FORTIS INC.

RENEWAL ANNUAL INFORMATION FORM

FOR THE YEAR ENDED DECEMBER 31, 2004

March 28, 2005

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DEFINITIONS OF CERTAIN TERMS

Certain terms used in this 2004 Renewal Annual Information Form are defined below:

“Abitibi-Consolidated” means Abitibi-Consolidated Company of Canada;

“AEUB” means Alberta Energy and Utilities Board;

“ANCL” means Aquila Networks Canada Ltd.;

“BC Hydro” means BC Hydro and Power Authority;

“BCUC” means British Columbia Utilities Commission;

“BECOL” means Belize Electric Company Limited;

“Belize Electricity” means Belize Electricity Limited;

“Board” means Board of Directors of Fortis Inc.;

“BZ$” means Belizean dollar, which is pegged to the United States dollar (BZ$1.00 = US$0.50);

“Canadian Niagara Power” means Canadian Niagara Power Inc.;

“Caribbean Utilities” means Caribbean Utilities Company, Limited;

“CAW” means Canadian Auto Workers-Retail/Wholesale;

“CDH” means Cornwall District Heating, Limited;

“Central Newfoundland Energy” means Central Newfoundland Energy Inc.;

“CFE” means Comision Federal de Electricidad;

“Chalillo Project” means Chalillo Hydroelectric Project development;

“Committee” means Audit Committee of Fortis Inc., as appointed by the Board;

“Cornwall Electric” means Cornwall Street Railway, Light and Power Company, Limited;

“Corporation” means Fortis Inc.;

“CPA” means Canal Plant Agreement;

“CPRSA” means the Cost of Power Rate Stabilization Account;

“CRA” means Canada Revenue Agency;

“Eastern Ontario Power” means Eastern Ontario Power Inc., formerly Granite Power Distribution Corporation;

“Emera” means Emera Inc.;

“EMS” means Environmental Management System;

“Exploits Partnership Project” means Exploits River Hydro Partnership Project;

“External Auditor” means the firm of chartered accountants, registered with the Canadian Public Accountability Board or its successor, and appointed by the shareholders of the Corporation to act as external auditor of the Corporation;

“FERC” means United States Federal Energy Regulatory Commission (United States of America);

“Fortis” means Fortis Inc.;

“Fortis Properties” means Fortis Properties Corporation;

“FortisAlberta” means FortisAlberta Inc.;

“FortisBC” means FortisBC Inc.;

“**FortisOntario**” means the operations of Canadian Niagara Power and Cornwall Electric. Included in Canadian Niagara Power’s accounts is the operation of the electricity distribution business of Port Colborne Hydro Inc.;

“FortisOntario Generation” means FortisOntario Generation Corporation, formerly Granite Power Generation Corporation;

“FortisOntario Inc.” means the successor to Canadian Niagara Power Company, Limited and the parent company of Canadian Niagara Power, Cornwall Electric and FortisOntario Generation;

“FortisUS Energy” means FortisUS Energy Corporation;

“Granite Power Distribution” means the distribution activities of Granite Power Distribution Corporation, subsequently renamed Eastern Ontario Power Corporation;

“Granite Power Generation” means Granite Power Generation Corporation and its subsidiary Gananoque Water Power Company;

“GWh” means gigawatt hour(s);

“IBEW” means International Brotherhood of Electrical Workers;

“IMO” means Independent Electricity Market Operator of Ontario;

“Internal Auditor” means the persons employed or engaged by the Corporation to perform the internal audit function of the Corporation;

“IRAC” means Island Regulatory and Appeals Commission;

“ISO” means International Organization for Standardization;

“kWh” means kilowatt hour;

“MD&A” means the Corporation’s Management Discussion and Analysis, located on pages 29 through 64 of the Corporation’s 2004 Annual Report to Shareholders, prepared in accordance with National Instrument 51-102 – Continuous Disclosure Obligations in respect of the Corporation’s annual and interim financial statements;

“Management” means Senior Officers of the Corporation;

“Maritime Electric” means Maritime Electric Company, Limited;

“Member” means a member of the Board appointed to the Audit Committee of the Corporation;

“**MW**” means megawatt(s);

“NB Power” means New Brunswick Power Corporation;

“Newfoundland Hydro” means Newfoundland and Labrador Hydro Corporation;

“Newfoundland Power” means Newfoundland Power Inc., formerly Newfoundland Light and Power Co. Limited;

“OEB” means Ontario Energy Board;

“OPGI” means Ontario Power Generation Inc.;

“PBR” means performance-based rate setting methodology for regulation of public utilities;

“PCB” means polychlorinated biphenyl;

“Point Lepreau Station” means NB Power Point Lepreau Nuclear Generating Station;

“Port Colborne Hydro” means Port Colborne Hydro Inc.;

“PUB” means the Newfoundland and Labrador Board of Commissioners of Public Utilities;

“PUC” means the Public Utilities Commission (Belize);

“Rideau Falls” means Rideau Falls Limited Partnership;

“Rideau St. Lawrence” means Rideau St. Lawrence Holdings Inc.;

“ROE” means return on common equity;

“Teck Cominco” means Teck Cominco Metals Ltd.;

“UFCW” means United Food and Commercial Workers;

“**Warrant**” means Series E First Preference Share Purchase Warrant; and

“Westario Power” means Westario Power Holdings Inc.

1.0 CORPORATE STRUCTURE

This material has been prepared in accordance with National Instrument 51-102 – Continuous Disclosure Obligations and National Instrument 52-110 – Audit Committees. Fortis includes forward-looking statements in this material. By their very nature, forward-looking statements are based on underlying assumptions and are subject to inherent risks and uncertainties surrounding future expectations generally. Such events include, but are not limited to, general economic, market and business conditions, regulatory developments, weather and competition. Fortis cautions readers that should certain events or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary significantly from those expected. For additional information with respect to certain of these risks or factors, reference should be made to the Corporation's continuous disclosure materials filed from time to time with Canadian securities regulatory authorities. The Corporation disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Except as otherwise stated, the information in the 2004 Renewal Annual Information Form is given as of December 31, 2004.

All figures are expressed in Canadian dollars unless otherwise stated.

1.1 Name and Incorporation

Fortis is a holding company that was incorporated as 81800 Canada Ltd. under the *Canada Business Corporations Act* on June 28, 1977 and continued under the *Corporations Act* (Newfoundland) on August 28, 1987.

The articles of incorporation of the Corporation were amended to: (a) change its name to Fortis Inc. on October 12, 1987; (b) set out the rights, privileges and conditions attached to the common shares on October 15, 1987; (c) designate 2,000,000 Series A First Preference Shares on September 11, 1990; (d) replace the class rights, privileges, restrictions and conditions attaching to the First Preference Shares and the Second Preference Shares on July 22, 1991; (e) designate 2,000,000 Series B First Preference Shares on December 13, 1995; (f) designate 5,000,000 Series C First Preference Shares on May 27, 2003; and (g) designate 8,000,000 Series D and Series E First Preference Shares on January 29, 2004.

Fortis redeemed 100 per cent of its outstanding Series A and Series B First Preference Shares on September 30, 1997 and December 2, 2002, respectively. On June 3, 2003, Fortis issued 5,000,000 Series C First Preference Shares. On January 29, 2004, Fortis issued 8,000,000 First Preference Units, each unit consisting of one Series D First Preference Share and one Warrant. During 2004, 7,993,500 First Preference Units were converted into 7,993,500 Series E First Preference Shares and 6,500 Series D First Preference Shares remained outstanding.

The corporate head and registered office of Fortis is located at The Fortis Building, Suite 1201, 139 Water Street, St. John's, Newfoundland and Labrador, Canada, A1B 3T2.

1.2 Inter-corporate Relationships

Fortis is a diversified, international electric utility holding company that owns subsidiaries principally engaged in the regulated distribution of electricity. Regulated utility assets comprise approximately 80 per cent of the Corporation's total operating assets, with the balance comprised primarily of non-regulated electricity generation operations and commercial real estate and hotel investments owned and operated through its non-utility subsidiary.

Fortis holds all of the common shares of Newfoundland Power and, through Fortis Properties, all of the common shares of Maritime Electric, which are the principal distributors of electricity in Newfoundland and Labrador and Prince Edward Island, respectively. As well, through its wholly owned subsidiary FortisOntario Inc., its subsidiaries, Canadian Niagara Power and Cornwall Electric, distributes electricity to customers primarily in Fort Erie, Port Colborne, Cornwall and Gananoque, Ontario.

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

The Corporation's regulated electric utility assets in the Caribbean consist of its ownership, through wholly owned subsidiaries, of a 68 per cent interest in Belize Electricity, the primary transmitter and distributor of electricity in Belize, and a 37.3 per cent interest in Caribbean Utilities, the sole provider of electricity to the Island of Grand Cayman, Cayman Islands.

The Corporation's non-regulated electricity generation operations principally consist of its 100 per cent interest in each of Central Newfoundland Energy and, through a wholly owned subsidiary, BECOL, as well as non-regulated electricity generation assets owned by FortisBC, FortisUS Energy and FortisOntario Inc. Central Newfoundland Energy is a non-regulated subsidiary whose principal activity is its 51 per cent interest in the Exploits Partnership Project. The Exploits Partnership Project is a partnership with Abitibi-Consolidated which developed additional capacity at Abitibi-Consolidated's hydroelectric plant at Grand Falls-Windsor and redeveloped Abitibi-Consolidated's hydroelectric plant at Bishop's Falls, both in Newfoundland. BECOL owns and operates the 25-MW Mollejon hydroelectric facility, located on the Macal River in Belize, Central America. Through FortisUS Energy, a wholly owned subsidiary of Fortis Properties, the Corporation owns and operates 4 hydroelectric generating stations in Upper New York State with a total combined capacity of 23 MW. The non-regulated electricity generation operations of FortisOntario Inc. and its wholly owned subsidiary, FortisOntario Generation, include the 75-MW Rankine Generating Station and 6 small hydroelectric generating stations in eastern Ontario with a combined capacity of 8 MW. The non-regulated electricity generation operations of FortisBC, conducted through its wholly owned subsidiary Walden Power Partnership, include the 16-MW run-of-the-river Walden hydroelectric power plant near Lillooet, British Columbia.

Through its wholly owned subsidiary, Fortis Properties, Fortis has investments in commercial real estate in Atlantic Canada and hotel operations in Eastern Canada, Manitoba and Alberta.

Principal Subsidiaries

The following table lists the principal subsidiaries of the Corporation, their jurisdictions of incorporation and the percentage of votes attaching to voting securities held directly or indirectly by the Corporation as at March 28, 2005. This list excludes certain subsidiaries, the total assets of which constituted less than 10 per cent of the Corporation's 2004 consolidated assets and total revenues of which constituted less than 10 per cent of the Corporation's 2004 consolidated revenues.

Fortis
Principal Subsidiaries

Subsidiary	Jurisdiction of Incorporation	Percentage of votes attaching to voting securities beneficially owned, controlled or directed by the Corporation
Newfoundland Power Inc.	Newfoundland and Labrador	93.7 [1]
Maritime Electric Company, Limited [2]	Canada	100
FortisOntario Inc.	Ontario	100
FortisAlberta Inc. [3]	Alberta	100
FortisBC Inc. [4]	British Columbia	100
Fortis Properties Corporation	Newfoundland and Labrador	100

(1) *Fortis owns all of the common shares, 182,300 Series G First Preference Shares, 32,886 Series B First Preference Shares, 13,000 Series D First Preference Shares and 1,550 Series A First Preference Shares of Newfoundland Power, which, at March 28, 2005, represented 93.7 per cent of its voting securities. The remaining 6.3 per cent of Newfoundland Power's voting securities consist of Series A, B, D and G First Preference Shares, which are held by the public.*
(2) *Maritime Electric is a wholly owned subsidiary of Fortis Properties Corporation.*
(3) *FortisAlberta Holdings Inc., an Alberta corporation, owns 100 per cent of the shares of FortisAlberta. FortisWest Inc., a Canadian corporation, owns 100 per cent of the shares of FortisAlberta Holdings Inc. Fortis owns 100 per cent of the shares of FortisWest Inc.*
(4) *Fortis Pacific Holdings Inc., a British Columbia corporation, owns 100 per cent of the shares of FortisBC. FortisWest Inc., a Canadian corporation, owns 100 per cent of the shares of Fortis Pacific Holdings Inc. Fortis owns 100 per cent of the shares of FortisWest Inc.*

2.0 GENERAL DEVELOPMENT OF THE BUSINESS

2.1 Three-Year History

Fortis is principally a diversified, international electric 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 commercial real estate and hotel operations which are treated as a separate segment. The operating segments allow senior management to evaluate the operational performance and assess the overall contribution of each segment to the Corporation's long-term objectives. The segments of the Corporation are: (i) Regulated Utilities - Canadian, (ii) Regulated Utilities - Caribbean, (iii) Non-regulated - Fortis Generation, and (iv) Non-regulated - Fortis Properties.

Over the past 3 years, the business operations of Fortis have increased significantly. Total assets have more than doubled, growing from $1.6 billion at December 31, 2001 to $3.8 billion at December 31, 2004. The Corporation's equity has grown approximately 222 per cent, from $450 million at December 31, 2001 to $1.0 billion at December 31, 2004. Over the past 3 years, earnings have increased from $53.6 million in 2001 to $90.9 million in 2004. This growth primarily occurred in 2004 as a result of the $1.5 billion acquisition of FortisAlberta and FortisBC. Fortis has also increased its utility investments in Ontario and Grand Cayman, as well as its real estate investments in Atlantic Canada, Ontario, Manitoba and Alberta.

The following is an overview of the Corporation's operating segments and the significant developments in each segment.

Regulated Utilities – Canadian

<u>Newfoundland Power</u>
Fortis holds all the common shares of Newfoundland Power. Newfoundland Power operates an integrated generation, transmission and distribution system in Newfoundland. Newfoundland Power serves approximately 224,000 customers, or 85 per cent of electricity consumers in the Province, and meets a peak demand of 1,197 MW. Approximately 90 per cent of its energy requirement is purchased from Newfoundland Hydro. Newfoundland Power has an installed generating capacity of 146 MW, of which 95 MW is hydroelectric generation.

<u>Maritime Electric</u>
Through its subsidiary, Fortis Properties, Fortis owns all the common shares of Maritime Electric, which is the principal distributor of electricity on Prince Edward Island. Maritime Electric directly supplies approximately 70,000 customers, or over 90 per cent of the electricity consumers in the Province, and meets a peak demand of 209 MW. In September 2004, Maritime Electric received all necessary approvals for construction of a $35 million, 50-MW combustion turbine generator at its plant in Charlottetown. Construction of the project is underway with a targeted in-service date late 2005.

FortisOntario

The Corporation's regulated utility investments in Ontario, collectively FortisOntario, are comprised of Canadian Niagara Power, including the operations of Port Colborne Hydro, and Cornwall Electric. In total, its distribution operations serve approximately 51,600 customers in the Fort Erie, Port Colborne, Cornwall and Gananoque areas of Ontario and meet a peak demand of 256 MW. Canadian Niagara Power owns international transmission facilities at Fort Erie as well as a 10 per cent interest in each of Westario Power and Rideau St. Lawrence, 2 regional electric distribution companies formed in 2000 that, together, serve over 27,000 customers.

The Corporation's utility investments in Ontario have evolved from a series of acquisitions since 1996. These investments have been organized such that its regulated utility operations are operated separately from its non-regulated generating activities.

The Corporation's utility investments in Ontario commenced in 1996 with the acquisition of a 50 per cent interest in Canadian Niagara Power Company, Limited. Canadian Niagara Power Company, Limited owned and operated the non-regulated, 75-MW Rankine Generating Station in Niagara Falls and distributed electricity to approximately 13,500 customers in the Town of Fort Erie at the time of purchase. In 2000, Canadian Niagara Power Company, Limited restructured and its transmission and distribution business continued operations through its wholly owned subsidiary, Canadian Niagara Power. In April 2002, Canadian Niagara Power entered into a 10-year agreement with the City of Port Colborne to lease the business of Port Colborne Hydro, which distributes electricity to approximately 9,300 customers in Port Colborne. In July 2002, Fortis acquired the remaining 50 per cent interest in Canadian Niagara Power Company, Limited.

On October 17, 2002, Fortis further increased its regulated investment in Ontario by acquiring a 100 per cent interest in Cornwall Electric and its wholly owned, non-regulated generating subsidiary, CDH. Cornwall Electric is an Ontario-based electric transmission and distribution utility that supplies electricity to approximately 23,200 customers in the City of Cornwall, South Glengarry, South Stormont and the Ontario portion of the Mohawk Territory of Akwesasne. CDH operates a 5-MW gas-fired cogeneration plant that provides district heating to 16 commercial customers in Cornwall.

A series of reorganizations occurred in 2002 and 2003 to separate regulated operations in Ontario from its non-regulated generating operations. On December 23, 2002, CDH, which was held by Cornwall Electric, was sold to Canadian Niagara Power Company, Limited. CDH was subsequently amalgamated on January 1, 2003 and continued its operations as Canadian Niagara Power Company, Limited. In addition, Fortis transferred its ownership interest in Cornwall Electric to Canadian Niagara Power Company, Limited. On April 1, 2003, Fortis further reorganized its utility investments in Ontario through the amalgamation of Canadian Niagara Power Company, Limited with FortisOntario Inc., a wholly owned subsidiary of Fortis, which continues operations as FortisOntario Inc.

On April 1, 2003, FortisOntario Inc. and Canadian Niagara Power acquired the operating subsidiaries of Granite Power Corporation. Granite Power Corporation primarily consisted of

Granite Power Distribution and Granite Power Generation. Granite Power Distribution distributes electricity to approximately 3,800 customers primarily situated in Gananoque. Granite Power Generation generates electricity from 5 hydroelectric generating stations with a combined capacity of 6 MW. On October 1, 2003, Granite Power Generation purchased the management contract and 14 of 17 partnership units of Rideau Falls. On December 29, 2003, the remaining 3 partnership units were purchased. Rideau Falls operates a 2-MW hydroelectric generating station in Ottawa. On December 31, 2003, the partnership was dissolved and the assets were combined with Granite Power Generation.

On January 1, 2004, Canadian Niagara Power and Granite Power Distribution were amalgamated and continue operations as Canadian Niagara Power. On December 31, 2003, Granite Power Generation was renamed FortisOntario Generation.

Currently, the Corporation's investments in Ontario are comprised of FortisOntario Inc. and its wholly owned subsidiaries Canadian Niagara Power, Cornwall Electric and FortisOntario Generation.

A summary of these acquisitions, as well as the current structure of FortisOntario, are as follows:

Fortis
Investments in Ontario

Original Structure	Location	Purchase Date	*($ million)* Purchase Price	Current Structure
Canadian Niagara Power Company, Limited	Fort Erie	50 per cent acquired October 10, 1996	73.7	FortisOntario Inc.
		50 per cent acquired July 1, 2002		Canadian Niagara Power
Port Colborne Hydro [1]	Port Colborne	April 2, 2002	[1]	Canadian Niagara Power
Cornwall Electric	Cornwall	October 17, 2002	67.7	Cornwall Electric
CDH				FortisOntario Inc.
Granite Power Distribution Granite Power Generation	Gananoque	April 1, 2003	11.1	Canadian Niagara Power FortisOntario Generation
Rideau Falls	Rideau Canal, Ottawa	October 1, 2003 and December 29, 2003		FortisOntario Generation

[1] On April 2, 2002, Canadian Niagara Power leased the electricity distribution business of Port Colborne Hydro from the City of Port Colborne under a 10-year lease agreement 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.

<u>FortisAlberta</u>

On May 31, 2004, Fortis, through a wholly owned subsidiary, acquired all of the issued and outstanding shares of FortisAlberta (formerly Aquila Networks Canada (Alberta) Ltd.). FortisAlberta owns and operates the electricity distribution system in a substantial portion of southern and central Alberta. FortisAlberta distributes electricity to over 400,000 customers using approximately 103,000 kilometers of power lines.

FortisBC

On May 31, 2004, Fortis, through a wholly owned subsidiary, acquired all of the issued and outstanding shares of FortisBC (formerly Aquila Networks Canada (British Columbia Ltd.). FortisBC is an integrated utility operating in the southern interior of British Columbia serving, directly and indirectly, over 140,000 customers. FortisBC has about 7,100 kilometers of transmission and distribution power lines and 4 hydroelectric generating plants with a combined capacity of 205 MW. FortisBC generates approximately 50 per cent of its power needs with the remaining requirements obtained through power purchase agreements.

FortisBC also provides non-regulated operating, maintenance and management services relating to the 450-MW Waneta hydroelectric generation facility owned by Teck-Cominco, the 145-MW Brilliant Hydroelectric Plant owned by Columbia Power Corporation and the Columbia Basin Trust (“CPC/CBT”), the 150-MW Arrow Lakes Hydroelectric Plant owned by CPC/CBT and the distribution system owned by the City of Kelowna. The results of these hydroelectric generating facilities have been included in this segment.

Regulated Utilities – Caribbean

Belize Electricity

Fortis, through wholly owned subsidiaries incorporated under the laws of the Cayman Islands, holds a 68 per cent interest in Belize Electricity. Belize Electricity is the primary transmitter and distributor of electricity in the country of Belize, Central America. Belize Electricity directly supplies over 66,000 customers in Belize and meets a peak demand of 61 MW.

Caribbean Utilities

Fortis, through a wholly owned subsidiary, holds approximately 37.3 per cent of Caribbean Utilities, the only public electric utility on Grand Cayman, Cayman Islands. Caribbean Utilities has the exclusive right to generate, distribute, transmit and supply electricity to the Island of Grand Cayman, Cayman Islands pursuant to a 25-year exclusive licence issued in 1986. The Company currently has an installed capacity of 123 MW and a peak load of approximately 85 MW. Caribbean Utilities serves over 21,000 customers. The Class A Ordinary Shares of Caribbean Utilities are listed for trading on the Toronto Stock Exchange under the symbol CUP.U.

The Corporation’s investment in Caribbean Utilities resulted from a series of transactions from March 2000 to January 2003. Following these transactions, Fortis beneficially owns 9,301,395 Class A Ordinary Shares, or approximately 37.3 per cent of the outstanding Class A Ordinary Shares.

In June 2004, Caribbean Utilities and the Government of the Cayman Islands reached a non-binding agreement to extend Caribbean Utilities' operating licence to 2024 from 2011. The proposed terms of the licence extension included a change in the rate-setting regulation that would provide for a price cap based on an inflation index. In September 2004, following Hurricane Ivan, this agreement expired. Caribbean Utilities will meet with the Government of the Cayman Islands at the appropriate time to assess the status of the licence renewal negotiations.

In September 2004, the transmission and distribution systems of Caribbean Utilities were substantially damaged as a result of Hurricane Ivan. To date, the total uninsured hurricane-related costs for Caribbean Utilities were approximately US$17.8 million. The Corporation's portion of the uninsured hurricane-related costs was approximately $8.2 million. The terms of Caribbean Utilities' licence permit the recovery of hurricane-related costs through rate adjustment. At the appropriate time, Caribbean Utilities will make proposals to the Government of the Cayman Islands on how best to implement rate adjustments and recover Hurricane Ivan-related costs. Caribbean Utilities has completed the restoration of service to all customers able to receive such service.

In March 2005, the Government of the Cayman Islands passed the Electricity Regulatory Authority Law ("Law") in the Legislative Assembly. The Law purports to establish a new regulatory and licencing regime for the electricity industry in the Cayman Islands. Caribbean Utilities anticipates that the Law will be formerly enacted and published in April 2005. The Company is currently assessing any impact that the Law will have on the existing contractual rights and obligations between Caribbean Utilities and the Government under its existing Licence.

Non-regulated – Fortis Generation

The following is a summary of the Corporation's non-regulated generation assets by location:

Fortis
Non-regulated Generation Assets

Location	Plants	Fuel	Capacity (MW)
Ontario	8	hydro, thermal	88
Belize	1	hydro	25
Central Newfoundland	2	hydro	36
Upper New York State	4	hydro	23
British Columbia	1	hydro	16
Total	**16**		**188**

<u>Ontario</u>

Non-regulated generation assets in Ontario include the operations of FortisOntario Inc. and FortisOntario Generation. FortisOntario Inc. owns and operates the 75-MW Rankine Generating Station in Niagara Falls, Ontario and the 5-MW CDH gas-fired cogeneration plant that provides district heating to 16 commercial customers in Cornwall. FortisOntario Generation consists of 6 small hydroelectric generating stations, which were originally acquired as Granite Power Distribution and Rideau Falls, with a combined capacity of approximately 8 MW.

Belize

Non-regulated generation operations in Belize are conducted through the Corporation's wholly owned indirect subsidiary, BECOL, under a Franchise Agreement with the Government of Belize. Fortis acquired a 95 per cent interest in BECOL in 2001 for total consideration of approximately $103 million. On May 20, 2004, Fortis acquired the remaining 5 per cent interest in BECOL from the Social Security Board of the Government of Belize for $4.8 million, making it a wholly owned indirect subsidiary of the Corporation.

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.

BECOL commenced construction of the Chalillo Project in May 2003. This US$30 million development is an upstream storage and hydroelectric generating facility that is expected to increase BECOL's energy production from an average of 80 GWh to 170 GWh. Construction is scheduled for completion in the last half of 2005.

Central Newfoundland

Non-regulated generation operations in central Newfoundland are conducted through the Corporation's 51 per cent interest in the Exploits Partnership Project. The Exploits Partnership Project is a partnership with Abitibi-Consolidated that constructed, installed and operates additional capacity at Abitibi-Consolidated's hydroelectric plant at Grand Falls-Windsor and redeveloped the forestry company's hydroelectric plant at Bishop Falls, both in Newfoundland.

The Exploits Partnership Project was completed in November 2003. Abitibi-Consolidated continues to utilize the historical annual generation of approximately 450 GWh while the additional energy produced from the new facilities, of approximately 140 GWh, is sold to Newfoundland Hydro under a 25-year take-or-pay power purchase agreement, which is exempt from regulation.

Upper New York State

Non-regulated generation operations in Upper New York State are conducted through the Corporation's wholly owned indirect subsidiary FortisUS Energy, which became a direct subsidiary of Fortis Properties on January 1, 2005 by way of a transfer from its subsidiary, Maritime Electric. Generating operations in Upper New York State include the operations of 4 hydroelectric generating stations with a combined generating capacity of 23 MW operating under licences from FERC.

British Columbia

Non-regulated generation operations in British Columbia were acquired as part of FortisBC in May 2004. Generating assets in British Columbia consist of 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.

Non-regulated – Fortis Properties

Fortis has owned all the issued and outstanding shares of Fortis Properties since its inception in 1989. Fortis Properties owns and manages commercial real estate in Newfoundland, Nova Scotia and New Brunswick and hotel operations in Newfoundland, Nova Scotia, New Brunswick, Ontario, Manitoba and Alberta.

Fortis Properties' real estate operations commenced in 1989 and have grown significantly over 15 years. Fortis Properties' acquisition of 4 hotels in Ontario in October 2003 marked Fortis Properties' first acquisition outside Atlantic Canada. In February 2005, Fortis Properties acquired 3 western Canadian hotel properties located in Edmonton, Calgary and Winnipeg. This acquisition was a significant step in expanding the hotel portfolio and broadening the geographic market base.

The following table summarizes commercial, retail and hotel properties purchased since December 2001.

Fortis Properties
Commercial, Retail and Hotel Properties acquired since December 2001

Property	**Location**	**Type of Property**	**Purchase Date**	**Price** *($ million)*
Cabot Place I	St. John's, NL	Office	February 2002	14.3
Kings Place	Fredericton, NB	Office and Retail	April 2002	27.7
Delta St. John's	St. John's, NL	Hotel	December 2002	25.9
Holiday Inn Kitchener	Kitchener-Waterloo, ON	Hotel	October 2003	(1)
Holiday Inn Peterborough	Peterborough, ON	Hotel	October 2003	(1)
Holiday Inn Sarnia	Point Edward, ON	Hotel	October 2003	(1)
Holiday Inn Cambridge	Cambridge, ON	Hotel	October 2003	(1)
Greenwood Inn	Calgary, AB	Hotel	February 2005	(2)
Greenwood Inn	Edmonton, AB	Hotel	February 2005	(2)
Greenwood Inn	Winnipeg, MB	Hotel	February 2005	(2)

(1) *This portfolio of hotels was purchased for an aggregate purchase price of $43.2 million. These properties have a total of approximately 630 rooms.*

(2) *This portfolio of hotels was purchased for an aggregate purchase price of $62.6 million. These properties have a total of approximately 650 rooms and 27,000 square feet of banquet space.*

In 2004, Fortis Properties commenced a $15 million expansion of the Delta St. John's, which is expected to be completed by mid-2005. The expansion will increase the number of rooms to over 400, making it the largest hotel in Atlantic Canada. Also in 2004, Fortis Properties announced a $7 million expansion to the Holiday Inn Sarnia. The expansion involves the construction of a 5-floor tower which will house 65 new rooms and an additional 3,000 square feet of banquet space.

2.2 Significant Acquisitions

FortisBC

On May 31, 2004, Fortis acquired, through a wholly owned subsidiary, all of the issued and outstanding shares of FortisBC (formerly Aquila Networks Canada (British Columbia) Ltd.) from Aquila Canada ULC for aggregate consideration of approximately $428 million, including transaction costs. As a condition of the closing of the acquisition, Fortis advanced funds to FortisBC to repay certain indebtedness totalling approximately $155 million. FortisBC also had other indebtedness totalling approximately $155 million of which approximately $145 million has been guaranteed by FortisWest Inc, an indirect parent of both FortisBC and FortisAlberta.

FortisBC is an integrated, regulated electric utility that owns a network of generation, transmission and distribution assets located in the southern interior of British Columbia. FortisBC serves over 140,000 customers, with residential customers representing FortisBC's largest customer segment. Of these customers, approximately 94,000 are served directly while the remainder is served through wholesale power purchase agreements with 6 municipal utilities within or adjacent to the FortisBC service area. FortisBC's generation assets consist of 4 hydroelectric generating plants on the Kootenay River with an aggregate installed capacity of 205 MW and an annual energy output of approximately 1,500 GWh.

The acquisition of FortisBC significantly increased the Corporation's regulated rate base assets and provided a broader and more diverse base of earnings for Fortis. For the 7 months ended December 31, 2004, FortisBC contributed $110.6 million to revenues, and $17.8 million to operating earnings, of Fortis, which amount includes FortisBC's non-regulated revenues and earnings.

FortisAlberta

On May 31, 2004, Fortis acquired, through a wholly owned subsidiary, all of the issued and outstanding shares of FortisAlberta (formerly Aquila Networks Canada (Alberta) Ltd.) from Aquila Canada ULC for aggregate consideration of approximately $348 million, including transaction costs. As a condition to the closing of the acquisition, FortisAlberta repaid certain indebtedness, through the use of credit facilities that had been assigned to FortisAlberta by Fortis, totalling approximately $402 million.

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

FortisAlberta operates a largely rural, approximately 103,000-kilometre, low-voltage distribution network in central and southern Alberta, which represents approximately 60 per cent of the total distribution network as measured by kilometres of line in Alberta. FortisAlberta's distribution network serves over 400,000 customers, comprised of residential, commercial, farm and industrial electricity consumers, representing about 29 per cent of Alberta's end-use customers.

The acquisition of FortisAlberta significantly increased the Corporation's regulated asset base and provided a broader and more diverse base of earnings for Fortis. For the 7 months ended December 31, 2004, FortisAlberta contributed $129.7 million to revenues, and $18.6 million to operating earnings, of Fortis.

<u>Fortis Properties - Greenwood Inn Acquisition</u>

On February 1, 2005, Fortis Properties acquired 3 hotels in western Canadian from True North Properties Ltd. for $62.6 million. The hotels, which were constructed between 1997 and 2000, operate under the independent brand of Greenwood Inn and are located in Edmonton, Calgary, and Winnipeg. The properties have a total of approximately 650 rooms and 27,000 square feet of banquet space.

2.3 Outlook

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

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

3.0 NARRATIVE DESCRIPTION OF THE BUSINESS

Regulated Utilities – Canadian

3.1 Newfoundland Power

Newfoundland Power is the principal distributor of electricity in Newfoundland, serving approximately 224,000 customers or about 85 per cent of the Province's electricity customers. The balance of the population is served by the Province's other electric utility, Newfoundland Hydro, which also serves several larger industrial customers in the Province. Newfoundland Power owns and operates 29 small generating stations and approximately 10,000 kilometers of transmission and distribution lines. Approximately 90 per cent of the electricity that Newfoundland Power sells to its customers is purchased from Newfoundland Hydro. Newfoundland Power generates the remainder of its energy requirements.

Market and Sales

Annual weather-adjusted electricity sales increased to 4,979 GWh in 2004 from 4,882 GWh in 2003. Revenue increased to $404.4 million in 2004 from $384.2 million in 2003.

The following chart compares the composition of Newfoundland Power's 2004 and 2003 revenue and electricity sales by customer class:

Newfoundland Power
Revenue and Electricity Sales by Customer Class

	Revenue (1) per cent		GWh Sales(1) per cent	
	2004	**2003**	**2004**	**2003**
Residential	**58.8**	58.8	**59.7**	59.6
Commercial	**36.2**	36.2	**39.6**	39.7
Street Lighting	**2.8**	2.9	**0.7**	0.7
Other (2)	**2.2**	2.1	**-**	-
Total	**100.0**	100.0	**100.0**	100.0

(1) *Revenue and electricity sales reflect weather-adjusted values pursuant to Newfoundland Power's weather normalization reserve.*
(2) *Includes revenue from sources other than from the sale of electricity.*

Power Supply

Approximately 90 per cent of Newfoundland Power's power supply is purchased from Newfoundland Hydro. The principal terms of the supply arrangements with Newfoundland Hydro are regulated by the PUB on a basis similar to that upon which Newfoundland Power's service to its customers is regulated. In December 2004, the PUB ordered the establishment of a demand-energy rate effective January 1, 2005 for the power Newfoundland Hydro sells to Newfoundland Power. Under this rate, Newfoundland Power will be billed based on its highest demand from the previous winter season. The use of a demand-energy rate increases the risk of volatility in purchased power expense. A purchased power cost variance reserve was approved by the PUB to limit the impact of variances from forecast purchased power costs on Newfoundland Power's financial performance.

Newfoundland Power owns and operates 29 small generating stations which generate approximately 10 per cent of the electricity sold by Newfoundland Power. The Company has an installed generating capacity of 146 MW of which 95 MW is hydroelectric generation.

Regulation

Overview

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 set out in the *Electrical Power Control Act, 1994* (Newfoundland and Labrador) which includes the policy that rates should: (i) be reasonable and not unjustly discriminatory; (ii) be sufficient to provide a just and reasonable return to the producer or retailer; and (iii) not require that industrial customers subsidize the cost of power provided to rural customers. Certain of Newfoundland Power's accounting policies are affected by this regulatory environment as discussed below.

Weather Normalization Reserve

Newfoundland Power records in its financial statements a weather normalization reserve account, as prescribed by the PUB, to adjust for the financial effect of variations in weather and streamflow when measured against long-term averages. The operation of this reserve account reduces Newfoundland Power's year-to-year income volatility that would otherwise result from abnormal weather conditions. The balance in the weather normalization reserve and the underlying calculations are reviewed annually by the PUB.

Rate Stabilization Account

Newfoundland Power also records in its financial statements a rate stabilization account, as prescribed by the PUB order, which passes through to Newfoundland Power's customers, with no impact on the Company's net earnings, charges related to fluctuations in the cost and quantity of fuel oil burned by Newfoundland Hydro to produce the power sold to Newfoundland Power. The account operates to permit these fluctuations to be reflected, in part, in the rates Newfoundland Power charges its customers without the requirement of a rate hearing. In 2003, the PUB introduced a forward-looking methodology through which the rate stabilization account annually adjusts the wholesale rate charged to Newfoundland Power by Newfoundland Hydro based on a forecast of fuel oil prices. Newfoundland Power's rates are adjusted on July 1st of each year to reflect changes in the rate stabilization account.

Income Taxes
Newfoundland Power records future income taxes in accordance with the PUB orders. The method used results in future 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.

Automatic Adjustment Formula
In 1998, the PUB issued an order implementing the automatic annual adjustment formula in the ratemaking process. The formula is based on an equity risk premium approach pursuant to which Newfoundland Power's ROE is based on the sum of the risk-free cost of capital, i.e., long Canada bond yields, and a risk premium which varies based upon changes to the risk free cost of capital. In 2003, the PUB completed a review of the formula and ordered its use in setting rates for 2005, 2006 and 2007. As part of this review, the PUB also adjusted the calculation of rate base, upon which the allowed rate of return is calculated, to include the balances in deferred charges. In 2003, as part of the general rate order, the PUB determined a rate of return on rate base for 2004 of 8.91 per cent within a range of 8.73 per cent to 9.09 per cent to reflect the allowed ROE of 9.75 per cent.

As a result of the operation of the automatic annual adjustment formula for 2005, the PUB has ordered a decrease in the allowed rate of return on rate base to 8.68 per cent within a range of 8.50 per cent to 8.86 per cent to reflect an adjusted ROE of 9.24 per cent. In its order, the PUB also approved a 0.5 per cent decrease in electricity rates, effective January 1, 2005, to reflect the reduction in allowed rate of return on rate base.

Legal Proceedings

In 1995, CRA issued notices of reassessment to Newfoundland Power for the years 1988 through 1993. Newfoundland Power filed notices of objection in 1995 and paid approximately $15.6 million to CRA, which represented 50 per cent of the amounts in dispute. These notices dealt with 2 major issues.

First, CRA disallowed certain amounts capitalized by Newfoundland Power for regulatory and accounting purposes but claimed as expenses for tax purposes. This issue was subsequently resolved in May 2000 and, as a result, Newfoundland Power received a refund of $8.8 million from CRA, including $6.8 million in interest.

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

On June 23, 2004, the Tax Court ordered examinations for discovery to be completed not later than December 6, 2004 with undertakings to be complete by February 28, 2005.

The Rules of the Tax Court require the parties to advise the Tax Court by March 28, 2005 whether: (i) the matter will settle out of court, (ii) case management or pre-hearing would be beneficial, or (iii) a hearing date should be set.

Newfoundland Power believes that it has reported its tax position appropriately. However, should the Company be unsuccessful, a liability of approximately $16.2 million, representing income tax and interest thereon, would arise as of December 31, 2004. The Company's remaining $6.9 million tax deposit would be applied against that liability. An application by Newfoundland Power to the PUB to have the liability considered in the ratemaking process could be made should this occur.

Human Resources

At December 31, 2004, Newfoundland Power had 597 employees, of which 329 were members of bargaining units represented by IBEW, Local 1620.

In 2004, the Company announced an early retirement program that would allow eligible employees to retire on April 1, 2005. While 131 employees are eligible to participate, it is expected that approximately 75 employees will retire under this program. Newfoundland Power received PUB approval to (i) amortize the incremental pension costs associated with the early retirement program over 10 years, and (ii) amortize the related net-of-tax retirement allowances on a straight-line basis over 24 months.

In 2004, Newfoundland Power and IBEW, Local 1620 signed collective agreements with an expiry date of September 30, 2008 for all employees represented by IBEW, Local 1620. Newfoundland Power did not experience any material labour issues in 2004.

Environmental Matters

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

Newfoundland Power is committed to meeting the requirements of all environmental legislation and complying with all accepted standards of environmental protection. In addition, Newfoundland Power has created and implemented an environmental policy and related procedures, including emergency response procedures, in the event of adverse environmental occurrences. Newfoundland Power conducts ongoing education programs for its employees to inform them of environmental issues and to encourage environmental responsibility.

In 2004, an independent certified environmental auditor conducted an audit of Newfoundland Power's EMS in accordance with the requirements of the ISO 14001 standard. ISO 14001 is an international standard for environmental management systems. Newfoundland Power uses the results of this annual audit to make continual improvement to its environmental management system.

A registration audit of the Company's environmental management system for its generation function was conducted by an ISO 14001 Registrar in 2004. Based on the results of this audit, the Registrar has renewed the Company's ISO 14001 registration for its generation function.

Newfoundland Power has an ongoing program to identify and replace distribution transformers at risk of spillage. In addition, oil containing PCBs continues to be removed from service and disposed of through a licenced PCB waste disposal company. Future PCB waste generated as a result of Newfoundland Power's PCB phase-out and destruction program will be addressed on an ongoing basis.

Newfoundland Power is committed to operating in an environmentally responsible manner and 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 address 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 2004 and, based on current law, facts and circumstances, are not expected to have any material effect in the future.

3.2 Maritime Electric

Maritime Electric operates an integrated electric utility, which directly supplies approximately 70,000 customers constituting just over 90 per cent of the electricity consumers on Prince Edward Island. Maritime Electric owns and operates generating plants on Prince Edward Island with a total capacity of 100 MW, but purchases most of the energy it distributes to its customers from NB Power, a provincial Crown corporation, and Emera. Maritime Electric's system is connected to the mainland power grid via 2 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 electricity sales increased to 977 GWh in 2004 from 958 GWh in 2003. Revenue for 2004 was $115.4 million compared to $96.3 million last year. The increase was driven by higher sales, the 2.1 per cent increase in basic rates on April 1, 2003 and the change in accounting for revenue as mandated by the *Electric Power Act* (Prince Edward Island). More specifically, amounts billed to customers in 2003 for recovery of the Energy Cost Adjustment Mechanism ("ECAM") and the Cost of Capital adjustment, were recorded in a deferred energy asset account on the Maritime Electric's balance sheet. Commencing January 1, 2004, under the *Electric Power Act* (Prince Edward Island), this component of the customer's bill is recorded as revenue.

The following chart compares the composition of Maritime Electric's 2004 and 2003 revenue and electricity sales by customer class:

Maritime Electric
Revenue and Electricity Sales by Customer Class

	Revenue per cent		GWh Sales per cent	
	2004	**2003**	**2004**	**2003**
Residential	**47.7**	46.5	**42.1**	41.4
Commercial	**50.4**	49.6	**57.4**	58.0
Street Lighting	**1.4**	1.3	**0.5**	0.6
Other (1)	**0.5**	2.6	**-**	-
Total	**100.0**	100.0	**100.0**	100.0

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

Power Supply

In 2004, Maritime Electric met its energy supply requirements through purchases from NB Power and Emera with the balance supplied from generation facilities located on Prince Edward Island. In 2004, Maritime Electric renewed and increased some of its power purchase commitments from New Brunswick Power and allowed the power purchase agreement with Emera to expire. In 2004, Maritime Electric purchased 1,011 GWh of the 1,059 GWh required to meet its customers' needs from NB Power and Emera. The balance was met through the Company's on-Island generation facilities, as well as the purchase of 39 GWh of wind energy produced on Prince Edward Island. 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.

In 2004, approximately 20 per cent of the energy that Maritime Electric purchased from NB Power came from the Point Lepreau Station. During 2004, the Point Lepreau Station had an annual capacity factor of 77.2 per cent compared to 85.5 per cent in 2003.

During 1998, NB Power announced the results of an independent audit of the Point Lepreau Station, which concluded that its 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 Point Lepreau Station's net book value by $450 million. Maritime Electric's obligations in respect of the Station Unit Participation Agreement required a payment of approximately $6 million in 2001, which is being amortized over the estimated life of the Point Lepreau Station.

During 2004, Maritime Electric received all necessary approvals for the construction of a 50-MW generating facility on Prince Edward Island. This facility is designed to operate on light oil or natural gas and will address submarine cable loading issues and reduce the Company's reliance on imported electricity. The targeted in-service date is late 2005.

Regulation

For the period 1994 through 2003, Maritime Electric was 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 1 per cent every 6 months until the rates reached a required level of not more than 110 per cent of the rates charged by NB Power for equivalent service to New Brunswick consumers.

Legislative changes proclaimed in October 2001 provided Maritime Electric with the ability to recover, from customers, 90 per cent of energy-related costs above $0.05 per kWh. In addition, the legislation provided for a further adjustment to rates to bring Maritime Electric's ROE 75 per cent of the way towards a target return of 11 per cent on average common equity. These adjustments helped reduce Maritime Electric's exposure to increases in energy-related costs and provide earnings stability.

In December 2003, the Government of Prince Edward Island passed legislation returning Maritime Electric to traditional cost of service regulation. Under this new regime, rates on Prince Edward Island are no longer linked to rates in New Brunswick but are based on the costs incurred to provide service on the Island. Maritime Electric believes that this change will result in more certainty and predictability and ultimately a more stable regulatory environment. On January 1, 2004, the *Maritime Electric Company Limited Regulation Act* (Prince Edward Island) was repealed and Maritime Electric is now regulated by the IRAC under the provisions of the *Electric Power Act*. The rates charged to customers as at December 31, 2003 have been adopted as basic rates.

On April 30, 2004, under the terms of the *Electric Power Act,* Maritime Electric filed an application with the IRAC for rates for the period ending June 30, 2006. On January 6, 2005, IRAC issued an Interim Order (the "Interim Order") with respect to the application. One of the important aspects of the Interim Order was the reintroduction of an ECAM. The ECAM will help mitigate the impact of fluctuating energy costs on the Company's financial results because it will allow Maritime Electric to collect from customers, energy costs above a base rate per kWh, or rebate to customers energy costs below a base rate per kWh. The commencement of the recovery of the $20.8 million in Costs Recoverable from customers accumulated under the former legislation was also addressed under this Interim Order.

The *Electric Power Act* requires Maritime Electric to maintain at least 40 per cent of its capital structure in the form of common equity. At December 31, 2004, the common equity component of Maritime Electric's capital structure was 42.6 per cent compared to 42.7 per cent in 2003.

Human Resources

At December 31, 2004, Maritime Electric had 173 full-time employees, of which 126 employees were represented by IBEW, Local 1432. The collective agreement governing these employees expired on December 31, 2004 and negotiations towards a new collective agreement have commenced.

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 updated as required. New procedures are developed as required and employees affected by the new or updated procedures receive appropriate training.

During 2004, Maritime Electric continued its program of 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 2004 and, based on current laws, facts and circumstances, are not expected to have any material effect in the future.

3.3 FortisOntario

The Corporation's regulated utility investments in Ontario, collectively FortisOntario, are comprised of Canadian Niagara Power, including the operations of Port Colborne Hydro, and Cornwall Electric. In total, its distribution operations serve approximately 51,600 customers in the Fort Erie, Port Colborne, Cornwall and Gananoque areas of Ontario and meet a peak demand of 256 MW. Canadian Niagara Power owns international transmission facilities at Fort Erie, Ontario and owns a 10 per cent interest in each of Westario Power and Rideau St. Lawrence, 2 regional electric distribution companies formed in 2000 that, together, serve over 27,000 customers.

The following table provides an overview of FortisOntario's regulated utility operations.

FortisOntario Regulated Utility Operations				
Company	**Service Territory**	**Customers (#)**	**Peak Demand (MW)**	**Employees (#)**
Canadian Niagara Power[(1)]	Fort Erie	15,300	58	63
	Port Colborne [(2)]	9,300	38	5
	Gananoque	3,800	17	7
Cornwall Electric	Cornwall	23,200	143	51
Total		**51,600**	**256**	**148** [(3)]

(1) Canadian Niagara Power also owns a 10 per cent interest in each of Westario Power and Rideau St. Lawrence.
(2) Canadian Niagara Power signed a 10-year operating lease agreement with the City of Port Colborne in 2002.
(3) Includes 22 employees in Corporate and Non-regulated Generation Operations.

Market and Sales

Total annual electricity sales decreased to 1,198 GWh in 2004 from 1,242 GWh in 2003. FortisOntario's revenue increased to $125.2 million in 2004 from 119.8 million in 2003.

The following chart compares the composition of FortisOntario's 2004 and 2003 revenue and electricity sales by service territory:

FortisOntario Revenue and Electricity Sales by Service Territory				
	Revenue [(1)] per cent		**GWh Sales[(1)] per cent**	
	2004	**2003**	**2004**	**2003**
Fort Erie	**25.0**	28.6	**23.9**	22.9
Port Colborne	**12.6**	13.8	**15.1**	15.0
Gananoque	**6.3**	4.7	**7.1**	5.0
Cornwall	**56.1**	52.9	**53.9**	57.1
Total	**100.0**	100.0	**100.0**	100.0

(1) Revenue and GWh sales reflect 100 per cent of sales of Granite Power Distribution from the date of acquisition.

The following chart compares the composition of FortisOntario's 2004 and 2003 revenue and electricity sales by customer class:

FortisOntario Revenue and Electricity Sales by Customer Class				
	Revenue [(1)] per cent		GWh Sales[(1)] per cent	
	2004	2003	2004	2003
Residential	**41.2**	41.7	**40.9**	41.6
Commercial	**54.1**	53.0	**59.1**	58.4
Other[(2)]	**4.7**	5.3	**-**	-
Total	**100.0**	100.0	**100.0**	100.0

(1) *Revenue and GWh sales reflect 100 per cent of sales of Granite Power Distribution from the date of acquisition.*
(2) *Includes revenue from sources other than the sale of electricity.*

Power Supply

Canadian Niagara Power purchases its power requirements for Fort Erie and Port Colborne from the IMO. Under the Standard Supply Code of the OEB, Canadian Niagara Power is obliged to supply all its customers who have not signed a contract with a retailer. The power is supplied at market prices with no mark-up. As of December 31, 2004, designated customers and low-volume customers with annual usage less than 250,000 kWh receive this power at a two-tiered pricing regime. The first 750 kWh per month will be priced at 4.7 cents and any consumption above that amount will be priced at 5.5 cents. Any difference between this price and the market price is settled with the IMO.

Power requirements for Gananoque are met through power purchases from Hydro One Networks Inc. ("Hydro One Networks") (79 per cent) and FortisOntario Generation (21 per cent). The power is supplied at market prices with no mark-up. As of December 31, 2004, designated customers and low volume customers with annual usage less than 250,000 kWh receive this power at a two-tiered pricing regime. The first 750 kWh per month will be priced at 4.7 cents and any consumption above that amount will be priced at 5.5 cents. Any difference between this price and the market price is settled with Hydro One Networks.

Cornwall Electric purchases 97 per cent of its power requirements from Hydro-Québec under 2 fixed-term contracts. The first contract, which represents approximately 35 per cent of the power supply, expires in 2019. The second contract, which supplies the remainder of the power from Hydro-Québec, is a 12-month rolling contract. The CDH plant generates the remaining 3 per cent of the power requirement in Cornwall.

Regulation

Canadian Niagara Power's operations in Fort Erie were historically subject to minimal regulation in connection with its energy activities and were not subject to any form of rate regulation, other than under a franchise agreement with the Town of Fort Erie. Under the *Electricity Act (*Ontario*)* and the *Ontario Energy Board Act* (collectively the "Acts"), Canadian Niagara Power is now subject to the same regulation as all distributors and transmitters of electricity in Ontario.

As a result of regulatory changes implemented on May 1, 2002, Canadian Niagara Power restructured and continues to operate its generation business separate from its transmission and distribution businesses. Its transmission and distribution business operates under Canadian Niagara Power, a wholly owned subsidiary of FortisOntario Inc. Distribution and transmission assets remain regulated on a cost of service basis.

On December 9, 2002, the *Electricity Pricing, Conservation and Supply Act, 2002* (Ontario) came into force, introducing a 4.3 cent per kWh retail commodity price cap for low volume and designated customers and implemented a freeze on transmission and distribution rate increases until May 1, 2006. During the period of the rate freeze, the Government of Ontario subsidized the difference between the competitive wholesale price paid to generators and the fixed commodity price charged to low-volume and designated customers. Currently, the transmission rates and Fort Erie distribution rates have been set based on a 9.88 per cent ROE. Port Colborne distribution has implemented two-thirds of a phase-in of rates to the 9.88 per cent return and currently charges rates based on a 6.91 per cent rate of return. Gananoque has fully implemented its distribution rates based on a 9.88 per cent ROE. Port Colborne will apply for recovery of the final third of its return on equity in 2005; however, in order to qualify, Canadian Niagara Power had to submit a Conservation and Demand Management Plan to the OEB for approval in 2004. The Plan includes the required investment equal to the value of the final one-third of ROE for 1 year which may be spread over a 3-year period ending in September 2007.

On December 18, 2003, the *Ontario Energy Board Amendment Act, 2003* came into force. This legislation replaced the 4.3 cent commodity price cap with a two-tiered pricing structure implemented April 1, 2004. Low-volume and designated customers who were capped at 4.3 cents per kWh now pay 4.7 cents for the first 750 kWh of electricity consumed each month, while electricity consumed in excess of this ceiling is priced at 5.5 cents per kWh. Any difference between the wholesale price and the fixed two-tiered pricing is subject to a true-up process administered by the IMO and financed by the Ontario Electricity Financial Corporation. Additionally, this legislation allowed electricity distributors to begin to recover a portion of the distribution costs incurred in preparing for the introduction of competition in the Ontario electricity market in May 2002. Starting April 1, 2004, distributors were permitted to apply for recovery of amounts incurred up to and including December 31, 2002; costs incurred subsequent to this date can be recovered over a 4-year period. In March 2004, Canadian Niagara Power received a Board Decision and Order and Interim Rate Schedule for transitional rates to recover its transitional costs in Fort Erie and Port Colborne. There were no transitional costs associated with Gananoque for the period prior to December 31, 2002. The Interim Rate Schedule is subject to future review by the OEB.

In June 2004, the Ontario Minister of Energy granted permission to Canadian Niagara Power to apply to the OEB for a reduction in its retail transmission rates charged to its customers in Fort Erie as a result of efficiency gains implemented by the Company. In June 2004, the OEB issued a Decision and Order establishing new standard retail transmission service rates effective July 2004. Retail transmission service charges are captured in the appropriate retail settlement variance account for disposition at a later date, subject to the approval of the OEB.

Cornwall Electric has been given legislative exemption from a number of aspects of the Acts and is instead subject to a 35-year franchise agreement with the City of Cornwall, dated July 31, 1998 and franchise agreements with neighboring townships. Rates under the Franchise Agreement are determined based on the aggregate of a flow through of the contracted cost of power and a revenue requirement for other operating costs. The revenue requirement is reset each year based on a formula including adjustments for inflation, load growth and customer growth. In November 2004, the OEB granted Cornwall Electric a Distribution Licence valid until December 2019. The Distribution Licence acknowledges the existing service territory and franchise agreements. Prior to this date, Cornwall Electric had been granted an Interim Distribution Licence.

Human Resources

At December 31, 2004, FortisOntario had 148 employees, of which 37 were represented by Canadian Union of Public Employees, Local 137, 54 were represented by IBEW, Local 636 in the Niagara Region and 6 were represented by IBEW, Local 636 in Gananoque. The collective agreements governing these employees expire on April 30, 2005, May 31, 2006 and July 31, 2006, respectively.

Environmental Matters

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

FortisOntario 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.

Environmental laws and regulations had no material effect on the capital expenditures, earnings or competitive position of FortisOntario in 2004 and, based on current laws, facts and circumstances, are not expected to have any material effect in the future.

3.4 FortisAlberta

FortisAlberta is a regulated electricity distribution utility in Alberta. FortisAlberta operates a largely rural, low-voltage distribution network in central Alberta, which represents approximately 60 per cent of the total distribution network as measured in kilometres of line in Alberta. FortisAlberta serves over 400,000 customers, with residential, commercial, farm and industrial consumers representing about 29 per cent of Alberta's end-use customers.

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

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

Market and Sales

FortisAlberta's customer base is a mix of oil and natural gas extraction, manufacturing and a broad services industry, which accounted for 22.2 per cent, 8.3 per cent and 15.2 per cent, respectively, of provincial gross domestic product in 2003. Annual customer electricity sales increased to 22,998 GWh in 2004 from 22,319 GWh in 2003. Revenue increased to \$223.4 million in 2004 from \$177.2 million in 2003. Revenues for 2003 were reduced by a rebate of \$40.0 million in 2002 distribution charges.

The following chart compares the composition of FortisAlberta's 2004 and 2003 electric rate revenue and electricity sales by customer class:

FortisAlberta Electric Rate Revenue and Electricity Sales by Customer Class				
	Revenue per cent		**GWh Sales per cent**	
	2004 (1)	**2003 (1)**	**2004 (1)**	**2003 (1)**
Large commercial and industrial	**27.2**	31.2	**35.6**	35.8
Residential	**32.8**	32.8	**9.0**	9.1
Farms	**12.5**	9.9	**5.2**	5.7
Small commercial	**13.2**	14.3	**4.9**	5.1
Oil and gas	**9.2**	7.2	**4.0**	4.2
Other	**5.1**	4.6	**41.3 (2)**	40.1 (2)
Total	**100.0**	100.0	**100.0**	100.0

(1) The 2003 and 2004 figures are for the year ended December 31, 2003 and 2004, respectively. Fortis acquired FortisAlberta on May 31, 2004, therefore, only sales from June 1, 2004 onward are reflected in the Annual Consolidated Financial Statements of Fortis.

(2) Other GWh sales includes "transmission connected" customers. These customers consist primarily of large-scale industrial customers directly connected to the transmission grid. The Company collects energy sales information and discloses it as the volume risk on transmission throughput resides with the distribution utility. This transmission revenue is recorded net of expenses in FortisAlberta's financial statements.

Regulation

FortisAlberta is regulated on a cost-recovery basis. The revenue requirement for FortisAlberta provides for the recovery of all prudently incurred operating expenses, depreciation, income tax, interest on debt supporting regulated assets and a reasonable ROE applied to approved rate base assets. On July 2, 2004, the AEUB issued a Generic Cost of Capital Decision that established a common approach for setting the return on deemed common equity for all electricity and natural gas utilities under its jurisdiction. The Generic Cost of Capital Decision also established a capital structure of 63 per cent debt and 37 per cent equity for FortisAlberta, which ratio represents how FortisAlberta is deemed to be financing its rate base assets. Such capital structure will be used for determining future rates for FortisAlberta. This compares to a deemed capital structure of 60 per cent debt and 40 per cent equity that was used to set FortisAlberta's current rates.

The Generic Cost of Capital Decision also set FortisAlberta's regulated base ROE for future rates at 9.6 per cent based on a forecast long Canada bond of 5.68 per cent. Beginning in 2005, FortisAlberta's regulated base ROE will be adjusted by a formula. FortisAlberta believes that this formulaic approach to rate setting enhances the transparency and predictability of the regulatory process and will, in many cases, reduce the complexity and cost of regulatory proceedings.

On November 30, 2004, as a result of the operation of the automatic adjustment formula, the AEUB issued its ROE Decision, which set the rate of ROE at 9.5 per cent for 2005. In order to establish 2005 rates, FortisAlberta filed a General Rate Agreement ("GRA") with the AEUB in November 2004 using the 9.5 per cent rate of return and the 37 per cent equity in its regulated capital structure. The 2005 GRA sought a 4.5 per cent increase in distribution rates and included forecasted capital expenditures of $135 million for 2005.

Legal Proceedings

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

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

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

Human Resources

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

Currently, there are 2 collective labor agreements in place with the United Utility Workers Association. The first agreement is the contact centre agreement, which expired on December 31, 2004. Negotiations with the United Utility Workers Association commenced in the fall of 2004. At this time, it is not anticipated that there will be any critical issues arising in the course of negotiations. The second agreement is the main agreement, which expires on December 31, 2005. The terms of the main agreement provide for salary increases of approximately 2 per cent on January 1, 2005, with an Alberta inflation mechanism that could increase this amount to a maximum of 3 per cent.

Franchise Agreements

Most of FortisAlberta's residential customers are served through franchise agreements between FortisAlberta and the customer's community of residence. In Alberta, the standard franchise agreement, which includes a franchise fee payable to the municipality, is generally for 10 years and can be renewed for 5 years upon the mutual consent of the parties. FortisAlberta serves over 145 communities, of which 117 communities, or 81 per cent, are on standardized, individual franchise agreements, substantially all of which have initial terms that expire between 2011 and 2013. The balance of these franchise agreements is currently being negotiated. The remaining municipal franchises are based upon earlier agreements that have either expired or will expire before 2010. Any agreement that is not renewed continues in effect until either FortisAlberta or the municipality terminates it with AEUB permission. All municipal franchises are governed by legislation that requires the municipality or the utility to give notice, and obtain AEUB approval, if it intends to terminate its franchise agreement. If a franchise agreement is terminated and the municipality subsequently exercises its right under the *Municipal Government Act* (Alberta) to purchase FortisAlberta's distribution network within the municipality's boundaries, FortisAlberta is required to be compensated in respect of such purchase.

Environmental Matters

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

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

Environmental laws and regulations had no material effect on the capital expenditures, earnings or competitive position of FortisAlberta in 2004 and, based on current law, facts and circumstances, are not expected to have any material effect in the future.

3.5 FortisBC

FortisBC is an integrated, regulated electric utility that owns a network of generation, transmission and distribution assets located in the southern interior of British Columbia. FortisBC serves a diverse mix of over 140,000 customers, with rural, residential customers representing FortisBC's largest customer segment. Of these customers, approximately 94,000 are served directly while the remainder are served through wholesale power purchase agreements with 6 municipal/wholesale utilities within the FortisBC service area. FortisBC's generation assets consist of 4 regulated hydroelectric generating plants on the Kootenay River with an aggregate installed capacity of 205 MW and an annual energy output of approximately 1,500 GWh. FortisBC meets the balance of its requirements through a portfolio of long-term and short-term power purchase contracts approved by the BCUC, the costs of which are flowed through to customers.

FortisBC also provides non-regulated operating, maintenance and management services relating to the 450-MW Waneta hydroelectric generation facility owned by Teck-Cominco, the 145-MW Brilliant Hydroelectric Plant owned by CPC/CBT, the 150-MW Arrow Lakes Hydroelectric Plant owned by CPC/CBT and the distribution system owned by the City of Kelowna. The results of these hydroelectric generating facilities have been included in this segment.

Market and Sales

FortisBC has a diverse customer base comprised of residential, general service, industrial and municipal/wholesale customers. Annual electricity sales increased to 2,873 GWh in 2004 from 2,836 GWh in 2003. Revenue increased to $181.5 million in 2004 from $166.7 million in 2003.

The following chart compares the composition of FortisBC's 2004 and 2003 revenue and electricity sales by customer class:

FortisBC Revenue and Electricity Sales by Customer Class				
	Revenue per cent		GWh Sales per cent	
	2004 (1)	**2003 (1)**	**2004 (1)**	**2003 (1)**
Residential	**40.1**	42.2	**36.6**	35.4
General service	**22.8**	24.1	**20.8**	20.4
Wholesale	**23.6**	22.1	**30.9**	32.3
Industrial	**9.9**	9.5	**11.7**	11.9
Other	**3.6**	2.1	**-**	-
Total	**100.0**	100.0	**100.0**	100.0

(1) *The 2003 and 2004 figures are for the year ended December 31, 2003 and 2004, respectively. Fortis acquired FortisBC on May 31, 2004, therefore, only sales from June 1, 2004 onward are reflected in the Annual Consolidated Financial Statements of Fortis.*

Generation and Power Supply

FortisBC meets the electricity supply requirements of its customers through a mix of owned generation and short-term and long-term power purchase contracts. FortisBC owns 4 regulated hydroelectric generating plants with an aggregate installed capacity of 205 MW that provide approximately 50 per cent of its energy needs and 30 per cent of its capacity needs.

FortisBC's 4 hydroelectric generation facilities are governed by the CPA. The CPA is a multi-party agreement that enables the 4 separate owners of 7 major hydroelectric generating plants (having a combined capacity of approximately 1,400 MW and all located in relatively close proximity to each other) to coordinate the operation and dispatch of their plants. FortisBC is currently in discussions to extend the CPA, which expires on September 30, 2005. The plants and their owners are:

Plant	Capacity (MW)	Owners
Canal Plant	580	BC Hydro
Waneta Dam	450	Teck Cominco
Kootenay River System	205	FortisBC
Brilliant Dam	145	Brilliant Power Corporation

Brilliant Power Corporation, Teck Cominco and FortisBC are collectively defined in the CPA as the Entitlement Parties ("EPs"). The CPA enables BC Hydro and the EPs, through coordinated use of water flows subject to the 1961 Columbia River Treaty between Canada and the United States and storage reservoirs, and through the coordinated operation of generating plants, to generate more power from their respective generating resources than they could if they operated independently. Under the CPA, BC Hydro takes into its system all power actually generated by all of the 6 third party-owned plants. In exchange for permitting BC Hydro to determine the output of these facilities, each of the EPs is contractually entitled to a fixed annual entitlement of capacity and energy from BC Hydro. The EPs receive their entitlements irrespective of actual water flows to the EPs' generating plants and are, accordingly, insulated from the hydrology risk of water availability.

FortisBC's remaining electricity supply is acquired through power purchase contracts and spot market purchase contracts, consisting of the following:

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

All power purchases and purchase contracts are approved by the BCUC. Under these approved purchases and contracts, prudently incurred costs flow through to customers through FortisBC's electricity rates. FortisBC's long-term, fixed price power supply contracts provide FortisBC with the flexibility to respond to changes in demand with little commodity exposure. These costs are passed through to customers as provided by FortisBC's regulatory framework.

Although FortisBC can currently meet the substantial majority of its customer supply requirements from its own generation and the major power purchase agreements described above, a portion of the customer load during the winter peak demand periods may need to be supplied from the market in the form of real-time power purchases. Costs related to such purchases, provided they are prudently incurred and accurately forecast, are flowed through to customers.

Regulation

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

The BCUC approved the acquisition of FortisBC by Fortis by way of a Commission Order issued on April 30, 2004. As part of the application for approval, Fortis indicated to the BCUC a commitment to: (i) capitalize FortisBC in accordance with its deemed capital structure of 40 per cent equity and 60 per cent debt; (ii) maintain a head office in the FortisBC service area; and (iii) include local representation on the FortisBC Board of Directors. Senior officers of FortisBC will also reside within the service area. FortisBC will file quarterly reports updating the BCUC on ownership transition matters until June 1, 2005.

In May 2004, FortisBC applied to the BCUC for approval to amend its electricity tariff and terms and conditions of service for residential customers. More specifically, the application sought to replace a prompt payment discount with a 1.5 per cent monthly charge for late-paying customers. The net impact of this change is a 1.45 per cent increase in rates to most residential customers and is neutral to the FortisBC's revenues. By way of a Commission Order issued in October 2004, the BCUC approved FortisBC's application as filed with an effective date of November 1, 2004.

In order to establish 2005 rates, FortisBC filed a 2005 GRA with the BCUC on November 26, 2004. FortisBC's application sought approval of a 4.4 per cent rate increase effective January 1, 2005. The GRA requests approval of a 9.78 per cent cost of capital for rate-making purposes and a common equity component of 40 per cent. FortisBC also filed with its application its $121.6 million capital expenditure plan for 2005. By way of a Commission Order, the BCUC approved an interim rate increase for FortisBC of 3.7 per cent effective January 1, 2005.

Legal Proceedings

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

Human Resources

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

The last strike of FortisBC’s employees occurred 3 years ago and involved the IBEW. FortisBC’s employees were forced to return to work under essential services rulings. The collective agreement between FortisBC and IBEW, Local 213 expired on January 31, 2005 but the terms of the collective agreement will continue to be in effect until such time as a new collective agreement is signed. FortisBC and IBEW, Local 213 are each preparing their bargaining positions. FortisBC and the Canadian Office and Professional Employees Union, Local 378 are parties to a collective agreement that expires on January 31, 2006.

Environmental Matters

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

FortisBC has developed an environmental management system that is consistent with the ISO 14001 standard. The intent of the system is to provide a framework that allows for the monitoring of performance and the establishment of processes to enhance that performance. This system is continually being refined in order to enhance FortisBC’s environmental performance and to reflect organizational changes as they occur.

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

Environmental laws and regulations had no material effect on the capital expenditures, earnings or competitive position of FortisBC in 2004 and, based on current law, facts and circumstances, are not expected to have any material effect in the future.

Regulated Utilities – Caribbean

3.6 Belize Electricity

Belize Electricity is the primary commercial transmitter and distributor of electricity in Belize, Central America. Serving over 66,000 customers, Belize Electricity meets a peak demand of 61 MW from multiple sources, which include power purchases from: (i) the Mollejon hydroelectric facility, (ii) CFE, the Mexican state-owned power company, and (iii) its own diesel-fired and gas turbine generation. All major load centers are connected to Belize’s national electricity system, which is connected to the Mexican electricity system, allowing Belize Electricity to optimize its power supply options.

Market and Sales

Annual electricity sales increased to 330 GWh in 2004 from 308 GWh in 2003. Revenue increased to BZ$110.1 million in 2004 from BZ$105.3 million in 2003.
The following chart compares the composition of Belize Electricity's 2004 and 2003 revenue and electricity sales by customer class:

Belize Electricity
Revenue and Electricity Sales by Customer Class

	Revenue per cent		**GWh Sales per cent**	
	2004	**2003**	**2004**	**2003**
Residential	**54.5**	54.6	**57.5**	57.2
Commercial [(1)]	**32.4**	33.4	**35.2**	35.4
Street Lighting	**8.9**	8.6	**7.3**	7.4
Other [(2)]	**4.2**	3.4	**-**	-
Total	**100.0**	100.0	**100.0**	100.0

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

Sales were positively impacted by economic growth in the commercial and industrial sector, particularly aquaculture, tourism, and agricultural processing, as well as residential growth which were driven by the rural electrification program and a housing boom in recent years.

Power Supply

Belize Electricity purchased and produced 378 GWh of electricity in 2004. Belize Electricity purchased 63 GWh from the Mollejon hydroelectric facility and 236 GWh from CFE. The balance (79 GWh) was produced by Belize Electricity's diesel-fired generation, which has an installed capacity of 43.6 MW, including a 22-MW gas turbine generating facility commissioned in 2003.

At the end of December 2004, 28 of the 30 projects approved under the Power III Project for 2004 were completed at a cost of approximately BZ$1.9 million. The most recent rural areas to receive first-time electricity are Santa Martha and the San Antonio subdivision.

The Power IV Project consisting of a 69-kilovolt transmission line and associated substations in southern Belize, was successfully completed and commissioned in September 2004. The previously isolated distribution system in the southern-most town of Punta Gorda was subsequently connected to the National Grid in November 2004.

With Belize Electricity experiencing annual growth in energy demand of between 7 per cent to 10 per cent over the past 3 years, the Company continues to pursue initiatives to increase in-country generation supply to enhance its ability to meet peak power demand and have back-up capacity in case of loss of supply from Mexico. The Mexican State-owned CFE has given notice of its intent to terminate the existing power purchase agreement with Belize Electricity in 2006 and has indicated an interest in continuing to sell power to the Company on amended terms. Belize Electricity has begun negotiations with CFE but is also pursuing other options to ensure self-sufficiency.

The Mollejon hydroelectric facility is being enhanced with the construction of the Chalillo Project which will double hydroelectric output. The facility is projected to be completed in the last half of 2005. Hydro Maya, a private small hydroelectric developer in southern Belize with which Belize Electricity has a Power Purchase Agreement, is about to start construction of a 2-MW run-of-river plant to be completed within a year. On December 1, 2004, an agreement was signed with Belize Cogeneration Energy Limited for the supply of 13.5 MW of power by early 2007.

Regulation

Belize Electricity is regulated by the PUC under the terms of the *Electricity Act* (Belize), the *Electricity Tariffs Charges and By-Laws* (Belize) and the *Public Utilities Commission Act.* Electricity rates in Belize are comprised of 2 components. The first, Value Added Delivery (‘‘VAD’’), is subject to price cap and the second is the cost of fuel and power purchase, including the variable cost of generation, which is a flow through in customer rates. The regulations include transparent tariff setting methodologies and provide incentive to Belize Electricity to deliver reliable power and quality service to customers and to manage the electricity delivery process as efficiently as possible.

Effective January 1, 2000, the PUC established the CPRSA which is designed to normalize changes in the price of electricity due to fluctuating cost of power. Through the operation of the CPRSA, consumer electricity rates are stabilized and Belize Electricity is provided with a mechanism that permits, over time, the full recovery of its cost of power. Effective July 1, 2002, the Hurricane Cost of Power Rate Stabilization Account was also established to normalize and allow for recovery of hurricane reconstruction costs over time.

Belize Electricity’s licence to generate, transmit and supply electricity in Belize expires in 2015. Under the terms of the licence, Belize Electricity has a right of first refusal on any replacement licence. If the current licence 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 tariffs, rates and charges by-laws mandated a BZ$0.05 per kWh decrease in electricity rates for the period 2000 through 2005. Rates have been reduced by BZ$0.05 per kWh, in total, since Fortis acquired the Company in October 1999. The quality of service standards are being monitored and formalized over a transition period from January 1, 2000 through June 30, 2005 and will become effective July 1, 2005.

Human Resources

At December 31, 2004, Belize Electricity had 248 full-time employees, of which 121 were represented by the Belize Energy Workers Union. Belize Electricity's collective agreement with the Belize Energy Workers Union was signed on November 29, 2000 and is to be reviewed every 5 years.

Environment

As part of its ongoing commitment to fully comply with internationally acceptable environmental standards, Belize Electricity focused environmental initiatives on generating plants still in operation in 2004. An environmental plan was implemented in the latter part of 2003 aimed at making Belize Electricity's generation operations ISO 14001 compliant within 3 years. As part of this plan, an environmental audit was conducted at all generating plants countrywide and a list of priority environmental impacts and targeted actions in the Generation Department was developed.

Environmental laws and regulations had no material effect on the capital expenditures, earnings or competitive position of Belize Electricity in 2004 and, based on current law, facts and circumstances, are not expected to have any material effect in the future.

3.7 Caribbean Utilities

Caribbean Utilities operates the only public electric utility on the Island of Grand Cayman, Cayman Islands. In September 2004, Grand Cayman was struck by Hurricane Ivan, a Category V hurricane that significantly affected Caribbean Utilities' distribution system. Prior to Hurricane Ivan, Caribbean Utilities served over 21,000 customers with an installed capacity of 123 MW and met a peak load of 85 MW. As of November 2004, reconstruction and repairs to the Company's infrastructure as a result of the hurricane were sufficient to restore service to all customers ready to receive such service. Caribbean Utilities has US$100 million of insurance coverage, including business interruption coverage, with a 24-month indemnity period. The aggregate annual energy sold by Caribbean Utilities was 450 GWh for the fiscal year ended April 30, 2004.

Power Supply

Caribbean Utilities relies upon diesel generation to produce electricity for the Island of Grand Cayman. The Island has neither hydroelectric potential nor inherent thermal resources and Caribbean Utilities must rely upon diesel fuel imported to Grand Cayman primarily from refineries in the Caribbean and the Gulf of Mexico. The fuel is shipped by pipeline from suppliers' tanker terminals to Caribbean Utilities' centralized generating plant located on the outskirts of George Town.

Caribbean Utilities' system is comprised of 18 generating units, which include 16 diesel units, 1 gas turbine and 1 steam turbine, with a combined capacity of 123 MW. Generation expansion planning by Caribbean Utilities is primarily based on historical growth trends and planned major commercial developments. Caribbean Utilities will require the installation of additional generating capacity and new transformer substations if growth continues at assumed rates. Limits prescribed by the Licence dictate the minimum and maximum reserve generating capacity that the Company must maintain to ensure a reliable supply of electricity after allowance for breakdown and scheduled maintenance.

Regulation

Caribbean Utilities operates the only public electric utility on the Island of Grand Cayman, Cayman Islands pursuant to a 25-year exclusive Licence from the Government of the Cayman Islands, expiring in 2011. The Licence incorporates a schedule of customer tariffs to which the Company must adhere until such time as an amendment to such rates is effected in accordance with the terms of the Licence. There is provision in the Licence for customer tariffs to be adjusted upward or downward each year to provide Caribbean Utilities with a rate of return of 15 per cent on the allowable assets that comprise its rate base, which is fixed for the term of the Licence.

Caribbean Utilities submitted a proposal in July 2002 to extend its current Licence and replace the 15 per cent return on rate base mechanism for adjusting consumer rates with a price cap mechanism based on published consumer price indices. On June 16, 2004, Caribbean Utilities and the Government of the Cayman Islands reached a tentative non-binding agreement to extend the operating Licence to 2024. The Licence extension included a change in the rate setting regulation that will now provide for a price cap based on an inflation index. Following Hurricane Ivan in September 2004, the non-binding tentative agreement signed in June 2004 expired. Caribbean Utilities will meet with the Government of the Cayman Islands at the appropriate time to assess the status of the licence renewal negotiations. Caribbean Utilities continues to operate under its existing Licence, which expires in 2011.

In March 2005, the Government of the Cayman Islands passed the Law in the Legislative Assembly that purports to establish a new regulatory and licencing regime for the electricity industry in the Cayman Islands. Caribbean Utilities anticipates that the Law will be formerly enacted and published in April 2005. The Company is currently assessing any impact that the Law will have on the existing contractual rights and obligations between Caribbean Utilities and the Government under its existing Licence.

Human Resources

Caribbean Utilities has approximately 200 non-unionized full-time employees, 90 per cent of whom are Caymanian.

Environmental Matters

There are environmental risks associated with Caribbean Utilities' operations, such as risks involved in the storage and handling of diesel fuel and emissions resulting from the burning of diesel fuel and the disposal of waste oil. Although environmental regulations in the Cayman Islands are less onerous than those in North America, Caribbean Utilities believes it acts responsibly in environmental matters and continues to monitor its operations in this regard.

Caribbean Utilities has implemented an ISO 14001 environmental management system, for which it received certification in May 2004. Caribbean Utilities launched several major environmental initiatives throughout the ISO 14001 certification process, including the implementation of an EMS, as required by the standard. Caribbean Utilities is the only organization in the Cayman Islands to receive ISO 14001 certification.

Caribbean Utilities continues to promote its Energy Smart program with the objective of educating its customers about energy efficiency and conservation at home and in the workplace. Caribbean Utilities has identified exhaust emissions, oily waste and noise levels as 3 areas of environmental priority as a result of previous and ongoing studies and investigations.

Non-regulated – Fortis Generation

Annual energy sales from non-regulated generation assets for 2004 were 1,028 GWh compared to 869 GWh last year. Revenue was $69.2 million in 2004 compared to $57.1 million last year.

The following chart compares the composition of the 2004 and 2003 revenue and energy sales by location:

Fortis Generation Revenue and Energy Sales by Location				
	Revenue Per cent		GWh Sales per cent	
	2004	2003	2004	2003
Ontario	**55.5**	71.3	**70.1**	81.1
Belize	**14.8**	18.4	**6.1**	7.0
Central Newfoundland	**22.1**	2.3	**14.8**	2.0
Upper New York State	**6.0**	8.0	**6.7**	9.9
British Columbia	**1.6**	-	**2.3**	-
Total	**100.0**	100.0	**100.0**	100.0

3.8 Ontario

Non-regulated generation operations in Ontario include the operations of FortisOntario Inc. and FortisOntario Generation. FortisOntario Inc. owns and operates the 75-MW Rankine Generating

Station at Niagara Falls and the 5-MW CDH gas-fired cogeneration plant that provides district heating to 16 commercial customers in Cornwall. FortisOntario Generation consists of 6 small hydroelectric generating stations, which were originally acquired as Granite Power Distribution and Rideau Falls, with a combined capacity of approximately 8 MW.

On April 14, 1999, FortisOntario became the first Ontario-based company to be awarded a licence by the FERC to market energy in the United States of America. The FERC licence provides FortisOntario with an alternative market for the sale of electricity should problems arise in the functioning of the wholesale market in Ontario.

In relation to the entitlement for the 75-MW Rankine Generating Station, energy provided by a water and power exchange agreement with OPGI, totaled 655 GWh in 2004. Under this agreement, water, which would otherwise be used at FortisOntario Inc.'s Rankine Generating Station, is diverted to OPGI's Sir Adam Beck hydro plants where it can produce substantially more energy due to the relative locations on the Niagara River of the OPGI and FortisOntario Inc.'s generating stations. FortisOntario Inc. receives energy from OPGI that is essentially equivalent to that which would have been generated at the Rankine Generating Station from the same water supply.

Up to February 18, 2005, the water agreement, formally entered into in 1971, was automatically renewed on a yearly basis unless terminated by written notice given by either party prior to the end of March in each year. On February 18, 2005, FortisOntario Inc. completed the Niagara Exchange Agreement with OPGI addressing the future disposition of FortisOntario Inc.'s water rights and facilities on the Niagara River. The Niagara Exchange Agreement facilitates the firm and irrevocable exchange of 75 MW of wholesale electric power supply to FortisOntario Inc. from OPGI until April 30, 2009 in exchange for the transfer of FortisOntario Inc.'s water entitlement to OPGI. FortisOntario Inc. also received a payment of $10 million from OPGI resulting from the settlement of other contractual matters.

The energy from the 5-MW CDH plant is sold to Cornwall Electric. The energy from the 6-MW plants in Gananoque is sold to Canadian Niagara Power and energy from the Rideau 2-MW plant is sold to the market.

3.9 Belize

Non-regulated generation operations in Belize consist of the operations of BECOL. BECOL operates the 25-MW Mollejon hydroelectric facility and sells its entire output to Belize Electricity under a 50-year Power Purchase Agreement and Franchise Agreement. Under these agreements, the Mollejon hydroelectric facility will be transferred to the Government of Belize in 2037 after which it is to be leased by BECOL for a further 15 years. The Franchise Agreement grants BECOL the right to use the water in the Macal River, upstream of the Mollejon hydroelectric facility, 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 of Belize warrants that there is no limitation upon the repatriation or free exchange of funds.

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 owned by the Social Security Board of Belize, a statutory body controlled by the Government of Belize. In November 1999, Dominion Energy Inc. sold all its interest in BECOL to Duke Energy International, which in turn sold this interest to Fortis in January 2001. The Social Security Board's remaining 5 per cent interest held in BECOL was acquired by Fortis in May 2004.

BECOL 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-river hydroelectric plant at Mollejon and a 115-kilovolt transmission line which was later sold to Belize Electricity. The Mollejon hydroelectric facility was developed under a build, own, operate and transfer arrangement with the Government of Belize. The Mollejon hydroelectric facility was commissioned with all units operational in November 1995 and began commercial operations in April 1996. BECOL currently employs 18 full-time personnel, none of whom is a participant in a collective agreement.

BECOL commenced construction of the Chalillo Project in May 2003 following approval by the PUC. The US$30 million development is an upstream storage and hydroelectric generating facility that is expected to increase BECOL's energy production from an average of 80 GWh to 170 GWh. Construction, which had been delayed by a series of legal challenges by an environmental group, is scheduled for completion in the second half of 2005.

BECOL is a leader in environmental management in Belize and made its operations compliant with the ISO 14001 international environmental standards in 2002. Regular audits by external environmental auditors are planned to ensure continued compliance.

3.10 Central Newfoundland

Non-regulated generation operations in Central Newfoundland consist of Central Newfoundland Energy, a non-regulated, wholly owned subsidiary of Fortis. Central Newfoundland Energy holds a 51 per cent interest in the Exploits Partnership Project, with Abitibi-Consolidated holding the remaining 49 per cent. The Exploits Partnership was established in 2001 to develop additional capacity at Abitibi-Consolidated's hydroelectric generating plant at Grand Falls-Windsor and to redevelop the forestry company's 50-hertz hydroelectric generating plant at Bishop's Falls, in central Newfoundland, to increase annual energy production by approximately 140 GWh.

The $65 million Exploits Partnership Project was completed in November 2003 and commenced operations thereafter. Safety and environment were key elements in project planning and were closely monitored throughout the construction process. Abitibi-Consolidated continues to use the historical annual generation while the additional energy of approximately 140 GWh, as a result of the Exploits Partnership Project, is sold to Newfoundland Hydro under a 25-year take-or-pay power purchase agreement, which is exempt from regulation.

3.11 Upper New York State

Non-regulated generation operations in Upper New York State include the operations of 4 hydroelectric generating stations with a combined generating capacity of 23 MW operating under licences from FERC. These generating stations operate as FortisUS Energy, which became a direct subsidiary of Fortis Properties on January 1, 2005 by way of a transfer from its subsidiary, Maritime Electric. Approximately 21 per cent of the energy sales are to National Grid USA under fixed-price contracts, expiring in 2006, and the remaining energy sales are at market prices.

3.12 British Columbia

Non-regulated generation operations in British Columbia consist of the 16-MW run-of-river Walden hydroelectric power plant near Lillooet, British Columbia. This plant is a non-regulated operation that sells its entire output to BC Hydro under a long-term contract. Generation operations in British Columbia were acquired as part of FortisBC in May 2004.

Non-regulated – Fortis Properties

3.13 Fortis Properties

Fortis Properties owns and operates hotels in 6 provinces in Canada and commercial real estate in Atlantic Canada. Its holdings include 15 hotels (including the 3 hotels acquired in western Canada on February 1, 2005) with over 2,800 rooms and 2.7 million square feet of commercial real estate. Fortis Properties, a wholly owned subsidiary of Fortis, is the Corporation's vehicle for non-utility diversification and growth. In 2004, Fortis Properties derived approximately 39.3 per cent of its revenue from real estate operations and 60.7 per cent of its revenue from hotel operations. Fortis Properties derived approximately 57.9 per cent of its operating earnings from real estate operations and 42.1 per cent of its operating earnings from hotel operations.

Real Estate Division

Fortis Properties' Real Estate Division is anchored by high-quality tenants under long-term leases. Strong retention of tenants enabled the Division to end the year with 95 per cent occupancy, compared to 94.5 per cent in 2003. Rental rates remained stable during the year. In contrast, the national office occupancy was approximately 88 per cent at the end of 2004, an increase of 0.9 per cent from last year. National market occupancy has stabilized over the prior period and shows signs of a slow increase. Market supply remained stable, with new construction limited to suburban markets and development dependent upon pre-leased buildings.

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

Fortis Properties Office and Retail Properties			
Property	**Location**	**Type of Property**	**Gross Lease Area (square feet 000's)**
Fort William Building	St. John's, NL	Office	188
Cabot Place I	St. John's, NL	Office	133
TD Place	St. John's, NL	Office	93
Fortis Building	St. John's, NL	Office	82
Multiple Office	St. John's, NL	Office and Retail	70
Millbrook Mall	Corner Brook, NL	Retail	122
Fraser Mall	Gander, NL	Retail	102
Marystown Mall	Marystown, NL	Retail	87
Fortis Tower	Corner Brook, NL	Office	70
Viking Mall	St. Anthony, NL	Retail	65
Maritime Centre	Halifax, NS	Office and Retail	560
Brunswick Square	Saint John, NB	Office and Retail	511
Kings Place	Fredericton, NB	Office and Retail	291
Blue Cross Centre	Moncton, NB	Office and Retail	266
Total			**2,640**

Hospitality Division

Fortis Properties' Hospitality Division remained relatively stable in occupancy and achieved improvements in room rates in 2004. Average occupancy for 2004 was 63.9 per cent, down from 64.6 per cent in 2003, while the average daily rate increased to $110.65 from $108.32 in 2003. These improvements resulted in revenue per available room increasing for the ninth consecutive year to $70.72, a 1.1 per cent increase over last year. These achievements were realized during a year of challenges, as the economy began to rebound from events of the past years, such as SARS, while tourism was impacted by increased fuel prices and a stronger Canadian dollar. In addition, Atlantic Canada markets were further challenged by labor disruptions in the public and private sectors.

In 2004, Fortis Properties commenced an expansion of the Delta St. John's Hotel. The estimated $15 million expansion entails the addition of 128 rooms and approximately 5,000 square feet of meeting space. The expansion is scheduled for completion mid-2005. In February 2005, Fortis Properties acquired 3 Greenwood Inn-branded hotels in Calgary, Edmonton and Winnipeg.

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

Fortis Properties Hotel Properties			
Hotels	Location	Number of Guest Rooms	Conference Facilities (square feet 000's)
Delta St. John's	St. John's, NL	276	18
Holiday Inn St. John's	St. John's, NL	252	11
Mount Peyton	Grand Falls-Windsor, NL	150	4.4
Holiday Inn Corner Brook	Corner Brook, NL	102	4.9
Four Points by Sheraton Halifax	Halifax, NS	177	5.5
Days Inn Sydney	Sydney, NS	165	1.0
Delta Sydney	Sydney, NS	152	6.3
Delta Brunswick	Saint John, NB	254	12.8
Holiday Inn Kitchener	Kitchener-Waterloo, ON	183	7.8
Holiday Inn Peterborough	Peterborough, ON	153	6.6
Holiday Inn Sarnia	Point Edward, ON	151	8.4
Holiday Inn Cambridge	Cambridge, ON	143	5.8
Greenwood Inn [(1)]	Calgary, AB	213	8.5
Greenwood Inn [(1)]	Edmonton, AB	224	8.0
Greenwood Inn [(1)]	Winnipeg, MB	213	10.0
Total		**2,808**	**119**

(1) The Greenwood Inn hotels were purchased in February 2005 and were not components of Fortis Properties' operations at December 31, 2004.

Human Resources

At December 31, 2004, Fortis Properties employed over 1,300 employees. With the acquisition of the Greenwood Inn hotels in February 2005, Fortis Properties now has over 1,400 employees, of which 467 are represented by the following unions:

Fortis Properties Unions			
Property	Union	Expiry of Agreement	Number of Unionized Employees
Holiday Inn St. John's	CAW	August 31, 2006	47
Delta St. John's	UFCW	December 31, 2006	181
Holiday Inn Corner Brook	CAW	March 11, 2007	45
East Side Mario's	CAW	July 31, 2007	76
Days Inn Sydney	UFCW	December 31, 2004 [(1)]	39
Delta Sydney	CAW	September 30, 2005	79
Total			**467**

(1) Fortis Properties currently in negotiations with UFCW.

Environmental Matters

Fortis Properties is committed to meeting the requirements of environmental standards related to its business operations. In assessing new properties, all buildings and hotels must meet environmental standards. This process is also applied to existing properties, ensuring environmental compliancy of all facilities.

Environmental laws and regulations had no material effect on the capital expenditures, earnings or competitive position of Fortis Properties in 2004 and based on current law, facts and circumstances are not expected to have any material effect in the future.

4.0 RISK FACTORS

The following is a summary of the Corporation's significant business risks.

Regulation: The Corporation's key business risk is regulation. With the acquisition of FortisAlberta and FortisBC, total regulated assets were approximately 80 per cent of total operating assets at December 31, 2004. Each of the Corporation's utilities is subject to some form of regulation which can impact future revenues and earnings. Management at each operating utility is responsible for working closely with the regulators and local governments to ensure both compliance with existing regulations and the proactive management of regulatory issues.

Approximately 80 per cent of the Corporation's operating revenue and earnings are derived from regulated utility operations. These regulated operations, Newfoundland Power, Maritime Electric, FortisOntario, FortisAlberta, FortisBC and Belize Electricity, are subject to the normal uncertainties faced by regulated companies. These uncertainties include approvals by the PUB, IRAC, OEB, AEUB, BCUC and PUC, as applicable, of customer rates that permit a reasonable opportunity to recover on a timely basis the estimated costs of providing services, including fair rates of return on rate base. The ability of the utilities to recover the actual costs of providing services and to earn the approved rates of return depends on achieving the forecasts established in the rate-setting process. Upgrades of existing facilities and the addition of new facilities require the approval of the regulators. There is no assurance that capital projects perceived as required by the management of the utilities will be approved or that conditions to such approvals will not be imposed. Capital cost overruns relative to such approvals granted might not be recoverable.

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

Although Fortis considers the regulatory frameworks in each of the jurisdictions to be fair and balanced, uncertainties do exist at the present time. Regulatory frameworks in Ontario and Alberta have undergone significant changes since the deregulation of new generation and the introduction of retail competition. The regulations and market rules in these jurisdictions which govern the competitive wholesale and retail electricity markets are relatively new and there may be significant changes in these regulations and market rules that could adversely affect the ability of FortisOntario and FortisAlberta to recover their costs or to earn reasonable returns on their capital.

Currently, although all of the Corporation's regulated utilities operate under traditional cost of service methodologies, their regulators are utilizing, to varying degrees, PBR and other rate-setting mechanisms such as automatic rate of return formulas which could adversely affect the ability of the utilities to earn reasonable returns on their capital.

Generally, allowed returns for regulated utilities are exposed to changes in the general level of interest rates. Earnings of regulated utilities are exposed to changes in interest rates associated with rate-setting mechanisms. The rate of return is either directly impacted through automatic adjustment mechanisms or indirectly through regulatory determinations of what constitutes appropriate returns on investment.

Integration of FortisAlberta and FortisBC: Fortis has appointed an executive team to lead the successful integration of FortisAlberta and FortisBC within the Fortis Group. In December 2004, Fortis announced organizational changes as part of its commitment to establish separate management groups for each utility. Effective April 1, 2005, John Walker, President and Chief Executive Officer, Fortis Properties will become President and Chief Executive Officer, FortisBC. Philip Hughes continues as President and Chief Executive Officer, FortisAlberta. Fortis is also moving forward with plans to separate the operations at the 2 companies.

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

Fortis manages interest rate risk by locking in interest rates for long periods through fixed-rate debt and interest rate swap contracts. The Corporation's interest rate swap contracts are accounted for as a hedge against long-term debt. The change in the market value of the interest rate swap contracts, which will fluctuate over time, is not recognized until future interest payments are made. The Corporation's interest rate hedging programs are typically unaffected by changes in market conditions, as interest rate swaps are generally held to maturity consistent with the objective to lock in interest rate spreads on the hedged item. Approximately 87 per cent of the Corporation's long-term debt facilities have maturities beyond 5 years. The Corporation's exposure to interest rate risk is associated with short-term debt. The amount of short-term debt at December 31, 2004 was $192.9 million or 9.2 per cent of total debt.

The Corporation's earnings from its foreign investments are exposed to changes in US exchange rates. However, the Corporation has effectively decreased its exposure to foreign currency exchange rate fluctuations through the use of US dollar borrowings. As a result of the Corporation's hedging strategy, the estimated annual sensitivity to each 2-cent increase in the US exchange rate will result in a 1-cent increase in the Corporation's earnings per common share.

The Corporation's earnings are also impacted by foreign currency exchange rate fluctuations associated with the translation of its US dollar borrowings. Including the US$150 million Notes which were issued on October 28, 2004, Fortis now has US$170 million in US dollar-denominated debt. Approximately US$90 million has been designated as a hedge against the Corporation's net foreign investments. Net foreign investments of Fortis exclude its investment in Caribbean Utilities as the earnings of Caribbean Utilities are accounted for by the equity method of accounting and do not qualify for accounting purposes as a net foreign investment. As a result, the remaining US$80 million has not been designated as a hedge and the variations in the carrying value of this debt, as a result of foreign currency exchange rate fluctuations, will be recorded in income each reporting period. At the end of each reporting period, the estimated sensitivity to each 1-cent increase in the US exchange rate will result in a 2-cent decrease in the Corporation's earnings per common share.

Energy Prices: The Corporation's primary exposure to changes in energy prices relates to its non-regulated generation sales in Ontario. Electricity is sold to the IMO at market prices. The sensitivity of the Corporation's earnings to each $1 per megawatt hour change in the annual wholesale market price of electricity is expected to be approximately $0.4 million. Energy sales from the non-regulated generation assets in central Newfoundland, British Columbia and Belize are sold under long-term, fixed-price contracts.

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

Fortis also holds investments in both commercial real estate and hotel properties. The hotel properties, in particular, are subject to operating risks associated with industry fluctuations and possible downturns. The high quality of the real estate and hotel assets, strength of the hotel brands and commitment to productivity improvement reduce the exposure to industry fluctuations and possible downturns. Fortis Properties' real estate investments are also anchored by high-quality tenants under long-term leases. Exposure to lease expiries averages approximately 10 per cent per annum over the next 5 years. With the addition of the hotels in western Canada in February 2005, approximately 50 per cent of Fortis Properties' operating earnings are expected to be derived from hotel investments. Management believes that, based on the nature of its business, the Corporation is not exposed to a significant reduction in revenues. A 5 per cent decrease in revenues from the Hospitality Division would reduce earnings by approximately $1.0 million.

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

The City of Airdrie recently provided notice under the *Municipal Act* to the Corporation of its intention to purchase FortisAlberta's assets within its jurisdiction. The AEUB has subsequently made a determination that the value of such assets is approximately $20.4 million before customer contributions and adjustments. FortisAlberta is not aware of whether the City of Airdrie intends to continue the process of purchasing these assets from the Company. Except for the current initiative involving the City of Airdrie, there have been no transactions pursuant to the *Municipal Act* to date.

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

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

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

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

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

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

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

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

Liquidity Risks: Earnings from Belize Electricity and BECOL are denominated in Belizean dollars, earnings from Caribbean Utilities are denominated in Cayman Island dollars and earnings from FortisUS Energy are denominated in US dollars. As at December 31, 2004, both the Cayman Island dollar and the Belizean dollar are pegged to the US dollar: CI$1.00 = US$1.20; BZ$1.00 = US$0.50. Foreign earnings derived in currencies other than the US dollar must be converted into US dollars before repatriation, presenting temporary liquidity risks. Due to the small size and cyclical nature of the economy of Belize, conversion of local currency into US dollars may be subject to restrictions from time to time.

5.0 GENERAL DESCRIPTION OF SHARE CAPITAL STRUCTURE

Share Capital

The authorized share capital of the Corporation consists of the following:
(a) an unlimited number of Common Shares without nominal or par value;
(b) an unlimited number of First Preference Shares, without nominal or par value; and
(c) an unlimited number of Second Preference Shares, without nominal or par value.

At March 28, 2005, there were 25,684,046 Common Shares, 5,000,000 Series C First Preference Shares, 7,993,500 Series E First Preference Shares, 6,500 Series D First Preference Shares and no Second Preference Shares issued and outstanding.

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

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

Holders of the Common Shares are entitled to receive notice of and to attend all annual and special meetings of the shareholders of Fortis, other than separate meetings of holders of any other class or series of shares, and to 1 vote in respect of each Common Share held at such meetings.

The 5,000,000 Series C First Preference Shares are entitled to fixed cumulative preferential cash dividends at a rate of $1.3625 per share per annum. On or after June 10, 2010, Fortis may, at its option, redeem for cash the Series C Preference Shares, in whole at any time or in part from time to time, at $25.75 per share if redeemed before June 1, 2011, at $25.50 per share if redeemed on or after June 1, 2011 but before June 1, 2012, at $25.25 per share if redeemed on or after June 1, 2013 plus, in each case, all accrued and unpaid dividends up to but excluding the date fixed for redemption. On or after June 1, 2010, the Corporation may, at its option, convert all, or from time to time any part of the outstanding Series C First Preference Shares into fully-paid and freely-tradable common shares of the Corporation. On or after September 1, 2013, each Series C First Preference Share will be convertible at the option of the holder on the third day of September, December, March and June of each year into that number of freely tradable common shares determined by dividing $25.00, together with all accrued and unpaid dividends up to but excluding the date fixed for conversion, by the greater of $1.00 and 95 per cent of the then current market price of the common shares.

The 7,993,500 Series E First Preference Shares are entitled to fixed cumulative preferential cash dividends at a rate of $1.225 per share per annum. On or after June 1, 2013, Fortis may, at its option, redeem all, or from time to time any part of, the outstanding Series E First Preference Shares by payment in cash of a sum per redeemed share equal to $25.75 if redeemed before June 1, 2014, at $25.50 if redeemed on or after June 1, 2014 but before June 1, 2015, at $25.25 if redeemed on or after June 1, 2015 but before June 1, 2016, and at $25.00 if redeemed on or after June 1, 2016 plus, in each case, all accrued and unpaid dividends up to but excluding the date fixed for redemption. On and after June 1, 2013, the Corporation may, at its option, convert all, or from time to time any part of the outstanding Series E First Preference Shares into that number of fully-paid and freely-tradable common shares of the Corporation. On or after September 1, 2016, each Series E First Preference Share will be convertible at the option of the holder on the first business day of September, December, March and June of each year, into that number of fully-paid and freely tradable common shares determined by dividing $25.00, together with all accrued and unpaid dividends up to but excluding the date fixed for conversion, by the greater of $1.00 and 95 per cent of the then current market price of the common shares.

The 6,500 Series D First Preference Shares will yield quarterly cash dividends payable of $0.01 per share, being equivalent to 0.64 per cent per annum per Series D First Preference Share. On or after June 1, 2013, the Corporation may at its options, redeem all, or from time to time any part of the outstanding Series D First Preference Shares by payment in cash of a sum per redeemed share equal to $6.4375 if redeemed on or after June 1, 2014 but before June 1, 2015, $6.3125 if redeemed on or after June 1, 2015 but before June 1, 2016, and $6.25 if redeemed on or after June 1, 2016 plus, in each case, all accrued and unpaid dividends up to but excluding the date fixed for redemption.

Convertible Debentures

The 6.75% Unsecured Subordinated Convertible Debentures are redeemable by the Corporation at par at any time on or after March 12, 2007, and are convertible, at the option of the holder, into the Corporation's Common Shares at US$36.74 per share. The Debentures are subordinated to all other indebtedness of the Corporation, other than subordinated indebtedness ranking equally to the Debentures. There is no provision to restrict payment of dividends associated with these Debentures.

The 5.50% Unsecured Subordinated Convertible Debentures are redeemable by the Corporation at par at any time on or after May 20, 2008, and are convertible, at the option of the holder, into the Corporation's Common Shares at US$47.86 per share. The debentures are subordinated to all other indebtedness of the Corporation, other than subordinated indebtedness ranking equally to the Debentures. There is no provision to restrict payment of dividends associated with these Debentures.

Debt Covenant Restrictions on Dividend Distributions

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.

In May 2004, Fortis entered into a Revolving Credit Agreement with Scotiabank, as lead underwriter, and several lenders. This unsecured revolving term facility provides for a revolving credit line of up to $145 million. The credit agreement contains a covenant which provides that Fortis shall not declare or pay any dividends or make any other restricted payments if, immediately thereafter, consolidated debt to consolidated capitalization ratio would exceed 75 per cent, within the first year, and 70 per cent at any time thereafter.

In January 2005, Fortis entered into a Credit Agreement with Scotiabank. This revolving/ non-revolving term credit facility provides for a committed operating/acquisition line of credit of up to $50 million. The credit agreement contains a covenant which provides that Fortis shall not declare or pay any dividends or make any other restricted payments if, immediately thereafter, consolidated debt to consolidated capitalization ratio would exceed 70 per cent at any time.

6.0 DIVIDEND POLICY

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

Regular quarterly dividends at the prescribed annual rate of 5.45 per cent, or $0.34 per share, 0.64 per cent, or $0.01 per share, and 4.9 per cent, or $0.31 per share, have been paid on all of the Series C First Preference Shares, Series D First Preference Shares and Series E First Preference Shares, respectively. On December 1, 2004, the Board also declared a first quarter dividend on each such series of First Preference Shares in accordance with the applicable prescribed annual rate, in each case which was paid on March 1, 2005 to holders of record on February 4, 2005.

7.0 CREDIT RATINGS

Securities issued by Fortis and its subsidiaries are rated by Dominion Bond Rating Service ("DBRS"), Standard & Poors ("S&P") and Moody's Investors Service ("Moody's"). The ratings assigned to securities issued by Fortis are reviewed by these agencies on an ongoing basis. Credit ratings are intended to provide investors with an independent measure of credit quality of an issue of securities. At December 31, 2004, the Corporation's credit ratings were as follows:

Fortis
Credit Ratings

Company	DBRS	S&P	Moody's
Fortis	BBB (high), stable (unsecured debt)	BBB+, negative (issuer credit rating)	N/A
Newfoundland Power	A, stable (first mortgage bonds)	BBB+, negative (issuer credit rating)	N/A
Maritime Electric	N/A	BBB+, negative (issuer credit rating)	N/A
FortisAlberta	A (low), stable (senior unsecured debt)	N/A	Baa 1, stable (senior unsecured debt)
FortisBC	BBB (high), stable (secured & unsecured debt)	N/A	Baa 3, stable (secured & unsecured debt)

DBRS rates debt instruments by rating categories ranging from AAA to D, which represents the range from highest to lowest quality of such securities. The assignment of a "(high)" or "(low)" modified within each rating category indicates relative standing within such category. In January 2005, DBRS confirmed the rating on the Corporation's unsecured debentures at BBB (high). DBRS ratings for the Corporation and its subsidiaries remain stable.

S&P long-term debt ratings are on a scale that ranges from AAA to C, which represents the range from highest to lowest quality of such securities. S&P uses "+" or "-" designations to indicate the relative standing of securities within a particular rating category. In December 2004, S&P confirmed its corporate credit rating on the Corporation at BBB (+). S&P is maintaining a negative outlook on Fortis reflecting the Corporation's financial profile combined with execution risks associated with a large capital expenditure program.

Moody's long-term debt ratings are on a rating scale that ranges from Aaa to C, which represents the range from highest to lowest quality of such securities. In addition, Moody's applies numerical modifiers 1, 2 and 3 in each generic rating classification from Aa to Caa to indicate relative standing within such classification. The modifier 1 indicates that the security ranks in the higher end of its generic rating category, the modifier 2 indicates a mid-range ranking and the modifier 3 indicates that the security ranks in the lower end of its generic rating category. According to Moody's, a rating of Baa is the fourth highest of 9 major categories. Such a debt rating is assigned to debt instruments considered to be medium grade. Debt instruments rated Baa are subject to moderate credit risk and may possess certain speculative characteristics.

8.0 MANAGEMENT DISCUSSION AND ANALYSIS

Reference is made to the MD&A on pages 29 through 64 of the 2004 Annual Report to Shareholders, which pages are incorporated herein by reference. The Corporation's MD&A can be found on SEDAR at www.sedar.com.

9.0 MARKET FOR SECURITIES

The Common Shares, Series C First Preference Shares and Series E First Preference Shares of Fortis are listed on the Toronto Stock Exchange under the symbols FTS, FTS.PR.C and FTS.PR.E, respectively. The following table sets forth the reported high and low trading prices and trading volumes for the Common Shares, Series C First Preference Shares and Series E First Preference Shares on a monthly basis for the year ended December 31, 2004.

Fortis
2004 Trading Prices and Volumes

Month	Common Shares			Series C First Preference Shares			Series E First Preference Shares [1]		
	High ($)	Low ($)	Volume	High ($)	Low ($)	Volume	High ($)	Low ($)	Volume
Jan	62.50	58.00	835,394	27.45	26.80	92,440	-	-	-
Feb	63.00	60.50	534,092	27.75	26.87	88,237	-	-	-
Mar	64.91	60.05	694,457	29.80	27.05	195,818	-	-	-
Apr	64.73	61.00	487,865	28.85	26.70	113,371	-	-	-
May	63.90	58.00	498,433	27.25	26.00	36,489	-	-	-
Jun	61.35	58.05	1,251,866 [2]	27.15	26.60	302,241	-	-	-
Jul	59.53	56.90	477,054	27.20	26.70	67,253	25.34	25.10	1,511,875
Aug	60.90	59.00	413,718	27.20	26.52	56,404	26.49	25.26	806,550
Sep	61.50	59.60	595,577	28.00	26.83	61,346	27.50	26.08	968,825
Oct	64.99	61.00	503,552	28.48	27.36	51,597	26.90	26.25	109,250
Nov	67.95	63.60	565,488	29.00	27.25	33,979	27.25	26.51	715,605
Dec	70.99	65.05	455,921	28.85	27.46	20,226	28.00	26.71	317,420

(1) The Series E First Preference Shares commenced trading on July 16, 2004.

(2) Increased trading volume in June 2004 relates to the conversion of Subscription Receipts to Common Shares of the Corporation as a result of the closing of the acquisition of FortisAlberta and FortisBC.

10.0 DIRECTORS AND OFFICERS

All Directors are elected annually. In 1998, the Board adopted as a policy that Directors would normally retire after a term of 10 years or the year following their 70th birthday. The following chart sets out the name and municipality of residence of each of the Directors of Fortis and indicates their principal occupations within 5 preceding years.

Fortis Directors

Name	Principal Occupations Within 5 Preceding Years	Director Since
ANGUS A. BRUNEAU (1) (2) St. John's, Newfoundland and Labrador	Chair of the Corporation	1987
C. BRUCE CHAFE (1) St. John's, Newfoundland and Labrador	Corporate Director Mr. Chafe is a retired senior partner of Deloitte & Touche, LLP. He retired from this position in 1997.	1997
GEOFFREY F. HYLAND (2) 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) St. Phillip's, Newfoundland and Labrador	Medical Practitioner	1994
H. STANLEY MARSHALL Paradise, Newfoundland and Labrador	President and Chief Executive Officer of the Corporation	1995
JOHN S. McCALLUM (1) Winnipeg, Manitoba	Dr. McCallum is a Professor of Finance in the Faculty of Management of the University of Manitoba and has held this position since 1973.	2001
MICHAEL A. PAVEY (1) Moncton, New Brunswick	Mr. Pavey is Chief Financial Officer of Major Drilling Group International Inc. and has held this position since 1999.	2004
ROY P. RIDEOUT (2) Halifax, Nova Scotia	Corporate Director Mr. Rideout retired as Chairman and Chief Executive Officer of Clarke Inc. in October 2002. From 1993 until his appointment at Clarke Inc., he was President and Chief Operating Officer of Newfoundland Capital Corporation, the former parent of Clarke Inc.	2001

(1) Serves on the Audit Committee.
(2) Serves 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:

Fortis Officers	
Name and Municipality of Residence	**Office**
H. Stanley Marshall Paradise, Newfoundland and Labrador	President and Chief Executive Officer (1)
Barry V. Perry Mount Pearl, Newfoundland and Labrador	Vice President, Finance and Chief Financial Officer (2)
Ronald W. McCabe St. John's, Newfoundland and Labrador	General Counsel and Corporate Secretary (3)
Donna G. Hynes St. John's, Newfoundland and Labrador	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.

(2) Mr. Perry was appointed Vice President, Finance and Chief Financial Officer effective January 1, 2004. Prior to that time, Mr. Perry 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 128,989 common shares, representing 0.50 per cent of the issued and outstanding Common Shares of Fortis. The Common Shares are the only voting securities of the Corporation.

11.0 AUDIT COMMITTEE

11.1 Education and Experience

The education and experience of each Audit Committee Member that is relevant to such Member's responsibilities as a Member of the Audit Committee are set out below. As at December 31, 2004, the Audit Committee was composed of the following persons.

Fortis Audit Committee	
Name	**Relevant Education and Experience**
ANGUS A. BRUNEAU St. John's, Newfoundland and Labrador	Dr. Bruneau is a retired executive, former President & CEO of Fortis and Past Chairman of Newfoundland Power. Dr. Bruneau is also currently a director of the SNC-Lavalin Group Inc., Petro-Canada, Inco Limited, The Canadian Institute of Child Health and Sustainable Development Technology Canada.
C. BRUCE CHAFE *(Chair)* St. John's, Newfoundland and Labrador	Mr. Chafe is a Chartered Accountant. He is a retired senior partner of Deloitte & Touche LLP.
JOHN S. McCALLUM Winnipeg, Manitoba	Dr. McCallum is a Professor of Finance in the Faculty of Management of the University of Manitoba. Dr. McCallum obtained his Bachelor of Arts (Economics) and Bachelor of Science (Mathematics) from the University of Montreal in 1968 and 1965, respectively. In 1968, Dr. McCallum obtained his Master of Business Administration from Queen's University and in 1973 he obtained his Ph.D. (Finance) from the University of Toronto.
MICHAEL A. PAVEY Moncton, New Brunswick	Mr. Pavey is Chief Financial Officer of Major Drilling Group International Inc. Prior to his current position, he held senior executive positions with TransAlta Corporation. Mr. Pavey holds a Master of Business Administration from McGill University and a Bachelor of Science (Mechanical Engineering) from the University of Waterloo.

The Board has determined that each of the Audit Committee Members is independent and financially literate. Independent means free from any direct or indirect material relationship with the Corporation which could, in the view of the Board, reasonably interfere with the exercise of a Member's independent judgment as more particularly described in National Instrument 52-110 – Audit Committees. Financially literate means having the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breath and complexity of the issues that can reasonably be expected to be raised by the Corporation's financial statements.

11.2 Audit Committee Charter

Objective

The Committee shall provide assistance to the Board by overseeing the external audit of the Corporation's annual financial statements and the accounting and financial reporting and disclosure processes and policies of the Corporation.

Composition and Meetings

1. The Committee shall be appointed annually by the Board and shall be comprised of three (3) or more Directors; all of whom are Independent and Financially Literate and none of whom is a member of Management or an employee of the Corporation or of any affiliate of the Corporation.

2. The Board shall appoint a Chair of the Committee on the recommendation of the Corporation's Governance and Human Resources Committee.

3. The Committee shall meet at least four times each year and shall meet at such other times during the year as it deems appropriate. Meetings of the Committee shall be held at the call (i) of the Chair of the Committee, or (ii) of any two (2) Members, or (iii) of the External Auditor.

4. The President and Chief Executive Officer, the Vice President, Finance and Chief Financial Officer, the External Auditor and the Internal Auditor, shall receive notice of, and (unless otherwise determined by the Chair of the Committee) shall attend all meetings of the Committee.

5. At any meeting of the Committee, a quorum shall be a simple majority of the Members.

6. The Chair of the Committee shall act as chair of all meetings of the Committee at which the Chair is present. In the absence of the Chair from any meeting of the Committee, the Members present at the meeting shall appoint one of their Members to act as Chair of the meeting.

7. Unless otherwise determined by the Chair of the Committee, the Secretary of the Corporation shall act as secretary of all meetings of the Committee.

Oversight of the External Audit and the Accounting and Financial Reporting and Disclosure Processes and Policies

The primary purpose of the Committee is oversight of the Corporation's external audit and the accounting and financial reporting and disclosure processes and policies on behalf of the Board. Management of the Corporation is responsible for maintaining appropriate accounting and financial reporting principles, policies, internal controls and procedures that provide for compliance with accounting standards and applicable laws and regulations. Management is responsible for the preparation and integrity of the financial statements of the Corporation.

1. Oversight of the External Audit

The oversight of the external audit pertains to the audit of the Corporation's annual financial statements.

1.1. The Committee is responsible for the evaluation and recommendation of the External Auditor to be proposed by the Board of Directors for appointment by the shareholders.

1.2. In advance of each audit, the Committee shall review the terms of the External Auditor's engagement letter.

1.3. In advance of each audit, the Committee shall review the External Auditor's audit plan including the general approach, scope and areas subject to risk of material misstatement. The Committee has the direct responsibility for approving the External Auditor's fee.

1.4. The Committee shall review and discuss the Corporation's annual audited financial statements, together with the External Auditor's report thereon, and MD&A with Management and the External Auditor to gain reasonable assurance as to the accuracy, consistency and completeness thereof. The Committee shall meet privately with the External Auditor to discuss items of concern to the Committee or the External Auditor, including fraud, quality and acceptability of the accounting principles applied, the reasonableness of Management's judgments and estimates that could have a significant effect upon the financial statements and the clarity of the disclosures in the annual audited financial statements. The Committee shall oversee the work of the External Auditor and resolve any disagreements between Management and the External Auditor.

1.5. The Committee shall, at least annually and before the External Auditor issues its report on the annual audited financial statements, use reasonable efforts, including discussion with the External Auditor, to satisfy itself as to the External Auditor's independence as defined in the CICA Assurance Handbook Section 5751.

1.6. The Committee shall be responsible for the oversight of the Internal Auditor.

2. Oversight of the Accounting and Financial Reporting and Disclosure Processes

2.1. The Committee shall recommend the annual audited financial statements together with the MD&A for approval by the Board.

2.2. The Committee shall review the interim unaudited financial statements with the External Auditor and Management, together with the External Auditor's review engagement report thereon, to gain reasonable assurance as to the accuracy, consistency and completeness thereof.

2.3. The Committee shall approve the interim unaudited financial statements together with the interim MD&A and earnings press release on behalf of the Board and shall review and recommend approval by the Board the Corporation's Renewal Annual Information Form, Management Information Circular, any prospectus and other financial information or disclosure documents to be issued by the Corporation prior to their public release.

2.4. In discharging its oversight role, the Committee shall investigate any matter brought to its attention. The Committee will have access to all books, records, facilities and personnel of the Corporation and will have full power and authority to retain outside consultants for the purposes of assisting its investigations.

2.5. The Committee shall use reasonable efforts to satisfy itself as to the integrity of the Corporation's External Auditor and financial information systems and as to the competence of the Corporation's accounting personnel and senior financial management responsible for accounting and financial reporting.

3. Oversight of Policies

The Committee shall review and report to the Board on policies relating to the accounting and financial reporting and disclosure processes and the oversight of the external audit of the Corporation's financial statements. In particular, the Committee shall review and report on policies dealing with the:

3.1. establishment and implementation of procedures for the receipt, retention and treatment of complaints received regarding accounting, internal control or auditing matters and the confidential and anonymous submission of concerns regarding questionable accounting or auditing matters;

3.2. delegation of authority to the Committee regarding the use of financial derivative instruments and designation of hedging relationships;

3.3. Corporation's pre-approval of audit and non-audit services provided by the External Auditor; and

3.4. review, approval and monitoring of hiring personnel from the External Auditor.

Other

The Committee shall review and assess the adequacy of this mandate annually and recommend any proposed changes to the Governance and Human Resources Committee.

The Committee shall perform such other functions as may from time to time be assigned to the Committee by the Board.

Reporting

The Chair of the Committee, or another designated Member, shall report to the Board at each regular meeting on those matters which were dealt with by the Committee since the last regular meeting of the Board.

11.3 Pre-approval Policies and Procedures

The Audit Committee has established a policy which requires pre-approval of all audit and non-audit services provided to the Corporation and its subsidiaries by the Corporation's external auditor. The Pre-approval of Audit and Non-Audit Services Policy describes the services which may be contracted from the external auditor and the limitations and authorization procedures related thereto. This policy defines services such as bookkeeping, valuations, internal audit and management functions which may not be contracted from the external auditor and establishes an annual limit for permissible non-audit services not greater than the total fee for audit services. Audit Committee pre-approval is required for all audit and non-audit services.

11.4 External Auditor Service Fees

The fees paid by the Corporation to Ernst & Young LLP, the Corporation's External Auditors, during each of the last 2 fiscal years for audit, audit-related, tax and non-audit services were as follows:

Fortis External Auditor Service Fees		
Ernst & Young LLP	**2004**	**2003**
Audit Fees	$595,419	$612,400
Audit-related Fees	111,780	283,110
Tax Fees	49,116	100,470
Non-audit Fees	-	-
Total	**$756,315**	**$995,980**

12.0 TRANSFER AGENT AND REGISTRAR

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

13.0 AUDITORS

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

14.0 ADDITIONAL INFORMATION

Additional information relating to the Corporation may be found on SEDAR at www.sedar.com.

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 28, 2005 for the May 11, 2005 Annual Meeting of Shareholders. Additional financial information is also provided in the comparative financial statements for the year ended December 31, 2004, and MD&A of such financial results.

Requests for additional copies of the above mentioned documents as well as the 2004 Renewal Annual Information Form should be directed to the Corporate Secretary, Fortis, P.O. Box 8837, St. John's, Newfoundland and Labrador, A1B 3T2 (telephone: 709.737.2800). In addition, such documentation and additional information relating to the Corporation is contained on the Internet at the Corporation’s website at www.fortisinc.com and at an Internet site maintained by the Canadian Securities Administrators at www.sedar.com.