canada) and, where applicable, similar provisions of provincial or territorial income tax legislation.

9.0 CREDIT RATINGS

Securities issued by Fortis and its subsidiaries are rated by one or more credit rating agencies namely DBRS, S&P and/or Moody's. The ratings assigned to securities issued by Fortis are reviewed by these agencies on an ongoing basis. Credit ratings and stability ratings are intended to provide investors with an independent measure of credit quality of an issue of securities and are not recommendations to buy, sell or hold securities. Ratings may be subject to revision or withdrawal at any time by the rating organization. The following table summarizes, as at March 27, 2008, the Corporation's credit ratings.

Fortis
Credit Ratings

Company	DBRS	S&P	Moody's
Fortis	BBB (high), stable (unsecured debt)	A-, stable (unsecured debt)	N/A
Terasen	BBB (high), stable (unsecured debt)	BBB+, stable (unsecured debt)	N/A
TGI	A, stable	A, stable	A3, stable
TGVI	BBB (high), stable	N/A	A3, stable
FortisAlberta	A (low), stable (senior unsecured debt)	A-, stable (long-term corporate credit rating)	Baa 1, stable (senior unsecured debt)
FortisBC	BBB (high), stable (secured & unsecured debt)	N/A	Baa 2, stable (unsecured debt)
Newfoundland Power	A, stable (first mortgage bonds)	N/A	Baa 1, stable (first mortgage bonds)
Maritime Electric	N/A	A (senior secured debt)	N/A
Caribbean Utilities	A (low), stable (senior unsecured debt)	A, watch negative (senior unsecured debt)	N/A

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

S&P long-term debt ratings are on a ratings scale that ranges from AAA to C, which represents the range from highest to lowest quality of such securities. S&P uses "+" or "-" designations to indicate the relative standing of securities within a particular rating category. S&P states that its credit ratings are current opinions of the financial security characteristics with respect to the ability to pay under contracts in accordance with their terms. This opinion is not specific to any particular contract, nor does it address the suitability of a particular contract for a specific purpose or purchaser. An issuer rated BBB or higher is regarded as having financial security characteristics that outweigh any vulnerabilities and is highly likely to have the ability to meet financial commitments.

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

10.0 MARKET FOR SECURITIES

The Common Shares; First Preference Shares, Series C; First Preference Shares, Series E and First Preference Shares, Series F of Fortis are listed on the Toronto Stock Exchange under the symbols FTS, FTS.PR.C, FTS.PR.E and FTS.PR.F, respectively. The Subscription Receipts were listed on the Toronto Stock Exchange under the symbol FTS.R.

The following table sets forth the reported high and low trading prices and trading volumes for the Common Shares; First Preference Shares, Series C; First Preference Shares, Series E; First Preference Shares, Series F and Subscription Receipts on a monthly basis for the year ended December 31, 2007.

Fortis
2007 Trading Prices and Volumes

Month	Common Shares			First Preference Shares, Series C		
	High ($)	Low ($)	Volume	High ($)	Low ($)	Volume
Jan	30.00	26.72	6,030,480	28.01	27.09	14,302
Feb	27.96	26.00	8,612,015	27.99	26.55	18,605
Mar	28.65	26.16	18,488,078	27.60	27.01	24,158
Apr	28.95	27.80	6,288,634	27.50	27.18	119,683
May	29.20	27.60	12,386,718	26.90	26.60	50,746
Jun	28.30	25.98	9,673,844	26.90	26.00	31,318
Jul	27.25	26.00	7,740,082	26.99	26.00	18,620
Aug	26.75	24.50	8,001,795	27.00	26.00	37,063
Sep	27.27	25.84	5,790,099	27.44	26.30	19,772
Oct	28.24	26.52	5,763,406	26.94	26.34	90,960
Nov	27.99	26.36	6,475,494	26.99	26.00	102,218
Dec	29.08	26.71	5,669,675	27.39	26.06	112,267
Month	**First Preference Shares, Series E**			**First Preference Shares, Series F**		
	High ($)	**Low ($)**	**Volume**	**High ($)**	**Low ($)**	**Volume**
Jan	27.70	27.46	18,363	25.94	25.25	121,931
Feb	27.42	26.80	30,201	25.80	25.21	182,913
Mar	27.27	27.06	8,786	25.80	25.50	88,677
Apr	27.19	26.90	20,858	25.77	25.32	163,008
May	27.15	25.75	50,773	25.70	24.65	200,736
Jun	26.56	25.40	10,763	24.89	21.56	246,137
Jul	26.29	25.70	25,200	23.49	22.88	115,474
Aug	26.37	25.50	22,658	23.48	22.76	63,504
Sep	26.49	25.65	19,884	23.55	22.00	71,898
Oct	26.33	25.83	78,377	22.38	20.81	201,019
Nov	26.54	25.90	26,720	21.70	20.11	215,375
Dec	26.60	25.96	40,635	21.45	20.50	256,585
Month	**Subscription Receipts [(1)]**					
	High ($)	**Low ($)**	**Volume**			
Jan	-	-	-			
Feb	-	-	-			
Mar	28.15	26.22	11,152,711			
Apr	28.57	27.10	3,682,579			
May	28.50	27.58	2,428,138			
Jun	-	-	-			
Jul	-	-	-			
Aug	-	-	-			
Sep	-	-	-			
Oct	-	-	-			
Nov	-	-	-			
Dec	-	-	-			

(1) The Subscription Receipts we converted into Common Shares on May 17, 2007.

11.0 DIRECTORS AND OFFICERS

The Board adopted a director tenure policy in 1999 which is reviewed on a periodic basis and was most recently affirmed at a meeting of the Board held in September 2007. The tenure policy provides that Directors of the Corporation are to be elected for a term of one year, and, except in exceptional circumstances determined by the Board, be eligible for re-election until the Annual Meeting of Shareholders next following the earlier of the date on which they achieve age 70 or the 10th anniversary of their initial election to the Board. This policy became effective prospectively in 1999 and did not apply to Dr. Inkpen's service prior to 1999. The policy does not apply to Mr. Marshall whose service on the Board is related to his tenure as CEO. The following chart sets out the name and municipality of residence of each of the Directors of Fortis and indicates their principal occupations within five preceding years.

Fortis Directors	
Name	**Principal Occupations Within Five Preceding Years**
PETER E. CASE (1) Freelton, Ontario	Mr. Case, 53, a Corporate Director, retired in February 2003 as Executive Director, Institutional Equity Research at CIBC World Markets. During his 17-year career as senior investment analyst with CIBC World Markets and BMO Nesbitt Burns and its predecessors, Mr. Case's coverage of Canadian and selected US pipeline and energy utilities was consistently rated among the top rankings. He was awarded a Bachelor of Arts and a Master of Business Administration from Queen's University and a Master of Divinity from Wycliffe College, University of Toronto. Mr. Case was first elected to the Board of Directors of the Corporation in May 2005. Mr. Case was appointed to the Board of Directors of FortisOntario Inc. in March 2003 and assumed the Chair of the FortisOntario Inc. Audit Committee in January 2004. Mr. Case does not serve as a director of any other reporting issuer.
BRUCE CHAFE (1)(2)(3)(4) St. John's, Newfoundland and Labrador	Mr. Chafe, 71, a Corporate Director, is a retired senior partner of Deloitte & Touche LLP. He achieved designation as a Chartered Accountant in 1960 and was engaged in the practice of public accounting with Deloitte & Touche LLP and predecessor firms throughout his career. Mr. Chafe's contribution to the profession was recognized with his appointment as Fellow of the Chartered Accountants in 1990. Mr. Chafe was first elected to the Board of Directors of the Corporation in May 1997 and was appointed Chair of the Board of Directors in May 2006. Mr. Chafe is a director of Fortis Properties Corporation. He has served as a director of reporting issuers Newfoundland Power Inc. and FortisBC Inc. but does not serve as a director of any other reporting issuer.
FRANK J. CROTHERS Nassau, Bahamas	Mr. Crothers, 63, is Chairman and Chief Executive Officer of Island Corporate Holdings Limited. Over the past 35 years, he has served on many public and private sector boards. For over a decade he was on the board of Harvard University Graduate School of Education and also served a three-year term as Chairman of CARILEC, the Caribbean Association of Electrical Utilities. Mr. Crothers is the former president of P.P.C. Limited, which was acquired by the Corporation on August 28, 2006. Mr Crothers is the Vice Chair of Caribbean Utilities Company, Ltd. and serves on the board of Belize Electricity Limited. Mr. Crothers was first elected to the Board of Directors of the Corporation in May 2007. He is also a director of reporting issuers Franklin Templeton Resources, Nunisco Resources Limited, Fidelity Merchant Bank & Trust Limited, C.A. Bancorp Inc., Talon Metals Corp., Abaco Markets Ltd. and Victory Nickel Inc.
GEOFFREY F. HYLAND (3) Caledon, Ontario	Mr. Hyland, 63, a Corporate Director, retired as President and Chief Executive Officer of ShawCor Ltd. in June 2005 after 37 years of service. He graduated from McGill University with a Bachelor of Engineering (Chemical) and from York University with a Master of Business Administration. Mr. Hyland was first elected to the Board of Directors of the Corporation in May 2001. Mr. Hyland is a director of FortisOntario Inc. He continues to serve on the board of ShawCor Ltd. and is a director of Enerflex Systems Income Fund, SCITI Total Return Trust and Exco Technologies Limited.

Fortis Directors *(continued)*	
Name	**Principal Occupations Within Five Preceding Years**
LINDA L. INKPEN [(2)] St. Philips, Newfoundland and Labrador	Dr. Inkpen, 60, a medical practioner and educator, has been a physician in private practice since 1975. She has served as a Commissioner of the Royal Commission on Employment and Unemployment, Province of Newfoundland and Labrador and is past President of the College of the North Atlantic. She is Chair of the Medical Advisory Committee for the St. John's hospitals for Eastern Health, Newfoundland and Labrador. Dr. Inkpen was named a member of the Order of Canada in 1998 and awarded the Queen's Jubilee Medal. She graduated from Memorial University of Newfoundland with a Bachelor of Science, a Bachelor of Education and a Bachelor of Medical Science and a Doctor of Medicine. Dr. Inkpen was first elected to the Board of Directors of the Corporation in April 1994. Dr. Inkpen was appointed Chair of the Board of Fortis Properties Corporation in 2000 and is a past Chair of Newfoundland Power Inc. She does not serve as a director of any other reporting issuer.
H. STANLEY MARSHALL Paradise, Newfoundland and Labrador	Mr. Marshall, 57, is President and Chief Executive Officer of the Corporation. He joined Newfoundland Power Inc. in 1979 and was appointed President and Chief Executive Officer of Fortis Inc. in 1996. Mr. Marshall graduated from the University of Waterloo with a Bachelor of Applied Science (Chem. Eng.) and from Dalhousie University with a Bachelor of Laws. He is a member of the Law Society of Newfoundland and Labrador and a Registered Professional Engineer in the Province of Newfoundland and Labrador. Mr. Marshall was first elected to the Board of Directors of the Corporation in October 1995. Mr. Marshall serves on the Boards of all Fortis utilities in western Canada and the Caribbean (including Caribbean Utilities Company, Ltd.) and the Board of Directors of Fortis Properties Corporation. He is also a Director of Toromont Industries Ltd.
JOHN S. McCALLUM [(1)(2)] Winnipeg, Manitoba	Mr. McCallum, 64, has been a Professor of Finance at the University of Manitoba since July 1973. He served as Chairman of Manitoba Hydro from 1991 to 2000 and as Policy Advisor to the Federal Minister of Finance from 1984 to 1991. Mr. McCallum graduated from University of Montreal with a Bachelor of Arts (Economics) and a Bachelor of Science (Mathematics). He was awarded a Master of Business Administration from Queen's University and a PhD in Finance from University of Toronto. Mr. McCallum was first elected to the Board of Directors of the Corporation in July 2001 and was appointed Chair of the Governance and Nominating Committee of the Corporation in May 2005. He is a director of FortisBC Inc. and FortisAlberta Inc. and chairs the Audit, Risk and Environment Committees of both companies. He also serves as a director of IGM Financial Inc., Toromont Industries Ltd. and Wawanesa.
HARRY McWATTERS Summerland, British Columbia	Mr. McWatters, 62, is the founder and President of Sumac Ridge Estate Wine Group, a leader in the British Columbia Wine industry. He is President of Black Sage Vineyards Ltd., Hawthorne Mountain Vineyards Ltd., Okanagan Estate Wine Cellars Ltd. and is responsible for government and industry relations in western Canada for Vincor Canada. Mr. McWatters was first elected to the Board of Directors of the Corporation in May 2007. He was elected to the Board of FortisBC in September 2005 and appointed as Chair of that company's Board in 2006. Mr. McWatters became director of Terasen Inc. in November 2007 and does not serve as a director of any other reporting issuer.

Fortis Directors *(continued)*	
Name	**Principal Occupations Within Five Preceding Years**
DAVID G. NORRIS [(1)(3)] St. John's, Newfoundland and Labrador	Mr. Norris, 60, a Corporate Director, has been a financial and management consultant since 2001, prior to which he was Executive Vice-President, Finance and Business Development, Fishery Products International Limited. Previously, he held Deputy Minister positions with the Department of Finance and Treasury Board, Government of Newfoundland and Labrador. Mr. Norris graduated with a Bachelor of Commerce from Memorial University of Newfoundland and a Master of Business Administration from McMaster University. Mr. Norris was first elected to the Board of Directors of the Corporation in May 2005 and, in May 2006, he was appointed Chair of the Audit Committee of the Corporation. He has been a director of Newfoundland Power Inc. since 2003 and was appointed Chair of that company's Board in April 2006. Mr. Norris was appointed to the Board of Fortis Properties Corporation in 2006. He does not serve as a director of any other reporting issuer.
MICHAEL A. PAVEY [(3)] Moncton, New Brunswick	Mr. Pavey, 60, a Corporate Director, retired as Executive Vice-President and Chief Financial Officer of Major Drilling Group International Inc. in September 2006. Prior to joining Major Drilling Group International Inc. in 1999, he held senior executive positions with a major integrated electric utility in western Canada. Mr. Pavey graduated from the University of Waterloo with a Bachelor of Applied Science (Mechanical Engineering) and from McGill University with a Master of Business Administration. He retired from the Board of Maritime Electric Company, Limited in February 2007 after a six-year term, which included three years' service as Chair of that company's Audit and Environment Committee. Mr. Pavey was first elected to the Board of Directors of the Corporation in May 2004. Mr. Pavey does not serve as a director of any other reporting issuer.
ROY P. RIDEOUT [(2)(3)] Halifax, Nova Scotia	Mr. Rideout, 60, a Corporate Director, retired as Chairman and Chief Executive Officer of Clarke Inc. in October 2002. Prior to 1998, he served as President of Newfoundland Capital Corporation Limited and held senior executive positions in the Canadian airline industry. Mr. Rideout graduated with a Bachelor of Commerce from Memorial University of Newfoundland and obtained designation as a Chartered Accountant. Mr Rideout was first elected to the Board of Directors of the Corporation in March 2001. He is the Chair of the Human Resources Committee of the Corporation and has held that position since May 2003. Mr. Rideout serves as a director of the Halifax International Airport Authority and NAV CANADA.

(1) *Serves on the Audit Committee*
(2) *Serves on the Governance and Nominating Committee*
(3) *Serves on the Human Resources Committee*
(4) *Mr. Chafe will be retiring as Chair and not standing for re-election as director at the Annual Meeting of Shareholders on May 6, 2008, in accordance with Board policy.*

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

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

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

As at December 31, 2007, the directors and officers of Fortis, as a group, beneficially owned, directly or indirectly, or exercised control or direction over 734,262 Common Shares, representing 0.5 per cent of the issued and outstanding Common Shares of Fortis. The Common Shares are the only voting securities of the Corporation.

12.0 AUDIT COMMITTEE

12.1 Education and Experience

The education and experience of each Audit Committee Member that is relevant to such Member's responsibilities as a Member of the Audit Committee are set out below. As at December 31, 2007, the Audit Committee was composed of the following persons.

Fortis Audit Committee	
Name	**Relevant Education and Experience**
PETER E. CASE Freelton, Ontario	Mr. Case retired in February 2003 as Executive Director, Institutional Equity Research at CIBC World Markets. Mr. Case was awarded a Bachelor of Arts and a Master of Business Administration from Queen's University and a Master of Divinity from Wycliffe College, University of Toronto.
BRUCE CHAFE St. John's, Newfoundland and Labrador	Mr. Chafe is a Chartered Accountant and was appointed Fellow of the Chartered Accountants in 1990. He is a retired senior partner of Deloitte & Touche LLP.
JOHN S. McCALLUM Winnipeg, Manitoba	Mr. McCallum is a Professor of Finance at the University of Manitoba. Mr. McCallum graduated from the University of Montreal with a Bachelor of Arts (Economics) and a Bachelor of Science (Mathematics). He was awarded a Master of Business Administration from Queen's University and a PhD in Finance from University of Toronto.
DAVID G. NORRIS *(Chair)* St. John's, Newfoundland and Labrador	Mr. Norris graduated with a Bachelor of Commerce from Memorial University of Newfoundland and a Master of Business Administration from McMaster University. Mr. Norris has been a financial and management consultant since 2001, prior to which he was Executive Vice-President, Finance and Business Development, Fishery Products International Limited.

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

12.2 Audit Committee Mandate

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

Objective

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

Definitions

In this mandate:

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

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

“Board” means the board of directors of the Corporation;

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

“Corporation” means Fortis Inc.;

“**Director”** means a member of the Board;

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

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

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

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

“Management” means the senior officers of the Corporation;

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

“Member” means a Director appointed to the Committee.

Composition and Meetings

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

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

3. The Committee shall meet at least four (4) times each year and shall meet at such other times during the year as it deems appropriate. Meetings of the Committee shall be held at the call of: (i) the Chair of the Committee, or (ii) any two (2) Members, or (iii) the External Auditor.

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

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

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

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

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

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

1. Oversight of the External Audit

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

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

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

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

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

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

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

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

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

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

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

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

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

3. Oversight of Policies

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

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

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

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

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

Other

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

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

Reporting

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

12.3 Pre-Approval Policies and Procedures

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

12.4 External Auditor Service Fees

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

Fortis External Auditor Service Fees *($ thousands)*		
Ernst & Young LLP	**2007**	2006
Audit Fees	**$ 1,822.1**	$ 1,114.1
Audit-Related Fees	**603.7**	239.9
Tax Fees	**181.9**	232.8
Non-Audit	**-**	-
Total	**$ 2,607.7**	$ 1,586.8

The increase in external auditor fees in 2007, as compared to 2006, reflects the expanded scope of the external audit following the May 2007 acquisition of Terasen and audit-related work performed during 2007 associated with debt and equity financings at the corporate and subsidiary levels.

13.0 TRANSFER AGENT AND REGISTRAR

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

Computershare Trust Company of Canada
9th Floor, 100 University Avenue
Toronto, ON M5J 2Y1
T: 514.982.7555 or 1.866.586.7638
F: 416.263.9394 or 1.888.453.0330
E: service@computershare.com
W: www.computershare.com

14.0 AUDITORS

The auditors of the Corporation are Ernst & Young LLP, Chartered Accountants, The Fortis Building, 7th Floor, 139 Water Street, St. John's, NL A1C 1B2. The financial statements of the Corporation for the fiscal year ended December 31, 2007 have been audited by Ernst & Young LLP. Ernst & Young LLP report that they are independent of the Corporation in accordance with the Rules of Professional Conduct of the Institute of Chartered Accountants of Newfoundland.

15.0 ADDITIONAL INFORMATION

Reference is made to the MD&A on pages 25 through 77 of the 2007 Fortis Inc. Annual Report to Shareholders, which pages are incorporated herein by reference. The Corporation's MD&A and other additional information relating to the Corporation can be found on SEDAR at www.sedar.com.

Further additional information, including officers' and directors' remuneration and indebtedness, principal holders of the securities of Fortis, options to purchase securities and interests of insiders in material transactions, where applicable, is contained in the Management Information Circular of Fortis dated April 4, 2008 for the May 6, 2008 Annual Meeting of Shareholders. Additional financial information is also provided in the comparative financial statements of Fortis for the year ended December 31, 2007 and the MD&A related to such financial results.

Requests for additional copies of the above-mentioned documents as well as the 2007 Annual Information Form, should be directed to the Corporate Secretary, Fortis, P.O. Box 8837, St. John's, NL A1B 3T2 (telephone: 709.737.2800). In addition, such documentation and additional information relating to the Corporation is contained on the Corporation's website at www.fortisinc.com.