FORTIS INC.

SECOND QUARTER 2007

powering **performance**

***Dear Shareholder:***

*Earnings applicable to common shares were $41.5 million, or $0.31 per common share, for the second quarter of 2007 compared to earnings of $37.9 million, or $0.37 per common share, for the same quarter last year. Year-to-date earnings applicable to common shares were $83.0 million, or $0.69 per common share, compared to earnings of $74.5 million, or $0.72 per common share, for the same period last year.*

*The quarterly results were impacted by the significant acquisition completed during the quarter. On May 17, 2007, Fortis acquired all of the outstanding shares of Terasen Inc. ("Terasen") from Kinder Morgan, Inc. for $3.7 billion, including assumed debt of $2.4 billion. Terasen owns natural gas distribution businesses carried out by Terasen Gas Inc., Terasen Gas (Vancouver Island) Inc. and Terasen Gas (Whistler) Inc., collectively referred to as Terasen Gas. Terasen Gas serves over 900,000 customers or 95 per cent of natural gas users in British Columbia. The acquisition did not include the refined and crude oil pipelines of Terasen. The financial results of Terasen are included in the consolidated financial statements of Fortis from the date of acquisition.*

*The acquisition of Terasen makes Fortis the largest investor-owned gas and electric distribution utility in Canada. Our expansion into natural gas distribution adds a new business segment and doubles the regulated rate base of Fortis to approximately $6 billion.*

*Regulated utility assets comprise approximately 92 per cent of total assets and regulated utility assets in Canada comprise approximately 84 per cent of total assets. Fortis serves almost 2,000,000 gas and electric customers.*

*Earnings applicable to common shares increased $3.6 million quarter over quarter, driven by FortisAlberta, FortisBC, Fortis Turks and Caicos, and Terasen Gas, which more than offset higher finance charges associated with acquisitions and lower earnings from non-regulated businesses.*

*On May 17, 2007, Fortis completed a $1.15 billion common share issue, the net proceeds of which represented approximately 88 per cent of the funds required to complete the purchase of Terasen. Terasen Gas contributed $1.6 million to earnings for the second quarter. The common share issue, combined with the seasonality of earnings of Terasen Gas, diluted earnings per common share for the second quarter of 2007. Typically, Terasen Gas experiences low earnings in the second quarter with the highest earnings in the first and fourth quarters and a small loss in the third quarter.*

*The Terasen acquisition is expected to be accretive to earnings in the first full year.*

*Canadian Regulated Electric Utilities delivered earnings of $34.0 million for the second quarter of 2007, up $8.6 million from the same quarter last year. The increase in earnings was driven by customer growth and increased energy deliveries at FortisAlberta, and rate increases and electricity sales growth at FortisBC.*

*Caribbean Regulated Electric Utilities contributed earnings of $7.6 million for the second quarter, up $3.2 million from the same quarter last year. The increase was primarily due to contributions from Fortis Turks and Caicos, acquired in August 2006, and electricity sales growth combined with decreased finance charges at Belize Electricity.*

*Non-Regulated Fortis Generation contributed earnings of $4.9 million for the second quarter compared to $6.7 million for the same quarter last year. Results were impacted by lower hydroelectric production due to lower rainfall in Belize, central Newfoundland and Upper New York State.*

*Fortis Properties' earnings were $6.0 million for the second quarter compared to $8.1 million for the same quarter last year. Earnings last year included a $1.6 million after-tax gain on the sale of Days Inn Sydney and a $1.6 million favourable tax adjustment. Excluding these items, earnings increased $1.1 million quarter over quarter, primarily related to the four hotels in western Canada acquired on November 1, 2006.*

*On August 1, 2007, Fortis Properties purchased the Delta Regina in Saskatchewan for $49.95 million. The acquisition is expected to be immediately accretive to earnings of Fortis.*

*In June 2007, Standard & Poor's raised the long-term corporate credit rating of Fortis to 'A-' from 'BBB+' and raised the unsecured debt credit rating of Fortis to 'A-' from 'BBB'. The credit rating upgrades reflect the improved diversity of Fortis resulting from the acquisition of Terasen Gas, the continued focus of Fortis on pursuing acquisitions in stable regulated utilities and the success of FortisAlberta and FortisBC in executing their large capital expenditure programs.*

*Utility capital expenditures, before customer contributions, were $327 million for the first half of 2007. Utility capital expenditures for 2007 are forecasted to be $770 million, including $128 million of capital expenditures at Terasen Gas from the date of acquisition. Capital expenditures at the electric utilities are being driven largely by FortisAlberta and FortisBC to meet customer growth and to enhance the reliability of electricity systems.*

*As we move through the second half of 2007, Fortis is focused on integrating Terasen within the Fortis Group. Our utilities continue to execute on their large capital programs to ensure we meet our obligation to serve customers.*

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

# Fortis Inc.
# Interim Management Discussion and Analysis

For the 3- and 6-months ended June 30, 2007
Dated August 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- and 6-months ended June 30, 2007 and the Management Discussion and Analysis and audited consolidated financial statements for the year ended December 31, 2006 included in the Corporation's 2006 Annual Report. This material has been prepared in accordance with National Instrument 51-102 – Continuous Disclosure Obligations relating to Management Discussion and Analysis. Financial information in this release has been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") and is presented in Canadian dollars unless otherwise specified.

*Fortis includes forward-looking statements in this material which reflect management's expectations regarding the Corporation's future growth, results of operations, performance, business prospects and opportunities. Wherever possible, words such as "anticipate", "believe", "expects", "intend" 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, integration of Terasen and management of expanding operations, gas distribution operating risks, natural gas prices and supply, energy prices, general economic conditions, weather and seasonality, derivatives and hedging, capital resources, loss of service area, licences and permits, environment, insurance, labour relations, human resources and liquidity risk. Fortis cautions readers that a number of factors could cause actual results, performance or achievements to differ materially from the results discussed or implied in the forward-looking statements. These factors should be considered carefully and undue reliance should not be placed on the forward-looking statements. For additional information with respect to certain of these risks or factors, reference should be made to the Corporation's continuous disclosure materials filed from time to time with Canadian securities regulatory authorities including those factors described under the heading "Business Risk Management" in the Management Discussion and Analysis for the year ended December 31, 2006 and in the Management Discussion and Analysis for the 3- and 6-months ended June 30, 2007. The Corporation disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.*

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

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

The Corporation's non-regulated generation assets operate in 3 countries and have a combined generating capacity of 195 MW, principally hydroelectric. Including the hotel acquired on August 1, 2007, the Corporation, through its non-regulated subsidiary Fortis Properties, owns and operates 19 hotels with more than 3,500 rooms in 8 Canadian provinces and 2.8 million square feet of commercial real estate in Atlantic Canada.

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

## BUSINESS ACQUISITION

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

A significant portion of the purchase price for Terasen was satisfied with the net proceeds of the public offering of Subscription Receipts completed by Fortis on March 15, 2007. Fortis issued 44,275,000 Subscription Receipts for gross proceeds of approximately $1.15 billion. Upon closing of the acquisition on May 17, 2007, each Subscription Receipt was automatically exchanged, without payment of additional consideration, for one Common Share of Fortis. Each Subscription Receipt also received a cash payment of $0.21, which was an amount equal to the dividends declared on the Common Shares of Fortis from March 15, 2007 to May 17, 2007. The remaining cash purchase price was financed by drawing $125 million on the Corporation's existing credit facilities. In connection with such borrowing, Fortis entered into an amended and restated credit agreement with its lenders to increase the amount of the credit facility to $500 million, with the ability to further increase it to $600 million.

On May 14, 2007, Fortis terminated a $1.43 billion acquisition credit facility agreement with Canadian Imperial Bank of Commerce, which had been established to fund, if necessary, the full cash purchase price for the acquisition. No funds were drawn under this credit facility.

## 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 second quarter and year-to-date periods ended June 30, 2007 and June 30, 2006 are provided in the table below. The table is followed by a discussion of the financial results of the Corporation's segments.

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

| | Quarter | | | Year-to-date | | |
|---|---|---|---|---|---|---|
| *($ millions, except earnings per common share and common shares outstanding)* | **2007** | 2006 | Variance | **2007** | 2006 | Variance |
| Revenue and equity income | **565.9** | 345.9 | 220.0 | **1,048.9** | 736.7 | 312.2 |
| Cash flow from operations | **68.2** | 57.8 | 10.4 | **161.8** | 107.2 | 54.6 |
| Net earnings applicable to common shares | **41.5** | 37.9 | 3.6 | **83.0** | 74.5 | 8.5 |
| Basic earnings per common share *($)* | **0.31** | 0.37 | (0.06) | **0.69** | 0.72 | (0.03) |
| Diluted earnings per common share *($)* | **0.27** | 0.35 | (0.08) | **0.61** | 0.69 | (0.08) |
| Weighted average number of common shares outstanding *(millions)* | **131.1** | 103.4 | 27.7 | **120.2** | 103.4 | 16.8 |

**Segmented Net Earnings**

| | Quarter | | | Year-to-date | | |
|---|---|---|---|---|---|---|
| | **2007** | 2006 | Variance | **2007** | 2006 | Variance |
| **Regulated Gas Utilities - Canadian** [(1)] | **1.6** | - | 1.6 | **1.6** | - | 1.6 |
| **Regulated Electric Utilities - Canadian** | | | | | | |
| FortisAlberta | *15.5* | *11.3* | *4.2* | *27.4* | *20.8* | *6.6* |
| FortisBC [(2)] | *6.5* | *3.4* | *3.1* | *18.2* | *15.3* | *2.9* |
| Newfoundland Power | *8.0* | *8.0* | *-* | *18.5* | *18.7* | *(0.2)* |
| Other Canadian [(3)] | *4.0* | *2.7* | *1.3* | *7.9* | *5.7* | *2.2* |
| | **34.0** | 25.4 | 8.6 | **72.0** | 60.5 | 11.5 |
| **Regulated Electric Utilities - Caribbean** [(4)] | **7.6** | 4.4 | 3.2 | **11.7** | 7.5 | 4.2 |
| **Non-Regulated - Fortis Generation** [(5)] | **4.9** | 6.7 | (1.8) | **12.2** | 12.1 | 0.1 |
| **Non-Regulated - Fortis Properties** | **6.0** | 8.1 | (2.1) | **7.8** | 9.6 | (1.8) |
| **Corporate and Other** [(6)] | **(12.6)** | (6.7) | (5.9) | **(22.3)** | (15.2) | (7.1) |
| **Net earnings applicable to common shares** | **41.5** | 37.9 | 3.6 | **83.0** | 74.5 | 8.5 |

(1) Includes the natural gas distribution businesses of Terasen carried out by Terasen Gas. Financial results for Terasen Gas are from May 17, 2007, the date of acquisition.

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

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

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

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

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

## REGULATED GAS UTILITIES - CANADIAN

### Terasen Gas

| Terasen Gas (1)<br>Financial Highlights (Unaudited)<br>Period Ended June 30th | |
|---|---|
| | Second Quarter 2007 |
| **Gas Volumes (TJ)** | **17,744** |
| *($ millions)* | |
| Revenue | **129.6** |
| Energy Supply Costs | **72.9** |
| Operating Expenses | **27.7** |
| Amortization | **11.6** |
| Finance Charges | **15.2** |
| Corporate taxes | **0.6** |
| **Earnings** | **1.6** |
| (1) Data in table is from May 17, 2007. | |

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

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

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

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

*Earnings:* From the date of acquisition, Terasen Gas contributed $1.6 million of earnings for the second quarter. Cooler temperatures during the second quarter had a significant impact on the consumption of gas by customers. As consumption rises, both revenue and cost of gas rise. As a result of the operation of BCUC-approved regulatory deferral mechanisms, changes in average consumption levels and the commodity cost of natural gas do not materially impact earnings of Terasen Gas. These mechanisms accumulate the margin impact of variations in the actual-versus-forecast gas volumes consumed by residential and commercial customers and also accumulate differences between actual natural gas costs and forecast natural gas costs as recovered in base rates.

Seasonality materially impacts the earnings of Terasen Gas. Typically, higher earnings experienced in the first and fourth quarters and lower earnings experienced in the second quarter are partially offset by losses incurred in the third quarter.

*Gas volumes*: From the date of acquisition, gas volumes were 17,744 TJ for the second quarter. For the full quarter, gas volumes were 44,478 TJ compared to 39,930 TJ for the same quarter last year. The 11.4 per cent increase in gas volumes was primarily driven by higher consumption as a result of cooler-than-normal temperatures compared to the same period last year.

*Revenue:* From the date of acquisition, Terasen Gas contributed $129.6 million of revenue for the second quarter. For the full quarter, revenue was $344.5 million compared to $305.6 million for the same quarter last year. The increase was primarily the result of higher average consumption; however, changes in consumption levels of natural gas did not materially impact earnings as a result of the operation of the regulatory deferral mechanisms described above.

Following the acquisition of Terasen and discussions with management, Standard & Poor's ("S&P") raised its unsolicited long-term corporate credit and senior unsecured debt credit ratings on TGI to 'A' from 'BBB' on June 19, 2007, reflecting S&P's view that the regulatory insulation between TGI and Terasen is sufficient to rate TGI on a basis that reflects its stand-alone credit quality. The rating also reflects TGI's low-risk, regulated natural gas distribution business.

## REGULATED ELECTRIC UTILITIES - CANADIAN

### FortisAlberta

| FortisAlberta<br>Financial Highlights (Unaudited)<br>Periods Ended June 30th | | | | | | |
|---|---|---|---|---|---|---|
| | Quarter | | | Year-to-date | | |
| | **2007** | 2006 | Variance | **2007** | 2006 | Variance |
| **Energy Deliveries (GWh)** | **3,650** | 3,538 | 112 | **7,595** | 7,292 | 303 |
| *($ millions)* | | | | | | |
| Revenue | **68.7** | 58.6 | 10.1 | **132.0** | 120.4 | 11.6 |
| Operating Expenses | **30.5** | 26.9 | 3.6 | **59.4** | 55.6 | 3.8 |
| Amortization | **18.6** | 18.5 | 0.1 | **36.6** | 34.2 | 2.4 |
| Finance Charges | **8.8** | 7.5 | 1.3 | **17.4** | 14.3 | 3.1 |
| Corporate Tax Recovery | **(4.7)** | (5.6) | 0.9 | **(8.8)** | (4.5) | (4.3) |
| **Earnings** | **15.5** | 11.3 | 4.2 | **27.4** | 20.8 | 6.6 |

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

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

In June 2007, FortisAlberta received AEUB approval allowing FortisAlberta the ability to sell amounts in its annual AESO Charges Deferral Account. As at June 30, 2007, the balance in the AESO Charges Deferral Account available for sale was $39.4 million.

On June 1, 2007, FortisAlberta filed its 2008/2009 Distribution Access Tariff Application with the AEUB, requesting an increase in base distribution rates of 8.5 per cent, effective January 1, 2008, and 9.0 per cent, effective January 1, 2009. The Application also includes forecast gross capital expenditures of $282.8 million for 2008 and $311.9 million for 2009, primarily to meet customer growth and improve system reliability. The requested rate increases are primarily due to the significant investment in electrical infrastructure.

*Earnings:* FortisAlberta's earnings were $4.2 million higher quarter over quarter, primarily due to higher revenue, partially offset by higher operating expenses and finance charges. Earnings were $6.6 million higher year to date compared to the same period last year, primarily due to higher revenue and higher corporate tax recoveries, which more than offset higher operating expenses, amortization costs and finance charges.

*Energy Deliveries*: Energy deliveries increased 112 gigawatt hours ("GWh"), or 3.2 per cent, for the quarter and increased 303 GWh, or 4.2 per cent, year to date compared to the same periods last year, due to increased energy deliveries driven by customer growth.

*Revenue:* Revenue was $10.1 million higher quarter over quarter. The increase was due to the $3.5 million combined impact of customer growth, increased energy deliveries and the 0.7 per cent increase in distribution rates billed to customers, effective January 1, 2007; differences in the impact of various revenue deferrals of $2.6 million; increased net transmission revenue of $2.2 million related to increased energy deliveries, number of customers and AESO billing deferral adjustments, as well as increased miscellaneous and franchise fee revenue.

Revenue was $11.6 million higher year to date compared to the same period last year. The increase was due to the $5.7 million combined impact of customer growth, increased energy deliveries and the 0.7 per cent increase in distribution rates billed to customers, effective January 1, 2007; differences in the impact of various revenue deferrals of $2.8 million as well as increased miscellaneous, franchise fee and net transmission revenue.

*Expenses:* Operating expenses were $3.6 million higher quarter over quarter, primarily due to higher labour and employee-benefits costs, staff and vehicle expenses and other taxes, partially offset by the elimination of self-insurance expense in 2007 and increased amounts charged to capital projects. Operating expenses were $3.8 million higher year to date compared to the same period last year, primarily due to higher labour and employee-benefits costs and other taxes, partially offset by lower contracted manpower expenses and increased amounts charged to capital projects.

Amortization costs were comparable quarter over quarter, despite an increase in capital assets. However, amortization costs during the second quarter last year included a year-to-date adjustment for the overall increase in 2006 amortization rates as a result of the 2006/2007 Negotiated Settlement Agreement that was approved by the AEUB in June 2006. Amortization costs were $2.4 million higher year to date compared to the same period last year due to an increase in capital assets driven by load growth within the Company's service territory.

Finance charges were $1.3 million higher for the quarter and $3.1 million higher year to date compared to the same periods last year, primarily due to higher debt levels to finance increased levels of capital spending.

Corporate tax recovery was $0.9 million lower quarter over quarter, primarily due to an increase in earnings before corporate taxes, partially offset by an increase in deductions taken for corporate income tax purposes in excess of amounts taken for accounting purposes in 2007 as compared to 2006. Corporate tax recovery was $4.3 million higher year to date compared to the same period last year, primarily due to an increase in deductions taken for corporate income tax purposes in excess of amounts taken for accounting purposes in 2007 as compared to 2006.

## FortisBC

| FortisBC<br>Financial Highlights (Unaudited)<br>Periods Ended June 30th | | | | | | |
|---|---|---|---|---|---|---|
| | Quarter | | | Year-to-date | | |
| | **2007** | 2006 | Variance | **2007** | 2006 | Variance |
| **Electricity Sales (GWh)** | **670** | 662 | 8 | 1,549 | 1,502 | 47 |
| *($ millions)* | | | | | | |
| Revenue | **51.6** | 45.8 | 5.8 | **115.2** | 108.6 | 6.6 |
| Energy Supply Costs | **13.2** | 13.9 | (0.7) | **33.3** | 33.1 | 0.2 |
| Operating Expenses | **16.9** | 16.0 | 0.9 | **32.9** | 31.4 | 1.5 |
| Amortization | **7.7** | 6.5 | 1.2 | **15.5** | 13.7 | 1.8 |
| Finance Charges | **6.1** | 5.7 | 0.4 | **12.2** | 11.3 | 0.9 |
| Corporate Taxes | **1.2** | 0.3 | 0.9 | **3.1** | 3.8 | (0.7) |
| **Earnings** | **6.5** | 3.4 | 3.1 | **18.2** | 15.3 | 2.9 |

*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 changing the treatment of financing costs associated with large capital projects during the period of construction. The decision allowed for an effective 2.1 per cent incremental increase, over the original 1.2 per cent increase, in 2007 customer rates. As 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 will be recovered in 2008 customer rates. The amount to be recovered was accrued in the first quarter of 2007.

*Earnings:* FortisBC's earnings were $3.1 million higher quarter over quarter, driven by increased electricity rates, higher electricity sales and lower energy supply costs, partially offset by higher operating expenses, amortization costs and finance charges. Earnings were $2.9 million higher year to date compared to the same period last year, driven by increased electricity rates, higher electricity sales and lower corporate taxes, partially offset by higher operating expenses, amortization costs and finance charges.

*Electricity Sales:* Electricity sales increased 8 GWh, or 1.2 per cent, for the quarter and increased 47 GWh, or 3.1 per cent, year to date compared to the same periods last year. The increase in electricity sales was primarily attributable to a reduction in the estimate of electrical system losses and continued customer growth in the Okanagan area. During the first quarter of 2007, an analysis of electrical system losses resulted in a reduction of the estimate of system losses, effective January 1, 2007. The reduction in the system losses reflects efficiency improvements created by the Company's ongoing capital program of upgrading and replacing generation, transmission and distribution systems, as well as refinement in the estimation process.

*Revenue:* Revenue was $5.8 million higher for the quarter and $6.6 million higher year to date compared to the same periods last year. The increase in revenue was primarily due to the impact of a 3.3 per increase in electricity rates, effective January 1, 2007, including the accrual during the first quarter of 2007 of the 2.1 per cent increase in electricity rates to be collected from customers in 2008; higher revenue contributions from non-regulated operating, maintenance and management services; customer growth; and a decrease in PBR-incentive adjustments owing to customers.

*Expenses:* Energy supply costs were $0.7 million lower quarter over quarter, due to a higher proportion of energy generated from Company-owned hydroelectric generating plants versus purchased energy. Energy supply costs were $0.2 million higher year to date compared to the same period last year, primarily due to increased electricity sales and higher average power purchase prices, substantially offset by a higher proportion of energy generated from Company-owned hydroelectric generating plants versus purchased energy.

Operating expenses were $0.9 million higher quarter over quarter, primarily related to higher non-regulated operating, maintenance and management services expenses. Operating expenses during the second quarter of 2006 were increased by a year-to-date adjustment. During the first quarter of 2006, FortisBC changed its estimate of capitalized overhead to approximately 27.5 per cent of gross operating and maintenance expenses. However, in May 2006, the BCUC approved the capitalized overhead rate at 20 per cent, effective January 1, 2006, as part of the 2006 Negotiated Settlement Agreement, resulting in the adjustment recorded.

Operating expenses were $1.5 million higher year to date compared to the same period last year, driven by increased operating expenses associated with non-regulated operating, maintenance and management services.

Amortization costs were $1.2 million higher for the quarter and $1.8 million higher year to date compared to the same periods last year, primarily as a result of an increase in the capital assets of FortisBC due to its capital expenditure program.

Finance charges were $0.4 million higher for the quarter and $0.9 million higher year to date compared to the same periods last year, primarily due to increased borrowings to finance the Company's capital expenditure program.

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

Corporate taxes were $0.9 million higher quarter over quarter, primarily due to higher earnings before corporate taxes, partially offset by an increase in deductions taken for corporate income tax purposes in excess of amounts taken for accounting purposes in 2007 as compared to 2006. Corporate taxes were $0.7 million lower year to date compared to the same period last year, primarily due to an increase in deductions taken for corporate income tax purposes in excess of amounts taken for accounting purposes in 2007 as compared to 2006, partially offset by higher earnings before corporate taxes.

## Newfoundland Power

**Newfoundland Power**
**Financial Highlights (Unaudited)**
**Periods Ended June 30th**

| | Quarter | | | Year-to-date | | |
|---|---|---|---|---|---|---|
| | **2007** | 2006 | Variance | **2007** | 2006 | Variance |
| **Electricity Sales (GWh)** | **1,172** | 1,137 | 35 | **2,835** | 2,771 | 64 |
| *($ millions)* | | | | | | |
| Revenue | **114.7** | 97.3 | 17.4 | **269.1** | 229.1 | 40.0 |
| Energy Supply Costs | **73.9** | 57.7 | 16.2 | **180.0** | 140.3 | 39.7 |
| Operating Expenses | **12.6** | 12.5 | 0.1 | **26.8** | 27.1 | (0.3) |
| Amortization | **8.5** | 7.9 | 0.6 | **18.8** | 17.7 | 1.1 |
| Finance Charges | **8.2** | 8.0 | 0.2 | **16.5** | 16.2 | 0.3 |
| Corporate Taxes | **3.3** | 3.0 | 0.3 | **8.2** | 8.8 | (0.6) |
| Non-Controlling Interest | **0.2** | 0.2 | - | **0.3** | 0.3 | - |
| **Earnings** | **8.0** | 8.0 | - | **18.5** | 18.7 | (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.

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

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

The new purchased power rate structure for 2007 results in the Company paying more, on average, for each kilowatt hour ("kWh") of purchased power in the winter months and less, on average, for each kWh of purchased power in the summer months compared to 2006. Newfoundland Power has recorded purchased power costs during the first half of 2007 based on forecast annual unit purchased power cost. The amount in excess of the forecast annual unit cost of purchased power has been deferred to a PUB-approved deferral account. Net transfers to the deferral account for the 2007 fiscal year are not expected to be material.

On May 10, 2007, Newfoundland Power filed its 2008 General Rate Application ("GRA") requesting an overall average increase to current customer electricity rates of approximately 5.3 per cent, effective January 1, 2008. The requested rate increase is driven by higher amortization and post-retirement expenses and a proposed increase in the Company's ROE. The 2008 GRA is currently under review by the PUB with a public hearing expected during the fall of 2007.

On June 29, 2007, Newfoundland Power filed its 2008 Capital Budget for $50.8 million with the PUB.

*Earnings:* Newfoundland Power's earnings of $8.0 million for the quarter were comparable to the same quarter last year. The impact of electricity sales growth was offset by a reduction in the allowed ROE for 2007 and increased amortization costs. Earnings year to date of $18.5 million were slightly lower compared to the same period last year. The impact of electricity sales growth and lower effective corporate taxes was offset by a reduction in the allowed ROE for 2007 and increased amortization costs.

*Electricity Sales:* Electricity sales increased 35 GWh, or 3.1 per cent, for the quarter and increased 64 GWh, or 2.3 per cent, year to date compared to the same periods last year. The increase was due to customer growth and higher average consumption.

*Revenue:* Revenue was $17.4 million higher for the quarter and $40.0 million higher year to date compared to the same periods last year. The increase resulted from the flow-through of higher purchased power costs from Newfoundland Hydro, effective January 1, 2007, and increased electricity sales, partially offset by a reduction in revenue due to a lower allowed ROE for 2007.

*Expenses:* Energy supply costs were $16.2 million higher for the quarter and $39.7 million higher year to date compared to the same periods last year, due to higher purchased power costs from Newfoundland Hydro, effective January 1, 2007, and increased electricity sales.

Operating expenses were comparable quarter over quarter and $0.3 million lower year to date compared to the same period last year. Operating expenses were lower year to date, primarily due to lower pension costs reflecting improved performance of pension plan assets and the conclusion in March 2007 of the amortization of retirement allowances associated with a 2005 early retirement program.

Amortization costs were $0.6 million higher for the quarter and $1.1 million higher year to date compared to the same periods last year, primarily due to the continued investment in capital assets required to provide electricity service to customers. Amortization costs also continue to be allocated quarterly based on contribution margin.

Corporate taxes were $0.3 million higher quarter over quarter, due to higher earnings before corporate taxes and a favourable adjustment to corporate taxes during the second quarter last year primarily associated with recording the effect of the elimination of the Federal Large Corporations' Tax. Corporate taxes were $0.6 million lower year to date compared to the same period last year. The effective corporate tax rate year to date was lower compared to the same period last year due to tax treatment applied to the Rattling Brook hydroelectric plant project included in Newfoundland Power's 2007 capital program.

### Other Canadian Electric Utilities

| Other Canadian Electric Utilities (Unaudited) [(1)] Financial Highlights Periods Ended June 30th | | | | | | |
|---|---|---|---|---|---|---|
| | Quarter | | | Year-to-date | | |
| | **2007** | 2006 | Variance | **2007** | 2006 | Variance |
| **Electricity Sales (GWh)** | | | | | | |
| Maritime Electric | **255** | 241 | 14 | **527** | 496 | 31 |
| FortisOntario | **261** | 259 | 2 | **591** | 584 | 7 |
| **Total** | **516** | 500 | 16 | **1,118** | 1,080 | 38 |
| *($ millions)* | | | | | | |
| Revenue | **65.3** | 62.1 | 3.2 | **135.0** | 125.2 | 9.8 |
| Energy Supply Costs | **43.1** | 42.0 | 1.1 | **91.4** | 86.1 | 5.3 |
| Operating Expenses | **7.3** | 7.2 | 0.1 | **14.0** | 13.7 | 0.3 |
| Amortization | **4.2** | 3.9 | 0.3 | **8.3** | 7.7 | 0.6 |
| Finance Charges | **4.2** | 3.9 | 0.3 | **8.4** | 7.4 | 1.0 |
| Corporate Taxes | **2.5** | 2.4 | 0.1 | **5.0** | 4.6 | 0.4 |
| **Earnings** | **4.0** | 2.7 | 1.3 | **7.9** | 5.7 | 2.2 |

[(1)] Includes Maritime Electric and FortisOntario

*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. In June 2007, Maritime Electric filed its 2008 Capital Budget for approximately $18.6 million, before customer contributions of $0.2 million. Maritime Electric expects to file a rate application with IRAC in the fall of 2007 for the purpose of setting rates for 2008.

In April 2007, the Ontario Energy Board ("OEB") issued its Decisions and Interim Orders concerning Canadian Niagara Power's Electricity Distribution Rate Applications associated with its operations in Fort Erie and Port Colborne and a Decision and Final Order associated with its operations in Gananoque. The OEB-approved electricity distribution rates, effective May 1, 2007, reflect the impact of the new incentive rate mechanism 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. In July 2007, the OEB issued its Decision and Order approving the recovery in customer rates, as requested by Canadian Niagara Power, of approximately $2 million in extraordinary costs incurred as a result of the snow storm that occurred in October 2006.

*Earnings:* Earnings from the Other Canadian electric utilities were $1.3 million higher quarter over quarter, primarily due to the 3.35 per cent increase in basic electricity rates at Maritime Electric, effective July 1, 2006, higher electricity sales and a lower effective corporate tax rate. Earnings were $2.2 million higher year to date compared to the same period last year, primarily due to the 3.35 per cent increase in basic electricity rates at Maritime Electricity, effective July 1, 2006; an increase in distribution electricity rates at FortisOntario, effective May 1, 2006; and increased electricity sales and a lower effective corporate tax rate, partially offset by higher finance charges.

*Electricity Sales:* Electricity sales increased 16 GWh, or 3.2 per cent, quarter over quarter, driven by higher average consumption as a result of cooler-than-normal weather conditions experienced in PEI. Electricity sales in Ontario were comparable quarter over quarter. Electricity sales increased 38 GWh, or 3.5 per cent, year to date compared to the same period last year, driven by higher average consumption as a result of cooler-than-normal weather conditions experienced in PEI and Ontario.

*Revenue:* Revenue was $3.2 million higher for the quarter and $9.8 million higher year to date compared to the same periods last year. The increase was due to the 3.35 per cent increase in basic electricity rates at Maritime Electric, effective July 1, 2006, increases in electricity rates at FortisOntario and higher electricity sales, partially offset by lower market energy prices billed to FortisOntario customers and decreased other revenue at Fortis Ontario.

*Expenses:* Energy supply costs were $1.1 million higher for the quarter and $5.3 million higher year to date compared to the same periods last year. The increase was driven by higher electricity sales and increased power purchase rates at FortisOntario, partially offset by lower market energy prices paid at FortisOntario.

Finance charges were $0.3 million higher for the quarter and $1.0 million higher year to date compared to the same periods last year, due to borrowings associated with Maritime Electric's capital expenditure and operating programs and higher energy supply costs.

The effective corporate tax rate was 38.5 per cent for the second quarter compared to 47.1 per cent for the same quarter last year. Year to date, the effective corporate tax rate was 38.8 per cent compared to 44.7 per cent for the same period last year. During the second quarter of 2006, a charge to future tax expense was recorded at FortisOntario due to the reduction of future income tax asset balances, as a result of enacted future Federal income tax rate reductions, resulting in a higher effective tax rate during the second quarter and year to date period last year.

## REGULATED ELECTRIC UTILITIES – CARIBBEAN

| Regulated Electric Utilities – Caribbean (1)<br>Financial Highlights (Unaudited)<br>Periods Ended June 30th | | | | | | |
|---|---|---|---|---|---|---|
| | Quarter | | | Year-to-date | | |
| | **2007** | 2006 | Variance | **2007** | 2006 | Variance |
| **Average US:CDN Exchange Rate (2)** | **1.10** | 1.14 | (0.04) | **1.13** | 1.15 | (0.02) |
| **Electricity Sales (GWh)** | | | | | | |
| Belize Electricity | **99** | 93 | 6 | **186** | 173 | 13 |
| Caribbean Utilities | **123** | 110(3) | 13 | **245** | 220(3) | 25 |
| Fortis Turks and Caicos | **36** | 31(3) | 5 | **68** | 57(3) | 11 |
| **Total** | **258** | 234 | 24 | **499** | 450 | 49 |
| *($ millions)* | | | | | | |
| Revenue | **74.4** | 22.7 | 51.7 | **151.4** | 42.8 | 108.6 |
| Equity income | **-** | 2.1 | (2.1) | **-** | 3.7 | (3.7) |
| Energy Supply Costs | **41.0** | 13.4 | 27.6 | **84.7** | 25.1 | 59.6 |
| Operating Expenses | **11.4** | 2.7 | 8.7 | **28.2** | 5.4 | 22.8 |
| Amortization | **6.9** | 1.4 | 5.5 | **14.2** | 2.8 | 11.4 |
| Finance Charges | **3.6** | 1.4 | 2.2 | **7.4** | 3.0 | 4.4 |
| Foreign Exchange Loss (Gain) | **0.1** | 0.2 | (0.1) | **0.1** | 0.3 | (0.2) |
| Corporate Taxes | **0.4** | 0.3 | 0.1 | **0.8** | 0.7 | 0.1 |
| Non-Controlling Interest | **3.4** | 1.0 | 2.4 | **4.3** | 1.7 | 2.6 |
| **Earnings** | **7.6** | 4.4 | 3.2 | **11.7** | 7.5 | 4.2 |

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

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

(3) Presented for comparison purposes and represents electricity sales as reported by Caribbean Utilities and Fortis Turks and Caicos. Revenue for the Regulated Electric Utilities – Caribbean segment for the 3- and 6-months ended June 30, 2006 does not reflect these electricity sales as neither Caribbean Utilities nor Fortis Turks and Caicos were consolidated in the financial statements of Fortis during these periods.

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, quarterly data presented above for 2007 and 2006 includes financial results for Caribbean Utilities for its fourth quarter ended April 30, 2007 and April 30, 2006, respectively. The year-to-date financial data for 2007 and 2006 above includes financial results for Caribbean Utilities for the 6-month period ended April 30, 2007 and April 30, 2006, respectively.

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

Licence renewal negotiations between Caribbean Utilities and the Government of the Cayman Islands (the "Government") recommenced in November 2005 and are continuing. The Company's current Licence remains in full force and effect until January 2011 or until replaced with a new licence by mutual agreement. Under its current Licence, Caribbean Utilities was entitled to a 4.5 per cent rate increase, effective August 1, 2007, primarily due to the cost associated with the write-down of the steam turbine and boiler system ("steam system") assets, increased operating costs, and investment in capital assets. Caribbean Utilities did not implement this rate increase, as it agreed with Government that it would freeze basic electricity rates during the period of the hurricane cost recovery surcharge ("CRS"). The CRS is expected to remain in place until 2008. As at April 30, 2007, a total of US$7.6 million has been collected since the CRS implementation date of August 1, 2005, leaving US$5.8 million to be collected from customers.

*Earnings:* Earnings contribution from Regulated Electric Utilities - Caribbean was $3.2 million higher quarter over quarter, driven by earnings of $2.4 million from Fortis Turks and Caicos combined with electricity sales growth and lower finance charges at Belize Electricity. The impact on the Corporation's earnings of an increased investment in Caribbean Utilities to 54 per cent from 37 per cent, effective January 1, 2007, was offset by the impact of lower reported earnings at Caribbean Utilities quarter over quarter, due to increased operating expenses and amortization costs.

Earnings contribution from Regulated Electric Utilities - Caribbean was $4.2 million higher year to date compared to the same period last year, driven by earnings of $4.2 million from Fortis Turks and Caicos. The impact of electricity sales growth and lower finance charges at Belize Electricity was offset by lower earnings contribution from Caribbean Utilities. The impact on the Corporation's earnings of an increased investment in Caribbean Utilities to 54 per cent from 37 per cent, effective January 1, 2007, was more than offset by the impact of lower reported earnings at Caribbean Utilities year to date due to a $4.4 million (US$3.7 million) charge associated with the disposal of its steam system assets during the first quarter of 2007 and higher operating expenses. Year-to-date 2007, Caribbean Utilities contributed $1.9 million in earnings to the Corporation compared to $3.7 million for the same period last year.

The comparability of revenue, equity income and expenses quarter over quarter and year to date compared to the same period last year was significantly impacted by the acquisition of Fortis Turks and Caicos and increased investment in Caribbean Utilities. Revenue and expenses reported by the Corporation during the first half of 2006 did not include the results of Fortis Turks and Caicos or Caribbean Utilities, as neither utility's financial results were consolidated in the Corporation's financial statements during that period. Fortis Turks and Caicos was acquired on August 28, 2006 and Caribbean Utilities' financial results were accounted for on an equity basis during the first half of 2006.

*Electricity Sales:* Belize Electricity's electricity sales were approximately 6.5 per cent higher for the quarter and 7.5 per cent higher year to date compared to the same periods last year, with electricity sales growth expected at 6.0 per cent for 2007. Electricity sales reported by Caribbean Utilities were approximately 11.8 per cent higher for the quarter and 11.4 per cent higher year to date compared to the same periods last year. Caribbean Utilities forecasts electricity sales growth of 8 per cent for its April 30, 2008 fiscal year end. Electricity sales reported by Fortis Turks and Caicos were approximately 16.1 per cent higher for the quarter and 19.3 per cent higher year to date compared to the same periods last year. This growth is expected to continue during the remainder of 2007. Electricity sales growth in the Corporation's service territories in the Caribbean is generally due to customer growth driven by strong local economies fueling new residential, commercial and hotel construction.

*Revenue:* Fortis Turks and Caicos contributed $9.9 million to revenue for the second quarter and $19.4 million year to date, while Caribbean Utilities contributed $41.0 million to revenue for the second quarter and $86.3 million year to date. Revenue was also favourably impacted by electricity sales growth at Belize Electricity.

*Expenses:* In addition to the impact of Fortis Turks and Caicos and the consolidation of Caribbean Utilities' financial results effective January 1, 2007, energy supply costs increased due to electricity sales growth at Belize Electricity.

Caribbean Utilities' operating expenses consolidated in the financial results of the Corporation during the second quarter of 2007 were higher than operating expenses reported by Caribbean Utilities for the same quarter last year, due to higher maintenance costs associated with its generators and operating expenses during the second quarter of 2006 being reduced by a $1.4 million (US$1.2 million) gain on disposal of assets associated with an insurance settlement. During the first quarter of 2007, Regulated Electric Utilities - Caribbean operating expenses included a

$4.4 million (US$3.7 million) charge on the disposal of Caribbean Utilities' steam system assets, and increased maintenance costs associated with the Company's generators.

The increase in finance charges for the quarter and year to date compared to the same periods last year, due to Fortis Turks and Caicos and the consolidation of Caribbean Utilities' financial results effective January 1, 2007, was partially offset by lower finance charges at Belize Electricity, due to lower debt balances compared to the same periods last year. In June 2006, proceeds from a share offering at Belize Electricity were used to repay certain trade payables, inter-company loans, and drawings on overdraft facilities incurred primarily to finance the high cost of power and fuel.

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

In June 2007, Caribbean Utilities commissioned a new 16-MW diesel-fired generating unit and, combined with the purchase of 2 previously leased mobile generating units with a combined capacity of 4 MW, the Company's total installed generating capacity has increased to 140 MW.

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)**
**Periods Ended June 30th**

| | Quarter | | | Year-to-date | | |
|---|---|---|---|---|---|---|
| **Energy Sales (GWh)** | **2007** | 2006 | Variance | **2007** | 2006 | Variance |
| Belize | **26** | 33 | (7) | **70** | 60 | 10 |
| Ontario | **177** | 177 | - | **361** | 364 | (3) |
| Central Newfoundland | **32** | 39 | (7) | **66** | 77 | (11) |
| British Columbia | **16** | 13 | 3 | **19** | 17 | 2 |
| Upper New York State | **23** | 28 | (5) | **49** | 57 | (8) |
| **Total** | **274** | 290 | (16) | **565** | 575 | (10) |

| | Quarter | | | Year-to-date | | |
|---|---|---|---|---|---|---|
| *($ millions)* | **2007** | 2006 | Variance | **2007** | 2006 | Variance |
| Revenue | **17.6** | 20.5 | (2.9) | **38.8** | 39.8 | (1.0) |
| Energy Supply Costs | **1.7** | 1.4 | 0.3 | **3.8** | 3.3 | 0.5 |
| Operating Expenses | **3.5** | 3.9 | (0.4) | **7.6** | 7.9 | (0.3) |
| Amortization | **2.8** | 2.6 | 0.2 | **5.4** | 5.3 | 0.1 |
| Finance Charges | **2.4** | 2.5 | (0.1) | **4.8** | 5.2 | (0.4) |
| Corporate Taxes | **2.1** | 2.9 | (0.8) | **4.5** | 5.1 | (0.6) |
| Non-Controlling Interest | **0.2** | 0.5 | (0.3) | **0.5** | 0.9 | (0.4) |
| **Earnings** | **4.9** | 6.7 | (1.8) | **12.2** | 12.1 | 0.1 |

*Earnings:* Earnings from Non-Regulated - Fortis Generation were $1.8 million lower quarter over quarter, primarily due to decreased production. Year to date, earnings were comparable to the same period last year.

*Energy Sales*: Energy sales decreased 16 GWh, or 5.5 per cent, quarter over quarter, primarily due to lower production as a result of lower rainfall in Belize, central Newfoundland and Upper New York State. Energy sales decreased 10 GWh, or 1.7 per cent, year to date compared to the same period last year, primarily due to lower production in central Newfoundland and Upper New York State as a result of lower rainfall, partially offset by increased production in Belize due to higher rainfall in the first quarter of 2007 and the operation of the Chalillo dam.

*Revenue:* Revenue was $2.9 million lower quarter over quarter, primarily due to decreased energy sales, lower insurance proceeds of $0.9 million associated with the Dolgeville plant in Upper New York State and the impact of lower average wholesale energy prices in Ontario. The decrease was partially offset by higher revenue associated with the flow through of increased energy supply-related costs in central Newfoundland, which had no impact on earnings, and higher prices for energy sold in Upper New York State. The average wholesale energy price per megawatt hour ("MWh") in Ontario during the second quarter was $42.93 compared to $45.32 for the same quarter last year. The average price per MWh of energy sold in Upper New York State during the second quarter was $63.72, up from $56.11 for the same quarter last year. The increase was due to the expiry of 2 fixed-rate energy sale contracts, for which energy was sold at lower-than-market rates, and their replacement with market-rate energy sale contracts, effective January 1, 2007.

Revenue was $1.0 million lower year to date compared to the same period last year, primarily due to decreased energy sales and lower business-interruption insurance proceeds of $0.9 million associated with the Dolgeville plant in Upper New York State. The decrease was partially offset by higher revenue associated with the flow through of increased energy supply-related costs, as noted above, and higher prices for energy sold in Upper New York State. The average price per MWh of energy sold in Upper New York State year to date was $65.23, up from $59.62 for the same period last year, due to the reason described for the quarter. The average wholesale energy price per MWh in Ontario was $47.74 year to date, slightly lower than $48.15 for the same period last year.

*Expenses:* Operating expenses were $0.4 million lower for the quarter and $0.3 million lower year to date compared to the same periods last year. During the second quarter of 2007, $0.3 million in insurance proceeds was received, reducing operating costs during the period.

Corporate taxes were $0.8 million lower for the quarter and $0.6 million lower year to date compared to the same periods last year, primarily due to lower earnings before corporate taxes at the taxable jurisdictions.

## NON-REGULATED - FORTIS PROPERTIES

| Non-Regulated - Fortis Properties<br>Financial Highlights (Unaudited)<br>Periods Ended June 30th | | | | | | |
|---|---|---|---|---|---|---|
| | Quarter | | | Year-to-date | | |
| *($ millions)* | **2007** | 2006 | Variance | **2007** | 2006 | Variance |
| Real Estate Revenue | **14.2** | 13.7 | 0.5 | **28.4** | 27.3 | 1.1 |
| Hospitality Revenue | **33.0** | 28.3 | 4.7 | **58.9** | 49.8 | 9.1 |
| **Total Revenue** | **47.2** | 42.0 | 5.2 | **87.3** | 77.1 | 10.2 |
| Operating Expenses | **29.4** | 26.3 | 3.1 | **57.5** | 50.9 | 6.6 |
| Amortization | **3.1** | 2.9 | 0.2 | **6.4** | 5.7 | 0.7 |
| Finance Charges | **5.7** | 5.0 | 0.7 | **11.6** | 10.1 | 1.5 |
| Gain on Sale of Income Producing Property | **-** | (2.1) | 2.1 | **-** | (2.1) | 2.1 |
| Corporate Taxes | **3.0** | 1.8 | 1.2 | **4.0** | 2.9 | 1.1 |
| **Earnings** | **6.0** | 8.1 | (2.1) | **7.8** | 9.6 | (1.8) |

*Earnings:* Fortis Properties' earnings were $2.1 million lower for the quarter and $1.8 million lower year to date compared to the same periods last year. Excluding the $1.6 million after-tax gain on the sale of Days Inn Sydney and an approximate $1.6 million favourable corporate tax adjustment during the second quarter last year, earnings were $1.1 million higher for the quarter and $1.4 million higher year to date compared to the same periods last year. The increase in earnings was primarily 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 $0.5 million higher for the quarter and $1.1 million higher year to date compared to the same periods last year, due to the leasing of the Blue Cross Centre expansion and growth experienced in all operating regions of the Company. The occupancy rate of the Real Estate Division was 96.0 per cent as at June 30, 2007, up from 95.6 per cent as at June 30, 2006, primarily due to additional leasing in the Newfoundland operating region.

Hospitality revenue was $4.7 million higher for the quarter and $9.1 million higher year to date compared to the same periods last year. The increase was due to contributions from the 4 hotels in western Canada acquired in November 2006, growth in revenue from the Company's other western Canadian hotels and increased revenue earned from the expanded Ontario hotels. The increase was partially offset by a decrease in revenue from the Company's Atlantic Canadian operating region including the elimination of revenue following the sale of Days Inn Sydney in June 2006. Revenue per available room ("REVPAR") for the second quarter of 2007 was $82.11 compared to $75.97 for the same quarter last year. The 8.1 per cent increase in REVPAR was primarily attributable to the addition of the 4 hotels acquired on November 1, 2006 and increased occupancy.

*Expenses:* Operating expenses were $3.1 million higher for the quarter and $6.6 million higher year to date compared to the same periods last year, due to costs associated with the 4 hotels in western Canada acquired in November 2006, the impact of expanded Ontario hotels and the Blue Cross Centre, and general inflationary cost increases. The increases were partially offset by the elimination of operating expenses following the sale of Days Inn Sydney in June 2006.

Finance charges were $0.7 million higher for the quarter and $1.5 million higher year to date compared to the same periods last year, primarily due to financing associated with the 4 hotels in western Canada acquired on November 1, 2006.

Corporate taxes were $1.2 million higher for the quarter and $1.1 million higher year to date compared to the same periods last year. However, corporate taxes during the second quarter last year were reduced by approximately $1.6 million due to the reduction of future income tax liability balances resulting from future Federal income tax rate reductions, and the elimination of the Federal Large Corporations' tax.

## CORPORATE AND OTHER

**Corporate and Other (1)**
**Financial Highlights (Unaudited)**
**Periods Ended June 30th**

| | Quarter | | | Year to date | | |
|---|---|---|---|---|---|---|
| *($ millions)* | **2007** | 2006 | Variance | **2007** | 2006 | Variance |
| **Total Revenue** | **4.4** | 2.2 | 2.2 | **7.8** | 4.2 | 3.6 |
| Operating Expenses | **1.0** | 3.2 | (2.2) | **3.1** | 5.5 | (2.4) |
| Amortization | **1.3** | 0.8 | 0.5 | **2.0** | 1.5 | 0.5 |
| Finance Charges (2) | **15.5** | 9.6 | 5.9 | **26.4** | 19.2 | 7.2 |
| Foreign Exchange Gain | **-** | (1.9) | 1.9 | **-** | (1.7) | 1.7 |
| Corporate Tax Recovery | **(2.3)** | (2.7) | 0.4 | **(4.4)** | (5.0) | 0.6 |
| Non-Controlling Interest | **(0.1)** | (0.1) | - | **(0.1)** | (0.1) | - |
| Preference share dividends | **1.6** | - | 1.6 | **3.1** | - | 3.1 |
| **Net Corporate and Other Expenses** | **(12.6)** | (6.7) | (5.9) | **(22.3)** | (15.2) | (7.1) |

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

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

Net corporate and other expenses were $5.9 million higher for the quarter and $7.1 million higher year to date compared to the same periods last year. During the second quarter of 2006, a $1.9 million ($1.6 million after-tax) foreign exchange translation gain on unhedged corporate US dollar-denominated debt was recorded. There was no similar foreign exchange translation gain during the second quarter of 2007 as all corporate US dollar-denominated debt has been designated as a hedge against the Corporation's US dollar-denominated foreign net investments. All foreign exchange translation gains and losses on corporate US dollar-denominated debt in effective hedging relationships are recorded in other comprehensive income, effective January 1, 2007.

Excluding the foreign exchange gain, net corporate and other expenses were higher for the quarter and year to date compared to the same periods last year, primarily due to higher finance charges and preference share dividends, partially offset by higher revenue and lower operating expenses. The increase in finance charges was driven by Terasen acquisition-related finance charges of $4.9 million and interest on US$40 million of unsecured subordinated convertible debentures issued in November 2006. The increase in preference share dividends was associated with the First Preference Shares, Series F issued on September 28, 2006. Revenue increased due to higher inter-company interest revenue due to increased inter-company lending and $1 million of revenue associated with CWLP. Operating expenses decreased; however, operating expenses during the second quarter last year included approximately $1.4 million in business development costs. Also, a net operating expense recovery of approximately $0.8 million was reported by Terasen during the second quarter of 2007, driven by a favourable adjustment to pension costs.

## CONSOLIDATED FINANCIAL POSITION

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

| Fortis Inc.<br>Significant Changes in the Consolidated Balance Sheets (Unaudited)<br>between June 30, 2007 and December 31, 2006 | | | |
|---|---|---|---|
| *($ millions)* | **Increase due to Terasen** | **Other Increase/ (Decrease)** | **Explanation** |
| Cash and cash equivalents | 14.1 | 8.5 | The other increase in cash was not significant. |
| Accounts receivable | 219.8 | (26.8) | The other decrease in accounts receivable primarily related to lower transmission revenue accruals at FortisAlberta and seasonal reduction in sales at FortisBC. |
| Inventories of gas, materials and supplies | 147.8 | (2.5) | The other decrease in materials and supplies was not significant. |
| Deferred charges and other assets | 27.6 | (28.4) | The other decrease in deferred charges and other assets primarily related to the reclassification of $21.2 million of deferred financing costs and $11 million of unamortized deferred losses associated with a previously cancelled forward interest rate swap contract to long-term debt and accumulated other comprehensive loss, respectively, upon adoption of new accounting standards for Financial Instruments, Hedges and Comprehensive Income on January 1, 2007. |
| Regulatory assets – current and long-term | 164.5 | 18.9 | The other increase in regulatory assets was driven by a net increase in AESO-charges deferrals at FortisAlberta and an increase in energy costs deferred at Maritime Electric due to higher energy prices. |
| Future income tax assets – long-term | 18.6 | 17.9 | The other increase in future income tax assets primarily related to the tax impact of costs associated with the issuance of Common Shares upon the conversion of Subscription Receipts on May 17, 2007. |
| Utility capital assets | 2,780.0 | 117.5 | The other increase in utility capital assets primarily related to $313.3 million invested in electricity systems, partially offset by customer contributions, amortization for the 6-month period and the impact of foreign exchange on the translation of US dollar-denominated utility capital assets. |

| Fortis Inc.<br>Significant Changes in the Consolidated Balance Sheets (Unaudited)<br>between June 30, 2007 and December 31, 2006 (cont'd) | | | |
|---|---|---|---|
| *($ millions)* | **Increase due to Terasen** | **Other Increase/ (Decrease)** | **Explanation** |
| Goodwill | 906.7 | (14.4) | The other decrease in goodwill related to the impact of foreign exchange on the translation of the US dollar-denominated goodwill amounts. |
| Short-term borrowings | 191.6 | 16.8 | The other increase in short-term borrowings was driven by net drawings under credit facilities at Maritime Electric and FortisBC in support of operations and capital expenditures, partially offset by net reductions in short-term borrowings at Caribbean Utilities. |
| Accounts payable and accrued charges | 392.4 | (40.3) | The other decrease in accounts payable and accrued charges primarily related to the normal seasonal reduction of purchased power costs at Newfoundland Power, combined with the timing of payments across the subsidiaries. |
| Income taxes payable | 57.9 | 1.8 | The other increase in income taxes payable was not significant. |
| Deferred credits | 165.5 | 4.9 | The other increase in deferred credits was not significant. |
| Regulatory liabilities – current and long-term | 27.5 | (10.9) | The other decrease in regulatory liabilities primarily related to the timing of the payment of municipal taxes and transfers to the purchased power unit cost variance reserve account at Newfoundland Power. |
| Long-term debt and capital lease obligations (including current portion) | 2,075.0 | 224.9 | The other increase in long-term debt and capital lease obligations primarily related to net drawings on long-term committed credit facilities of $182.3 million, and proceeds from a $110 million senior unsecured debenture offering by FortisAlberta used primarily to repay long-term credit facility borrowings. The increase was partially offset by the impact of regular debt repayments, the reclassification of $20 million in deferred financing costs, net of amortization during the period, from deferred charges and other assets, upon adoption of new accounting standards for Financial Instruments, Hedges and Comprehensive Income on January 1, 2007, and the impact of foreign exchange upon the translation of US dollar-denominated debt.<br><br>The net drawings on long-term credit facilities were comprised of drawings of $30.4 million and $10 million by Newfoundland Power and FortisBC, respectively, to finance capital expenditures and drawings of $213.9 million by the Corporation, partially offset by the net reduction of $72 million of credit facility borrowings by FortisAlberta. Drawings on the Corporation's credit facilities primarily related to the financing of the cash purchase price of Terasen and the repayment of certain debt assumed upon the acquisition of Terasen. |
| Non-controlling interest | - | (11.0) | The decrease in non-controlling interest related to the impact of foreign exchange on the translation of the US dollar-denominated non-controlling interest amounts. |
| Shareholders' equity | - | 1,272.0 | The increase in shareholders' equity primarily related to the $1.12 billion, net of after-tax expenses, issuance of Common Shares upon the conversion Subscription Receipts, to substantially finance the cash purchase price of Terasen, the $145.7 million, net of after-tax expenses, issuance of Common Shares in January 2007, combined with net earnings reported for the 6-month period, less common share dividends. The increase was partially offset by an increase in accumulated other comprehensive loss driven by the impact of foreign exchange on the translation of the Corporation's net investment in foreign subsidiaries and an $5.5 million transitional adjustment to opening accumulated other comprehensive loss upon adoption of new accounting standards for Financial Instruments, Hedges and Comprehensive Income on January 1, 2007. |

The following table outlines the summary of cash flows.

| Fortis Inc.<br>Summary of Cash Flows (Unaudited)<br>Periods Ended June 30th | | | | | | |
|---|---|---|---|---|---|---|
| | Quarter | | | Year-to-date | | |
| *($ millions)* | **2007** | 2006 | Variance | **2007** | 2006 | Variance |
| **Cash, beginning of period** | **43.2** | 21.5 | 21.7 | **40.9** | 33.4 | 7.5 |
| **Cash provided by (used in)** | | | | | | |
| Operating activities | **68.2** | 57.8 | 10.4 | **161.8** | 107.2 | 54.6 |
| Investing activities | **(1,428.9)** | (109.5) | (1,319.4) | **(1,546.7)** | (211.2) | (1,335.5) |
| Financing activities | **1,382.9** | 58.0 | 1,324.9 | **1,409.6** | 98.4 | 1,311.2 |
| Foreign currency impact on cash balances | **(1.9)** | (0.4) | (1.5) | **(2.1)** | (0.4) | (1.7) |
| **Cash, end of period** | **63.5** | 27.4 | 36.1 | **63.5** | 27.4 | 36.1 |

*Operating Activities:* Cash flow from operations, after working capital adjustments, was $10.4 million higher quarter over quarter. The increase was primarily due to higher cash from operations before working capital adjustments, driven by Terasen Gas, Fortis Turks and Caicos, and Caribbean Utilities. Terasen Gas, and Fortis Turks and Caicos, were acquired in May 2007 and August 2006, respectively, and, therefore, did not contribute to cash flow of the Corporation during the first half of 2006. Effective January 1, 2007, the Corporation began consolidating the financial results of Caribbean Utilities on a 2-month lag due to increasing its investment in the Company to a 54 per cent controlling interest in November 2006. During the first half of 2006, Fortis accounted for Caribbean Utilities on an equity basis. In addition, during the second quarter of 2006, Maritime Electric's cash from operations was negatively impacted by the payment of a $5.9 million corporate income tax deposit to Canada Revenue Agency. The increase was partially offset by working capital adjustments related to the operation of current regulatory deferral mechanisms at Terasen Gas and Maritime Electric, as well as the timing and amount of payments relating to purchased power at Newfoundland Power.

Cash flow from operations, after working capital adjustments, was $54.6 million higher year to date compared to the same period last year. The increase was primarily due to higher cash from operations before working capital adjustments, primarily for the reasons described for the quarter.

*Investing Activities:* Cash used in investing activities was approximately $1.32 billion higher for the quarter and $1.34 billion higher year to date compared to the same periods last year. The increase was primarily due to the acquisition on May 17, 2007 of Terasen for $3.7 billion, including assumed debt of approximately $2.4 billion. This acquisition resulted in a cash payment, including acquisition costs, of approximately $1.25 billion, net of cash acquired. Additionally, utility capital expenditures, net of contributions in aid of construction, were significantly higher for the quarter and year to date compared to the same periods last year.

Gross utility capital expenditures were $192.7 million for the quarter, $81.2 million higher than for the same quarter last year. Gross utility capital expenditures were $327 million year to date, $111.2 million higher than for the same period last year. The increase in gross utility capital expenditures was primarily due to capital expenditures incurred at Terasen Gas, Fortis Turks and Caicos, and Caribbean Utilities, increased capital spending at FortisBC and FortisAlberta, and the commencement during the second quarter of 2007 of the construction of the 18-MW hydroelectric generating facility at Vaca on the Macal River in Belize.

Proceeds from the sale of capital assets were higher during the first half of 2006 due to proceeds on the sale of the Days Inn Sydney in June 2006.

Contributions received in aid of construction were $3.9 million higher for the quarter and $15.9 million higher year to date compared to same periods last year. The increase related primarily to the increased utility capital expenditures at FortisAlberta and FortisBC.

*Financing Activities:* Cash provided from financing activities was approximately $1.38 billion during the quarter, $1.32 billion higher than the same quarter last year. The increase primarily related to the issuance of

Common Shares during the quarter for gross proceeds of $1.15 billion, upon conversion of Subscription Receipts that were initially issued in March 2007, to finance a significant portion of the cash purchase price of Terasen.

During the quarter, the net repayment of short-term borrowings was driven by the repayment of $85.6 million by Terasen with funds advanced by the Corporation through drawings under its committed credit facility. This repayment was partially offset by increased short-term borrowings by FortisBC.

During the quarter, the Corporation, FortisAlberta, FortisBC and Newfoundland Power drew net borrowings of approximately $243 million, $27.9 million, $18.9 million and $13.9 million, respectively, under their long-term committed credit facilities. Approximately $125 million of the Corporation's credit facility borrowings were used to finance the remaining cash purchase price of Terasen, including certain acquisition costs and Common Share issuance costs. During the quarter, the Corporation also borrowed under its committed credit facility to repay certain debt assumed upon the acquisition of Terasen and for general corporate purposes. Credit facility borrowings by FortisAlberta, FortisBC and Newfoundland Power were primarily used to finance their respective capital programs. During the second quarter of 2007, Caribbean Utilities also closed the first tranche of a US$40 million 5.65% senior unsecured note offering in the amount of US$30 million. Proceeds from the debt offering are being used to repay certain indebtedness and to finance capital expenditures. During the second quarter of last year, FortisAlberta issued $100 million of unsecured public debentures bearing interest at 5.40%.

During the quarter, repayments of long-term debt were primarily related to the repayment of approximately US$10 million at Caribbean Utilities using a portion of the proceeds of the US$30 million senior unsecured notes, in addition to regular principal repayments across other subsidiaries. Repayments of long-term debt during the second quarter last year largely related to long-term credit facilities financed by proceeds from FortisAlberta's $100 million debenture issue.

Year to date, cash provided from financing activities of approximately $1.41 billion was $1.31 billion higher than for the same period last year. The increase primarily related to the issuance of Common Shares during the quarter for gross proceeds of $1.15 billion, upon conversion of Subscription Receipts that were initially issued in March 2007, to finance a significant portion of the cash purchase price of Terasen. In January 2007, 5.17 million Common Shares were also issued for gross proceeds of $149.9 million. A significant portion of the net proceeds from the January 2007 Common Share issue was used to repay approximately $84.1 million of existing indebtedness incurred under the Corporation's long-term committed credit facilities, primarily to fund a portion of acquisitions in 2006, to support capital expenditure programs of the Corporation's regulated electric utilities in western Canada and for general corporate purposes. The remainder of the net proceeds was utilized to fund equity requirements of the Corporation's regulated electric utilities in western Canada during 2007, in support of their respective capital expenditure programs, and for general corporate purposes.

Year to date, the net repayment of short-term borrowings was driven by the repayment of $85.6 million by Terasen with funds advanced by the Corporation through drawings under its committed credit facility.

Year to date, the Corporation, FortisAlberta, Newfoundland Power and FortisBC drew net borrowings of approximately $297.5 million, $31.8 million, $30.4 million and $18.9 million, respectively, under their long-term committed credit facilities, primarily for the reasons described for the quarter.

In addition to the US$30 million senior unsecured note issue at Caribbean Utilities as described for the quarter, proceeds from long-term debt year to date also included a $110 million 4.99% senior unsecured debenture issue at FortisAlberta, due January 2047. The proceeds of the debt offering were used to repay existing indebtedness incurred under FortisAlberta's committed credit facility, primarily to fund capital expenditures, and for general corporate purposes.

Year to date, repayments of long-term debt were associated primarily with repayments by the Corporation and FortisAlberta of funds previously drawn on their respective committed credit facilities. The respective repayments under these credit facilities were as described for the quarter.

Common share dividends were $15.7 million higher for the quarter and $23.2 million higher year to date compared to the same periods last year, due to an increase in the number of Common Shares outstanding, primarily due to the issuance of Common Shares pursuant to the Terasen acquisition and the issuance of 5.17 million Common Shares in January 2007, and a higher dividend per Common Share compared to the same periods in 2006.

Preference share dividends of $1.6 million during the quarter and $3.1 million year to date related to the preference shares issued in September 2006.

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

**Fortis Inc.**
**Contractual Obligations (Unaudited)**
**as at June 30, 2007**

| *($ millions)* | **Total** | ≤ 1 year | >1-3 years | 4-5 years | > 5 years |
|---|---|---|---|---|---|
| Long-term debt (1) | **4,932.6** | 515.6 | 523.7 | 762.4 | 3,130.9 |
| Brilliant Terminal Station ("BTS") (2) | **66.9** | 2.6 | 5.1 | 5.1 | 54.1 |
| Gas purchase contract obligations (3) | **453.0** | 381.1 | 71.9 | - | - |
| Power purchase obligations | | | | | |
| FortisBC (4) | **2,865.4** | 37.6 | 75.0 | 74.0 | 2,678.8 |
| FortisOntario (5) | **299.8** | 22.1 | 42.6 | 45.0 | 190.1 |
| Maritime Electric (6) | **23.5** | 23.5 | - | - | - |
| Belize Electricity (7) | **17.3** | 2.5 | 2.2 | 1.9 | 10.7 |
| Capital cost (8) | **418.6** | 14.7 | 29.5 | 36.8 | 337.6 |
| Joint-use asset and shared service agreements (9) | **65.0** | 1.9 | 7.6 | 7.7 | 47.8 |
| Office lease – FortisBC (10) | **21.7** | 1.0 | 2.7 | 2.9 | 15.1 |
| Caribbean Utilities (11) | **9.2** | 9.2 | - | - | - |
| Operating lease obligations (12) | **190.2** | 19.9 | 37.6 | 32.7 | 100.0 |
| Other | **29.9** | 14.1 | 7.7 | 6.4 | 1.7 |
| **Total** | **9,393.1** | 1,045.8 | 805.6 | 974.9 | 6,566.8 |

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

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

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

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

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

(6) Maritime Electric has one take-or-pay contract with New Brunswick Power ("NB Power") for the purchase of either capacity or energy. This contract totals approximately $23.5 million through March 31, 2008.

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

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

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

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

(11) 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. The unit was installed in June 2007. 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 April 30 2007, approximately US$13.6 million had been spent by Caribbean Utilities related to this project.

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

## CAPITAL RESOURCES

The Corporation's principal business of regulated gas and electric distribution utilities requires Fortis to have ongoing access to capital to allow it to maintain and expand its infrastructure. In order to ensure access to capital is maintained, the Corporation targets a long-term capital structure 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)**

| | **June 30, 2007** | | December 31, 2006 | |
|---|---|---|---|---|
| | *($ millions)* | *(%)* | *($ millions)* | *(%)* |
| Total debt and capital lease obligations (net of cash) (1) | **5,185.7** | **63.4** | 2,700.0 | 61.1 |
| Preference shares (2) | **441.9** | **5.4** | 441.9 | 10.0 |
| Common shareholders' equity | **2,547.7** | **31.2** | 1,275.7 | 28.9 |
| **Total** | **8,175.3** | **100.0** | 4,417.6 | 100.0 |

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

The change in the capital structure was driven by the issuance in January 2007 of 5.17 million Common Shares, for net after-tax proceeds of $145.7 million; the issuance in May 2007 of 44.3 million Common Shares, for net after-tax proceeds of $1.12 billion; the $2.4 billion of consolidated debt assumed upon the acquisition of Terasen and additional credit facility drawings to partially finance the cash purchase price of Terasen, combined with net earnings, less common share dividends, of $26.7 million during the first half of 2007, and an increase in accumulated other comprehensive loss.

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

As at June 30, 2007, the Corporation's credit ratings were as follows:

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

*Capital Program*: The Corporation's principal business of regulated gas and electric distribution utilities is capital intensive. Capital investment in infrastructure is required to ensure continued and enhanced performance, reliability and safety of the gas and electricity systems and to meet customer growth. All costs considered to be maintenance and repairs are expensed as incurred. Costs related to replacements, upgrades and betterments of capital assets are capitalized as incurred. Gross consolidated utility capital expenditures of Fortis during 2007 are forecasted at $770 million, of which $327 million was incurred year to date. The $160 million increase in forecast gross consolidated utility capital expenditures for 2007 from the estimate of $610 million, as disclosed at December 31, 2006, is driven by Terasen Gas and FortisAlberta. Terasen Gas expects to spend approximately $128 million for the 7.5-month period ending December 31, 2007. The increase in capital spending at FortisAlberta is driven by load growth and inflation and has been included in FortisAlberta's 2008/2009 Distribution Access Tariff Application. Approximately 34 per cent of consolidated 2007 forecast gross consolidated utility capital expenditures is expected to be incurred to ensure the continued and enhanced performance, reliability and safety of the Corporation's generation, transmission and distribution assets, 48 per cent is expected to relate to meeting customer growth, with the remaining 18 per cent expected to relate to facilities, equipment, vehicles, information technology systems and other. 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.

As at June 30, 2007, a summary of the Corporation's forecast gross consolidated utility capital expenditures for 2007 is illustrated below.

**Fortis Inc.**
**Forecast Gross Utility Capital Expenditures**
**Year Ending December 31, 2007**

| *($ millions)* | Terasen Gas [(1)] | Fortis Alberta [(2)] | FortisBC | Newfoundland Power | Other Regulated Utilities - Canadian | **Total Regulated Utilities - Canadian [(3)]** | **Regulated Utilities - Caribbean** | **Non-Regulated** | **Total** |
|---|---|---|---|---|---|---|---|---|---|
| Total | 128 | 271 | 154 | 67 | 32 | **652** | **101** | **17** | **770** |
| Percentage of total | 17% | 35% | 20% | 9% | 4% | **85%** | **13%** | **2%** | **100%** |

(1) Forecast expenditures are from the date of acquisition and, therefore, relate to the 7.5-month period ending December 31, 2007.
(2) Excludes forecast payments of approximately $17 million to the AESO for investment in transmission facilities
(3) Includes forecast removal and site restoration expenditures, net of salvage proceeds, for those utilities where such expenditures are permissible in rate base

Approximately 51 per cent of 2007 forecast gross capital expenditures of Terasen Gas, post acquisition by Fortis, is expected to be incurred to ensure continued and enhanced performance, reliability and safety of its gas transmission and distribution assets, while approximately 38 per cent is expected to relate to meeting customer growth. The remaining capital expenditures pertain to facilities, equipment, vehicles, information technology systems and other.

Included in the forecast capital expenditures of Terasen Gas disclosed above are $12.6 million in costs associated with the conversion of TGWI's piped propane system to natural gas. The project will require TGVI to extend its transmission system to Whistler by the construction of a 50-kilometer pipeline lateral from Squamish to Whistler. TGVI and TGWI have received BCUC approval for construction of the pipeline lateral and conversion of the propane system. Construction has commenced in 2007 and natural gas service is expected to be in place by late 2008 or early 2009. The total project cost over the construction period is estimated at approximately $44 million.

Also included in forecast capital expenditures of Terasen Gas is approximately $13 million related to the Texada Island Compressor Station and work associated with the replacement of the Vancouver low-pressure system. The total estimated capital costs associated with these items are approximately $29 million with approximately $16 million expected to be incurred post 2007.

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

Fortis expects capital expenditures associated with income producing properties during 2007, in addition to the acquisition of the Delta Regina for $49.95 million, will total approximately $13 million.

Fortis expects gross electric utility capital expenditures of $2.8 billion over the next 5 years which will be driven by FortisAlberta, FortisBC and the Corporation's regulated and non-regulated electric utilities in the Caribbean. Fortis expects gross gas utility capital expenditures over the next 5 years to exceed $1 billion.

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

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

As at June 30, 2007, the Corporation and its subsidiaries had consolidated authorized lines of credit of $2,202.7 million, of which $1,034.8 million was unused. The following summary outlines the Corporation's credit facilities.

| Fortis Inc. Credit Facilities (Unaudited) | | | | | |
|---|---|---|---|---|---|
| *($ millions)* | **Corporate and Other** | **Regulated Utilities** | **Fortis Properties** | **Total as at June 30, 2007** | **Total as at December 31, 2006** |
| Total credit facilities | 695.0 | 1,495.2 | 12.5 | **2,202.7** | 952.0 |
| Credit facilities utilized | | | | | |
| Short-term borrowings | (3.2) | (299.5) | (3.4) | **(306.1)** | (97.7) |
| Long-term debt | (298.0) | (388.8) | - | **(686.8)** | (235.5) |
| Letters of credit outstanding | (81.0) | (93.6) | (0.4) | **(175.0)** | (72.1) |
| Credit facilities available | 312.8 | 713.3 | 8.7 | **1,034.8** | 546.7 |

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

**Corporate and Other**

At June 30, 2007, Terasen had a $180 million unsecured committed revolving credit facility, maturing in May 2009. This credit facility had been reduced from $450 million on June 1, 2007 and is used for general corporate purposes. On July 18, 2007, Terasen further reduced its credit facility to $100 million. Letters of credit outstanding at Terasen include $74.1 million related to Terasen's previously owned petroleum transportation business and are secured by a letter of credit from Terasen's former parent company.

On May 14, 2007, Fortis cancelled its $50 million unsecured revolving demand credit facility and renegotiated and amended its $250 million committed unsecured credit facility, extending the maturity date to May 2012 and increasing the amount available to $500 million, with the option to increase the credit facility to an aggregate of $600 million. Also on May 14, 2007, Fortis terminated a $1.43 billion acquisition credit facility agreement with Canadian Imperial Bank of Commerce, which had been established to fund, if necessary, the full cash purchase price for the Terasen acquisition. No funds were drawn under this credit facility.

**Regulated Utilities**

As at June 30, 2007, TGI had a $500 million unsecured committed revolving credit facility, maturing in June 2009, and TGVI had a $350 million unsecured committed revolving credit facility, maturing in June 2011. These facilities are utilized to finance working capital requirements and for general corporate purposes. Additionally, TGVI had a $20 million unsecured committed non-revolving credit facility, maturing January 2013. This facility will be utilized for purposes of refinancing any annual repayments that TGVI may be required to make on non-interest bearing government contributions.

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

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

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

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

**Fortis Generation**

During the first quarter of 2007, Fortis Generation credit facilities of US$2 million were terminated and, upon amalgamation of PLP with FortisBC, PLP's credit facilities of $5.4 million were terminated.

## OFF-BALANCE SHEET ARRANGEMENTS

As at June 30, 2007, the Corporation had no off-balance sheet arrangements such as transactions, agreements or contractual arrangements with unconsolidated entities, structured finance entities, special purpose entities or variable interest entities that are reasonably likely to materially affect liquidity or the availability of, or requirements for, capital resources.

## BUSINESS RISK MANAGEMENT

Changes in the Corporation's significant business risks during the 6-month period ended June 30, 2007 from those disclosed in the Corporation's Management Discussion and Analysis for the year ended December 31, 2006 are described below. These are additional business risks that are associated with the recent acquisition of Terasen.

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

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

*Natural Gas Prices:* The price of electricity is now only marginally higher than the comparable price for natural gas for residential customers in British Columbia. There is no assurance that natural gas will continue to maintain a competitive price advantage in the future. If natural gas pricing becomes uncompetitive with electricity pricing, the ability of Terasen Gas to add new customers could be impaired, and existing customers could reduce their consumption of natural gas or eliminate its usage altogether as furnaces, water heaters and other appliances are replaced. This may result in higher rates and, in an extreme case, could ultimately lead to an inability to fully recover the cost of service of Terasen Gas in rates charged to customers. The ability of Terasen Gas to add new customers and sales volumes could also be affected by lower prices of other competitive energy sources as some commercial and industrial customers have the ability to switch to an alternative fuel. Terasen Gas employs a number of tools to reduce its exposure to natural gas price volatility. These include purchasing gas for storage and adopting hedging strategies to reduce price volatility and ensure, to the extent possible, that natural gas commodity costs remain competitive with electricity rates. Activities related to the hedging of gas prices are currently approved by the BCUC and gains or losses effectively accrue entirely to customers. Future BCUC determinations could materially impact the ability of Terasen Gas to recover the future cost of the natural gas it delivers to customers.

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

*Weather and Seasonality:* Weather has a significant impact on distribution volume as a major portion of the gas distributed by Terasen Gas is ultimately used for space heating. Because of natural gas consumption patterns, the natural gas distribution operations of Terasen Gas normally generate quarterly earnings that vary by season and may not be a representative indicator of annual earnings. Typically, higher earnings experienced in the first and fourth quarters and lower earnings experienced in the second quarter are partially offset by losses incurred in the third quarter.

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

*Labour Relations:* The organized employees of TGI are represented by the Canadian Office and Professional Employees Union ("COPE"), under a collective agreement that expired on March 31, 2007, and the International Brotherhood of Electrical Workers, under a collective agreement expiring on March 31, 2011. On June 15, 2007, COPE rejected a new 5-year agreement with TGI. Negotiations are continuing between the Company and COPE.

*Risks Related to Terasen Gas (Vancouver Island) Inc.:* TGVI is a franchise under development in the price-competitive service area of Vancouver Island, with a customer base and revenue that is insufficient to meet its current cost of service and to recover revenue deficiencies from prior years. Recovery of accumulated revenue deficiencies from prior years puts gas at a cost disadvantage relative to electricity. To assist with competitive rates during franchise development, the Vancouver Island Natural Gas Pipeline Agreement ("VINGPA") provides royalty revenues from the Government of British Columbia which currently cover approximately 20 per cent of the current cost of service. These revenues are due to expire at the end of 2011, after which time TGVI's customers will be required to absorb the full commodity cost of gas and the recovery of any remaining accumulated revenue deficiencies. When VINGPA expires in 2011, $75 million of non-interest-bearing senior government debt, which is currently treated as a government contribution against rate base, will be required to be fully repaid. As this debt is repaid, the cost of the higher rate base will increase the cost of service and customer rates making gas less competitive with electricity on Vancouver Island.

## CHANGES IN ACCOUNTING POLICIES

The nature of and the impact on Fortis of adopting the new Canadian Institute of Chartered Accountants ("CICA") accounting standards for Financial Instruments, Hedges and Comprehensive Income, effective January 1, 2007, is described in detail in Note 3 to the Corporation's interim unaudited consolidated financial statements for the 3- and 6-month periods ended June 30, 2007. The most significant impacts of adopting the new standards were: (i) the reallocation of $21.2 million of deferred financing costs from deferred charges and other assets to long-term debt; (ii) the reporting of a Statement of Comprehensive Income; (iii) the recording in other comprehensive loss of unrecognized foreign currency translation gains and losses on US dollar-denominated debt that is hedging the Corporation's net investments in self-sustaining foreign operations; (iv) the reallocation of $51.5 million of unrealized foreign currency translation losses on net investments in self-sustaining foreign operations from the foreign currency translation adjustment account in shareholders' equity to accumulated other comprehensive loss; (v) the reallocation of an $11 million ($7.4 million after-tax) unamortized loss balance relating to a previously cancelled interest rate swap contract from deferred charges and other assets, and the reallocation of a $2.8 million ($1.9 million after-tax) unamortized gain balance relating to a previously cancelled US dollar forward currency swap agreement from deferred credits, to accumulated other comprehensive loss; and (vi) the recording of opening fair value and subsequent changes in fair value of the Corporation's interest rate swap contracts in effective hedging relationships in accumulated other comprehensive loss and other comprehensive loss, respectively. The adoption of the accounting standards did not have a material impact on the Corporation's consolidated statement of earnings for the 3- and 6-month periods ended June 30, 2007.

Also as disclosed in Note 3 to the Corporation's interim unaudited consolidated financial statements for the 3- and 6-month periods ended June 30, 2007, Fortis adopted the revised standard for accounting changes, effective January 1, 2007. This new standard had no impact on the Corporation's interim unaudited consolidated financial statements for the 3- and 6-month periods ended June 30, 2007.

## FUTURE ACCOUNTING PRONOUNCEMENTS

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

*Rate-Regulated Operations:* In March 2007, the AcSB issued an Exposure Draft on rate-regulated operations 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 Taxe*s, 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. Written comments from companies with rate-regulated operations, including Fortis, were provided to the AcSB. The AcSB intends to review its proposals based on comments received and is expected to finalize their guidelines during the fourth quarter of 2007. The Corporation will assess the implications on its financial reporting of the final AcSB guidelines when they are issued.

*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 amending the accounting for employee future benefits which, if adopted, would be effective for fiscal years ending on or after December 31, 2007. The Exposure Draft proposed balance sheet recognition of the funded status of defined benefit plans. Currently, the Company is only required to disclose the funded status in the notes to the financial statements. In addition, the Exposure Draft proposed that actuarial gains and losses and prior service costs and credits would be recognized as a component of other comprehensive income or potentially, in a regulated entity, as a regulatory asset or liability. Also, the defined benefit plan assets and obligations would be required to be measured as of the date of the annual financial statements. In July, 2007, after considering comments on the Exposure Draft received from stakeholders, the AcSB decided not to proceed with the proposed amendments for the accounting for employee future benefits.

## CRITICAL ACCOUNTING ESTIMATES

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

Due to changes in facts and circumstances and the inherent uncertainty involved in making estimates, actual results may differ significantly from current estimates. Estimates are reviewed periodically and, as adjustments become necessary, are reported in earnings in the period they become known. Interim financial statements may also employ a greater use of estimates than the annual financial statements. There were no material changes in the nature of the Corporation's critical accounting estimates for the 3- and 6-month periods ended June 30, 2007 from those disclosed in the Corporation's Management Discussion and Analysis for the year ended December 31, 2006. However, the magnitude of the accounting estimates has increased due to the acquisition of Terasen, which is described below.

*Regulation:* Terasen Gas is regulated by the BCUC. As with the Corporation's other regulated utilities, the timing of recognition of certain assets, liabilities, revenues and expenses, as a result of regulation, may differ from that otherwise expected using Canadian GAAP for entities not subject to rate regulation. With the acquisition of Terasen Gas, the Corporation's regulatory assets and liabilities have significantly increased. As at June 30, 2007, current and long-term regulatory assets were $352.1 million compared to $168.7 million as at December 31, 2006 and current and long-term regulatory liabilities were $381.9 million compared to $365.3 million at December 31, 2006. The increase in regulatory assets and liabilities was largely associated with BCUC-approved rate stabilization and PBR-sharing mechanisms, respectively, at Terasen Gas.

*Capital Asset Amortization:* Amortization, by its very nature, is an estimate based primarily on the useful life of assets. Estimated useful lives are based on current facts and historical information and take into consideration the anticipated physical life of the assets. As at June 30, 2007, the Corporation's consolidated utility and income producing properties were $6.9 billion, or 71 per cent of total consolidated assets, compared to consolidated utility and income producing properties of $4.0 billion, or 74 per cent of total consolidated assets, as at December 31, 2006. The increase was primarily associated with Terasen Gas. Amortization expense for the first half of 2007 was $118.8 million compared to $88.6 million during the first half of 2006. Due to the increased size of the Corporation's capital assets, changes in amortization rates can have a significant impact on the Corporation's amortization expense.

*Goodwill Impairment Assessments:* Goodwill represents the excess, at the dates of acquisition, of the purchase price over the fair value of net amounts assigned to individual assets acquired and liabilities assumed relating to business acquisitions. The Corporation is required to perform an annual impairment test and at such time any event occurs or if circumstances change that would indicate that the fair value of a reporting unit was below its carrying value. As at June 30, 2007, consolidated goodwill was $1.55 billion compared to $661.3 million as at December 31, 2006. The increase in goodwill was due to the acquisition of Terasen and is subject to adjustment, if any, upon the completion of a final fair value assessment.

*Employee Future Benefits:* The Corporation's defined benefit pension and other post-retirement benefit plans are subject to judgments utilized in the actuarial determination of the expense and the related obligation. As at June 30, 2007, the Corporation had consolidated accrued benefit assets of $119 million compared to $102 million as at December 31, 2006 and accrued benefit liabilities of $134.9 million compared to $63.7 million as at December 31, 2006. The increase in the accrued benefit assets and liabilities was primarily associated with Terasen Gas and Terasen, respectively.

*Revenue Recognition:* Terasen Gas records its natural gas distribution revenues on an accrual basis, similar to the majority of the Corporation's other regulated utilities. Estimates of customer gas usage from the last meter reading date to the balance sheet date are required in order to accrue unbilled revenue. As at June 30, 2007, accrued unbilled revenue at Terasen Gas was approximately $69 million.

*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.

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

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

On March 26, 2007, the Minister of Small Business and Revenue and Minister Responsible for Regulatory Reform in British Columbia issued a decision in respect of the appeal by Terasen Gas of an assessment of additional British Columbia Social Service Tax in the amount of $37.1 million associated with the Southern Crossing Pipeline, which was completed in 2000. The Minister has reduced the assessment to $7 million, including interest. On June 22, 2007, Terasen Gas filed an appeal of the assessment with the Supreme Court of British Columbia. In October 2006, Terasen Gas made a payment of $10 million, pending resolution of its first appeal, as a good faith payment in order to forestall an order from the Province of British Columbia to provide full payment or security. A $4 million refund of the deposit was received in April 2007 with the remaining $6.1 million (including interest) on deposit recorded as a long-term regulatory deferral asset.

## QUARTERLY RESULTS

The following table sets forth unaudited quarterly information for each of the 8 quarters ended September 30, 2005 through June 30, 2007. The quarterly information has been obtained from the Corporation's interim unaudited consolidated financial statements which, in the opinion of management, have been prepared in accordance with Canadian GAAP and as required by utility regulators. The timing of the recognition of certain assets, liabilities, revenues and expenses, as a result of regulation, may differ from that otherwise expected using Canadian GAAP for non-regulated entities. These differences are disclosed in Notes 2 and 4 to the Corporation's 2006 annual audited consolidated financial statements and Note 5 to the Corporation's interim unaudited consolidated financial statements for the 3- and 6-months ended June 30, 2007. These operating results are not necessarily indicative of results for any future period and should not be relied upon to predict future performance.

| Fortis Inc.<br>Summary of Quarterly Results (Unaudited) | | | | |
|---|---|---|---|---|
| Quarter Ended | Revenue and Equity Income *($ millions)* | Net Earnings Applicable to Common Shares *($ millions)* | Earnings per Common Share<br>Basic *($)* | Diluted *($)* |
| June 30, 2007 | 565.9 | 41.5 | 0.31 | 0.27 |
| March 31, 2007 | 483.0 | 41.5 | 0.38 | 0.35 |
| December 31, 2006 | 393.1 | 33.9 | 0.33 | 0.32 |
| September 30, 2006 | 341.9 | 38.8 | 0.37 | 0.36 |
| June 30, 2006 | 345.9 | 37.9 | 0.37 | 0.35 |
| March 31, 2006 | 390.8 | 36.6 | 0.35 | 0.34 |
| December 31, 2005 | 353.1 | 22.3 | 0.22 | 0.21 |
| September 30, 2005 | 341.7 | 37.4 | 0.36 | 0.33 |

A summary of the past 8 quarters reflects the Corporation's continued growth, as well as the seasonality associated with its businesses. Interim results will fluctuate due to the seasonal nature of gas and electricity demand and water flows, as well as the timing and recognition of regulatory decisions. Given the diversified group of companies, seasonality may vary. Financial results from May 17, 2007 were impacted by the acquisition of Terasen. Typically, Terasen Gas generates higher earnings in the first and fourth quarters and lower earnings in the second quarter, partially offset by losses in the third quarter. Financial results from February 1, 2005 and November 1, 2006 were impacted by the acquisition of 3 Greenwood Inn hotels and 4 hotels in western Canada, respectively. Financial results from August 28, 2006 were impacted by the acquisition of Fortis Turks and Caicos, while earnings from January 1, 2007 were impacted by the consolidation of a controlling interest in Caribbean Utilities. The Corporation's interest in Caribbean Utilities was previously accounted for on an equity basis. Also, the comparability of 2006 and 2005 quarterly earnings and revenue has been somewhat impacted by the shift in reported revenue at Newfoundland Power resulting from the change to the accrual basis for revenue recognition from the billed basis, effective January 1, 2006.

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

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

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

*December 2006/December 2005* - Net earnings applicable to common shares were $33.9 million, or $0.33 per common share, for the fourth quarter of 2006 compared to earnings of $22.3 million, or $0.22 per common share, for the fourth quarter of 2005. The increase in earnings was largely driven by a change in Newfoundland Power's revenue recognition policy to the accrual method, effective January 1, 2006, earnings growth at FortisAlberta and the contribution from Fortis Turks and Caicos, acquired 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 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.

## SUBSEQUENT EVENTS

On August 1, 2007, Fortis Properties purchased the Delta Regina in Saskatchewan for $49.95 million from Remai Investment Corporation. Delta Regina is comprised of 274 hotel rooms, the Saskatchewan Trade and Convention Centre, 52,000 square feet of Class A commercial office space and a parking garage. The acquisition is expected to be immediately accretive to earnings of Fortis.

On July 4, 2007, FortisBC issued $105 million 5.90% senior unsecured debentures, maturing July 4, 2047. The net proceeds of the debenture issue are being used to repay existing indebtedness incurred under credit facilities and for general corporate purposes, including future capital expenditures.

## OUTLOOK

The Corporation's principal business of regulated gas and electric distribution utilities is capital intensive. Gross consolidated utility capital expenditures for 2007 are expected to be approximately $770 million: $128 million related to Terasen Gas and $642 million related to the electric utilities. Fortis expects that most of its approximately $2.8 billion gross electric utility capital expenditures over the next 5 years will be driven by FortisAlberta, FortisBC and the Corporation's regulated and non-regulated electric utilities in the Caribbean. Fortis expects gross gas utility capital expenditures to exceed $1 billion over the next 5 years. Organic earnings growth, therefore, will be driven by the significant utility infrastructure investments described above.

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

## OUTSTANDING SHARE DATA

At August 2, 2007, the Corporation had issued and outstanding 154,195,769 Common Shares, 5,000,000 First Preference Shares, Series C; 7,993,500 First Preference Shares, Series E and 5,000,000 First Preference Shares, Series F. As at August 2, 2007, the number of Common Shares that would be issued upon conversion of share options, convertible debt, First Preference Shares, Series C and First Preference Shares, Series E is described in Notes 8 and 9 to the interim unaudited consolidated financial statements for the 3- and 6-month periods ended June 30, 2007 and Notes 11, 14 and 16 to the 2006 annual audited consolidated financial statements.

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

# FORTIS INC.

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

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

| | | June 30 2007 | | December 31 2006 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Current assets** | | | | |
| Cash and cash equivalents | $ | 63.5 | $ | 40.9 |
| Accounts receivable | | 471.1 | | 278.1 |
| Income taxes receivable | | 14.4 | | 7.5 |
| Prepaid expenses | | 24.5 | | 14.2 |
| Regulatory assets (Note 5) | | 143.4 | | 35.7 |
| Inventories of gas, materials and supplies | | 178.0 | | 32.7 |
| | | 894.9 | | 409.1 |
| **Corporate income tax deposit** | | 5.9 | | 5.9 |
| **Deferred charges and other assets** | | 174.0 | | 174.8 |
| **Regulatory assets (Note 5)** | | 208.7 | | 133.0 |
| **Future income taxes** | | 43.6 | | 7.1 |
| **Utility capital assets** | | 6,472.4 | | 3,574.9 |
| **Income producing properties** | | 467.8 | | 469.0 |
| **Investments** | | 2.5 | | 2.5 |
| **Intangibles, net of amortization** | | 7.7 | | 9.8 |
| **Goodwill** | | 1,553.6 | | 661.3 |
| | $ | 9,831.1 | $ | 5,447.4 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | | |
| **Current liabilities** | | | | |
| Short-term borrowings (Note 6) | $ | 306.1 | $ | 97.7 |
| Accounts payable and accrued charges | | 685.8 | | 333.7 |
| Dividends payable | | 34.2 | | 21.7 |
| Income taxes payable | | 59.7 | | - |
| Regulatory liabilities (Note 5) | | 14.2 | | 26.4 |
| Current instalments of long-term debt and capital lease obligations (Note 7) | | 513.5 | | 84.8 |
| Future income taxes | | 7.6 | | 1.0 |
| | | 1,621.1 | | 565.3 |
| **Deferred credits** | | 249.4 | | 79.0 |
| **Regulatory liabilities (Note 5)** | | 367.7 | | 338.9 |
| **Future income taxes** | | 54.2 | | 57.7 |
| **Long-term debt and capital lease obligations (Note 7)** | | 4,429.6 | | 2,558.4 |
| **Non-controlling interest** | | 119.5 | | 130.5 |
| **Preference shares** | | 319.5 | | 319.5 |
| | | 7,161.0 | | 4,049.3 |
| **Shareholders' equity** | | | | |
| Common shares (Note 8) | | 2,103.4 | | 829.0 |
| Preference shares | | 122.4 | | 122.4 |
| Contributed surplus | | 5.6 | | 4.7 |
| Equity portion of convertible debentures | | 6.5 | | 7.2 |
| Accumulated other comprehensive loss (Note 10) | | (80.8) | | (51.5) |
| Retained earnings | | 513.0 | | 486.3 |
| | | 2,670.1 | | 1,398.1 |
| | $ | 9,831.1 | $ | 5,447.4 |

Contingent liabilities and commitments (Note 16)

See accompanying notes to interim consolidated financial statements.

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

| | Quarter Ended | | Six Months Ended | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| **Operating revenues** | **$ 565.9** | $ 343.8 | **$ 1,048.9** | $ 733.0 |
| **Equity income** | **-** | 2.1 | **-** | 3.7 |
| | **565.9** | 345.9 | **1,048.9** | 736.7 |
| **Expenses** | | | | |
| Energy supply costs | **242.5** | 124.3 | **457.1** | 280.4 |
| Operating | **138.8** | 97.6 | **254.3** | 194.8 |
| Amortization | **64.7** | 44.5 | **118.8** | 88.6 |
| | **446.0** | 266.4 | **830.2** | 563.8 |
| **Operating income** | **119.9** | 79.5 | **218.7** | 172.9 |
| Finance charges (Note 12) | **67.0** | 39.7 | **114.6** | 81.3 |
| Gain on sale of income producing property | **-** | (2.1) | **-** | (2.1) |
| | **67.0** | 37.6 | **114.6** | 79.2 |
| **Earnings before corporate taxes** | **52.9** | 41.9 | **104.1** | 93.7 |
| Corporate taxes (Note 13) | **6.1** | 2.4 | **13.0** | 16.4 |
| **Net earnings before non-controlling interest** | **46.8** | 39.5 | **91.1** | 77.3 |
| Non-controlling interest | **3.7** | 1.6 | **5.0** | 2.8 |
| **Net earnings** | **43.1** | 37.9 | **86.1** | 74.5 |
| Preference share dividends | **1.6** | - | **3.1** | - |
| **Net earnings applicable to common shares** | **$ 41.5** | $ 37.9 | **$ 83.0** | $ 74.5 |
| **Weighted average common shares outstanding (Note 8)** | **131.1** | 103.4 | **120.2** | 103.4 |
| **Earnings per common share (Note 8)** | | | | |
| Basic | **$ 0.31** | $ 0.37 | **$ 0.69** | $ 0.72 |
| Diluted | **$ 0.27** | $ 0.35 | **$ 0.61** | $ 0.69 |

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

| | Quarter Ended | | Six Months Ended | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| **Balance at beginning of period** | **$ 503.8** | $ 431.9 | **$ 486.3** | $ 411.8 |
| Net earnings applicable to common shares | **41.5** | 37.9 | **83.0** | 74.5 |
| | **545.3** | 469.8 | **569.3** | 486.3 |
| Dividends on common shares | **(32.3)** | (16.6) | **(56.3)** | (33.1) |
| **Balance at end of period** | **$ 513.0** | $ 453.2 | **$ 513.0** | $ 453.2 |

See accompanying notes to interim consolidated financial statements.

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

| | Quarter Ended | | Six Months Ended | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| **Net earnings applicable to common shares** | **$ 41.5** | $ 37.9 | **$ 83.0** | $ 74.5 |
| Unrealized foreign currency translation losses | **(36.1)** | (7.0) | **(40.7)** | (6.4) |
| Gains on hedges of net investments in self-sustaining foreign operations | **18.7** | 6.8 | **20.5** | 6.2 |
| Corporate taxes | **(3.4)** | (1.2) | **(3.7)** | (1.1) |
| **Change in unrealized foreign currency translation losses, net of hedging activities and tax** | **(20.8)** | (1.4) | **(23.9)** | (1.3) |
| Change in gains on derivative instruments designated as cash flow hedges | **0.6** | - | **0.5** | - |
| Corporate taxes | **(0.1)** | - | **(0.1)** | - |
| **Change in gains on derivative instruments designated as cash flow hedges, net of tax** | **0.5** | - | **0.4** | - |
| Reclassification to earnings of net losses on derivative instruments previously discontinued as cash flow hedges | **-** | - | **0.3** | - |
| Corporate taxes | **-** | - | **(0.1)** | - |
| **Reclassification to earnings of net losses on derivative instruments previously discontinued as cash flow hedges, net of tax** | **-** | - | **0.2** | - |
| **Total other comprehensive loss, net of tax** | **(20.3)** | (1.4) | **(23.3)** | (1.3) |
| **Comprehensive Income** | **$ 21.2** | $ 36.5 | **$ 59.7** | $ 73.2 |

See accompanying notes to interim consolidated financial statements.

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

| | Quarter Ended | | Six Months Ended | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| **Operating Activities** | | | | |
| Net earnings | **$ 43.1** | $ 37.9 | **$ 86.1** | $ 74.5 |
| Items not affecting cash | | | | |
| Amortization - capital assets, net of contributions in aid of construction | **62.1** | 41.7 | **113.6** | 83.4 |
| Amortization - intangibles | **1.0** | 1.1 | **2.1** | 2.1 |
| Amortization - other | **1.6** | 1.7 | **3.1** | 3.1 |
| Future income taxes | **1.0** | (0.9) | **(0.5)** | (4.4) |
| Accrued employee future benefits | **(1.7)** | (0.4) | **(2.8)** | (1.7) |
| Equity income, net of dividends | **-** | (0.3) | **-** | (0.1) |
| Stock-based compensation | **0.5** | 0.4 | **1.1** | 0.8 |
| Unrealized foreign exchange loss (gain) on long-term debt (Note 12) | **0.2** | (1.7) | **0.2** | (1.4) |
| Non-controlling interest | **3.7** | 1.6 | **5.0** | 2.8 |
| Gain on sale of income producing property | **-** | (2.1) | **-** | (2.1) |
| Other | **0.2** | (0.8) | **5.1** | (0.7) |
| Change in long-term regulatory assets and liabilities | **4.0** | 1.7 | **(11.6)** | 0.5 |
| Increase in corporate income tax deposit | **-** | (5.9) | **-** | (5.9) |
| | **115.7** | 74.0 | **201.4** | 150.9 |
| Change in non-cash operating working capital | **(47.5)** | (16.2) | **(39.6)** | (43.7) |
| | **68.2** | 57.8 | **161.8** | 107.2 |
| **Investing Activities** | | | | |
| Change in deferred charges and other assets and deferred credits | **(2.3)** | (10.3) | **(3.1)** | (10.8) |
| Purchase of utility capital assets | **(192.7)** | (111.5) | **(327.0)** | (215.8) |
| Purchase of income producing properties | **(2.4)** | (5.2) | **(5.6)** | (11.8) |
| Contributions in aid of construction | **17.5** | 13.6 | **39.1** | 23.2 |
| Proceeds on sale of capital assets | **1.7** | 5.4 | **2.8** | 5.9 |
| Business acquisitions, net of cash acquired (Note 14) | **(1,250.7)** | - | **(1,252.9)** | - |
| Increase in investments | **-** | (1.5) | **-** | (1.9) |
| | **(1,428.9)** | (109.5) | **(1,546.7)** | (211.2) |
| **Financing Activities** | | | | |
| Change in short-term borrowings | **(25.1)** | 10.5 | **(68.8)** | 19.5 |
| Proceeds from long-term debt | **336.2** | 158.8 | **521.7** | 210.6 |
| Repayments of long-term debt and capital lease obligations | **(21.1)** | (105.5) | **(230.1)** | (112.7) |
| Advances (to) from non-controlling interest | **(1.5)** | 8.9 | **(2.0)** | 9.0 |
| Issue of common shares | **1,131.2** | 2.3 | **1,254.2** | 5.9 |
| Dividends | | | | |
| Common shares | **(32.3)** | (16.6) | **(56.3)** | (33.1) |
| Preference shares | **(1.6)** | - | **(3.1)** | - |
| Subsidiary dividends paid to non-controlling interest | **(2.9)** | (0.4) | **(6.0)** | (0.8) |
| | **1,382.9** | 58.0 | **1,409.6** | 98.4 |
| **Effect of exchange rate changes on cash and cash equivalents** | **(1.9)** | (0.4) | **(2.1)** | (0.4) |
| **Change in cash and cash equivalents** | **20.3** | 5.9 | **22.6** | (6.0) |
| **Cash and cash equivalents, beginning of period** | **43.2** | 21.5 | **40.9** | 33.4 |
| **Cash and cash equivalents, end of period** | **$ 63.5** | $ 27.4 | **$ 63.5** | $ 27.4 |

See accompanying notes to interim consolidated financial statements.

## 1. DESCRIPTION OF THE BUSINESS

**Nature of Operations**

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

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

**REGULATED UTILITIES**

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

**Regulated Gas Utilities - Canadian**

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

   TGI is the largest distributor of natural gas in British Columbia, serving more than 817,000 residential, commercial and industrial customers in a service area that extends from Vancouver to the Fraser Valley and the interior of British Columbia.

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

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

**Regulated Electric Utilities - Canadian**

a. *FortisAlberta:* FortisAlberta owns and operates the electricity distribution system in a substantial portion of southern and central Alberta, serving approximately 437,500 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").

## 1. DESCRIPTION OF THE BUSINESS (cont'd)

### Regulated Electric Utilities – Canadian (cont'd)

b. *FortisBC (cont'd):* Included with the FortisBC component of the Regulated Utilities - Canadian segment are the non-regulated operating, maintenance and management services relating to the 450-MW Waneta hydroelectric generating facility owned by Teck Cominco Metals Ltd., the 149-MW Brilliant Hydroelectric Plant owned by Columbia Power Corporation and the Columbia Basin Trust ("CPC/CBT"), the 185-MW Arrow Lakes Hydroelectric Plant owned by CPC/CBT and the distribution system owned by the City of Kelowna. FortisBC's assets also include the former Princeton Light and Power Company, Limited (''PLP"). Effective January 1, 2007, PLP was amalgamated with FortisBC Inc. as part of an internal corporate reorganization.

c. *Newfoundland Power:* Newfoundland Power is the principal distributor of electricity in Newfoundland, serving more than 230,000 customers. Newfoundland Power has an installed generating capacity of 136 MW, of which 92 MW is hydroelectric generation.

d. *Maritime Electric:* Maritime Electric is the principal distributor of electricity on Prince Edward Island, serving approximately 71,000 customers. Maritime Electric also maintains on-Island diesel-fired generating facilities with a combined capacity of 150 MW.

e. *FortisOntario:* FortisOntario provides an integrated electric utility service to approximately 52,000 customers in Fort Erie, Cornwall, Gananoque and Port Colborne in Ontario. FortisOntario operations include Canadian Niagara Power Inc. ("Canadian Niagara Power") and Cornwall Street Railway, Light and Power Company, Limited ("Cornwall Electric"). Included in Canadian Niagara Power's accounts is the operation of the electricity distribution business of Port Colborne Hydro Inc., which has been leased from the City of Port Colborne under a 10-year lease agreement entered into in April 2002. FortisOntario also owns a 10 per cent interest in each of Westario Power Holdings Inc. and Rideau St. Lawrence Holdings Inc., 2 regional electrical distribution companies formed in 2000, serving more than 27,000 customers.

### REGULATED ELECTRIC UTILITIES - CARIBBEAN

The following summary describes the Corporation's interest in Regulated Electric 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 140 MW. On November 7, 2006, Fortis acquired an additional approximate 16 per cent ownership interest in Caribbean Utilities and now owns approximately 54 per cent of the Company. Caribbean Utilities is a public company traded on the Toronto Stock Exchange (TSX:CUP.U) and has an April 30$^{th}$ 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' April 30, 2007 balance sheet, and statements of earnings and cash flows for the 3- and 6-months ended April 30, 2007 with the Corporation's June 30, 2007 interim consolidated financial statements. During 2006, the statement of earnings of Fortis reflected the Corporation's approximate 37 per cent ownership interest in Caribbean Utilities, previously accounted for on an equity basis on a 2-month lag.

## 1. DESCRIPTION OF THE BUSINESS (cont'd)

### REGULATED ELECTRIC UTILITIES – CARIBBEAN (cont'd)

c. *P.P.C. Limited and Atlantic Equipment & Power (Turks and Caicos) Ltd. (collectively referred to as Fortis Turks and Caicos):* Fortis Turks and Caicos is the principal distributor of electricity 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.

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

Including a hotel acquired on August 1, 2007, Fortis Properties owns and operates 19 hotels with more than 3,500 rooms in 8 Canadian provinces and approximately 2.8 million square feet of commercial real estate in Atlantic Canada.

## 1. DESCRIPTION OF THE BUSINESS (cont'd)

### Corporate and Other

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

## 2. BASIS OF PRESENTATION

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These interim consolidated financial statements have been prepared in accordance with Canadian GAAP, including selected accounting treatments that differ from those used by entities not subject to rate regulation. The timing of the recognition of certain assets, liabilities, revenues and expenses, as a result of regulation, may differ from that otherwise expected using Canadian GAAP for entities not subject to rate regulation. These differences and nature of regulation are disclosed in Notes 2 and 4 to the Corporation's 2006 annual audited consolidated financial statements and Note 5 to these interim consolidated financial statements. These interim consolidated financial statements have been prepared following the same accounting policies and methods as those used in preparing the Corporation's 2006 annual audited consolidated financial statements except as described below. All amounts are presented in Canadian dollars unless otherwise stated.

### Regulation

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

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

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

### a. Financial Instruments

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

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

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

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

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

### a. Financial Instruments (cont'd)

The Corporation has designated its financial instruments as follows:

| | **June 30, 2007** | | December 31, 2006 | |
|---|---|---|---|---|
| *(in millions)* | **Carrying Value** | **Estimated Fair Value** | Carrying Value | Estimated Fair Value |
| **Held for trading** | | | | |
| Cash and cash equivalents [1] | **$ 63.5** | **$ 63.5** | $ 40.9 | $ 40.9 |
| **Loans and receivables** | | | | |
| Accounts receivable [1, 2] | **471.1** | **471.1** | 278.1 | 278.1 |
| Corporate income tax deposit [1, 2] | **5.9** | **5.9** | 5.9 | 5.9 |
| Other receivables due from customers [1, 2, 3] | **6.3** | **6.3** | 6.0 | 6.0 |
| **Other financial liabilities** | | | | |
| Short-term borrowings [1, 2] | **306.1** | **306.1** | 97.7 | 97.7 |
| Accounts payable and accrued charges [1, 2] | **685.8** | **685.8** | 333.7 | 333.7 |
| Dividends payable [1, 2] | **34.2** | **34.2** | 21.7 | 21.7 |
| Customer deposits [1, 2, 4] | **4.9** | **4.9** | 4.8 | 4.8 |
| Long-term debt, including current portion [5, 6] | **4,918.6** | **5,162.9** | 2,614.2 | 2,939.6 |
| Preference shares, classified as debt [5, 7] | **319.5** | **319.9** | 319.5 | 355.4 |

[1] Due to the nature and/or short-term maturity of these financial instruments, carrying value approximates fair value.
[2] Carrying value approximates amortized cost
[3] Included in deferred charges and other assets on the balance sheet
[4] Included in deferred credits on the balance sheet
[5] Carrying value is measured at amortized cost using the effective interest rate method
[6] Carrying value at June 30, 2007 is net of unamortized deferred financing costs of $29.5 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 June 30, 2007 was $131.7 million (December 31, 2006 - $128.5 million).

For the 3- and 6-months ended June 30, 2007, effective interest expense associated with the Corporation's short-term borrowings, long-term debt and preference shares classified as debt is disclosed in Note 12 to these interim consolidated financial statements.

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

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

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

### b. Comprehensive Income

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

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

### b. Comprehensive Income (cont'd)

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

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

### c. Hedges

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

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

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

For the 3- and 6-months ended June 30, 2007, unrealized foreign currency translation losses of $36.1 million and $40.7 million, respectively, were recorded in other comprehensive loss related to the Corporation's net investment in US dollar-denominated self-sustaining foreign operations. These unrealized foreign currency translation losses were partially offset by the effective portion of unrealized after-tax gains of $15.3 million and $16.8 million for the 3- and 6-months ended June 30, 2007, respectively, related to the translation of US dollar-denominated long-term debt designated as a foreign currency risk hedge (Note 10). There was no ineffective portion.

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

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

### c. Hedges (cont'd)

| **Asset (Liability)** | **June 30, 2007** | | | | **December 31, 2006** | |
|---|---|---|---|---|---|---|
| | **Term to maturity (years)** | **Number of Swaps** | **Carrying Value** *(in millions)* | **Fair Value** *(in millions)* | Carrying Value *(in millions)* | Fair Value *(in millions)* |
| Interest Rate Swaps | **1 to 4** | **8** | **$ (0.2)** | **$ (0.2)** | $ - | $ (0.5) |
| Natural Gas Commodity Swaps | **Up to 3** | **233** | **$ (107.9)** | **$ (107.9)** | $ - | $ - |

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

For the 3- and 6-months ended June 30, 2007, unrealized gains of $0.6 million ($0.5 million after-tax) and $0.5 million ($0.4 million after-tax), respectively, were recorded in other comprehensive loss for the effective portion of the change in fair value of the interest rate swap agreements at Fortis Properties and BECOL designated as cash flow hedges with the offset recorded to deferred credits on the balance sheet (Note 10). There were no ineffective portions. The amounts recognized are reclassified to finance charges in the periods during which the variability in cash flows of the hedged items affect finance charges. The net loss reclassified to earnings during the 3- and 6-months ended June 30, 2007 was immaterial. An estimated loss of $0.1 million deferred in accumulated other comprehensive loss as at June 30, 2007 is expected to be reclassified to earnings during the next 12 months.

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

The majority of the natural gas supply contracts at Terasen Gas have floating, rather than fixed, prices and natural gas commodity swaps are used, therefore, to fix the effective purchase price of natural gas. As at June 30, 3007, none of the natural gas commodity swaps were designated as hedges of the natural gas supply contracts. However, any changes in the fair value of the natural gas commodity swaps, whether or not in a qualifying hedging relationship, are deferred as a regulatory asset or liability for recovery from or refund to customers in future rates. The fair values of the natural gas commodity swaps reflect the estimated amounts that Terasen Gas would pay to terminate the contracts as at June 30, 2007.

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

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

### c. Hedges (cont'd)

The Corporation had previously designated the interest rate swap agreement as a hedge of cash flow risk related to floating-rate long-term debt and designated the US dollar forward currency swap agreement as a hedge of foreign currency risk associated with US dollar-denominated long-term debt. These unamortized balances are recognized in finance charges in the periods during which the variability in cash flows of the original hedged items affects finance charges. This change in treatment did not have a material impact on the Corporation's earnings. A net loss of $0.2 million was reclassified to earnings during the 6-months ended June 30, 2007. An estimated net loss of $0.4 million deferred in accumulated other comprehensive loss as at June 30, 2007 is expected to be reclassified to earnings during the next 12 months.

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

### d. Accounting Changes

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

Under revised Section 1506, voluntary changes in accounting policies are made only if they result in the financial statements providing reliable and more relevant information. Additional disclosure is required when the Corporation has not applied a new primary source of Canadian GAAP that has been issued but is not yet effective, as well as when changes in accounting estimates and errors occur. Adoption of this revised standard had no impact on the Corporation's interim consolidated financial statements for the 3- and 6-months ended June 30, 2007.

### e. Inventories

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

## 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.

## 4. USE OF ESTIMATES (cont'd)

Interim financial statements may also employ a greater use of estimates than the annual financial statements. There were no material changes in the nature of the Corporation's critical accounting estimates during the 3- and 6-months ended June 30, 2007 from those disclosed in the Corporation's Management Discussion and Analysis for the year ended December 31, 2006. However, the magnitude of the accounting estimates has increased due to the acquisition of Terasen.

## 5. REGULATORY ASSETS AND LIABILITIES

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

| *(in millions)* | **As at June 30, 2007** | As at December 31, 2006 |
|---|---|---|
| Rate stabilization accounts - Terasen Gas *(i)* | **$ 92.6** | $ - |
| Rate stabilization accounts - electric utilities *(ii)* | **11.6** | 11.6 |
| AESO charges deferral | **20.3** | 12.5 |
| Municipal tax asset | **7.8** | 7.2 |
| Other | **11.1** | 4.4 |
| ***Current regulatory assets*** | **$ 143.4** | $ 35.7 |
| | | |
| Regulatory other post-employment benefit asset | **$ 54.5** | $ 36.4 |
| Rate stabilization accounts - gas utilities *(i)* | **34.4** | - |
| Rate stabilization accounts - electric utilities *(ii)* | **30.2** | 32.3 |
| AESO charges deferral | **25.3** | 27.0 |
| Weather normalization account | **12.7** | 11.8 |
| Regulatory deferred capital asset amortization | **9.0** | 5.8 |
| Energy management costs | **6.2** | 6.0 |
| Southern Crossing Pipeline tax reassessment *(iii)* | **6.1** | - |
| Lease costs | **4.7** | 4.4 |
| Other | **25.6** | 9.3 |
| ***Long-term regulatory assets*** | **$ 208.7** | $ 133.0 |
| | | |
| Municipal tax liability | **$ 7.2** | $ 11.3 |
| Rate stabilization account - electric utilities *(ii)* | **-** | 3.0 |
| Revenue deferral for 2006 rate reduction | **2.1** | 4.2 |
| Other | **4.9** | 7.9 |
| ***Current regulatory liabilities*** | **$ 14.2** | $ 26.4 |
| | | |
| Regulatory future removal and site restoration provision | **$ 315.3** | $ 306.5 |
| Unbilled revenue liability | **23.7** | 24.6 |
| PBR earnings sharing mechanism | **11.6** | - |
| Other | **17.1** | 7.8 |
| ***Long-term regulatory liabilities*** | **$ 367.7** | $ 338.9 |

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

## 5. REGULATORY ASSETS AND LIABILITIES (cont'd)

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

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

The RSAM is anticipated to be recovered in rates over 3 years with a total balance outstanding at June 30, 2007 of $27.2 million. Recovery of the RSAM balance is dependent upon annually approved rates and actual gas consumption volumes. The MCRA, CCRA and GCVA accounts are anticipated to be fully recovered within the next 12 months.

*(ii)* The rate stabilization accounts associated with the Corporation's regulated electric utilities are recovered or refunded through customer rates as approved by the respective regulatory authorities. The rate stabilization accounts primarily mitigate the effect on earnings of the variability in the cost of fuel and/or purchased power and, additionally, in the case of Belize Electricity, are used to defer and recover hurricane damage and recovery expenses from customers. The recovery period of the rate stabilization accounts is variable and is subject to periodic review by the respective regulatory authorities.

*(iii)* The Southern Crossing Pipeline tax reassessment deferral relates to an assessment of additional British Columbia Social Services Tax, of which Terasen Gas has filed an appeal. Terasen Gas made a payment of $10 million pending resolution of the appeal as a good faith payment in order to forestall an order from the Province of British Columbia ("Province of BC") to provide full payment or security. A $4 million refund of the deposit was received in April 2007 with the remaining $6.1 million (including interest) on deposit recorded as a long-term regulatory deferral asset. Depending on the success of the appeal, Terasen Gas will either be refunded the balance or alternatively expects to recover the costs from customers in future rates (Note 16).

## 6. CREDIT FACILITIES

As at June 30, 2007, the Corporation and its subsidiaries had consolidated authorized lines of credit of $2,202.7 million, of which $1,034.8 million was unused.

The following summary outlines the Corporation's credit facilities.

| **Credit Facilities** *(in millions)* | Corporate and Other | Regulated Utilities | Fortis Properties | **Total as at June 30, 2007** | Total as at December 31, 2006 |
|---|---|---|---|---|---|
| Total credit facilities | $ 695.0 | $ 1,495.2 | $ 12.5 | **$ 2,202.7** | $ 952.0 |
| Credit facilities utilized | | | | | |
| Short-term borrowings | (3.2) | (299.5) | (3.4) | **(306.1)** | (97.7) |
| Long-term debt (Note 7) | (298.0) | (388.8) | - | **(686.8)** | (235.5) |
| Letters of credit outstanding | (81.0) | (93.6) | (0.4) | **(175.0)** | (72.1) |
| Credit facilities available | $ 312.8 | $ 713.3 | $ 8.7 | **$ 1,034.8** | $ 546.7 |

## 6. CREDIT FACILITIES (cont'd)

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

**Corporate and Other**
At June 30, 2007, Terasen had a $180 million unsecured committed revolving credit facility, maturing in May 2009. This credit facility had been reduced from $450 million on June 1, 2007 and is used for general corporate purposes. On July 18, 2007, Terasen further reduced its credit facility to $100 million. Letters of credit outstanding at Terasen include $74.1 million related to Terasen's previously owned petroleum transportation business and are secured by a letter of credit from Terasen's former parent company.

On May 14, 2007, Fortis cancelled its $50 million unsecured revolving demand credit facility and renegotiated and amended its $250 million committed unsecured credit facility, extending the maturity date to May 2012 and increasing the amount available to $500 million, with the option to increase the credit facility to an aggregate of $600 million. Also on May 14, 2007, Fortis terminated a $1.43 billion acquisition credit facility agreement with Canadian Imperial Bank of Commerce, which had been established to fund, if necessary, the full cash purchase price for the Terasen acquisition. No funds were drawn under this credit facility.

**Regulated Utilities**
As at June 30, 2007, TGI had a $500 million unsecured committed revolving credit facility, maturing in June 2009, and TGVI had a $350 million unsecured committed revolving credit facility, maturing in June 2011. These facilities are utilized to finance working capital requirements and for general corporate purposes. Additionally, TGVI had a $20 million unsecured committed non-revolving credit facility, maturing January 2013. This facility will be utilized for purposes of refinancing any annual repayments that TGVI may be required to make on non-interest bearing government contributions.

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

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

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

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

**Fortis Generation**
During the first quarter of 2007, Fortis Generation credit facilities of US$2 million were terminated, and upon amalgamation of PLP with FortisBC, PLP's credit facilities of $5.4 million were terminated.

## 7. LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS

| *(in millions)* | **As at June 30, 2007** | As at December 31, 2006 |
|---|---|---|
| Long-term debt and capital lease obligations | **$ 4,285.8** | $ 2,407.7 |
| Long-term classification of credit facilities (Note 6) | **686.8** | 235.5 |
| Deferred debt financing costs (Note 3) | **(29.5)** | - |
| Total long-term debt and capital lease obligations | **4,943.1** | 2,643.2 |
| Less: Current instalments of long-term debt and capital lease obligations | **(513.5)** | (84.8) |
| | **$ 4,429.6** | $ 2,558.4 |

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

On January 3, 2007, FortisAlberta closed a $110 million senior unsecured debenture offering. The debentures bear interest at a rate of 4.99% per annum, to be paid semi-annually, and mature on January 3, 2047.

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

## 8. COMMON SHARES

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

| **a. Issued and Outstanding** | **June 30, 2007** Number of Shares | **June 30, 2007** Amount *(in millions)* | December 31, 2006 Number of Shares | December 31, 2006 Amount *(in millions)* |
|---|---|---|---|---|
| Common Shares | **154,045,903** | **$ 2,103.4** | 104,091,542 | $ 829.0 |

Common Shares issued during the period were as follows:

| | **Quarter Ended June 30, 2007** Number of Shares | **Quarter Ended June 30, 2007** Amount *(in millions)* | **Year-to-date June 30, 2007** Number of Shares | **Year-to-date June 30, 2007** Amount *(in millions)* |
|---|---|---|---|---|
| Opening balance | **109,554,402** | **$ 980.1** | **104,091,542** | **$ 829.0** |
| Public offering | **-** | **-** | **5,170,000** | **145.7** |
| Public offering - Conversion of Subscription Receipts | **44,275,000** | **1,118.7** | **44,275,000** | **1,118.7** |
| Conversion of debentures | **-** | **-** | **117,038** | **1.3** |
| Consumer Share Purchase Plan | **20,601** | **0.6** | **42,028** | **1.2** |
| Dividend Reinvestment Plan | **51,286** | **1.4** | **99,137** | **2.7** |
| Employee Share Purchase Plan | **26,649** | **0.8** | **91,367** | **2.5** |
| Stock Option Plans | **117,965** | **1.8** | **159,791** | **2.3** |
| Ending balance | **154,045,903** | **$ 2,103.4** | **154,045,903** | **$ 2,103.4** |

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

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

## 8. COMMON SHARES (cont'd)

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

At June 30, 2007, 10,566,583 Common Shares remained reserved for issuance under the terms of the Corporation's share purchase, dividend reinvestment and stock option plans.

### 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 131.1 million and 103.4 million for the quarters ended June 30, 2007 and June 30, 2006, respectively. The year-to-date weighted average number of common chares outstanding was 120.2 million and 103.4 million at June 30, 2007 and June 30, 2006, respectively.

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

Earnings per common share are as follows:

| | Quarter Ended June 30th | | | | | |
|---|---|---|---|---|---|---|
| | **2007** | | | 2006 | | |
| | **Earnings** *(in millions)* | **Weighted Average Shares** *(in millions)* | **Earnings per Common Share** | Earnings *(in millions)* | Weighted Average Shares *(in millions)* | Earnings per Common Share |
| Net earnings applicable to common shares | **$ 41.5** | | | $ 37.9 | | |
| Weighted average shares outstanding | | **131.1** | | | 103.4 | |
| **Basic Earnings per Common Share** | | | **$ 0.31** | | | $ 0.37 |
| Effect of dilutive securities: | | | | | | |
| Subscription receipts | - | **22.9** | | - | - | |
| Stock options | - | **1.4** | | - | 1.3 | |
| Preference shares | **4.2** | **11.4** | | 4.2 | 14.1 | |
| Convertible debentures | **0.7** | **3.2** | | 0.3 | 1.9 | |
| **Diluted Earnings per Common Share** | **$ 46.4** | **170.0** | **$ 0.27** | $ 42.4 | 120.7 | $ 0.35 |

## 8. COMMON SHARES (cont'd)

### b. Earnings per Common Share (cont'd)

| | Year-to-date June 30th | | | | | |
|---|---|---|---|---|---|---|
| | **2007** | | | 2006 | | |
| | **Earnings** *(in millions)* | **Weighted Average Shares** *(in millions)* | **Earnings per Common Share** | Earnings *(in millions)* | Weighted Average Shares *(in millions)* | Earnings per Common Share |
| Net earnings applicable to common shares | **$ 83.0** | | | $ 74.5 | | |
| Weighted average shares outstanding | | **120.2** | | | 103.4 | |
| **Basic Earnings per Common Share** | | | **$ 0.69** | | | $ 0.72 |
| Effect of dilutive securities: | | | | | | |
| Subscription receipts | **-** | **15.7** | | - | - | |
| Stock options | **-** | **1.4** | | - | 1.3 | |
| Preference shares | **8.3** | **11.5** | | 8.3 | 14.1 | |
| Convertible debentures | **1.6** | **3.2** | | 0.5 | 1.9 | |
| **Diluted Earnings per Common Share** | **$ 92.9** | **152.0** | **$ 0.61** | $ 83.3 | 120.7 | $ 0.69 |

## 9. STOCK-BASED COMPENSATION PLANS

### Stock Options

The Corporation is authorized to grant officers and certain key employees of Fortis and its subsidiaries options to purchase Common Shares of the Corporation. At June 30, 2007, the Corporation had the following stock option plans: 2006 Stock Option Plan ("2006 Plan"), 2002 Stock Option Plan ("2002 Plan") and Executive Stock Option Plan. The 2002 Plan was adopted at the Annual and Special General Meeting on May 15, 2002 to ultimately replace the Executive and the former Directors' Stock Option Plans. The Executive Stock Option Plan will cease to exist when all outstanding options are exercised or expire in or before 2011. The 2006 Plan was approved at the May 2, 2006 Annual Meeting at which Special Business was conducted. The 2006 Plan will ultimately replace the 2002 Plan. The 2002 Plan will cease to exist when all outstanding options are exercised or expire in or before 2016. The Corporation has ceased to grant options under the Executive Stock Option Plan and 2002 Plan and all new options 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 Shares Units ("DSUs").

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

### Stock Options (cont'd)

| | Quarter Ended June 30, 2007 | | Year-to-date June 30, 2007 | |
|---|---|---|---|---|
| | **Number of Options** | **Weighted Average Exercise Price** | **Number of Options** | **Weighted Average Exercise Price** |
| Options outstanding, beginning of period | **3,508,229** | **$ 16.16** | **3,550,055** | **$ 16.11** |
| Granted | **617,968** | **$ 28.19** | **617,968** | **$ 28.19** |
| Cancelled | **-** | **$ -** | **-** | **$ -** |
| Exercised | **(117,965)** | **$ 13.46** | **(159,791)** | **$ 13.17** |
| Options outstanding, end of period | **4,008,232** | **$ 18.09** | **4,008,232** | **$ 18.09** |

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

| Number of Options | Exercise Price | Expiry Date |
|---|---|---|
| 194,563 | $ 9.57 | 2011 |
| 430,457 | $ 12.03 | 2012 |
| 613,094 | $ 12.81 | 2013 |
| 651,492 | $ 15.28 | 2014 |
| 12,000 | $ 15.23 | 2014 |
| 67,440 | $ 14.55 | 2014 |
| 732,717 | $ 18.40 | 2015 |
| 28,000 | $ 18.11 | 2015 |
| 33,740 | $ 20.82 | 2015 |
| 626,761 | $ 22.94 | 2016 |
| 617,968 | $ 28.19 | 2014 |
| 4,008,232 | | |

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

| Number of Options | Exercise Price | Expiry Date |
|---|---|---|
| 194,563 | $ 9.57 | 2011 |
| 430,457 | $ 12.03 | 2012 |
| 613,094 | $ 12.81 | 2013 |
| 480,560 | $ 15.28 | 2014 |
| 9,000 | $ 15.23 | 2014 |
| 28,350 | $ 14.55 | 2014 |
| 357,247 | $ 18.40 | 2015 |
| 14,000 | $ 18.11 | 2015 |
| 8,435 | $ 20.82 | 2015 |
| 156,672 | $ 22.94 | 2016 |
| 2,292,378 | | |

The weighted average exercise price of stock options vested as at June 30, 2007 was $14.56.

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

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

### Stock Options (cont'd)

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

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

The Corporation records compensation expense upon the issuance of stock options under its 2002 and 2006 Plans. Using the fair value method, the compensation expense is amortized over the 4-year vesting period of the options granted. Under the fair value method, $0.5 million and $1.1 million was recorded as compensation expense for the 3- and 6-months ended June 30, 2007, respectively ($0.4 million and $0.8 million for the 3- and 6-months ended June 30, 2006, respectively).

### Directors' DSU Plan

In 2004, the Corporation introduced the Directors' DSU Plan as an optional vehicle for directors to elect to receive credit of their annual retainer to a notional account of DSUs in lieu of cash. The Corporation may also determine from time to time that special circumstances exist that would reasonably justify the grant of DSUs to a director as compensation in addition to any regular retainer or fee to which the director is entitled. Additionally, in conjunction with the approval of the 2006 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 June 30, 2007** | **Year-to-date June 30, 2007** |
|---|---|---|
| DSUs outstanding, beginning of period | **55,952** | **46,959** |
| Granted | **12,259** | **20,859** |
| Granted - notional dividends reinvested | **412** | **805** |
| DSUs paid out | **-** | **-** |
| DSUs outstanding, end of period | **68,623** | **68,623** |

For the 3- and 6-months ended June 30, 2007, expenses of nil and $0.2 million, respectively, were recorded in relation to the Directors' DSU Plan ($0.1 million and $0.2 million for the 3- and 6-months ended June 30, 2006, respectively).

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

### Restricted Share Unit ("RSU") Plan

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

| **Number of RSUs:** | **Quarter Ended June 30, 2007** | **Year-to-date June 30, 2007** |
|---|---|---|
| RSUs outstanding, beginning of period | **67,318** | **66,845** |
| Granted | **19,570** | **19,570** |
| Granted - notional dividends reinvested | **343** | **816** |
| RSUs paid out | **(20,683)** | **(20,683)** |
| RSUs outstanding, end of period | **66,548** | **66,548** |

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

For the 3- and 6-months ended June 30, 2007, expenses of $0.1 million and $0.2 million, respectively, were recorded in relation to the RSU Plan ($0.1 million and $0.2 million for the 3- and 6-months ended June 30, 2006, respectively).

## 10. ACCUMULATED OTHER COMPREHENSIVE LOSS

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

| | **Quarter** | | |
|---|---|---|---|
| *(in millions)* | Opening balance March 31, 2007 | Net change | **Ending balance June 30, 2007** |
| Unrealized foreign currency translation losses, net of hedging activities | $ (54.6) | $ (20.8) | **$ (75.4)** |
| (Losses) gains on derivative instruments designated as cash flow hedges, net of tax | (0.6) | 0.5 | **(0.1)** |
| Net losses on derivative instruments previously discontinued as cash flow hedges, net of tax | (5.3) | - | **(5.3)** |
| **Accumulated Other Comprehensive Loss** | $ (60.5) | $ (20.3) | **$ (80.8)** |

## 10. ACCUMULATED OTHER COMPREHENSIVE LOSS (cont'd)

| | Year-to-date | | | |
|---|---|---|---|---|
| *(in millions)* | Opening balance January 1, 2007 | Transition amount January 1, 2007 | Net change | **Ending balance June 30, 2007** |
| Unrealized foreign currency translation losses, net of hedging activities | $ (51.5) | $ - | $ (23.9) | **$ (75.4)** |
| (Losses) gains on derivative instruments designated as cash flow hedges, net of tax | - | (0.5) | 0.4 | **(0.1)** |
| Net (losses) gains on derivative instruments previously discontinued as cash flow hedges, net of tax | - | (5.5) | 0.2 | **(5.3)** |
| **Accumulated Other Comprehensive Loss** | $ (51.5) | $ (6.0) | $ (23.3) | **$ (80.8)** |

## 11. EMPLOYEE FUTURE BENEFITS

The Corporation and its subsidiaries each maintain one or a combination of defined benefit pension plans, defined contribution pension plans and group Registered Retirement Savings Plans ("RRSPs") for its employees. The cost of providing the defined benefit arrangements was $6.7 million and $12.0 million for the 3- and 6-months ended June 30, 2007, respectively ($4.1 million and $9.5 million for the 3- and 6-months ended June 30, 2006, respectively). The cost of providing the defined contribution arrangements and group RRSPs was $1.1 million and $2.2 million for the 3- and 6-months ended June 30, 2007, respectively ($0.7 million and $1.6 million for the 3- and 6-months ended June 30, 2006, respectively).

## 12. FINANCE CHARGES

| | Quarter Ended June 30 | | Year-to-date June 30 | |
|---|---|---|---|---|
| *(in millions)* | **2007** | 2006 | **2007** | 2006 |
| Interest - Long-term debt and capital lease obligations | **$ 60.4** | $ 38.0 | **$ 103.7** | $ 75.6 |
| - Short-term borrowings | **4.9** | 1.3 | **7.2** | 3.0 |
| Interest charged to construction | **(1.7)** | (1.0) | **(3.0)** | (2.1) |
| Interest earned | **(1.0)** | (1.1) | **(1.8)** | (2.1) |
| Unrealized foreign exchange loss (gain) on long-term debt | **0.2** | (1.7) | **0.2** | (1.4) |
| Dividends on preference shares | **4.2** | 4.2 | **8.3** | 8.3 |
| | **$ 67.0** | $ 39.7 | **$ 114.6** | $ 81.3 |

## 13. CORPORATE TAXES

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

| | Quarter Ended June 30 (%) | | Year-to-date June 30 (%) | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| Statutory tax rate | **35.0** | 35.5 | **35.0** | 35.2 |
| Preference share dividends | **2.8** | 3.6 | **2.9** | 3.2 |
| Large corporations' tax | **-** | (2.0) | **-** | 0.4 |
| Differences between Canadian statutory rates and those applicable to foreign subsidiaries | **(8.1)** | (6.1) | **(6.7)** | (4.6) |
| Items capitalized for accounting but expensed for income tax purposes | **(19.1)** | (17.8) | **(15.8)** | (13.2) |
| Other timing differences | **1.5** | (3.7) | **(3.0)** | (1.4) |
| Impact of reduction in income tax rates on future income tax balances | **-** | (5.0) | **-** | (3.5) |
| Change in revenue recognition policy at Newfoundland Power | **0.9** | 1.0 | **1.1** | 1.1 |
| Maritime Electric tax reassessment | **-** | 1.9 | **-** | 1.7 |
| Pension costs | **(0.8)** | (0.7) | **(0.8)** | (0.8) |
| Other | **(0.7)** | (1.0) | **(0.2)** | (0.6) |
| Effective tax rate | **11.5** | 5.7 | **12.5** | 17.5 |

## 14. BUSINESS ACQUISITION

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

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

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

## 14. BUSINESS ACQUISITION (cont'd)

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

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

## 15. SEGMENTED INFORMATION

**a.** Information by reportable segment is as follows:

| Quarter ended | REGULATED | | | | | | | NON-REGULATED | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Gas Utilities | Electric Utilities | | | | | | | | | | |
| *(in millions of dollars)* **June 30, 2007** | **Terasen Gas - Canadian [1]** | Fortis Alberta | Fortis BC | NF Power | Other Canadian [2] | **Total Electric Canadian** | **Electric Caribbean [3]** | **Fortis Generation** | **Fortis Properties** | **Corporate and Other** | **Inter-segment eliminations** | **Consolidated** |
| Operating revenues | **129.6** | 68.7 | 51.6 | 114.7 | 65.3 | **300.3** | **74.4** | **17.6** | **47.2** | **4.4** | **(7.6)** | **565.9** |
| Energy supply costs | **72.9** | - | 13.2 | 73.9 | 43.1 | **130.2** | **41.0** | **1.7** | **-** | **-** | **(3.3)** | **242.5** |
| Operating expenses | **27.7** | 30.5 | 16.9 | 12.6 | 7.3 | **67.3** | **11.4** | **3.5** | **29.4** | **1.0** | **(1.5)** | **138.8** |
| Amortization | **11.6** | 18.6 | 7.7 | 8.5 | 4.2 | **39.0** | **6.9** | **2.8** | **3.1** | **1.3** | **-** | **64.7** |
| Operating income | **17.4** | 19.6 | 13.8 | 19.7 | 10.7 | **63.8** | **15.1** | **9.6** | **14.7** | **2.1** | **(2.8)** | **119.9** |
| Finance charges | **15.2** | 8.8 | 6.1 | 8.2 | 4.2 | **27.3** | **3.7** | **2.4** | **5.7** | **15.5** | **(2.8)** | **67.0** |
| Corporate taxes (recovery) | **0.6** | (4.7) | 1.2 | 3.3 | 2.5 | **2.3** | **0.4** | **2.1** | **3.0** | **(2.3)** | **-** | **6.1** |
| Non-controlling interest | **-** | - | - | 0.2 | - | **0.2** | **3.4** | **0.2** | **-** | **(0.1)** | **-** | **3.7** |
| Net earnings (loss) | **1.6** | 15.5 | 6.5 | 8.0 | 4.0 | **34.0** | **7.6** | **4.9** | **6.0** | **(11.0)** | **-** | **43.1** |
| Preference share dividends | **-** | - | - | - | - | **-** | **-** | **-** | **-** | **1.6** | **-** | **1.6** |
| Net earnings (loss) applicable to common shares | **1.6** | 15.5 | 6.5 | 8.0 | 4.0 | **34.0** | **7.6** | **4.9** | **6.0** | **(12.6)** | **-** | **41.5** |
| Goodwill | **906.7** | 227.0 | 220.7 | - | 62.8 | **510.5** | **136.4** | **-** | **-** | **-** | **-** | **1,553.6** |
| Identifiable assets | **3,365.6** | 1,230.2 | 850.6 | 947.6 | 455.8 | **3,484.2** | **651.5** | **236.3** | **491.8** | **67.0** | **(18.9)** | **8,277.5** |
| Total assets | **4,272.3** | 1,457.2 | 1,071.3 | 947.6 | 518.6 | **3,994.7** | **787.9** | **236.3** | **491.8** | **67.0** | **(18.9)** | **9,831.1** |
| Gross capital expenditures | **13.7** | 73.6 | 40.5 | 19.2 | 9.2 | **142.5** | **28.8** | **7.5** | **2.4** | **0.2** | **-** | **195.1** |
| **June 30, 2006** | | | | | | | | | | | | |
| Operating revenues | **-** | 58.6 | 45.8 | 97.3 | 62.1 | **263.8** | **22.7** | **20.5** | **42.0** | **2.2** | **(7.4)** | **343.8** |
| Equity income | **-** | - | - | - | - | **-** | **2.1** | **-** | **-** | **-** | **-** | **2.1** |
| Energy supply costs | **-** | - | 13.9 | 57.7 | 42.0 | **113.6** | **13.4** | **1.4** | **-** | **-** | **(4.1)** | **124.3** |
| Operating expenses | **-** | 26.9 | 16.0 | 12.5 | 7.2 | **62.6** | **2.7** | **3.9** | **26.3** | **3.2** | **(1.1)** | **97.6** |
| Amortization | **-** | 18.5 | 6.5 | 7.9 | 3.9 | **36.8** | **1.4** | **2.6** | **2.9** | **0.8** | **-** | **44.5** |
| Operating income | **-** | 13.2 | 9.4 | 19.2 | 9.0 | **50.8** | **7.3** | **12.6** | **12.8** | **(1.8)** | **(2.2)** | **79.5** |
| Finance charges | **-** | 7.5 | 5.7 | 8.0 | 3.9 | **25.1** | **1.6** | **2.5** | **5.0** | **7.7** | **(2.2)** | **39.7** |
| Gain on sale of income producing property | **-** | - | - | - | - | **-** | **-** | **-** | **(2.1)** | **-** | | **(2.1)** |
| Corporate taxes (recovery) | **-** | (5.6) | 0.3 | 3.0 | 2.4 | **0.1** | **0.3** | **2.9** | **1.8** | **(2.7)** | **-** | **2.4** |
| Non-controlling interest | **-** | - | - | 0.2 | - | **0.2** | **1.0** | **0.5** | **-** | **(0.1)** | **-** | **1.6** |
| Net earnings (loss) applicable to common shares | **-** | 11.3 | 3.4 | 8.0 | 2.7 | **25.4** | **4.4** | **6.7** | **8.1** | **(6.7)** | **-** | **37.9** |
| Goodwill | **-** | 228.6 | 220.7 | - | 62.8 | **512.1** | **-** | **-** | **-** | **-** | **-** | **512.1** |
| Identifiable assets | **-** | 1,013.3 | 747.5 | 894.9 | 419.3 | **3,075.0** | **212.8** | **242.9** | **436.9** | **40.0** | **(15.9)** | **3,991.7** |
| Equity investment assets | **-** | - | - | - | - | **-** | **166.7** | **-** | **-** | **-** | **-** | **166.7** |
| Total assets | **-** | 1,241.9 | 968.2 | 894.9 | 482.1 | **3,587.1** | **379.5** | **242.9** | **436.9** | **40.0** | **(15.9)** | **4,670.5** |
| Gross capital expenditures | **-** | 61.5 | 22.6 | 15.0 | 6.7 | **105.8** | **3.3** | **1.7** | **5.2** | **0.7** | **-** | **116.7** |

[1] Teraen Gas was acquired on May 17, 2007.

[2] Includes Maritime Electric and FortisOntario

[3] Includes Belize Electricity, Fortis Turks and Caicos, and Caribbean Utilities in Grand Cayman

### 15. SEGMENTED INFORMATION (cont'd)

| Year-to-date | REGULATED | | | | | | | NON-REGULATED | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Gas Utilities | Electric Utilities | | | | | | | | | | |
| *(in millions of dollars)* | Terasen Gas - Canadian [1] | Fortis Alberta | Fortis BC | NF Power | Other Canadian [2] | Total Electric Canadian | Electric Caribbean [3] | Fortis Generation | Fortis Properties | Corporate and Other | Inter-segment eliminations | Consolidated |
| **June 30, 2007** | | | | | | | | | | | | |
| Operating revenues | **129.6** | 132.0 | 115.2 | 269.1 | 135.0 | **651.3** | **151.4** | **38.8** | **87.3** | **7.8** | **(17.3)** | **1,048.9** |
| Energy supply costs | **72.9** | - | 33.3 | 180.0 | 91.4 | **304.7** | **84.7** | **3.8** | **-** | **-** | **(9.0)** | **457.1** |
| Operating expenses | **27.7** | 59.4 | 32.9 | 26.8 | 14.0 | **133.1** | **28.2** | **7.6** | **57.5** | **3.1** | **(2.9)** | **254.3** |
| Amortization | **11.6** | 36.6 | 15.5 | 18.8 | 8.3 | **79.2** | **14.2** | **5.4** | **6.4** | **2.0** | **-** | **118.8** |
| Operating income | **17.4** | 36.0 | 33.5 | 43.5 | 21.3 | **134.3** | **24.3** | **22.0** | **23.4** | **2.7** | **(5.4)** | **218.7** |
| Finance charges | **15.2** | 17.4 | 12.2 | 16.5 | 8.4 | **54.5** | **7.5** | **4.8** | **11.6** | **26.4** | **(5.4)** | **114.6** |
| Corporate taxes (recovery) | **0.6** | (8.8) | 3.1 | 8.2 | 5.0 | **7.5** | **0.8** | **4.5** | **4.0** | **(4.4)** | **-** | **13.0** |
| Non-controlling interest | **-** | - | - | 0.3 | - | **0.3** | **4.3** | **0.5** | **-** | **(0.1)** | **-** | **5.0** |
| Net earnings (loss) | **1.6** | 27.4 | 18.2 | 18.5 | 7.9 | **72.0** | **11.7** | **12.2** | **7.8** | **(19.2)** | **-** | **86.1** |
| Preference share dividends | **-** | - | - | - | - | **-** | **-** | **-** | **-** | **3.1** | **-** | **3.1** |
| Net earnings (loss) applicable to common shares | **1.6** | 27.4 | 18.2 | 18.5 | 7.9 | **72.0** | **11.7** | **12.2** | **7.8** | **(22.3)** | **-** | **83.0** |
| Goodwill | **906.7** | 227.0 | 220.7 | - | 62.8 | **510.5** | **136.4** | **-** | **-** | **-** | **-** | **1,553.6** |
| Identifiable assets | **3,365.6** | 1,230.2 | 850.6 | 947.6 | 455.8 | **3,484.2** | **651.5** | **236.3** | **491.8** | **67.0** | **(18.9)** | **8,277.5** |
| Total assets | **4,272.3** | 1,457.2 | 1,071.3 | 947.6 | 518.6 | **3,994.7** | **787.9** | **236.3** | **491.8** | **67.0** | **(18.9)** | **9,831.1** |
| Gross capital expenditures | **13.7** | 138.6 | 71.8 | 31.7 | 15.9 | **258.0** | **46.6** | **7.9** | **5.6** | **0.8** | **-** | **332.6** |
| **June 30, 2006** | | | | | | | | | | | | |
| Operating revenues | **-** | 120.4 | 108.6 | 229.1 | 125.2 | **583.3** | **42.8** | **39.8** | **77.1** | **4.2** | **(14.2)** | **733.0** |
| Equity income | **-** | - | - | - | - | **-** | **3.7** | **-** | **-** | **-** | **-** | **3.7** |
| Energy supply costs | **-** | - | 33.1 | 140.3 | 86.1 | **259.5** | **25.1** | **3.3** | **-** | **-** | **(7.5)** | **280.4** |
| Operating expenses | **-** | 55.6 | 31.4 | 27.1 | 13.7 | **127.8** | **5.4** | **7.9** | **50.9** | **5.5** | **(2.7)** | **194.8** |
| Amortization | **-** | 34.2 | 13.7 | 17.7 | 7.7 | **73.3** | **2.8** | **5.3** | **5.7** | **1.5** | **-** | **88.6** |
| Operating income | **-** | 30.6 | 30.4 | 44.0 | 17.7 | **122.7** | **13.2** | **23.3** | **20.5** | **(2.8)** | **(4.0)** | **172.9** |
| Finance charges | **-** | 14.3 | 11.3 | 16.2 | 7.4 | **49.2** | **3.3** | **5.2** | **10.1** | **17.5** | **(4.0)** | **81.3** |
| Gain on sale of income producing property | **-** | - | - | - | - | **-** | **-** | **-** | **(2.1)** | **-** | **-** | **(2.1)** |
| Corporate taxes (recovery) | **-** | (4.5) | 3.8 | 8.8 | 4.6 | **12.7** | **0.7** | **5.1** | **2.9** | **(5.0)** | **-** | **16.4** |
| Non-controlling interest | **-** | - | - | 0.3 | - | **0.3** | **1.7** | **0.9** | **-** | **(0.1)** | **-** | **2.8** |
| Net earnings (loss) applicable to common shares | **-** | 20.8 | 15.3 | 18.7 | 5.7 | **60.5** | **7.5** | **12.1** | **9.6** | **(15.2)** | **-** | **74.5** |
| Goodwill | **-** | 228.6 | 220.7 | - | 62.8 | **512.1** | **-** | **-** | **-** | **-** | **-** | **512.1** |
| Identifiable assets | **-** | 1,013.3 | 747.5 | 894.9 | 419.3 | **3,075.0** | **212.8** | **242.9** | **436.9** | **40.0** | **(15.9)** | **3,991.7** |
| Equity investment assets | **-** | - | - | - | - | **-** | **166.7** | **-** | **-** | **-** | **-** | **166.7** |
| Total assets | **-** | 1,241.9 | 968.2 | 894.9 | 482.1 | **3,587.1** | **379.5** | **242.9** | **436.9** | **40.0** | **(15.9)** | **4,670.5** |
| Gross capital expenditures | **-** | 116.1 | 48.2 | 27.0 | 14.3 | **205.6** | **6.8** | **2.5** | **11.8** | **0.9** | **-** | **227.6** |

[1] Teraen Gas was acquired on May 17, 2007.

[2] Includes Maritime Electric and FortisOntario

[3] Includes Belize Electricity, Fortis Turks and Caicos, and Caribbean Utilities in Grand Cayman

## 15. SEGMENTED INFORMATION (cont'd)

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

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

**b. Inter-Segment Transactions**

Inter-segment transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. The significant inter-segment transactions primarily related to the sale of energy from Fortis Generation to Belize Electricity and FortisOntario, electricity sales from Newfoundland Power to Fortis Properties and finance charges on inter-segment borrowings. The significant inter-segment transactions for the 3- and 6-months ended June 30, 2007 and 2006 are detailed below.

| **Inter-segment transactions** | **Quarter Ended June 30** | | **Year-to-date June 30** | |
|---|---|---|---|---|
| *(in millions)* | **2007** | 2006 | **2007** | 2006 |
| Sales from Fortis Generation to Belize Electricity | **$3.1** | $3.9 | **$8.4** | $7.0 |
| Sales from Fortis Generation to FortisOntario | **0.3** | 0.3 | **0.6** | 0.6 |
| Sales from Newfoundland Power to Fortis Properties | **0.9** | 0.8 | **2.1** | 1.9 |
| Inter-segment finance charges on borrowings from: | | | | |
| Corporate to Regulated Electric Utilities - Canadian | **0.4** | 0.3 | **1.3** | 0.7 |
| Corporate to Fortis Properties | **1.9** | 1.2 | **3.6** | 2.1 |
| Fortis Generation to Belize Electricity | **-** | 0.3 | **-** | 0.7 |

## 16. CONTINGENT LIABILITIES AND COMMITMENTS

**Contingent liabilities**

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

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

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.

## 16. CONTINGENT LIABILITIES AND COMMITMENTS (cont'd)

**Contingent liabilities (cont'd)**

The claim was that forfeitures of the prompt payment discount offered to customers constituted "interest" within the meaning of section 347 of the *Criminal Code* (Canada) and that the effective annual rate of such "interest" was illegal and void. In the action, the Plaintiff sought damages and restitution of what were characterized as late payment penalties which were forfeited. On December 13, 2006, the application to certify the action as a class action was heard in the B.C. Supreme Court. In a decision delivered on January 11, 2007, the B.C. Supreme Court dismissed the application to certify the action as a class action. The Plaintiff filed an appeal of the decision with the B.C. Court of Appeal. The Plaintiff's appeal was abandoned on May 29, 2007 and a Consent Dismissal Order was entered on June 6, 2007 dismissing the proceeding without costs to either party.

On March 26, 2007, the Minister of Small Business and Revenue and Minister Responsible for Regulatory Reform in British Columbia issued a decision in respect of the appeal by Terasen Gas of an assessment of additional British Columbia Social Service Tax in the amount of $37.1 million associated with the Southern Crossing Pipeline, which was completed in 2000. The Minister has reduced the assessment to $7 million, including interest. On June 22, 2007, Terasen Gas filed an appeal of the assessment with the Supreme Court of British Columbia. In October 2006, Terasen Gas made a payment of $10 million, pending resolution of its first appeal, as a good faith payment in order to forestall an order from the Province of British Columbia to provide full payment or security. A $4 million refund of the deposit was received in April 2007 with the remaining $6.1 million (including interest) on deposit recorded as a long-term regulatory deferral asset (Note5).

**Commitments**

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

Terasen Gas is a party to various gas purchase contracts with obligations totalling $453 million as at June 30, 2007. These obligations are based on market prices that vary with gas commodity indices. The amount reflects index prices in effect as at June 30, 2007.

Terasen Gas also has various capital and operating leases associated with equipment, facilities and natural gas distribution assets with obligations totalling $191.5 million as at June 30, 2007.

## 17. SUBSEQUENT EVENTS

On August 1, 2007, Fortis Properties purchased the Delta Regina in Saskatchewan for $49.95 million from Remai Investment Corporation.

On July 4, 2007, FortisBC issued $105 million 5.90% senior unsecured debentures, maturing July 4, 2047. The net proceeds of the debenture issue are being used to repay existing indebtedness incurred under credit facilities and for general corporate purposes, including future capital expenditures.

## 18. COMPARATIVE FIGURES

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

## Dates – Dividends* and Earnings

**Expected Earnings Release Dates**

| | |
|---|---|
| November 2, 2007 | February 6, 2008 |
| May 2, 2008 | August 8, 2008 |

**Dividend Record Dates**

| | |
|---|---|
| August 10, 2007 | November 9, 2007 |
| February 8, 2008 | May 9, 2008 |

**Dividend Payment Dates**

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

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

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**Share Listings**

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

| Fortis Common Shares ($) Quarter Ended June 30 | | |
|---|---|---|
| | **2007** | **2006** |
| **High** | **29.20** | 24.84 |
| **Low** | **25.98** | 20.36 |
| **Close** | **26.00** | 22.29 |


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