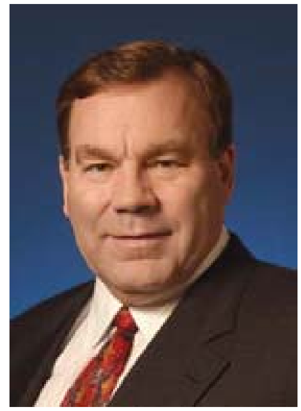
# Working Together

Second Quarter Report 2005

FORTIS INC.

*Dear Shareholder:*



*Earnings applicable to common shares grew to $38.2 million for the second quarter of 2005, $14.3 million higher than earnings for the same quarter last year. Earnings per common share were $1.48 compared to $1.22 per common share for the second quarter last year. Year-to-date earnings were $77.4 million, $33.2 million higher than the first half of 2004. Earnings per common share were $3.08 compared to $2.38 per common share for the first half of 2004.*

*Regulated Utilities contributed $39.8 million in earnings compared to $21.6 million for the second quarter last year. FortisAlberta and FortisBC, which were acquired on May 31, 2004, contributed $20.1 million this quarter.*

*It was another active period for Fortis on the regulatory front. Five of our seven distribution utilities, FortisBC, FortisAlberta, Maritime Electric, Belize Electricity and Caribbean Utilities, completed regulatory proceedings and negotiations which provide more certainty in the near term.*

*During the quarter, Fortis also completed the acquisition of Princeton Light and Power Company, Limited which was another step for Fortis in growing our utility assets in British Columbia. Princeton Light and Power is an electric utility serving approximately 3,200 customers, mainly in Princeton, British Columbia.*

*Results from Non-regulated Generation held steady this quarter, reflecting the diversity of assets within the segment. The Corporation's Non-regulated Generation segment delivered $3.2 million in earnings for the second quarter. The impact of reduced production in Belize, due to lower rainfall levels, was mitigated by higher wholesale energy prices in Ontario.*

*In July, an important milestone was reached when the storing of water began at the Chalillo dam in Belize which will immediately benefit production at the Mollejon generating facility downstream. The 7-megawatt hydroelectric plant at the dam is scheduled to be commissioned later this year. The upstream storage and hydroelectric facility will improve reliability of energy supply to customers and make the country of Belize more self-sufficient in meeting its growing energy demand.*

*Fortis Properties' earnings were strengthened by its expansion into Alberta and Manitoba earlier this year. The Company completed the expansion to the Delta St. John's Hotel this quarter, making it Atlantic Canada's largest hotel and conference centre. Fortis Properties contributed $4.8 million to earnings for the second quarter.*

*Fortis expects to spend approximately $400 million this year on its consolidated utility capital programs, half of which are planned for completion in the second half of 2005. Many of the capital programs are driven by robust customer growth in western Canada and the need to enhance the reliability of our electricity systems. Fortis continues to position itself as the leading Canadian electric distribution utility.*

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

# Fortis Inc.
# Interim Management Discussion and Analysis

For the three and six months ended June 30, 2005

Dated August 5, 2005

The following analysis should be read in conjunction with the Fortis Inc. ("Fortis" or the "Corporation") interim unaudited consolidated financial statements for the three and six months ended June 30, 2005 and the Management Discussion and Analysis and audited consolidated financial statements for the year ended December 31, 2004 included in the Corporation's 2004 Annual Report. This material has been prepared in accordance with National Instrument 51-102 relating to Management Discussion and Analysis.

*Fortis includes forward-looking statements in this material. By their very nature, forward-looking statements are based on underlying assumptions and are subject to inherent risks and uncertainties surrounding future expectations generally. Such events include, but are not limited to, general economic, market and business conditions, regulatory developments, weather and competition. Fortis cautions readers that should certain events or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary significantly from those expected. For additional information with respect to certain of these risks or factors, reference should be made to the Corporation's continuous disclosure materials filed from time to time with Canadian Securities Regulatory Authorities. The Corporation disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.*

Financial information in this release has been prepared in accordance with generally accepted accounting principles ("Canadian GAAP") and is presented in Canadian dollars unless otherwise specified.

**Financial Highlights (Unaudited)**
**Period Ended June 30th**

| *($ millions, except per common share amounts)* | **Quarter** | | **Year-to-date** | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| Revenue and equity income | 365.0 | 254.5 | 746.7 | 505.3 |
| Cash flow from operations | 49.9 | 48.2 | 129.2 | 70.1 |
| Net earnings applicable to common shares | 38.2 | 23.9 | 77.4 | 44.2 |
| Basic earnings per common share ($) | 1.48 | 1.22 | 3.08 | 2.38 |
| Diluted earnings per common share ($) | 1.36 | 1.15 | 2.81 | 2.27 |
| | | | | |
| | **Segmented Net Earnings Contribution** | | | |
| | **Quarter** | | **Year-to-date** | |
| | **2005** | **2004** | **2005** | **2004** |
| Regulated Utilities – Canadian (1) | 34.8 | 17.0 | 67.8 | 32.3 |
| Regulated Utilities – Caribbean (2) | 5.0 | 4.6 | 8.4 | 7.6 |
| Non-regulated – Fortis Generation (3) | 3.2 | 3.2 | 13.2 | 6.1 |
| Non-regulated – Fortis Properties | 4.8 | 3.7 | 6.4 | 4.7 |
| Corporate | (9.6) | (4.6) | (18.4) | (6.5) |
| **Net earnings applicable to common shares** | 38.2 | 23.9 | 77.4 | 44.2 |

(1) Includes the operations of Newfoundland Power, Maritime Electric, FortisOntario (comprised of Canadian Niagara Power and Cornwall Electric), FortisAlberta and FortisBC.
(2) Includes the operations of Belize Electricity and the Corporation's 37.3 per cent equity investment in Caribbean Utilities Company, Ltd.
(3) Includes the operations of non-regulated generating assets in British Columbia, Ontario, central Newfoundland, Upper New York State and Belize.

Net earnings for the second quarter were $38.2 million, or $1.48 per common share, compared to $23.9 million, or $1.22 per common share, for the same quarter last year. Second quarter results include 3 months of earnings from FortisAlberta and FortisBC compared to 1 month for the second quarter of 2004. Results this quarter include a $7.0 million positive net after-tax adjustment to FortisAlberta's earnings, associated with the resolution of tax-related matters resulting in the reduction of liabilities associated with prior periods, partially offset by amounts provided for the final settlement of billings related to prior years. Results also include approximately $1.4 million in after-tax interest revenue from a tax settlement at Newfoundland Power and a $1.1 million positive adjustment to Caribbean Utilities' earnings related to a change in the accounting practice for recognizing unbilled revenue. In addition, Fortis Properties' earnings were $1.1 million higher quarter over quarter. The increase in earnings for the second quarter was partly constrained by a $1.0 million after-tax foreign exchange charge associated with the translation of US$75 million of unhedged corporate debt, increased early retirement and pension costs at Newfoundland Power and a decrease in other revenue and increased operating expenses at Belize Electricity. Earnings per common share were also impacted by dilution from the issuance of 1.74 million common shares on March 1, 2005.

Year-to-date net earnings were $77.4 million, or $3.08 per common share, compared to $44.2 million, or $2.38 per common share, for the first half of 2004. In addition to the $7.0 million positive net after-tax adjustment at FortisAlberta, the $1.4 million in after-tax interest revenue at Newfoundland Power and the $1.1 million positive adjustment to Caribbean Utilities' earnings, results for the first half of 2005 include a $7.9 million after-tax gain resulting from the settlement of contractual matters between FortisOntario and Ontario Power Generation Inc. ("OPGI"). The earnings contribution from FortisAlberta and FortisBC, the timing of recognition of earnings at Newfoundland Power, earnings growth at Fortis Properties, increased wholesale energy prices in Ontario and increased hydroelectric production in central Newfoundland also contributed to results year to date. The increase in earnings year to date was partly constrained by a $1.5 million after-tax foreign exchange charge associated with the translation of US$75 million of unhedged corporate debt, lower hydroelectric production in Belize, due to lower rainfall levels, and increased amortization and finance charges at Belize Electricity. Earnings per common share were also impacted by dilution from the issuance of 1.74 million common shares on March 1, 2005.

## REGULATED UTILITIES – CANADIAN [1]

**Regulated Utilities – Canadian**
**Financial Highlights (Unaudited)**
**Period Ended June 30th**

| | Earnings | | | |
|---|---|---|---|---|
| | Quarter | | Year-to-date | |
| *($ millions)* | **2005** | **2004[1]** | **2005** | **2004[1]** |
| Newfoundland Power | 11.5 | 10.9 | 24.5 | 22.9 |
| Maritime Electric | 2.3 | 2.0 | 4.4 | 4.1 |
| FortisOntario | 0.9 | 0.9 | 2.0 | 2.1 |
| FortisAlberta (1) | 14.7 | 2.4 | 22.6 | 2.4 |
| FortisBC (1) | 5.4 | 0.8 | 14.3 | 0.8 |
| **Earnings** | 34.8 | 17.0 | 67.8 | 32.3 |

Earnings from Regulated Utilities - Canadian were $34.8 million for the second quarter compared to $17.0 million for the same quarter last year. The increase in earnings from Regulated Utilities - Canadian was primarily related to the acquisition of the utilities in western Canada on May 31, 2004 and $1.4 million in after-tax interest revenue as a result of Newfoundland Power's tax settlement with the Canada Revenue Agency ("CRA"). FortisAlberta's second quarter results include the $7.0 million positive net after-tax adjustment, associated with the resolution of tax-related matters resulting in the reduction of liabilities associated with prior periods, partially offset by amounts provided for the final settlement of billings related to prior years.

[1] Regulated Utilities - Canadian include the operations of Newfoundland Power, Maritime Electric, FortisOntario (comprised of Canadian Niagara Power and Cornwall Electric), FortisAlberta and FortisBC. On May 31, 2004, Fortis completed the transaction to acquire Aquila, Inc.'s 2 utilities in western Canada (renamed FortisAlberta and FortisBC). Financial results for FortisAlberta and FortisBC are since June 1, 2004 only. FortisBC includes the results of Princeton Light and Power Company, Limited ("PLP"). PLP was acquired by Fortis, through a wholly owned subsidiary, on May 31, 2005 and financial results for PLP are only reported since June 1, 2005.

Year-to-date earnings from Regulated Utilities - Canadian were $67.8 million compared to $32.3 million for the same period last year. The increase in earnings was primarily related to the acquisition of the utilities in western Canada on May 31, 2004, the $7.0 million positive net after-tax adjustment at FortisAlberta, the $1.4 million after-tax interest revenue and the timing of recognition of earnings at Newfoundland Power.

### Newfoundland Power

| Newfoundland Power<br>Financial Highlights (Unaudited)<br>Period Ended June 30th | | | | |
|---|---|---|---|---|
| | Quarter | | Year-to-date | |
| | 2005 | 2004 | 2005 | 2004 |
| **Electricity Sales (GWh)** | 1,240 | 1,222 | 2,940 | 2,887 |
| *($ millions)* | | | | |
| Revenue | 105.7 | 97.3 | 241.1 | 223.5 |
| Energy Supply Costs | 57.5 | 50.9 | 140.6 | 127.7 |
| Operating Expenses | 13.8 | 12.9 | 28.0 | 26.8 |
| Amortization | 9.3 | 9.2 | 19.9 | 18.6 |
| Finance Charges | 7.7 | 7.6 | 15.4 | 15.2 |
| Corporate Taxes | 5.7 | 5.7 | 12.4 | 12.0 |
| Non-controlling Interest | 0.2 | 0.1 | 0.3 | 0.3 |
| **Earnings** | 11.5 | 10.9 | 24.5 | 22.9 |

Newfoundland Power's earnings for the second quarter were $11.5 million compared to $10.9 million for the same quarter last year. The increase in earnings primarily related to a tax settlement with the CRA and increased electricity sales, partially offset by a 0.5 per cent rate reduction, effective January 1, 2005, increased early retirement and pension costs and the change in the purchased power rate structure. Year-to-date earnings were $24.5 million compared to $22.9 million for the same period last year. Year-to-date earnings increased primarily due to the favourable impact of the change in the purchased power rate structure, the impact of the tax settlement and increased electricity sales, partially offset by the 0.5 per cent rate reduction and increased early retirement and pension costs.

During the second quarter, Newfoundland Power entered into an agreement with the CRA that provides for the full settlement of an outstanding tax dispute, on a prospective basis, regarding Newfoundland Power's revenue recognition method. Earnings for the second quarter include an estimated $1.4 million of interest revenue, net of tax, associated with the $6.9 million deposit with the CRA.

Effective January 1, 2005, the introduction of a new rate structure changed the basis upon which Newfoundland and Labrador Hydro ("Newfoundland Hydro") charges Newfoundland Power for purchased power. The new purchased power rate structure resulted from an order by the Newfoundland and Labrador Board of Commissioners of Public Utilities ("PUB") in 2004 and was intended to encourage conservation which, in turn, should lower long-term consumer electricity costs. In 2005, approximately one quarter of annual purchased power costs will be incurred as a fixed charge recognized evenly throughout the year. Previously, purchased power costs varied based on the amount of electricity used by Newfoundland Power's customers.

Earnings for the second quarter were approximately $0.3 million lower than what they would have been under the prior purchased power rate structure. This reduction in earnings was the result of a partial reversal of the $1.2 million increase in earnings for the first quarter of 2005 compared to the same quarter last year, as a result of the change in this rate structure. Earnings in the third and fourth quarters are also expected to demonstrate the seasonality effect of the new purchased power rate structure.

Excluding the impact of the interest associated with the tax settlement and the change in the purchased power rate structure, second quarter and year-to-date earnings decreased $0.5 million and $0.7 million, respectively, compared to the same periods last year. The decrease in earnings was due primarily to a 0.5 per cent decrease in customer electricity rates, effective January 1, 2005, increased costs related to a voluntary Early Retirement Program ("ERP"), higher pension costs and increased amortization costs. The decrease in earnings was partially offset by higher electricity sales and increased revenue from pole rentals.

Electricity sales for the second quarter increased to 1,240 GWh from 1,222 GWh for the same quarter last year. Residential sales increased 1.1 per cent while commercial and street lighting sales increased 2.0 per cent. Year-to-date electricity sales increased to 2,940 GWh from 2,887 GWh for the same period last year. Residential sales increased 1.7 per cent while commercial and street lighting electricity sales increased 1.9 per cent. The increase in residential sales was due primarily to increased usage and the increase in commercial sales was attributable to growth in the service sector of the economy and continued development of the oil industry in the province.

Revenue for the second quarter was $105.7 million compared to $97.3 million for the same quarter last year. Year-to-date revenue was $241.1 million compared to $223.5 million for the same period last year. On July 1, 2004, electricity rates charged to customers increased by 5.4 per cent as a result of the flow through of a 9.3 per cent increase in the rate charged by Newfoundland Hydro for purchased power. As a result of this change, both revenues and purchased power cost increased approximately $5.1 million during the second quarter and $12.3 million year to date, with no overall impact on earnings. Revenue also grew as a result of higher electricity sales, increased revenue from pole rentals and from interest revenue accrued as part of the tax settlement, partially offset by the impact of a 0.5 per cent reduction in customer electricity rates, effective January 1, 2005. This rate reduction resulted from the annual operation of the automatic adjustment formula which reduced Newfoundland Power's rate of return on equity for the purpose of setting rates from 9.75 per cent in 2004 to 9.24 per cent in 2005.

Energy supply costs for the second quarter increased to $57.5 million compared to $50.9 million for the same quarter last year. In addition to the $5.1 million impact of the July 1, 2004 increase in the rate Newfoundland Hydro charges Newfoundland Power, energy supply costs increased $0.9 million due to electricity sales growth and $0.6 million due to the seasonality impact of the revised purchased power rate structure. Year-to-date energy supply costs were $140.6 million compared to $127.7 million for the same period last year. The increase was primarily due to the $12.3 million impact of the increase in the rate charged by Newfoundland Hydro and increased electricity sales, partially offset by the $1.7 million reduction associated with the seasonality impacts of the change to the new purchased power rate structure.

Operating expenses increased $0.9 million over the second quarter last year and $1.2 million over the first half of 2004. The increase was primarily the result of costs associated with the ERP, increased pension costs and normal wage and inflationary increases, partially offset by the continued focus on cost management and control. As approved by the PUB in 2004, the amortization of pension costs and retirement allowances associated with the ERP began April 1, 2005, with $0.6 million being amortized in the second quarter.

Amortization costs were $9.3 million for the second quarter compared to $9.2 million for the same quarter last year. The increase in amortization costs, as a result of growth in capital assets, was partially offset by the impact of timing differences in net margin. Annual amortization of capital assets is allocated over the 4 quarters based on expected net margin. Year-to-date amortization costs were $19.9 million compared to $18.6 million for the same period last year. Year-to-date amortization costs increased as a result of growth in capital assets and the impact of timing differences in net margin.

Effective July 1, 2005, electricity rates charged to customers increased by an average rate of 5.2 per cent. The increase resulted from the normal annual operation of Newfoundland Hydro's Rate Stabilization Plan. Variances in the cost of fuel used by Newfoundland Hydro to generate the electricity it sells to Newfoundland Power are captured and flowed through to customers through the operation of the Rate Stabilization Plan. This increase in customer rates will not have a financial impact on Newfoundland Power.

## Maritime Electric

| Maritime Electric<br>Financial Highlights (Unaudited)<br>Period Ended June 30th | | | | |
|---|---|---|---|---|
| | Quarter | | Year-to-date | |
| | 2005 | 2004 | 2005 | 2004 |
| **Electricity Sales (GWh)** | 241 | 233 | 497 | 489 |
| *($ millions)* | | | | |
| Revenue | 28.3 | 28.2 | 57.6 | 57.7 |
| Energy Supply Costs | 17.0 | 17.5 | 35.1 | 36.1 |
| Operating Expenses | 3.1 | 2.8 | 6.2 | 5.8 |
| Amortization | 2.4 | 2.3 | 4.8 | 4.5 |
| Finance Charges | 2.0 | 2.2 | 4.2 | 4.4 |
| Corporate Taxes | 1.5 | 1.4 | 2.9 | 2.8 |
| **Earnings** | 2.3 | 2.0 | 4.4 | 4.1 |

Maritime Electric's earnings for the second quarter were $2.3 million compared to $2.0 million for the same quarter last year. Year-to-date earnings were $4.4 million compared to $4.1 million for the same period last year.

Electricity sales for the second quarter were 241 GWh, an increase of 3.4 per cent over the same quarter last year. Residential sales were up 2.5 per cent while commercial sales rose 4.2 per cent. Year-to-date electricity sales were 497 GWh, an increase of 1.6 per cent over the same period last year. The increase in residential sales was largely due to an expanding customer base and higher consumption. Commercial sales rose due to increased manufacturing and processing output.

Revenue for the second quarter was $28.3 million, comparable to the same quarter last year. Year-to-date revenue was $57.6 million, comparable to the first half of 2004. Increased revenue from higher electricity sales was offset by increased amortization of recoverable costs against revenue as permitted in the interim Order issued by the Island Regulatory and Appeals Commission ("IRAC") on January 6, 2005. The interim Order allows Maritime Electric to establish an energy cost adjustment mechanism ("ECAM"), with application to the period commencing January 1, 2004, and to commence amortization of the $20.8 million in recoverable costs to December 31, 2003. Recoverable costs of $1.5 million were amortized in 2004, with a further $2.5 million being amortized in 2005.

Energy supply costs for the second quarter were $17.0 million compared to $17.5 million for the same quarter last year. Year-to-date energy supply costs were $35.1 million compared to $36.1 million for the same period last year. The decrease in energy supply costs was a result of the expiration of the Emera contract, the avoidance of the use of expensive on-Island peaking capacity and lower-than-anticipated curtailable energy costs. In the first half of 2005, Maritime Electric purchased the majority of its energy from New Brunswick Power Corporation ("NB Power") through several energy purchase agreements.

As at June 30, 2005, Maritime Electric has spent $24.3 million on the construction of a $35 million 50-megawatt ("MW") generating facility on Prince Edward Island. This facility, which can operate on light oil or natural gas, will address submarine cable loading issues and reduce the Company's reliance on imported electricity. The targeted in-service date is late 2005.

Maritime Electric filed a General Rate Application ("GRA") in April 2004 requesting a 2 per cent increase in base rates, effective July 1, 2005. On June 24, 2005, the IRAC issued its Order with respect to the GRA approving the requested 2 per cent increase with the current interim and transitional ECAM to remain in effect until June 30, 2006.

## FortisOntario

| FortisOntario<br>Financial Highlights (Unaudited)<br>Period Ended June 30th | Quarter | | Year-to-date | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| **Electricity Sales (GWh)** | 272 | 265 | 603 | 633 |
| *($ millions)* | | | | |
| Revenue | 32.0 | 28.6 | 70.2 | 63.0 |
| Energy Supply Costs | 24.9 | 21.8 | 55.5 | 48.5 |
| Operating Expenses | 3.0 | 2.9 | 6.2 | 6.0 |
| Amortization | 1.3 | 1.2 | 2.5 | 2.5 |
| Finance Charges | 1.3 | 1.3 | 2.6 | 2.6 |
| Corporate Taxes | 0.6 | 0.5 | 1.4 | 1.3 |
| **Earnings** | 0.9 | 0.9 | 2.0 | 2.1 |

FortisOntario's earnings for the second quarter were $0.9 million, comparable to the same quarter last year. Year-to-date earnings were $2.0 million, comparable to the same period last year.

Electricity sales for the second quarter were 272 GWh compared to 265 GWh for the same quarter last year. Year-to-date electricity sales were 603 GWh compared to 633 GWh for the first half of 2004. The decrease in electricity sales year-to-date primarily related to lower average customer usage in the first quarter of 2005 compared to the same period last year and the loss of an industrial customer in Cornwall in the second quarter of 2004.

Revenue for the second quarter was $32.0 million, up $3.4 million from $28.6 million for the same quarter last year. The increase in revenue was primarily due to increased electricity sales and the effect of increases in Cornwall Electric rates, effective July 2004. Year-to-date revenue was $70.2 million, up $7.2 million from $63.0 million for the first half of 2004. The decline in year-to-date electricity sales was more than offset by increases in Cornwall Electric rates and the change in the cost of power component billed to Canadian Niagara Power's fixed-price customers, effective April 1, 2004. The cost of power component changed from a fixed price of 4.3 cents per kWh to a two-tier pricing regime of 4.7 cents per kWh for the first 750 kWh and 5.5 cents per kWh for the balance. This change increased both revenue and energy supply costs; however, it did not impact earnings.

On December 9, 2002, the Government of Ontario enacted *Bill 210, the Electricity Pricing, Conservation and Supply Act, 2002,* which implemented a freeze on transmission and distribution rates. FortisOntario expects to file a GRA in September 2005 to set rates effective May 1, 2006.

## FortisAlberta [2]

| FortisAlberta<br>Financial Highlights (Unaudited)<br>Period Ended June 30th | Quarter | | Year-to-date | |
|---|---|---|---|---|
| | 2005 | 2004[2] | 2005 | 2004[2] |
| **Electricity Sales (GWh)** | 3,402 | 1,047 | 7,087 | 1,047 |
| *($ millions)* | | | | |
| Revenue | 75.7 | 17.2 | 134.3 | 17.2 |
| Operating Expenses | 27.9 | 8.0 | 54.8 | 8.0 |
| Amortization | 16.9 | 4.4 | 30.7 | 4.4 |
| Finance Charges | 5.8 | 1.3 | 11.8 | 1.3 |
| Corporate Taxes | 10.4 | 1.1 | 14.4 | 1.1 |
| **Earnings** | 14.7 | 2.4 | 22.6 | 2.4 |

On May 31, 2004, Fortis, through a wholly owned subsidiary, acquired all of the issued and outstanding shares of Aquila Networks Canada (Alberta) Ltd. (renamed "FortisAlberta"). FortisAlberta owns and operates the electricity distribution system in a substantial portion of southern and central Alberta and distributes electricity to approximately 407,000 customers using about 103,000 kilometers of power lines. FortisAlberta is regulated by the Alberta Energy and Utilities Board ("AEUB") under traditional cost of service regulation.

On May 24, 2005, the AEUB approved the Negotiated Settlement Agreement (the "Settlement") dealing with all aspects of FortisAlberta's 2005 Distribution Access Tariff Application. The Settlement, which eliminates the need for a full-scale hearing process, resulted in a 2005 distribution revenue requirement of $215.4 million which translates into a 2.1 per cent increase on base rates for 2005, effective August 1, 2005. The approved revenue requirement reflects forecast operating expenses of $101.0 million and capital expenditures of $134.3 million. The cumulative impact of the 2.1 per cent rate increase from January 1, 2005 through July 31, 2005 will be recovered from customers August 2005 through December 2005 through a distribution adjustment rider. FortisAlberta expects to file for its 2006 customer rates in the fourth quarter of 2005.

In June 2005, FortisAlberta and the City of Airdrie signed a 10-year Electric Distribution Franchise Agreement. This agreement grants FortisAlberta the exclusive right to own, operate and maintain the electric distribution service within the City of Airdrie's rights-of-way.

While the financial results of Fortis include the financial results of FortisAlberta from June 1, 2004 only, certain of FortisAlberta's comparative financial data for the 3 months ended June 30, 2004 is provided below.

FortisAlberta's second quarter and year-to-date earnings were $14.7 million and $22.6 million, respectively. FortisAlberta's results for the second quarter include a $7.0 million positive net after-tax adjustment, associated with the resolution of tax-related matters resulting in the reduction of liabilities associated with prior periods, partially offset by amounts provided for the final settlement of billings related to prior years.

Revenue for the second quarter was favourably impacted by the reduction of liabilities associated with prior periods, the recording of the cumulative impact from January 1, 2005 through June 30, 2005 of the 2.1 per cent electricity rate increase associated with the Settlement and increased electricity sales revenue due to residential and industrial load growth, partially offset by amounts relating to the final settlement of billings related to prior periods. Electricity sales for the second quarter were 3,402 GWh compared to 3,223 GWh for the same quarter last year.

Operating expenses for the second quarter were favourably impacted, primarily due to the shifting of resources to capital projects to satisfy customer demand for new facilities and reduced external consultant costs. Amortization

[2] On May 31, 2004, Fortis completed the transaction to acquire Aquila, Inc.'s 2 utilities in western Canada (renamed FortisAlberta and FortisBC). Financial results for FortisAlberta and FortisBC are since June 1, 2004 only. Comparative figures for 2004 provided in the table are for the month of June 2004 only.

costs increased due to capital asset growth and the recording of the cumulative impact of the Settlement from January 1, 2005 through June 30, 2005 as a result of higher amortization rates.

Finance charges for the second quarter were favourably impacted by lower interest rates due to the repayment of higher cost loans upon close of the acquisition. Concurrent with the Company's purchase by Fortis on May 31, 2004, FortisAlberta borrowed $393 million on a short-term basis from a syndicate of Canadian chartered banks. These funds were used to repay amounts owed to the Company's former parent. The interest rate on the new debt was substantially less than the interest rate paid by FortisAlberta on the debt owed to its former parent. On October 25, 2004, FortisAlberta closed its $400 million public debenture offering equally divided between 5.33 per cent Senior Unsecured Debentures due October 31, 2014 and 6.22 per cent Senior Unsecured Debentures due October 31, 2034. The proceeds from this offering were used to repay FortisAlberta's short-term debt previously noted.

## FortisBC [3]

| FortisBC<br>Financial Highlights (Unaudited)<br>Period Ended June 30th | | | | |
|---|---|---|---|---|
| | Quarter | | Year-to-date | |
| | 2005[4] | 2004[3] | 2005[4] | 2004[3] |
| **Electricity Sales (GWh)** | 642 | 212 | 1,474 | 212 |
| *($ millions)* | | | | |
| Revenue | 44.1 | 12.4 | 99.5 | 12.4 |
| Energy Supply Costs | 12.0 | 3.7 | 30.6 | 3.7 |
| Operating Expenses | 15.9 | 4.5 | 32.0 | 4.5 |
| Amortization | 4.7 | 1.4 | 9.3 | 1.4 |
| Finance Charges | 4.2 | 1.4 | 8.8 | 1.4 |
| Corporate Taxes | 1.9 | 0.6 | 4.5 | 0.6 |
| **Earnings** | 5.4 | 0.8 | 14.3 | 0.8 |

On May 31, 2004, Fortis, through a wholly owned subsidiary, acquired all of the issued and outstanding shares of Aquila Networks Canada (British Columbia) Ltd. (renamed "FortisBC"). FortisBC is an integrated utility operating in the southern interior of British Columbia, serving directly and indirectly over 146,000 customers. FortisBC is regulated by the British Columbia Utilities Commission ("BCUC"). FortisBC's revenue and rates are based on traditional cost of service regulation. However, FortisBC is also subject to a performance-based rate mechanism that is used in establishing annual rate adjustments.

On May 31, 2005, the BCUC issued its decision on FortisBC's 2005 Revenue Requirement application approving a 3.4 per cent rate increase, effective January 1, 2005. This rate replaced the interim rate of 3.7 per cent. Due to the change in rates, approximately $0.25 million was accrued at June 30, 2005 and will be refunded to customers in the third quarter of 2005. The decision also approved a rate of return on equity of 9.43 per cent and the continuation of a common equity ratio of 40 per cent. FortisBC submitted its 2005 Capital Plan in the amount of $121.6 million, of which $117.3 was approved and $4.3 million is subject to further review and approval. FortisBC will file a Revenue Requirement application in fall 2005 to determine customer rates for 2006.

On May 31, 2005, Fortis, through a wholly owned subsidiary, acquired all issued common and preference shares of Princeton Light and Power Company, Limited ("PLP") for $3.7 million. PLP is an electric utility serving approximately 3,200 customers, mainly in Princeton, British Columbia. PLP presently purchases its wholesale power from FortisBC under a long-term contract. The financial results of PLP are included in the FortisBC segmented results and are only reported since June 1, 2005. The impact of PLP on second quarter earnings was negligible.

3 On May 31, 2004, Fortis completed the transaction to acquire Aquila, Inc.'s 2 utilities in western Canada (renamed FortisAlberta and FortisBC). Financial results for FortisAlberta and FortisBC are since June 1, 2004 only. Comparative figures for 2004 provided in the table above are for the month of June 2004 only.

4 On May 31, 2005, Fortis, through a wholly owned subsidiary, acquired PLP. Financial results for PLP are only reported since June 1, 2005.

While the financial results of Fortis include the financial results of FortisBC from June 1, 2004 only, certain of FortisBC's comparative financial data for the 3 months ended June 30, 2004 is provided below.

FortisBC's second quarter and year-to-date earnings were $5.4 million and $14.3 million, respectively. Earnings were favourably impacted by higher electricity revenue and lower finance charges, partially offset by increased operating expenses and amortization costs.

Revenue for the second quarter was favourably impacted primarily due to increased heating loads caused by cooler weather, customer growth attributable to continued population growth in the Okanagan area, the final 3.4 per cent rate increase approved by the BCUC, effective January 1, 2005, and an increase in the amount accrued for unbilled revenue. Electricity sales for the second quarter were 642 GWh compared to 613 GWh for the same quarter last year.

Operating expenses for the second quarter were impacted by increased customer service and system maintenance activities and general inflationary increases, partially offset by a refund relating to a BC capital tax appeal. Amortization costs increased mainly due to growth in the capital asset base.

Finance charges for the second quarter were favourably impacted by lower interest rates and increased capitalized interest associated with large capital projects, despite increased borrowings in the first half of 2005 to finance FortisBC's significant capital expenditure program. The lower interest rates were due to lower cost public debt. In late 2004, FortisBC issued $140 million of public debentures at an interest rate of 5.48 per cent. This debt primarily replaced debt owed to the previous shareholder, which bore interest at a significantly higher rate.

## REGULATED UTILITIES - CARIBBEAN [5]

| Regulated Utilities – Caribbean<br>Financial Highlights (Unaudited)<br>Period Ended June 30th | | | | |
|---|---|---|---|---|
| | Quarter | | Year-to-date | |
| | 2005 | 2004 | 2005 | 2004 |
| Average US Exchange Rate | 1.24 | 1.36 | 1.24 | 1.34 |
| *($ millions)* | | | | |
| Belize Electricity | 1.9 | 2.4 | 2.8 | 3.5 |
| Caribbean Utilities – Equity Income | 3.1 | 2.2 | 5.6 | 4.1 |
| **Earnings** | 5.0 | 4.6 | 8.4 | 7.6 |

Regulated Utilities - Caribbean earnings were $5.0 million for the second quarter compared to $4.6 million for the same quarter last year. The increase was primarily due to a $1.1 million positive adjustment related to a change in Caribbean Utilities' accounting practice for recognizing unbilled revenue. The increase was partially offset by decreased earnings at Belize Electricity primarily due to a decrease in other revenue and increased operating expenses. Regulated Utilities - Caribbean earnings were $8.4 million year to date compared to $7.6 million for the same period last year. In addition to the $1.1 million adjustment at Caribbean Utilities, year-to-date earnings increased due to the recovery in the first quarter of fuel costs that were expensed following Hurricane Ivan, partially offset by increased amortization and finance charges at Belize Electricity. Both the earnings from Belize Electricity and Caribbean Utilities were also impacted by the depreciation of the US dollar relative to the Canadian dollar compared to the same periods last year.

[5] Regulated Utilities in the Caribbean include the operations of Belize Electricity and the Corporation's 37.3 per cent equity investment in Caribbean Utilities Company, Ltd.

## Belize Electricity

| Belize Electricity<br>Financial Highlights (Unaudited)<br>Period Ended June 30th | | | | |
|---|---|---|---|---|
| | Quarter | | Year-to-date | |
| | 2005 | 2004 | 2005 | 2004 |
| **Electricity Sales (GWh)** | 92 | 85 | 168 | 157 |
| *($ millions)* | | | | |
| Revenue | 18.7 | 19.9 | 34.1 | 35.9 |
| Energy Supply Costs | 10.0 | 10.2 | 18.1 | 18.5 |
| Operating Expenses | 2.9 | 3.0 | 5.7 | 6.0 |
| Amortization | 1.6 | 1.7 | 3.3 | 3.3 |
| Finance Charges | 1.4 | 1.4 | 2.8 | 2.8 |
| Foreign Exchange Gain | (0.2) | (0.1) | (0.4) | (0.3) |
| Corporate Taxes and Non-controlling Interest | 1.1 | 1.3 | 1.8 | 2.1 |
| **Earnings** | 1.9 | 2.4 | 2.8 | 3.5 |

Belize Electricity's earnings for the second quarter were $1.9 million (BZ$3.0 million) compared to $2.4 million (BZ$3.4 million) for the same quarter last year. The decrease in earnings was primarily due to a decrease in other revenue and increased operating expenses, partially offset by the increase in the foreign exchange gain recognized on Belize Electricity's euro-denominated debt. Year-to-date earnings were $2.8 million (BZ$4.5 million) compared to $3.5 million (BZ$5.1 million) for the same period last year. The decrease in earnings was primarily related to increased amortization costs and finance charges. Second quarter and year-to-date earnings also decreased due to the impact of the depreciation of the US dollar relative to the Canadian dollar compared to the same periods last year.

Electricity sales for the second quarter were 92 GWh, 8.2 per cent higher than the same quarter last year. Year-to-date electricity sales were 168 GWh, 7.0 per cent higher than the first half of 2004. The increased electricity sales in both the residential and commercial segments were driven by economic growth.

Revenue for the second quarter was $18.7 million (BZ$30.0 million) compared to $19.9 million (BZ$29.1 million) for the same quarter last year. Excluding foreign exchange impacts, revenue increased 3.1 per cent compared to the same period last year. The increase was due to higher electricity sales, partially offset by a final reduction in electricity rates of BZ$0.01 per kWh, implemented in July 2004, and a decrease in other revenue. Year-to-date revenue was $34.1 million (BZ$55.1 million) compared to $35.9 million (BZ$53.3 million). Excluding foreign exchange impacts, revenue increased 3.4 per cent compared to the first half of 2004. The increase was due to higher electricity sales, partially offset by the final reduction of rates. Rates have been reduced by BZ$0.05 per kWh, equal to the commitment provided by Fortis when it acquired Belize Electricity in October 1999.

Energy supply costs for the second quarter were $10.0 million (BZ$16.1 million) compared to $10.2 million (BZ$14.9 million) for the same quarter last year. Year-to-date energy supply costs were $18.1 million (BZ$29.3 million) compared to $18.5 million (BZ$27.5 million) for the first half of 2004. Excluding foreign exchange impacts, the increase in energy supply costs was associated with higher electricity sales.

Operating expenses for the second quarter were $2.9 million (BZ$4.6 million) compared to $3.0 million (BZ$4.3 million) for the same quarter last year. Year-to-date operating expenses were $5.7 million (BZ$9.1 million) compared to $6.0 million (BZ$8.9 million) for the first half of 2004. Excluding foreign exchange impacts, operating expenses increased in the second quarter compared to the same quarter last year, primarily due to higher planned salary costs. Year to date, this increase was partially offset by the impact of management's focus on cost control and the timing of expenses in the first quarter of 2005.

Amortization costs and finance charges for the second quarter increased BZ$0.2 million and BZ$0.1 million, respectively. Year to date, amortization costs and finance charges each increased BZ$0.4 million. The increase in amortization costs and finance charges was directly related to continued investments in Belize Electricity's capital program. Additionally, short-term debt levels increased in the second quarter to help meet operational needs.

Belize Electricity is regulated by the Public Utilities Commission ("PUC") and electricity rates in Belize are comprised of 2 components. The first, Value Added Delivery, (''VAD''), is subject to price cap and the second is the cost of fuel and purchased power, including the variable cost of generation, which is a flow through in customer rates. Belize Electricity filed its first full Tariff Application on March 2, 2005 to establish a new 4-year VAD tariff setting arrangement. On April 18, 2005, the PUC delivered its initial Decision on the Tariff Application with respect to approval of regulated values, tariffs and other fees for the tariff period July 1, 2005 through June 30, 2009.

Belize Electricity's Tariff Application proposed an increase in rates of approximately 14 per cent, inclusive of recovery of its rate stabilization account, resulting in an increase in rates in the first year of the tariff period from BZ$0.349 per kWh to BZ$0.40 per kWh. In its initial Decision, the PUC approved an increase of 8.6 per cent resulting in rates of BZ$0.379 per kWh. Belize Electricity filed a written objection on the initial Decision, which resulted in the appointment by the PUC of an independent consultant to review the initial Decision. On July 14, 2005 the PUC delivered its final Decision approving an increase in rates of 11 per cent, inclusive of recovery of the rate stabilization account balance, as at June 30, 2005, to BZ$0.39 per kWh. The increase is effective July 1, 2005 and applies to the first 3 years of the 4-year tariff period. In the fourth year, the rate decreases to BZ$0.377 per kWh.

## Caribbean Utilities

| Caribbean Utilities<br>Financial Highlights (Unaudited)<br>Period Ended June 30th | | | | |
|---|---|---|---|---|
| | Quarter | | Year-to-date | |
| *($ millions)* | 2005 | 2004 | 2005 | 2004 |
| **Equity Income** | 3.1 | 2.2 | 5.6 | 4.1 |

Fortis accounts for its 37.3 per cent interest in Caribbean Utilities on an equity basis. Equity earnings are recorded on a lag basis and, therefore, the quarterly earnings noted above represent the Corporation's share of Caribbean Utilities' earnings for its fourth quarters ended April 30, 2005 and April 30, 2004.

This quarter was Caribbean Utilities' second quarter post-Hurricane Ivan. Caribbean Utilities and the Cayman Islands are continuing to recover from the impact of Hurricane Ivan. Approximately 95 MW, or 77 per cent of pre-Ivan capacity, have been recovered as of June 2005, with an additional 5.7 MW expected to be recovered shortly and an additional 16.8 MW to be recovered by December 15, 2005. The addition of an 8.4-MW gas turbine unit has also been contracted for standby purposes. These combined efforts will return total capacity to 120 MW by summer 2006 compared to 123 MW pre-Ivan.

Equity income for the second quarter was $3.1 million compared to $2.2 million for the same quarter last year. The increase was primarily due to a $1.1 million positive adjustment related to a change in Caribbean Utilities' accounting practice for recognizing unbilled revenue, partially offset by the impact of the depreciation of the US dollar relative to the Canadian dollar compared to the same quarter last year. While Caribbean Utilities recorded a positive US$2.5 million (CDN $3.0 million) retroactive adjustment to its April 30, 2004 retained earnings, Fortis recorded its 37.3 per cent share, or $1.1 million, in 2005 second quarter earnings. Excluding the $1.1 million adjustment and foreign exchange impact, equity earnings increased slightly over the same quarter last year, primarily due to the reduction of Hurricane Ivan loss estimates recorded by Caribbean Utilities in its fourth quarter.

Year to date, equity income was $5.6 million compared to $4.1 million for the same period last year. In addition to the factors described for the second quarter, equity income also increased due to the recovery in the first quarter of 2005 of fuel costs that were expensed following Hurricane Ivan.

The economy of Grand Cayman continues to show moderate but steady improvement post Hurricane Ivan. Although Caribbean Utilities has business interruption insurance, with a 24-month indemnity period, the Company's recovery is intrinsically tied to the recovery of the Grand Cayman economy.

Caribbean Utilities has made a claim for its business interruption loss. Typically, the ultimate recovery under a business interruption policy is judgmental and subject to negotiations between the insured and the insurance company. Caribbean Utilities filed a US$3.6 million claim for business interruption loss for its fourth quarter for a total claim of US$8.1 million for fiscal 2005. The business interruption calculation methodology has now been agreed with the insurance adjustors that will facilitate the monthly calculation of the business interruption claims.

Caribbean Utilities submitted a proposal to the Cayman Islands Government ("Government") in July 2002 to extend its current License and replace the 15 per cent return on rate base mechanism for adjusting customer rates with a price cap mechanism. The non-binding tentative agreement signed by Caribbean Utilities and the Government in June 2004 expired following Hurricane Ivan. The Government recently enacted the *Electricity Regulatory Authority Bill* (the "*ERA Bill*") which purports to establish a new regulatory and licensing regime for the electricity industry in the Cayman Islands. The Company is currently assessing the *ERA Bill* to determine its potential impact on Caribbean Utilities' contractual rights under its existing Licence with the Government. The current Licence is still in effect and is scheduled to expire in January 2011. The Government, the Electrical Regulatory Authority and Caribbean Utilities have agreed to recommence discussions in a couple of months regarding any new licence or licences that may be granted to Caribbean Utilities.

Upon submitting its Final Return for its 2005 fiscal year end to Government on July 21, 2005, Caribbean Utilities determined that, under its current License, it is permitted a rate increase of 9.5 per cent, effective August 1, 2005, as a result of substantial costs incurred from Hurricane Ivan. As such an increase would not be in the best interest of Grand Cayman and its residents, the Government and Caribbean Utilities have agreed on a Cost Recovery Surcharge ("CRS") of 0.749 cents per kWh for each kWh of electricity consumed by the customer. This represents an increase in base rates of 4.68 per cent, less than half of the 9.5 per cent permitted under the Licence. The CRS is effective for August 2005 billings for a period of approximately 3 years. It has also been agreed with the Government that there will be a freeze on basic billing rates during this 3-year period and no retroactive increases in billing rates is permitted after the CRS has been fully recovered. Caribbean Utilities has uninsured hurricane losses of US$14.0 million. After discussions with Government, Caribbean Utilities agreed to absorb a further US$0.5 million of these losses leaving US$13.5 million to be recovered through the CRS. In total, Caribbean Utilities has agreed to absorb US$3.6 million of additional costs associated with Hurricane Ivan which will not be recovered from customer rates.

## NON-REGULATED – FORTIS GENERATION [6]

| Non-Regulated - Fortis Generation Financial Highlights (Unaudited) Period Ended June 30th | | | | |
|---|---|---|---|---|
| | Quarter | | Year-to-date | |
| **Energy Sales (GWh)** | **2005** | **2004** | **2005** | **2004** |
| Central Newfoundland | 48 | 41 | 83 | 60 |
| Ontario | 176 | 177 | 360 | 363 |
| Belize | 7 | 11 | 14 | 26 |
| British Columbia (6) | 11 | 6 | 16 | 6 |
| Upper New York State | 16 | 22 | 33 | 37 |
| **Total** | 258 | 257 | 506 | 492 |
| | | | | |
| | Quarter | | Year-to-date | |
| *($ millions)* | **2005** | **2004** | **2005** | **2004** |
| Revenue | 19.2 | 17.0 | 36.2 | 33.7 |
| Energy Supply Costs | 1.8 | 1.2 | 3.6 | 2.8 |
| Operating Expenses | 4.4 | 3.8 | 9.3 | 8.0 |
| Amortization | 2.5 | 2.5 | 5.1 | 5.0 |
| Finance Charges | 4.0 | 3.8 | 7.9 | 7.6 |
| Gain on settlement of contractual matters | - | - | (10.0) | - |
| Corporate Taxes | 2.4 | 2.1 | 5.9 | 4.0 |
| Non-controlling Interest | 0.9 | 0.4 | 1.2 | 0.2 |
| **Earnings** | 3.2 | 3.2 | 13.2 | 6.1 |

Earnings from the Non-regulated - Fortis Generation segment were $3.2 million for the second quarter, comparable to the same quarter last year. Year-to-date earnings were $13.2 million compared to $6.1 million for the first half of 2004. The increase in earnings was primarily due to a $7.9 million after-tax gain resulting from the settlement of contractual matters between FortisOntario and OPGI. Excluding this after-tax gain, earnings year to date were $5.3 million compared to $6.1 million for the first half of 2004. The decrease in earnings was primarily associated with lower production in Belize, as a result of lower rainfall levels, partially offset by the impact of higher wholesale energy prices in Ontario and higher production in central Newfoundland.

Generation revenue for the second quarter was $19.2 million compared to $17.0 million for the same quarter last year. Generation revenue increased primarily due to higher wholesale energy prices in Ontario. For the second quarter, the average wholesale energy price in Ontario was $60.24 per megawatt hour ("MWh") compared to $46.89 per MWh hour for the same quarter last year. Year-to-date generation revenue was $36.2 million compared to $33.7 million for the first half of 2004. The increase was primarily due to increased production in central Newfoundland and higher wholesale energy prices in Ontario, partially offset by lower hydroelectric production in Belize due to lower rainfall levels.

Operating expenses for the second quarter were $4.4 million compared to $3.8 million for the same quarter last year. Year-to-date operating expenses were $9.3 million compared to $8.0 million for the first half of 2004. The increase was primarily related to an increase in water right fees and business development costs in Ontario.

The Chalillo dam was substantially completed during the quarter and became operational on July 12, 2005. The 7-MW generating unit at the dam is scheduled for completion by the end of 2005. The US$30 million development is an upstream storage and hydroelectric generating facility that is expected to increase average annual energy production from the Macal River by approximately 90 GWh.

[6] Fortis Generation includes the operations of non-regulated generating assets in central Newfoundland, Ontario, British Columbia, Belize and Upper New York State. The British Columbia energy sales represent energy sales from the 16-MW run-of-river Walden hydroelectric power plant, which was acquired on May 31, 2004 as part of FortisBC.

Operations in Upper New York State include the operations of the Dolgeville unit, which went out of service late January 2005 as a result of flooding. The Dolgeville unit is expected to be operational late 2005 and business interruption insurance is expected to mitigate revenue lost during the period of non-operation.

## NON-REGULATED - FORTIS PROPERTIES

| Non-Regulated - Fortis Properties<br>Financial Highlights (Unaudited)<br>Period Ended June 30th | | | | |
|---|---|---|---|---|
| | Quarter | | Year-to-date | |
| *($ millions)* | **2005** | **2004** | **2005** | **2004** |
| Real Estate Revenue | 13.3 | 13.3 | 26.5 | 26.3 |
| Hospitality Revenue | 27.5 | 21.4 | 47.3 | 38.6 |
| **Total Revenue** | 40.8 | 34.7 | 73.8 | 64.9 |
| Operating Expenses | 25.2 | 21.5 | 48.1 | 42.8 |
| Amortization | 2.8 | 2.3 | 5.3 | 4.7 |
| Finance Charges | 4.7 | 4.7 | 9.6 | 9.3 |
| Corporate Taxes | 3.3 | 2.5 | 4.4 | 3.4 |
| **Earnings** | 4.8 | 3.7 | 6.4 | 4.7 |

Fortis Properties' earnings for the second quarter were $4.8 million compared to $3.7 million for the same quarter last year. Year-to-date earnings were $6.4 million compared to $4.7 million for the same period last year. Higher earnings from operations, including contributions from the 3 hotels acquired in western Canada in February 2005 and the expanded Delta St. John's Hotel operations, primarily contributed to the increase. The $15 million expansion to the Delta St. John's Hotel was completed June 1, 2005, 1 month ahead of schedule, and resulted in the addition of 128 rooms and approximately 5,000 square feet of meeting space.

Real estate revenue for the second quarter was $13.3 million, comparable to the same quarter last year. Year-to-date real estate revenue was $26.5 million compared to $26.3 million for the first half of 2004. The occupancy level in the Real Estate Division was 95.3 per cent at June 30, 2005 compared to 95.1 per cent at June 30, 2004.

Hospitality revenue for the second quarter was $27.5 million, up $6.1 million from $21.4 million for the same quarter last year. Year-to-date hospitality revenue was $47.3 million, up $8.7 million from $38.6 million for the first half of 2004. Revenue per available room ("REVPAR") for the second quarter was $76.58 compared to $75.36 for the same quarter last year. The 1.6 per cent increase in REVPAR was attributable to increases in both average room rate and occupancy level compared to the same quarter last year.

The increase in revenue, operating expenses and amortization for the quarter and year to date was primarily due to the 3 hotels acquired in February 2005 and the expanded operations of the Delta Hotel St. John's.

Fortis Properties has commenced a $7.0 million expansion of the Holiday Inn Sarnia, which is scheduled for completion in the first half of 2006. In July 2005, Fortis Properties received approval from the Greater Moncton Planning Commission for a $7.1 million, 55,000 leaseable square foot expansion to the Blue Cross Centre in Moncton. Approximately half of the proposed expansion space is pre-leased. Fortis Properties is also planning an estimated $2.5 million expansion to the catering and conference facilities at the Holiday Inn Kitchener, which will increase rentable banquet and catering space from 7,800 square feet to 13,300 square feet.

## CORPORATE

| Corporate<br>Financial Highlights (Unaudited)<br>Period Ended June 30th | | | | |
|---|---|---|---|---|
| | Quarter | | Year-to-date | |
| *($ millions)* | **2005** | **2004** | **2005** | **2004** |
| **Total Revenue** | 2.6 | 2.4 | 5.2 | 4.4 |
| Operating Expenses | 3.1 | 1.7 | 5.3 | 3.9 |
| Amortization | 0.7 | 0.2 | 1.4 | 0.4 |
| Finance Charges | 5.6 | 3.9 | 11.6 | 6.3 |
| Foreign Exchange Loss | 1.2 | - | 1.8 | - |
| Corporate Taxes | (2.4) | (1.1) | (4.7) | (4.0) |
| Preference Share Dividends | 4.1 | 2.3 | 8.3 | 4.4 |
| Non-controlling Interest | (0.1) | - | (0.1) | (0.1) |
| **Net Corporate Expenses** | (9.6) | (4.6) | (18.4) | (6.5) |

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

Net corporate expenses for the second quarter totaled $9.6 million, $5.0 million higher than the same quarter last year. Year-to-date net corporate expenses totaled $18.4 million, $11.9 million higher compared to the first half of 2004. The increase primarily related to higher operating expenses, financing charges, including amortization of deferred acquisition financing costs, foreign exchange loss and preference share dividends. Operating expenses increased partly due to increased salary expense and certain non-recurring acquisition expenses. The increased financing charges related to the purchase of FortisAlberta and FortisBC on May 31, 2004. On January 29, 2004, Fortis issued 4.9 per cent First Preference Units which were subsequently converted to 4.9 per cent Series E First Preference Shares in the last half of 2004. On October 28, 2004, Fortis issued US$150 million 10-year 5.74 per cent Senior Unsecured Notes due October 31, 2014. During the second quarter, Fortis also recorded a $1.0 million after-tax unrealized foreign exchange loss ($1.5 million year to date) related to foreign currency exchange rate fluctuations associated with US$75 million of the Corporation's US-denominated long-term debt.

Year-to-date net corporate expenses for 2004 were also positively impacted as Fortis recorded a $1.8 million corporate income tax recovery related to the tax benefit associated with non-capital losses.

## CONSOLIDATED FINANCIAL POSITION

The following table outlines the significant changes in the consolidated balance sheets between June 30, 2005 and December 31, 2004.

| Balance Sheet Item | Increase (Decrease) *($millions)* | Explanation |
|---|---|---|
| Cash and cash equivalents | (10.4) | The decrease primarily related to the repayment of the $22.5 million term loan by FortisOntario offset by the $10 million (pre-tax) OPGI settlement. |
| Accounts receivable | 13.8 | The increase primarily related to timing of refunds to customers at FortisAlberta, an increase at Newfoundland Power related to interest receivable on the tax settlement with CRA and normal seasonal sales variances across the subsidiaries. |
| Future income tax assets (long-term) | 51.8 | The increase primarily related to the recognition of future income taxes as a result of the change in the regulatory tax methodology at FortisAlberta. |
| Utility capital assets | 105.3 | The increase related to $189.2 million invested in electricity systems less contributions and amortization for the 6-month period. |
| Income producing properties | 69.3 | On February 1, 2005, Fortis Properties acquired 3 hotels located in western Canada for $62.6 million. The remaining increase primarily related to the expansion of the Delta St. John's Hotel. |
| Short-term borrowings | (54.7) | The decrease primarily related to the repayment of short-term borrowings at the Corporate level with proceeds from the common share issuance and replacement of short-term facilities at FortisBC with long-term committed facilities, partially offset by higher short-term borrowings at Newfoundland Power, FortisAlberta, Maritime Electric and Belize Electricity primarily to fund utility capital expenditure programs. |
| Accounts payable and accrued charges | (18.1) | The decrease primarily related to the normal seasonal reduction of purchased power costs at Newfoundland Power as well as the timing of purchased power payments at Belize Electricity. |
| Other regulatory liabilities | 38.9 | The increase primarily consisted of a regulatory liability associated with the future income tax asset increase at FortisAlberta partially offset by a decrease of regulatory liabilities relating to prior periods and a decrease in deferrals relating to Alberta Electrical System Operator contributions, distribution riders and interchange and transmission costs. |
| Long-term debt (including current portion) | 73.0 | In March 2005, Fortis Properties completed a 5.1 per cent 5-year $29.6 million financing of the Edmonton and Calgary Greenwood Inns acquired in February 2005. In April 2005, Fortis Properties completed a 5.35 percent 5-year $12.3 million financing of the Winnipeg Greenwood Inn that was also acquired in February 2005.<br><br>FortisBC and FortisAlberta drew down $44.8 million and $10.0 million, respectively, under long-term committed facilities associated with the interim financing of each subsidiary's respective capital programs. These borrowing facilities have a 3-year term and will mature in May 2008. These borrowings will likely be replaced with long-term permanent financing in future periods. |

| Balance Sheet Item | Increase (Decrease) *($millions)* | Explanation |
|---|---|---|
| Long-term debt (including current portion) cont'd | | Belize Electricity and the Exploits Partnership also drew down approximately $1.1 million and $0.1 million, respectively, on their existing facilities.<br><br>Also contributing to the increase was $4.0 million in debt assumed on the acquisition of PLP on May 31, 2005 and the impact of the translation of the Corporation's US-denominated debt at a higher foreign exchange rate at June 30, 2005 compared to December 31, 2004.<br><br>These increases were partially offset by regular debt repayments during the 6-month period. Additionally, during the second quarter, FortisOntario repaid its $22.5 million term loan due in 2007. |
| Shareholders' equity | 182.5 | The increase primarily related to the issuance of 1.74 million common shares of the Corporation in the first quarter which resulted in gross proceeds of $129.9 million. The remainder of the increase primarily related to the net earnings reported for the 6-month period less common share dividends. |

## LIQUIDITY AND CAPITAL RESOURCES

The following table outlines the summary of cash flow.

| Fortis Inc.<br>Summary of Cash Flow (Unaudited)<br>Period Ended June 30th | | | | |
|---|---|---|---|---|
| | Quarter | | Year-to-date | |
| *($ millions)* | 2005 | 2004 | 2005 | 2004 |
| **Cash, beginning of period** | 64.2 | 44.8 | 37.2 | 65.1 |
| **Cash provided by (used in)** | | | | |
| Operating activities | 49.9 | 48.2 | 129.2 | 70.1 |
| Investing activities | (97.7) | (800.8) | (246.9) | (828.8) |
| Financing activities | 10.4 | 758.2 | 107.2 | 743.7 |
| Foreign currency impact on cash balances | - | 0.7 | 0.1 | 1.0 |
| **Cash, end of period** | 26.8 | 51.1 | 26.8 | 51.1 |

*Operating Activities:* Cash flow from operations, after working capital adjustments, was $49.9 million for the second quarter, up $1.7 million from $48.2 million for the same quarter last year. The increase primarily related to operating cash flows contributed from FortisAlberta and FortisBC and favourable working capital changes at Maritime Electric and Fortis Properties, partially offset by the impact of the timing of purchase power payments and recovery of fuel costs at Belize Electricity and the impact of higher corporate finance charges associated with the acquisition of FortisAlberta and FortisBC compared to the same quarter last year.

Year-to-date cash flow from operations, after working capital adjustments, was $129.2 million, up $59.1 million from $70.1 million for the same period last year. Operating cash flows from FortisAlberta and FortisBC contributed $51.3 million to this increase. Year-to-date operating cash flows also increased primarily due the gain on the OPGI settlement, favourable working capital changes at Maritime Electric and Fortis Properties, the impact of increased wholesale energy prices in Ontario and higher hydroelectric production in central Newfoundland. These increases were partially mitigated by the impact of the timing of purchase power payments and recovery of fuel costs at Belize Electricity, reduced hydroelectric production resulting from lower rainfall in Belize, the timing of payments at Newfoundland Power and the impact of higher corporate finance charges associated with the acquisition of FortisAlberta and FortisBC.

*Investing Activities:* Cash used in investing activities was $97.7 million, down $703.1 million from the second quarter last year. Year to date, cash used in investing activities was $246.9 million, down $581.9 million from the same period last year. The decrease was primarily due to a decrease in cash used in business acquisitions, partially offset by increased utility and income producing capital expenditures.

During the second quarter of 2004, Fortis acquired FortisAlberta and FortisBC and purchased the remaining 5 per cent interest in BECOL. During the second quarter of 2005, Fortis, through a wholly owned subsidiary, acquired all issued common and preference shares of PLP for a purchase price of $3.7 million, paid by $3.3 million in cash and $0.4 million in common shares of Fortis.

Utility capital expenditures were $97.8 million compared to $45.3 million for the same quarter last year. Year to date, utility capital expenditures were $189.2 million compared to $72.0 million for the same period last year. The increase in utility capital expenditures primarily related to capital spending at FortisAlberta and FortisBC. In addition, Maritime Electric is currently constructing a new $35 million 50-MW generating facility on Prince Edward Island and construction was substantially completed on the US$30 million Chalillo Project in Belize in the second quarter of 2005.

Capital expenditures associated with income producing properties were $6.8 million compared to $5.8 million for the same quarter last year. Year-to-date capital expenditures were $74.2 million compared to $7.1 million for the same period last year. The increase primarily related to the acquisition of 3 hotels in western Canada for $62.6 million in February 2005 and the completion of the $15 million expansion of the Delta St. John's Hotel in June 2005.

During the second quarter, approximately $11.8 million was received in contributions in aid of construction compared to $1.1 million for the same quarter last year. Year-to-date contributions in aid of construction were $22.7 million compared to $1.9 million for the same period last year. The increase primarily related to contributions associated with capital programs of FortisAlberta and FortisBC.

*Financing Activities:* Cash provided from financing activities in the second quarter was $10.4 million compared to $758.2 million for the second quarter last year. Year to date, cash provided from financing activities was $107.2 million compared to $743.7 million for the first half of 2004. The cash from financing activities for the first half of 2004 primarily related to the financing of the acquisition of FortisAlberta and FortisBC, net of regular repayment of long-term debt and payment of common share dividends.

During the second quarter, FortisBC and FortisAlberta drew down $44.8 million and $10.0 million, respectively, under long-term committed facilities associated with the interim financing of each subsidiary's respective capital programs. These borrowing facilities have a 3-year term and mature in May 2008. These borrowings will likely be replaced with long-term permanent financing in future periods. Belize Electricity drew down approximately $0.4 million on its existing facilities with $1.1 million drawn year to date. In April 2005, Fortis Properties completed a 5.35 per cent 5-year $12.3 million loan related to the February 1, 2005 acquisition of the Winnipeg Greenwood Inn. This loan was in addition to the 5.1 per cent 5-year $29.6 million loan related to the financing of the Edmonton and Calgary Greenwood Inns completed in the first quarter. FortisOntario also repaid its $22.5 million term loan in the second quarter.

Year to date, cash provided from financing activities included the issuance of 1.74 million common shares of the Corporation, which resulted in net proceeds of $123.9 million. The remaining financing activities primarily related to change in short-term borrowings and regular repayment of long-term debt and payment of common share dividends.

*Contractual Obligations:* The consolidated contractual obligations over the next 5 years and for periods thereafter are outlined in the following table.

**Fortis Inc.**
**Contractual Obligations (Unaudited)**
**as at June 30th, 2005**

| *($ millions)* | **Total** | **< 1 year** | **1-3 years** | **4-5 years** | **> 5 years** |
|---|---|---|---|---|---|
| Long-term Debt | **1,983.1** | 30.6 | 148.1 | 124.0 | 1,680.4 |
| Capital Lease Obligations | **4.6** | 1.4 | 2.3 | 0.9 | - |
| Power Purchase Obligations | | | | | |
| FortisBC (1) | **2,958.5** | 31.0 | 100.5 | 53.0 | 2,774.0 |
| FortisOntario (2) | **355.6** | 21.5 | 64.5 | 45.9 | 223.7 |
| Maritime Electric (3) | **13.8** | 12.2 | 1.6 | - | - |
| Capital Cost (4) | **206.0** | 15.7 | 43.3 | 25.4 | 121.6 |
| Brilliant Terminal Station ("BTS") (5) | **67.6** | 2.3 | 7.1 | 4.7 | 53.5 |
| Joint-use Asset Agreements (6) | **48.8** | 3.7 | 6.7 | 6.0 | 32.4 |
| Operating Lease Obligations (7) | **35.7** | 6.6 | 13.8 | 10.5 | 4.8 |
| Office Lease – FortisBC (8) | **22.2** | 0.9 | 3.1 | 2.4 | 15.8 |
| Other | **1.9** | 0.6 | 0.1 | 0.1 | 1.1 |
| **Total** | **5,697.8** | **126.5** | **391.1** | **272.9** | **4,907.3** |

(1) Power purchase obligations of FortisBC include the Brilliant Power Purchase Contract as well as Firm Power Purchase Contracts. On May 3, 1996, an Order was granted by the BCUC approving a 60-year power purchase contract for the output of the Brilliant hydroelectric plant located near Castlegar, BC. The Brilliant plant is owned by the Brilliant Power Corporation ("BPC"), a corporation owned as to 50 per cent 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. In addition, FortisBC has a long-term minimum-payment firm power purchase contract with BC Hydro. This contract includes a take-or-pay provision based on a 5-year rolling nomination of capacity requirements.

(2) Power purchases for FortisOntario primarily include a long-term contract with Hydro Quebec Energy Marketing for the supply of electricity and capacity. The contract provides approximately 237 GWh of energy per year and up to 45 MW of capacity at any one time. The contract, which expires December 31, 2019, provides approximately one-third of Cornwall Electric's load.

(3) Maritime Electric has one take-or-pay contract for the purchase of either capacity or energy. The obligation is subjected to force majeure provisions that impact the ability of the supplier to deliver or Maritime Electric to receive the energy contracted. This contract totals approximately $20 million through October 2006.

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

(5) On July 15, 2003, the utility in B.C. began leasing the use of the BTS under a 30-year lease. The lease provides that FortisBC will pay the Brilliant Joint Venture a charge related to the recovery of the capital cost of the BTS and related operating costs.

(6) FortisAlberta and an Alberta transmission provider have entered into a number of service agreements to ensure operational efficiencies are maintained through coordinated operations. The agreements have minimum expiry terms of 20 years and are subject to extension based on mutually agreeable terms.

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

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

## CAPITAL RESOURCES

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

| **Capital Structure** | **June 30, 2005** | | December 31, 2004 | |
|---|---|---|---|---|
| | **($ millions)** | **(%)** | ($ millions) | (%) |
| Total Debt (net of cash) | **2,099.1** | **58.3** | 2,070.3 | 61.1 |
| Equity Preference Shares | **319.5** | **8.9** | 319.5 | 9.4 |
| Shareholders' Equity | **1,182.6** | **32.8** | 1,000.1 | 29.5 |
| Total | **3,601.2** | **100.0** | 3,389.9 | 100.0 |

The improvement in the Corporation's capital structure is primarily the result of the issuance of 1.7 million common shares of the Corporation for net after-tax proceeds of $126.1 million. The proceeds were used to repay outstanding short-term indebtedness and for general corporate purposes, including capital expenditures. The Corporation also reported net earnings less common share dividends of $48.1 million for the first half of 2005.

As at June 30, 2005, the Corporation's credit ratings were as follows:

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

In December 2004, S&P confirmed its corporate credit rating on the Corporation at BBB(+). S&P is maintaining a negative outlook on Fortis reflecting the Corporation's financial profile combined with execution risks associated with a large capital expenditure program. In January 2005, DBRS confirmed the rating on the Corporation's bonds at BBB (high). Fortis will continue to update both S&P and DBRS on the progress of the integration of FortisAlberta and FortisBC.

*Capital Program:* The Corporation's principal business of regulated electric utilities is capital intensive. Utility capital expenditures for 2005 are expected to be approximately $400 million of which $189.2 million has been incurred year to date.

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

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

As outlined in Note 9 to the Fortis Inc. consolidated audited financial statements for the year ended December 31, 2004, Belize Electricity remains non-compliant with its debt service coverage ratio related to its BZ$11.8 million loan with the International Bank for Reconstruction and Development ("IBRD"). The IBRD has acknowledged this non-compliance and has encouraged the Company to continue to improve its debt service ratio. Fortis does not expect any change in the regular debt repayment schedule relating to this loan.

The Walden Power Partnership ("WPP") was not in compliance with its debt service ratio of 1.2 times as required by the loan covenant related to a $6.4 million mortgage. 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 mortgage.

The Corporation and its subsidiaries had consolidated authorized lines of credit of $747.1 million of which $478.9 million was unused at June 30, 2005. The following summary outlines the Corporation's credit facilities by reporting segments.

| **Credit Facilities** *($ millions)* | Corporate | Regulated Utilities | Fortis Generation | Fortis Properties | Total |
|---|---|---|---|---|---|
| Total credit facilities | 210.0 | 516.5 | 8.1 | 12.5 | 747.1 |
| Utilized at June 30, 2005 | (2.6) | (185.3) | (2.8) | (2.3) | (193.0) |
| Letters of credit outstanding | (4.9) | (67.7) | - | (2.6) | (75.2) |
| **Credit facilities available** | **202.5** | **263.5** | **5.3** | **7.6** | **478.9** |

Certain borrowings under the Corporation's credit facilities have been classified as long-term debt. These borrowings are under long-term credit facilities and Management's intention is to refinance these borrowings with long-term permanent financing during future periods. The following summary outlines the balance sheet classification as at June 30, 2005 of the Corporation's utilized credit facilities by reporting segments.

| **Credit Facilities** *($ millions)* | Corporate | Regulated Utilities | Fortis Generation | Fortis Properties | Total |
|---|---|---|---|---|---|
| Short-term borrowings | 2.6 | 130.5 | 2.8 | 2.3 | 138.2 |
| Long-term debt | - | 54.8 | - | - | 54.8 |
| **Total credit facilities utilized** | **2.6** | **185.3** | **2.8** | **2.3** | **193.0** |

In January 2005, Fortis entered into a $50 million unsecured revolving/non-revolving term credit facility for its general corporate purposes, including acquisitions. Fortis also entered into a $15 million demand facility.

In January 2005, Newfoundland Power cancelled its $110 million uncommitted lines of credit and entered into a syndicated $100 million committed revolving term credit facility and a $20 million uncommitted demand facility.

In January 2005, Maritime Electric entered into a $25 million non-revolving unsecured short-term bridge financing, due January 2006, to support the construction of the 50-MW generating facility.

In May 2005, Fortis renegotiated its $145 million unsecured revolving/non-revolving term credit facility to a $145 million unsecured revolving term credit facility that matures in May 2008. This facility can be used for general corporate purposes, including acquisitions.

In May 2005, FortisAlberta renegotiated its $100 million unsecured revolving/non-revolving term credit facility to a $150 million unsecured revolving term credit facility that matures in May 2008.

In May 2005, FortisBC renegotiated its $100 million unsecured revolving/non-revolving term credit facility to a $100 million unsecured revolving term credit facility that matures in May 2008. Additionally, in May 2005 FortisBC entered into a $50 million unsecured revolving/non-revolving credit facility.

## OFF-BALANCE SHEET ARRANGEMENTS

Disclosure is required of all off-balance sheet arrangements such as transactions, agreements or contractual arrangements with unconsolidated entities, structured finance entities, special purpose entities or variable interest entities that are reasonably likely to materially affect liquidity or the availability of, or requirements for, capital resources. The Corporation had no such off-balance sheet arrangements as at June 30, 2005.

## BUSINESS RISK MANAGEMENT

The Corporation's significant business risks are regulation, the integration of FortisAlberta and FortisBC, use of derivative instruments and hedging, energy prices, weather and general economic conditions, loss of service territory, environmental, insurance, labour relations and liquidity risks. The geographic and regulatory diversity of the Corporation's operations mitigate the significance of any single business risk. There were no material changes to the Corporation's significant business risks during the quarter from those disclosed in the 2004 Management Discussion and Analysis for the year ended December 31, 2004 except that regulation risk for 2005 has been reduced due to recent regulatory decisions and negotiations in FortisAlberta, FortisBC, Maritime Electric, Belize Electricity and Caribbean Utilities. The risk associated with the integration of FortisAlberta and FortisBC has also lessened with the separation of operations at the 2 companies nearing completion with most key executive team members appointed and established.

## CRITICAL ACCOUNTING ESTIMATES

The preparation of the Corporation's unaudited interim consolidated financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Estimates are based on historical experience, current conditions and various other assumptions believed to be reasonable under the circumstances. Changes in facts and circumstances may result in revised estimates and actual results could differ from those estimates. There were no material changes to the Corporation's critical accounting estimates during the quarter from those disclosed in the 2004 Management Discussion and Analysis for the year ended December 31, 2004 except as discussed below. Interim financial statements may employ a greater use of estimates than the annual financial statements.

*Contingencies:* Fortis is a party to a number of disputes and lawsuits in the normal course of business. Contingent liabilities as of June 30, 2005 are consistent with disclosures in the 2004 Fortis Inc. Annual Consolidated Financial Statements except as noted below:

In 2002, CRA confirmed a 2000 reassessment related to the Newfoundland Power's 1993 taxation year, which included in income the value of electricity consumed in December 1993 but not billed until January 1994. Newfoundland Power's practice has been to record revenue on a billed basis. This method has been audited and accepted previously by CRA and is in accordance with regulatory requirements.

During the second quarter, Newfoundland Power entered into an agreement with CRA that provides for the full settlement of this issue on a prospective basis. Under the terms of the settlement, CRA will cancel all outstanding reassessments related to the Company's revenue recognition policy in past years and refund the Company's deposit along with interest. The provisions of the Income Tax Act required the Company to deposit approximately $6.9 million with CRA, representing one half of the amount under appeal. At June 30, 2005, this deposit has been reclassified as a current receivable on the balance sheet. Revenue for the second quarter of 2005 includes an estimated $2.1 million ($1.4 million after-tax) of accrued interest revenue, as a result of the settlement.

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 FortisAlberta, distribution tariff terms and conditions and fiduciary duty, as well as for negligence. FortisAlberta has not to date made a definitive assessment of potential liability with respect to this claim. Management believes that the claim of approximately $83 million is largely without merit. Management believes that any finding or ruling against FortisAlberta would not have an adverse effect on the financial profile of FortisAlberta.

FortisBC has received correspondence and met with the B.C. Ministry of Forests (the "Ministry") to discuss the possibility of an invoice being issued to the Company related to fire suppression costs associated with certain forest fires in FortisBC's service territory in 2003. The Ministry has alleged breaches of the Forest Practices Code and negligence and indicated that they would be filing a writ against FortisBC. FortisBC is currently communicating with the Ministry and its insurers.

## QUARTERLY RESULTS

The following table sets forth unaudited quarterly information for each of the 8 quarters ended September 30, 2003 through June 30, 2005. This information has been obtained from the Corporation's unaudited interim consolidated financial statements which, in the opinion of management, have been prepared in accordance with Canadian GAAP and as required by utility regulators. The timing of the recognition of certain assets, liabilities, revenues and expenses as a result of regulation may differ from that otherwise expected using Canadian GAAP for non-regulated entities. These operating results are not necessarily indicative of results for any future period and should not be relied upon to predict future performance.

**Fortis Inc.**
**Summary of Quarterly Results (Unaudited)**

| Quarter Ended | Operating Revenue and Equity Income ($000's) | Net Earnings applicable to Common Shares ($000's) | Earnings per Common Share Basic ($) | Earnings per Common Share Diluted ($)(1) |
|---|---|---|---|---|
| June 30, 2005 | 364,948 | 38,188 | 1.48 | 1.36 |
| March 31, 2005 | 381,789 | 39,196 | 1.60 | 1.45 |
| December 31, 2004 | 337,170 | 21,176 | 0.89 | 0.85 |
| September 30, 2004 | 303,653 | 25,452 | 1.07 | 1.00 |
| June 30, 2004 | 254,513 | 23,946 | 1.22 | 1.15 |
| March 31, 2004 | 250,793 | 20,281 | 1.16 | 1.12 |
| December 31, 2003 | 210,624 | 14,760 | 0.85 | 0.82 |
| September 30, 2003 | 191,445 | 18,114 | 1.05 | 0.99 |

(1) The diluted earnings per common share for 2003 have been restated to reflect the issuance of convertible preference shares in June 2003.

A summary of the past 8 quarters reflects the Corporation's continued growth as well as the seasonality associated with its businesses. From June 2004, financial results were impacted by the acquisition of FortisAlberta and FortisBC. The Corporation's non-utility investment, Fortis Properties, generally produces its highest earnings in the second and third quarters. Given the diversified group of companies, seasonality may vary. Each of the comparative quarterly earnings has increased as a result of both the Corporation's acquisition strategy as well as improved operating earnings at most subsidiaries.

*June 2005/June 2004 –* Net earnings for the second quarter were $38.2 million, or $1.48 per common share, compared to $23.9 million, or $1.22 per common share, for the second quarter of 2004. Second quarter results include 3 months of earnings from FortisAlberta and FortisBC compared to 1 month for the second quarter of 2004. Results this quarter include a $7.0 million positive net after-tax adjustment to FortisAlberta's earnings, associated with the resolution of tax-related matters resulting in the reduction of liabilities associated with prior periods, partially offset by amounts provided for the final settlement of billings related to prior years. Results also include approximately $1.4 million in after-tax interest revenue from a tax settlement at Newfoundland Power and a $1.1 million positive adjustment to Caribbean Utilities' earnings related to a change in the accounting practice for recognizing unbilled revenue. Fortis Properties' earnings were $1.1 million higher quarter over quarter. The increase in earnings for the second quarter was partly constrained by a $1.0 million after-tax foreign exchange charge associated with the translation of US$75 million of unhedged corporate debt. Earnings per common share were also impacted by dilution from the common share issuance in March 2005.

*March 2005/March 2004 –* Net earnings for the first quarter were $39.2 million, or $1.60 per common share, compared to $20.3 million, or $1.16 per common share, for the first quarter of 2004. In the first quarter, Fortis reported a $7.9 million after-tax gain resulting from the settlement between FortisOntario and OPGI.

The Corporation's earnings, excluding the impact of the OPGI settlement, although not a measure under Canadian GAAP, would have been $31.3 million in the first quarter, or $1.28 per common share, 10.3 per cent higher than earnings per common share of $1.16 for the first quarter last year. Although the Corporation believes that it is useful supplemental information, readers should be cautioned that this information should not be confused with or used as an alternative for net earnings determined in accordance with Canadian GAAP.

The earnings contributions from the acquisition of FortisAlberta and FortisBC, as well as timing of recognition of earnings at Newfoundland Power, primarily contributed to this increase. Fortis also reported $0.7 million in earnings related to the recovery of hurricane-related expenses, associated with damages to Caribbean Utilities in Grand Cayman from Hurricane Ivan. Fortis Properties also reported improved earnings over the same quarter last year. The increase in earnings per common share was constrained by lower hydroelectric production in Belize and the dilution created by the common share issuance in March 2005.

*December 2004/December 2003 –* For the quarter ended December 2004, net earnings applicable to common shares were 43.5 per cent higher than for the same quarter in 2003. Earnings per common share increased 4.7 per cent over the same quarter in 2003. The increase in earnings was primarily associated with the acquisition of FortisAlberta and FortisBC, as well as improved operating income at most subsidiaries. The increase in quarterly earnings was affected by Hurricane Ivan. In September 2004, Grand Cayman was struck by Hurricane Ivan, a Category V hurricane that significantly affected Caribbean Utilities' distribution system. Equity earnings of Caribbean Utilities are recorded on a lag basis and, therefore, the Corporation's portion of the uninsured hurricane-related costs, which approximate $8.2 million, reduced the Corporation's equity earnings from Caribbean Utilities for the fourth quarter of 2004.

The Corporation's fourth quarter earnings in 2004, excluding the impact of Hurricane Ivan, although not a measure under Canadian GAAP, would have been $29.4 million, $8.2 million higher than actual fourth quarter earnings of $21.2 million, or $1.23 per common share, 44.7 per cent higher than earnings per common share of $0.85 for the fourth quarter last year. The Corporation believes that it is useful supplemental information as it provides an indication of the results excluding the impact of the Hurricane Ivan. Readers should be cautioned, however, that this information should not be confused with or used as an alternative for net earnings determined in accordance with Canadian GAAP.

*September 2004/September 2003 –* For the quarter ended September 2004, net earnings applicable to common shares were 40.5 per cent higher than the same quarter last year. Earnings per common share increased 1.9 per cent over the same quarter last year. The increase in earnings was primarily associated with the acquisition of FortisAlberta and FortisBC, as well as improved operating income at most subsidiaries. The increase was partially offset by lower production in Belize and timing of expenditures associated with production in Ontario.

## OUTLOOK

The Corporation's principal business of regulated electric utilities is capital intensive and Fortis expects that most of its capital expenditures for the next 5 years will relate primarily to FortisAlberta and FortisBC. Consolidated utility capital expenditures for 2005 are expected to be approximately $400 million.

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

## OUTSTANDING SHARE DATA

At August 4, 2005, the Corporation had issued and outstanding 25,742,238 common shares, 5,000,000 Series C First Preference Shares, 7,993,500 Series E First Preference Shares and 6,500 Series D First Preference Shares.

# FORTIS INC.

Interim Consolidated Financial Statements
For the three and six months ended June 30, 2005 and 2004
(Unaudited)

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

| | June 30 2005 | December 31 2004 |
|---|---|---|
| **ASSETS** | | |
| **Current assets** | | |
| Cash and cash equivalents | **$ 26,847** | $ 37,203 |
| Accounts receivable | **183,424** | 169,649 |
| Corporate income tax deposit (Note 13) | **6,949** | - |
| Other regulatory assets | **14,623** | 15,245 |
| Materials and supplies | **30,440** | 30,235 |
| Future income taxes | **-** | 4,204 |
| | **262,283** | 256,536 |
| **Corporate income tax deposit (Note 13)** | **-** | 6,949 |
| **Deferred charges** | **152,118** | 152,320 |
| **Other regulatory assets** | **49,892** | 45,309 |
| **Future income taxes (Note 8)** | **65,507** | 13,661 |
| **Utility capital assets** | **2,452,357** | 2,347,067 |
| **Income producing properties** | **410,330** | 341,069 |
| **Investments** | **165,014** | 163,769 |
| **Intangibles, net of amortization** | **16,613** | 18,455 |
| **Goodwill** | **515,226** | 514,041 |
| | **$ 4,089,340** | $ 3,859,176 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| **Current liabilities** | | |
| Short-term borrowings (Note 12) | **$ 138,171** | $ 192,858 |
| Accounts payable and accrued charges | **251,934** | 270,055 |
| Dividends payable | **16,006** | 14,997 |
| Other regulatory liabilities | **10,689** | 23,657 |
| Current installments of long-term debt | **32,016** | 36,062 |
| Future income taxes | **2,071** | - |
| | **450,887** | 537,629 |
| **Deferred credits** | **34,020** | 29,828 |
| **Other regulatory liabilities (Note 8)** | **59,408** | 7,519 |
| **Future income taxes** | **49,283** | 48,432 |
| **Long-term debt (Note 12)** | **1,955,711** | 1,878,639 |
| **Non-controlling interest** | **37,926** | 37,487 |
| **Equity preference shares (Note 4)** | **319,530** | 319,530 |
| | **2,906,765** | 2,859,064 |
| **Shareholders' equity** | | |
| Common shares (Note 5) | **808,143** | 675,215 |
| Contributed surplus | **2,622** | 1,831 |
| Equity portion of convertible debentures | **1,599** | 1,550 |
| Foreign currency translation adjustment | **(14,900)** | (15,497) |
| Retained earnings | **385,111** | 337,013 |
| | **1,182,575** | 1,000,112 |
| | **$ 4,089,340** | $ 3,859,176 |

See accompanying notes to the interim consolidated financial statements.

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

| | Quarter Ended | | Six Months Ended | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| **Operating revenues** | **$ 361,887** | $ 252,291 | **$ 741,165** | $ 501,217 |
| **Equity income** | **3,061** | 2,222 | **5,572** | 4,089 |
| | **364,948** | 254,513 | **746,737** | 505,306 |
| **Expenses** | | | | |
| Operating | **219,845** | 163,355 | **473,158** | 342,199 |
| Amortization | **42,155** | 25,240 | **82,331** | 44,672 |
| | **262,000** | 188,595 | **555,489** | 386,871 |
| **Operating income** | **102,948** | 65,918 | **191,248** | 118,435 |
| **Finance charges (Note 7)** | **35,155** | 25,016 | **71,053** | 46,266 |
| **Gain on settlement of contractual matters (Note 11)** | **-** | - | **(10,000)** | - |
| | **35,155** | 25,016 | **61,053** | 46,266 |
| **Earnings before income taxes** | **67,793** | 40,902 | **130,195** | 72,169 |
| Corporate income taxes | **23,643** | 12,982 | **41,845** | 21,472 |
| **Net earnings before non-controlling interest and preference share dividends** | **44,150** | 27,920 | **88,350** | 50,697 |
| Non-controlling interest | **1,811** | 1,662 | **2,663** | 2,040 |
| Preference share dividends | **4,151** | 2,312 | **8,303** | 4,430 |
| **Net earnings applicable to common shares** | **$ 38,188** | $ 23,946 | **$ 77,384** | $ 44,227 |
| **Weighted average common shares outstanding** | **25,716** | 19,595 | **25,109** | 18,521 |
| **Earnings per common share** | | | | |
| Basic | **$ 1.48** | $ 1.22 | **$ 3.08** | $ 2.38 |
| Diluted | **$ 1.36** | $ 1.15 | **$ 2.81** | $ 2.27 |

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

| | Quarter Ended | | Six Months Ended | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| **Balance at beginning of period** | **$ 361,566** | $ 305,822 | **$ 337,013** | $ 294,986 |
| Net earnings applicable to common shares | **38,188** | 23,946 | **77,384** | 44,227 |
| | **399,754** | 329,768 | **414,397** | 339,213 |
| Dividends on common shares | **(14,643)** | (12,864) | **(29,286)** | (22,309) |
| **Balance at end of period** | **$ 385,111** | $ 316,904 | **$ 385,111** | $ 316,904 |

See accompanying notes to the interim consolidated financial statements.

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

| | Quarter Ended | | Six Months Ended | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| **Operating Activities** | | | | |
| Net earnings applicable to common shares | **$ 38,188** | $ 23,946 | **$ 77,384** | $ 44,227 |
| Items not affecting cash | | | | |
| Amortization-capital assets, net of contributions in aid of construction | **39,537** | 23,420 | **77,199** | 41,362 |
| Amortization-intangibles | **921** | 921 | **1,842** | 1,842 |
| Amortization-other | **1,697** | 899 | **3,290** | 1,468 |
| Future income taxes | **10,624** | 2,141 | **9,435** | (719) |
| Accrued employee future benefits | **(527)** | (1,332) | **(1,028)** | (1,813) |
| Equity income, net of dividends | **(1,187)** | (145) | **(1,243)** | - |
| Stock-based compensation | **403** | 290 | **790** | 438 |
| Unrealized foreign exchange loss (gain) on long-term debt | **962** | (82) | **1,359** | (328) |
| Non-controlling interest | **1,811** | 1,662 | **2,663** | 2,040 |
| Other | **407** | 1,366 | **294** | (373) |
| | **92,836** | 53,086 | **171,985** | 88,144 |
| Change in non-cash operating working capital | **(42,950)** | (4,844) | **(42,761)** | (18,080) |
| | **49,886** | 48,242 | **129,224** | 70,064 |
| **Investing Activities** | | | | |
| Change in deferred charges and credits | **(1,742)** | 3,529 | **(3,301)** | 2,837 |
| Purchase of utility capital assets | **(97,781)** | (45,289) | **(189,152)** | (71,982) |
| Purchase of income producing properties | **(6,825)** | (5,813) | **(74,217)** | (7,154) |
| Contributions in aid of construction | **11,804** | 1,080 | **22,681** | 1,857 |
| Proceeds on sale of utility capital assets | **136** | 12 | **354** | 15 |
| Business acquisitions, net of cash | **(3,248)** | (754,353) | **(3,248)** | (754,353) |
| Increase in investements | **-** | (4) | **-** | (4) |
| | **(97,656)** | (800,838) | **(246,883)** | (828,784) |
| **Financing Activities** | | | | |
| Change in short-term borrowings | **(17,079)** | 1,003,607 | **(54,737)** | 953,737 |
| Proceeds from long-term debt | **67,620** | 1,086 | **98,016** | 7,100 |
| Repayment of long-term debt | **(26,339)** | (8,393) | **(35,243)** | (18,328) |
| Repayment of assumed acquisition debt | **-** | (557,381) | **-** | (557,381) |
| Advances (to) from non-controlling interest | **(1,367)** | 274 | **(1,064)** | 440 |
| Issue of equity preference shares | **-** | - | **-** | 44,936 |
| Issue of common shares | **2,626** | 332,296 | **130,314** | 336,364 |
| Dividends | | - | | |
| Common shares | **(14,643)** | (12,864) | **(29,286)** | (22,309) |
| Subsidiary dividends paid to non-controlling interest | **(378)** | (427) | **(789)** | (842) |
| | **10,440** | 758,198 | **107,211** | 743,717 |
| **Effect of exchange rate changes on cash** | **(27)** | 701 | **92** | 1,021 |
| **Change in cash and cash equivalents** | **(37,357)** | 6,303 | **(10,356)** | (13,982) |
| **Cash and cash equivalents, beginning of period** | **64,204** | 44,809 | **37,203** | 65,094 |
| **Cash and cash equivalents, end of period** | **$ 26,847** | $ 51,112 | **$ 26,847** | $ 51,112 |

See accompanying notes to the interim consolidated financial statements.

## 1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") for interim financial statements and do not include all of the disclosures normally found in the Fortis Inc. ("Fortis" or the "Corporation") annual consolidated financial statements. These interim consolidated financial statements should be read in conjunction with the Corporation's consolidated financial statements for the year ended December 31, 2004. Interim results will fluctuate due to the seasonal nature of electricity demand and water flows as well as the timing and recognition of regulatory decisions. Consequently, interim results are not necessarily indicative of annual results.

Fortis is principally a diversified, international electric utility holding company. The Corporation segments its utility operations by franchise area and, depending on regulatory requirements, by the nature of the assets. Fortis also holds investments in commercial real estate and hotel properties which are treated as a separate segment. The operating segments allow senior management to evaluate the operational performance and assess the overall contribution of each segment to the Corporation's long-term objectives.

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

**Regulated Utilities - Canadian**

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

a. *Newfoundland Power:* Newfoundland Power is the principal distributor of electricity in Newfoundland.

b. *Maritime Electric:* Maritime Electric is the principal distributor of electricity on Prince Edward Island.

c. *FortisOntario*: FortisOntario provides an integrated electric utility service to customers in Fort Erie, Cornwall, Gananoque and Port Colborne in Ontario. FortisOntario includes the operations of Canadian Niagara Power Inc. ("Canadian Niagara Power") and Cornwall Street Railway, Light and Power Company, Limited ("Cornwall Electric"). Included in Canadian Niagara Power's accounts are the operations of the electricity distribution business of Port Colborne Hydro Inc., which has been leased from the City of Port Colborne under a 10-year lease agreement entered into in April 2002. FortisOntario also owns a 10 per cent interest in each of Westario Power and Rideau St. Lawrence, 2 regional electric distribution companies formed in 2000.

d. *FortisAlberta:* On May 31, 2004, Fortis, through a wholly owned subsidiary, acquired all of the issued and outstanding shares of Aquila Networks Canada (Alberta) Ltd. (renamed "FortisAlberta"). FortisAlberta owns and operates the distribution system in a substantial portion of southern and central Alberta.

e. *FortisBC*: On May 31, 2004, Fortis, through a wholly owned subsidiary, acquired all of the issued and outstanding shares of Aquila Networks Canada (British Columbia) Ltd. (renamed "FortisBC"). FortisBC is an integrated utility operating in the southern interior of British Columbia. Included with the FortisBC component of the Regulated Utilities – Canadian segment are the non-regulated operating, maintenance and management services relating to the 450-megawatt ("MW") Waneta hydroelectric generating facility owned by Teck Cominco, the 145-MW Brilliant Hydroelectric Plant owned by Columbia Power Corporation and the Columbia Basin Trust ("CPC/CBT"), the 150-MW Arrow Lakes Hydroelectric Plant owned by CPC/CBT and the distribution system owned by the City of Kelowna. As of June 1, 2005, the FortisBC component of Regulated Utilities – Canadian segment includes Princeton Light and Power Company, Limited ("PLP"). On May 31, 2005, Fortis, through a wholly owned subsidiary, acquired all issued common and preference shares of PLP. PLP is an electric utility serving approximately 3,200 customers, mainly in Princeton, British Columbia. PLP presently purchases its wholesale power from FortisBC under a long-term contract.

**Regulated Utilities - Caribbean**

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

a. *Belize Electricity*: Belize Electricity is the principal distributor of electricity in Belize, Central America. The Corporation holds a 68 per cent controlling interest in the Company.

b. *Caribbean Utilities:* Caribbean Utilities is the sole provider of electricity on Grand Cayman, Cayman Islands. The Corporation's 37.3 per cent interest in the Company is accounted for on the equity basis of accounting.

**Non-regulated - Fortis Generation**

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

a. *Ontario:* Operations include the 75-MW Rankine hydroelectric generating station at Niagara Falls, the 5-MW Cornwall District Heating cogeneration plant and 6 small hydroelectric generating stations in eastern Ontario with a combined capacity of 8 MW. Non-regulated generating operations in Ontario are conducted through FortisOntario Inc. and FortisOntario Generation Corporation.

b. *Belize:* Operations consist of the 25-MW Mollejon hydroelectric facility in Belize. All of its electricity output is sold to Belize Electricity under a 50-year Power Purchase Agreement. Hydroelectric generation operations in Belize are conducted through the Corporation's wholly owned indirect subsidiary, Belize Electric Company Limited ("BECOL"), under a Franchise Agreement with the Government of Belize.

c. *Central Newfoundland:* Through the Exploits River Hydro Partnership ("Exploits Partnership"), a partnership between the Corporation and Abitibi-Consolidated Company of Canada ("Abitibi-Consolidated"), 36 MW of additional capacity was developed and installed at 2 of Abitibi-Consolidated's hydroelectric plants in central Newfoundland. The Corporation holds a 51 per cent interest in the Exploits Partnership and Abitibi-Consolidated holds the remaining 49 per cent interest. The Exploits Partnership sells its output to Newfoundland and Labrador Hydro Corporation under a 25-year power purchase agreement.

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

e. *British Columbia:* Includes the 16-MW run-of-river Walden hydroelectric power plant near Lillooet, British Columbia. This plant sells its entire output to BC Hydro under a long-term contract. Hydroelectric generating operations in British Columbia are conducted through the Walden Power Partnership, a wholly owned subsidiary of FortisBC.

**Non-regulated - Fortis Properties**

Fortis Properties owns and operates hotels in 6 provinces in Canada and commercial real estate in Atlantic Canada. On February 1, 2005, Fortis Properties acquired 3 hotels in western Canada that have approximately 650 rooms and 27,000 square feet of banquet space.

**Corporate**

Corporate includes finance charges associated with corporate debt, dividends on preference securities, other corporate expenses net of recoveries from subsidiaries, interest and miscellaneous revenues and related corporate income taxes.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These interim consolidated financial statements have been prepared in accordance with Canadian GAAP, including selected accounting treatments that differ from those used by entities not subject to rate regulation. The timing of the recognition of certain assets, liabilities, revenues and expenses, as a result of regulation, may differ from that otherwise expected using Canadian GAAP for entities not subject to rate regulation. These interim consolidated financial statements have been prepared following the same accounting policies and methods as those used in preparing the most recent annual financial statements. All amounts are presented in Canadian dollars unless otherwise stated.

## 3. USE OF ESTIMATES

The preparation of the Corporation's interim consolidated financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Estimates are based on historical experience, current conditions and various other assumptions believed to be reasonable under the circumstances. Changes in facts and circumstances may result in revised estimates and actual results could differ from those estimates. There were no material changes to the Corporation's critical accounting estimates during the quarter from those disclosed in the 2004 Management Discussion and Analysis for the year ended December 31, 2004 except as disclosed in Note 13 to the interim consolidated financial statements. Interim financial statements may employ a greater use of estimates than the annual financial statements.

## 4. EQUITY PREFERENCE SHARES

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

| | **June 30, 2005** | | December 31, 2004 | |
|---|---|---|---|---|
| | **Number of Shares** | **Amount** *(in thousands)* | Number of Shares | Amount *(in thousands)* |
| Series C First Preference Shares | **5,000,000** | **$ 122,992** | 5,000,000 | $ 122,992 |
| Series D First Preference Shares | **6,500** | **38** | 6,500 | 38 |
| Series E First Preference Shares | **7,993,500** | **196,500** | 7,993,500 | 196,500 |
| | **13,000,000** | **$ 319,530** | 13,000,000 | $ 319,530 |

## 5. CAPITAL STOCK

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

| | **June 30, 2005** | | December 31, 2004 | |
|---|---|---|---|---|
| **a) Issued and Outstanding** | **Number of Shares** | **Amount** *(in thousands)* | Number of Shares | Amount *(in thousands)* |
| Common Shares | **25,738,314** | **$ 808,143** | 23,882,323 | $ 675,215 |

Common shares issued during the period were as follows:

| | Quarter Ended June 30, 2005 | | Year-to-date June 30, 2005 | |
|---|---|---|---|---|
| | **Number of Shares** | **Amount** *(in thousands)* | **Number of Shares** | **Amount** *(in thousands)* |
| Balance, beginning of period | **25,687,520** | **$ 805,063** | **23,882,323** | **$ 675,215** |
| Public offering | **-** | **-** | **1,740,000** | **126,072** |
| Partial consideration in business acquisition | **5,917** | **443** | **5,917** | **443** |
| Consumer Share Purchase Plan | **4,843** | **358** | **11,200** | **826** |
| Dividend Reinvestment Plan | **11,831** | **876** | **23,221** | **1,715** |
| Employee Share Purchase Plan | **5,656** | **419** | **23,834** | **1,759** |
| Director and Executive Stock Option Plans | **22,547** | **984** | **51,819** | **2,113** |
| | **25,738,314** | **$ 808,143** | **25,738,314** | **$ 808,143** |

On March 1, 2005, Fortis issued 1,740,000 common shares of the Corporation at $74.65 per common share. The common share issuance resulted in gross proceeds of $129.9 million. Net proceeds after tax-effected issuance costs totalled $126.1 million. The proceeds of the issuance were used to pay outstanding indebtedness and for general corporate purposes.

On May 31, 2005, Fortis issued 5,917 common shares of the Corporation at a fair value of $74.83 per common share, the 5-day average trading price of Fortis' Common Shares for the last five trading days immediately preceding the acquisition, to the shareholders of PLP, combined with a cash payment, to acquire all of the issued common and preference shares of PLP.

At June 30, 2005, 1,651,571 common shares remained in the reserve for issue under the terms of the above Plans.

**b) Earnings per Common Share**

The Corporation calculates earnings per common share on the weighted average number of common shares outstanding. The year-to-date weighted average common shares outstanding were 25,108,729 and 18,520,628 at June 30, 2005 and June 30, 2004, respectively.

The weighted average common shares outstanding were 25,716,293 and 19,594,980 for the quarters ended June 30, 2005 and June 30, 2004, respectively. Diluted earnings per common share are calculated using the treasury stock method for options and the "if-converted" method for convertible securities.

**c) Stock Options**

The Corporation is authorized to grant, to the directors of Fortis and certain key employees of the Corporation and its subsidiaries, options to purchase common shares of the Corporation. At June 30, 2005, the Corporation had the following stock-based compensation plans: Executive Stock Option Plan, Directors' Stock Option Plan and 2002 Stock Option Plan. The 2002 Stock Option Plan was adopted at the Annual and Special General Meeting on May 15, 2002 to ultimately replace the Executive and Directors' Stock Option Plans. The Executive and Directors' Stock Options Plans will cease to exist when all outstanding options are exercised or expire in or before 2011.

| | **Quarter Ended June 30, 2005** | | **Year-to-date June 30, 2005** | |
|---|---|---|---|---|
| | Number of Options | Weighted Average Price | Number of Options | Weighted Average Price |
| Outstanding at beginning of period | 887,370 | $ 55.82 | 720,647 | $ 50.28 |
| Granted | 7,000 | $ 72.45 | 202,995 | $ 73.58 |
| Cancelled | (6,256) | $ 66.24 | (6,256) | $ 66.24 |
| Exercised | (22,547) | $ 43.65 | (51,819) | $ 40.78 |
| Outstanding at end of period | 865,567 | $ 56.20 | 865,567 | $ 56.20 |

| Details of stock options outstanding are as follows: | Number of Options | Exercise Price | Expiry Date |
|---|---|---|---|
| | 5,000 | $ 38.27 | 2006 |
| | 117,286 | $ 38.27 | 2011 |
| | 165,222 | $ 48.14 | 2012 |
| | 176,832 | $ 51.24 | 2013 |
| | 177,948 | $ 61.12 | 2014 |
| | 3,000 | $ 60.91 | 2014 |
| | 20,544 | $ 58.20 | 2014 |
| | 192,735 | $ 73.62 | 2015 |
| | 7,000 | $ 72.45 | 2015 |
| | 865,567 | | |
| Options vested at end of period | 375,796 | | |

**Stock-based Compensation**

On March 1, 2005, the Corporation issued 195,995 options on common shares under its 2002 Stock Option Plan at the 5-day average trading price immediately preceding the date of grant of $73.62. These options vest evenly over a 4-year period on each anniversary of the date of grant. The options expire 10 years after the date of grant. The fair market value of each option granted was $10.98 per option.

On May 11, 2005, the Corporation issued 7,000 options on common shares under its 2002 Stock Option Plan at the 5-day average trading price immediately preceding the date of grant of $72.45. These options vest evenly over a 4-year period on each anniversary of the date of grant. The options expire 10 years after the date of grant. The fair market value of each option granted was $10.32 per option.

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

| | March 1, 2005 | May 11, 2005 |
|---|---|---|
| Dividend yield (%) | 3.44 | 3.44 |
| Expected volatility (%) | 15.3 | 15.2 |
| Risk-free interest rate (%) | 4.28 | 4.12 |
| Weighted-average expected life (years) | 7.5 | 7.5 |

The Corporation records compensation expense upon the issuance of stock options under its Stock Option Plans. Using the fair value method, the compensation expense is amortized over the 4-year vesting period of the options granted. Upon exercise, the proceeds of the options are credited to capital stock at the option price. Therefore, an exercise of options below the current market price has a dilutive effect on capital stock and shareholders' equity. Under the fair value method, $0.4 million and $0.8 million were recorded as compensation expense for the quarter ended and 6 months ended June 30, 2005, respectively ($0.3 million and $0.4 million for the quarter ended and 6 months ended June 30, 2004, respectively).

## 6. EMPLOYEE FUTURE BENEFITS

The Corporation provides pension arrangements and other post-employment benefits to qualified employees through both defined contribution and defined benefit arrangements. The cost of providing the defined benefit arrangements was $4.8 million for the quarter ($2.7 million for the second quarter of 2004) and $8.3 million year to date ($5.0 million year to date for 2004). The cost of providing the defined contribution arrangements for the quarter was $0.7 million ($0.7 million for the second quarter 2004) and $1.5 million year to date ($1.3 million year to date for 2004).

## 7. FINANCE CHARGES

| *(in thousands)* | Quarter Ended June 30 **2005** | Quarter Ended June 30 2004 | Year-to-date June 30 **2005** | Year-to-date June 30 2004 |
|---|---|---|---|---|
| Amortization of debt and stock issue expenses | **$ 94** | $ 19 | **$ 346** | $ 138 |
| Interest - long term debt | **34,982** | 22,636 | **69,721** | 44,389 |
| - short-term | **1,377** | 3,921 | **3,367** | 4,530 |
| Interest charged to construction | **(1,478)** | (1,048) | **(2,668)** | (1,668) |
| Interest earned | **(782)** | (430) | **(1,072)** | (795) |
| Unrealized foreign exchange loss (gain) on long-term debt | **962** | (82) | **1,359** | (328) |
| | **$ 35,155** | $ 25,016 | **$ 71,053** | $ 46,266 |

## 8. INCOME TAXES

In FortisAlberta, as prescribed by the AEUB in its Negotiated Settlement Agreement of May 24, 2005, provincial income tax expenses are recovered through customer rates based on the taxes payable method and federal income tax expenses will now be recovered through customer rates based on a modified liability method. Therefore, current rates collected from customers do not include the recovery of future provincial income taxes related to certain temporary differences between the tax basis of assets and liabilities and their carrying amounts for regulatory purposes but these taxes are expected to be collected in rates when they become payable. Under the modified liability method, current rates will now include the recovery of future federal income taxes related to specified temporary differences between the tax basis of assets and liabilities and their carrying amounts for regulatory purposes.

As a result of collecting a portion of future income taxes associated with federal income taxes within current rates, FortisAlberta has now recognized all future income taxes (associated with federal taxes) within the financial statements. Since only a certain portion of the federal future income taxes have been included in rates, FortisAlberta has recorded an offsetting regulatory liability equal to the amount of future income taxes recognized in these financial statements that have not yet been reflected in rates. These amounts will be reflected in future rates to customers as the timing differences reverse.

Regulatory accounting principles allow for the recognition of a liability when a future tax asset is recognized if it is probable that a future reduction in revenue will result when that future tax asset is realized. Therefore, to the extent that it is probable that the realization of the future tax asset will result in a future reduction in rates collected from customers when the timing differences reverse, FortisAlberta has recognized a regulatory liability. In addition, FortisAlberta continues to recognize future income taxes for certain deferral amounts where the future income taxes will not be collected in future rates.

## 9. a) SEGMENTED INFORMATION

Information by reportable segment is as follows:

| Quarter ended *(in thousands of dollars)* | Regulated Utilities | | | | | | | Non-Regulated | | | Inter-segment elimination | Consolidated |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Nfld Power | Maritime Electric | Fortis Ontario | Fortis Alberta | Fortis BC | **Total Canadian** | **Total Caribbean** | **Generation** | **Fortis Properties** | **Corporate** | | |
| **June 30, 2005** | | | | | | | | | | | | |
| Operating revenues | 105,654 | 28,304 | 32,014 | 75,734 | 44,107 | 285,813 | 18,709 | 19,211 | 40,789 | 2,631 | (5,266) | 361,887 |
| Equity income | - | - | - | - | - | - | 3,061 | - | - | - | - | 3,061 |
| Energy supply costs | 57,494 | 16,963 | 24,935 | - | 12,050 | 111,442 | 10,010 | 1,768 | - | - | (1,750) | 121,470 |
| Operating expenses | 13,818 | 3,168 | 3,035 | 27,868 | 15,903 | 63,792 | 2,861 | 4,408 | 25,235 | 3,080 | (1,001) | 98,375 |
| Amortization | 9,270 | 2,419 | 1,244 | 16,889 | 4,707 | 34,529 | 1,625 | 2,550 | 2,751 | 700 | - | 42,155 |
| Operating income | 25,072 | 5,754 | 2,800 | 30,977 | 11,447 | 76,050 | 7,274 | 10,485 | 12,803 | (1,149) | (2,515) | 102,948 |
| Finance charges | 7,721 | 1,968 | 1,288 | 5,841 | 4,200 | 21,018 | 1,161 | 4,016 | 4,689 | 6,786 | (2,515) | 35,155 |
| Gain on settlement of contractual matters | - | - | - | - | - | - | - | - | - | - | - | - |
| Corporate income taxes | 5,696 | 1,510 | 615 | 10,371 | 1,874 | 20,066 | 325 | 2,383 | 3,268 | (2,399) | - | 23,643 |
| Non-controlling interest | 147 | - | - | - | - | 147 | 837 | 868 | - | (41) | - | 1,811 |
| Preference share dividends | - | - | - | - | - | - | - | - | - | 4,151 | - | 4,151 |
| Net Earnings (loss) | 11,508 | 2,276 | 897 | 14,765 | 5,373 | 34,819 | 4,951 | 3,218 | 4,846 | (9,646) | - | 38,188 |
| Goodwill | - | 19,858 | 45,577 | 229,097 | 220,694 | 515,226 | - | - | - | - | - | 515,226 |
| Identifiable assets | 796,668 | 257,467 | 123,770 | 690,237 | 623,911 | 2,492,053 | 203,857 | 268,536 | 426,391 | 50,236 | (29,439) | 3,411,634 |
| Equity investment assets | - | - | - | - | - | - | 162,480 | - | - | - | - | 162,480 |
| Total assets | 796,668 | 277,325 | 169,347 | 919,334 | 844,605 | 3,007,279 | 366,337 | 268,536 | 426,391 | 50,236 | (29,439) | 4,089,340 |
| Capital expenditures | 11,475 | 12,483 | 1,988 | 33,121 | 28,187 | 87,254 | 2,677 | 7,693 | 6,825 | 157 | - | 104,606 |
| **June 30, 2004** | | | | | | | | | | | | |
| Operating revenues | 97,342 | 28,204 | 28,626 | 17,167 | 12,350 | 183,689 | 19,930 | 16,956 | 34,666 | 2,460 | (5,410) | 252,291 |
| Equity income | - | - | - | - | - | - | 2,222 | - | - | - | - | 2,222 |
| Energy supply costs | 50,931 | 17,468 | 21,761 | - | 3,672 | 93,832 | 10,204 | 1,151 | - | - | (1,538) | 103,649 |
| Operating expenses | 12,867 | 2,830 | 2,879 | 8,028 | 4,499 | 31,103 | 2,954 | 3,820 | 21,541 | 1,743 | (1,455) | 59,706 |
| Amortization | 9,198 | 2,281 | 1,246 | 4,362 | 1,414 | 18,501 | 1,679 | 2,479 | 2,338 | 243 | - | 25,240 |
| Operating income | 24,346 | 5,625 | 2,740 | 4,777 | 2,765 | 40,253 | 7,315 | 9,506 | 10,787 | 474 | (2,417) | 65,918 |
| Finance charges | 7,615 | 2,133 | 1,294 | 1,253 | 1,393 | 13,688 | 1,371 | 3,784 | 4,646 | 3,944 | (2,417) | 25,016 |
| Corporate income taxes | 5,711 | 1,395 | 557 | 1,128 | 559 | 9,350 | 268 | 2,065 | 2,453 | (1,154) | - | 12,982 |
| Non-controlling interest | 148 | - | (1) | - | - | 147 | 1,107 | 450 | - | (42) | - | 1,662 |
| Preference share dividends | - | - | - | - | - | - | - | - | - | 2,312 | - | 2,312 |
| Net Earnings (loss) | 10,872 | 2,097 | 890 | 2,396 | 813 | 17,068 | 4,569 | 3,207 | 3,688 | (4,586) | - | 23,946 |
| Goodwill | - | 19,858 | 45,577 | 227,351 | 222,602 | 515,388 | - | - | - | - | - | 515,388 |
| Identifiable assets | 761,319 | 229,994 | 114,360 | 593,953 | 549,844 | 2,249,470 | 222,236 | 267,203 | 348,919 | 48,030 | (30,662) | 3,105,196 |
| Equity investment assets | - | - | - | - | - | - | 165,263 | - | - | - | - | 165,263 |
| Total assets | 761,319 | 249,852 | 159,937 | 821,304 | 772,446 | 2,764,858 | 387,499 | 267,203 | 348,919 | 48,030 | (30,662) | 3,785,847 |
| Capital expenditures | 15,433 | 4,858 | 2,818 | 6,810 | 7,217 | 37,136 | 4,955 | 3,118 | 5,813 | 80 | - | 51,102 |

**9. a) SEGMENTED INFORMATION (continued)**

Information by reportable segment is as follows:

| **Year to date** | Regulated Utilities | | | | | | | Non-Regulated | | | **Inter-** | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *(in thousands of dollars)* | Nfld Power | Maritime Electric | Fortis Ontario | Fortis Alberta | Fortis BC | **Total Canadian** | **Total Caribbean** | **Generation** | **Fortis Properties** | **Corporate** | **segment elimination** | **Consolidated** |
| **June 30, 2005** | | | | | | | | | | | | |
| Operating revenues | 241,090 | 57,590 | 70,174 | 134,329 | 99,481 | **602,664** | **34,096** | **36,181** | **73,827** | **5,203** | **(10,806)** | **741,165** |
| Equity income | - | - | - | - | - | **-** | **5,572** | **-** | **-** | **-** | **-** | **5,572** |
| Energy supply costs | 140,592 | 35,106 | 55,559 | - | 30,605 | **261,862** | **18,144** | **3,628** | **-** | **-** | **(3,632)** | **280,002** |
| Operating expenses | 28,019 | 6,166 | 6,178 | 54,789 | 31,946 | **127,098** | **5,645** | **9,254** | **48,066** | **5,293** | **(2,200)** | **193,156** |
| Amortization | 19,857 | 4,818 | 2,487 | 30,735 | 9,342 | **67,239** | **3,237** | **5,105** | **5,351** | **1,399** | | **82,331** |
| Operating income | 52,622 | 11,500 | 5,950 | 48,805 | 27,588 | **146,465** | **12,642** | **18,194** | **20,410** | **(1,489)** | **(4,974)** | **191,248** |
| Finance charges | 15,413 | 4,182 | 2,576 | 11,811 | 8,741 | **42,723** | **2,401** | **7,891** | **9,613** | **13,399** | **(4,974)** | **71,053** |
| Gain on settlement of contractual matters | - | - | - | - | - | **-** | **-** | **(10,000)** | **-** | **-** | **-** | **(10,000)** |
| Corporate income taxes | 12,457 | 2,924 | 1,372 | 14,383 | 4,526 | **35,662** | **540** | **5,918** | **4,450** | **(4,725)** | **-** | **41,845** |
| Non-controlling interest | 292 | - | - | - | - | **292** | **1,277** | **1,176** | **-** | **(82)** | **-** | **2,663** |
| Preference share dividends | - | - | - | - | - | **-** | **-** | **-** | **-** | **8,303** | **-** | **8,303** |
| Net Earnings (loss) | 24,460 | 4,394 | 2,002 | 22,611 | 14,321 | **67,788** | **8,424** | **13,209** | **6,347** | **(18,384)** | **-** | **77,384** |
| Goodwill | - | 19,858 | 45,577 | 229,097 | 220,694 | **515,226** | **-** | **-** | **-** | **-** | **-** | **515,226** |
| Identifiable assets | 796,668 | 257,467 | 123,770 | 690,237 | 623,911 | **2,492,053** | **203,857** | **268,536** | **426,391** | **50,236** | **(29,439)** | **3,411,634** |
| Equity investment assets | - | - | - | - | - | **-** | **162,480** | **-** | **-** | **-** | **-** | **162,480** |
| Total assets | 796,668 | 277,325 | 169,347 | 919,334 | 844,605 | **3,007,279** | **366,337** | **268,536** | **426,391** | **50,236** | **(29,439)** | **4,089,340** |
| Capital expenditures | 26,015 | 21,441 | 2,932 | 66,946 | 51,114 | **168,448** | **5,140** | **14,266** | **74,217** | **1,298** | **-** | **263,369** |
| **June 30, 2004** | | | | | | | | | | | | |
| Operating revenues | 223,480 | 57,733 | 63,067 | 17,167 | 12,350 | **373,797** | **35,863** | **33,673** | **64,857** | **4,423** | **(11,396)** | **501,217** |
| Equity income | - | - | - | - | - | **-** | **4,089** | **-** | **-** | **-** | **-** | **4,089** |
| Energy supply costs | 127,729 | 36,107 | 48,504 | - | 3,672 | **216,012** | **18,478** | **2,828** | **-** | **-** | **(5,131)** | **232,187** |
| Operating expenses | 26,838 | 5,796 | 6,010 | 8,028 | 4,499 | **51,171** | **6,004** | **8,042** | **42,842** | **3,910** | **(1,957)** | **110,012** |
| Amortization | 18,579 | 4,561 | 2,477 | 4,362 | 1,414 | **31,393** | **3,286** | **4,947** | **4,653** | **393** | **-** | **44,672** |
| Operating income | 50,334 | 11,269 | 6,076 | 4,777 | 2,765 | **75,221** | **12,184** | **17,856** | **17,362** | **120** | **(4,308)** | **118,435** |
| Finance charges | 15,231 | 4,375 | 2,600 | 1,253 | 1,393 | **24,852** | **2,500** | **7,558** | **9,304** | **6,360** | **(4,308)** | **46,266** |
| Corporate income taxes | 11,957 | 2,766 | 1,301 | 1,128 | 559 | **17,711** | **480** | **4,001** | **3,352** | **(4,072)** | **-** | **21,472** |
| Non-controlling interest | 295 | - | - | - | - | **295** | **1,632** | **197** | **-** | **(84)** | **-** | **2,040** |
| Preference share dividends | - | - | - | - | - | **-** | **-** | **-** | **-** | **4,430** | **-** | **4,430** |
| Net Earnings (loss) | 22,851 | 4,128 | 2,175 | 2,396 | 813 | **32,363** | **7,572** | **6,100** | **4,706** | **(6,514)** | **-** | **44,227** |
| Goodwill | - | 19,858 | 45,577 | 227,351 | 222,602 | **515,388** | **-** | **-** | **-** | **-** | **-** | **515,388** |
| Identifiable assets | 761,319 | 229,994 | 114,360 | 593,953 | 549,844 | **2,249,470** | **222,236** | **267,203** | **348,919** | **48,030** | **(30,662)** | **3,105,196** |
| Equity investment assets | - | - | - | - | - | **-** | **165,263** | **-** | **-** | **-** | **-** | **165,263** |
| Total assets | 761,319 | 249,852 | 159,937 | 821,304 | 772,446 | **2,764,858** | **387,499** | **267,203** | **348,919** | **48,030** | **(30,662)** | **3,785,847** |
| Capital expenditures | 30,840 | 8,063 | 4,537 | 6,810 | 7,217 | **57,467** | **9,431** | **4,115** | **7,154** | **969** | **-** | **79,136** |

### 9. b) Related Party Transactions

Related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Related party transactions primarily relate to the sale of energy from BECOL to Belize Electricity and finance charges on inter-company borrowings.

## 10. BUSINESS ACQUISITION

On May 31, 2005, Fortis acquired all of the issued and outstanding common and preference shares of PLP for an aggregate purchase price of $3.7 million. PLP is an electric utility that serves approximately 3,200 customers, mainly in Princeton, British Columbia. PLP presently purchases its wholesale power from FortisBC under a long-term contract.

The acquisition was financed through a combination of cash consideration of $3.3 million and the issuance of 5,917 common shares of the Corporation at a fair value of $74.83 per Common Share, the 5-day average trading price of Fortis' Common Shares for the last five trading days immediately preceding the acquisition.

The acquisition is accounted for using the purchase method, whereby the results of full operations have been included in the consolidated financial statements commencing May 31, 2005. The book value of these assets and liabilities has been assigned as fair value for purchase price allocation. The regulated nature of PLP and the determination of its revenues and earnings are based on historic values and do not change with market conditions or change of ownership. Therefore, no fair market value increments were recorded as part of the purchase price on individual assets and liabilities because all economic benefits and obligations associated with them will accrue to the customers.

The purchase price allocation to net assets based on their fair values is as follows:

| *(in thousands)* | |
|---|---|
| **Fair value assigned to net assets:** | |
| Utility capital assets | **$ 6,381** |
| Current assets | **1,168** |
| Goodwill | **1,185** |
| Other assets | **445** |
| Current liabilities | **(1,094)** |
| Assumed long-term debt | **(3,990)** |
| Future income taxes | **(329)** |
| Other liabilities | **(75)** |
| | **$ 3,691** |

## 11. GAIN ON SETTLEMENT OF CONTRACTUAL MATTERS

In the first quarter of 2005, Fortis recorded a $7.9 million after-tax gain ($10 million pre-tax) resulting from the settlement of contractual matters between FortisOntario and Ontario Power Generation Inc.

## 12. SHORT-TERM AND LONG-TERM DEBT

The Corporation and its subsidiaries had consolidated authorized lines of credit of $747.1 million of which $478.9 million was unused at June 30, 2005. The following summary outlines the Corporation's credit facilities by reporting segments.

| **Credit Facilities** *($ millions)* | Corporate | Regulated Utilities | Fortis Generation | Fortis Properties | Total |
|---|---|---|---|---|---|
| Total credit facilities | 210.0 | 516.5 | 8.1 | 12.5 | 747.1 |
| Utilized at June 30, 2005 | (2.6) | (185.3) | (2.8) | (2.3) | (193.0) |
| Letters of credit outstanding | (4.9) | (67.7) | - | (2.6) | (75.2) |
| **Credit facilities available** | **202.5** | **263.5** | **5.3** | **7.6** | **478.9** |

Certain borrowings under the Corporation's credit facilities have been classified as long-term debt. These borrowings are under long-term credit facilities and Management's intention is to refinance these borrowings with long-term permanent financing during future periods. The following summary outlines the balance sheet classification as at June 30, 2005 of the Corporation's utilized credit facilities by reporting segments.

| **Credit Facilities** *($ millions)* | Corporate | Regulated Utilities | Fortis Generation | Fortis Properties | Total |
|---|---|---|---|---|---|
| Short-term borrowings | 2.6 | 130.5 | 2.8 | 2.3 | 138.2 |
| Long-term debt | - | 54.8 | - | - | 54.8 |
| **Total credit facilities utilized** | **2.6** | **185.3** | **2.8** | **2.3** | **193.0** |

In March 2005, Fortis Properties completed a 5.1 per cent 5-year $29.6 million loan related to the financing of the Edmonton and Calgary Greenwood Inns that were acquired on February 1, 2005.

In April 2005, Fortis Properties completed a 5.35 per cent 5-year $12.3 million loan related to the Winnipeg Greenwood Inn which was acquired on February 1, 2005.

In May 2005, Fortis renegotiated its $145 million unsecured revolving/non-revolving term credit facility to a $145 million unsecured revolving term credit facility that matures in May 2008. This facility can be used for general corporate purposes, including acquisitions. There were no amounts drawn on this facility at June 30, 2005.

In May 2005, FortisAlberta renegotiated its $100 million unsecured revolving/non-revolving term credit facility to a $150 million unsecured revolving term credit facility that matures in May 2008. At June 30, 2005, there was $10.0 million drawn on this facility.

In May 2005, FortisBC renegotiated its $100 million unsecured revolving/non-revolving term credit facility to a $100 million unsecured revolving term credit facility that matures in May 2008. Additionally, in May 2005, FortisBC entered into a $50 million unsecured revolving/non-revolving credit facility. At June 30, 2005, there was $44.8 million drawn on this facility. These borrowings are reported as long-term debt as they can be covered by existing long-term financing arrangements and Management's intention is to refinance these borrowings with long-term permanent financing during future periods.

## 13. CONTINGENT LIABILITIES AND COMMITMENTS

Contingent liabilities and commitments as of June 30, 2005 are consistent with disclosures in the annual audited consolidated financial statements for the year ended December 31, 2004 except as described below:

(a) Newfoundland Power

In 2002, Canada Revenue Agency ("CRA") confirmed a 2000 reassessment related to the Newfoundland Power's 1993 taxation year, which included in income the value of electricity consumed in December 1993 but not billed until January 1994. Newfoundland Power's practice has been to record revenue on a billed basis. This method has been audited and accepted previously by CRA and is in accordance with regulatory requirements.

During the second quarter, Newfoundland Power entered into an agreement with CRA that provides for the full settlement of this issue on a prospective basis. Under the terms of the settlement, CRA will cancel all outstanding reassessments related to the Company's revenue recognition policy in past years and refund the Company's deposit along with interest. The provisions of the Income Tax Act required the Company to deposit approximately $6.9 million with CRA, representing one half of the amount under appeal. At June 30, 2005, this deposit has been reclassified as a current receivable on the balance sheet. Revenue for the second quarter of 2005 includes an estimated $2.1 million ($1.4 million after-tax) of accrued interest revenue, as a result of the settlement.

Newfoundland Power will record revenue for income tax purposes on the accrual basis starting in 2006, and each of the 2006, 2007 and 2008 taxation years will include 1/3 of the value of the electricity consumed by its customers in December 2005 but not billed until January 2006. Newfoundland Power will file an application with the PUB in the second half of 2005 to address the appropriate revenue recognition policy for regulatory purposes on a prospective basis.

(b) Fortis Alberta

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 FortisAlberta, distribution tariff terms and conditions and fiduciary duty, as well as for negligence. FortisAlberta has not to date made a definitive assessment of potential liability with respect to this claim. Management believes that the claim of approximately $83 million is largely without merit. Management believes that any finding or ruling against FortisAlberta would not have an adverse effect on the financial profile of FortisAlberta.

(c) FortisBC

FortisBC has received correspondence and met with the B.C. Ministry of Forests (the "Ministry") to discuss the possibility of an invoice being issued to the Company related to fire suppression costs associated with certain forest fires in FortisBC's service territory in 2003. The Ministry has alleged breaches of the Forest Practices Code and negligence and indicated that they would be filing a writ against FortisBC. FortisBC is currently communicating with the Ministry and its insurers.

## 14. COMPARATIVE FIGURES

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

## Dates – Dividends* and Earnings

**Expected Earnings Release Dates**

| | |
|---|---|
| November 1, 2005 | February 7, 2006 |
| May 2, 2006 | August 4, 2006 |

**Dividend Record Dates**

| | |
|---|---|
| August 5, 2005 | November 4, 2005 |
| February 3, 2006 | May 5, 2006 |

**Dividend Payment Dates**

| | |
|---|---|
| September 1, 2005 | December 1, 2005 |
| March 1, 2006 | June 1, 2006 |

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

**Registrar and Transfer Agent**

Computershare Trust Company of Canada
9th Floor, 100 University Avenue
Toronto, ON M5J 2Y1
T: 514-982-7555 or 1-866-586-7638
F: 416-263-9394 or 1-888-453-0330
E: service@computershare.com
W: www.computershare.com

**Share Listings**

The Common Shares, Series C First Preference Shares and Series E First Preference Shares of Fortis Inc. trade on the Toronto Stock Exchange under the symbols FTS, FTS.PR.C and FTS.PR.E, respectively.

| Fortis Common Shares ($) Quarter Ended June 30 | | |
|---|---|---|
| | **2005** | **2004** |
| **High** | **80.74** | 64.73 |
| **Low** | **70.05** | 58.00 |
| **Close** | **77.73** | 58.15 |

*Design: CCL Milestone, St. John's, NL*


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

T: 709.737.2800
F: 709.737.5307

www.fortisinc.com