4 May 2010 Annual Meeting

FORTIS INC.

# Notice to Shareholders
# and
# Management Information Circular

22 March 2010

FORTIS INC.

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# FORTIS INC.

## NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

**NOTICE IS HEREBY GIVEN** that the Annual Meeting of Shareholders of FORTIS INC. (“Fortis”) will be held in Salon A, Holiday Inn St. John’s, 180 Portugal Cove Road, St. John’s, Newfoundland and Labrador on Tuesday, 4 May 2010, at the hour of 10:30 a.m. (St. John’s time) for the following purposes:

1. to receive the Consolidated Financial Statements of Fortis for its financial year ended 31 December 2009, together with the Report of the Auditors thereon;

2. to elect directors;

3. to appoint auditors and to authorize the directors to fix the auditors’ remuneration; and

4. to transact such other business as may properly be brought before the meeting or any adjournment(s) or postponement(s) thereof.

**DATED** at St. John’s, Newfoundland and Labrador, 22 March 2010.

By Order of the Board

Ronald W. McCabe
Vice President, General Counsel
and Corporate Secretary

NOTES

1. Shareholders who are unable to be present in person at the meeting are requested to sign and return the accompanying form of proxy in the envelope provided for that purpose.

2. Only holders of Common Shares of record at the close of business on 22 March 2010 will be entitled to vote at the meeting, except to the extent that a holder of record has transferred any of such shares after that date and the transferee of such shares establishes proper ownership and requests not later than 10 days before the meeting that the transferee’s name be included in the list of shareholders eligible to vote at the meeting, in which case such shareholder shall be entitled to vote such Common Shares at the meeting.

3. A shareholder desiring to appoint another representative (who need not be a shareholder of Fortis) may do so either by inserting such person’s name in the blank space provided in the form of proxy or by completing another proper form of proxy and, in either case, depositing the completed proxy at the registered office of Fortis or the principal office of Computershare Trust Company of Canada, 100 University Avenue, 9th Floor, Toronto, ON, M5J 2Y1 or by toll-free facsimile transmission to 1-866-249-7775 at any time not later than 5:00 p.m. (Toronto time) on 29 April 2010, or with the Chair of the meeting on the day of the meeting or not less than 48 hours prior to any adjournment(s) or postponement(s) thereof.

FORTIS INC.

## MANAGEMENT INFORMATION CIRCULAR

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### PROXY SOLICITATION

This Management Information Circular ("Circular") is furnished in connection with the solicitation of proxies by the Management of FORTIS INC. ("Fortis" or "Corporation") for use at the Annual Meeting ("Meeting") of the holders ("Shareholders") of the common shares ("Common Shares") of Fortis to be held in Salon A, Holiday Inn St. John's, 180 Portugal Cove Road, St. John's, Newfoundland and Labrador on Tuesday, 4 May 2010, at the hour of 10:30 a.m. (St. John's time), and at any adjournment(s) or postponement(s) thereof, for the purposes set out in the foregoing notice of meeting.

This solicitation is made by the Management of Fortis. It is expected that the solicitation will primarily be by mail but proxies may also be solicited personally, by telephone, e-mail, Internet or facsimile by directors, officers and employees of Fortis, or by such agents as Fortis may appoint. Fortis has retained Kingsdale Shareholder Services Inc. in connection with the solicitation of proxies at a cost of $33,000 and reimbursement of disbursements related to the solicitation. The cost of solicitation will be borne by Fortis.

The directors have set 22 March 2010 as the record date for the Meeting. Unless otherwise stated, information in this Circular is given as of 22 March 2010.

### REVOCABILITY OF PROXIES

Proxies given by Shareholders for use at the Meeting may be revoked at any time prior to their use. In addition to revocation in any other manner permitted by law, a proxy may be revoked by an instrument in writing executed by the Shareholder or by the Shareholder's attorney authorized in writing or, if the Shareholder is a corporation, under its corporate seal or by an officer thereof duly authorized. Where shares are held in joint or common ownership of any kind, the signature of each owner is required on the form of revocation. **A form of revocation must be deposited either at the registered office of Fortis or the principal office of the transfer agent at any time not later than 5:00 p.m. (Toronto time) on 29 April 2010 at one of the following addresses:**

| **Corporation** | **Transfer Agent** |
|---|---|
| ***Fortis Inc.*** | ***Computershare Trust Company of Canada*** |
| ***The Fortis Building, Suite 1201*** | ***100 University Avenue, 9th Floor*** |
| ***139 Water Street*** | ***Toronto, ON*** |
| ***St. John's, NL*** | ***M5J 2Y1*** |
| ***A1B 3T2*** | |

**If not deliverable to one of the physical locations noted above, a form of revocation may be deposited by toll-free facsimile transmission to 1-866-249-7775 at any time not later than 5:00 p.m. (Toronto time) on 29 April 2010, or with the Chair of the Meeting on the day of the Meeting or not less than 48 hours prior to any adjournment(s) or postponement(s) thereof.**

## VOTING OF PROXIES

The persons named in the enclosed form of proxy are directors or officers of Fortis and have consented to act as proxy for the shareholders who so appoint them. **A shareholder desiring to appoint another representative (who need not be a Shareholder of Fortis) may do so either by inserting such person's name in the blank space provided in the form of proxy or by completing another proper form of proxy and, in either case, depositing the completed proxy at the registered office of Fortis or the principal office of Computershare Trust Company of Canada, 100 University Avenue, 9th Floor, Toronto, ON M5J 2Y1 or by toll-free facsimile transmission to 1-866-249-7775 at any time not later than 5:00 p.m. (Toronto time) on 29 April 2010, or with the Chair of the Meeting on the day of the Meeting or not less than 48 hours prior to any adjournment(s) or postponement(s) thereof.**

The form of proxy affords the Shareholder an opportunity to specify that the shares registered in the Shareholder's name will be voted, or withheld from voting, in respect of the election of directors and the appointment of auditors and the authorization of the directors to fix the remuneration of the auditors.

On any ballot that may be called for, the shares represented by proxies in favour of Management nominees will be voted or withheld from voting in respect of the election of directors and the appointment of auditors and the authorization of the directors to fix the remuneration of the auditors in accordance with the specifications made by each Shareholder.

**If a proxy does not specify how a proxy nominee is to vote in respect of the matters set forth in the proxy, the shares represented by proxies in favour of Management nominees will be voted *FOR* the election of the directors listed hereafter, the appointment of auditors named herein and the authorization of the directors to fix the remuneration of the auditors.**

The form of proxy confers discretionary authority on the proxy nominee with respect to amendments or variations of matters identified in the Notice of Meeting and with respect to other matters which may properly come before the Meeting or any adjournment(s) or postponement(s) thereof. At the time of printing this Circular, Management does not know of any matter to come before the Meeting other than the matters referred to in the Notice of Meeting. However, if any such amendment, variation or matter should properly come before the Meeting, the shares represented by proxies in favour of Management nominees will be voted on such matters in accordance with the best judgment of the proxy nominee.

### VOTING SHARES AND PRINCIPAL HOLDERS THEREOF

The authorized capital of Fortis consists of an unlimited number of Common Shares, an unlimited number of First Preference Shares and an unlimited number of Second Preference Shares, in each case, issuable in series, without nominal or par value. As of 22 March 2010, the following Common Shares and Preference Shares were issued and outstanding:

| Capital | Issued and Outstanding | Votes per Share |
|---|---|---|
| Common Shares | 172,157,134 | 1 |
| First Preference Shares, Series C | 5,000,000 | 0 |
| First Preference Shares, Series E | 7,993,500 | 0 |
| First Preference Shares, Series F | 5,000,000 | 0 |
| First Preference Shares, Series G | 9,200,000 | 0 |
| First Preference Shares, Series H | 10,000,000 | 0 |

Only holders of Common Shares of record at the close of business on 22 March 2010 will be entitled to vote at the Meeting, except to the extent that a holder of record has transferred shares after that date and the transferee of such shares establishes proper ownership and requests not later than ten days before the Meeting that the transferee's name be included in the list of shareholders entitled to vote at the Meeting.

To the knowledge of the directors and officers of Fortis, no Shareholder beneficially owns, controls or directs, directly or indirectly, more than 10% of the issued and outstanding Common Shares.

## MATTERS FOR CONSIDERATION OF SHAREHOLDERS

### FINANCIAL STATEMENTS

The Consolidated Financial Statements of Fortis for the year ended 31 December 2009 are on pages 82 through 133 of the 2009 Fortis Inc. Annual Report which is being mailed to all of the registered Shareholders and those beneficial Shareholders who have requested to receive the Annual Report. These documents are also available on the Fortis website at *www.fortisinc.com* and on the System for Electronic Document Analysis and Retrieval ("SEDAR") website at *www.sedar.com*.

### ELECTION OF DIRECTORS

The Articles of Fortis provide for a minimum of 3 and a maximum of 15 directors. All directors of Fortis are elected annually to serve until the next Annual Meeting of Shareholders or until their successors shall have been duly elected or appointed. The Board currently consists of 12 members. The Shareholders of Fortis will be asked to elect 12 directors for the ensuing year. The term of office of each current director of Fortis will expire immediately prior to the election of directors at the Meeting. Each person whose name follows is proposed to be elected as a director of Fortis to serve until the earlier of the next Annual Meeting of Shareholders or until his or her successor is elected or appointed.

Details pertaining to each of the nominees can be found on pages 7 through 13 of this Circular. All of the nominees listed below were duly elected as directors at the last Annual Meeting of Shareholders held on 5 May 2009. The 12 nominees proposed for election as directors are as follows:

| | | |
|---|---|---|
| *Peter E. Case* | *Geoffrey F. Hyland* | *Ronald D. Munkley* |
| *Frank J. Crothers* | *H. Stanley Marshall* | *David G. Norris* |
| *Ida J. Goodreau* | *John S. McCallum* | *Michael A. Pavey* |
| *Douglas J. Haughey* | *Harry McWatters* | *Roy P. Rideout* |

If any of the proposed nominees should for any reason be unable to serve as a director of Fortis, the persons named in the enclosed form of proxy reserve the right to nominate and vote for another nominee in their discretion unless the shareholder has specified in the proxy that the shares are to be withheld from voting in the election of directors.

If any nominee for director receives, from the Common Shares voted at the Meeting in person or by proxy, a greater number of votes "withheld" than "for" his or her election, such director must promptly tender his or her resignation to the Chair, such resignation to take effect on acceptance by the Board. The Governance and Nominating Committee will expeditiously consider the director's offer to resign and recommend to the Board whether to accept it. Within 90 days of the Meeting, the Board will make a final decision and announce it by way of media release. Any director who tenders his or her resignation will not participate in the deliberations of the Governance and Nominating Committee or the Board. This does not apply to a contested election of directors, that is, where the number of nominees exceeds the number of directors to be elected.

***Management and the Board recommend that Shareholders vote FOR these nominees. The persons named in the enclosed Proxy intend to vote FOR the election of each of these nominees unless the Shareholder specifies that authority to do so is withheld.***

## APPOINTMENT OF AUDITORS AND AUTHORIZATION OF THE DIRECTORS TO FIX THE AUDITORS' REMUNERATION

The Board, on the recommendation of its Audit Committee, proposes to nominate Ernst & Young LLP as the auditors of Fortis to hold office until the close of the next Annual Meeting of Shareholders.

The directors negotiate with the auditors of Fortis on an arm's length basis in determining the fees to be paid to the auditors. Such fees are based upon the complexity of the matters dealt with and the time expended by the auditors in providing services to Fortis. Management believes that the fees negotiated in the past with the auditors of Fortis have been reasonable in all circumstances and would be comparable to fees charged by other auditors providing similar services.

Fees incurred by Fortis for work performed by its auditors, Ernst & Young LLP, during each of the last two financial years for audit, audit-related and tax services were as follows:

| **Fortis Inc.<br>External Auditor Service Fees<br>($000's)** | | |
|---|---|---|
| **Ernst & Young LLP** | **2009** | 2008 |
| Audit Fees | **2,279.8** | 2,467.3 |
| Audit-Related Fees | **855.2** | 853.0 |
| Tax Fees | **353.5** | 125.8 |
| **Total** | **3,488.5** | 3,446.1 |

The decrease in audit fees in 2009, as compared to 2008, primarily related to the requirement for additional year-end audit work in 2008 associated with the change in Caribbean Utilities Company, Ltd. fiscal year end from 30 April to 31 December 2008. The increase in tax fees in 2009, as compared to 2008, was due to tax work associated with the corporate reorganization of FortisUS Energy and work performed in relation to the adoption of amended CICA Handbook Section 3465, *Income Taxes* by the Terasen Gas companies, FortisAlberta Inc., FortisBC Inc. and Newfoundland Power Inc. in 2009.

***Management and the Board recommend that Shareholders vote FOR the appointment of Ernst & Young LLP as the auditors of Fortis for 2010 and FOR the authorization of the Board to fix the remuneration of the auditors for 2010. The persons named in the enclosed Proxy intend to vote FOR the appointment and FOR the authorization of the Board to fix the remuneration of the auditors unless the Shareholder specifies that authority to do so is withheld.***

## OTHER MATTERS

Management knows of no matters to come before the Meeting other than the business referred to in the Notice of Meeting. However, if any other matters should be properly brought before the Meeting, the accompanying proxy will be voted on such matters in accordance with the best judgment of the proxy nominee.

Shareholders entitled to vote at the next annual meeting to be held in 2011 and who wish to submit proposals in respect of any matter to be raised at such meeting must ensure that Fortis receives their proposals not later than 2 February 2011.

# BOARD OF DIRECTORS

## NOMINEES FOR ELECTION AS DIRECTORS

Twelve persons are being nominated for election as directors at the Meeting. Each of the nominees was elected to his or her present term of office at the Annual Meeting of Shareholders held on 5 May 2009. Details of each nominee's service on the boards of other reporting issuers are provided on page 17 of this Circular.

### PETER E. CASE

**Corporate Director**
**Freelton, Ontario**

**Age:** 55
**Director since:** May 2005

**Independent**

*Mr. Case 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 U.S. pipeline and energy utilities was consistently rated among the top rankings.*

*He was awarded a Bachelor of Arts and an MBA from Queen's University and a Master of Divinity from Wycliffe College, University of Toronto.*

*Mr. Case was appointed to the Board of FortisOntario Inc. in March 2003 and is Chair of that company's Board.*

| Board / Committee Membership | | Attendance | | Securities Held [1] | |
|---|---|---|---|---|---|
| Board of Directors | | 7 of 7 | 100% | Common Shares | 10,500 |
| Audit | | 7 of 7 | 100% | DSUs | 6,199 |
| | | | | Total | 16,699 |
| Options Held *(Director option grants discontinued in 2006.)* | | | | | |
| Grant Date | Expiry Date | Options Granted | Exercise Price | Total Unexercised Options | Value of Unexercised Options [2] |
| 11 May 2005 | 11 May 2015 | 12,000 | $18.113 | 12,000 | $127,044 |

## FRANK J. CROTHERS

**Chairman and Chief Executive Officer**
**Island Corporate Holdings**
**Nassau, Bahamas**

**Age:** 65
**Director since:** May 2007

**Not Independent**

*Mr. Crothers is Chairman and Chief Executive Officer of Island Corporate Holdings Limited, a private Bahamas-based investment company with diverse interests throughout the Caribbean, North America, Australia and South Africa. Over the past 35 years, Mr. Crothers 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 past President of P.P.C. Limited which was acquired by Fortis on 28 August 2006.*

*Mr. Crothers is a director of Caribbean Utilities Company, Ltd. and Belize Electricity Limited.*

| Board / Committee Membership | Attendance | | Securities Held [1] | |
|---|---|---|---|---|
| Board of Directors | 7 of 7 | 100% | Common Shares * | 10,000 |
| | | | DSUs | 7,304 |
| | | | Total | 17,304 |
| Options Held *(Director option grants discontinued in 2006.)* | | | | |
| NIL – Mr. Crothers was elected to the Board following the cessation of option grants to directors. | | | | |

* *Mr. Crothers is an indirect holder of US$31 million of Fortis 5.5% Subordinated Convertible Debentures, due 7 November 2016, that are convertible into 1,064,926 Common Shares.*

## IDA J. GOODREAU

**Corporate Director**
**Vancouver, British Columbia**

**Age:** 58
**Director since:** May 2009

**Independent**

*Ms. Goodreau is the past President and Chief Executive Officer of LifeLabs. Prior to joining LifeLabs in March 2009, she had been President and Chief Executive Officer of Vancouver Coastal Health Authority since 2002. She has held senior leadership roles in several Canadian and international pulp and paper and natural gas companies.*

*Ms. Goodreau was awarded MBA and Hons. B.Comm. degrees from the University of Windsor and a B. Arts - English and Economics from the University of Western Ontario.*

*She has served on numerous private and public sector boards and is a director of Terasen Inc.*

| Board / Committee Membership | Attendance | | Securities Held [1] | |
|---|---|---|---|---|
| Board of Directors | 6 of 6 | 100% | Common Shares | - |
| Human Resources | 3 of 3 | 100% | DSUs | 4,776 |
| | | | Total | 4,776 |
| Options Held *(Director option grants discontinued in 2006.)* | | | | |
| NIL – Ms. Goodreau was elected to the Board following the cessation of option grants to directors. | | | | |

## DOUGLAS J. HAUGHEY

**President and Chief Executive Officer**
**WindShift Capital Corp.**
**Calgary, Alberta**

**Age:** 53
**Director since:** May 2009

**Independent**

*Mr. Haughey is President and Chief Executive Officer of WindShift Capital Corp. focused on energy infrastructure investment opportunities in North America. From 1999 through 2008, Mr. Haughey held several executive roles with Spectra Energy and predecessor companies. He had overall responsibility for its western Canadian natural gas midstream business, was President and Chief Executive Officer of Spectra Energy Income Fund and also led Spectra's strategic development and mergers and acquisitions teams based in Houston, Texas.*

*Mr. Haughey graduated from the University of Regina, with a Bachelor of Administration and from the University of Calgary with an MBA. He also holds an ICD.D designation from the Institute of Corporate Directors.*

| Board / Committee Membership | Attendance | | Securities Held [1] | |
|---|---|---|---|---|
| Board of Directors | 6 of 6 | 100% | Common Shares | 4,000 |
| Audit | 4 of 4 | 100% | DSUs | 1,911 |
| | | | Total | 5,911 |
| Options Held *(Director option grants discontinued in 2006.)* | | | | |
| NIL – Mr. Haughey was elected to the Board following the cessation of option grants to directors | | | | |

## GEOFFREY F. HYLAND

**Corporate Director**
**Caledon, Ontario**

**Age:** 65
**Director since:** May 2001

**Independent**

*Mr. Hyland 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 an MBA.*

*Mr. Hyland was appointed Chair of the Board of Fortis following the Annual Meeting of Shareholders held on 6 May 2008.*

*Mr. Hyland is a director of FortisOntario Inc.*

| Board / Committee Membership | Attendance | | Securities Held [1] | |
|---|---|---|---|---|
| Chairs Board of Directors | 7 of 7 | 100% | Common Shares | 33,025 |
| Audit | 7 of 7 | 100% | DSUs | 30,648 |
| Human Resources | 4 of 4 | 100% | Total | 63,673 |
| Governance & Nominating | 2 of 2 | 100% | | |

Options Held *(Director option grants discontinued in 2006.)*

| Grant Date | Expiry Date | Options Granted | Exercise Price | Total Unexercised Options | Value of Unexercised Options [2] |
|---|---|---|---|---|---|
| 1 March 2005 | 1 March 2015 | 12,000 | $18.405 | 12,000 | 123,540 |
| 10 March 2004 | 10 March 2014 | 12,000 | $15.280 | 12,000 | 161,040 |
| 13 March 2003 | 13 March 2013 | 12,000 | $12.810 | 12,000 | 190,680 |
| | Total | 36,000 | | 36,000 | $475,260 |

## H. STANLEY MARSHALL

**President and Chief Executive Officer**
**Fortis Inc.**
**Paradise, Newfoundland and Labrador**

**Age:** 59
**Director since:** October 1995

**Not Independent**

*Mr. Marshall is President and Chief Executive Officer of Fortis. He joined Newfoundland Power Inc. in 1979 and was appointed President and Chief Executive Officer of Fortis in 1996.*

*Mr. Marshall graduated from 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 is a director of Fortis utility subsidiaries in British Columbia, Alberta and the Caribbean as well as Fortis Properties Corporation.*

| Board / Committee * Membership | Attendance | | Securities Held (1) ** | |
|---|---|---|---|---|
| Board of Directors | 7 of 7 | 100% | Common Shares | 406,758 |
| Audit | 7 of 7 | 100% | | |
| Governance & Nominating | 2 of 2 | 100% | | |
| Human Resources | 4 of 4 | 100% | | |

* *Mr. Marshall attends committee meetings in his capacity as President and CEO as required and is not a member of the committees.*
** *Options are granted to Mr. Marshall in his capacity as CEO of Fortis and are detailed on pages 35 and 36 of this Circular.*

## JOHN S. McCALLUM

**Professor of Finance**
**University of Manitoba**
**Winnipeg, Manitoba**

**Age:** 66
**Director since:** July 2001

**Independent**

*Mr. McCallum 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 an MBA from Queen's University and a PhD in Finance from University of Toronto.*

*Mr. McCallum was appointed Chair of the Governance and Nominating Committee of Fortis on 11 May 2005. He is a director of FortisBC Inc. and FortisAlberta Inc. and chairs the Audit, Risk and Environment Committees of both companies.*

| Board / Committee Membership | Attendance | | Securities Held (1) | |
|---|---|---|---|---|
| Board of Directors | 7 of 7 | 100% | Common Shares | 4,000 |
| Chairs Governance & Nominating | 2 of 2 | 100% | DSUs | 27,643 |
| Audit | 7 of 7 | 100% | Total | 31,643 |

Options Held *(Director option grants discontinued in 2006.)*

| Grant Date | Expiry Date | Options Granted | Exercise Price | Total Unexercised Options | Value of Unexercised Options (2) |
|---|---|---|---|---|---|
| 11 May 2005 | 11 May 2015 | 4,000 | $18.113 | 4,000 | 42,348 |
| 1 March 2005 | 1 March 2015 | 12,000 | $18.405 | 12,000 | 123,540 |
| 10 March 2004 | 10 March 2014 | 12,000 | $15.280 | 12,000 | 161,040 |
| 13 March 2003 | 13 March 2013 | 12,000 | $12.810 | 12,000 | 190,680 |
| 15 May 2002 | 14 May 2012 | 12,000 | $12.035 | 12,000 | 199,980 |
| | Total | 52,000 | | 52,000 | $717,588 |

## HARRY McWATTERS

**President**
**Vintage Consulting Group Inc.**
**Summerland, British Columbia**

**Age:** 64
**Director since:** May 2007

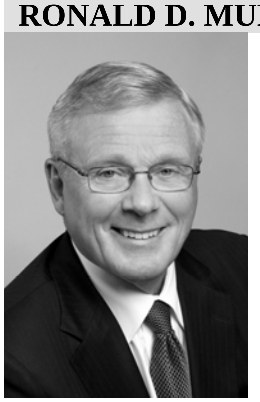
**Independent**

*Mr. McWatters is the founder and past President of Sumac Ridge Estate Wine Group. He is President of Vintage Consulting Group Inc., Harry McWatters Inc., Okanagan Wine Academy and Black Sage Vineyard Ltd., all of which are engaged in various aspects of the British Columbia wine industry.*

*Mr. McWatters was elected to the Board of FortisBC Inc. on 6 September 2005 and appointed Chair of that company's Board on 1 June 2006. He became a director of Terasen Inc. on 1 November 2007.*

| Board / Committee Membership | Attendance | | Securities Held [1] | |
|---|---|---|---|---|
| Board of Directors | 7 of 7 | 100% | Common Shares | 1,100 |
| Governance & Nominating | 2 of 2 | 100% | DSUs | 10,861 |
| | | | Total | 11,961 |
| Options Held *(Director option grants discontinued in 2006.)* | | | | |
| NIL – Mr. McWatters was elected to the Board following the cessation of option grants to directors. | | | | |

## RONALD D. MUNKLEY



**Corporate Director**
**Mississauga, Ontario**

**Age:** 63
**Director since:** May 2009

**Independent**

*Mr. Munkley retired in April 2009 as Vice Chairman and Head of the Power and Utility Business of CIBC World Markets. He had acted as advisor on most Canadian utility transactions since joining CIBC World Markets in 1998. Prior to that, Mr. Munkley was employed at Enbridge Consumers Gas for 27 years, culminating as Chairman, President and Chief Executive Officer. He led Consumers Gas through deregulation and restructuring in the 1990s.*

*Mr. Munkley graduated from Queen's University with a B.Sc. Hons. (Eng). He is a professional engineer and has completed the Executive and Senior Executive Programs of the University of Western Ontario and the Partners, Directors and Senior Officers Certificate of the Canadian Securities Institute.*

| Board / Committee Membership | Attendance | | Securities Held [1] | |
|---|---|---|---|---|
| Board of Directors | 6 of 6 | 100% | Common Shares | 12,000 |
| Governance & Nominating | 1 of 1 | 100% | DSUs | 1,911 |
| | | | Total | 13,911 |
| Options Held *(Director option grants discontinued in 2006.)* | | | | |
| NIL – Mr. Munkley was elected to the Board following the cessation of option grants to directors. | | | | |

## DAVID G. NORRIS

**Corporate Director**
**St. John's, Newfoundland and Labrador**

**Age:** 62
**Director since:** May 2005

**Independent**

*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. 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 an MBA from McMaster University.*

*On 2 May 2006, Mr. Norris was appointed Chair of the Audit Committee of Fortis. He has been a director of Newfoundland Power Inc. since 2003 and was appointed Chair of that company's Board on 26 April 2006. Mr. Norris was appointed to the Board of Fortis Properties Corporation in 2006.*

| Board / Committee Membership | Attendance | | Securities Held [1] | |
|---|---|---|---|---|
| Board of Directors | 7 of 7 | 100% | Common Shares | 6,339 |
| Chairs Audit | 7 of 7 | 100% | DSUs | 18,565 |
| Human Resources | 4 of 4 | 100% | Total | 24,904 |

Options Held *(Director option grants discontinued in 2006.)*

| Grant Date | Expiry Date | Options Granted | Exercise Price | Total Unexercised Options | Value of Unexercised Options [2] |
|---|---|---|---|---|---|
| 11 May 2005 | 11 May 2015 | 12,000 | $18.113 | 12,000 | $127,044 |

## MICHAEL A. PAVEY

**Corporate Director**
**Moncton, New Brunswick**

**Age:** 62
**Director since:** May 2004

**Independent**

*Mr. Pavey 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 western Canadian integrated electric utility.*

*Mr. Pavey graduated from University of Waterloo with a Bachelor of Applied Science (Mechanical Engineering) and from McGill University with an MBA.*

*He retired from the Board of Maritime Electric Company, Limited in February 2007 after a six-year term which included three years of service as Chair of that company's Audit and Environment Committee.*

| Board / Committee Membership | Attendance | | Securities Held [1] | |
|---|---|---|---|---|
| Board of Directors | 7 of 7 | 100% | Common Shares | 2,106 |
| Human Resources | 4 of 4 | 100% | DSUs | 14,207 |
| | | | Total | 16,313 |

Options Held *(Director option grants discontinued in 2006.)*

| Grant Date | Expiry Date | Options Granted | Exercise Price | Total Unexercised Options | Value of Unexercised Options [2] |
|---|---|---|---|---|---|
| 1 March 2005 | 1 March 2015 | 12,000 | $18.405 | 12,000 | 123,540 |
| 12 May 2004 | 12 May 2014 | 12,000 | $15.228 | 10,000 | 134,720 |
| | Total | 24,000 | | 22,000 | $258,260 |

## ROY P. RIDEOUT

**Corporate Director**
**Halifax, Nova Scotia**

**Age:** 62
**Director since:** March 2001

**Independent**

*Mr. Rideout 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.*

*He is the Chair of the Human Resources Committee of Fortis and has held that position since May 2003.*

| Board / Committee Membership | Attendance | | Securities Held [(1)] | |
|---|---|---|---|---|
| Board of Directors | 7 of 7 | 100% | Common Shares | 26,958 |
| Chairs Human Resources | 4 of 4 | 100% | DSUs | 18,751 |
| Governance & Nominating | 2 of 2 | 100% | Total | 45,709 |

Options Held *(Director option grants discontinued in 2006.)*

| Grant Date | Expiry Date | Options Granted | Exercise Price | Total Unexercised Options | Value of Unexercised Options [(2)] |
|---|---|---|---|---|---|
| 1 March 2005 | 1 March 2015 | 16,000 | $18.405 | 16,000 | 164,720 |
| 10 March 2004 | 10 March 2014 | 16,000 | $15.280 | 16,000 | 214,720 |
| 13 March 2003 | 13 March 2013 | 12,000 | $12.810 | 12,000 | 190,680 |
| 15 May 2002 | 14 May 2012 | 12,000 | $12.035 | 12,000 | 199,980 |
| | Total | 56,000 | | 56,000 | $770,100 |

(1) *Represents Common Shares and/or Deferred Share Units, detailed on page 15 of this Circular and further described below under Director Compensation, beneficially owned controlled or directed, directly or indirectly. This information has been furnished by the respective nominee.*

(2) *Calculated using the closing price of Common Shares at 22 March 2010 of $28.70.*

## DIRECTOR COMPENSATION

During 2009, annual compensation for directors, other than Mr. Marshall, consisted of cash compensation and deferred compensation as follows: annual retainer, meeting attendance fees and Deferred Share Units ("DSUs"). Each of these components is described in more detail below.

The following table describes the director compensation structure in place during 2009 as compared to the previous two years:

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Annual Non-Executive Board Chair Retainer (taken in DSUs) | $160,000 | $160,000 | $125,000 |
| Annual Director Retainer (cash or optional DSUs) | $45,000 | $45,000 | $35,000 |
| Annual Committee Chair Retainer (cash or optional DSUs) | $15,000 | $15,000 | $15,000 |
| Annual Retainer paid in DSUs (equity component) | $30,000 | $30,000 | $30,000 |
| Board and Committee Meeting Attendance Fee | $1,500 | $1,500 | $1,500 |

The following table summarizes director compensation for 2009:

### Individual Director Compensation – 2009

| | Fees Earned [(1)] $ | Share Based Awards (DSUs) [(2)] $ | All Other Compensation [(3)] $ | Total $ |
|---|---|---|---|---|
| Peter E. Case | 66,000 | 30,000 | 28,000 | 124,000 |
| Frank J. Crothers | 55,500 | 30,000 | 96,258 | 181,758 |
| Ida J. Goodreau | 13,500 | 49,525 | 41,000 | 104,025 |
| Douglas J. Haughey | 44,547 | 19,812 | - | 64,359 |
| Geoffrey F. Hyland | 30,000 | 190,000 | 14,000 | 234,000 |
| Linda Inkpen [(4)] | 4,500 | 75,000 | - | 79,500 |
| H. Stanley Marshall [(5)] | - | - | - | - |
| John S. McCallum | 24,000 | 90,000 | 64,000 | 178,000 |
| Harry McWatters | 13,500 | 75,000 | 107,250 | 195,750 |
| Ronald D. Munkley | 40,047 | 19,812 | - | 59,859 |
| David G. Norris | 27,000 | 90,000 | 61,000 | 178,000 |
| Michael A. Pavey | 61,500 | 30,000 | - | 91,500 |
| Roy P. Rideout | 79,500 | 30,000 | - | 109,500 |
| Total | 459,594 | 729,149 | 411,508 | 1,600,251 |

(1) *These amounts include all fees payable in cash for services as a director of Fortis, including annual director and committee chair retainers and meeting fees.*

(2) *These amounts represent the annual equity compensation in the form of DSUs granted to a director of Fortis. These include both the mandatory equity component of the annual retainer of $30,000 and any optional component of the annual director retainer or committee chair retainer as directed to be paid in DSUs rather than cash. These amounts represent the cash equivalent at the time of issue. During 2009, the cumulative DSU holdings of participants increased by the notional reinvestment of dividends.*

(3) *These amounts include all fees paid or payable by a subsidiary of Fortis to a director in his(her) capacity as a director of the payor subsidiary. In the case of Mr Crothers, fees were paid in US dollars ($84,370) and converted into Canadian dollars at a rate of 1.1409.*

(4) *Dr. Inkpen retired from the Board effective 5 May 2009. Dr. Inkpen did not stand for re-election because she had served ten years on the Board since the introduction of the director tenure policy in 1999.*

(5) *Mr. Marshall, as CEO, does not receive compensation as a director of Fortis. Director fees paid to Mr. Marshall from subsidiaries of Fortis are reported in note 5 of the Summary Compensation Table on page 34 of this Circular.*

In 2004, the Board introduced the Directors' Deferred Share Unit Plan ("DSU Plan") as an optional vehicle for directors to elect to receive credit of their annual cash retainer in DSUs. The Board may also determine from time to time that special circumstances exist that would reasonably justify the grant of DSUs to a director as compensation in addition to any regular retainer or fee to which the director is entitled. During 2006, the Board elected to discontinue the grant of stock options to directors and initiated an annual grant of DSUs.

DSUs granted in lieu of cash payment of annual retainer are credited to participating directors as of 1 January of each year by dividing the total applicable annual retainer by the average of the daily average of the high and low board lot trading prices of the Common Shares on the TSX for the last five trading days immediately preceding the grant of the DSUs. Additional DSUs are credited on the quarterly dividend payment dates as notional dividends are assumed to be reinvested.

The annual grant of DSUs, that comprises the equity component of Fortis annual directors' compensation, is credited to all directors who are not officers of Fortis as of the grant date at the average of the daily average of the high and low board lot trading prices of the Common Shares on the TSX for the last five trading days immediately preceding the grant of the DSUs. On 1 January 2009, directors who were not officers of Fortis were each granted 1,247 DSUs at a price of $24.049, equivalent to approximately $30,000 in value. Additional DSUs are credited on the quarterly dividend payment dates as notional dividends are assumed to be reinvested.

Upon retirement from the Board, a director participant in the DSU Plan will receive a cash payment equivalent to the number of DSUs credited to the notional account multiplied by the average of the daily average of the high and low board lot trading prices of Common Shares on the TSX for the last five trading days immediately preceding the date of payment.

## DIRECTOR EQUITY OWNERSHIP

Effective 1 January 2006, the Board adopted a policy regarding equity ownership by directors requiring directors to acquire Common Shares and/or DSUs equivalent in value to three times their annual retainer (inclusive of mandatory DSU grant) within four years from the date the person was first elected to the Board. As of the date of this Circular, all of the nominees either meet the minimum equity ownership policy or are within the time allowed under the policy to achieve compliance. New directors are permitted four years from the date of their election to achieve compliance with the minimum equity ownership policy.

The following table shows the Common Share and DSU holdings of each of the director nominees as at 22 March 2010 and comparable holdings for the previous year.

| Director [1] | Equity Ownership 31 March 2009 | | Equity Ownership 22 March 2010 | | Net Change in Equity Ownership | | Market Value of Equity Ownership 22 March 2010 [2] | Multiple of 2009 Annual Retainer (x) |
|---|---|---|---|---|---|---|---|---|
| | Common Shares | DSUs | Common Shares | DSUs | Common Shares | DSUs | | |
| P. E. Case | 10,500 | 4,934 | 10,500 | 6,199 | 0 | 1,265 | 479,261 | 6.39 |
| F. J. Crothers | 10,000 | 5,995 | 10,000 | 7,304 | 0 | 1,309 | 496,625 | 6.62 |
| I. J. Goodreau | 0 | NA | 0 | 4,776 | 0 | 4,776 | 137,071 | 1.83 |
| D. J. Haughey | 2,000 | NA | 4,000 | 1,911 | 2,000 | 1,911 | 169,646 | 2.26 |
| G. F. Hyland | 32,000 | 22,986 | 33,025 | 30,648 | 1,025 | 7,662 | 1,827,415 | 9.62 |
| J.S. McCallum | 4,000 | 23,485 | 4,000 | 27,643 | 0 | 4,158 | 908,154 | 10.09 |
| H. McWatters | 1,100 | 7,887 | 1,100 | 10,861 | 0 | 2,974 | 343,281 | 4.58 |
| R. D. Munkley | 12,000 | NA | 12,000 | 1,911 | 0 | 1,911 | 399,246 | 5.32 |
| D. G. Norris | 6,195 | 14,772 | 6,339 | 18,565 | 144 | 3,793 | 714,745 | 7.94 |
| M. A. Pavey | 2,022 | 12,620 | 2,106 | 14,207 | 84 | 1,587 | 468,183 | 6.24 |
| R. P. Rideout | 26,958 | 16,981 | 26,958 | 18,751 | 0 | 1,770 | 1,311,848 | 14.58 |

(1) *Mr. Marshall's equity ownership is not reported in the above table as he does not receive compensation as a director of Fortis. He is compensated as President and CEO of Fortis and his Common Share ownership value as a multiple of his 2009 base salary is outlined on page 32 of this Circular.*

(2) *Calculated using the closing price of Common Shares at 22 March 2010 of $28.70.*

## DIRECTOR TENURE POLICY

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 Fortis are to be elected for a term of one year and, except in exceptional circumstances determined by the Board, will 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 10$^{th}$ anniversary of their initial election to the Board. The policy does not apply to Mr. Marshall whose service on the Board is related to his tenure as CEO.

## MAJORITY VOTING FOR DIRECTORS

Effective 1 January 2010, the Board adopted a policy stipulating that if any nominee for director receives, from the Common Shares voted at the Annual Meeting of Shareholders, a greater number of votes "withheld" than "for" his or her election, such director must promptly tender his or her resignation to the Chair, such resignation to take effect on acceptance by the Board. The Governance and Nominating Committee will expeditiously consider the director's offer to resign and recommend to the Board whether to accept it. Within 90 days of the Annual Meeting of Shareholders, the Board will make a final decision and announce it by way of media release. Any director who tenders his or her resignation will not participate in the deliberations of the Governance and Nominating Committee or the Board. This policy does not apply to a contested election of directors, that is, where the number of nominees exceeds the number of directors to be elected.

## DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

Directors' and officers' liability insurance has been purchased for the benefit of the directors and officers of Fortis. This policy is renewable effective 1 July each year. The premium for such insurance in respect of 2009 was $314,018. The insurance coverage obtained under the current policy is $125,000,000 in respect of any one incident, subject to a $250,000 deductible for securities claims and a $100,000 deductible for other claims.

# REPORT ON CORPORATE GOVERNANCE

The Board of Directors and Management of Fortis acknowledge the critical importance of good corporate governance practices in the proper conduct of the affairs of Fortis. Fortis corporate governance practices comply with the Corporate Governance Guidelines promulgated in National Policy 58-201 – *Corporate Governance Guidelines*. Disclosure of Fortis approach to corporate governance in compliance with Form 58-101F1 (under National Instrument 58-101 – *Disclosure of Corporate Governance Practices*) is set out in the Disclosure of Corporate Governance Practices annexed as Schedule A on page 41 of this Circular.

## THE BOARD OF DIRECTORS

The Board has concluded that 10 of the 12 nominees for election as directors as outlined in *Board of Directors* on pages 7 through 13 of this Circular are independent in accordance with the definition of independence set out in Section 1.4 of Multilateral Instrument 52-110 – *Audit Committees*. Each of Messrs. Marshall and Crothers are not considered independent by reason of direct or indirect material relationship with Fortis. Mr. Marshall is the President and CEO of Fortis. Prior to his election to the Board and within the last three years, Mr. Crothers was an executive officer, Vice Chair of Caribbean Utilities Company, Ltd., a subsidiary of Fortis. He relinquished his executive officer position with the subsidiary on 30 August 2007.

Currently, there is only one instance where directors of Fortis serve as directors on the same board of another reporting issuer, other than a subsidiary of Fortis. Messrs. Marshall and McCallum are both directors of Toromont Industries Ltd. The following table sets forth the current directors who serve on the boards of reporting issuers, other than subsidiaries of Fortis, together with their committee involvement on such boards:

| Director | Reporting Issuer | Committee |
|---|---|---|
| F. J. Crothers | Talon Metals Corp.<br>Templeton Mutual Funds | Audit<br>Audit |
| D. J. Haughey | Pembina Pipeline Income Fund | Audit; Human Resources |
| G. F. Hyland | Exco Technologies Limited<br>SCITI Total Return Trust<br>ShawCor Ltd. | Human Resources; Audit (Chair);<br>Independent Review (Chair); Audit<br>- |
| H. S. Marshall | Toromont Industries Ltd. | Human Resources |
| J. S. McCallum | IGM Financial Inc.<br><br>Toromont Industries Ltd.<br>Wawanesa | Related Party and Conduct Review (Chair); Audit; Public Policy; Governance and Nominating<br>Audit (Chair); Corporate Governance, Lead Director<br>Investment; Human Resources |
| R. P. Rideout | NAV CANADA | Human Resources and Compensation (Chair);<br>Governance and Nominating |

The Board annually appoints from amongst its members three standing Committees: the Governance and Nominating Committee, the Audit Committee and the Human Resources Committee. Fortis does not have an executive committee of the Board. Each committee has a written mandate which sets out in detail the activities or areas of Fortis business to which the committee is required to devote its attention. All committees are currently composed of independent and unrelated directors. Mr. Marshall attends committee meetings in his capacity as CEO of Fortis and is not a member of any committee. Mr. Crothers is not a member of any committee because his relationship as an executive officer of a subsidiary of Fortis during the preceding three-year period renders him not independent in accordance with the definition of independence prescribed by Section 1.4 of Multilateral Instrument 52-110 – *Audit Committees* and consequently he will not be asked to serve on any committee until after the third anniversary of his ceasing to be an executive office of Caribbean Utilities Company, Ltd. on 30 August 2007.

## GOVERNANCE AND NOMINATING COMMITTEE

The mandate of the Governance and Nominating Committee requires the committee, among other things, to:

(i) develop and recommend to the Board Fortis approach to corporate governance issues;

(ii) propose to the Board new nominees for election to the Board;

(iii) carry out procedures specified by the Board for assessing the effectiveness of the Board, the directors and each Board committee;

(iv) approve the engagement of an outside expert, or experts, by an individual director at Fortis expense; and

(v) review and make recommendations to the Board with respect to the adequacy and form of the compensation of directors.

The members of the Governance and Nominating Committee, who are all independent and unrelated, are John S. McCallum (Chair), Geoffrey F. Hyland, Harry McWatters, Ronald D. Munkley and Roy P. Rideout. The Governance and Nominating Committee held two meetings during 2009.

## AUDIT COMMITTEE

The Audit Committee provides assistance to the Board by overseeing the external audit of the annual financial statements and the accounting and financial reporting and disclosure processes of Fortis. Details regarding the Audit Committee and its charter can be found in Section 11 of the Fortis 2009 Annual Information Form which can be viewed at either *www.fortisinc.com* or on SEDAR at *www.sedar.com*.

The members of the Audit Committee, who are all independent and unrelated, are David G. Norris (Chair), Peter E. Case, Geoffrey Hyland, Douglas J. Haughey and John S. McCallum. The Audit Committee held seven meetings during 2009.

## HUMAN RESOURCES COMMITTEE

The compensation committee functions of Fortis are fulfilled by the Human Resources Committee whose mandate requires the committee, among other things, to:

(i) assist and advise the Board and CEO in appointing senior management;

(ii) monitor programs for training and developing senior management and planning for succession within the ranks of senior management;

(iii) oversee the form and adequacy of the compensation and benefits provided by Fortis to its senior management; and

(iv) administer all incentive compensation plans and arrangements including the 2006 Stock Option Plan, the Short-Term Incentive plan, the Performance Share Unit Plan and any other stock option, stock appreciation rights, restricted share, or other form of incentive compensation plans.

The members of the Human Resources Committee, who are all independent and unrelated, are Roy P. Rideout (Chair), Ida J. Goodreau, Geoffrey F. Hyland, David G. Norris and Michael A. Pavey. The Human Resources Committee held four meetings during 2009.

# REPORT ON EXECUTIVE COMPENSATION

## 2009 Report of the Human Resources Committee of the Board of Directors

The *Compensation Discussion and Analysis* that follows discusses the Corporation's executive compensation programs and policies. The primary element of the Human Resources Committee's mandate is oversight of the Corporation's compensation programs and policies while making decisions regarding the compensation of executives based on those programs and policies. As a result, the Human Resources Committee has participated in the preparation of the *Compensation Discussion and Analysis* and has recommended to the Board that the *Compensation Discussion and Analysis* be included in this Circular.

Roy. P. Rideout (Chair)
Ida J. Goodreau
Geoffrey F. Hyland
David G. Norris
Michael A. Pavey

The following discussion pertains to the three Named Executive Officers ("NEOs") of Fortis:

1. H. Stanley Marshall – President & Chief Executive Officer ("CEO")
2. Barry V. Perry – Vice President, Finance & Chief Financial Officer ("CFO")
3. Ronald W. McCabe – Vice President, General Counsel & Corporate Secretary ("General Counsel")

# COMPENSATION DISCUSSION AND ANALYSIS

The Corporation's executive compensation program is designed to attract and retain qualified and experienced executives as well as align the compensation level of each executive to that executive's level of responsibility.

## EXECUTIVE COMPENSATION POLICY

### Triennial Review

Fortis conducts a triennial review of its Executive Compensation Policy using the services of its primary compensation consultant and another compensation consultant. The latest triennial review was conducted during 2009 and lead to the implementation, effective 1 January 2010, of the 2010 Executive Compensation Policy. Fortis operating subsidiaries follow a similar process to develop executive compensation policies reflecting their specific operating environment.

### Objectives

Executive compensation practices at Fortis are specifically designed to:

- Motivate executives to deliver strong business performance;
- Attract and retain highly qualified executives;
- Align closely the interests of executives and shareholders;
- Balance executive compensation paid for short-term and long-term results;
- Ensure that a significant portion of executive compensation is dependent upon individual and corporate performance while contributing to increasing shareholder value; and
- Keep the executive compensation program simple to communicate and administer.

## Competitive Positioning

Fortis does not measure performance against a particular reference group. However, as a general policy, Fortis compensates executives at a level generally equivalent to the median of the practice among a broad reference group of approximately 200 Canadian commercial industrial companies from the Hay Group database. This reference group does not include organizations in the financial service and broader public sectors. It does include organizations from the energy, mining and manufacturing sectors.

Due to the size and complexity of the CEO's role, the CEO's compensation is referenced against a group of 23 specific companies that reflect the broader Hay Group database of Canadian commercial industrial companies used in comparison for other Fortis NEOs. These 23 companies are as follows:

- ATCO Limited
- Barrick Gold Corporation
- Canadian Pacific Railway
- Canadian Tire
- Emera Inc.
- Enbridge Inc.
- EPCOR Utilities
- Finning International
- Goldcorp
- Kinross Gold
- Methanex
- Nexen
- Nova Chemicals
- Petro-Canada
- Russel Metals
- Suncor Energy
- Teck Resources (formerly Teck Cominco)
- Tembec
- Toromont
- TransAlta
- TransCanada Corp.
- Wajax Income Fund
- Xstrata Nickel Canada

The continued appropriateness of both reference groups are formally reviewed as part of the triennial review of the Executive Compensation Policy.

Annually, the Human Resources Committee uses the median compensation data from the appropriate reference group to compare each executive position to jobs of similar value within the reference group. This framework serves as a guide for the Human Resources Committee's deliberations. The actual total compensation and/or amount of each compensation element for an executive officer may be more or less than the median amount.

## Elements of Total Compensation

Considering the objectives above, NEOs are rewarded for performance through the following three components of compensation:

**Current-Year Performance + Long-Term Performance + Full-Career Performance**

| **Current-Year Performance** | | |
|---|---|---|
| **Compensation Element *(Eligibility)*** | **Description** | **Compensation Objectives** |
| Annual Base Salary<br><br>*(all NEOs)* | Salary is a market competitive, fixed level of compensation. | Attract and retain highly qualified executives.<br><br>Motivate strong business performance. |
| Annual Incentive<br><br>*(all NEOs)* | Combined with salary, the target level of annual incentive is intended to provide executives with a market-competitive total cash opportunity.<br><br>Earnings Per Share ("EPS") is the corporate performance metric.<br><br>Annual incentive payouts depend on individual and corporate performance. | Attract and retain highly qualified executives.<br><br>Motivate strong business performance.<br><br>Compensation dependent on individual and corporate performance.<br><br>Simple to communicate and administer. |

| **Long-Term Performance** | | |
|---|---|---|
| **Compensation Element *(Eligibility)*** | **Description** | **Compensation Objectives** |
| Stock Options<br><br>*(all NEOs)* | Annual equity grants are made in the form of stock options.<br><br>The amount of annual grant is dependent on the level of the executive and their current share ownership level.<br><br>Planned grant value is converted to the number of options granted by dividing the planned value by the predetermined, formulaic planning price derived using the Black-Scholes Option Pricing Model.<br><br>Options vest over a four-year period. | Align executive and shareholder interests.<br><br>Attract and retain highly qualified executives.<br><br>Motivate strong business performance.<br><br>Balance compensation for short- and long-term results.<br><br>Simple to communicate and administer. |
| Performance Share Units (PSUs)<br><br>*(only the CEO)* | Equity grant value based on performance and retention objectives for the CEO.<br><br>Grant value is converted to the number of units granted by dividing the planned value by the predetermined, formulaic planning price.<br><br>At the end of the three-year performance period, the Human Resources Committee assesses the performance of the CEO against the pre-defined objectives as well as total return performance and, if thought fit, authorizes payment of the accumulated PSU balance (inclusive of notional dividends) at the price determined pursuant to the plan.<br><br>Paid in cash upon completion of the three-year performance period. | Align executive and shareholder interests.<br><br>Attract and retain highly qualified executives.<br><br>Motivate strong business performance.<br><br>Balance compensation for short- and long-term results.<br><br>Compensation dependent on individual and corporate performance.<br><br>Encourages sustained, mid-term growth by linking a portion of compensation to mid-term performance.<br><br>Simple to communicate and administer. |

| **Full-Career Performance** | | |
|---|---|---|
| **Compensation Element *(Eligibility)*** | **Description** | **Compensation Objectives** |
| Employee Share Purchase Plan<br><br>*(All employees, including NEOs)* | Executives can participate in the Employee Share Purchase Plan under the same terms and conditions as other employees. | Align executive and shareholder interests.<br><br>Attract and retain highly qualified executives. |
| Self-directed RRSPs<br><br>*(all NEOs)* | Fortis contributes on a matching basis to self-directed RRSPs for each executive up to the maximum RRSP contribution limit.<br><br>RRSP contributions for the CEO commenced on 1 January 2007. | Attract and retain highly qualified executives.<br><br>Simple to communicate and administer. |

| Full-Career Performance (cont'd) | | |
|---|---|---|
| **Compensation Element *(Eligibility)*** | **Description** | **Compensation Objectives** |
| Defined Contribution SERP<br><br>*(all NEOs)* | Accrual of 13% of base salary and annual incentive in excess of the maximum RRSP contribution limit.<br><br>Notionally accrues interest at the 10-year Government of Canada bond yield rate plus a premium of 1% to 3% dependent upon years of service.<br><br>At time of retirement, paid in one lump sum or in equal payments over 15 years at the option of the NEO. | Attract and retain highly qualified executives.<br><br>Simple to communicate and administer. |

## Current-Year Performance

### *Annual Base Salary*

Annual base salaries for the NEOs are reviewed by the Human Resources Committee and established annually in the context of total compensation and by reference to the range of salaries paid by Hay Group's Canadian Commercial Industrial Companies comparator group, in the case of the CFO and General Counsel, and to the specific group of Commercial Industrial companies for the CEO. Fortis policy is to pay executives at approximately the median of the salaries paid to executives in these comparator groups.

### *Annual Incentive*

Fortis uses an annual incentive plan that provides for annual cash payouts to reward executives for performance over 12 months. The amount of each executive's annual incentive is determined by the Board upon recommendation of the Human Resources Committee following annual assessment of corporate and individual performance and is expressed as a percentage of each executive's annual base salary. The incentive plan is reviewed annually by the Board, upon recommendation from the Human Resources Committee, and is premised upon meeting and exceeding the current year's corporate performance targets and individual performance objectives.

Considerations relevant to the determination of corporate performance targets include general economic factors and business conditions, anticipated regulatory proceedings, and the derivation of and relative contribution to earnings of particular business segments. The ability to generate year-over-year earnings growth can be constrained by the absence of acquisitions, utility regulatory decisions, general economic factors and the relative earnings mix between regulated and non-regulated activities.

The directors have full discretion in respect of the operation of the annual incentive plan and are required to take into account all relevant circumstances in the exercise of judgment regarding the amounts and terms of annual incentive plan payments. The Board may make deviations from prescribed formulas in appropriate circumstances, having regard to the overall performance of the individual NEO, the Corporation and external considerations.

The sequential process for setting and determining the annual incentive payout is as follows:

**Target Setting**

1. Weightings are assigned between corporate and individual performance.
   - The relative ability of each executive to impact corporate performance is reflected in the weighting between corporate and individual elements, with 80% of the CEO's annual incentive primarily dependent upon corporate performance.

**2009 Corporate and Individual Performance Mix**

| Position | Corporate Performance % | Individual Performance % | Total % |
|---|---|---|---|
| President & Chief Executive Officer | 80 | 20 | 100 |
| VP, Finance & Chief Financial Officer | 70 | 30 | 100 |
| VP, General Counsel & Corporate Secretary | 50 | 50 | 100 |

2. Target and maximum annual incentive payouts are delineated as a percentage of base salary.
   - In 2009, the targeted annual incentives for the CEO, the CFO and the General Counsel were set at 80%, 50% and 30% of their respective annual base salaries.
   - Annual incentive payouts are earned for meeting expected corporate performance targets as adjusted for factors determined to be beyond the reasonable control of management as reviewed by the Audit Committee and approved by the Human Resources Committee.
   - The annual incentive plan contemplates payment at 150% of target (normal maximum) when superior performance is achieved, with an additional 50% of target available to be awarded at the Board's discretion in recognition of individual response to exceptional challenges or opportunities.
   - The Board retains discretion to award an incentive in excess of 200% of target and may make deviations from the prescribed formulas in appropriate circumstances, having regard to the overall performance of the individual NEO, the Corporation and external considerations.
   - Generally, no payments will be made in respect of the corporate component where corporate performance is below a minimum threshold predetermined by the Board.
   - Where individual performance is judged to be unsatisfactory during the year, no annual incentive payment will be made, notwithstanding that certain thresholds/targets were met.

**Determinations**

1. Corporate performance is determined by reference to EPS results compared to the Corporation's annual Business Plan adopted by the Board.
   - The target EPS range of projected Business Plan performance is developed by the Human Resources Committee and recommended to the Board for adoption.
   - Events beyond the reasonable control of management, such as effects of market power prices and hydrological conditions, are identified and adjusted, either upward or downward, by the Human Resources Committee when assessing measurement of actual EPS against target EPS.

- The Audit Committee reviews the proposed adjustments to actual EPS for events beyond the reasonable control of management and confirms the financial implications of such events to the Human Resources Committee for its assessment in developing a recommendation for Board approval.
- For 2009, the Board adopted a range of + or – 5% of the EPS projected in the Business Plan for the purpose of setting the maximum target and minimum acceptable corporate performance.

**Corporate Performance Targets**

| Earnings per Share | Payout |
|---|---|
| Less than 95% of Business Plan | 0 |
| 95% of Business Plan | 50% |
| Business Plan | 100% |
| 105% or more of Business Plan | 150% |

- Performance between 95% and 105% of Business Plan results in an interpolated payout between 50% and 150% of Target.

2. Individual performance is determined by measuring results against individual executive performance objectives approved by the Human Resources Committee in the first quarter of the financial year.
3. Each NEO's annual incentive payment is determined by the Board, upon recommendation from the Human Resources Committee.

A summary of the performance metrics, weightings, and potential multiples for each NEO is shown below.

| Position | Corporate Performance Targets [(1)] | | | Individual Performance Targets [(1)] | | |
|---|---|---|---|---|---|---|
| | Weight | Metric | Multiple | Weight | Metric | Multiple |
| CEO | 80% | EPS | 0 - 150% | 20% | Multiple | 0 - 150% |
| CFO | 70% | EPS | 0 - 150% | 30% | Multiple | 0 - 150% |
| General Counsel | 50% | EPS | 0 - 150% | 50% | Multiple | 0 - 150% |

[(1)] *The Corporate Performance multiple plus the Individual Performance multiple can range between 0% to 150%. The final incentive percentage can be increased at the Board's discretion based on the NEO's response to exceptional challenges or opportunities.*

## Long-Term Performance

### *Long-Term Incentives*

Long-term incentives ("LTI") are granted to align executives' interests with shareholders interests in increasing shareholder value. Two programs currently used by Fortis are: (i) Stock Options under the 2006 Stock Option Plan ("2006 Stock Option Plan") and (ii) Performance Share Units ("PSU") under the Performance Share Unit Plan ("PSUP") established in 2004 for the CEO.

Descriptions of these two plans are set out below.

**1.** ***2006 Stock Option Plan***

The 2006 Stock Option Plan was approved by the Shareholders on 2 May 2006 for the grant of Options to Eligible Persons and has not been amended in the latest financial year. Directors are not eligible to participate in the 2006 Stock Option Plan. No Options shall be granted under the 2006 Stock Option Plan if, together with any other security based compensation arrangement established or maintained by Fortis, such granting of options could result in: (i) the number of Common Shares issuable to insiders of Fortis, at any time, exceeding 10% of the issued and outstanding Common Shares, and (ii) the number of Common Shares issued to insiders of Fortis, within any one year period, exceeding 10% of the issued and outstanding Common Shares.

The 2006 Stock Option Plan is administered by the Human Resources Committee. Pursuant to the 2006 Stock Option Plan, the determination of the exercise price of Options is made by the Human Resources Committee at a price not less than the volume weighted average trading price of the Common Shares of Fortis determined by dividing the total value of the Common Shares traded on the TSX during the last five trading days immediately preceding the date of grant by the total volume of the Common Shares traded on the TSX during such five trading days. The Human Resources Committee determines: (i) which Eligible Persons are granted Options; (ii) the number of Common Shares covered by each Option grant; (iii) the price per share at which Common Shares may be purchased; (iv) the time when the Options will be granted; (v) the time when the Options will vest; and (vi) the time at which the Options will expire (not more than seven years from the date of grant).

Options granted under the 2006 Stock Option Plan are personal to the Eligible Person and not assignable, other than by testate succession or the laws of descent and distribution. In the event that a person ceases to be an Eligible Person, the 2006 Stock Option Plan will no longer be available to such person. The grant of Options does not confer any right upon an Eligible Person to continue employment or to continue to provide services to Fortis.

If the term of an Option granted pursuant to the 2006 Stock Option Plan, held by an Eligible Person, expires during a blackout period (being a period during which the Eligible Person is prohibited from trading in the securities of Fortis pursuant to securities regulatory requirements or then applicable written policies), then the term of such Option, or unexercised portion thereof, shall be extended and shall expire ten business days after the end of the blackout period.

Options granted pursuant to the 2006 Stock Option Plan have a maximum term of seven years from the date of grant and the Options will vest over a period of not less than four years from the date of grant, provided that no option will vest immediately upon being granted. Options granted pursuant to the 2006 Stock Option Plan will expire no later than three years after the termination, death or retirement of an Eligible Person. Loans to Eligible Persons for the exercise of Options are prohibited by the 2006 Stock Option Plan.

The 2006 Stock Option Plan provides that, notwithstanding any provision in the plan to the contrary, no Option may be amended to reduce the Option Price below the Option Price as of the date the Option is granted.

Effective 1 January 2009, where an executive has been granted options for five or more prior years, the maximum number of shares for which options will be granted in any calendar year will not exceed the minimum number of shares held by the executive since the beginning of the previous calendar year.

## 2. *Performance Share Units ("PSUs")*

The CEO is granted PSUs in addition to stock options. Each PSU represents a unit with an underlying value equivalent to the value of Common Shares. Notional dividends are assumed to accrue to the holder of the PSU and to be reinvested on the quarterly dividend payment dates of Common Shares. The PSU maturation period is three years, at which time a cash payment is made to the CEO after evaluation by the Human Resources Committee of the achievement of predetermined personal and/or corporate objectives and total return performance. The payment is based on the number of PSUs outstanding multiplied by the volume weighted average trading price of the Common Shares determined by dividing the total value of the Common Shares traded on the TSX during the last five trading days immediately preceding the date of grant by the total volume of the Common Shares traded on the TSX during such five trading days.

These units provide an additional incentive for the CEO to achieve specific mid- to long-term corporate performance goals. If these goals are not achieved, then the CEO will ultimately receive less comparative compensation than the marketplace.

## 3. *Other Security Based Arrangements*

In addition to the two LTI plans discussed above, Fortis maintains other security based arrangements from which awards are no longer granted. They include the 2002 Stock Option Plan and the Executive Stock Option Plan. Upon approval of the 2006 Stock Option Plan of Fortis by the Shareholders on 2 May 2006, stock option grants ceased to be made under the 2002 Stock Option Plan; however, unexercised options remain outstanding under the 2002 Stock Option Plan and the original Executive Stock Option Plan. The 2002 Stock Option Plan and the Executive Stock Option Plan will terminate when all of the outstanding options are exercised or expire, on or before 28 February 2016 and 15 May 2011, respectively.

## Full-Career Performance

### *Employee Share Purchase Plan*

The optional Employee Share Purchase Plan ("ESPP") was approved on 7 December 1987 and has not been amended in the last financial year. Details of this plan are discussed below.

Employees of Fortis and its subsidiaries are encouraged to share in the financial performance of Fortis by investing in Common Shares as facilitated through the ESPP for all Permanent Employees and stock option plans for senior management. The ESPP is available to Permanent Employees and persons who retire upon becoming eligible to do so under the terms of their employer's pension plan and who were participants in the ESPP at the time of their retirement ("Retirees"). As at 31 December 2009, the total number of Common Shares issued and outstanding under the ESPP was 1,895,908 and the remaining number of Common Shares reserved for issuance under the ESPP was 237,979. This represents 1.11% and 0.14%, respectively, of the total number of issued and outstanding Common Shares. As at 22 March 2010, the total number of Common Shares issued and outstanding under the ESPP was 2,024,004 and the remaining number of Common Shares reserved for issuance under the ESPP was 109,883. This represents 1.18% and 0.06%, respectively, of the total number of issued and outstanding Common Shares.

Permanent Employees participating in the ESPP may inform their employer that they wish to participate in the ESPP by completing an employee participation form. The proposed investment in Common Shares cannot be less than $100 and cannot exceed, in the aggregate, in any calendar year, 10% of the Permanent Employee's annual base salary for the year. A Retiree's participation will be limited to the reinvestment of dividends on Common Shares recorded for participation in the ESPP. The benefits of the ESPP are not assignable.

The purchase price of the Common Shares under the ESPP is 90% of the average market price, being the average of the average of the high and low prices of Common Shares actually traded on the TSX on the five trading days immediately preceding the investment date on which not less than 100 Common Shares were traded. The Permanent Employee's employer contributes the remaining 10% by way of a contribution of Common Shares acquired in the open market by Computershare Trust Company of Canada, the trustee under the ESPP.

Where payments received by the employer from the Permanent Employee are less than the amounts directed to be invested, the Employer will make a loan ("Employee Loan") to the Permanent Employee for the amount of the balance. The Permanent Employee must repay any Employee Loan amount, without interest, over a term not exceeding 52 weeks immediately following the date of the loan. The full amount of an Employee Loan outstanding becomes due and payable immediately upon termination of employment, when any compensation owing to the Permanent Employee will be applied to repayment of the Employee Loan.

All Common Shares purchased and retained under the ESPP are registered in the name of Computershare Trust Company of Canada, as trustee, for the benefit of the Permanent Employees participating in the plan. Certificates for Common Shares purchased through an Employee Loan will not be provided to the Permanent Employee until such Employee Loan is repaid in full. Otherwise, certificates for Common Shares held by a Permanent Employee under the ESPP are provided upon written request to Fortis or upon termination of the Permanent Employee's participation in the ESPP.

## RETIREMENT ARRANGEMENTS

Mr. Marshall's participation in a Defined Benefit Registered Pension Plan ("DB RPP") and the Defined Benefit Supplemental Plan ("DB SERP") (collectively the DB Plans) ceased with respect to contribution and accrual of benefit on 31 December 2006. Commencing 1 January 2007, Fortis contributes an amount, which is matched by Mr. Marshall, up to the maximum registered retirement savings plan ("RRSP") contribution limit, as allowed by the *Income Tax Act (Canada)*, to a self-directed RRSP for Mr. Marshall. Commencing 1 January 2007, he also participates in the non-contributory defined contribution Supplemental Employee Retirement Plan ("DC SERP").

### *Defined Benefit Plans*

In accordance with the terms of Mr. Marshall's employment agreement entered at the time he was appointed CEO in April 1996, the combined result of the DB Plans is to entitle Mr. Marshall to receive an annual payment following retirement equal to 70% of his highest three-year average annual base salary and annual cash incentive determined as at 31 December 2006. The annual benefit that will be paid to Mr. Marshall upon retirement under the DB Plans is subject to actuarial adjustment resulting from delayed commencement of Mr. Marshall's retirement after 1 January 2007. The annual pension that would have been paid as of 31 December 2009 to Mr. Marshall, if his retirement had commenced on 1 January 2010, was $1,098,302 for life with 50% payable to his surviving spouse.

All payments to Mr. Marshall under the DB SERP will be paid from Fortis operating funds and are not secured through a trust fund. The DB SERP operates as a supplement to the Corporation's regular defined benefit pension plan which provides a pension up to the maximum limits allowed by the applicable pension rules of the *Income Tax Act (Canada)*.

### *Other Retirement Arrangements*

Messrs. Perry and McCabe do not participate in a defined benefit pension plan and Mr. Marshall's participation in the DB Plans ceased as at 31 December 2006, other than in regards to his entitlement to pension payment on retirement. Fortis contributed to self-directed RRSPs for Messrs. Marshall, Perry and McCabe, which contribution was matched by them up to the maximum RRSP contribution limit, as allowed by the *Income Tax Act (Canada)*.

### *Defined Contribution Supplemental Employee Retirement Plan*

Messrs. Marshall, Perry and McCabe participate in the DC SERP. The DC SERP provides for the accrual by Fortis of an amount equal to 13% of the annual base salary and annual cash incentive of the participant in excess of the allowed maximum for contribution to an RRSP, to an account which will accrue interest equal to the rate of a 10-year Government of Canada Bond plus a premium of 1% to 3% dependent upon years of service. At the time of retirement, the notional amounts accumulated under the DC SERP may be paid to the participant in one lump sum or in equal payments over 15 years.

## 2009 EXECUTIVE COMPENSATION

### *Objective Setting*

Following approval of the Business Plan by the Board, the CEO recommends a range of the EPS projected in the Business Plan to be used to assess corporate performance by the Human Resources Committee. Each NEO also proposes individual performance objectives that support the Business Plan. The CEO submits his individual performance objectives directly to the Human Resources Committee and reviews the individual performance objectives for the other NEOs with the Human Resources Committee. The Human Resources Committee then reviews and submits the corporate and individual performance objectives to the Board of Directors for approval.

### *Annual Base Salary*

In accordance with the executive compensation philosophy, the Human Resources Committee adjusts annual base salaries for each NEO referenced against the market medians for the applicable comparator group(s) of Canadian commercial industrial companies.

### *Annual Incentive*

Fortis used EPS, adjusted either upward or downward for matters beyond the reasonable control of management, to determine the corporate performance component of annual incentive payouts for 2009.

The individual performance metrics established for 2009 were intended to drive personal development and performance, outside of corporate goals.

In addition to performance against his position description, individual metrics for the CEO included:

- strategically positioning Fortis and its subsidiaries for continued profitable growth through progress on:
    - Weathering the world economic crisis and recessionary economic environment; and
    - Progressing certain regulatory matters.

In addition to performance against his position description, individual metrics for the CFO included:

- Managing financial aspects of acquisition or divestiture investigations and transactions for Fortis and its subsidiaries.
- Continuing the implementation of International Financial Reporting Standards and progressing Enterprise Risk Management to the decision stage.
- Enhancing the investor and analyst relations program at Fortis.

In addition to performance against his position description, individual metrics for the General Counsel included managing legal aspects of acquisition or divestiture investigations and transactions for Fortis and its subsidiaries.

In respect of identification and analysis of the impact of matters beyond the reasonable control of management, the Human Resources Committee, with the assistance of the Audit Committee in respect of corporate adjustments, performed an assessment of the performance of the Corporation and individual NEOs against the predetermined corporate and individual performance metrics to develop its recommendation to the Board for the 2009 annual incentive payments. The assessment of the Human Resources Committee was as follows:

**President & CEO:**

| | Actual Performance | | | Resultant Payout | | |
|---|---|---|---|---|---|---|
| **Type of Metric** | **Metric** | **Target** | **Actual % of Target** | **Actual % of Target Multiple** | **STI Weighting %** | **% Payout** |
| Corporate Metrics | EPS | Business Plan EPS (adjusted) | 105.5% | 150% | 80% | 120% |
| Individual Metrics | Subjective | 100% | - | 140% | 20% | 28% |
| Total | | - | - | 148% | 100% | 148% |

**VP Finance & CFO:**

| | Actual Performance | | | Resultant Payout | | |
|---|---|---|---|---|---|---|
| **Type of Metric** | **Metric** | **Target** | **Actual % of Target** | **Actual % of Target Multiple** | **STI Weighting %** | **% Payout** |
| Corporate Metrics | EPS | Business Plan EPS (adjusted) | 105.5% | 150% | 70% | 105% |
| Individual Metrics | Subjective | 100% | - | 140% | 30% | 42% |
| Total | | - | - | 147% | 100% | 147% |

**VP General Counsel & Corporate Secretary:**

| | Actual Performance | | | Resultant Payout | | |
|---|---|---|---|---|---|---|
| **Type of Metric** | **Metric** | **Target** | **Actual % of Target** | **Actual % of Target Multiple** | **STI Weighting %** | **% Payout** |
| Corporate Metrics | EPS | Business Plan EPS (adjusted) | 105.5% | 150% | 50% | 75% |
| Individual Metrics | Subjective | 100% | - | 140% | 50% | 70% |
| Total | | - | - | 145% | 100% | 145% |

Based on performance against corporate and individual objectives mentioned above and in exercise of the discretion vested in the Board, the following annual incentive payments were awarded:

| | 2009 Annual Incentive Payment | Percentage of Target Payout |
|---|---|---|
| H. Stanley Marshall | $1,184,000 | 148% |
| Barry V. Perry | $ 330,750 | 147% |
| Ronald W. McCabe | $ 104,400 | 145% |

**Long-term Incentives**

***Stock Options***

The number of options granted to NEOs is based upon each NEO's annual base salary. Under guidelines approved by the Board, each executive may receive one option grant per year. In 2009, the CEO, CFO and General Counsel received option grants at 300%, 300% and 150% of their respective annual base salaries. In terms of the number of options, these percentages resulted in 134,592, 60,568, and 16,152 stock options being granted to the CEO, CFO and General Counsel, respectively. Options were granted at an exercise price of $22.29. Options granted in 2009 have a maximum term of seven years from the date of grant and the Options will vest over a period of not less than four years from the date of grant. No options will vest immediately upon being granted. Options will expire no later than three years after the termination, death or retirement of the NEO.

There were no amendments, cancellations, replacements, or any modifications to option grants during 2009.

***Performance Share Units***

**2009 – 2012 PSU Grant**

In 2009, the CEO was granted 40,000 PSUs, valued at a total of $764,400. The payout criteria established by the Human Resources Committee, in respect of the 2009 grant, were directed at:

1. Successfully minimizing the negative impacts and maximizing the growth opportunities likely to result from the global economic crisis on the Corporation over the next three years;

2. Successfully consolidating the position of the Corporation's BC utilities to minimize adverse political and regulatory exposures; and

3. Maintenance of reasonably successful results from Fortis, as a whole, as measured by total return equal to, or better than, the return for the S&P/TSX Capped Utilities Index over the three-year period commencing 1 March 2009.

**2006 – 2009 PSU Grant**

The Human Resources Committee considered the PSU award made in 2006 at its meeting of 24 February 2009. The Human Resources Committee reviewed performance over the three-year period from 2006 through 2009 of the Corporation and the CEO against the pre-defined payout criteria of:

1. The integration of FortisAlberta Inc. and FortisBC Inc. into the Fortis organization in a reasonably successful manner, considering the circumstances at the time of closing the Aquila transaction and the challenges presented by subsequent events, including:

   (a) Smooth/successful separation of Alberta and British Columbia operations with separate management teams;

   (b) Attainment of reasonable regulatory decisions in the two provincial regulatory environments.

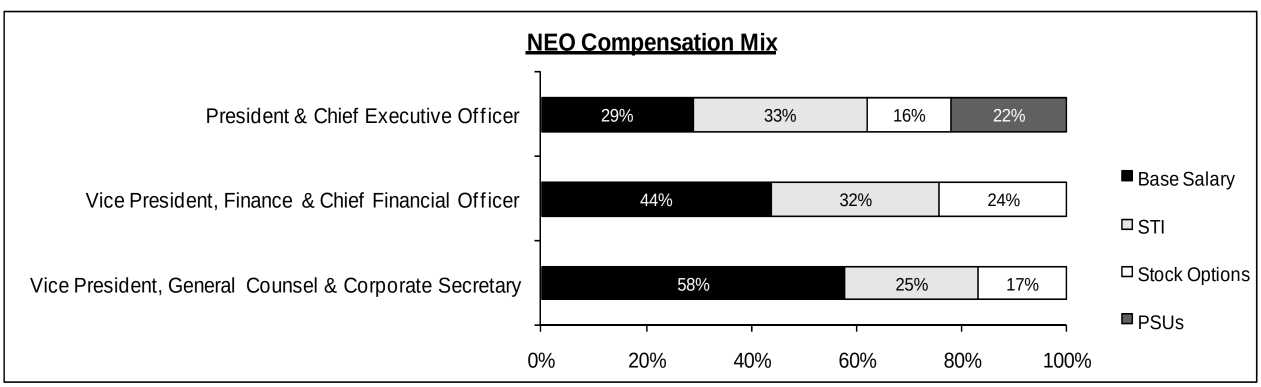
2. Maintenance of reasonably successful results from Fortis, as a whole, as measured by total return equal to, or better than, the return reported for the S&P/TSX Capped Utilities Index over the three-year period commencing 1 March 2006.

The Human Resources Committee concluded that Mr. Marshall succeeded in achieving the performance criteria and authorized payment pursuant to the plan in the amount of $733,353.

***2009 Total Direct Compensation Components***
(Base Salary + Annual Incentive + Stock Options + PSUs)

Fortis approach to total direct compensation is to provide a comprehensive compensation package that links to overall corporate strategy by rewarding individual performance based on Fortis corporate performance. A significant portion of total compensation is "at risk" – meaning it will vary annually based on corporate performance, with the remainder derived from salary. In 2009, the portion of total annual compensation at risk for the CEO, CFO and General Counsel was approximately 71%, 56% and 42%, respectively. This level of "at risk" compensation encourages the alignment of executive and shareholder interests. Fortis executive compensation regime is structured in a manner that emphasizes the greater ability of the CEO to affect corporate performance by making a greater portion of the CEO's compensation dependent upon corporate performance. A breakdown of the components of 2009 Total Direct Compensation (Base Salary + Annual Incentive + Stock Options + PSUs) for each NEO is shown below.

| NEO | Base Salary ($) | Annual Incentive ($) | Stock Options ($) | PSUs ($) | Total at-risk |
|---|---|---|---|---|---|
| President & Chief Executive Officer | 1,000,000 | 1,184,000 | 551,827 | 764,400 | 71% |
| Vice President, Finance & Chief Financial Officer | 450,000 | 330,750 | 248,329 | - | 56% |
| Vice President, General Counsel & Corporate Secretary | 240,000 | 104,400 | 66,223 | - | 42% |



## Retirement Plans

In 2009, the Corporation contributed to self-directed RRSPs for Messrs. Marshall, Perry and McCabe, which contributions were matched by them up to the maximum RRSP contribution limit of $21,000, as allowed by the *Income Tax Act (Canada)*.

Additional amounts were accrued into DC SERP accounts equal to 13% of the annual base salary and annual cash incentive above the threshold required to meet the maximum RRSP contribution limit for each NEO in the amounts of $232,500, $73,250 and $18,962 for Messrs. Marshall, Perry and McCabe, respectively. A detailed breakdown of retirement plans for each NEO is provided in the *Retirement Plan Tables* on page 37 of this Circular.

## SHARE OWNERSHIP GUIDELINES

The Board adopted a policy in 2003 that requires the CEO to acquire Common Shares to a value equivalent to three times annual base salary within three years of being appointed to the position of CEO. Mr. Marshall's ownership of Common Shares exceeds this requirement.

Instead of prescribing minimum holdings for the other NEOs, the Board elected to encourage share ownership by participants in the 2006 Stock Option Plan by adopting a guideline in the 2007 Executive Compensation Policy that would limit annual option grants to any NEO who has been granted options for at least five years to the lesser of the number of options prescribed under the Executive Compensation Policy related to the particular position rating of the individual and the minimum number of shares actually owned by the individual since the beginning of the previous calendar year. This guideline became effective with the option grants made on 11 March 2009. The current share ownership of the NEOs compared to a multiple of their 2009 annual base salary is as follows:

### Common Share Ownership of Named Executive Officers

| Name | Shares Owned at 22 March 2010 [(1)] (#) | Value of Shares [(2)] ($) | Common Share Value as a Multiple of 2009 Base Salary (*x*) |
|---|---|---|---|
| H. STANLEY MARSHALL | 406,758 | 11,673,955 | 11.67 |
| BARRY V. PERRY | 96,220 | 2,761,514 | 6.14 |
| RONALD W. McCABE | 67,817 | 1,946,348 | 8.11 |

[(1)] *Represents both direct and indirect ownership of Common Shares, as reported by each NEO.*
[(2)] *Calculated using the closing price of Common Shares at 22 March 2010 of $28.70.*

## COMPENSATION CONSULTANT

Fortis currently engages Hay Group Limited ("Hay Group") as its primary compensation consultant. Fortis also engaged Towers Watson ("Towers") to assist in the Corporation's triennial review of the executive compensation policy during 2009.

Fortis also engages Mercer Human Resources Consulting ("Mercer") to consult on certain pension and compensation issues and to perform certain administrative and actuarial functions related to Fortis pension programs.

| Type of Fee | 2009 Consultant Fees | Percentage of Total 2009 Consulting Fees |
|---|---|---|
| Executive Compensation Consulting | | |
| Hay Group [(1)] | 287,109 | 61.4% |
| Towers [(2)] | 57,246 | 12.2% |
| Subtotal – Executive Compensation Consulting | 344,355 | 73.6% |
| Pension Consulting and Actuarial Services | 123,300 | 26.4% |
| Total | 467,655 | 100.0% |

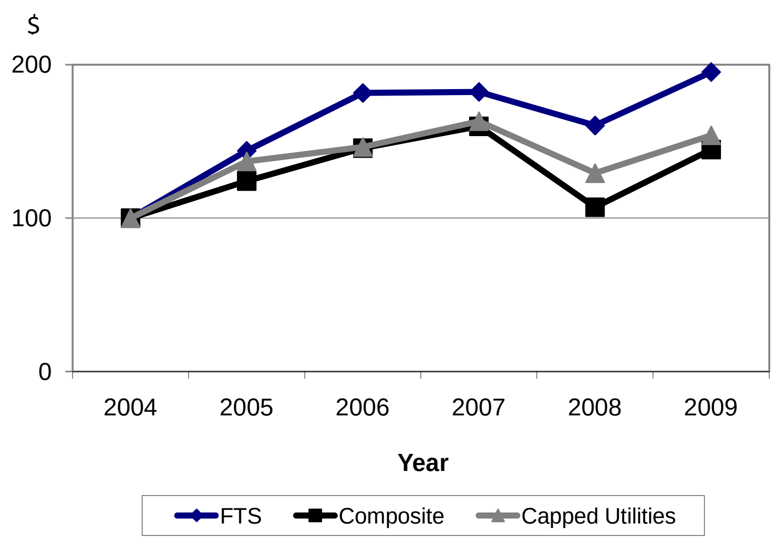
(1) *Mandates given to Hay Group in 2009 were for the following work: Triennial compensation review, incentive plan review, compensation analysis for executive positions, estimated salary increases, incentive valuation, Board education, and Compensation Discussion and Analysis disclosure consulting.*

(2) *Mandates given to Towers in 2009 were for the following work: Compensation analysis for triennial executive compensation policy review and a review of director compensation.*

## PERFORMANCE GRAPH

The following graph compares the total cumulative shareholder return for $100 invested in Common Shares on 31 December 2004 with the cumulative total return of the S&P/TSX Composite Index and the S&P/TSX Capped Utilities Index for the five most recently completed financial years. Dividends declared on the Common Shares are assumed to be reinvested at the closing share price on each dividend payment date. The S&P/TSX Composite Index and S&P/TSX Capped Utilities Index are total return indices and include reinvested dividends.

**Five-Year Cumulative Total Return on $100 Investment**
**Fortis Inc. Common Shares, S&P/TSX Composite Index, S&P/TSX Capped Utilities Index**
**(31 December 2004 – 31 December 2009)**




| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|---|
| Fortis Inc. Common Shares ($) | 100 | 144 | 182 | 182 | 160 | 195 |
| S&P/TSX Composite Index ($) | 100 | 124 | 146 | 160 | 107 | 145 |
| S&P/TSX Capped Utilities Index ($) | 100 | 137 | 146 | 163 | 129 | 154 |
| Increase in total shareholder return from prior year - Fortis Inc. Common Shares (%) | - | 44.0 | 26.4 | 0.0 | (12.1) | 21.9 |

Fortis executive compensation programs are designed to reward NEOs at the median practice of Canadian commercial industrial companies. Total Shareholder Return ("TSR") is only one of the factors considered by the Human Resources Committee during its deliberation over both the Short-Term and Long-Term Incentive components of compensation. Therefore, a direct correlation between the performance graph and executive compensation levels over any given period is not to be expected.

As demonstrated in the graph above, Fortis TSR has increased 95% since 31 December 2004. Fortis performance has exceeded the two comparator indices over the five most recently completed financial years. The increase in NEO Total Compensation (other than Pension Value) for 2009 when compared to 2005 was 74.7%. This increase was largely influenced by the transformational acquisition of Terasen for $3.7 billion in May 2007. Fortis total assets, inclusive of the Terasen purchase, grew from $3.9 billion as at 31 December 2004 to $12.2 billion as at 31 December 2009. During this time, earnings grew from $137 million in 2005 to $262 million in 2009. NEO Total Compensation (other than Pension Value), as a percentage of Fortis earnings, decreased from 2.24% in 2005 to 2.05% in 2009.

## COMPENSATION TABLES

### Compensation of Named Executive Officers

The following table sets forth information concerning the annual and long-term compensation earned for services rendered during the last financial year by the CEO of Fortis and each of the other NEOs as defined in National Instrument 51-102F6 – *Statement of Executive Compensation.*

### Summary Compensation Table

| Name and Principal Position | Year | Salary ($) | Share-Based Awards [(1)] ($) | Option-Based Awards [(2)] ($) | Annual Incentive Plans [(3)] ($) | Pension Value [(4)] ($) | All Other Compensation [(5)] ($) | Total Compensation ($) |
|---|---|---|---|---|---|---|---|---|
| H. STANLEY MARSHALL | 2009 | 1,000,000 | 764,400 | 551,827 | 1,184,000 | 552,574 | 249,454 | 4,302,255 |
| President and Chief Executive Officer | 2008 | 870,000 | 798,466 | 439,462 | 950,000 | 618,146 | 248,077 | 3,924,151 |
| BARRY V. PERRY | 2009 | 450,000 | - | 248,329 | 330,750 | 83,750 | 146,735 | 1,259,564 |
| Vice President, Finance and Chief Financial Officer | 2008 | 400,000 | - | 202,052 | 275,000 | 81,000 | 140,236 | 1,098,288 |
| RONALD W. McCABE | 2009 | 240,000 | - | 66,223 | 104,400 | 29,462 | 25,224 | 465,309 |
| Vice President, General Counsel and Corporate Secretary | 2008 | 230,000 | - | 58,091 | 95,000 | 42,988 | 29,451 | 455,530 |

(1) *Represents the PSUs awarded in 2008 and 2009 – see 2009 Executive Compensation – Performance Share Units on page 30 of this Circular. The value of the PSUs awarded was determined using the underlying value of Common Shares as of the grant date. The value used was actuarially determined to be $24.24 and $19.11 per PSU for 2008 and 2009, respectively. For accounting purposes, the awards for 2008 and 2009 are measured at fair value which is determined as the weighted average price of Common Shares traded on the TSX for the five trading days immediately preceding the date of the grant. This value was determined to be $28.27 and $22.29 per PSU for 2008 and 2009, respectively.*

(2) *Represents the fair value of stock options to acquire Common Shares. The fair values of $4.76 and $4.10 per option were determined at the date of grant using the Black-Scholes Option Pricing Model in 2008 and 2009, respectively.*

(3) *Represents amounts earned under the Corporation's annual incentive program in the form of cash bonus related to the 2009 and 2008 financial years.*

(4) *The amounts reported include notional contributions to the DC SERP; employer contributions to the self-directed RRSP of the NEO; and, in the case of the CEO, the compensatory change in defined pension plan benefits.*

(5) *Includes the dollar value of insurance premiums paid by Fortis with respect to term life and disability insurance; imputed interest benefits of loans provided to NEOs in respect of income taxes arising from the exercise of stock options and the acquisition of Common Shares in accordance with the ESPP; and amounts paid by subsidiaries of Fortis as directors' fees to Messrs. Marshall and Perry in 2008 ($183,368 and $105,875, respectively) and 2009 ($186,135 and $94,500, respectively). No amounts are reported in respect of perquisites since such benefits do not exceed either $50,000 or more than 10% of a NEOs total salary.*

## Incentive Plan Tables

The following tables set forth details of all LTI Plan awards as at 31 December 2009. The LTI Plans are described in the section of the *Report on Executive Compensation* commencing on page 24 of this Circular.

### Outstanding Option-Based Awards Table

| Name | Year | Number of securities underlying unexercised options (#) | Option exercise price ($) | Option expiration date | Value of unexercised in-the-money options [(1)] ($) | Number of shares or units that have not vested (#) | Market or payout value of option-based awards that have not vested [(2)] ($) |
|---|---|---|---|---|---|---|---|
| H. STANLEY MARSHALL | 2009 | 134,592 | 22.290 | 11 Mar 2016 | - | 134,592 | 860,043 |
| | 2008 | 92,324 | 28.270 | 26 Feb 2015 | 9,463 | 69,243 | 28,390 |
| | 2007 | 77,156 | 28.190 | 7 May 2014 | 18,903 | 38,578 | 18,903 |
| | 2006 | 73,561 | 22.940 | 28 Feb 2016 | 316,682 | 18,390 | 105,559 |
| | 2005 | 88,292 | 18.405 | 1 Mar 2015 | 907,200 | - | - |
| | 2004 | 101,440 | 15.280 | 10 Mar 2014 | 1,359,296 | - | - |
| | 2003 | 105,388 | 12.810 | 13 Mar 2013 | 1,672,508 | - | - |
| | 2002 | 35,200 | 12.035 | 14 May 2012 | 585,904 | - | - |
| **Total** | | **707,953** | | | **4,869,956** | **260,803** | **1,012,895** |
| BARRY V. PERRY | 2009 | 60,568 | 22.290 | 11 Mar 2016 | - | 60,568 | 387,030 |
| | 2008 | 42,448 | 28.270 | 26 Feb 2015 | 4,351 | 31,836 | 13,053 |
| | 2007 | 33,524 | 28.190 | 7 May 2014 | 8,213 | 16,762 | 8,213 |
| | 2006 | 32,694 | 22.940 | 28 Feb 2016 | 140,745 | 8,174 | 46,919 |
| | 2005 | 38,032 | 18.405 | 1 Mar 2015 | 390,779 | - | - |
| | 2004 | 39,268 | 15.280 | 10 Mar 2014 | 526,191 | - | - |
| **Total** | | **246,534** | | | **1,070,279** | **117,340** | **455,215** |
| RONALD W. McCABE | 2009 | 16,152 | 22.290 | 11 Mar 2016 | - | 16,152 | 103,211 |
| | 2008 | 12,204 | 28.270 | 26 Feb 2015 | 1,251 | 9,153 | 3,753 |
| | 2007 | 11,440 | 28.190 | 7 May 2014 | 2,803 | 5,720 | 2,803 |
| | 2006 | 13,535 | 22.940 | 28 Feb 2016 | 58,267 | 3,384 | 19,424 |
| | 2005 | 16,300 | 18.405 | 1 Mar 2015 | 167,483 | - | - |
| | 2004 | 18,652 | 15.280 | 10 Mar 2014 | 249,937 | - | - |
| | 2003 | 21,076 | 12.810 | 13 Mar 2013 | 334,476 | - | - |
| | 2002 | 10,394 | 12.035 | 14 May 2012 | 173,008 | - | - |
| **Total** | | **119,753** | | | **987,225** | **34,409** | **129,191** |

(1) *The value of unexercised in-the-money options as at 31 December 2009 is the difference between the option exercise price and the closing price of Common Shares as at 31 December 2009 on the TSX ($28.68) applied to vested options. Where the exercise price is greater than the closing price, no value is assigned to the vested options.*

(2) *Represents the in-the-money value of options that have not vested as of 31 December 2009, as if they were vested.*

### Outstanding Share-Based Awards Table

| Name | Grant Year | Number of shares or units that have not vested [(1)] (#) | Market or payout value of share-based awards (PSUs) that have not vested [(2)] ($) |
|---|---|---|---|
| H. STANLEY MARSHALL | 2009 | 41,256 | 1,183,222 |
| | 2008 | 35,350 | 1,013,838 |
| | 2007 | 21,527 | 617,394 |

(1) *Includes the original PSU award plus notional dividends assumed to be reinvested.*

(2) *Market or payout value of share-based awards that have not vested is the payout value of outstanding PSUs based on the closing price of Common Shares on the TSX as at 31 December 2009 of $28.68.*

## Incentive Plan Awards – Value Vested or Earned – 2009

| Name | Option-based awards – Value vested during the year ($) [(1)] | Share-based awards – Value vested during the year ($) [(2)] | Non-equity incentive plan compensation – Value earned during the year ($) [(3)] |
|---|---|---|---|
| H. STANLEY MARSHALL | 143,507 | 733,353 | 1,184,000 |
| BARRY V. PERRY | 62,086 | NIL | 330,750 |
| RONALD W. McCABE | 26,481 | NIL | 104,400 |

(1) *Represents the aggregate value that would have been realized if options that vested during the year had been exercised on the vesting date. The value is calculated as the difference between closing price of the Common Shares on the TSX on the vesting date and the grant price of the respective grant.*

(2) *Represents the value of PSUs that were realized and paid in 2009. No payments were deferred in 2009.*

(3) *Represents the annual incentive earned for 2009. See Summary Compensation Table on page 34 of this Circular.*

## Equity Compensation Plan Information as at 31 December 2009

| Plan Category | Number of securities to be issued upon exercise of outstanding options | Weighted-average exercise price of outstanding options | Number of securities remaining available for future issuance under equity compensation plans (excluding options issued and outstanding) |
|---|---|---|---|
| Equity compensation plans approved by security holders | 4,693,493 | 21.83 | 2,375,019 |

## Stock Options Outstanding

| Option Plan | Options Outstanding 31 December 2009 | Options Outstanding 22 March 2010 [(1)] | % of Common Shares Issued and Outstanding | |
|---|---|---|---|---|
| | | | 31 December 2009 | 22 March 2010 |
| 2006 Stock Option Plan | 2,585,572 | 3,464,138 | 1.51 | 2.01 |
| 2002 Stock Option Plan | 2,026,553 | 1,865,263 | 1.18 | 1.08 |
| Executive Stock Option Plan | 81,368 | 66,368 | 0.05 | 0.04 |
| **Total** | **4,693,493** | **5,395,769** | **2.74** | **3.13** |

(1) *Shares remaining in reserve for options to be issued under the Fortis stock option plans are limited to 1,244,296 Common Shares, which represents 0.72% of the total number of issued and outstanding Common Shares and are all issuable pursuant to the 2006 Stock Option Plan. In aggregate, options granted and outstanding, combined with shares remaining in reserve for issuance of stock options pursuant to Fortis stock options plans are limited to 6,640,065 Common Shares, which represents 3.86% of the total number of issued and outstanding Common Shares.*

## Retirement Plan Tables

The following tables set out the estimated annual pension for the NEOs from the defined benefit and the defined contribution pension arrangements.

### Defined Benefit Plans Table

| Name | Number of years of credited service (#) | Annual Benefits Payable | | Accrued obligation at start of year ($) | Compensatory charge ($) | Non-compensatory charge [4] ($) | Accrued obligation at year-end ($) |
|---|---|---|---|---|---|---|---|
| | | At year-end 2009 | At age 65 | | | | |
| H. STANLEY MARSHALL | 35 [1] | 1,098,302 [2] | 1,098,302 [3] | 9,991,421 | 309,574 | 2,269,979 | 12,570,974 |

*(1) Mr. Marshall's participation in defined benefit pension plans ceased with respect to contribution and accrual of benefits on 31 December 2006. The annual pension to which he was entitled, had he retired on 1 January 2007, was $910,000. He has received credit for 35 years of Credited Service at 31 December 2006 while his actual number of years of service with the Corporation as of 31 December 2006 was 27.07. An additional 7.93 years of Credited Service were granted, as of 31 December 2006, in accordance with the terms of the employment contract entered upon his appointment as CEO in 1996. His actual number of years of service at 31 December 2009 was 30.07. Since Mr. Marshall's entitlement to pension benefit under this plan was fixed as at 31 December 2006, there has been no augmentation to such benefit for any additional service after 31 December 2006.*

*(2) Mr. Marshall's pension entitlement under this plan was fixed as at 31 December 2006 and is subject to actuarial adjustment to the time of actual retirement and commencement of pension payments. This figure reflects the actuarially adjusted value of the pension benefit earned and payable as at 31 December 2006, assuming commencement of payment on 1 January 2010.*

*(3) The annual benefits payable at age 65 will be the actuarial equivalent of a $910,000 annual pension payment, earned as at 31 December 2006, as adjusted to actual commencement of payment.*

*(4) Reflects the impact on the obligation of the change in the discount rate as at the measurement date. The discount rate used at 31 December 2009 was 6.50% compared to 7.50% as at 31 December 2008.*

### Defined Contribution Plans Table [1]

| Name | Accumulated value at start of year ($) | Compensatory [2] ($) | Non-compensatory ($) | Accumulated value at year end ($) |
|---|---|---|---|---|
| H. STANLEY MARSHALL | 438,028 | 232,500 | 44,662 | 715,190 |
| BARRY V. PERRY | 360,465 | 73,250 | 21,786 | 455,501 |
| RONALD W. McCABE | 223,330 | 18,962 | 12,453 | 254,745 |

*(1) All payments to be made under the DC SERP will be paid from the operating funds of the Corporation as the DC SERP is not secured through a trust fund or letter of credit.*

*(2) Compensatory change figure in table does not match with figure in Pension Value column of Summary Compensation Table due to Fortis contribution of one half of the amount available for contribution to each NEO's RRSP plan, as described in footnote 4 of the Summary Compensation table at page 34 of this Circular.*

## TERMINATION AND CHANGE OF CONTROL BENEFITS

The Corporation has entered into agreements with each of Messrs. Marshall, Perry and McCabe which provide, in effect, that in the event the employment of any such individual is terminated by the Corporation, for other than just cause, the Corporation shall pay to such individual an amount equal to three times that individual's then current annual base salary. In addition, the terms of the employment contract between the Corporation and Mr. Marshall provide that he may elect to terminate his service under the agreement at any time within two years of a defined change of control of the Corporation. In such circumstances, the Corporation shall pay to Mr. Marshall an amount equal to three times his then current annual base salary. If such agreements had become operative as at 31 December 2009, the amounts payable by the Corporation thereunder to each of Messrs. Marshall, Perry and McCabe would have been $3,000,000, $1,350,000 and $720,000, respectively.

The 2006 Stock Option Plan provides for an immediate vesting of options granted thereunder upon the happening of a defined change of control event. If such an event had occurred as at 31 December 2009, the amounts payable by the Corporation thereunder to each of Messrs. Marshall, Perry and McCabe would have been $5,882,850, $1,525,494 and $1,116,415, respectively.

The PSUP provides that payments authorized by the Human Resources Committee will be made whether or not the CEO is an employee of the Corporation. There are no specific provisions related to a change of control event. Since the measurement period for payments pursuant to the PSUP is three years, the date of termination of employment will be a relevant factor to be considered by the Human Resources Committee when deciding whether the performance measures have been satisfied.

## INDEBTEDNESS OF EXECUTIVE OFFICERS, DIRECTORS AND EMPLOYEES

The following table sets forth details of the aggregate indebtedness of all executive officers, directors, employees and former executive officers, directors and employees outstanding as at 22 March 2010 to Fortis and its subsidiaries.

### Aggregate Indebtedness

| Purpose | To Fortis or its Subsidiaries ($) | To Another Entity ($) |
|---|---|---|
| Share Purchases | 4,259,805 | Nil |
| Other | 2,306,428 | Nil |

All of the indebtedness reported in the following table was incurred under Fortis stock option plans or the ESPP. Optionees, who are employees of Fortis or its subsidiaries, are entitled to receive loans for the full value of Common Shares purchased on the exercise of options under the 2002 Stock Option Plan and the Executive Stock Option Plan; however, loans are no longer permitted under the 2006 Stock Option Plan. Optionees availing of such financing must pledge the Common Shares acquired with loans to Fortis, or applicable subsidiary, as security and pay the amount of any dividends received on the related shares as an interest charge. Share option loans must be repaid on the earlier of sale of the pledged Common Shares, one year following cessation of employment or 10 years. ESPP loans are interest free and are repayable within one year through regular payroll deductions.

The following table sets forth details of the indebtedness of the Directors and Executive Officers of Fortis under securities purchase programs as at 22 March 2010. There is no indebtedness to Fortis by executive officers, directors, employees or former executive officers, directors and employees of Fortis for any purposes other than indebtedness under securities purchase programs.

## Indebtedness of Directors and Executive Officers under Securities Purchase Programs

| Name and Principal Position | Involvement of Corporation or Subsidiary | Largest Amount Outstanding During 2009 ($) | Amount Outstanding as at 22 March 2010 ($) | Financially Assisted Securities Purchased During 2009 (#) | Security for Indebtedness |
|---|---|---|---|---|---|
| H. STANLEY MARSHALL<br>President and<br>Chief Executive Officer | Fortis Inc.<br>As Lender | - | - | - | - |
| BARRY V. PERRY<br>Vice President, Finance and<br>Chief Financial Officer | Fortis Inc.<br>As Lender | 79,779 (1) | 25,846 | 1,093 | The Securities Purchased |
| RONALD W. McCABE<br>Vice President, General Counsel<br>and Corporate Secretary | Fortis Inc.<br>As Lender | 18,000 (2) | 4,615 | 856 | The Securities Purchased |

(1) *Includes an amount of $56,779 advanced for the remittance of income tax on behalf of Mr. Perry relating to the exercise of stock options during 2008. No loan was granted by Fortis to assist in the financing of the underlying securities. The remaining balance represents Mr. Perry's participation in the ESPP during 2009.*

(2) *Amount of $18,000 represents Mr. McCabe's participation in the ESPP during 2009.*

## ADDITIONAL INFORMATION

Additional information relating to Fortis is available on SEDAR at *www.sedar.com*. Financial information relating to Fortis is provided in its comparative financial statements and management discussion and analysis for the most recently completed financial year. A copy of Fortis most recent consolidated financial statements, interim financial statements, management discussion and analysis and Annual Information Form, may be obtained by shareholders, without charge, on SEDAR at *www.sedar.com*, on the Fortis website at *www.fortisinc.com*, or upon request from the Secretary of Fortis at the following address:

Fortis Inc.
The Fortis Building, Suite 1201
139 Water Street
St. John's, NL
A1B 3T2

## CONTACTING THE BOARD OF DIRECTORS

Shareholders, employees and other interested parties may communicate directly with the Board of Directors through the Chair of the Board by writing to:

Chair of the Board of Directors
Fortis Inc.
The Fortis Building, Suite 1201
139 Water Street
St. John's, NL
A1B 3T2

## DIRECTORS' APPROVAL

The contents and the sending of this Circular have been approved by the Board of Directors of Fortis.

St. John's, Newfoundland and Labrador
22 March 2010

Ronald W. McCabe
Vice President, General Counsel
and Corporate Secretary

**SCHEDULE A**

# FORM 58-101F1

## DISCLOSURE OF CORPORATE GOVERNANCE PRACTICES

***All page references in this Schedule A are to the Management Information Circular dated 22 March 2010.***

| DISCLOSURE REQUIREMENT | COMPLIANCE | GOVERNANCE PROCEDURES FOR FORTIS INC. |
|---|---|---|
| **1. Board of Directors** | | |
| (a) Disclose the identity of directors who are independent. | Yes | Ten of the twelve directors proposed for nomination on pages 7 through 13 are independent in accordance with the Meaning of Independence set out in Section 1.4 of MI-52-110 – *Audit Committees*. The Board considers Ms. Goodreau and Messrs. Case, Haughey, Hyland, McCallum, McWatters, Munkley, Norris, Pavey and Rideout, to be independent. The directors who the Board considers not to be independent are Mr. Marshall, who is the President and CEO of Fortis, and Mr. Crothers, who was an executive officer of subsidiary Caribbean Utilities Company, Ltd. within the last three years. |
| (b) Disclose the identity of directors who are not independent and describe the basis for that determination. | Yes | |
| (c) Disclose whether or not a majority of directors are independent. | Yes | |
| (d) If a director is presently a director of any other issuer that is a reporting issuer (or the equivalent) in a jurisdiction or a foreign jurisdiction, identify both the director and the other issuer. | Yes | All of the directorships of the nominee directors with other reporting issuers are set out on page 17 of this Circular. |
| (e) Disclose whether or not the independent directors hold regularly scheduled meetings at which non-independent directors and members of management are not in attendance. If the independent directors hold such meetings, disclose the number of meetings held since the beginning of the issuer's most recently completed financial year. If the independent directors do not hold such meetings, describe what the board does to facilitate open and candid discussion among its independent directors. | Yes | The directors regularly meet without Mr. Marshall and other management present at meetings of the Board and its committees. Private sessions during meetings conducted by telephone are held when circumstances warrant. During 2009, the directors of the Board and committees held the following meetings without Mr. Marshall and other management present:<br><br>Board 7<br>Audit 7<br>Governance and Nominating 2<br>Human Resources 4 |
| (f) Disclose whether or not the chair of the board is an independent director. If the board has a chair or lead director who is an independent director, disclose the identity of the independent chair or lead director, and describe his or her role and responsibilities. | Yes | Geoffrey F. Hyland was appointed Chair upon the retirement of Bruce Chafe effective 6 May 2008 and is an independent director. |

| DISCLOSURE REQUIREMENT | COMPLIANCE | GOVERNANCE PROCEDURES FOR FORTIS INC. |
|---|---|---|
| (g) Disclose the attendance record of each director for all board meetings held since the beginning of the issuer's most recently completed financial year. | Yes | The attendance record of each director for Board and committee meetings during 2009 is disclosed in the tables on pages 7 through 13 of this Circular. |
| **2. Board Mandate**<br><br>Disclose the text of the board's written mandate. | Yes | The text of the Board Mandate is disclosed in Schedule A-1. |
| **3. Position Descriptions**<br><br>(a) Disclose whether or not the board has developed written position descriptions for the chair and the chair of each board committee. If the board has not developed written position descriptions for the chair and/or the chair of each board committee, briefly describe how the board delineates the role and responsibilities of each such position. | Yes | The Board, with the assistance of the Governance and Nominating Committee, has developed a written position description for the Chair of the Board. There are no specific position descriptions for the chair of each committee; however, there are written mandates for each committee which delineate the responsibilities of each committee with which the chair thereof is responsible to comply. |
| (b) Disclose whether or not the board and CEO have developed a written position description for the CEO. If the board and CEO have not developed such a position description, briefly describe how the board delineates the role and responsibilities of the CEO. | Yes | The Board has developed a written position description for the CEO. |
| **4. Orientation and Continuing Education**<br><br>(a) Briefly describe what measures the board takes to orient new directors regarding:<br><br>(i) the role of the board, its committees and its directors, and<br><br>(ii) the nature and operation of the issuer's business. | Yes | Each new recruit to the Board meets with management of Fortis and its subsidiaries for orientation information on Board operation and policies, as well as current and historical data pertaining to the operation of Fortis and an assessment of current strategic opportunities and issues facing Fortis. |

| DISCLOSURE REQUIREMENT | COMPLIANCE | GOVERNANCE PROCEDURES FOR FORTIS INC. |
| --- | --- | --- |
| (b) Briefly describe what measures, if any, the board takes to provide continuing education for its directors. If the board does not provide continuing education, describe how the board ensures that its directors maintain the skill and knowledge necessary to meet their obligations as directors. | Yes | Presentations are made to the Board as required on developments in the business and regulatory environment impacting upon Fortis and its subsidiaries. Board meetings are periodically held at the business locations of Fortis subsidiaries affording directors the opportunity to observe operations and meet employees of the operating subsidiaries. Each subsidiary CEO makes an annual presentation to the Board on matters affecting their subsidiary's operation. Fortis sponsors director attendance at appropriate educational seminars. |
| **5. Ethical Business Conduct** | | |
| (a) Disclose whether or not the board has adopted a written code for the directors, officers and employees. If the board has adopted a written code: | Yes | The Board has adopted a written code of business conduct and ethics for Fortis. |
| (i) disclose how a person or company may obtain a copy of the code; | Yes | The code is available on the Fortis website at *www.fortisinc.com* (under Corporate Governance) and on SEDAR at *www.sedar.com*. |
| (ii) describe how the board monitors compliance with its code or, if the board does not monitor compliance, explain whether and how the board satisfies itself regarding compliance with its code; and | Yes | The Board, through the Audit Committee, receives reports on compliance with the code. |
| (iii) provide a cross reference to any material change report filed since the beginning of the issuer's most recently completed financial year that pertains to any conduct of a director or executive officer that constitutes a departure from the code. | Yes | The Board has not granted any waiver of the code in favour of a director or executive officer during the past 12 months and for all of 2009. Accordingly, no material change report has been required to be filed. |
| (b) Describe any steps the board takes to ensure directors exercise independent judgement in considering transactions and agreements in respect of which a director or executive officer has a material interest. | Yes | The Board does not nominate for election any candidate who has an interest in any business conducted with Fortis, or its subsidiaries, and requires directors to disclose any potential conflict of interest which may develop. Directors do not undertake any consulting activities for, or receive any remuneration from, Fortis other than compensation for serving as a director. |
| (c) Describe any other steps the board takes to encourage and promote a culture of ethical business conduct. | Yes | The Board encourages a culture of ethical conduct by appointing officers of high integrity and monitoring their performance so as to set an example for all employees. |

| DISCLOSURE REQUIREMENT | COMPLIANCE | GOVERNANCE PROCEDURES FOR FORTIS INC. |
|---|---|---|
| **6. Nomination of Directors** | | |
| (a) Describe the process by which the board identifies new candidates for board nomination. | Yes | The Governance and Nominating Committee is responsible for identifying new candidates for the Board. It annually identifies director skill and experience needs, having regard to projected retirements, and oversees a director recruitment search and nomination process leading to recommendations to the Board for consideration and recommendation for election by the shareholders. All of Fortis Canadian utility subsidiaries operate with boards comprised of a majority of independent members which affords Fortis an opportunity to observe the performance and assess suitability of prospective nominees to the Board in an appropriate environment. Subsidiary boards have been the source of six of the current nominees. |
| (b) Disclose whether or not the board has a nominating committee composed entirely of independent directors. | Yes | The Governance and Nominating Committee is composed entirely of independent directors. |
| **7. Compensation** | | |
| (a) Describe the process by which the board determines the compensation for the issuer's directors and officers. | Yes | The Governance and Nominating Committee reviews the compensation of directors on a periodic basis in relation to published surveys and private polls of other comparable corporations and recommends adjustments thereto for adoption by the Board. The Human Resources Committee makes recommendations to the Board in respect of compensation of officers. |
| (b) Disclose whether or not the board has a compensation committee composed entirely of independent directors. If the board does not have a compensation committee composed entirely of independent directors, describe what steps the board takes to ensure an objective process for determining such compensation. | Yes | The Human Resources Committee acts as a compensation committee in respect of executive compensation and is composed entirely of independent directors. The Human Resources Committee makes recommendations to the Board following its review of compensation having regard to published material and consultation with appropriate consultants. |
| (c) If the board has a compensation committee, describe the responsibilities, powers and operation of the compensation committee. | Yes | The Human Resources Committee is responsible for monitoring the compensation practices and policies of Fortis and making recommendations to the Board with respect thereto. Administration and management of the 2006 Stock Option Plan and predecessor option plans, including the authority to grant options to employees, is the responsibility of the Human Resources Committee. |

| DISCLOSURE REQUIREMENT | COMPLIANCE | GOVERNANCE PROCEDURES FOR FORTIS INC. |
|---|---|---|
| (d) If a compensation consultant or advisor has been retained to assist in determining compensation for any of the issuer's directors and officers, disclose the identity of the consultant or advisor and briefly summarize the mandate for which they have been retained. If the consultant or advisor has been retained to perform any other work for the issuer, state that fact and briefly describe the nature of the work. | Yes | Towers Watson ("Towers") was retained by Fortis in 2007 to assist the Governance and Nominating Committee to develop its recommendation to the Board in respect of director compensation for 2008 and again in 2009. Fortis retains Hay Group Limited ("Hay") and Mercer Human Resources Consulting ("Mercers") to advise in respect of executive compensation and pension matters. Hay undertakes a rating of positions within Fortis and its subsidiaries and provides reports of median compensation levels applicable to such ratings. During 2009, Hay and Towers were retained to perform the triennial review of executive compensation policy. Mercers provide consulting advice in respect of pension matters and management support to pension plan administration. Fees paid to the compensation consultants are disclosed on pages 32 and 33 of this Circular. |
| **8. Other Board Committees**<br><br>If the board has standing committees other than the audit, compensation and nominating committees, identify the committees and describe their function. | Yes | The three standing committees of the Board are Audit, Governance and Nominating and Human Resources. |
| **9. Assessments**<br><br>Disclose whether or not the board, its committees and individual directors are regularly assessed with respect to their effectiveness and contribution. If assessments are regularly conducted, describe the process used for the assessments. If assessments are not regularly conducted, describe how the board satisfies itself that the board, its committees and its individual directors are performing effectively. | Yes | The Governance and Nominating Committee is responsible for regular assessment of the effectiveness and contribution of the Board, its committees and individual directors. It carries out this responsibility through a periodic confidential survey of each director regarding his or her views on the effectiveness of the Board and the committees which are summarized and reported to the Committee and Chair of the Board. The review includes a section on individual issues which the Committee believes would disclose any concerns relating to an individual director. |

**SCHEDULE A-1**

**BOARD MANDATE**

**FORTIS INC.**

## Mandate of the Board of Directors

The board of directors (the Board) of Fortis Inc. (Fortis) is responsible for the stewardship of Fortis. The Board will supervise the management of the business and affairs of Fortis and, in particular, will:

### A. Strategic Planning and Risk Management

1) Adopt a strategic planning process and approve, on an annual basis, a strategic plan for Fortis which considers, among other things, the opportunities and risks of the business;

2) Monitor the implementation and effectiveness of the approved strategic and business plan;

3) Assist the CEO in identifying the principal risks of Fortis business and the implementation of appropriate systems to manage such risks;

### B. Management and Human Resources

1) Select, appoint and evaluate the CEO, and determine the terms of the CEO's employment with Fortis;

2) In consultation with the CEO, appoint all officers of Fortis and determine the terms of employment, training, development and succession of senior management (including the processes for appointing, training and evaluating senior management);

3) To the extent feasible, satisfy itself as to the integrity of the CEO and other officers and the creation of a culture of integrity throughout Fortis;

### C. Finances, Controls and Internal Systems

1) Review and approve all material transactions including acquisitions, divestitures, dividends, capital allocations, expenditures and other transactions which exceed threshold amounts set by the Board;

2) Evaluate Fortis internal controls relating to financial and management information systems;

## D. Communications

1) Adopt a communication policy that seeks to ensure that effective communications, including statutory communication and disclosure, are established and maintained with employees, shareholders, the financial community, the media, the community at large and other security holders of Fortis;

2) Establish procedures to receive feedback from stakeholders of Fortis and communications to the independent directors as a group;

## E. Governance

1) Develop Fortis approach to corporate governance issues, principles, practices and disclosure;

2) Establish appropriate procedures to evaluate director independence standards and allow the Board to function independently of management;

3) Appoint from among the directors an Audit Committee and such other committees of the Board as deemed appropriate and delegate responsibilities thereto in accordance with their mandates;

4) Develop and monitor policies governing the operation of subsidiaries through exercise of Fortis shareholder positions in such subsidiaries;

5) Develop and monitor compliance with Fortis code of conduct;

6) Set expectations and responsibilities of directors, including attendance at, preparation for and participation in meetings; and,

7) Evaluate and review the performance of the Board, each of its committees and its members.

Any questions and requests for assistance may be directed to the
Proxy Solicitation Agent:

**KINGSDALE**
Shareholder Services Inc.

The Exchange Tower
130 King Street West, Suite 2950, P.O. Box 361
Toronto, Ontario
M5X 1E2

**North American Toll Free Phone:**

# 1-888-518-6828

**Email: contactus@kingsdaleshareholder.com**

**Facsimile: 416-867-2271**

**Toll Free Facsimile: 1-866-545-5580**

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