

FORTIS
INC.



THIRD QUARTER 2007

powering performance

Dear Shareholder:

Earnings applicable to common shares were \$30.8 million, or \$0.20 per common share, for the third quarter of 2007, compared to earnings of \$38.8 million, or \$0.37 per common share, for the same quarter last year. Year-to-date earnings applicable to common shares were \$113.8 million, or \$0.86 per common share, compared to earnings of \$113.3 million, or \$1.09 per common share, for the same period last year.

The quarterly and year-to-date results were impacted by the acquisition of Terasen Inc. ("Terasen") by Fortis on May 17, 2007 for \$3.7 billion, including assumed debt of \$2.4 billion. Terasen owns natural gas distribution businesses carried out by Terasen Gas Inc., Terasen Gas (Vancouver Island) Inc. and Terasen Gas (Whistler) Inc., collectively referred to as Terasen Gas. Terasen Gas serves over 900,000 customers or 95 per cent of natural gas users in British Columbia.



On May 17, 2007, Fortis completed a \$1.15 billion common share issue, the net proceeds of which represented approximately 88 per cent of the funds required to complete the purchase of Terasen. Terasen Gas reported a net loss of \$3.7 million for the third quarter. The common share issue, combined with the seasonality of earnings of Terasen Gas, diluted earnings per common share for the third quarter of 2007.

The integration of Terasen within the Fortis Group of Companies is occurring as planned. Due to the seasonality of the business, virtually all the earnings of Terasen Gas are generated in the first and fourth quarters. We expect that the Terasen acquisition will be accretive over the first full year of our ownership.

Increased earnings contributions from FortisAlberta, Fortis Turks and Caicos, and Fortis Properties were more than offset in the quarter by higher finance charges associated with acquisitions, a loss at Terasen Gas reflecting the seasonality of the business, and lower non-regulated hydroelectric production.

Canadian Regulated Electric Utilities delivered earnings of \$28.0 million, up \$2.7 million from the third quarter last year. The increase was driven by customer growth and higher corporate income tax recoveries at FortisAlberta.

Caribbean Regulated Electric Utilities contributed earnings of \$9.8 million, up \$2.1 million from the third quarter last year. The increase was primarily due to contributions from Fortis Turks and Caicos and the increased investment in Caribbean Utilities to 54 per cent, partially offset by higher expenses at Belize Electricity.

Non-Regulated Fortis Generation contributed earnings of \$5.0 million compared to earnings of \$7.8 million for the third quarter last year. Results were impacted by decreased hydroelectric production due to lower rainfall, mainly in Belize and Upper New York State.

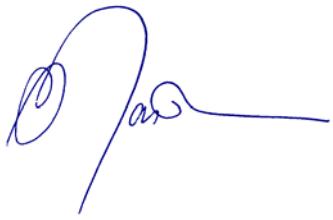
Fortis Properties' earnings were \$8.0 million, up \$1.7 million from the third quarter last year. The increase primarily related to expanded hospitality operations in western Canada.

Corporate and other expenses were \$16.3 million compared to \$8.3 million for the third quarter last year. The increase in corporate and other expenses was driven by Terasen acquisition-related finance charges.

Investor confidence in our profitable growth strategy allowed Fortis and its subsidiaries to raise over \$2 billion in common equity and long-term debt financings year to date.

Utility capital expenditures, before customer contributions, were approximately \$539 million year-to-date 2007 and are forecasted to be approximately \$770 million for the year, including expected capital expenditures of approximately \$140 million relating to Terasen Gas from the date of acquisition.

For 2008, our utilities have capital programs totalling approximately \$900 million on a consolidated basis. Most of this capital work will occur at our utilities in the high-growth region of western Canada to meet growth in energy demand and to enhance the reliability of gas and electricity delivered to our customers.



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

Fortis Inc. Interim Management Discussion and Analysis

For the 3- and 9-months ended September 30, 2007

Dated November 2, 2007

The following analysis should be read in conjunction with the Fortis Inc. ("Fortis" or the "Corporation") interim unaudited consolidated financial statements for the 3- and 9-months ended September 30, 2007 and the Management Discussion and Analysis and audited consolidated financial statements for the year ended December 31, 2006 included in the Corporation's 2006 Annual Report. This material has been prepared in accordance with National Instrument 51-102 - Continuous Disclosure Obligations relating to Management Discussion and Analysis. Financial information in this release has been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") and is presented in Canadian dollars unless otherwise specified.

Fortis includes forward-looking statements in this material which reflect management's expectations regarding the Corporation's future growth, results of operations, performance, business prospects and opportunities. Wherever possible, words such as "anticipate", "believe", "expects", "intend" or similar expressions have been used to identify the forward-looking statements. These statements reflect management's current beliefs and are based on information currently available to the Corporation's management. Certain material factors or assumptions have been applied in drawing the conclusions contained in the forward-looking statements. These factors or assumptions are subject to inherent risks and uncertainties surrounding future expectations generally. Such risk factors or assumptions include, but are not limited to, regulation, integration of Terasen and management of expanding operations, gas distribution operating risks, natural gas prices and supply, energy prices, general economic conditions, weather and seasonality, derivatives and hedging, capital resources, loss of service area, licences and permits, environment, insurance, labour relations, human resources and liquidity risk. Fortis cautions readers that a number of factors could cause actual results, performance or achievements to differ materially from the results discussed or implied in the forward-looking statements. These factors should be considered carefully and undue reliance should not be placed on the forward-looking statements. 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 including those factors described under the heading "Business Risk Management" in the Management Discussion and Analysis for the year ended December 31, 2006 and in the Management Discussion and Analysis for the 3- and 9-months ended September 30, 2007. 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.

Fortis is the largest investor-owned distribution utility in Canada serving almost 2,000,000 gas and electric customers. Its regulated holdings include a natural gas utility in British Columbia and electric utilities in 5 Canadian provinces and 3 Caribbean countries. Fortis owns non-regulated hydroelectric generation assets across Canada and in Belize and Upper New York State. It also owns hotels and commercial real estate in Canada. The Corporation meets a peak electricity demand of approximately 5,100 megawatts ("MW") and a peak gas demand of approximately 1,400 terajoules ("TJ") per day.

The key goals of the Corporation's regulated utilities are to operate sound gas and electricity distribution systems and deliver gas and electricity safely and reliably to customers at reasonable rates. The Corporation's core business is highly regulated. It is segmented by franchise area and, depending on regulatory requirements, by the nature of the assets. The operating and reporting segments of the Corporation are: (i) Regulated Gas Utilities - Canadian, (ii) Regulated Electric Utilities - Canadian, (iii) Regulated Electric Utilities - Caribbean, (iv) Non-Regulated - Fortis Generation, (v) Non-Regulated - Fortis Properties, and (vi) Corporate and Other. Comprising the Regulated Gas Utilities - Canadian operating segment are the natural gas distribution businesses of Terasen Inc. ("Terasen") carried out by Terasen Gas Inc. ("TGI"), Terasen Gas (Vancouver Island) Inc. ("TGVI") and Terasen Gas (Whistler) Inc. ("TGWI"), collectively referred to as Terasen Gas. The Regulated Electric Utilities - Canadian operating segment is comprised of FortisAlberta, FortisBC, Newfoundland Power, FortisOntario and Maritime Electric on Prince Edward Island ("PEI"). The Corporation's Regulated Electric Utilities - Caribbean operating segment is comprised of wholly owned P.P.C. Limited and Atlantic Equipment & Power (Turks and Caicos) Ltd., collectively referred to as Fortis Turks and Caicos; Belize Electricity, in which Fortis holds a 70.1 per cent controlling interest; and Caribbean Utilities, the sole provider of electricity on Grand Cayman, in which Fortis holds an approximate 54 per cent controlling interest. The earnings of the Corporation's regulated utilities are primarily determined under traditional cost of service and rate of return methodologies. Earnings of the Canadian regulated utilities are generally exposed to changes in interest rates associated with the customer gas and electric rate-setting mechanisms.

The Corporation's non-regulated generation assets operate in 3 countries and have a combined generating capacity of 195 MW, principally hydroelectric. The Corporation, through its non-regulated subsidiary Fortis Properties, owns and operates 19 hotels with more than 3,500 rooms in 8 Canadian provinces and 2.8 million square feet of commercial real estate primarily in Atlantic Canada.

The Corporate and Other segment captures expense and revenue items not specifically related to any operating or reportable segment, including corporate financing and general and administration costs and, from May 17, 2007, the expenses of non-regulated Terasen corporate-related activities and Terasen's 30 per cent ownership interest in CustomerWorks Limited Partnership ("CWLP"). CWLP operates in partnership with Enbridge Inc. and is a non-regulated shared-service business that provides customer service, meter reading, billing, credit, support and collection services to Terasen Gas and several smaller third parties.

BUSINESS ACQUISITION

On May 17, 2007, Fortis completed the acquisition of all of the issued and outstanding common shares of Terasen, formerly a wholly owned subsidiary of Kinder Morgan, Inc. for aggregate consideration of \$3.7 billion, including the assumption of approximately \$2.4 billion of consolidated debt. Terasen owns and operates natural gas distribution businesses carried out by Terasen Gas. Terasen Gas is the principal natural gas distributor in British Columbia, serving over 900,000 customers, or 95 per cent of natural gas users in the province. The acquisition did not include the petroleum transportation assets of Kinder Morgan Canada (formerly Terasen Pipelines) which are comprised primarily of refined and crude oil pipelines.

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

FINANCIAL HIGHLIGHTS

Fortis has adopted a strategy of profitable growth with earnings per common share as the primary measure of performance. Key financial highlights, including segmented earnings, for the third quarter and year-to-date periods ended September 30, 2007 and September 30, 2006 are provided in the table below. The table is followed by a discussion of the financial results of the Corporation's segments.

Financial Highlights (Unaudited) Periods Ended September 30 th						
(\$ millions, except earnings per common share and common shares outstanding)	Quarter			Year-to-date		
	2007	2006	Variance	2007	2006	Variance
Revenue and equity income	651.0	341.9	309.1	1,699.9	1,078.6	621.3
Cash flow from operating activities	59.0	96.5	(37.5)	220.8	203.7	17.1
Net earnings applicable to common shares	30.8	38.8	(8.0)	113.8	113.3	0.5
Basic earnings per common share (\$)	0.20	0.37	(0.17)	0.86	1.09	(0.23)
Diluted earnings per common share (\$)	0.20	0.36	(0.16)	0.79	1.05	(0.26)
Weighted average number of common shares outstanding (millions)	154.5	103.6	50.9	131.6	103.5	28.1
Segmented Net Earnings						
	Quarter			Year-to-date		
	2007	2006	Variance	2007	2006	Variance
Regulated Gas Utilities - Canadian						
Terasen Gas ⁽¹⁾	(3.7)	-	(3.7)	(2.1)	-	(2.1)
Regulated Electric Utilities - Canadian						
FortisAlberta	14.7	12.3	2.4	42.1	33.1	9.0
FortisBC ⁽²⁾	6.2	5.7	0.5	24.4	21.0	3.4
Newfoundland Power	2.7	2.6	0.1	21.2	21.3	(0.1)
Other Canadian ⁽³⁾	4.4	4.7	(0.3)	12.3	10.5	1.8
	28.0	25.3	2.7	100.0	85.9	14.1
Regulated Electric Utilities - Caribbean ⁽⁴⁾	9.8	7.7	2.1	21.5	15.2	6.3
Non-Regulated - Fortis Generation ⁽⁵⁾	5.0	7.8	(2.8)	17.2	19.9	(2.7)
Non-Regulated - Fortis Properties	8.0	6.3	1.7	15.8	15.9	(0.1)
Corporate and Other ⁽⁶⁾	(16.3)	(8.3)	(8.0)	(38.6)	(23.6)	(15.0)
Net earnings applicable to common shares	30.8	38.8	(8.0)	113.8	113.3	0.5

(1) Includes the natural gas distribution businesses of Terasen carried out by TGI, TGVI and TGWI, collectively referred to as Terasen Gas. Financial results for Terasen Gas are from May 17, 2007, the date of acquisition.

(2) Includes the regulated operations of FortisBC Inc. and non-regulated operating, maintenance and management services related to the Waneta, Brilliant and the Arrow Lakes hydroelectric plants and the distribution system owned by the City of Kelowna. Also includes the former Princeton Light and Power Company, Limited ("PLP"), but excludes the non-regulated generation operations of FortisBC Inc.'s wholly owned partnership, Walden Power Partnership. Effective January 1, 2007, PLP was amalgamated with FortisBC Inc. as part of an internal corporate reorganization.

(3) Includes Maritime Electric on PEI and FortisOntario. FortisOntario includes Canadian Niagara Power and Cornwall Electric.

(4) Includes Belize Electricity, in which Fortis holds a 70.1 per cent controlling interest; Caribbean Utilities, in which Fortis holds an approximate 54 per cent controlling interest; and wholly owned Fortis Turks and Caicos acquired on August 28, 2006. On November 7, 2006, Fortis acquired an additional approximate 16 per cent interest in Caribbean Utilities and now owns approximately 54 per cent of the Company. Caribbean Utilities' balance sheet as at November 7, 2006 was consolidated in the December 31, 2006 balance sheet of Fortis. Beginning with the first quarter of 2007, Fortis is consolidating Caribbean Utilities' financial statements on a 2-month lag basis. During 2006, the statement of earnings of Fortis reflected the Corporation's approximate 37 per cent interest in Caribbean Utilities, previously accounted for on an equity basis on a 2-month lag.

(5) Includes the operations of non-regulated generating assets in Belize, Ontario, central Newfoundland, British Columbia and Upper New York State.

(6) Includes net corporate expenses and, from May 17, 2007, the expenses of non-regulated Terasen corporate-related activities and Terasen's 30 per cent ownership interest in CWLP.

REGULATED GAS UTILITIES - CANADIAN

Terasen Gas

Terasen Gas Financial Highlights (Unaudited) Periods Ended September 30 th		
	Quarter	Year-to-date ⁽¹⁾
Gas Volumes (TJ) (\$ millions)	31,441	45,185
Revenue	227.3	356.9
Energy Supply Costs	118.5	191.4
Operating Expenses	56.3	84.0
Amortization	23.6	35.2
Finance Charges	32.2	47.4
Corporate taxes	0.4	1.0
Earnings	(3.7)	(2.1)

⁽¹⁾ Data is year to date from May 17, 2007, the date of acquisition.

On May 17, 2007, Fortis acquired Terasen Gas, through the acquisition of all of the issued and outstanding shares of Terasen. Terasen Gas, comprised of TGI, TGVI and TGWI, is the principal distributor of natural gas in British Columbia, serving over 900,000 customers, or 95 per cent of natural gas users in the province. TGI provides gas distribution services to a service area that extends from Vancouver to the Fraser Valley and the interior of British Columbia. TGVI owns a combined gas distribution and transmission system servicing customers along the Sunshine Coast and in various communities on Vancouver Island, including Victoria and surrounding areas. TGWI provides propane distribution services to approximately 2,400 customers in the Whistler area.

Regulation: Terasen Gas is regulated by the British Columbia Utilities Commission (“BCUC”). TGI’s allowed rate of return on common equity (“ROE”) is 8.37 per cent for 2007 and the deemed equity component of its total capital structure is 35 per cent. TGVI’s allowed ROE is 9.07 per cent for 2007 and the deemed equity component of its total capital structure is 40 per cent.

TGI and TGVI operate under cost of service regulation and performance-based rate setting (“PBR”) methodologies as prescribed by the BCUC. Under the PBR mechanism at TGI, customers and the Company equally share in earnings above or below the allowed ROE. When TGI’s earned ROE is greater than 150 basis points above or below the allowed ROE for 2 consecutive years, the PBR mechanism may be reviewed. Under the PBR mechanism, TGVI is permitted to retain 100 per cent of earnings from lower-than-forecasted controllable operating and maintenance expenses; however, TGVI is not provided any relief from increased controllable operating and maintenance expenses. In March 2007, TGI and TGVI each received approval from the BCUC to extend their PBR mechanisms to 2009.

On June 5, 2007, TGVI filed an application with the BCUC to construct and operate a natural gas storage facility at Mount Hayes on Vancouver Island. The application seeks approval for a 1.5 billion cubic foot natural gas storage facility that will allow both TGI and TGVI to meet current and future gas demands. The natural gas storage facility will allow more efficient use of TGI’s existing pipeline systems and result in improved reliability and security of supply during planned or unplanned system interruptions or in times of high demand. The project is estimated to cost between \$175 million and \$200 million. If approved, the natural gas storage facility is expected to enter into service by late 2011.

Earnings: Terasen Gas reported a \$3.7 million loss for the third quarter and a \$2.1 million loss year to date from the date of acquisition. Seasonality materially impacts the earnings of Terasen Gas. Virtually all of the annual earnings of Terasen Gas are generated in the first and fourth quarters. Performance during the quarter was consistent with performance achieved by Terasen Gas in previous third quarters.

As a result of the operation of BCUC-approved regulatory deferral mechanisms, changes in consumption levels and the commodity cost of natural gas do not materially impact earnings of Terasen Gas. These mechanisms accumulate

the margin impact of variations in the actual-versus-forecast gas volumes consumed by residential and commercial customers and also accumulate differences between actual natural gas costs and forecast natural gas costs as recovered in base rates.

Gas volumes: Gas volumes were 31,441 TJ compared to 32,812 TJ for the same quarter last year, representing a decrease of 4.2 per cent. Year to date, from the date of acquisition, gas volumes were 45,185 TJ. The decrease in gas volumes quarter over quarter was due to a 10.2 per cent decrease in gas transportation volumes, partially offset by a 4.8 per cent increase in gas sales volumes due to higher consumption as a result of cooler-than-normal temperatures. The decrease in gas transportation volumes did not have a significant impact on revenue as it was driven by decreased demand from a large customer who is under a fixed price contract.

Following the acquisition of Terasen and discussions with management, Standard & Poor's ("S&P") raised its unsolicited long-term corporate credit and senior unsecured debt credit ratings on TGI to 'A' from 'BBB' on June 19, 2007, reflecting S&P's view that the regulatory insulation between TGI and Terasen is sufficient to rate TGI on a basis that reflects its stand-alone credit quality. The upgrade brings S&P back in line with the solicited credit ratings of Terasen by DBRS and Moody's Investors Service.

REGULATED ELECTRIC UTILITIES - CANADIAN

FortisAlberta

FortisAlberta Financial Highlights (Unaudited) Periods Ended September 30 th						
	Quarter			Year-to-date		
	2007	2006	Variance	2007	2006	Variance
Energy Deliveries (GWh)	3,781	3,658	123	11,376	10,950	426
(<i>\$ millions</i>)						
Revenue	69.7	64.6	5.1	201.7	185.0	16.7
Operating Expenses	30.8	28.8	2.0	90.2	84.4	5.8
Amortization	19.1	17.0	2.1	55.7	51.2	4.5
Finance Charges	9.0	7.7	1.3	26.4	22.0	4.4
Corporate Tax Recovery	(3.9)	(1.2)	(2.7)	(12.7)	(5.7)	(7.0)
Earnings	14.7	12.3	2.4	42.1	33.1	9.0

Regulation: On June 29, 2006, FortisAlberta received approval from the Alberta Energy and Utilities Board ("AEUB") of the 2006/2007 Negotiated Settlement Agreement associated with the Company's 2006/2007 Distribution Access Tariff Application. The AEUB-approved 2006/2007 Negotiated Settlement Agreement provided for a 0.7 per cent distribution rate increase, effective January 1, 2007.

The Company's 2007 distribution revenue requirement, as approved in the 2006/2007 Negotiated Settlement Agreement, was based on an allowed ROE of 8.93 per cent. FortisAlberta's allowed ROE was reduced to 8.51 per cent, effective January 1, 2007, due to the impact of lower long-term Canada bond yields on the automatic adjustment formula used to calculate the allowed ROE. As a result of the lower allowed ROE, FortisAlberta expects it will refund to customers in future rates approximately \$1.3 million of the revenue collected in base rates in 2007 by including this refund in its 2008/2009 Distribution Access Tariff Application.

In June 2007, FortisAlberta received AEUB approval allowing FortisAlberta the ability to sell amounts in its annual Alberta Electric System Operator ("AESO") Charges Deferral Account. On September 26, 2007, FortisAlberta agreed to sell approximately \$28.0 million of the 2006 AESO Charges Deferral Account to The Bank of Nova Scotia for cash consideration of approximately \$26.8 million and a receivable of approximately \$1.2 million, due February 15, 2009.

On June 1, 2007, FortisAlberta filed its 2008/2009 Distribution Access Tariff Application with the AEUB, requesting an increase in base distribution rates of 8.5 per cent, effective January 1, 2008, and 9.0 per cent, effective

January 1, 2009. The Application also includes forecast gross capital expenditures of \$282.8 million for 2008 and \$311.9 million for 2009, primarily to meet customer growth and improve system reliability. The requested rate increases are primarily due to the significant investment in electrical infrastructure.

Earnings: FortisAlberta's earnings were \$2.4 million higher quarter over quarter and \$9.0 million higher year to date compared to the same period last year. The increase was primarily due to higher revenue and increased corporate income tax recoveries, partially offset by higher operating expenses, amortization costs and finance charges.

Energy Deliveries: Energy deliveries increased 123 gigawatt hours ("GWh") or 3.4 per cent, quarter over quarter and increased 426 GWh, or 3.9 per cent, year to date compared to the same period last year, due to increased energy demand related to customer growth.

Revenue: Revenue was \$5.1 million higher quarter over quarter due to an increase of \$2.4 million resulting from customer growth and the 0.7 per cent increase in distribution rates billed to customers, effective January 1, 2007; an increase of \$1.3 million resulting from differences in the impact of various distribution revenue deferrals; and increased miscellaneous revenue of \$1.4 million.

Revenue was \$16.7 million higher year to date compared to the same period last year, due to an increase of \$8.1 million resulting from customer growth and the 0.7 per cent increase in distribution rates billed to customers, effective January 1, 2007; an increase of \$4.1 million resulting from differences in the impact of various distribution revenue deferrals; increased franchise fee revenue of \$1.1 million; higher net transmission revenue of \$1.0 million largely related to increased energy deliveries, number of customers and AESO billing and deferral adjustments; and increased miscellaneous revenue of \$2.4 million. The increase in miscellaneous revenue for the quarter and year to date was primarily due to early distribution service termination penalties, increased third-party contract work and interest earned on AESO Charges Deferral Accounts.

Expenses: Operating expenses were \$2.0 million higher quarter over quarter, primarily due to higher labour, employee-benefit and contracted manpower costs, partially offset by lower general operating expenses and increased amounts charged to capital projects. Operating expenses were \$5.8 million higher year to date compared to the same period last year, primarily due to higher labour, employee-benefit and contracted manpower costs and general operating expenses, partially offset by increased amounts charged to capital projects.

Amortization costs were \$2.1 million higher quarter over quarter and \$4.5 million higher year to date compared to the same period last year, due to an increase in capital assets driven by load growth and upgrades and replacements of assets within the Company's service territory.

Finance charges were \$1.3 million higher quarter over quarter and \$4.4 million higher year to date compared to the same period last year, primarily due to increased debt levels to finance capital spending. On January 3, 2007, FortisAlberta closed a \$110 million 4.99% senior unsecured debenture offering, maturing January 3, 2047. The net proceeds of the debenture issue were largely used to repay existing credit facility borrowings that were incurred primarily to fund capital expenditures.

Corporate tax recovery was \$2.7 million higher quarter over quarter and \$7.0 million higher year to date compared to the same period last year, primarily due to an increase in deductions taken for corporate income tax purposes in excess of amounts taken for accounting purposes in 2007 as compared to 2006. Driven by the reduction of AESO deferral amounts upon which future corporate income tax is calculated, a future income tax recovery has been recorded during the quarter and year-to-date period.

FortisBC

FortisBC Financial Highlights (Unaudited) Periods Ended September 30 th						
	Quarter			Year-to-date		
	2007	2006	Variance	2007	2006	Variance
Electricity Sales (GWh) (\$ millions)	703	694	9	2,252	2,196	56
Revenue	52.4	48.7	3.7	167.6	157.3	10.3
Energy Supply Costs	14.2	14.3	(0.1)	47.5	47.4	0.1
Operating Expenses	15.9	14.8	1.1	48.8	46.2	2.6
Amortization	7.7	6.7	1.0	23.2	20.4	2.8
Finance Charges	6.9	6.1	0.8	19.1	17.4	1.7
Corporate Taxes	1.5	1.1	0.4	4.6	4.9	(0.3)
Earnings	6.2	5.7	0.5	24.4	21.0	3.4

Regulation: FortisBC's allowed ROE for 2007 has been reduced to 8.77 per cent from 9.20 per cent for 2006, due to the impact of lower long-term Canada bond yields on the automatic adjustment formula used to calculate the Company's allowed ROE.

On December 20, 2006, the BCUC approved a 1.2 per cent increase in customer rates, effective January 1, 2007. On March 9, 2007, the BCUC issued an order changing the treatment of financing costs associated with large capital projects during the period of construction. The decision allowed for an effective 2.1 per cent incremental increase, over the original 1.2 per cent increase, in 2007 customer rates. As ordered by the BCUC, the 2.1 per cent increase in rates was implemented effective April 1, 2007. The impact of the increase in electricity rates relating to the period January 1, 2007 through March 31, 2007 will be recovered in 2008 customer rates. The amount to be recovered was accrued in the first quarter of 2007.

On October 1, 2007, FortisBC filed its Preliminary 2008 Revenue Requirements Application requesting a 4.0 per cent increase in customer electricity rates, effective January 1, 2008. The proposed rate increase is primarily the result of the Company's extensive capital spending program and higher power purchase costs due to ongoing customer growth and increased electricity demand.

Earnings: FortisBC's earnings were \$0.5 million higher quarter over quarter, driven by increased electricity rates and higher electricity sales, partially offset by higher operating expenses, amortization costs and finance charges. Earnings were \$3.4 million higher year to date compared to the same period last year, driven by increased electricity rates, higher electricity sales and lower corporate taxes, partially offset by higher operating expenses, amortization costs and finance charges.

Electricity Sales: Electricity sales increased 9 GWh, or 1.3 per cent, quarter over quarter and increased 56 GWh, or 2.6 per cent, year to date compared to the same period last year. The increase in electricity sales was primarily attributable to a reduction in the estimate of electrical system losses and continued customer growth in the Okanagan area. During the first quarter of 2007, an analysis of electrical system losses resulted in a reduction of the estimate of system losses, effective January 1, 2007. The reduction in the system losses reflects efficiency improvements created by the Company's ongoing capital program of upgrading and replacing generation, transmission and distribution systems, as well as the refinement of the process for estimating system losses.

Revenue: Revenue was \$3.7 million higher quarter over quarter and \$10.3 million higher year to date compared to the same period last year. The increase in revenue was primarily due to the impact of a 3.3 per cent increase in electricity rates, effective January 1, 2007, including the accrual during the first quarter of 2007 of the 2.1 per cent increase in electricity rates to be collected from customers in 2008; higher revenue contributions from non-regulated operating, maintenance and management services; customer growth; a decrease in PBR-incentive adjustments owing to customers; and increased third-party contract work.

Expenses: Energy supply costs were comparable for the quarter and year to date compared to the same periods last year. The impact of increased power purchase volumes was substantially offset by lower average power purchase prices.

Operating expenses were \$1.1 million higher quarter over quarter, primarily related to higher non-regulated operating, maintenance and management services expenses, partially offset by the impact of increased capitalized overhead costs. Operating expenses were \$2.6 million higher year to date compared to the same period last year, driven by increased operating expenses associated with non-regulated operating, maintenance and management services, increased maintenance expenses and higher property taxes, partially offset by the impact of increased capitalized overhead costs and lower water fees.

Amortization costs were \$1.0 million higher quarter over quarter and \$2.8 million higher year to date compared to the same period last year, primarily as a result of an increase in the capital assets of FortisBC due to its capital spending program.

Finance charges were \$0.8 million higher quarter over quarter and \$1.7 million higher year to date compared to the same period last year, driven by increased borrowings to finance the Company's capital spending program.

On July 4, 2007, FortisBC issued \$105 million 5.90% senior unsecured debentures, maturing July 4, 2047. The net proceeds of the debenture issue were used largely to repay existing credit facility borrowings that were incurred primarily to fund capital expenditures.

On June 21, 2007, Moody's Investors Service upgraded the credit rating on FortisBC's senior unsecured debt to 'Baa2, Stable Outlook' from 'Baa3, Stable Outlook'. The rating upgrade reflects the progress the Company has made in addressing issues identified as credit challenges at the time of the initial credit rating in 2004.

Corporate taxes were \$0.4 million higher quarter over quarter, primarily due to higher earnings before corporate taxes and lower deductions taken for corporate income tax purposes compared to amounts taken for accounting purposes. Corporate taxes were \$0.3 million lower year to date compared to the same period last year, primarily due to higher deductions taken for corporate income tax purposes compared to amounts taken for accounting purposes, partially offset by higher earnings before corporate taxes.

Newfoundland Power

Newfoundland Power Financial Highlights (Unaudited) Periods Ended September 30 th						
	Quarter			Year-to-date		
	2007	2006	Variance	2007	2006	Variance
Electricity Sales (GWh)	874	871	3	3,709	3,642	67
(<i>\$ millions</i>)						
Revenue	88.9	78.5	10.4	358.0	307.6	50.4
Energy Supply Costs	58.8	47.7	11.1	238.8	188.0	50.8
Operating Expenses	11.7	12.1	(0.4)	38.5	39.2	(0.7)
Amortization	6.4	6.5	(0.1)	25.2	24.2	1.0
Finance Charges	8.5	8.3	0.2	25.0	24.4	0.6
Corporate Taxes	0.7	1.2	(0.5)	8.9	10.0	(1.1)
Non-Controlling Interest	0.1	0.1	-	0.4	0.5	(0.1)
Earnings	2.7	2.6	0.1	21.2	21.3	(0.1)

Regulation: Newfoundland Power's allowed ROE for 2007 has been reduced to 8.60 per cent from 9.24 per cent for 2006 due to the impact of lower long-term Canada bond yields on the automatic adjustment formula used to calculate the allowed ROE.

In December 2006, the Newfoundland and Labrador Board of Commissioners of Public Utilities (“PUB”) approved, on an interim basis, an average 0.07 per cent increase in customer electricity rates, effective January 1, 2007. The increase was due to a change in the flow through of costs from Newfoundland and Labrador Hydro Corporation (“Newfoundland Hydro”), driven by increased purchased power costs and the resulting change in the wholesale purchased power rate, partially offset by the impact of a reduction in Newfoundland Power’s allowed ROE to 8.60 per cent, effective January 1, 2007. There will be no impact on Newfoundland Power’s earnings in 2007 due to the change in the flow through of costs from Newfoundland Hydro. Final approval of the average 0.07 per cent increase in customer electricity rates for 2007 was provided by the PUB in April 2007.

In December 2006, the PUB approved, as filed in September 2006, Newfoundland Power’s application requesting amortization of \$2.7 million of unrecognized 2005 unbilled revenue as revenue in 2007 to offset the 2007 income tax impact of changing to the accrual method for revenue recognition, the deferred recovery of capital asset amortization of \$5.8 million similar to 2006 and the deferred recovery of \$1.8 million associated with the cost of replacement energy required to be purchased while the Company’s Rattling Brook hydroelectric generating facility is being refurbished.

The new purchased power rate structure for 2007 results in the Company paying more, on average, for each kilowatt hour (“kWh”) of purchased power in the winter months and less, on average, for each kWh of purchased power in the summer months compared to 2006. However, Newfoundland Power is recording purchased power costs in its statement of earnings based on forecast annual unit cost per kWh. Variances from the forecast annual unit cost of purchased power are accumulated in a regulator-approved deferral account.

On September 19, 2007, Newfoundland Power’s 2008 Capital Budget totalling \$51 million was approved by the PUB, with more than half of the 2008 capital budget being allocated to replace older and deteriorated components of the electricity system.

On October 11, 2007, Newfoundland Power filed a revised 2008 General Rate Application (“GRA”) with the PUB, proposing an average 2.8 per cent increase in electricity rates, effective January 1, 2008, compared to the originally proposed average rate increase of 5.3 per cent. The reduction in the requested rate increase is primarily the result of recent negotiations between the Company and the Consumer Advocate, which were assisted by a PUB-appointed mediator. It has been agreed that certain changes to the Company’s accounting practices for retirement costs, which were proposed in the original GRA filed in May 2007, should not proceed at this time. In addition, it has been agreed that the Company’s allowed ROE for 2008 should be 8.95 per cent. The revised rate increase is largely driven by higher amortization costs. Newfoundland Power’s revised application is subject to a full review and approval by the PUB.

Earnings: Newfoundland Power’s earnings of \$2.7 million for the quarter and \$21.2 million year to date were comparable to earnings for the same periods last year. The impact of increased electricity sales year to date, lower operating expenses and lower effective corporate taxes was offset by the impact of a reduction in the allowed ROE for 2007, increased amortization costs and higher finance charges.

Electricity Sales: Electricity sales increased 3 GWh, or 0.3 per cent, quarter over quarter, primarily due to customer growth, partially offset by a decrease in average consumption. Electricity sales increased 67 GWh, or 1.8 per cent, year to date compared to the same period last year, primarily due to customer growth and an increase in average consumption.

Revenue: Revenue was \$10.4 million higher quarter over quarter and \$50.4 million higher year to date compared to the same period last year. The increase resulted from the flow through of higher purchased power costs from Newfoundland Hydro, effective January 1, 2007, and increased electricity sales, partially offset by a reduction in revenue due to a lower allowed ROE for 2007.

Expenses: Energy supply costs were \$11.1 million higher quarter over quarter and \$50.8 million higher year to date compared to the same period last year, due to the flow through of higher purchased power costs from Newfoundland Hydro, effective January 1, 2007, and increased electricity sales.

Operating expenses were \$0.4 million lower quarter over quarter and \$0.7 million lower year to date compared to the same period last year. The decrease was primarily due to lower pension costs reflecting improved returns on

pension plan assets, as of December 31, 2006, and the conclusion in March 2007 of the amortization of retirement allowances associated with a 2005 early retirement program.

Amortization costs were comparable quarter over quarter and were \$1.0 million higher year to date compared to the same period last year. Year to date, the increase was primarily due to the continued investment in capital assets. Amortization costs continue to be allocated quarterly based on contribution margin.

Finance charges were \$0.2 million higher quarter over quarter and \$0.6 million higher year to date compared to the same period last year, primarily due to additional borrowings required to finance the Company's capital spending program. On August 17, 2007, Newfoundland Power issued \$70 million 5.901% first mortgage sinking fund bonds, due August 2037. The net proceeds were used to repay existing credit facility borrowings, that were incurred principally to fund capital expenditures, and for general corporate purposes.

Corporate taxes were \$0.5 million lower quarter over quarter and \$1.1 million lower year to date compared to the same period last year. The decrease was primarily due to higher deductions taken for corporate income tax purposes compared to deductions taken for accounting purposes, mainly relating to the Company's 2007 Rattling Brook hydroelectric plant refurbishment project, as well as the impact of lower earnings before corporate taxes.

Other Canadian Electric Utilities

Other Canadian Electric Utilities (Unaudited) ⁽¹⁾						
Financial Highlights						
Periods Ended September 30th						
				Quarter		
	2007	2006	Variance	2007	2006	Variance
Electricity Sales (GWh)						
Maritime Electric	256	255	1	783	751	32
FortisOntario	281	296	(15)	872	882	(10)
Total	537	551	(14)	1,655	1,633	22
<i>(\$ millions)</i>						
Revenue	63.0	64.2	(1.2)	198.0	189.4	8.6
Energy Supply Costs	40.7	41.9	(1.2)	132.1	127.9	4.2
Operating Expenses	7.0	6.7	0.3	21.0	20.4	0.6
Amortization	4.2	3.9	0.3	12.5	11.6	0.9
Finance Charges	4.2	4.2	-	12.6	11.6	1.0
Corporate Taxes	2.5	2.8	(0.3)	7.5	7.4	0.1
Earnings	4.4	4.7	(0.3)	12.3	10.5	1.8

⁽¹⁾ Includes Maritime Electric and FortisOntario

Regulation: In June 2007, Maritime Electric filed its 2008 Capital Budget with the Island Regulatory and Appeals Commission ("IRAC") for approximately \$18.6 million, before customer contributions of \$0.2 million. On October 18, 2007, Maritime Electric filed a rate application with IRAC for the purpose of setting rates for the period April 1, 2008 through March 31, 2009. The application requests an increase in basic electricity rates of 1.8 per cent in addition to an increase in rates related to the flow through of increased energy supply costs.

Effective May 1, 2007, the Ontario Energy Board ("OEB") approved electricity distribution rates for FortisOntario's operations in Fort Erie, Port Colborne and Gananoque. The rate orders effectively increased base distribution rates in each of the 3 operating areas by, on average, 0.9 per cent. The distribution rates were determined using OEB's incentive rate mechanism, which comprised of a 1.9 per cent increase for inflation and a 1.0 per cent decrease for a productivity adjustment. In July 2007, the OEB issued its Decision and Order approving the recovery in customer rates, as requested by Canadian Niagara Power, of approximately \$2 million in extraordinary costs incurred as a result of the snow storm that occurred in October 2006. The extraordinary costs, which had been previously deferred, are being recovered mostly over a period of 2 years beginning September 2007.

Earnings: Earnings from Other Canadian Electric Utilities of \$4.4 million for the quarter were slightly lower than earnings for the same quarter last year. Increased operating expenses and higher amortization costs were partially offset by a lower effective corporate tax rate. Earnings were \$1.8 million higher year to date compared to the same period last year, primarily due to the 3.35 per cent increase in basic electricity rates, effective July 1, 2006, at Maritime Electric; an increase in distribution electricity rates, in May 2006 and May 2007, at FortisOntario; increased electricity sales; and a lower effective corporate tax rate, partially offset by higher operating expenses, finance charges and amortization costs.

Electricity Sales: Electricity sales decreased 14 GWh, or 2.5 per cent, quarter over quarter, driven by lower sales at FortisOntario, due to lower consumption as a result of moderate weather conditions, the loss of a major customer and the impact of a temporary shut down of operations of another customer. Electricity sales increased 22 GWh, or 1.3 per cent, year to date compared to the same period last year, driven by higher average consumption as a result of cooler-than-normal weather conditions experienced on PEI, partially offset by decreased sales at FortisOntario largely due to the reasons described for the quarter.

Revenue: Revenue was \$1.2 million lower quarter over quarter largely due to decreased electricity sales. Revenue was \$8.6 million higher year to date compared to the same period last year, primarily due to an overall increase in electricity sales, the 3.35 per cent increase in basic electricity rates at Maritime Electric, effective July 1, 2006, increases in electricity rates at FortisOntario in May 2006 and May 2007, partially offset decreased miscellaneous revenue at Fortis Ontario.

Expenses: Energy supply costs were \$1.2 million lower quarter over quarter largely due to decreased electricity sales. Energy supply costs were \$4.2 million higher year to date compared to the same period last year, driven by an overall increase in electricity sales and increased market energy prices paid at FortisOntario.

Operating expenses were slightly higher quarter over quarter and \$0.6 million higher year to date compared to the same period last year. The increase year to date was driven by higher insurance, regulatory and legal costs.

Amortization costs increased \$0.3 million quarter over quarter and increased \$0.9 million year to date compared to the same period last year, primarily due to continued investment in capital assets.

Finance charges were \$1.0 million higher year to date compared to the same period last year, due to borrowings associated with Maritime Electric's capital spending and operating programs and to finance higher energy supply costs.

The effective corporate tax rate was 36.2 per cent for the third quarter compared to 37.3 per cent for the same quarter last year, primarily due to higher deductions taken for corporate income tax purposes compared to deductions taken for accounting purposes. Year to date, the effective corporate tax rate was 37.9 per cent compared to 41.3 per cent for the same period last year. During the second quarter of 2006, a charge to future tax expense was recorded at FortisOntario due to the reduction of future income tax asset balances, as a result of enacted future Federal income tax rate reductions, resulting in a higher effective tax rate during the year-to-date period last year.

REGULATED ELECTRIC UTILITIES – CARIBBEAN

Regulated Electric Utilities – Caribbean ⁽¹⁾ Financial Highlights (Unaudited) Periods Ended September 30 th						
	Quarter			Year-to-date		
	2007	2006	Variance	2007	2006	Variance
Average US:CDN Exchange Rate ⁽²⁾	1.04	1.12	(0.08)	1.10	1.14	(0.04)
Electricity Sales (GWh)						
Belize Electricity	101	96	5	287	269	18
Caribbean Utilities	142	131	11	387	351	36
Fortis Turks and Caicos	40	33	7	108	89	19
Total	283	260	23	782	709	73
(\$ millions)						
Revenue	79.6	26.6 ⁽³⁾	53.0	231.0	69.4 ⁽³⁾	161.6
Equity income	-	3.2	(3.2)	-	6.9	(6.9)
Energy Supply Costs	42.7	15.0	27.7	127.4	40.1	87.3
Operating Expenses	10.6	3.0	7.6	38.8	8.4	30.4
Amortization	6.8	1.7	5.1	21.0	4.5	16.5
Finance Charges	3.9	0.4	3.5	11.4	3.7	7.7
Corporate Taxes	0.4	0.4	-	1.2	1.1	0.1
Non-Controlling Interest	5.4	1.6	3.8	9.7	3.3	6.4
Earnings	9.8	7.7	2.1	21.5	15.2	6.3

(¹) Includes Belize Electricity, in which Fortis holds a 70.1 per cent controlling interest; Caribbean Utilities, in which Fortis holds an approximate 54 per cent controlling interest; and wholly owned Fortis Turks and Caicos.

(²) The reporting currency of Belize Electricity is the Belizean dollar which is pegged to the US dollar at BZ\$2.00 = US\$1.00. The reporting currency of Caribbean Utilities is the Cayman Island dollar which is pegged to the US dollar at CI\$0.84 = US\$1.00. The reporting currency of Fortis Turks and Caicos is the US dollar.

(³) Revenue for the 3- and 9-months ended September 30, 2006 does not include electricity sales for Caribbean Utilities as this utility was not consolidated in the financial statements of Fortis during these periods. Revenue for the 3- and 9-months ended September 30, 2006 includes revenue for Fortis Turks and Caicos from August 28, 2006, the date of acquisition by Fortis.

On November 7, 2006, Fortis acquired an additional approximate 16 per cent interest in Caribbean Utilities and now owns an approximate 54 per cent controlling interest in the Company. Caribbean Utilities' balance sheet as at November 7, 2006 was consolidated in the December 31, 2006 balance sheet of Fortis. Beginning with the first quarter of 2007, Fortis is consolidating Caribbean Utilities' financial statements on a 2-month lag basis. During 2006, the statements of earnings of Fortis reflected the Corporation's approximate 37 per cent interest in Caribbean Utilities, previously accounted for on an equity basis on a 2-month lag. Caribbean Utilities has an April 30th fiscal year end and, therefore, quarterly data presented above for 2007 and 2006 includes financial results for Caribbean Utilities for its first quarter ended July 31st. The year-to-date financial data for 2007 and 2006 above includes financial results for Caribbean Utilities for the 9-month period ended July 31st.

Regulation: On June 26, 2007, the Public Utilities Commission ("PUC") issued its Final Decision on Belize Electricity's Annual Tariff Review Application ("Tariff Application") for the period from July 1, 2007 to June 30, 2008. The Final Decision reflected many recommendations provided by an independent expert who was appointed by the PUC subsequent to the objection by Belize Electricity and the Government of Belize of the PUC's Initial Decision on the Tariff Application. The PUC's Final Decision approved changes to tariffs for certain customer classes while maintaining the mean electricity rate at BZ44.1 cents per kWh. Belize Electricity continues to object to the PUC's Final Decision and is appealing it due to adjustments for cost of power, commercial loss targets and penalties associated with reliability targets. Belize Electricity will not record the impacts associated with the Final Decision on the Tariff Application until the appeal of the PUC decision has been heard and decided upon, which is expected during the fourth quarter of 2007.

Licence renewal negotiations continue between Caribbean Utilities and the Government of the Cayman Islands (the "Government") and, in June 2007, Caribbean Utilities submitted a new licence proposal at the request of the Government. The Company is actively engaged in discussions with Government based on the new proposal. The Company's current Licence remains in full force and effect until January 2011 or until replaced with a new licence by mutual agreement. Under its current Licence, Caribbean Utilities was entitled to a 4.5 per cent rate increase,

effective August 1, 2007, primarily due to the cost associated with the write-down of the steam turbine and boiler system (“steam system”) assets, increased operating costs, and investment in capital assets. Caribbean Utilities did not implement this rate increase, as it agreed with Government that it would freeze basic electricity rates during the period of the hurricane cost recovery surcharge (“CRS”) related to Hurricane Ivan. The CRS is expected to remain in place until 2008. As at July 31, 2007, a total of US\$8.9 million has been collected since the CRS implementation date of August 1, 2005, leaving US\$4.5 million to be collected from customers.

Earnings: Earnings contribution from Regulated Electric Utilities - Caribbean was \$2.1 million higher quarter over quarter, driven by the increased contribution from Fortis Turks and Caicos and Caribbean Utilities of \$2.0 million and \$0.9 million, respectively, partially offset by the decreased contribution from Belize Electricity of \$0.8 million. The impact of the increased investment in Caribbean Utilities to 54 per cent, effective January 1, 2007, was partially offset by the impact of lower reported earnings at Caribbean Utilities quarter over quarter, due to increased operating expenses. Decreased earnings contribution from Belize Electricity was primarily due to increased operating expenses, amortization costs and finance charges. Earnings contribution from Regulated Electric Utilities - Caribbean was tempered by the \$0.8 million impact of foreign exchange associated with translation of foreign currency denominated earnings, due to the strengthening of the Canadian dollar against the US dollar.

Earnings contribution from Regulated Electric Utilities - Caribbean was \$6.3 million higher year to date compared to the same period last year, driven by the increased contribution from Fortis Turks and Caicos and Belize Electricity of \$6.2 million and \$1.0 million, respectively, partially offset by the decreased contribution from Caribbean Utilities of \$0.9 million. The impact of the increased investment in Caribbean Utilities to 54 per cent, effective January 1, 2007, was more than offset by the impact of lower reported earnings at Caribbean Utilities year to date compared to the same period last year, largely due to a \$4.4 million (US\$3.7 million) charge associated with the disposal of its steam system assets during the first quarter of 2007 and higher operating expenses. Increased earnings contribution from Belize Electricity was driven by higher electricity sales and lower finance charges. Earnings contribution from Regulated Electric Utilities - Caribbean was tempered by the \$0.7 million impact of foreign exchange associated with translation of foreign currency denominated earnings, due to the strengthening of the Canadian dollar against the US dollar.

The comparability of revenue, equity income and expenses quarter over quarter and year to date compared to the same period last year was significantly impacted by the acquisition of Fortis Turks and Caicos and the increased investment in Caribbean Utilities. Revenue and expenses reported by the Corporation during the 3- and 9-month periods ended September 30, 2006 included results of Fortis Turks and Caicos from August 28, 2006, the date of acquisition by Fortis. However, revenues and expenses did not include the results of Caribbean Utilities as this Company’s financial results were not consolidated in the Corporation’s financial statements during those periods. Caribbean Utilities’ financial results were accounted for on an equity basis during 2006.

Electricity Sales: Total electricity sales reported by Regulated Electric Utilities - Caribbean increased 23 GWh, or 8.8 per cent, quarter over quarter and increased 73 GWh, or 10.3 per cent, year to date compared to the same period last year. The increase is primarily due to higher demand driven by customer growth as strong local economies fuel new residential and commercial construction, including hotels. Growth in reported electricity sales at Fortis Turks and Caicos was led by the large hotels; however, the rate applicable to this customer class is the lowest of all customer classes of Fortis Turks and Caicos. Commercial growth in Grand Cayman is being led by new developments such as the 160,000 square-foot Governor’s Square shopping and office centre, the 89,000 square-foot Caribbean Club condominium complex, and the 500,000 square-foot phase-one Camana Bay scheduled to come on line late in 2007.

Revenue: In addition to the consolidation of Caribbean Utilities’ financial results, effective January 1, 2007, and the impact of Fortis Turks and Caicos, revenue increased quarter over quarter and year to date compared to the same period last year due to electricity sales growth at Belize Electricity, partially offset by the impact of foreign currency translation.

Expenses: The increase in energy supply costs, operating expenses, finance charges and amortization costs quarter over quarter and year to date compared to the same period last year was primarily due to the consolidation of Caribbean Utilities’ financial results effective January 1, 2007 and the impact of Fortis Turks and Caicos, partially offset by the impact of foreign currency translation.

Operating expenses and amortization costs at Belize Electricity increased quarter over quarter and year to date compared to the same period last year. Operating expenses increased largely due to higher employee costs, new customer service and revenue loss reduction initiatives and general increases in cost of goods and services. Amortization costs increased due to continued investment in capital assets. Net finance charges at Belize Electricity increased quarter over quarter due to a reduction in interest income; however, net finance charges decreased year to date compared to the same period last year due to lower debt balances. In June 2006, proceeds from a share offering at Belize Electricity were used to repay certain trade payables, inter-company loans, and drawings on overdraft facilities incurred primarily to finance the high cost of power and fuel.

Caribbean Utilities' operating expenses consolidated in the financial results of the Corporation during the third quarter of 2007 were higher than operating expenses reported by Caribbean Utilities for the same quarter last year, driven by higher maintenance costs; however maintenance costs during the third quarter last year were lower than normal due to delays in the Company's scheduled maintenance program.

Year to date, Caribbean Utilities' operating expenses consolidated in the financial results of the Corporation were higher than operating expenses reported by Caribbean Utilities for the same period last year, driven by higher maintenance costs, and operating expenses during the second quarter of 2006 being reduced by a \$1.4 million (US\$1.2 million) gain on disposal of assets associated with an insurance settlement. Additionally, during the first quarter of 2007, Regulated Electric Utilities - Caribbean operating expenses included a \$4.4 million (US\$3.7 million) charge on the disposal of Caribbean Utilities' steam system assets.

During the second quarter, Caribbean Utilities closed the first tranche of a US\$40 million 5.65% senior unsecured note offering in the amount of US\$30 million. The senior unsecured notes are due June 1, 2022 and the second tranche of US\$10 million is expected to close in December 2007. Proceeds from the debt offering are being used to repay certain indebtedness and to finance capital expenditures.

In June 2007, Caribbean Utilities commissioned a new 16-MW diesel-fired generating unit and increased its total owned generating capacity to approximately 140 MW.

During the third quarter of 2007, Fortis Turks and Caicos added 7 MW of owned generating capacity, bringing the total of owned generating capacity at Fortis Turks and Caicos to approximately 48 MW. An additional 3 MW of capacity was also leased during the quarter. The additional capacity was obtained in order to keep pace with strong customer growth.

NON-REGULATED - FORTIS GENERATION

Non-Regulated - Fortis Generation Financial Highlights (Unaudited) Periods Ended September 30 th						
	Quarter			Year-to-date		
	2007	2006	Variance	2007	2006	Variance
Energy Sales (GWh)	2007	2006	Variance	2007	2006	Variance
Belize	45	65	(20)	115	125	(10)
Ontario	167	172	(5)	528	536	(8)
Central Newfoundland	31	32	(1)	97	109	(12)
British Columbia	10	9	1	29	26	3
Upper New York State	1	10	(9)	50	67	(17)
Total	254	288	(34)	819	863	(44)
(\$ millions)	Quarter			Year-to-date		
	2007	2006	Variance	2007	2006	Variance
Revenue	16.9	19.4	(2.5)	55.7	59.2	(3.5)
Energy Supply Costs	1.5	1.4	0.1	5.3	4.8	0.5
Operating Expenses	3.6	3.3	0.3	11.2	11.2	-
Amortization	2.5	2.6	(0.1)	7.9	7.9	-
Finance Charges	2.4	2.6	(0.2)	7.2	7.8	(0.6)
Corporate Taxes	1.7	1.5	0.2	6.2	6.6	(0.4)
Non-Controlling Interest	0.2	0.2	-	0.7	1.0	(0.3)
Earnings	5.0	7.8	(2.8)	17.2	19.9	(2.7)

Earnings: Earnings from Non-Regulated - Fortis Generation were \$2.8 million lower quarter over quarter and \$2.7 million lower year to date compared to the same period last year, primarily due to decreased production due to lower rainfall. Earnings for the quarter and year to date were tempered by the \$0.2 million impact of foreign exchange associated with the translation of US-dollar denominated earnings, due to the strengthening of the Canadian dollar against the US dollar.

Energy Sales: Energy sales decreased 34 GWh, or 11.8 per cent, quarter over quarter and decreased 44 GWh, or 5.1 per cent, year to date compared to the same period last year. The decrease was primarily due to lower production as a result of lower rainfall in most of the operating regions and repairs associated with generating assets in Ontario.

Revenue: Revenue was \$2.5 million lower quarter over quarter and \$3.5 million lower year to date compared to the same period last year, primarily due to decreased energy sales.

The average wholesale energy price per megawatt hour (“MWh”) in Ontario during the third quarter was \$47.42 compared to \$46.59 for the same quarter last year. The average wholesale energy price per MWh in Ontario was \$47.63 year to date, comparable to the same period last year.

Expenses: Operating expenses were \$0.3 million higher quarter over quarter; however, a favourable adjustment to water right fees during the third quarter last year reduced operating expenses during that period.

Finance charges were lower quarter over quarter and year to date compared to the same period last year, due to the impact of lower principal debt balances.

Corporate taxes were \$0.2 million higher quarter over quarter; however, corporate taxes during the third quarter last year were favorably impacted by an adjustment associated with future corporate tax rate changes. Corporate taxes were \$0.4 million lower year to date compared to the same period last year, primarily due to lower earnings before corporate taxes at the taxable jurisdictions.

NON-REGULATED - FORTIS PROPERTIES

Non-Regulated - Fortis Properties Financial Highlights (Unaudited) Periods Ended September 30 th						
	Quarter			Year-to-date		
(\$ millions)	2007	2006	Variance	2007	2006	Variance
Real Estate Revenue	14.7	13.7	1.0	43.1	40.9	2.2
Hospitality Revenue	38.9	30.2	8.7	97.8	80.1	17.7
Total Revenue	53.6	43.9	9.7	140.9	121.0	19.9
Operating Expenses	31.8	26.1	5.7	89.3	77.0	12.3
Amortization	3.4	3.2	0.2	9.8	8.9	0.9
Finance Charges	6.2	5.2	1.0	17.8	15.3	2.5
Gain on Sale of Income Producing Property	-	-	-	-	(2.1)	2.1
Corporate Taxes	4.2	3.1	1.1	8.2	6.0	2.2
Earnings	8.0	6.3	1.7	15.8	15.9	(0.1)

Earnings: Fortis Properties' earnings were \$1.7 million higher quarter over quarter, primarily due to growth in contributions from the Company's hospitality operations in western Canada, partially offset by higher amortization costs and finance charges. Earnings of \$15.8 million year to date were comparable to earnings for the same period last year. Excluding the \$1.6 million after-tax gain on the sale of Days Inn Sydney and an approximate \$1.6 million favourable corporate tax adjustment during the second quarter last year, earnings were \$3.1 million higher year to date compared to the same period last year, primarily due to the reasons described for the quarter.

On November 1, 2006, Fortis Properties purchased 4 hotels in Alberta and British Columbia for approximately \$52 million, including acquisition costs and assumed debt, increasing hospitality operations by 454 rooms. On August 1, 2007, Fortis Properties purchased the Delta Regina in Saskatchewan for approximately \$50 million, including acquisition costs. Delta Regina is comprised of 274 hotel rooms, the Saskatchewan Trade and Convention Centre, 52,000 square feet of Class A commercial office space and a parking garage.

Revenue: Real estate revenue was \$1.0 million higher quarter over quarter and \$2.2 million higher year to date compared to the same period last year, due to the Blue Cross Centre expansion in Moncton, revenue from the Delta Regina associated with real estate operations, and growth experienced in all operating regions of the Company. The occupancy rate of the Real Estate Division was 96.9 per cent as at September 30, 2007, up from 94.7 per cent as at September 30, 2006, primarily due to additional leasing in all operating regions of the Company.

Hospitality revenue was \$8.7 million higher quarter over quarter, \$8.0 million of which was due to growth in the Company's hospitality operations in western Canada. Revenue also improved due to increased revenue earned from the expanded Ontario hotels.

Hospitality revenue was \$17.7 million higher year to date compared to the same period last year, \$16.9 million of which was due to growth in the Company's hospitality operations in western Canada and \$1.4 million was due to increased revenue earned from the expanded Ontario hotels. The increase was partially offset by a decrease in revenue from the Company's Atlantic Canadian operating region, primarily due to the elimination of revenue following the sale of Days Inn Sydney in June 2006. Revenue per available room ("REVPAR") for the third quarter of 2007 was \$95.11 compared to \$88.09 for the same quarter last year. The 8.0 per cent increase in REVPAR was primarily attributable to the addition of the 4 hotels acquired on November 1, 2006 and the Delta Regina acquired on August 1, 2007, and increased average rates and occupancy at the Company's other hotels.

Expenses: Operating expenses were \$5.7 million higher quarter over quarter and \$12.3 million higher year to date compared to the same period last year. The increase was primarily due to costs associated with growth in the Company's hospitality operations in western Canada and the impact of the expanded Ontario hotels and the Blue Cross Centre. Year to date, the increase was partially offset by the elimination of operating expenses following the sale of Days Inn Sydney in June 2006.

Finance charges were \$1.0 million higher quarter over quarter and \$2.5 million higher year to date compared to the same period last year, primarily due to financing associated with the 4 hotels in western Canada acquired on November 1, 2006 and the Delta Regina acquired on August 1, 2007.

Corporate taxes were \$1.1 million higher quarter over quarter driven by higher earnings before corporate taxes. Corporate taxes were \$2.2 million higher year to date compared to the same period last year. However, corporate taxes year to date last year were reduced by approximately \$1.6 million due to the reduction of future income tax liability balances resulting from enacted future Federal income tax rate reductions.

CORPORATE AND OTHER

Corporate and Other ⁽¹⁾ Financial Highlights (Unaudited) Periods Ended September 30 th						
(\$ millions)	Quarter			Year-to-date		
	2007	2006	Variance	2007	2006	Variance
Total Revenue	8.3	2.2	6.1	16.1	6.4	9.7
Operating Expenses	5.3	2.0	3.3	8.4	7.5	0.9
Amortization	1.9	0.7	1.2	3.9	2.2	1.7
Finance Charges ⁽²⁾	21.3	10.3	11.0	47.7	29.7	18.0
Foreign Exchange Gain	-	(0.3)	0.3	-	(2.1)	2.1
Corporate Tax Recovery	(5.4)	(2.2)	(3.2)	(9.8)	(7.2)	(2.6)
Non-Controlling Interest	-	-	-	(0.1)	(0.1)	-
Preference Share Dividends	1.5	-	1.5	4.6	-	4.6
Net Corporate and Other Expenses	(16.3)	(8.3)	(8.0)	(38.6)	(23.6)	(15.0)

(1) Includes Terasen corporate costs and financial results of CWLP from May 17, 2007, the date of acquisition
(2) Includes dividends on preference shares classified as long-term liabilities

The Corporate and Other segment captures expense and revenue items not specifically related to any operating or reportable segment. Included in this segment are finance charges, including interest on debt incurred directly by Fortis and Terasen and dividends on preference shares classified as long-term liabilities; foreign exchange gains or losses; dividends on preference shares classified as equity; other corporate expenses, including Fortis and Terasen holding company operating costs, net of recoveries from subsidiaries; interest and miscellaneous revenues; and corporate income taxes. Also included in the Corporate and Other segment are the financial results of CWLP. CWLP is a non-regulated shared-service business in which Terasen holds a 30 per cent interest. CWLP operates in partnership with Enbridge Inc. and provides customer service, meter reading, billing, credit, support and collection services to Terasen Gas and several smaller third parties. CWLP's financial results are recorded using the proportionate consolidation method of accounting.

Net corporate and other expenses were \$8.0 million higher quarter over quarter and \$15.0 million higher year to date compared to the same period last year, primarily due to higher finance charges and preference share dividends associated with the financing of acquisitions, and the inclusion of Terasen holding company and CWLP financial results from May 17, 2007. Excluding a \$2.1 million (\$1.7 million after-tax) foreign exchange translation gain on unhedged corporate US dollar-denominated debt recorded year to date last year, net corporate and other expenses were \$13.3 million higher year to date compared to the same period last year. There was no similar foreign exchange translation gain year to date 2007, as all corporate US dollar-denominated debt has been designated as a hedge against the Corporation's US dollar-denominated foreign net investments. All foreign exchange translation gains and losses on corporate US dollar-denominated debt in effective hedging relationships are recorded in other comprehensive income, effective January 1, 2007.

Revenue was \$6.1 million higher quarter over quarter and \$9.7 million higher year to date compared to the same period last year. The increase was primarily due to the inclusion of \$4.6 million and \$5.5 million of revenue for the third quarter of 2007 and year to date 2007, respectively, primarily associated with CWLP, and higher inter-company interest revenue due to increased inter-company lending.

Operating expenses were \$3.3 million higher quarter over quarter and \$0.9 million higher year to date compared to the same period last year, driven by Terasen holding company and CWLP operating expenses. Operating expenses year to date last year included approximately \$1.4 million of business development costs.

The increase in finance charges quarter over quarter and year to date compared to the same period last year was driven by Terasen acquisition-related finance charges of approximately \$10.4 million for the quarter and \$15.3 million year to date, and interest on US\$40 million of unsecured subordinated convertible debentures issued in November 2006 to fund, in part, the increased investment in Caribbean Utilities. The increase was partially offset by the impact of lower foreign exchange associated with US dollar denominated interest payments. The increase in preference share dividends was associated with the First Preference Shares, Series F issued on September 28, 2006.

In September 2007, Fortis privately placed US\$200 million 6.60% senior unsecured notes, due September 2037. The net proceeds were used to refinance existing indebtedness associated with the Terasen acquisition and for general corporate purposes.

CONSOLIDATED FINANCIAL POSITION

The following table outlines the significant changes in the consolidated balance sheets between September 30, 2007 and December 31, 2006. The significant changes in the consolidated balance sheets associated with the consolidation of Terasen as at September 30, 2007 are itemized separately below.

Fortis Inc. Significant Changes in the Consolidated Balance Sheets (Unaudited) between September 30, 2007 and December 31, 2006			
(\$ millions)	Increase due to Terasen	Other Increase/ (Decrease)	Explanation
Accounts receivable	185.6	(40.5)	The other decrease in accounts receivable primarily related to seasonal reduction in sales at FortisBC and Newfoundland Power and lower transmission revenue accruals at FortisAlberta. Included in the change associated with Terasen was a \$31.9 million decrease in accounts receivable from the date of acquisition as a result of seasonal reduction in sales.
Prepays	7.3	10.6	The other increase in prepays was driven by the timing of payment of insurance premiums.
Regulatory assets – current and long-term	189.1	10.9	The other increase in regulatory assets was driven by an increase in energy costs deferred at Maritime Electric due to higher energy prices. Included in the change associated with Terasen was a \$92.9 million increase in regulatory assets from the date of acquisition, driven by an increase in the fair market value of the gas commodity swap contracts that is deferred in a rate stabilization account, and an increase in the revenue deferral deficiency account at TGVI due to seasonality.
Inventories of gas, materials and supplies	245.9	(0.2)	The other decrease in materials and supplies was not significant. Included in the change associated with Terasen was a \$150.3 million increase in inventories of gas and supplies from the date of acquisition, as a result of the typical seasonal decrease in natural gas consumption and the injection of gas into storage.
Deferred charges and other assets	30.3	(24.6)	The other decrease in deferred charges and other assets was driven by the reclassification of \$21.2 million of deferred financing costs and \$11 million of unamortized deferred losses associated with a previously cancelled forward interest rate swap contract to long-term debt and accumulated other comprehensive loss, respectively, upon adoption of new accounting standards for Financial Instruments, Hedges and Comprehensive Income on January 1, 2007.
Future income tax assets – long-term	18.5	12.4	The other increase in future income tax assets primarily related to the tax impact of costs associated with the issuance of Common Shares upon the conversion of Subscription Receipts on May 17, 2007.

Fortis Inc. Significant Changes in the Consolidated Balance Sheets (Unaudited) between September 30, 2007 and December 31, 2006 (cont'd)			
(\$ millions)	Increase due to Terasen	Other Increase/(Decrease)	Explanation
Utility capital assets	2,803.0	178.2	The other increase in utility capital assets primarily related to \$474.6 million invested in electricity systems, partially offset by customer contributions, amortization for the 9-month period and the impact of foreign exchange on the translation of US dollar-denominated utility capital assets. Included in the change associated with Terasen was a \$25 million net increase in utility capital assets from the date of acquisition, due to capital spending, less amortization for the period.
Income producing properties	-	49.6	The other increase in income producing properties primarily related to the acquisition of the Delta Regina by Fortis Properties on August 1, 2007.
Goodwill	906.7	(23.4)	The other decrease in goodwill related to the impact of foreign exchange on the translation of the US dollar-denominated goodwill amounts.
Short-term borrowings	324.9	(20.1)	The other decrease in short-term borrowings was driven by net reductions in short-term borrowings at FortisBC with proceeds from a debenture offering, partially offset by net drawings under credit facilities at Maritime Electric in support of operations and capital expenditures. Included in the change associated with Terasen was a \$47.7 million increase in short-term borrowings from the date of acquisition, largely driven by seasonality of operations including the impact of increased gas inventories.
Accounts payable and accrued charges	395.4	(10.3)	The other decrease in accounts payable and accrued charges primarily related to the normal seasonal reduction of purchased power costs at Newfoundland Power and the new purchased power rates charged from Newfoundland Hydro, partially offset by FortisAlberta's payable to AESO for August transmission costs and increased accrued interest. Included in the change associated with Terasen was a \$106.1 million increase in accounts payable and accrued charges from the date of acquisition, driven by an increase in the fair market value of the gas commodity swap contracts.
Dividends payable	-	12.7	The other increase in dividends payable was driven by the issuance of 5.17 million Common Shares in January 2007 and the issuance of 44.3 million Common Shares in May 2007, upon the completion of the acquisition of Terasen.
Income taxes payable	24.0	1.2	The other increase in income taxes payable was not significant.
Deferred credits	167.4	8.3	The other increase in deferred credits was not significant.
Regulatory liabilities – current and long-term	26.8	0.5	The other increase in regulatory liabilities was not significant.
Long-term debt and capital lease obligations (including current portion)	2,075.0	290.1	<p>The other increase in long-term debt and capital lease obligations primarily related to issuance of long-term debt, partially offset by net payments on long-term committed credit facilities of \$79.5 million, the impact of regular debt repayments, the reclassification of \$20 million in deferred financing costs, net of amortization during the period, from deferred charges and other assets, upon adoption of new accounting standards for Financial Instruments, Hedges and Comprehensive Income on January 1, 2007, and the impact of foreign exchange upon the translation of US dollar-denominated debt.</p> <p>The issuance of long-term debt, primarily to repay long-term committed credit facility borrowings and finance capital expenditures, was comprised of a \$110 million senior unsecured debenture offering by FortisAlberta, a \$70 million first mortgage sinking fund bond issue by Newfoundland Power, a \$105 million senior unsecured debenture offering by FortisBC and a US\$30 million unsecured note issue by Caribbean Utilities. In addition, US\$200 million senior unsecured notes were issued by the Corporation, primarily to refinance existing indebtedness associated with the Terasen acquisition and for general corporate purposes.</p> <p>The net reduction of long-term committed credit facilities was comprised of net reductions of \$88.0 million by FortisAlberta, \$34.4 million by Newfoundland Power, and \$21.0 million by FortisBC, partially offset by net drawings of \$63.9 million by the Corporation.</p>
Non-controlling interest	-	(17.0)	The decrease in non-controlling interest primarily related to the impact of foreign exchange on the translation of the US dollar-denominated non-controlling interest amounts.

Fortis Inc. Significant Changes in the Consolidated Balance Sheets (Unaudited) between September 30, 2007 and December 31, 2006 (cont'd)			
(\$ millions)	Increase due to Terasen	Other Increase/ (Decrease)	Explanation
Shareholders' equity	-	1,275.5	The increase in shareholders' equity primarily related to the \$1.12 billion, net of after-tax expenses, issuance of Common Shares upon the conversion of Subscription Receipts, to substantially finance the cash purchase price of Terasen, the \$145.7 million, net of after-tax expenses, issuance of Common Shares in January 2007, combined with net earnings reported for the 9-month period, less common share dividends. The increase was partially offset by an increase in accumulated other comprehensive loss driven by the impact of foreign exchange on the translation of the Corporation's net investments in foreign subsidiaries and a \$5.5 million transitional adjustment to opening accumulated other comprehensive loss upon adoption of new accounting standards for Financial Instruments, Hedges and Comprehensive Income on January 1, 2007.

The following table outlines the summary of cash flows.

Fortis Inc. Summary of Cash Flows (Unaudited) Periods Ended September 30 th						
(\$ millions)	Quarter			Year-to-date		
	2007	2006	Variance	2007	2006	Variance
Cash, beginning of period	63.5	27.4	36.1	40.9	33.4	7.5
Cash provided by (used in)						
Operating activities	59.0	96.5	(37.5)	220.8	203.7	17.1
Investing activities	(252.7)	(179.6)	(73.1)	(1,799.4)	(390.8)	(1,408.6)
Financing activities	181.7	117.1	64.6	1,591.3	215.5	1,375.8
Foreign currency impact on cash balances	(0.8)	-	(0.8)	(2.9)	(0.4)	(2.5)
Cash, end of period	50.7	61.4	(10.7)	50.7	61.4	(10.7)

Operating Activities: Cash flow from operating activities, after working capital adjustments, was \$37.5 million lower quarter over quarter. The decrease was primarily due to a net increase in working capital driven by the build up of gas inventories of \$98.1 million at Terasen Gas during the third quarter of 2007 related to the seasonal nature of operations. The decrease was partially offset by higher cash from operating activities, before working capital adjustments, driven by Fortis Alberta, Terasen Gas and Caribbean Utilities. The increase in cash from operating activities, before working capital adjustments, at FortisAlberta was driven by the sale of the Company's regulatory 2006 AESO Charges Deferral Account for cash consideration of approximately \$26.8 million. Terasen Gas was acquired in May 2007 and, therefore, did not contribute to cash flow of the Corporation during 2006. Effective January 1, 2007, the Corporation began consolidating the financial results of Caribbean Utilities on a 2-month lag due to increasing its investment in the Company to an approximate 54 per cent controlling interest in November 2006.

Cash flow from operating activities, after working capital adjustments, was \$17.1 million higher year to date compared to the same period last year. The increase was primarily due to the increase in cash from operating activities, before working capital adjustments, primarily for the reasons described for the quarter. The increase was partially offset by a net increase in working capital. The impact of a build up of gas inventories of \$150.3 million at Terasen Gas year to date, from the date of acquisition, was partially offset by the impact at FortisAlberta of corporate tax refunds received during 2007 compared to corporate taxes paid during 2006.

Investing Activities: Cash used in investing activities was \$73.1 million higher quarter over quarter, primarily due to increased utility capital expenditures. Cash used in investing activities was \$1.41 billion million higher year to date compared to the same period last year, primarily due to the acquisition of Terasen on May 17, 2007 for \$3.7 billion,

including assumed debt of approximately \$2.4 billion. This acquisition resulted in a cash payment, including acquisition costs, of approximately \$1.25 billion, net of cash acquired. Additionally, utility capital expenditures year to date were significantly higher compared to the same period last year.

Gross utility capital expenditures were \$211.6 million for the quarter, \$96.8 million higher than for the same quarter last year. Gross utility capital expenditures were \$538.6 million year to date, \$208.0 million higher than for the same period last year. The increase was primarily due to capital expenditures incurred at Terasen Gas, Fortis Turks and Caicos, and Caribbean Utilities, increased capital spending at FortisAlberta, FortisBC and Newfoundland Power, and the commencement during the second quarter of 2007 of the construction of the 18-MW hydroelectric generating facility at Vaca on the Macal River in Belize.

Contributions received in aid of construction were \$0.8 million higher quarter over quarter and \$16.7 million higher year to date compared to same period last year. The increase year to date related primarily to the increased utility capital expenditures at FortisAlberta.

During the quarter, Fortis Properties completed the acquisition of the Delta Regina for a purchase price of approximately \$50 million, including acquisition costs. During the same quarter last year, the Corporation acquired Fortis Turks and Caicos for a net purchase price of \$75.4 million.

Financing Activities: Cash provided from financing activities was \$181.7 million during the quarter, \$64.6 million higher than the same quarter last year.

During the third quarter, proceeds from net short-term borrowings of \$97.3 million were driven by drawings of \$132.5 million by Terasen Gas under its credit facilities, primarily to fund working capital requirements, partially offset by the repayment of \$38.4 million of net short-term borrowings by FortisBC with partial proceeds from its July 2007 debenture issue.

During the third quarter, the Corporation drew net borrowings of approximately \$59 million under its long-term committed credit facilities. Approximately \$49 million of the borrowings were used to finance a significant portion of the cash purchase price of the Delta Regina. During the third quarter, the Corporation completed a private placement of US\$200 million 6.60% senior unsecured notes, due September 2037. The net proceeds from the note issue were used to repay existing indebtedness previously borrowed under the Corporation's committed credit facility associated with the Terasen acquisition and for general corporate purposes. During the third quarter, FortisBC and Newfoundland Power also issued \$105 million and \$70 million senior unsecured debentures and first mortgage sinking fund bonds, respectively. FortisBC's debentures bear interest at 5.90% and mature in July 2047 while Newfoundland Power's first mortgage sinking fund bonds bear interest at 5.901% and mature August 2037. A majority of the proceeds from the above debt offerings were used to repay certain indebtedness previously borrowed under respective credit facilities, primarily incurred to fund capital expenditures.

During the third quarter last year, proceeds from long-term debt primarily related to net drawings under long-term committed credit facilities by the Corporation to finance, on an interim basis, the acquisition of Fortis Turks and Caicos; and net drawings under long-term committed credit facilities at Newfoundland Power and FortisBC to fund their respective capital expenditure programs.

During the third quarter, repayments of long-term debt primarily related to the net repayment of \$209 million, \$64.8 million, \$31.3 million and \$16.0 million by the Corporation, Newfoundland Power, FortisBC and FortisAlberta, respectively, on their long-term committed credit facilities. The repayment of the Corporation's credit facility borrowings was funded with proceeds from the issuance of US\$200 million 6.60% senior unsecured notes. Net repayments of committed credit facility borrowings at Newfoundland Power and FortisBC were funded with partial proceeds from the \$105 million and \$70 million senior unsecured debentures and first mortgage sinking fund bonds, respectively. During the quarter, FortisAlberta also repaid \$16.0 million of net borrowings under its long-term committed credit facilities with a portion of the proceeds from the sale of its 2006 AESO Charges Deferral Account.

During the third quarter last year, repayments of long-term debt primarily related to the Corporation's repayment of amounts previously borrowed under its long-term credit facility associated with subsidiary equity injections,

financing a portion of the acquisition of Fortis Turks and Caicos and for general corporate activities. The repayment of the credit facility borrowings was financed with partial proceeds from a September 2006 \$121.1 million, net of costs, preference share offering.

Year to date, cash provided from financing activities was \$1.59 billion, approximately \$1.38 billion higher than for the same period last year. The increase primarily related to the issuance of Common Shares during the second quarter for gross proceeds of \$1.15 billion, upon conversion of Subscription Receipts that were initially issued in March 2007, to finance a significant portion of the cash purchase price of Terasen. In January 2007, 5.17 million Common Shares were also issued for gross proceeds of \$149.9 million. A significant portion of the net proceeds from the January 2007 Common Share issue was used to repay approximately \$84.1 million of existing indebtedness incurred under the Corporation's long-term committed credit facilities, primarily to fund a portion of acquisitions in 2006, to support capital expenditure programs of the Corporation's regulated electric utilities in western Canada and for general corporate purposes. The remainder of the net proceeds was utilized to fund equity requirements of the Corporation's regulated electric utilities in western Canada, in support of their respective capital expenditure programs, and for general corporate purposes.

Year to date, proceeds from net short-term borrowings of \$28.5 million were driven by net borrowings of \$47 million by Terasen Gas, partially offset by the repayment of \$24.6 million of net short-term borrowings by FortisBC with partial proceeds from its July 2007 debenture issue.

Year to date, proceeds from long-term debt included a \$110 million 4.99% senior unsecured debenture issue at FortisAlberta in January 2007, in addition to proceeds received during the third quarter from the issuance of long-term debt as described above. The proceeds of FortisAlberta's \$110 million debt offering were used to repay existing indebtedness incurred under FortisAlberta's committed credit facility, primarily to fund capital expenditures, and for general corporate purposes. Additionally, during the second quarter of 2007, Caribbean Utilities closed the first tranche of a US\$40 million 5.65% senior unsecured note offering in the amount of US\$30 million. Proceeds from this debt offering were used to repay certain indebtedness and to finance capital expenditures. Year to date, the Corporation drew net borrowings of \$357.9 million under long-term committed credit facilities for the reason described for the quarter, in addition to fund, during the first half of 2007, the remaining cash purchase price of Terasen, including certain acquisition costs; to fund Common Share issuance costs; and to repay certain debt assumed upon the acquisition of Terasen. The Corporation also issued US\$200 million 6.60% senior unsecured notes as described above for the quarter. Year to date, FortisAlberta, Newfoundland Power and FortisBC drew net borrowings of \$81.1 million under their long-term committed credit facilities primarily in support of their respective capital expenditure programs.

Year to date last year, proceeds from long-term debt related primarily to drawings of approximately \$101.5 million under the Corporation's long-term committed credit facilities to finance on an interim basis the acquisition of Fortis Turks and Caicos, an equity injection into one of the Corporation's western utilities and for general corporate purposes; the issuance of \$100 million in senior unsecured debentures by FortisAlberta in April 2006; and approximately \$88.7 million of drawings under long-term committed credit facilities at FortisAlberta, FortisBC and Newfoundland Power primarily in support of their respective capital expenditure programs.

Year to date, repayments of long-term debt included the repayment by the Corporation of \$293.1 million borrowed under its long-term committed credit facilities, with partial proceeds from the January 2007 Common Share issue and from the US\$200 million senior unsecured note issue. Year to date, FortisAlberta, FortisBC and Newfoundland Power repaid \$225.1 million borrowed under long-term committed credit facilities primarily with proceeds from the issuance of various long-term debt financings and from the sale of FortisAlberta's 2006 AESO Charges Deferral Account, as described above.

Year to date last year, repayments of long-term debt primarily related to the repayment by the Corporation of \$71.5 million under its long-term committed credit facilities with partial proceeds from the September 2006 preference share offering, and the repayment by FortisAlberta of approximately \$97.1 million of indebtedness under its long-term committed credit facility primarily with proceeds from the April 2006 \$100 million senior unsecured debenture offering.

Common share dividends were \$12.9 million higher quarter over quarter and \$36.1 million higher year to date compared to the same period last year, due to an increase in the number of Common Shares outstanding, primarily due to the issuance of Common Shares pursuant to the Terasen acquisition and the issuance of 5.17 million Common Shares in January 2007, and a higher dividend per Common Share compared to the same periods in 2006.

Preference share dividends of \$1.5 million during the quarter and \$4.6 million year to date related to the preference shares issued in September 2006.

Contractual Obligations: The consolidated contractual obligations over the next 5 years and for periods thereafter, as at September 30, 2007, are outlined in the following table.

Fortis Inc. Contractual Obligations (Unaudited) as at September 30, 2007					
(\$ millions)	Total	≤ 1 year	>1-3 years	4-5 years	> 5 years
Long-term debt ⁽¹⁾	5,003.7	259.7	426.8	612.9	3,704.3
Brilliant Terminal Station ("BTS") ⁽²⁾	66.3	2.6	5.1	5.1	53.5
Gas purchase contract obligations ⁽³⁾	791.5	741.6	47.9	2.0	-
Power purchase obligations					
FortisBC ⁽⁴⁾	2,855.7	37.2	75.4	72.9	2,670.2
FortisOntario ⁽⁵⁾	294.4	21.8	42.9	45.3	184.4
Maritime Electric ⁽⁶⁾	13.8	13.8	-	-	-
Belize Electricity ⁽⁷⁾	16.2	2.1	2.1	2.0	10.0
Capital cost ⁽⁸⁾	414.9	13.3	31.8	35.1	334.7
Joint-use asset and shared service agreements ⁽⁹⁾	63.9	3.8	7.5	6.3	46.3
Office lease – FortisBC ⁽¹⁰⁾	20.4	0.8	2.5	2.5	14.6
Operating lease obligations ⁽¹¹⁾	183.0	20.6	36.8	30.9	94.7
Other	24.0	8.2	7.3	7.1	1.4
Total	9,747.8	1,125.5	686.1	822.1	7,114.1

(1) In prior years, TGVI received non-interest bearing repayable loans from the Federal and Provincial governments of \$50 million and \$25 million, respectively, in connection with the construction and operation of the Vancouver Island natural gas pipeline. As approved by the BCUC, these loans have been recorded as government grants and have reduced the amounts reported for utility capital assets. The government loans are repayable in any fiscal year prior to 2012 under certain circumstances and subject to the ability of TGVI to obtain non-government subordinated debt financing on reasonable commercial terms. As the loans are repaid and replaced with non-government loans, utility capital assets and long-term debt will increase in accordance with TGVI's approved capital structure, as will TGVI's rate base increase, which is used in determining customer rates. As at September 30, 2007, the outstanding balance of the repayable government loans was \$67.3 million. Repayments of the government loans are not included in the contractual obligations table above as the amount and timing of the repayments are dependent upon annual BCUC approval of the recovery of TGVI's Revenue Deficiency Deferral Account, and the ability of TGVI to replace the government loans with non-government subordinated debt financing on reasonable commercial terms.

(2) On July 15, 2003, FortisBC began operating the BTS under an agreement, the term of which expires in 2056, (unless the Company has earlier terminated the agreement by exercising its right, at any time after the anniversary date of the agreement in 2029, to give 36 months notice of termination). The BTS is jointly owned by the Columbia Power Corporation and the Columbia Basin Trust (the "Owners") and is used by the Company on its own behalf and on behalf of the Owners. The agreement provides that FortisBC will pay the Owners a charge related to the recovery of the capital cost of the BTS and related operating costs.

(3) Gas purchase contract obligations relate to various gas purchase contracts at Terasen Gas. These obligations are based on market prices that vary with gas commodity indices. The amounts disclosed reflect index prices that were in effect as at September 30, 2007.

(4) Power purchase obligations for FortisBC include the Brilliant Power Purchase Agreement (the "BPPA") as well as the Power Purchase Agreement with BC Hydro. On May 3, 1996, an Order was granted by the BCUC approving a 60-year BPPA for the output of the Brilliant hydroelectric plant located near Castlegar, British Columbia. The BPPA requires monthly payments based on the operation and maintenance costs and a return on capital for the plant in exchange for the specified natural flow take-or-pay amounts of power. The BPPA includes a market-related price adjustment after 30 years of the 60-year term. The Power Purchase Agreement with BC Hydro, which expires in 2013, provides for any amount of supply up to a maximum of 200 MW, but includes a take-or-pay provision based on a 5-year rolling nomination of the capacity requirements.

(5) Power purchase obligations for FortisOntario primarily include a long-term take-or-pay contract between Cornwall Electric and Hydro-Québec 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. Cornwall Electric also has a 2-year contract in place with Hydro-Québec Energy Marketing which expires June 30, 2008. This take-or-pay contract provides energy on an as-needed basis but charges for 100 MW of capacity at \$0.14 million per month.

(6) Maritime Electric has one take-or-pay contract with New Brunswick Power ("NB Power") for the purchase of either capacity or energy. This contract totals approximately \$13.8 million through March 31, 2008.

(7) Power purchase obligations for Belize Electricity include a 15-year power purchase agreement between Belize Electricity and Hydro Maya for the supply of 3 MW of capacity, which commenced in February 2007, and a 2-year power purchase agreement between Belize Electricity and Comisión Federal de Electricidad of Mexico, expiring August 2008, for the supply of 15 MW of firm energy. Belize Electricity has also signed a 15-year power purchase agreement with Belize Cogeneration Energy Limited ("Belcogen") that provides for the supply of approximately 14 MW of capacity, which is scheduled to commence in mid-2009. Belcogen has not yet commenced construction of the related bagasse-fired electric generating facility; therefore, the obligation related to the purchase power agreement with Belcogen has not been included in the Corporation's contractual obligations.

(8) 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.

(9) FortisAlberta and an Alberta transmission service provider have entered into an agreement in consideration for joint attachments of distribution facilities to the transmission system. The expiry terms of this agreement state that the agreement remains in effect until the Company no longer has attachments to the transmission facilities. Due to the unlimited term of this contract, the calculation of future payments after 2011 includes payments to the end of 20 years. However, the payments under this agreement may continue for an indefinite period of time. FortisAlberta and an Alberta transmission service provider have also entered into a number of service agreements to ensure operational efficiencies are maintained through coordinated operations. The service agreements have minimum expiry terms of 5 years from September 1, 2005 and are subject to extensions based on mutually agreeable terms.

(10) Under a sale-leaseback agreement, on September 29, 1993, FortisBC began leasing its Trail, British Columbia office building for a term of 30 years. The terms of the agreement grant FortisBC repurchase options at approximately year 20 and year 28 of the lease term. On December 1, 2004, FortisBC also entered into a 5-year lease for the Kelowna, British Columbia head office. The terms of the lease allow for termination without penalty after 3 years.

(11) Operating lease obligations include certain office, natural gas distribution asset, vehicle and equipment leases and the lease of electricity distribution assets of Port Colborne Hydro Inc.

CAPITAL RESOURCES

The Corporation's principal business of regulated gas and electric distribution utilities requires Fortis to have ongoing access to capital to allow it to maintain and expand its infrastructure. In order to ensure access to capital is maintained, the Corporation targets a long-term capital structure containing approximately 40 per cent equity, including preference shares, and 60 per cent debt, as well as investment-grade credit ratings. The capital structure of Fortis is presented in the following table.

Fortis Inc. Capital Structure (Unaudited)				
	September 30, 2007		December 31, 2006	
	(\$ millions)	(%)	(\$ millions)	(%)
Total debt and capital lease obligations (net of cash) ⁽¹⁾	5,360.1	64.2	2,700.0	61.1
Preference shares ⁽²⁾	441.9	5.3	441.9	10.0
Common shareholders' equity	2,551.2	30.5	1,275.7	28.9
Total	8,353.2	100.0	4,417.6	100.0

(1) Includes long-term debt, including current portion, and short-term borrowings, net of cash
(2) Includes preference shares classified as both long-term liabilities and equity

The change in the capital structure was driven by the issuance in January 2007 of 5.17 million Common Shares, for net after-tax proceeds of \$145.7 million; the issuance in May 2007 of 44.3 million Common Shares, for net after-tax proceeds of \$1.12 billion; the \$2.4 billion of consolidated debt assumed upon the acquisition of Terasen and additional debt incurred to partially finance the cash purchase price of Terasen; and debt incurred at the subsidiaries in support of their capital expenditure programs. The capital structure was also impacted by net earnings applicable to common shares, less common share dividends, of \$24.9 million year to date 2007, and an increase in accumulated other comprehensive loss of \$37.1 million year to date 2007.

Effective June 19, 2007, S&P raised the long-term corporate credit rating of Fortis to 'A-' from 'BBB+' and the unsecured debt credit rating of Fortis to 'A-' from 'BBB'. The credit rating upgrades reflect the improved diversity of Fortis resulting from the acquisition of Terasen Gas, the stand-alone operations and the financial separation of each of the regulated subsidiaries of Fortis, management's commitment to maintaining low levels of debt at the holding company level, the continued focus of Fortis on pursuing acquisitions in stable regulated utilities and the success of FortisAlberta and FortisBC in executing their large capital expenditure programs.

The Corporation's credit ratings are as follows:

S&P	A- (long-term corporate and unsecured debt credit rating)
DBRS	BBB(high) (unsecured debt credit rating)

Capital Program: The Corporation's principal business of regulated gas and electric distribution utilities is capital intensive. Capital investment in infrastructure is required to ensure continued and enhanced performance, reliability and safety of the gas and electricity systems and to meet customer growth. All costs considered to be maintenance and repairs are expensed as incurred. Costs related to replacements, upgrades and betterments of capital assets are capitalized as incurred. Gross consolidated utility capital expenditures of Fortis during 2007 are forecasted at approximately \$770 million, of which approximately \$539 million has been incurred year to date. The \$160 million increase in forecasted gross consolidated utility capital expenditures for 2007 from the estimate of \$610 million, as disclosed at December 31, 2006, is driven by Terasen Gas and FortisAlberta. Terasen Gas expects to spend approximately \$140 million during 2007, from the date of acquisition. The increase in capital spending at FortisAlberta is driven by load growth and inflation and has been included in FortisAlberta's 2008/2009 Distribution Access Tariff Application. Approximately 35 per cent to 40 per cent of 2007 forecast gross consolidated utility capital expenditures is expected to be incurred to ensure the continued and enhanced performance, reliability and safety of the Corporation's generation, transmission and distribution assets, approximately 45 per cent to 50 per cent is expected to relate to meeting customer growth, with the remaining expected to relate to facilities, equipment, vehicles, information technology systems and other assets. Planned capital expenditures are based on detailed

forecasts such as customer demand, weather, cost of labour and materials, as well as other factors which could change and cause actual expenditures to differ from forecasts.

The most individually significant capital projects of Terasen Gas during 2007 are associated with the conversion of TGWI's piped propane system to natural gas, the Texada Island Compressor Station and the replacement of the Vancouver low-pressure system. Subsequent to the date of acquisition of Terasen Gas by Fortis, capital expenditures associated with the above 3 projects are expected to total approximately \$38 million during 2007. The propane system conversion will require TGVI to extend its pipeline system to Whistler by the construction of a 50-kilometer pipeline lateral from Squamish to Whistler. TGVI and TGWI have received BCUC approval for construction of the pipeline lateral and conversion of the propane system. Construction commenced in 2007 and natural gas service is expected to be in place by late 2008 or early 2009.

In May 2007, BECOL received all major approvals for the construction of an estimated US\$52.5 million 18-MW hydroelectric generating facility at Vaca on the Macal River in Belize. BECOL has signed a 50-year agreement with Belize Electricity for the sale of the energy to be generated by the Vaca facility, expected to commence late in 2009. The facility is being constructed downstream from the Chalillo and Mollejon hydroelectric facilities and is expected to increase the average annual production from the Macal River by approximately 80 GWh to 240 GWh. The Vaca facility is expected to be immediately accretive to earnings when it is anticipated to come into service in late 2009. Approximately \$12 million of capital expenditures is anticipated to be incurred during 2007 associated with the construction of the Vaca facility.

Fortis expects capital expenditures associated with income producing properties during 2007, in addition to the acquisition of the Delta Regina for approximately \$50 million, will total approximately \$15 million.

Fortis expects gross electric utility capital expenditures of over \$3 billion over the next 5 years which will be driven by FortisAlberta, FortisBC and the Corporation's regulated and non-regulated electric utilities in the Caribbean. Fortis expects gross gas utility capital expenditures over the next 5 years to exceed \$1 billion.

The cash required to complete the planned capital programs is expected to be derived from a combination of long-term and short-term borrowings, internally generated funds and the issuance of common shares and preference shares. Fortis does not anticipate any difficulties accessing the required capital at reasonable market terms.

Cash Flows: The Corporation's ability to service debt obligations as well as dividends on its common shares 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 at September 30, 2007, the Corporation and its subsidiaries had consolidated authorized lines of credit of \$2,119.2 million, of which \$1,126.7 million was unused. The following summary outlines the Corporation's and its subsidiaries' credit facilities.

Fortis Inc. Credit Facilities (Unaudited)					
(\$ millions)	Corporate and Other	Regulated Utilities	Fortis Properties	Total as at September 30, 2007	Total as at December 31, 2006
Total credit facilities	615.0	1,491.7	12.5	2,119.2	952.0
Credit facilities utilized					
Short-term borrowings	-	(402.5)	-	(402.5)	(97.7)
Long-term debt	(148.0)	(277.0)	-	(425.0)	(235.5)
Lettors of credit outstanding	(61.9)	(102.7)	(0.4)	(165.0)	(72.1)
Credit facilities available	405.1	709.5	12.1	1,126.7	546.7

At September 30, 2007 and December 31, 2006, certain borrowings under the Corporation's and subsidiaries' credit facilities have been classified as long-term debt. These borrowings are under long-term committed credit facilities and management's intention is to refinance these borrowings with long-term permanent financing during future periods.

Corporate and Other

At September 30, 2007, Terasen had a \$100 million unsecured committed revolving credit facility, maturing in May 2009. This credit facility had been reduced from \$180 million in July 2007 and is available for general corporate purposes. Letters of credit outstanding of \$57.8 million at Terasen related to Terasen's previously owned petroleum transportation business and are secured by a letter of credit from Terasen's former parent company.

On May 14, 2007, Fortis cancelled its \$50 million unsecured revolving demand credit facility and renegotiated and amended its \$250 million committed unsecured credit facility, extending the maturity date to May 2012 and increasing the amount available to \$500 million, with the ability, at the Corporation's option, to increase the credit facility to an aggregate of \$600 million. Subsequent the third quarter, the Corporation increased the amount of its credit facility to \$600 million in accordance with the terms thereof.

Regulated Utilities

At September 30, 2007, TGI had a \$500 million unsecured committed revolving credit facility. During the third quarter, the facility was renegotiated and extended with similar terms. The new facility matures in August 2012. At September 30, 2007, TGVI had a \$350 million unsecured committed revolving credit facility, maturing in June 2011. These facilities are utilized to finance working capital requirements, capital expenditures and for general corporate purposes. Additionally, TGVI had a \$20 million subordinated unsecured committed non-revolving credit facility, maturing January 2013. This facility can only be utilized for purposes of refinancing any annual repayments that TGVI may be required to make on non-interest bearing government contributions.

In May 2007, FortisAlberta terminated one of its \$10 million unsecured demand credit facilities and extended the maturity date of its \$200 million unsecured committed credit facility to May 2012 from May 2010.

In May 2007, FortisBC renegotiated and amended its \$50 million unsecured committed revolving credit facility extending the maturity date to May 2010 from May 2008. Additionally, the Company has the option to increase the credit facility to an aggregate of \$100 million.

Upon amalgamation of PLP with FortisBC in January 2007, PLP's credit facilities of \$5.4 million were terminated.

In March 2007, Maritime Electric's non-revolving unsecured credit facility was increased to \$30 million from \$25 million.

On November 27, 2006, Caribbean Utilities renegotiated its credit facilities, increasing its capital expenditures line of credit from US\$10 million to US\$17 million and increasing each of its US\$5 million operating line of credit and US\$5 million catastrophe standby loan to US\$7.5 million.

Fortis Generation

During the first quarter of 2007, Fortis Generation credit facilities of US\$2 million were terminated.

DERIVATIVE FINANCIAL INSTRUMENTS

The Corporation hedges exposures to fluctuations in interest rates and natural gas commodity prices through the use of derivative instruments. The following table indicates the valuation of derivative instruments as at September 30, 2007 and December 31, 2006.

Fortis Inc. Derivative Financial Instruments						
Asset (Liability)	September 30, 2007				December 31, 2006	
	Term to maturity (years)	Number of Swaps	Carrying Value (in millions)	Fair Value (in millions)	Carrying Value (in millions)	Fair Value (in millions)
Interest Rate Swaps	1 to 4	8	\$ (0.6)	\$ (0.6)	\$ -	\$ (0.5)
Natural Gas Commodity Swaps	Up to 3	270	\$ (132.9)	\$ (132.9)	\$ -	\$ -

Three of the 8 interest rate swaps are held by Fortis Properties and BECOL, and are designated as hedges of the cash flow risk related to floating-rate long-term debt. For the 3- and 9-months ended September 30, 2007, unrealized losses of \$0.4 million after-tax and nil were recorded in other comprehensive loss, respectively, associated with the change in the fair value of these swaps. The remaining interest rate swaps and all of the natural gas commodity swaps are held by Terasen Gas. The interest rate swaps held by Terasen Gas are designated as hedges of cash flow risk related to floating-rate debt instruments. The natural gas commodity swaps at Terasen Gas are used to fix the effective purchase price of natural gas as the majority of the Company's natural gas supply contracts have floating, rather than fixed, prices. At Terasen Gas, changes in the fair value of the interest rate swaps and the natural gas commodity swaps are deferred as a regulatory asset or regulatory liability for recovery from or refund to customers in future rates.

The interest rate swaps are valued at the present value of future cash flows based on published forward future interest rate curves. The fair values of the natural gas commodity swaps reflect the estimated amounts that would have to be paid to terminate the contracts as at September 30, 2007.

OFF-BALANCE SHEET ARRANGEMENTS

As at September 30, 2007, the Corporation had no 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.

BUSINESS RISK MANAGEMENT

Changes in the Corporation's significant business risks during the 9-month period ended September 30, 2007 from those disclosed in the Corporation's Management Discussion and Analysis for the year ended December 31, 2006 are described below. These are additional business risks that are associated with the recent acquisition of Terasen.

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

Gas Distribution Operating Risks: The business of Terasen Gas is exposed to various operational risks, such as pipeline leaks, accidental damage to or fatigue cracks in mains and service lines, corrosion in pipes, pipeline or equipment failure, other issues that can lead to outages and leaks and any other accidents involving natural gas, which could result in significant operational and environmental liability. The facilities of Terasen Gas are also exposed to the effects of severe weather conditions and other acts of nature. In addition, many of these facilities are located in remote areas, which may make access for repair of damage due to weather conditions and other acts of nature difficult. Terasen Gas operates facilities in a terrain with a risk of loss or damage from earthquakes, forest fires, floods, washouts, landslides, avalanches and similar acts of nature. Terasen Gas has insurance which provides coverage for business interruption, liability and property damage, although the coverage offered by this insurance is limited. In the event of a large uninsured loss caused by severe weather conditions or other natural disasters, application will be made to the BCUC for the recovery of these costs through higher rates to offset any loss. However, there can be no assurance that the BCUC would approve any such application.

Natural Gas Prices: The price of electricity is now only marginally higher than the comparable price for natural gas for residential customers in British Columbia. There is no assurance that natural gas will continue to maintain a competitive price advantage in the future. If natural gas pricing becomes uncompetitive with electricity pricing, the ability of Terasen Gas to add new customers could be impaired, and existing customers could reduce their consumption of natural gas or eliminate its usage altogether as furnaces, water heaters and other appliances are replaced. This may result in higher rates and, in an extreme case, could ultimately lead to an inability to fully

recover the cost of service of Terasen Gas in rates charged to customers. The ability of Terasen Gas to add new customers and sales volumes could also be affected by lower prices of other competitive energy sources as some commercial and industrial customers have the ability to switch to an alternative fuel. Terasen Gas employs a number of tools to reduce its exposure to natural gas price volatility. These include purchasing gas for storage and adopting hedging strategies to reduce price volatility and ensure, to the extent possible, that natural gas commodity costs remain competitive with electricity rates. Activities related to the hedging of gas prices are currently approved by the BCUC and gains or losses effectively accrue entirely to customers. Future BCUC determinations could materially impact the ability of Terasen Gas to recover the future cost of the natural gas it delivers to customers.

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

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

Regulation: Terasen Gas is regulated by the BCUC and is subject to the approved 2004-2007 PBR Plan, which has been extended through 2009. The PBR Plan includes incentive mechanisms that provide Terasen Gas with an opportunity to earn returns in excess of the allowed ROE determined by the BCUC. Upon expiry of the PBR Plan, there is no certainty as to whether a new PBR Plan will be entered into or the particular terms of any such PBR Plan.

Labour Relations: The organized employees of TGI are represented by the Canadian Office and Professional Employees Union 378 (“COPE”), under a collective agreement that expired on March 31, 2007, and the International Brotherhood of Electrical Workers, under a collective agreement expiring on March 31, 2011. On June 15, 2007, COPE rejected a new 5-year agreement with TGI. As of September 23, 2007, COPE has been in a legal strike position. The union has commenced selected job action at various TGI’s operating locations. TGI was accorded an Essential Services designation by the Labour Relations Board to be used as required to continue the safe and reliable distribution of natural gas. Negotiations resumed between TGI and COPE on October 30, 2007. TGI remains committed to reaching an agreement through the collective bargaining process.

Risks Related to Terasen Gas (Vancouver Island) Inc.: TGVI is a franchise under development in the price-competitive service area of Vancouver Island, with a customer base and revenue that is insufficient to meet its current cost of service and to recover revenue deficiencies from prior years. Recovery of accumulated revenue deficiencies from prior years puts gas at a cost disadvantage relative to electricity. To assist with competitive rates during franchise development, the Vancouver Island Natural Gas Pipeline Agreement (“VINGPA”) provides royalty revenues from the Government of British Columbia which currently cover approximately 20 per cent of the current cost of service. These revenues are due to expire at the end of 2011, after which time TGVI’s customers will be required to absorb the full commodity cost of gas and the recovery of any remaining accumulated revenue deficiencies. When VINGPA expires in 2011, the remaining \$67.3 million non-interest bearing senior government debt, which is currently treated as a government contribution against rate base, will be required to be fully repaid. As this debt is repaid, the cost of the higher rate base will increase the cost of service and customer rates making gas less competitive with electricity on Vancouver Island.

CHANGES IN ACCOUNTING POLICIES

The nature of and the impact on Fortis of adopting the new Canadian Institute of Chartered Accountants (“CICA”) accounting standards for Financial Instruments, Hedges and Comprehensive Income, effective January 1, 2007, is described in detail in Note 3 to the Corporation’s interim unaudited consolidated financial statements for the 3- and

9-month periods ended September 30, 2007. The most significant impacts of adopting the new standards were: (i) the reallocation of \$21.2 million of deferred financing costs from deferred charges and other assets to long-term debt; (ii) the reporting of a Statement of Comprehensive Income; (iii) the recording, in other comprehensive loss, of unrecognized foreign currency translation gains and losses on US dollar-denominated debt that is hedging the Corporation's net investments in self-sustaining foreign operations; (iv) the reallocation of \$51.5 million of unrealized foreign currency translation losses on net investments in self-sustaining foreign operations from the foreign currency translation adjustment account in shareholders' equity to accumulated other comprehensive loss; (v) the reallocation of an \$11 million (\$7.4 million after-tax) unamortized loss balance relating to a previously cancelled interest rate swap contract from deferred charges and other assets, and the reallocation of a \$2.8 million (\$1.9 million after-tax) unamortized gain balance relating to a previously cancelled US dollar forward currency swap agreement from deferred credits, to accumulated other comprehensive loss; and (vi) the recording of opening fair value and subsequent changes in fair value of the Corporation's interest rate swap contracts in effective hedging relationships in accumulated other comprehensive loss and other comprehensive loss, respectively. The adoption of the accounting standards did not have a material impact on the Corporation's consolidated statement of earnings for the 3- and 9-month periods ended September 30, 2007.

Also as disclosed in Note 3 to the Corporation's interim unaudited consolidated financial statements for the 3- and 9-month periods ended September 30, 2007, Fortis adopted the revised standard for accounting changes, effective January 1, 2007. This new standard had no impact on the Corporation's interim unaudited consolidated financial statements for the 3- and 9-month periods ended September 30, 2007, except for the disclosures provided in Note 3e to these interim financial statements.

FUTURE ACCOUNTING PRONOUNCEMENTS

International Financial Reporting Standards ("IFRS"): In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected 5-year transitional period. While Fortis has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

Rate-Regulated Operations: In March 2007, the AcSB issued an Exposure Draft on rate-regulated operations that proposed: (i) the temporary exemption in Section 1100, *Generally Accepted Accounting Principles*, of the CICA Handbook providing relief to entities subject to rate regulation from the requirement to apply the Section to the recognition and measurement of assets and liabilities arising from rate regulation be removed; (ii) the explicit guidance for rate-regulated operations provided in Section 1600, *Consolidated Financial Statements*, Section 3061, *Property, Plant and Equipment*, Section 3465, *Income Taxes*, and Section 3475, *Disposal of Long-Lived Assets and Discontinued Operations*, be removed; and (iii) Accounting Guideline 19, *Disclosures by Entities Subject to Rate Regulation* ("AcG-19"), be retained as is.

During the third quarter of 2007, the AcSB issued a Decision Summary on the Exposure Draft that supported the removal of the temporary exemption in Section 1100, *Generally Accepted Accounting Principles*, and the amendment to Section 3465, *Income Taxes*, to recognize future income tax liabilities and assets as well as offsetting regulatory assets and liabilities at entities subject to rate regulation. Both changes will apply prospectively for fiscal years beginning on or after January 1, 2009. It was also decided that the current guidance pertaining to property, plant and equipment, disposal of long-lived assets and discontinued operations, and consolidated financial statements be maintained, and that the existing AcG-19 will not be withdrawn from the Handbook but that the guidance will be updated as a result of the other changes. The AcSB also decided that the final Background Information and Basis for Conclusions associated with its rate regulation project would not express any views of the AcSB regarding the status of US Statement of Financial Accounting Standards No. 71, *Accounting for the Effects of Certain Types of Regulation*, as an "other source of GAAP" within the Canadian GAAP hierarchy.

Effective January 1, 2009, the impact on Fortis of the amendment to Section 3465, *Income Taxes*, will be the recognition of future income tax assets and liabilities and related regulatory liabilities and assets for the amount of future income taxes expected to be refunded to or recovered from customers in future gas and electricity rates. Currently, Terasen Gas, FortisAlberta, FortisBC and Newfoundland Power use the taxes payable method of accounting for income taxes on regulated earnings. Fortis is currently assessing the impact on its financial

statements of recognizing future income tax assets and liabilities at these utilities and is continuing to monitor any additional implications on its financial reporting related to accounting for rate regulated operations.

Inventories: In March 2007, the AcSB approved a new standard with respect to inventories effective for fiscal years beginning on or after January 1, 2008. The new standard requires inventories to be measured at the lower of cost or net realizable value; disallows the use of a last-in first-out inventory costing methodology; and requires that, when circumstances which previously caused inventories to be written down below cost no longer exist, the amount of the write down is to be reversed. This new standard is not expected to have a material impact on the Corporation's earnings.

Employee Future Benefits: In July 2007, the AcSB reviewed the comments received on its 2007 Exposure Draft, *Employee Future Benefits*, which was to be effective for fiscal years ending on or after December 31, 2007, and decided not to proceed with the proposed amendments. There will be no changes in the Corporation's financial reporting requirements for 2007 related to employee future benefits. Fortis will continue to disclose the funded status of its employee future benefits in the notes to its annual consolidated financial statements.

Capital Disclosures: As a result of new Section 1535, *Capital Disclosures*, Fortis will be required to include additional information in the notes to the financial statements about its capital and the manner in which it is managed. This additional disclosure includes quantitative and qualitative information regarding an entity's objectives, policies and processes for managing capital. This Section is applicable to Fortis for the fiscal year beginning on January 1, 2008.

Disclosure and Presentation of Financial Instruments: New accounting recommendations for disclosure and presentation of financial instruments are effective for the Corporation beginning January 1, 2008. The new recommendations require disclosures of both qualitative and quantitative information that enables users of financial statements to evaluate the nature and extent of risks from financial instruments to which the Corporation is exposed.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the Corporation's interim unaudited 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 reporting periods. Estimates are based on historical experience, current conditions and various other assumptions believed to be reasonable under the circumstances. Additionally, certain estimates are necessary since the regulatory environments in which the Corporation's utilities operate often require amounts to be recorded at estimated values until these amounts are finalized pursuant to regulatory decisions or other regulatory proceedings.

Due to changes in facts and circumstances and the inherent uncertainty involved in making estimates, actual results may differ significantly from current estimates. Estimates are reviewed periodically and, as adjustments become necessary, are reported in earnings in the period they become known. Interim financial statements may also employ a greater use of estimates than the annual financial statements. There were no material changes in the nature of the Corporation's critical accounting estimates for the 3- and 9-month periods ended September 30, 2007 from those disclosed in the Corporation's Management Discussion and Analysis for the year ended December 31, 2006. However, the magnitude of the accounting estimates has increased due to the acquisition of Terasen, which is described below.

Regulation: Terasen Gas is regulated by the BCUC. As with the Corporation's other regulated utilities, the timing of 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. With the acquisition of Terasen Gas, the Corporation's regulatory assets have significantly increased. As at September 30, 2007, current and long-term regulatory assets were \$368.7 million compared to \$168.7 million as at December 31, 2006. The increase in regulatory assets was largely associated with BCUC-approved rate stabilization accounts at Terasen Gas.

Capital Asset Amortization: Amortization, by its very nature, is an estimate based primarily on the useful life of assets. Estimated useful lives are based on current facts and historical information and take into consideration the

anticipated physical life of the assets. As at September 30, 2007, the Corporation's consolidated utility and income producing properties were \$7.1 billion, or 71 per cent of total consolidated assets, compared to consolidated utility and income producing properties of \$4.0 billion, or 74 per cent of total consolidated assets, as at December 31, 2006. The increase in capital assets was primarily associated with Terasen Gas. Amortization expense year to date was \$194.4 million compared to \$130.9 million year to date 2006. Due to the increased size of the Corporation's capital assets, changes in amortization rates can have a significant impact on the Corporation's amortization expense.

Goodwill Impairment Assessments: Goodwill represents the excess, at the dates of acquisition, of the purchase price over the fair value of net amounts assigned to individual assets acquired and liabilities assumed relating to business acquisitions. The Corporation is required to perform an annual impairment test and at such time any event occurs or if circumstances change that would indicate that the fair value of a reporting unit was below its carrying value. As at September 30, 2007, consolidated goodwill was \$1.54 billion compared to \$661.3 million as at December 31, 2006. The increase in goodwill was due to the acquisition of Terasen and is subject to adjustment, if any, upon the completion of a final fair value assessment.

Employee Future Benefits: The Corporation's defined benefit pension and other post-retirement benefit plans are subject to judgments utilized in the actuarial determination of the expense and the related obligation. As at September 30, 2007, the Corporation had consolidated accrued benefit assets of \$122.4 million compared to \$102 million as at December 31, 2006 and accrued benefit liabilities of \$141.6 million compared to \$63.7 million as at December 31, 2006. The increase in the accrued benefit assets and liabilities was primarily associated with Terasen Gas and Terasen, respectively.

Revenue Recognition: Terasen Gas records its natural gas distribution revenues on an accrual basis, similar to the majority of the Corporation's other regulated utilities. Estimates of customer gas usage from the last meter reading date to the balance sheet date are required in order to accrue unbilled revenue. As at September 30, 2007, accrued unbilled revenue at Terasen Gas was approximately \$82 million.

Contingencies: Fortis is subject to various legal proceedings and claims that arise in the ordinary course of business operations.

The Corporation's contingent liabilities are consistent with disclosures in the Corporation's 2006 annual audited consolidated financial statements except as described below.

The B.C. Ministry of Forests (the "Ministry") has alleged breaches of the Forest Practices Code and negligence relating to a forest fire near Vaseux Lake and has filed and served a writ and statement of claim against FortisBC. In addition, the Company has been served with 2 filed writs and statements of claim by private land owners in relation to the same matter. The Company is currently communicating with its insurers and has filed a statement of defence in relation to all of the actions. The outcome cannot be reasonably determined and estimated at this time and, accordingly, no amount has been accrued in the consolidated financial statements.

On January 5, 2006, FortisBC was served with a writ and statement of claim which was filed with the B.C. Supreme Court under the *Class Proceedings Act, 1995* (British Columbia) on behalf of a class consisting of all persons who are or were customers of FortisBC and who paid what were characterized as late-payment penalties at any time between April 1, 1981 and the date of any judgment in this action. The claim was that forfeitures of the prompt payment discount offered to customers constituted "interest" within the meaning of section 347 of the *Criminal Code* (Canada) and that the effective annual rate of such "interest" was illegal and void. In the action, the Plaintiff sought damages and restitution of what were characterized as late-payment penalties which were forfeited. On December 13, 2006, the application to certify the action as a class action was heard in the B.C. Supreme Court. In a decision delivered on January 11, 2007, the B.C. Supreme Court dismissed the application to certify the action as a class action. The Plaintiff filed an appeal of the decision with the B.C. Court of Appeal. The Plaintiff's appeal was abandoned on May 29, 2007 and a Consent Dismissal Order was entered on June 6, 2007 dismissing the proceeding without costs to either party.

On March 26, 2007, the Minister of Small Business and Revenue and Minister Responsible for Regulatory Reform (the "Minister") in British Columbia issued a decision in respect of the appeal by Terasen Gas of an assessment of additional British Columbia Social Service Tax in the amount of \$37.1 million associated with the Southern

Crossing Pipeline, which was completed in 2000. The Minister has reduced the assessment to \$7 million, including interest, which has been paid in full to avoid accruing further interest and has been recorded as a long-term regulatory deferral asset. On June 22, 2007, Terasen Gas filed an appeal of the assessment with the B.C. Supreme Court.

During the third quarter of 2007, a subsidiary of Terasen received Notices of Assessment from Canada Revenue Agency for additional taxes related to the 1999 taxation year. The exposure has been fully provided for in the consolidated financial statements. Terasen intends to appeal the assessments.

QUARTERLY RESULTS

The following table sets forth unaudited quarterly information for each of the 8 quarters ended December 31, 2005 through September 30, 2007. The quarterly information has been obtained from the Corporation's interim unaudited 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 differences are disclosed in Notes 2 and 4 to the Corporation's 2006 annual audited consolidated financial statements and Note 5 to the Corporation's interim unaudited consolidated financial statements for the 3- and 9-months ended September 30, 2007. 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	Revenue and Equity Income (\$ millions)	Net Earnings Applicable to Common Shares (\$ millions)	Earnings per Common Share	
			Basic (\$)	Diluted (\$)
September 30, 2007	651.0	30.8	0.20	0.20
June 30, 2007	565.9	41.5	0.31	0.27
March 31, 2007	483.0	41.5	0.38	0.35
December 31, 2006	393.1	33.9	0.33	0.32
September 30, 2006	341.9	38.8	0.37	0.36
June 30, 2006	345.9	37.9	0.37	0.35
March 31, 2006	390.8	36.6	0.35	0.34
December 31, 2005	353.1	22.3	0.22	0.21

A summary of the past 8 quarters reflects the Corporation's continued growth, as well as the seasonality associated with its businesses. Interim results will fluctuate due to the seasonal nature of gas and electricity demand and water flows, as well as the timing and recognition of regulatory decisions. Given the diversified group of companies, seasonality may vary. Financial results from May 17, 2007 were impacted by the acquisition of Terasen. Virtually all of the annual earnings of Terasen Gas are generated in the first and fourth quarters. Financial results from November 1, 2006 were impacted by the acquisition of 4 hotels in western Canada. Financial results from August 28, 2006 were impacted by the acquisition of Fortis Turks and Caicos, while earnings from January 1, 2007 were impacted by the consolidation of a controlling interest in Caribbean Utilities. The Corporation's interest in Caribbean Utilities was previously accounted for on an equity basis. Also, the comparability of 2006 and 2005 quarterly earnings and revenue has been somewhat impacted by the shift in reported revenue at Newfoundland Power resulting from the change to the accrual basis for revenue recognition from the billed basis, effective January 1, 2006.

September 2007/September 2006 – Net earnings applicable to common shares were \$30.8 million, or \$0.20 per common share, for the third quarter of 2007, compared to earnings of \$38.8 million, or \$0.37 per common share, for the same quarter last year. A \$1.15 billion common share issue in May 2007, combined with the seasonality of earnings of Terasen Gas, diluted earnings per common share for the third quarter of 2007. Increased earnings contributions from FortisAlberta, driven by customer growth and higher corporate income tax recoveries; increased

earnings contributions from Fortis Turks and Caicos, acquired August 2006; and growth at Fortis Properties from expanded hospitality operations in western Canada were more than offset by higher finance charges associated with acquisitions, losses at Terasen Gas due to seasonality of operations, and lower non-regulated hydroelectric production due to lower rainfall.

June 2007/June 2006 - Net earnings applicable to common shares were \$41.5 million, or \$0.31 per common share, for the second quarter of 2007 compared to earnings of \$37.9 million, or \$0.37 per common share, for the same quarter last year. A \$1.15 billion common share issue in May 2007, combined with the seasonality of earnings of Terasen Gas, diluted earnings per common share for the second quarter of 2007. The increase in overall earnings was driven by customer growth and increased energy deliveries at FortisAlberta, rate increases and electricity sales growth at FortisBC, and earnings contributions from Fortis Turks and Caicos, acquired August 2006, and Terasen Gas, acquired May 2007. The increase was partially offset by higher acquisition-related finance charges, the impact of decreased non-regulated hydroelectric production and lower earnings from Fortis Properties. However, earnings at Fortis Properties during the second quarter of 2006 were favourably impacted by \$3.2 million associated with the sale of Days Inn Sydney and reduction of future income tax liabilities.

March 2007/March 2006 - Net earnings applicable to common shares were \$41.5 million, or \$0.38 per common share, for the first quarter of 2007, up \$4.9 million from earnings of \$36.6 million, or \$0.35 per common share, for the first quarter of 2006. Excluding the Corporation's \$2.4 million share of a charge associated with the disposal of a steam-turbine system at Caribbean Utilities, earnings were \$7.3 million higher than for the first quarter of 2006. The increase was primarily due to electricity sales growth and lower corporate income taxes at FortisAlberta, increased non-regulated hydroelectric production in Belize, earnings contribution from Fortis Turks and Caicos, and electricity sales growth and lower finance charges at Belize Electricity.

The impact of increased earnings on earnings per common share was partially offset by the dilution created by the \$149.9 million issuance of 5,170,000 Common Shares on January 18, 2007.

December 2006/December 2005 - Net earnings applicable to common shares were \$33.9 million, or \$0.33 per common share, for the fourth quarter of 2006 compared to earnings of \$22.3 million, or \$0.22 per common share, for the fourth quarter of 2005. The increase in earnings was largely driven by a change in Newfoundland Power's revenue recognition policy to the accrual method, effective January 1, 2006, earnings growth at FortisAlberta and the contribution from Fortis Turks and Caicos, acquired August 2006, partially offset by the impact of lower wholesale energy prices in Ontario and increased corporate costs. The change in the revenue recognition policy did not have a material impact on Newfoundland Power's annual earnings.

SUBSEQUENT EVENT

On October 2, 2007, TGI issued \$250.0 million 6.00% Medium Term Note Debentures, due October 2037. The proceeds from the debentures were used to repay debt maturing in October 2007.

OUTLOOK

The Corporation's principal business of regulated gas and electric distribution utilities is capital intensive. Gross consolidated utility capital expenditures for 2007 are expected to be approximately \$770 million including expected capital expenditures of approximately \$140 million relating to Terasen Gas from the date of acquisition. Fortis expects that most of its more than \$3 billion gross electric utility capital expenditures over the next 5 years will be driven by FortisAlberta, FortisBC and the Corporation's regulated and non-regulated electric utilities in the Caribbean. Fortis expects gross gas utility capital expenditures to exceed \$1 billion over the next 5 years. Organic earnings growth, therefore, will be driven by the significant utility infrastructure investments described above.

The Corporation continues to integrate Terasen within the Fortis Group. The addition of the gas distribution business doubles the Corporation's investment in regulated rate base assets. The Corporation will continue to pursue acquisition growth opportunities in regulated gas and electric utility businesses in Canada, the Caribbean and the United States. Fortis will also pursue growth in its non-regulated businesses in support of its regulated utility growth strategy.

OUTSTANDING SHARE DATA

At November 1, 2007, the Corporation had issued and outstanding 155,328,978 Common Shares, 5,000,000 First Preference Shares, Series C; 7,993,500 First Preference Shares, Series E and 5,000,000 First Preference Shares, Series F. As at November 1, 2007, the number of Common Shares that would be issued upon conversion of share options, convertible debt, First Preference Shares, Series C and First Preference Shares, Series E is described in Notes 8 and 9 to the interim unaudited consolidated financial statements for the 3- and 9-month periods ended September 30, 2007 and Notes 11, 14 and 16 to the 2006 annual audited consolidated financial statements.

Additional information, including the Fortis 2006 Annual Information Form, Management Information Circular and Annual Report, is available on SEDAR at www.sedar.com and on the Corporation's web site at www.fortisinc.com.

FORTIS INC.

Interim Consolidated Financial Statements
For the three and nine months ended September 30, 2007 and 2006
(Unaudited)

Fortis Inc.
Consolidated Balance Sheets (Unaudited)
As at
(in millions)

	September 30 2007	December 31 2006
ASSETS		
Current assets		
Cash and cash equivalents	\$ 50.7	\$ 40.9
Accounts receivable	423.2	278.1
Income taxes receivable	-	7.5
Prepaid expenses	32.1	14.2
Regulatory assets (Note 5)	176.2	35.7
Inventories of gas, materials and supplies	<u>278.4</u>	<u>32.7</u>
	960.6	409.1
Corporate income tax deposit	5.9	5.9
Deferred charges and other assets	180.5	174.8
Regulatory assets (Note 5)	192.5	133.0
Future income taxes	38.0	7.1
Utility capital assets	6,556.1	3,574.9
Income producing properties	518.6	469.0
Investments	2.5	2.5
Intangibles, net of amortization	6.7	9.8
Goodwill	<u>1,544.6</u>	<u>661.3</u>
	\$ 10,006.0	\$ 5,447.4
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Short-term borrowings (Note 6)	\$ 402.5	\$ 97.7
Accounts payable and accrued charges	718.8	333.7
Dividends payable	34.4	21.7
Income taxes payable	25.2	-
Regulatory liabilities (Note 5)	17.9	26.4
Current instalments of long-term debt and capital lease obligations (Note 7)	262.3	84.8
Future income taxes	<u>5.7</u>	<u>1.0</u>
	1,466.8	565.3
Deferred credits	254.7	79.0
Regulatory liabilities (Note 5)	374.7	338.9
Future income taxes	57.2	57.7
Long-term debt and capital lease obligations (Note 7)	4,746.0	2,558.4
Non-controlling interest	113.5	130.5
Preference shares	<u>319.5</u>	<u>319.5</u>
	7,332.4	4,049.3
Shareholders' equity		
Common shares (Note 8)	2,117.1	829.0
Preference shares	122.4	122.4
Contributed surplus	5.7	4.7
Equity portion of convertible debentures	5.8	7.2
Accumulated other comprehensive loss (Note 10)	(88.6)	(51.5)
Retained earnings	<u>511.2</u>	<u>486.3</u>
	2,673.6	1,398.1
	\$ 10,006.0	\$ 5,447.4

Contingent liabilities and commitments (Note 16)

See accompanying notes to interim consolidated financial statements.

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

	Quarter Ended		Nine Months Ended	
	2007	2006	2007	2006
Operating revenues	\$ 651.0	\$ 338.7	\$ 1,699.9	\$ 1,071.7
Equity income	-	3.2	-	6.9
	<u>651.0</u>	<u>341.9</u>	<u>1,699.9</u>	<u>1,078.6</u>
Expenses				
Energy supply costs	272.2	113.6	729.3	394.0
Operating	171.7	95.5	426.0	290.3
Amortization	75.6	42.3	194.4	130.9
	<u>519.5</u>	<u>251.4</u>	<u>1,349.7</u>	<u>815.2</u>
Operating income	<u>131.5</u>	<u>90.5</u>	<u>350.2</u>	<u>263.4</u>
Finance charges (Note 12)	91.4	43.1	206.0	124.4
Gain on sale of income producing property	-	-	-	(2.1)
	<u>91.4</u>	<u>43.1</u>	<u>206.0</u>	<u>122.3</u>
Earnings before corporate taxes and non-controlling interest	40.1	47.4	144.2	141.1
Corporate taxes (Note 13)	2.1	6.7	15.1	23.1
Net earnings before non-controlling interest	38.0	40.7	129.1	118.0
Non-controlling interest	5.7	1.9	10.7	4.7
Net earnings	32.3	38.8	118.4	113.3
Preference share dividends	1.5	-	4.6	-
Net earnings applicable to common shares	\$ 30.8	\$ 38.8	\$ 113.8	\$ 113.3
Weighted average common shares outstanding (Note 8)	154.5	103.6	131.6	103.5
Earnings per common share (Note 8)				
Basic	\$ 0.20	\$ 0.37	\$ 0.86	\$ 1.09
Diluted	\$ 0.20	\$ 0.36	\$ 0.79	\$ 1.05

Consolidated Statements of Retained Earnings (Unaudited)
For the periods ended September 30
(in millions)

	Quarter Ended		Nine Months Ended	
	2007	2006	2007	2006
Balance at beginning of period	\$ 513.0	\$ 453.2	\$ 486.3	\$ 411.8
Net earnings applicable to common shares	30.8	38.8	113.8	113.3
	<u>543.8</u>	<u>492.0</u>	<u>600.1</u>	<u>525.1</u>
Dividends on common shares	(32.6)	(19.7)	(88.9)	(52.8)
Balance at end of period	\$ 511.2	\$ 472.3	\$ 511.2	\$ 472.3

See accompanying notes to interim consolidated financial statements.

Fortis Inc.
Consolidated Statements of Comprehensive Income (Unaudited)
For the periods ended September 30
(in millions)

	Quarter Ended		Nine Months Ended	
	2007	2006	2007	2006
Net earnings applicable to common shares	\$ 30.8	\$ 38.8	\$ 113.8	\$ 113.3
Unrealized foreign currency translation losses	(29.1)	0.5	(69.8)	(5.9)
Gains on hedges of net investments in self-sustaining foreign operations	26.3	(0.8)	46.8	5.4
Corporate taxes	(4.7)	0.1	(8.4)	(1.0)
Change in unrealized foreign currency translation losses, net of hedging activities and tax	(7.5)	(0.2)	(31.4)	(1.5)
Change in gains on derivative instruments designated as cash flow hedges	(0.4)	-	0.1	-
Corporate taxes	-	-	(0.1)	-
Change in gains on derivative instruments designated as cash flow hedges, net of tax	(0.4)	-	-	-
Reclassification to earnings of net losses on derivative instruments previously discontinued as cash flow hedges	0.2	-	0.5	-
Corporate taxes	(0.1)	-	(0.2)	-
Reclassification to earnings of net losses on derivative instruments previously discontinued as cash flow hedges, net of tax	0.1	-	0.3	-
Total other comprehensive loss, net of tax	(7.8)	(0.2)	(31.1)	(1.5)
Comprehensive income	\$ 23.0	\$ 38.6	\$ 82.7	\$ 111.8

See accompanying notes to interim consolidated financial statements.

Fortis Inc.
Consolidated Statements of Cash Flows (Unaudited)
For the periods ended September 30
(in millions)

	Quarter Ended 2007	2006	Nine Months Ended 2007	2006
Operating Activities				
Net earnings	\$ 32.3	\$ 38.8	\$ 118.4	\$ 113.3
Items not affecting cash				
Amortization - capital assets, net of contributions in aid of construction	73.6	39.8	187.2	123.2
Amortization - intangibles	1.1	1.0	3.2	3.1
Amortization - other	0.9	1.5	4.0	4.6
Future income taxes	2.0	(1.0)	1.5	(5.4)
Accrued employee future benefits	7.1	(0.8)	4.3	(2.5)
Equity income, net of dividends	-	(1.5)	-	(1.6)
Stock-based compensation	0.6	0.4	1.7	1.2
Unrealized foreign exchange loss (gain) on long-term debt (Note 12)	0.2	(0.4)	0.4	(1.8)
Non-controlling interest	5.7	1.9	10.7	4.7
Gain on sale of income producing property	-	-	-	(2.1)
Other	0.8	-	5.9	(0.7)
Change in long-term regulatory assets and liabilities	21.4	(11.5)	9.8	(11.0)
Increase in corporate income tax deposit	-	-	-	(5.9)
Change in non-cash operating working capital	<u>145.7</u>	<u>68.2</u>	<u>347.1</u>	<u>219.1</u>
	<u>(86.7)</u>	<u>28.3</u>	<u>(126.3)</u>	<u>(15.4)</u>
	<u>59.0</u>	<u>96.5</u>	<u>220.8</u>	<u>203.7</u>
Investing Activities				
Change in deferred charges and other assets and deferred credits	(3.3)	(1.9)	(6.4)	(12.7)
Purchase of utility capital assets	(211.6)	(114.8)	(538.6)	(330.6)
Purchase of income producing properties	(4.0)	(3.5)	(9.6)	(15.3)
Contributions in aid of construction	16.2	15.4	55.3	38.6
Proceeds on sale of capital assets	-	0.6	2.8	6.5
Business acquisitions, net of cash acquired (Note 14)	(50.0)	(75.4)	(1,302.9)	(75.4)
Increase in investments	-	-	-	(1.9)
	<u>(252.7)</u>	<u>(179.6)</u>	<u>(1,799.4)</u>	<u>(390.8)</u>
Financing Activities				
Change in short-term borrowings	97.3	0.4	28.5	19.9
Proceeds from long-term debt, net of issue costs	449.4	89.7	971.1	300.3
Repayments of long-term debt and capital lease obligations	(335.2)	(77.5)	(565.3)	(190.2)
Advances (to) from non-controlling interest	(0.9)	0.6	(2.9)	9.6
Issue of common shares, net of costs	8.2	3.2	1,262.4	9.1
Issue of preference shares, net of costs	-	121.1	-	121.1
Dividends				
Common shares	(32.6)	(19.7)	(88.9)	(52.8)
Preference shares	(1.5)	-	(4.6)	-
Subsidiary dividends paid to non-controlling interest	(3.0)	(0.7)	(9.0)	(1.5)
	<u>181.7</u>	<u>117.1</u>	<u>1,591.3</u>	<u>215.5</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(0.8)</u>	<u>-</u>	<u>(2.9)</u>	<u>(0.4)</u>
Change in cash and cash equivalents	<u>(12.8)</u>	<u>34.0</u>	<u>9.8</u>	<u>28.0</u>
Cash and cash equivalents, beginning of period	<u>63.5</u>	<u>27.4</u>	<u>40.9</u>	<u>33.4</u>
Cash and cash equivalents, end of period	<u>\$ 50.7</u>	<u>\$ 61.4</u>	<u>\$ 50.7</u>	<u>\$ 61.4</u>

See accompanying notes to interim consolidated financial statements.

FORTIS INC.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2007 and 2006 (unless otherwise stated)
(Unaudited)

1. DESCRIPTION OF THE BUSINESS

Nature of Operations

Fortis Inc. ("Fortis" or the "Corporation") is principally a diversified, international distribution utility holding company. Fortis segments its utility operations by franchise area and, depending on regulatory requirements, by the nature of the assets. Fortis also holds investments in non-regulated generation and commercial real estate and hotels, which are treated as 2 separate segments. The Corporation's 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. Each operating segment operates as an autonomous unit, assumes profit and loss responsibility and is accountable for its own resource allocation.

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

REGULATED UTILITIES

The following summary describes the Corporation's interests in Regulated Gas and Electric Utilities in Canada and the Caribbean by utility:

Regulated Gas Utilities - Canadian

- a. *Terasen Gas*: Includes Terasen Gas Inc. ("TGI"), Terasen Gas (Vancouver Island) Inc. ("TGVI") and Terasen Gas (Whistler) Inc. ("TGWI"), collectively referred to as Terasen Gas. Fortis, through the acquisition of Terasen Inc. ("Terasen"), acquired Terasen Gas on May 17, 2007. Terasen Gas meets a peak gas demand of approximately 1,400 terajoules per day.

TGI is the largest distributor of natural gas in British Columbia, serving more than 818,000 residential, commercial and industrial customers in a service area that extends from Vancouver to the Fraser Valley and the interior of British Columbia.

TGVI owns and operates the natural gas transmission pipeline from the Greater Vancouver area across the Georgia Strait to Vancouver Island and the distribution system on Vancouver Island and along the Sunshine Coast of British Columbia, serving more than 89,000 residential, commercial and industrial customers.

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

Regulated Electric Utilities - Canadian

- a. *FortisAlberta*: FortisAlberta owns and operates the electricity distribution system in a substantial portion of southern and central Alberta, serving approximately 443,000 customers.
- b. *FortisBC*: Includes FortisBC Inc., an integrated electric utility operating in the southern interior of British Columbia serving approximately 152,000 customers. FortisBC Inc. owns 4 hydroelectric generating plants with a combined capacity of 235 megawatts ("MW").

FORTIS INC.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2007 and 2006 (unless otherwise stated)
(Unaudited)

1. DESCRIPTION OF THE BUSINESS (cont'd)

Regulated Electric Utilities - Canadian (cont'd)

- b. *FortisBC (cont'd):* Included with the FortisBC component of the Regulated Utilities - Canadian segment are the non-regulated operating, maintenance and management services relating to the 450-MW Waneta hydroelectric generating facility owned by Teck Cominco Metals Ltd., the 149-MW Brilliant Hydroelectric Plant owned by Columbia Power Corporation and the Columbia Basin Trust ("CPC/CBT"), the 185-MW Arrow Lakes Hydroelectric Plant owned by CPC/CBT and the distribution system owned by the City of Kelowna. FortisBC's assets also include the former Princeton Light and Power Company, Limited ("PLP"). Effective January 1, 2007, PLP was amalgamated with FortisBC Inc. as part of an internal corporate reorganization.
- c. *Newfoundland Power:* Newfoundland Power is the principal distributor of electricity in Newfoundland, serving more than 230,000 customers. Newfoundland Power has an installed generating capacity of 136 MW, of which 92 MW is hydroelectric generation.
- d. *Maritime Electric:* Maritime Electric is the principal distributor of electricity on Prince Edward Island, serving approximately 71,000 customers. Maritime Electric also maintains on-Island diesel-fired generating facilities with a combined capacity of 150 MW.
- e. *FortisOntario:* FortisOntario provides an integrated electric utility service to approximately 52,000 customers in Fort Erie, Cornwall, Gananoque and Port Colborne in Ontario. FortisOntario operations include 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 is the operation 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 Holdings Inc. and Rideau St. Lawrence Holdings Inc., 2 regional electrical distribution companies formed in 2000, serving more than 27,000 customers.

Regulated Electric Utilities - Caribbean

- a. *Belize Electricity:* Belize Electricity is the principal distributor of electricity in Belize, Central America, serving more than 71,000 customers. The Company has an installed generating capacity of 37 MW. Fortis holds a 70.1 per cent controlling interest in Belize Electricity.
- b. *Caribbean Utilities:* Caribbean Utilities is the sole provider of electricity on Grand Cayman, Cayman Islands, serving more than 23,000 customers. The Company has a total owned generating capacity of approximately 140 MW. On November 7, 2006, Fortis acquired an additional approximate 16 per cent ownership interest in Caribbean Utilities and now owns approximately 54 per cent of the Company. Caribbean Utilities is a public company traded on the Toronto Stock Exchange (TSX:CUP.U) and has an April 30th fiscal year end. Caribbean Utilities' balance sheet at November 7, 2006 was consolidated in the December 31, 2006 balance sheet of Fortis. Beginning with the first quarter of 2007, Fortis is consolidating Caribbean Utilities' financial statements on a 2-month lag basis and, accordingly, has consolidated Caribbean Utilities' July 31, 2007 balance sheet, and statements of earnings and cash flows for the 3- and 9-months ended July 31, 2007, with the Corporation's September 30, 2007 interim consolidated financial statements. During 2006, the statement of earnings of Fortis reflected the Corporation's approximate 37 per cent ownership interest in Caribbean Utilities, previously accounted for on an equity basis on a 2-month lag.

FORTIS INC.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2007 and 2006 (unless otherwise stated)
(Unaudited)

1. DESCRIPTION OF THE BUSINESS (cont'd)

Regulated Electric Utilities - Caribbean (cont'd)

- c. *P.P.C. Limited and Atlantic Equipment & Power (Turks and Caicos) Ltd. (collectively referred to as Fortis Turks and Caicos):* Fortis Turks and Caicos is the principal distributor of electricity on the Turks and Caicos Islands, serving approximately 8,600 customers. The Company has an installed owned generating capacity of approximately 48 MW. Fortis Turks and Caicos was acquired by Fortis, through a wholly owned subsidiary, on August 28, 2006.

NON-REGULATED - FORTIS GENERATION

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

- a. *Belize:* Operations consist of the 25-MW Mollejon and 7-MW Chalillo hydroelectric facilities in Belize. All of the electricity output is sold to Belize Electricity under a 50-year power purchase agreement expiring in 2055. 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.
- b. *Ontario:* Includes 75 MW of water-right entitlement associated with the Niagara Exchange Agreement, a 5-MW gas-fired cogeneration plant in Cornwall and 6 small hydroelectric generating stations in eastern Ontario with a combined capacity of 8 MW. Non-regulated generation operations in Ontario are conducted through FortisOntario Inc. and Fortis Properties. On January 1, 2006, the former FortisOntario Generation Corporation was amalgamated with CNE Energy Inc. and, effective January 1, 2007, CNE Energy Inc. was amalgamated with Fortis Properties.
- c. *Central Newfoundland:* Through the Exploits River Hydro Partnership ("Exploits Partnership"), a partnership between the Corporation, through its wholly owned subsidiary Fortis Properties, 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. Upon the amalgamation of CNE Energy Inc. with Fortis Properties on January 1, 2007, Fortis Properties now directly holds the 51 per cent interest in the Exploits Partnership and Abitibi-Consolidated holds the remaining 49 per cent interest. Previously, the 51 per cent interest was held by CNE Energy Inc. The Exploits Partnership sells its output to Newfoundland and Labrador Hydro Corporation under a 30-year power purchase agreement expiring in 2033.
- d. *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 expiring in 2013. Hydroelectric generation operations in British Columbia are conducted through the Walden Power Partnership, a wholly owned partnership of FortisBC Inc.
- e. *Upper New York State:* Includes the operations of 4 hydroelectric generating stations in Upper New York State with a combined capacity of approximately 23 MW operating under licences from the US Federal Energy Regulatory Commission. Hydroelectric generation operations in Upper New York State are conducted through the Corporation's indirect wholly owned subsidiary, FortisUS Energy Corporation.

NON-REGULATED - FORTIS PROPERTIES

Fortis Properties owns and operates 19 hotels with more than 3,500 rooms in 8 Canadian provinces and approximately 2.8 million square feet of commercial real estate primarily in Atlantic Canada.

FORTIS INC.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2007 and 2006 (unless otherwise stated)
(Unaudited)

1. DESCRIPTION OF THE BUSINESS (cont'd)

CORPORATE AND OTHER

The Corporate and Other segment captures expense and revenue items not specifically related to any operating or reportable segment. Included in this segment are finance charges, including interest on debt incurred directly by Fortis and Terasen and dividends on preference shares classified as long-term liabilities, foreign exchange gains or losses, dividends on preference shares classified as equity, other corporate expenses, including Fortis and Terasen holding company operating costs, net of recoveries from subsidiaries, interest and miscellaneous revenues, and corporate income taxes. Also included in the Corporate and Other segment are the financial results of CustomerWorks Limited Partnership ("CWLP"). CWLP is a non-regulated shared-services business in which Terasen holds a 30 per cent interest. CWLP operates in partnership with Enbridge Inc. and provides customer service contact, meter reading, billing, credit, support and collection services to Terasen Gas and several smaller third parties. CWLP's financial results are recorded using the proportionate consolidation method of accounting. Terasen was acquired by Fortis on May 17, 2007.

2. 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 Corporation's annual consolidated financial statements. These interim consolidated financial statements should be read in conjunction with the Corporation's 2006 annual audited consolidated financial statements. Interim results will fluctuate due to the seasonal nature of gas and electricity demand and water flows as well as the timing and recognition of regulatory decisions. Virtually all of the annual earnings of Terasen Gas are generated in the first and fourth quarters due to seasonality of the business. Given the diversified group of companies, seasonality may vary.

3. 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 differences and nature of regulation are disclosed in Notes 2 and 4 to the Corporation's 2006 annual audited consolidated financial statements and Note 5 to these interim consolidated financial statements. These interim consolidated financial statements have been prepared following the same accounting policies and methods as those used in preparing the Corporation's 2006 annual audited consolidated financial statements except as described below. All amounts are presented in Canadian dollars unless otherwise stated.

Regulation

On May 17, 2007, Fortis, through the acquisition of the Terasen, acquired Terasen Gas. Terasen Gas is regulated by the British Columbia Utilities Commission ("BCUC"). The BCUC administers acts and regulations pursuant to the *Utilities Commission Act* (British Columbia), covering such matters as tariffs, rates, construction, operations, financing and accounting. Terasen Gas operates under both cost of service regulation and performance based rate-setting ("PBR") methodologies as administered by the BCUC. The BCUC uses a future test year in the establishment of rates for the utility and, pursuant to this method, forecasts the volume of gas that will be sold and transported, together with all the costs of the utility, including the allowed rate of return on common equity ("ROE"), that the utility will incur in the test year. Rates are fixed to permit the utility to collect all of its costs, including the allowed ROE, if the forecast sales and transportation volumes are achieved. The BCUC has set allowed ROEs for both TGI and TGVI based on multi-year agreements that have been renewed until 2009. For 2007, the allowed ROE is 8.37 per cent for TGI and 9.07 per cent for TGVI.

FORTIS INC.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2007 and 2006 (unless otherwise stated)
(Unaudited)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Effective January 1, 2007, the Corporation adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA").

a. Financial Instruments

Section 3855, *Financial Instruments – Recognition and Measurement* and Section 3861, *Financial Instruments – Disclosure and Presentation*, prescribe the criteria for recognition and presentation of financial instruments on the balance sheet and the measurement of financial instruments according to prescribed classifications. These Sections also address how financial instruments are measured subsequent to initial recognition and how the gains and losses are recognized.

The Corporation is required to designate its financial instruments into one of the following five categories: (i) held for trading, (ii) available for sale, (iii) held to maturity, (iv) loans and receivables, or (v) other financial liabilities. All financial instruments are to be initially measured at fair value. Financial instruments classified as held for trading or available for sale are subsequently measured at fair value with any change in fair value recorded in net earnings and other comprehensive income, respectively. All other financial instruments are subsequently measured at amortized cost.

All derivative financial instruments, including derivative features embedded in financial instruments or other contracts which are not considered closely related to the host financial instrument or contract, are generally classified as held for trading and, therefore, must be measured at fair value with changes in fair value recorded in net earnings. If a derivative financial instrument is designated as a hedging item in a qualifying cash flow hedging relationship, the effective portion of changes in fair value is recorded in other comprehensive income. Any change in fair value relating to the ineffective portion is recorded immediately in net earnings. At the rate-regulated utilities, any difference between the amount recognized upon a change in the fair value of a derivative financial instrument, whether or not in a qualifying hedging relationship, and the amount recovered from customers in current rates, is subject to regulatory deferral treatment to be recovered from or refunded to customers in future rates.

Currently, the Corporation limits the use of derivative financial instruments to those that qualify as hedges, as discussed in Note 3c.

FORTIS INC.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2007 and 2006 (unless otherwise stated)
 (Unaudited)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

a. Financial Instruments (cont'd)

The Corporation has designated its financial instruments as follows:

(in millions)	September 30, 2007		December 31, 2006	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Held for trading				
Cash and cash equivalents ¹	\$ 50.7	\$ 50.7	\$ 40.9	\$ 40.9
Loans and receivables				
Accounts receivable ²	423.2	423.2	278.1	278.1
Corporate income tax deposit ²	5.9	5.9	5.9	5.9
Other receivables due from customers ^{2,3}	5.6	5.6	6.0	6.0
Other financial liabilities				
Short-term borrowings ²	402.5	402.5	97.7	97.7
Accounts payable and accrued charges ²	718.8	718.8	333.7	333.7
Dividends payable ²	34.4	34.4	21.7	21.7
Customer deposits ^{2,4}	4.7	4.7	4.8	4.8
Long-term debt, including current portion ^{5,6}	4,972.0	5,388.6	2,614.2	2,939.6
Preference shares, classified as debt ^{5,7}	319.5	309.8	319.5	355.4

¹ Due to the nature and/or short-term maturity of these financial instruments, carrying value approximates fair value.
² Carrying value approximates amortized cost
³ Included in deferred charges and other assets on the balance sheet
⁴ Included in deferred credits on the balance sheet
⁵ Carrying value is measured at amortized cost using the effective interest rate method
⁶ Carrying value at September 30, 2007 is net of unamortized deferred financing costs of \$31.2 million. On January 1, 2007, deferred financing costs were reclassified from deferred charges and other assets in accordance with the transitional provisions of Section 3855.
⁷ Preference shares classified as equity are excluded from the requirements of Section 3855; however, the estimated fair value of the preference shares classified as equity as at September 30, 2007 was \$131.8 million (December 31, 2006 - \$128.5 million).

For the 3- and 9-months ended September 30, 2007, effective interest expense associated with the Corporation's short-term borrowings, long-term debt and preference shares classified as debt is disclosed in Note 12 to these interim consolidated financial statements.

Under Section 3855, embedded derivatives are required to be separated from the host contract and accounted for as a derivative financial instrument if the embedded derivative and host contract are not closely related, and the combined contract is not held for trading or measured at fair value. While some of the Corporation's long-term debt contracts have prepayment options that qualify as embedded derivatives to be separately recorded, none have been recorded as they are immaterial to the Corporation's results of operations and financial position. The Corporation has selected January 1, 2003 as the transition date for recognizing embedded derivatives and, therefore, recognizes as separate assets and liabilities only those derivatives embedded in hybrid instruments issued, acquired or substantially modified on or after January 1, 2003.

As a result of adopting Section 3855, deferred financing costs of \$21.2 million as at January 1, 2007 relating to long-term debt have been reclassified from deferred charges and other assets to long-term debt on the balance sheet. These costs are amortized into earnings using the effective interest rate method over the life of the related debt.

The Corporation's policy is to recognize transaction costs associated with financial assets and liabilities, that are classified as other than held for trading, as an adjustment to the cost of those financial assets and liabilities recorded on the balance sheet. These transaction costs are amortized into earnings using the effective interest rate method over the life of the related financial instrument.

b. Comprehensive Income

Section 1530, *Comprehensive Income*, introduces a new financial statement "Statement of Comprehensive Income" and provides guidance for the reporting and display of other comprehensive income.

FORTIS INC.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2007 and 2006 (unless otherwise stated)
(Unaudited)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

b. Comprehensive Income (cont'd)

Comprehensive income represents the change in equity of an enterprise during a period from transactions and other events arising from non-owner sources including unrealized foreign currency translation gains and losses, net of hedging activities, arising from self-sustaining foreign operations, and changes in the fair value of the effective portion of cash flow hedging instruments.

As required, prior periods have not been restated as a result of implementing Section 1530, except to reclassify unrealized foreign currency translation losses on net investments in self-sustaining foreign operations, net of hedging activities, of \$51.5 million as at December 31, 2006 from the foreign currency translation adjustment account in shareholders' equity to accumulated other comprehensive loss (Note 10). As required upon initial application of Section 3855, all adjustments to the carrying amount of financial instruments are recognized as an adjustment to the opening balance of accumulated other comprehensive loss. No adjustments were made to the opening balance of retained earnings.

c. Hedges

Section 3865, *Hedges*, specifies the criteria under which hedge accounting may be applied, how hedge accounting should be performed under permitted hedging strategies and the required disclosures. In keeping with its risk management strategy, the Corporation may utilize derivative instruments to hedge its exposure to foreign currency risk, interest rate risk and commodity price risk.

The Corporation has designated its US dollar-denominated long-term debt as a hedge of the foreign currency exchange risk related to its net investments in US dollar-denominated self-sustaining foreign operations.

In the hedge of net investments in self-sustaining foreign operations, the unrealized gains and losses on the translation of the US dollar-denominated long-term debt serve to offset the unrealized foreign currency exchange gains and losses on the foreign net investments. The unrealized foreign currency exchange gains and losses on the US dollar-denominated long-term debt and the foreign net investments are recognized in other comprehensive income (loss).

For the 3- and 9-months ended September 30, 2007, unrealized foreign currency translation losses of \$29.1 million and \$69.8 million, respectively, were recorded in other comprehensive loss related to the Corporation's net investment in US dollar-denominated self-sustaining foreign operations. These unrealized foreign currency translation losses were partially offset by the effective portion of unrealized after-tax gains of \$21.6 million and \$38.4 million for the 3- and 9-months ended September 30, 2007, respectively, related to the translation of US dollar-denominated long-term debt designated as a foreign currency risk hedge (Note 10). There was no ineffective portion.

The Corporation and its subsidiaries hedge exposures to fluctuations in interest rates and natural gas prices through the use of derivative instruments. The following table indicates the valuation of derivative instruments as at September 30, 2007 and December 31, 2006.

FORTIS INC.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2007 and 2006 (unless otherwise stated)
(Unaudited)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

c. Hedges (cont'd)

Asset (Liability)	September 30, 2007				December 31, 2006	
	Term to maturity (years)	Number of Swaps	Carrying Value (in millions)	Fair Value (in millions)	Carrying Value (in millions)	Fair Value (in millions)
Interest Rate Swaps	1 to 4	8	\$ (0.6)	\$ (0.6)	\$ -	\$ (0.5)
Natural Gas Commodity Swaps	Up to 3	270	\$ (132.9)	\$ (132.9)	\$ -	\$ -

Fortis Properties and BECOL have designated their interest rate swap agreements as hedges of the cash flow risk related to floating-rate long-term debt. As at January 1, 2007, in accordance with the transitional provisions of Section 3865, the fair value of the interest rate swap agreements of \$(0.5) million was recorded as a derivative financial instrument and grouped with deferred credits on the balance sheet with the offset recorded to accumulated other comprehensive loss (Note 10). The interest rate swaps are valued at the present value of future cash flows based on published forward future interest rate curves.

For the 3- and 9-months ended September 30, 2007, unrealized losses of \$0.4 million after-tax and nil, respectively, were recorded in other comprehensive loss for the effective portion of the change in fair value of the interest rate swap agreements at Fortis Properties and BECOL designated as cash flow hedges with the offset recorded to deferred credits on the balance sheet (Note 10). There were no ineffective portions. The amounts recognized are reclassified to finance charges in the periods during which the variability in cash flows of the hedged items affect finance charges. The net loss reclassified to earnings during the 3- and 9-months ended September 30, 2007 was immaterial.

Terasen Gas has designated its interest rate swap agreements as hedges of cash flow risk related to floating-rate debt instruments. Any changes in the fair value of these interest rate swaps, whether or not in a qualifying hedging relationship, are deferred as a regulatory asset or liability for recovery from or refund to customers in future rates. The interest rate swaps are valued at the present value of future cash flows based on published forward future interest rate curves.

The majority of the natural gas supply contracts at Terasen Gas have floating, rather than fixed, prices and natural gas commodity swaps are used, therefore, to fix the effective purchase price of natural gas. As at September 30, 2007, none of the natural gas commodity swaps were designated as hedges of the natural gas supply contracts. However, any changes in the fair value of the natural gas commodity swaps, whether or not in a qualifying hedging relationship, are deferred as a regulatory asset or liability for recovery from or refund to customers in future rates. The fair values of the natural gas commodity swaps reflect the estimated amounts that Terasen Gas would pay to terminate the contracts as at September 30, 2007.

As at January 1, 2007, in accordance with the transitional provisions of Section 3865, unamortized deferred gain and loss balances related to the previous cancellation of swap agreements were reclassified to accumulated other comprehensive loss (Note 10). An unamortized loss balance of \$11 million (\$7.4 million after-tax), as at December 31, 2006, related to the previous cancellation of an interest rate swap agreement, was reclassified from deferred charges and other assets and an unamortized gain balance of \$2.8 million (\$1.9 million after-tax), as at December 31, 2006, related to the previous cancellation of a US dollar forward currency swap agreement was reclassified from deferred credits.

FORTIS INC.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2007 and 2006 (unless otherwise stated)
(Unaudited)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

c. Hedges (cont'd)

The Corporation had previously designated the interest rate swap agreement as a hedge of cash flow risk related to floating-rate long-term debt and designated the US dollar forward currency swap agreement as a hedge of foreign currency risk associated with US dollar-denominated long-term debt. These unamortized balances are recognized in finance charges in the periods during which the variability in cash flows of the original hedged items affects finance charges. This change in treatment did not have a material impact on the Corporation's earnings. Net losses of \$0.1 million and \$0.3 million were reclassified to earnings during the 3- and 9-months ended September 30, 2007, respectively. An estimated net loss of \$0.4 million deferred in accumulated other comprehensive loss as at September 30, 2007 is expected to be reclassified to earnings during the next 12 months.

There were no significant changes in the Corporation's risk management policies and existing hedges as at January 1, 2007 as a result of adopting the new standards.

d. Accounting Changes

Effective January 1, 2007, the Corporation adopted the revised Section 1506, *Accounting Changes*, relating to changes in accounting policies, changes in accounting estimates and errors.

Under revised Section 1506, voluntary changes in accounting policies are made only if they result in the financial statements providing reliable and more relevant information. Additional disclosure is required when the Corporation has not applied a new primary source of Canadian GAAP that has been issued but is not yet effective, as well as when changes in accounting estimates and errors occur. Adoption of this revised standard had no impact on the Corporation's interim consolidated financial statements for the 3- and 9-months ended September 30, 2007, except for the disclosures provided in 3e below.

e. Future Accounting Policies

Accounting policies issued, but not yet effective, that will be adopted by the Corporation in a future period, are described as follows:

Inventories

Effective January 1, 2008, the Corporation will be adopting the new Section 3031, *Inventories*. The standard requires inventories to be measured at the lower of cost or net realizable value, disallows the use of a last-in first-out inventory costing methodology, and requires that, when circumstances which previously caused inventories to be written down below cost no longer exist, the amount of the write down is to be reversed. This new standard is not expected to have a material impact on the Corporation's earnings.

Rate Regulated Operations

During the third quarter of 2007, the Accounting Standards Board of Canada ("AcSB") issued a Decision Summary that supported the removal of the temporary exemption in Section 1100, *Generally Accepted Accounting Principles*, of the CICA Handbook providing relief to entities subject to rate regulation from the requirement to apply the Section to the recognition and measurement of assets and liabilities arising from rate regulation. The AcSB also amended Section 3465, *Income Taxes*, to recognize future income tax liabilities and assets as well as offsetting regulatory assets and liabilities at entities subject to rate regulation. Both changes will apply prospectively for the Corporation beginning on January 1, 2009.

FORTIS INC.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2007 and 2006 (unless otherwise stated)
(Unaudited)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

e. Future Accounting Policies (cont'd)

Rate Regulated Operations (cont'd)

The AcSB also decided that the current guidance pertaining to property plant and equipment, disposal of long-lived assets and discontinued operations, and consolidated financial statements be maintained, and that the existing Accounting Guideline 19, *Disclosures by Entities Subject to Rate Regulation*, will not be withdrawn from the Handbook but that the guidance will be updated as a result of the other changes. The AcSB also decided that the final Background Information and Basis for Conclusions associated with its rate regulation project would not express any views of the AcSB regarding the status of US Statement of Financial Accounting Standards No. 71, *Accounting for the Effects of Certain Types of Regulation*, as an "other source of GAAP" within the Canadian GAAP hierarchy.

Effective January 1, 2009, the impact on Fortis of the amendment to Section 3465, *Income Taxes*, will be the recognition of future income tax assets and liabilities and related regulatory liabilities and assets for the amount of future income taxes expected to be refunded to or recovered from customers in future gas and electricity rates. Currently, Terasen Gas, FortisAlberta, FortisBC and Newfoundland Power use the taxes payable method of accounting for income taxes on regulated earnings. Fortis is currently assessing the impact on its financial statements of recognizing future income tax assets and liabilities at these utilities and is continuing to monitor any additional implications on its financial reporting related to accounting for rate regulated operations.

4. 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 reporting periods. Estimates are based on historical experience, current conditions and various other assumptions believed to be reasonable under the circumstances. Additionally, certain estimates are necessary since the regulatory environments in which the Corporation's utilities operate often require amounts to be recorded at estimated values until these amounts are finalized pursuant to regulatory decisions or other regulatory proceedings. Due to changes in facts and circumstances and the inherent uncertainty involved in making estimates, actual results may differ significantly from current estimates. Estimates are reviewed periodically and, as adjustments become necessary, are reported in earnings in the period they become known.

Interim financial statements may also employ a greater use of estimates than the annual financial statements. There were no material changes in the nature of the Corporation's critical accounting estimates during the 3- and 9-months ended September 30, 2007 from those disclosed in the Corporation's Management Discussion and Analysis for the year ended December 31, 2006. However, the magnitude of the accounting estimates has increased due to the acquisition of Terasen.

FORTIS INC.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2007 and 2006 (unless otherwise stated)
(Unaudited)

5. REGULATORY ASSETS AND LIABILITIES

A summary of the Corporation's current and long-term regulatory assets and liabilities is provided below. A description of the nature of these assets and liabilities is provided in Note 4 to the Corporation's 2006 annual audited consolidated financial statements in addition to the disclosures provided in this Note.

(in millions)	As at September 30, 2007	As at December 31, 2006
Rate stabilization accounts - Terasen Gas (i)	\$ 110.7	\$ -
Rate stabilization accounts - electric utilities (ii)	15.5	11.6
AESO charges deferral	31.0	12.5
Municipal tax asset	7.9	7.2
Other	11.1	4.4
<i>Current regulatory assets</i>	\$ 176.2	\$ 35.7
Regulatory other post-employment benefit asset	\$ 57.1	\$ 36.4
Rate stabilization accounts - Terasen Gas (i)	41.2	-
Rate stabilization accounts - electric utilities (ii)	32.6	32.3
AESO charges deferral	0.1	27.0
Weather normalization account	10.5	11.8
Regulatory deferred capital asset amortization	10.0	5.8
Energy management costs	6.2	6.0
Southern Crossing Pipeline tax reassessment (iii)	7.0	-
Lease costs	4.9	4.4
Other	22.9	9.3
<i>Long-term regulatory assets</i>	\$ 192.5	\$ 133.0
 Municipal tax liability	 \$ 9.3	 \$ 11.3
Rate stabilization account - electric utilities (ii)	1.7	3.0
Revenue deferral for 2006 rate reduction	1.0	4.2
Other	5.9	7.9
<i>Current regulatory liabilities</i>	\$ 17.9	\$ 26.4
Regulatory future removal and site restoration provision	\$ 319.0	\$ 306.5
Unbilled revenue liability	22.3	24.6
PBR earnings sharing mechanism	10.6	-
Other	22.8	7.8
<i>Long-term regulatory liabilities</i>	\$ 374.7	\$ 338.9

- (i) The rate stabilization accounts at Terasen Gas are amortized and recovered through customer rates as approved by the BCUC. The rate stabilization accounts mitigate the effect on earnings of unpredictable and uncontrollable factors, namely volume volatility, caused principally by weather, and natural gas cost volatility. At TGI, a Revenue Stabilization Adjustment Mechanism ("RSAM") accumulates the margin impact of variations in the actual-versus-forecast gas volumes consumed by residential customers and commercial customers.

Additionally, a Commodity Cost Reconciliation Account ("CCRA") and a Midstream Cost Reconciliation Account ("MCRA") accumulate differences between actual natural gas costs and forecast natural gas costs as recovered in base rates. The MCRA captures the gas cost variances applicable to all customers while the CCRA accumulates gas cost variances applicable to all residential customers and certain industrial customers for whom Terasen Gas acquires gas supply.

FORTIS INC.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2007 and 2006 (unless otherwise stated)
(Unaudited)

5. REGULATORY ASSETS AND LIABILITIES (cont'd)

At TGVI, a Gas Cost Variance Account ("GCVA") is used to mitigate the effect on TGI's earnings of natural gas cost volatility. TGVI also maintains a Revenue Deficiency Deferral Account ("RDDA") to accumulate unrecovered costs of providing service to customers or to draw down such costs where earnings exceed an allowed ROE as set by the BCUC. The RDDA has accumulated the allowed earnings in excess of achieved earnings prior to 2003 and are being recovered through future rates. On an annual basis, the RDDA has been decreasing as achieved earnings have been exceeding the allowed ROEs.

The RSAM is recovered through rates over a 3-year period, with a total balance outstanding at September 30, 2007 of \$25.2 million. The MCRA, CCRA and GCVA accounts are recovered through rates over a 12-month period. Recovery of the rate stabilization accounts is dependent upon annually approved rates and actual gas consumption volumes.

- (ii) The rate stabilization accounts associated with the Corporation's regulated electric utilities are recovered or refunded through customer rates as approved by the respective regulatory authorities. The rate stabilization accounts primarily mitigate the effect on earnings of the variability in the cost of fuel and/or purchased power and, additionally, in the case of Belize Electricity, are used to defer and recover hurricane damage and recovery expenses from customers. The recovery period of the rate stabilization accounts is variable and is subject to periodic review by the respective regulatory authorities.
- (iii) The Southern Crossing Pipeline tax reassessment deferral relates to an assessment of additional British Columbia Social Services Tax, of which Terasen Gas has filed an appeal. Depending on the success of the appeal, Terasen Gas will either be refunded the balance or alternatively expects to recover the costs from customers in future rates (Note 16).

6. CREDIT FACILITIES

As at September 30, 2007, the Corporation and its subsidiaries had consolidated authorized lines of credit of \$2,119.2 million, of which \$1,126.7 million was unused.

The following summary outlines the Corporation's and subsidiaries' credit facilities.

Credit Facilities (in millions)	Corporate and Other	Regulated Utilities	Fortis Properties	Total as at September 30, 2007	Total as at December 31, 2006
Total credit facilities	\$ 615.0	\$ 1,491.7	\$ 12.5	\$ 2,119.2	\$ 952.0
Credit facilities utilized					
Short-term borrowings	-	(402.5)	-	(402.5)	(97.7)
Long-term debt (Note 7)	(148.0)	(277.0)	-	(425.0)	(235.5)
Letters of credit outstanding	(61.9)	(102.7)	(0.4)	(165.0)	(72.1)
Credit facilities available	\$ 405.1	\$ 709.5	\$ 12.1	\$ 1,126.7	\$ 546.7

At September 30, 2007 and December 31, 2006, certain borrowings under the Corporation's and subsidiaries' credit facilities have been classified as long-term debt. These borrowings are under long-term committed credit facilities and management's intention is to refinance these borrowings with long-term permanent financing during future periods.

FORTIS INC.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2007 and 2006 (unless otherwise stated)
(Unaudited)

6. CREDIT FACILITIES (cont'd)

Corporate and Other

At September 30, 2007, Terasen had a \$100 million unsecured committed revolving credit facility, maturing in May 2009. This credit facility had been reduced from \$180 million in July 2007 and is available for general corporate purposes. Letters of credit outstanding of \$57.8 million at Terasen related to Terasen's previously owned petroleum transportation business and are secured by a letter of credit from Terasen's former parent company.

On May 14, 2007, Fortis cancelled its \$50 million unsecured revolving demand credit facility and renegotiated and amended its \$250 million committed unsecured credit facility, extending the maturity date to May 2012 and increasing the amount available to \$500 million, with the ability, at the Corporation's option, to increase the credit facility to an aggregate of \$600 million. Subsequent the third quarter, the Corporation increased the amount of its credit facility to \$600 million in accordance with the terms thereof.

Regulated Utilities

At September 30, 2007, TGI had a \$500 million unsecured committed revolving credit facility. During the third quarter, the facility was renegotiated and extended with similar terms. The new facility matures in August 2012. At September 30, 2007, TGVI had a \$350 million unsecured committed revolving credit facility, maturing in June 2011. These facilities are utilized to finance working capital requirements, capital expenditures and for general corporate purposes. Additionally, TGVI had a \$20 million subordinated unsecured committed non-revolving credit facility, maturing January 2013. This facility can only be utilized for purposes of refinancing any annual repayments that TGVI may be required to make on non-interest bearing government contributions.

In May 2007, FortisAlberta terminated one of its \$10 million unsecured demand credit facilities and extended the maturity date of its \$200 million unsecured committed credit facility to May 2012 from May 2010.

In May 2007, FortisBC renegotiated and amended its \$50 million unsecured committed revolving credit facility extending the maturity date to May 2010 from May 2008. Additionally, the Company has the option to increase the credit facility to an aggregate of \$100 million.

Upon amalgamation of PLP with FortisBC in January 2007, PLP's credit facilities of \$5.4 million were terminated.

In March 2007, Maritime Electric's non-revolving unsecured credit facility was increased to \$30 million from \$25 million.

On November 27, 2006, Caribbean Utilities renegotiated its credit facilities, increasing its capital expenditures line of credit from US\$10 million to US\$17 million and increasing each of its US\$5 million operating line of credit and US\$5 million catastrophe standby loan to US\$7.5 million.

Fortis Generation

During the first quarter of 2007, Fortis Generation credit facilities of US\$2 million were terminated.

FORTIS INC.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2007 and 2006 (unless otherwise stated)
(Unaudited)

7. LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS

<i>(in millions)</i>	As at September 30, 2007	As at December 31, 2006
Long-term debt and capital lease obligations	\$ 4,614.5	\$ 2,407.7
Long-term classification of credit facilities (Note 6)	425.0	235.5
Deferred debt financing costs (Note 3)	(31.2)	-
Total long-term debt and capital lease obligations	5,008.3	2,643.2
Less: Current instalments of long-term debt and capital lease obligations	(262.3)	(84.8)
	\$ 4,746.0	\$ 2,558.4

Upon the acquisition of Terasen on May 17, 2007, the Corporation assumed \$277.2 million in short-term borrowings and \$2.08 billion in long-term debt and capital lease obligations (Note 14).

On January 3, 2007, FortisAlberta closed a \$110 million 4.99% senior unsecured debenture offering, maturing January 3, 2047.

During the second quarter, Caribbean Utilities closed the first tranche of a US\$40 million 5.65% senior unsecured note offering in the amount of US\$30 million. The senior unsecured notes are due June 1, 2022 and the second tranche of US\$10 million is expected to close in December 2007.

On July 4, 2007, FortisBC issued \$105 million 5.90% senior unsecured debentures, maturing July 4, 2047.

On August 17, 2007, Newfoundland Power issued \$70 million 5.901% first mortgage sinking fund bonds, maturing August 17, 2037.

On September 6, 2007, the Corporation issued US\$200 million 6.60% senior unsecured notes, maturing September 1, 2037.

8. COMMON SHARES

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

Issued and Outstanding	September 30, 2007		December 31, 2006	
	Number of Shares	Amount (in millions)	Number of Shares	Amount (in millions)
Common Shares	154,901,899	\$ 2,117.1	104,091,542	\$ 829.0

Common Shares issued during the period were as follows:

	Quarter Ended September 30, 2007		Year-to-date September 30, 2007	
	Number of Shares	Amount (in millions)	Number of Shares	Amount (in millions)
Opening balance	154,045,903	\$ 2,103.4	104,091,542	\$ 829.0
Public offering	-	-	5,170,000	145.7
Public offering - Conversion of Subscription Receipts	-	-	44,275,000	1,118.7
Conversion of debentures	417,885	5.1	534,923	6.4
Consumer Share Purchase Plan	18,339	0.5	60,367	1.7
Dividend Reinvestment Plan	60,880	1.6	160,017	4.3
Employee Share Purchase Plan	104,401	2.7	195,768	5.2
Stock Option Plans	254,491	3.8	414,282	6.1
Ending balance	154,901,899	\$ 2,117.1	154,901,899	\$ 2,117.1

FORTIS INC.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2007 and 2006 (unless otherwise stated)
(Unaudited)

8. COMMON SHARES (cont'd)

On January 18, 2007, Fortis issued 5,170,000 Common Shares for \$29.00 per common share. The common share issue resulted in gross proceeds of \$149.9 million, or approximately \$145.7 million net of after-tax expenses.

On March 21, 2007, holders of the Corporation's 6.75% Unsecured Subordinated Convertible Debentures converted approximately US\$1.1 million of the US\$10 million Debentures into 117,038 Common Shares of the Corporation.

On March 15, 2007, to finance a significant portion of the acquisition of Terasen, the Corporation sold 44,275,000 Subscription Receipts at \$26.00 each, for gross proceeds of approximately \$1.15 billion. On May 17, 2007, upon closing of the acquisition of Terasen, the Subscription Receipts were cancelled and automatically exchanged, without payment of additional consideration, for one Common Share of Fortis and a cash payment equal to \$0.21 per common share, which is an amount equal to the dividends declared on Fortis Common Shares to holders of record during the period from March 15, 2007 to May 17, 2007. The net proceeds to the Corporation upon conversion of the Subscription Receipts were approximately \$1.12 billion, net of after-tax expenses.

On September 19, 2007, holders of the Corporation's 5.50% Unsecured Subordinated Convertible Debentures converted US\$5 million of the US\$10 million Debentures into 417,885 Common Shares of the Corporation.

At September 30, 2007, 10,128,472 Common Shares remained reserved for issuance under the terms of the Corporation's share purchase, dividend reinvestment and stock option plans.

At September 30, 2007, Common Shares reserved for issuance under the terms of the Corporation's convertible debentures and Preference Shares were 2,763,675 and 26,000,000, respectively.

b. Earnings per Common Share

The Corporation calculates earnings per common share on the weighted average number of common shares outstanding. The weighted average number of common shares outstanding was 154.5 million and 103.6 million for the quarters ended September 30, 2007 and September 30, 2006, respectively. The year-to-date weighted average number of common shares outstanding was 131.6 million and 103.5 million at September 30, 2007 and September 30, 2006, respectively.

Diluted earnings per common share are calculated using the treasury stock method for options and the "if-converted" method for convertible securities.

FORTIS INC.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2007 and 2006 (unless otherwise stated)
(Unaudited)

8. COMMON SHARES (cont'd)

b. Earnings per Common Share (cont'd)

Earnings per common share are as follows:

	Quarter Ended September 30th		
	2007	2006	
	Weighted Average Shares Earnings (in millions)	Earnings per Common Share	Weighted Average Shares Earnings (in millions)
Net earnings applicable to common shares	\$ 30.8		\$ 38.8
Weighted average shares outstanding	154.5		103.6
Basic earnings per Common Share	\$ 0.20		\$ 0.37
Effect of potential dilutive securities:			
Stock options	-	1.3	-
Preference shares	4.2	11.5	4.2
Convertible debentures	0.7	3.0	0.2
Deduct anti-dilutive impacts:	35.7	170.3	43.2
Preference shares	(4.2)	(11.5)	-
Convertible debentures	(0.6)	(2.1)	-
Diluted earnings per Common Share	\$ 30.9	156.7	\$ 0.20
			\$ 43.2
			120.8
			\$ 0.36

FORTIS INC.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2007 and 2006 (unless otherwise stated)
(Unaudited)

8. COMMON SHARES (cont'd)

b. Earnings per Common Share (cont'd)

Year-to-date September 30th					
	2007		2006		
	Weighted Average Shares (in millions)	Earnings per Common Share (in millions)	Earnings Shares (in millions)	Weighted Average Shares (in millions)	Earnings per Common Share (in millions)
Net earnings applicable to common shares	\$ 113.8		\$ 113.3		
Weighted average shares outstanding		131.6			103.5
Basic earnings per Common Share		\$ 0.86			\$ 1.09
Effect of potential dilutive securities:					
Subscription receipts	-	10.4		-	-
Stock options	-	1.3		-	1.2
Preference shares	12.5	11.5		12.5	14.1
Convertible debentures	2.3	3.2		0.7	1.9
Deduct anti-dilutive impacts:		128.6	158.0	126.5	120.7
Preference shares	(12.5)	(11.5)		-	-
Convertible debentures	(1.6)	(1.4)		-	-
Diluted earnings per Common Share	\$ 114.5	145.1	\$ 0.79	\$ 126.5	120.7
					\$ 1.05

9. STOCK-BASED COMPENSATION PLANS

Stock Options

The Corporation is authorized to grant officers and certain key employees of Fortis and its subsidiaries options to purchase Common Shares of the Corporation. At September 30, 2007, the Corporation had the following stock option plans: 2006 Stock Option Plan ("2006 Plan"), 2002 Stock Option Plan ("2002 Plan") and Executive Stock Option Plan. The 2002 Plan was adopted at the Annual and Special General Meeting on May 15, 2002 to ultimately replace the Executive and the former Directors' Stock Option Plans. The Executive Stock Option Plan will cease to exist when all outstanding options are exercised or expire in or before 2011. The 2006 Plan was approved at the May 2, 2006 Annual Meeting at which Special Business was conducted. The 2006 Plan will ultimately replace the 2002 Plan. The 2002 Plan will cease to exist when all outstanding options are exercised or expire in or before 2016. The Corporation has ceased to grant options under the Executive Stock Option Plan and 2002 Plan and all new options are being granted by Fortis under the 2006 Plan. Options granted under the 2006 Plan have a maximum term of 7 years, which is reduced from 10 years under the 2002 Plan, and expire no later than 3 years after the termination, death or retirement of the optionee. Directors are not eligible to receive grants of options under the 2006 Plan. During 2006, the Corporation replaced the equity component of directors' annual compensation with Deferred Share Units ("DSUs").

FORTIS INC.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2007 and 2006 (unless otherwise stated)
(Unaudited)

9. STOCK-BASED COMPENSATION PLANS (cont'd)

Stock Options (cont'd)

	Quarter Ended September 30, 2007		Year-to-date September 30, 2007	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Options outstanding, beginning of period	4,008,232	\$ 18.09	3,550,055	\$ 16.11
Granted	136,832	\$ 25.76	754,800	\$ 27.75
Cancelled	(34,743)	\$ 22.43	(34,743)	\$ 22.43
Exercised	(254,491)	\$ 13.49	(414,282)	\$ 13.38
Options outstanding, end of period	3,855,830	\$ 18.63	3,855,830	\$ 17.71

Details of stock options outstanding as at September 30, 2007 are as follows:

Number of Options	Exercise Price	Expiry Date
140,928	\$ 9.57	2011
367,617	\$ 12.03	2012
549,296	\$ 12.81	2013
628,382	\$ 15.28	2014
12,000	\$ 15.23	2014
54,811	\$ 14.55	2014
699,631	\$ 18.40	2015
28,000	\$ 18.11	2015
33,740	\$ 20.82	2015
598,121	\$ 22.94	2016
606,472	\$ 28.19	2014
136,832	\$ 25.76	2014
3,855,830		

FORTIS INC.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2007 and 2006 (unless otherwise stated)
(Unaudited)

9. STOCK-BASED COMPENSATION PLANS (cont'd)

Stock Options (cont'd)

Details of stock options vested as at September 30, 2007 are as follows:

Number of Options	Exercise Price	Expiry Date
140,928	\$ 9.57	2011
367,617	\$ 12.03	2012
549,296	\$ 12.81	2013
449,718	\$ 15.28	2014
9,000	\$ 15.23	2014
47,895	\$ 14.55	2014
332,311	\$ 18.40	2015
14,000	\$ 18.11	2015
16,870	\$ 20.82	2015
<u>138,235</u>	<u>\$ 22.94</u>	<u>2016</u>
<u>2,065,870</u>		

The weighted average exercise price of stock options vested as at September 30, 2007 was \$14.72.

On May 7, 2007, the Corporation granted 617,968 options on common shares under its 2006 Plan at the 5-day volume weighted average trading price immediately preceding the date of grant of \$28.19. These options vest evenly over a 4-year period on each anniversary of the date of grant. The options expire 7 years after the date of grant. The fair market value of each option granted was \$4.40 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:

	<u>May 7, 2007</u>
Dividend yield (%)	3.06
Expected volatility (%)	18.9
Risk-free interest rate (%)	4.18
Weighted-average expected life (years)	4.5

On August 16, 2007, the Corporation granted 136,832 options on common shares under its 2006 Plan at the 5-day volume weighted average trading price immediately preceding the date of grant of \$25.76. These options vest evenly over a 4-year period on each anniversary of the date of grant. The options expire 7 years after the date of grant. The fair market value of each option granted was \$4.25 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:

	<u>August 16, 2007</u>
Dividend yield (%)	3.06
Expected volatility (%)	19.6
Risk-free interest rate (%)	4.43
Weighted-average expected life (years)	4.5

FORTIS INC.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2007 and 2006 (unless otherwise stated)
(Unaudited)

9. STOCK-BASED COMPENSATION PLANS (cont'd)

Stock Options (cont'd)

The Corporation records compensation expense upon the issuance of stock options under its 2002 and 2006 Plans. Using the fair value method, the compensation expense is amortized over the 4-year vesting period of the options granted. Under the fair value method, \$0.6 million and \$1.7 million was recorded as compensation expense for the 3- and 9-months ended September 30, 2007, respectively (\$0.4 million and \$1.2 million for the 3- and 9-months ended September 30, 2006, respectively).

Directors' DSU Plan

In 2004, the Corporation introduced the Directors' DSU Plan as an optional vehicle for directors to elect to receive credit of their annual retainer to a notional account of DSUs in lieu of cash. The Corporation may also determine from time to time that special circumstances exist that would reasonably justify the grant of DSUs to a director as compensation in addition to any regular retainer or fee to which the director is entitled. Additionally, in conjunction with the approval of the 2006 Plan whereby directors were no longer eligible to receive grants of stock options, directors who are not officers of the Corporation became eligible for grants of DSUs representing the equity component of directors' annual compensation.

Each DSU represents a unit with an underlying value equivalent to the value of the Common Shares of the Corporation. For directors who elect to receive DSUs in lieu of cash for their annual retainers, DSUs are credited as of January 1st of each year by dividing the total applicable annual retainer by the daily average of the high and low board lot trading prices of the Common Shares for the last 5 trading days immediately preceding the date of grant of the DSUs.

The annual grant of DSUs, that comprises the equity component of directors' annual compensation, is credited as of the grant date at the daily average of the high and low board lot trading prices of the Common Shares for the last 5 trading days immediately preceding the date of grant of the DSUs.

Notional dividends are assumed to accrue to the holder of the DSU and to be reinvested on the quarterly dividend payment dates of the Corporation's Common Shares. Upon retirement from the Board of Directors, a director participant in the Directors' DSU Plan will receive a cash payment equivalent to the number of DSUs credited to the notional account multiplied by the daily average of the high and low board lot trading prices of the Corporation's Common Shares for the last 5 trading days immediately preceding the date of payment.

Number of DSUs:	Quarter Ended	Year-to-date
	September 30, 2007	September 30, 2007
DSUs outstanding, beginning of period	68,623	46,959
Granted	-	20,859
Granted - notional dividends reinvested	558	1,363
DSUs paid out	-	-
DSUs outstanding, end of period	69,181	69,181

For the 3- and 9-months ended September 30, 2007, expenses of nil and \$0.2 million, respectively, were recorded in relation to the Directors' DSU Plan (\$0.2 million and \$0.4 million for the 3- and 9-months ended September 30, 2006, respectively).

FORTIS INC.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2007 and 2006 (unless otherwise stated)
 (Unaudited)

9. STOCK-BASED COMPENSATION PLANS (cont'd)

Restricted Share Unit ("RSU") Plan

In 2004, the Corporation introduced the RSU Plan, which is included as a component of the long-term incentives awarded only to the President and Chief Executive Officer ("CEO") of the Corporation. Each RSU represents a unit with an underlying value equivalent to the value of the Common Shares of the Corporation. Notional dividends are assumed to accrue to the holder of the RSU and to be reinvested on the quarterly dividend payment dates of the Corporation's Common Shares. The RSU maturation period is 3 years from the date of grant, at which time a cash payment is made to the President and CEO based on the number of RSUs outstanding multiplied by the daily average of the high and low board lot trading prices of the Corporation's Common Shares for the last 5 trading days immediately preceding the date of payment.

Number of RSUs:	Quarter Ended	Year-to-date
	September 30, 2007	September 30, 2007
RSUs outstanding, beginning of period	66,548	66,845
Granted	-	19,570
Granted - notional dividends reinvested	542	1,358
RSUs paid out	-	(20,683)
RSUs outstanding, end of period	67,090	67,090

In May 2007, 20,683 RSUs were paid out to the President and CEO at \$28.01 per RSU, for a total of approximately \$0.6 million. The payout was made upon the 3-year maturation period in respect of the RSU grant which was made on May 11, 2004, and the President and CEO satisfying the payment criteria.

For the 3- and 9-months ended September 30, 2007, expenses of \$0.2 million and \$0.4 million, respectively, were recorded in relation to the RSU Plan (\$0.2 million and \$0.4 million for the 3- and 9-months ended September 30, 2006, respectively).

10. ACCUMULATED OTHER COMPREHENSIVE LOSS

Accumulated other comprehensive loss includes unrealized foreign currency translation gains and losses, net of hedging activities, gains and losses on cash flow hedging activities and gains and losses on discontinued cash flow hedging activities, as discussed in Note 3.

(in millions)	Quarter		
	Opening balance June 30, 2007	Net change	Ending balance September 30, 2007
Unrealized foreign currency translation losses, net of hedging activities	\$ (75.4)	\$ (7.5)	\$ (82.9)
(Losses) gains on derivative instruments designated as cash flow hedges, net of tax	(0.1)	(0.4)	(0.5)
Net (losses) gains on derivative instruments previously discontinued as cash flow hedges, net of tax	(5.3)	0.1	(5.2)
Accumulated other comprehensive loss	\$ (80.8)	\$ (7.8)	\$ (88.6)

FORTIS INC.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2007 and 2006 (unless otherwise stated)
(Unaudited)

10. ACCUMULATED OTHER COMPREHENSIVE LOSS (cont'd)

<i>(in millions)</i>	Year-to-date			Ending balance September 30, 2007
	Opening balance January 1, 2007	Transition amount January 1, 2007	Net change	
Unrealized foreign currency translation losses, net of hedging activities	\$ (51.5)	\$ -	\$ (31.4)	\$ (82.9)
(Losses) gains on derivative instruments designated as cash flow hedges, net of tax	-	(0.5)	-	(0.5)
Net (losses) gains on derivative instruments previously discontinued as cash flow hedges, net of tax	-	(5.5)	0.3	(5.2)
Accumulated other comprehensive loss	\$ (51.5)	\$ (6.0)	\$ (31.1)	\$ (88.6)

11. EMPLOYEE FUTURE BENEFITS

The Corporation and its subsidiaries each maintain one or a combination of defined benefit pension plans, defined contribution pension plans and group Registered Retirement Savings Plans ("RRSPs") for its employees. The cost of providing the defined benefit arrangements was \$10.1 million and \$22.1 million for the 3- and 9-months ended September 30, 2007, respectively (\$4.6 million and \$14.1 million for the 3- and 9-months ended September 30, 2006, respectively). The cost of providing the defined contribution arrangements and group RRSPs was \$1.1 million and \$3.3 million for the 3- and 9-months ended September 30, 2007, respectively (\$0.9 million and \$2.5 million for the 3- and 9-months ended September 30, 2006, respectively).

12. FINANCE CHARGES

<i>(in millions)</i>	Quarter Ended September 30		Year-to-date September 30	
	2007	2006	2007	2006
Interest - Long-term debt and capital lease obligations	\$ 81.4	\$ 39.2	\$ 185.1	\$ 114.8
- Short-term borrowings	8.7	1.9	15.9	4.9
Interest charged to construction	(2.6)	(1.0)	(5.6)	(3.1)
Interest earned	(0.5)	(0.8)	(2.3)	(2.9)
Unrealized foreign exchange loss (gain) on long-term debt	0.2	(0.4)	0.4	(1.8)
Dividends on preference shares	4.2	4.2	12.5	12.5
	\$ 91.4	\$ 43.1	\$ 206.0	\$ 124.4

FORTIS INC.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2007 and 2006 (unless otherwise stated)
(Unaudited)

13. CORPORATE TAXES

Corporate taxes differ from the amount that would be expected by applying the enacted Canadian federal and provincial statutory tax rates to earnings before corporate taxes. The following is a reconciliation of the consolidated statutory tax rate to the consolidated effective tax rate:

	Quarter Ended September 30 (%)		Year-to-date September 30 (%)	
	2007	2006	2007	2006
Statutory tax rate	35.0	35.2	35.0	35.2
Preference share dividends	3.7	3.2	3.1	3.2
Differences between Canadian statutory rates and those applicable to foreign subsidiaries	(15.2)	(9.8)	(9.1)	(6.4)
Items capitalized for accounting but expensed for income tax purposes	(17.2)	(10.6)	(16.1)	(12.3)
Other timing differences	(6.0)	(1.8)	(3.8)	(1.5)
Impact of reduction in income tax rates on future income tax balances	-	-	-	(2.8)
Change in revenue recognition policy at Newfoundland Power	0.2	0.3	0.8	0.8
Maritime Electric tax reassessment	-	0.1	-	1.2
Pension costs	1.5	0.3	(0.1)	(0.4)
Other	3.2	(2.8)	0.7	(0.6)
Effective tax rate	5.2	14.1	10.5	16.4

14. BUSINESS ACQUISITION

Terasen

On May 17, 2007, Fortis acquired all of the issued and outstanding common shares of Terasen for aggregate consideration of approximately \$3.7 billion. The net cash purchase price of approximately \$1.26 billion, including acquisition costs, was primarily financed through proceeds from the issuance of common equity with the remaining \$125 million of the cash purchase price being financed, on an interim basis, through drawings on the Corporation's committed credit facilities.

Terasen owns and operates natural gas distribution businesses carried out by Terasen Gas. Terasen Gas is the principal natural gas distributor in British Columbia, serving over 900,000 customers or 95 per cent of natural gas users in the province.

The acquisition has been accounted for using the purchase method, whereby the consolidated results of Terasen have been included in the consolidated financial statements of Fortis commencing May 17, 2007. The financial results of Terasen Gas have been included in the Regulated Gas Utilities – Canadian segment, while the expenses of non-regulated Terasen corporate-related activities and Terasen's 30 per cent investment in non-regulated CWLP have been included in the Corporate and Other segment. Terasen Gas is regulated under traditional cost of service. The determination of revenue and earnings is based on regulated rates of return that are applied to historic values and does not change with a change of ownership. Therefore, for substantially all of the individual assets and liabilities associated with Terasen Gas, including intangibles, no fair market value adjustments were recorded as part of the purchase price, because all of the economic benefits and obligations associated with them beyond regulated rates of return accrue to the customers. Accordingly, the book value of substantially all of the assets and liabilities of Terasen Gas has been assigned as fair value for the purchase price allocation. Substantially all of the fair market value adjustments recorded as part of the purchase price allocation related to non-regulated Terasen and its non-regulated investments.

FORTIS INC.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2007 and 2006 (unless otherwise stated)
(Unaudited)

14. BUSINESS ACQUISITION (cont'd)

The following table summarizes the preliminary estimated fair value of the assets acquired and liabilities assumed at the date of acquisition. The purchase price allocation may be subject to change upon the completion of a final fair value assessment. The amount of the purchase price assignable to goodwill is entirely associated with the regulated natural gas operations of Terasen Gas.

<i>(in millions)</i>	Total
Fair value assigned to net assets:	
Utility capital assets	\$ 2,778.0
Current assets	353.7
Goodwill	906.7
Long-term regulatory assets	69.3
Other assets	43.5
Current liabilities	(350.5)
Assumed short-term indebtedness (Note 7)	(277.2)
Assumed long-term debt (including current portion) (Note 7)	(2,075.4)
Long-term regulatory liabilities	(29.4)
Other liabilities	(165.8)
	1,252.9
Cash	3.4
	\$ 1,256.3

Fortis Properties

On August 1, 2007, Fortis Properties purchased assets comprised of the Delta Regina Hotel, the Saskatchewan Trade and Convention Centre, 52,000 square feet of commercial office space and a parking garage complex, in Regina, Saskatchewan for an aggregate cash purchase price of approximately \$50.0 million, including acquisition costs.

The acquisition has been accounted for using the purchase method whereby the results of operations have been consolidated in the financial statements of Fortis commencing August 1, 2007.

The preliminary fair value of the net assets acquired, subject to final closing adjustments, is as follows:

<i>(in millions)</i>	Total
Fair value assigned to net assets:	
Income producing properties	\$ 50.0

FORTIS INC.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2007 and 2006 (unless otherwise stated)
(Unaudited)

15. SEGMENTED INFORMATION

a. Information by reportable segment is as follows:

Quarter ended (in millions of dollars)	REGULATED							NON-REGULATED				Inter- segment eliminations	Consolidated		
	Gas Utilities		Electric Utilities					Electric Canadian	Electric Caribbean ³	Fortis Generation	Fortis Properties and Other	Corporate			
	Terasen Gas - Canadian ¹	Fortis Alberta	Fortis BC	NF Power	Other Canadian ²	Total									
September 30, 2007															
Operating revenues	227.3	69.7	52.4	88.9	63.0	274.0	79.6		16.9	53.6	8.3	(8.7)	651.0		
Energy supply costs	118.5	-	14.2	58.8	40.7	113.7	42.7		1.5	-	-	(4.2)	272.2		
Operating expenses	56.3	30.8	15.9	11.7	7.0	65.4	10.6		3.6	31.8	5.3	(1.3)	171.7		
Amortization	23.6	19.1	7.7	6.4	4.2	37.4	6.8		2.5	3.4	1.9	-	75.6		
Operating income	28.9	19.8	14.6	12.0	11.1	57.5	19.5		9.3	18.4	1.1	(3.2)	131.5		
Finance charges	32.2	9.0	6.9	8.5	4.2	28.6	3.9		2.4	6.2	21.3	(3.2)	91.4		
Corporate taxes (recovery)	0.4	(3.9)	1.5	0.7	2.5	0.8	0.4		1.7	4.2	(5.4)	-	2.1		
Non-controlling interest	-	-	-	0.1	-	0.1	5.4		0.2	-	-	-	5.7		
Net (loss) earnings	(3.7)	14.7	6.2	2.7	4.4	28.0	9.8		5.0	8.0	(14.8)	-	32.3		
Preference share dividends	-	-	-	-	-	-	-		-	-	1.5	-	1.5		
Net (loss) earnings applicable to common shares	(3.7)	14.7	6.2	2.7	4.4	28.0	9.8		5.0	8.0	(16.3)	-	30.8		
Goodwill	906.7	227.0	220.7	-	62.8	510.5	127.4		-	-	-	-	1,544.6		
Identifiable assets	3,402.3	1,248.2	884.2	961.5	465.5	3,559.4	627.3		229.5	541.4	120.5	(19.0)	8,461.4		
Total assets	4,309.0	1,475.2	1,104.9	961.5	528.3	4,069.9	754.7		229.5	541.4	120.5	(19.0)	10,006.0		
Gross capital expenditures	50.3	66.6	36.2	21.1	10.1	134.0	23.4		3.4	4.0	0.5	-	215.6		
September 30, 2006															
Operating revenues	-	64.6	48.7	78.5	64.2	256.0	26.6		19.4	43.9	2.2	(9.4)	338.7		
Equity income	-	-	-	-	-	-	3.2		-	-	-	-	3.2		
Energy supply costs	-	-	14.3	47.7	41.9	103.9	15.0		1.4	-	-	(6.7)	113.6		
Operating expenses	-	28.8	14.8	12.1	6.7	62.4	3.0		3.3	26.1	2.0	(1.3)	95.5		
Amortization	-	17.0	6.7	6.5	3.9	34.1	1.7		2.6	3.2	0.7	-	42.3		
Operating income	-	18.8	12.9	12.2	11.7	55.6	10.1		12.1	14.6	(0.5)	(1.4)	90.5		
Finance charges	-	7.7	6.1	8.3	4.2	26.3	0.4		2.6	5.2	10.0	(1.4)	43.1		
Corporate taxes (recovery)	-	(1.2)	1.1	1.2	2.8	3.9	0.4		1.5	3.1	(2.2)	-	6.7		
Non-controlling interest	-	-	-	0.1	-	0.1	1.6		0.2	-	-	-	1.9		
Net earnings (loss) applicable to common shares	-	12.3	5.7	2.6	4.7	25.3	7.7		7.8	6.3	(8.3)	-	38.8		
Goodwill	-	228.6	220.7	-	62.8	512.1	38.7		-	-	-	-	550.8		
Identifiable assets	-	1,063.7	772.6	897.5	426.8	3,160.6	288.1		235.1	437.6	75.1	(15.3)	4,181.2		
Equity investment assets	-	-	-	-	-	-	168.2		-	-	-	-	168.2		
Total assets	-	1,292.3	993.3	897.5	489.6	3,672.7	495.0		235.1	437.6	75.1	(15.3)	4,900.2		
Gross capital expenditures	-	59.8	24.8	14.2	10.1	108.9	4.9		0.3	3.5	0.7	-	118.3		

¹ Terasen Gas was acquired on May 17, 2007.

² Includes Maritime Electric and FortisOntario

³ Includes Belize Electricity, Fortis Turks and Caicos acquired on August 28, 2006, and Caribbean Utilities in Grand Cayman

FORTIS INC.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2007 and 2006 (unless otherwise stated)
(Unaudited)

15. SEGMENTED INFORMATION (cont'd)

Year-to-date (in millions of dollars) September 30, 2007	REGULATED							NON-REGULATED				Inter- segment eliminations	Consolidated		
	Gas Utilities		Electric Utilities					Fortis Generation	Fortis Properties	Corporate and Other					
	Terasen Gas - Canadian ¹	Fortis Alberta	Fortis BC	NF Power	Other Canadian ²	Total Electric Canadian	Electric Caribbean ³								
Operating revenues	356.9	201.7	167.6	358.0	198.0	925.3	231.0	55.7	140.9	16.1	(26.0)	1,699.9			
Energy supply costs	191.4	-	47.5	238.8	132.1	418.4	127.4	5.3	-	-	(13.2)	729.3			
Operating expenses	84.0	90.2	48.8	38.5	21.0	198.5	38.8	11.2	89.3	8.4	(4.2)	426.0			
Amortization	35.2	55.7	23.2	25.2	12.5	116.6	21.0	7.9	9.8	3.9	-	194.4			
Operating income	46.3	55.8	48.1	55.5	32.4	191.8	43.8	31.3	41.8	3.8	(8.6)	350.2			
Finance charges	47.4	26.4	19.1	25.0	12.6	83.1	11.4	7.2	17.8	47.7	(8.6)	206.0			
Corporate taxes (recovery)	1.0	(12.7)	4.6	8.9	7.5	8.3	1.2	6.2	8.2	(9.8)	-	15.1			
Non-controlling interest	-	-	-	0.4	-	0.4	9.7	0.7	-	(0.1)	-	10.7			
Net (loss) earnings	(2.1)	42.1	24.4	21.2	12.3	100.0	21.5	17.2	15.8	(34.0)	-	118.4			
Preference share dividends	-	-	-	-	-	-	-	-	-	4.6	-	4.6			
Net (loss) earnings applicable to common shares	(2.1)	42.1	24.4	21.2	12.3	100.0	21.5	17.2	15.8	(38.6)	-	113.8			
Goodwill	906.7	227.0	220.7	-	62.8	510.5	127.4	-	-	-	-	1,544.6			
Identifiable assets	3,402.3	1,248.2	884.2	961.5	465.5	3,559.4	627.3	229.5	541.4	120.5	(19.0)	8,461.4			
Total assets	4,309.0	1,475.2	1,104.9	961.5	528.3	4,069.9	754.7	229.5	541.4	120.5	(19.0)	10,006.0			
Gross capital expenditures	64.0	205.2	108.0	52.8	26.0	392.0	70.0	11.3	9.6	1.3	-	548.2			
September 30, 2006															
Operating revenues	-	185.0	157.3	307.6	189.4	839.3	69.4	59.2	121.0	6.4	(23.6)	1,071.7			
Equity income	-	-	-	-	-	-	6.9	-	-	-	-	6.9			
Energy supply costs	-	-	47.4	188.0	127.9	363.3	40.1	4.8	-	-	(14.2)	394.0			
Operating expenses	-	84.4	46.2	39.2	20.4	190.2	8.4	11.2	77.0	7.5	(4.0)	290.3			
Amortization	-	51.2	20.4	24.2	11.6	107.4	4.5	7.9	8.9	2.2	-	130.9			
Operating income	-	49.4	43.3	56.2	29.5	178.4	23.3	35.3	35.1	(3.3)	(5.4)	263.4			
Finance charges	-	22.0	17.4	24.4	11.6	75.4	3.7	7.8	15.3	27.6	(5.4)	124.4			
Gain on sale of income producing property	-	-	-	-	-	-	-	-	(2.1)	-	-	(2.1)			
Corporate taxes (recovery)	-	(5.7)	4.9	10.0	7.4	16.6	1.1	6.6	6.0	(7.2)	-	23.1			
Non-controlling interest	-	-	-	0.5	-	0.5	3.3	1.0	-	(0.1)	-	4.7			
Net earnings (loss) applicable to common shares	-	33.1	21.0	21.3	10.5	85.9	15.2	19.9	15.9	(23.6)	-	113.3			
Goodwill	-	228.6	220.7	-	62.8	512.1	38.7	-	-	-	-	550.8			
Identifiable assets	-	1,063.7	772.6	897.5	426.8	3,160.6	288.1	235.1	437.6	75.1	(15.3)	4,181.2			
Equity investment assets	-	-	-	-	-	-	168.2	-	-	-	-	168.2			
Total assets	-	1,292.3	993.3	897.5	489.6	3,672.7	495.0	235.1	437.6	75.1	(15.3)	4,900.2			
Gross capital expenditures	-	175.9	73.0	41.2	24.4	314.5	11.6	2.8	15.3	1.7	-	345.9			

¹ Terasen Gas was acquired on May 17, 2007.

² Includes Maritime Electric and FortisOntario

³ Includes Belize Electricity, Fortis Turks and Caicos acquired on August 28, 2006, and Caribbean Utilities in Grand Cayman

FORTIS INC.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2007 and 2006 (unless otherwise stated)
(Unaudited)

15. SEGMENTED INFORMATION (cont'd)

- a. The Corporation has changed the reporting of its operating segments whereby the financial results of Maritime Electric and FortisOntario have now been aggregated into one reportable segment and presented as "Regulated Electric Utilities - Other Canadian". Comparative segment information has been restated to reflect this change in reporting.

Beginning with the second quarter of 2007, the Corporation is reporting a new segment "Regulated Gas Utilities - Canadian" which includes the financial results of Terasen Gas, the principal natural gas distributor in British Columbia, acquired by the Corporation on May 17, 2007. Additionally, the expenses of non-regulated Terasen corporate-related activities and Terasen's 30 per cent ownership interest in CWLP, are included in the Corporate and Other segment from May 17, 2007.

b. Inter-Segment Transactions

Inter-segment 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. The significant inter-segment transactions primarily related to the sale of energy from Fortis Generation to Belize Electricity and FortisOntario, electricity sales from Newfoundland Power to Fortis Properties and finance charges on inter-segment borrowings. The significant inter-segment transactions for the 3- and 9-months ended September 30, 2007 and 2006 are detailed below.

Inter-segment transactions (in millions)	Quarter Ended September 30		Year-to-date September 30	
	2007	2006	2007	2006
Sales from Fortis Generation to Belize Electricity	\$4.1	\$6.2	\$12.5	\$13.2
Sales from Fortis Generation to FortisOntario	0.1	0.4	0.7	1.0
Sales from Newfoundland Power to Fortis Properties	0.8	0.9	2.9	2.8
Inter-segment finance charges on borrowings from:				
Corporate to Regulated Electric Utilities - Canadian	0.4	0.4	1.7	1.1
Corporate to Fortis Properties	2.5	1.1	6.1	3.2
Fortis Generation to Belize Electricity	-	-	-	0.7

16. CONTINGENT LIABILITIES AND COMMITMENTS

Contingent liabilities

Fortis is a party to a number of disputes and lawsuits in the normal course of business. The Corporation's contingent liabilities are consistent with disclosures in the Corporation's 2006 annual audited consolidated financial statements except as described below.

The B.C. Ministry of Forests (the "Ministry") has alleged breaches of the Forest Practices Code and negligence relating to a forest fire near Vaseux Lake and has filed and served a writ and statement of claim against FortisBC. In addition, the Company has been served with 2 filed writs and statements of claim by private land owners in relation to the same matter. The Company is currently communicating with its insurers and has filed a statement of defence in relation to all of the actions. The outcome cannot be reasonably determined and estimated at this time and, accordingly, no amount has been accrued in the consolidated financial statements.

FORTIS INC.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2007 and 2006 (unless otherwise stated)
(Unaudited)

16. CONTINGENT LIABILITIES AND COMMITMENTS (cont'd)

Contingent liabilities (cont'd)

On January 5, 2006, FortisBC was served with a writ and statement of claim which was filed with the B.C. Supreme Court under the *Class Proceedings Act, 1995* (British Columbia) on behalf of a class consisting of all persons who are or were customers of FortisBC and who paid what were characterized as late payment penalties at any time between April 1, 1981 and the date of any judgment in this action. The claim was that forfeitures of the prompt payment discount offered to customers constituted "interest" within the meaning of section 347 of the *Criminal Code* (Canada) and that the effective annual rate of such "interest" was illegal and void. In the action, the Plaintiff sought damages and restitution of what were characterized as late payment penalties which were forfeited. On December 13, 2006, the application to certify the action as a class action was heard in the B.C. Supreme Court. In a decision delivered on January 11, 2007, the B.C. Supreme Court dismissed the application to certify the action as a class action. The Plaintiff filed an appeal of the decision with the B.C. Court of Appeal. The Plaintiff's appeal was abandoned on May 29, 2007 and a Consent Dismissal Order was entered on June 6, 2007 dismissing the proceeding without costs to either party.

On March 26, 2007, the Minister of Small Business and Revenue and Minister Responsible for Regulatory Reform (the "Minister") in British Columbia issued a decision in respect of the appeal by Terasen Gas of an assessment of additional British Columbia Social Service Tax in the amount of \$37.1 million associated with the Southern Crossing Pipeline, which was completed in 2000. The Minister has reduced the assessment to \$7 million, including interest, which has been paid in full to avoid accruing further interest and has been recorded as a long-term regulatory deferral asset. On June 22, 2007, Terasen Gas filed an appeal of the assessment with the B.C. Supreme Court (Note 5).

During the third quarter of 2007, a subsidiary of Terasen received Notices of Assessment from Canada Revenue Agency for additional taxes related to the 1999 taxation year. The exposure has been fully provided for in the consolidated financial statements. Terasen intends to appeal the assessments.

Commitments

The Corporation's commitments are consistent with disclosures in the Corporation's 2006 annual audited consolidated financial statements except as described below.

Terasen Gas is a party to various gas purchase contracts with obligations totalling \$791.5 million as at September 30, 2007. These obligations are based on market prices that vary with gas commodity indices. The amount reflects index prices in effect as at September 30, 2007.

Terasen Gas also has various capital and operating leases associated with equipment, facilities and natural gas distribution assets with obligations totalling \$185.7 million as at September 30, 2007.

As at September 30, 2007, commitments associated with long-term debt repayments for consolidated Terasen were \$2.08 billion.

17. SUBSEQUENT EVENT

On October 2, 2007, TGI issued \$250.0 million 6.00% Medium Term Note Debentures, due October 2037. The proceeds from the debentures were used to repay debt maturing in October 2007.

18. COMPARATIVE FIGURES

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

Dates – Dividends* and Earnings

Expected Earnings Release Dates

February 7, 2008	May 1, 2008
August 8, 2008	October 31, 2008

Dividend Record Dates

November 9, 2007	February 8, 2008
May 9, 2008	August 8, 2008

Dividend Payment Dates

December 1, 2007	March, 1, 2008
June 1, 2008	September 1, 2008

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

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Share Listings

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

Fortis Common Shares (\$)		
Quarter Ended September 30		
	2007	2006
High	27.27	25.48
Low	24.50	21.99
Close	27.05	24.44



FORTIS
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