No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise.

This short form prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities. ***Information has been incorporated by reference in this short form prospectus from documents filed with securities commissions or similar authorities in Canada.*** *Copies of the documents incorporated herein by reference may be obtained on request without charge from the Secretary of Fortis Inc. at Suite 1201, 139 Water Street, St. John's, Newfoundland and Labrador A1B 3T2 (telephone (709) 737-2800) or by accessing Fortis Inc.'s disclosure documents available through the Internet on Fortis Inc.'s website at www.fortisinc.com or on the Canadian System for Electronic Document Analysis and Retrieval which can be accessed at www.sedar.com. The information contained on, or accessible through these websites is not incorporated by reference into this prospectus and is not, and should not be considered to be, a part of this prospectus, unless it is explicitly so incorporated. For the purpose of the Province of Québec, this simplified prospectus contains information to be completed by consulting the permanent information record. A copy of the permanent information record may be obtained from the Secretary of Fortis Inc. at Suite 1201, 139 Water Street, St. John's, Newfoundland and Labrador A1B 3T2 (telephone (709) 737-2800). The securities being offered under this short form prospectus have not been and will not be registered under the United States Securities Act of 1933, as amended, or any state securities laws, and, except in limited circumstances, will not be offered or sold within the United States to or for the account or benefit of United States persons. See ''Plan of Distribution''.*

New Issue **February 18, 2005**

SHORT FORM PROSPECTUS

FORTIS INC.

$129,891,000
1,740,000 Common Shares

Fortis Inc. (''Fortis'' or the ''Corporation'') is hereby qualifying for distribution (the ''Offering'') 1,740,000 common shares (the ''Offered Shares'') which are being offered and sold pursuant to the provisions of an underwriting agreement (the ''Underwriting Agreement'') dated February 14, 2005 between Fortis, Scotia Capital Inc. (''Scotia Capital'') and RBC Dominion Securities Inc. (''RBC'' and, together with Scotia Capital, the ''Underwriters''). The Offered Shares will be issued and sold by Fortis to the Underwriters at the price of $74.65 (the ''Offering Price'') per Offered Share. The Offering Price was determined by negotiation between the Corporation and the Underwriters.

The Toronto Stock Exchange (the ''TSX'') has conditionally approved the listing of the Offered Shares. The listing of the Offered Shares will be subject to the Corporation fulfilling all of the listing requirements of the TSX on or before May 12, 2005. The Corporation's outstanding common shares (the ''Common Shares'') are listed and posted for trading on the TSX under the symbol ''FTS''. On February 17, 2005, the closing price of the Common Shares on the TSX was $73.80 per share.

An investment in the Offered Shares involves certain risks that should be considered by a prospective purchaser. See ''Risk Factors''.

Price: $74.65 per Common Share

	Price to the Public	Underwriters' Fee	Net Proceeds to the Corporation[1]
Per Common Share	$74.65	$2.986	$71.664
Total	$129,891,000	$5,195,640	$124,695,360

Notes:

(1) Before deducting expenses of the Offering estimated at $750,000 which, together with the Underwriters' fees, will be paid out of the general funds of Fortis. See ''Plan of Distribution''.

The Underwriters, as principals, conditionally offer the Offered Shares, subject to prior sale, if, as and when issued, sold and delivered by the Corporation to, and accepted by, the Underwriters in accordance with the terms and conditions contained in the Underwriting Agreement, and subject to the approval of certain legal matters on behalf of the Corporation by Davies Ward Phillips & Vineberg LLP and Curtis, Dawe and on behalf of the Underwriters by Stikeman Elliott LLP. See ''Plan of Distribution''.

Each of Scotia Capital and RBC is an affiliate of a Canadian chartered bank that is part of a syndicate of banks that have extended credit facilities to Fortis. A portion of the net proceeds of the Offering will be used to repay the Corporation's indebtedness to such lenders. Accordingly, Fortis may be considered a ''connected issuer'' of each of Scotia Capital and RBC within the meaning of applicable securities legislation. See ''Use of Proceeds'' and ''Plan of Distribution''.

The Underwriters may offer the Offered Shares at a price lower than that stated above. See ''Plan of Distribution''.

Subscriptions will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is intended that the closing of the Offering (the ''Closing'') will take place on or about March 1, 2005 (the ''Closing Date''), or such other date as may be agreed upon by the Corporation and the Underwriters, but not later than April 4, 2005. Certificates evidencing the Offered Shares will be available for delivery at the Closing or shortly thereafter.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus (the ''Prospectus''), and the documents incorporated herein by reference, contain forward-looking statements which reflect management's expectations regarding Fortis Inc.'s (''Fortis'' or the ''Corporation'') future growth, results of operations, performance and business prospects and opportunities. Wherever possible, words such as ''anticipate'', ''believe'', ''expects'', ''intend'' and similar expressions have been used to identify these forward-looking statements. These statements reflect management's current beliefs and are based on information currently available to the Corporation's management. Forward-looking statements involve significant risks, uncertainties and assumptions. A number of factors could cause actual results, performance or achievements to differ materially from the results discussed or implied in the forward-looking statements, including regulation, realization of benefits from the Acquisition (as defined below), hedging, energy prices, economic conditions and demand, loss of service areas, environmental matters, insurance, labour relations, weather and liquidity risks. These factors should be considered carefully and prospective investors should not place undue reliance on the forward-looking statements. Although the forward-looking statements contained in the Prospectus, and the documents incorporated herein by reference, are based upon what management believes to be reasonable assumptions, the Corporation cannot assure prospective purchasers that actual results will be consistent with these forward-looking statements. These forward-looking statements are made as of the date of the Prospectus, and the Corporation assumes no obligation to update or revise them to reflect new events or circumstances.

DOCUMENTS INCORPORATED BY REFERENCE

The disclosure documents of Fortis listed below and filed with the appropriate securities commissions or similar regulatory authorities in each of the provinces of Canada are specifically incorporated by reference into and form an integral part of the Prospectus:

(a) audited consolidated financial statements for the years ended December 31, 2002 and 2001, together with the notes thereto and the auditors' report thereon as contained in the Corporation's 2002 annual report;

(b) material change report dated January 13, 2004 describing the entering into of an agreement between the Corporation and a syndicate of underwriters in respect of the offering by the Corporation of 8,000,000 first preference units;

(c) audited consolidated financial statements for the years ended December 31, 2003 and 2002, together with the notes thereto and the auditors' report thereon as contained in the Corporation's 2003 annual report;

(d) annual information form dated March 31, 2004;

(e) management discussion and analysis of financial condition and results of operations contained in the Corporation's 2003 annual report;

(f) management information circular dated March 31, 2004, prepared in connection with the Corporation's annual meeting of shareholders held on May 12, 2004, excluding the portions that appear under the headings ''Performance Chart'', ''Report on Corporate Governance'' and ''Report on Executive Compensation'';

(g) material change report dated May 31, 2004 describing the closing of the Acquisition (as defined below);

(h) unaudited consolidated financial statements for the three and nine month periods ended September 30, 2004 and 2003;

(i) management discussion and analysis of financial condition and results of operations of the Corporation for the three and nine month periods ended September 30, 2004 and 2003;

(j) press release dated February 8, 2005 containing unaudited comparative consolidated financial statements for the years ended December 31, 2004 and 2003; and

(k) material change report dated February 10, 2005 describing the entering into of an agreement between the Corporation and Scotia Capital Inc. (''Scotia Capital'') and RBC Dominion Securities Inc. (''RBC'' and, together with Scotia Capital, the ''Underwriters'') in respect of this offering (the ''Offering'').

Any document of the type referred to in the preceding paragraph (other than any press release or any confidential material change report) subsequently filed by the Corporation with such securities commissions or regulatory authorities after the date of the Prospectus, and prior to the termination of the Offering, shall be deemed to be incorporated by reference into the Prospectus.

Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of the Prospectus to the extent that a statement contained herein, or in any other subsequently filed document that is also incorporated or is deemed to be incorporated by reference herein, modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement will not be deemed an admission for any purpose that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of the Prospectus.

Copies of the documents incorporated herein by reference may be obtained on request without charge from the Secretary of the Corporation at Suite 1201, 139 Water Street, St. John's, Newfoundland and Labrador A1B 3T2 (telephone (709) 737-2800). These documents are also available through the Internet on the Corporation's website at www.fortisinc.com or on the Canadian System for Electronic Document Analysis and Retrieval (''SEDAR'') which can be accessed at www.sedar.com. The information contained on, or accessible through, these websites is not incorporated by reference into the Prospectus and is not, and should not be considered to be, a part of the Prospectus, unless it is explicitly so incorporated.

ELIGIBILITY FOR INVESTMENT

In the opinion of Davies Ward Phillips & Vineberg LLP, counsel to the Corporation, and Stikeman Elliott LLP, counsel to the Underwriters, the common shares of the Corporation being offered pursuant to the Prospectus (the ''Offered Shares'') would, if issued on the date hereof, be qualified investments under the *Income Tax Act* (Canada) (the ''Tax Act'') for trusts governed by registered retirement savings plans, registered retirement income funds, registered education savings plans and deferred profit sharing plans. The Offered Shares would not, if issued on the date hereof, be foreign property for purposes of Part XI of the Tax Act.

All dollar amounts in the Prospectus are expressed in Canadian dollars.

FORTIS

Fortis was incorporated as 81800 Canada Ltd. under the *Canada Business Corporations Act* on June 28, 1977. The Corporation was continued under the *Corporations Act* (Newfoundland) on August 28, 1987 and on October 12, 1987 the Corporation amended its articles to change its name to ''Fortis Inc.'' The address of the head office and principal place of business of the Corporation is The Fortis Building, Suite 1201, 139 Water Street, St. John's, Newfoundland and Labrador A1B 3T2.

Fortis is a diversified, international electric utility holding company. The majority of Fortis' subsidiaries are engaged in the regulated distribution of electricity. Regulated utility assets comprise approximately 80% of the Corporation's total operating assets, with the balance comprised primarily of non-regulated hydroelectric electricity generation operations and commercial real estate and hotel operations owned and operated through its non-utility subsidiaries.

Fortis holds all of the common shares of Newfoundland Power Inc. (''Newfoundland Power'') and, through Fortis Properties Corporation (''Fortis Properties''), holds all of the common shares of Maritime Electric Company, Limited (''Maritime Electric''), which are the principal distributors of electricity in the Provinces of Newfoundland and Labrador and Prince Edward Island, respectively. Fortis Properties also owns FortisUS Energy Corporation (''FortisUS Energy''), which operates four hydroelectric generating stations in the State of New York. As well, through its wholly-owned subsidiary FortisOntario Inc. and its subsidiaries (collectively, ''FortisOntario''), Canadian Niagara Power Inc. (''CNPI''), Cornwall Street Railway, Light and Power Company Limited (''Cornwall Electric'') and FortisOntario Generation Corporation (''FortisOntario Generation''), Fortis generates and wholesales electricity in Ontario, and also operates local distribution companies that distribute electricity to customers in Fort Erie, Port Colborne, Cornwall and Gananoque.

In May 2004, Fortis acquired (the ''Acquisition''), through wholly-owned subsidiaries, all of the issued and outstanding shares of Aquila Networks Canada (Alberta) Ltd. (now FortisAlberta Inc.) (''FortisAlberta'') and Aquila Networks Canada (British Columbia) Ltd. (now FortisBC Inc.) (''FortisBC''). FortisAlberta is a regulated electric utility that distributes electricity generated by other market participants in the Province of Alberta. FortisBC is a regulated electric utility that generates, transmits and distributes electricity in the Province of British Columbia.

As at and for the year ended December 31, 2004, the Corporation's principal regulated Canadian electric utility subsidiaries accounted for the following percentages of the Corporation's total operating assets and total operating revenue, respectively: (a) FortisBC: 17.4% and 9.4%; (b) FortisAlberta: 18% and 11.2%; (c) FortisOntario: 3.5% and 10.8%; (d) Maritime Electric: 7.2% and 9.9%; and (e) Newfoundland Power: 23.4% and 34.8%.

Fortis' regulated electric utility assets in the Caribbean consist of its ownership, through wholly-owned subsidiaries, of a 68% interest in Belize Electricity Limited (''Belize Electricity''), the primary transmitter and distributor of electricity in Belize, Central America and a 37.3% interest in Caribbean Utilities Company, Ltd. (''Caribbean Utilities''), the sole provider of electricity to the island of Grand Cayman, Cayman Islands. As at and for the year ended December 31, 2004, Fortis' regulated Caribbean electric utility investments accounted for 6.3% of the Corporation's total operating assets and 10.7% of the Corporation's total operating revenues, including the equity earnings of Caribbean Utilities.

Fortis' non-regulated electricity generation operations principally consist of its 100% interest in each of Central Newfoundland Energy Inc. (''Central Newfoundland Energy'') and, through a wholly-owned subsidiary, Belize Electric Company Limited (''BECOL''), as well as non-regulated electricity generation assets owned by FortisBC, FortisUS Energy and FortisOntario. Central Newfoundland Energy is a non-regulated subsidiary whose principal activity is its 51% interest in the Exploits River Hydro Partnership (the ''Exploits River Partnership'') project (the ''Partnership Project''). The Partnership Project is a partnership with Abitibi-Consolidated Inc. (''Abitibi-Consolidated'') that developed additional capacity at Abitibi-Consolidated's hydroelectric plant at Grand Falls-Windsor and redeveloped Abitibi-Consolidated's hydroelectric plant at Bishop's Falls, both in Newfoundland and Labrador. BECOL owns and operates the Mollejon hydroelectric facility, located on the Macal River in Belize, Central America. Through FortisUS Energy, the Corporation owns and operates four hydroelectric generating stations in upper New York State. The non-regulated electricity generation operations of FortisOntario include the Rankine Generating Station on the Niagara River in Niagara Falls, Ontario, a gas-fired district heating co-generation plant and six small hydroelectric generating stations in eastern Ontario. The non-regulated electricity generation operations of FortisBC include the run-of-the-river Walden hydroelectric power plant (the ''Walden Power Plant'') near Lillooet, British

Columbia. As at and for the year ended December 31, 2004, Fortis' non-regulated electricity generation operations accounted for 8% of the Corporation's total operating assets and 6% of the Corporation's total operating revenue.

Through its wholly-owned subsidiary, Fortis Properties, Fortis has investments in commercial real estate and hotel operations in Atlantic Canada, Ontario, Manitoba and Alberta. As at and for the year ended December 31, 2004, Fortis Properties' commercial real estate and hotel operations accounted for 10.6% of the Corporation's total operating assets and 11.6% of the Corporation's total operating revenue.

Fortis expects that its primary focus for growth will be growing the rate base of its utilities and the further acquisition of electric utility assets both in Canada and outside of Canada. Fortis will also carry out strategic assessments of non-regulated hydro and commercial real estate and hotel operations to identify and, in appropriate circumstances, make investments.

FortisBC

On May 31, 2004, Fortis acquired, through wholly-owned subsidiaries, all of the issued and outstanding shares of FortisBC (formerly Aquila Networks Canada (British Columbia) Ltd.) from Aquila Canada ULC for aggregate consideration of approximately $428 million. As a condition to the closing of the Acquisition, FortisBC repaid certain indebtedness totalling $155 million. Aquila Canada ULC is not (and was not at the time of the Acquisition) an insider, associate or affiliate of Fortis.

FortisBC is an integrated, regulated electric utility that owns a network of generation, transmission and distribution assets located in the southern interior of British Columbia. FortisBC serves approximately 143,000 customers, with residential customers representing FortisBC's largest customer segment. Of these customers, approximately 94,000 are served directly while the remainder are served through wholesale power purchase agreements with six municipal utilities within or adjacent to the FortisBC service area. FortisBC's generation assets consist of four hydroelectric generating plants on the Kootenay River with an aggregate installed capacity of 205 MW and an annual energy output of approximately 1,500 GWh.

FortisBC's four hydroelectric generation facilities are governed by the Canal Plant Agreement (the ''CPA''). The CPA is a multi-party agreement that enables the four separate owners of seven major hydroelectric generating plants (having a combined capacity of approximately 1,400 MW and all located in relatively close proximity to each other) to coordinate the operation and dispatch of their plants. FortisBC is currently in discussions to extend the CPA, which expires on September 30, 2005. The plants and their owners are:

Plant	Capacity — Owners
Canal Plant	580 MW — BC Hydro and Power Authority
Waneta Dam	450 MW — Teck Cominco Metals Ltd.
Kootenay River System	205 MW — FortisBC
Brilliant Dam	145 MW — Brilliant Power Corporation

Brilliant Power Corporation, Teck Cominco Metals Ltd. and FortisBC are collectively defined in the CPA as the ''Entitlement Parties'' or ''EPs''. The CPA enables BC Hydro and Power Authority (''BC Hydro'') and the EPs, through coordinated use of water flows subject to the 1961 Columbia River Treaty between Canada and the United States and storage reservoirs, and through the coordinated operation of generating plants, to generate more power from their respective generating resources than they could if they operated independently. Under the CPA, BC Hydro takes into its system all power actually generated by all of the six third party-owned plants. In exchange for permitting BC Hydro to determine the output of these facilities, each of the EPs are contractually entitled to a fixed annual entitlement of capacity (an ''Entitlement'') and energy from BC Hydro. The EPs receive their Entitlements irrespective of actual water flows to the EPs' generating plants and are, accordingly, insulated from the hydrology risk of water availability.

FortisBC meets the balance of its requirements through a portfolio of long-term and short-term power purchase contracts approved by the British Columbia Utilities Commission (the ''BCUC''), the costs of which are flowed through to customers. FortisBC's regulated transmission and distribution assets consist of approximately 7,100 kilometres of transmission and distribution power lines and include terminal transformers, distribution substations, distribution service transformers and support structures. FortisBC also conducts unregulated activity relating primarily to the operation and management of third-party owned hydroelectric generation, transmission and distribution systems located within the FortisBC service area.

The acquisition of FortisBC significantly increased the Corporation's regulated rate base assets and provided a broader and more diverse base of earnings for Fortis. For the seven months ended December 31, 2004, FortisBC contributed $110.6 million to revenues, and $17.8 million to operating earnings, of Fortis, which amount includes FortisBC's non-regulated revenues.

Market and Sales

FortisBC has a diverse customer base comprised of residential, general service, industrial and municipal/wholesale customers. Electricity sales for the year ended December 31, 2004 increased from 2,864 GWh in 2003 to 2,905 GWh. Revenue for the year ended December 31, 2004 increased from $167.9 million in 2003 to $183 million.

The following chart compares FortisBC's customer classes and 2004 and 2003 revenues and energy sales, which include the non-regulated revenues of FortisBC:

	Revenue (per cent)		Gigawatt Hour Sales (per cent)	
	2004	**2003**	**2004**	**2003**
Residential	39.8	41.9	36.2	35.1
Municipal/Wholesale	23.4	21.9	30.6	31.9
General Service	22.6	23.9	20.1	20.2
Industrial	9.8	9.4	11.6	11.8
Other (1)	4.4	2.9	1.5	1.0
Total	100.0	100.0	100.0	100.0

Note:

(1) Includes revenue from sources other than the sale of electricity, as well as revenue from the Walden Power Plant.

Generation and Power Supply

FortisBC meets the electricity supply requirements of its customers through a mix of owned generation and short-term and long-term power purchase contracts. FortisBC owns four regulated hydroelectric generating plants with an aggregate installed capacity of 205 MW that provide almost 50% of its energy and 30% of its capacity needs. FortisBC's remaining electricity supply is acquired through power purchase contracts and spot market purchase contracts, consisting of the following:

- a 125 MW long-term power purchase agreement, terminating in 2056, with Brilliant Power Corporation (the ''Brilliant PPA'');
- an additional ongoing option to purchase 20 MW of power pursuant to the Brilliant PPA;
- a 200 MW power purchase agreement with BC Hydro terminating in 2013;
- a number of small power purchase contracts with independent power producers; and
- a small number of short-term or real-time power purchases.

FortisBC's long-term, fixed-price power supply contracts provide FortisBC with the flexibility to respond to changes in demand with very little commodity exposure. These costs are passed through to customers through rates as permitted by FortisBC's regulatory framework.

Although FortisBC can currently meet substantially all of its customer supply requirements from its own generation and the major power purchase agreements described above, all of which have been approved by the BCUC, a portion of the customer load during peak demand periods may need to be supplied from the market in the form of real-time power purchases. Costs related to such purchases, provided they are prudently incurred and reasonably forecast, are flowed-through to customers through rates. FortisBC generally makes arrangements prior to the periods of peak requirements to acquire most of this additional capacity and energy through block capacity purchases or scheduled call options. In this way, the risk of forecasting a price is minimized.

FortisBC's non-regulated generating assets consist of the Walden Power Plant, a 16 MW non-regulated hydroelectric operation that sells its entire output to BC Hydro under a long-term contract.

Regulation

FortisBC is regulated by the BCUC, which operates under and administers the *Utilities Commission Act* (British Columbia). FortisBC is required to regularly file rate applications with the BCUC. FortisBC's rates are established on a cost-of-service basis, with a performance-based rate setting (''PBR'') framework for annual rate adjustments. In short, the rate process first requires FortisBC to establish and have its annual revenue requirement approved by the BCUC. This annual revenue requirement includes the recovery of prudently incurred operating expenses, power purchase costs, depreciation, income taxes, interest on debt and a reasonable return on equity. Second, an appropriate customer rate structure is established. The purpose of the rate structure is to charge fair rates to each customer class and to permit FortisBC to recover its approved revenue requirements. The PBR framework, which in part governs FortisBC's rates, is intended to encourage FortisBC to operate efficiently by permitting its shareholders and customers to share in costs savings if specific targets are met.

The existing PBR framework, combined with a negotiated settlement of forecasts and extraordinary costs and deferrals, established a revenue requirement for FortisBC for 2003. The 1995 cost-of-service decision set the base revenue requirement for PBR. This 1995 base revenue requirement was escalated each year based on customer and sales growth and inflation, less defined productivity improvement factors, which were set at 1% for 2003. The year 2004 was to be a rate rebasing year for the PBR framework. However, because of the change in ownership of FortisBC, in its application for 2004 rates filed with the BCUC in November 2003, FortisBC proposed extending the existing settlement agreement and PBR framework for 2004, with a rebasing in 2005. The application was the subject of a successful negotiated settlement reached in March 2004, which was reviewed and approved by the BCUC in April 2004.

In order to establish 2005 rates, FortisBC filed a 2005 Revenue Requirements Application (the ''Revenue Requirements Application'') with the BCUC on November 26, 2004. FortisBC's application: (a) sought approval of: (i) its $184.4 million revenue requirement, which requires a 4.4% rate increase effective January 1, 2005; (ii) a continuation of the power purchase and demand side management aspects of the incentive sharing mechanism for 2005; and (iii) a cost of capital for rate making purposes to reflect a capital structure of 40% equity and 60% debt, with a return on equity that is 0.75% above the 2005 benchmark return of 9.03%; (b) and proposed to: (i) share 50% of savings in actual operating and maintenance expenditures from forecast for 2005; and (ii) develop a comprehensive performance based mechanism in consultation with customers, which may be implemented as early as 2006. FortisBC's 2005-2024 System Development Plan and Resource Plan (the ''System Development and Resource Plan'') and $121.6 million 2005 capital expenditure plan was filed with the Revenue Requirements Application. The BCUC has approved an interim refundable rate increase of 3.7%, effective January 1, 2005, pending a hearing on the Revenue Requirements Application.

The BCUC has also established a public review process for the Revenue Requirements Application and the System Development and Resource Plan, which will likely be completed by the end of April 2005, with an order to follow thereafter.

Unregulated Activities

FortisBC's unregulated activities are not significant relative to its regulated operations but provide an opportunity to enhance utilization of FortisBC's utility operation and management resources under service contracts to third parties. FortisBC provides operations, maintenance and management services relating to (a) the 450-MW Waneta hydroelectric generation plant owned by Teck Cominco Metals Ltd., and (b) the 145-MW hydroelectric generating plant jointly owned by Columbia Basin Trust (''CBT'') and Columbia Power Corporation (''CPC'') through Brilliant Power Corporation. Fortis Pacific Holdings Inc. (''Fortis Pacific''), the direct parent of FortisBC, provides services of a similar nature to various third parties, including the City of Kelowna, CBT and CPC. FortisBC provides staff and material resources to Fortis Pacific in order for it to carry out the services required under the contracts, and charges Fortis Pacific its cost plus a mark-up as compensation.

FortisBC also owns the Walden Power Partnership, an independent power producer that owns and operates the Walden Power Plant. The Walden Power Plant commenced operating in 1992 and sells 100% of its output to BC Hydro under a long-term contract expiring in 2013. The Walden Power Plant is financed by a mortgage on the Walden Power Plant. See ''— Financing Activities and Existing Indebtedness — Walden Power Partnership Indebtedness''.

Human Resources

At December 31, 2004, FortisBC had 395 employees. FortisBC has separate collective agreements with the International Brotherhood of Electrical Workers, Local 213 (the ''IBEW'') and the Canadian Office and Professional Employees Union, Local 378 (the ''COPE'') covering 320 employees. There are 75 employees who are not represented by any union.

The last strike by FortisBC's employees lasted from April 2, 2001 to June 27, 2001 and involved the IBEW. The collective agreement between FortisBC and the IBEW expired on January 31, 2005 but the terms of the collective agreement will continue to be in effect until such time as a new collective agreement is signed. FortisBC and the IBEW are each preparing their bargaining positions. Both parties have agreed to commence discussions during the first week of March 2005. FortisBC and the COPE are parties to a collective agreement that expires on January 31, 2006.

Environmental Matters

FortisBC is subject to various federal, provincial and local laws and regulations pertaining to the environment, including those relating to the generation, storage, handling, disposal and emission of various substances and wastes.

FortisBC has developed an environmental management system that is consistent with the international standard for environmental management systems, namely ISO 14001. The intent of the system is to provide a framework that allows for the monitoring of performance and the establishment of processes to enhance that performance. FortisBC's management system has a ''plan, check, do, review'' cycle, which is the core of continuous improvement. This system is continually refined to enhance FortisBC's environmental performance and to reflect organizational changes as they occur.

The environmental management system includes an environmental policy, a summary of the major environmental aspects of FortisBC's business, a summary of relevant environmental legislation and an internal reporting system, which includes the FortisBC board of directors. The environmental management programs designed to achieve the objectives, measures and targets of the system are in various stages of implementation. Reporting procedures and an environmental information management system are being developed, tested and implemented. The management system will be used to identify environmental impacts and aid in the continual improvement of FortisBC's environmental performance.

Financing Activities and Existing Indebtedness

Secured Debentures

FortisBC has three series of senior secured debentures outstanding in an aggregate principal amount of $46.8 million as at January 31, 2005. The secured debentures were issued under indentures supplemental to the deed of trust and mortgage (together with all supplemental indentures, the ''Trust Deed'') dated as of March 15, 1983 made between FortisBC and The Canada Trust Company (since replaced by Computershare Trust Company of Canada), as trustee and are comprised of $6.8 million principal amount 11% Series E sinking fund debentures due December 1, 2009, $15 million principal amount 9.65% Series F debentures due October 16, 2012 and $25 million principal amount 8.8% Series G debentures due August 28, 2023. The Series E debentures require annual sinking fund payments in the amount of $750,000 to be made against outstanding principal. All three series of debentures are secured against all of the real and personal property of FortisBC.

The obligations of FortisBC under the Series E, F and G secured debentures issued under the Trust Deed have been guaranteed by FortisWest Inc. (''FortisWest''), a direct subsidiary of Fortis and the indirect parent of FortisBC. FortisWest provided the guarantee in connection with the Acquisition to replace a guarantee previously provided by Aquila, Inc.

Unsecured Debentures

On November 30, 2004, FortisBC completed a $140 million public debenture offering of 5.48% senior unsecured debentures due November 28, 2014. The proceeds from this issue were used to re-pay the short-term debt associated with the repayment of the indebtedness of FortisBC upon closing of the Acquisition. Immediately after the closing of the debenture offering, FortisBC completed the conversion of $100 million aggregate principal amount of its outstanding senior secured debentures into unsecured debentures ranking *pari passu* with its newly-issued debentures. The senior secured debentures that were converted consisted of $25 million principal amount 8.77% Series H debentures due February 1, 2016, $25 million principal amount 7.81% Series I debentures due December 1, 2021 and

$50 million principal amount 6.75% Series J debentures due July 31, 2009. The obligations of FortisBC under the Series H, I and J unsecured debentures are guaranteed by FortisWest. The newly issued unsecured debentures do not have the benefit of this guarantee.

$100 Million Revolving/Non-Revolving Operating Facility

FortisBC entered into a $100 million unsecured revolving/non-revolving term credit facility (the ''FortisBC Operating Facility'') for its general working capital and capital expenditure requirements. The FortisBC Operating Facility will mature on May 13, 2005. However, at any time not more than 90 days and not less than 60 days prior to maturity, FortisBC may request the lenders to extend the term for additional terms of 364 days and if the request for an extension is not granted, the FortisBC Operating Facility will automatically convert into a non-revolving term credit facility (the ''FortisBC Conversion'') that will mature six months from the date of the FortisBC Conversion. The FortisBC Operating Facility also is available to support up to $20 million in letters of credit in Canadian dollars. As at January 31, 2005, there was approximately $32 million outstanding under the FortisBC Operating Facility.

Fortis has not provided any guarantee of FortisBC's obligations under the FortisBC Operating Facility.

Walden Power Partnership Indebtedness

Walden Power Partnership, a subsidiary of FortisBC, has outstanding indebtedness in the principal amount of $6.9 million as at January 31, 2005, secured by a first mortgage against the Walden Power Plant as well as a pledge by FortisBC of all of its partnership interest and units in the Walden Power Partnership. The mortgage bears interest at 9.44% per annum and is due on October 31, 2013. Pursuant to the terms of the loan documents, recourse of the lender is limited to the security against the Walden Power Plant and the partnership interests and units in the Walden Power Partnership.

The Walden Power Partnership is not in compliance with its debt service ratio of 1.2 times as required by a covenant contained in its loan documents. As at December 31, 2004, Walden Power Partnership's debt service ratio was 0.41 times. FortisBC provided the lender with a comfort letter pursuant to which FortisBC has agreed to lend to the Walden Power Partnership sufficient funds to enable it to meet any monthly principal and interest payments that arise exclusively in connection with the indebtedness of the Walden Power Partnership and which cannot be satisfied out of the Walden Power Partnership's cash flow, and, at December 31, 2004, the lender waived the debt service covenant default. Compliance with the debt service covenant is required at the end of each fiscal year. Fortis does not expect any change in the regular debt repayment schedule relating to this $6.9 million mortgage.

FortisAlberta

On May 31, 2004, Fortis acquired, through wholly-owned subsidiaries, all of the issued and outstanding shares of FortisAlberta (formerly Aquila Networks Canada (Alberta) Ltd.) from Aquila Canada ULC for aggregate consideration of approximately $348 million, including acquisition costs. As a condition to the closing of the Acquisition, Fortis also repaid certain indebtedness of FortisAlberta totalling $402 million. Aquila Canada ULC is not (and was not at the time of the Acquisition) an insider, associate or affiliate of Fortis.

FortisAlberta is a regulated electricity distribution utility in the Province of Alberta. Its business is the ownership and operation of regulated low-voltage electricity distribution facilities that distribute electricity generated by other market participants from high-voltage transmission substations to end-use customers. FortisAlberta is not involved in the generation, transmission or the direct sale of electricity. FortisAlberta's revenues are principally derived from distribution charges to end-use customers.

The acquisition of FortisAlberta significantly increased the Corporation's regulated asset base and provided a broader and more diverse base of earnings for Fortis. For the seven months ended December 31, 2004, FortisAlberta contributed $129.7 million to revenues, and $18.6 million to operating earnings, of Fortis.

FortisAlberta operates a largely rural, approximately 103,000 kilometre, low-voltage distribution network in central and southern Alberta, which represents approximately 60% of the total distribution network as measured by kilometres of line in Alberta. FortisAlberta's distribution network serves approximately 400,000 electricity customers, comprised of residential, commercial, farm and industrial consumers of electricity. This represents approximately 29% of Alberta's end-use customers. In 2003, FortisAlberta distributed approximately 22,300 GWh of electricity (including to those customers within its service area that are connected directly to the transmission grid), representing approximately 46% of the approximately 48,350 GWh of electricity distributed in Alberta.

FortisAlberta collects its distribution revenues from the retailers (including self-retailers) that sell electricity to end-use customers within its service area. In accordance with applicable regulations, FortisAlberta takes prudential measures to minimize credit risk associated with such non-regulated electricity retailers. Such prudential measures include FortisAlberta obtaining security or other financial protection from a retailer, often in the form of letters of credit, third party guarantees or cash deposits. In the event that FortisAlberta incurs credit losses that exceed the prudential measures secured from its customers, FortisAlberta may apply to the Alberta Energy Utilities Board (the ''AEUB'') to recover these bad debts in rates.

As an owner of an electricity distribution network under the *Electric Utilities Act* (Alberta) (the ''EUA''), FortisAlberta was required to act, or to authorize a substitute party to act, as a provider of electricity services, including the sale of electricity, to eligible customers under a regulated rate and to appoint a retailer as default supplier to provide electricity services to customers otherwise unable to obtain electricity services. In order to remain solely a distribution utility, FortisAlberta appointed EPCOR Energy Services (Alberta) Inc. (''EPCOR'') as its regulated rate provider until June 30, 2006 and as its default supplier until December 31, 2010 pursuant to various agreements entered into with EPCOR (the ''EPCOR Agreements''). As a result of this appointment, EPCOR assumed all of FortisAlberta's rights and obligations in respect of these services. As a result of these arrangements, EPCOR collects approximately 50% of FortisAlberta's revenues. FortisAlberta manages its credit risk exposure to EPCOR in accordance with its overall corporate policy. In the unlikely event that EPCOR is unable or unwilling to act as regulated rate provider or as default supplier, and no other person is willing to act as regulated rate provider or as default supplier, FortisAlberta would be required under the EUA to act as a provider of electricity services to eligible customers under a regulated rate or to provide electricity services to customers otherwise unable to obtain electricity services.

Market and Sales

Annual customer electricity sales have increased from 22,319 GWh in 2003 to 22,998 GWh in 2004. Revenue increased from $177.2 million in 2003 to $223.4 million in 2004. Revenues for 2003 were reduced by a rebate of $40.0 million in 2002 distribution charges.

The following chart compares 2004 and 2003 electric rate revenues and electricity sales:

	Revenue (1) **(per cent)**		**Gigawatt Hour Sales** (1) **(per cent)**	
	2004	**2003**	**2004**	**2003**
Residential	32.8	32.8	9.0	9.1
Large commercial and industrial	27.2	31.2	35.6	35.8
Small commercial	13.2	14.3	4.9	5.1
Farms	12.5	9.9	5.2	5.7
Oil and gas	9.2	7.2	4.0	4.2
Other	5.1	4.6	41.3	40.1
Total	100.0	100.0	100.0	100.0

Note:

(1) Includes customers within FortisAlberta's service area that are connected directly to the transmission grid.

Regulation

FortisAlberta is a regulated electricity distribution utility under the jurisdiction of the AEUB. Its distribution assets are regulated on a cost-of-service basis, and its regulated revenues are established in accordance with this framework. Rate orders issued by the AEUB establish FortisAlberta's revenue requirements, being those revenues required to recover all prudently incurred operating expenses, depreciation, income tax, interest on debt supporting regulated assets and a reasonable return on deemed common equity applied to approved rate base assets.

On July 2, 2004, the AEUB issued a decision (the ''General Cost of Capital Decision'') that established a common approach for setting the return on deemed common equity for all electricity and natural gas utilities under its jurisdiction. The General Cost of Capital Decision also established a capital structure of 63% debt and 37% equity for FortisAlberta. This notional capital structure represents how FortisAlberta is deemed to be financing its rate base assets for purposes of determining rates. This capital structure will be used for determining future rates for FortisAlberta. This

compares to a deemed capital structure of 60% debt and 40% equity that was used to set FortisAlberta's 2002-2004 rates. The General Cost of Capital Decision set FortisAlberta's regulated base rate of return on deemed common equity for future rates at 9.6% based on a forecast long-term Canada bond of 5.68%. Beginning in 2005, FortisAlberta's regulated base rate of return on deemed common equity will be adjusted based on changes in Government of Canada bond yields. FortisAlberta believes that this formulaic approach to rate setting enhances the transparency and predictability of the regulatory process and will, in many cases, reduce the complexity and cost of regulatory proceedings.

On November 30, 2004, the AEUB issued another decision, which set the general rate of return on common equity at 9.5% for 2005. FortisAlberta filed a general rate application (the ''General Rate Application'') on November 26, 2004 to set 2005 rates using this rate of return on a capital structure consisting of 37% common equity previously established pursuant to the General Cost of Capital Decision. The General Rate Application sought to establish 2005 rates based on forecasted revenue requirement of operating and capital costs of $219.3 million and addressed, among other things, the outcome of a depreciation study conducted by FortisAlberta in accordance with regulatory directives. If the forecasted revenue requirement is approved, distribution rates would need to be increased by an average of 4.5% effective January 1, 2005. The General Rate Application also included a forecast of $135 million of capital expenditures, including software development costs. Most of the capital expenditures are related to improvements and extensions to the electrical distribution system to meet customer growth and improve reliability.

Franchise Agreements

Most of FortisAlberta's residential customers are served through franchise agreements between FortisAlberta and the customer's community of residence. In Alberta, the standard franchise agreement, which includes a franchise fee payable to the municipality, is generally for ten years and can be renewed for five years upon the mutual consent of the parties. FortisAlberta serves over 145 communities, of which 117 communities, or 81% of such communities, are on standardized, individual franchise agreements, substantially all of which have initial terms that expire between 2011 and 2013. The balance of these franchise agreements are currently being negotiated. The remaining municipal franchises are based upon earlier agreements that have either expired or will expire before 2010. Any agreement that is not renewed continues in effect until either FortisAlberta or the municipality terminates it with AEUB permission. All municipal franchises are governed by legislation that requires the municipality or the utility to give notice, and obtain AEUB approval, if it intends to terminate its franchise agreement. If a franchise agreement is terminated and the municipality subsequently exercises its right under the *Municipal Government Act* (Alberta) to purchase FortisAlberta's distribution network within the municipality's boundaries, FortisAlberta is required to be compensated in respect of such purchase.

Human Resources

At December 31, 2004, FortisAlberta had 721 full-time employees, 48 part-time employees and 60 temporary and term employees. The majority of the full-time employees and some of the part-time employees are represented by the United Utility Workers Association (''UUWA''). There are approximately 180 employees who are not represented by any union.

Currently, there are two collective labour agreements in place with the UUWA. The first agreement is the dispatch/contact centre agreement, which expired on December 31, 2004. Negotiations commenced in the fall of 2004 and are not yet completed. However, it is anticipated that a mutually satisfactory agreement will be reached in the first quarter of 2005. The second agreement is the main agreement, which expires on December 31, 2005. The terms of this main agreement provide for a salary increase of 2% effective January 1, 2005. FortisAlberta has historically had a good relationship with its unions.

Environmental Matters

FortisAlberta is subject to various federal, provincial and local laws and legislation pertaining to the environment, including those relating to the generation, storage, handling, disposal and emission of various substances and wastes.

FortisAlberta is in the process of developing, designing and implementing an environmental management system that is consistent with the guidelines of ISO 14001. FortisAlberta's system is intended to provide a framework that allows for the monitoring of performance and the establishment of processes to enhance that performance. FortisAlberta's programs are designed to achieve the objectives, measures and targets of the system and are in various stages of implementation. Reporting procedures and an environmental information management system are being

developed, tested and implemented. The management system will be used to identify environmental impacts and aid in the continual improvement of FortisAlberta's environmental performance.

Legal Proceedings

In November 2000, EPCOR purchased from FortisAlberta various assets necessary to operate FortisAlberta's call centre and billing centre operations. Additionally, EPCOR entered into the EPCOR Agreements pursuant to which it was appointed the exclusive default retailer and supplier of last resort to customers within FortisAlberta's service area and was granted the exclusive right to act as a retailer within FortisAlberta's service area for customers purchasing electricity under FortisAlberta's regulated rate tariff pursuant to a regulated rate option arrangement agreement.

On August 18, 2003, EPCOR filed a statement of claim in the Court of Queen's Bench of Alberta in the Judicial District of Edmonton against FortisAlberta, Aquila Networks Canada Ltd. (''ANCL'') and Aquila, Inc. (''Aquila''). EPCOR's claim is that FortisAlberta, as owner of the distribution system, and ANCL, as the wire services provider, failed to provide EPCOR with timely and accurate information and data required by EPCOR to operate the retail business acquired from FortisAlberta. EPCOR's claim alleges breaches of the EPCOR Agreements, breach of fiduciary duty and statutory duty by FortisAlberta and ANCL, as well as negligence. EPCOR is seeking approximately $83 million in damages, interest, costs, an order compelling FortisAlberta and ANCL to comply with the EPCOR Agreements and an order requiring FortisAlberta to comply with its obligations. Aquila has been named as a defendant in the litigation as it guaranteed the performance by FortisAlberta and ANCL of the EPCOR Agreements. Pursuant to agreements entered into on completion of the Acquisition, FortisAlberta released ANCL from any liability it might have to FortisAlberta in relation to EPCOR's claim and an affiliate of Fortis agreed to indemnify ANCL and Aquila in respect of any liability they might have in relation to EPCOR's claim.

A demand for further and better particulars was made by FortisAlberta on September 29, 2003 and a reply to demand for particulars was filed by EPCOR on November 7, 2003. Additional particulars were provided by EPCOR on November 7, 2003. A statement of defence was filed on February 17, 2004 and a reply to statement of defence was filed on March 22, 2004. The parties have begun the document production process, which is expected to continue for some time. Given the preliminary stage of the proceedings, FortisAlberta has not made any definitive assessment of potential liability with respect to the litigation, however, management of FortisAlberta believes that these allegations are without merit.

Financing Activities and Existing Indebtedness

Unsecured Debentures

On October 25, 2004, FortisAlberta completed a $400 million public offering of debentures comprised of $200 million aggregate principal amount of 5.33% Series 04-1 senior unsecured debentures due October 31, 2014 and $200 million aggregate principal amount of 6.22% Series 04-2 senior unsecured debentures due October 31, 2034. The proceeds from these issues were used to repay the short-term debt associated with the repayment of the indebtedness of FortisAlberta upon closing of the Acquisition.

$100 Million Revolving/Non-Revolving Operating Facility

FortisAlberta entered into a $100 million unsecured revolving/non-revolving term credit facility (the ''FortisAlberta Operating Facility'') for its general working capital and capital expenditure requirements. The FortisAlberta Operating Facility will mature on May 13, 2005, however, at any time not more than 90 days and not less than 60 days prior to maturity, FortisAlberta may request the lenders to extend the term for additional terms of 364 days and if the request for an extension is not granted, the FortisAlberta Operating Facility will automatically convert into a non-revolving term credit facility (the ''FortisAlberta Conversion'') that will mature one year from the date of the FortisAlberta Conversion. The FortisAlberta Operating Facility also is available to support up to $60 million in letters of credit in Canadian dollars. As at January 31, 2005, there were no amounts outstanding under the FortisAlberta Operating Facility.

Fortis has not provided any guarantee of FortisAlberta's obligations under the FortisAlberta Operating Facility.

FortisOntario

FortisOntario and its subsidiaries own and operate generation, transmission and distribution operations. Through FortisOntario's wholly-owned subsidiaries, CNPI and Cornwall Electric, electricity is distributed to approximately

51,600 Ontario customers in Fort Erie, Port Colborne, Gananoque, Cornwall, South Glengarry, South Stormont and the Ontario portion of the Mohawk Territory of Akwesasne. FortisOntario owns and operates the 75 MW Rankine Generating Station on the Niagara River in Niagara Falls, Ontario. FortisOntario's licence to divert water from the Niagara River will expire on April 30, 2009. FortisOntario also owns and operates a 5 MW gas-fired cogeneration plant that provides district heating to 16 commercial customers in Cornwall, Ontario. FortisOntario's wholly-owned subsidiary, FortisOntario Generation, generates electricity from six small hydroelectric generating stations with a combined capacity of 8 MW.

The Ontario Energy Board (the ''OEB'') is currently formulating a Regulated Price Plan for electricity rates, which is expected to be completed by May 1, 2005, and will create a pricing structure for electricity that better reflects actual costs. The OEB has also initiated a process to establish approved rates for electricity distributors based on revenue requirements. It is anticipated that local distribution companies such as those operated by FortisOntario will be required to submit rate applications by mid-2005 for the new distribution rates to take effect on May 1, 2006. The OEB has also submitted a plan to the Minister of Energy (Ontario), which, if approved, identifies mandatory technical requirements for ''smart'' meters and the support systems required to operate electricity distribution with smart metering. While the costs of smart meters are expected to be recovered in rates, the impact of this initiative is not certain at this time.

On February 18, 2005, FortisOntario completed an agreement (the ''Niagara Exchange Agreement'') with Ontario Power Generation Inc. (''OPGI'') addressing the future disposition of FortisOntario's water rights and facilities on the Niagara River. The Niagara Exchange Agreement facilitates the firm and irrevocable exchange of 75 MW of wholesale electric power supply to FortisOntario from OPGI until April 30, 2009 in exchange for the transfer of FortisOntario's water entitlement to OPGI. FortisOntario also received a payment of $10 million from OPGI resulting from the settlement of other contractual matters.

Maritime Electric

Maritime Electric operates an integrated electric utility, which directly supplies approximately 69,500 customers constituting just over 90% of the electricity consumers on Prince Edward Island. Maritime Electric owns and operates generating plants on Prince Edward Island with a total capacity of 100 MW, but purchases most of the energy it distributes to its customers from New Brunswick Power, a provincial Crown corporation, and Emera Inc. In 2004, Maritime Electric renewed and increased some of its power purchase commitments from New Brunswick Power and allowed the power purchase agreement with Emera to expire. Maritime Electric's system is connected to the mainland power grid via two submarine cables between Prince Edward Island and New Brunswick, which are leased from the Government of Prince Edward Island.

The Legislative Assembly of Prince Edward Island passed legislation to return Maritime Electric to traditional cost-of-service regulation effective January 1, 2004. Previously, Maritime Electric operated under price cap regulation. On April 30, 2004, Maritime Electric filed a rate application with the Island Regulatory and Appeals Commission for the period ending June 30, 2006. On January 6, 2005, the Island Regulatory and Appeals Commission issued an interim order which re-established an energy cost adjustment mechanism. This mechanism will help mitigate the impact of fluctuating energy costs on Maritime Electric's financial results as it will allow Maritime Electric to collect energy costs above a base rate per kWh or rebate to customers energy costs below a base rate per kWh. The rates charged to customers in effect at December 31, 2004 have been adopted as basic rates.

During 2004, Maritime Electric received all necessary approvals for the construction of a 50 MW generating facility on Prince Edward Island. This facility is designed to operate on light oil or natural gas and it will address submarine cable loading issues and will reduce Maritime Electric's reliance on imported electricity. This project, which has a budget of $35 million, is expected to be completed in late 2005. The costs of this facility are expected to be recovered through rates.

Newfoundland Power

Newfoundland Power operates an integrated generation, transmission and distribution system throughout the island portion of Newfoundland and Labrador. Newfoundland Power serves approximately 224,000 customers, constituting 85% of all electricity customers in the province. Approximately 90% of the energy required by Newfoundland Power is purchased from Newfoundland and Labrador Hydro Corporation, a provincial Crown corporation. Newfoundland Power generates the balance of its energy requirements. It has an installed generating

capacity of approximately 146 MW comprised of hydroelectric, diesel and gas turbine generation with the bulk, 95 MW, coming from hydroelectric facilities.

In 2003, the Board of Commissioners of Public Utilities of Newfoundland and Labrador (the ''PUB'') issued an order implementing the use of an automatic annual adjustment formula in the ratemaking process for 2005, 2006 and 2007. As part of the general rate order in 2003, the PUB determined a rate of return on rate base for 2004 of 8.91% within a range of 8.73% to 9.09% to reflect the allowed return on common equity of 9.75%. As a result of the operation of the automatic annual adjustment formula for 2005, the PUB has ordered a decrease in the allowed rate of return on rate base to 8.68% within a range of 8.50% to 8.86% to reflect an adjusted return on common equity of 9.24%. The PUB also approved a 0.5% decrease in electricity rates effective January 1, 2005 to reflect the reduction in allowed return on rate base.

In 1995, Canada Revenue Agency (''CRA'') issued notices of reassessment to Newfoundland Power, for the years 1988 through 1993, to which Newfoundland Power filed notices of objection.

The reassessments included in income the value of electricity consumed in December 1993 but not billed until January 1994 (the ''Unbilled Revenue Issue''). Newfoundland Power's practice is to recognize and record revenue on the billed basis in accordance with regulatory requirements. In May 2000, CRA reaffirmed its position with regard to the Unbilled Revenue Issue. Newfoundland Power filed notices of objection with CRA and continued to make representations to CRA in support of its position. In October 2002, Newfoundland Power received a notification of confirmation from the Minister of Revenue confirming that the 1993 income tax assessment was made in accordance with the provisions of the Tax Act. In December 2002, Newfoundland Power filed an appeal to the Tax Court of Canada (the ''Tax Court''). A trial and decision of the Tax Court is not expected before 2006.

Newfoundland Power believes that it has reported its tax position appropriately. However, should it be unsuccessful, a liability of approximately $16.2 million, representing income tax and interest thereon, would arise as of December 31, 2004. Newfoundland Power has a $6.9 million tax deposit with CRA on account of this issue, which would be applied by CRA against that liability in the event Newfoundland Power is unsuccessful in defending its position. An application by Newfoundland Power to the PUB to have the liability considered in the ratemaking process could be made should this occur. Such an application might include a request to change the current practice of recognizing revenue when billed to the accrual method. If the PUB were to approve such a change in accounting practice, electricity consumed in December 2004 and billed in January 2005, valued at $23.1 million, would be included in revenue in 2004.

Belize Electricity

Belize Electricity is the primary transmitter and distributor of electric power in Belize, Central America. Serving approximately 66,000 customers, Belize Electricity satisfies Belize's aggregate peak demand of 61 MW from multiple sources, which include power purchases from BECOL, the Comissión Federal de Electricidad (the ''CFE''), which is the Mexican state-owned power company, and from its own oil-fired generating stations. The CFE gave notice of its intent to terminate its existing power purchase agreement with Belize Electricity in 2006 with a view to continuing to sell power to Belize Electricity on amended terms. Belize Electricity has begun negotiations with the CFE but is also pursuing other options to meet its power supply requirements. Belize Electricity currently operates 43.6 MW of oil generation.

Electricity rates in Belize are comprised of two components. The first, Value Added Delivery (''VAD''), is subject to price cap and the second is the cost of fuel and power purchase, including the variable cost of generation, which is a flow through in customer rates. The current VAD is subject to a BZ$0.05 reduction over a five-year transition period that ends July 2005. As of July 1, 2004, the BZ$0.05 rate reduction has been implemented. A new four-year VAD tariff setting arrangement will be required by July 1, 2005.

Belize Electricity has signed a new power purchase agreement with Hydro Maya Limited. The agreement is to purchase output from a 2 MW run-of-the-river hydroelectric plant in the Punta Gorda District (Southern Belize) which is expected to become operational in 2006. Belize Electricity also signed a power purchase agreement with Belize Cogeneration Energy Limited in December 2004 for the supply of 13.5 MW of power by early 2007.

Caribbean Utilities

Caribbean Utilities is the sole provider of electricity to the Island of Grand Cayman, Cayman Islands pursuant to an exclusive 25-year licence renewable in 2011 with the Government of the Cayman Islands (the ''Cayman

Government''). Caribbean Utilities generates, transmits and distributes electricity to more than 21,000 customers and currently has an installed capacity of 123 MW.

In September 2004, the transmission and distribution systems of Caribbean Utilities were substantially damaged as a result of Hurricane Ivan. Fortis deployed utility crews, equipment and humanitarian and emergency supplies to Grand Cayman to help Caribbean Utilities restore power to customers impacted by Hurricane Ivan. In December 2004, the final crew of personnel from Fortis returned from Grand Cayman after restoring service to all Caribbean Utilities' customers that were able to accept service. In view of the immediate cash flow requirements needed to restore service following the passage of Hurricane Ivan, interruption to Caribbean Utilities' billing and collection procedures and the loss of revenues during the 45-day deductible period associated with business interruption insurance, the board of directors of Caribbean Utilities elected not to declare a dividend for its second quarter of fiscal year 2005. The total uninsured cost of Hurricane Ivan for Caribbean Utilities was approximately US$17.8 million, which was expensed by Caribbean Utilities for its second quarter of fiscal year 2004. Fortis accounts for its 37.3% ownership interest in Caribbean Utilities on an equity basis. Equity earnings of Caribbean Utilities are recorded on a lag basis, or two months behind Fortis' reported earnings, and, therefore, Fortis' portion of the Hurricane Ivan related costs (approximately $8.2 million), were reflected in the Corporation's results for its fourth quarter of fiscal year 2004.

The terms of Caribbean Utilities' licence permit the recovery of hurricane-related costs through rate adjustment. It is expected that Caribbean Utilities will make proposals to the Cayman Government on the best way to implement rate adjustments and recover these costs. However, it cannot be assured that these costs will be recovered in full or over what period such costs will be recovered.

Caribbean Utilities submitted a proposal to the Cayman Government in July 2002 to extend its current licence and replace the 15% return on rate base mechanism for adjusting consumer rates with a price cap mechanism. Under the proposal, electricity rates would be tied to and move with published inflation indices. Additionally, Caribbean Utilities would continue to recover fuel cost, regulatory costs and government levies. Caribbean Utilities anticipates that, under the proposed regulatory framework, it would continue to have the potential to achieve returns that are consistent with investor expectations. In June 2004, Caribbean Utilities and the Cayman Government reached a non-binding tentative agreement to extend Caribbean Utilities' operating license to 2024 from 2011. The proposed terms of the license extension allowed competition in the electricity industry and included a change in the rate-setting regulation that would provide for a price cap based on an inflation index. The tentative agreement expired in September 2004 following Hurricane Ivan. It is expected that Caribbean Utilities will meet with the Cayman Government to assess the status of licence renewal negotiations. In the interim, Caribbean Utilities continues to operate under its existing licence, which expires in 2011.

BECOL

BECOL is a non-regulated, wholly-owned indirect subsidiary of Fortis. BECOL owns and operates the Mollejon hydroelectric facility located on the Macal River in Belize, Central America. The facility is a 25 MW generating plant capable of delivering average annual energy of 80 GWh and is currently the only operational commercial hydroelectric facility in Belize, Central America. BECOL sells its entire output to Belize Electricity. BECOL operates under various agreements with the Government of Belize and Belize Electricity, including a 50-year power purchase agreement with Belize Electricity and a franchise agreement with the Government of Belize. The franchise agreement grants BECOL the right to use the water in the Macal River upstream of the Mollejon plant for hydroelectric generation and the Government of Belize has agreed not to grant any rights or take any action that would impede the amount or quality of water flow on the upper Macal River.

BECOL commenced construction of the Chalillo project (the ''Chalillo Project'') in May 2003 following approval by the Public Utilities Commission of Belize. The Chalillo Project is a US$30 million upstream storage and hydroelectric generating facility that is expected to increase BECOL's annual energy production from an average of 80 GWh to 170 GWh. Construction is scheduled for completion by the end of 2005.

In May 2004, Fortis acquired the remaining 5% interest in BECOL from the Social Security Board of the Government of Belize for US$3.5 million, making it a wholly-owned indirect subsidiary of the Corporation.

Central Newfoundland Energy

Central Newfoundland Energy, a non-regulated, wholly-owned subsidiary of Fortis, holds a 51% interest in the Exploits River Partnership with Abitibi-Consolidated holding the remaining 49%. The Exploits River Partnership was

established in 2001 to develop additional capacity at Abitibi-Consolidated's hydroelectric generating plant at Grand Falls-Windsor and to redevelop the hydroelectric generating plant at Bishop's Falls in central Newfoundland to increase annual energy production by approximately 140 GWh to 600 GWh. The additional energy produced by the development is being sold to Newfoundland and Labrador Hydro under a long-term power purchase agreement.

The project was completed in November 2003 at a cost of $68 million and was financed principally with $65 million of non-recourse debt. In 2004, the first full year of operations, the energy production of the project was 152 GWh.

Fortis Properties

Fortis Properties is a leading owner and operator of commercial real estate and hotels in Atlantic Canada. Fortis Properties expanded its hotel operations to Ontario in 2003 and to Manitoba and Alberta in February 2005. Fortis Properties is the primary vehicle for diversification and growth outside the electric utility business, with interests in office buildings, shopping centres, hotels and the provision of property management services. At February 1, 2005, Fortis Properties held a commercial real estate portfolio of 2.7 million square feet and 15 hotels with more than 2,800 rooms. Its assets and income are distributed between Newfoundland and Labrador, Nova Scotia, New Brunswick, Ontario, Manitoba and Alberta and are diversified between commercial real estate and hotel operations, providing stability and opportunity for growth.

In February 2004, Fortis Properties completed a $15.6 million financing of the Four Points by Sheraton located in Halifax. The net proceeds were used principally to repay short-term indebtedness to Fortis.

In May 2004, Fortis Properties commenced a $15 million expansion of the Delta St. John's Hotel and Conference Centre which will add an additional 126 rooms and approximately 5,000 square feet of meeting space. This project is expected to be completed and the facilities open for operation in June 2005.

In December 2004, Fortis Properties announced a $7 million expansion to the Holiday Inn Sarnia/Point Edward which will add an additional 65 rooms and 3,000 square feet of banquet space. An application for site plan approval has been submitted to the Village of Point Edward. Subject to receipt of the site plan approval, Fortis Properties expects to begin construction in the second quarter of 2005, with completion a year later.

On February 1, 2005, Fortis Properties acquired three Western Canadian hotel properties from Greenwood Inn Ltd. for an aggregate purchase price of $62.6 million. The hotels, which were constructed between 1997 and 2000, operate under the independent brand of Greenwood Inn and are located in Edmonton, Calgary and Winnipeg. The properties have a total of 650 rooms and approximately 27,000 square feet of banquet space.

Fortis Properties' subsidiary, FortisUS Energy, operates four hydroelectric generating stations in upper New York State having a combined generating capacity of 23 MW.

RECENT DEVELOPMENTS

Completion and Financing of the Acquisition of FortisAlberta and FortisBC

On May 31, 2004, Fortis completed the Acquisition. Prior to and following the closing of the Acquisition, Fortis (as well as FortisAlberta and FortisBC) completed a series of capital market financing transactions, the proceeds of which were used principally to directly or indirectly pay for the Acquisition. These are described below.

On October 8, 2003, Fortis completed a public offering of $350 million of Subscription Receipts which were converted, for no additional consideration, into common shares of Fortis (''Common Shares'') contemporaneously with the closing of the Acquisition. On January 29, 2004, Fortis completed a public offering of $50 million of First Preference Units, substantially all of which were converted into Series E First Preference Shares following the closing of the Acquisition through an additional aggregate payment of approximately $150 million by holders of First Preference Units. On October 25, 2004, FortisAlberta completed a $400 million public offering of debentures comprised of $200 million aggregate principal amount of 5.33% Series 04-1 senior unsecured debentures due October 31, 2014 and $200 million aggregate principal amount of 6.22% Series 04-2 senior unsecured debentures due October 31, 2034. On October 28, 2004, Fortis completed a private placement of US$150 million of 5.74% senior unsecured notes due October 31, 2014 to U.S.-based institutional investors. On November 30, 2004, FortisBC completed a $140 million public offering of 5.48% senior unsecured debentures due November 28, 2014.

For the purpose of financing the Acquisition, Fortis had entered into a credit agreement (the ''Fortis Acquisition Facility'') dated October 28, 2003 with a syndicate of Canadian chartered banks pursuant to which the lenders made available non-revolving credit facilities of an aggregate principal amount of $860 million, of which Fortis drew down $581 million on May 31, 2004. FortisBC also issued a demand note (the ''FortisBC Note'') to Fortis in the principal amount of $155 million, the proceeds of which FortisBC used to repay outstanding indebtedness upon the closing of the Acquisition. In addition, Fortis Alberta Holdings Inc., the direct parent company of FortisAlberta, had entered into a credit agreement (the ''FortisAlberta Facility'') dated October 28, 2003 with the same syndicate of Canadian chartered banks pursuant to which the lenders made available a $393 million, non-revolving credit facility in favour of FortisAlberta, which FortisAlberta drew down in its entirety on May 31, 2004. As at November 30, 2004, all amounts drawn down under the Fortis Acquisition Facility and the FortisAlberta Facility, along with all amounts outstanding under the FortisBC Note, have been repaid by Fortis, FortisAlberta and FortisBC, respectively.

Revolving/Non-Revolving Credit Facilities

On May 14, 2004, a syndicate of Canadian chartered banks made available to the Corporation a $145 million unsecured revolving/non-revolving term credit facility (the ''Fortis Operating Facility'') for its general working capital requirements. The Fortis Operating Facility is also available to support up to $20 million in letters of credit.

On January 24, 2005, a Canadian chartered bank made available to the Corporation a $50 million unsecured revolving/non-revolving term credit facility (the ''Fortis Credit Facility'') for its general corporate purposes, including acquisitions.

The Fortis Operating Facility is a revolving facility until May 13, 2005, and the Fortis Credit Facility is a revolving facility until January 23, 2006 (each of these dates, as they may be extended, are referred to as the ''Conversion Date''). At any time not more than 90 days and not less than 60 days prior to the relevant Conversion Date, the Corporation may request the lenders to extend the revolving term of the relevant facility for an additional term of 364 days. If the request for an extension is not granted, the relevant facility will automatically convert into a non-revolving term credit facility (''Conversion'') which will mature one year from the date of Conversion.

As at January 31, 2005, $72 million was outstanding under the Fortis Operating Facility and $50 million was outstanding under the Fortis Credit Facility.

Borrowings under both the Fortis Operating Facility and the Fortis Credit Facility (collectively, the ''Facilities'') may be made in Canadian dollars and bear interest based on prime rate or CDOR rates for bankers' acceptances or in U.S. dollars and bear interest based on U.S. base rate or LIBOR plus, in each case, a margin based on the Corporation's debt ratings provided by the major credit rating agencies.

The Corporation is entitled, at its option, to prepay all or any portion of any outstanding credit under either of the Facilities (subject to a minimum repayment of $2 million) and, until Conversion, to reborrow amounts repaid, up to the maximum available amount thereunder.

The Facilities contain customary representations, warranties, covenants (including limitations on additional indebtedness other than, among other things, indebtedness under the Facilities, indebtedness existing or incurred to refinance indebtedness existing on May 14, 2004 and indebtedness to refinance indebtedness incurred under the Facilities) and events of default, which include the failure of the Corporation to maintain a rating by at least one major credit rating agency. The Fortis Operating Facility further requires that the Corporation's consolidated debt to consolidated capitalization ratio not exceed (a) 0.75:1.00 at any time prior to May 14, 2005, and (b) 0.70:1.00 at any time thereafter. The Fortis Credit Facility also requires that the Corporation's consolidated debt to consolidated capitalization ratio not exceed 0.70:1.00 at any time.

Overdraft Facility

On January 17, 2005, a Canadian chartered bank made available to the Corporation a $15 million uncommitted unsecured demand credit facility (the ''Fortis Overdraft Facility'') to be used by the Corporation for working capital purposes. The Fortis Overdraft Facility is available by way of current account overdrafts and standby letters of credit in Canadian or U.S. dollars. The Fortis Overdraft Facility contains customary covenants of the Corporation. As at January 31, 2005, $10.9 million was outstanding under the Fortis Overdraft Facility.

US$150 Million of Senior Notes

On October 28, 2004, the Corporation issued US$150 million principal amount of senior unsecured notes (the ''Senior Notes'') in a private placement to U.S.-based institutional investors. The Senior Notes will mature on October 31, 2014 and bear interest at 5.74% per annum.

The Senior Notes are prepayable in whole or in part at any time. In the event of prepayment, the Corporation will pay accrued interest to the date set for prepayment plus the greater of (a) the outstanding principal amount, and (b) the present value of the remaining principal payments and interest payments on the Senior Notes discounted at a rate based on the yield of the U.S. treasury note corresponding to the then remaining average life of the Senior Notes calculated at the time of prepayment plus 1.00% or, in limited circumstances, 0.50%. Neither Fortis nor any of its affiliates may acquire any of the outstanding Senior Notes except upon the prepayment of the Senior Notes described herein.

The note purchase agreement pursuant to which the Senior Notes were issued contains customary representations, warranties, covenants (including limitations on the incurrence of additional debt unless consolidated funded obligations do not exceed 75% of consolidated total capitalization) and events of default.

Acquisition of Princeton Light and Power Company Limited

On December 15, 2004, Fortis and Princeton Light and Power Company (''PLP'') reached an agreement pursuant to which Fortis will purchase all of the issued and outstanding common and preferred shares of PLP. Fortis, upon closing of the acquisition, will transfer ownership of PLP to Fortis Pacific. In consideration for their shares, PLP shareholders will have the option of receiving cash or Common Shares or a combination thereof. The closing of the transaction is subject to the approval of securities regulatory authorities, including the Toronto Stock Exchange (the ''TSX''), final due diligence and regulatory approval by the BCUC. The purchase price will be adjusted depending on the time of closing but is expected to result in a premium over rate base assets of approximately 14%. As of March 31, 2004, the regulated rate base of PLP was approximately $6.2 million. PLP is an electric utility that serves approximately 3,200 customers in Princeton, British Columbia and surrounding areas. PLP also provides utility service to customers of FortisBC in the Similkameen and Tulameen regions. PLP presently purchases its wholesale power from FortisBC under a long-term contract.

Changes in Accounting Policies

During 2004, a number of accounting policies evolved. Fortis has reviewed the applicable accounting policies and consulted with the Corporation's independent auditors about the appropriate interpretation and application of these policies. The following accounting policy changes occurred during 2004.

Amortization Policy

Effective January 1, 2004, new recommendations by the Canadian Institute of Chartered Accountants (''CICA'') effectively eliminated certain industry-specific accounting practices, which previously qualified as Canadian generally accepted accounting principles (''GAAP''). To comply with these new recommendations, the Corporation's non-utility investment, Fortis Properties, has changed from a sinking fund method of amortization to the straight-line method. This change, as required under the recommendations, has been adopted with no restatement of prior period amounts. The change in accounting policy from the sinking fund method to the straight-line method has negatively impacted after-tax earnings by approximately $2.7 million in 2004. FortisOntario has also changed from a sinking fund method of amortization on intangibles to the straight-line method. The change in accounting policy from the sinking fund method of depreciation to the straight-line method had no material impact on the financial statements.

Asset Retirement Obligations

Effective January 1, 2004, the Corporation retroactively adopted the recommendations of the CICA on accounting for asset retirement obligations. The recommendations require total retirement costs to be recorded as a liability at fair value, with a corresponding increase to property, plant and equipment. The Corporation recognizes asset retirement obligations in the period in which they are incurred if a reasonable estimate of a fair value can be determined. While some of the Corporation's utility long-lived tangible assets will have future legal retirement obligations, no asset retirement obligations have been recognized upon adoption of the new recommendations. The final date of removal of the long-lived tangible assets that carry asset retirement obligations cannot be reasonably determined at this time. An asset retirement obligation and offsetting capital asset will be recognized when the timing and amount can be reasonably estimated.

Valuation of Property, Plant and Equipment

Effective January 1, 2004, the Corporation prospectively adopted the recommendations of the CICA on accounting for asset impairment. The recommendations require an impairment of property, plant and equipment, intangible assets with finite lives, deferred operating costs and long-term prepaid expenses to be recognized in income when the asset's carrying value exceeds the total cash flows expected from its use and eventual disposition. The impairment loss is calculated as the difference between the asset's carrying value and its fair value, which is determined using present value techniques. There has been no impact on the financial statements resulting from the adoption of the recommendations.

Liabilities and Equity

Effective December 31, 2004, the Corporation implemented the recommendations of the CICA on the classification of financial instruments as liabilities or equity. The recommendations require that certain financial instruments that are ultimately convertible into a variable number of Common Shares at the holders' option be classified as liabilities. As a result, the Corporation has reclassified all of its First Preference Shares from shareholders' equity to liabilities on December 31, 2004. The dividends on the First Preference Shares have also been reclassified as a deduction to arrive at net earnings. The change does not impact net earnings applicable to Common Shares as the dividends on the First Preference Shares were previously deducted to arrive at net earnings applicable to Common Shares. This change has been adopted retroactively with restatement of comparative figures.

Accounting for Rate-Regulated Operations

The Accounting Standards Board (''AcSB'') of the CICA is reviewing Canadian GAAP applicable to enterprises with rate-regulated operations. Potential future changes in this area could have a material impact on the Corporation's financial statements. The AcSB has released a draft guideline on disclosures as an interim measure pending completion of the full project. The final disclosure guideline is expected to be effective for interim periods beginning on or after April 1, 2005.

Hedging Relationships

Effective January 1, 2004, the Corporation implemented the recommendations of the CICA Accounting Guideline 13 which outlines the requirements for identification, designation, documentation and effectiveness testing of hedging relationships in order to meet the conditions for applying hedge accounting to certain financial instruments. Implementation of this Guideline did not have an impact on the Corporation's earnings or financial position as at December 31, 2004.

Organizational Changes

John Walker, President and Chief Executive Officer of Fortis Properties, will become President and Chief Executive Officer of FortisBC, effective April 1, 2005, and Earl Ludlow, Senior Vice President of FortisBC and Vice President, Operations of FortisAlberta, will become President and Chief Executive Officer of Fortis Properties, effective June 1, 2005. Stan Marshall, President and Chief Executive Officer of Fortis, will function as President and Chief Executive Officer of Fortis Properties during the interim period of April through May 2005. Philip Hughes will continue to act as President and Chief Executive Officer of FortisAlberta.

PRICE RANGE AND TRADING VOLUME OF THE COMMON SHARES

The Common Shares are traded on the TSX under the trading symbol ''FTS''. The following table sets forth the reported high and low trading prices and trading volumes of the Common Shares as reported by the TSX from December 2003.

Period	High	Low	Volume
2003			
December	$60.50	$57.70	712,399
2004			
January	$62.50	$58.00	835,394
February	63.00	60.50	534,092
March	64.91	60.05	694,457
April	64.73	61.00	487,865
May	63.90	58.00	498,433
June	61.35	58.05	1,251,866
July	59.53	56.90	477,054
August	60.90	59.00	413,718
September	61.50	59.60	595,577
October	64.99	61.00	503,552
November	67.95	63.60	565,488
December	70.99	65.05	455,921
2005			
January	$74.49	$68.00	416,522
February 1 to 17	75.50	72.65	601,619

On February 17, 2005, the closing price of the Common Shares was $73.80.

SHARE CAPITAL OF FORTIS

The authorized share capital of the Corporation consists of an unlimited number of Common Shares, an unlimited number of first preference shares (the ''First Preference Shares''), issuable in series and an unlimited number of second preference shares (the ''Second Preference Shares''), issuable in series, in each case without nominal or par value. As at January 31, 2005, 23,908,122 Common Shares, 5,000,000 Series C First Preference Shares, 6,500 Series D First Preference Shares and 7,993,500 Series E First Preference Shares were issued and outstanding.

DIVIDEND POLICY

Dividends on the Common Shares are declared at the discretion of the board of directors of Fortis. The Corporation paid cash dividends on its Common Shares of $2.16 in 2004, $2.08 in 2003 and $1.94 in 2002. On December 1, 2004, the Fortis board of directors increased the regular quarterly dividend to $0.57 per Common Share, payable on March 1, 2005 to holders of record on February 4, 2005.

Regular quarterly dividends at the prescribed annual rate have been paid on all of the Series C First Preference Shares, Series D First Preference Shares and Series E First Preference Shares, respectively. On December 1, 2004, the Fortis board of directors also declared a first quarter dividend on each such series of First Preference Shares in accordance with the applicable prescribed annual rate, in each case payable on March 1, 2005 to holders of record on February 4, 2005.

DESCRIPTION OF COMMON SHARES

Dividends

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

of the Common Shares, the Fortis board of directors may declare dividends on the Common Shares to the exclusion of any other class of shares of the Corporation.

Liquidation, Dissolution or Winding-Up

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

Voting Rights

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

CHANGES IN SHARE AND LOAN CAPITAL STRUCTURE

The following changes in the share and loan capital structure of Fortis have occurred since December 31, 2003:

- On January 29, 2004, Fortis completed a public offering of 8,000,000 First Preference Units at a price of $6.25 per First Preference Unit for proceeds of $50 million. Each First Preference Unit consisted of one Series D First Preference Share of Fortis and one Series E First Preference Share Purchase Warrant of Fortis (a ''Warrant''). Upon the closing of the Acquisition, each holder of a Series D First Preference Share had the right to convert on July 15, 2004, September 1, 2004 or December 1, 2004 such Series D First Preference Share into 0.25 of a Series E First Preference Share of Fortis provided such holder concurrently exercised one Warrant. Each Warrant entitled the holder to acquire 0.75 of a Series E First Preference Share upon payment of $18.75 per Warrant. Consequently, each First Preference Unit entitled the holder to obtain one fully-paid Series E First Preference Share. A total of 7,993,500 Warrants were exercised, yielding aggregate proceeds of $149,878,125 and the issuance of 7,993,500 Series E First Preference Shares. 6,500 Series D First Preference Shares remain outstanding.
- On May 14, 2004, Fortis entered into the Fortis Operating Facility in the amount of $145 million. As at January 31, 2005, there was $72 million outstanding under the Fortis Operating Facility. See ''Recent Developments — Revolving/Non-Revolving Credit Facilities''.
- On May 31, 2004, Fortis issued 6,310,000 Common Shares for proceeds of $350 million upon the conversion of all of the issued and outstanding Subscription Receipts. Fortis had completed a public offering of 6,310,000 Subscription Receipts in September 2003 at a price of $55.50 per Subscription Receipt. The proceeds were held in escrow until the satisfaction of the conditions precedent to the closing of the Acquisition on May 31, 2004. At such time, each Subscription Receipt was automatically converted, without payment of additional consideration, into one Common Share and a cash payment of $1.60 per Common Share, which was an amount equal to the dividends declared on a Common Share by Fortis during the period from the closing date of the Subscription Receipt offering to May 31, 2004.
- On May 31, 2004, Fortis loaned $155 million to FortisBC pursuant to the terms of the FortisBC Note. As at November 30, 2004, all amounts outstanding under the FortisBC Note have been repaid by FortisBC.
- On May 31, 2004, Fortis loaned $130 million to FortisOntario and $70 million to Fortis Properties pursuant to promissory notes issued in favour of Fortis by FortisOntario and Fortis Properties, respectively. Interest is payable on the principal amounts outstanding under each promissory note at the rate of 7.5% per annum. The FortisOntario loan is secured by the pledge by FortisOntario in favour of Fortis of 5.2 million series A preferred shares in the capital of FortisWest Inc., a direct wholly-owned subsidiary of Fortis. The Fortis Properties loan is secured by the pledge by Fortis Properties in favour of Fortis of 2.8 million series B preferred shares of FortisWest Inc. As of the date hereof, the total principal amount of each loan remains outstanding.
- In October 2004, Fortis issued US$150 million principal amount of Senior Notes by way of private placement. See ''Recent Developments — US$150 Million of Senior Notes''.

- On November 30, 2004, Fortis repaid all outstanding amounts owing under the Fortis Acquisition Facility. Fortis used the proceeds of, among other things, the issuance of Senior Notes and the repayment of the FortisBC Note to retire all such indebtedness.
- During 2004, Fortis issued an aggregate of 191,904 Common Shares pursuant to the Corporation's Dividend Reinvestment and Share Purchase Plan, Consumer Share Purchase Plan and Employee Share Purchase Plan and upon the exercise of options granted pursuant to the Executive Stock Option Plan, the Directors' Stock Option Plan and the 2002 Stock Option Plan, for aggregate consideration of $9.8 million.
- On January 17, 2005, Fortis entered into the Fortis Overdraft Facility in the amount of $15 million. As at January 31, 2005, there was $10.9 million outstanding under the Fortis Overdraft Facility. See ''Recent Developments — Overdraft Facility''.
- On January 24, 2005, Fortis entered into the Fortis Credit Facility in the amount of $50 million. As at January 31, 2005, there was $50 million outstanding under the Fortis Credit Facility. See ''Recent Developments — Revolving/Non-Revolving Credit Facilities''.

USE OF PROCEEDS

The proceeds to the Corporation from the Offering, after deducting the fee payable to the Underwriters and estimated expenses of the Offering, are expected to be $123,945,360. The net proceeds of the Offering will be used to repay outstanding indebtedness under the Fortis Operating Facility, the Fortis Credit Facility, the Fortis Overdraft Facility and for general corporate purposes, including utility-based capital expenditures. See ''Plan of Distribution''.

PLAN OF DISTRIBUTION

Pursuant to an underwriting agreement dated February 14, 2005 (the ''Underwriting Agreement'') between Fortis and the Underwriters, Fortis has agreed to issue and sell, and the Underwriters have agreed to purchase, as principals, on or about March 1, 2005 (the ''Closing Date''), 1,740,000 Common Shares offered hereby at a price of $74.65 per Common Share, subject to compliance with all the necessary legal requirements and to the conditions contained in the Underwriting Agreement. The Underwriting Agreement provides that the Underwriters will be paid a fee of $2.986 per Common Share from the general funds of Fortis.

Subscriptions for the Offered Shares will be received, subject to rejection or allotment in whole or in part, and the right is reserved to close the subscription books at any time without notice. It is expected that the closing (the ''Closing'') of the Offering will take place on the Closing Date or such other date as may be agreed upon by the Corporation and the Underwriters, but not later than April 4, 2005. Certificates evidencing the Offered Shares will be available for delivery at the Closing or shortly thereafter.

Pursuant to policy statements of the relevant securities commissions, the Underwriters may not, throughout the period of distribution under the Prospectus, bid for or purchase Common Shares. The foregoing restriction is subject to certain exceptions, as long as the bid or purchase is not engaged in for the purpose of creating actual or apparent active trading in or raising the price of such securities. These exceptions include a bid or purchase permitted under the by-laws and rules of the TSX relating to market stabilization and passive market-making activities and a bid or purchase made to and on behalf of a customer where the order was not solicited during the period of distribution. Pursuant to the first-mentioned exception, in connection with the Offering, the Underwriters may over-allot or effect transactions that stabilize or maintain the market price of the Common Shares at levels other than those which may otherwise prevail on the open market. Such transactions, if commenced, may be discontinued at any time.

The Underwriters propose to offer the Offered Shares initially at the offering price specified on the cover page of the Prospectus. After the Underwriters have made a reasonable effort to sell all of the Offered Shares at the price specified on the cover page, the offering price may be decreased and may be further changed from time to time to an amount not greater than that set out on the cover page, and the compensation realized by the Underwriters will be decreased by the amount that the aggregate price paid by purchasers for the Offered Shares is less than the price paid by the Underwriters to the Corporation.

The Offered Shares have not been, and will not be, registered under the United States *Securities Act of 1933*, as amended (the ''1933 Act'') or any state securities laws and, subject to certain exceptions, may not be offered, or delivered, directly or indirectly, or sold in the United States except in certain transactions exempt from the registration

requirements of the 1933 Act and in compliance with any applicable state securities laws. The Underwriters have agreed that they will not offer or sell the Offered Shares within the United States, its territories, its possessions and other areas subject to its jurisdiction or to, or for the account or benefit of, a ''U.S. Person'' (as defined in Regulation S under the 1933 Act), except in accordance with the Underwriting Agreement pursuant to an exemption from the registration requirements of the 1933 Act provided by Rule 144A thereunder and in compliance with applicable state securities laws. In addition, until 40 days after the commencement of the Offering, an offer or sale of Offered Shares within the United States by any dealer (whether or not participating in the Offering) may violate the registration requirements of the 1933 Act if such offer is made otherwise than in reliance on Rule 144A.

The obligations of the Underwriters under the Underwriting Agreement are several and may be terminated at their discretion upon the occurrence of certain stated events. The Underwriters are, however, obligated to take up and pay for all of the Offered Shares if any are purchased under the Underwriting Agreement. Under the terms of the Underwriting Agreement, the Underwriters may be entitled to indemnification by the Corporation against certain liabilities, including liabilities for misrepresentation in the Prospectus.

Each of Scotia Capital and RBC is an affiliate of a Canadian chartered bank that is currently a lender to the Corporation under the Fortis Operating Facility, the Fortis Credit Facility and/or the Fortis Overdraft Facility. As at January 31, 2005, an aggregate of $78.8 million was owed by the Corporation to the bank affiliate of Scotia Capital and an aggregate of $32.5 million was owed by the Corporation to the bank affiliate of RBC. Consequently, the Corporation may be considered a ''connected issuer'' of each of Scotia Capital and RBC within the meaning of applicable securities legislation. The Corporation is in compliance with the terms of each of the Fortis Operating Facility, the Fortis Credit Facility and the Fortis Overdraft Facility, and the bank affiliate of each of Scotia Capital and RBC has not waived a breach of the Fortis Operating Facility, the Fortis Credit Facility or the Fortis Overdraft Facility, as applicable, since their respective dates of execution.

The net proceeds to the Corporation from the Offering, after deducting the fee payable to the Underwriters and expenses of the Offering, will be used in part by the Corporation to repay outstanding indebtedness under the Fortis Operating Facility, the Fortis Credit Facility and the Fortis Overdraft Facility to the bank affiliates of the Underwriters. The decision to distribute the Offered Shares and the determination of the terms of the Offering were made through negotiation between the Corporation and the Underwriters. The bank affiliates of the Underwriters did not have any involvement in such decision or determination. None of the Underwriters will receive any direct benefit from the Offering other than its respective share of the Underwriters' fee.

The TSX has conditionally approved the listing of the Offered Shares. The listing of the Offered Shares will be subject to the Corporation fulfilling all of the listing requirements of the TSX on or before May 12, 2005.

RISK FACTORS

Investing in the Offered Shares involves risks. In evaluating the Corporation and its business, prospective purchasers of the Offered Shares should carefully consider, in light of their own financial circumstances, the following risk factors set out below, as well as the other information contained in and incorporated by reference in the Prospectus.

Regulation

Most of Fortis' revenue and earnings are derived from regulated utilities operations. These regulated operations, owned and operated principally through FortisBC, FortisAlberta, FortisOntario, Maritime Electric, Newfoundland Power and Belize Electricity, are subject to the normal uncertainties faced by regulated companies. These uncertainties include the approval by the BCUC (in British Columbia), the AEUB (in Alberta), the OEB and the Ontario Power Authority (in Ontario), the Island Regulatory and Appeals Commission (in Prince Edward Island), the PUB (in Newfoundland and Labrador) and the Public Utilities Commission (in Belize), as applicable, of customer rates that permit a reasonable opportunity to recover on a timely basis the estimated costs of providing services, including a fair return on rate base. The ability of these utilities to recover the actual costs of providing services and to earn the approved rates of return depends on achieving the forecasts established in the rate-setting process. Upgrades of existing facilities and the addition of new facilities by some of these utilities requires the approval of the regulators. There is no assurance that capital projects perceived as required by the management of the utilities will be approved or that conditions to such approval will not be imposed. Capital cost overruns relative to such capital projects might not be recoverable in rates under the terms of such approvals or otherwise.

Rate applications that establish revenue requirements may be subject to negotiated settlement procedures as well as being pursued through public hearing processes. On November 26, 2004, each of FortisAlberta and FortisBC filed rate applications for 2005. As well, Maritime Electric has filed for rates for 2004 and 2005 and FortisOntario and Belize Electricity are expected to file rate applications in 2005. There can be no assurance that the rate orders issued will permit these utilities to recover all costs actually incurred and to earn the expected rate of return. A failure to obtain acceptable rate orders may adversely affect the business carried on by each of these utilities, the undertaking or timing of proposed expansion projects, the issue and sale of securities, ratings assigned by rating agencies, and other matters which may, in turn, negatively impact Fortis' results of operations or financial position

Although Fortis considers the regulatory frameworks in each of the jurisdictions in which it operates regulated utilities to be fair and balanced, uncertainties do exist at the present time. The regulatory frameworks of British Columbia, Alberta and Ontario have undergone significant changes since the deregulation of new generation and the introduction of retail competition. The regulations and market rules in these jurisdictions which govern the competitive wholesale and retail electricity markets are relatively new and there may be significant changes in these regulations and market rules that could adversely affect the ability of each of FortisBC, FortisAlberta and FortisOntario to recover its costs or to earn a reasonable return on its capital. Although all of Fortis' regulated utilities operate under traditional cost of service methodologies, their regulators are utilizing to varying degrees performance-based and other rate setting mechanisms such as automatic rate of return formulas, which could adversely affect the ability of these utilities to earn a reasonable return on their capital.

Realization of Benefits from the Acquisition of FortisAlberta and FortisBC

The Corporation believes that the Acquisition has provided, and will continue to provide, certain benefits, including long-term strategic benefits, to Fortis. However, there is a risk that some or all of the expected benefits of the Acquisition may fail to materialize, or may not occur within the time periods anticipated by the Corporation. The realization of such benefits may be affected by a number of factors including those disclosed in the Prospectus, some of which are beyond the control of the Corporation.

Hedging

The Corporation manages its financial exposures in accordance with its risk management policy and procedures. Derivative instruments are used only to manage risk and not for trading purposes. The Corporation's policy is to designate each derivative instrument as a hedge of specific assets or liabilities on the Corporation's balance sheet. The Corporation also assesses, both at the hedge's inception and on an ongoing basis, whether the hedging transactions are effective in offsetting changes in cash flows of the hedged items. Payments or receipts on derivative instruments that are designated and effective as hedges are recognized concurrently with, and in the same financial category as, the hedged item. If a derivative instrument is terminated or ceases to be effective as a hedge prior to maturity, the gain or loss at that date is deferred and recognized in income concurrently with the hedged item. Subsequent changes in the value of the financial instrument are reflected in income. If the designated hedged item is sold, extinguished or matures prior to the termination of the related derivative instrument, the gain or loss at that date on such derivative instrument is recognized in income.

The Corporation's foreign investments are exposed to changes in U.S. exchange rates. The Corporation has effectively decreased its exposure to foreign currency exchange rate fluctuations on a substantial portion of its foreign investments through the use of U.S. dollar-denominated debt obligations.

Including the US$150 million of Senior Notes which were issued on October 28, 2004, Fortis now has US$170 million in US$-denominated debt. Approximately US$90 million has been designated as a hedge against the Corporation's net foreign investments. Net foreign investments of Fortis exclude its investment in Caribbean Utilities, as the earnings of Caribbean Utilities are accounted for by the equity method of accounting and do not qualify for accounting purposes as a net foreign investment. As a result, the remaining US$80 million has not been designated as a hedge and the fluctuations in the carrying value of this debt as a result of foreign currency exchange rate fluctuations will be recorded in income each reporting period.

As a result of the Corporation's hedging strategy, the estimated annual sensitivity to each increase of $0.02 in the U.S.-Canadian exchange rate will result in an increase of $0.01 in the Corporation's earnings per Common Share.

Earnings of Fortis will also be impacted by foreign currency exchange rate fluctuations associated with the US$80 million long-term debt. At the end of each reporting period, the estimated sensitivity to each increase of $0.01 in the U.S.-Canadian exchange rate will result in a decrease of $0.02 in the Corporation's earnings per Common Share.

Fortis manages interest rate risk by locking in interest rates for long periods through fixed rate debt. The Corporation also utilizes interest rate swaps. Approximately 87% of the Corporation's long-term debt facilities have maturities beyond 5 years. The Corporation's exposure to interest rate risk is associated with short-term debt. The amount of consolidated short-term debt at December 31, 2004 was $192.9 million, or approximately 9.21% of total consolidated debt.

Energy Prices

The Corporation's primary exposure to changes in energy prices relates to its non-regulated generation sales in Ontario. Electricity is sold to Ontario's Electricity System Operator (formerly Independent Market Operator) at market prices. The sensitivity of the Corporation's earnings to each $1 per MWh change in the average annual wholesale market price of electricity is expected to be $0.4 million in 2005. Energy sales from the non-regulated generation assets of Central Newfoundland Energy, FortisBC and BECOL are sold under long-term, fixed-price contracts.

Economic Conditions and Demand

Typical of electrical utilities, the general economic conditions in the Corporation's service territories influence electricity sales. Electricity sales are influenced by economic factors such as changes in employment levels, personal disposable income, energy prices and housing starts.

Fortis also holds investments in both commercial real estate and hotel operations. The hotel properties, in particular, are subject to operating risks associated with industry fluctuations and possible downturns. Exposure to lease renewals averages approximately 10% per annum over the next five years. Approximately 50% of Fortis Properties' earnings are derived from real estate investments, which mitigates the risk associated with fluctuations in the hotel industry. A 5% decrease in revenues from the hotel division of Fortis Properties would reduce earnings by approximately $1 million.

Loss of Service Areas

FortisAlberta serves a number of direct customers that reside within various municipalities throughout its service areas. From time to time, municipal governments in Alberta give consideration to creating their own electric distribution utility by purchasing the assets of FortisAlberta that are located within their municipal boundaries. Upon the termination of its franchise agreement, a municipality has the right, subject to AEUB approval, to purchase FortisAlberta's assets within its municipal boundaries pursuant to the *Municipal Government Act* (Alberta) (the ''Municipal Act''). Under the *Hydro and Electric Energy Act* (Alberta), if a municipality that owns an electric utility expands its boundaries, such municipality can acquire FortisAlberta's assets in the annexed area. The consequence to FortisAlberta of a municipality purchasing its distribution assets would be an erosion of its rate base. This would reduce the capital upon which FortisAlberta could earn a regulated return.

During 2003, the City of Airdrie provided notice under the Municipal Act to FortisAlberta of its intention to purchase FortisAlberta's assets within its jurisdiction. The AEUB has subsequently made a determination that the value of such assets is approximately $20.4 million, before customer contributions and adjustments. FortisAlberta is not aware of whether the City of Airdrie intends to continue the process of purchasing these assets. FortisAlberta is concerned with the policy implications of the AEUB decision and FortisAlberta has sought a review and variance of the decision through the AEUB. The City of Airdrie has also sought a review and variance of the decision.

Environmental Matters

The Corporation is subject to numerous laws, regulations and guidelines governing the management, transportation and disposal of hazardous substances and other waste materials and otherwise relating to the protection of the environment and health and safety. The costs arising from compliance with such laws, regulations and guidelines may be material to the Corporation. Potential environmental damage and costs could arise due to a variety of events, including severe weather, human error or misconduct or equipment failure. However, there can be no assurance that such costs will be recoverable through rates and, if substantial, unrecovered costs may have a material effect on the business, results of operations, financial condition and prospects of the Corporation.

Insurance

While the Corporation maintains insurance, the insurance is subject to coverage limits as well as time-sensitive claims discovery and reporting provisions and there can be no assurance that the possible types of liabilities that may be incurred by the Corporation will be covered by its insurance. The Corporation's utilities would likely apply to the regulator to recover the loss (or liability) through increased rates. However, there can be no assurance that the regulator would approve any such application, in whole or in part. Any major damage to the Corporation's facilities could result in repair costs and customer claims that are substantial in amount and which could have an adverse effect on the Corporation's business, results of operations, financial position and prospects.

It is anticipated that such insurance coverage will be maintained. However, there can be no assurance that the Corporation will be able to obtain or maintain adequate insurance in the future at rates it considers reasonable or that insurance will continue to be available on terms as favourable as the Corporation's existing arrangements.

Caribbean Utilities has made a claim for its business interruption loss as a result of Hurricane Ivan. Typically, the ultimate recovery under a business interruption policy is judgmental and subject to negotiations between the insured and the insurance company. Given the subjectivity of the ultimate settlement and the lengthy claim coverage period, many contingencies may exist in the ultimate settlement.

Labour Relations

Approximately 54% of the employees of the Corporation are members of labour unions which have entered into collective bargaining agreements with the Corporation. The provisions of such collective bargaining agreements affect the flexibility and efficiency of the business carried on by the Corporation. The Corporation considers its relationships with its labour unions to be satisfactory but there can be no assurance that current relations will continue in future negotiations or that the terms under the present collective bargaining agreements will be renewed. The inability to maintain, or to renew, the collective bargaining agreements on acceptable terms could result in increased labour costs or service interruptions arising from labour disputes that are not provided for in approved rate orders and which could have an adverse effect on the results of operations, cash flow and net income of the Corporation.

Weather

The facilities of the Corporation are exposed to the effects of severe weather conditions and other acts of nature. Although the Corporation's facilities have been constructed, operated and maintained to withstand severe weather, there is no assurance that they will successfully do so in all circumstances. Fortis utilities' exposure to climatic factors are generally addressed by regulatory mechanisms. In particular, the PUB has approved the operation of a weather normalization reserve at Newfoundland Power which mitigates year over year volatility in earnings that would otherwise be caused by variations in weather conditions.

Despite preparation for severe weather, extraordinary conditions, like Hurricane Ivan and other natural disasters will always remain a risk to the Corporation's utilities. Except for Caribbean Utilities, the Corporation uses a centralized insurance management function to create a higher level of insurance expertise and to reduce its liability exposure.

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

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

Liquidity Risks

Earnings from Belize Electricity and BECOL are denominated in Belizean dollars, earnings from Caribbean Utilities are denominated in Cayman Island dollars and earnings from FortisUS Energy are denominated in U.S. dollars. Both the Cayman Island dollar and the Belizean dollar are pegged to the U.S. dollar: CI$1.00 = US$1.20; and BZE$1.00 = US$0.50. Foreign earnings derived in currencies other than a U.S. dollar must be converted into U.S. dollars before repatriation, presenting temporary liquidity risks. Due to the small size and cyclical nature of the economy in Belize, conversion of local currency into U.S. dollars may be subject to restrictions from time to time.

LEGAL MATTERS

Certain legal matters relating to the Offering will be passed upon on behalf of Fortis by Davies Ward Phillips & Vineberg LLP and Curtis, Dawe and on behalf of the Underwriters by Stikeman Elliott LLP. At the date hereof, partners and associates of each of Davies Ward Phillips & Vineberg LLP, Curtis, Dawe and Stikeman Elliott LLP own beneficially, directly or indirectly, less than 1% of any securities of Fortis or any associate or affiliate of Fortis.

AUDITORS, TRANSFER AGENT AND REGISTRAR

Ernst & Young LLP, The Fortis Building, 7th Floor, 139 Water Street, St. John's, Newfoundland and Labrador, are the auditors of the Corporation.

The transfer agent and registrar for the Offered Shares is Computershare Trust Company of Canada in Toronto and Montréal.

PURCHASERS' STATUTORY RIGHTS

Securities legislation in certain provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities within two business days after receipt or deemed receipt of the Prospectus and any amendments thereto. In several of the provinces, securities legislation further provides a purchaser with remedies for rescission or, in some provinces, damages where the short form prospectus and any amendments thereto contain a misrepresentation or are not delivered to the purchaser but such remedies must be exercised by the purchaser within the time limit prescribed by the securities legislation of such purchaser's province. The purchaser should refer to any applicable provisions of the securities legislation of such purchaser's province for the particulars of these rights or consult with a legal advisor.

AUDITORS' CONSENT

We have read the short form prospectus of Fortis Inc. (the ''Corporation'') dated February 18, 2005 relating to the issue and sale of 1,740,000 common shares of the Corporation. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the incorporation by reference, in the above-mentioned prospectus, of our report to the shareholders of the Corporation on the consolidated balance sheets of the Corporation as at December 31, 2002 and 2001 and the consolidated statement of earnings, retained earnings and cash flows for the years in the two-year period ended December 31, 2002. Our report is dated February 11, 2003.

St. John's, Canada	(Signed) *Deloitte & Touche LLP*
February 18, 2005	Chartered Accountants

AUDITORS' CONSENT

We have read the short form prospectus of Fortis Inc. (the ''Corporation'') dated February 18, 2005 relating to the issue and sale of 1,740,000 common shares of the Corporation. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the incorporation by reference, in the above-mentioned prospectus, of our report to the shareholders of the Corporation on the consolidated balance sheet of the Corporation as at December 31, 2003 and the consolidated statements of earnings, retained earnings and cash flows for the year ended December 31, 2003. Our report is dated February 6, 2004.

St. John's, Canada	(Signed) *Ernst & Young LLP*
February 18, 2005	Chartered Accountants

AUDITORS' CONSENT

We have read the short form prospectus of Fortis Inc. (the ''Corporation'') dated February 18, 2005 relating to the issue and sale of 1,740,000 common shares of the Corporation. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the use, in the above-mentioned prospectus, of our report dated February 2, 2005 to the directors of FortisAlberta Inc. (formerly Aquila Networks Canada (Alberta) Ltd.) on the balance sheet of FortisAlberta Inc. as at December 31, 2004 and 2003 and the statements of income (loss) and deficit and cash flows for each of the years in the three-year period ended December 31, 2004.

We also consent to the use, in the above-mentioned prospectus, of our report dated February 3, 2005 to the directors of FortisBC Inc. (formerly Aquila Networks Canada (British Columbia) Ltd.) on the consolidated balance sheet of FortisBC Inc. as at December 31, 2004 and 2003 and the consolidated statements of earnings, retained earnings and cash flows for each of the years in the three-year period ended December 31, 2004.

Calgary, Canada	(Signed) *KPMG LLP*
February 18, 2005	Chartered Accountants

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Fortis Inc.

Pro Forma Consolidated Statements of Earnings
for the year ended December 31, 2003 and
the nine-months ended September 30, 2004

COMPILATION REPORT

To the Directors of
FORTIS INC.

We have read the accompanying unaudited *pro forma* consolidated statements of earnings of Fortis Inc. (the ''Corporation'') for the nine months ended September 30, 2004 and for the year ended December 31, 2003, and have performed the following procedures.

1. Compared the figures in the columns captioned ''Fortis Inc.'' to the unaudited consolidated financial statements of the Corporation for the nine-months ended September 30, 2004, and the audited consolidated financial statements of the Corporation for the year ended December 31, 2003, respectively, and found them to be in agreement.

2. Compared the figures in the columns captioned ''FortisAlberta Inc.'' and ''FortisBC Inc.'' to the audited financial statements of FortisAlberta Inc. and FortisBC Inc. for the five-months ended May 31, 2004 and the audited financial statements of FortisAlberta Inc. and FortisBC Inc. for the year ended December 31, 2003, respectively, and found them to be in agreement.

3. Made enquiries of certain officials of the Corporation who have responsibility for financial and accounting matters about:

   (a) the basis for determination of the *pro forma* adjustments; and

   (b) whether the *pro forma* financial statements comply as to form in all material respects with Canadian securities legislation.

   The officials:

   (a) described to us the basis for determination of the *pro forma* adjustments, and

   (b) stated that the *pro forma* statements comply as to form in all material respects with Canadian securities legislation.

4. Read the notes to the *pro forma* statements, and found them to be consistent with the basis described to us for determination of the *pro forma* adjustments.

5. Recalculated the application of the *pro forma* adjustments to the aggregate of the amounts in the columns captioned ''Fortis Inc.'', ''FortisAlberta Inc.'' and ''FortisBC Inc.'' for the nine-months ended September 30, 2004, and for the year ended December 31, 2003, and found the amounts in the column captioned ''Consolidated *pro forma*'' to be arithmetically correct.

A *pro forma* financial statement is based on management assumptions and adjustments which are inherently subjective. The foregoing procedures are substantially less than either an audit or a review, the objective of which is the expression of assurance with respect to management's assumptions, the *pro forma* adjustments, and the application of the adjustments to the historical financial information. Accordingly, we express no such assurance. The foregoing procedures would not necessarily reveal matters of significance to the *pro forma* financial statements, and we therefore make no representation about the sufficiency of the procedures for the purposes of a reader of such statements.

St. John's, Canada,
February 18, 2005

(Signed) *Ernst & Young LLP*
Chartered Accountants

FORTIS INC.

PRO FORMA CONSOLIDATED STATEMENT OF EARNINGS
For the year ended December 31, 2003
(Unaudited)

(in thousands of dollars, except for per share amounts)

	Fortis Inc.	FortisAlberta Inc. (1)	FortisBC Inc.	Note	*Pro forma* adjustments	Consolidated *pro forma*
	$	$	$		$	$
Operating Revenues	**843,080**	**177,239**	**167,907**		**—**	**1,188,226**
Expenses						
Operating	579,511	103,520	109,680		—	**792,711**
Amortization	62,327	17,983	14,794	2[h]	1,575	**96,679**
	641,838	121,503	124,474		1,575	**889,390**
Operating Income	**201,242**	**55,736**	**43,433**		**(1,575)**	**298,836**
Finance Charges	81,555	31,142	17,590	2[d]	19,812	**150,099**
Net Earnings Before Undernoted Item, Income Taxes and Non-Controlling Interest	**119,687**	**24,594**	**25,843**		**(21,387)**	**148,737**
Goodwill Impairment		80,000			—	**80,000**
Net Earnings Before Income Taxes and Non-Controlling Interest	**119,687**	**(55,406)**	**25,843**		**(21,387)**	**68,737**
Income Taxes	38,236	(2,028)	6,640	2[i]	(8,152)	**34,696**
Net Earnings Before Non-Controlling Interest and Preference Share Dividend	**81,451**	**(53,378)**	**19,203**		**(13,235)**	**34,041**
Non-controlling interest	3,869	—	—		—	**3,869**
Net Earnings Applicable to Common Shares	**73,630**	**(53,378)**	**19,203**		**(20,585)**	**18,870**
Weighted Average Common Shares Outstanding	**17,309**			**2[j]**	**6,310**	**23,619**
Earnings per Common Share						
Basic	$ 4.25				2[j]	**$ 0.80**
Diluted	$ 4.10					**$ 0.80**

Note:

(1) Refer to the December 31, 2003 financial statements of FortisAlberta Inc. for an explanation of these results.

See accompanying notes

FORTIS INC.

PRO FORMA CONSOLIDATED STATEMENT OF EARNINGS
For the nine-months ended September 30, 2004
(Unaudited)

(in thousands of dollars, except for per share amounts)

	Fortis Inc.	FortisAlberta Inc. (1)	FortisBC Inc. (1)	Note	*Pro forma* adjustments		Consolidated *pro forma*
	$	$	$	Note	$		$
Operating Revenues	**808,959**	**91,707**	**74,936**		**—**		**975,602**
Expenses							
Operating	535,411	41,722	49,981		—		**627,114**
Amortization	78,841	21,355	7,121	2[h]	656		**107,973**
	614,252	63,077	57,102		656		**735,087**
Operating Income	**194,707**	**28,630**	**17,834**		**(656)**		**240,515**
Finance Charges	78,050	16,160	9,431	2[d]	8,255		**111,896**
Net Earnings Before Income Taxes and Non-Controlling Interest	**116,657**	**12,470**	**8,403**		**(8,911)**		**128,619**
Income Taxes	35,686	4,807	2,212	2[i]	(3,190)		**39,515**
Net Earnings Before Non-Controlling Interest and Preference Share Dividend	**80,971**	**7,663**	**6,191**		**(5,721)**		**89,104**
Non-controlling interest	3,069	—	—		—		**3,069**
Net Earnings Applicable to Common Shares	**69,679**	**7,663**	**6,191**		**(8,784)**		**74,789**
Average Common Shares Outstanding	**20,221**			**2[j]**	**2,629**		**22,850**
Earnings per Common Share							
Basic	$ 3.45					2[j]	**$ 3.27**
Diluted	$ 3.27						**$ 3.02**

Note:

(1) For the five-months ended May 31, 2004.

See accompanying notes

FORTIS INC.

NOTES TO *PRO FORMA* CONSOLIDATED STATEMENTS OF EARNINGS

(Unaudited)

1. BASIS OF PRESENTATION

The accompanying *pro forma* consolidated statements of earnings give effect to the acquisition of all of the issued and outstanding shares of FortisAlberta Inc. (formerly Aquila Networks Canada (Alberta) Ltd.) (''FortisAlberta'') and FortisBC Inc. (formerly Aquila Networks Canada (British Columbia) Ltd.) (''FortisBC'') that was completed on May 31, 2004. Upon completion of the acquisition, Aquila Networks Canada (Alberta) Ltd. was renamed FortisAlberta Inc. and Aquila Networks Canada (British Columbia) Ltd. was renamed FortisBC Inc. The accompanying *pro forma* consolidated statement of earnings for the year ended December 31, 2003 has been prepared by Management of Fortis Inc. (''Fortis'' or the ''Corporation'') and is derived from the audited consolidated statement of earnings of Fortis for the year ended December 31, 2003, the audited statement of earnings of FortisAlberta for the year ended December 31, 2003, and the audited statement of earnings of FortisBC for the year ended December 31, 2003.

The accompanying *pro forma* consolidated statement of earnings for the nine-months ended September 30, 2004 has been prepared by Management of Fortis and is derived from the unaudited consolidated statement of earnings of Fortis for the nine-months ended September 30, 2004, the audited statement of earnings of FortisAlberta for the five-months ended May 31, 2004, and the audited statement of earnings of FortisBC for the five-months ended May 31, 2004.

The accounting policies used in the preparation of these *pro forma* consolidated financial statements are those disclosed in the Corporation's audited financial statements. Management has determined that no adjustments to FortisAlberta's and FortisBC's statements of earnings are required to comply with the accounting policies used by Fortis in the preparation of its consolidated financial statements.

As is standard with similar transactions in regulated utilities, the purchase price was primarily based upon the regulated assets at the point of closing, May 31, 2004. Based on the purchase price calculation as detailed in the purchase and sale agreements dated September 15, 2003, the net purchase price of FortisAlberta and FortisBC at May 31, 2004 was $776,637, which includes $14.2 million in acquisition costs, (refer to note 2[a]).

The *pro forma* consolidated statements of earnings reflect the acquisition effected January 1, 2003 in respect of the *pro forma* statement of earnings for the year ended December 31, 2003, and January 1, 2004 in respect of the *pro forma* statement of earnings for the nine-months ended September 30, 2004. The *pro forma* consolidated statement of earnings is not necessarily indicative of the results that actually would have been achieved if the transactions reflected therein had been completed on the dates indicated or the results which may be obtained in the future.

These *pro forma* consolidated statements of earnings should be read in conjunction with the description of the transactions described in the accompanying short form prospectus of the Corporation (the ''Prospectus''), the audited financial statements of FortisAlberta, including the notes thereto, the audited financial statements of FortisBC, including the notes thereto, and the unaudited and audited consolidated financial statements of Fortis, including the notes thereto, all of which are included in the Prospectus.

Effective December 31, 2004, the Corporation implemented the recommendations of the Canadian Institute of Chartered Accountants (the ''CICA'') on the classification of financial instruments as liabilities or equity. The recommendations require that certain financial instruments that are ultimately convertible into a variable number of Common Shares at the holders' option be classified as liabilities. As a result, the dividends on the First Preference Shares have been reclassified as a deduction to arrive at net earnings. The change does not impact net earnings applicable to Common Shares as the dividends on the First Preference Shares were previously deducted to arrive at net earnings applicable to Common Shares.

Effective January 1, 2004, new recommendations by the CICA effectively eliminated certain industry-specific accounting practices, which previously qualified as Canadian generally accepted accounting principles. To comply with these new recommendations, the Corporation's non-utility investment, Fortis Properties Corporation, has changed from a sinking fund method of amortization to the straight-line method. The change had a negative impact on after-tax earnings of approximately $2.7 million in 2004.

2. *PRO FORMA* ASSUMPTIONS AND ADJUSTMENTS

These *pro forma* consolidated statements of earnings give effect to the completion of the acquisition of FortisAlberta and FortisBC, as if it had occurred on January 1, 2003 with respect to the *pro forma* consolidated statement of earnings for the year ended December 31, 2003 and January 1, 2004 with respect to the *pro forma* consolidated statement of earnings for the nine-months ended September 30, 2004. The acquisition has been reflected in these *pro forma* consolidated statements of earnings using the purchase method. For the purposes of the preparation of these *pro forma* consolidated statements of earnings, the transaction is deemed effective on January 1, 2003 with respect to the *pro forma* consolidated statement of earnings for the year ended December 31, 2003 and January 1, 2004 with respect to the *pro forma* consolidated statement of earnings for the nine-months ended September 30, 2004, using the net purchase price paid at May 31, 2004.

[a] Net Purchase Price Paid as of May 31, 2004

(in thousands of dollars)

	$
Unadjusted purchase price	1,360,000
Working capital and other adjustments	114,527
Acquisition costs	14,200
Estimated net purchase price, before assumed debt	1,488,727
Assumed and refinanced debt of FortisAlberta and FortisBC	(712,090)
Estimated net purchase price	776,637

Estimated Net Funding Requirements

(in thousands of dollars)

	$
Estimated net purchase price	776,637
Assumed debt of FortisAlberta and FortisBC	712,090
Other costs	
Acquisition financing costs (note 2[h])	8,469
Common Share issuance costs	19,907
Estimated net funding requirements as of December 31, 2003	1,517,103

Assumed Financing Structure as of December 31, 2003

(in thousands of dollars)

	$
Assumed debt of FortisAlberta and FortisBC	712,090
Common Share issuance	350,205
Exercise of Series E First Preference Share Purchase Warrants	150,000
Incremental long-term debt issuance	304,808
	1,517,103

[b] Allocation of net purchase price paid

The acquisition has been accounted for using the purchase method, whereby the results of full operations have been included in the consolidated financial statements commencing May 31, 2004. The book value of these assets and liabilities has been assigned as fair value for purchase price allocation. FortisAlberta and FortisBC are regulated under traditional cost of service. The regulated nature of these businesses and the determination of revenues and earnings are based on the historic values and do not change with market conditions or

change of ownership. Therefore no fair market value increments were recorded as part of purchase price on individual assets and liabilities because all economic benefits and obligations associated with them will accrue to the customers.

	FortisAlberta	FortisBC	Total
	$	$	$
	(in thousands of dollars)		
Fair value assigned to net assets:			
Utility capital assets — net regulatory tax base adjustment	499,592	488,865	**988,457**
Current assets	82,680	38,243	**120,923**
Goodwill	229,097	219,509	**448,606**
Other assets	8,094	13,239	**21,333**
Current liabilities	(57,110)	(33,063)	**(90,173)**
Assumed long-term debt	—	(154,709)	**(154,709)**
Debt & accrued interest, subsequently refinanced	(402,343)	(155,038)	**(557,381)**
Future income taxes	13,145	(1,600)	**11,545**
Other regulatory liabilities	(40,849)	—	**(40,849)**
	332,306	415,446	**747,752**
Cash	16,067	12,818	**28,885**
	348,373	428,264	**776,637**

[c] Goodwill

The excess of the purchase price over the fair value of net assets of FortisAlberta and FortisBC acquired from Aquila Canada ULC is not amortized. In accordance with Section 3062 of the CICA Handbook, goodwill is no longer amortized to earnings, instead, will be assessed for impairment at least annually.

[d] Financing

The Corporation had drawn the funds required to complete the transaction on May 31, 2004, from the net proceeds of an offering of Subscription Receipts, bridge financing agreements in Fortis and FortisAlberta and through a revolving credit agreement with syndicates of lenders in FortisAlberta. This bridge financing agreements were refinanced with the $150,000,000 in gross proceeds from the exercise of Series E First Preference Share Purchase Warrants and other permanent capital, including long-term debt issues in FortisAlberta, FortisBC and Fortis. It is assumed for these *pro forma* statements the total incremental debt financed has an average rate of 6.5%.

Additional interest expense of the following has been assumed:

	Year Ended December 31, 2003	Nine Months Ended September 30, 2004
	$	$
	(in thousands of dollars)	
Interest on $304,798 incremental debt at 6.5%	19,812	8,255 (1)

Note:

(1) Interest is for the five-month period from January 1, 2004 to May 31, 2004.

Additional Preference Share dividends of the following have been assumed:

	Year Ended December 31, 2003	Nine-Months Ended September 30, 2004
	$	$
	(in thousands of dollars)	
Dividends on 150,000 Series E First Preference Shares at 4.9%	7,350 (1)	3,063 (2)

Notes:

(1) Dividends on $150,000,000 of Series E First Preference Shares that were received as proceeds from conversion of Series E First Preference Share Purchase Warrants.

(2) Dividends for the five-month period from January 1, 2004 to May 31, 2004 on $150,000,000 of Series E First Preference Shares that were received as proceeds from conversion of Series E First Preference Share Purchase Warrants, assuming the conversion occurred on January 1, 2004.

[f] Common Share issuance

To fund a portion of the acquisition purchase price, on closing the Corporation issued 6,310,000 Common Shares upon the exchange of previously-issued Subscription Receipts resulting in gross proceeds of $350,205,000 and net after-tax proceeds after Common Share issuance costs of $335,794,000 ($19,907,000 Common Share issuance costs less $5,496,000 income taxes).

[g] First Preference Unit issuance

To fund a portion of the acquisition purchase price, on January 29, 2004 the Corporation issued 8,000,000 First Preference Units, each of which consisted of one Series D First Preference Share and one Series E First Preference Share Purchase Warrant. The Corporation received gross proceeds of $50,000,000 from the issue of the First Preference Units, which, at that time, was used mostly for the repayment of short-term indebtedness and for general corporate purposes. After the acquisition of FortisAlberta and FortisBC, substantially all of the Series D First Preference Shares and Series E First Preference Share Purchase Warrants were converted to Series E First Preference Shares for gross proceeds of $150,000,000. The proceeds were used to repay the short-term indebtedness associated with the acquisition.

The Series E First Preference Shares pay dividends at an annual rate of 4.9%. Based on this rate, the annual dividends associated with the $150,000,000 in Series E First Preference Shares used to finance the acquisition will be $7,350,000.

[h] Acquisition financing costs

Acquisition financing costs of $8,469,000 have been deferred and are being amortized over five to ten year periods. The annual amortization is $1,575,000 and, for the five-month period from January 1, 2004 to May 31, 2004, the amortization is $656,000.

[i] Income taxes

Income taxes applicable to the *pro forma* adjustments are tax effected at Fortis' average tax rates of 38.12% for the year ended December 31, 2003 and 35.8% for the nine-months ended September 30, 2004.

[j] Earnings per share

The calculation of the *pro forma* earnings per share for the year ended December 31, 2003 and the nine-months ended September 30, 2004 considers the issuance of 6,310,000 Common Shares from the Subscription Receipt offering of September 29, 2003, as effective January 1, 2003 with respect to the *pro forma* consolidated statement of earnings for the year ended December 31, 2003, and effective January 1, 2004 with respect to the *pro forma* consolidated statement of earnings for the nine-months ended September 30, 2004. For the nine-months ended September 30, 2004, the additional weighted average number of Common Shares to cover the period from January 1, 2004 to May 31, 2004 is 2,629,000 Common Shares.

FortisAlberta Inc.
(formerly Aquila Networks Canada (Alberta) Ltd.)

Audited Financial Statements
for the years ended December 31, 2004, 2003 and 2002

Together with Auditors' Report

AUDITORS' REPORT

To the Directors of
FortisAlberta Inc., (formerly Aquila Networks Canada (Alberta) Ltd.):

We have audited the balance sheet of **FortisAlberta Inc**. (formerly Aquila Networks Canada (Alberta) Ltd.) (''FortisAlberta'') as at December 31, 2004 and 2003, and the statements of income (loss) and deficit and cash flows for each of the years in the three-year period ended December 31, 2004. These financial statements are the responsibility of FortisAlberta's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of FortisAlberta as at December 31, 2004 and 2003, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2004, in accordance with Canadian generally accepted accounting principles.

(Signed) *KPMG LLP*
Chartered Accountants

Calgary, Canada
February 2, 2005

FORTISALBERTA INC.
(formerly Aquila Networks Canada (Alberta) Ltd.)

BALANCE SHEET

	As at December 31,	
	2004	**2003**
	$	$
	(All dollar amounts are in thousands)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	**2,765**	46,584
Funds on deposit (Note 14)	**—**	46,856
Accounts receivable (Notes 8, 11 and 14)	**35,637**	54,732
Materials and supplies	**4,390**	3,466
Prepaids and deposits	**1,075**	799
Income taxes receivable	**1,405**	—
Future income taxes	**6,515**	14,244
Regulatory assets (Note 4)	**3,635**	4,072
	55,422	170,753
MATERIALS AND SUPPLIES	**8,780**	6,930
PROPERTY, PLANT AND EQUIPMENT (Notes 3 and 11)	**536,369**	474,979
DEFERRED FINANCING FEES	**4,399**	1,667
GOODWILL (Note 5)	**189,309**	189,309
	794,279	843,638
LIABILITIES AND SHAREHOLDER'S EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities (Notes 11 and 14)	**71,445**	81,938
Short-term debt (Note 6)	**—**	150,150
Securitization financing (Note 4)	**—**	28,374
Regulatory liabilities	**18,384**	41,029
Income taxes payable	**—**	11,225
	89,829	312,716
LONG-TERM DEBT (Note 6)	**400,000**	230,000
COMMITMENTS AND CONTINGENCIES (Note 13)		
SHAREHOLDER'S EQUITY		
Share capital (Note 7)	**382,579**	397,579
Deficit	**(78,129)**	(96,657)
	304,450	300,922
	794,279	843,638

Approved on behalf of the Board:

(Signed) *H. Stanley Marshall* (Signed) *Barry V. Perry*

The accompanying notes are an integral part of these financial statements.

FORTISALBERTA INC.
(formerly Aquila Networks Canada (Alberta) Ltd.)

STATEMENT OF INCOME (LOSS) AND DEFICIT

	Year Ended December 31,		
	2004	2003	2002
	$	$	$
	(All dollar amounts are in thousands)		
REVENUES			
Electric rate revenue (Notes 4 and 8)	**212,876**	165,768	250,883
Other	**10,570**	11,471	20,083
	223,446	177,239	270,966
EXPENSES			
Operating costs (Note 11)	**106,063**	103,520	102,547
Depreciation and amortization	**52,711**	17,983	82,578
Goodwill write-down (Note 5)	**—**	80,000	—
	158,774	201,503	185,125
EARNINGS (LOSS) FROM OPERATIONS	**64,672**	(24,264)	85,841
INTEREST EXPENSE AND FOREIGN EXCHANGE LOSS			
Interest on short-term debt and foreign exchange loss (Notes 6 and 14)	**14,327**	11,224	4,238
Interest on long-term debt (Note 6)	**12,917**	19,918	20,686
	27,244	31,142	24,924
INCOME (LOSS) BEFORE INCOME TAXES	**37,428**	(55,406)	60,917
INCOME TAX EXPENSE (RECOVERY) (Note 12)	**12,900**	(2,028)	33,376
NET EARNINGS (LOSS)	**24,528**	(53,378)	27,541
DEFICIT, BEGINNING OF PERIOD	**(96,657)**	(43,279)	(70,550)
DIVIDENDS	**(6,000)**	—	(270)
DEFICIT, END OF PERIOD	**(78,129)**	(96,657)	(43,279)

The accompanying notes are an integral part of these financial statements.

FORTISALBERTA INC.
(formerly Aquila Networks Canada (Alberta) Ltd.)

STATEMENT OF CASH FLOWS

	Year Ended December 31,		
	2004	**2003**	**2002**
	$	$	$
	(All dollar amounts are in thousands)		
OPERATING ACTIVITIES			
Net earnings (loss)	**24,528**	(53,378)	27,541
Add items not involving cash:			
Depreciation and amortization	**55,919**	19,684	85,976
Goodwill write-down (Note 5)	**—**	80,000	—
Future income taxes	**7,729**	(11,282)	(48,941)
Unrealized foreign exchange loss	**—**	1,957	—
Changes in other non-cash items	**4,551**	208	—
Changes in non-cash working capital	**10,853**	54,536	243,566
	103,580	91,725	308,142
INVESTING ACTIVITIES			
Additions to property, plant and equipment	**(106,334)**	(105,471)	(97,439)
Proceeds from the sale of property, plant and equipment	**661**	1,893	—
Purchase price adjustments (Note 1)	**—**	—	4,057
	(105,673)	(103,578)	(93,382)
FINANCING ACTIVITIES			
Proceeds of short-term debt	**393,000**	159,893	—
Repayment of short-term debt	**(549,550)**	(6,940)	(165,645)
Proceeds of securitization financing	**—**	—	255,000
Repayment of securitization financing	**(28,374)**	(141,449)	(85,177)
Proceeds of long-term debt	**400,000**	—	—
Repayment of long-term debt	**(230,000)**	—	—
Repayment of other obligations	**—**	—	(180,348)
(Redemption of) increase in stated share capital	**(15,000)**	50,000	—
Issue of Class A common shares	**—**	—	30,000
Redemption of Class A common shares	**—**	—	(66,000)
Dividends paid	**(6,000)**	—	(270)
Financing fees	**(5,802)**	(3,067)	(2,320)
	(41,726)	58,437	(214,760)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(43,819)**	46,584	—
CASH AND CASH EQUIVALENTS, beginning of year	**46,584**	—	—
CASH AND CASH EQUIVALENTS, end of year	**2,765**	46,584	—
Cash flows include the following elements:			
Interest paid	**24,013**	28,418	24,924
Income taxes paid	**17,841**	72,910	11,670

The accompanying notes are an integral part of these financial statements.

FORTISALBERTA INC.
(formerly Aquila Networks Canada (Alberta) Ltd.)

NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2004, 2003 and 2002
(All tabular dollar amounts are in thousands, unless otherwise noted)

1. ENTITY DEFINITION AND NATURE OF OPERATIONS

FortisAlberta Inc. (the ''Corporation'') (formerly Aquila Networks Canada (Alberta) Ltd.) was incorporated under the laws of Alberta for the initial purpose of acquiring the distribution and retail operations of TransAlta Utilities Corporation (''TransAlta''), pursuant to an asset transfer agreement, which had an effective closing date of August 31, 2000. The Corporation was acquired by an indirect wholly owned subsidiary of Aquila, Inc. (''Aquila''), a U.S. public company, on August 31, 2000. The consideration paid for this acquisition has been recorded in these financial statements using pushdown accounting, the final adjustment of which occurred on March 15, 2002.

Effective January 1, 2001, the Corporation disposed of its retail operations and related assets and began operating solely as an owner and operator of distribution assets. As a distribution company, the Corporation invoices retail energy companies for the distribution and transmission portions of electricity rates. In turn, the Corporation is invoiced by the transmission administrator for the transmission services.

On May 31, 2004, all of the issued and outstanding shares of the Corporation were acquired by a wholly owned subsidiary of Fortis Inc. (''Fortis''), a Canadian public company. On June 1, 2004, the name of the Corporation was changed to FortisAlberta Inc.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The financial statements of the Corporation have been prepared by management in accordance with Canadian generally accepted accounting principles (''GAAP''). All amounts are in Canadian dollars unless otherwise stated. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Certain estimates are necessary since the regulatory environment the Corporation operates within often requires amounts to be recorded at estimated values until these amounts are finalized pursuant to regulatory decisions, or other regulatory proceedings. Due to inherent uncertainty involved in making estimates, actual results reported in future periods could differ significantly from those estimates.

Regulation

The Corporation is regulated by the Alberta Energy and Utilities Board (''AEUB''). The AEUB administers acts and regulations covering such matters as tariffs, rates, construction, operations, financing and accounting. The timing of the Corporation's recognition of certain assets, liabilities, revenues and expenses as a result of regulation may differ from that otherwise expected using GAAP for entities not subject to rate regulation.

The Corporation operates under cost of service regulation as prescribed by the AEUB. Earnings are determined on the basis of rate of return on rate base. The Corporation applies for tariff revenue based on estimated costs of service. Once the tariff is approved, it is not adjusted as a result of actual costs of service being different from that which was estimated, other than for certain prescribed costs.

When the AEUB issues decisions affecting the financial statements, the effects of the decision are recorded in the period in which the decision is received.

Revenue recognition

Revenues are recognized as earned, at AEUB approved rates, including amounts recognized on an accrual basis for services rendered, but not yet billed. The Corporation reports revenues and expenses related to transmission services on a net basis in other revenue.

Property, plant and equipment

Property, plant and equipment are carried at cost, which includes internal labour and allocated overhead, less depreciation. Certain assets may be acquired or constructed with financial assistance in the form of non-refundable contributions from customers. These contributions are recorded as a reduction of the net cost of property.

Depreciation is provided on a straight-line basis at various rates ranging from 2% to 20% as approved by the AEUB, based on depreciation studies prepared by the Corporation. Changes to depreciation rates approved by the AEUB are accounted for on a prospective basis. The AEUB approved rates are applied to the original historical capital costs reflected for regulatory rate setting purposes.

Included in depreciation expense and accumulated depreciation is an amount allowed for regulatory purposes for future removal and site restoration costs. Actual costs of removal and restoration incurred are recorded against this balance in accumulated depreciation.

When a regulated asset is retired or disposed of there is no gain or loss recorded in income. Any difference between the cost and accumulated depreciation of the asset, net of proceeds, is charged to accumulated depreciation.

Asset retirement obligations

As of January 1, 2004, the Corporation retroactively adopted the recommendations of the Canadian Institute of Chartered Accountants (''CICA'') on accounting for asset retirement obligations. The recommendations require total retirement costs to be recorded as a liability at fair value, with a corresponding increase to property, plant and equipment. The Corporation recognizes asset retirement obligations in the period in

which they are incurred if a reasonable estimate of fair value can be determined. While some of the corporation's long-lived tangible assets will have future legal retirement obligations, the date of removal of the assets cannot be reasonably determined at this time. An asset retirement obligation and offsetting capital asset will be recognized when the timing and amount can be reasonably estimated.

Income taxes

The Corporation follows the taxes payable method of accounting for income taxes, except as described in Note 12. Future income taxes are generally recognized only to the extent they will not be recoverable in future rates charged to customers.

Cash and cash equivalents

Cash and cash equivalents are comprised of cash and highly liquid investments with original maturities of three months or less.

Materials and supplies

Materials and supplies represent spare parts held for day-to-day operations and material held for construction and maintenance of property, plant and equipment. Materials and supplies held for construction of property, plant and equipment are classified as long-term assets. Materials and supplies are valued at the lower of cost and market determined on the basis of estimated net realizable value.

Deferred financing fees

Costs incurred to arrange debt financing are capitalized as deferred financing costs and are amortized to interest expense on a straight-line basis over the term of the related debt.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of the net identifiable assets of operations acquired. Goodwill is carried at initial cost less any previous amortization and write-down for impairment. If the carrying value of the reporting unit exceeds its fair value, an impairment loss is recognized to the extent that the carrying amount of the goodwill exceeds its fair market value. During each fiscal year and as economic events dictate, management reviews the valuation of the goodwill, taking into consideration any events or circumstances which might have impaired the fair value.

Employee future benefits

The Corporation records the costs of employee future benefits as employer contributions are made, as these costs are recoverable in rates from customers at the time that the Corporation is required to fund its obligations.

Stock based compensation

The Corporation calculates compensation expense upon the issuance of stock options under Fortis stock option plans, using the fair value method. The compensation expense is amortized over the vesting period of the options.

3. PROPERTY, PLANT AND EQUIPMENT

The cost and accumulated depreciation of property, plant and equipment has been presented using TransAlta's historic amounts as they form the basis used to determine depreciation expense for regulatory purposes.

	December 31, 2004		
	Cost	**Accumulated Depreciation**	**Net Book Value**
	$	**$**	**$**
Distribution network	**2,033,829**	**(1,145,141)**	**888,688**
Construction in progress	**5,423**	**—**	**5,423**
Customer contributions	**(452,342)**	**200,541**	**(251,801)**
	1,586,910	**(944,600)**	**642,310**
Regulatory tax basis adjustment	**(135,109)**	**29,168**	**(105,941)**
	1,451,801	**(915,432)**	**536,369**

	December 31, 2003		
	Accumulated Cost	**Net Depreciation**	**Book Value**
	$	$	$
Distribution network	1,927,917	(1,092,924)	834,993
Construction in progress	2,370	—	2,370
Customer contributions	(438,504)	187,341	(251,163)
	1,491,783	(905,583)	586,200
Regulatory tax basis adjustment	(135,109)	23,888	(111,221)
	1,356,674	(881,695)	474,979

The regulatory tax basis adjustment represents the excess of the deemed tax basis of the Corporation's property, plant and equipment for regulatory rate making purposes as compared to the Corporation's tax basis for income tax purposes.

The regulatory tax basis adjustment is being amortized over the estimated service lives of the Corporation's property, plant and equipment by an offset against the provision for depreciation and amortization. For the year ended December 31, 2004, depreciation and amortization expense was reduced by $5.3 million (2003 — $5.5 million and 2002 — $5.8 million) for the amortization of the regulatory tax basis adjustment.

4. REGULATORY ASSET — FORMER RETAIL OPERATIONS

Regulatory assets at December 31, 2004, include $2.1 million (2003 — $0.8 million) representing the remaining balance of the commodity costs incurred in 2000 by the Corporation's former retail operations in excess of amounts recovered from customers (the ''deferred costs'').

The deferred costs were collected from customers during the period from 2001 to 2003. In August 2002, the then remaining balance of deferred costs was securitized for proceeds of $255 million. This transaction was recorded as securitization financing. The securitization financing was repaid on March 31, 2004 and the security interest in the assets was subsequently released.

As directed by the AEUB, FortisAlberta will submit a true-up filing to collect the remaining balance of the deferred costs from customers in 2005.

	$
Balance at December 31, 2001	332,003
Recovered through 2002 riders	(191,345)
Net 2002 revision to 2001 balances as a result of 2002 AEUB decisions	(2,906)
Balance at December 31, 2002	137,752
Recovered through 2003 riders	(141,527)
Net 2003 revision to 2001 balances as a result of 2003 AEUB decisions	4,526
Balance at December 31, 2003	751
Recovered by remaining 2003 riders	**(1,550)**
Carrying cost	**2,951**
Balance at December 31, 2004	**2,152**

5. GOODWILL

The Corporation's goodwill was written down by $80 million in March 2003. The write-down was a result of the 2002/2003 Rate Decision (see Note 8a), which directed the Corporation to decrease depreciation rates, creating a reduction in the Corporation's annual cash flow.

6. DEBT

	December 31,	
	2004	**2003**
	$	$
Short-term Debt		
Note payable — Aquila Networks Canada Finance Limited Partnership	**—**	20,500
Bank loan	**—**	129,650
	—	150,150

	December 31,	
	2004	**2003**
	$	$
Long-term Debt		
Senior unsecured debentures, 5.33%, due 2014	**200,000**	—
Senior unsecured debentures, 6.22%, due 2034	**200,000**	—
Note payable — Aquila Networks Canada Finance Limited Partnership	**—**	230,000
	400,000	230,000

The Corporation has available a $100 million revolving bank credit facility. On May 13, 2005, upon application by the Corporation to its lenders, the lender will either extend the facility for an additional 364 days, or convert it to a non-revolving term facility maturing May 13, 2006. Drawings are available by way of prime loans, banker's acceptances and letters of credit. As at December 31, 2004, there was no amount drawn in loans and $51.5 million drawn in letters of credit.

The Corporation has available a $10 million unsecured demand credit facility (the ''overdraft facility'') by way of current account overdrafts and standby letters of credit. As at December 31, 2004, there was no amount drawn on this facility.

The note payable to Aquila Networks Canada Finance Limited Partnership (''ANCFLP''), an affiliated company, as at December 31, 2003, was due on demand and bore interest at prime. The full amount of this loan was repaid May 31, 2004, immediately after the close of the sale to Fortis.

On July 31, 2003, the Corporation received proceeds of a US$100 million, 364-day unsecured debt facility from a U.S. lender, which was made available by alternate base rate loans (ABRs) or LIBOR loans. The loan bore interest at a variable rate based on prime, Federal funds rate or LIBOR rate, with a minimum rate of 6.75% plus the cost related to withholding tax and financing fees (effective total rate — 10.71%). Financing fees of $2.9 million were incurred and expensed over the term of the loan. The full amount of this loan was repaid on May 27, 2004 and replaced with a $142.1 million short-term demand loan from Aquila Networks Canada Corp. (''ANCC''), bearing interest at 12.75%. The short term demand loan from ANCC was repaid May 31, 2004 immediately after the sale to Fortis and replaced with a $393 million 364-day credit facility comprised of bankers' acceptances. This facility was fully repaid October 25, 2004 with the proceeds from the issuance of unsecured debentures.

Included in interest expense on short-term debt was $3.1 million of amortization of deferred financing fees (2003 — nil and 2002 — $0.4 million).

On October 25, 2004, the Corporation issued $200 million in senior unsecured debentures bearing interest at 5.33% to be paid semi-annually, maturing on October 31, 2014 and $200 million in senior unsecured debentures bearing interest at 6.22% to be paid semi-annually, maturing on October 31, 2034. These debentures are a direct obligation of the Corporation as to payment of principal and interest. The net proceeds of $396.6 million were primarily used to repay the $393 million short-term bank loan described above.

The note payable of $230 million to ANCFLP as at December 31, 2003, bore interest at 8.66% and was unsecured. The note was repaid May 31, 2004, immediately after the close of the sale to Fortis and replaced with the $393 million short-term bank loan.

Included in interest expense on long-term debt is $0.1 million of amortization of deferred financing fees (2003 — $1.2 million and 2002 — nil).

7. SHARE CAPITAL

Authorized — unlimited number of:

Common shares
Class A Common shares

First Preferred non-voting shares, redeemable, cumulative dividend at 10% of the redemption price

Issued — 63 Class A Common shares, with no par value

	December 31,	
	2004	**2003**
	$	$
Class A Common shares	**173,848**	188,848
Contributed surplus	**208,731**	208,731
	382,579	397,579

During 2004, the Corporation declared and paid dividends totaling $6 million to Fortis Alberta Holdings Inc. (the Corporation's parent and a wholly-owned subsidiary of Fortis Inc.). The Corporation returned $15 million of share capital on August 6, 2004 to Fortis Alberta Holdings Inc.

On December 23, 2003, the Corporation received a capital contribution of $50 million from its parent, which was recorded in the stated capital of Class A Common shares.

During 2002, the Corporation's parent subscribed for an additional 13 Class A Common shares for cash consideration of $30 million and also redeemed 660 Class A Common shares for cash consideration of $66 million.

Contributed surplus relates to the push-down of the purchase price premium paid by the Corporation's parent on acquisition of TransAlta's retail and distribution assets.

8. REVENUE MEASUREMENT

(a) Regulated rates

The Corporation operated on interim distribution rates for January 1, 2002 to July 31, 2003. On February 28, 2003, the AEUB issued a decision, the effects of which were reflected in a refiled rate application dated March 28, 2003. On July 4, 2003, the AEUB issued a subsequent decision (the ''2002/2003 Rate Decision''), which established distribution tariff rates for 2002 and 2003.

The effects of the 2002/2003 Rate Decision on the annual revenue requirement for both years were as follows:

	Relating to 2002	Relating to 2003	Total
	$	$	$
Reduction in revenue	(40,000)	(46,300)	(86,300)
Reduction in depreciation	26,600	38,000	64,600
Reduction in income taxes	13,400	8,300	21,700

The 2002/2003 Rate Decision resulted in a refund to customers of $65.5 million. As directed by the AEUB, this refund to customers was made via revised electricity rates applied to electric load consumed during the period August 1 to December 31, 2003.

Included in electric rate revenue in 2003 is $5.8 million related to Option ''B'' revenue refunded to certain customers in 2001 and collected from remaining customers in 2002, but not recognized until regulatory certainty was attained as a result of the 2002/2003 Rate Decision.

Rates for 2004 remained the same as 2003 and have been approved by the AEUB on an interim basis for 2005. FortisAlberta filed a General Rate Application on November 26, 2004 to establish 2005 distribution rates.

(b) Electrical load based billing

The Corporation bills regulated transmission and distribution revenues based on regulated tariffs approved by the AEUB. For the period January 1, 2001 to July 31, 2003, hourly electrical load data was determined through a metering and load settlement function performed by the Corporation. The methodology used to determine the hourly electrical load by end-use customers was governed by regulation and included an initial load determination on a monthly basis, used to calculate an initial distribution tariff invoice for the retailers and self-retailers. This preliminary load information was then subject to further adjustment by the Corporation upon receipt of additional metering information in accordance with the Alberta Electrical System Operator settlement code, and a final ''true-up'' bill was generated. At this time, the Corporation was to prepare final invoices to retailers for distribution and transmission services.

The Corporation recognized regulated revenue for January 1, 2001 to July 31, 2003 based on management's best estimate of the electrical load. On June 30, 2003, the Corporation continued with the final ''true-up'' process to settle monthly billing amounts, based on electrical load, with its retailers and self-retailers for each month from June 2002 to July 2003. As at the date of these financial statements, settlements have been reached for each month in this period. These settlements resulted in a net increase in revenue for the years ended December 31, 2004 and 2003, of $2.4 million and $2.2 million respectively.

The Corporation is continuing its efforts to reach a final negotiated settlement with its retailers and self-retailers for the billings based on electrical load delivered in each of the months from January 2001 to May 2002 inclusive. One retailer has filed a statement of claim that is related, in part, to the settlement of billing based on electrical load as described herein (see Note 13).

Any adjustments will be recorded once signed acceptance is obtained from participants involved in negotiation and these adjustments may be material to these financial statements. An amount has been recognized in these financial statements reflecting management's estimate of the final settlement.

Effective August 1, 2003, FortisAlberta reverted to a cycle-based billing methodology based on actual meter readings and other applicable data and as a result no true-up billing is required except in the case of an incorrect read or estimation.

9. EMPLOYEE FUTURE BENEFITS

(a) Description

The Corporation sponsors a defined contribution plan for the majority of its employees. Certain other long-service employees accrue benefits under a defined benefit pension plan. The Corporation also provides certain other post-retirement benefits including certain health and dental coverage provided to retired employees and a supplemental pension plan, which plans are unfunded.

The Corporation uses a measurement date that is three months prior to the reporting date. The most recent actuarial valuation of the plans was undertaken as at January 1, 2003. The results of this actuarial valuation have been projected to September 30, 2004 and 2003 (the measurement dates) based on the actuarial assumptions.

All accrued obligations for employee post-retirement benefits are determined using the projected benefits method prorated in services. In valuing the cost of post-retirement obligations, the Corporation uses management's best estimate assumptions, except for the liability discount rate where the Corporation uses the long-term market rate of high quality debt instruments at the measurement date. Cumulative net unamortized actuarial gains and losses in excess of 10% of the greater of the benefit obligation or fair value of the plan assets at the beginning of the fiscal year and unamortized past service costs are amortized over the expected average remaining service period of the active employees receiving benefits under the plan. The Corporation uses quoted market values to value pension assets.

Effective May 31, 2004, the Corporation was purchased by Fortis Inc. The assets and the accrued benefit obligations were remeasured as at the sale date. Therefore, the net periodic cost for the five-month period ended May 31, 2004 has been determined based on the financial position of the plans at December 31, 2003 (using a measurement date of September 30, 2003) and the net periodic cost for the seven-month period ended December 31, 2004 has been determined based on the financial position of the plans at May 31, 2004 (using a measurement date of February 28, 2004).

(b) Costs Recognized

The AEUB has ordered the Corporation to fund its contributions to the defined benefit and defined contribution plans from the surplus of the pension plan and as such, the Corporation does not presently collect any amounts for these costs in rates. For the years ended December 31, 2004, 2003 and 2002, the Corporation did not recognize any pension expense.

The benefit expense disclosure tables below contain the combined total of the pension and other post-retirement benefit plans for the Corporation.

	Year Ended December 31,		
	2004	2003	2002
	$	$	$
Annual expense			
Current service cost	**527**	509	348
Past service arising from plan amendment	**—**	(83)	—
Interest cost on accrued benefit obligation	**912**	796	701
Actual return on assets	**(1,804)**	(2,007)	(159)
Actuarial gains/losses on accrued benefit obligations	**26**	—	1,053
Difference between actual and expected return on assets	**401**	574	(1,506)
Other adjustments to allocate costs:			
— Past service costs	**83**	83	—
— Actuarial gains/losses	**234**	324	(974)
Net benefit cost	**379**	196	(537)
Regulatory adjustment to expense	**(376)**	(193)	540
Defined benefit expense recognized in financial statements	**3**	3	3
Defined contribution plan expense	**3,716**	3,339	3,006
Regulatory adjustment to expense	**(3,716)**	(3,339)	(3,006)
Defined contribution expense recognized in financial statements	**—**	—	—
Total recognized in financial statements	**3**	3	3
Other post-retirement benefits expense included above	**3**	3	3

	December 31,		
	2004	2003	2002
	$	$	$
Composition of accrued benefit asset			
Fair value of assets	**17,650**	19,450	20,777
Accrued benefit obligation	**16,381**	14,849	11,972
Resulting plan surplus	**1,269**	4,601	8,805
Unamortized amounts:			
— Net actuarial losses	**4,975**	5,611	5,730
— Past service costs	**752**	835	—
Contributions after the measurement date	**(874)**	(833)	(789)
Accrued benefit asset	**6,122**	10,214	13,746
Regulatory adjustment	**(6,122)**	(10,214)	(13,746)
Total recognized in financial statements	**—**	—	—

	Year Ended December 31,		
	2004	2003	2002
	$	$	$
Plan assets			
Fair value of assets at beginning of year	**19,450**	20,777	23,782
Transfers to defined contribution plan	**(3,674)**	(3,295)	(3,207)
Member contributions	**94**	83	63
Benefits paid	**(24)**	(122)	(20)
Actual return in assets	**1,804**	2,007	159
Fair value of assets at end of year	**17,650**	19,450	20,777

	Year Ended December 31,		
	2004	2003	2002
	$	$	$
Reconciliation of accrued benefit obligation			
Benefit obligations at beginning of year	**14,849**	11,972	9,830
Current service cost	**527**	509	348
Interest cost on accrued benefit obligation	**912**	796	701
Member contributions	**94**	83	63
Benefits paid	**(27)**	(125)	(23)
Plan amendment	**—**	918	—
Actuarial loss	**26**	696	1,053
Benefit obligations at date end of year	**16,381**	14,849	11,972
Benefit obligations at end of year related to other post-retirement benefits included above	**1,505**	1,293	1,137

	Year Ended December 31,		
	2004	2003	2002
	$	$	$
Reconciliation of accrued benefit asset			
Accrued benefit asset at beginning of year	**10,214**	13,746	16,212
Net periodic cost	**379**	196	(537)
Allocations to defined contribution plan	**3,716**	3,339	3,006
Funding contribution	**3**	3	3
Accrued benefit asset at end of year	**6,122**	10,214	13,746

	2004	2003	2002
As at September 30, the assets of the defined benefit plan were invested as follows:			
Equity securities	**58.6%**	58.1%	51.2%
Debt securities	**41.0%**	41.7%	48.7%
Cash	**0.4%**	0.2%	0.1%
	100.0%	100.0%	100.0%

	Year Ended December 31,		
	2004	2003	2002
Plan assumptions — the significant actuarial assumptions utilized in measuring the Corporation's accrued benefit obligations were as follows:			
Accrued benefit obligations			
— Liability discount rate	**6.00%**	6.00%	6.50%
— Rate of compensation increase	**3.50%**	3.50%	3.50%
Net benefit plan expense for prior period			
— Liability discount rate (1)	**5.85%**	6.50%	7.00%
— Rate of compensation increase	**3.50%**	3.50%	3.50%
— Expected long-term rate of return on assets	**7.50%**	7.50%	7.50%
— Expected average remaining service life	**9 years**	11 years	11 years

(1) Due to the sale of the Corporation, FortisAlberta was required to remeasure the assets and the accrued benefit obligation as of May 31, 2004. The net periodic costs for 2004 were determined with the following discount rates: 6.0% for the five-month period ended May 31, 2004 and 5.75% for the seven-month period ended December 31, 2004. A simple weighted average has been calculated to represent the average discount rate for the year.

10. STOCK OPTIONS

Fortis is authorized to grant certain key employees and directors of Fortis and its subsidiaries options to purchase Common Shares of Fortis. Options vest evenly over a four-year period on each anniversary of the date of grant. The options expire 10 years after the date of grant.

During 2004, Fortis granted 19,593 options at an exercise price of $61.12 and 13,402 options at an exercise price of $58.20 to certain key employees of the Corporation.

Compensation expense was $40 thousand for the year ended December 31, 2004 with an offsetting credit to inter-company accounts payable.

11. RELATED PARTY TRANSACTIONS

In the normal course of business, the Corporation transacts with its parent and other related companies under common control. The following transactions were measured at the exchange amount:

	Year Ended December 31,		
	2004	2003	2002
	$	$	$
Included in other revenue are amounts charged to related parties:			
— Affiliates of Fortis Inc.	**119**	—	—
Included in operating costs are amounts by related parties:			
— Affiliates of Aquila, Inc.	**2,001**	19,679	24,235
— Affiliates of Fortis Inc.	**182**	—	—
Included in operating costs are amounts recovered from related parties:			
— Affiliates of Aquila, Inc.	**(2,907)**	(4,509)	(812)
— Affiliates of Fortis Inc.	**(4,052)**	—	—
Included in property, plant and equipment	**25**	17,473	12,197
Included in accounts receivable	**1,615**	1,955	15,413
Included in accounts payable	**182**	15,684	19,439

The operating costs above consist of executive management costs, information technology expenses and parent company direct charges. The recoveries above consist of shared information technology services, contract and direct labour charges, joint use asset charges and meter shop charges. Except as disclosed elsewhere in these financial statements, the amounts due to and from the Corporation's parent and other related companies under common control are non-interest bearing, unsecured and due on demand.

12. PROVISION FOR INCOME TAXES

The provision for income taxes varies from the amount that would be expected if computed by applying the enacted Canadian federal and provincial statutory income tax rates to the income before income taxes as shown in the following table:

	Year Ended December 31,					
	2004		2003		2002	
	$	**%**	$	%	$	%
Net earnings (loss) before income taxes	**37,428**		(55,406)		60,917	
Expected provision for income taxes	**12,676**	**33.9**	(20,356)	36.7	23,940	39.3
Adjustments resulting from differences between Income for accounting and income tax purposes related to:						
Goodwill impairment	**—**	**—**	29,392	(53.0)	—	—
Capital assets	**(2,548)**	**(6.8)**	(10,371)	18.7	9,506	15.6
Other expenses	**796**	**2.1**	(2,388)	4.3	(2,439)	(4.0)
Large Corporations Tax	**1,256**	**3.4**	1,695	(3.0)	667	1.1
Future income taxes — rate changes and other	**720**	**1.9**	—	—	1,702	2.8
Provision for income taxes	**12,900**	**34.5**	(2,028)	3.7	33,376	54.8

	Year Ended December 31,		
	2004	2003	2002
	$	$	$
Income tax expense (recovery) is comprised of:			
Future income taxes provision (recovery)	**7,729**	(11,283)	(48,941)
Current income tax provision	**5,171**	9,255	82,317
	12,900	(2,028)	33,376

	December 31, 2004	December 31, 2003
Future income tax assets is comprised of:		
Regulatory liabilities	**6,515**	14,244

As described in Note 2, the Corporation follows the taxes payable method of accounting for income taxes. Had the Corporation accounted for its regulated operations using the liability method, the Corporation would have additional future income tax assets of approximately $40 million at December 31, 2004 (2003 — $40 million).

13. COMMITMENTS AND CONTINGENCIES

(a) Operating lease and other contractual obligations

The Corporation has operating leases for facilities, office premises and equipment. In addition, the Corporation and an Alberta transmission service provider have also entered into a number of service agreements to ensure operational efficiencies are maintained through coordinated operations. The service agreements have minimum expiry terms of twenty years from September 1, 2000, and are subject to extension based on mutually agreeable terms. Future minimum annual payments are as follows:

	$
2005	7,564
2006	6,926
2007	6,249
2008	6,202
2009	6,164
Thereafter	35,843
	68,948

(b) Legal proceedings

The Corporation is subject to various legal proceedings and claims that arise in the ordinary course of business operations. The Corporation believes that the amount of liability, if any, from these actions would not have a material effect on the Corporation's financial position or results of operations.

In a statement of claim filed on August 18, 2003 in the Court of the Queen's Bench of Alberta, EPCOR Energy Services (Alberta) Inc. is pursuing damages of approximately $83 million for alleged breaches of certain agreements between it and the Corporation, distribution tariff terms and conditions and fiduciary duty, as well as for negligence. The Corporation has not to date made a definitive assessment of potential liability with respect to this claim, however management believes that these allegations are without merit. The outcome is not determinable and accordingly no amount has been accrued for this claim in the financial statements.

(c) Capital expenditures

As an electric utility, the Corporation is obligated to provide service to customers within its service territory. The Corporation has forecast capital expenditures for 2005 of $126.6 million, which are largely driven by customer requests or are specifically identified large capital projects. The Corporation will be required to raise additional capital during 2005 to fund its capital expenditures.

14. FINANCIAL INSTRUMENTS

(a) Fair values

The fair values of the Corporation's cash and cash equivalents, funds on deposit, accounts receivable, short-term debt and accounts payable approximate their carrying value. The fair values of other financial instruments are as follows:

	December 31, 2004		December 31, 2003	
	Carrying value	Fair value	Carrying value	Fair value
	$	$	$	$
Senior unsecured debentures, 5.33%	**200,000**	**204,932**	—	—
Senior unsecured debentures, 6.22%	**200,000**	**208,680**	—	—
Note payable — Aquila Networks Canada Finance Limited Partnership	**—**	**—**	230,000	264,400
	400,000	**413,612**	230,000	264,400

(b) Forward foreign exchange contracts

The Corporation used forward foreign exchange contracts to reduce its exposure to fluctuations in foreign currency exchange rates on U.S. dollar denominated debt. The contracts obliged the Corporation to buy U.S. dollars in the future at predetermined exchange rates. On August 1, 2003, the Corporation had entered into a contract to buy US$215 million on May 28, 2004 at an exchange rate of 1.4209. The Corporation entered into the foreign exchange contract on its own behalf and at the request and on behalf of Aquila Networks Canada Corp. (''ANCC''). A proportionate amount (115/215) of the benefit, obligations and liabilities under the foreign exchange contract was assigned to ANCC.

These contracts were carried at fair value with gains and losses recognized in income. Accounts payable at December 31, 2003 included an unrealized loss of $11.7 million on the Corporation's share of the contract, which partially offset foreign exchange gains on the debt. The contract was terminated on May 27, 2004. For the year ended December 31, 2004, the Corporation incurred net foreign exchange losses of $0.8 million (2003 — $1.9 million) on the forward contract and the debt.

(c) Funds on deposit

Funds on deposit include security as required by the Alberta Electric System Operator (''AESO'') for transmission related projects. The scope of these projects is to provide service for new customers in the service territory and/or upgrade load capacity to existing customers. The transmission facility owner requires security equivalent to its costs of the upgrades until the project's completion. At December 31, 2003, there was $35.5 million in security deposits made to AESO or to a financial institution to support letters of credit in favor of AESO. As at July 30, 2004, these funds on deposit were returned.

At December 31, 2003, funds on deposit also included $11.4 million in margin deposits on the forward foreign exchange contracts. Since this margin was posted by Aquila Inc. on behalf of the Canadian subsidiaries, these funds on deposit were offset by an equivalent intercompany liability included in accounts payable. These funds on deposit were repaid in conjunction with the termination of the forward contract.

(d) Concentration of credit risk

Substantially all of the customer accounts receivable relate to electricity retailers located in the Province of Alberta. One customer comprised 29% of accounts receivable as at December 31, 2004 (2003 — 42%).

15. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current period's presentation.

FortisBC Inc.

(formerly Aquila Networks Canada (British Columbia) Ltd.)

Consolidated Financial Statements
for the years ended December 31, 2004, 2003 and 2002

Together with Auditors' Report

AUDITORS' REPORT

To the Directors of
FortisBC Inc., (formerly Aquila Networks Canada (British Columbia) Ltd.):

We have audited the consolidated balance sheets of **FortisBC Inc**. (formerly Aquila Networks Canada (British Columbia) Ltd.) (the ''Corporation'') as at December 31, 2004 and 2003 and the consolidated statements of earnings, retained earnings and cash flows for each of the years in the three-year period ended December 31, 2004. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2004 and 2003 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2004, in accordance with Canadian generally accepted accounting principles.

(Signed) *KPMG LLP*
Chartered Accountants

Calgary, Canada
February 3, 2005

FORTISBC INC.
(formerly Aquila Networks Canada (British Columbia) Ltd.)

CONSOLIDATED BALANCE SHEETS

	As at December 31,	
	2004	**2003**
	$	$
	(All dollar amounts are in thousands)	
ASSETS		
PROPERTY, PLANT AND EQUIPMENT (Note 3)	**533,068**	460,633
DEFERRED CHARGES AND OTHER ASSETS (Note 5)	**18,928**	15,835
CURRENT ASSETS		
Cash	**310**	19
Accounts receivable (Notes 4 and 14)	**34,931**	29,144
Deferred charges and other assets (Note 5)	**756**	634
Inventory	**502**	468
Prepaid expenses	**772**	205
	37,271	30,470
	589,267	506,938
SHAREHOLDER'S EQUITY AND LIABILITIES		
SHAREHOLDER'S EQUITY		
Share capital (Note 7)	**106,500**	76,500
Retained earnings	**113,999**	101,790
	220,499	178,290
LONG-TERM DEBT (Note 8)	**292,396**	223,656
FUTURE INCOME TAXES (Note 11)	**1,619**	1,472
CURRENT LIABILITIES		
Accounts payable and accrued liabilities (Note 14)	**38,385**	32,382
Current debt (Note 8)	**29,861**	60,230
Accrued interest	**4,221**	5,447
Regulatory liability (Note 6)	**1,017**	3,308
Income taxes payable	**1,269**	2,153
	74,753	103,520
COMMITMENTS AND CONTINGENCIES (Note 12)		
	589,267	506,938

Approved on behalf of the Board:

(Signed) *H. Stanley Marshall* (Signed) *Barry V. Perry*

The accompanying notes are an integral part of these financial statements.

FORTISBC INC.
(formerly Aquila Networks Canada (British Columbia) Ltd.)

CONSOLIDATED STATEMENTS OF EARNINGS

	For the years ended December 31,		
	2004	2003	2002
	$	$	$
	(All dollar amounts are in thousands)		
REVENUES			
Sale of power	**176,427**	164,179	149,902
Other	**6,599**	3,728	4,092
	183,026	167,907	153,994
EXPENSES			
Power purchases	**59,014**	58,390	52,154
Operating and maintenance (Note 14)	**36,804**	30,553	35,670
Depreciation and amortization (Note 15)	**17,093**	14,794	24,685
Property taxes	**10,332**	9,401	9,877
Water fees	**7,387**	7,567	7,270
Wheeling	**3,817**	3,769	4,101
	134,447	124,474	133,757
EARNINGS FROM OPERATIONS	**48,579**	43,433	20,237
INTEREST EXPENSE			
Debentures (Note 8)	**13,336**	12,087	10,283
Other debt (Note 8)	**7,588**	8,873	6,509
Allowance for funds used during construction	**(2,434)**	(3,370)	(2,451)
	18,490	17,590	14,341
EARNINGS BEFORE INCOME TAXES	**30,089**	25,843	5,896
INCOME TAX (RECOVERY) EXPENSE (Notes 11 and 15)	**8,154**	6,640	(242)
NET EARNINGS	**21,935**	19,203	6,138

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

	For the years ended December 31,		
	2004	2003	2002
	$	$	$
	(All dollar amounts are in thousands)		
RETAINED EARNINGS, BEGINNING OF YEAR	**101,790**	93,205	96,706
Net earnings	**21,935**	19,203	6,138
Dividends	**(9,726)**	(10,618)	(9,639)
RETAINED EARNINGS, END OF YEAR	**113,999**	101,790	93,205

The accompanying notes are an integral part of these financial statements.

FORTISBC INC.
(formerly Aquila Networks Canada (British Columbia) Ltd.)

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the years ended December 31,		
	2004	**2003**	**2002**
	$	$	$
	(All dollar amounts are in thousands)		
OPERATING ACTIVITIES			
Net earnings	**21,935**	19,203	6,138
Adjustments for non-cash items:			
Depreciation and amortization	**17,093**	14,794	24,685
Future income taxes	**147**	(335)	(4,481)
Deferred charges and other non-current assets and liabilities	**(3,633)**	944	1,067
	35,542	34,606	27,409
Changes in non-cash working capital	**(2,618)**	(1,846)	13,098
	32,924	32,760	40,507
INVESTING ACTIVITIES			
Additions to property, plant and equipment	**(87,541)**	(57,116)	(78,759)
Additions to deferred charges and other non-current assets	**(1,897)**	(2,892)	(95)
Changes in non-cash working capital	**—**	688	—
	(89,438)	(59,320)	(78,854)
FINANCING ACTIVITIES			
Issue of common shares	**30,000**	—	15,000
Proceeds from unsecured debenture issue	**140,000**	—	—
Proceeds from secured debenture issue	**—**	—	50,000
Proceeds from term bank and demand loans	**28,584**	—	—
Repayment of term bank and demand loans	**(19,982)**	(20,807)	(15,476)
Proceeds from affiliate term and demand loans	**155,038**	59,000	—
Repayment of affiliate term and demand loans	**(214,038)**	—	—
Repayment of promissory note to affiliate	**(50,000)**	—	—
Repayment of secured debentures	**(750)**	(750)	(750)
Repayment of mortgage	**(480)**	(436)	(423)
Dividends	**(9,726)**	(10,618)	(9,639)
Deferred charges and other non-current assets	**(1,841)**	149	(324)
	56,805	26,538	38,388
INCREASE (DECREASE) IN CASH	**291**	(22)	41
CASH, OPENING BALANCE	**19**	41	—
CASH, CLOSING BALANCE	**310**	19	41
Cash flows include the following elements:			
Interest paid	**22,150**	20,018	16,249
Income taxes paid	**8,100**	246	9,407

The accompanying notes are an integral part of these financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2004, 2003, and 2002
(All tabular dollar amounts are in thousands, unless otherwise noted)

1. ENTITY DEFINITION AND NATURE OF OPERATIONS

FortisBC Inc. ('''FortisBC'' or the ''Corporation'') (formerly Aquila Networks Canada (British Columbia) Ltd. and, before that, UtiliCorp Networks Canada (British Columbia) Ltd. and West Kootenay Power Ltd.) was incorporated pursuant to *West Kootenay Power and Light Company, Limited Act 1897* (British Columbia). On May 31, 2004, it became a wholly-owned subsidiary of Fortis Pacific Holdings Inc., which is an indirect wholly-owned subsidiary of Fortis Inc., (''Fortis''), a Canadian public company.

The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiaries, Walden Power Partnership (''WPP''), ESI-Power Walden Corporation Ltd., West Kootenay Power Ltd. and Kootenay River Power Corporation. All significant inter-company transactions and balances have been eliminated upon consolidation.

FortisBC is an integrated, regulated electric utility which owns and operates a network of generation, transmission and distribution assets located in the southern interior of British Columbia. The Corporation serves residential, commercial, wholesale and industrial consumers of electricity. The Corporation's generation assets include four regulated hydroelectric generating plants on the Kootenay River with an aggregate installed capacity of 205 megawatts. The Corporation's regulated transmission and distribution assets consist of a network of transmission and distribution power lines, substations and support structures.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Regulation

The Corporation is regulated by the British Columbia Utilities Commission (''BCUC''). The BCUC administers acts and regulations, pursuant to the *Utilities Commission Act* (British Columbia), covering such matters as tariffs, rates, facilities, construction, operations, financing and accounting of public utilities.

FortisBC operates primarily under a cost-of-service regulation as prescribed by the BCUC. The Corporation applies to the BCUC for annual revenue requirements based on estimated costs of service, including operating expenses, depreciation, income tax, interest on debt and a reasonable return on equity. Additionally, the Corporation operates under a performance-based rate setting framework that provides for a sharing of achieved savings, or in some cases, increased expenditures, with ratepayers. Sharing applies only on certain components of operating expenditures, and is subject to change as the regulatory framework evolves.

The timing of FortisBC's recognition of certain assets, liabilities, revenues and expenses as a result of regulation may differ from that otherwise expected using Canadian generally accepted accounting principles for entities not subject to rate regulation.

The following describes circumstances in which the effects of rate regulation result in financial statement recognition or measurement that differs from what Canadian generally accepted accounting principles otherwise require or permit:

(a) Income taxes

As prescribed by a regulatory rate order, regulated income tax expense is recovered through rates based on the taxes payable method. Therefore, rates do not include the recovery of future income taxes related to temporary differences between the tax basis of regulated assets and liabilities and their carrying amounts for accounting purposes. The Corporation has not recognized future income taxes other than for non-regulated assets, as it is expected that when these amounts become payable, they will be recovered through future rate revenues. Entities not subject to rate regulation are required to recognize future income tax liabilities and future tax assets. As at December 31, 2004, future income tax liabilities of $41.1 million (2003 — $40.5 million), based on currently enacted income tax rates, have not been recognized.

(b) Depreciation

The capital costs of fixed assets are depreciated using the group method, as prescribed by the regulator. Under this method, assets with similar useful lives and other characteristics are grouped and depreciated as one asset. When a fixed asset is retired, its original cost is charged to accumulated depreciation, with no gain or loss reflected in income unless the disposal is outside the normal course of business or involves a major item of plant. Entities not subject to rate regulation write off the net book value of the retired asset, and include any resulting gain or loss in current operating results. Since the Corporation does not calculate depreciation expense for individual assets, it cannot identify or quantify gains or losses on the retirement of fixed assets in any given year. Likewise, it cannot state the effect on depreciation expense of using the group method.

(c) Brilliant Terminal Station Obligation

As described in note 12, the Corporation is accounting for the Brilliant Terminal Station Obligation as an operating lease as directed by the BCUC.

Entities not subject to rate regulation are generally required to record leases as capital leases, if certain criteria are met. This obligation meets the criteria of a capital lease. Recording the obligation as a capital lease would result in an increase in property, plant and

equipment of $24.3 million (2003 — $25.1 million), an increase in capital lease obligation of $21.8 million (2003 — $21.9 million) and an increase in regulatory liabilities of $2.5 million (2003 — $3.2 million).

(d) Post-retirement benefits other than pensions

As ordered by the BCUC, the Corporation accounts for post-retirement benefits other than pensions as employer contributions are paid. Entities not subject to rate regulation generally account for these costs on an accrual basis. At December 31, 2004, the Corporation has unrecorded other post-retirement obligations of $11.3 million (2003 – $10.7 million) as described in note 10. Had the Corporation recognized other post-retirement benefits on an accrual basis rather than as contributions were made, it would have recognized additional post-retirement benefit expense of $1.0 million (2003 — $0.9 million, 2002 — $0.8 million).

(e) Trail office building lease

As described in Note 12, lease payments under the terms of the Trail Office lease agreement are structured and made on a stepped basis. As ordered by the BCUC, the Corporation accounts for the Trail Office lease payments on a cash basis. Entities not subject to rate regulation would generally be required to record these lease costs on a straight-line basis. Had the Corporation adopted such an accounting treatment, it would have expensed additional annual lease costs of approximately $ nil (2003 — $0.2 million, 2002 — $0.2 million).

Use of estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period. Certain estimates are necessary since the regulatory environment in which the Corporation operates often requires amounts to be recorded at estimated values until finalization and adjustment, if any, is determined pursuant to subsequent regulatory decisions or other regulatory proceedings. Due to the inherent uncertainty in making such estimates, actual results reported in future periods could differ materially from those estimated.

The estimation process for unbilled energy consumption as described in note 4 may result in adjustments to estimates of electricity revenues. Any such adjustments, which could be material, will be recorded in the period they become known.

Revenue recognition

Revenues are recognized as customers are invoiced on a billing cycle basis at rates approved by the BCUC. These revenues include an estimate of the value of electricity consumed by customers in the year but billed subsequent to year-end.

Property, plant and equipment

Property, plant and equipment are recorded at cost including an allowance for funds used during construction. The cost of depreciable assets retired together with removal costs less salvage value is charged to accumulated depreciation. Gains or losses on disposal are not taken into income unless the disposal is outside the normal course of business or involves a major item of plant.

The Corporation provides for depreciation on a straight-line basis calculated on the investment in depreciable assets in service at the beginning of the year. The application of these rates for the year ended December 31, 2004 results in a composite rate of 2.5% (2.5% — 2003; 2.5% — 2002).

Customers' portion of costs

Certain additions to property, plant and equipment are made with the assistance of non-refundable contributions from customers and others when the estimated revenue is less than the cost of providing service or when special equipment is needed to supply the customers' specific requirements. Such amounts are recorded as a reduction of property, plant and equipment and are being amortized over the estimated service lives of the related assets by an offset against the provision for depreciation.

Asset retirement obligations

As of January 1, 2004, the Corporation is required to retroactively adopt the recommendations of the Canadian Institute of Chartered Accountants (''CICA'') on accounting for asset retirement obligations. The recommendations require total retirement costs to be recorded as a liability at fair value, with a corresponding increase to property, plant and equipment. The Corporation recognizes asset retirement obligations in the period in which they are incurred if a reasonable estimate of fair value can be determined. While some of the Corporation's long-lived tangible assets will have future legal retirement obligations, the date of removal of the assets cannot be reasonably determined at this time and therefore no asset retirement obligations have been recorded as of December 31, 2004. An asset retirement obligation and offsetting capital asset will be recognized when the timing and amount can be reasonably determined.

Deferred charges and other assets

Certain revenues and costs are carried on the consolidated balance sheets and are amortized against earnings as ordered or agreed to by the BCUC. Other deferred costs are carried on the consolidated balance sheets and are amortized against earnings over the expected period of benefit.

Income taxes

The Corporation follows the taxes payable method of accounting for income taxes on regulated earnings as ordered by the BCUC. For non-regulated business, income tax assets and income tax liabilities are recognized, at substantially enacted rates, for differences between the

amounts reported for financial statement purposes and their respective tax bases. The effect of a change in income tax rates on future income tax assets and future income tax liabilities is recognized in income in the period that the rate change occurs.

Post-retirement benefits

The Corporation has adopted the following policies with respect to post-retirement benefits:

Defined pension benefit

The Corporation has a number of defined benefit plans providing pensions to most of its employees. These plans are accounted for using the method recommended by Section 3461 of the CICA Handbook. The Corporation accrues its obligations under employee benefit plans and the related costs, net of plan assets.

Quoted market values are used to value pension assets. The cost of pensions is determined by independent actuaries using the projected benefit method prorated on service and management's best estimates of expected plan investment performance, salary escalation, and retirement ages of employees.

Adjustments arising from plan amendments, changes in assumptions and the excess of net actuarial gains or losses over 10% of the greater of the benefit obligation and the fair value of the plan assets are amortized on a straight line basis over the expected average remaining service life of the employees covered by the plans. The average remaining service life of the employees covered by these plans ranges from 12 to 14 years. The Corporation uses a measurement date of September 30 for all of its plans.

Other post-retirement benefits

As ordered by the BCUC, the Corporation accounts for other post-retirement benefits as employer contributions are paid.

Stock based compensation

The Corporation calculates compensation expense upon the issuance of stock options under Fortis stock option plans using the fair value method. The compensation expense is amortized over the vesting period of the options.

3. PROPERTY, PLANT AND EQUIPMENT

	December 31, 2004		
	Cost	**Accumulated Depreciation**	**Book Value**
	$	**$**	**$**
Generation	**151,996**	**35,149**	**116,847**
Substations	**136,628**	**35,631**	**100,997**
Transmission	**108,235**	**19,654**	**88,581**
Distribution	**198,581**	**53,689**	**144,892**
General	**76,537**	**30,194**	**46,343**
Construction work in progress	**35,408**	**—**	**35,408**
Total	**707,385**	**174,317**	**533,068**

	December 31, 2003		
	Cost	**Accumulated Depreciation**	**Book Value**
	$	$	$
Generation	122,192	33,128	89,064
Substations	125,976	33,312	92,664
Transmission	93,928	18,436	75,492
Distribution	184,697	54,113	130,584
General	74,110	25,688	48,422
Construction work in progress	24,407	—	24,407
Total	625,310	164,677	460,633

4. ACCOUNTS RECEIVABLE

	2004	**2003**
	$	$
Accounts receivable	**23,115**	19,590
Estimated unbilled consumption	**11,816**	9,554
	34,931	29,144

Accounts receivable represents amounts billed and due from customers. Estimated unbilled consumption represents an estimate of the value of customer electricity consumption not yet billed.

5. DEFERRED CHARGES AND OTHER ASSETS

	2004	2003
	$	$
Energy management costs, net of tax of $3.2 million (2003 — $2.8 million)	**4,707**	4,377
Other regulatory deferred charges	**1,707**	1,165
Total regulatory assets	**6,414**	5,542
Energy management loans	**3,780**	3,169
Prepaid pension costs	**5,248**	5,814
Deferred project costs	**1,085**	1,003
Debt issue costs, net of amortization	**2,883**	1,159
Other	**274**	(218)
	19,684	16,469
Current portion	**756**	634
	18,928	15,835

Regulatory assets

(i) Energy management costs

The Corporation provides energy management services to promote energy efficiency programs for its customers. As required by a BCUC order, the accounting treatment is to capitalize all expenditures (except certain defined costs) and amortize them on a straight-line basis at 12.5 percent per annum. Entities not subject to rate regulation are generally required to expense these costs as incurred. The $4.7 million (2003 — $4.4 million) deferred regulatory asset represents the unamortized balance of the energy management service program, and is included in long-term assets as part of deferred charges and other assets. Energy management costs are expected to be recovered from customers in rates over an eight year period.

(ii) Other regulatory deferred charges

Certain costs incurred with respect to such items as system planning, negotiations of agreements and rate applications have been deferred and amortized over terms approved by the BCUC. Entities not subject to rate regulation are generally required to expense these costs as incurred. The $1.7 million (2003 — $1.2 million) deferred regulatory asset represents the unamortized balance of these charges, and is included in long-term assets as part of deferred charges and other assets. Other deferred charges are expected to be recovered from customers in rates over the next one to five years.

During the year, amortization of deferred charges and other assets $2.0 million ($1.2 million — 2003; $2.0 million — 2002) was charged against operations.

6. REGULATORY LIABILITY

In 2004 and 2003, the Corporation was regulated under a performance-based cost-of-service mechanism that set targets for various costs. Final disposition of costs is determined by a cost sharing mechanism with customers as approved by the BCUC. The regulatory liability of $1.0 million (2003 — $3.3 million) represents the portion of the excess of forecast costs used to set rates over actual costs that is due back to customers through future rates over the next one to two years.

7. SHARE CAPITAL

AUTHORIZED

500,000,000 Common Shares, with a par value of $100 each

500,000,000 Preferred Shares, with a par value of $25 each, issuable in series

	2004	2003
	$	$
ISSUED		
1,065,000 Common Shares (2003 — 765,000 Common Shares)	**106,500**	76,500

During the year, the Corporation issued 300,000 Common Shares (2003 — nil; 2002 — 150,000) to its parent for cash consideration of $30 million (2003 — $nil; 2002 — $15 million). There were no share capital issuances or redemptions in 2003.

8. DEBT

	2004	2003
	$	$
Secured Debentures		
Series E 11% due December 1, 2009	**6,750**	7,500
Series F 9.65% due October 16, 2012	**15,000**	15,000
Series G 8.8% due August 28, 2023	**25,000**	25,000
Series H 8.77% due February 1, 2016	**—**	25,000
Series I 7.81% due December 1, 2021	**—**	25,000
Series J 6.75% due July 31, 2009	**—**	50,000
WPP mortgage 9.44% due October 31, 2013	**6,923**	7,404
	53,673	154,904
Unsecured Debentures		
Series H 8.77% due February 1, 2016	**25,000**	—
Series I 7.81% due December 1, 2021	**25,000**	—
Series J 6.75% due July 31, 2009	**50,000**	—
Series 1-04 5.48% due November 28, 2014	**140,000**	—
	240,000	—
Promissory note payable	**—**	50,000
Term bank loan	**—**	19,982
Operating credit facility	**19,957**	
Overdraft facility	**8,627**	—
Term and demand affiliate loans	**—**	59,000
	28,584	128,982
Total debt	**322,257**	283,886
Current portion of debt	**(29,861)**	(60,230)
Long-term debt	**292,396**	223,656

Secured Debentures

The Series E, F and G Secured Debentures are collateralized by a fixed and floating first charge on the assets of the Corporation and are guaranteed by FortisWest Inc., a subsidiary of Fortis. The secured trust deed provides for sinking fund payments of $750,000 per year for the Series E Secured Debentures.

The WPP mortgage is secured by a fixed and floating charge over the assets of WPP, FortisBC's wholly-owned subsidiary.

Unsecured Debentures

On November 30, 2004, the Corporation issued Series 1-04 5.48% Unsecured Debentures in the principal amount of $140.0 million, due November 28, 2014. The net proceeds received on November 30, 2004 in the amount of $138.9 million were used to repay a $125.0 million intercompany loan to Fortis, pay down the operating credit facility by $10.0 million and the balance was used for working capital purposes.

Immediately following the issuance of the Series 1-04 Debentures on November 30, 2004, the Series H, I and J Secured Debentures were converted to Unsecured Debentures pursuant to the terms of the secured trust deed. The Series H, I and J Unsecured Debentures continue to be guaranteed by FortisWest Inc.

Operating credit facility

The operating credit facility is an unsecured $100 million revolving/non-revolving term credit facility which matures on May 13, 2005. Prior to the maturity date, the Corporation may request to extend the term for an additional 364 days and if the request for an extension is not granted, the facility will automatically convert into a non-revolving term credit facility that will mature six months from the date of conversion. Borrowings under the operating credit facility bear interest at prime or the certificate of deposit offered rate for bankers' acceptances.

The operating credit facility is also available to support up to $20 million in letters of credit. As at December 31, 2004, $20 million of letters of credit were issued (2003 — $ nil).

Overdraft facility

The overdraft facility is an unsecured $10 million demand credit facility which bears interest at prime.

Promissory note payable

The promissory note payable to Aquila Networks Canada Finance Limited Partnership (''ANCFLP''), an affiliated company, was unsecured, bore interest at 8.66% and was due June 15, 2011.

Term bank loan

The $20 million term bank loan was unsecured, due May 29, 2005, guaranteed by Aquila, Inc. and drawn by way of bankers acceptances.

Term and demand affiliate loans

Included in term and demand loans was a $29 million demand loan payable to ANCFLP and a $30 million term loan payable to Aquila Networks Canada Corp., an affiliated company. The $29 million demand loan was unsecured, bore interest at floating prime rate and was due on demand. The $30 million term loan was unsecured, bore interest at 12.75% and was due on July 29, 2004.

The ANCFLP promissory note payable, the term and demand affiliate loans and the term bank loan were repaid May 31, 2004, immediately after the close of the sale to Fortis and replaced with a $155.0 million 3.50% short-term loan from Fortis. The Fortis loan was repaid with proceeds from the November 30, 2004 debenture issue.

Fair values

As at December 31, 2004 the fair market value of FortisBC debt exceeded the book value by $35.1 million ($34.0 million — 2003).

Included within interest expense is $13.0 million ($18.1 million — 2003, $13.6 million — 2002) related to long-term debt.

Principal payments required over the next five years and thereafter are as follows:

	Sinking Fund Requirement	**Demand Loans and Maturing Issues of Debt**
2005	750	29,111
2006	750	579
2007	750	636
2008	750	699
2009	750	53,768
Thereafter	—	233,714

9. PENSION BENEFITS

The Corporation has several defined benefit pension plans, which cover most of its employees. The most recent actuarial valuations of the plans were undertaken as of December 31, 2001, 2002 or 2003. The expense for the Corporation's pension benefits is as follows:

	2004	2003	2002
	$	$	$
Employer current service cost	**1,721**	1,261	965
Interest cost	**5,178**	4,785	4,674
Actual return on assets	**(7,282)**	(5,486)	688
Actual loss of accrued benefit obligation	**4,868**	5,905	4,724
Difference between actual and expected return on assets	**2,085**	1,114	(5,148)
Amortization:			
Net actuarial gain	**(4,536)**	(5,703)	(4,724)
Net transition obligations	**1,009**	978	980
Prior service cost	**292**	240	252
Total net benefit plan expense	**3,335**	3,094	2,411

Information about the Corporation's defined benefit plans is as follows:

	$	$
Change in accrued benefit obligation		
Balance, beginning of year	**85,771**	74,604
Member contributions	**1,509**	1,424
Current service cost	**1,721**	1,261
Interest costs	**5,178**	4,785
Benefits paid	**(3,848)**	(4,456)
Actuarial losses	**4,868**	5,905
Transfers	**1,199**	2,248
Balance, end of year	**96,398**	85,771
Change in fair value of plan assets		
Balance, beginning of year	**64,819**	58,819
Actual return on plan assets	**7,282**	5,486
Employer contributions	**2,577**	2,172
Member contributions	**1,509**	1,424
Benefits paid	**(3,848)**	(4,456)
Transfers and non-investment expenses	**1,066**	1,374
Fair value, end of year	**73,405**	64,819
Composition of accrued benefit asset		
Accrued benefit obligation	**96,398**	85,771
Fair value of assets	**73,405**	64,819
Funded status — plan deficit	**(22,993)**	(20,952)
Contributions received after the measurement date	**740**	660
Unamortized net actuarial loss	**16,700**	14,727
Unamortized transitional obligation	**8,270**	8,909
Unamortized prior service cost	**2,531**	2,470
Accrued benefit asset	**5,248**	5,814
Reconciliation of accrued benefit asset		
Accrued benefit asset at beginning of year	**5,814**	6,775
Net benefit cost	**(3,335)**	(3,094)
Funding contribution	**2,769**	2,133
Accrued benefit asset at end of year	**5,248**	5,814

The accrued benefit asset of $5,248 (2003 — $5,814) is included in deferred charges and other assets.

As at September 30, 2004, the assets of the defined benefit pension plans were invested as follows:

Equity securities	61.5%
Debt securities	32.1%
Real estate	5.7%
Cash	0.7%
	100.0%

The significant actuarial assumptions, adopted in measuring the Corporation's accrued benefit obligations, are as follows:

	2004	2003
Liability discount rate	**6.0%**	6.0%
Expected long-term rate of return on plan assets	**7.5%**	7.5%
Rate of compensation increase	**3.5%**	3.5%
Estimated remaining service life	**13.5 years**	13.5 years

10. OTHER POST-RETIREMENT BENEFITS

The Corporation provides certain other post-retirement benefits to its retired employees including certain health and dental coverage and life insurance. These plans are not funded.

As ordered by the BCUC, the cost of other post-retirement benefit obligations is expensed and recovered in rates as employer contributions are made. Information about the Corporation's benefit obligations as at December 31, 2004, and 2003 were the company on an accrual basis of accounting for other post-retirement benefits rather than a cash basis, is as follows:

	2004	2003	2002
	$	$	$
Employer current service cost	**232**	219	206
Interest cost	**641**	614	493
Actual loss of accrued benefit obligation	**—**	710	2,419
Amortization:			
Net actuarial (gain) loss	**134**	(618)	(2,419)
Net transition obligations	**364**	364	364
Total net benefit plan expense	**1,371**	1,289	1,063
Change in accrued benefit obligation			
Balance, beginning of year	**10,736**	9,494	
Current service cost	**232**	219	
Interest costs	**641**	614	
Benefits paid	**(334)**	(301)	
Actuarial losses	**—**	710	
Balance, end of year	**11,275**	10,736	
Composition of accrued benefit liability			
Accrued benefit obligation	**11,275**	10,736	
Fair value of assets	**—**	—	
Funded status – plan deficit	**(11,275)**	(10,736)	
Unamortized net actuarial loss	**2,904**	3,036	
Unamortized transitional obligation	**3,971**	4,337	
Accrued benefit liability	**(4,400)**	(3,363)	
Reconciliation of accrued benefit liability			
Accrued benefit liability at beginning of year	**(3,363)**	(2,375)	
Net benefit cost	**1,371**	1,289	
Funding contribution	**334**	301	
Accrued benefit liability at end of year	**(4,400)**	(3,363)	

Sensitivity to Changes in Assumptions

	2004
Effect of 1% Increase in Health Care Trend Rates	
Effect on total of service and interest costs	**170**
Effect on post-retirement benefit obligation	**1,670**
Effect of 1% Decrease in Health Care Trend Rates	
Effect on total of service and interest costs	**(140)**
Effect on post-retirement benefit obligation	**(1,460)**

11. INCOME TAXES

The provision for income taxes varies from the amount that would be expected if computed by applying the Canadian federal and provincial statutory income tax rates to the earnings before income taxes as shown in the following table:

	2004		2003		2002	
	$	%	$	%	$	%
Earnings before income taxes	**30,089**	**—**	25,843	—	5,896	—
Expected provision for income taxes	**10,718**	**35.6**	9,645	37.3	2,288	38.8
Adjustments in income taxes resulting from items capitalized for accounting but expensed for income tax purposes — Operating expenses	**(913)**	**(3.0)**	(964)	(3.7)	(844)	(14.3)
Allowance for funds used during construction	**(867)**	**(2.9)**	(1,308)	(5.1)	(951)	(16.0)
Other temporary differences	**(1,661)**	**(5.5)**	(1,531)	(5.9)	(1,224)	(20.8)
Large Corporation Tax	**871**	**2.9**	940	3.6	905	15.3
Other	**6**	**—**	(142)	(0.5)	(416)	(7.1)
Income tax (recovery) expense	**8,154**	**27.1**	6,640	25.7	(242)	(4.1)

Income tax (recovery) expense is comprised of:

	2004	2003	2002
	$	$	$
Future income tax expense (recovery)	**147**	(335)	(4,481)
Current income tax expense	**8,007**	6,975	4,239
	8,154	6,640	(242)

The future income tax liability is comprised of the net book value of non-regulated plant and equipment in excess of its tax basis.

12. COMMITMENTS AND CONTINGENCIES

(i) Brilliant Power Purchase Contract

On May 3, 1996 an Order was issued by the BCUC approving a 60-year power purchase contract for the output of the Brilliant hydro-electric plant located near Castlegar, British Columbia. The Brilliant plant is owned by the Brilliant Power Corporation (''BPC''), a corporation owned as to 50% by each of the Columbia Power Corporation and the Columbia Basin Trust. FortisBC operates and maintains the Brilliant plant for the BPC in return for a management fee.

The contract requires fixed monthly payments based on specified natural flow take-or-pay amounts of energy. The contract includes a market related price adjustment after 30 years of the 60-year term. Minimum payments required over the next five years are as follows:

	Amount
	$
2005	29,828
2006	32,258
2007	33,103
2008	33,910
2009	34,737
Thereafter	2,907,779

(ii) Firm Power Purchase Contracts

The Corporation has a long-term, minimum-payment, firm power purchase contract with BC Hydro and Power Authority. The contract includes a take-or-pay provision based on a five-year rolling nomination of capacity requirements.

Minimum payments required over the next five years and thereafter are as follows:

	Amount
	$
2005	8,325
2006	5,550
2007	5,550
2008	5,550
2009	5,550
Thereafter	—

(iii) Vehicle Leases

The Corporation leases certain vehicles. These leases generally provide for the lessee to pay taxes, maintenance, insurance and certain other operating costs of the leased property, and typically have a lease term of three to five years. Minimum lease payments required over the next five years and thereafter are as follows:

	Amount
	$
2005	1,279
2006	986
2007	652
2008	319
2009	241
Thereafter	150

Included in operating and maintenance expense was $0.5 million (2003 — $0.4 million and 2002 — $0.5 million) relating to these leases.

(iv) Office Leases

Under a sale-leaseback agreement, on September 29, 1993 the Corporation began leasing its Trail, British Columbia office building for a term of 30 years. The terms of the agreement grant the Corporation repurchase options at year 20 and year 30 of the lease term. The Corporation is accounting for the lease as an operating lease.

On December 1, 2004, the Corporation entered into a 5 year lease for the Kelowna head office. The terms of the lease allow for termination without penalty after 3 years.

Total minimum lease payments required over the next five years and thereafter are as follows:

	Amount
	$
2005	885
2006	869
2007	876
2008	753
2009	1,212
Thereafter	17,534

Included in operating and maintenance expense was $0.6 million (2003 — $0.3 million and 2002 — $0.3 million) relating to these leases.

(v) Brilliant Terminal Station Obligation

Under the Brilliant Terminal Station Facilities Interconnection and Investment Agreement dated January 31, 2002 with Columbia Power Corporation and the Columbia Basin Trust, which relates to the engineering, design, procurement, construction, maintenance and ownership of the Brilliant Terminal Station (the ''BTS''), the Corporation has an exclusive license to operate and maintain the BTS and is subject to a 30 year obligation (the ''BTS Obligation'') to pay to the BPC a charge related to the recovery of the capital cost of the BTS and related operating costs. The Corporation is accounting for the BTS Obligation as an operating lease, as directed by the BCUC (note 2). Minimum payments required over the next five years and thereafter are as follows:

	Amount
	$
2005	2,352
2006	2,352
2007	2,352
2008	2,352
2009	2,352
Thereafter	53,508

Included in operating and maintenance expense was $3.2 million (2003 — $nil; 2002 — $nil) relating to this obligation.

(vi) Legal Proceedings

The Corporation is subject to various legal proceedings and claims that arise in the ordinary course of business operations. The Corporation believes that the amount of liability, if any, from these actions would not have a material effect on the Corporation's financial position or results of operations.

FortisBC has been advised of a pending inquiry by the BC Ministry of Forests into fire suppression costs associated with certain forest fires in the Corporation's service territory in 2003. The Corporation is in the preliminary stages of collecting and analyzing information and evidence surrounding these fires.

(vii) Capital Expenditures

As an electric utility, the Corporation is obligated to provide service to customers within its service territory. The Corporation has forecast capital expenditures of approximately $120 million for 2005, which are largely driven by customer requests or include large capital projects specifically approved by the BCUC. The Corporation will be required to raise additional capital during 2005 to fund its capital expenditures and will strive to maintain a 40% equity percentage in its capital structure, the percentage deemed as being appropriate by the BCUC.

13. STOCK OPTIONS

Fortis (the Corporation's ultimate parent company) is authorized to grant certain key employees and directors of Fortis and its subsidiaries options to purchase Common Shares of Fortis. Options vest evenly over a four-year period on each anniversary of the date of grant. The options expire 10 years after the date of grant.

During 2004, Fortis granted 19,593 options at an exercise price of $61.12 to certain key employees of an affiliated company, of which 50% of the cost was allocated to FortisBC and 7,990 options at an exercise price of $58.20 to certain key employees of the Corporation.

Compensation expense relating to these options was $28 thousand for the year ended December 31, 2004 (2003 — $nil; 2002 — $nil).

14. RELATED PARTY TRANSACTIONS

In addition to transactions and balances disclosed elsewhere, in the normal course of business the Corporation transacts with its parent and other related companies under common control. The following transactions were measured at the exchange amount.

	2004	2003	2002
	$	$	$
Included in operating costs are the following amounts charged from related parties:			
— Affiliates of Aquila, Inc.	**3,429**	7,528	4,575
— Affiliates of Fortis	**3,279**	—	—
Included in operating costs are amounts recovered from related parties :			
— Affiliates of Aquila, Inc.	**(1,322)**	(3,587)	(4,531)
— Affiliates of Fortis	**(1,270)**	—	—
Included in power purchase expense are amounts recovered from related parties:			
— Affiliates of Aquila, Inc.	—	—	(6,100)
Included in accounts receivable	**1,270**	1,450	2,957
Included in accounts payable	**1,093**	2,557	16,364
Capital project costs included in property, plant & equipment	**—**	466	8,098

The operating costs above consist of executive management costs, information technology expenses, contract and direct labour charges, joint use asset charges, contact centre and meter shop charges. The recoveries above consist of labour and materials charges to the Corporation's parent. Except as disclosed elsewhere in these financial statements, the amounts due to and from the Corporation's parent and other related companies under common control are non-interest bearing, unsecured and due on demand.

15. ASSET IMPAIRMENT CHARGE

Included in amortization expense for 2002 is a charge of $10.0 million to reflect an impairment in the carrying value of the Walden power plant. Income tax expense includes a related future income tax recovery of $4.4 million.

16. FINANCIAL INSTRUMENTS

The Corporation's financial instruments consist primarily of cash, accounts receivable, accounts payable, and debt. These financial instruments, except for debt (Note 8), have a fair value that approximates their respective carrying values. Fair values for debt are determined using discounted cash flow analysis based on an estimate of the Corporation's current borrowing rate for each instrument.

Credit Risk

Accounts receivable do not represent a significant concentration of credit risk because amounts are owed by a large number of customers on normal credit terms.

Foreign Exchange Risk

The Corporation realizes all of its sales and a significant majority of its expenses in Canadian dollars and is therefore not exposed to significant foreign exchange rate fluctuations.

Interest Rate Risk

Long-term debt bears fixed interest rates, thereby minimizing cash flow and interest rate exposures.

17. 2005 REVENUE REQUIREMENTS AND RATE DECISION

The Corporation filed a general rate application on November 26, 2004 requesting a 4.4% rate increase for 2005. The BCUC has approved an interim refundable rate increase of 3.7% effective January 1, 2005, pending a hearing on the Corporation's application.

18. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform with the current period's presentation.

CERTIFICATE OF FORTIS INC.

Dated February 18, 2005

This short form prospectus, together with the documents and information incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required under securities legislation of all of the provinces of Canada. For the purpose of the Province of Québec, this simplified prospectus, as supplemented by the permanent information record, contains no misrepresentation likely to affect the value or the market price of the securities to be distributed.

(Signed) *H. STANLEY MARSHALL* President and Chief Executive Officer	(Signed) *BARRY V. PERRY* Vice-President, Finance and Chief Financial Officer

On behalf of the Board of Directors

(Signed) *ANGUS A. BRUNEAU* Director	(Signed) *BRUCE CHAFE* Director

CERTIFICATE OF THE UNDERWRITERS

Dated February 18, 2005

To the best of our knowledge, information and belief, this short form prospectus, together with the documents and information incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required under securities legislation of all of the provinces of Canada. For the purpose of the Province of Québec, this simplified prospectus, to our knowledge, as supplemented by the permanent information record, contains no misrepresentation likely to affect the value or the market price of the securities to be distributed.

SCOTIA CAPITAL INC.	RBC DOMINION SECURITIES INC.
by: (Signed) *DONALD A. CARMICHAEL*	by: (Signed) *DAVID P. DAL BELLO*

FORTIS INC.

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