FORTIS INC.

# ANNUAL INFORMATION FORM

## FOR THE YEAR ENDED DECEMBER 31, 2001

**April 12, 2002**

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## CORPORATE STRUCTURE

### Fortis Inc.

Fortis Inc. ("Fortis" or "the Corporation") is a holding company which was incorporated as 81800 Canada Limited under the *Canada Business Corporations Act* on June 28, 1977, and continued under the *Corporations Act* (Newfoundland) on August 28, 1987. Its articles were amended on October 12, 1987 to change its name to Fortis Inc.; on October 15, 1987, to set out the rights, privileges and conditions attached to the Common Shares; on September 11, 1990, to designate 2,000,000 First Preference Shares, Series A; on July 22, 1991, to replace the rights, privileges, restrictions and conditions attaching to the First Preference Shares as a class, and the Second Preference Shares as a class; and on December 13, 1995, to designate 2,000,000 First Preference Shares, Series B.

Fortis is a utility holding company with five electric utility subsidiaries. It holds all the common shares of Newfoundland Power Inc. ("Newfoundland Power") and, through Fortis Properties Corporation ("Fortis Properties"), holds all the common shares of Maritime Electric Company, Limited ("Maritime Electric"), which are the principal distributors of electricity in the provinces of Newfoundland and Labrador and Prince Edward Island, respectively. Through Maritime Electric, it owns FortisUS Energy Corporation ("FortisUS Energy"), which operates four hydroelectric generating stations in the State of New York. Fortis also owns 100 per cent of Central Newfoundland Energy Inc., whose principal activity is its 51 per cent involvement in the Exploits River Hydro Partnership project. The project is a partnership with Abitibi-Consolidated Inc. to develop additional capacity at Abitibi-Consolidated's hydroelectric plant at Grand Falls-Windsor and to redevelop the forestry company's hydroelectric plant at Bishop Falls, both in Newfoundland and Labrador. Fortis, through a wholly-owned subsidiary incorporated under the laws of the Cayman Islands, also holds a 95 per cent interest in Belize Electric Company Limited ("BECOL"). BECOL owns and operates the Mollejon hydroelectric facility, located on the Macal River in Belize, Central America. Also in Belize, Fortis holds 67 per cent of the outstanding shares of Belize Electricity Limited ("Belize Electricity"), the main commercial generator, transmitter and distributor of electricity in the country of Belize, Central America. As well, Fortis holds a 50 per cent interest in Canadian Niagara Power Company, Limited ("Canadian Niagara Power"), an integrated electric utility serving customers in Fort Erie, Ontario and supplying energy to customers in Canada and the United States, and a 22.48 per cent interest in Caribbean Utilities Company, Ltd. ("Caribbean Utilities"), the sole provider of electricity to the island of Grand Cayman, Cayman Islands.

Fortis operated two non-utility subsidiaries in 2001. Through its non-utility subsidiary, Fortis Properties, Fortis has investments in real estate and hotel operations. Fortis' other non-utility subsidiary, Fortis Trust Corporation ("Fortis Trust"), a provider of financial services, was in operation until June 2001, at which time it sold all of its deposits and loans to Scotiabank.

## Principal Subsidiaries

The following table lists the principal subsidiaries of the Corporation, their jurisdictions of incorporation and the percentage of voting securities owned directly or indirectly by the Corporation as at December 31, 2001. This list excludes certain subsidiaries whose total assets constitute less than 10 per cent of the Corporation's 2001 consolidated assets and whose total revenues constitute less than 10 per cent of the Corporation's 2001 total revenues.

| **Principal Subsidiaries** | **Incorporated under the laws of** | **Percentage (%) of voting securities held directly or indirectly by the Corporation** |
|---|---|---|
| Newfoundland Power Inc. | Newfoundland | 92.7 (1) |
| Maritime Electric Company, Limited and its wholly-owned subsidiary FortisUS Energy Corporation | Canada<br>New York | 100 |
| Belize Electricity Limited | Belize | 67 (2) |
| Fortis Properties Corporation | Newfoundland | 100 |

(1) Fortis owns all the Common Shares, 152,300 First Preference Shares, Series G and 1,000 First Preference Shares, Series B of Newfoundland Power Inc., which, at December 31, 2001, represented 92.7 per cent of its voting securities. The remaining 7.3 per cent of Newfoundland Power's voting securities consists of First Preference Shares, Series A, B, D and G and are held by the public.

(2) Fortis owns 67 per cent of the Ordinary Shares of Belize Electricity Limited through three wholly-owned subsidiaries incorporated under the laws of the Cayman Islands. The Government of Belize and residents of Belize own the remaining Ordinary Shares.

Fortis does not own any non-voting securities of any of its subsidiaries and unless otherwise indicated or the context otherwise requires, references to "Fortis" or "the Corporation" includes Fortis and its subsidiaries.

## GENERAL DEVELOPMENT OF THE BUSINESS

Fortis became the parent company of Newfoundland Power Inc. (formerly Newfoundland Light & Power Co. Limited) through a statutory arrangement effective December 29, 1987. Fortis expanded its electrical power distribution business through investment in Maritime Electric in 1990 and the subsequent acquisition of that company in 1994 and through the acquisition of a 50 per cent interest in Canadian Niagara Power in 1996, making Fortis the only company with investments in electric distribution systems in three Canadian provinces.

Fortis expects that expansion of its business will be derived primarily from acquisitions. Fortis acquired its 50 per cent interest in Canadian Niagara Power in 1996 in furtherance of this strategy and believes that this acquisition leaves Fortis well-positioned to take advantage of expected opportunities in the electric utility industry in Ontario.

The Company extended electrical power distribution and generation activities internationally during 1999 with the acquisition of a 67 per cent interest in Belize Electricity and the purchase of generating facilities in New York State by FortisUS Energy.

Continued international expansion occurred in 2000 with the acquisition of a 20 per cent interest in Caribbean Utilities and the purchase of two additional hydroelectric generating stations in New York State through FortisUS Energy.

In 2001 Fortis increased its investment in the country of Belize with the acquisition of a 95 per cent interest in BECOL, a hydroelectric facility located on the Macal River.

Fortis intends to consider additional electric utility investments in Ontario, the United States, the Caribbean region and other jurisdictions, and will carry out strategic assessments of its non-utility operations to identify and capitalize on expansion opportunities where prospects of enhancing existing operations may exist.

Through Fortis Properties, the Corporation has concentrated on selectively expanding its real estate and hospitality service businesses, completing significant acquisitions in 1995 and 1996 and smaller transactions in 1997, and acquiring a hotel in central Newfoundland and a 50 per cent interest in an office, retail and hotel complex in Saint John, New Brunswick in 1999. In December 2000, Fortis Properties acquired three major properties in Atlantic Canada including the remaining 50 per cent interest in the 1999 Saint John acquisition noted above. Further expansion occurred in 2001 with the September opening of its seventh hotel, the Four Points by Sheraton Halifax, Nova Scotia and the acquisition of TD Place in St. John’s, Newfoundland and Labrador.

**Newfoundland Power**

The principal asset of Fortis is its interest in Newfoundland Power which represents 42.2 per cent of the Corporation’s total assets and 57.2 per cent of the Corporation’s total revenue.

Newfoundland Power is an electric utility that operates an integrated generation, transmission and distribution system throughout the island portion of the Province of Newfoundland and Labrador. The Company serves approximately 220,000 residential, commercial and industrial customers in 600 communities. These customers constitute 85 per cent of all electrical consumers in the province. Over the past five years, residential customers have consistently represented approximately 86 per cent of the Company's total customers, and sales to residential customers have consistently generated approximately 60 per cent of the Company's revenue. At December 31, 2001, Newfoundland Power had net fixed assets of $545 million compared to $471 million as at December 31, 1997. Revenue was $359.3 million in 2001 compared to $343.7 million in 1997.

In 2001, energy sales increased 2.5 per cent to 4,667 gigawatt hours ("GWh") from 4,555 GWh in 2000. This increase in energy sales, the largest since 1990, is a reflection of both residential and commercial energy sales growth. Residential energy sales increased by 2.5 per cent in 2001 as a result of growth in average use per customer. Growth in the service sector of the economy and the continued development of the oil industry in the province contributed to an increase in commercial energy sales of 2.4 per cent in 2001.

**Maritime Electric**

Maritime Electric is an electric utility, which directly supplies approximately 67,000 residential, commercial and industrial customers, or just over 90 per cent of the electricity consumers in the province of Prince Edward Island. At December 31, 2001, Maritime Electric had net fixed assets of $204.1 million compared to $197.4 million as at December 31, 2000. Operating revenue was $97.5 million in 2001 compared to $94.5 million in 2000.

On December 1, 2000 Maritime Electric acquired 100 per cent interest in FortisUS Energy. On December 30, 1999, FortisUS Energy acquired two hydroelectric generating plants in upper New York State from Harza Engineering Company, Inc. for a purchase price of $19.8 million. On December 14, 2000 FortisUS Energy purchased two additional hydroelectric generating plants in upper New York State from Niagara Mohawk Power Corporation ("Niagara Mohawk") for a purchase price of $6.9 million. These four hydroelectric plants have a total combined generating capacity of 23 megawatts ("MW"). At December 31, 2001 FortisUS Energy had net fixed assets of $28.3 million compared to $27.2 million as at December 31, 2000. Revenue was $3.3 million in 2001 compared to $3.1 million in 2000.

**BECOL**

In January 2001, Fortis, through a wholly-owned subsidiary, purchased a 95 per cent interest in BECOL from Duke Energy Group, Inc. for an aggregate purchase price of $103.1 million. BECOL owns and operates the Mollejon hydroelectric facility, located on the Macal River in Belize, Central America. The facility is a 25 MW generating plant capable of delivering average annual energy of 80 GWh, and is the only commercial hydroelectric facility in Belize. BECOL sells its entire output to Belize Electricity under a 50-year power purchase agreement.

## Belize Electricity

During the fourth quarter of 1999, Fortis acquired a 67 per cent interest in Belize Electricity from the Government of Belize and another investor for an aggregate purchase price of $36.8 million. Belize Electricity is the main commercial generator, transmitter and distributor of electricity in Belize, Central America. Belize Electricity directly supplies more than 57,000 residential, commercial and industrial customers in Belize. At December 31, 2001, Belize Electricity had net fixed assets of $191.3 million compared to $158.5 million as at December 31, 2000. Revenue was $72.4 million in 2001 compared to $63.6 million in 2000.

## Canadian Niagara Power

Canadian Niagara Power is an integrated electric utility, producing electricity at its Rankine Generating Station located 1,500 feet from the crest of Niagara Falls on the Canadian side of the Niagara River, and distributing electricity to approximately 15,000 customers in the Town of Fort Erie through its wholly-owned subsidiary Canadian Niagara Power Inc. ("CNPI"). Canadian Niagara Power also engages in wholesale energy marketing activities into the United States. At December 31, 2001, Canadian Niagara Power had consolidated net fixed assets of $53.6 million and revenue of $40.4 million for the year then ended compared to $50.1 million of net fixed assets and $36.7 million of revenue for the prior year.

Fortis believes its interest in Canadian Niagara Power, one of only four investor-owned utilities in the province of Ontario, gives Fortis an important strategic position in the evolving electric utility industry in Ontario. In July 2001, CNPI signed an agreement to lease the electricity distribution business of Port Colborne Hydro Inc. for ten years with an option to purchase such assets at the end of its lease term for fair market value. The total value of the transaction is estimated at $15.6 million. The transaction is subject to approval by the Ontario Energy Board. Port Colborne Hydro Inc. has 9,000 customers and serves the City of Port Colborne, which is adjacent to the Town of Fort Erie. Canadian Niagara Power also owns a 10 per cent interest in Westario Power Holdings Inc. and Rideau St. Lawrence Holdings Inc.

Canadian Niagara Power produces power in excess of that required to service its Fort Erie customers. This excess is sold into the United States. On November 18, 1999, the state of New York inaugurated its Independent System Operator ("NYISO"). Prior to the introduction of the NYISO, Canadian Niagara Power sold its excess power to Niagara Mohawk and other utilities under bilateral agreements. Almost all of Canadian Niagara Power's excess power is now sold to the NYISO.

In 1998, the Government of Ontario passed the *Electricity Act, 1998* to initiate restructuring of the Ontario electricity industry. To meet the regulatory requirements of this legislation, Canadian Niagara Power incorporated CNPI in 1999, to hold and operate its transmission and distribution business. In December 2001, the Government of Ontario announced that the electricity market in Ontario will open for competition on May 1, 2002.

**Caribbean Utilities**

On March 2, 2000, Fortis acquired 4,750,000 Class A Ordinary Shares of Caribbean Utilities, from treasury, for a cash purchase price of US$11.50 per share. Fortis' shares represented a 20.2 per cent interest in Caribbean Utilities, the sole provider of electricity to the island of Grand Cayman, Cayman Islands.

Caribbean Utilities has the exclusive right to generate, transmit, distribute and supply electricity to the Island of Grand Cayman, Cayman Islands pursuant to a 25-year license issued in 1986. It currently has an installed capacity of 115 MW and a peak load of 75.99 MW. The 214 employees of Caribbean Utilities serve over 19,500 customers. Caribbean Utilities shares are listed for trading on the Toronto Stock Exchange.

**Fortis Properties**

Fortis has owned all the issued and outstanding shares of Fortis Properties since its inception in 1989. Fortis Properties is engaged in the ownership and management of commercial, retail and hotel properties in Newfoundland and Labrador, Nova Scotia and New Brunswick.

Fortis Properties' real estate operations commenced with the 1989 acquisition of the Fortis Building in St. John's, Newfoundland and Labrador, which houses the head office of Fortis. Prior to 1992, Fortis Properties' real estate portfolio consisted of a number of commercial properties in downtown St. John's. In 1992, Fortis Properties acquired commercial property in Corner Brook, Newfoundland and Labrador and, in 1993, it acquired shopping centers located in Corner Brook and St. Anthony, Newfoundland and Labrador. Fortis Properties experienced significant growth in 1995, more than doubling the value of its real estate assets with the purchase of two office properties in Halifax, Nova Scotia, and shopping centers in Gander and Marystown, Newfoundland and Labrador. Fortis Properties increased its ownership of properties adjacent to the Fortis Building in St. John's by acquiring two small office buildings during 1997.

Fortis Properties acquired an initial 50 per cent equity interest in Brunswick Square Ltd. on August 31, 1999 from Scotiabank for a cash cost of $10.1 million. The remaining 50 per cent equity interest of Brunswick Square Ltd. was acquired from Aliant Telecom on December 14, 2000 for a cash cost of $6.2 million. Brunswick Square Ltd. owned a 497,200 square foot office and retail building, a 750 space parking garage, and a 255 room Delta franchised hotel complex in downtown Saint John, New Brunswick. Fortis Properties amalgamated with its wholly-owned subsidiary, Brunswick Square Ltd, effective January 1, 2001.

In December 2000, Fortis Properties acquired the Blue Cross Centre in Moncton, New Brunswick from Aliant Telecom and Atlantic Blue Cross Care, and the Fort William Building in St. John's, Newfoundland and Labrador from Aliant Telecom. The aggregate purchase price for these two properties was $52.7 million.

In June 2001, the Company sold the Centennial Building in Halifax, Nova Scotia for $11.5 million.

In September 2001, Fortis Properties announced that it had acquired, from Atlantic Shopping Centers Ltd., a portfolio of properties in downtown St. John's for $8.3 million. The major asset in the portfolio was the 96,300 square foot office property known as TD Place. This acquisition also included the 14,716 square foot office property at 155 Water Street and six parcels of land used for parking.

In December 1995, Fortis Hospitality Corporation ("Fortis Hospitality") acquired four Holiday Inn-franchised hotels in Newfoundland, immediately selling the two smaller properties and retaining the hotels in St. John's and Corner Brook. In July 1996, the Delta Sydney, Holiday Inn Sydney, and the Sydney Inn in Sydney, Nova Scotia were added to the hotel portfolio. More than $3.0 million was invested in refurbishing the St. John's and Corner Brook hotels in 1996 and 1997. Fortis Hospitality closed the Sydney Inn in September 1997 and subsequently sold the property in December 1997. The Holiday Inn Sydney was converted to a Days Inn franchise on May 1, 1998. On February 1, 1999, Fortis Hospitality acquired the 150-room Mount Peyton Hotel in Grand Falls-Windsor, Newfoundland.

Effective January 1, 2000, Fortis Properties amalgamated with its wholly-owned subsidiaries Fortis Hospitality and Mount Peyton Motel Company Limited so that hospitality operations are now carried on as a division of Fortis Properties. In May 2000, Fortis Properties completed an expansion of the Holiday Inn St. John's. The expansion included the addition of 64 guest-rooms and additional meeting space.

The Brunswick Square Ltd. acquisition in August 1999 included the 255-room Delta Brunswick, located in Saint John, New Brunswick that was managed by Delta Hotels and Resorts under the supervision of Fortis Properties as manager of the Brunswick Square complex. Fortis Properties assumed 100 per cent ownership and management of the Delta Brunswick in February 2001 and retained the Delta franchise.

In September 2001 Fortis Properties opened its seventh hotel. The Four Points by Sheraton Halifax is located in downtown Halifax, Nova Scotia and represents the first ground up construction project undertaken by the Company.

**Fortis Trust**

Fortis acquired all the issued and outstanding shares of Fortis Trust, formerly Newfoundland Building, Savings & Investment Limited, in 1989. Fortis Trust was a trust company licensed under the laws of Newfoundland and Labrador and Prince Edward Island, which conducted mortgage-lending and deposit-taking activities. At the time of acquisition, operations were conducted from one branch in St. John's, Newfoundland. Fortis Trust subsequently opened a branch in Corner Brook, Newfoundland in 1993 and began offering services through an agency relationship with Maritime Electric at the Maritime Electric office in Charlottetown, Prince Edward Island in 1995. In June 2001 Fortis Trust sold all its deposits and loans to Scotiabank.

**Recent Developments**

On January 31, 2002, Fortis Properties purchased the Cabot Place I office tower in downtown St. John's, Newfoundland and Labrador from Manulife Financial for $14.3 million. Cabot Place I is a premium high-rise office tower with a gross leasable area of 133,759 square feet, and a 317-car parkade.

On March 13, 2002, Fortis announced that it had issued, by way of private placement, US$10,000,000 aggregate principal amount of Unsecured Subordinated Convertible Debentures. The Debentures bear interest at the annual rate of 6.75 per cent, payable semi-annually on January 31 and July 31 in each year, and mature on March 12, 2012. The Debentures may be redeemed by Fortis at par at any time on or after March 12, 2007, and are convertible into Fortis Common Shares at $58.20 per share, a 20 per cent premium to current market prices at time of issue. The Debentures are subordinated to all other indebtedness of Fortis, other than subordinated indebtedness ranking equally with the Debentures.

In March 2002, Fortis acquired, through multiple transactions, an additional 662,700 Class A ordinary shares of Caribbean Utilities, or approximately 2.74 per cent of the outstanding Class A Ordinary Shares, at prices between US$11.75 and US$12.33 cash per share. Following these purchases Fortis beneficially owns 5,437,700 Class A Ordinary Shares, or approximately 22.48 per cent of the outstanding Class A Ordinary Shares.

On March 20, 2002, Fortis announced it had entered into an agreement to acquire the remaining 50 per cent interest in Canadian Niagara Power from National Grid USA for an aggregate purchase price of $49.0 million. The closing of the acquisition is subject to obtaining required regulatory approval.

Effective April 1, 2002, the energy supply agreement between Maritime Electric and the City of Summerside expired and was not renewed. The loss of this customer will not have a material impact on Maritime Electric's financial performance, as the contribution to earnings from this energy supply contract will be replaced through transmission service fees and ancillary charges paid by the City of Summerside and its new energy provider to Maritime Electric.

Effective April 8, 2002, Fortis Properties acquired Kings Place in downtown Fredericton, New Brunswick from Fredericton Developments Ltd. for $27.7 million. Kings Place is a 289,437 square foot multi-use office and retail complex comprised of two office towers, the York Tower and the King Tower, a retail area which connects the towers, and a 417- stall parkade.

# NARRATIVE DESCRIPTION OF THE BUSINESS

## Newfoundland Power

Newfoundland Power is the principal distributor of electricity in the Province of Newfoundland and Labrador, serving approximately 220,000 customers throughout the island portion of the province, representing approximately 85 per cent of the province's electricity customers. The balance of the population is served by the province's other electric utility, Newfoundland & Labrador Hydro ("Newfoundland Hydro"), a Crown corporation that also serves several larger industrial customers in Newfoundland and Labrador. Newfoundland Power owns and operates 31 small generating stations and approximately 10,000 kilometres of transmission and distribution lines. Approximately 90 per cent of the electricity that Newfoundland Power sells to its customers is purchased from Newfoundland Hydro. The Company generates the remainder of its energy requirements.

### *Market*

Newfoundland Power serves a wide range of electricity consumers. Annual weather-adjusted energy sales (see "Regulation", page 10) have increased from 4,438 million kilowatt-hours in 1997 to 4,667 million kilowatt-hours in 2001. Revenue increased from $343.7 million in 1997 to $359.3 million in 2001.

The following chart compares 2000 and 2001 revenues and energy sales:

| | **Revenue [1] $000,000 / %** | | **Kilowatt-Hour Sales [1] 000,000 / %** | |
|---|---|---|---|---|
| | **2001** | **2000** | **2001** | **2000** |
| Residential | 211.8/58.9 | 207.2/59.5 | 2,775/59.5 | 2,707/59.4 |
| Commercial | 130.7/36.4 | 128.2/36.8 | 1,857/39.8 | 1,813/39.8 |
| Street Lighting | 10.5/2.9 | 10.5/3.0 | 35/0.7 | 35/0.8 |
| Other [2] [3] | 6.3/1.8 | 2.5/0.7 | --/-- | --/-- |
| Total | 359.3/100.0 | 348.4/100.0 | 4,667/100.0 | 4,555/100.0 |

(1) Revenue and kilowatt-hour sales reflect weather adjusted values related to Newfoundland Power's weather normalization reserve.
(2) Includes revenue from sources other than the sale of electricity.
(3) Other revenue is net of $6.6 million in excess revenue in 2000 and $0.9 million in 2001 (see "Regulation", page 10).

### *Properties*

The Company's principal properties are office, garage and warehouse buildings, 31 generating stations, and electric utility and related assets located throughout the Company's service territory on the island portion of the province. The Company owns substantially all of such assets, which are subject to a fixed and floating charge under a trust deed that secures the Company's First Mortgage Sinking Fund Bonds.

### *Power Supply*

Approximately 90 per cent of the Company's power supply is purchased from Newfoundland Hydro. The principal terms of the supply arrangements with Newfoundland Hydro are regulated by the Board of Commissioners of Public Utilities of Newfoundland and Labrador (the "PUB") on a similar basis to that upon which Newfoundland Power's service to its customers is regulated.

Newfoundland Power owns and operates 31 small generating plants which generate approximately ten per cent of the electricity sold by the Company to its customers. The Company's hydro plants have a total capacity of approximately 94,500 kilowatts. Its diesel plants and gas turbines have a total capacity of approximately 6,900 kilowatts and 46,900 kilowatts, respectively.

### *Regulation*

Under the provisions of the *Public Utilities Act* (Newfoundland and Labrador), the PUB has regulatory jurisdiction over Newfoundland Power in respect of rates, capital expenditures, issuance of securities, terms of service and related matters. In exercising its jurisdiction over rates, the PUB is required to observe the power policy declared in the *Electrical Power Control Act, 1994* (Newfoundland) ("*Power Act*") which includes the policy statement that rates should be reasonable and not unjustly discriminatory, sufficient to provide a just and reasonable return to the producer or retailer and such that industrial customers shall not be required to subsidize the cost of power provided to rural customers.

In January 1996, most provisions of the *Power Act* were proclaimed in force. The *Power Act* declares provincial power policy and provides for the planning, allocation and re-allocation of electric power in Newfoundland and Labrador. From a business and an operational perspective, the *Power Act* did not significantly change the regulatory regime under which Newfoundland Power had previously operated. However, certain sections of the *Power Act* that have not yet been proclaimed in force will require, if proclaimed and subject to certain exceptions, the approval of the PUB prior to the acquisition or disposition, directly or indirectly, of more than 20 per cent of the voting shares of Fortis, as the parent corporation of Newfoundland Power.

The PUB has ordered the Company to provide out of its revenue a reserve account known as the Weather Normalization Reserve to adjust for the effect of variations in weather and streamflow when measured against long-term averages. The operation of the Weather Normalization Reserve, in effect, protects against year-to-year income volatility resulting from abnormal weather conditions. The balance in the Weather Normalization Reserve and the underlying calculations are reviewed by the PUB each year. The financial statements of Newfoundland Power are adjusted to reflect the effect of this reserve account.

The Company and Newfoundland Hydro each have established a Rate Stabilization Account, with the PUB's approval, to absorb fluctuations between estimated and actual costs of fuel burned by Newfoundland Hydro to produce the electricity it sells to Newfoundland Power. These reserve accounts are conceptually similar to the Weather Normalization Reserve except they protect against large fluctuations in the cost and quantity of fuel oil used to generate electricity. The accounts operate to permit these fluctuations to be reflected, in part, in the rates Newfoundland Power charges its customers without the requirement of a rate hearing. The Company's rates are adjusted on July 1 of each year to allow it to recover one-third of the accumulated balance in Newfoundland Hydro's Rate Stabilization Account on December 31 of the preceding year.

On July 31, 1998, following a public hearing into the Company's cost of capital, the PUB issued an order approving an automatic annual adjustment formula for adjusting rate of return to reflect changes in long-term Government of Canada bond yields. In its order, the PUB determined that an appropriate return on equity in 1998 was 9.25 per cent, or 3.5 per cent above forecast long-term Government of Canada bond yields. Since 1998 the automatic adjustment formula has been used to set the rate of return and electrical rates to consumers on an annual basis.

As a result of the operation of the automatic adjustment formula, on December 20, 2001 the PUB ordered a decrease in the rate of return on rate base to 10.06 per cent within a range of 9.88 per cent to 10.24 per cent for 2002, to reflect an allowed return on equity of 9.05 per cent. These changes are due to the net effect of decreased long-term Canada bond yields and increased investment in the business that caused Newfoundland Power's rate of return on rate base for 2002, as adjusted by the formula, to be set below the range approved for 2001. This resulted in a 0.6 per cent decrease in rates effective January 1, 2002.

The automatic adjustment formula determined the allowed rate of return on rate base to be 10.28 per cent within a range of 10.10 per cent to 10.46 per cent for 2000 and 2001. Largely due to the impact of interest received as part of income tax refunds in both years, the Company exceeded the maximum allowed rate of return on rate base resulting in excess revenue of $6.6 million in 2000 and $0.9 million in 2001. The PUB approved a rebate of the excess revenue for 2000 to residential, commercial and street lighting customers in 2001.

On August 28, 2001 the PUB approved the purchase, from Aliant Telecom Inc. ("Aliant Telecom"), of joint-use utility poles in Newfoundland Power's service territory for $40.4 million. The aggregate purchase price payable by Newfoundland Power to Aliant Telecom is 50 per cent at date of closing, 20 per cent on January 1, 2002 and 10 per cent on January 1 of each of the three subsequent years. The agreement between Newfoundland Power and Aliant Telecom closed on September 13, 2001.

On May 31, 2001 Newfoundland and Labrador Hydro applied to the PUB to increase rates charged to Newfoundland Power and its other customers. Newfoundland Power intervened during the proceedings and presented evidence. The PUB is expected to issue an order in the second quarter of 2002. If the application is approved it will result in a 6.4 per cent increase to Newfoundland Power or 3.5 per cent to Newfoundland Power customers.

A report on the Energy Policy Review initiated by the Provincial Government in 1998 was released on March 25, 2002. The review identified various issues and discussed a variety of options for the future; however, no specific recommendations were outlined. The Company is currently examining the details of the review and intends to provide government with feedback and recommendations in the formal 60-day consulting period that has been established.

***Income Taxes***

In 1995, Canada Customs and Revenue Agency ("CCRA") issued notices of reassessment to Newfoundland Power for the years 1988 to 1993. These notices disallowed certain amounts capitalized by the Company for regulatory and accounting purposes but claimed as expenses for tax purposes. The reassessments also included in income the value of electricity consumed in December 1993 but not billed until January 1994. The Company's practice is to record revenue on the billed basis. The Company filed notices of objection in 1995 and paid $15.6 million to CCRA, which represented one-half of the amount of taxes in dispute.

In May 2000, CCRA issued further reassessments permitting the deductibility of certain amounts capitalized for regulatory and accounting purposes. In the 2000 reassessment, CCRA reaffirmed its position with regard to the recording of electricity consumed in December 1993 but not billed until January 1994. As a result of the 2000 reassessment, Newfoundland Power received $8.8 million from CCRA including $6.8 million in interest. CCRA retained the balance to offset the income taxes and interest on the outstanding revenue recognition issue.

The Company filed Notices of Objection with CCRA and requested a return of 50 per cent of the monies held by CCRA on behalf of Newfoundland Power until final resolution of the issue. In May 2001, the Company received $6.6 million from CCRA representing 50 per cent of the deposit held by CCRA.

The Company believes that it has reported its tax position appropriately. The Company continues to make representations to CCRA in support of this issue. However, should the Company be unsuccessful, a liability of approximately $14.4 million as of December 31, 2001, including interest, would arise. This would be offset by approximately $17 million related to recording electricity revenue on the accrual basis. An application by the Company to the PUB to have the liability considered in the rate making process will be made should this occur.

In March 2001, the Company received a separate refund of $6 million from CCRA, including $1.7 in interest. This refund relates to the treatment of certain amounts capitalized by the Company for regulatory and accounting purposes for the years 1994 through 1998 and applies the treatment accepted by CCRA in the 2000 reassessment retroactively to those years. Newfoundland Power has applied this treatment to 1999 and subsequent taxation years.

The Company records deferred income taxes in accordance with PUB orders. The method used results in deferred taxes being recorded only on certain differences between the books of account and the tax return. As a result, the effective tax rate is subject to fluctuation. In 2001, the effective tax rate was 31.8 per cent, down slightly from the 32.9 per cent reported in 2000. The refund related to general expenses capitalized for the years 1994 to 1998, as noted above, contributed largely to reducing current year's tax expense. The effective tax rate is expected to return to the 40 per cent range in future years.

***Human Resources***

At December 31, 2001, Newfoundland Power had 617 permanent employees of which 347 were members of bargaining units represented by the International Brotherhood of Electrical Workers ("IBEW"), Local 1620.

Early in 1999, Newfoundland Power and the IBEW reached collective agreements for all employees represented by the IBEW. These agreements expire on September 30, 2003.

***Environmental Matters***

Newfoundland Power is subject to environmental regulation under various federal, provincial and local laws and regulations including those relating to the generation, storage, handling, disposal and emission of various substances and wastes.

Newfoundland Power is committed to meeting the requirements of all environmental protection legislation and government regulation and to complying with all accepted standards of environmental protection. In addition, the Company has created and implemented environmental policies and procedures, including emergency response procedures in the event of adverse environmental occurrences. The Company conducts ongoing education programs for its employees to inform them of environmental issues and to instill a sense of environmental responsibility.

In 1999, the Company implemented an Environmental Management System ("EMS") consistent with the International Organization for Standardization's ("ISO") 14001 standard. In 1999, the Company achieved consistency with this standard for its generation function and on March 30, 2001 the Company received ISO 14001 registration.

Newfoundland Power expanded the EMS initiative in 2000 to encompass the remaining components that relate to transmission, distribution and associated functions. In 2001, the Company achieved consistency with the ISO 14001 standard for the remainder of its operations. This achievement is one year in advance of the schedule established by the Canadian Electrical Association ("CEA").

In 2001, the Company continued with its program to identify and replace distribution transformers at risk of spillage. As well, oil containing polychlorinated biphenyls ("PCB") continued to be removed from service. The Company continues to minimize its inventory of PCB waste and in October 2001 a licensed PCB waste disposal Company removed all PCB waste in storage. Future PCB waste generated as a result of the Company's PCB phase out and destruction program will be addressed on an ongoing basis.

In 2001 an independent certified environmental auditor, working on behalf of CEA, completed an audit of the Company's performance as it pertains to the Environmental Commitment and Responsibility ("ECR") program, including the Company's commitment to the ISO 14001 standard. The results of the audit verified Newfoundland Power's environmental performance and commitment to the ISO 14001 standard.

Newfoundland Power is committed to operating in an environmentally responsible manner. The Company continues to monitor its environmental compliance and to implement procedures and safeguards necessary to ensure ongoing compliance with environmental requirements, to prevent environmental problems to the extent reasonably possible and to cure expeditiously any such problems that may arise.

Environmental laws and regulations had no material effect on the capital expenditures, earnings or competitive position of Newfoundland Power in 2001 and, based on current law, facts and circumstances, are not expected to have such effect in the future.

**Maritime Electric**

Maritime Electric is the primary distributor of electricity in the province of Prince Edward Island, operating an integrated system providing for the generation, transmission and distribution of electricity throughout the Island. Maritime Electric provides service directly to approximately 67,000 customers or just over 90 per cent of the electrical consumers in the province. While Maritime Electric owns and operates generating plants in Charlottetown and Borden - Carleton, Prince Edward Island, it purchases almost all of the energy it distributes to its customers from New Brunswick Power ("NB Power") and Emera Incorporated ("Emera") under various contracts and entitlement agreements. Maritime Electric's energy delivery system is linked to the mainland power grid by two submarine cables between Prince Edward Island and New Brunswick, which are leased from the Government of Prince Edward Island.

### *Market and Sales*

Maritime Electric serves residential, commercial and industrial electricity consumers. Annual energy sales on Prince Edward Island were 987 GWh in 2001, a 29 GWh increase over energy sales of 958 GWh for the previous year. Energy sales for the four plants owned by FortisUS Energy were 68 GWh compared to 67 GWh in 2000. The two plants purchased in December 2000 provided 18 GWh annually. Revenue for 2001 was $97.5 million, a $3.0 million or 3.2 per cent increase over 2000 revenue.

The following chart compares 2001 and 2000 operating revenues and energy:

| | **Revenue** (1) **$000,000 / %** | | **Gigawatt Hour Sales** (1) **GWh / %** | |
|---|---|---|---|---|
| | **2001** | **2000** | **2001** | **2000** |
| Residential | 41.2/43.8 | 40.6/44.5 | 368.1/37.3 | 362/37.8 |
| Commercial | 50.1/53.1 | 48.2/52.7 | 613.9/62.2 | 591/61.7 |
| Street Lighting | 1.3/1.4 | 1.2/1.3 | 5/0.5 | 5/0.5 |
| Other (2) | 1.6/1.7 | 1.4/1.5 | --/-- | --/-- |
| Total | 94.2/100 | 91.4/100.0 | 987/100.0 | 958/100.0 |

(1) Excludes FortisUS Energy sales.
(2) Includes revenue from sources other than from the sale of electricity.

Maritime Electric continues to participate in discussions with utilities based in other Maritime Provinces and the state of Maine with respect to the potential formation of a regional transmission organization ("RTO"). The purpose of the RTO would be to develop and operate a fair and equitable process to transmit electricity at reasonable rates within its service territory. Formation of an RTO would provide the Company with more options to acquire electricity for resale.

The future will see continued restructuring in the North American electric utility industry. Such restructuring may result in the generation, distribution and transmission of electricity being undertaken by separate entities. Maritime Electric believes that opportunities from competing electricity suppliers will lead to further savings by affording the opportunity to purchase energy at more competitive rates than currently available.

Maritime Electric's wholly owned subsidiary, FortisUS Energy, reached energy production levels of 68 GWh in 2001. This was lower than expected due to the shortage of water and an unplanned outage at Dolgeville to effect repairs. All of the energy generated by FortisUS Energy is sold under contract to Niagara Mohawk, an independent marketer of electricity. In 2001, the energy sold to Niagara Mohawk yielded total revenue of US$2.1 million.

### *Power Supply*

Maritime Electric currently meets its energy requirements through energy purchases from NB Power and Emera with the balance supplied from on-Island generation facilities. In 2001, Maritime Electric purchased 1.025.3 GWh of the 1,066.9 GWh required to meet its customers' needs from NB Power and through a new agreement with Emera. The balance was met through its on-Island generation.

Maritime Electric's generation facilities have a total installed capacity of approximately 100 MW. Its oil-fired steam plant and gas turbines have a total capacity of 60 MW and 40 MW, respectively. This capacity is used primarily for peaking and emergency purposes.

The Energy Purchase Agreement with NB Power, under which Maritime Electric purchased the majority of its annual energy requirements, expired in 2001 and was replaced by two new agreements, one with NB Power and the other with Emera. These new agreements will provide for firm energy at fixed prices. These agreements will substantially reduce the Company's exposure to increased energy costs, thereby providing increased stability to earnings.

In excess of 20 per cent of the energy that Maritime Electric purchases from NB Power comes from the Point Lepreau Nuclear Generating Station (the "Station"). Costs to Maritime Electric for its energy entitlement from the Station are calculated in a manner consistent with that used to set rates in New Brunswick. During 2001 several unplanned maintenance outages resulted in the Station having an annual capacity factor of 81 per cent versus 73 per cent in 2000.

The Station recently received a two-year license renewal from the Atomic Energy Control Board. Maritime Electric believes this renewal is an indication that NB Power is succeeding in its efforts to restore the Station to acceptable levels of operation.

During 1998, NB Power announced the results of an independent audit of the Station. The audit concluded that the Station's remaining life was less than the estimate that had been used by NB Power for the purposes of calculating depreciation. Accordingly, the consultant and NB Power's external auditors recommended that NB Power reduce the Station's net book value by $450 million.

In its financial statements for the financial period ending March 31, 1999, NB Power recorded a one-time charge against earnings of $450 million reflecting the reduction in the useful life of the Station from 2014 to 2008. Maritime Electric's obligations in respect of the Station Unit Participation Agreement required a payment of $5,976,506 in 2001. Maritime Electric's annual costs associated with its participation in the Station decreased by a net amount of approximately $1.5 million (pre-tax) in 2001.

### *Regulation*

Since 1994, Maritime Electric has been regulated by the *Maritime Electric Company Limited Regulation Act,* (Prince Edward Island). This legislation eliminated the traditional cost of service form of regulation and replaced it with a form of price cap regulation under which the rates charged by Maritime Electric decreased by one per cent every six months until the rates reached the required level of not more than 110 per cent of the rates charged by NB Power for equivalent service to New Brunswick consumers. On January 1, 1998, Maritime Electric's rates decreased by an average of 7 per cent in order to achieve the targeted level. On October 1, 1998, rates increased 2.9 per cent to match a similar increase by NB Power. On April 1, 2000, residential rates were increased by 3 per cent to match an increase implemented by NB Power. Since 1994, Maritime Electric's rates have been reduced by approximately 15 per cent.

Legislative change proclaimed in May 2001 now provides the Company with the ability to recover from customers, 90 per cent of energy related costs above $0.05 per KWh. In addition the legislation provides for a further adjustment to rates to bring the Company's return on average common equity 75 per cent of the way towards a target return of 11.0 per cent on average common equity. These adjustments will help reduce the Company's exposure to increases in energy related costs and provide more earnings stability.

Maritime Electric increased electricity rates 4.53 per cent effective January 1, 2001 to adjust for the write down of the Station, a cost which will not be recovered from New Brunswick Power customers. Under the legislative changes made to the *Maritime Electric Company Limited Regulation Act*, the monies associated with the 4.53 per cent increase for the period January 1, 2001 to March 31, 2002 will be held in trust for rebate to customers beginning on April 1, 2002.

Maritime Electric's governing legislation also provides that system reliability must not be less than the average annual levels achieved during the period from 1990 through 1993. System reliability has consistently exceeded this target. Maritime Electric's customers experienced 1.48 hours of interrupted service in 2001 compared with the benchmark of five hours per annum in the 1990 through 1993 period.

The *Maritime Electric Company Limited Regulation Act* requires the Company to maintain at least 40 per cent of its capital structure in the form of common equity. At year-end 2001, the common equity component of capital structure of Maritime Electric was approximately 38 per cent. It is anticipated that the common equity component of capital structure will return to 40 per cent in 2002 as a result of earnings from operations.

### *Human Resources*

Maritime Electric employed 175 people at December 31, 2001, of which 124 were represented by the International Brotherhood of Electrical Workers, Local 1432. The collective agreement governing these employees was renewed in 2001 for a term of four years and expires on December 31, 2004.

### *Environmental Matters*

Maritime Electric is subject to environmental regulation under various federal, provincial and local laws and regulations including those relating to the generation, storage, handling, disposal and emission of various substances and wastes. Maritime Electric conducts its operations with a view to complying with all applicable federal, provincial and local environmental laws and regulations. Environmental policies and procedures are reviewed periodically and are updated as required. New procedures are developed as required and employees affected by the new or updated procedures receive appropriate training.

Maritime Electric continued to expand its EMS during 2001. This system was implemented in the generation and corporate functions of the Company in 1999. In 2002, the system will be fully implemented in the transmission and distribution functions.

During 2001, Maritime Electric continued its program of performing environmental audits and site assessments on selected properties. Environmental laws and regulations had no material effect on the capital expenditures, earnings or competitive position of Maritime Electric in 2001 and, based on current laws, facts and circumstances, are not expected to have such an effect in the future.

**BECOL**

BECOL was incorporated under the laws of Belize in 1991 with Dominion Energy Central America Inc., a wholly owned subsidiary of Dominion Energy Inc of Virginia (USA) owning 95 per cent of the ordinary shares and the remaining 5 per cent being owned by the Social Security Board of Belize, a statutory body controlled by the Government of Belize. In November of 1999, Dominion Energy sold all its interest in BECOL to Duke Energy International who in turn sold its 95 per cent interest to Fortis in January 2001.

The Company was originally formed to develop and manage the hydroelectric potential of the Macal River in Western Belize. The first project undertaken by BECOL was the 25 MW run of the river hydroelectric plant at Mollejon and a 115 kV transmission line later transferred to Belize Electricity. The Mollejon project was developed under a build, own, operate and transfer arrangement with the Government of Belize. The plant was commissioned with all units operational in November of 1995 and began commercial operations in April of 1996, selling all of its output to Belize Electricity. BECOL currently employs 18 full time personnel, none of whom are participants in collective agreements.

BECOL is an unregulated power producer and operates under a set of agreements with the Government of Belize and Belize Electricity including a 50-year Power Purchase Agreement and Franchise Agreement. Under these agreements, the Mollejon Plant is transferred to the Government of Belize in 2037 after which it is to be leased by the Company for a further 15 years.

The Franchise Agreement grants BECOL the right to use the water in the Macal River, upstream of the Mollejon plant, for hydroelectric generation. The Government of Belize has agreed not to grant any rights, or take any action that would impede the amount or quality of water flow on the upper Macal River. BECOL was afforded full duty-free and tax-free status and the Government warrants that there is no limitation upon the expatriation, repatriation or free exchange of funds.

The Company is a leader in environmental management in Belize, and has embarked on a program to have its operations compliant with the ISO 14001 international environmental standards in 2002.

In November 2001, BECOL received environmental clearance for the Chalillo project, an upstream storage and generation facility that is expected to increase Mollejon energy production from an average of 80 GWh to 160 GWh. Construction will commence upon the receipt of necessary permits.

## Belize Electricity

Belize Electricity is the primary commercial generator, transmitter and distributor of electricity in Belize, Central America. Serving more than 57,000 customers, the Company meets a peak demand of 49 MW from multiple sources, which include power purchases from the Mollejon hydroelectric facility in western Belize, from Comission Federal de Electricidad ("CFE"), the Mexican state-owned power Company and from its own diesel-fired generation. All major load centers are connected to the Country's national electricity system, which, in turn is connected to the Mexican electric grid, allowing Belize Electricity to optimize its power supply options.

### *Market and Sales*

Annual energy sales increased 12.2 per cent to 257 GWh in 2001 compared to 229 GWh in 2000. Revenue was $72.4 million compared to $63.6 million in 2000.

The following chart compares 2001 and 2000 revenue and energy sales.

| | Revenue $000,000 / % | | Gigawatt Hour Sales GWh / % | |
|---|---|---|---|---|
| | **2001** | **2000** | **2001** | **2000** |
| Residential | 33.0/45.6 | 27.1/42.6 | 119.1/46.4 | 102.8/44.8 |
| Commercial[(1)] | 31.3/43.2 | 28.4/44.7 | 117.9/45.9 | 110.3/48.1 |
| Street Lighting | 6.0/8.4 | 5.1/8.0 | 19.7/7.7 | 16.3/7.1 |
| Other[(2)] | 2.1/2.8 | 3.0/4.7 | - | - |
| Total | 72.4/100 | 63.6/100 | 256.7/100 | 229.4/100 |

(1) Includes revenue sources classified as commercial, industrial and Government of Belize.
(2) Includes revenue from sources other than from the sale of electricity.

At year-end, the customer satisfaction index was at 82.5 per cent, showing consistent satisfaction with the overall service provided by the Company.

The Company placed high emphasis on revenue protection and loss reduction exercises during 2001. Through the implementation of a vigorous anti-theft and loss reduction program, overall system losses were reduced from 13 per cent in early 2001 to 10 per cent by year-end.

### *Power Supply*

Belize Electricity purchased and produced 293 GWh of electricity in 2001. The Company purchased 91 GWh from the Mollejon hydroelectric facility and 159 GWh from CFE. The balance, or 43 GWh, was produced by the Company's diesel-fired generation, which has an installed capacity of 26.3 MW.

The Power III Project, a multi-year project that is being implemented in partnership with the Belizean Government, continued to provide first-time power to many rural areas in Belize. During 2001, 138 miles of distribution lines were installed to connect more than 1,200 customers. At the same time, the Company is extending its transmission system to interconnect isolated loads to the main grid. More than 188 miles of sub-transmission lines were installed, allowing the Company to realize significant savings as it closed down the last isolated diesel power station in northeastern Belize. The Company began the construction of another 50 miles of sub-transmission lines to connect isolated loads in the south and close the two last isolated diesel power plants.

Having not experienced a major tropical storm in 30 years, Belize was hit by Hurricane Keith in 2000 and Hurricane Iris in 2001, both Category 4 storms. Belize Electricity suffered about US$2.5 million in damages to its distribution system in southern Belize as a result of Hurricane Iris. With the experience of Hurricane Keith the year before, the Company was able to respond very quickly and full power was restored to customers within a month. The Company received assistance with restoration works from Caribbean Utilities, the Guatemalan government-owned utility Instituto Nacional de Electricidad, and from its sister company, BECOL. The Company took the opportunity to redesign the damaged distribution system to accommodate the growth in the area and to lessen damage under similar hurricane conditions.

In January, Belize Electricity and CFE finalized procedures for the purchase and sale, by both parties, of economic energy. With this in place, the Company has been able to better optimize the dispatch of power from various sources and thus reaping significant economic benefits.

### *Regulation*

Belize Electricity is regulated by a Public Utilities Commission ("PUC") under the terms of an amendment to the *1992 Electricity Act* (the "Electricity Act") and the *Public Utilities Commission Act of 1999*. In 1999, the Electricity Act was amended to establish a new regulatory framework including the formation of PUC. The amendments to the Electricity Act represented a profound change, as Belize Electricity was required to recognize the authority of the autonomous PUC, introduce new and transparent tariff setting methodologies and to establish new reliability and service standards. The regulatory structure provides incentive to Belize Electricity to provide customers with reliable power and quality service and to manage the electricity delivery process as efficiently as possible.

Effective January 1, 2000, the Company and the PUC established a Cost of Power Rate Stabilization Account. The account is designed to normalize changes in the price of electricity due to fluctuating fuel costs. It will stabilize electricity rates for consumers while providing Belize Electricity with a mechanism which permits, over time, the full recovery of its cost of electricity.

The PUC has extended the Company's license to generate, transmit and supply electricity in Belize. The license, originally due to expire in 2008, is now valid for a 15-year period from 2000 through 2015. Under the terms of the license, the Company has the right of first refusal on any subsequent license. If the license is not renewed for any reason, Belize Electricity will be entitled to receive, upon the transfer of its electric utility assets to a new operator, the greater of market value or 120 per cent of the net book value of these assets.

The PUC has approved By-laws that govern the tariffs, rates and charges for the transmission and supply of electricity, charges for existing and new services, and the mechanisms, formulas, and procedures whereby such tariffs, rates and charges shall be calculated. The By-laws also govern the quality of service standards for existing and new services. These By-Laws mandate a five cents decrease in electricity rates for the period 2000 through 2005. The quality of service standards will be monitored and formalized over a transition period from January 1, 2000 through June 30, 2005 and will become effective July 1, 2005.

***Human Resources***

Belize Electricity employed 244 people at December 31, 2001, of which 131were represented by the Belize Energy Workers Union. On November 29, 2000 the Company signed a new collective agreement, which will be reviewed every five years.

***Environment***

Throughout the year, Belize Electricity continued to make considerable progress on its environmental initiatives to have its operations comply with internationally acceptable environment standards defined by ISO 14001. Environmental clean-up was completed in the Company's operating plants throughout the country. Several plants, including the one in the popular tourist destination of San Pedro, were decommissioned.

Belize Electricity is committed to conducting business in an environmentally conscious manner. In 2000, the Company signed a memorandum of intent to purchase as much as 15 MW of excess energy from Belize Sugar Industries which is proposing to construct a bagasse-fueled electricity generation facility. This partnership complements the existing hydroelectric operations as an environmentally friendly, renewable resource for energy supply and is in keeping with plans to identify renewable energy sources that meet the long-terms needs of Belize.

Environmental laws and regulations had no material effect on the capital expenditures, earnings or competitive position of Belize Electricity in 2001 and, based on current law, facts and circumstances, are not expected to have such an effect in the future.

## Canadian Niagara Power

Canadian Niagara Power sells electricity provided as a result of its ownership of the Rankine Generating Station on the Niagara River in Niagara Falls, Ontario. Canadian Niagara Power sells electricity to CNPI which distributes the electricity to approximately 15,000 residential and commercial customers in the Town of Fort Erie. The prices charged for this service are regulated by the Ontario Energy Board ("OEB"). In December 2001, the OEB approved a rate increase of 3 per cent effective January 1, 2001. The OEB also approved Canadian Niagara Power's transmission revenue requirement effective May 1, 2002. Canadian Niagara Power sells all remaining energy to wholesale market participants in the State of New York. In December 2001, the Government of Ontario announced that the market for electricity in Ontario will open for competition on May 1, 2002. At that time Canadian Niagara Power will no longer supply Fort Erie with electricity but will sell all its electricity in the wholesale markets. CNPI will purchase Fort Erie's electricity requirements from the wholesale market.

### *Market and Sales*

On April 14, 1999, Canadian Niagara Power became the first Ontario-based company to be awarded a license by the Federal Energy Regulatory Commission ("FERC") to market energy in the United States. The energy marketing activities of Canadian Niagara Power are a source of both immediate financial benefit and longer-term potential as expertise is developed from participation in the United States market in advance of other Canadian utilities.

Canadian Niagara Power's energy sales were 631 GWh in 2001 compared to 636 GWh in 2000. Energy sales to the Fort Erie distribution territory were 279 GWh in 2001, a slight increase over 2000 energy sales of 275 GWh. Revenue increased from $36.7 million in 2000 to $40.4 million in 2001. The increase in gross revenue reflects changing market.

The following chart compares 2001 and 2000 revenues and energy sales:

| | **Revenue $000,000 / %** | | **Gigawatt Hour Sales GWh / %** | |
|---|---|---|---|---|
| | **2001** | **2000** | **2001** | **2000** |
| Residential | 9.0/22.2 | 8.8/24.0 | 104/16.5 | 102/16.1 |
| Commercial | 11.9/29.5 | 11.8/32.1 | 171/27.1 | 174/27.3 |
| Street Lighting | 0.4/1.0 | 0.4/1.1 | 3/0.5 | 3/0.5 |
| Other(1) | 19.1/47.3 | 15.7/42.8 | 353/55.9 | 357/56.1 |
| Total | 40.4/100 | 36.7/100 | 631/100 | 636/100 |

(1) Includes revenue from sources other than from the sale of electricity.

### *Power Supply*

Energy provided by water and power exchange agreements with the Ontario Hydro successor companies Ontario Power Generation Inc. ("OPGI") and Hydro One Inc. totaled 653 GWh in 2001. Under these agreements, water which would otherwise be used at Canadian Niagara Power's Rankine Generating Station is diverted to an OPGI plant where it can produce substantially more energy due to the relative locations on the Niagara River of the OPGI and Canadian Niagara Power facilities. Canadian Niagara Power receives energy from OPGI that is essentially equivalent to that which would have been generated at the Rankine Generating Station by the same water supply. The water agreement, formally entered into in 1971, is automatically renewed on a yearly basis unless terminated by written notice given by either party prior to the end of March in each year. Canadian Niagara Power believes the agreement provides significant economic advantages to each party and that its termination is therefore unlikely. Negotiations are underway with OPGI to formalize this agreement until 2009.

Canadian Niagara Power's license to divert water from the Niagara River will expire on April 30, 2009. Ontario's Lieutenant Governor in Council may, in its sole discretion, extend this license for a further 20-year term.

### *Regulation*

Canadian Niagara Power was historically subject to minimal regulation in connection with its energy activities and was not subject to any form of rate regulation, other than under a franchise agreement with the Town of Fort Erie. Under Ontario's *Electricity Act, 1998* and the *Ontario Energy Board Act*, Canadian Niagara Power is now subject to the same regulation as all distributors and transmitters of electricity in Ontario. The *National Energy Board Act* (Canada) provides that a permit is required for the export of electricity to the United Sates. Canadian Niagara Power holds all necessary permits for the sale and export of electricity to the United States. Canadian Niagara Power is licensed by FERC to sell electricity at market rates to utilities in the United States.

### *Human Resources*

Canadian Niagara Power employed 74 people at December 31, 2001, of which the International Brotherhood of Electrical Workers, Local Union 636 represented 50. The collective agreement in respect of these employees expires on May 31, 2003.

### *Environmental Matters*

Canadian Niagara Power is subject to environmental regulation under various federal, provincial and local laws and regulations including those relating to the generation, storage, handling, disposal and emission of various substances and wastes. The Company manages its adherence to all applicable environmental laws and regulations and other environmental aspects through an ISO 14001-consistent EMS which was implemented in 1999 and 2000 for all business functions.

Canadian Niagara Power has adopted an environmental policy that commits the Company to achieve environmental excellence and maintain a high standard of environmental responsibility and performance. The policy also commits the Company to comply with all relevant environmental legislation and regulations and other requirements to which Canadian Niagara Power subscribes. In support of this policy, the Company has created and implemented procedures that stipulate operating criteria to ensure that Canadian Niagara Power's operations are carried out under specified conditions. Emergency response procedures have been developed and implemented to address environmental emergencies appropriately and safely.

The Company continues to monitor its environmental compliance and to implement procedures and safeguards necessary to ensure ongoing compliance with environmental requirements, to prevent adverse environmental effects to the extent reasonably possible and to cure expeditiously any such problems that may arise.

Environmental laws and regulations had no material effect on the capital expenditures, earnings or competitive position of Canadian Niagara Power in 2001 and, based on current law, facts and circumstances, are not expected to have such an effect in the future.

**Caribbean Utilities**

Under a shareholders agreement, West Indies Power Corporation Limited ("West Indies Power"), Caribbean Utilities' largest shareholder with approximately 32 per cent of the Class A Ordinary Shares, has granted Fortis a right of first offer on West Indies Power's Class A Ordinary Shares as well as a "tag along" right entitling Fortis to sell its Class A Ordinary Shares to any purchaser of West Indies Power's Class A Ordinary Shares if Fortis does not exercise its right of first offer. In addition, West Indies Power has agreed to vote for the election of two Fortis nominees to Caribbean Utilities' Board of Directors. Similarly, Fortis has granted West Indies Power a right of first offer on Class A Ordinary Shares of Fortis and a "tag along" right, and has agreed not to vote against the election of five West Indies Power nominees to the Caribbean Utilities Board of Directors. The Agreement may be terminated by either party at any time at which the other party owns less than 10 per cent of Caribbean Utilities' voting securities.

Under a standstill agreement, Caribbean Utilities has agreed to nominate two Fortis nominees for election to the Caribbean Utilities Board of Directors and Fortis has agreed not to vote its Class A Ordinary Shares against Caribbean Utilities' management nominees to the Caribbean Utilities Board of Directors. Caribbean Utilities has also granted Fortis a pre-emptive right to participate in any subsequent issuances of voting securities (other than under existing share issuance plans and compensation arrangements) so as to permit Fortis to maintain its proportionate interest in Caribbean Utilities. Fortis has also agreed not to increase its ownership interest in Caribbean Utilities beyond 20 per cent except in certain circumstances or with Caribbean Utilities' permission. The agreement expires in 2005.

## Fortis Properties

Fortis Properties is the only non-utility subsidiary of Fortis and the primary vehicle for diversification and growth outside the electric utility business, with interests in office buildings, shopping centers, hotels and the provision of property management services. In 2001, Fortis Properties derived approximately 53 per cent of its revenue from real estate operations and 47 per cent of its revenue from hotel operations compared to 46 per cent and 54 per cent, respectively, for 2000.

### *Real Estate Division*

At December 31, 2001, Fortis Properties' commercial real estate portfolio consisted of approximately 2.3 million square feet of office and retail space in Newfoundland and Labrador, Nova Scotia, and New Brunswick. At the end of 2001, Fortis Properties' average occupancy rate obtained or exceeded the industry average in each of its major markets. Commercial real estate markets in Atlantic Canada's major centers continued to improve in 2001 with higher occupancy and rental rates. The downturn experienced in rural Newfoundland real estate during the last several years is beginning to stabilize. Positively, the tenant losses experienced in recent years have moderated and there has been some key leasing activity in 2001. The Company has benefited from the provincial government's program to decentralize several government departments from St. John's, into secondary markets with a view of creating new employment and aiding the economy in these areas.

The following chart sets out the office and retail properties currently owned by Fortis Properties, in each case as legal and beneficial owner:

| Property | Location | Type of Property | Gross Lease Area (square feet) |
|---|---|---|---|
| Fort William Building | St. John's, NF | Office | 188,170 |
| TD Place | St. John's, NF | Office | 92,838 |
| Fortis Building | St. John's, NF | Office | 82,410 |
| Miscellaneous Office | St. John's, NF | Office and Retail | 73,128 |
| Marystown Mall | Marystown, NF | Retail | 86,891 |
| Fraser Mall | Gander, NF | Retail | 101,591 |
| Viking Mall | St. Anthony, NF | Retail | 64,872 |
| Fortis Tower | Corner Brook, NF | Office | 70,245 |
| Millbrook Mall | Corner Brook, NF | Retail | 121,936 |
| Maritime Centre | Halifax, NS | Office and Retail | 560,572 |
| Blue Cross Centre | Moncton, NB | Office and Retail | 265,245 |
| Brunswick Square | Saint John, NB | Office and Retail | 499,162 |

### *Hospitality Division*

Fortis Properties' Hospitality Division owns and manages seven hotel properties in Newfoundland and Labrador, Nova Scotia and New Brunswick.

Fortis Properties opened its seventh hotel in September 2001. The Four Points by Sheraton Halifax is located in downtown Halifax, Nova Scotia and represents the first ground up construction project undertaken by the Company. The hotel was completed within budget and opened seven weeks ahead of schedule.

The hotel properties owned and managed by Fortis Properties are summarized as follows:

| Property | Location | Number of Guest Rooms | Conference Facilities (square feet) |
|---|---|---|---|
| Holiday Inn St. John's | St. John's, NF | 250 | 11,000 |
| Holiday Inn Corner Brook | Corner Brook, NF | 101 | 4,932 |
| Mount Peyton | Grand Falls-Windsor, NF | 150 | 4,433 |
| Four Points by Sheraton | Halifax, NS | 178 | 1,500 |
| Days Inn Sydney | Sydney, NS | 165 | 1,000 |
| Delta Sydney | Sydney, NS | 152 | 6,265 |
| Delta Brunswick | Saint John, NB | 255 | 12,776 |

### *Human Resources*

Fortis Properties had 694 employees at December 31, 2001. Employees at the Days Inn Sydney are members of a bargaining unit represented by the Hotel Employees' and Restaurant Employees' Union. The collective agreement in respect of these employees expired on December 31, 2001 and a new three-year collective agreement was singed on March 7, 2002. The collective agreement between Fortis Properties and the Canadian Auto Workers ("CAW") covering employees at the Delta Sydney expires on September 30, 2002. The employees at the Holiday Inns located in Corner Brook and St. John's are members of bargaining units represented by the Retail Wholesale Canada, Canadian Service Sector Division, affiliated with the CAW. The collective agreement for Corner Brook was renegotiated effective March 11, 2001 for a three-year term. Employees at East Side Mario's restaurant in St. John's are members of a bargaining unit represented by the Retail Wholesale Canada, Canadian Service Sector Division, affiliated with CAW. The collective agreement in respect of these employees was renegotiated effective January 31, 2000 for a four-year term.

The following table details by site the applicable union, expiry date and the number of employees at each site.

| Property | Location | Union | Expiry of Agreement | Number of Unionized Employees |
|---|---|---|---|---|
| Holiday Inn St. John's | St. John's, NF | CAW (Retail Wholesale) | August 31, 2003 | 53 |
| Holiday Inn Corner Brook | Corner Brook, NF | CAW (Retail Wholesale) | March 11, 2004 | 57 |
| East Side Mario's | St. John's, NF | CAW (Retail Wholesale) | July 31, 2004 | 87 |
| Days Inn Sydney | Sydney, NS | Hotel Employees' and Restaurant Employees' Union | December 31, 2004 | 37 |
| Delta Sydney | Sydney, NS | CAW (Retail Wholesale) | September 30, 2002 | 82 |
| | | | Total: | 316 |

## FORTIS INC.

## SELECTED CONSOLIDATED FINANCIAL INFORMATION

### Five-Year Summary (Audited)

| | For Year Ended December 31 (in $000s except per share amounts) | | | | |
|---|---|---|---|---|---|
| | 2001 | 2000 | 1999 | 1998 | 1997 |
| Operating Revenue (1) (2) | 628,254 | 580,197 | 505,218 | 472,725 | 484,800 |
| Earnings before Non-Controlling Interest and Discontinued Operations | 56,508 | 39,375 | 29,986 | 27,929 | 30,521 |
| Earnings before Discontinued Operations | 52,721 | 36,226 | 29,240 | 23,718 | 29,368 |
| Earnings Applicable to Common Shares | 53,442 | 36,759 | 29,183 | 27,414 | 30,006 |
| | | | | | |
| Total Assets | 1,624,752 | 1,478,596 | 1,238,597 | 1,037,192 | 1,017,396 |
| Long-Term Debt (net of current portion) | 746,092 | 678,349 | 487,828 | 424,275 | 385,627 |
| Non-Controlling Interest | 36,135 | 31,502 | 29,381 | 8,430 | 8,430 |
| Preference Shares | 50,000 | 50,000 | 50,000 | 50,000 | 50,000 |
| Common Shareholders' Equity | 448,929 | 412,140 | 343,813 | 338,677 | 326,543 |
| | | | | | |
| Earnings per Common Share before Discontinued Operations | 3.54 | 2.68 | 2.24 | 1.84 | 2.33 |
| Earnings per Common Share | 3.59 | 2.72 | 2.24 | 2.12 | 2.38 |
| Dividends Paid per Common Share | 1.87 | 1.84 | 1.81 | 1.80 | 1.76 |
| Dividends Paid per Preferred Share | 1.4875 | 1.4875 | 1.4875 | 1.4875 | |

(1) Operating revenue figures reflect weather adjusted values related to Newfoundland Power's Weather Normalization Reserve.

(2) Operating Revenues have been restated to exclude revenue from discontinued operations.

### Quarterly Revenue and Earnings (Unaudited) (1)

| Quarter Ended | Operating Revenue | Earnings before Non-Controlling Interest | Earnings before Discontinued Operations | | Earnings Applicable to Common Shares | |
|---|---|---|---|---|---|---|
| | | | Aggregate | Per Share | Aggregate | Per Share |
| | ($000s) | ($000s) | ($000s) | ($) | ($000s) | ($) |
| March 31, 2000 | 165,784 | 11,257 | 10,644 | 0.79 | 10,748 | 0.80 |
| June 30, 2000 | 142,638 | 11,786 | 10,774 | 0.80 | 10,911 | 0.81 |
| September 30, 2000 | 126,393 | 7,461 | 6,143 | 0.45 | 6,269 | 0.46 |
| December 31, 2000 | 145,382 | 9,404 | 8,665 | 0.64 | 8,831 | 0.65 |
| March 31, 2001 | 179,438 | 15,990 | 15,242 | 1.02 | 15,371 | 1.03 |
| June 30, 2001 (1)(1) | 156,836 | 17,249 | 15,888 | 1.07 | 16,480 | 1.11 |
| September 30, 2001 | 137,636 | 13,018 | 11,704 | 0.79 | 11,704 | 0.79 |
| December 31, 2001 | 154,344 | 10,972 | 9,887 | 0.66 | 9,887 | 0.66 |

(1) Certain quarterly earnings and revenues figures have been restated to reflect discontinued operations arising from the sale of the assets and liabilities of Fortis Trust, the Belize Electricity Cost of Power Rate Stabilization Account adjustment in 2000, and amendments to the Maritime Electric Company Limited Regulation Act in 2001.

## DIVIDEND POLICY

Dividends on Common Shares of Fortis are declared at the discretion of the Board of Directors. Fortis paid cash dividends on its Common Shares of $1.87 in 2001, $1.84 in 2000, and $1.81 in 1999. On March 7, 2002 the Board of Directors increased the regular quarterly dividend to $0.49.

Regular quarterly dividends at the prescribed annual rate of 5.95 per cent, or $1.4875 per share, have been paid on all the Corporation's First Preference Shares, Series B.

In October 2000, Fortis issued $100 million of 7.4 per cent Senior Unsecured Debentures due October 2010. The trust deed pertaining to the issue of such debentures contains a covenant which provides that Fortis shall not declare or pay any dividends (other than stock dividends or cumulative preferred dividends on preferred shares not issued as stock dividends) or make any other distribution on its shares if, immediately thereafter, its consolidated funded obligations would be in excess of 75 per cent of its total consolidated capitalization.

## CONSOLIDATED FINANCIAL STATEMENTS

Reference is made to the Consolidated Financial Statements on pages 41 through 59 of the 2001 Annual Report to Shareholders, which pages are incorporated herein by reference.

## MANAGEMENT DISCUSSION AND ANALYSIS

Reference is made to the Management Discussion and Analysis on pages 28 through 40 of the 2001 Annual Report to Shareholders, which pages are incorporated herein by reference.

## MARKET FOR SECURITIES

The Corporation's Common Shares and First Preference Shares, Series B, are listed on the Toronto Stock Exchange.

## DIRECTORS & OFFICERS

The following chart sets out the name and municipality of residence of each of the directors of Fortis and indicates the office held. All directors are elected annually. In 1998, the Board of Directors adopted, as a policy, that directors would normally serve, the earlier of, a term of ten years or until the year following their 70th birthday.

### DIRECTORS

| Name | Principal Occupations Within Five Preceding Years | Director Since |
|---|---|---|
| ANGUS A. BRUNEAU (1) (2)<br>St. John's, Newfoundland | Chair of the Corporation | 1987 |
| BRUCE CHAFE (2)<br>St. John's, Newfoundland | Corporate Director<br>Mr. Chafe is a former senior partner of Deloitte & Touche. He retired from this position in 1997. | 1997 |
| DARRYL D. FRY (1)<br>Osprey, Florida | Corporate Director<br>Mr. Fry is the former Chairman and Chief Executive Officer of Cytec Industries. He retired from these positions in 1998 and 1999 respectively. | 1998 |
| GEOFFREY F. HYLAND (1)<br>Alton, Ontario | Mr. Hyland is the President and Chief Executive Officer of ShawCor Ltd. (Formerly Shaw Industries Ltd.) and has held this position since 1995. | 2001 |
| LINDA L. INKPEN (2)<br>St. John's, Newfoundland | Medical Practitioner | 1994 |
| H. STANLEY MARSHALL<br>St. John's, Newfoundland | President and Chief Executive Officer of the Corporation | 1995 |
| JOHN S. McCALLUM (1)<br>Winnipeg, Manitoba | Mr. McCallum is a Professor of Finance in the Faculty of Management of the University of Manitoba in Winnipeg and has held this position since 1973. | 2001 |
| ROY P. RIDEOUT (2)<br>Toronto, Ontario | Mr. Rideout has been the Chairman and Chief Executive Officer of Clarke Inc. since 1998. From 1993 until his appointment at Clarke Inc., Mr. Rideout was the President and Chief Operating Officer of Newfoundland Capital Corporation, the former parent of Clarke Inc. | 2001 |

(1) These individuals serve on the Audit Committee.
(2) These individuals serve on the Governance and Human Resources Committee.

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

**OFFICERS**

| Name and Municipality of Residence | Office |
|---|---|
| H. Stanley Marshall, St. John's, Newfoundland | President and Chief Executive Officer (1) |
| Karl W. Smith, St. John's, Newfoundland | Vice President, Finance and Chief Financial Officer (2) |
| Ronald W. McCabe, St. John's, Newfoundland | General Counsel and Corporate Secretary (3) |
| Donna G. Hynes, St. John's, Newfoundland | Assistant Secretary (4) |

(1) Mr. Marshall was appointed President and Chief Operating Officer effective October 1, 1995. Effective May 1, 1996, Mr. Marshall became Chief Executive Officer of Fortis.

(2) Mr. Smith was appointed Vice President, Finance and Chief Financial Officer effective August 13, 1999. Prior to that time, Mr. Smith was Vice President, Finance and Chief Financial Officer of Newfoundland Power.

(3) Mr. McCabe was appointed General Counsel and Corporate Secretary effective January 1, 1997.

(4) Ms. Hynes was appointed Assistant Secretary effective December 8, 1999. She joined Fortis as Manager, Investor and Public Relations in October 1999 and prior to that time was employed by Newfoundland Power.

The directors and officers of Fortis, as a group, beneficially own, directly or indirectly, or exercise control or direction over 57,160 common shares, representing 0.38 per cent of the issued and outstanding Common Shares of Fortis.

## ADDITIONAL INFORMATION

Fortis shall provide to any person or company, upon request to the Corporate Secretary of Fortis:

(a) when Fortis is in the course of a distribution of its securities pursuant to a short form prospectus or has filed a preliminary short form prospectus in respect of a proposed distribution of its securities:

(i) one copy of the latest Annual Information Form of Fortis together with one copy of any document, or the pertinent pages of any document, incorporated therein by reference;

(ii) one copy of the comparative Financial Statements of Fortis for the most recently completed financial year in respect of which such Financial Statements have been issued, together with the Report thereon of the auditors of Fortis and one copy of any interim Financial Statements of Fortis subsequent thereto;

(iii) one copy of the Information Circular of Fortis in respect of the most recent annual meeting of the shareholders of Fortis which involved the election of directors; and

(iv) one copy of any other documents which are incorporated by reference into the preliminary short form prospectus or the short form prospectus and are not required to be provided under (i) to (iii) above;

(b) at any time, the documents referred to in clauses (a) (i), (ii) and (iii) above provided that Fortis may require the payment of a reasonable charge from such a person or company who is not a holder of securities of Fortis.

Further additional information, including officers' and directors' remuneration and indebtedness, principal holders of the securities of Fortis, options to purchase securities and interests of insiders in material transactions, where applicable, is contained in the Management Information Circular of Fortis dated March 22, 2002 for the 2002 Annual Meeting of Shareholders. Additional financial information is provided in the comparative financial statements for the year ended December 31, 2001.

Requests for additional copies of the above mentioned documents as well as this Annual Information Form should be directed to the Office of the Corporate Secretary, Fortis Inc., P.O. Box 8837, St. John's, Newfoundland, A1B 3T2 (telephone (709) 737-2800).