



FIRST QUARTER 2007

powering **performance**

Dear Shareholder:

Earnings applicable to common shares were \$41.5 million, or \$0.38 per common share, for the first quarter of 2007, up \$4.9 million from earnings of \$36.6 million, or \$0.35 per common share, for the first quarter of 2006. Excluding a \$2.4 million net charge associated with the disposal of a steam-turbine system at Caribbean Utilities, earnings were \$7.3 million higher quarter over quarter.

The growth in earnings was attributable primarily to FortisAlberta, Belize Electricity and Fortis Turks and Caicos and increased hydroelectric production in Belize.

Canadian Regulated Utilities delivered earnings of \$38.0 million for the first quarter of 2007, up \$2.9 million from earnings of \$35.1 million for the same quarter last year, primarily driven by increased earnings at FortisAlberta associated with electricity sales growth and lower corporate taxes.

Effective January 1, 2007, the allowed rates of return on common equity (“ROEs”) for FortisAlberta, FortisBC and Newfoundland Power were lowered due to declining long-term Canada bond yields. Strong rate base growth at the western Canadian electric utilities during 2007 is expected to more than offset the impact of the lower allowed ROEs while earnings at Newfoundland Power in 2007 are expected to be slightly lower than earnings in 2006.

Caribbean Regulated Utilities contributed earnings of \$4.1 million for the first quarter, up \$1.0 million from earnings of \$3.1 million for the first quarter last year. Excluding a \$2.4 million net charge associated with the disposal of a steam-turbine system at Caribbean Utilities, earnings from Caribbean Regulated Utilities were \$3.4 million higher due to contributions from Fortis Turks and Caicos, acquired in August 2006, and electricity sales growth and decreased finance charges at Belize Electricity. Beginning with the first quarter of 2007, Fortis began consolidating Caribbean Utilities’ earnings on a two-month lag basis as a result of owning a controlling interest in the Company. In November 2006, Fortis acquired an additional approximate 16 per cent interest in Caribbean Utilities, increasing the Corporation’s ownership to approximately 54 per cent.

Non-Regulated Fortis Generation contributed earnings of \$7.3 million for the first quarter compared to \$5.4 million for the same quarter last year, primarily driven by increased hydroelectric production in Belize and higher average wholesale energy prices in Ontario. Hydroelectric production in Belize was 44 gigawatt hours (“GWh”) for the first quarter of 2007 compared to 27 GWh for the first quarter last year. The average wholesale energy price per megawatt hour in Ontario was \$52.61 for the first quarter compared to \$50.98 during the same quarter last year.

Fortis Properties’ earnings of \$1.8 million for the quarter were \$0.3 million higher than for the same quarter last year, significantly due to contributions from the four hotels acquired in western Canada on November 1, 2006.

Corporate expenses were \$9.7 million for the first quarter compared to \$8.5 million for the same quarter last year. The increase was primarily due to higher finance charges associated with increased borrowings in support of recent acquisitions and dividends on preference shares issued in September 2006.

On February 26, 2007, Fortis entered into an agreement to acquire all of the outstanding shares of Terasen Inc. (“Terasen”) from a wholly owned subsidiary of Kinder Morgan, Inc. for \$3.7 billion. Terasen is the principal natural gas distribution utility in British Columbia, serving approximately 900,000 customers, or



95 per cent of natural gas users in the province. The acquisition is expected to close during the second quarter of 2007. On April 30, 2007, the British Columbia Utilities Commission approved the acquisition. The remaining significant closing condition of the acquisition is the requirement that Kinder Morgan, Inc. separate its petroleum pipeline operations from Terasen, leaving only the natural gas distribution business which is operated by Terasen Gas.

To finance a significant portion of the Terasen acquisition, Fortis sold 44,275,000 Subscription Receipts on March 15, 2007 resulting in gross proceeds to the Corporation of \$1.15 billion. These gross proceeds are being held by an escrow agent pending satisfaction of closing conditions. Each Subscription Receipt entitles the holder thereof to receive, on satisfaction of the closing conditions, one Common Share of Fortis.

Our expansion into the gas distribution business will add a new business segment and double the regulated rate base of Fortis to approximately \$6 billion. The acquisition makes Fortis the largest investor-owned gas and electric distribution utility in Canada. These are high-quality assets located in a region with strong economic growth. The Terasen acquisition is expected to be accretive to earnings in the first year.

Electric utility capital expenditures, before customer contributions, were \$134.2 million for the first quarter. Electric utility capital expenditures for 2007 are forecast to be approximately \$631 million and are being driven largely by FortisAlberta and FortisBC to meet customer growth and to enhance the reliability of electricity systems.

On January 18, 2007, Fortis issued 5,170,000 Common Shares for gross proceeds of approximately \$150 million. The net proceeds of the offering were used to repay indebtedness incurred for acquisitions in 2006, to support the capital programs of the Corporation's regulated electric utilities in western Canada and for general corporate purposes.

Commencing with the second quarter dividend payable on June 1, 2007, the quarterly common share dividend has increased 10.5 per cent to 21 cents per common share from 19 cents per common share. Fortis has increased its annual dividend payment for 34 consecutive years, the longest record of any public corporation in Canada.

Going forward, organic earnings growth will be driven by significant infrastructure investment at our regulated electric utilities in western Canada and at our regulated and non-regulated utilities in the Caribbean. We remain focused on doing what we do best - operating efficient utilities while meeting the growing needs of our customers. Fortis will continue to seek regulated utility acquisitions in Canada, the Caribbean and the United States that provide opportunities to continue to grow our business profitably. We will also pursue growth in our non-regulated business in support of our regulated utility growth strategy.



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

Fortis Inc. Interim Management Discussion and Analysis

For the three months ended March 31, 2007

Dated May 3, 2007

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

Fortis includes forward-looking statements in this material which reflect management’s expectations regarding the Corporation’s future growth, results of operations, performance, business prospects and opportunities. Wherever possible, words such as “anticipate”, “believe”, “expects”, “intend” and similar expressions have been used to identify the forward-looking statements. These statements reflect management’s current beliefs and are based on information currently available to the Corporation’s management. Certain material factors or assumptions have been applied in drawing the conclusions contained in the forward-looking statements. These factors or assumptions are subject to inherent risks and uncertainties surrounding future expectations generally. Such risk factors or assumptions include, but are not limited to, regulation, completion of the acquisition and integration of Terasen Gas, energy prices, general economic conditions, weather, derivatives and hedging, capital resources, loss of service area, licences and permits, environment, insurance, labour relations, human resources and liquidity risk. Fortis cautions readers that a number of factors could cause actual results, performance or achievements to differ materially from the results discussed or implied in the forward-looking statements. These factors should be considered carefully and undue reliance should not be placed on the forward-looking statements. For additional information with respect to certain of these risks or factors, reference should be made to the Corporation’s continuous disclosure materials filed from time to time with Canadian securities regulatory authorities including those factors described under the heading “Business Risk Management” in the Management Discussion and Analysis for the year ended December 31, 2006 and in the Management Discussion and Analysis for the 3 months ended March 31, 2007. The Corporation disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Fortis is principally a diversified, international distribution utility holding company with investments primarily in regulated distribution utilities in Canada and the Caribbean region. The Corporation serves more than 1,000,000 electricity customers and meets a peak demand of approximately 5,100 megawatts (“MW”). Fortis also owns and operates non-regulated generation assets, commercial real estate and hotels.

The key goals of the Corporation’s regulated utilities are to operate sound distribution systems and to deliver safe, reliable electricity to customers at reasonable rates. The Corporation’s core business is highly regulated. It is segmented by franchise area and, depending on regulatory requirements, by the nature of the assets. The operating and reporting segments of the Corporation are: (i) Regulated Utilities - Canadian, (ii) Regulated Utilities - Caribbean, (iii) Non-Regulated - Fortis Generation, (iv) Non-Regulated - Fortis Properties, and (v) Corporate. The Corporation’s Canadian regulated utilities operate in 5 provinces, making Fortis the leader in its business segment in Canada. The Corporation’s Regulated Utilities - Canadian operating segment is comprised of FortisAlberta, FortisBC, Newfoundland Power, FortisOntario and Maritime Electric on Prince Edward Island. The Corporation’s Regulated Utilities - Caribbean operating segment is comprised of Belize Electricity, in which Fortis holds a 70.1 per cent controlling interest; Caribbean Utilities, the sole provider of electricity on Grand Cayman, in which Fortis holds an approximate 54 per cent controlling interest; and Fortis Turks and Caicos. The earnings of the Corporation’s regulated utilities are primarily determined under traditional cost of service and rate of return methodologies. Earnings of the Canadian regulated utilities are generally exposed to changes in interest rates associated with the rate-setting mechanisms.

The Corporation’s non-regulated generation assets operate in 3 countries with a combined generating capacity of 195 MW, principally hydroelectric. The Corporation, through its non-regulated subsidiary Fortis Properties, owns and operates 18 hotels with more than 3,200 rooms in 7 Canadian provinces and 2.7 million square feet of commercial real estate in Atlantic Canada.

BUSINESS ACQUISITION

On February 26, 2007, Fortis entered into an agreement (the “Acquisition Agreement”) with Kinder Morgan, Inc. (NYSE:KMI), a US energy transportation, storage and distribution company based in Houston, Texas, for the purchase of the gas distribution business of Terasen Inc., referred to as Terasen Gas, through the purchase of all of the issued and outstanding shares of Terasen Inc. for aggregate consideration of \$3.7 billion, including the assumption of approximately \$2.3 billion of consolidated debt. Terasen Gas is the principal natural gas distribution utility in British Columbia, serving approximately 900,000 customers, or 95 per cent of natural gas users in the province. The closing of the acquisition is expected to occur during the second quarter of 2007. On March 20, 2007, Fortis received a no-action letter from the Competition Bureau of Canada in respect of the acquisition of Terasen Gas. The no-action letter confirms the finding of the Commissioner of Competition that no grounds exist at this time for the Commissioner to initiate proceedings before the Competition Tribunal under the merger provisions of the *Competition Act* (Canada) in respect of this transaction. The granting of this no-action letter satisfies one of the closing conditions in the Acquisition Agreement between Fortis and Kinder Morgan, Inc. On April 30, 2007, the British Columbia Utilities Commission (“BCUC”) approved the acquisition. The remaining significant closing condition of the acquisition is the requirement that Kinder Morgan, Inc. separate its petroleum operations from Terasen Inc., leaving only the natural gas distribution business which is operated by Terasen Gas.

Fortis has also obtained a commitment from Canadian Imperial Bank of Commerce providing for an aggregate of \$1.425 billion non-revolving term credit facilities in favour of Fortis to fund, if necessary, the full cash purchase price for the acquisition. The completion of a \$1.15 billion Subscription Receipt offering (refer to Subscription Receipt Offering below) has reduced the expected funds to be advanced under the acquisition credit facilities upon close of the acquisition to approximately \$300 million.

SUBSCRIPTION RECEIPT OFFERING

On March 15, 2007, to finance a significant portion of the acquisition, Fortis sold 44,275,000 Subscription Receipts through a bought deal offering underwritten by a syndicate of underwriters led by CIBC World Markets Inc., Scotia Capital Inc. and TD Securities Inc. (collectively the “Underwriters”), resulting in gross proceeds to the Corporation of \$1,151,150,000. Fortis entered into an agreement, on February 26, 2007, with the Underwriters under which they agreed to purchase from Fortis and sell to the public 38,500,000 Subscription Receipts at \$26.00 each for gross proceeds of \$1,001,000,000 to the Corporation. The Underwriters exercised their over-allotment option and purchased an additional 5,775,000 Subscription Receipts at a purchase price of \$26.00 each for gross proceeds from the over-allotment option of \$150,150,000 to the Corporation. The Subscription Receipts began trading on the Toronto Stock Exchange under the symbol FTS.R on March 15, 2007.

The gross proceeds from the sale of Subscription Receipts are being held by an escrow agent pending fulfillment or waiver of all other outstanding conditions precedent to closing the acquisition. Each Subscription Receipt will entitle the holder thereof to receive, on satisfaction of the closing conditions, and without payment of additional consideration, one Common Share of Fortis and a cash payment equal to the dividends declared on Fortis Common Shares to holders of record during the period from March 15, 2007 to the date of issuance of the Common Shares in respect of the Subscription Receipts.

In the event that the closing conditions are not satisfied by November 30, 2007, or if the Acquisition Agreement is terminated prior to such time, the holders of Subscription Receipts will be entitled to receive an amount equal to the full subscription price thereof plus their pro rata share of the interest earned or income generated on such amount.

FINANCIAL HIGHLIGHTS

Fortis has adopted a strategy of profitable growth with earnings per common share as the primary measure of performance. Key financial highlights, including segmented earnings, for the first quarters ended March 31, 2007 and March 31, 2006 are provided in the table below. The table is followed by a detailed discussion of the financial results of the Corporation's segments.

Financial Highlights (Unaudited)			
Quarter Ended March 31st			
<i>(\$ millions, except earnings per common share amounts and common shares outstanding)</i>	2007	2006	Variance
Revenue and equity income	483.0	390.8	92.2
Cash flow from operations	93.6	49.4	44.2
Net earnings applicable to common shares	41.5	36.6	4.9
Basic earnings per common share (\$)	0.38	0.35	0.03
Diluted earnings per common share (\$)	0.35	0.34	0.01
Weighted average # of common shares outstanding (millions)	109.4	103.3	6.1
Segmented Net Earnings			
FortisAlberta	11.9	9.5	2.4
FortisBC ⁽¹⁾	11.7	11.8	(0.1)
Newfoundland Power	10.5	10.7	(0.2)
Maritime Electric	2.6	2.1	0.5
FortisOntario ⁽²⁾	1.3	1.0	0.3
Regulated Utilities - Canadian	38.0	35.1	2.9
Belize Electricity	2.7	1.5	1.2
Caribbean Utilities ⁽³⁾	(0.4)	1.6	(2.0)
Fortis Turks and Caicos ⁽⁴⁾	1.8	-	1.8
Regulated Utilities - Caribbean	4.1	3.1	1.0
Total Regulated Utilities	42.1	38.2	3.9
Non-Regulated - Fortis Generation ⁽⁵⁾	7.3	5.4	1.9
Non-Regulated - Fortis Properties	1.8	1.5	0.3
Corporate	(9.7)	(8.5)	(1.2)
Net earnings applicable to common shares	41.5	36.6	4.9
<p>⁽¹⁾ Includes the regulated operations of FortisBC Inc. and non-regulated operating, maintenance and management services related to the Waneta, Brilliant and the Arrow Lakes hydroelectric plants and the distribution system owned by the City of Kelowna. Also includes the former Princeton Light and Power Company, Limited ("PLP"), but excludes the non-regulated generation operations of FortisBC Inc.'s wholly owned partnership, Walden Power Partnership. Financial results for PLP are included in the FortisBC segmented results from May 31, 2005, the date of acquisition of PLP by Fortis through an indirect wholly owned subsidiary. Effective January 1, 2007, PLP was amalgamated with FortisBC Inc. as part of an internal corporate reorganization.</p> <p>⁽²⁾ FortisOntario includes Canadian Niagara Power Inc. ("Canadian Niagara Power") and Cornwall Street Railway, Light and Power Company, Limited ("Cornwall Electric").</p> <p>⁽³⁾ On November 7, 2006, Fortis acquired an additional approximate 16 per cent interest in Caribbean Utilities and now owns approximately 54 per cent of the Company. Caribbean Utilities' balance sheet at November 7, 2006 was consolidated in the December 31, 2006 balance sheet of Fortis. Beginning with the first quarter of 2007, Fortis is consolidating Caribbean Utilities' financial statements on a 2-month lag basis. During 2006, the statements of earnings of Fortis reflected the Corporation's approximate 37 per cent interest in Caribbean Utilities, previously accounted for on an equity basis on a 2-month lag.</p> <p>⁽⁴⁾ P.P.C. Limited and Atlantic Equipment & Power (Turks and Caicos) Ltd. (collectively referred to as "Fortis Turks and Caicos") were acquired on August 28, 2006.</p> <p>⁽⁵⁾ Includes the operations of non-regulated generating assets in Belize, Ontario, central Newfoundland, British Columbia and Upper New York State.</p>			

REGULATED UTILITIES - CANADIAN

FortisAlberta

FortisAlberta Financial Highlights (Unaudited) Quarter Ended March 31st			
	2007	2006	Variance
Energy Deliveries (GWh)	3,945	3,754	191
<i>(\$ millions)</i>			
Revenue	63.3	61.8	1.5
Operating Expenses	28.9	28.7	0.2
Amortization	18.0	15.7	2.3
Finance Charges	8.6	6.8	1.8
Corporate Tax (Recovery) Expense	(4.1)	1.1	(5.2)
Earnings	11.9	9.5	2.4

Regulation: On June 29, 2006, FortisAlberta received approval from the Alberta Energy and Utilities Board (“AEUB”) of the 2006/2007 Negotiated Settlement Agreement associated with the Company’s 2006/2007 Distribution Access Tariff Application. The 2006/2007 Negotiated Settlement Agreement provided for a distribution revenue requirement, excluding miscellaneous revenue and adjustment riders, of \$228.2 million for 2007. This translates into a 0.7 per cent distribution rate increase in 2007. The 2007 revenue requirement reflected AEUB-approved forecast operating expenses of \$100.1 million and additional operating expenses of \$13.5 million that will be collected by separate rate riders. The 2007 revenue requirement also reflected AEUB-approved forecast capital expenditures of approximately \$191.2 million, before forecast customer contributions of \$24.0 million. Additionally, the AEUB-approved 2006/2007 Negotiated Settlement Agreement included forecast contributions to Alberta Electric System Operator (“AESO”) projects of \$10.0 million in 2007.

The Company’s 2007 distribution revenue requirement, as approved in the 2006/2007 Negotiated Settlement Agreement, was based on an allowed rate of return on common equity (“ROE”) of 8.93 per cent. FortisAlberta’s allowed ROE has been reduced to 8.51 per cent, effective January 1, 2007, due to the impact of lower long-term Canada bond yields on the automatic adjustment formula used to calculate the allowed ROE. As a result of the lower allowed ROE, FortisAlberta expects it will refund approximately \$1.9 million of the revenue collected in base rates in 2007 to customers in future rates by including this refund in its 2008/2009 Distribution Access Tariff Application.

FortisAlberta expects gross capital expenditures during 2007 to increase to \$275.2 million, up from \$191.2 million as previously approved in the 2006/2007 Negotiated Settlement Agreement. The increase is primarily driven by customer growth and inflation and will be included in FortisAlberta’s 2008 rate application for the purpose of setting customer rates for that year.

On April 12, 2007, FortisAlberta filed an application with the AEUB requesting approval for the securitization of the AESO transmission deferral of approximately \$28.2 million.

FortisAlberta intends on filing its 2008/2009 Distribution Access Tariff Application during the second quarter of 2007 for AEUB approval of customer rates and capital expenditures for 2008 and 2009.

Earnings: FortisAlberta’s earnings were \$2.4 million higher quarter over quarter, driven by lower corporate income taxes and increased revenues, partially offset by higher amortization costs and finance charges.

Energy Deliveries: Energy deliveries were 191 gigawatt hours (“GWh”) higher quarter over quarter. The 5.1 per cent increase in energy deliveries was due to growth in the number of customers in the residential, farm and oilfield sectors and increased average consumption due to cooler weather experienced during the quarter compared to the same quarter last year.

Revenue: Revenue was \$1.5 million higher quarter over quarter, primarily due to the combined \$2.2 million favourable impact of increased energy deliveries and the 0.7 per cent increase in rates billed to customers, effective January 1, 2007, as a result of the AEUB-approved 2006/2007 Negotiated Settlement Agreement, increased franchise fee revenue of \$0.6 million, and \$0.2 million associated with differences in the impact of various revenue deferrals. The increase was partially offset by a \$1.5 million decrease in net transmission revenue. Net transmission revenue during the first quarter last year included the recognition of \$1.0 million related to AEUB approval of the Company's 2004 AESO Charges Deferral Account Application.

Expenses: Operating expenses were \$0.2 million higher quarter over quarter, primarily due to higher labour, employee benefit and material costs, partially offset by lower contracted manpower expenses and increased amounts charged to capital projects.

Amortization costs were \$2.3 million higher quarter over quarter, primarily due to an increase in capital assets, largely the result of load growth within FortisAlberta's service territory, combined with the impact of higher overall amortization rates that resulted from the AEUB-approved 2006/2007 Negotiated Settlement Agreement.

Finance charges were \$1.8 million higher quarter over quarter, primarily due to higher debt levels arising from the issuance of \$100 million of debentures in April 2006 and \$110 million of debentures in January 2007 to finance increased levels of capital spending required to satisfy FortisAlberta's obligations to serve its customers.

Corporate taxes were \$5.2 million lower quarter over quarter. The decrease was primarily due to increased deductions taken for corporate income tax purposes in excess of amounts taken for accounting purposes in 2007 as compared to 2006, and the impact of lower earnings before corporate taxes.

FortisBC

FortisBC Financial Highlights (Unaudited) Quarter March 31st			
	2007	2006	Variance
Electricity Sales (GWh)	879	840	39
<i>(\$ millions)</i>			
Revenue	63.6	62.7	0.9
Energy Supply Costs	20.1	19.2	0.9
Operating Expenses	16.0	15.4	0.6
Amortization	7.8	7.1	0.7
Finance Charges	6.1	5.6	0.5
Corporate Taxes	1.9	3.6	(1.7)
Earnings	11.7	11.8	(0.1)

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

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

Earnings: FortisBC's earnings were \$11.7 million during the quarter, comparable to the same quarter last year.

Electricity Sales: Electricity sales were 39 GWh higher quarter over quarter. The 4.6 per cent increase in electricity sales was primarily attributable to continued customer growth in the Okanagan area and a reduction in the estimate of electrical system losses. During the first quarter of 2007, an analysis of losses on the electrical system was carried out resulting in a reduction of the estimate of system losses, effective January 1, 2007. The reduction in the system losses reflects efficiency improvements created by the Company's ongoing capital program of upgrading and replacing generation, transmission and distribution systems, as well as refinement in the estimation process.

Revenue: Revenue was \$0.9 million higher quarter over quarter, primarily due to the 1.2 per cent increase in rates billed to customers, effective January 1, 2007, the accrual of the 2.1 per cent increase in electricity rates to be collected from customers in 2008 and customer growth.

Expenses: Energy supply costs were \$0.9 million higher quarter over quarter as a result of increased electricity sales, higher average power purchase prices and a higher proportion of purchased energy versus energy generated from Company-owned hydroelectric generating plants.

Operating expenses were \$0.6 million higher quarter over quarter. The increase in operating expenses was primarily associated with lower capitalized overhead costs. During the first quarter last year, the Company changed its estimate of capitalized overhead to approximately 27.5 per cent of gross operating and maintenance expenses based on the results of an analysis of its capitalized overhead allocation methodology. In May 2006, the BCUC-approved Negotiated Settlement Agreement resulted in a capitalized overhead rate of 20 per cent of forecast gross operating and maintenance expenses. Operating expenses during the first quarter of 2007 reflected the lower 20 per cent capitalized overhead allocation rate.

Amortization costs were \$0.7 million higher quarter over quarter as a result of an increase in the capital assets of FortisBC due to its capital expenditure program, partially offset by a lower composite amortization rate used during the first quarter of 2007 compared to the same quarter last year. During the first quarter last year, the Company increased its composite amortization rate to 3.6 per cent as a result of recommendations of a depreciation study on the estimated useful life of the Company's utility capital assets. In May 2006, the BCUC-approved Negotiated Settlement Agreement resulted in a composite amortization rate of 3.2 per cent. Amortization costs during the first quarter for 2007 reflected the lower 3.2 per cent composite amortization rate.

Finance charges were \$0.5 million higher quarter over quarter, primarily due to the cost of increased borrowings to finance the Company's capital expenditure program.

Corporate taxes were \$1.7 million lower quarter over quarter, primarily due to lower earnings before corporate income taxes, increased income tax timing differences and the elimination of the Federal Large Corporations' Tax.

Newfoundland Power

Newfoundland Power Financial Highlights (Unaudited) Quarter Ended March 31st			
	2007	2006	Variance
Electricity Sales (GWh)	1,663	1,633	30
<i>(\$ millions)</i>			
Revenue	154.4	131.8	22.6
Energy Supply Costs	106.1	82.7	23.4
Operating Expenses	14.2	14.6	(0.4)
Amortization	10.3	9.8	0.5
Finance Charges	8.3	8.1	0.2
Corporate Taxes	4.9	5.8	(0.9)
Non-Controlling Interest	0.1	0.1	-
Earnings	10.5	10.7	(0.2)

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

On December 14, 2006, the Newfoundland and Labrador Board of Public Commissioners of Public Utilities ("PUB") approved, on an interim basis, an average 0.07 per cent increase in customer electricity rates, effective January 1, 2007. The increase is due to a change in the flow-through of costs from Newfoundland and Labrador Hydro Corporation ("Newfoundland Hydro"), driven by increased purchased power costs and the resulting change in the wholesale purchased power rate, partially offset by the impact of a reduction in Newfoundland Power's allowed ROE to 8.60 per cent, effective January 1, 2007. There will be no impact on Newfoundland Power's earnings in 2007 due to the change in the flow-through of costs from Newfoundland Hydro. Final approval of the average 0.07 per cent increase in customer electricity rates for 2007 was provided by the PUB on April 20, 2007.

On December 5, 2006, the PUB approved, as filed on September 13, 2006, Newfoundland Power's 2007 Amortization and Cost Deferral Application (the "2007 Application"). The approved 2007 Application allows for amortization of \$2.7 million of the 2005 unbilled revenue as revenue in 2007 to offset the income tax impact of changing to the accrual method for revenue recognition, and the deferred recovery of capital asset amortization of \$5.8 million similar to 2006. The approval also allows for the deferred recovery of \$1.1 million related to the cost of replacement energy while the Company's Rattling Brook hydroelectric generating facility is being refurbished.

The revised purchased power rate structure for 2007 will result in the Company paying more, on average, for each kilowatt hour ("kWh") of purchased power during the winter months and less for each kWh of purchased power during the summer months compared to 2006. The use by Newfoundland Power of a PUB-approved purchased power unit cost variance reserve account, to defer per unit purchased power costs in excess of or below the forecast annual per unit purchased power costs, serves to limit volatility of purchased power costs within an approved range. The amount in excess of forecast annual per unit purchased power costs at March 31, 2007 has been deferred to the reserve account and is expected to reverse in the second and third quarters of 2007. Net transfers to the reserve account for the 2007 fiscal year are expected to be minimal.

Newfoundland Power expects to file a general rate application with the PUB during the second quarter of 2007 for the purpose of setting customer rates for 2008.

Earnings: Newfoundland Power's earnings were \$10.5 million during the quarter, comparable to the same quarter last year. The impact of a lower allowed ROE was partially offset by higher electricity sales and a lower effective corporate income tax rate.

Electricity Sales: Electricity sales were 30 GWh higher quarter over quarter. The 1.8 per cent increase in electricity sales was primarily due to an increase in the number of customers.

Revenue: Revenue was \$22.6 million higher quarter over quarter, primarily due to the change in the flow-through of purchased power costs, effective January 1, 2007, and increased electricity sales, partially offset by the reduction in revenue resulting from a lower allowed ROE for 2007.

Expenses: Energy supply costs were \$23.4 million higher quarter over quarter due to the change in the flow-through of purchased power costs, effective January 1, 2007, and higher electricity sales.

Operating expenses were \$0.4 million lower quarter over quarter, primarily due to lower pension costs reflecting improved performance of pension plan assets.

Amortization costs were \$0.5 million higher quarter over quarter, primarily due to the continued investment in capital assets required to provide electricity service to customers.

Corporate taxes were \$0.9 million lower quarter over quarter, largely due to the elimination of the Federal Large Corporations' Tax and higher capital cost allowance rates.

Maritime Electric

Maritime Electric (Unaudited) Financial Highlights Quarter Ended March 31st			
	2007	2006	Variance
Electricity Sales (GWh)	272	255	17
<i>(\$ millions)</i>			
Revenue	32.7	29.9	2.8
Energy Supply Costs	19.5	18.3	1.2
Operating Expenses	3.2	3.1	0.1
Amortization	2.8	2.5	0.3
Finance Charges	2.9	2.4	0.5
Corporate Taxes	1.7	1.5	0.2
Earnings	2.6	2.1	0.5

Regulation: In November 2006, Maritime Electric filed its 2007 Capital Budget Application (“2007 Capital Budget”) for approximately \$20.5 million, before customer contributions of \$2.7 million. On March 1, 2007, the Island Regulatory and Appeals Commission (“IRAC”) approved the 2007 Capital Budget at \$19.7 million, before customer contributions of \$2.7 million.

Maritime Electric expects to file a rate application with IRAC in the fall of 2007 for the purpose of setting rates for 2008.

Earnings: Maritime Electric’s earnings were \$0.5 million higher quarter over quarter driven by the 3.35 per cent increase in basic electricity rates, effective July 1, 2006, and higher electricity sales, partially offset by increased finance charges.

Electricity Sales: Electricity sales were 17 GWh higher quarter over quarter. The 6.7 per cent increase was driven by higher energy consumption by residential customers as a result of cooler-than-normal weather and higher energy consumption by commercial customers.

Revenue: Revenue was \$2.8 million higher quarter over quarter, primarily due to increased electricity sales and a 3.35 per cent increase in basic electricity rates, effective July 1, 2006.

Expenses: Energy supply costs, adjusted for the energy cost adjustment mechanism (“ECAM”), were \$1.2 million higher quarter over quarter, primarily due to increased electricity sales. Gross energy supply costs, before ECAM adjustments, were \$11.0 million higher quarter over quarter, primarily due to increased electricity sales and higher prices paid for energy under the new Energy Purchase Agreement with New Brunswick Power (“NB Power”) that came into effect in November 2006. During the first quarter of 2007, Maritime Electric purchased the majority of its energy from NB Power under several energy purchase agreements with the balance from wind energy and on-Island oil-fired generation.

Finance charges were \$0.5 million higher quarter over quarter, primarily due to borrowings associated with the Company’s capital expenditure and operating programs and higher energy supply costs.

FortisOntario

FortisOntario Financial Highlights (Unaudited) Quarter Ended March 31st			
	2007	2006	Variance
Electricity Sales (GWh)	330	325	5
<i>(\$ millions)</i>			
Revenue	37.0	33.2	3.8
Energy Supply Costs	28.8	25.8	3.0
Operating Expenses	3.5	3.2	0.3
Amortization	1.4	1.3	0.1
Finance Charges	1.2	1.2	-
Corporate Taxes	0.8	0.7	0.1
Earnings	1.3	1.0	0.3

Regulation: In April 2007, the Ontario Energy Board (“OEB”) issued its Decision and Order concerning Canadian Niagara Power’s Electricity Distribution Rate Applications associated with its operations in Fort Erie, Port Colborne and Gananoque. The OEB-approved electricity distribution rates, effective May 1, 2007, reflect the impact of the new rate-adjustment model as stipulated under the OEB’s “Report of the Board on Cost of Capital and Second Generation Incentive Regulation for Ontario’s Electricity Distributors”. Effective May 1, 2007, the overall increase in residential customer rates, including changes to the regulated price of electricity, in Fort Erie, Port Colborne and Gananoque was 1.4 per cent, 1.5 per cent and 1.4 per cent, respectively. The OEB also ordered an oral hearing to review Canadian Niagara Power’s application related to Fort Erie and Port Colborne for recovery in customer rates of approximately \$2.0 million in extraordinary costs incurred as a result of the storm that occurred in October 2006.

Earnings: FortisOntario’s earnings were \$0.3 million higher quarter over quarter, primarily due to the increase in distribution rates, effective May 1, 2006, partially offset by increased operating expenses.

Electricity Sales: Electricity sales were 5 GWh higher quarter over quarter. The 1.5 per cent increase in electricity sales was due to the impact of increased average consumption due to cooler weather conditions experienced quarter over quarter.

Revenue: Revenue was \$3.8 million higher quarter over quarter, primarily due to the increase in distribution rates, effective May 1, 2006, higher market energy prices billed to customers and higher electricity sales.

Expenses: Energy supply costs were \$3.0 million higher quarter over quarter, primarily due to the impact of increased power purchase rates under the OEB’s Regulated Price Plan, effective May 1, 2006, higher market energy prices and increased electricity sales.

Operating expenses were \$0.3 million higher quarter over quarter, primarily due to the reallocation of \$0.2 million of pension and post-retirement benefits expenses from the Corporation’s non-regulated Ontario generation operations.

REGULATED UTILITIES - CARIBBEAN

Belize Electricity

Belize Electricity ⁽¹⁾			
Financial Highlights (Unaudited)			
Quarter Ended March 31st			
	2007	2006	Variance
Average US:CDN Exchange Rate ⁽²⁾	1.17	1.15	0.02
Electricity Sales (GWh)	87	80	7
<i>(\$ millions)</i>			
Revenue	22.2	20.1	2.1
Energy Supply Costs	12.9	11.7	1.2
Operating Expenses	2.8	2.7	0.1
Amortization	1.6	1.4	0.2
Finance Charges	0.7	1.6	(0.9)
Foreign Exchange Loss	-	0.1	(0.1)
Corporate Taxes and Non-Controlling Interest	1.5	1.1	0.4
Earnings	2.7	1.5	1.2
<i>(1) As at March 31, 2007, Fortis owned a 70.1 per cent controlling ownership interest in Belize Electricity (March 31, 2006 – 68.5 per cent).</i>			
<i>(2) The Belizean dollar is pegged to the US dollar at BZ\$2.00 = US\$1.00.</i>			

Regulation: On April 2, 2007, Belize Electricity filed its Annual Tariff Review Application (“Tariff Application”) for the annual tariff period from July 1, 2007 to June 30, 2008 proposing that the average mean electricity rate remain unchanged and proposing changes to rates for certain tariff classes and increases in certain service fees and charges. The Public Utilities Commission will make its final decision on the Tariff Application on or before June 26, 2007 for implementation effective July 1, 2007.

Earnings: Earnings contribution from Belize Electricity was \$1.2 million (BZ\$2.0 million) higher quarter over quarter. Excluding the impact of foreign currency exchange on the translation of Belize Electricity’s results into Canadian dollars, Belize Electricity’s earnings increased primarily due to electricity sales growth and lower finance charges.

Electricity Sales: Electricity sales were 7 GWh higher quarter over quarter. The 8.8 per cent increase in electricity sales was mainly due to growth in residential and commercial sales driven by improving economic growth.

Revenue: Revenue was \$2.1 million (BZ\$3.0 million) higher quarter over quarter, primarily due to electricity sales growth.

Expenses: Energy supply costs were \$1.2 million (BZ\$1.7 million) higher quarter over quarter, primarily due to electricity sales growth, partially offset by the impact of the decrease in the regulated flow-through cost of power component of electricity rates from BZ25.5 cents per kWh to BZ25.3 cents per kWh, effective July 1, 2006.

Finance charges were \$0.9 million (BZ\$1.6 million) lower quarter over quarter. The decrease was primarily due to the impact of the repayment during 2006, with proceeds from a June 2006 share offering, of certain trade payables and inter-company and external loans, and drawings on overdraft facilities incurred primarily to finance the high cost of power and fuel.

Caribbean Utilities

Caribbean Utilities Financial Highlights (Unaudited) Quarter Ended March 31st			
	2007	2006	Variance
Average US:CDN Exchange Rate ⁽¹⁾	1.17	1.17	-
Electricity Sales (GWh) ⁽²⁾	122	110	12
<i>(\$ millions)</i>			
Equity Income	-	1.6	(1.6)
Revenue	45.3	-	45.3
Energy Supply Costs	26.6	-	26.6
Operating Expenses	12.0	-	12.0
Amortization	4.6	-	4.6
Finance Charges	2.7	-	2.7
Non-Controlling Interest	(0.2)	-	(0.2)
Earnings	(0.4)	1.6	(2.0)
⁽¹⁾ The Cayman Island dollar is pegged to the US dollar at CISO.84 = US\$1.00.			
⁽²⁾ As reported by Caribbean Utilities for the 3-month periods ended January 31, 2007 and January 31, 2006			

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

Regulation: Licence renewal negotiations between Caribbean Utilities and the Government of the Cayman Islands recommenced in November 2005. The Company's Licence remains in full force and effect until January 2011 or until replaced with a new licence by mutual agreement.

Earnings: Earnings contribution from Caribbean Utilities was \$2.0 million lower quarter over quarter, primarily due to the Corporation's \$2.4 million share of a charge associated with the disposal of Caribbean Utilities' steam-turbine and boiler ("steam system") assets and increased maintenance expense.

Electricity Sales: Caribbean Utilities' electricity sales during its third quarter ended January 31, 2007 were 12 GWh higher than for the same quarter last year. The approximate 11 per cent increase in electricity sales was reflective of Grand Cayman's growing economy. Caribbean Utilities' customer base was 9 per cent higher at January 31, 2007 than at January 31, 2006, primarily due to growth in the residential sector.

Revenue: Caribbean Utilities' revenue during its third quarter ended January 31, 2007 was US\$38.7 million compared to US\$36.8 million during the same quarter last year, primarily due to increased electricity sales, partially offset by a US\$1.2 million decrease in business interruption revenue due to the final impact of business interruption insurance loss claims being recorded during Caribbean Utilities' fourth quarter ended April 30, 2006. During its third quarter ended January 31, 2007, Caribbean Utilities recorded US\$1.1 million in revenue associated with the hurricane cost recovery surcharge ("CRS"), comparable to the same quarter last year. As at January 31, 2007, approximately US\$6.9 million of direct uninsured Hurricane Ivan losses remained to be collected from customers through the CRS. The CRS is expected to remain in place until 2008.

Energy Supply Costs: Caribbean Utilities' energy supply costs during its third quarter ended January 31, 2007 were US\$22.7 million compared to US\$21.9 million during the same quarter last year, primarily due to increased production as a result of higher energy demand.

Operating expenses: Caribbean Utilities' operating expenses during its third quarter ended January 31, 2007 were US\$10.3 million compared to US\$5.0 million during the same quarter last year. The increase was driven by the charge on disposal of the Company's steam system of US\$3.7 million, increased maintenance expense of US\$1.2 million associated with the Company's generators, and increased insurance premiums and pension costs. The Company's steam system had not been operational since sustaining significant damage from Hurricane Ivan in 2004. As a result of a recent review of the Company's overall power plant system, the Company decided to restructure its power plant design and not repair the steam system resulting in the disposal of the related assets.

During its third quarter ended January 31, 2007, Caribbean Utilities entered into a new lease agreement for 5.6 MW of mobile generating capacity to meet current and summer demand until repairs are completed on existing generating units and a new 16 MW diesel-generating unit is commissioned this summer.

Amortization: Caribbean Utilities' amortization costs during its third quarter ended January 31, 2007 increased to US\$3.9 million compared to US\$3.5 million during the same quarter last year due to growth-related capital expenditures and generation assets damaged by Hurricane Ivan being brought back into service.

Finance Charges: Caribbean Utilities' finance charges during its third quarter ended January 31, 2007 were US\$2.3 million, comparable to the same quarter last year.

Fortis Turks and Caicos

Fortis Turks and Caicos Financial Highlights (Unaudited) Quarter Ended March 31st	
	2007
Average US:CDN Exchange Rate	1.17
Electricity Sales (GWh)	32
<i>(\$ millions)</i>	
Revenue	9.5
Energy Supply Costs	4.2
Operating Expenses	2.0
Amortization	1.3
Finance Charges	0.2
Earnings	1.8

Earnings: Fortis Turks and Caicos' earnings were \$1.8 million during the first quarter of 2007. The Company was acquired by Fortis, through a wholly owned subsidiary, on August 28, 2006. Therefore, there was no earnings contribution from Fortis Turks and Caicos during the first quarter of 2006. Earnings of Fortis Turks and Caicos are being favourably impacted by strong economic growth being experienced in the region.

Electricity sales: Electricity sales were 32 GWh during the quarter compared to 26 GWh during the same quarter last year, representing a 23 per cent increase. Residential sales grew approximately 26 per cent quarter over quarter while commercial sales, including sales from hotels, increased approximately 28 per cent quarter over quarter. The high level of growth was attributable to new construction primarily on the island of Providenciales. Strong electricity sales growth is expected to continue for the remainder of 2007.

During the third quarter of 2007, Fortis Turks and Caicos expects to add approximately 7 MW of generating capacity in order to keep pace with the strong customer growth.

NON-REGULATED - FORTIS GENERATION

Non-Regulated - Fortis Generation Financial Highlights (Unaudited) Quarter Ended March 31st			
Energy Sales (GWh)	2007	2006	Variance
Belize	44	27	17
Ontario	184	187	(3)
Central Newfoundland	34	38	(4)
British Columbia	3	3	-
Upper New York State	26	29	(3)
Total	291	284	7
<i>(\$ millions)</i>			
Revenue	21.2	19.3	1.9
Energy Supply Costs	2.1	1.9	0.2
Operating Expenses	4.1	4.0	0.1
Amortization	2.6	2.7	(0.1)
Finance Charges	2.4	2.7	(0.3)
Corporate Taxes	2.4	2.2	0.2
Non-Controlling Interest	0.3	0.4	(0.1)
Earnings	7.3	5.4	1.9

Earnings: Earnings from Non-Regulated - Fortis Generation were \$1.9 million higher quarter over quarter, driven by increased production in Belize and higher average wholesale energy prices in Ontario.

Energy Sales: Energy sales were 7 GWh higher quarter over quarter, primarily due to increased production in Belize resulting from higher rainfall levels and the operation of the Chalillo dam, partially offset by a decrease in production from the Corporation's other non-regulated generation assets.

Revenue: Revenue was \$1.9 million higher quarter over quarter, primarily due to increased energy sales and higher average energy prices in Ontario and Upper New York State. The average wholesale energy price per megawatt hour ("MWh") in Ontario was \$52.61 compared to \$50.98 for the same quarter last year. The average price per MWh of energy sold in Upper New York State was \$56.51 compared to \$54.34 for the same quarter last year.

Finance Charges: Finance charges were \$0.3 million lower quarter over quarter, primarily due to lower debt balances as a result of regular debt repayments.

Corporate Taxes: Corporate taxes were \$0.2 million higher quarter over quarter due to an increase in earnings before corporate taxes at the taxable jurisdictions.

NON-REGULATED - FORTIS PROPERTIES

Non-Regulated - Fortis Properties Financial Highlights (Unaudited) Quarter Ended March 31st			
<i>(\$ millions)</i>	2007	2006	Variance
Real Estate Revenue	14.2	13.6	0.6
Hospitality Revenue	25.9	21.5	4.4
Total Revenue	40.1	35.1	5.0
Operating Expenses	28.1	24.6	3.5
Amortization	3.3	2.8	0.5
Finance Charges	5.9	5.1	0.8
Corporate Taxes	1.0	1.1	(0.1)
Earnings	1.8	1.5	0.3

Earnings: Fortis Properties' earnings were \$0.3 million higher quarter over quarter, significantly due to contributions from the 4 hotels in western Canada acquired on November 1, 2006, partially offset by higher amortization costs and finance charges.

Revenue: Real estate revenue was \$0.6 million higher quarter over quarter, primarily due to the leasing of the Blue Cross Centre expansion. The occupancy rate in the Real Estate Division was 94.9 per cent as at March 31, 2007, down from 95.9 per cent as at March 31, 2006. The decrease in occupancy was primarily attributable to recent lease expiries at the Brunswick Square property in New Brunswick and vacancies at the rural Newfoundland mall properties, partially offset by almost 100 per cent occupancy of the Blue Cross Centre expansion which was not available for occupancy during the first quarter of 2006.

Hospitality revenue was \$4.4 million higher quarter over quarter, primarily due to growth in the Company's operations in western Canada and increased revenue earned from the expanded Ontario hotels. The increase was partially offset by the elimination of revenue following the sale of Days Inn Sydney in June 2006 and a decrease in revenue from the Delta St. John's Hotel. Revenue per available room ("REVPAR") for the first quarter of 2007 was \$65.48 compared to \$59.38 for the same quarter last year. The 10.3 per cent increase in REVPAR was attributable to increases in both average occupancy and average room rates.

Expenses: Operating expenses were \$3.5 million higher quarter over quarter, driven primarily by the Company's hotel operations in western Canada and the impact of expanded Ontario hotel and Blue Cross Centre properties. The increase was partially offset by the elimination of operating expenses following the sale of Days Inn Sydney in June 2006.

Amortization costs were \$0.5 million higher quarter over quarter, primarily due to a higher depreciable asset base driven by the Company's property expansions and the acquisition of hotels.

Finance charges were \$0.8 million higher quarter over quarter, primarily due to financing associated with the 4 hotels in western Canada acquired on November 1, 2006.

CORPORATE

Corporate Financial Highlights (Unaudited) Quarter Ended March 31st			
<i>(\$ millions)</i>	2007	2006	Variance
Total Revenue	3.4	2.0	1.4
Operating Expenses	2.1	2.4	(0.3)
Amortization	0.7	0.7	-
Finance Charges ⁽¹⁾	10.9	9.7	1.2
Foreign Exchange Loss	-	0.2	(0.2)
Corporate Tax Recovery	(2.1)	(2.4)	0.3
Non-Controlling Interest	-	(0.1)	0.1
Preference share dividends	1.5	-	1.5
Net Corporate Expenses	(9.7)	(8.5)	(1.2)

⁽¹⁾ Includes dividends on preference shares classified as long-term liabilities

The Corporate segment captures expense and revenue items not specifically related to any operating segment. Included in the Corporate segment are finance charges, including interest on debt incurred directly by Fortis and dividends on preference shares classified as long-term liabilities, foreign exchange gains or losses, dividends on preference shares classified as equity, other corporate expenses net of recoveries from subsidiaries, interest and miscellaneous revenues, and corporate income taxes.

Net corporate expenses were \$1.2 million higher quarter over quarter. The increase was primarily due to higher preference share dividends associated with the First Preference Shares, Series F issued on September 28, 2006 and higher finance charges due to increased drawings on corporate credit facilities and interest on US\$40 million of

unsecured subordinated convertible debentures issued in November 2006. The increase was partially offset by higher inter-company interest revenue due to increased inter-company lending.

CONSOLIDATED FINANCIAL POSITION

The following table outlines the significant changes in the consolidated balance sheets between March 31, 2007 and December 31, 2006.

Fortis Inc. Significant Changes in the Consolidated Balance Sheets (Unaudited) between March 31, 2007 and December 31, 2006		
<i>(\$ millions)</i>	Increase (Decrease)	Explanation
Deferred charges and other assets	(3.2)	The decrease primarily related to the reclassification of \$21.2 million of deferred financing costs and \$11.0 million of unamortized deferred losses associated with a previously cancelled forward interest rate swap contract to long-term debt and accumulated other comprehensive income, respectively, upon adoption of new accounting standards for Financial Instruments, Hedges and Comprehensive Income on January 1, 2007. The decrease was partially offset by \$26.8 million of deferred acquisition and Subscription Receipt issue costs associated with the pending acquisition of Terasen Gas.
Utility capital assets	54.7	The increase primarily related to \$134.2 million invested in electricity systems, less customer contributions and amortization for the 3-month period.
Short-term borrowings	(43.5)	The decrease primarily related to repayments of short-term borrowings at FortisBC, Maritime Electric, Caribbean Utilities and Fortis Properties, funded, on an interim basis, through inter-company debt as a result of proceeds from the Corporation's January 2007 Common Share issue. The decrease also related to the repayment of short-term borrowings at FortisAlberta with proceeds from the Company's long-term debt issue in January 2007.
Regulatory liabilities - current	(13.3)	The decrease primarily related to the timing of payment of municipal taxes at Newfoundland Power, combined with a decrease in the ECAM liability at Maritime Electric as a result of increased energy costs.
Long-term debt and capital lease obligations (including current portion)	(49.9)	The decrease primarily related to \$20.6 million in deferred financing costs, net of amortization during the period, reclassified from deferred charges and other assets, upon adoption of new accounting standards for Financial Instruments, Hedges and Comprehensive Income on January 1, 2007, combined with regular scheduled debt repayments during the 3-month period. The decrease also related to net repayments on long-term credit facilities of \$96.0 million, \$29.1 million and \$9.0 million by FortisAlberta, the Corporation and FortisBC, respectively, partially offset by increased net drawings on long-term credit facilities of \$16.5 million at Newfoundland Power. The decrease in long-term debt and capital lease obligations was partially offset by FortisAlberta's \$110 million senior unsecured debenture offering in January 2007.
Shareholders' equity	157.3	The increase primarily related to the \$149.9 million Common Share issue in January 2007, \$145.7 million net of after-tax expenses, combined with net earnings reported for the 3-month period, less common share dividends. The increase was partially offset by an \$8.8 million transitional adjustment to opening accumulated other comprehensive loss upon adoption of new accounting standards for Financial Instruments, Hedges and Comprehensive Income on January 1, 2007. The remainder of the increase primarily related to the issuance of common shares under the Corporation's share purchase, dividend reinvestment and stock option plans.

LIQUIDITY

The following table outlines the summary of cash flows.

Fortis Inc.			
Summary of Cash Flows (Unaudited)			
Quarter Ended March 31st			
<i>(\$ millions)</i>	2007	2006	Variance
Cash, beginning of period	40.9	33.4	7.5
Cash provided by (used in)			
Operating activities	93.6	49.4	44.2
Investing activities	(117.8)	(101.7)	(16.1)
Financing activities	26.7	40.4	(13.7)
Foreign currency impact on cash balances	(0.2)	-	(0.2)
Cash, end of period	43.2	21.5	21.7

Operating Activities: Cash flow from operations, after working capital adjustments, increased \$44.2 million quarter over quarter. The increase was driven by positive changes in working capital largely due to differences in the timing of receipt and payment of receivables and payables combined with a reduction of cash taxes paid at FortisAlberta. No cash taxes were paid at FortisAlberta during the first quarter of 2007 compared to approximately \$11 million paid during the first quarter of 2006. Cash flow from operations, after working capital adjustments, also increased quarter over quarter due to contributions from Caribbean Utilities and Fortis Turks and Caicos.

Investing Activities: Cash used in investing activities increased \$16.1 million quarter over quarter. The increase was primarily due to increased electric utility capital expenditures and deferred interim acquisition costs incurred during the first quarter of 2007 associated with the Corporation's pending acquisition of Terasen Gas. The increase was partially offset by higher contributions in aid of construction and lower capital expenditures relating to income producing properties.

Gross electric utility capital expenditures were \$134.2 million for the first quarter of 2007 compared to \$104.3 million for the same quarter last year. The increase was primarily due to increased capital spending at FortisAlberta and FortisBC and capital spending at Caribbean Utilities and Fortis Turks and Caicos. There were no capital expenditures related to Caribbean Utilities and Fortis Turks and Caicos during the first quarter of 2006 as Caribbean Utilities' financial results were recorded on an equity basis during that period and Fortis Turks and Caicos was acquired in August 2006. The increase in capital spending at FortisAlberta was driven by expenditures on vehicles, facilities, advanced metering infrastructure meters and software, partially offset by lower spending on distribution assets, primarily due to unfavourable weather conditions that slowed construction. Increased capital spending at FortisBC was driven by the need to meet customer growth and enhance system reliability.

Capital expenditures associated with income producing properties were \$3.2 million for the first quarter of 2007, a decrease of \$3.4 million from the same quarter last year. Capital expenditures during the first quarter of 2006 included expenditures related to the expansions of the Holiday Inn Sarnia, Holiday Inn Kitchener-Waterloo and the Blue Cross Centre in Moncton completed during 2006.

During the first quarter of 2007, approximately \$21.6 million of contributions in aid of construction were received compared to \$9.6 million during the same quarter last year. The increase primarily related to increased contributions associated with FortisAlberta's capital expenditure program.

Financing Activities: Cash provided by financing activities decreased \$13.7 million quarter over quarter. The decrease was primarily due to repayments on long-term committed credit facilities, deferred Subscription Receipt issue costs related to the interim financing of the Corporation's pending acquisition of Terasen Gas and increased dividends paid on Common Shares. The decrease was partially offset by gross proceeds of \$149.9 million on the issuance of 5,170,000 Common Shares of Fortis on January 18, 2007 and the issuance of \$110 million senior unsecured debentures by FortisAlberta on January 3, 2007.

A significant portion of the net proceeds from the Common Share issue was used to repay approximately \$84.1 million of existing indebtedness incurred under the Corporation's long-term committed credit facilities, primarily to fund a portion of acquisitions in 2006, to support capital expenditure programs of the Corporation's regulated electric utilities in western Canada and for general corporate purposes. The remainder of the net proceeds will be utilized to fund equity requirements of the Corporation's regulated electric utilities in western Canada during 2007, in support of their respective capital expenditure programs, and for general corporate purposes.

During the first quarter of 2007, FortisAlberta issued \$110 million of senior unsecured debentures bearing interest at 4.99 per cent and maturing in January 2047. The proceeds of the offering were used to repay existing indebtedness incurred under the Company's committed credit facility, primarily to fund capital expenditures, and for general corporate purposes.

During the first quarter of 2007, the Corporation, Newfoundland Power and FortisAlberta increased their drawings under long-term committed credit facilities by \$54.5 million, \$16.5 million and \$13.7 million, respectively. The increase in drawings under the Corporation's credit facilities related to funding, on an interim basis, business acquisition and Subscription Receipt issue costs associated with the pending acquisition of Terasen Gas, equity injections to support the capital expenditure program at FortisAlberta, and for general corporate purposes. Increased borrowings under Newfoundland Power's and FortisAlberta's long-term committed credit facilities were in support of their capital expenditure programs. During the first quarter of 2006, proceeds from long-term debt primarily related to drawings by FortisAlberta under its long-term committed credit facilities in support of its capital expenditure program. The remaining change in cash provided from financing activities quarter over quarter primarily related to the change in short-term borrowings, regular repayment of long-term debt and dividends paid on the preference shares that were issued in September 2006.

Contractual Obligations: The consolidated contractual obligations over the next 5 years and for periods thereafter, as at March 31, 2007, are outlined in the following table.

Fortis Inc. Contractual Obligations (Unaudited) as at March 31, 2007					
(\$ millions)	Total	≤ 1 year	>1-3 years	4-5 years	> 5 years
Long-term debt	2,585.4	74.9	219.1	267.0	2,024.4
Brilliant Terminal Station (“BTS”) ⁽¹⁾	67.5	2.6	5.1	5.1	54.7
Power purchase obligations					
FortisBC ⁽²⁾	2,875.1	38.1	74.6	75.0	2,687.4
FortisOntario ⁽³⁾	305.3	22.0	42.8	44.9	195.6
Maritime Electric ⁽⁴⁾	33.9	25.2	8.7	-	-
Belize Electricity ⁽⁵⁾	20.0	2.7	3.6	2.0	11.7
Capital cost ⁽⁶⁾	422.8	15.6	28.3	32.9	346.0
Joint-use asset and shared service agreements ⁽⁷⁾	64.3	2.9	7.6	6.7	47.1
Office lease – FortisBC ⁽⁸⁾	21.5	1.1	2.7	2.4	15.3
Caribbean Utilities ⁽⁹⁾	16.5	16.5	-	-	-
Operating lease obligations ⁽¹⁰⁾	17.0	4.4	7.2	5.2	0.2
Other	3.9	1.3	1.3	0.1	1.2
Total	6,433.2	207.3	401.0	441.3	5,383.6

⁽¹⁾ On July 15, 2003, FortisBC began operating the BTS under an agreement, the term of which expires in 2056 (unless the Company has earlier terminated the agreement by exercising its right, at any time after the anniversary date of the agreement in 2029, to give 36 months notice of termination). The BTS is jointly owned by the Columbia Power Corporation and the Columbia Basin Trust (the “Owners”) and is used by the Company on its own behalf and on behalf of the Owners. The agreement provides that FortisBC will pay the Owners a charge related to the recovery of the capital cost of the BTS and related operating costs.

⁽²⁾ Power purchase obligations for FortisBC include the Brilliant Power Purchase Agreement (the “BPPA”) as well as the Power Purchase Agreement with BC Hydro. On May 3, 1996, an Order was granted by the BCUC approving a 60-year BPPA for the output of the Brilliant hydroelectric plant located near Castlegar, British Columbia. The BPPA requires monthly payments based on the operation and maintenance costs and a return on capital for the plant in exchange for the specified natural flow take-or-pay amounts of power. The BPPA includes a market-related price adjustment after 30 years of the 60-year term. The Power Purchase Agreement with BC Hydro, which expires in 2013, provides for any amount of supply up to a maximum of 200 MW, but includes a take-or-pay provision based on a 5-year rolling nomination of the capacity requirements.

⁽³⁾ Power purchase obligations for FortisOntario primarily include a long-term take-or-pay contract between Cornwall Electric and Hydro-Québec Energy Marketing for the supply of electricity and capacity. The contract provides approximately 237 GWh of energy per year and up to 45 MW of capacity at any one time. The contract, which expires December 31, 2019, provides approximately one-third of Cornwall Electric’s load. Cornwall Electric also has a 2-year contract in place with Hydro-Québec Energy Marketing which expires June 30, 2008. This take-or-pay contract provides energy on an as-needed basis but charges for 100 MW of capacity at \$0.14 million per month.

⁽⁴⁾ Maritime Electric has one take-or-pay contract with NB Power for the purchase of either capacity or energy. This contract totals approximately \$33.9 million through March 31, 2008.

⁽⁵⁾ Power purchase obligations for Belize Electricity include a 15-year power purchase agreement between Belize Electricity and Hydro Maya for the supply of 3 MW of capacity, which commenced in February 2007, and a 2-year power purchase agreement between Belize Electricity and CFE of Mexico, expiring August 2008, for the supply of 15 MW of firm energy. Belize Electricity has also signed a 15-year power purchase agreement with Belize Cogeneration Energy Limited (“Belcogen”) that provides for the supply of approximately 14 MW of capacity, which is scheduled to commence in mid-2009. Belcogen has not yet commenced construction of the related bagasse-fired electric generating facility; therefore, the obligation related to the purchase power agreement with Belcogen has not been included in the Corporation’s contractual obligations.

⁽⁶⁾ Maritime Electric has entitlement to approximately 6.7 per cent of the output from the NB Power Dalhousie Generating Station and approximately 4.7 per cent from the NB Power Point Lepreau Generating Station for the life of each unit. As part of its participation agreement, Maritime Electric is required to pay its share of the capital costs of these units.

⁽⁷⁾ FortisAlberta and an Alberta transmission service provider have entered into an agreement in consideration for joint attachments of distribution facilities to the transmission system. The expiry terms of this agreement state that the agreement remains in effect until the Company no longer has attachments to the transmission facilities. Due to the unlimited term of this contract, the calculation of future payments after 2011 includes payments to the end of 20 years. However, the payments under this agreement may continue for an indefinite period of time. FortisAlberta and an Alberta transmission service provider have also entered into a number of service agreements to ensure operational efficiencies are maintained through coordinated operations. The service agreements have minimum expiry terms of 5 years from September 1, 2005 and are subject to extensions based on mutually agreeable terms.

⁽⁸⁾ Under a sale-leaseback agreement, on September 29, 1993, FortisBC began leasing its Trail, British Columbia office building for a term of 30 years. The terms of the agreement grant FortisBC repurchase options at approximately year 20 and year 28 of the lease term. On December 1, 2004, FortisBC also entered into a 5-year lease for the Kelowna, British Columbia head office. The terms of the lease allow for termination without penalty after 3 years.

⁽⁹⁾ During 2006, Caribbean Utilities entered into a project agreement for the purchase and turnkey installation of one 16-MW diesel-generating unit and auxiliary equipment. This unit is scheduled for installation to meet the summer 2007 energy demand. The contract cost is US\$18.4 million and the total estimated cost for completion of the project is US\$22.2 million. As at January 31, 2007, approximately US\$7.9 million had been spent by Caribbean Utilities related to this project.

⁽¹⁰⁾ Operating lease obligations include certain office, vehicle and equipment leases and the lease of electricity distribution assets of Port Colborne Hydro Inc.

CAPITAL RESOURCES

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

Fortis Inc.				
Capital Structure (Unaudited)				
	March 31, 2007		December 31, 2006	
	<i>(\$ millions)</i>	<i>(%)</i>	<i>(\$ millions)</i>	<i>(%)</i>
Total debt and capital lease obligations (net of cash)	2,604.3	58.1	2,700.0	61.1
Preference shares ⁽¹⁾	442.0	9.9	442.0	10.0
Common shareholders' equity	1,432.9	32.0	1,275.6	28.9
Total	4,479.2	100.0	4,417.6	100.0
⁽¹⁾ Includes preference shares classified as both long-term liabilities and equity				

The change in the Corporation's capital structure is primarily the result of the issuance in January 2007 of 5,170,000 Common Shares for gross proceeds of \$149.9 million, \$145.7 million net of after-tax expenses, combined with net earnings, less common share dividends, of \$17.6 million during the first quarter of 2007.

As at March 31, 2007, the Corporation's unsecured debt credit ratings were as follows:

Standard & Poor's ("S&P")	BBB
DBRS	BBB(high)

Upon announcement of the Corporation's pending acquisition of Terasen Gas, both S&P and DBRS have confirmed the Corporation's credit ratings.

Capital Program: The Corporation's principal business of regulated utilities is capital intensive. Capital investment in electrical infrastructure is required to ensure continued and enhanced performance, reliability and safety of the electricity systems and to meet customer growth. All costs considered to be maintenance and repairs are expensed as incurred. Costs related to replacements, upgrades and betterments of capital assets are capitalized as incurred. Gross consolidated electric utility capital expenditures of Fortis during 2007 are expected to be approximately \$631 million, of which \$134.2 million was spent during the 3-month period ended March 31, 2007. The \$21 million increase in forecast gross consolidated electric utility capital expenditures from the original estimate of \$610 million, as disclosed at December 31, 2006, is driven by the impact of load growth and inflation at FortisAlberta. Approximately 32 per cent of 2007 forecast gross utility capital expenditures is expected to be incurred to ensure the continued and enhanced performance, reliability and safety of the Corporation's generation, transmission and distribution assets, 48 per cent is expected to relate to meeting customer growth with the remaining 20 per cent expected to relate to facilities, equipment, vehicles and information technology systems. Planned capital expenditures are based on detailed forecasts such as customer demand, weather, cost of labour and materials, as well as other factors which could change and cause actual expenditures to differ from forecasts.

Capital investment at FortisAlberta and FortisBC is expected to represent approximately 66 per cent of gross consolidated electric utility capital expenditures in 2007. Capital investment at the Corporation's regulated and non-regulated utilities in the Caribbean is expected to represent approximately 18 per cent of gross consolidated electric utility capital expenditures in 2007.

A summary of forecast gross electric utility capital expenditures by segment and asset category for 2007 is illustrated in the following table.

Fortis Inc. Forecast Gross Electric Utility Capital Expenditures Year Ended December 31, 2007								
(\$ millions)	Fortis Alberta ^{(1) (2)}	FortisBC ⁽³⁾	Newfoundland Power ⁽¹⁾	Other Regulated Utilities Canadian ⁽¹⁾	Total Regulated Utilities Canadian	Regulated Utilities Caribbean	Non-Regulated	Total ⁽⁴⁾
Generation	-	21.9	20.5	2.5	44.9	32.2	16.6	93.7
Transmission	-	64.4	4.6	5.8	74.8	11.9	-	86.7
Distribution	198.5	30.3	32.3	20.6	281.7	36.0	1.3	319.0
Facilities, equipment and vehicles	54.8	16.3	4.8	1.2	77.1	19.3	-	96.4
Information technology	21.9	6.0	3.8	1.5	33.2	1.5	-	34.7
Total	275.2	138.9	66.0	31.6	511.7	100.9	17.9	630.5

⁽¹⁾ At Fortis Alberta, Newfoundland Power and Maritime Electric, forecast gross utility capital expenditures include forecast removal and site restoration expenditures, net of salvage proceeds. These net expenditures are permissible in rate base.

⁽²⁾ Excludes forecast payments of approximately \$17 million to the AESO for investment in transmission facilities

⁽³⁾ Forecast gross utility capital expenditures reflect the 2007 Capital Plan submitted to the BCUC and subsequently approved, subject to further regulatory processes on certain projects. It also includes forecast removal and site restoration expenditures, net of salvage proceeds. These net expenditures are permissible in rate base.

⁽⁴⁾ Includes forecast expenditures associated with assets under construction

Gross electric utility capital expenditures of approximately \$2.8 billion over the next 5 years will be primarily driven by Fortis Alberta, Fortis BC and the Corporation's regulated and non-regulated electric utilities in the Caribbean. The Corporation's total electric utility capital assets are expected to grow at an average annual rate between 7 per cent and 8 per cent over the next 5 years.

Fortis expects that investments in income producing properties during 2007 will total approximately \$13 million.

The cash needed to complete the capital programs is expected to be supplied by a combination of long-term and short-term borrowings, internally generated funds and the issuance of common shares and preference shares. Fortis does not anticipate any difficulties with accessing the required capital.

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

As at March 31, 2007, the Corporation and its subsidiaries had consolidated authorized lines of credit of \$963.5 million, of which \$722.8 million was unused. The following summary outlines the Corporation's credit facilities by reporting segments.

Fortis Inc. Credit Facilities (Unaudited)					
(\$ millions)	Corporate	Regulated Utilities	Fortis Properties	Total as at March 31, 2007	Total as at December 31, 2006
Total credit facilities	315.0	636.0	12.5	963.5	952.0
Credit facilities utilized					
Short-term borrowings	(2.6)	(51.0)	(0.6)	(54.2)	(97.7)
Long-term debt	(55.0)	(62.9)	-	(117.9)	(235.5)
Letters of credit outstanding	(4.6)	(62.3)	(1.7)	(68.6)	(72.1)
Credit facilities available	252.8	459.8	10.2	722.8	546.7

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

On November 27, 2006, Caribbean Utilities renegotiated its credit facilities, increasing its capital expenditures line of credit from US\$10.0 million to US\$17.0 million and increasing each of its US\$5.0 million operating line of credit and US\$5.0 million catastrophe standby loan to US\$7.5 million.

In March 2007, Maritime Electric's non-revolving unsecured credit facility was increased to \$30.0 million from \$25.0 million. In addition, the overdraft facility at Fortis Turks and Caicos was increased to US\$3.0 million from US\$2.0 million.

During the first quarter of 2007, Fortis Generation credit facilities of US\$2.0 million were terminated and upon amalgamation of PLP with FortisBC, PLP's credit facilities of \$5.4 million were terminated.

Subsequent to March 31, 2007, FortisAlberta terminated one of its \$10.0 million unsecured demand credit facilities and Maritime Electric increased its non-revolving unsecured credit facility to \$35.0 million from \$30.0 million.

OFF-BALANCE SHEET ARRANGEMENTS

Disclosure is required of all off-balance sheet arrangements such as transactions, agreements or contractual arrangements with unconsolidated entities, structured finance entities, special purpose entities or variable interest entities that are reasonably likely to materially affect liquidity or the availability of, or requirements for, capital resources. The Corporation had no such off-balance sheet arrangements as at March 31, 2007.

BUSINESS RISK MANAGEMENT

There were no material changes to the Corporation's significant business risks for the 3-month period ended March 31, 2007 from those disclosed in the Corporation's Management Discussion and Analysis for the year ended December 31, 2006, except for that described below.

Completion of the Terasen Gas Acquisition and Integration with Fortis: Fortis will continue to focus on fulfillment of all closing conditions required to complete the acquisition of Terasen Gas and on integrating the assets and operations of Terasen Gas with Fortis. In the event the transaction does not close, Fortis would have to expense approximately \$26.8 million in Subscription Receipt issue and business acquisition costs (approximately \$17.1 million after tax) accumulated as at March 31, 2007.

CHANGES IN ACCOUNTING POLICIES

The nature of and the impact on Fortis of adopting the new Canadian Institute of Chartered Accountants ("CICA") accounting standards for Financial Instruments, Hedges and Comprehensive Income, effective January 1, 2007, is described in detail in Note 3 to the Corporation's interim unaudited consolidated financial statements for the 3-month period ended March 31, 2007. The most significant impacts of adopting the new standards were: (i) the reallocation of \$21.2 million of deferred financing costs from deferred charges and other assets to long-term debt; (ii) the reporting of a Statement of Comprehensive Income; (iii) the recording in other comprehensive loss of unrecognized foreign currency translation gains and losses on US dollar debt that is hedging the Corporation's net investments in self-sustaining foreign operations; (iv) the reallocation of \$51.5 million of unrealized foreign currency translation losses on net investments in self-sustaining foreign operations from the foreign currency translation adjustment account in shareholders' equity to accumulated other comprehensive loss; (v) the reallocation of an \$11.0 million unamortized loss balance relating to a previously cancelled interest rate swap contract from deferred charges and other assets, and the reallocation of a \$2.8 million unamortized gain balance relating to a previously cancelled US dollar forward currency swap agreement from deferred credits, to accumulated other comprehensive loss; and (vi) the recording of opening fair value and subsequent changes in fair value of the Corporation's 3 interest rate swap contracts in effective hedging relationships in accumulated other comprehensive loss and other comprehensive loss, respectively. The adoption of the accounting standards did not have a material impact on the Corporation's consolidated statement of earnings for the 3-month period ended March 31, 2007.

Also as disclosed in Note 3 to the Corporation's interim unaudited consolidated financial statements for the 3-month period ended March 31, 2007, Fortis adopted the revised standard for accounting changes, effective January 1, 2007. This new standard had no impact on the Corporation's financial results for the 3-month period ended March 31, 2007.

FUTURE ACCOUNTING PRONOUNCEMENTS

Rate-Regulated Operations: In March 2007, the Canadian Accounting Standards Board ("AcSB") issued an Exposure Draft on rate regulated operations which, if adopted, will be effective beginning on or after January 1, 2009. The Exposure Draft proposes: (i) the temporary exemption in Section 1100, *Generally Accepted Accounting Principals*, of the CICA Handbook providing relief to entities subject to rate regulation from the requirement to apply the Section to the recognition and measurement of assets and liabilities arising from rate regulation be removed; (ii) the explicit guidance for rate-regulated operations provided in Section 1600, *Consolidated Financial Statements*, Section 3061, *Property, Plant and Equipment*, Section 3465, *Income Taxes*, and Section 3475, *Disposal of Long-Lived Assets and Discontinued Operations*, be removed; and (iii) Accounting Guideline 19, *Disclosures by Entities Subject to Rate Regulation*, be retained as is. The AcSB has also observed that relying on US Statement of Financial Accounting Standards No. 71, *Accounting for the Effects of Certain Types of Regulation* ("FAS 71"), as another source of Canadian GAAP in the absence of CICA Handbook guidance addressing the specific circumstances of entities subject to rate regulation, is consistent with Section 1100 when the qualifying criteria of FAS 71 are met. The Company and the utility industry are assessing the implications of the Exposure Draft on future financial reporting.

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

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

Employee Future Benefits: In March 2007, the AcSB issued an Exposure Draft on employee future benefits which, if adopted, will be effective for fiscal years ending on or after December 31, 2007. The Exposure Draft proposes balance sheet recognition of the funded status of defined benefit plans. Currently, the Corporation is only required to disclose the funded status in the Notes to the financial statements. The Corporation is currently assessing the implications of this Exposure Draft on its future financial reporting.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the Corporation's interim unaudited consolidated financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Estimates are based on historical experience, current conditions and various other assumptions believed to be reasonable under the circumstances. Additionally, certain estimates are necessary since the regulatory environments in which the Corporation's utilities operate often require amounts to be recorded at estimated values until these amounts are finalized pursuant to regulatory decisions or other regulatory proceedings.

Due to changes in facts and circumstances and the inherent uncertainty involved in making estimates, actual results may differ significantly from current estimates. Estimates are reviewed periodically and, as adjustments become

necessary, are reported in earnings in the period they become known. Interim financial statements may also employ a greater use of estimates than the annual financial statements. There were no material changes to the Corporation's critical accounting estimates for the 3-month period ended March 31, 2007 from those disclosed in the Corporation's Management Discussion and Analysis for the year ended December 31, 2006.

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

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

QUARTERLY RESULTS

The following table sets forth unaudited quarterly information for each of the 8 quarters ended June 30, 2005 through March 31, 2007. The quarterly information has been obtained from the Corporation's interim unaudited consolidated financial statements which, in the opinion of management, have been prepared in accordance with Canadian GAAP and as required by utility regulators. The timing of the recognition of certain assets, liabilities, revenues and expenses, as a result of regulation, may differ from that otherwise expected using Canadian GAAP for non-regulated entities. These differences are disclosed in Notes 2 and 4 to the Corporation's 2006 annual audited consolidated financial statements. These operating results are not necessarily indicative of results for any future period and should not be relied upon to predict future performance.

Fortis Inc.				
Summary of Quarterly Results (Unaudited)				
Quarter Ended	Revenue and Equity Income <i>(\$ thousands)</i>	Net Earnings Applicable to Common Shares <i>(\$ thousands)</i>	Earnings per Common Share	
			Basic (\$)	Diluted (\$)
March 31, 2007	483,046	41,540	0.38	0.35
December 31, 2006	393,111	33,886	0.33	0.32
September 30, 2006	341,947	38,750	0.37	0.36
June 30, 2006	345,851	37,946	0.37	0.35
March 31, 2006	390,827	36,605	0.35	0.34
December 31, 2005	353,084	22,263	0.22	0.21
September 30, 2005	341,650	37,450	0.36	0.33
June 30, 2005	364,948	38,188	0.37	0.34

A summary of the past 8 quarters reflects the Corporation's continued growth as well as the seasonality associated with its businesses. Interim results will fluctuate due to the seasonal nature of electricity demand and water flows as well as the timing and recognition of regulatory decisions. Given the diversified group of companies, seasonality may vary. Financial results from February 1, 2005 and November 1, 2006 were impacted by the acquisition of 3 Greenwood Inns and 4 hotels in western Canada, respectively. Financial results from August 1, 2006 were impacted by the acquisition of Fortis Turks and Caicos, while earnings from January 1, 2007 were impacted by the consolidation of a controlling interest in Caribbean Utilities. The Corporation's interest in Caribbean Utilities was

previously accounted for on an equity basis. Also, the comparability of 2006 and 2005 quarterly earnings and revenue has been somewhat impacted by the shift in reported revenue at Newfoundland Power resulting from the change to the accrual basis for revenue recognition from the billed basis, effective January 1, 2006. Each of the comparative quarterly earnings, except for the comparative quarters ended June 30, 2006 and June 30, 2005, have increased as a result of both the Corporation's acquisition strategy and improved operating earnings at most subsidiaries. Revenue and earnings were higher during the second quarter ended June 30, 2005 compared to the same quarter in 2006, primarily due to a \$7.0 million positive after-tax adjustment to FortisAlberta's earnings driven largely by the resolution of tax-related matters pertaining to prior years.

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

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

December 2006/December 2005 - Net earnings applicable to common shares were \$33.9 million, or \$0.33 per common share, for the fourth quarter of 2006 compared to earnings of \$22.3 million, or \$0.22 per common share, for the fourth quarter of 2005. The increase in earnings was largely driven by a change in Newfoundland Power's revenue recognition policy to the accrual method effective January 1, 2006, earnings growth at FortisAlberta and the contribution from Fortis Turks and Caicos acquired on August 28, 2006, partially offset by the impact of lower wholesale energy prices in Ontario and increased corporate costs. The change in the revenue recognition policy did not have a material impact on Newfoundland Power's annual earnings.

September 2006/September 2005 - Net earnings applicable to common shares were \$38.8 million, or \$0.37 per common share, for the third quarter of 2006 compared to earnings of \$37.4 million, or \$0.36 per common share, for the third quarter of 2005. Excluding \$1.6 million of earnings during the third quarter of 2005 associated with the favourable resolution of a corporate income tax reassessment at FortisOntario, earnings were \$3.0 million higher quarter over quarter. The increase was largely driven by improved non-regulated hydroelectric production in Belize, lower corporate taxes at FortisAlberta, increased electricity rates at FortisBC, higher earnings from Fortis Properties, higher earnings from Regulated Utilities - Caribbean due, in part, to the acquisition of Fortis Turks and Caicos, and increased electricity rates at FortisOntario. The increase in quarterly earnings was partially offset by higher corporate expenses and lower average wholesale energy prices in Ontario. Corporate expenses during the third quarter of 2005 were reduced by a \$3.8 million (\$3.1 million after-tax) unrealized foreign currency translation gain associated with unhedged US dollar-denominated debt.

June 2006/June 2005 - Net earnings applicable to common shares were \$37.9 million, or \$0.37 per common share, for the second quarter of 2006 compared to earnings of \$38.2 million, or \$0.37 per common share, for the second quarter of 2005. Earnings for the second quarter of 2005 included a \$7.0 million positive after-tax adjustment to FortisAlberta's earnings, driven largely by the resolution of tax-related matters pertaining to prior years, which favourably impacted revenue. Earnings for the second quarter of 2005 also included a \$1.1 million positive adjustment to equity income from Caribbean Utilities related to a change in accounting practice for recognizing unbilled revenue. Excluding these items, the Corporation's earnings were \$7.8 million higher in the second quarter of 2006 compared to the second quarter of 2005. The increase was driven by lower corporate income taxes largely at FortisAlberta, improved non-regulated hydroelectric production in Belize, higher earnings at Fortis Properties and an unrealized foreign exchange gain on the translation of US dollar-denominated long-term corporate debt. The increase was partially offset by lower earnings at Newfoundland Power related to the shifting of revenue from the first half of 2006 to the second half of 2006 upon adopting the accrual method of recognizing revenue, effective January 1, 2006, and the impact of recording the cumulative effects of the regulator-approved Negotiated Settlement Agreements at FortisAlberta and FortisBC during the second quarter of 2006.

OUTLOOK

The Corporation's principal business of regulated utilities is capital intensive. Gross consolidated electric utility capital expenditures are expected to be approximately \$631 million in 2007. Fortis expects that most of its electric utility capital expenditures of approximately \$2.8 billion over the next 5 years will be primarily driven by FortisAlberta, FortisBC and the Corporation's regulated and non-regulated electric utilities in the Caribbean. Assuming that the Terasen Gas acquisition closes during the second quarter of 2007, Fortis expects gross consolidated gas utility capital expenditures over the next 5 years to be over \$1.0 billion. Organic earnings growth, therefore, will be driven by the significant utility infrastructure investments described above. Upward pressure on future capital expenditures may be experienced by FortisAlberta in response to expected continued economic growth in Alberta, driven by the expansion of the oil and gas industry in that province.

Over the next several quarters, the Corporation will focus on closing and integrating the Terasen Gas acquisition. The addition of the gas distribution business will double the Corporation's investment in regulated rate base assets. Going forward, the Corporation will continue to pursue acquisition growth opportunities in regulated gas and electric utility businesses in Canada, the Caribbean and the United States. Fortis will also pursue growth in its non-regulated businesses in support of its regulated utility growth strategy.

OUTSTANDING SHARE DATA

At May 2, 2007, the Corporation had issued and outstanding 109,594,402 Common Shares, 5,000,000 First Preference Shares, Series C; 7,993,500 First Preference Shares, Series E; 5,000,000 First Preference Shares, Series F and 44,275,000 Subscription Receipts. As at May 2, 2007, the number of Common Shares that would be issued upon conversion of share options, convertible debt, First Preference Shares, Series C, First Preference Shares, Series E and Subscription Receipts is described in Notes 7, 8 and 14 to the interim unaudited consolidated financial statements for the 3-month period ended March 31, 2007 and Notes 11, 14 and 16 to the 2006 annual audited consolidated financial statements.

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

FORTIS INC.

Interim Consolidated Financial Statements
For the three months ended March 31, 2007 and 2006
(Unaudited)

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

	March 31	December 31
	2007	2006
ASSETS		
Current assets		
Cash and cash equivalents	\$ 43,223	\$ 40,921
Accounts receivable	268,588	278,114
Income taxes receivable	10,973	7,505
Prepaid expenses	16,680	14,255
Regulatory assets	41,152	35,669
Materials and supplies	32,113	32,675
	<u>412,729</u>	<u>409,139</u>
Corporate income tax deposit	5,922	5,922
Deferred charges and other assets	171,601	174,835
Regulatory assets	132,172	132,991
Future income taxes	9,347	7,053
Utility capital assets	3,629,584	3,574,851
Income producing properties	468,460	468,984
Investments	2,536	2,536
Intangibles, net of amortization	8,767	9,819
Goodwill	658,282	661,311
	<u>658,282</u>	<u>661,311</u>
	\$ 5,499,400	\$ 5,447,441
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Short-term borrowings (Note 5)	\$ 54,202	\$ 97,669
Accounts payable and accrued charges	336,195	333,755
Dividends payable	24,903	21,705
Regulatory liabilities	13,123	26,380
Current instalments of long-term debt and capital lease obligations (Note 6)	76,123	84,786
Subscription Receipt issue (Note 14(b))	1,151,150	-
Restricted cash - Subscription Receipt issue (Note 14(b))	(1,151,150)	-
Future income taxes	9,466	959
	<u>514,012</u>	<u>565,254</u>
Deferred credits	79,665	78,987
Regulatory liabilities	336,358	338,901
Future income taxes	49,505	57,737
Long-term debt and capital lease obligations (Note 6)	2,517,183	2,558,463
Non-controlling interest	127,801	130,505
Preference shares	319,492	319,492
	<u>3,944,016</u>	<u>4,049,339</u>
Shareholders' equity		
Common shares (Note 7)	980,130	828,985
Preference shares	122,466	122,466
Contributed surplus	5,187	4,687
Equity portion of convertible debentures	7,001	7,175
Accumulated other comprehensive loss (Note 9)	(63,277)	(51,508)
Retained earnings	503,877	486,297
	<u>1,555,384</u>	<u>1,398,102</u>
	\$ 5,499,400	\$ 5,447,441

Contingent liabilities and commitments (Note 14)

See accompanying notes to interim consolidated financial statements.

Fortis Inc.
Consolidated Statements of Earnings (Unaudited)
For the three months ended March 31
(in thousands, except per share amounts)

	Quarter Ended	
	2007	2006
Operating revenues	\$ 483,046	\$ 389,208
Equity income	-	1,619
	<u>483,046</u>	<u>390,827</u>
Expenses		
Energy supply costs	214,666	156,073
Operating	115,465	97,195
Amortization	54,095	44,167
	<u>384,226</u>	<u>297,435</u>
Operating income	98,820	93,392
Finance charges (Note 11)	47,595	41,622
Earnings before corporate taxes	51,225	51,770
Corporate taxes (Note 12)	6,859	13,948
Net earnings before non-controlling interest	44,366	37,822
Non-controlling interest	1,295	1,217
Net earnings	43,071	36,605
Preference share dividends	1,531	-
Net earnings applicable to common shares	<u>\$ 41,540</u>	<u>\$ 36,605</u>
Weighted average common shares outstanding (Note 7)	<u>109,367</u>	<u>103,287</u>
Earnings per common share (Note 7)		
Basic	\$ 0.38	\$ 0.35
Diluted	\$ 0.35	\$ 0.34

Consolidated Statements of Retained Earnings (Unaudited)
For the three months ended March 31
(in thousands)

	Quarter Ended	
	2007	2006
Balance at beginning of period	\$ 486,297	\$ 411,742
Net earnings applicable to common shares	41,540	36,605
	<u>527,837</u>	<u>448,347</u>
Dividends on common shares	(23,960)	(16,532)
Balance at end of period	<u>\$ 503,877</u>	<u>\$ 431,815</u>

See accompanying notes to interim consolidated financial statements.

Fortis Inc.
Consolidated Statements of Comprehensive Income (Unaudited)
For the three months ended March 31
(in thousands)

	Quarter Ended	
	2007	2006
Net earnings applicable to common shares	\$ 41,540	\$ 36,605
Unrealized foreign currency translation (losses) gains	(4,591)	623
Gains (losses) on hedges of net investments in self-sustaining foreign operations	1,802	(625)
Corporate (taxes) recoveries	(317)	111
Change in unrealized foreign currency translation (losses) gains, net of hedging activities, net of tax	(3,106)	109
Change in losses on derivative instruments designated as cash flow hedges	(56)	-
Corporate taxes	(10)	-
Change in losses on derivative instruments designated as cash flow hedges, net of tax	(66)	-
Reclassification to earnings of net losses on derivative instruments previously discontinued as cash flow hedges	261	-
Corporate taxes	(94)	-
Reclassification to earnings of net losses on derivative instruments previously discontinued as cash flow hedges, net of tax	167	-
Total other comprehensive (loss) income, net of taxes	(3,005)	109
Comprehensive Income	\$ 38,535	\$ 36,714

See accompanying notes to interim consolidated financial statements.

Fortis Inc.
Consolidated Statements of Cash Flows (Unaudited)
For the three months ended March 31
(in thousands)

	Quarter Ended	
	2007	2006
Operating Activities		
Net earnings	\$ 43,071	\$ 36,605
Items not affecting cash		
Amortization - capital assets, net of contributions in aid of construction	51,517	41,668
Amortization - intangibles	1,052	1,052
Amortization - other	1,526	1,447
Future income taxes	(1,488)	(3,499)
Accrued employee future benefits	(1,065)	(1,344)
Equity income, net of dividends	-	170
Stock-based compensation	561	386
Unrealized foreign exchange loss on long-term debt (Note 11)	27	321
Non-controlling interest	1,295	1,217
Other	4,872	79
Change in long-term regulatory assets and liabilities	<u>(15,660)</u>	<u>(1,174)</u>
	85,708	76,928
Change in non-cash operating working capital	<u>7,849</u>	<u>(27,530)</u>
	<u>93,557</u>	<u>49,398</u>
Investing Activities		
Change in deferred charges and other assets and deferred credits	(805)	(532)
Interim business acquisition costs	(2,178)	-
Purchase of utility capital assets	(134,242)	(104,306)
Purchase of income producing properties	(3,218)	(6,638)
Contributions in aid of construction	21,561	9,611
Proceeds on sale of utility capital assets	1,097	493
Increase in investments	-	(387)
	<u>(117,785)</u>	<u>(101,759)</u>
Financing Activities		
Change in short-term borrowings	(43,721)	8,954
Proceeds from long-term debt	185,481	51,772
Repayment of long-term debt and capital lease obligations	(208,941)	(7,182)
Advances (to) from non-controlling interest	(498)	247
Interim subscription receipt issue costs	(24,633)	-
Issue of common shares	147,582	3,585
Issue of subscription receipts	1,151,150	-
Restricted cash - issue of subscription receipts	(1,151,150)	-
Dividends		
Common shares	(23,960)	(16,532)
Preference shares	(1,531)	-
Subsidiary dividends paid to non-controlling interest	(3,097)	(410)
	<u>26,682</u>	<u>40,434</u>
Effect of exchange rate changes on cash	<u>(152)</u>	<u>34</u>
Change in cash and cash equivalents	2,302	(11,893)
Cash and cash equivalents, beginning of period	40,921	33,416
Cash and cash equivalents, end of period	<u>\$ 43,223</u>	<u>\$ 21,523</u>

See accompanying notes to interim consolidated financial statements.

FORTIS INC.
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the three months ended March 31, 2007 and 2006 (unless otherwise stated)
(Unaudited)

1. DESCRIPTION OF THE BUSINESS

Nature of Operations

Fortis Inc. (“Fortis” or the “Corporation”) is principally a diversified, international distribution utility holding company. Fortis segments its utility operations by franchise area and, depending on regulatory requirements, by the nature of the assets. Fortis also holds investments in non-regulated generation and commercial real estate and hotels, which are treated as 2 separate segments. The Corporation’s operating segments allow senior management to evaluate the operational performance and assess the overall contribution of each segment to the Corporation’s long-term objectives. Each operating segment operates as an autonomous unit, assumes profit and loss responsibility and is accountable for its own resource allocation.

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

Regulated Utilities - Canadian

The following summary describes the Corporation’s interests in Regulated Utilities in Canada by utility:

- a. *FortisAlberta*: FortisAlberta owns and operates the electricity distribution system in a substantial portion of southern and central Alberta, serving approximately 433,000 customers.
- b. *FortisBC*: Includes FortisBC Inc., an integrated electric utility operating in the southern interior of British Columbia serving more than 152,000 customers. FortisBC Inc. owns 4 hydroelectric generating plants with a combined capacity of 235 megawatts (“MW”). Included with the FortisBC component of the Regulated Utilities - Canadian segment are the non-regulated operating, maintenance and management services relating to the 450-MW Waneta hydroelectric generating facility owned by Teck Cominco Metals Ltd., the 149-MW Brilliant Hydroelectric Plant owned by Columbia Power Corporation and the Columbia Basin Trust (“CPC/CBT”), the 185-MW Arrow Lakes Hydroelectric Plant owned by CPC/CBT and the distribution system owned by the City of Kelowna. FortisBC’s assets also include the regulated electric utility formerly operated as Princeton Light and Power Company, Limited (“PLP”). Effective January 1, 2007, PLP was amalgamated with FortisBC Inc. as part of an internal corporate reorganization.
- c. *Newfoundland Power*: Newfoundland Power is the principal distributor of electricity in Newfoundland, serving approximately 230,000 customers. Newfoundland Power has an installed generating capacity of approximately 136 MW, of which 92 MW is hydroelectric generation.
- d. *Maritime Electric*: Maritime Electric is the principal distributor of electricity on Prince Edward Island, serving approximately 71,000 customers. Maritime Electric also maintains on-Island diesel-fired generating facilities with a combined capacity of 150 MW.
- e. *FortisOntario*: FortisOntario provides an integrated electric utility service to approximately 52,000 customers in Fort Erie, Cornwall, Gananoque and Port Colborne in Ontario. FortisOntario operations include Canadian Niagara Power Inc. (“Canadian Niagara Power”) and Cornwall Street Railway, Light and Power Company, Limited (“Cornwall Electric”). Included in Canadian Niagara Power’s accounts is the operation of the electricity distribution business of Port Colborne Hydro Inc., which has been leased from the City of Port Colborne under a 10-year lease agreement entered into in April 2002. FortisOntario also owns a 10 per cent interest in each of Westario Power Holdings Inc. and Rideau St. Lawrence Holdings Inc., 2 regional electrical distribution companies formed in 2000 serving more than 27,000 customers.

FORTIS INC.
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the three months ended March 31, 2007 and 2006 (unless otherwise stated)
(Unaudited)

1. DESCRIPTION OF THE BUSINESS (cont'd)

Regulated Utilities - Caribbean

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

- a. *Belize Electricity*: Belize Electricity is the principal distributor of electricity in Belize, Central America, serving more than 71,000 customers. The Company has an installed generating capacity of 37 MW. Fortis holds a 70.1 per cent controlling interest in Belize Electricity.
- b. *Caribbean Utilities*: Caribbean Utilities is the sole provider of electricity on Grand Cayman, Cayman Islands, serving more than 22,000 customers. The Company has an installed generating capacity of approximately 126 MW. On November 7, 2006, Fortis acquired an additional approximate 16 per cent ownership interest in Caribbean Utilities and now owns approximately 54 per cent of the Company. Caribbean Utilities is a public company traded on the Toronto Stock Exchange (TSX:CUP.U) and has an April 30th fiscal year end. Caribbean Utilities' balance sheet at November 7, 2006 was consolidated in the December 31, 2006 balance sheet of Fortis. Beginning with the first quarter of 2007, Fortis is consolidating Caribbean Utilities' financial statements on a 2-month lag basis and, accordingly, has consolidated Caribbean Utilities' January 31, 2007 balance sheet and statements of earnings and cash flows for the 3-month period ended January 31, 2007 with the Corporation's March 31, 2007 interim consolidated financial statements. During 2006, the statement of earnings of Fortis reflected the Corporation's approximate 37 per cent ownership interest in Caribbean Utilities, previously accounted for on an equity basis on 2-month lag.
- c. *P.P.C. Limited and Atlantic Equipment & Power (Turks and Caicos) Ltd. (collectively referred to as "Fortis Turks and Caicos")*: Fortis Turks and Caicos is the principal distributor of electricity in the Turks and Caicos Islands, serving approximately 7,700 customers. The Company has an installed generating capacity of approximately 37 MW. Fortis Turks and Caicos was acquired by Fortis, through a wholly owned subsidiary, on August 28, 2006.

Non-Regulated - Fortis Generation

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

- a. *Belize*: Operations consist of the 25-MW Mollejon and 7-MW Chalillo hydroelectric facilities in Belize. All of the electricity output is sold to Belize Electricity under a 50-year power purchase agreement expiring in 2055. Hydroelectric generation operations in Belize are conducted through the Corporation's wholly owned indirect subsidiary, Belize Electric Company Limited ("BECOL"), under a Franchise Agreement with the Government of Belize.
- b. *Ontario*: Includes 75 MW of water-right entitlement associated with the Niagara Exchange Agreement, a 5-MW gas-fired cogeneration plant in Cornwall and 6 small hydroelectric generating stations in eastern Ontario with a combined capacity of 8 MW. Non-regulated generation operations in Ontario are conducted through FortisOntario Inc. and Fortis Properties. On January 1, 2006, the former FortisOntario Generation Corporation was amalgamated with CNE Energy Inc. and, effective January 1, 2007, CNE Energy Inc. was amalgamated with Fortis Properties.
- c. *Central Newfoundland*: Through the Exploits River Hydro Partnership ("Exploits Partnership"), a partnership between the Corporation, through its wholly owned subsidiary Fortis Properties, and Abitibi-Consolidated Company of Canada ("Abitibi-Consolidated"), 36 MW of additional capacity was developed and installed at 2 of Abitibi-Consolidated's hydroelectric plants in central Newfoundland. Upon the amalgamation of CNE Energy Inc. with Fortis Properties on January 1, 2007, Fortis Properties now directly holds the 51 per cent interest in the Exploits Partnership and Abitibi-Consolidated holds the remaining 49 per cent interest. Previously, the 51 per cent interest was held by CNE Energy Inc. The Exploits Partnership sells its output to Newfoundland and Labrador Hydro Corporation under a 30-year power purchase agreement expiring in 2033.

FORTIS INC.
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the three months ended March 31, 2007 and 2006 (unless otherwise stated)
(Unaudited)

1. DESCRIPTION OF THE BUSINESS (cont'd)

Non-Regulated - Fortis Generation (cont'd)

- d. *British Columbia*: Includes the 16-MW run-of-river Walden hydroelectric power plant near Lillooet, British Columbia. This plant sells its entire output to BC Hydro under a long-term contract expiring in 2013. Hydroelectric generation operations in British Columbia are conducted through the Walden Power Partnership, a wholly owned partnership of FortisBC Inc.
- e. *Upper New York State*: Includes the operations of 4 hydroelectric generating stations in Upper New York State with a combined capacity of approximately 23 MW operating under licences from the US Federal Energy Regulatory Commission. Hydroelectric generation operations in Upper New York State are conducted through the Corporation's indirect wholly owned subsidiary, FortisUS Energy Corporation.

Non-Regulated - Fortis Properties

Fortis Properties owns and operates 18 hotels with more than 3,200 rooms in 7 Canadian provinces and approximately 2.7 million square feet of commercial real estate in Atlantic Canada.

Corporate

The Corporate segment captures expense and revenue items not specifically related to any operating segment. Included in the Corporate segment are finance charges, including interest on debt incurred directly by Fortis and dividends on preference shares classified as long-term liabilities, foreign exchange gains or losses, dividends on preference shares classified as equity, other corporate expenses net of recoveries from subsidiaries, interest and miscellaneous revenues, and corporate income taxes.

2. BASIS OF PRESENTATION

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") for interim financial statements and do not include all of the disclosures normally found in the Corporation's annual consolidated financial statements. These interim consolidated financial statements should be read in conjunction with the Corporation's 2006 annual audited consolidated financial statements. Interim results will fluctuate due to the seasonal nature of electricity demand and water flows as well as the timing and recognition of regulatory decisions. Given the diversified group of companies, seasonality may vary.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These interim consolidated financial statements have been prepared in accordance with Canadian GAAP, including selected accounting treatments that differ from those used by entities not subject to rate regulation. The timing of the recognition of certain assets, liabilities, revenues and expenses, as a result of regulation, may differ from that otherwise expected using Canadian GAAP for entities not subject to rate regulation. These differences and nature of regulation are disclosed in Notes 2 and 4 to the Corporation's 2006 annual audited consolidated financial statements. These interim consolidated financial statements have been prepared following the same accounting policies and methods as those used in preparing the Corporation's 2006 annual audited consolidated financial statements except as described below. All amounts are presented in Canadian dollars unless otherwise stated.

FORTIS INC.
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the three months ended March 31, 2007 and 2006 (unless otherwise stated)
(Unaudited)

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

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

Financial Instruments

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

The Corporation is required to designate its financial instruments into 1 of the following 5 categories: (i) held for trading, (ii) available for sale, (iii) held to maturity, (iv) loans and receivables, or (v) other financial liabilities. All financial instruments are to be initially measured at fair value. Financial instruments classified as held for trading or available for sale are subsequently measured at fair value with any change in fair value recorded in net earnings and other comprehensive income, respectively. All other financial instruments are subsequently measured at amortized cost.

All derivative financial instruments, including derivative features embedded in financial instruments or other contracts which are not considered closely related to the host financial instrument or contract, are generally classified as held for trading and, therefore, must be measured at fair value with changes in fair value recorded in net earnings. However, if a derivative financial instrument is designated as a hedging item in a qualifying cash flow hedging relationship, the effective portion of changes in fair value is recorded in other comprehensive income. Any change in fair value relating to the ineffective portion is recorded immediately in net earnings.

Currently, the Corporation limits the use of derivative financial instruments to those specifically designated in a qualifying hedging relationship, as discussed in Note 3c.

The Corporation has designated its financial instruments as follows:

<i>(in thousands of \$)</i>	March 31, 2007		December 31, 2006	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Held for trading				
Cash and cash equivalents ¹	43,223	43,223	40,921	40,921
Restricted cash ¹	1,151,150	1,151,150	-	-
Loans and receivables				
Accounts receivable ^{1, 2}	268,588	268,588	278,114	278,114
Corporate income tax deposit ^{1, 2}	5,922	5,922	5,922	5,922
Other receivables due from customers ^{1, 2, 3}	6,023	6,023	6,042	6,042
Other financial liabilities				
Short-term borrowings ^{1, 2}	54,202	54,202	97,669	97,669
Accounts payable and accrued charges ^{1, 2}	336,195	336,195	333,755	333,755
Dividends payable ^{1, 2}	24,903	24,903	21,705	21,705
Subscription receipts ²	1,151,150	1,221,105	-	-
Customer deposits ^{1, 2, 4}	4,832	4,832	4,772	4,772
Long-term debt, including current portion ^{5, 6}	2,564,788	2,906,138	2,614,237	2,939,572
Preference shares, classified as debt ^{5, 7}	319,492	354,823	319,492	355,350

¹ Due to the nature and/or short-term maturity of these financial instruments, carrying value approximates fair value.

² Carrying value approximates amortized cost

³ Included in deferred charges and other assets on the balance sheet

⁴ Included in deferred credits on the balance sheet

⁵ Carrying value is measured at amortized cost using the effective interest rate method

⁶ Carrying value at March 31, 2007 is net of unamortized deferred financing costs of \$20.6 million. On January 1, 2007, deferred financing costs were reclassified from deferred charges and other assets in accordance with the transitional provisions of Section 3855.

⁷ Preference shares classified as equity are excluded from the requirements of Section 3855; however, the estimated fair value of the preference shares classified as equity as at March 31, 2007 was \$128.3 million (December 31, 2006 - \$128.5 million).

FORTIS INC.
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the three months ended March 31, 2007 and 2006 (unless otherwise stated)
(Unaudited)

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

For the 3 months ended March 31, 2007, effective interest expense associated with the Corporation's short-term borrowings, long-term debt and preference shares classified as debt is disclosed in Note 11 to these interim consolidated financial statements.

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

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

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

Comprehensive Income

- b. Section 1530, *Comprehensive Income*, introduces a new financial statement "Statement of Comprehensive Income" and provides guidance for the reporting and display of other comprehensive income. Comprehensive income represents the change in equity of an enterprise during a period from transactions and other events arising from non-owner sources including unrealized foreign currency translation gains and losses, net of hedging activities arising from self-sustaining foreign operations, and changes in the fair value of the effective portion of cash flow hedging instruments.

As required, prior periods have not been restated as a result of implementing Section 1530, except to reclassify unrealized foreign currency translation losses on net investments in self-sustaining foreign operations of \$51.5 million as at December 31, 2006 from the foreign currency translation adjustment account in shareholders' equity to accumulated other comprehensive loss (Note 9). As required upon initial application of Section 3855, all adjustments to the carrying amount of financial instruments are recognized as an adjustment to the opening balance of accumulated other comprehensive loss. No adjustments were made to the opening balance of retained earnings.

Hedges

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

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

FORTIS INC.
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the three months ended March 31, 2007 and 2006 (unless otherwise stated)
(Unaudited)

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

For the 3 months ended March 31, 2007, unrealized foreign currency translation losses of \$4.6 million were recorded in other comprehensive loss related to the Corporation's net investment in US dollar-denominated self-sustaining foreign operations. These unrealized foreign currency exchange losses were partially offset by the effective portion of unrealized after-tax gains of \$1.5 million related to the translation of US dollar-denominated long-term debt designated as a foreign currency risk hedge (Note 9). There was no ineffective portion.

The Corporation has designated its interest rate swap agreements as hedges of the cash flow risk related to floating rate long-term debt. As at January 1, 2007, in accordance with the transitional provisions of Section 3865, the fair value of the interest rate swap agreements of (\$0.5) million was recorded as a derivative financial instrument and grouped with deferred credits on the balance sheet with the offset recorded to accumulated other comprehensive loss (Note 9). The interest rate swaps are valued at the present value of future cash flows based on published forward future interest rate curves.

For the 3 months ended March 31, 2007, unrealized losses of \$0.1 million were recorded in other comprehensive loss for the effective portion of the change in fair value of the interest rate swap agreements designated as cash flow hedges with the offset recorded to deferred credits on the balance sheet (Note 9). There were no ineffective portions. The amounts recognized are reclassified to finance charges in the periods during which the variability in cash flows of the hedged items affect finance charges. The net loss reclassified to earnings during the 3 months ended March 31, 2007 was immaterial. An estimated loss of \$0.1 million deferred in accumulated other comprehensive loss as at March 31, 2007 is expected to be reclassified to earnings during the next 12 months.

As at January 1, 2007, in accordance with the transitional provisions of Section 3865, unamortized deferred gain and loss balances related to the previous cancellation of swap agreements were reclassified to accumulated other comprehensive loss (Note 9). An unamortized loss balance of \$11.0 million, as at December 31, 2006, related to the previous cancellation of an interest rate swap agreement was reclassified from deferred charges and other assets and an unamortized gain balance of \$2.8 million, as at December 31, 2006, related to the previous cancellation of a US dollar forward currency swap agreement was reclassified from deferred credits. The Corporation had previously designated the interest rate swap agreement as a hedge of cash flow risk related to floating rate long-term debt and designated the US dollar forward currency swap agreement as a hedge of foreign currency risk associated with US dollar-denominated long-term debt. These unamortized balances are recognized in finance charges in the periods during which the variability in cash flows of the original hedged items affects finance charges. This change in treatment did not have a material impact on the Corporation's earnings. A net loss of \$0.2 million was reclassified to earnings during the three months ended March 31, 2007. An estimated net loss of \$0.7 million deferred in accumulated other comprehensive loss as at March 31, 2007 is expected to be reclassified to earnings during the next 12 months.

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

Accounting Changes

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

Under revised Section 1506, voluntary changes in accounting policies are made only if they result in the financial statements providing reliable and more relevant information. Additional disclosure is required when the Corporation has not applied a new primary source of GAAP that has been issued but is not yet effective, as well as when changes in accounting estimates and errors occur. Adoption of this revised standard had no impact on the Corporation's interim consolidated financial statements for the 3 months ended March 31, 2007.

FORTIS INC.
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the three months ended March 31, 2007 and 2006 (unless otherwise stated)
(Unaudited)

4. USE OF ESTIMATES

The preparation of the Corporation's interim consolidated financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Estimates are based on historical experience, current conditions and various other assumptions believed to be reasonable under the circumstances. Additionally, certain estimates are necessary since the regulatory environments in which the Corporation's utilities operate often require amounts to be recorded at estimated values until these amounts are finalized pursuant to regulatory decisions or other regulatory proceedings. Due to changes in facts and circumstances and the inherent uncertainty involved in making estimates, actual results may differ significantly from current estimates. Estimates are reviewed periodically and, as adjustments become necessary, are reported in earnings in the period they become known.

Interim financial statements may also employ a greater use of estimates than the annual financial statements. There were no material changes to the Corporation's critical accounting estimates during the 3 months ended March 31, 2007 from those disclosed in the Corporation's Management Discussion and Analysis for the year ended December 31, 2006 except as disclosed in Note 14 to these interim consolidated financial statements.

5. CREDIT FACILITIES

As at March 31, 2007, the Corporation and its subsidiaries had consolidated authorized lines of credit of \$963.5 million, of which \$722.8 million was unused.

The following summary outlines the Corporation's credit facilities by reporting segments.

Credit Facilities <i>(\$ millions)</i>	Corporate	Regulated Utilities	Fortis Properties	Total as at March 31, 2007	Total as at December 31, 2006
Total credit facilities	315.0	636.0	12.5	963.5	952.0
Credit facilities utilized					
Short-term borrowings	(2.6)	(51.0)	(0.6)	(54.2)	(97.7)
Long-term debt (Note 6)	(55.0)	(62.9)	-	(117.9)	(235.5)
Letters of credit outstanding	(4.6)	(62.3)	(1.7)	(68.6)	(72.1)
Credit facilities available	252.8	459.8	10.2	722.8	546.7

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

On November 27, 2006, Caribbean Utilities renegotiated its credit facilities, increasing its capital expenditures line of credit from US\$10.0 million to US\$17.0 million and increasing each of its US\$5.0 million operating line of credit and US\$5.0 million catastrophe standby loan to US\$7.5 million.

In March 2007, Maritime Electric's non-revolving unsecured credit facility was increased to \$30.0 million from \$25.0 million. In addition, the overdraft facility at Fortis Turks and Caicos was increased to US\$3.0 million from US\$2.0 million.

During the first quarter of 2007, Fortis Generation credit facilities of US\$2.0 million were terminated and upon amalgamation of PLP with FortisBC, PLP's credit facilities of \$5.4 million were terminated.

FORTIS INC.
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the three months ended March 31, 2007 and 2006 (unless otherwise stated)
(Unaudited)

5. CREDIT FACILITIES (cont'd)

Subsequent to March 31, 2007, FortisAlberta terminated one of its \$10.0 million unsecured demand credit facilities and Maritime Electric increased its non-revolving unsecured credit facility to \$35.0 million from \$30.0 million.

6. LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS

<i>(in millions)</i>	As at March 31, 2007	As at December 31, 2006
Long-term debt and capital lease obligations	\$ 2,496.0	\$ 2,407.7
Long-term classification of credit facilities (Note 5)	117.9	235.5
Deferred debt financing costs (Note 3)	(20.6)	-
Total long-term debt and capital lease obligations	2,593.3	2,643.2
Less: Current instalments of long-term debt and capital lease obligations	(76.1)	(84.7)
	\$ 2,517.2	\$ 2,558.5

On January 3, 2007, FortisAlberta closed a \$110 million senior unsecured debenture offering. The debentures bear interest at a rate of 4.99 per cent per annum, to be paid semi-annually, and mature on January 3, 2047. The proceeds of the offering were used to repay existing indebtedness incurred under the Company's committed unsecured credit facility, incurred primarily to fund capital expenditures, and for general corporate purposes.

7. COMMON SHARES

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

	March 31, 2007		December 31, 2006	
	Number of Shares	Amount <i>(in thousands)</i>	Number of Shares	Amount <i>(in thousands)</i>
a) Issued and Outstanding				
Common Shares	109,554,402	\$ 980,130	104,091,542	\$ 828,985

Common Shares issued during the period were as follows:

	Quarter Ended March 31, 2007	
	Number of Shares	Amount <i>(in thousands)</i>
Opening balance	104,091,542	\$ 828,985
Public offering	5,170,000	145,673
Conversion of debentures	117,038	1,297
Consumer Share Purchase Plan	21,427	575
Dividend Reinvestment Plan	47,851	1,285
Employee Share Purchase Plan	64,718	1,737
Stock Option Plans	41,826	578
Ending balance	109,554,402	\$ 980,130

On January 18, 2007, Fortis issued 5,170,000 Common Shares for \$29.00 per common share. The common share issue resulted in gross proceeds of \$149.9 million, or approximately \$145.7 million net of after-tax expenses. The net proceeds of the offering were used to repay indebtedness incurred for acquisitions in 2006, to support the capital expenditure programs of the Corporation's regulated electric utilities in western Canada and for general corporate purposes.

On March 21, 2007, holders of the Corporation's 6.75% Unsecured Subordinated Convertible Debentures converted US\$1,075,000 of the US\$10,000,000 Debentures into 117,038 Common Shares of the Corporation.

At March 31, 2007, 10,783,084 Common Shares remained reserved for issuance under the terms of the Corporation's share purchase, dividend reinvestment and stock option plans.

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7. COMMON SHARES (cont'd)

b) Earnings per Common Share

The Corporation calculates earnings per common share on the weighted average number of common shares outstanding. The weighted average number of common shares outstanding was 109,367,068 and 103,287,270 for the quarter ended March 31, 2007 and March 31, 2006, respectively.

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

Earnings per common share are as follows:

	Quarter Ended March 31 st					
	2007			2006		
	Earnings (in thousands)	Weighted Average Shares (in thousands)	Earnings per Common Share	Earnings (in thousands)	Weighted Average Shares (in thousands)	Earnings per Common Share
Net earnings applicable to common shares	\$ 41,540			\$ 36,605		
Weighted average shares outstanding		109,367			103,287	
Basic Earnings per Common Share			\$ 0.38			\$ 0.35
Effect of dilutive securities:						
Subscription receipts	-	8,363				
Stock options	-	1,447		-	1,283	
Preference shares	4,152	11,492		4,152	14,096	
Convertible debentures	821	3,259		262	1,925	
Diluted Earnings per Common Share	\$ 46,513	133,928	\$ 0.35	\$ 41,019	120,591	\$ 0.34

8. STOCK-BASED COMPENSATION PLANS

Stock Options

The Corporation is authorized to grant officers and certain key employees of Fortis and its subsidiaries options to purchase Common Shares of the Corporation. At March 31, 2007, the Corporation had the following stock option plans: 2006 Stock Option Plan ("2006 Plan"), 2002 Stock Option Plan ("2002 Plan") and Executive Stock Option Plan. The 2002 Plan was adopted at the Annual and Special General Meeting on May 15, 2002 to ultimately replace the Executive and the former Directors' Stock Option Plans. The Executive Stock Option Plan will cease to exist when all outstanding options are exercised or expire in or before 2011. The 2006 Plan was approved at the May 2, 2006 Annual Meeting at which Special Business was conducted. The 2006 Plan will ultimately replace the 2002 Plan. The 2002 Plan will cease to exist when all outstanding options are exercised or expire in or before 2016. The Corporation has ceased to grant options under the Executive Stock Option Plan and 2002 Plan and all new options to be granted by Fortis will be granted under the 2006 Plan. Options granted under the 2006 Plan will have a maximum term of 7 years, which is reduced from 10 years under the 2002 Plan, and will expire no later than 3 years after the termination, death or retirement of the optionee. Directors are not eligible to receive grants of options under the 2006 Plan. During 2006, the Corporation replaced the equity component of directors' annual compensation with Deferred Share Units ("DSUs").

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

Stock Options (cont'd)

Quarter Ended March 31, 2007		
	Number of Options	Weighted Average Exercise Price
Options outstanding, beginning of period	3,550,055	\$ 16.11
Granted	-	\$ -
Cancelled	-	\$ -
Exercised	(41,826)	\$ 12.35
Options outstanding, end of period	3,508,229	\$ 16.16

Details of stock options outstanding as at March 31, 2007 are as follows:

	Number of Options	Exercise Price	Expiry Date
	205,411	\$ 9.57	2011
	496,457	\$ 12.03	2012
	613,094	\$ 12.81	2013
	671,492	\$ 15.28	2014
	12,000	\$ 15.23	2014
	68,557	\$ 14.55	2014
	752,717	\$ 18.40	2015
	28,000	\$ 18.11	2015
	33,740	\$ 20.82	2015
	626,761	\$ 22.94	2016
	3,508,229		

Details of stock options vested as at March 31, 2007 are as follows:

	Number of Options	Exercise Price	Expiry Date
	205,411	\$ 9.57	2011
	496,457	\$ 12.03	2012
	613,094	\$ 12.81	2013
	500,560	\$ 15.28	2014
	6,000	\$ 15.23	2014
	29,467	\$ 14.55	2014
	377,247	\$ 18.40	2015
	7,000	\$ 18.11	2015
	8,435	\$ 20.82	2015
	156,672	\$ 22.94	2016
	2,400,343		

The weighted average exercise price of stock options vested as at March 31, 2007 was \$14.50.

The Corporation records compensation expense upon the issuance of stock options under its 2002 Plan. Beginning in 2007, all new stock options will be granted under the Corporation's 2006 Plan. Using the fair value method, the compensation expense is amortized over the 4-year vesting period of the options granted. Under the fair value method, \$0.6 million was recorded as compensation expense for the quarter ended March 31, 2007 (\$0.4 million for the quarter ended March 31, 2006).

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

Directors' DSU Plan

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

Each DSU represents a unit with an underlying value equivalent to the value of the Common Shares of the Corporation. For directors who elect to receive DSUs in lieu of cash for their annual retainers, DSUs are credited as of January 1st of each year by dividing the total applicable annual retainer by the daily average of the high and low board lot trading prices of the Common Shares for the last 5 trading days immediately preceding the date of grant of the DSUs. The annual grant of DSUs, that comprises the equity component of directors' annual compensation, is credited as of the grant date at the daily average of the high and low board lot trading prices of the Common Shares for the last 5 trading days immediately preceding the date of grant of the DSUs. Notional dividends are assumed to accrue to the holder of the DSU and to be reinvested on the quarterly dividend payment dates of the Corporation's Common Shares. Upon retirement from the Board of Directors, a director participant in the Directors' DSU Plan will receive a cash payment equivalent to the number of DSUs credited to the notional account multiplied by the daily average of the high and low board lot trading prices of the Corporation's Common Shares for the last 5 trading days immediately preceding the date of payment.

Number of DSUs:	Quarter Ended March 31, 2007
DSUs outstanding, beginning of period	46,959
Granted	8,600
Notional dividends reinvested	393
DSUs paid out	-
DSUs outstanding, end of period	55,952

For the quarter ended March 31, 2007, expenses of \$0.2 million were recorded in relation to the Directors' DSU Plan (\$0.1 million for the quarter ended March 31, 2006).

Restricted Share Unit ("RSU") Plan

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

Number of RSUs:	Quarter Ended March 31, 2007
RSUs outstanding, beginning of period	66,845
Granted	-
Notional dividends reinvested	473
RSUs paid out	-
RSUs outstanding, end of period	67,318

For the quarter ended March 31, 2007, expenses of \$0.1 million were recorded in relation to the RSU Plan (\$0.1 million for the quarter ended March 31, 2006).

FORTIS INC.
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9. ACCUMULATED OTHER COMPREHENSIVE LOSS

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

Accumulated Other Comprehensive Loss	Opening balance January 1, 2007	Transition amount January 1, 2007	Net change	Ending balance March 31, 2007
<i>(in thousands)</i>				
Unrealized foreign currency translation losses, net of hedging activities	\$ (51,508)	\$ -	\$ (3,106)	\$ (54,614)
Losses on derivative instruments designated as cash flow hedges	-	(513)	(66)	(579)
Net losses on derivative instruments previously discontinued as cash flow hedges	-	(8,251)	167	(8,084)
Accumulated Other Comprehensive Loss	\$ (51,508)	\$ (8,764)	\$ (3,005)	\$ (63,277)

10. EMPLOYEE FUTURE BENEFITS

The Corporation and its subsidiaries each maintain one or a combination of defined benefit pension plans, defined contribution pension plans and group RRSPs for its employees. The cost of providing the defined benefit arrangements was \$5.3 million for the quarter ended March 31, 2007 (\$5.4 million for the quarter ended March 31, 2006). The cost of providing the defined contribution arrangements and group RRSPs for the quarter ended March 31, 2007 was \$1.1 million (\$0.9 million for the quarter ended March 31, 2006).

11. FINANCE CHARGES

<i>(in thousands)</i>	Quarter Ended March 31st	
	2007	2006
Interest - Long-term debt and capital lease obligations	\$ 43,301	\$ 37,605
- Short-term borrowings	2,319	1,753
Interest charged to construction	(1,282)	(1,117)
Interest earned	(922)	(1,092)
Unrealized foreign exchange loss on long-term debt	27	321
Dividends on preference shares	4,152	4,152
	\$ 47,595	\$ 41,622

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12. CORPORATE TAXES

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

(%)	Quarter Ended March 31st	
	2007	2006
Statutory tax rate	35.0	34.9
Preference share dividends	2.9	2.9
Large corporations' tax	-	2.1
Differences between Canadian statutory rates and those applicable to foreign subsidiaries	(5.4)	(3.4)
Items capitalized for accounting but expensed for income tax purposes	(12.4)	(9.1)
Other timing differences	(7.6)	0.6
Impact of reduction in income tax rates on future income tax balances	-	(2.5)
Change in revenue recognition policy at Newfoundland Power	1.2	1.2
Maritime Electric tax reassessment	-	1.5
Pension costs	(0.9)	(1.0)
Other	0.6	(0.3)
Effective tax rate	13.4	26.9

FORTIS INC.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2007 and 2006 (unless otherwise stated)

(Unaudited)

13. SEGMENTED INFORMATION

a) Information by reportable segment is as follows:

	Regulated Utilities							Non-Regulated					Inter-segment	Consolidated
	Fortis Alberta	Fortis BC	NP Power	Maritime Electric	Fortis Ontario	Total Canadian	Total Caribbean ¹	Fortis Generation	Fortis Properties	Corporate eliminations	Fortis segment			
Quarter ended														
<i>(in thousands of dollars)</i>														
March 31, 2007														
Operating revenues	63,347	63,604	154,431	32,745	37,000	351,127	76,996	21,228	40,081	3,379	(9,765)	483,046		
Energy supply costs	-	20,692	106,068	19,541	28,787	174,488	43,703	2,094	-	-	(5,619)	214,666		
Operating expenses	28,923	16,055	14,207	3,261	3,483	65,929	16,862	4,114	28,054	2,073	(1,567)	115,465		
Amortization	17,982	7,756	10,271	2,798	1,358	40,165	7,402	2,610	3,261	657	-	54,095		
Operating income	16,442	19,701	23,885	7,145	3,372	70,545	9,029	12,410	8,766	649	(2,579)	98,820		
Finance charges	8,607	6,154	8,315	2,886	1,253	27,215	3,645	2,457	5,934	10,923	(2,579)	47,595		
Corporate taxes	(4,062)	1,898	4,889	1,668	775	5,168	381	2,403	1,000	(2,093)	-	6,859		
Non-controlling interest	-	-	146	-	-	146	896	295	-	(42)	-	1,295		
Net earnings (loss)	11,897	11,649	10,535	2,591	1,344	38,016	4,107	7,255	1,832	(8,139)	1,531	43,071		
Preference share dividends	-	-	-	-	-	-	-	-	-	-	-	1,531		
Net earnings (loss) applicable to common shares	11,897	11,649	10,535	2,591	1,344	38,016	4,107	7,255	1,832	(9,670)	-	41,540		
Goodwill	226,968	220,719	-	19,858	42,947	510,492	147,790	-	-	-	-	658,282		
Identifiable assets	1,175,711	823,632	951,445	321,933	128,425	3,401,146	679,881	237,886	487,800	52,001	(17,596)	4,841,118		
Total assets	1,402,679	1,044,351	951,445	341,791	171,372	3,911,638	827,671	237,886	487,800	52,001	(17,596)	5,499,400		
Capital expenditures	65,042	31,228	12,466	4,726	2,032	115,494	17,813	312	3,218	623	-	137,460		
March 31, 2006														
Operating revenues	61,803	62,730	131,792	29,880	33,240	319,445	20,085	19,283	35,137	2,022	(6,764)	389,208		
Equity income	-	-	-	-	-	-	1,619	-	-	-	-	1,619		
Energy supply costs	-	19,231	82,662	18,277	25,756	145,926	11,732	1,909	-	-	(3,494)	156,073		
Operating expenses	28,701	15,368	14,560	3,148	3,263	65,040	2,706	4,029	24,553	2,371	(1,504)	97,195		
Amortization	15,715	7,126	9,784	2,547	1,334	36,506	1,421	2,651	2,842	747	-	44,167		
Operating income	17,387	21,005	24,786	5,908	2,887	71,973	5,845	10,694	7,742	(1,096)	(1,766)	93,392		
Finance charges	6,749	5,599	8,136	2,399	1,236	24,119	1,654	2,637	5,150	9,828	(1,766)	41,622		
Corporate taxes	1,148	3,554	5,844	1,444	662	12,652	346	2,219	1,114	(2,383)	-	13,948		
Non-controlling interest	-	-	148	-	-	148	691	420	-	(42)	-	1,217		
Net earnings (loss) applicable to common shares	9,490	11,852	10,658	2,065	989	35,054	3,154	5,418	1,478	(8,499)	-	36,605		
Goodwill	228,615	220,719	-	19,858	42,947	512,139	-	-	-	-	-	512,139		
Identifiable assets	1,002,002	739,186	904,275	294,111	119,092	3,058,666	214,575	259,987	434,743	40,111	(29,632)	3,978,450		
Equity investment assets	-	-	-	-	-	-	165,031	-	-	-	-	165,031		
Total assets	1,230,617	959,905	904,275	313,969	162,039	3,570,805	379,606	259,987	434,743	40,111	(29,632)	4,655,620		
Capital expenditures	54,590	25,607	12,023	5,704	1,883	99,807	3,426	746	6,638	327	-	110,944		

¹ Includes Belize Electricity, Fortis Turks and Caicos, and Caribbean Utilities in Grand Cayman.

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13. SEGMENTED INFORMATION (cont'd)

b) Inter-Segment Transactions

Inter-segment transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. The significant inter-segment transactions primarily related to the sale of energy from Fortis Generation to Belize Electricity and FortisOntario, electricity sales from Newfoundland Power to Fortis Properties and finance charges on inter-segment borrowings. The significant inter-segment transactions for the 3 months ended March 31, 2007 and 2006 are detailed below.

Inter-Segment transactions <i>(in thousands)</i>	Quarter Ended March 31st	
	2007	2006
Sales from Fortis Generation to Belize Electricity	\$ 5,280	\$ 3,148
Sales from Fortis Generation to FortisOntario	339	346
Sales from Newfoundland Power to Fortis Properties	1,164	1,091
Inter-segment finance charges on borrowings from:		
Corporate to Fortis Properties	1,655	933
Corporate to Regulated Utilities	924	442
Fortis Generation to Belize Electricity	-	405

14. CONTINGENT LIABILITIES AND COMMITMENTS

Contingent liabilities

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

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

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14. CONTINGENT LIABILITIES AND COMMITMENTS (cont'd)

Commitments

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

(a) Business Acquisition

On February 26, 2007, Fortis entered into an agreement (the "Acquisition Agreement") with Kinder Morgan, Inc. (NYSE:KMI), a US energy transportation, storage and distribution company based in Houston, Texas, for the purchase of the gas distribution business of Terasen Inc., referred to as Terasen Gas, through the purchase of all of the issued and outstanding shares of Terasen Inc. for aggregate consideration of \$3.7 billion, including the assumption of approximately \$2.3 billion of consolidated debt. Terasen Gas is the principal natural gas distribution utility in British Columbia, serving approximately 900,000 customers, or 95 per cent of natural gas users in the province. The closing of the acquisition is expected to occur during the second quarter of 2007. On March 20, 2007, Fortis received a no-action letter from the Competition Bureau of Canada in respect of the acquisition of Terasen Gas. The no-action letter confirms the finding of the Commissioner of Competition that no grounds exist at this time for the Commissioner to initiate proceedings before the Competition Tribunal under the merger provisions of the *Competition Act* (Canada) in respect of this transaction. The granting of this no-action letter satisfies one of the closing conditions in the Acquisition Agreement between Fortis and Kinder Morgan, Inc. On April 30, 2007, the British Columbia Utilities Commission approved the acquisition. The remaining significant closing condition of the acquisition is the requirement that Kinder Morgan, Inc. separate its petroleum operations from Terasen Inc., leaving only the natural gas distribution business which is operated by Terasen Gas.

Fortis has also obtained a commitment from Canadian Imperial Bank of Commerce providing for an aggregate of \$1.425 billion non-revolving term credit facilities in favour of Fortis to fund, if necessary, the full cash purchase price for the acquisition. The completion of a \$1.15 billion Subscription Receipt offering (see Subscription Receipt Offering below) has reduced the expected funds to be advanced under the acquisition credit facilities upon close of the acquisition to approximately \$300 million.

(b) Subscription Receipt Offering

On March 15, 2007, to finance a significant portion of the acquisition, Fortis sold 44,275,000 Subscription Receipts through a bought deal offering underwritten by a syndicate of underwriters led by CIBC World Markets Inc., Scotia Capital Inc. and TD Securities Inc. (collectively the "Underwriters"), resulting in gross proceeds to the Corporation of \$1,151,150,000. Fortis entered into an agreement, on February 26, 2007, with the Underwriters under which they agreed to purchase from Fortis and sell to the public 38,500,000 Subscription Receipts at \$26.00 each for gross proceeds to the Corporation of \$1,001,000,000. The Underwriters exercised their over-allotment option and purchased an additional 5,775,000 Subscription Receipts at a purchase price of \$26.00 each for gross proceeds from the over-allotment option to the Corporation of \$150,150,000. The Subscription Receipts began trading on the Toronto Stock Exchange under the symbol FTS.R on March 15, 2007.

The gross proceeds from the sale of Subscription Receipts are being held by an escrow agent pending fulfillment or waiver of all other outstanding conditions precedent to closing the acquisition. Each Subscription Receipt will entitle the holder thereof to receive, on satisfaction of the closing conditions, and without payment of additional consideration, one Common Share of Fortis and a cash payment equal to the dividends declared on Fortis Common Shares to holders of record during the period from March 15, 2007 to the date of issuance of the Common Shares in respect of the Subscription Receipts.

FORTIS INC.
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14. CONTINGENT LIABILITIES AND COMMITMENTS (cont'd)

(b) Subscription Receipt Offering (cont'd)

In the event that the closing conditions are not satisfied by November 30, 2007, or if the Acquisition Agreement is terminated prior to such time, the holders of Subscription Receipts will be entitled to receive an amount equal to the full subscription price thereof plus their pro rata share of the interest earned or income generated on such amount.

15. COMPARATIVE FIGURES

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

Dates – Dividends* and Earnings

Expected Earnings Release Dates

August 3, 2007 November 2, 2007
February 6, 2008 May 2, 2008

Dividend Record Dates

May 4, 2007 August 10, 2007
November 9, 2007 February 8, 2008

Dividend Payment Dates

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

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

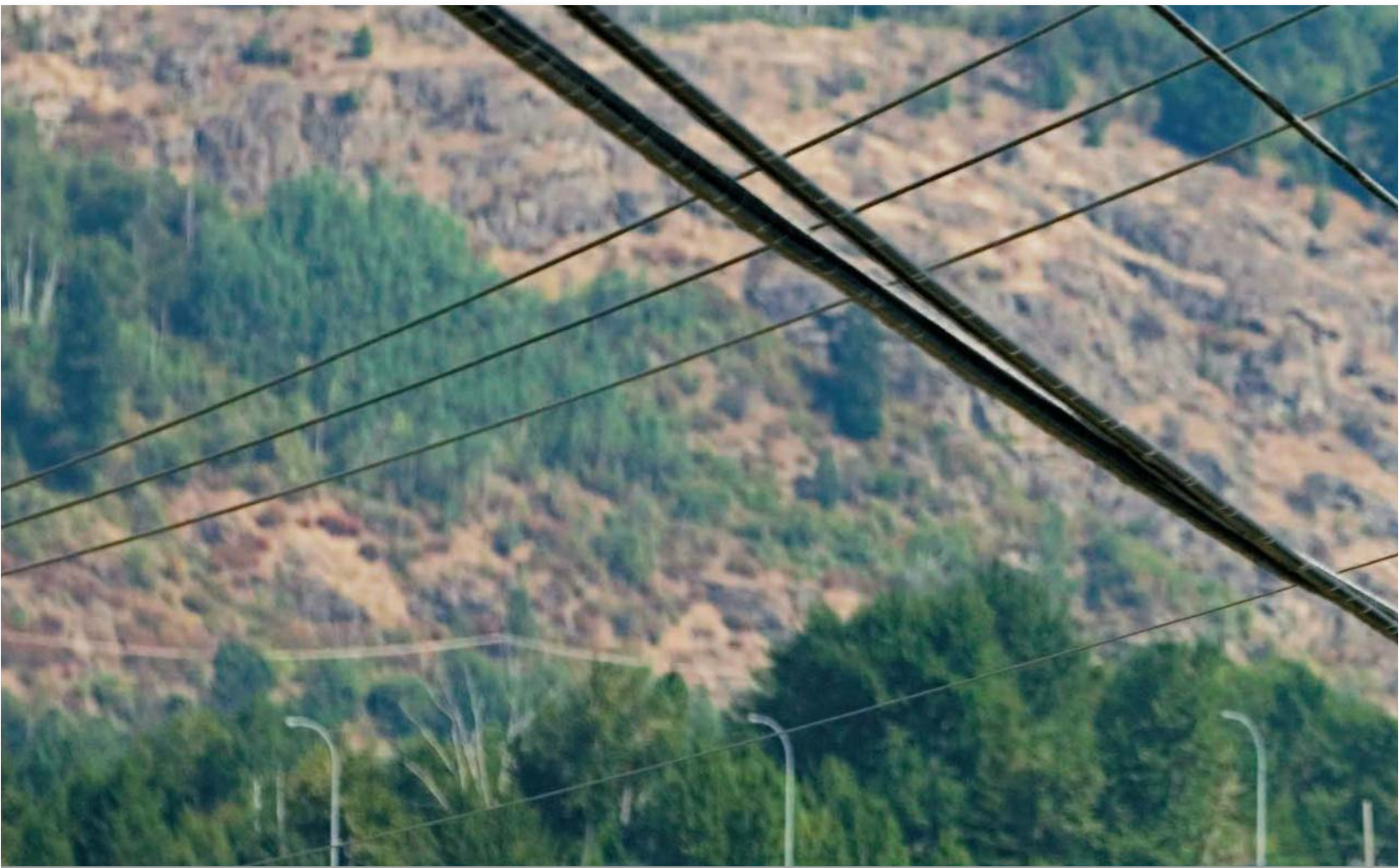
Registrar and Transfer Agent

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

Share Listings

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

Fortis Common Shares (\$)		
Quarter Ended March 31		
	2007	2006
High	30.00	24.60
Low	26.00	21.65
Close	28.01	22.35



FORTIS^{INC.}

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