4. All Prospectuses of Debt Offerings of the utility and/or its corporate parent within the last five years, if applicable:

- See enclosed for the prospectuses of FEI and its ultimate parent, Fortis Inc.
- There were no Debt Offerings by FEI's direct parent, FortisBC Holdings Inc. (FHI)

a. Monthly (month end) spread data (market yield minus the yield on Government of Canada bond with similar time to maturity remaining) from 2006 to present date for a representative long-term bond issued by the utility

- See attached Historical Spread Data by RBC and BMO

i. The time to maturity of both the utility bond and the government bond

- See attached Historical Spread Data by RBC and BMO.

ii. The trading liquidity of both bonds,

- See attached Average Trading Volumes analysis by RBC and BMO.

iii. The ratings on the bond for each quarter

- See section 2.b of FEI's Company Related Documents.

iv. For the latest placement of bond, the spread over the corresponding Government bond yields, the current spread and the maturity date

- See attached Historical Spread Data by RBC and BMO.

This short form prospectus has been filed under legislation in all provinces of Canada that permits certain information about these securities to be determined after this prospectus has become final and that permits the omission from this prospectus of that information. The legislation requires the delivery to purchasers of a prospectus supplement containing the omitted information within a specified period of time after agreeing to purchase any of these securities.

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. The securities offered hereby have not been and will not be registered under the U.S. Securities Act of 1933 and may not be offered or sold within the United States. ***Information has been incorporated by reference in this short form prospectus from documents filed with securities commissions or similar authorities in Canada.***

New Issue **SHORT FORM BASE SHELF PROSPECTUS** **December 8, 2005**

TERASEN GAS INC.
$700,000,000
MEDIUM TERM NOTE DEBENTURES
(Unsecured)

MTN Debentures offered hereunder will have maturities of not less than one year and will be either interest bearing MTN Debentures or non-interest bearing MTN Debentures issued at par, at a discount or at a premium. The MTN Debentures may be issued as registered debentures or in the form of fully registered global debentures. The MTN Debentures will be issued at rates of interest or at prices determined by the Company from time to time based on a number of factors, including advice from the Dealers. All references to currency in this short form prospectus are references to Canadian dollars. See “Details of the Offering”.

The specific terms of any offering of MTN Debentures (including the aggregate principal amount of MTN Debentures being offered, the currency, the issue and delivery date, the maturity date, the interest rate (either fixed or floating and, if floating, the manner of calculation thereof), the interest payment date(s), any redemption or repurchase provisions, the names of the Dealers, the Dealers’ commission, the method of distribution and the actual proceeds to the Company) will be set forth in a pricing supplement which will accompany this short form prospectus or any amendments to this short form prospectus. The Company reserves the right to set forth in a pricing supplement specific variable terms of MTN Debentures which are not within the options and parameters set forth in this short form prospectus.

The MTN Debentures will be issued from time to time as and when funds are required by the Company in an aggregate principal amount of up to $700 million (or the equivalent thereof in foreign currencies or currency units) during the 25 month period from the date of this short form prospectus. The MTN Debentures will rank equal in priority to all other unsecured and unsubordinated indebtedness of the Company and will be issued under a trust indenture. This offering is a continuation of the Company’s Canadian medium term note program. As of October 31, 2005 a total of $988 million of MTN Debentures were issued and outstanding.

There is currently no market through which these securities may be sold and purchasers may not be able to resell securities purchased under this short form prospectus.

Rates on Application

The MTN Debentures may be offered by one or more of BMO Nesbitt Burns Inc., CIBC World Markets Inc., National Bank Financial Inc., RBC Dominion Securities Inc., Scotia Capital Inc. and TD Securities Inc. pursuant to the dealer agreement referred to under the heading “Plan of Distribution”, or such other investment dealers as may be selected from time to time by the Company (the “Dealers”). The rate of commission payable in connection with sales by the Dealers of MTN Debentures shall be as determined from time to time by mutual agreement and will be set forth in a pricing supplement which will accompany this short form prospectus. The MTN Debentures may be purchased from time to time by any of the Dealers, as principal, at such prices and with such commissions as may be agreed between the Company and any such Dealers for resale to the public at prices to be negotiated with each purchaser. Such resale prices may vary during the distribution period and as between purchasers. Each Dealer’s compensation will be increased or decreased by the amount which the aggregate price paid for MTN Debentures by purchasers exceeds or is less than the gross proceeds paid by the Dealer, acting as principal, to the Company. The MTN Debentures may also be offered directly by the Company from time to time to purchasers pursuant to applicable statutory exemptions.

The MTN Debentures offered hereby have not been and will not be registered under the United States Securities Act of 1933. Accordingly, the MTN Debentures offered hereby may not be offered or sold in the United States of America, and this short form prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of the MTN Debentures offered hereby within the United States. See “Plan of Distribution”.

The offering is subject to approval of all legal matters on behalf of the Company by Farris, Vaughan, Wills & Murphy LLP and on behalf of the Dealers by Lawson Lundell LLP.

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DOCUMENTS INCORPORATED BY REFERENCE

Information has been incorporated by reference in this short form prospectus from documents filed with securities commissions or similar authorities in Canada. *Copies of the documents incorporated herein by reference may be obtained on request without charge from the Secretary of Terasen Gas Inc. at 16705 Fraser Highway, Surrey, British Columbia, V3S 2X7 (Telephone (604) 576-7000). For the purpose of the Province of Québec, this simplified prospectus contains information to be completed by consulting the permanent information record. A copy of the permanent information record may be obtained from the Secretary of Terasen Gas Inc. at the above-mentioned address and telephone number.*

The following documents filed with the securities commissions or similar authorities in each of the provinces of Canada are specifically incorporated by reference into and form an integral part of this short form prospectus:

(a) the annual information form of Terasen Gas Inc. ("Terasen Gas" or the "Company") dated March 15, 2005;

(b) the audited consolidated financial statements of the Company for the years ended December 31, 2004 and 2003, together with the auditors' report thereon and the management's discussion and analysis filed in connection with such audited financial statements; and

(c) the unaudited interim consolidated financial statements of the Company as at September 30, 2005 and for the three-month and nine-month periods ended September 30, 2005 and 2004, together with management's discussion and analysis filed in connection with such interim unaudited financial statements.

Any document of the type referred to in the preceding paragraph and any material change reports (excluding confidential reports) as well as any prospectus supplements disclosing additional or updated information filed with a provincial securities commission or any similar authority in Canada, after the date of this short form prospectus and prior to the termination of the offering, shall be deemed to be incorporated by reference into this short form prospectus.

A pricing supplement or other prospectus supplement containing the specific variable terms of an offering of MTN Debentures will be delivered to purchasers of such MTN Debentures together with this short form prospectus and will be deemed to be incorporated by reference into this short form prospectus as of the date of such supplement and only for the purposes of the offering of the MTN Debentures covered by that supplement.

Upon a new annual information form and the related audited consolidated financial statements being filed by the Company with and, where required, accepted by the applicable securities regulatory authorities during the currency of this short form prospectus, the previous annual information form, the previous audited consolidated financial statements, all interim unaudited consolidated financial statements, material change reports and information circulars filed prior to the commencement of the Company's financial year in which the new annual information form was filed shall be deemed no longer to be incorporated into this short form prospectus for purposes of future offers and sales of securities hereunder.

Any statement contained herein or in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this short form prospectus to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein, modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this short form prospectus. The making of a modifying or superseding statement shall not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not constitute a part of this short form prospectus, except as so modified or superseded.

THE COMPANY

The Company was formed by the amalgamation on July 1, 1989 under the *Company Act* (British Columbia), a predecessor to the *Business Corporations Act* (British Columbia), of Inland Natural Gas Co. Ltd., B.C. Gas Inc., Columbia Natural Gas Limited and Fort Nelson Gas Ltd. On July 1, 1993 pursuant to an arrangement between the Company and a subsidiary, the Company changed its name to “BC Gas Utility Ltd.” Effective April 25, 2003, the Company changed its name to “Terasen Gas Inc.” The head office of the Company is at 16705 Fraser Highway, Surrey, British Columbia, V3S 2X7. The “Company” or “Terasen Gas” includes its subsidiary companies, as the context so requires. The Company is a wholly-owned subsidiary of Terasen Inc. (“Terasen”). On November 30, 2005, Terasen became an indirect wholly-owned subsidiary of Kinder Morgan, Inc.

The Company transmits and distributes natural gas to residential, commercial and industrial customers in the interior and in the Greater Vancouver and Fraser Valley areas of British Columbia.

The Company owns 100% of the shares of Terasen Gas (Squamish) Inc. (“Squamish Gas”) and Inland Energy Corp. Squamish Gas is a distribution operating subsidiary of the Company which carries on business in British Columbia. Inland Energy Corp. holds purchase money mortgages of the Company pending their securitization.

DIRECTORS AND OFFICERS

Following the completion of the acquisition of Terasen by Kinder Morgan, Inc. on November 30, 2005, the names and positions of the directors and officers of the Company are set out as follows.

Name	Position
Stewart A. Bliss	Director
Ted A. Gardner	Director
Randall L. Jespersen	Director and President
Edward Randall III	Director
C. Park Shaper	Director and Vice President
Douglas G. Allen	Vice President and Treasurer
Dwain A. Bell	Vice President, Distribution
Daryle W. Britton	Vice President, Human Resources and Operations Governance
David D. Kinder	Vice President and Assistant Secretary
Joseph Listengart	Vice President, General Counsel and Secretary
Jan A. Marston	Vice President, Gas Supply and Transmission
Debra G. Nelson	Assistant Secretary
Robert M. Samels	Vice President, Business Services and CIO
Douglas L. Stout	Vice President, Marketing and Business Development
Scott A. Thomson	Vice President, Finance and Regulatory Affairs

USE OF PROCEEDS

The MTN Debentures will be issued from time to time at the discretion of the Company in an aggregate principal amount of up to $700 million during the 25 month period from the date of this short form prospectus. The net proceeds to be derived from the issue of the MTN Debentures offered hereunder will be the issue price thereof less any commission paid in connection therewith. Such net proceeds cannot be estimated as the amount thereof will depend on the extent to which MTN Debentures are issued hereunder. Unless otherwise specified in the pricing supplement which accompanies this short form prospectus, such net proceeds will be added to the general funds of the Company and may be used to reduce short term indebtedness which may be outstanding from time to time. Although no proceeds have been specifically allocated for such purpose, at a future point in time proceeds may be used to reduce indebtedness under the Company's credit facilities with its bankers. The expenses of this offering and commissions will be paid out of the Company's general funds.

EARNINGS COVERAGES

The earnings coverages set forth below are based on consolidated financial information as at and for the year ended December 31, 2004 and the twelve month period ended September 30, 2005, respectively. They do not give effect to the issue of MTN Debentures pursuant to this short form prospectus, since aggregate principal amount of MTN Debentures that will be issued hereunder and the terms of issue are not presently known. The ratio for the twelve month period ended September 30, 2005 is based on unaudited financial information.

The Company's interest requirements on consolidated long term debt amounted to $93.5 million for the year ended December 31, 2004 and $93.5 million for the twelve months ended September 30, 2005, in each case adjusted to reflect the issuance and repayment of long term debt after such dates. The Company's consolidated earnings before interest on long-term debt and income taxes were $204.9 million for the year ended December 31, 2004, which is 2.19 times the Company's interest requirements on consolidated long term debt for the year then ended, and $216.2 million for the twelve months ended September 30, 2005, which is 2.31 times the Company's interest requirements on consolidated long term debt for the twelve month period then ended.

	December 31, 2004	**September 30, 2005**
Earnings coverage on long term debt	2.19 times	2.31 times

CREDIT RATINGS

The Company has received an A2 rating from Moody's Investors Services Inc. ("Moody's") and an A rating from Dominion Bond Rating Service Limited ("DBRS") in respect of its medium term note program including the MTN Debentures to be issued hereunder. The Moody's rating was placed under review with negative implications on August 2, 2005. On October 14, 2005, Moody's confirmed that the pending acquisition of Terasen Inc. by Kinder Morgan, Inc. would not have an impact on the Company's ratings provided certain conditions were included in the regulatory order approving the acquisition. On November 10, 2005, the British Columbia Utilities Commission issued its regulatory order approving the acquisition subject to those conditions. However, Moody's rating remains under review with negative implications as Moody's continues to review the Company's business fundamentals, and Moody's has stated that there is a reasonable possibility that the Company's rating will be one gradation lower on conclusion of the review. Credit ratings are intended to provide investors with an independent measure of credit quality of an issue of securities. DBRS rates debt instruments by rating categories ranging from AAA which represents the highest quality of securities, to D which represents the lowest quality of securities rated. Moody's rates debt instruments by rating categories ranging from Aaa which represents the highest quality of securities to C which represents the lowest quality of securities.

According to the Moody's rating system, debt securities rated A are considered to possess many favourable investment attributes and are to be considered as upper medium grade obligations. Factors giving security to principal and interest are considered adequate but elements may be present which suggest a susceptibility to impairment some time in the future. Moody's applies numerical modifiers (1, 2 and 3) in each rating classification from Aa through Caa. The modifier 1 indicates that the obligation ranks in the higher end of its rating category, the modifier 2 indicates a mid-range ranking and the modifier 3 indicates a ranking in the lower end of its rating category.

According to the DBRS rating system, debt securities rated A are of satisfactory credit quality. Protection of interest and principal is still substantial, but the degree of strength is less than with AA related entities. While a respectable rating, entities in the A category are considered to be more susceptible to economic conditions and have greater cyclical tendencies than higher rated companies.

"High" or "low" are used to indicate the relative standing of a credit within a particular rating category. The lack of one of these designations indicates a rating which is essentially in the middle of the category.

After reassessing its relationship with Standard and Poor's Rating Services, a division of the McGraw-Hill Companies ("S&P"), the Company discontinued the engagement of S&P to provide credit ratings in respect of the Company's medium term note debenture program. S&P continues to rate the Company's medium term note debenture program on the basis of publicly-available information. S&P has assigned a rating of BBB to the Company's medium term note program. S&P placed the Company's ratings on Creditwatch Negative on August 2, 2005 following the announcement of the acquisition of Terasen Inc. by Kinder Morgan, Inc. On December 6, 2005, S&P affirmed this rating, removed the Company's ratings from Creditwatch and indicated that the outlook remains negative.

S&P rates debt instruments by rating categories ranging from AAA which represents the highest quality of securities, to D which represents the lowest quality of securities rated. According to the S&P rating system, debt securities rated BBB exhibit adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation. A plus (+) or minus (-) description after a rating shows the relative standing within the major rating categories (AA to CCC). The lack of one of these designations indicates a rating which is essentially in the middle of the category.

The credit ratings accorded to the MTN Debentures are not recommendations to purchase, hold or sell the MTN Debentures inasmuch as those ratings do not comment as to market price or suitability for a particular investor. There is no assurance that those ratings will remain in effect for any given period of time or that those ratings will not be revised or withdrawn entirely by those rating agencies in the future if, in their judgment, circumstances so warrant.

DETAILS OF THE OFFERING

This offering is a continuation of the Company's medium term note debenture program. Pursuant to this program, $988 million of MTN Debentures are outstanding as of October 31, 2005. MTN Debentures will have maturities of not less than one year and will either be interest bearing MTN Debentures or non-interest bearing MTN Debentures issued at par, at a discount or at a premium. The MTN Debentures may be issued in Canadian dollars, or any other currency as determined at the time of issue. The MTN Debentures are issuable in minimum denominations of $5,000 and multiples of $1,000 thereafter, and if issued in any other currency in such denominations in such other currency as may be determined from time to time. The MTN Debentures will be issued as and when funds are required by the Company. The aggregate principal amount of MTN Debentures to be offered hereunder will not exceed $700 million.

All references to currency in this short form prospectus are references to Canadian dollars. For MTN Debentures issued in other than Canadian currency, potential purchasers should be aware that foreign exchange fluctuations will occur from time to time and that neither the Company nor the Dealers make any representation with respect to currency values from time to time.

MTN Debentures may be issued as registered debentures or in the form of fully registered global debentures ("Global Debentures") held by The Canadian Depositary for Securities Limited or a successor (the "Depositary") for its participants. CIBC Mellon Trust Company or a successor will act as the transfer agent and registrar of the MTN Debentures. The Depositary establishes and maintains book entry accounts for its participants having interests in Global Debentures. The interests of participants of the Depositary in Global Debentures, and transfers of interests in the Global Debentures between participants, will be effected by entries made in the records maintained by the Depositary. The interests of customers of participants in the MTN Debentures will be effected by entries made in the records maintained by the participants. Purchasers of MTN Debentures in respect of which Global Debentures are issued will not be entitled to receive MTN Debentures in definitive form except in certain stated events including upon the request of holders of not less than 10% of the MTN Debentures upon the happening of any event of default. The issuance of MTN Debentures as Global Debentures will, if applicable, be referred to in the relevant pricing supplement delivered with this short form prospectus.

The specific variable terms of any offering of MTN Debentures (including the aggregate principal amount of MTN Debentures being offered, the currency, the issue and delivery date, the maturity date, the interest rate (either fixed or floating and, if floating, the manner of calculation thereof), the interest payment date(s), any redemption or repurchase provisions, the names of the Dealers, the Dealers' commission, the method of distribution and the actual proceeds to the Company) will be set forth in a pricing supplement which will accompany this short form prospectus or any amendments to this short form prospectus. The Company reserves the right to set forth in a pricing supplement specific variable terms or amendments to the MTN Debentures which are not within the options and parameters set forth in this short form prospectus.

The registered holder of a MTN Debenture may transfer such MTN Debenture upon payment of taxes incidental thereto, if any, by executing and delivering a form of transfer together with the MTN Debenture to the Trustee at its principal corporate trust office in any of the cities of Vancouver, Toronto or Montreal upon which one or more new MTN Debentures will be issued in authorized denominations in the same aggregate principal amount as the MTN Debenture so transferred, registered in the name or names of the transferee or transferees. No transfer of a MTN Debenture will be registered during the seven business days (a business day for this purpose being a business day in the city of Vancouver) immediately preceding any date fixed for payment of interest on such MTN Debenture.

The following summary of certain provisions of the Indenture (as defined below) and the MTN Debentures does not purport to be complete and is subject to the detailed provisions of the Indenture to which reference is hereby made for a full description of such provisions, including the definition of certain terms used herein, and for other information regarding the MTN Debentures.

General

The MTN Debentures will be issued under a trust indenture dated as of November 1, 1977 made between the Company (as successor to Inland Natural Gas Co. Ltd.) and CIBC Mellon Trust Company (formerly called The R-M Trust Company as successor to National Trust Company, Limited), as trustee (the "Trustee"), as supplemented and amended by a first supplemental indenture dated as of November 17, 1981, a second supplemental indenture dated as of July 11, 1984, a third supplemental indenture dated as of December 17, 1986, a fourth supplemental indenture dated as of June 1, 1989, a fifth supplemental indenture dated as of July 1, 1989, a sixth supplemental indenture dated as of June 14, 1990, a seventh supplemental indenture dated as of October 26, 1990, an eighth supplemental indenture dated as of August 1, 1992, a ninth supplemental indenture dated as of July 25, 1993, and a tenth supplemental indenture dated as of November 15, 1993 (the trust indenture as so supplemented and amended from time to time, being herein called the "Indenture" and the said tenth supplemental indenture being herein called the "Supplemental Indenture"). The Indenture will be available for review during normal business hours during the period of distribution of the MTN Debentures at the head office of the Company at 16705 Fraser Highway, Surrey, British Columbia.

The aggregate principal amount of debentures authorized under the Indenture (the "Debentures") is unlimited. Debentures may be issued thereunder in one or more series. The MTN Debentures are a series of Debentures authorized by the Supplemental Indenture in an unlimited amount, and may be issued on such terms and at such times as may be determined by the Company, subject to the Company meeting certain tests with respect to the issue thereof, as set forth in the Indenture.

The MTN Debentures will rank in equal priority to all other unsecured and unsubordinated indebtedness of the Company. As at October 31, 2005, there was approximately $79.9 million aggregate principal amount of Debentures outstanding under the Indenture, other than MTN Debentures. The MTN Debentures will rank junior to any outstanding First Mortgage Bonds issued under a trust deed and secured by substantially all of the Company's assets and the Purchase Money Mortgages which are secured under a trust deed over the assets of the Company acquired as part of its acquisition of the coastal gas distribution assets of British Columbia Hydro and Power Authority (the "Coastal Division"). Currently there are no First Mortgage Bonds outstanding. There are $274.9 million principal amount of Purchase Money Mortgages presently held by the public and $150 million presently held by a subsidiary of the Company pending securitization. The Purchase Money Mortgages were issued to finance the Company's acquisition of the Coastal Division.

Payments of interest on each interest bearing MTN Debenture will be made by electronic funds transfer, if agreed to by the purchasers, or by cheque dated the interest payment date and mailed to the address of the holder appearing on the registers maintained by the Trustee at the close of business on the seventh business day (a business day for this purpose being a business day in the city of Vancouver) prior to the due date for the payment of interest. Payment of principal at maturity will be made at the principal corporate trust office of the Trustee in any of the cities referred to below against surrender of the MTN Debenture. If the due date for payment of any amount of principal or interest on any MTN Debenture is not, at the place of payment, a business day (being a day other than Saturday, Sunday, or a day on which financial institutions at the place of payment are authorized or obligated by law or regulation to close) such payment will be made on the next business day and the holder of such MTN Debenture shall not be entitled to any further interest or other payment in respect of such delay.

Payments of principal on MTN Debentures will be made against presentation and surrender thereof for cancellation at such places as are designated in the MTN Debentures and in the Indenture.

The payment of principal and interest on a MTN Debenture in accordance with the indenture shall absolutely satisfy and discharge the liability of the Company with respect to such payment under the MTN Debenture, unless in the case of payment by cheque it is not paid upon presentation.

Events of Default

Except as otherwise noted below, the Indenture provides that the following constitute events of default (each an "Event of Default") thereunder:

(a) default in payment of principal on any Debenture when due;

(b) default in payment of any interest due on any Debenture and such default has continued for 30 days;

(c) an order is made or an effective resolution passed for the winding-up or liquidation of the Company (other than pursuant to and in compliance with provisions in the Indenture relating to successor companies);

(d) the Company or any Designated Subsidiary (as defined below) makes a general assignment for the benefit of its creditors, is declared bankrupt, a sequestrator or a receiver or any other officer with similar powers is appointed of, or an encumbrancer takes possession of, the property of the Company or of the property of a Designated Subsidiary, or any substantial part thereof;

(e) any process of execution is enforced or levied upon any property of the Company or a Designated Subsidiary and remains unsatisfied for a period of 30 days, as to moveable or personal property, or 45 days, as to immovable or real property, provided that such process is not in good faith disputed by the Company or such Designated Subsidiary or the Company or such Designated Subsidiary has given adequate security;

(f) default under the mortgage with respect to the First Mortgage Bonds which causes the principal amount of the First Mortgage Bonds to be declared immediately due and payable, provided that if the default is cured and such declaration is rescinded the Event of Default will also be cured; and

(g) the Company neglects to carry out or observe any covenant or condition contained in the Indenture and, after notice has been given by the Trustee to the Company, the Company fails to make good such default within 60 days or such shorter period as would at any time, if continued, render any property of the Company or any of its subsidiaries liable to forfeiture, unless the Trustee has agreed to a longer period, and in such an event, within the period agreed to by the Trustee.

Acceleration on and Waiver of Default

If an Event of Default has occurred under the Indenture, the Trustee may in its discretion and will upon the requisition in writing of the holders of at least 25% of the principal amount of the Debentures issued and outstanding under the Indenture, subject to any waiver of default under the Indenture, by notice in writing to the Company declare the principal and interest on all Debentures then outstanding under the Indenture and other money payable thereunder to be due and payable.

If an Event of Default has occurred under the Indenture (otherwise than by default in payment of principal moneys at maturity) the holders of the Debentures have the power by extraordinary resolution to instruct the Trustee to waive the default (provided that if the Event of Default relates to a covenant applicable to a particular series of Debentures only, then the holders of outstanding Debentures of that series only have the power by extraordinary resolution to instruct the Trustee to waive the default). In addition, the Trustee, so long as it has not become bound to institute any proceedings under the Indenture, has power to waive the default if, in the Trustee's opinion, the same shall have been cured or adequate satisfaction made therefor.

In the Indenture, "extraordinary resolution" is a resolution passed at a meeting of debentureholders by the favourable votes of the holders of not less than 66⅔% of the principal amount of Debentures represented at the meeting.

Right of Trustee to Enforce Payment

If the Company fails to pay to the Trustee, on demand, and when due, the principal and interest on all Debentures then outstanding under the Indenture, the Trustee may, in its discretion, and shall upon the request in writing of the holders of not less than 25% of the principal amount of the Debentures issued and outstanding under the Indenture, and upon being indemnified to its reasonable satisfaction against all costs, expenses and liabilities to be incurred, proceed in its name as Trustee to obtain or enforce payment of the said principal and interest on all outstanding Debentures together with other amounts due under the Indenture by any remedy or proceeding authorized by the Indenture.

Holders of Debentures issued under the Indenture may not institute any action or proceeding or exercise any other remedy authorized by the Indenture, including an action to enforce the Indenture or the Debentures, except as provided in the Indenture.

Covenants

The Indenture contains, among others, covenants substantially to the following effect:

(a) The Company will not mortgage, pledge, charge or otherwise encumber any of its assets to secure any obligations unless at the same time it shall, in the opinion of counsel, secure or cause to be secured equally and rateably with such obligations all the Debentures then outstanding under the Indenture by the same instrument or by other instrument in form and substance satisfactory to such counsel; provided that this covenant shall not apply to (a) First Mortgage Bonds, (b) Purchase Money Mortgages, (c) permitted encumbrances as defined in the Indenture, or (d) security given (other than on fixed assets) in the ordinary course of business and for the purpose of carrying on the same, to any bank or banks or others to secure any indebtedness other than Funded Obligations.

(b) The Company will not permit any Designated Subsidiary to create, incur or guarantee any indebtedness, except indebtedness to or of the Company or to a trustee in support of a guarantee of indebtedness of the Company, provided that this shall not apply to (a) Purchase Money Mortgages, or (b) indebtedness incurred in the ordinary course of business and for the purpose of carrying on the same, to any bank or banks or others, repayable on demand or maturing, including any right of extension or renewal, within 18 months of the date when such indebtedness is incurred, provided such indebtedness is not secured on fixed assets.

(c) The Company or a Designated Subsidiary will not dispose of any indebtedness of a Designated Subsidiary unless all the shares and indebtedness of such Designated Subsidiary are sold to a party dealing with the seller at arm’s length, resulting in neither the Company nor any other Designated Subsidiary owning any of such Designated Subsidiary.

(d) The Company will not permit any Designated Subsidiary to issue any shares if, as a result of such issue, such Designated Subsidiary ceases to qualify as such.

(e) The Company will not create or issue any Additional Obligations unless Consolidated Available Net Earnings for any period of 12 consecutive calendar months of the 23 calendar months next preceding the date of issue of such Additional Obligations, which period shall have been selected by the Company, shall have been at least two times the annual interest requirements of all Funded Obligations to be outstanding after the issue of such Additional Obligations and after any retirements of Funded Obligations to be made out of the proceeds thereof or retirement thereof has been otherwise provided for and in respect of which proof has been afforded to the Trustee satisfactory to it that adequate provision has been made assuring that such Funded Obligations will be retired within 45 days after the issue of such Additional Obligations; provided the provisions of this covenant shall not apply to the creation and issue of Additional Obligations for the purpose of refunding the whole of any series of Debentures previously issued under the Indenture provided that (except in the case of refunding all of the MTN Debentures) the aggregate principal amount of the Additional Obligations does not exceed the aggregate principal amount of the Debentures to be refunded.

(f) The Company will, directly or through Designated Subsidiaries, from time to time obtain and at all times maintain facilities for supplies of gas adequate to enable the carrying on of its business.

Modification

The rights of the holders of the MTN Debentures under the Indenture may be modified. For that purpose, among others, the Indenture will contain provisions making binding upon all holders of Debentures outstanding under the Indenture and indentures supplemental thereto, resolutions passed at meetings of debentureholders by the favourable votes of the holders of not less than 66⅔% of the principal amount of Debentures voted on the resolution or instruments in writing signed by the holders of not less than 66⅔% of the principal amount of all the outstanding Debentures. In certain cases, modification will require separate assent by the holders of the required percentages of debentures of each series outstanding under the Indenture or any series of MTN Debentures outstanding under the Indenture as determined by the Trustee.

Definitions

The Indenture contains definitions substantially to the following effect:

“*Additional Obligations*” means bonds, debentures, notes or other debt instruments issued by the Company, the due date of payment of which, including any right of extension or renewal, is 18 months or more after the date of issue but does not include First Mortgage Bonds and Purchase Money Mortgages.

"*Consolidated Available Net Earnings*" for any specified period of 12 months means the net earnings of the Company and its Designated Subsidiaries on a consolidated basis for such period (excluding gains or losses on the disposal of investments or fixed assets in each case in excess of $50,000 in the aggregate and other non-recurring items in excess of $50,000 in the aggregate) before deductions for income taxes, interest on Funded Obligations and on any other indebtedness that since the end of the specified period has been or is about to be refunded by the issue of Funded Obligations and amortization of debt premium, discount and expense, all as determined in accordance with generally accepted accounting principles and reported on by the Company's auditors without, in their opinion, material adverse qualification. In determining Consolidated Available Net Earnings for any period there shall be taken into account the earnings or losses, as the case may be, for the whole of such period of any company or corporation which, prior to or concurrently with the proposed action in respect of which such determination is being made, becomes a Designated Subsidiary. In addition, if the Company or any Designated Subsidiary shall, prior to or concurrently with the proposed action in respect of which such determination is being made, have acquired any business by way of acquisition of assets, the earnings or losses, as the case may be, of such business to the extent that such earnings or losses related to the assets acquired, shall be taken into account for the whole of such period.

"*Designated Subsidiary*" means any company or corporation the majority of the outstanding shares of each class of the capital stock of which having attached to them voting rights under all circumstances are owned by the Company and/or one or more Designated Subsidiaries, provided that the Company shall have, by resolution of its directors, designated such other company or corporation as a Designated Subsidiary; provided that any Designated Subsidiary shall cease to be a Designated Subsidiary upon sale of all its shares and indebtedness owned by the Company and any other Designated Subsidiary, resulting in neither the Company nor any other Designated Subsidiary owning any of such Designated Subsidiary.

"*First Mortgage Bonds*" means all first mortgage bonds or other first mortgage obligations of the Company, whether heretofore or hereafter issued, secured by a first fixed and specific charge on substantially all the fixed assets of the Company (whether or not also secured by a floating charge or by other security).

"*Funded Obligations*" means any indebtedness, whether secured or unsecured, incurred by any one or more of the Company and the Designated Subsidiary by way of creation, guarantee, assumption or otherwise which is not repayable on demand and the due date of payment of which, including any right of extension or renewal, is 18 months or more after the date on which it was incurred, but does not include (i) indebtedness secured by Purchase Money Mortgages and (ii) any liability in respect of any guarantee by any one or more of the Company and the Designated Subsidiaries of the indebtedness of the Company and/or any Designated Subsidiary secured by Purchase Money Mortgages.

"*Purchase Money Mortgages*" means any mortgages, liens or other encumbrances upon property acquired by one or more of the Company and the Designated Subsidiary which were, at the time of such acquisition or concurrently therewith, assumed, created or given to secure all or part of the cost of such property and extensions and renewals thereof upon the same property if the principal amount of the indebtedness secured thereby is not increased.

RISK FACTORS

Prospective investors in a particular offering of MTN Debentures should consider, in addition to the matters described under the heading "Risk Factors" in the annual information form of the Company and the matters described under the heading "Key Risk and Success Factors" in the management's discussion and analysis relating to the annual audited financial statements that is incorporated by reference herein, the following risk factors.

Credit Ratings

Credit ratings are intended to provide investors with an independent measure of credit quality of an issue of securities. The credit ratings accorded to the MTN Debentures are not a recommendation to purchase, hold or sell the MTN Debentures, because ratings do not comment as to market price or suitability for a particular investor. There is no assurance that these ratings will remain in effect for any given period of time or that these ratings will not be revised or withdrawn entirely in the future by the relevant rating agency. Real or anticipated changes in credit ratings on the MTN Debentures may affect the market value of the MTN Debentures. In addition, real or anticipated changes in credit ratings can affect the cost at which the Company can access the debt market.

Lack of Public Market for MTN Debentures

This short form prospectus qualifies new issues of debt securities for which there is no existing trading market. The Company does not intend to list the MTN Debentures on any securities exchange or to arrange for any quotation system to quote them. There can be no assurance as to the liquidity of any trading market for the MTN Debentures or that a trading market for any of the MTN Debentures will develop. Even if a trading market develops in the MTN Debentures, those MTN Debentures could trade at prices that may be higher or lower than their initial offering prices. The market price for the MTN Debentures may be affected by prevailing interest rates, the Company's results of operations and financial position, the ratings assigned to the MTN Debentures or the Company, changes in general market conditions, fluctuations in the market for equity or debt securities and numerous other factors beyond the control of the Company.

PLAN OF DISTRIBUTION

The MTN Debentures may be offered for sale by any one or more of BMO Nesbitt Burns Inc., CIBC World Markets Inc., National Bank Financial Inc., RBC Dominion Securities Inc., Scotia Capital Inc. and TD Securities Inc., pursuant to a dealer agreement dated December 8, 2005 among such investment dealers and the Company (the "Dealer Agreement"), or by other investment dealers selected from time to time by the Company (the "Dealers"). The rate of commission payable in connection with sales by the Dealers of MTN Debentures shall be as determined from time to time by mutual agreement. The MTN Debentures may be purchased from time to time by any of the Dealers, as principal, at such prices and with such commissions as may be agreed between the Company and any such Dealers for resale to the public at prices to be negotiated with each purchaser. Such resale prices may vary during the distribution period and as between purchasers. Each Dealer's compensation will be increased or decreased by the amount by which the aggregate price paid for MTN Debentures by purchasers exceeds or is less than the gross proceeds paid by the Dealers, acting as principals, to the Company. The Dealer Agreement also provides that in the event a Dealer is purchasing MTN Debentures as principal, the obligation of that Dealer to purchase as principal may be terminated in certain stated events. The MTN Debentures may also be offered directly by the Company at market rates prevailing from time to time to purchasers pursuant to applicable statutory exemptions and may from time to time be offered at a discount or a premium.

The MTN Debentures have not been and will not be registered under the United States Securities Act of 1933, as amended (the "U.S. Securities Act") and may include MTN Debentures in bearer form that are subject to United States tax law requirements. The MTN Debentures may not be offered, sold or delivered within the United States, except in certain transactions exempt from the registration requirements of the U.S. Securities Act. Each Dealer has agreed that it will not offer, sell or deliver any MTN Debentures within the United States. In addition, until 40 days after the commencement of the offering, an offer or sale of any MTN Debentures within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the U.S. Securities Act.

TRANSFER AGENT AND REGISTRAR

Registers for the registration and transfer of the MTN Debentures will be kept at the principal corporate trust offices of CIBC Mellon Trust Company in the cities of Vancouver, Toronto and Montreal.

ELIGIBILITY FOR INVESTMENT

In the opinion of Farris, Vaughan, Wills & Murphy LLP, counsel for the Company, and Lawson Lundell LLP, counsel for the Dealers, the MTN Debentures offered hereby, if issued on the date hereof, would be eligible investments, or their purchase would not be prohibited, in certain cases subject to prudent investment requirements and to additional requirements relating to investment or lending restrictions, policies or goals, under or by the following statutes:

Insurance Companies Act (Canada)
Trust and Loan Companies Act (Canada)
Loan and Trust Corporations Act (Ontario)
Pension Benefits Standards Act, 1985 (Canada)
Supplemental Pension Plans Act (Quebec)
Pension Benefits Act (Ontario).

No opinion is given with respect to the status of the MTN Debentures as qualified investments under the *Income Tax Act* (Canada) and the regulations thereunder for trusts governed by registered retirement savings plans, registered retirement income funds, registered education savings plans and deferred profit sharing plans. Prospective purchasers of MTN Debentures are urged to consult with their own tax advisors in this regard.

STATUTORY RIGHTS OF WITHDRAWAL AND RESCISSION

Securities legislation in several of the provinces provides purchasers with the right to withdraw from an agreement to purchase securities within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces and territories securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, damages where the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that such remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for the particulars of these rights or consult with a legal adviser.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This short form prospectus, and the documents incorporated herein by reference, contain forward-looking statements which reflect management's expectations regarding the Company's future growth, results of operations, performance and business prospects and opportunities. Wherever possible, words such as ''anticipate'', ''believe'', ''expects'', ''intend'' and similar expressions have been used to identify these forward-looking statements. These statements reflect management's current beliefs and are based on information currently available to the Company's management. Forward-looking statements involve significant risk, uncertainties and assumptions. 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 prospective investors should not place undue reliance on the forward-looking statements. Although the forward-looking statements contained in this Prospectus, and the documents incorporated herein by reference, are based upon what management believes to be reasonable assumptions, the Company cannot assure prospective purchasers that actual results will be consistent with these forward-looking statements. These forward-looking statements are made as of the date of this short form prospectus, and the Company assumes no obligation to update or revise them to reflect new events or circumstances.

AUDITORS' CONSENT

The Board of Directors of Terasen Gas Inc.

We have read the short form base shelf prospectus dated December 8, 2005 relating to the offering of $700,000,000 Medium Term Note Debentures (Unsecured) of the Company. We have complied with Canadian generally accepted standards for an auditors' involvement with offering documents.

We consent to the incorporation by reference in the above mentioned prospectus of our report to the shareholders of the Company on the consolidated statements of financial position of the Company as at December 31, 2004 and 2003 and the consolidated statements of earnings, retained earnings and cash flows for the years then ended. Our report is dated February 2, 2005.

(Signed) KPMG LLP

Chartered Accountants
Vancouver, Canada
December 8, 2005

CERTIFICATE OF TERASEN GAS INC.

Dated: December 8, 2005

This short form prospectus, together with the documents incorporated in this prospectus by reference, will, as of the date of the last supplement to this prospectus relating to the securities offered by this prospectus and the supplement(s), constitute full, true and plain disclosure of all material facts relating to the securities offered by this prospectus and the supplement(s) as required by the securities legislation of each of the provinces of Canada, and will not contain any misrepresentation likely to affect the value or the market price of the securities to be distributed.

(Signed) Randall L. Jespersen
President
(as Chief Executive Officer)

(Signed) Scott A. Thomson
Vice President, Finance and Regulatory Affairs
(as Chief Financial Officer)

On behalf of the Board of Directors

(Signed) C. Park Shaper
Director

(Signed) Stewart A. Bliss
Director

CERTIFICATE OF THE DEALERS

Dated: December 8, 2005

To the best of our knowledge, information and belief, this short form prospectus, together with the documents incorporated in this prospectus by reference will, as of the date of the last supplement to this prospectus relating to the securities offered by this prospectus and the supplement(s), constitute full, true and plain disclosure of all material facts relating to the securities offered by this prospectus and the supplement(s) as required by the securities legislation of each of the provinces of Canada, and will not contain any misrepresentation which is likely to affect the value or the market price of the securities to be distributed.

BMO NESBITT BURNS INC.

By: (Signed) Graeme N. Falkowsky

CIBC WORLD MARKETS INC.

By: (Signed) Alan C. Wallace

NATIONAL BANK FINANCIAL INC.

By: (Signed) Daniel W. Wilton

RBC DOMINION SECURITIES INC.

By: (Signed) Jill V. Gardiner

SCOTIA CAPITAL INC.

By: (Signed) Murray W. Neal

TD SECURITIES INC.

By: (Signed) Mark A. Horsfall

This short form prospectus has been filed under legislation in all provinces of Canada that permits certain information about these securities to be determined after this prospectus has become final and that permits the omission from this prospectus of that information. The legislation requires the delivery to purchasers of a prospectus supplement containing the omitted information within a specified period of time after agreeing to purchase any of these securities.

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. The securities offered hereby have not been and will not be registered under the U.S. Securities Act of 1933 and may not be offered or sold within the United States. ***Information has been incorporated by reference in this short form prospectus from documents filed with securities commissions or similar authorities in Canada.*** *Copies of the documents incorporated herein by reference may be obtained on request without charge from the Secretary of Terasen Gas Inc. at Suite 1000, 1111 West Georgia Street, Vancouver, British Columbia, V6E 4M3 (Telephone (604) 443-6526), and are also available at www.sedar.com.*

New Issue **SHORT FORM BASE SHELF PROSPECTUS** **April 24, 2008**

TERASEN GAS INC.
$600,000,000
MEDIUM TERM NOTE DEBENTURES
(Unsecured)

Medium Term Note Debentures (the "MTN Debentures") offered hereunder will have maturities of not less than one year and will be either interest bearing MTN Debentures or non-interest bearing MTN Debentures issued at par, at a discount or at a premium. The MTN Debentures may be issued as registered debentures or in the form of fully registered global debentures. The MTN Debentures will be issued at rates of interest or at prices determined by Terasen Gas Inc. ("Terasen Gas" or the "Company") from time to time based on a number of factors, including advice from the Dealers. All references to currency in this short form prospectus are references to Canadian dollars. See "Details of the Offering".

The specific terms of any offering of MTN Debentures (including the aggregate principal amount of MTN Debentures being offered, the currency, the issue and delivery date, the maturity date, the interest rate (either fixed or floating and, if floating, the manner of calculation thereof), the interest payment date(s), any redemption or repurchase provisions, the names of the Dealers, the Dealers' commission, the method of distribution and the actual proceeds to the Company) will be set forth in a pricing supplement which will accompany this short form prospectus or any amendments to this short form prospectus. The Company reserves the right to set forth in a pricing supplement specific variable terms of MTN Debentures which are not within the options and parameters set forth in this short form prospectus.

The MTN Debentures will be issued from time to time as and when funds are required by the Company in an aggregate principal amount of up to $600 million (or the equivalent thereof in foreign currencies or currency units) during the 25 month period from the date of this short form prospectus. The MTN Debentures will rank equal in priority to all other unsecured and unsubordinated indebtedness of the Company and will be issued under a trust indenture. As of March 31, 2008 a total of $1,068 million aggregate principal amount of MTN Debentures were issued and outstanding.

There is no market through which these securities may be sold and purchasers may not be able to resell securities purchased under this short form prospectus. This may affect the pricing of the securities in the secondary market, the transparency and availability of trading prices, the liquidity of the securities, and the extent of issuer regulation. See "Risk Factors".

Rates on Application

The MTN Debentures may be offered by one or more of BMO Nesbitt Burns Inc., CIBC World Markets Inc., National Bank Financial Inc., RBC Dominion Securities Inc., Scotia Capital Inc. and TD Securities Inc. pursuant to the dealer agreement referred to under the heading "Plan of Distribution", or such other investment dealers as may be selected from time to time by the Company (the "Dealers"). The rate of commission payable in connection with sales by the Dealers of MTN Debentures shall be as determined from time to time by mutual agreement and will be set forth in a pricing supplement which will accompany this short form prospectus. The MTN Debentures may be purchased from time to time by any of the Dealers, as principal, at such prices and with such commissions as may be agreed between the Company and any such Dealers for resale to the public at prices to be negotiated with each purchaser. Such resale prices may vary during the distribution period and as between purchasers. Each Dealer's compensation will be increased or decreased by the amount which the aggregate price paid for MTN Debentures by purchasers exceeds or is less than the gross proceeds paid by the Dealer, acting as principal, to the Company. The MTN Debentures may also be offered directly by the Company from time to time to purchasers pursuant to applicable statutory exemptions.

The MTN Debentures offered hereby have not been and will not be registered under the United States Securities Act of 1933. Accordingly, the MTN Debentures offered hereby may not be offered or sold in the United States of America, and this short form prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of the MTN Debentures offered hereby within the United States. See "Plan of Distribution".

Under applicable securities legislation in Canada, the Company may be considered to be a connected issuer of each of the Dealers, as each is directly or indirectly a wholly-owned or majority-owned subsidiary of a Canadian chartered bank which has extended credit facilities to the Company upon which the Company may draw from time to time. See "Plan of Distribution".

The offering is subject to approval of all legal matters on behalf of the Company by Farris, Vaughan, Wills & Murphy LLP and on behalf of the Dealers by Lawson Lundell LLP.

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FORWARD-LOOKING STATEMENTS

Certain statements contained in this short form prospectus and the documents incorporated herein by reference contain forward-looking information within the meaning of applicable securities laws in Canada ("Forward-looking Information"). The words "anticipates", "believes", "budgets", "could", "estimates", "expects", "forecasts", "intends", "may", "might", "plans", "projects", "schedule", "should", "will", "would" and similar expressions are often intended to identify Forward-looking Information, although not all Forward-looking Information contains these identifying words.

The Forward-looking Information in this short form prospectus, and the documents incorporated herein by reference, includes, but is not limited to, statements regarding: the Company's expectation to generate sufficient cash from operations to meet its working capital needs and to maintain its financial capacity and flexibility; the Company's expected capital expenditures, including estimated construction costs, and the expectation to finance those expenditures with a combination of proceeds from shareholder advances, short and long term borrowings and internally generated funds; the Company's belief that changes in consumption levels and changes in the commodity cost of natural gas do not materially impact earnings as a result of regulatory deferral accounts; the Company's expectation that delivery margins will not be impacted by migration of residential customers to alternative commodity suppliers; and the Company's expectation that compliance with environmental laws and regulations will not have a material effect on the Company's capital expenditures, earnings or competitive position.

The forecasts and projections that make up the Forward-looking Information are based on assumptions, which include but are not limited to receipt of applicable regulatory approvals and requested rate orders; no significant operational disruptions or environmental liability as a result of a catastrophic event or environmental upset; the competitiveness of natural gas pricing when compared with alternate sources of energy; continued population growth and new housing starts; the availability of natural gas supply; access to capital; interest rates and the ability to hedge certain risks.

The Forward-looking Information is subject to risks, uncertainties and other factors that could cause actual results to differ materially from historical results or results anticipated by the Forward-looking Information. The factors which could cause results or events to differ from current expectations include, but are not limited to: regulatory approval and rate orders risk; operational disruptions and environmental risk; price competitiveness risk; changes in economic conditions; natural gas supply risks; capital and credit ratings risk; interest rate risk; counterparty credit risk and changes in tax legislation. For additional information with respect to these risk factors, reference should be made to the sections entitled "Risk Factors" in the annual information form of the Company and "Commitments, Events, Risks and Uncertainties" in the management's discussion and analysis relating to the audited annual financial statements of the Company incorporated by reference herein.

All Forward-looking Information in this short form prospectus and the documents incorporated herein by reference relates only to events or information as of the date on which the statements are made and is qualified in its entirety by this cautionary statement. Except as required by law, the Company undertakes no obligation to revise or update any Forward-looking Information as a result of new information, future events or otherwise after the date hereof.

This short form prospectus and the documents incorporated herein by reference should be read completely and with the understanding that the Company's future results may be materially different from what the Company expects.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents filed with the securities commissions or similar authorities in each of the provinces of Canada are specifically incorporated by reference into and form an integral part of this short form prospectus:

(a) the annual information form of the Company dated April 17, 2008; and

(b) the audited consolidated financial statements of the Company for the year ended December 31, 2007, together with the auditors' report thereon and the management's discussion and analysis filed in connection with such audited financial statements and the audited consolidated financial statements of the Company for the year ended December 31, 2006, together with the auditors' report thereon.

Any document of the type referred to in the preceding paragraph, any interim financial statements together with management's discussion and analysis filed in connection with such interim financial statements, any business acquisition reports, information circulars, and any material change reports (excluding confidential reports) as well as any prospectus supplements disclosing additional or updated information filed with a provincial securities commission or any similar authority in Canada, after the date of this short form prospectus and prior to the termination of the offering, shall be deemed to be incorporated by reference into this short form prospectus.

A pricing supplement or other prospectus supplement containing the specific variable terms of an offering of MTN Debentures will be delivered to purchasers of such MTN Debentures together with this short form prospectus and will be deemed to be incorporated by reference into this short form prospectus as of the date of such supplement and only for the purposes of the offering of the MTN Debentures covered by that supplement.

Upon a new annual information form and the related audited consolidated financial statements being filed by the Company with and, where required, accepted by the applicable securities regulatory authorities during the currency of this short form prospectus, the previous annual information form, the previous audited consolidated financial statements, all interim unaudited consolidated financial statements, business acquisition reports, material change reports and information circulars filed prior to the commencement of the Company's financial year in which the new annual information form was filed shall be deemed no longer to be incorporated into this short form prospectus for purposes of future offers and sales of securities hereunder.

Any statement contained herein or in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this short form prospectus to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this short form prospectus. The making of a modifying or superseding statement shall not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not constitute a part of this short form prospectus, except as so modified or superseded.

THE COMPANY

The Company was formed by the amalgamation on July 1, 1989 under the *Company Act* (British Columbia), a predecessor to the *Business Corporations Act* (British Columbia), of Inland Natural Gas Co. Ltd., B.C. Gas Inc., Columbia Natural Gas Limited and Fort Nelson Gas Ltd. On July 1, 1993 pursuant to an arrangement between the Company and a subsidiary, the Company changed its name to "BC Gas Utility Ltd.". Effective April 25, 2003, the Company changed its name to "Terasen Gas Inc.". The Company amalgamated with its subsidiary Terasen Gas (Squamish) Inc. on January 1, 2007. The head office and registered office of the Company is located at Suite 1000, 1111 West Georgia Street, Vancouver, British Columbia, V6E 4M3. The "Company" or "Terasen Gas" includes its subsidiary companies, as the context so requires. The Company is a wholly-owned subsidiary of Terasen Inc. ("Terasen"). Terasen is a wholly-owned subsidiary of Fortis Inc.

The Company transmits and distributes natural gas to residential, commercial and industrial customers in the interior and in the Greater Vancouver and Fraser Valley areas of British Columbia.

The Company owns 100% of the shares of Inland Energy Corp., which holds purchase money mortgages of the Company pending their securitization.

USE OF PROCEEDS

The MTN Debentures will be issued from time to time at the discretion of the Company in an aggregate principal amount of up to $600 million during the 25 month period from the date of this short form prospectus. The net proceeds to be derived from the issue of the MTN Debentures offered hereunder will be the issue price thereof less any commission paid in connection therewith. Such net proceeds cannot be estimated as the amount thereof will depend on the extent to which MTN Debentures are issued hereunder. Unless otherwise specified in the pricing supplement which accompanies this short form prospectus, such net proceeds will be added to the general funds of the Company and may be used to refinance existing indebtedness or to reduce short term indebtedness which may be outstanding from time to time. Although no proceeds have been specifically allocated for such purpose, at a future point in time proceeds may be used to reduce indebtedness under the Company's credit facilities with its bankers. The expenses of this offering and commissions will be paid out of the Company's general funds.

EARNINGS COVERAGE

The earnings coverage set forth below is based on consolidated financial information as at and for the year ended December 31, 2007. It does not give effect to the issue of MTN Debentures pursuant to this short form prospectus, since the aggregate principal amount of MTN Debentures that will be issued hereunder and the terms of issue are not presently known.

The Company's interest requirements on consolidated long term debt amounted to $99.7 million for the year ended December 31, 2007 adjusted to reflect the issuance and repayment of long term debt after such date. The Company's consolidated earnings before interest on long term debt and income taxes were $216.0 million for the year ended December 31, 2007, which is 2.17 times the Company's interest requirements on consolidated long term debt for the year then ended.

	December 31, 2007
Earnings coverage on long term debt...	2.17 times

CREDIT RATINGS

The Company has received an A3 rating from Moody's Investors Service ("Moody's") and an A rating from DBRS Limited ("DBRS") in respect of its outstanding MTN Debentures including the MTN Debentures which may be issued pursuant to this prospectus. Credit ratings are intended to provide investors with an independent measure of credit quality of an issue of securities. DBRS rates debt instruments by rating categories ranging from AAA which represents the highest quality of securities, to D, which represents the lowest quality of securities rated. Moody's rates debt instruments by rating categories ranging from Aaa which represents the highest quality of securities, to C, which represents the lowest quality of securities.

According to the Moody's rating system, debt securities rated A are considered to be upper medium grade obligations and are subject to very low credit risk. Moody's applies numerical modifiers (1, 2 and 3) in each rating classification from Aa through Caa. The modifier 1 indicates that the obligation ranks in the higher end of its rating category, the modifier 2 indicates a mid-range ranking and the modifier 3 indicates a ranking in the lower end of its rating category.

According to the DBRS rating system, debt securities rated A are of satisfactory credit quality. Protection of interest and principal is still substantial, but the degree of strength is less than that of AA related entities. While a respectable rating, entities in the A category are considered to be more susceptible to adverse economic conditions and have greater cyclical tendencies than higher rated companies. "High" or "low" are used to indicate the relative standing of a credit within a particular rating category. The lack of one of these designations indicates a rating which is essentially in the middle of the category.

After reassessing its relationship with Standard and Poor's Rating Services, a division of the McGraw-Hill Companies ("S&P"), the Company discontinued the engagement of S&P to provide credit ratings in respect of the MTN Debentures. S&P continues to rate the Company's medium term note debenture program on the basis of publicly-available information. S&P has assigned a rating of A to the Company's medium term note program.

S&P rates debt instruments by rating categories ranging from AAA which represents the highest quality of securities, to D which represents the lowest quality of securities rated. According to the S&P rating system, debt securities rated A are somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor's capacity to meet its financial commitment on the obligation is still strong. A plus (+) or minus (-) description after a rating shows the relative standing within the major rating categories (AA to CCC). The lack of one of these designations indicates a rating which is essentially in the middle of the category.

The credit ratings accorded to the MTN Debentures are not recommendations to buy, sell or hold the MTN Debentures inasmuch as those ratings do not comment as to market price or suitability for a particular investor. There is no assurance that these ratings will remain in effect for any given period of time. These ratings may be subject to revision or withdrawal at any time by the rating agencies.

DETAILS OF THE OFFERING

MTN Debentures issued hereunder will have maturities of not less than one year and will either be interest bearing MTN Debentures or non-interest bearing MTN Debentures issued at par, at a discount or at a premium. The MTN Debentures may be issued in Canadian dollars, or any other currency as determined at the time of issue. The MTN Debentures are issuable in minimum denominations of $5,000 and multiples of $1,000 thereafter, and if issued in any other currency in such denominations in such other currency as may be determined from time to time. The MTN Debentures will be issued as and when funds are required by the Company. The aggregate principal amount of MTN Debentures to be offered hereunder will not exceed $600 million. As at March 31, 2008 a total of $1,068 million aggregate principal amount of MTN Debentures were issued and outstanding.

All references to currency in this short form prospectus are references to Canadian dollars. For MTN Debentures issued in other than Canadian currency, potential purchasers should be aware that foreign exchange fluctuations will occur from time to time and that neither the Company nor the Dealers make any representation with respect to currency values from time to time.

MTN Debentures may be issued as registered debentures or in the form of fully registered global debentures (“Global Debentures”) held by CDS Clearing and Depository Services Inc. or a successor (the “Depositary”) for its participants. CIBC Mellon Trust Company or a successor will act as the transfer agent and registrar of the MTN Debentures. The Depositary establishes and maintains book entry accounts for its participants having interests in Global Debentures. The interests of participants of the Depositary in Global Debentures, and transfers of interests in the Global Debentures between participants, will be effected by entries made in the records maintained by the Depositary. The interests of customers of participants in the MTN Debentures will be effected by entries made in the records maintained by the participants. Purchasers of MTN Debentures in respect of which Global Debentures are issued will not be entitled to receive MTN Debentures in definitive form except in certain stated events, including upon the request of holders of not less than 10% of the principal amount of outstanding MTN Debentures upon the happening of any event of default. The issuance of MTN Debentures as Global Debentures will, if applicable, be referred to in the relevant pricing supplement delivered with this short form prospectus.

The specific variable terms of any offering of MTN Debentures, including the aggregate principal amount of MTN Debentures being offered, the currency, the issue and delivery date, the maturity date, the interest rate (either fixed or floating and, if floating, the manner of calculation thereof), the interest payment date(s), any redemption or repurchase provisions, the names of the Dealers, the Dealers’ commission, the method of distribution and the actual proceeds to the Company, will be set forth in a pricing supplement which will accompany this short form prospectus or any amendments to this short form prospectus. The Company reserves the right to set forth in a pricing supplement specific variable terms of the MTN Debentures which are not within the options and parameters set forth in this short form prospectus.

The registered holder of a MTN Debenture may transfer such MTN Debenture upon payment of taxes incidental thereto, if any, by executing and delivering a form of transfer together with the MTN Debenture to the Trustee at its principal corporate trust office in any of the cities of Vancouver, Toronto or Montreal upon which one or more new MTN Debentures will be issued in authorized denominations in the same aggregate principal amount as the MTN Debenture so transferred, registered in the name or names of the transferee or transferees. No transfer of a MTN Debenture will be registered during the seven business days (a business day for this purpose being a business day in the city of Vancouver) immediately preceding any date fixed for payment of interest on such MTN Debenture.

The following summary of certain provisions of the Indenture (as defined below) and the MTN Debentures does not purport to be complete and is subject to the detailed provisions of the Indenture to which reference is hereby made for a full description of such provisions, including the definition of certain terms used herein, and for other information regarding the MTN Debentures.

General

The MTN Debentures will be issued under a trust indenture dated as of November 1, 1977 made between the Company (as successor to Inland Natural Gas Co. Ltd.) and CIBC Mellon Trust Company (formerly called The R-M Trust Company, as successor to National Trust Company, Limited), as trustee (the “Trustee”), as supplemented and amended by a first supplemental indenture dated as of November 17, 1981, a second supplemental indenture dated as of July 11, 1984, a third supplemental indenture dated as of December 17, 1986, a fourth supplemental indenture dated as of June 1, 1989, a fifth supplemental indenture dated as of July 1, 1989, a sixth supplemental indenture dated as of June 14, 1990, a seventh supplemental indenture dated as of October 26, 1990, an eighth supplemental indenture dated as of August 1, 1992, a ninth supplemental indenture dated as of July 28, 1993, a tenth supplemental indenture dated as of November 15, 1993 (the "MTN Supplemental Indenture") and an eleventh supplemental indenture dated as of January 1, 2007 (the trust indenture, as so supplemented and amended from time to time, being herein called the "Indenture"). The Indenture will be available for review during normal business hours during the period of distribution of the MTN Debentures at the head office of the Company at Suite 1000, 1111 West Georgia Street, Vancouver, British Columbia.

The aggregate principal amount of debentures authorized under the Indenture (the "Debentures") is unlimited. Debentures may be issued thereunder in one or more series. The MTN Debentures are a series of Debentures authorized by the MTN Supplemental Indenture in an unlimited amount, and may be issued on such terms and at such times as may be determined by the Company, subject to the Company meeting certain tests with respect to the issue thereof, as set forth in the Indenture.

The MTN Debentures will rank in equal priority with all other unsecured and unsubordinated indebtedness of the Company. As at March 31, 2008, there was approximately $59.9 million aggregate principal amount of Debentures outstanding under the Indenture, other than MTN Debentures. The MTN Debentures will rank junior to any outstanding First Mortgage Bonds issued under a trust deed and secured by substantially all of the Company's assets and the Purchase Money Mortgages which are secured under a trust deed over the assets of the Company acquired as part of its acquisition of the coastal gas distribution assets of British Columbia Hydro and Power Authority (the "Coastal Division") in 1988. Currently there are no First Mortgage Bonds outstanding. There are $274.9 million principal amount of Purchase Money Mortgages presently held by the public and $150 million presently held by a subsidiary of the Company pending securitization. The Purchase Money Mortgages were issued to finance the Company's acquisition of the Coastal Division.

Payments of interest on each interest-bearing MTN Debenture will be made by electronic funds transfer, if agreed to by the purchasers, or by cheque dated the interest payment date and mailed to the address of the holder appearing on the registers maintained by the Trustee at the close of business on the seventh business day (a business day for this purpose being a business day in the city of Vancouver) prior to the due date for the payment of interest. Payment of principal at maturity will be made at the principal corporate trust office of the Trustee in the cities of Vancouver, Toronto or Montreal against surrender of the MTN Debenture. If the due date for payment of any amount of principal or interest on any MTN Debenture is not, at the place of payment, a business day (being a day other than Saturday, Sunday, or a day on which financial institutions at the place of payment are authorized or obligated by law or regulation to close) such payment will be made on the next business day and the holder of such MTN Debenture shall not be entitled to any further interest or other payment in respect of such delay.

The payment of principal and interest on a MTN Debenture in accordance with the indenture shall absolutely satisfy and discharge the liability of the Company with respect to such payment under the MTN Debenture, unless in the case of payment by cheque it is not paid upon presentation.

Events of Default

Except as otherwise noted below, the Indenture provides that the following constitute events of default (each an "Event of Default") thereunder:

(a) default in payment of principal of any Debenture when due;

(b) default in payment of any interest due on any Debenture and such default has continued for 30 days;

(c) an order is made or an effective resolution passed for the winding-up or liquidation of the Company (other than pursuant to and in compliance with provisions in the Indenture relating to successor companies);

(d) the Company or any Designated Subsidiary (as defined below) makes a general assignment for the benefit of its creditors, is declared bankrupt, a sequestrator or a receiver or any other officer with similar powers is appointed of, or an encumbrancer takes possession of, the property of the Company or of the property of a Designated Subsidiary, or any substantial part thereof;

(e) any process of execution is enforced or levied upon any property of the Company or a Designated Subsidiary and remains unsatisfied for a period of 30 days, as to moveable or personal property, or 45 days, as to immovable or real property, provided that such process is not in good faith disputed by the Company or such Designated Subsidiary or the Company or such Designated Subsidiary has given adequate security;

(f) default under the mortgage with respect to the First Mortgage Bonds which causes the principal amount of the First Mortgage Bonds to be declared immediately due and payable, provided that if the default is cured and such declaration is rescinded the Event of Default will also be cured; and

(g) the Company neglects to carry out or observe any covenant or condition contained in the Indenture and, after notice has been given by the Trustee to the Company, the Company fails to make good such default within 60 days or such shorter period as would at any time, if continued, render any property of the Company or any of its subsidiaries liable to forfeiture, unless the Trustee has agreed to a longer period, and in such an event, within the period agreed to by the Trustee.

Acceleration on and Waiver of Default

If an Event of Default has occurred under the Indenture, the Trustee may in its discretion and will upon the requisition in writing of the holders of at least 25% of the principal amount of the Debentures issued and outstanding under the Indenture, subject to any waiver of default under the Indenture, by notice in writing to the Company declare the principal and interest on all Debentures then outstanding under the Indenture and other money payable thereunder to be due and payable.

If an Event of Default has occurred under the Indenture (otherwise than by default in payment of principal moneys at maturity) the holders of the Debentures have the power by extraordinary resolution to instruct the Trustee to waive the default (provided that if the Event of Default relates to a covenant applicable to a particular series of Debentures only, then the holders of outstanding Debentures of that series only have the power by extraordinary resolution to instruct the Trustee to waive the default). In addition, the Trustee, so long as it has not become bound to institute any proceedings under the Indenture, has power to waive the default if, in the Trustee's opinion, the same shall have been cured or adequate satisfaction made therefor.

In the Indenture, "extraordinary resolution" is a resolution passed at a meeting of debentureholders by the favourable votes of the holders of not less than 66⅔% of the principal amount of Debentures represented at the meeting.

Right of Trustee to Enforce Payment

If the Company fails to pay to the Trustee, on demand, and when due, the principal and interest on all Debentures then outstanding under the Indenture, the Trustee may, in its discretion, and shall upon the request in writing of the holders of not less than 25% of the principal amount of the Debentures issued and outstanding under the Indenture, and upon being indemnified to its reasonable satisfaction against all costs, expenses and liabilities to be incurred, proceed in its name as Trustee to obtain or enforce payment of the principal and interest on all outstanding Debentures together with other amounts due under the Indenture by any remedy or proceeding authorized by the Indenture.

Holders of Debentures issued under the Indenture may not institute any action or proceeding or exercise any other remedy authorized by the Indenture, including an action to enforce the Indenture or the Debentures, except as provided in the Indenture.

Covenants

The Indenture contains, among others, covenants substantially to the following effect:

(a) The Company will not mortgage, pledge, charge or otherwise encumber any of its assets to secure any obligations unless at the same time it shall, in the opinion of counsel, secure or cause to be secured equally and rateably with such obligations all the Debentures then outstanding under the Indenture by the same instrument or by other instrument in form and substance satisfactory to such counsel; provided that this covenant shall not apply to (a) First Mortgage Bonds, (b) Purchase Money Mortgages, (c) permitted encumbrances as defined in the Indenture, or (d) security given (other than on fixed assets) in the ordinary course of business and for the purpose of carrying on the same, to any bank or banks or others to secure any indebtedness other than Funded Obligations.

(b) The Company will not permit any Designated Subsidiary to create, incur or guarantee any indebtedness, except indebtedness to or of the Company or to a trustee in support of a guarantee of indebtedness of the Company, provided that this shall not apply to (a) Purchase Money Mortgages, or (b) indebtedness incurred in the ordinary course of business and for the purpose of carrying on the same, to any bank or banks or others, repayable on demand or maturing, including any right of extension or renewal, within 18 months of the date when such indebtedness is incurred, provided such indebtedness is not secured on fixed assets.

(c) The Company or a Designated Subsidiary will not dispose of any indebtedness of a Designated Subsidiary unless all the shares and indebtedness of such Designated Subsidiary are sold to a party dealing with the seller at arm's length, resulting in neither the Company nor any other Designated Subsidiary owning any of such Designated Subsidiary.

(d) The Company will not permit any Designated Subsidiary to issue any shares if, as a result of such issue, such Designated Subsidiary ceases to qualify as such.

(e) The Company will not create or issue any Additional Obligations unless Consolidated Available Net Earnings for any period of 12 consecutive calendar months of the 23 calendar months next preceding the date of issue of such Additional Obligations, which period shall have been selected by the Company, shall have been at least two times the annual interest requirements of all Funded Obligations to be outstanding after the issue of such Additional Obligations and after any retirements of Funded Obligations to be made out of the proceeds thereof or retirement thereof has been otherwise provided for and in respect of which proof has been afforded to the Trustee satisfactory to it that adequate provision has been made assuring that such Funded Obligations will be retired within 45 days after the issue of such Additional Obligations; provided the provisions of this covenant shall not apply to the creation and issue of Additional Obligations for the purpose of refunding the whole of any series of Debentures previously issued under the Indenture provided that (except in the case of refunding all of the MTN Debentures) the aggregate principal amount of the Additional Obligations does not exceed the aggregate principal amount of the Debentures to be refunded.

(f) The Company will, directly or through Designated Subsidiaries, from time to time obtain and at all times maintain facilities for supplies of gas adequate to enable the carrying on of its business.

Modification

The rights of the holders of the MTN Debentures under the Indenture may be modified. For that purpose, among others, the Indenture will contain provisions making binding upon all holders of Debentures outstanding under the Indenture and indentures supplemental thereto, resolutions passed at meetings of debentureholders by the favourable votes of the holders of not less than 66⅔% of the principal amount of Debentures voted on the resolution or instruments in writing signed by the holders of not less than 66⅔% of the principal amount of all the outstanding Debentures. In certain cases, modification will require separate assent by the holders of the required percentages of debentures of each series outstanding under the Indenture or any series of MTN Debentures outstanding under the Indenture as determined by the Trustee.

Definitions

The Indenture contains definitions substantially to the following effect:

"*Additional Obligations*" means bonds, debentures, notes or other debt instruments issued by the Company, the due date of payment of which, including any right of extension or renewal, is 18 months or more after the date of issue but does not include First Mortgage Bonds and Purchase Money Mortgages.

"*Consolidated Available Net Earnings*" for any specified period of 12 months means the net earnings of the Company and its Designated Subsidiaries on a consolidated basis for such period (excluding gains or losses on the disposal of investments or fixed assets in each case in excess of $50,000 in the aggregate and other non-recurring items in excess of $50,000 in the aggregate) before deductions for income taxes, interest on Funded Obligations and on any other indebtedness that since the end of the specified period has been or is about to be refunded by the issue of Funded Obligations and amortization of debt premium, discount and expense, all as determined in accordance with generally accepted accounting principles and reported on by the Company's auditors without, in their opinion, material adverse qualification. In determining Consolidated Available Net Earnings for any period there shall be taken into account the earnings or losses, as the case may be, for the whole of such period of any company or corporation which, prior to or concurrently with the proposed action in respect of which such determination is being made, becomes a Designated Subsidiary. In addition, if the Company or any Designated Subsidiary shall, prior to or concurrently with the proposed action in respect of which such determination is being made, have acquired any business by way of acquisition of assets, the earnings or losses, as the case may be, of such business to the extent that such earnings or losses related to the assets acquired, shall be taken into account for the whole of such period.

"*Designated Subsidiary*" means any company or corporation the majority of the outstanding shares of each class of the capital stock of which having attached to them voting rights under all circumstances are owned by the Company and/or one or more Designated Subsidiaries, provided that the Company shall have, by resolution of its directors, designated such other company or corporation as a Designated Subsidiary; provided that any Designated Subsidiary shall cease to be a Designated Subsidiary upon sale of all its shares and indebtedness owned by the Company and any other Designated Subsidiary, resulting in neither the Company nor any other Designated Subsidiary owning any of such Designated Subsidiary.

"*First Mortgage Bonds*" means all first mortgage bonds or other first mortgage obligations of the Company, whether heretofore or hereafter issued, secured by a first fixed and specific charge on substantially all the fixed assets of the Company (whether or not also secured by a floating charge or by other security).

"*Funded Obligations*" means any indebtedness, whether secured or unsecured, incurred by any one or more of the Company and the Designated Subsidiaries by way of creation, guarantee, assumption or otherwise which is not repayable on demand and the due date of payment of which, including any right of extension or renewal, is 18 months or more after the date on which it was incurred, but does not include (i) indebtedness secured by Purchase Money Mortgages and (ii) any liability in respect of any guarantee by any one or more of the Company and the Designated Subsidiaries of the indebtedness of the Company and/or any Designated Subsidiaries secured by Purchase Money Mortgages.

"*Purchase Money Mortgages*" means any mortgages, liens or other encumbrances upon property acquired by one or more of the Company and the Designated Subsidiaries which were, at the time of such acquisition or concurrently therewith, assumed, created or given to secure all or part of the cost of such property and extensions and renewals thereof upon the same property if the principal amount of the indebtedness secured thereby is not increased.

RISK FACTORS

Prospective investors in a particular offering of MTN Debentures should consider, in addition to the matters described under the heading "Risk Factors" in the annual information form of the Company and the matters described under the heading "Commitments, Events, Risks and Uncertainties" in the management's discussion and analysis relating to the annual audited financial statements that are incorporated by reference herein, the following risk factors.

Credit Ratings

Credit ratings are intended to provide investors with an independent measure of credit quality of an issue of securities. The credit ratings accorded to the MTN Debentures are not a recommendation to buy, sell or hold the MTN Debentures, because ratings do not comment as to market price or suitability for a particular investor. There is no assurance that these ratings will remain in effect for any given period of time. These ratings may be subject to revision or withdrawal at any time by the relevant rating agency. Real or anticipated changes in credit ratings on the MTN Debentures may affect the market value of the MTN Debentures. In addition, real or anticipated changes in credit ratings can affect the cost at which the Company can access the debt market.

Lack of Public Market for MTN Debentures

This short form prospectus qualifies new issues of debt securities for which there is no existing trading market. The Company does not intend to list the MTN Debentures on any securities exchange or to arrange for any quotation system to quote them and consequently the Company will not be subject to regulation by any securities exchange or quotation system. There can be no assurance as to the liquidity of any trading market for the MTN Debentures or that a trading market for any of the MTN Debentures will develop. Even if a trading market develops in the MTN Debentures, the MTN Debentures could trade at prices that may be higher or lower than their initial offering prices and there may be limited transparency of trading prices. The market price for the MTN Debentures may be affected by prevailing interest rates, the Company's results of operations and financial position, the ratings assigned to the MTN Debentures or the Company, changes in general market conditions, fluctuations in the market for equity or debt securities and numerous other factors beyond the control of the Company.

PLAN OF DISTRIBUTION

The MTN Debentures may be offered for sale by any one or more of BMO Nesbitt Burns Inc., CIBC World Markets Inc., National Bank Financial Inc., RBC Dominion Securities Inc., Scotia Capital Inc. and TD Securities Inc. pursuant to a dealer agreement dated April 24, 2008 among such investment dealers and the Company (the "Dealer Agreement"), or by other investment dealers selected from time to time by the Company (the "Investment Dealers"). The rate of commission payable in connection with sales by the Investment Dealers of MTN Debentures shall be as determined from time to time by mutual agreement. The MTN Debentures may be purchased from time to time by any of the Investment Dealers, as principal, at such prices and with such commissions as may be agreed between the Company and any such Investment Dealers for resale to the public at prices to be negotiated with each purchaser. Such resale prices may vary during the distribution period and as between purchasers. Each Investment Dealer's compensation will be increased or decreased by the amount by which the aggregate price paid for MTN Debentures by purchasers exceeds or is less than the gross proceeds paid by that Investment Dealer, acting as principal, to the Company. The Dealer Agreement also provides that in the event an Investment Dealer is purchasing MTN Debentures as principal, the obligation of that Investment Dealer to purchase as principal may be terminated in certain stated events. The MTN Debentures may also be offered directly by the Company at market rates prevailing from time to time to purchasers pursuant to applicable statutory exemptions and may from time to time be offered at a discount or a premium.

The MTN Debentures have not been and will not be registered under the United States Securities Act of 1933, as amended (the "U.S. Securities Act"). The MTN Debentures may not be offered, sold or delivered within the United States, except in certain transactions exempt from the registration requirements of the U.S. Securities Act. Each Dealer has agreed that it will not offer, sell or deliver any MTN Debentures within the United States. In addition, until 40 days after the commencement of the offering, an offer or sale of any MTN Debentures within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the U.S. Securities Act.

Under applicable securities legislation in Canada, the Company may be considered to be a connected issuer of each of the Dealers, as each is directly or indirectly a wholly-owned or majority-owned subsidiary of a Canadian chartered bank (collectively, the "Banks") which has extended credit facilities to the Company upon which the Company may draw from time to time. The Company's credit facilities with the Banks consist of a $500 million syndicated 5-year revolving credit facility. As at March 31, 2008, $43.9 million of the available credit under this facility has been utilized. This credit facility is unsecured and the Company is, and has been since the establishment of the credit facility, in compliance with the terms of the agreement governing the credit facility. The Company's financial position has not changed substantially since the credit facility was put in place. The credit facility is available for general corporate purposes, including acquisitions and capital expenditures and to act as a back-up for the Company's commercial paper program. Net proceeds received pursuant to offerings of MTN Debentures may be used, directly or indirectly, to reduce indebtedness of the Company under the credit facility. None of the Banks was involved in the decision to offer the MTN Debentures and none will be involved in the determination of the terms of the distribution of the MTN Debentures. As a consequence of the sale of the MTN Debentures through any Dealer from time to time under this short form prospectus, the Company will pay a commission to each Dealer through which an MTN Debenture is sold.

TRANSFER AGENT AND REGISTRAR

Registers for the registration and transfer of the MTN Debentures will be kept at the principal corporate trust offices of CIBC Mellon Trust Company in the cities of Vancouver, Toronto and Montreal.

ELIGIBILITY FOR INVESTMENT

In the opinion of Farris, Vaughan, Wills & Murphy LLP, counsel to the Company, and Lawson Lundell LLP, counsel to the Dealers, the MTN Debentures offered hereby, if issued on the date hereof, would be qualified investments under the *Income Tax Act* (Canada) and the regulations thereunder for trusts governed by registered retirement savings plans, registered retirement income funds, registered education savings plans and deferred profit sharing plans (other than a trust governed by a deferred profit sharing plan in respect of which any employer is the Company or is a person that does not deal at arm's length with the Company within the meaning of the *Income Tax Act* (Canada)).

INTERESTS OF EXPERTS

The matters referred to under "Eligibility for Investment" and certain other legal matters will be passed upon on the Company's behalf by Farris, Vaughan, Wills & Murphy LLP and on behalf of the Dealers by Lawson Lundell LLP. As of the date hereof, the partners and associates of each of Farris, Vaughan, Wills & Murphy LLP and Lawson Lundell LLP beneficially own, directly or indirectly, less than 1% of any securities of the Company.

STATUTORY RIGHTS OF WITHDRAWAL AND RESCISSION

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revisions of the price or damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that such remedies for rescission, revision of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights or consult with a legal adviser.

AUDITORS' CONSENT

The Board of Directors of Terasen Gas Inc.

We have read the short form base shelf prospectus of Terasen Gas Inc. (the "Company") dated April 24, 2008 relating to the offering of $600,000,000 Medium Term Note Debentures (Unsecured) of the Company. We have complied with Canadian generally accepted standards for an auditors' involvement with offering documents.

We consent to the incorporation by reference in the above mentioned prospectus of our report to the shareholders of the Company on the consolidated statements of financial position of the Company as at December 31, 2007 and the consolidated statements of earnings and comprehensive earnings, retained earnings and cash flows for the year then ended. Our report is dated February 1, 2008.

(Signed) Ernst & Young LLP

Chartered Accountants
Vancouver, Canada
April 24, 2008

AUDITORS' CONSENT

We have read the short form base shelf prospectus dated April 24, 2008 relating to the offering of $600,000,000 Medium Term Note Debentures (Unsecured) of Terasen Gas Inc. (the "Company"). We have complied with Canadian generally accepted standards for an auditors' involvement with offering documents.

We consent to the incorporation by reference in the above mentioned prospectus of our report to the shareholders of the Company on the consolidated statements of financial position of the Company as at December 31, 2006 and the consolidated statements of earnings, retained earnings and cash flows for the year then ended. Our report is dated March 29, 2007.

(Signed) PricewaterhouseCoopers LLP

Chartered Accountants
Vancouver, Canada
April 24, 2008

CERTIFICATE OF TERASEN GAS INC.

Dated: April 24, 2008

This short form prospectus, together with the documents incorporated in this prospectus by reference, will, as of the date of the last supplement to this prospectus relating to the securities offered by this prospectus and the supplement(s), constitute full, true and plain disclosure of all material facts relating to the securities offered by this prospectus and the supplement(s) as required by the securities legislation of each of the provinces of Canada.

(Signed) Randall L. Jespersen President and Chief Executive Officer	(Signed) Scott A. Thomson Vice President, Regulatory Affairs and Chief Financial Officer

On behalf of the Board of Directors

(Signed) H. Stanley Marshall Director	(Signed) Harold Calla Director

CERTIFICATE OF THE DEALERS

Dated: April 24, 2008

To the best of our knowledge, information and belief, this short form prospectus, together with the documents incorporated in this prospectus by reference will, as of the date of the last supplement to this prospectus relating to the securities offered by this prospectus and the supplement(s), constitute full, true and plain disclosure of all material facts relating to the securities offered by this prospectus and the supplement(s) as required by the securities legislation of each of the provinces of Canada.

BMO NESBITT BURNS INC.	CIBC WORLD MARKETS INC.
By: (Signed) Graeme N. Falkowsky	By: (Signed) Alan C. Wallace
NATIONAL BANK FINANCIAL INC.	**RBC DOMINION SECURITIES INC.**
By: (Signed) Paul Prendergast	By: (Signed) David Dal Bello
SCOTIA CAPITAL INC.	**TD SECURITIES INC.**
By: (Signed) Murray W. Neal	By: (Signed) Edward J. McGurk

This short form prospectus has been filed under legislation in all provinces of Canada that permits certain information about these securities to be determined after this prospectus has become final and that permits the omission from this prospectus of that information. The legislation requires the delivery to purchasers of a prospectus supplement containing the omitted information within a specified period of time after agreeing to purchase any of these securities.

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. The securities offered hereby have not been and will not be registered under the U.S. Securities Act of 1933 and may not be offered or sold within the United States. ***Information has been incorporated by reference in this short form prospectus from documents filed with securities commissions or similar authorities in Canada.*** *Copies of the documents incorporated herein by reference may be obtained on request without charge from the Secretary of Terasen Gas Inc. at Suite 1000, 1111 West Georgia Street, Vancouver, British Columbia, V6E 4M3 (Telephone (604) 443-6526), and are also available electronically at www.sedar.com.*

New Issue **SHORT FORM BASE SHELF PROSPECTUS** **May 14, 2010**

TERASEN GAS INC.
$600,000,000
MEDIUM TERM NOTE DEBENTURES
(Unsecured)

Medium Term Note Debentures (the "MTN Debentures") offered hereunder will have maturities of not less than one year and will be either interest bearing MTN Debentures or non-interest bearing MTN Debentures issued at par, at a discount or at a premium. The MTN Debentures may be issued as registered debentures or in the form of fully registered global debentures. The MTN Debentures will be issued at rates of interest or at prices determined by Terasen Gas Inc. ("Terasen Gas" or the "Company") from time to time based on a number of factors, including advice from the Dealers. All references to currency in this short form prospectus are references to Canadian dollars. See "Details of the Offering".

The specific terms of any offering of MTN Debentures (including the aggregate principal amount of MTN Debentures being offered, the currency, the issue and delivery date, the maturity date, the interest rate (either fixed or floating and, if floating, the manner of calculation thereof), the interest payment date(s), any redemption or repurchase provisions, the names of the Dealers, the Dealers' commission, the method of distribution and the actual proceeds to the Company) will be set forth in a pricing supplement which will accompany this short form prospectus or any amendments to this short form prospectus. The Company reserves the right to set forth in a pricing supplement specific variable terms of MTN Debentures which are not within the options and parameters set forth in this short form prospectus.

The MTN Debentures will be issued from time to time as and when funds are required by the Company in an aggregate principal amount of up to $600 million (or the equivalent thereof in foreign currencies or currency units) during the 25 month period from the date of this short form prospectus. The MTN Debentures will rank equal in priority to all other unsecured and unsubordinated indebtedness of the Company and will be issued under a trust indenture. As of March 31, 2010 a total of $1,170 million aggregate principal amount of MTN Debentures were issued and outstanding.

There is no market through which these securities may be sold and purchasers may not be able to resell securities purchased under this short form prospectus. This may affect the pricing of the securities in the secondary market, the transparency and availability of trading prices, the liquidity of the securities, and the extent of issuer regulation. See "Risk Factors".

Rates on Application

The MTN Debentures may be offered by one or more of BMO Nesbitt Burns Inc., CIBC World Markets Inc., National Bank Financial Inc., RBC Dominion Securities Inc., Scotia Capital Inc. and TD Securities Inc. (the “Dealers”) pursuant to the dealer agreement referred to under the heading “Plan of Distribution”. The rate of commission payable in connection with sales by the Dealers of MTN Debentures shall be as determined from time to time by mutual agreement and will be set forth in a pricing supplement which will accompany this short form prospectus. The MTN Debentures may be purchased from time to time by any of the Dealers, as principal, at such prices and with such commissions as may be agreed between the Company and any such Dealers for resale to the public at prices to be negotiated with each purchaser. Such resale prices may vary during the distribution period and as between purchasers. Each Dealer’s compensation will be increased or decreased by the amount which the aggregate price paid for MTN Debentures by purchasers exceeds or is less than the gross proceeds paid by the Dealer, acting as principal, to the Company. The MTN Debentures may also be offered directly by the Company from time to time to purchasers pursuant to applicable statutory exemptions.

The MTN Debentures offered hereby have not been and will not be registered under the United States Securities Act of 1933. Accordingly, the MTN Debentures offered hereby may not be offered or sold in the United States of America, and this short form prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of the MTN Debentures offered hereby within the United States. See “Plan of Distribution”.

Under applicable securities legislation in Canada, the Company may be considered to be a connected issuer of each of the Dealers, as each is directly or indirectly a wholly-owned or majority-owned subsidiary of a Canadian chartered bank which has extended credit facilities to the Company upon which the Company may draw from time to time. See “Plan of Distribution”.

The offering is subject to approval of all legal matters on behalf of the Company by Farris, Vaughan, Wills & Murphy LLP and on behalf of the Dealers by Lawson Lundell LLP.

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FORWARD-LOOKING STATEMENTS

Certain statements contained in this short form prospectus and the documents incorporated herein by reference contain forward-looking information within the meaning of applicable securities laws in Canada ("Forward-looking Information"). The words "anticipates", "believes", "budgets", "could", "estimates", "expects", "forecasts", "intends", "may", "might", "plans", "projects", "schedule", "should", "will", "would" and similar expressions are often intended to identify Forward-looking Information, although not all Forward-looking Information contains these identifying words.

The Forward-looking Information in this short form prospectus, and the documents incorporated herein by reference, includes, but is not limited to, statements regarding: the Company's expectation to generate sufficient cash from operations to meet its working capital needs; the Company's expected capital expenditures, including estimated construction costs, and the expectation to finance those expenditures with a combination of proceeds from shareholder equity injections, short and long term borrowings and internally generated funds; the Company's expectation for pension expense; the expected impact of adoption of new accounting standards including IFRS; the Company's belief that changes in consumption levels and changes in the commodity cost of natural gas do not materially impact earnings as a result of regulatory deferral accounts; the Company's expectation that delivery margins will not be impacted by migration of residential customers to alternative commodity suppliers; and the Company's expectation that compliance with environmental laws and regulations will not have a material effect on the Company's capital expenditures, earnings or competitive position.

The forecasts and projections that make up the Forward-looking Information are based on assumptions, which include but are not limited to receipt of applicable regulatory approvals and requested rate orders; no significant operational disruptions or environmental liability as a result of a catastrophic event or environmental upset; the competitiveness of natural gas pricing when compared with alternate sources of energy; continued population growth and new housing starts; the availability of natural gas supply; access to capital; interest rates; the ability to hedge certain risks and no material change in pension expense or funding requirements.

The Forward-looking Information is subject to risks, uncertainties and other factors that could cause actual results to differ materially from historical results or results anticipated by the Forward-looking Information. The factors which could cause results or events to differ from current expectations include, but are not limited to: regulatory approval and rate orders risk; operational disruptions and environmental risk; price competitiveness risk including the impact of carbon taxes or other environmental policies of government; changes in economic conditions; natural gas supply risks; capital and credit ratings risk; interest rate risk; counterparty credit risk; pension expense and funding risk; First Nations land settlement risk and changes in tax legislation. For additional information with respect to these risk factors, reference should be made to the sections entitled "Risk Factors" in the annual information form of the Company and "Commitments, Events, Risks and Uncertainties" in the management's discussion and analysis relating to the audited annual financial statements of the Company incorporated by reference herein.

All Forward-looking Information in this short form prospectus and the documents incorporated herein by reference relates only to events or information as of the date on which the statements are made and is qualified in its entirety by this cautionary statement. Except as required by law, the Company undertakes no obligation to revise or update any Forward-looking Information as a result of new information, future events or otherwise after the date hereof.

This short form prospectus and the documents incorporated herein by reference should be read completely and with the understanding that the Company's future results may be materially different from what the Company expects.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents filed with the securities commissions or similar authorities in each of the provinces of Canada are specifically incorporated by reference into and form an integral part of this short form prospectus:

(a) the annual information form of the Company dated February 24, 2010;

(b) the audited consolidated financial statements of the Company as at and for the years ended December 31, 2009 and 2008, together with the auditors' report thereon and the management's discussion and analysis filed in connection with such audited financial statements; and

(c) the interim unaudited consolidated financial statements of the Company as at and for the three months ended March 31, 2010 which include comparative financial statements for the three months ended March 31, 2009, together with the management's discussion and analysis filed in connection with such interim unaudited financial statements.

Any document of the type referred to in the preceding paragraph, any business acquisition reports, any material change reports (excluding confidential reports) and any other documents required to be incorporated by reference into this short form prospectus as well as any prospectus supplements disclosing additional or updated information filed with a provincial securities commission or any similar authority in Canada, after the date of this short form prospectus and prior to the termination of the offering, shall be deemed to be incorporated by reference into this short form prospectus.

A pricing supplement or other prospectus supplement containing the specific variable terms of an offering of MTN Debentures will be delivered to purchasers of such MTN Debentures together with this short form prospectus and will be deemed to be incorporated by reference into this short form prospectus as of the date of such supplement and only for the purposes of the offering of the MTN Debentures covered by that supplement.

Upon a new annual information form and the related audited consolidated financial statements being filed by the Company with and, where required, accepted by the applicable securities regulatory authorities during the currency of this short form prospectus, the previous annual information form, the previous audited consolidated financial statements, all interim unaudited consolidated financial statements, business acquisition reports, material change reports and information circulars filed prior to the commencement of the Company's financial year in which the new annual information form was filed shall be deemed no longer to be incorporated into this short form prospectus for purposes of future offers and sales of securities hereunder.

Any statement contained herein or in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this short form prospectus to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this short form prospectus. The making of a modifying or superseding statement shall not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not constitute a part of this short form prospectus, except as so modified or superseded.

THE COMPANY

The Company was formed by the amalgamation on July 1, 1989 under the *Company Act* (British Columbia), a predecessor to the *Business Corporations Act* (British Columbia), of Inland Natural Gas Co. Ltd., B.C. Gas Inc., Columbia Natural Gas Limited and Fort Nelson Gas Ltd. On July 1, 1993 pursuant to an arrangement between the Company and a subsidiary, the Company changed its name to "BC Gas Utility Ltd.". Effective April 25, 2003, the Company changed its name to "Terasen Gas Inc.". The Company amalgamated with its subsidiary Terasen Gas (Squamish) Inc. on January 1, 2007. The head office and registered office of the Company is located at Suite 1000, 1111 West Georgia Street, Vancouver, British Columbia, V6E 4M3. The "Company" or "Terasen Gas" includes its subsidiary companies, as the context so requires. The Company is a wholly-owned subsidiary of Terasen Inc. ("Terasen"). Terasen is a wholly-owned subsidiary of Fortis Inc.

The Company transmits and distributes natural gas to residential, commercial and industrial customers in the interior and in the Greater Vancouver and Fraser Valley areas of British Columbia.

The Company owns 100% of the shares of Inland Energy Corp., which holds purchase money mortgages of the Company pending their securitization.

USE OF PROCEEDS

The MTN Debentures will be issued from time to time at the discretion of the Company in an aggregate principal amount of up to $600 million during the 25 month period from the date of this short form prospectus. The net proceeds to be derived from the issue of the MTN Debentures offered hereunder will be the issue price thereof less any commission paid in connection therewith. Such net proceeds cannot be estimated as the amount thereof will depend on the extent to which MTN Debentures are issued hereunder. Unless otherwise specified in the pricing supplement which accompanies this short form prospectus, such net proceeds will be added to the general funds of the Company and may be used to refinance existing indebtedness or to reduce short term indebtedness which may be outstanding from time to time. Although no proceeds have been specifically allocated for such purpose, at a future point in time proceeds may be used to reduce indebtedness under the Company's credit facilities with its bankers. The expenses of this offering and commissions will be paid out of the Company's general funds.

EARNINGS COVERAGE

The earnings coverages set forth below are based on consolidated financial information as at and for the year ended December 31, 2009 and the twelve month period ended March 31, 2010, respectively. They do not give effect to the issue of MTN Debentures pursuant to this short form prospectus, since the aggregate principal amount of MTN Debentures that will be issued hereunder and the terms of issue are not presently known. The earnings coverage for the twelve month period ended March 31, 2010 is based on unaudited financial information.

The Company's interest requirements on consolidated long term debt amounted to $102.1 million for the year ended December 31, 2009 and $102.0 million for the twelve months ended March 31, 2010, in each case adjusted to reflect the issuance and repayment of long term debt after such dates. The Company's consolidated earnings before interest on long term debt and income taxes were $209.8 million for the year ended December 31, 2009, which is 2.05 times the Company's interest requirements on consolidated long term debt for the year then ended, and $230.5 million for the twelve months ended March 31, 2010, which is 2.26 times the Company's interest requirements on consolidated long term debt for the twelve month period then ended.

	Twelve Months Ended December 31, 2009	**Twelve Months Ended March 31, 2010**
Earnings coverage on long term debt	2.05 times	2.26 times

CREDIT RATINGS

The Company has received an A3 rating from Moody's Investors Service ("Moody's") and an A rating from DBRS Limited ("DBRS") in respect of its outstanding MTN Debentures including the MTN Debentures which may be issued pursuant to this prospectus. Credit ratings are intended to provide investors with an independent measure of credit quality of an issue of securities. DBRS rates debt instruments by rating categories ranging from AAA which represents the highest quality of securities, to D, which represents the lowest quality of securities rated. Moody's rates debt instruments by rating categories ranging from Aaa which represents the highest quality of securities, to C, which represents the lowest quality of securities.

According to the Moody's rating system, debt securities rated A are considered to be upper medium grade obligations and are subject to low credit risk. Moody's applies numerical modifiers (1, 2 and 3) in each rating classification from Aa through Caa. The modifier 1 indicates that the obligation ranks in the higher end of its rating category, the modifier 2 indicates a mid-range ranking and the modifier 3 indicates a ranking in the lower end of its rating category.

According to the DBRS rating system, debt securities rated A are of satisfactory credit quality. Protection of interest and principal is still substantial, but the degree of strength is less than that of AA related entities. While a respectable rating, entities in the A category are considered to be more susceptible to adverse economic conditions and have greater cyclical tendencies than higher rated companies. "High" or "low" are used to indicate the relative standing of a credit within a particular rating category. The lack of one of these designations indicates a rating which is essentially in the middle of the category.

After reassessing its relationship with Standard and Poor's Rating Services, a division of the McGraw-Hill Companies ("S&P"), the Company discontinued the engagement of S&P to provide credit ratings in respect of the MTN Debentures. S&P continues to rate the Company's medium term note debenture program on the basis of publicly-available information. S&P has assigned a rating of A to the Company's medium term note program.

S&P rates debt instruments by rating categories ranging from AAA which represents the highest quality of securities, to D which represents the lowest quality of securities rated. According to the S&P rating system, debt securities rated A are somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor's capacity to meet its financial commitment on the obligation is still strong. A plus (+) or minus (-) description after a rating shows the relative standing within the major rating categories (AA to CCC). The lack of one of these designations indicates a rating which is essentially in the middle of the category.

The credit ratings accorded to the MTN Debentures are not recommendations to buy, sell or hold the MTN Debentures inasmuch as those ratings do not comment as to market price or suitability for a particular investor. There is no assurance that these ratings will remain in effect for any given period of time. These ratings may be subject to revision or withdrawal at any time by the rating agencies.

DETAILS OF THE OFFERING

MTN Debentures issued hereunder will have maturities of not less than one year and will either be interest bearing MTN Debentures or non-interest bearing MTN Debentures issued at par, at a discount or at a premium. The MTN Debentures may be issued in Canadian dollars, or any other currency as determined at the time of issue. The MTN Debentures are issuable in minimum denominations of $5,000 and multiples of $1,000 thereafter, and if issued in any other currency in such denominations in such other currency as may be determined from time to time. The MTN Debentures will be issued as and when funds are required by the Company. The aggregate principal amount of MTN Debentures to be offered hereunder will not exceed $600 million. As at March 31, 2010 a total of $1,170 million aggregate principal amount of MTN Debentures were issued and outstanding.

No MTN Debentures have been issued in the twelve month period before the date of this short form prospectus.

All references to currency in this short form prospectus are references to Canadian dollars. For MTN Debentures issued in other than Canadian currency, potential purchasers should be aware that foreign exchange fluctuations will occur from time to time and that neither the Company nor the Dealers make any representation with respect to currency values from time to time.

MTN Debentures may be issued as registered debentures or in the form of fully registered global debentures ("Global Debentures") held by CDS Clearing and Depository Services Inc. or a successor (the "Depositary") for its participants. CIBC Mellon Trust Company or a successor will act as the transfer agent and registrar of the MTN Debentures. The Depositary establishes and maintains book entry accounts for its participants having interests in Global Debentures. The interests of participants of the Depositary in Global Debentures, and transfers of interests in the Global Debentures between participants, will be effected by entries made in the records maintained by the Depositary. The interests of customers of participants in the MTN Debentures will be effected by entries made in the records maintained by the participants. Purchasers of MTN Debentures in respect of which Global Debentures are issued will not be entitled to receive MTN Debentures in definitive form except in certain stated events, including upon the request of holders of not less than 10% of the principal amount of outstanding MTN Debentures upon the happening of any event of default. The issuance of MTN Debentures as Global Debentures will, if applicable, be referred to in the relevant pricing supplement delivered with this short form prospectus.

The specific variable terms of any offering of MTN Debentures, including the aggregate principal amount of MTN Debentures being offered, the currency, the issue and delivery date, the maturity date, the interest rate (either fixed or floating and, if floating, the manner of calculation thereof), the interest payment date(s), any redemption or repurchase provisions, the names of the Dealers, the Dealers' commission, the method of distribution and the actual proceeds to the Company, will be set forth in a pricing supplement which will accompany this short form prospectus or any amendments to this short form prospectus. The Company reserves the right to set forth in a pricing supplement specific variable terms of the MTN Debentures which are not within the options and parameters set forth in this short form prospectus.

The registered holder of a MTN Debenture may transfer such MTN Debenture upon payment of taxes incidental thereto, if any, by executing and delivering a form of transfer together with the MTN Debenture to the Trustee at its principal corporate trust office in any of the cities of Vancouver, Toronto or Montreal upon which one or more new MTN Debentures will be issued in authorized denominations in the same aggregate principal amount as the MTN Debenture so transferred, registered in the name or names of the transferee or transferees. No transfer of a MTN Debenture will be registered during the seven business days (a business day for this purpose being a business day in the city of Vancouver) immediately preceding any date fixed for payment of interest on such MTN Debenture.

The following summary of certain provisions of the Indenture (as defined below) and the MTN Debentures does not purport to be complete and is subject to the detailed provisions of the Indenture to which reference is hereby made for a full description of such provisions, including the definition of certain terms used herein, and for other information regarding the MTN Debentures.

General

The MTN Debentures will be issued under a trust indenture dated as of November 1, 1977 made between the Company (as successor to Inland Natural Gas Co. Ltd.) and CIBC Mellon Trust Company (formerly called The R-M Trust Company, as successor to National Trust Company, Limited), as trustee (the "Trustee"), as supplemented and amended by a first supplemental indenture dated as of November 17, 1981, a second supplemental indenture dated as of July 11, 1984, a third supplemental indenture dated as of December 17, 1986, a fourth supplemental indenture dated as of June 1, 1989, a fifth supplemental indenture dated as of July 1, 1989, a sixth supplemental indenture dated as of June 14, 1990, a seventh supplemental indenture dated as of October 26, 1990, an eighth supplemental indenture dated as of August 1, 1992, a ninth supplemental indenture dated as of July 28, 1993, a tenth supplemental indenture dated as of November 15, 1993 (the "MTN Supplemental Indenture") and an eleventh supplemental indenture dated as of January 1, 2007 (the trust indenture, as so supplemented and amended from time to time, being herein called the "Indenture"). The Indenture will be available for review during normal business hours during the period of distribution of the MTN Debentures at the head office of the Company at Suite 1000, 1111 West Georgia Street, Vancouver, British Columbia.

The aggregate principal amount of debentures authorized under the Indenture (the "Debentures") is unlimited. Debentures may be issued thereunder in one or more series. The MTN Debentures are a series of Debentures authorized by the MTN Supplemental Indenture in an unlimited amount, and may be issued on such terms and at such times as may be determined by the Company, subject to the Company meeting certain tests with respect to the issue thereof, as set forth in the Indenture.

The MTN Debentures will rank in equal priority with all other unsecured and unsubordinated indebtedness of the Company. As at March 31, 2010, there were no Debentures outstanding under the Indenture, other than MTN Debentures. The MTN Debentures will rank junior to any outstanding First Mortgage Bonds issued under a trust deed and secured by substantially all of the Company's assets and the Purchase Money Mortgages which are secured under a trust deed over the assets of the Company acquired as part of its acquisition of the coastal gas distribution assets of British Columbia Hydro and Power Authority (the "Coastal Division") in 1988. Currently there are no First Mortgage Bonds outstanding. There are $274.9 million principal amount of Purchase Money Mortgages presently held by the public and $150 million presently held by a subsidiary of the Company pending securitization. The Purchase Money Mortgages were issued to finance the Company's acquisition of the Coastal Division.

Payments of interest on each interest-bearing MTN Debenture will be made by electronic funds transfer, if agreed to by the purchasers, or by cheque dated the interest payment date and mailed to the address of the holder appearing on the registers maintained by the Trustee at the close of business on the seventh business day (a business day for this purpose being a business day in the city of Vancouver) prior to the due date for the payment of interest. Payment of principal at maturity will be made at the principal corporate trust office of the Trustee in the cities of Vancouver, Toronto or Montreal against surrender of the MTN Debenture. If the due date for payment of any amount of principal or interest on any MTN Debenture is not, at the place of payment, a business day (being a day other than Saturday, Sunday, or a day on which financial institutions at the place of payment are authorized or obligated by law or regulation to close) such payment will be made on the next business day and the holder of such MTN Debenture shall not be entitled to any further interest or other payment in respect of such delay.

The payment of principal and interest on a MTN Debenture in accordance with the indenture shall absolutely satisfy and discharge the liability of the Company with respect to such payment under the MTN Debenture, unless in the case of payment by cheque it is not paid upon presentation.

Events of Default

Except as otherwise noted below, the Indenture provides that the following constitute events of default (each an "Event of Default") thereunder:

(a) default in payment of principal of any Debenture when due;

(b) default in payment of any interest due on any Debenture and such default has continued for 30 days;

(c) an order is made or an effective resolution passed for the winding-up or liquidation of the Company (other than pursuant to and in compliance with provisions in the Indenture relating to successor companies);

(d) the Company or any Designated Subsidiary (as defined below) makes a general assignment for the benefit of its creditors, is declared bankrupt, a sequestrator or a receiver or any other officer with similar powers is appointed of, or an encumbrancer takes possession of, the property of the Company or of the property of a Designated Subsidiary, or any substantial part thereof;

(e) any process of execution is enforced or levied upon any property of the Company or a Designated Subsidiary and remains unsatisfied for a period of 30 days, as to moveable or personal property, or 45 days, as to immovable or real property, provided that such process is not in good faith disputed by the Company or such Designated Subsidiary or the Company or such Designated Subsidiary has given adequate security;

(f) default under the mortgage with respect to the First Mortgage Bonds which causes the principal amount of the First Mortgage Bonds to be declared immediately due and payable, provided that if the default is cured and such declaration is rescinded the Event of Default will also be cured; and

(g) the Company neglects to carry out or observe any covenant or condition contained in the Indenture and, after notice has been given by the Trustee to the Company, the Company fails to make good such default within 60 days or such shorter period as would at any time, if continued, render any property of the Company or any of its subsidiaries liable to forfeiture, unless the Trustee has agreed to a longer period, and in such an event, within the period agreed to by the Trustee.

Acceleration on and Waiver of Default

If an Event of Default has occurred under the Indenture, the Trustee may in its discretion and will upon the requisition in writing of the holders of at least 25% of the principal amount of the Debentures issued and outstanding under the Indenture, subject to any waiver of default under the Indenture, by notice in writing to the Company declare the principal and interest on all Debentures then outstanding under the Indenture and other money payable thereunder to be due and payable.

If an Event of Default has occurred under the Indenture (otherwise than by default in payment of principal moneys at maturity) the holders of the Debentures have the power by extraordinary resolution to instruct the Trustee to waive the default (provided that if the Event of Default relates to a covenant applicable to a particular series of Debentures only, then the holders of outstanding Debentures of that series only have the power by extraordinary resolution to instruct the Trustee to waive the default). In addition, the Trustee, so long as it has not become bound to institute any proceedings under the Indenture, has power to waive the default if, in the Trustee's opinion, the same shall have been cured or adequate satisfaction made therefor.

In the Indenture, "extraordinary resolution" is a resolution passed at a meeting of debentureholders by the favourable votes of the holders of not less than 66⅔% of the principal amount of Debentures represented at the meeting.

Right of Trustee to Enforce Payment

If the Company fails to pay to the Trustee, on demand, and when due, the principal and interest on all Debentures then outstanding under the Indenture, the Trustee may, in its discretion, and shall upon the request in writing of the holders of not less than 25% of the principal amount of the Debentures issued and outstanding under the Indenture, and upon being indemnified to its reasonable satisfaction against all costs, expenses and liabilities to be incurred, proceed in its name as

Trustee to obtain or enforce payment of the principal and interest on all outstanding Debentures together with other amounts due under the Indenture by any remedy or proceeding authorized by the Indenture.

Holders of Debentures issued under the Indenture may not institute any action or proceeding or exercise any other remedy authorized by the Indenture, including an action to enforce the Indenture or the Debentures, except as provided in the Indenture.

Covenants

The Indenture contains, among others, covenants substantially to the following effect:

(a) The Company will not mortgage, pledge, charge or otherwise encumber any of its assets to secure any obligations unless at the same time it shall, in the opinion of counsel, secure or cause to be secured equally and rateably with such obligations all the Debentures then outstanding under the Indenture by the same instrument or by other instrument in form and substance satisfactory to such counsel; provided that this covenant shall not apply to (a) First Mortgage Bonds, (b) Purchase Money Mortgages, (c) permitted encumbrances as defined in the Indenture, or (d) security given (other than on fixed assets) in the ordinary course of business and for the purpose of carrying on the same, to any bank or banks or others to secure any indebtedness other than Funded Obligations.

(b) The Company will not permit any Designated Subsidiary to create, incur or guarantee any indebtedness, except indebtedness to or of the Company or to a trustee in support of a guarantee of indebtedness of the Company, provided that this shall not apply to (a) Purchase Money Mortgages, or (b) indebtedness incurred in the ordinary course of business and for the purpose of carrying on the same, to any bank or banks or others, repayable on demand or maturing, including any right of extension or renewal, within 18 months of the date when such indebtedness is incurred, provided such indebtedness is not secured on fixed assets.

(c) The Company or a Designated Subsidiary will not dispose of any indebtedness of a Designated Subsidiary unless all the shares and indebtedness of such Designated Subsidiary are sold to a party dealing with the seller at arm's length, resulting in neither the Company nor any other Designated Subsidiary owning any of such Designated Subsidiary.

(d) The Company will not permit any Designated Subsidiary to issue any shares if, as a result of such issue, such Designated Subsidiary ceases to qualify as such.

(e) The Company will not create or issue any Additional Obligations unless Consolidated Available Net Earnings for any period of 12 consecutive calendar months of the 23 calendar months next preceding the date of issue of such Additional Obligations, which period shall have been selected by the Company, shall have been at least two times the annual interest requirements of all Funded Obligations to be outstanding after the issue of such Additional Obligations and after any retirements of Funded Obligations to be made out of the proceeds thereof or retirement thereof has been otherwise provided for and in respect of which proof has been afforded to the Trustee satisfactory to it that adequate provision has been made assuring that such Funded Obligations will be retired within 45 days after the issue of such Additional Obligations; provided the provisions of this covenant shall not apply to the creation and issue of Additional Obligations for the purpose of refunding the whole of any series of Debentures previously issued under the Indenture provided that (except in the case of refunding all of the MTN Debentures) the aggregate principal amount of the Additional Obligations does not exceed the aggregate principal amount of the Debentures to be refunded.

(f) The Company will, directly or through Designated Subsidiaries, from time to time obtain and at all times maintain facilities for supplies of gas adequate to enable the carrying on of its business.

Modification

The rights of the holders of the MTN Debentures under the Indenture may be modified. For that purpose, among others, the Indenture will contain provisions making binding upon all holders of Debentures outstanding under the Indenture and indentures supplemental thereto, resolutions passed at meetings of debentureholders by the favourable votes of the holders of not less than 66⅔% of the principal amount of Debentures voted on the resolution or instruments in writing signed by the holders of not less than 66⅔% of the principal amount of all the outstanding Debentures. In certain cases, modification will require separate assent by the holders of the required percentages of debentures of each series outstanding under the Indenture or any series of MTN Debentures outstanding under the Indenture as determined by the Trustee.

Definitions

The Indenture contains definitions substantially to the following effect:

"*Additional Obligations*" means bonds, debentures, notes or other debt instruments issued by the Company, the due date of payment of which, including any right of extension or renewal, is 18 months or more after the date of issue but does not include First Mortgage Bonds and Purchase Money Mortgages.

"*Consolidated Available Net Earnings*" for any specified period of 12 months means the net earnings of the Company and its Designated Subsidiaries on a consolidated basis for such period (excluding gains or losses on the disposal of investments or fixed assets in each case in excess of $50,000 in the aggregate and other non-recurring items in excess of $50,000 in the aggregate) before deductions for income taxes, interest on Funded Obligations and on any other indebtedness that since the end of the specified period has been or is about to be refunded by the issue of Funded Obligations and amortization of debt premium, discount and expense, all as determined in accordance with generally accepted accounting principles and reported on by the Company's auditors without, in their opinion, material adverse qualification. In determining Consolidated Available Net Earnings for any period there shall be taken into account the earnings or losses, as the case may be, for the whole of such period of any company or corporation which, prior to or concurrently with the proposed action in respect of which such determination is being made, becomes a Designated Subsidiary. In addition, if the Company or any Designated Subsidiary shall, prior to or concurrently with the proposed action in respect of which such determination is being made, have acquired any business by way of acquisition of assets, the earnings or losses, as the case may be, of such business to the extent that such earnings or losses related to the assets acquired, shall be taken into account for the whole of such period.

"*Designated Subsidiary*" means any company or corporation the majority of the outstanding shares of each class of the capital stock of which having attached to them voting rights under all circumstances are owned by the Company and/or one or more Designated Subsidiaries, provided that the Company shall have, by resolution of its directors, designated such other company or corporation as a Designated Subsidiary; provided that any Designated Subsidiary shall cease to be a Designated Subsidiary upon sale of all its shares and indebtedness owned by the Company and any other Designated Subsidiary, resulting in neither the Company nor any other Designated Subsidiary owning any of such Designated Subsidiary.

"*First Mortgage Bonds*" means all first mortgage bonds or other first mortgage obligations of the Company, whether heretofore or hereafter issued, secured by a first fixed and specific charge on substantially all the fixed assets of the Company (whether or not also secured by a floating charge or by other security).

"*Funded Obligations*" means any indebtedness, whether secured or unsecured, incurred by any one or more of the Company and the Designated Subsidiaries by way of creation, guarantee, assumption or otherwise which is not repayable on demand and the due date of payment of which, including any right of extension or renewal, is 18 months or more after the date on which it was incurred, but does not include (i) indebtedness secured by Purchase Money Mortgages and (ii) any liability in respect of any guarantee by any one or more of the Company and the Designated Subsidiaries of the indebtedness of the Company and/or any Designated Subsidiaries secured by Purchase Money Mortgages.

"*Purchase Money Mortgages*" means any mortgages, liens or other encumbrances upon property acquired by one or more of the Company and the Designated Subsidiaries which were, at the time of such acquisition or concurrently therewith, assumed, created or given to secure all or part of the cost of such property and extensions and renewals thereof upon the same property if the principal amount of the indebtedness secured thereby is not increased.

RISK FACTORS

Prospective investors in a particular offering of MTN Debentures should consider, in addition to the matters described under the heading "Risk Factors" in the annual information form of the Company and the matters described under the heading "Commitments, Events, Risks and Uncertainties" in the management's discussion and analysis relating to the annual audited financial statements that are incorporated by reference herein, the following risk factors.

Credit Ratings

Credit ratings are intended to provide investors with an independent measure of credit quality of an issue of securities. The credit ratings accorded to the MTN Debentures are not a recommendation to buy, sell or hold the MTN Debentures, because ratings do not comment as to market price or suitability for a particular investor. There is no assurance that these ratings will remain in effect for any given period of time. These ratings may be subject to revision or withdrawal at any time by the relevant rating agency. Real or anticipated changes in credit ratings on the MTN Debentures may affect the market value of the MTN Debentures. In addition, real or anticipated changes in credit ratings can affect the cost at which the Company can access the debt market.

Lack of Public Market for MTN Debentures

This short form prospectus qualifies new issues of debt securities for which there is no existing trading market. The Company does not intend to list the MTN Debentures on any securities exchange or to arrange for any quotation system to quote them and consequently the Company will not be subject to regulation by any securities exchange or quotation system. There can be no assurance as to the liquidity of any trading market for the MTN Debentures or that a trading market for any of the MTN Debentures will develop. Even if a trading market develops in the MTN Debentures, the MTN Debentures could trade at prices that may be higher or lower than their initial offering prices and there may be limited transparency of trading prices. The market price for the MTN Debentures may be affected by prevailing interest rates, the Company's results of operations and financial position, the ratings assigned to the MTN Debentures or the Company, changes in general market conditions, fluctuations in the market for equity or debt securities and numerous other factors beyond the control of the Company.

PLAN OF DISTRIBUTION

The MTN Debentures may be offered for sale by any one or more of the Dealers pursuant to a dealer agreement dated May 14, 2010 between the Dealers and the Company (the "Dealer Agreement"). The rate of commission payable in connection with sales by the Dealers of MTN Debentures shall be as determined from time to time by mutual agreement. The MTN Debentures may be purchased from time to time by any of the Dealers, as principal, at such prices and with such commissions as may be agreed between the Company and any such Dealers for resale to the public at prices to be negotiated with each purchaser. Such resale prices may vary during the distribution period and as between purchasers. Each Dealer's compensation will be increased or decreased by the amount by which the aggregate price paid for MTN Debentures by purchasers exceeds or is less than the gross proceeds paid by that Dealer, acting as principal, to the Company. The Dealer Agreement also provides that in the event a Dealer is purchasing MTN Debentures as principal, the obligation of that Dealer to purchase as principal may be terminated in certain stated events. The MTN Debentures may also be offered directly by the Company at market rates prevailing from time to time to purchasers pursuant to applicable statutory exemptions and may from time to time be offered at a discount or a premium.

The MTN Debentures have not been and will not be registered under the United States Securities Act of 1933, as amended (the "U.S. Securities Act"). The MTN Debentures may not be offered, sold or delivered within the United States, except in certain transactions exempt from the registration requirements of the U.S. Securities Act. Each Dealer has agreed that it will not offer, sell or deliver any MTN Debentures within the United States. In addition, until 40 days after the commencement of the offering, an offer or sale of any MTN Debentures within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the U.S. Securities Act.

Under applicable securities legislation in Canada, the Company may be considered to be a connected issuer of each of the Dealers, as each is directly or indirectly a wholly-owned or majority-owned subsidiary of a Canadian chartered bank (collectively, the "Banks") which has extended credit facilities to the Company upon which the Company may draw from time to time. The Company's credit facilities with the Banks consist of a $500 million syndicated 5-year revolving credit facility. As at March 31, 2010, $85.7 million of the available credit under this facility has been utilized. This credit facility is unsecured and the Company is, and has been since the establishment of the credit facility, in compliance with the terms of the agreement governing the credit facility. The Company's financial position has not changed substantially since the credit facility was put in place. The credit facility is available for general corporate purposes, including acquisitions and capital expenditures and to act as a back-up for the Company's commercial paper program. Net proceeds received pursuant to offerings of MTN Debentures may be used, directly or indirectly, to reduce indebtedness of the Company under the credit facility. None of the Banks was involved in the decision to offer the MTN Debentures and none will be involved in the determination of the terms of the distribution of the MTN Debentures. As a consequence of the sale of the MTN

Debentures through any Dealer from time to time under this short form prospectus, the Company will pay a commission to each Dealer through which an MTN Debenture is sold.

TRANSFER AGENT AND REGISTRAR

Registers for the registration and transfer of the MTN Debentures will be kept at the principal corporate trust offices of CIBC Mellon Trust Company in the cities of Vancouver, Toronto and Montreal.

ELIGIBILITY FOR INVESTMENT

In the opinion of Farris, Vaughan, Wills & Murphy LLP, counsel to the Company, and Lawson Lundell LLP, counsel to the Dealers, the MTN Debentures offered hereby, if issued on the date hereof, would be qualified investments under the *Income Tax Act* (Canada) and the regulations thereunder (collectively, the "Tax Act") for trusts governed by registered retirement savings plans, registered retirement income funds, registered education savings plans, deferred profit sharing plans (other than a trust governed by a deferred profit sharing plan in respect of which any employer is the Company or is a person that does not deal at arm's length with the Company within the meaning of the Tax Act) and tax-free savings accounts. Notwithstanding the foregoing, if MTN Debentures are "prohibited investments" for the purposes of a tax-free savings account, a holder will be subject to a penalty tax as set out in the Tax Act. Prospective purchasers are advised to consult their own tax advisors in this regard.

INTERESTS OF EXPERTS

The matters referred to under "Eligibility for Investment" and certain other legal matters will be passed upon on the Company's behalf by Farris, Vaughan, Wills & Murphy LLP and on behalf of the Dealers by Lawson Lundell LLP. As of the date hereof, the partners and associates of each of Farris, Vaughan, Wills & Murphy LLP and Lawson Lundell LLP beneficially own, directly or indirectly, less than 1% of any securities of the Company.

STATUTORY RIGHTS OF WITHDRAWAL AND RESCISSION

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revisions of the price or damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that such remedies for rescission, revision of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights or consult with a legal adviser.

AUDITORS' CONSENT

We have read the short form base shelf prospectus of Terasen Gas Inc. (the "Company") dated May 14, 2010 relating to the offering of $600,000,000 Medium Term Note Debentures (Unsecured) of the Company. We have complied with Canadian generally accepted standards for an auditors' involvement with offering documents.

We consent to the incorporation by reference in the above mentioned prospectus of our report to the shareholders of the Company on the consolidated balance sheets of the Company as at December 31, 2009 and 2008 and the consolidated statements of earnings and comprehensive earnings, retained earnings and cash flows for each of the years in the two-year period ended December 31, 2009. Our report is dated January 29, 2010.

(Signed) Ernst & Young LLP

Chartered Accountants
Vancouver, Canada
May 14, 2010

CERTIFICATE OF TERASEN GAS INC.

Dated: May 14, 2010

This short form prospectus, together with the documents incorporated in this prospectus by reference, will, as of the date of the last supplement to this prospectus relating to the securities offered by this prospectus and the supplement(s), constitute full, true and plain disclosure of all material facts relating to the securities offered by this prospectus and the supplement(s) as required by the securities legislation of each of the provinces of Canada.

(Signed) Randall L. Jespersen President and Chief Executive Officer	(Signed) Scott A. Thomson Vice President, Regulatory Affairs and Chief Financial Officer

On behalf of the Board of Directors

(Signed) Harold G. Calla Director	(Signed) Barry V. Perry Director

CERTIFICATE OF THE DEALERS

Dated: May 14, 2010

To the best of our knowledge, information and belief, this short form prospectus, together with the documents incorporated in this prospectus by reference will, as of the date of the last supplement to this prospectus relating to the securities offered by this prospectus and the supplement(s), constitute full, true and plain disclosure of all material facts relating to the securities offered by this prospectus and the supplement(s) as required by the securities legislation of each of the provinces of Canada.

BMO NESBITT BURNS INC.

By: (Signed) Grant Williams

CIBC WORLD MARKETS INC.

By: (Signed) David Williams

NATIONAL BANK FINANCIAL INC.

By: (Signed) Paul Prendergast

RBC DOMINION SECURITIES INC.

By: (Signed) Tushar Kittur

SCOTIA CAPITAL INC.

By: (Signed) M.W. Neal

TD SECURITIES INC.

By: (Signed) Harold R. Holloway

This pricing supplement, together with the prospectus to which it relates, as amended or supplemented, and each document deemed to be incorporated by reference into the prospectus, as amended or supplemented, constitutes a public offering of these securities only in the jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities. No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise.

Pricing Supplement No. 2 dated September 27, 2007
(To a Prospectus dated December 8, 2005)

Terasen Gas Inc.
Medium Term Note Debentures
(Unsecured)

Amount and Currency of Issue:	C$250,000,000
Issue and Delivery Date:	October 2, 2007
Issue Price:	$99.641 per $100 principal amount
Commission:	0.50%
Net Proceeds to the Company:	C$247,852,500
Maturity Date:	October 2, 2037
Type of Note:	Global Debenture
Interest Rate:	6.00% per annum, payable semi-annually in arrears
Interest Payment Date(s):	April 2 and October 2
Initial Interest Payment Date:	April 2, 2008
Initial Interest Payment Amount:	$3.00 per $100 principal amount
Redemption Provisions:	The Medium Term Note Debentures issued hereunder will be redeemable, at the Company's option, in whole at any time or in part from time to time on not more than 60 and not less than 30 days' prior notice, at the higher of the Canada Yield Price (as defined below) and par, together with accrued and unpaid interest to the date fixed for redemption.
CUSIP Number:	CA 88078Z AF14
Depository:	CDS Clearing and Depository Services Inc.
Trustee/Registrar/Paying Agent:	CIBC Mellon Trust Company
Selling Agent(s):	CIBC World Markets Inc. BMO Nesbitt Burns Inc. National Bank Financial Inc. RBC Dominion Securities Inc. Scotia Capital Inc. TD Securities Inc.

Documents Incorporated by Reference

The following documents (which are not specifically listed in the Prospectus or any amendment or supplement delivered herewith) which have been filed by the Company with the various securities commissions in each of the provinces of Canada are specifically incorporated by reference in and form an integral part of the Prospectus as amended or supplemented:

(a) the audited consolidated financial statements of the Company for the years ended December 31, 2006 and 2005 together with the auditors' report thereon and management's discussion and analysis filed in connection with such audited consolidated financial statements;

(b) the annual information form of the Company dated April 2, 2007;

(c) the interim unaudited consolidated financial statements of the Company for the six months ended June 30, 2007 which include comparative financial statements for the corresponding period in 2006, together with management's discussion and analysis filed in connection with such interim unaudited consolidated financial statements; and

(d) the material change report of the Company dated May 17, 2007 relating to the indirect acquisition of the Company by Fortis Inc.

Definitions

"Canada Yield Price" shall mean a price equal to the price of the Medium Term Note Debentures issued hereunder calculated to provide a yield to maturity, compounded semi-annually and calculated in accordance with generally accepted financial practice, equal to the Government of Canada Yield plus 0.37% on the business day preceding the date of the resolution authorizing the redemption.

"Government of Canada Yield" on any date shall mean the yield to maturity on such date, compounded semi-annually and calculated in accordance with generally accepted financial practice, which a non-callable Government of Canada Bond would carry if issued in Canadian dollars in Canada, at 100% of its principal amount on such date with a term to maturity equal to the remaining term to maturity of the Medium Term Note Debentures issued hereunder. The Government of Canada Yield, in the case of a redemption of the Medium Term Note Debentures issued hereunder, will be the average of the yields provided by two Canadian investment dealers selected by the Company and approved by the Trustee.

This pricing supplement, together with the prospectus to which it relates, as amended or supplemented, and each document deemed to be incorporated by reference into the prospectus, as amended or supplemented, constitutes a public offering of these securities only in the jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities. No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise.

Pricing Supplement No. 1 dated May 8, 2008
(To a Prospectus dated April 24, 2008)

Terasen Gas Inc.

Medium Term Note Debentures, Series 23
(Unsecured)

Amount and Currency of Issue:	C$250,000,000
Issue and Delivery Date:	May 13, 2008
Issue Price:	$99.676 per $100 principal amount
Commission:	0.50%
Net Proceeds to the Company:	C$247,940,000
Maturity Date:	May 13, 2038
Type of Note:	Global Debenture
Interest Rate:	5.80% per annum, payable semi-annually in arrears
Interest Payment Date(s):	May 13 and November 13
Initial Interest Payment Date:	November 13, 2008
Initial Interest Payment Amount:	$2.90 per $100 principal amount
Redemption Provisions:	The Medium Term Note Debentures, Series 23 issued hereunder will be redeemable, at the Company's option, in whole at any time or in part from time to time on not more than 60 and not less than 30 days' prior notice, at the higher of the Canada Yield Price (as defined below) and par, together with accrued and unpaid interest to the date fixed for redemption.
CUSIP Number:	CA88078Z AG96
Depository:	CDS Clearing and Depository Services Inc.
Trustee/Registrar/Paying Agent:	CIBC Mellon Trust Company
Selling Agent(s):	TD Securities Inc. BMO Nesbitt Burns Inc. CIBC World Markets Inc. National Bank Financial Inc. RBC Dominion Securities Inc. Scotia Capital Inc.

Documents Incorporated by Reference

The following documents (which are not specifically listed in the Prospectus or any amendment or supplement delivered herewith) which have been filed by the Company with the various securities commissions in each of the provinces of Canada are specifically incorporated by reference in and form an integral part of the Prospectus as amended or supplemented:

(a) the interim unaudited consolidated financial statements of the Company for the three months ended March 31, 2008 which include comparative financial statements for the corresponding period in 2007, together with management's discussion and analysis filed in connection with such interim unaudited consolidated financial statements.

Definitions

"Canada Yield Price" shall mean a price calculated to provide a yield over the remaining term to maturity of the Medium Term Note Debentures, Series 23 issued hereunder, compounded semi-annually and calculated in accordance with generally accepted financial practice, equal to the Government of Canada Yield plus 0.40% on the business day preceding the date of the resolution authorizing the redemption.

"Government of Canada Yield" on any date shall mean the yield to maturity on such date, compounded semi-annually and calculated in accordance with generally accepted financial practice, which a non-callable Government of Canada Bond would carry if issued in Canadian dollars in Canada, at 100% of its principal amount on such date with a term to maturity equal to the remaining term to maturity of the Medium Term Note Debentures, Series 23 issued hereunder. The Government of Canada Yield, in the case of a redemption of the Medium Term Note Debentures, Series 23 issued hereunder, will be the average of the yields provided by two Canadian investment dealers selected by the Company and approved by the Trustee.

This pricing supplement, together with the prospectus to which it relates, as amended or supplemented, and each document deemed to be incorporated by reference into the prospectus, as amended or supplemented, constitutes a public offering of these securities only in the jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities. No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise.

Pricing Supplement No. 2 dated February 19, 2009
(To a Prospectus dated April 24, 2008)

Terasen Gas Inc.
Medium Term Note Debentures, Series 24
(Unsecured)

Amount and Currency of Issue:	C$100,000,000
Issue and Delivery Date:	February 24, 2009
Issue Price:	$99.635 per $100 principal amount
Commission:	0.50%
Net Proceeds to the Company:	C$99,135,000
Maturity Date:	February 24, 2039
Type of Note:	Global Debenture
Interest Rate:	6.55% per annum, payable semi-annually in arrears
Interest Payment Date(s):	February 24 and August 24
Initial Interest Payment Date:	August 24, 2009
Initial Interest Payment Amount:	$3.275 per $100 principal amount
Redemption Provisions:	The Medium Term Note Debentures, Series 24 issued hereunder will be redeemable, at the Company's option, in whole at any time or in part from time to time on not more than 60 and not less than 30 days' prior notice, at the higher of the Canada Yield Price (as defined below) and par, together with accrued and unpaid interest to the date fixed for redemption.
CUSIP Number:	CA88078Z AH79
Depository:	CDS Clearing and Depository Services Inc.
Trustee/Registrar/Paying Agent:	CIBC Mellon Trust Company
Selling Agent(s):	Scotia Capital Inc. BMO Nesbitt Burns Inc. CIBC World Markets Inc. National Bank Financial Inc. RBC Dominion Securities Inc. TD Securities Inc.

Documents Incorporated by Reference

The following documents (which are not specifically listed in the Prospectus or any amendment or supplement delivered herewith) which have been filed by the Company with the various securities commissions in each of the provinces of Canada are specifically incorporated by reference in and form an integral part of the Prospectus as amended or supplemented:

(a) the audited consolidated financial statements of the Company for the year ended December 31, 2008 which include comparative financial statements for the corresponding period in 2007, together with the auditors' report thereon and the management's discussion and analysis filed in connection with such audited consolidated financial statements; and

(b) the annual information form of the Company dated February 18, 2009.

Definitions

"Canada Yield Price" shall mean a price calculated to provide a yield over the remaining term to maturity of the Medium Term Note Debentures, Series 24 issued hereunder, compounded semi-annually and calculated in accordance with generally accepted financial practice, equal to the Government of Canada Yield plus 0.71% on the business day preceding the date of the resolution authorizing the redemption.

"Government of Canada Yield" on any date shall mean the yield to maturity on such date, compounded semi-annually and calculated in accordance with generally accepted financial practice, which a non-callable Government of Canada Bond would carry if issued in Canadian dollars in Canada, at 100% of its principal amount on such date with a term to maturity equal to the remaining term to maturity of the Medium Term Note Debentures, Series 24 issued hereunder. The Government of Canada Yield, in the case of a redemption of the Medium Term Note Debentures, Series 24 issued hereunder, will be the average of the yields provided by two Canadian investment dealers selected by the Company and approved by the Trustee.

This pricing supplement, together with the prospectus to which it relates, as amended or supplemented, and each document deemed to be incorporated by reference into the prospectus, as amended or supplemented, constitutes a public offering of these securities only in the jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities. No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise.

Pricing Supplement No. 1 dated December 06, 2011
(To a Prospectus dated May 14, 2010)

FORTIS BC

FortisBC Energy Inc.

Medium Term Note Debentures, Series 25
(Unsecured)

Amount and Currency of Issue:	C$100,000,000
Issue and Delivery Date:	December 09, 2011
Issue Price:	C$99.212 per $100 principal amount
Commission:	0.50%
Net Proceeds to the Company:	C$98.712
Maturity Date:	December 09, 2041
Type of Note:	Global Debenture
Interest Rate:	4.25% per annum, payable semi-annually in arrears
Interest Payment Date(s):	June 09 and December 09
Initial Interest Payment Date:	June 09, 2012
Initial Interest Payment Amount:	$2.125 per $100 principal amount
Redemption Provisions:	The Medium Term Note Debentures, Series 25 issued hereunder will be redeemable, at the Company's option, in whole at any time or in part from time to time on not more than 60 and not less than 30 days' prior notice, at the higher of the Canada Yield Price (as defined below) and par, together with accrued and unpaid interest to the date fixed for redemption.
CUSIP Number:	CA34959ZAA09
Depository:	CDS Clearing and Depository Services Inc.
Trustee/Registrar/Paying Agent:	CIBC Mellon Trust Company
Selling Agent(s):	CIBC World Markets Inc. BMO Nesbitt Burns Inc. National Bank Financial Inc. RBC Dominion Securities Inc. Scotia Capital Inc. TD Securities Inc.

Documents Incorporated by Reference

The following documents (which are not specifically listed in the Prospectus or any amendment or supplement delivered herewith) which have been filed by the Company with the various securities commissions in each of the provinces of Canada are specifically incorporated by reference in and form an integral part of the Prospectus as amended or supplemented:

(a) the audited consolidated financial statements of the Company for the year ended December 31, 2010 which include comparative financial statements for the corresponding period in 2009, together with the auditors' report thereon and the management's discussion and analysis filed in connection with such audited consolidated financial statements; and

(b) the interim unaudited consolidated financial statements of the Company for the nine months ended September 30, 2011 which include comparative financial statements for the corresponding period in 2010, together with the management's discussion and analysis filed in connection with such interim unaudited consolidated financial statements; and

(c) the annual information form of the Company dated March 31, 2011.

Definitions

"Canada Yield Price" shall mean a price calculated to provide a yield over the remaining term to maturity of the Medium Term Note Debentures, Series 25 issued hereunder, compounded semi-annually and calculated in accordance with generally accepted financial practice, equal to the Government of Canada Yield plus 0.41 % on the business day preceding the date of the resolution authorizing the redemption.

"Government of Canada Yield" on any date shall mean the yield to maturity on such date, compounded semi-annually and calculated in accordance with generally accepted financial practice, which a non-callable Government of Canada Bond would carry if issued in Canadian dollars in Canada, at 100% of its principal amount on such date with a term to maturity equal to the remaining term to maturity of the Medium Term Note Debentures, Series 25 issued hereunder. The Government of Canada Yield, in the case of a redemption of the Medium Term Note Debentures, Series 25 issued hereunder, will be the average of the yields provided by two Canadian investment dealers selected by the Company and approved by the Trustee.

Month End	BCG 06.5000 05/01/34	CAN 05.7500 06/01/29	Spread	FTSB 05.6000 11/09/35	CAN 05.7500 06/01/29	Spread	TGVI 06.0500 02/15/38	CAN 05.7500 06/01/33	Spread
31-Jan-06	5.58	4.28	130	5.53	4.28	125	0.00	4.24	
28-Feb-06	5.50	4.20	130	5.45	4.20	125	0.00	4.15	
31-Mar-06	5.61	4.31	130	5.51	4.31	120	0.00	4.26	
30-Apr-06	5.86	4.56	130	5.76	4.56	120	0.00	4.52	
31-May-06	5.93	4.53	140	5.73	4.53	120	0.00	4.50	
30-Jun-06	6.10	4.65	145	5.85	4.65	120	0.00	4.61	
31-Jul-06	5.84	4.41	143	5.61	4.41	120	0.00	4.37	
31-Aug-06	5.62	4.22	140	5.40	4.22	118	0.00	4.19	
30-Sep-06	5.46	4.12	134	5.27	4.12	115	0.00	4.09	
31-Oct-06	5.37	4.12	125	5.27	4.12	115	0.00	4.09	
30-Nov-06	5.32	4.02	130	5.17	4.02	115	0.00	3.99	
31-Dec-06	5.47	4.17	130	5.32	4.17	115	0.00	4.14	
31-Jan-07	5.55	4.25	130	5.40	4.25	115	0.00	4.22	
28-Feb-07	5.32	4.13	119	5.28	4.13	115	0.00	4.10	
31-Mar-07	5.43	4.23	120	5.38	4.23	115	0.00	4.20	
30-Apr-07	5.43	4.23	120	5.38	4.23	115	0.00	4.20	
31-May-07	5.60	4.42	118	5.57	4.42	115	0.00	4.39	
30-Jun-07	5.74	4.52	122	5.72	4.52	120	0.00	4.49	
31-Jul-07	5.72	4.50	122	5.75	4.50	125	0.00	4.46	
31-Aug-07	5.74	4.49	125	5.74	4.49	125	0.00	4.46	
30-Sep-07	5.86	4.46	140	5.81	4.46	135	0.00	4.45	
31-Oct-07	5.70	4.40	130	5.70	4.40	130	0.00	4.38	
30-Nov-07	5.58	4.18	140	5.68	4.18	150	0.00	4.16	
31-Dec-07	5.48	4.13	135	5.63	4.13	150	0.00	4.11	
31-Jan-08	5.65	4.20	145	5.75	4.20	155	0.00	4.20	
29-Feb-08	5.60	4.09	150	5.55	4.09	145	5.85	4.10	175
31-Mar-08	5.50	3.95	155	5.55	3.95	160	5.75	3.95	180
30-Apr-08	5.79	4.09	170	5.83	4.09	174	5.89	4.09	180
31-May-08	5.73	4.15	157	5.89	4.15	174	5.87	4.15	172
30-Jun-08	5.76	4.13	163	5.91	4.13	178	5.86	4.11	175
31-Jul-08	5.78	4.15	162	5.93	4.15	177	5.87	4.13	174
31-Aug-08	5.99	4.06	193	5.94	4.06	188	5.89	4.04	185
30-Sep-08	6.48	4.30	218	6.38	4.30	208	6.13	4.28	185
31-Oct-08	7.38	4.42	296	7.53	4.42	311	7.43	4.38	305
30-Nov-08	6.97	4.05	291	7.17	4.05	311	6.97	4.02	295
31-Dec-08	6.93	3.56	338	7.53	3.56	398	6.63	3.53	310
31-Jan-09	6.97	3.92	305	7.87	3.92	395	6.97	3.87	310
28-Feb-09	6.56	3.84	272	7.16	3.84	332	6.81	3.81	300
31-Mar-09	6.39	3.63	275	6.89	3.63	325	6.64	3.64	300
30-Apr-09	6.36	3.90	246	6.56	3.90	266	6.46	3.91	255
31-May-09	6.04	4.07	197	6.49	4.07	242	6.24	4.09	215
30-Jun-09	5.68	3.97	171	5.88	3.97	191	5.93	3.98	195
31-Jul-09	5.76	4.06	170	5.85	4.06	179	5.75	4.06	169
31-Aug-09	5.50	4.00	150	5.64	4.00	164	5.49	4.00	149
30-Sep-09	5.34	3.95	140	5.59	3.95	165	5.44	3.95	150
31-Oct-09	5.35	4.04	131	5.58	4.04	154	5.45	4.03	141
30-Nov-09	5.39	3.94	145	5.59	3.94	165	5.49	3.95	155
31-Dec-09	5.63	4.19	145	5.83	4.19	165	5.83	4.19	164
31-Jan-10	5.34	3.99	135	5.54	3.99	155	5.54	4.02	152
28-Feb-10	5.42	4.04	138	5.62	4.04	158	5.62	4.08	154
31-Mar-10	5.37	4.08	129	5.62	4.08	154	5.52	4.11	141
30-Apr-10	5.31	4.02	129	5.61	4.02	159	5.46	4.05	141
31-May-10	5.28	3.73	155	5.53	3.73	180	5.43	3.76	167
30-Jun-10	5.13	3.61	151	5.40	3.61	178	5.23	3.67	156
31-Jul-10	5.11	3.66	145	5.39	3.66	173	5.21	3.72	149
31-Aug-10	4.84	3.40	144	5.14	3.40	174	4.94	3.45	149
30-Sep-10	4.69	3.31	137	5.01	3.31	169	4.79	3.36	143
31-Oct-10	4.77	3.34	143	4.89	3.34	155	4.87	3.42	146
30-Nov-10	4.88	3.47	142	4.93	3.47	147	4.98	3.53	146
31-Dec-10	4.95	3.48	147	4.98	3.48	150	5.11	3.55	156
31-Jan-11	5.08	3.71	137	5.13	3.71	142	5.31	3.77	155
28-Feb-11	5.05	3.68	137	5.05	3.68	137	5.22	3.73	149
31-Mar-11	5.17	3.73	144	5.15	3.73	142	5.27	3.78	149
30-Apr-11	5.10	3.66	145	5.10	3.66	145	5.13	3.72	142
31-May-11	4.85	3.41	144	4.89	3.41	148	4.92	3.49	144
30-Jun-11	4.96	3.46	150	4.98	3.46	152	4.98	3.54	144
31-Jul-11	4.62	3.18	144	4.69	3.18	151	4.68	3.26	142
31-Aug-11	4.61	2.97	164	4.72	2.97	175	4.64	3.07	157
30-Sep-11	4.41	2.64	177	4.41	2.64	177	4.46	2.76	170
31-Oct-11	4.40	2.78	162	4.55	2.78	177	4.63	2.90	173
30-Nov-11	4.29	2.60	169	4.32	2.60	172	4.39	2.70	170
31-Dec-11	4.04	2.39	165	4.09	2.39	170	4.19	2.49	170
31-Jan-12	3.85	2.38	148	3.88	2.38	151	4.00	2.50	151
29-Feb-12	3.95	2.47	148	3.98	2.47	151	4.05	2.58	146
31-Mar-12	4.03	2.52	150	4.06	2.52	153	4.11	2.63	147
30-Apr-12	4.06	2.48	157	4.16	2.48	167	4.21	2.59	161
31-May-12	3.86	2.14	172	3.89	2.14	175	3.89	2.27	162

SOURCE: RBC Capital Markets

Historical Spread Data - Actual Bonds (bps) - BMO

Date	ftbc.05.600.09Nov35	bcg.05.900.26Feb35	tgvi.06.050.15Feb38
1-Jun-12	160	157	169
1-May-12	152	148	180
2-Apr-12	136	132	162
1-Mar-12	138	131	164
1-Feb-12	132	131	164
3-Jan-12	147	145	178
1-Dec-11	155	154	186
1-Nov-11	147	144	167
3-Oct-11	163	155	168
1-Sep-11	142	145	168
1-Aug-11	143	130	167
1-Jul-11	143	132	167
1-Jun-11	142	133	167
2-May-11	143	132	169
1-Apr-11	142	137	169
1-Mar-11	143	135	166
1-Feb-11	143	129	160
3-Jan-11	144	131	163
1-Dec-10	143	136	167
1-Nov-10		134	166
1-Oct-10		139	170
1-Sep-10		149	181
2-Aug-10		142	172
1-Jul-10		152	184
1-Jun-10		167	197
3-May-10		132	162
1-Apr-10		128	159
1-Mar-10		134	164
1-Feb-10		136	166
4-Jan-10		145	159
1-Dec-09		156	170
2-Nov-09		139	152
1-Oct-09		154	167
1-Sep-09		149	162

3-Aug-09	128	143
1-Jul-09	182	197
1-Jun-09	189	204
1-May-09	227	242
1-Apr-09	285	302
2-Mar-09	298	314
2-Feb-09	316	333
2-Jan-09	343	359
1-Dec-08	327	343
3-Nov-08	315	331
1-Oct-08	234	251
1-Sep-08	204	220
4-Aug-08	172	187
1-Aug-08	172	187
1-Jul-08	167	187
4-Jun-08	158	186

Hodgkins, Grant

From: Kulach, Lara <lara.kulach@rbccm.com>
Sent: Thursday, June 7, 2012 3:41 PM
To: Hodgkins, Grant
Cc: Brown, Rob; Henderson, Brett (FortisBC Electric)
Subject: Historical Spread & Trading Info
Attachments: 12-06-07 Historical Spread Data.xls

Hi Grant,

Further to your request earlier this week, please find attached an Excel file which includes historical secondary spread data on the Fortis bonds that you requested. We have graphed the historical spreads versus the long-dated Canada benchmark bond that each was initially priced off of. Further, the table below outlines historical secondary trading volumes (over the requested period of 2006-Present) for each of the bonds included in our analysis. If you have any questions at all please let us know. Please note that these trading volumes reflect only trades by RBC, and we have provided to total notional amount traded (aggregate buys and sells).

Bond	Avg. Monthly Volume (C$MM)
FortisBC 5.6% due 2035	**0.10**
FortisBC Energy 6.5% due 2034	**1.32**
FortisBC Energy (VI) 6.05% due 2038	**8.21**
CAN 5.75% due 2029	**998.66**
CAN 5.75% due 2033	**1,582.82**

<<12-06-07 Historical Spread Data.xls>>
Regards,
Lara

Lara Kulach
Associate, Debt Capital Markets | RBC Capital Markets
2nd Floor, North Tower, Royal Bank Plaza
200 Bay Street, Toronto, Ontario M5J 2W7
Tel: 416.842.6665 | Cell: 647.963.3233
Email: lara.kulach@rbccm.com

Hodgkins, Grant

From: Engen, Aaron <aaron.engen@bmo.com>
Sent: Tuesday, July 31, 2012 5:11 PM
To: Hodgkins, Grant
Subject: Trade Volumes

Got it sooner than I thought. A caution with respect to the Canada bond data ("CAN"), though, is that some of that volume will be internal trades (i.e. one trader at BMO to another, and can also include intermediate stages of a trade). We can't separate those out so it's the best we have. That said, I suspect the same would be true for the RBC numbers.

Average Monthly Volume (C$ Millions)

CUSIP	Description	Monthly Average
34957UAB1	FTSCN 5.6 11/09/35	$0.02
88078ZAB0	FTSCN 6 1/2 05/01/34	$1.39
88100BAA7	FTSCN 6.05 02/15/38	$1.53
135087WL4	CAN 5 3/4 06/01/29	$1,463
135087XG4	CAN 5 3/4 06/01/33	$2,481

Note: Time period considered from 2006-July 2012

Regards,

Aaron M. Engen | Managing Director | BMO Capital Markets | ph. (403) 515-1560 | fax (403) 515-1535 | e-mail: aaron.engen@bmo.com

Information has been incorporated by reference in this short form prospectus from documents filed with securities commissions or similar authorities in Canada. *Copies of the documents incorporated herein by reference may be obtained on request without charge from the Secretary of the Corporation at Suite 1201, 139 Water Street, St. John's, Newfoundland and Labrador A1B 3T2 (telephone (709) 737-2800) and are also available electronically at www.sedar.com. The securities being offered under this short form prospectus have not been and will not be registered under the United States Securities Act of 1933, as amended, or any state securities laws, and, except in limited circumstances, will not be offered or sold within the United States or for the account or benefit of United States persons. See "Plan of Distribution".*

SHORT FORM PROSPECTUS

New Issue June 29, 2009

FORTIS INC.

$200,000,000

6.51% SENIOR UNSECURED DEBENTURES DUE JULY 4, 2039

The 6.51% senior unsecured debentures (the "Debentures") of Fortis Inc. ("Fortis" or the "Corporation") being offered hereby will mature on July 4, 2039. The Debentures will be issued in denominations of $1,000 and integral multiples thereof. Interest on the Debentures will be payable in equal instalments semi-annually in arrears on January 4 and July 4 of each year, commencing on January 4, 2010. The Debentures will be direct senior unsecured unsubordinated obligations of Fortis and payment of the principal of and interest on the Debentures will rank *pari passu* with all other present and future unsecured and unsubordinated senior indebtedness of the Corporation.

The Corporation may, at its option, in whole at any time or in part from time to time before maturity, on not less than 30 days' and not more than 60 days' prior notice, redeem the Debentures at a redemption price equal to the greater of the principal amount of the Debentures to be redeemed and the Canada Yield Price (as defined herein) of the principal amount thereof to be redeemed, together, in each case, with accrued but unpaid interest to but excluding the date fixed for redemption. See "Details of the Offering — Redemption".

Investing in the Debentures involves certain risks that should be considered by a prospective purchaser. See "Risk Factors".

Price: $999.34 per Debenture to yield 6.51% per annum

	Price to the Public	Agents' Fee(1)	Net Proceeds to Fortis(2)
Per $1,000 principal amount of Debentures	$999.34	$5.00	$994.34
Total	$199,868,000	$1,000,000	$198,868,000

(1) Consisting of the Agents' fee of $5.00 per $1,000.00 principal amount of Debentures.

(2) Before deducting expenses of the issue estimated at $575,000 which, together with the Agents' fees, will be paid out of the general funds of Fortis. See "Plan of Distribution".

There is no market through which the Debentures may be sold and purchasers may not be able to resell Debentures purchased under this Prospectus. This may affect the pricing of the Debentures in the secondary market, the transparency and availability of trading prices, the liquidity of the Debentures and the extent of issuer regulation. See "Risk Factors".

BMO Nesbitt Burns Inc., CIBC World Markets Inc., RBC Dominion Securities Inc., Scotia Capital Inc., TD Securities Inc., HSBC Securities (Canada) Inc. and National Bank Financial Inc. (collectively, the "Agents") have agreed to use their reasonable best efforts to sell the Debentures offered by this short form prospectus (the "Offering") from the Corporation at 99.934% of their principal amount subject to the terms and conditions set forth in the Agency Agreement referred to under "Plan of Distribution" and subject to the approval of certain legal matters on behalf of the Corporation by Davies Ward Phillips & Vineberg LLP, Toronto and McInnes Cooper, St. John's and on behalf of the Agents by Stikeman Elliott LLP, and will receive an aggregate fee of $1,000,000, assuming the full amount of the Debentures offered are sold. In the event the full amount of the Debentures are not sold, the fee paid to the Agents will be pro-rated accordingly.

Each of the Agents is a subsidiary of a Canadian chartered bank that has, either solely, together with its affiliates, or as a member of a syndicate of financial institutions, extended credit facilities to, or holds indebtedness of, the Corporation and/or its subsidiaries. A portion of the net proceeds from the Offering will be used to repay in full the outstanding indebtedness under the credit facility owing by the Corporation to such banks. Consequently, the Corporation may be considered a "connected issuer" of these Agents within the meaning of applicable securities legislation. See "Use of Proceeds" and "Plan of Distribution".

Subscriptions for the Debentures will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that the closing of the Offering will take place on or about July 2, 2009 (the "Closing Date"), or such other date as may be agreed upon by the Corporation and the Agents, but not later than July 15, 2009. A book entry only certificate representing the Debentures distributed hereunder will be issued in registered form only to CDS Clearing and Depository Services Inc. ("CDS") or a nominee thereof and will be deposited with CDS on the Closing Date. No certificates evidencing the Debentures will be issued to purchasers, except in certain limited circumstances, and registration will be made using the depository services of CDS. A purchaser of Debentures will receive only a customer confirmation from a registered dealer who is a CDS participant from or through whom the Debentures are purchased. See "Book-Entry Only System".

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus (the "Prospectus"), including the documents incorporated herein by reference, contains forward-looking information which reflects management's expectations regarding the future growth, results of operations, performance, business prospects and opportunities of Fortis Inc. ("Fortis" or the "Corporation"), and may not be appropriate for other purposes. All forward-looking information is given pursuant to the "safe harbour" provisions of applicable Canadian securities legislation. The words "anticipates", "believes", "could", "estimates", "expects", "forecasts", "intends", "may", "might", "plans", "projects", "schedule", "should", "will", "would" and similar expressions are often intended to identify forward-looking information, although not all forward-looking information contains these identifying words. The forward-looking information reflects management's current beliefs and is based on information currently available to the Corporation's management. The forward-looking information in this Prospectus, including the documents incorporated herein by reference, includes, but is not limited to, statements regarding: the expected timing of regulatory decisions; consolidated forecasted gross capital expenditures for 2009 and in total over the next five years; the nature, timing and costs associated with certain capital projects; the expected impacts on Fortis of the downturn in the global economy; the electricity sales growth rate expected at the Corporation's regulated utilities in the Caribbean in 2009; the expectation of no significant decrease in annual consolidated operating cash flows in 2009; the expectation that the subsidiaries will be able to source the cash required to fund their 2009 capital expenditure programs; the expectation that the Corporation and its subsidiaries will continue to have reasonable access to long-term capital in the near to medium terms; expected long-term debt maturities and repayments on average annually over the next five years; no material increase in interest expense and/or fees associated with renewed and extended credit facilities being expected in 2009; no material adverse credit rating actions being expected in the near term; the expectation that counterparties to the Terasen Gas companies' gas derivative contracts will continue to meet their obligations; and the expectation of no material increase in defined benefit pension expense in 2009. The forecasts and projections that make up the forward-looking information are based on assumptions which include, but are not limited to: the receipt of applicable regulatory approvals and requested rate orders; no significant operational disruptions or environmental liability due to a catastrophic event or environmental upset caused by severe weather, other acts of nature or other major event; the continued ability to maintain the gas and electricity systems to ensure their continued performance; no significant decline in capital spending in 2009; no severe and prolonged downturn in economic conditions; sufficient liquidity and capital resources; the continuation of regulator-approved mechanisms to flow through the commodity cost of natural gas and energy supply costs in customer rates; the continued ability to hedge exposures to fluctuations in interest rates, foreign exchange rates and natural gas commodity prices; no significant variability in interest rates; no significant counterparty defaults; the continued competitiveness of natural gas pricing when compared with electricity and other alternative sources of energy; the continued availability of natural gas supply; the continued ability to fund defined benefit pension plans; the absence of significant changes in government energy plans and environmental laws that may materially affect the operations and cash flows of the Corporation and its subsidiaries; maintenance of adequate insurance coverage; the ability to obtain and maintain licences and permits; retention of existing service areas; no material decrease in market energy sales prices; favourable relations with First Nations; favourable labour relations; and sufficient human resources to deliver service and execute the capital program. The forward-looking information is subject to risks, uncertainties and other factors that could cause actual results to differ materially from historical results or results anticipated by the forward-looking information. Factors which could cause results or events to differ from current expectations include, but are not limited to: regulatory risk; operating and maintenance risks; economic conditions; capital resources and liquidity risk; weather and seasonality; an ultimate resolution of the expropriation of the assets of the Exploits River Hydro Partnership that differs from what is currently expected by management; commodity price risk; derivative financial instruments and hedging; interest rate risk; counterparty risk; competitiveness of natural gas; natural gas supply; defined benefit pension plan performance and funding requirements; risks related to the development of the Terasen Gas (Vancouver Island) Inc. franchise; the Government of British Columbia's Energy Plan; environmental risks; insurance coverage risk; an unexpected outcome of legal proceedings currently against the Corporation; licences and permits; loss of service area; market energy sales prices; transition to International Financial Reporting Standards; changes in tax legislation; First Nations' lands; labour relations; and human resources. For additional information with respect to the Corporation's risk factors and risk factors relating to the Debentures, reference should be made to the section of this Prospectus entitled "Risk Factors".

All forward-looking information in this Prospectus and in the documents incorporated herein by reference is qualified in its entirety by the above cautionary statements and, except as required by law, the Corporation undertakes no obligation to revise or update any forward-looking information as a result of new information, future events or otherwise.

DOCUMENTS INCORPORATED BY REFERENCE

The disclosure documents of the Corporation listed below and filed with the appropriate securities commissions or similar regulatory authorities in each of the provinces of Canada are specifically incorporated by reference into and form an integral part of this Prospectus:

(a) Annual Information Form dated March 13, 2009 for the year ended December 31, 2008;

(b) audited comparative consolidated financial statements as at December 31, 2008 and for the years ended December 31, 2008 and 2007, together with the notes thereto and the auditors' report thereon dated January 30, 2009, as contained in the Corporation's 2008 Annual Report;

(c) Management Discussion and Analysis of financial condition and results of operations for the year ended December 31, 2008, as contained in the Corporation's 2008 Annual Report;

(d) unaudited comparative interim consolidated financial statements as at March 31, 2009 and for the three months ended March 31, 2009 and 2008, together with the notes thereto;

(e) Management Discussion and Analysis of financial condition and results of operations for the three months ended March 31, 2009; and

(f) Management Information Circular dated April 3, 2009 prepared in connection with the Corporation's annual meeting of shareholders held on May 5, 2009.

Any document of the type referred to in the preceding paragraph, any material change report (other than any confidential material change report) and any business acquisition report subsequently filed by the Corporation with such securities commissions or regulatory authorities after the date of the Prospectus, and prior to the termination of the Offering, shall be deemed to be incorporated by reference into the Prospectus.

Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Prospectus to the extent that a statement contained herein, or in any other subsequently filed document which also is incorporated or is deemed to be incorporated by reference herein, modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement will not be deemed an admission for any purpose that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus.

Copies of the documents incorporated herein by reference may be obtained on request without charge from the Secretary of the Corporation at Suite 1201, 139 Water Street, St. John's, Newfoundland and Labrador A1B 3T2 (telephone (709) 737-2800). These documents are also available through the Internet on the Corporation's website at www.fortisinc.com or under the Corporation's profile on the Canadian System for Electronic Document Analysis and Retrieval ("SEDAR"), which can be accessed at www.sedar.com. The information contained on, or accessible through, any of these websites is not incorporated by reference into the Prospectus and is not, and should not be considered to be, a part of the Prospectus, unless it is explicitly so incorporated.

ELIGIBILITY FOR INVESTMENT

In the opinion of Davies Ward Phillips & Vineberg LLP, counsel to the Corporation, and Stikeman Elliott LLP, counsel to the Agents, the Debentures being offered pursuant to this Prospectus, if issued on the date hereof, would be qualified investments under the *Income Tax Act* (Canada) (the "Tax Act") for a trust governed by a registered retirement savings plan, registered retirement income fund, deferred profit sharing plan ("DPSP") (other than a trust governed by a DPSP for which any employer is the Corporation or is an employer that does not deal at arm's length with the Corporation for purposes of the Tax Act), registered education savings plan, registered disability savings plan or a tax-free savings account ("TFSA"). The Debentures will not be "prohibited investments" for a TFSA where the holder of the TFSA is not a "specified shareholder" of the Corporation, and the Corporation deals at arm's length with such holder for purposes of the Tax Act and any person in which such holder has a "significant interest", as each such term is defined in the Tax Act.

CURRENCY

All dollar amounts in the Prospectus are expressed in Canadian dollars unless otherwise indicated.

SUMMARY

The following information is a summary only and is to be read in conjunction with, and is qualified in its entirety by, the more detailed information appearing elsewhere in the Prospectus and in the documents incorporated by reference herein. Unless otherwise noted or the context otherwise indicates, "Corporation" refers to Fortis Inc. All capitalized terms used but not defined in this Summary are defined under the heading "Details of the Offering — Definitions".

The Offering

Offering: $200,000,000 principal amount of 6.51% senior unsecured debentures (the "Debentures").

Interest: 6.51% per annum from the date of issue, accrued daily and calculated and payable in equal instalments semi-annually in arrears on January 4 and July 4 of each year, commencing January 4, 2010. The initial interest payment, payable on January 4, 2010, will be $32.91 per $1,000 principal amount of Debentures. See "Details of the Offering — Interest Rate and Maturity".

Maturity Date: July 4, 2039.

Redemption: The Corporation may, at its option, in whole at any time or in part from time to time before maturity, on not less than 30 days' and not more than 60 days' prior notice, redeem the Debentures at a price equal to the greater of the principal amount of the Debentures to be redeemed and the Canada Yield Price (as defined below) of the principal amount thereof to be redeemed, together, in each case, with accrued but unpaid interest to but excluding the date fixed for redemption. See "Details of the Offering — Redemption".

"Canada Yield Price" means the price, in respect of the principal amount of the Debentures to be redeemed, calculated as of the business day immediately prior to the business day on which the Corporation gives notice of a redemption of Debentures, equal to the net present value of all scheduled payments of interest and principal on the Debentures from the date of redemption to the date of maturity, using as a discount rate the sum of the Canada Yield (as defined below) on such business day plus 0.65%.

"Canada Yield" means, on any date, the yield to maturity on such date as determined by the arithmetic average (rounded to three decimal places) of the yields quoted at 10:00 a.m. (Toronto time) by two major Canadian investment dealers selected by the Corporation in accordance with the Indenture, assuming semi-annual compounding and calculated in accordance with generally accepted financial practice, which a non-callable Government of Canada bond would carry if issued in Canadian dollars in Canada at 100% of its principal amount on such date with a term to maturity approximately equal to the remaining term to maturity of the particular series of debentures in respect of which the Canada Yield Price is being determined.

Ranking: The Debentures will be direct, senior unsecured unsubordinated obligations of Fortis and payment of the principal of and interest on and other amounts owing in respect of the Debentures will rank *pari passu* with all other present and future unsecured and unsubordinated senior Indebtedness of Fortis and shall have priority over all present and future Subordinated Debt of Fortis. The trust indenture pursuant to which the Debentures will be issued permits the issuance from time to time of an unlimited aggregate principal amount of debentures in one or more series. See "Details of the Offering — Ranking" and "Details of the Offering — Trust Indenture".

Use of Proceeds:	If the full aggregate amount of the Debentures being offered hereby are sold, the estimated net proceeds of the Offering to Fortis will be $198,293,000 (determined after deducting the agents' fee and estimated expenses of the Offering payable by Fortis). The net proceeds of the Offering will be used to repay in full the outstanding indebtedness of approximately $110 million under the Corporation's $600 million committed credit facility and for general corporate purposes. Indebtedness under the Corporation's credit facility was incurred for general corporate purposes and to fund equity injections into the Corporation's utilities in support of their capital expenditure programs. See "Use of Proceeds".
Covenants:	The indenture governing the Debentures will contain certain covenants of the Corporation, including, among other things: (i) that the Corporation shall not, directly or indirectly, create, incur, assume or suffer to exist any Lien on any property or asset now owned or later acquired other than permitted liens; (ii) that the Corporation shall not, and shall take all necessary corporate action to ensure that its Material Subsidiaries shall not, incur any Funded Obligation if immediately thereafter the Corporation's Consolidated Funded Obligations would be in excess of 75% of its Total Consolidated Capitalization; and (iii) that the Corporation shall not declare or pay any dividend (other than stock dividends or cumulative preferred dividends on preferred shares not issued as stock dividends) or make any other distribution on its shares or redeem any of its shares or prepay Subordinated Debt if immediately thereafter the Corporation's Consolidated Funded Obligations would be in excess of 75% of its Total Consolidated Capitalization. See "Details of the Offering — Certain Covenants of the Corporation".
Ratings:	The Debentures have received provisional ratings of "BBB (high)" with a stable trend by DBRS Limited and "A−" by Standard & Poor's Rating Services, a division of The McGraw-Hill Companies (Canada) Corporation. See "Ratings".
Repurchase Upon Change of Control Event:	Upon a Change of Control Event, the Corporation will be required to offer to repurchase from each holder of Debentures all or any portion of such holder's Debentures. The offer must be made within five days of the Change of Control Event and must specify a proposed repurchase date not less than 30 days and not more than 60 days after the date of such offer. Any repurchase of Debentures shall be at 100% of the principal amount of such Debentures, together with interest on such Debentures accrued to the date of repurchase. See "Details of the Offering — Repurchase of Debentures Upon Change of Control Event".
Purchase for Cancellation:	The Corporation shall have the right to purchase Debentures in the market, by tender or private contract, from time to time. Any Debentures purchased by the Corporation shall be cancelled and no Debenture shall be issued in substitution therefore. See "Details of the Offering — Purchase of Debentures for Cancellation".
Listing:	There is no market through which the Debentures may be sold and purchasers may not be able to resell Debentures purchased under this Prospectus. This may affect the pricing of the Debentures in the secondary market, the transparency and availability of trading prices, the liquidity of the Debentures and the extent of issuer regulation. See "Risk Factors".
Earnings Coverage:	Earnings coverage information is provided in this Prospectus under the heading "Earnings Coverage Ratio".
Risk Factors:	An investment in Debentures involves certain risks. See "Risk Factors".

FORTIS

Fortis Inc. ("Fortis" or the "Corporation") was incorporated as 81800 Canada Ltd. under the *Canada Business Corporations Act* on June 28, 1977. The Corporation was continued under the *Corporations Act* (Newfoundland) on August 28, 1987 and on October 13, 1987 the Corporation amended its articles to change its name to "Fortis Inc." The address of the head office and principal place of business of the Corporation is The Fortis Building, Suite 1201, 139 Water Street, St. John's, Newfoundland and Labrador A1B 3T2.

Fortis is the largest investor-owned distribution utility in Canada. As at March 31, 2009, the Corporation had total assets approaching $12 billion and annual revenues for 2008 totalling $3.9 billion, the Corporation serves more than 2,000,000 gas and electricity customers. Its regulated holdings include electric distribution utilities in five Canadian provinces and three Caribbean countries and a natural gas distribution utility in British Columbia. Regulated utility assets comprise approximately 92% of the Corporation's total assets, with the balance comprised of non-regulated generation assets and commercial real estate and hotels. Fortis is the direct owner of all of the common shares of Terasen Inc. ("Terasen"), a company that, through its subsidiaries, is the principal distributor of natural gas in British Columbia. Fortis is the indirect owner of all of the common shares of FortisAlberta Inc. ("FortisAlberta"), a regulated electric utility that distributes electricity generated by other market participants in Alberta, and FortisBC Inc. ("FortisBC"), a regulated electric utility that generates, transmits and distributes electricity in British Columbia. Fortis also holds all of the common shares of Newfoundland Power Inc. ("Newfoundland Power") and, through its non-regulated wholly owned subsidiary Fortis Properties Corporation ("Fortis Properties"), holds all of the common shares of Maritime Electric Company, Limited ("Maritime Electric"), which are the principal distributors of electricity in Newfoundland and Prince Edward Island, respectively. As well, through its wholly owned subsidiary FortisOntario Inc. ("FortisOntario") and its subsidiaries, Canadian Niagara Power Inc. ("CNPI") and Cornwall Street Railway, Light and Power Company, Limited, Fortis provides an integrated electric utility service to customers primarily in Fort Erie, Cornwall, Gananoque and Port Colborne in Ontario.

The Corporation's regulated electric utility assets in the Caribbean consist of its ownership, through wholly owned subsidiaries, of an approximate 70% controlling interest in Belize Electricity Limited ("Belize Electricity"), the principal distributor of electricity in Belize, Central America, and an approximate 57% controlling interest in Caribbean Utilities Company, Ltd. ("Caribbean Utilities"), the sole provider of electricity on Grand Cayman, Cayman Islands. Fortis also owns, through a wholly owned subsidiary, P.P.C. Limited and Atlantic Equipment & Power (Turks and Caicos) Ltd. (together, "Fortis Turks and Caicos"), the principal distributor of electricity on the Turks and Caicos Islands.

The Corporation's non-regulated electricity generation operations consist of its 100% interest in each of Belize Electric Company Limited ("BECOL"), FortisOntario and non-regulated generation assets owned either directly or indirectly by FortisBC, Fortis Properties and Fortis.

BECOL owns and operates the 25-megawatt ("MW") Mollejon and 7-MW Chalillo hydroelectric generating facilities, both of which are located on the Macal River in Belize. Construction of the U.S.$53 million 19-MW Vaca hydroelectric generating facility, also located on the Macal River, commenced in May 2007 and the facility is expected to come into service at the beginning of 2010. FortisOntario includes the operation of a 5-MW gas-fired cogeneration plant in Cornwall. The non-regulated electricity generation operations of FortisBC consist of the 16-MW run-of-river Walden hydroelectric power plant near Lillooet, British Columbia.

Through FortisUS Energy Corporation ("FortisUS Energy"), an indirect wholly owned subsidiary of Fortis, the Corporation owns and operates four hydroelectric generating stations in upper New York State with a total combined capacity of approximately 23 MW. The operations of FortisUS Energy are managed by Fortis Properties.

Fortis Properties is also the direct owner of a 51% interest in the Exploits River Hydro Partnership (the "Exploits Partnership"). The Exploits Partnership was established with AbitibiBowater Inc., formerly Abitibi-Consolidated Company of Canada ("Abitibi"), which holds the remaining 49% interest. The Exploits Partnership was established to develop additional capacity at Abitibi's hydroelectric generating plant at Grand Falls-Windsor and redevelop Abitibi's hydroelectric generating plant at Bishop's Falls, both in central Newfoundland. See "Non-Regulated — Fortis Generation — Central Newfoundland".

Fortis Properties also owns six small hydroelectric generating stations in eastern Ontario with a combined capacity of 8 MW.

Through Fortis Properties, the Corporation owns 21 hotels in eight Canadian provinces and commercial real estate primarily in Atlantic Canada.

Regulated Gas Utilities — Canadian

Terasen

The natural gas distribution business of Terasen is one of the largest in Canada. With approximately 934,000 customers, Terasen's subsidiaries provide service to over 96% of gas users in British Columbia. Terasen Gas Inc. ("TGI") is the largest of these subsidiaries, serving approximately 835,500 customers in a service area extending from Vancouver to the Fraser Valley and the interior of British Columbia. Terasen Gas (Vancouver Island) Inc. ("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, serving approximately 96,000 customers. In addition to providing transmission and distribution services to customers, TGI and TGVI also obtain natural gas supplies on behalf of most residential and commercial customers. Gas supplies are sourced primarily from northeastern British Columbia and Alberta. Terasen Gas (Whistler) Inc. owns and operates the newly-converted natural gas distribution system in Whistler, British Columbia, providing service to approximately 2,500 residential and commercial customers. The natural gas pipeline from Squamish to Whistler was completed during the spring of 2009 with the conversion of customer appliances expected to be completed in the late summer of 2009. The Terasen companies own and operate more than 46,000 kilometres of natural gas distribution and transmission pipelines and, as of March 31, 2009, had met a peak day demand of 1,234 terajoules for 2009.

Regulated Electric Utilities — Canadian

FortisAlberta

FortisAlberta distributes electricity to approximately 463,000 customers in Alberta using approximately 108,400 kilometres of distribution lines and, as of March 31, 2009, had met a peak demand of 3,117 MW for 2009. FortisAlberta's business is the ownership and operation of regulated electricity distribution facilities that distribute electricity generated by other market participants from high-voltage transmission substations to end-use customers in central and southern Alberta. FortisAlberta is not involved in the generation, transmission or direct sale of electricity.

FortisBC

FortisBC is an integrated, regulated electric utility that owns a network of generation, transmission and distribution assets located in the southern interior of British Columbia. FortisBC serves a diverse mix of approximately 158,000 customers, with residential customers representing the largest customer segment, and, as of March 31, 2009, had met a peak demand of 714 MW for 2009. FortisBC owns four regulated hydroelectric generating plants with an aggregate capacity of 223 MW that provide approximately 45% of FortisBC's energy and 30% of its capacity needs. FortisBC's remaining electricity supply is acquired through long-term power purchase contracts and short-term market purchases. FortisBC's business also includes operating, maintenance and management services relating to the 450-MW Waneta hydroelectric generation facility owned by Teck Cominco Metals Ltd., the 269-MW Brilliant Hydroelectric Plant and the 185-MW Arrow Lakes Hydroelectric Plant, each owned by Columbia Power Corporation and Columbia Basin Trust, and the distribution system owned by the City of Kelowna.

Newfoundland Power

Newfoundland Power is an electric utility that operates an integrated generation, transmission and distribution system throughout the island portion of the Province of Newfoundland and Labrador. Newfoundland Power serves approximately 237,000 customers, or approximately 85% of electricity consumers in the Province, and, as of March 31, 2009, had met a peak demand of 1,219 MW for 2009. Approximately 92% of the electricity that Newfoundland Power sells to its customers is purchased from Newfoundland and Labrador Hydro Corporation ("Newfoundland Hydro"). Currently, Newfoundland Power has an installed generating capacity of 140 MW, of which 97 MW is hydroelectric generation.

Maritime Electric

Maritime Electric is an electric utility that operates an integrated generation, transmission and distribution system on Prince Edward Island. Maritime Electric directly supplies approximately 73,000 customers, or approximately 90% of electricity consumers on the Island, and, as of March 31, 2009, had met a peak demand of 211 MW for 2009. Maritime Electric purchases most of the energy it distributes to its customers from New Brunswick Power Corporation and maintains on-Island generating facilities with an aggregate capacity of 150 MW.

FortisOntario

FortisOntario's distribution operations serve approximately 52,000 customers in the Fort Erie, Cornwall, Gananoque and Port Colborne areas of Ontario and, as of March 31, 2009, had met a combined peak demand of 222 MW for 2009. Through CNPI, FortisOntario owns international transmission facilities at Fort Erie and owns a 10% interest in each of Westario Power Inc., Rideau St. Lawrence Holdings Inc. and Grimsby Power Incorporated, three regional electric distribution companies that, together, serve more than 37,000 customers.

Regulated Electric Utilities — Caribbean

Belize Electricity

Fortis holds an indirect approximate 70% controlling ownership interest in Belize Electricity, the principal distributor of electricity in Belize, Central America. Belize Electricity directly supplies approximately 74,000 customers in Belize and, as of March 31, 2009, had met a peak demand of 69 MW for 2009.

Caribbean Utilities

Fortis holds an indirect approximate 57% controlling ownership interest in Caribbean Utilities. Caribbean Utilities has the exclusive right to distribute and transmit electricity on the island of Grand Cayman, Cayman Islands, pursuant to a 20-year licence entered into on April 3, 2008. Caribbean Utilities also entered into a non-exclusive 21.5-year power generation licence with the Government of the Cayman Islands on April 3, 2008.

Caribbean Utilities currently serves approximately 25,000 customers, has approximately 137 MW of installed generating capacity and, as of March 31, 2009, had met a peak demand of 85 MW for 2009. The Class A Ordinary Shares of Caribbean Utilities are listed for trading on the Toronto Stock Exchange ("TSX") under the symbol CUP.U.

Fortis Turks and Caicos

Fortis Turks and Caicos serves approximately 9,500 customers, or approximately 85% of electricity consumers, on the Turks and Caicos Islands. Fortis Turks and Caicos is the principal distributor of electricity on Turks and Caicos pursuant to two 50-year licences that expire in 2036 and 2037, respectively. Fortis Turks and Caicos has an installed generating capacity of approximately 51 MW and, as of March 31, 2009, had met a peak demand of 26 MW for 2009.

Non-Regulated — Fortis Generation

Belize

Generation operations in Belize are conducted through BECOL under a franchise agreement with the Government of Belize. BECOL owns and operates the 25-MW Mollejon hydroelectric generating facility and the 7-MW Chalillo hydroelectric generating facility. Both facilities are located on the Macal River in Belize. These generating plants have the capacity of delivering average annual energy production of approximately 160 gigawatt hours ("GWh"). BECOL sells its entire output to Belize Electricity under a 50-year power purchase agreement expiring in 2055. In May 2007, BECOL began construction on the U.S.$53 million 19-MW hydroelectric generating facility at Vaca on the Macal River in Belize. The facility is expected to come into service at the beginning of 2010.

The Minister of Public Utilities of Belize has issued a statutory instrument purporting to declare providers of electricity generation and water services, including BECOL, as public utility providers within the meaning of the Public Utilities Commission Act as of May 1, 2009. Fortis is currently assessing the statutory instrument and its impact on previously negotiated and Belize Public Utility Commission-approved power purchase agreements.

Ontario

Non-regulated generation operations in Ontario are conducted through FortisOntario and Fortis Properties and include the operation of a 5-MW gas-fired cogeneration plant in Cornwall and six small hydroelectric generating stations with a combined capacity of approximately 8 MW.

Central Newfoundland

Non-regulated generation operations in central Newfoundland are conducted through the Corporation's indirect 51% interest in the Exploits Partnership. These operations generate approximately 610 GWh annually, of which 470 GWh was utilized by Abitibi, while the remainder is sold to Newfoundland Hydro under a 30-year take-or-pay power purchase agreement expiring in 2033, which is exempt from regulation.

On December 16, 2008, the Government of Newfoundland and Labrador passed legislation expropriating most of the assets of Abitibi located in Newfoundland and Labrador. As a result, effective the first quarter of 2009, the financial results of the Exploits Partnership are being accounted for in the financial statements of Fortis using the equity method of accounting. Discussions are ongoing with various parties with respect to matters relating to the expropriation.

British Columbia

Non-regulated generation operations in British Columbia are conducted through FortisBC and consist of the 16-MW run-of-river Walden hydroelectric power plant near Lillooet. This plant sells its entire output to British Columbia Hydro & Power Authority under a power purchase agreement expiring in 2013.

Upper New York State

Non-regulated generation operations in upper New York State are conducted through FortisUS Energy and include the operations of four hydroelectric generating stations with a combined generating capacity of approximately 23 MW operating under licences from the United States Federal Energy Regulatory Commission. Since January 1, 2007, all four plants have been selling energy at current market rates.

Non-Regulated — Fortis Properties

In addition to its non-regulated generation operations, Fortis Properties owns and operates 21 hotels in eight Canadian provinces, including a hotel located in Ontario which was acquired in April 2009, with a total of more than 4,000 rooms and approximately 2.8 million square feet of commercial real estate primarily in Atlantic Canada.

CAPITAL RESOURCES

The Corporation's principal businesses of regulated gas and electric distribution require ongoing access to capital markets to allow them to fund maintenance and expansion of infrastructure and repay maturing debt. To meet short-term capital requirements, the Corporation and its larger regulated utility subsidiaries have secured multi-year committed credit facilities. As at March 31, 2009, the Corporation and its subsidiaries had consolidated authorized lines of credit of $2.2 billion, of which $1.6 billion was available to be drawn.

The Corporation and its subsidiaries will require new capital for the repayment of at least a portion of its maturing debt. As at March 31, 2009, long-term debt maturities over the next five years are expected to average approximately $170 million annually.

RECENT DEVELOPMENTS

Financings

On June 2, 2009, FortisBC completed a $105 million public offering of 6.10% senior unsecured medium term note debentures due 2039 under its shelf prospectus. On May 29, 2009, Caribbean Utilities completed the first tranche of a US$40 million private placement of 7.5% senior unsecured notes due 2024 for gross proceeds of US$30 million. On May 25, 2009, Newfoundland Power completed a $65 million private placement of 6.606% first mortgage sinking fund bonds due 2039. The net proceeds from these financings are being used by these Fortis subsidiaries principally to repay a portion of their respective existing indebtedness.

FortisOntario

On April 30, 2009, a power-for-water exchange agreement between FortisOntario and Ontario Power Generation Inc., known as the Niagara Exchange Agreement, expired in accordance with its terms. The Niagara Exchange Agreement provided FortisOntario with a 75 MW water-right entitlement.

On June 23, 2009, FortisOntario entered into an agreement to acquire 100% of the shares of Great Lakes Power Distribution Inc. ("GLPD") from Brookfield Renewable Power Inc. for an estimated aggregate cash purchase price of $68 million, subject to adjustment. The transaction is subject to Ontario Energy Board and *Competition Act* (Canada) approval. GLPD is a distribution utility with a service area of approximately 14,200 square kilometres extending 225 kilometres north and 93 kilometres east of Sault Ste. Marie, Ontario. GLPD's distribution system serves approximately 12,000 customers and has a peak load of approximately 40 MW.

CAPITALIZATION

The following table sets out the consolidated capitalization of the Corporation as at March 31, 2009 and after giving effect to the Offering. The financial information set out below should be read in conjunction with the Corporation's annual audited consolidated financial statements and unaudited interim consolidated financial statements and the notes thereto incorporated by reference into the Prospectus.

	Outstanding at March 31, 2009	***Pro forma* Outstanding at March 31, 2009**
	(unaudited)	(unaudited)
	(in millions of dollars)	
Total debt (net of cash)	5,453	5,316(1)(3)
Securities offered hereby	0	198
Preference shares(2)	320	320
Shareholders' equity		
Common shares	2,462	2,473(1)
Preference shares	347	347
Contributed surplus	9	9
Equity portion of convertible debentures	6	6
Accumulated other comprehensive loss	(43)	(43)
Retained earnings	682	682
Total capitalization	9,236	9,308

(1) After giving effect to the Offering and the change in the common share capital and long-term debt from April 1, 2009 to June 25, 2009. See "Changes in Share and Loan Capital Structure".

(2) These preference shares are classified as long-term liabilities in the financial statements of Fortis.

(3) Securities offered hereby are net of after-tax agency fees and Offering expenses.

SHARE CAPITAL OF FORTIS

The authorized share capital of the Corporation consists of an unlimited number of common shares ("Common Shares"), an unlimited number of First Preference Shares issuable in series and an unlimited number of Second Preference Shares issuable in series, in each case without nominal or par value. As at June 25, 2009, 170,310,963 Common Shares, 5,000,000 First Preference Shares, Series C, 7,993,500 First Preference Shares, Series E, 5,000,000 First Preference Shares, Series F and 9,200,000 First Preference Shares, Series G were issued and outstanding. The Corporation's Common Shares, First Preference Shares, Series C, First Preference Shares, Series E, First Preference Shares, Series F and First Preference Shares, Series G are listed on the TSX under the symbols "FTS", "FTS.PR.C", "FTS.PR.E", "FTS.PR.F" and "FTS.PR.G", respectively.

CHANGES IN SHARE AND LOAN CAPITAL STRUCTURE

During the period from April 1, 2009 up to and including June 25, 2009, Fortis issued an aggregate of 552,309 Common Shares pursuant to the Corporation's Consumer Share Purchase Plan, Dividend Reinvestment Plan, Employee Share Purchase Plan and upon the exercise of options granted pursuant to the Executive and 2002 Stock Option Plans, for aggregate consideration of approximately $11.2 million.

During the period from April 1, 2009 up to and including June 25, 2009, the Corporation's consolidated long-term debt and capital lease obligations (including the current portion) increased by approximately $61 million.

TRADING PRICES AND VOLUMES

The following tables set forth, for the periods indicated, the reported high and low daily trading prices and the aggregate volume of trading of the Corporation's Common Shares, First Preference Shares, Series C, First Preference Shares, Series E, First Preference Shares, Series F and First Preference Shares, Series G on the TSX.

	Trading of Common Shares			Trading of First Preference Shares, Series C		
	TSX			TSX		
	High	Low	Volume	High	Low	Volume
	($)	($)	(#)	($)	($)	(#)
2008						
June	28.02	27.05	7,651,899	26.64	25.76	44,426
July	27.65	24.11	10,918,974	26.25	25.80	25,580
August	27.15	24.51	8,347,786	26.24	25.50	91,043
September	26.23	23.50	8,047,826	26.20	25.26	19,704
October	26.75	20.70	19,490,343	26.25	20.44	54,921
November	28.00	24.51	13,933,581	25.50	23.56	124,621
December	27.46	23.15	13,159,441	25.95	24.55	98,670
2009						
January	25.06	22.89	7,809,701	26.65	25.16	97,287
February	24.60	22.33	14,130,845	26.55	25.15	50,592
March	24.24	21.52	14,643,369	25.99	24.50	81,017
April	23.20	21.55	11,180,355	26.65	25.26	79,564
May	24.31	22.15	11,200,604	26.95	25.52	38,926
June 1 to 26	26.12	23.67	9,366,211	27.49	26.36	40,889

	Trading of First Preference Shares, Series E			Trading of First Preference Shares, Series F		
	TSX			TSX		
	High	Low	Volume	High	Low	Volume
	($)	($)	(#)	($)	($)	(#)
2008						
June	26.70	24.80	52,730	21.87	19.00	166,441
July	26.50	24.50	31,794	20.00	18.00	159,824
August	26.49	24.55	39,848	20.35	19.75	100,320
September	26.39	24.85	89,850	20.50	18.50	113,705
October	24.50	23.00	44,208	18.99	16.57	224,945
November	24.99	22.50	28,650	19.78	16.00	100,535
December	25.99	21.00	108,907	17.85	15.50	241,520
2009						
January	27.99	24.25	161,245	19.84	17.00	126,556
February	25.30	25.00	60,300	20.54	18.26	91,487
March	25.00	24.80	64,032	20.40	18.80	65,467
April	25.25	24.90	135,449	20.03	19.01	65,507
May	25.45	24.90	92,569	20.89	19.05	99,625
June 1 to 26	26.48	25.50	32,377	20.50	19.50	73,682

	Trading of First Preference Shares, Series G		
	TSX		
	High	Low	Volume
	($)	($)	(#)
2008			
June	25.50	24.95	263,022
July	25.52	25.01	124,660
August	25.98	25.25	114,417
September	25.80	25.10	156,866
October	25.45	20.00	70,985
November	24.00	18.00	181,916
December	22.00	17.00	296,675
2009			
January	23.00	19.90	128,062
February	23.98	22.29	83,648
March	23.70	21.50	88,211
April	25.00	22.44	117,185
May	25.49	23.94	152,290
June 1 to 26	25.75	24.70	114,491

EARNINGS COVERAGE RATIO

The Corporation's interest and dividend requirements on all of its outstanding debt and First Preference Shares after giving effect to the issue of $200,000,000 principal amount of 6.51% senior unsecured debentures (the "Debentures") to be distributed under this Prospectus, and adjusted to a before-tax equivalent using an effective income tax rate of 19.3%, amounted to $428 million and $416 million for each of the 12 months ended December 31, 2008 and the 12 months ended March 31, 2009, respectively. The Corporation's interest requirements for the 12 months ended December 31, 2008 and 12 months ended March 31, 2009 amounted to $390 million and $374 million, respectively. The Corporation's earnings before interest and income tax for the 12 months ended December 31, 2008 and 12 months ended March 31, 2009 were $687 million and $684 million, respectively, which is 1.60 times and 1.64 times, respectively, the Corporation's aggregate dividend and interest requirements for the periods.

RATINGS

The Debentures are provisionally rated "BBB (high)" with a stable trend by DBRS Limited ("DBRS"). "BBB (high)" is the fourth highest of DBRS's ten rating categories for long-term debt obligations which range from AAA to D. Each rating category from AA to C is subject to a "high" and "low" designation to indicate the relative standing of the securities being rated within a particular rating category.

The Debentures are provisionally rated "A−" by Standard & Poor's Rating Services, a division of The McGraw-Hill Companies (Canada) Corporation ("S&P") using their global scale for long-term debt obligations. The "A−" rating is the third highest of the ten rating categories used by S&P for long-term debt, which range from AAA to D. S&P uses the "+" or " −" designation to reflect the relative strength within the rating category.

Credit ratings are intended to provide investors with an independent measure of the credit quality of an issue of securities. The credit ratings accorded to the Debentures by these rating agencies are not recommendations to purchase, hold or sell the Debentures, as such ratings do not comment as to market price or suitability for a particular investor. There is no assurance that any rating will remain in effect for any given period of time or that any rating will not be revised or withdrawn entirely by a rating agency in the future if, in its judgment, circumstances so warrant.

DETAILS OF THE OFFERING

The following is a summary of the principal terms and conditions of the Debentures and of the Indenture (as defined below) under which they will be issued. This summary does not purport to be complete. For full particulars, reference should be made to the Indenture. Certain capitalized terms used in the following summary are defined under "Definitions" below.

Trust Indenture

The Debentures will be issued under a trust indenture (the "Indenture") to be dated as of the date of closing of this Offering (the "Closing Date"), which is expected to occur on July 2, 2009, between the Corporation and Computershare Trust Company of Canada, as trustee (the "Trustee").

The Indenture permits the issuance from time to time of an unlimited aggregate principal amount of debentures in one or more series. The Prospectus qualifies the distribution of the Debentures which will be issued in an aggregate principal amount of $200,000,000. Additional series of debentures may be issued from time to time pursuant to supplemental indentures to be entered into in accordance with the terms and conditions of the Indenture.

The Corporation may increase at any time the aggregate principal amount of any outstanding series of debentures by issuing additional debentures of that series subject to any limitations as to the maximum principal amount of debentures of such particular series as set out in the Indenture (in respect of the Debentures) and any supplemental indenture (in respect of any other series of debentures). The aggregate principal amount of Debentures that may be issued under the Indenture is limited to the aggregate principal amount of Debentures being offered hereby.

Interest Rate and Maturity

The Debentures will be dated the Closing Date and will mature on July 4, 2039. The Debentures will be offered at 99.934% of their principal amount, plus accrued interest, if any, and will bear interest at a rate of 6.51% per annum. Principal and interest, accrued daily and calculated and payable in equal instalments semi-annually in arrears on January 4 and July 4 of each year, commencing January 4, 2010, and premium, if any, will be payable in lawful money of Canada. The initial interest payment, payable on January 4, 2010, will be $32.91 per $1,000 principal amount of Debentures.

Form of the Debentures and Transfer

The Debentures will be issued in "book-entry only" form through CDS Clearing and Depository Services Inc. ("CDS") or its nominee, in denominations of $1,000 and integral multiples thereof. See "Book-Entry Only System".

Payments

The Corporation will make payments in respect of principal, premium, if any, and interest on Debentures to CDS or its nominee. See "Book-Entry Only System — Payment of Interest and Other Amounts".

Ranking

The Debentures will be direct, senior unsecured unsubordinated obligations of Fortis and payment of the principal of and interest on and other amounts owing in respect of the Debentures will rank *pari passu* with all other present and future unsecured and unsubordinated senior Indebtedness (as defined below) of Fortis and shall have priority over all present and future Subordinated Debt (as defined below) of Fortis.

Redemption

The Debentures will be redeemable, at the Corporation's option, in whole at any time or in part from time to time before maturity, on not less than 30 days' and not more than 60 days' prior notice, at a redemption price equal to the greater of the principal amount of the Debentures to be redeemed and the Canada Yield Price of the principal amount thereof to be redeemed, together, in each case, with accrued but unpaid interest to but excluding the redemption date. "Canada Yield Price" means the price, in respect of the principal amount of the Debentures to be redeemed, calculated as of the business day immediately prior to the business day on which the Corporation gives notice of a redemption of Debentures, equal to the net present value of all scheduled payments of interest and principal on the Debentures from the date of redemption to the date of maturity, using as a discount rate the sum of the Canada Yield on such business day plus 0.65%. "Canada Yield" means, on any date, the yield to maturity on such date as determined by the arithmetic average (rounded to three decimal places) of the yields quoted at 10:00 a.m. (Toronto time) by two major Canadian investment dealers selected by the Corporation in accordance with the Indenture, assuming semi-annual compounding and calculated in accordance with generally accepted financial practice, which a non-callable Government of Canada bond would carry if issued in Canadian dollars in Canada at 100% of its principal amount on such date with a term to maturity approximately equal to the remaining term to maturity of the particular series of debentures in respect of which the Canada Yield Price is being determined.

Where less than all of the outstanding Debentures are to be redeemed, the Debentures to be redeemed will be selected on a *pro rata* basis by the Trustee to the nearest $1,000 principal amount of Debentures registered in the name of each holder; provided that in no case shall a Debenture be redeemed in part unless the remaining principal amount is at least $1,000.

Repurchase of Debentures Upon Change of Control Event

The Indenture will provide that, upon a Change of Control Event, the Corporation will be required to offer to repurchase from each holder of Debentures all or any portion of such holder's Debentures. This repurchase requirement will also apply to any additional debentures issued under the Indenture and indentures supplemental thereto ("Additional Debentures").

Within five days of a Change of Control, the Corporation shall give to each holder of Debentures written notice containing a description, in reasonable detail, of the Change of Control. Within five days of a Change of Control Event, the Corporation shall give to each holder of Debentures written notice thereof containing and constituting an offer to repurchase Debentures as described in the Indenture, accompanied by the certificate described below.

Any such offer shall be an offer to repurchase all or any portion of the Debentures held by each holder on the proposed repurchase date to be specified in such offer that is not less than 30 days and not more than 60 days after the date of such offer (if the proposed repurchase date is not specified in such offer, the proposed repurchase date shall be the first business day which is at least 45 days after the date of such offer).

Any such repurchase of Debentures shall be at 100% of the principal amount of such Debentures, together with interest on such Debentures accrued to the date of repurchase. The repurchase shall be made on the proposed repurchase date.

Each such offer to repurchase Debentures shall be accompanied by a certificate, executed by the Chief Financial Officer of the Corporation and dated the date of such offer, specifying: (i) the proposed repurchase date; (ii) that such offer is made pursuant to the Indenture; (iii) that the Corporation is offering to repurchase all or any portion of the Debentures held by the holder thereof for a price equal to 100% of the principal amount of the Debentures repurchased together with interest on such Debentures accrued to the date of repurchase; (iv) the interest that would be due on each Debenture offered to be repurchased, accrued to the proposed repurchase date; (v) that the conditions required under the Indenture have been fulfilled; and (vi) in reasonable detail, the nature and date of the Change of Control.

Purchase of Debentures for Cancellation

The Corporation shall have the right to purchase Debentures in the market, by tender or private contract, from time to time. Any Debentures purchased by the Corporation shall be cancelled and no Debenture shall be issued in substitution therefor.

Certain Covenants of the Corporation

The Indenture will contain, among other things, covenants and provisions applicable so long as any of the Debentures are outstanding, substantially to the following effect:

Negative Pledge

The Corporation shall not, directly or indirectly, create, incur, assume or suffer to exist any Lien (other than Permitted Liens (as that term is defined in the Indenture)), on any property or asset now owned or hereafter acquired, or any income or profits therefrom, or assign or convey any right to receive income therefrom to secure any Indebtedness, unless (i) if such Lien secures Indebtedness which ranks in priority to or *pari passu* with the Debentures, the Debentures and any Additional Debentures are secured on an equal and rateable basis with the obligations so secured until such time as such Indebtedness is no longer secured by a Lien, or (ii) if such Lien secures Subordinated Debt, any such Lien shall be subordinated to a Lien granted to the holders of the Debentures and any Additional Debentures to the same extent as such Subordinated Debt is subordinated to the Debentures. "Permitted Liens" include, but are not limited to (i) Liens or privileges for taxes, rates, assessments or governmental charges, (ii) purchase money security interests, and (iii) any other Liens (which do not otherwise constitute a Permitted Lien) which secure Indebtedness or other obligations, provided that the aggregate Indebtedness or other obligations secured by such other Liens do not exceed $30 million at any time.

Limitations on Additional Indebtedness

The Corporation shall not, and shall take all necessary corporate action to ensure that no Material Subsidiary will, directly or indirectly, incur, issue, assume, guarantee or otherwise become directly or indirectly liable with respect to any Funded Obligation, unless (i) the aggregate principal amount of the Consolidated Funded Obligations after giving effect thereto does not exceed 75% of its Total Consolidated Capitalization, calculated on a *pro forma* basis, and (ii) no default or Event of Default (as defined herein) shall have occurred and be continuing under the Indenture at the time of, or will occur as a consequence of, such Funded Obligation having been incurred, issued, assumed, guaranteed or otherwise becoming a liability of the Corporation or any Material Subsidiary.

Limitations on Successor Corporations

The Corporation shall not enter into any transaction, or series of transactions, in which all or substantially all of its property and assets would become the property of any other person, whether by way of reorganization, consolidation, amalgamation, arrangement, merger, transfer, sale or otherwise, unless (i) either the Corporation is the surviving entity, or the entity formed by the amalgamation, consolidation or into which the Corporation is merged, or that acquires all or substantially all of the property and assets of the Corporation is organized under the laws of Canada or any of its provinces or territories and expressly assumes all the obligations of the Corporation under the Indenture and any supplemental indentures, and (ii) no default or Event of Default is continuing or will occur as a result of such transaction or series of transactions.

Limitations on Related Party Transactions

The Corporation shall not engage in any transaction with any affiliate on terms that are less favourable to the Corporation than with an unrelated third party.

Limitations on Intercompany Loans and Guarantees

The Corporation shall take all necessary corporate action to ensure that no Material Subsidiary provides loans, guarantees or other forms of financial assistance to another person (other than (i) a subsidiary of such Material Subsidiary, (ii) another Material Subsidiary or (iii) the Corporation) in which the Corporation has a direct or indirect ownership interest (other than a nominal interest or investments made in the normal cash management process); provided, however, that this restriction shall not limit the ability of a Material Subsidiary (A) to provide such financial assistance where such action is in the normal course of such Material Subsidiary's business including, without limitation, the purchase of commercial paper issued by a subsidiary, and (B) to provide such financial assistance provided that the aggregate of all financial assistance given by the Material Subsidiaries shall not exceed at any time 10% of the Consolidated Net Worth.

Limitations on Certain Payments

The Corporation shall not declare or pay any dividend (other than stock dividends or cumulative preferred dividends on preferred shares not issued as stock dividends) or make any other distribution on its shares or redeem, reduce, purchase or otherwise retire or pay off any of its shares or prepay Subordinated Debt if, immediately thereafter, its Consolidated Funded Obligations would be in excess of 75% of its Total Consolidated Capitalization.

Events of Default

Upon the occurrence of an Event of Default that is continuing, the Trustee may, in its discretion and shall, upon receipt of a written request signed by the holders of not less than 25% of the total principal amount of the Debentures and any Additional Debentures then outstanding, declare the Debentures and any Additional Debentures to be immediately due and payable. The occurrence of any one or more of the following shall constitute an "Event of Default" under the Indenture:

(a) if the Corporation shall default in the payment of any principal or premium, if any, on the Debentures or any Additional Debentures when the same becomes due and payable, including, for greater certainty, a default in payment relating to a redemption of all or part of the Debentures, and such default continues for five business days;

(b) if the Corporation shall default in the payment of any interest on the Debentures or any Additional Debentures when the same becomes due and payable under any provision of the Indenture, any supplemental indenture, the Debentures or any Additional Debentures and such default continues for a period of 30 days;

(c) if the Corporation shall fail to comply with its covenant described in "Details of the Offering — Limitations on Successor Corporations";

(d) if the Corporation shall neglect to observe or perform in any material respect any other covenant or condition contained in the Indenture, any supplemental indenture, the Debentures or any Additional Debentures after notice in writing has been given by the Trustee to the Corporation (which notice the Trustee may, in its discretion, independently provide and shall provide upon receipt of a request in writing signed by the holders of not less than 25% of the total principal amount of the Debentures and any Additional Debentures then outstanding) specifying such default and requiring the Corporation to remedy such default, the Corporation shall fail to remedy such default within a period of 60 days unless the Trustee, having regard to the subject matter of the default, shall have agreed to give the Corporation a longer period of time within which to cure such default, and in such event, within the period agreed to by the Trustee;

(e) if any representation or warranty made by the Corporation in the Indenture, any supplemental indenture, the Debentures or any Additional Debentures is proven to be incorrect in any material respect, unless such incorrect representation or warranty is capable of being corrected and the Corporation cures such default within a period of 60 days following written notice from the Trustee (which notice the Trustee may, in its discretion, independently provide and shall provide upon receipt of a request in writing signed by the holders of not less than 25% of the total principal amount of the Debentures and any Additional Debentures then outstanding) specifying the incorrect representation and warranty, unless the Trustee, having regard to the subject matter of the breach, shall have agreed to give the Corporation a longer period of time within which to cure such default, and in such event, within the period agreed to by the Trustee;

(f) if at any time a default is made by the Corporation or any Material Subsidiary with respect to any Indebtedness (excluding amounts due to the holders of the Debentures or any Additional Debentures), where the aggregate principal amount of such Indebtedness exceeds an amount equal to the greater of 5% of the Consolidated Net Worth at such time and $75,000,000, and (i) if the default is a payment default, such default continues to exist for a period exceeding 30 days; provided that if the payment obligation to which the default relates is accelerated, then the default will constitute an Event of Default immediately following such acceleration, and (ii) if the default is not a payment default, then as a result of the default and the passing of any applicable cure period, the maturity of the obligation is accelerated; provided that, in each case, if the default is cured prior to acceleration of the Debentures and any Additional Debentures, then the Event of Default will be deemed to have been cured;

(g) if a resolution is passed for the winding-up or liquidation of the Corporation, unless such winding-up or liquidation is permitted pursuant to the terms of the Indenture, or if the Corporation seeks relief under the *Companies' Creditors Arrangement Act* (Canada), the *Winding Up and Restructuring Act* (Canada) or any other bankruptcy, insolvency or analogous law, or if the Corporation institutes proceedings to be adjudicated bankrupt or insolvent, or consents to the institution of bankruptcy or insolvency proceedings against it or any substantial part of the property of the Corporation, or makes a general assignment for the benefit of creditors, or admits in writing its inability to pay its debts generally as they become due or takes corporate action in furtherance of any of the foregoing purposes;

(h) if a proceeding is instituted against the Corporation with respect to the appointment of a liquidator, trustee in bankruptcy, custodian, receiver or receiver and manager or other person with similar powers with respect to the Corporation or any material part of the property of the Corporation and such proceeding has not been dismissed, discharged, stayed or restrained within 60 days of the institution thereof, provided that during such 60-day period, the proceeding is being defended in good faith by the Corporation and the position of the holders of the Debentures or any Additional Debentures is not being prejudiced in any material respect; or

(i) if an encumbrancer takes possession of property of the Corporation or a Material Subsidiary that constitutes a substantial part of the property of the Corporation considered on a consolidated basis, or any execution is levied or enforced upon property that constitutes a substantial part of the property of the Corporation considered on a consolidated basis, which execution remains unsatisfied for such period of time as would permit such property to be sold thereunder unless such execution is in good faith being contested by the Corporation or such Material Subsidiary and enforcement and any other action or proceeding relating to such execution has been stayed pending the outcome of such contest.

Modification and Waiver

The Indenture will require the prior written consent of the holders of 100% of the outstanding principal amount of the Debentures to amend the terms of the Debentures which affect the interest rate, the timing, currency, amount or other terms relating to the payment of interest, principal, premium or the applicable redemption price or the terms of repayment, redemption or maturity of the Debentures. The Indenture requires the consent of the holders of at least 66⅔% of the outstanding principal amount of the Debentures and any Additional Debentures represented at a meeting of the holders of the Debentures and any Additional Debentures at which quorum is present to amend or waive other terms and conditions of the Debentures or any Additional Debentures, including a waiver of any default and a cancellation of any declaration to make all amounts outstanding to be immediately due and payable.

Regarding the Trustee

Computershare Trust Company of Canada will serve as the trustee, registrar and paying agent under the Indenture.

Governing Law

The Debentures and the Indenture will be governed by and interpreted in accordance with the laws of the Province of Newfoundland and Labrador and the federal laws of Canada applicable therein.

Definitions

Set forth below is a summary of certain defined terms used in the Indenture which have not been defined herein.

(a) "Change of Control" means any of the following events or circumstances:

(i) individuals who, at the beginning of any period of 12 consecutive calendar months, constitute the Corporation's board of directors (together with any new director whose election by the Corporation's board of directors or whose nomination for election by the Corporation's shareholders was approved by a vote of at least two-thirds of the directors then still in office who either were directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason (other than death or disability) to constitute a majority of the Corporation's board of directors then in office; or

(ii) if any person (as such term is defined in section 1(1) of the *Securities Act* (Ontario) as in effect on the date of the Indenture) or group of persons acting jointly or in concert (as such phrase is used in Part XX of the *Securities Act* (Ontario) as in effect as of the date of the Indenture), become the "beneficial owners" (as such term is used in section 1.6(1) of Multilateral Instrument 61-101 as in effect on the date of the Indenture), directly or indirectly, of more than 50% of the total voting power of all classes then outstanding of the Corporation's voting shares.

(b) "Change of Control Event" means, and shall be deemed to have occurred if, at any time after the date of the Indenture, (a) a Change of Control shall have occurred and (b) the Corporation shall have failed to furnish to each holder of Debentures and any Additional Debentures written evidence of a rating in respect of the Debentures and any Additional Debentures of at least Investment Grade assigned by one or more Rating Agencies (as defined herein) during the 90 day period beginning from and after the effective date of the Change of Control (and after giving effect thereto). For purposes of the foregoing, if the Corporation shall have ratings from more than one Rating Agency, then (x) in the case where there are two Rating Agencies, a rating of Investment Grade in respect of the Debentures or any Additional Debentures shall be deemed to have occurred only if both Rating Agencies shall have assigned a rating to the Debentures and any Additional Debentures of a least Investment Grade and (y) in the case where there are three or more Rating Agencies, a rating of Investment Grade in respect of the Debentures or any Additional Debentures shall be deemed to have occurred only if at least a majority of the Rating Agencies shall have assigned a rating to the Debentures and any Additional Debentures of at least Investment Grade.

(c) "Consolidated Funded Obligations" means, as at any date, the aggregate amount of Funded Obligations of the Corporation and its subsidiaries determined on a consolidated basis in accordance with Canadian generally accepted accounting principles.

(d) "Consolidated Net Worth" means the Shareholders' Equity of the Corporation and its subsidiaries determined on a consolidated basis in accordance with Canadian generally accepted accounting principles.

(e) "Funded Obligations" means, as at any date, with respect to the Corporation or a subsidiary, all Indebtedness created, assumed or guaranteed, other than Subordinated Debt and all Indebtedness which matures by its terms on, or is renewable at the option of the debtor to, a date not more than 18 months after the date of the original creation, assumption or guarantee thereof.

(f) "Indebtedness" means all items of indebtedness in respect of any borrowed money (including (i) obligations with respect to bankers' acceptances, (ii) contingent reimbursement obligations relating to letters of credit and other financial instruments, (iii) preferred shares or other securities ranking in priority to common shares (except if issued directly by the Corporation), (iv) indebtedness subordinated to senior indebtedness (except Subordinated Debt issued directly by the Corporation) and (v) deposits, investment certificates and other similar liability instruments (in each case other than trade accounts) and all Purchase Money Obligations which, in accordance with Canadian generally accepted accounting principles, would be recorded in the financial statements as at the date as of which Indebtedness is to be determined (provided that preferred shares or other securities referred to in item (iii) above shall constitute Indebtedness regardless of their treatment under Canadian generally accepted accounting principles), and in any event including, without duplication:

(i) obligations secured by any Lien existing on property owned subject to such Lien, whether or not the obligations secured thereby shall have been assumed; and

(ii) guarantees, indemnities, endorsements (other than endorsements for collection in the ordinary course of business) or other contingent liabilities in respect of obligations of another person for indebtedness for borrowed money of that other person in respect of any amounts borrowed by them.

(g) "Investment Grade" means a written rating by any of S&P, DBRS or any other internationally recognized statistical rating agency (each referred to herein as a "Rating Agency" and collectively as "Rating Agencies") with respect to the Debentures or any Additional Debentures of at least "BBB–" in the case of S&P, of at least "BBB (low)" in the case of DBRS and of at least the lowest investment grade rating level assigned by any other Rating Agency.

(h) "Lien" means, with respect to any property or assets, any security interest, mortgage, deed of trust, lien, pledge, hypothecation, encumbrance, charge, assignment, adverse claim, defect of title in, on or of such property or assets, the interest of a vendor or a lessor under any conditional sales contract, hire-purchase agreements, chattel mortgage, title retention agreement or capital lease (or any financing lease having substantially the same economic effect as any of the foregoing) relating to such property or assets and any other arrangement having the effect of providing security.

(i) "Material Subsidiary" means each subsidiary of the Corporation for which (i) the Corporation's share of such subsidiary's Shareholders' Equity therein exceeds 10% of the Shareholders' Equity of the Corporation or (ii) the amount of the Corporation's share of total assets therein exceeds 10% of the total assets of the Corporation.

(j) "Purchase Money Obligation" means any monetary obligation created or assumed as part of the purchase price of real or tangible personal property, whether or not secured, and any extensions, renewals or refundings of any such obligation, provided that the principal amount of such obligation outstanding on the date of such extensions, renewal or refunding is not increased and further provided that any security given in respect of such obligation shall not extend to any property other than the property acquired in connection with which such obligation was created or assumed and improvements, if any, erected or constructed thereon.

(k) "Shareholders' Equity" means (i) in respect of a corporation, the aggregate amount of shareholders' equity (including common share capital, preferred share capital if issued directly by the corporation, contributed surplus and retained earnings) as shown on the most recent quarterly or annual balance sheet of such corporation calculated in accordance with Canadian generally accepted accounting principles and (ii) in respect of any entity other than a corporation (including a partnership), the aggregate amount of equity (including partnership equity) as shown on the most recent quarterly or annual balance sheet of such entity calculated in accordance with Canadian generally accepted accounting principles.

(l) "Subordinated Debt" means Indebtedness which (i) is subordinated in all rights to senior Indebtedness, (ii) has no contractual rights of acceleration until at least 180 days following a default or an Event of Default while any senior Indebtedness remains outstanding, (iii) does not permit any prepayments or any payments to be made in respect thereof at any time when monies are due and payable with respect to senior Indebtedness and (iv) in the event of any insolvency, bankruptcy, receivership, liquidation, arrangement, reorganization or other similar proceeding, is paid only after all senior Indebtedness has been paid in full.

(m) "Total Consolidated Capitalization" means, as at any date, with respect to the Corporation, without duplication, the sum of:

  (i) Consolidated Net Worth;

  (ii) the principal amount of all Consolidated Funded Obligations;

  (iii) the principal amount of all Subordinated Debt;

  (iv) the accumulated provision for deferred income taxes as shown on the most recent quarterly or annual balance sheet of the Corporation in accordance with Canadian generally accepted accounting principles; and

  (v) the amount of any minority interest as shown on the most recent quarterly or annual balance sheet of the Corporation in accordance with Canadian generally accepted accounting principles.

BOOK-ENTRY ONLY SYSTEM

Except as otherwise provided below, the Debentures will be issued in a "book-entry only" form and must be purchased or transferred through participants ("Participants") in the depository service of CDS or its nominee which include securities brokers and dealers, banks and trust companies. On the Closing Date, the Corporation will cause a global certificate representing the Debentures (the "Global Debenture") to be delivered to, and registered in the name of, CDS or a nominee thereof. Except as otherwise provided below, no purchaser of Debentures will be entitled to a certificate or other instrument from the Corporation or CDS evidencing that purchaser's ownership, and no purchaser will be shown on the records maintained by CDS except through a book entry account of a Participant acting on behalf of the purchaser. Each purchaser of Debentures will receive a customer confirmation of purchase from the registered dealer from which the Debentures are purchased in accordance with the practices and procedures of the dealer. The practices of registered dealers may vary, but generally customer confirmations are issued promptly after execution of a customer order. CDS is responsible for establishing and maintaining book-entry accounts for its Participants having interests in the Debentures. Physical certificates evidencing the Debentures will not be issued to purchasers, except in limited circumstances, and registration will be made through the depository service of CDS.

Neither the Corporation nor the Agents (as defined herein) will assume any liability for: (a) any aspect of the records relating to the beneficial ownership of the Debentures held by CDS or the payments relating thereto; (b) maintaining, supervising or reviewing any records relating to the Debentures; or (c) any advice or representation made by or with respect to CDS and relating to the rules governing CDS or any action to be taken by CDS or at the direction of its Participants. The rules governing CDS provide that it acts as the agent and depository for the Participants. As a result, Participants must look solely to CDS and persons, other than Participants, having an interest in the Debentures must look solely to Participants for payments made by or on behalf of the Corporation to CDS in respect of the Debentures.

If: (i) CDS notifies the Corporation that it is unwilling or unable to continue to act as depository in connection with the Global Debenture and the Corporation is unable to locate a qualified successor; (ii) the Corporation determines that CDS is no longer willing, able or qualified to discharge properly its responsibilities as holder of the Global Debenture and the Corporation is unable to locate a qualified successor; (iii) the Corporation executes and delivers to the Trustee a written order to the effect that all or a part of such Global Debenture shall be so exchanged; (iv) CDS ceases to be a clearing agency or otherwise ceases to be eligible to be a depository and the Corporation is unable to locate a qualified successor; (v) the Corporation determines that the Debentures shall no longer be held as book-entry only debentures through CDS; (vi) if, after the occurrence of an Event of Default, CDS advises the Trustee that it has received written notification from Participants, acting on behalf of beneficial holders representing, in the aggregate, more than 50% of the aggregate principal amount of outstanding Debentures that the continuance of CDS's book-entry registration system in respect of the Debentures is no longer in their best interest; or (vii) such right is required by applicable law as determined by the Corporation, then certificates representing the Debentures in fully registered form shall be issued to the beneficial holders of interests in such Global Debenture or their nominees.

Manner of Effecting Transfer

The ability of a purchaser to pledge Debentures or otherwise to take action with respect to such purchaser's interest in Debentures (other than through a Participant) may be limited due to the lack of a physical certificate.

Payment of Interest and Other Amounts

Payment of principal, interest and premium, if any, on the Debentures will be made by the Corporation to CDS or its nominee, as the case may be, as registered holder of the Debentures. As long as CDS or its nominee is the registered owner of the Debentures, CDS or its nominee, as the case may be, will be considered the sole owner of the Debentures for the purposes of receiving payments on the Debentures.

The Corporation expects that CDS or its nominee, upon receipt of any payment in respect of the Debentures, will credit, on the date an amount is payable, the Participants' accounts with payments in an amount proportionate to their respective beneficial interest in the principal amount of such Debentures as shown on the records of CDS or its nominee. The Corporation also expects that payments by the Participants to the owners of beneficial interests in such Debentures held through such Participants will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participants. The responsibility and liability of the Corporation in respect of the Debentures issued in book-entry form is limited to making payment of any amount due on such Debentures to CDS or its nominee.

USE OF PROCEEDS

If the full aggregate amount of the Debentures being offered hereby is sold, the net proceeds of the Offering will be approximately $198 million, determined after deducting the Agents' Fee (as defined herein) and the expenses of the Offering, which expenses are estimated to be $575,000. A portion of the net proceeds of the Offering will be used to repay in full the outstanding indebtedness of approximately $110 million under the Corporation's $600 million committed credit facility and the balance of the net proceeds will be used for general corporate purposes. Indebtedness under the Corporation's credit facility was incurred for general corporate purposes and to fund equity injections into the Corporation's utilities in support of their capital expenditure programs.

PLAN OF DISTRIBUTION

Pursuant to an agreement (the "Agency Agreement") dated June 25, 2009 between the Corporation and BMO Nesbitt Burns Inc., CIBC World Markets Inc., RBC Dominion Securities Inc., Scotia Capital Inc., TD Securities Inc., HSBC Securities (Canada) Inc. and National Bank Financial Inc., as agents (collectively, the "Agents"), the Agents have agreed to use their reasonable best efforts to obtain purchasers to purchase on July 2, 2009 (the "Closing Date"), or on such other date not later than July 15, 2009 as may be agreed upon by the Corporation and the Agents, subject to the terms and conditions contained therein, up to $200,000,000 principal amount of Debentures for total consideration of up to $199,868,000 plus accrued interest, if any, from July 2, 2009 to the date of delivery, payable in cash to the Corporation against delivery of the Debentures. The Agency Agreement provides that the Agents will be paid an agency fee (the "Agents' Fee") per $1,000 principal amount of Debentures equal to $5.00 on account of services rendered. While the Agents have agreed to use their best efforts to sell the Debentures offered hereby, they are not obligated to purchase any Debentures which are not sold.

Assuming the sale of the principal amount of $200,000,000 Debentures, the total price to the public will be $199,868,000, the Agents' Fee will be $1,000,000 and the net proceeds to Fortis will be $198,293,000, after deducting the expenses of the Offering estimated at $575,000 which, together with the Agents' Fee, will be paid out of the general funds of the Corporation.

Subscriptions for the Debentures will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that the closing of the Offering (the "Closing") will take place on the Closing Date or such other date as may be agreed upon by the Corporation and the Agents, but not later than July 15, 2009.

The Agents may not, throughout the period of distribution under this Prospectus, bid for or purchase the Debentures. The foregoing restriction is subject to certain exceptions, as long as the bid or purchase is not engaged in for the purpose of creating actual or apparent active trading in or raising the price of such securities. These exceptions include a bid or purchase permitted under the Universal Market Integrity Rules administered by the Investment Industry Regulatory Organization of Canada relating to market stabilization and passive market making activities and a bid or purchase made for and on behalf of a customer when the order was not solicited during the period of distribution.

The Debentures have not been, and will not be, registered under the United States *Securities Act of 1933*, as amended (the "1933 Act") or any state securities laws and, subject to certain exceptions, may not be offered, or delivered, directly or indirectly, or sold in the United States except in certain transactions exempt from the registration requirements of the 1933

Act and in compliance with any applicable state securities laws. The Agents have agreed that they will not offer or sell the Debentures within the United States, its territories, its possessions and other areas subject to its jurisdiction or to, or for the account or benefit of, a "U.S. person" (as defined in Regulation S under the 1933 Act), except in accordance with the Agency Agreement pursuant to an exemption from the registration requirements of the 1933 Act provided by Rule 144A thereunder and in compliance with applicable state securities laws. In addition, until 40 days after the commencement of the Offering, an offer or sale of Debentures within the United States by any dealer (whether or not participating in the Offering) may violate the registration requirements of the 1933 Act if such offer is made otherwise than in reliance on Rule 144A.

The obligations of the Agents under the Agency Agreement are several and not joint and several and may be terminated at their discretion in certain circumstances, including upon the occurrence of certain stated events. Under the terms of the Agency Agreement, the Agents may be entitled to indemnification by the Corporation against certain liabilities, including liabilities for misrepresentation in the Prospectus.

Each of the Agents is a subsidiary of a Canadian chartered bank that has, either solely, together with its affiliates, or as a member of a syndicate of financial institutions, extended credit facilities to, or holds indebtedness of, the Corporation and/or its subsidiaries (the "Existing Facilities"). A portion of the net proceeds from the Offering will be used to repay in full the outstanding indebtedness under the credit facility owing by the Corporation to such banks. Consequently, the Corporation may be considered a "connected issuer" of these Agents within the meaning of applicable securities legislation. None of these Agents will receive any direct benefit from the Offering other than the Agents' Fee relating to the Offering. The decision to distribute the Debentures hereunder and the determination of the terms of the Offering were made through negotiation between the Corporation and the Agents. No bank had any involvement in such decision or determination. As at June 25, 2009, an aggregate of approximately $561 million was outstanding under the Existing Facilities. Approximately $92 million of the Existing Facilities owing by subsidiaries of Fortis is secured by mortgages on real property owned by such subsidiaries. Fortis and/or its subsidiaries are in compliance with their respective obligations under the Existing Facilities. Since the execution of the Existing Facilities, no breach thereunder has been waived by the lenders thereunder. See "Use of Proceeds".

CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Davies Ward Phillips & Vineberg LLP, counsel to Fortis, and Stikeman Elliott LLP, counsel to the Agents, the following is a general summary of the principal Canadian federal income tax considerations generally applicable to a holder of Debentures (a "Holder") who acquires Debentures pursuant to this Offering and who, at all relevant times, for purposes of the Tax Act, is or is deemed to be resident in Canada, holds Debentures as capital property and deals at arm's length with, and is not affiliated with, Fortis. Generally, a Debenture will be considered to be capital property to a Holder provided that the Holder does not hold the Debenture in the course of carrying on a business and has not acquired the Debenture in a transaction or transactions considered to be an adventure in the nature of trade. Certain Holders whose Debentures might not otherwise qualify as capital property may be entitled to obtain such qualification in certain circumstances by making the irrevocable election permitted by subsection 39(4) of the Tax Act. This summary does not address the Canadian federal income tax considerations applicable to a Holder that is a "financial institution" for the purposes of the "mark-to-market" rules; a Holder in interest in which is a "tax shelter investment"; or a Holder that has elected to determine its Canadian tax results in accordance with the "functional currency" rules, as each such term is defined in the Tax Act. Holders to whom these rules may be relevant should consult their own tax advisors.

This summary is based on the current provisions of the Tax Act and the regulations thereunder (the "Regulations") and counsel's understanding of the current published administrative practices of the Canada Revenue Agency. This summary takes into account all specific proposals to amend the Tax Act and Regulations publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof. This summary does not otherwise take into account or anticipate any changes in law or practice, whether by judicial, governmental or legislative decision or action, nor does it take into account tax legislation or considerations of any province, territory or foreign jurisdiction. The provisions of provincial income tax legislation vary from province to province in Canada and in some cases differ from federal income tax legislation.

This summary is of a general nature only and is not intended to be, nor should it be construed to be, legal or tax advice to any particular Holder, and no representations with respect to the income tax consequences to any particular Holder are made. Accordingly, prospective purchasers should consult their own tax advisors for advice with respect to the tax consequences to them of acquiring, holding and disposing of Debentures, including the application and effect of the income and other tax laws of any country, province, state or local tax authority.

Taxation of Interest on Debentures

A Holder that is a corporation, partnership, unit trust or trust of which a corporation or partnership is a beneficiary will be required to include in its income for a taxation year all interest on a Debenture that accrues to the Holder to the end of that taxation year or becomes receivable or is received by the Holder before the end of that taxation year, except to the extent that such amount was included in its income for a preceding taxation year.

Any other Holder, including an individual, will be required to include in income for a taxation year any interest on a Debenture received or receivable by such Holder in that year (depending upon the method regularly followed by the Holder in computing income), to the extent that such amount was not otherwise included in the Holder's income for that or any preceding taxation year.

Where a Holder is required to include in income interest on a Debenture that accrued before such Debenture was acquired by the Holder, the Holder will be entitled to a deduction in computing income of an equivalent amount. The adjusted cost base to the Holder of the Debenture will be reduced by the amount which is so deductible.

Any premium paid by Fortis to a Holder because of the exercise by Fortis of the right to redeem the Debentures before the maturity thereof will generally be deemed to be interest received at the time by the Holder to the extent that such premium can reasonably be considered to relate to, and does not exceed the value at the time of the redemption of, the interest that would have been paid or payable by Fortis on the Debentures for a taxation year ending after the redemption.

Disposition of Debentures

On a disposition or deemed disposition of a Debenture, including a redemption or a purchase for cancellation, a Holder will generally be required to include in income any premium deemed to be interest and the amount of interest accrued on the Debenture from the date of the last interest payment to the date of disposition to the extent that such amount has not otherwise been included in the Holder's income for the taxation year or a previous taxation year.

In general, a disposition or deemed disposition of a Debenture will give rise to a capital gain (or capital loss) to the extent that the proceeds of disposition, net of any accrued interest or any amount deemed to be interest and any reasonable costs of disposition, exceed (or are less than) the adjusted cost base of the Debenture to the Holder immediately before the disposition. The cost of a Debenture to a Holder thereof will generally be the amount paid for the Debenture.

One-half of the amount of any capital gain (a "taxable capital gain") realized by a Holder in a taxation year generally must be included in the Holder's income in that year and one-half of the amount of any capital loss (an "allowable capital loss") realized by a Holder in a taxation year generally may be deducted from taxable capital gains realized by the Holder in that year. Allowable capital losses in excess of taxable capital gains may be carried back and deducted in any of the three preceding taxation years or carried forward and deducted in any subsequent taxation year against net taxable capital gains realized in such years to the extent and under the circumstances described in the Tax Act. A capital gain realized by an individual (other than certain specified trusts) may give rise to a liability for alternative minimum tax.

Additional Refundable Tax

A Holder that is throughout the year a "Canadian-controlled private corporation" (as defined in the Tax Act) may be liable to pay an additional refundable tax of 6-⅔% on certain investment income, including amounts in respect of interest and taxable capital gains earned or realized in respect of a Debenture.

RISK FACTORS

Risk Factors Relating to the Corporation

An investment in Debentures involves certain risks. A prospective purchaser of Debentures should carefully consider the risk factors described under:

(a) the heading "Risk Factors" found on pages 38 to 50 of the Corporation's Annual Information Form dated March 13, 2009;

(b) the heading "Business Risk Management" in the Management Discussion and Analysis of financial condition and results of operations found on pages 55 to 65 of the Corporation's 2008 Annual Report (the "MD&A");

(c) note 26 “Financial Risk Management” found on pages 122 to 125 in the Corporation’s audited comparative consolidated financial statements as at December 31, 2008 and for the years ended December 31, 2008 and 2007, as contained in the Corporation’s 2008 Annual Report; and

(d) note 19 “Financial Risk Management” found on pages 21 to 24 in the Corporation’s unaudited comparative interim consolidated financial statements as at March 31, 2009 and for the three months ended March 31, 2009 and 2008,

each of which is incorporated by reference herein. In addition, a prospective purchaser of Debentures should carefully consider the risk factors described in this section which relate to the Debentures, as well as the other information contained in this Prospectus (including the documents incorporated by reference herein).

Risk Factors Relating to the Debentures

The value of the Debentures will be affected by the general creditworthiness of the Corporation. The MD&A discusses, among other things, known material trends and events, and risks or uncertainties that are reasonably expected to have a material effect on the Corporation’s business, financial condition or results of operations.

Real or anticipated changes in credit ratings of the Debentures, if any, may affect the market value of such securities. In addition, real or anticipated changes in credit ratings can affect the cost at which the Corporation can transact or obtain funding, and thereby affect the Corporation’s liquidity, business, financial condition or results of operations.

Reference is made to “Earnings Coverage Ratio” in this Prospectus, which is relevant to an assessment of the risk that the Corporation will be unable to pay interest on the Debentures.

The Debentures rank *pari passu* with all other present and future senior unsecured and unsubordinated indebtedness of the Corporation in the event of an insolvency or winding-up of the Corporation.

Prevailing yields on similar securities will affect the market value of the Debentures. Assuming all other factors remain unchanged, the market value of the Debentures will decline as prevailing yields for similar securities rise, and will increase as prevailing yields for similar securities decline. Spreads over the Government of Canada Bond Yield, T-Bill Rate and comparable benchmark rates of interest for similar securities will also affect the market value of the Debentures in an analogous manner.

The Debentures are not redeemable at the option of their Holders. The ability of a Holder to liquidate its holdings of Debentures may be limited.

There can be no assurance that an active trading market will develop for the Debentures after the Offering, or if developed, that such market will be sustained at the price at which the Debentures are initially offered.

AUDITORS

The auditors of the Corporation are Ernst & Young LLP, Chartered Accountants, The Fortis Building, 7th Floor, 139 Water Street, St. John’s, Newfoundland and Labrador A1C 1B2.

LEGAL MATTERS

Certain legal matters relating to this Offering will be passed upon on behalf of the Corporation by Davies Ward Phillips & Vineberg LLP, Toronto and McInnes Cooper, St. John’s and on behalf of the Agents by Stikeman Elliott LLP, Toronto. At the date hereof, partners and associates of each of Davies Ward Phillips & Vineberg LLP, McInnes Cooper and Stikeman Elliott LLP own beneficially, directly or indirectly, less than 1% of any securities of the Corporation or any associate or affiliate of the Corporation.

TRUSTEE AND PAYING AGENT

Computershare Trust Company of Canada at its offices in Toronto and Montreal, is the Trustee under the Indenture. Registers for the registration and transfer of the Debentures will be kept at the offices of the Trustee in Toronto and Montreal. The Trustee is also the paying agent for the Debentures.

PURCHASERS' STATUTORY RIGHTS

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revisions of the price or damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revisions of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights or consult with a legal advisor.

AUDITORS' CONSENT

We have read the short form prospectus (the "Prospectus") of Fortis Inc. (the "Corporation") dated June 29, 2009 relating to the issue and sale of up to $200,000,000 principal amount of 6.51% senior unsecured debentures of the Corporation. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the incorporation by reference, in the above-mentioned Prospectus, of our report to the shareholders of the Corporation on the consolidated balance sheets of the Corporation as at December 31, 2008 and 2007 and the consolidated statements of earnings, retained earnings, comprehensive income and cash flows for the years then ended. Our report is dated January 30, 2009.

St. John's, Canada
June 29, 2009

(Signed) Ernst & Young LLP
Chartered Accountants

CERTIFICATE OF FORTIS INC.

Dated: June 29, 2009

This short form prospectus, together with the documents incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of each of the provinces of Canada.

(Signed) H. Stanley Marshall President and Chief Executive Officer	(Signed) Barry V. Perry Vice President, Finance and Chief Financial Officer

On behalf of the Board of Directors

(Signed) Geoffrey F. Hyland Director	(Signed) David G. Norris Director

CERTIFICATE OF THE AGENTS

Dated: June 29, 2009

To the best of our knowledge, information and belief, this short form prospectus, together with the documents incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of each of the provinces of Canada.

BMO NESBITT BURNS INC.	CIBC WORLD MARKETS INC.
(Signed) P. GRANT WILLIAMS	(Signed) DAVID WILLIAMS

RBC DOMINION SECURITIES INC.	SCOTIA CAPITAL INC.	TD SECURITIES INC.
(Signed) ROBERT M. BROWN	(Signed) D. GREGORY LAWRENCE	(Signed) HAROLD R. HOLLOWAY

HSBC SECURITIES (CANADA) INC.	NATIONAL BANK FINANCIAL INC.
(Signed) NICOLE CATY	(Signed) PAUL PRENDERGAST

FORTIS

BOWNE
PRINTED IN CANADA
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This short form base shelf prospectus has been filed under legislation in all provinces of Canada that permits certain information about these securities to be determined after this prospectus has become final and that permits the omission from this prospectus of that information. The legislation requires the delivery to purchasers of a prospectus supplement containing the omitted information within a specified period of time after agreeing to purchase any of these securities.

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. This short form base shelf prospectus constitutes a public offering of securities only in those jurisdictions where they may be lawfully offered for sale and thereby only by persons permitted to sell such securities.

***Information has been incorporated by reference in this short form base shelf prospectus from documents filed with securities commissions or similar authorities in Canada**. Copies of the documents incorporated herein by reference may be obtained on request without charge from the Secretary of the Corporation at Suite 1201, 139 Water Street, St. John's, Newfoundland and Labrador A1B 3T2 (telephone (709) 737-2800) and are also available electronically at www.sedar.com. The securities being offered under this short form base shelf prospectus have not been and will not be registered under the United States Securities Act of 1933, as amended, or any state securities laws, and, except in limited circumstances, will not be offered or sold within the United States or for the account or benefit of United States persons.*

New Issue May 10, 2012

SHORT FORM BASE SHELF PROSPECTUS

FORTIS INC.

FORTIS

$1,300,000,000

COMMON SHARES
FIRST PREFERENCE SHARES
SECOND PREFERENCE SHARES
SUBSCRIPTION RECEIPTS
DEBENTURES (UNSECURED)

Fortis Inc. ("Fortis" or the "Corporation") may from time to time offer and issue common shares ("Common Shares"), first preference shares (the "First Preference Shares"), second preference shares (the "Second Preference Shares"), subscription receipts ("Subscription Receipts") or unsecured debentures ("Debentures" and together with the Common Shares, First Preference Shares, Second Preference Shares and Subscription Receipts, the "Securities"), having an aggregate offering price of up to $1,300,000,000 (or the equivalent in US dollars or other currencies), during the 25 month period that this short form base shelf prospectus (the "Prospectus"), including any amendments hereto, remains valid. Securities may be offered separately or together, in amounts, at prices and on terms to be determined based on market conditions at the time of sale and set forth in an accompanying shelf prospectus supplement (a "Prospectus Supplement").

The specific variable terms of any offering of Securities will be set out in the applicable Prospectus Supplement including, where applicable: (i) in the case of Common Shares, the number of shares offered and the offering price (or the manner of determination thereof if offered on a non-fixed price basis); (ii) in the case of First Preference Shares and Second Preference Shares, the designation of the particular series, the number of shares offered, the offering price (or the manner of determination thereof if offered on a non-fixed price basis), the currency or currency unit for which such shares may be purchased, any voting rights, any rights to receive dividends, any terms of redemption, any conversion or exchange rights and any other specific terms; (iii) in the case of Subscription Receipts, the offering price (or the manner of determination thereof if offered on a non-fixed price basis), the procedures for the exchange of Subscription Receipts for Common Shares, First Preference Shares, Second Preference Shares or Debentures, as the case may be, and any other specific terms; and (iv) in the case of Debentures, the designation of the Debentures, the aggregate principal amount of the Debentures being offered, the currency or currency unit for which the Debentures may be purchased, authorized denominations, any limit on the aggregate principal amount of the Debentures of the series being offered, the issue and delivery date, the maturity date, the offering price (at par, at a discount or at a premium), the interest rate or method of determining the interest rate, the interest payment date(s), any conversion or exchange rights that are attached to the Debentures, any redemption provisions, any repayment provisions and any other specific terms. A Prospectus Supplement may include other terms pertaining to the Securities that are not within the alternatives and parameters described in this Prospectus.

All shelf information permitted under applicable laws to be omitted from this Prospectus will be contained in one or more Prospectus Supplements that will be delivered to purchasers together with this Prospectus. Each Prospectus Supplement will be incorporated by reference into this Prospectus for the purposes of securities legislation as of the date of the Prospectus Supplement and only for the purposes of the distribution of the Securities to which the Prospectus Supplement pertains.

The Corporation may sell the Securities to or through underwriters or dealers purchasing as principals and may also sell the Securities to one or more purchasers directly subject to obtaining any required exemptive relief or through agents. The Prospectus Supplement relating to a particular offering of Securities will identify each underwriter, dealer or agent, if any, engaged by the Corporation in connection with the offering and sale of Securities and will set forth the terms of the offering of such Securities, the method of distribution of such Securities including, to the extent applicable, the proceeds to the Corporation and any fees, discounts or any other compensation payable to underwriters, dealers or agents and any other material terms of the plan of distribution. Securities may be sold from time to time in one or more transactions at a fixed price or fixed prices, or at non-fixed prices. If offered on a non-fixed price basis, Securities may be offered at market prices prevailing at the time of sale or at prices to be negotiated with purchasers at the time of sale, which prices may vary as between purchasers and during the period of distribution. If Securities are offered on a non-fixed price basis, the underwriters', dealers' or agents' compensation will be increased or decreased by the amount by which the aggregate price paid for Securities by the purchasers exceeds or is less than the gross proceeds paid by the underwriters, dealers or agents to Fortis. See "Plan of Distribution".

No underwriter or dealer has been involved in the preparation of, or has performed any review of, this Prospectus.

The outstanding Common Shares, Cumulative Redeemable First Preference Shares, Series C, Cumulative Redeemable First Preference Shares, Series E, Cumulative Redeemable First Preference Shares, Series F, Cumulative Redeemable Five-Year Fixed Rate Reset First Preference Shares, Series G and Cumulative Redeemable Five-Year Fixed Rate Reset First Preference Shares, Series H of the Corporation are listed on the Toronto Stock Exchange (the "TSX") under the symbols "FTS", "FTS.PR.C", "FTS.PR.E", "FTS.PR.F", "FTS.PR.G" and "FTS.PR.H", respectively. **There is currently no market through which the First Preference Shares, Second Preference Shares, Subscription Receipts or Debentures may be sold and purchasers may not be able to resell any First Preference Shares, Second Preference Shares, Subscription Receipts or Debentures purchased under this Prospectus. This may affect the pricing of the Securities in the secondary market, the transparency and availability of trading prices, the liquidity of the Securities and the extent of issuer regulation. See the "Risk Factors" section of the applicable Prospectus Supplement.**

This Prospectus does not qualify for issuance Debentures in respect of which the payment of principal and/or interest may be determined, in whole or in part, by reference to one or more underlying interests including, for example, an equity or debt security, a statistical measure of economic or financial performance including, but not limited to, any currency, consumer price or mortgage index, or the price or value of one or more commodities, indices or other items, or any other item or formula, or any combination or basket of the foregoing items. For greater certainty, this Prospectus may qualify for issuance Debentures in respect of which the payment of principal and/or interest may be determined, in whole or in part, by reference to published rates of a central banking authority or one or more financial institutions, such as a prime rate or bankers' acceptance rate, or to recognized market benchmark interest rates such as LIBOR, EURIBOR or a U.S. Federal funds rate.

Subject to applicable laws, in connection with any offering of Securities the underwriters, dealers or agents may over-allot or effect transactions which stabilize or maintain the market price of the Securities at levels other than those which may prevail on the open market. Such transactions, if commenced, may be interrupted or discontinued at any time. See "Plan of Distribution".

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Prospectus, including the documents incorporated herein by reference, contains forward-looking information which reflects management's expectations regarding the future growth, results of operations, performance, business prospects and opportunities of Fortis Inc. ("Fortis" or the "Corporation"), and may not be appropriate for other purposes. All forward-looking information is given pursuant to the "safe harbour" provisions of applicable Canadian securities legislation. The words "anticipates", "believes", "budgets", "could", "estimates", "expects", "forecasts", "intends", "may", "might", "plans", "projects", "schedule", "should", "will", "would" and similar expressions are often intended to identify forward-looking information, although not all forward-looking information contains these identifying words. The forward-looking information reflects management's current beliefs and is based on information currently available to the Corporation's management. The forward-looking information in this Prospectus, including the documents incorporated herein by reference, includes, but is not limited to, statements regarding: the Corporation's focus on the United States and Canada in the acquisition of regulated utilities; the pursuit of growth in the Corporation's non-regulated businesses in support of its regulated utility growth strategy; the current environment of low natural gas prices and an abundance of shale gas reserves should help maintain the competitiveness of natural gas versus alternative energy sources in North America; investment to harvest shale oil and gas in Alberta, Canada, is expected to continue and should favourably impact energy sales and rate base investment in FortisAlberta Inc.'s ("FortisAlberta") service territory; the expectation that the Government of British Columbia's new Natural Gas Strategy should favourably impact natural gas throughput at the FortisBC Energy companies; the expected capital investment in Canada's electricity sector over the 20-year period from 2010 through 2030; the Corporation's consolidated forecast gross capital expenditures for 2012 and in total over the five-year period through 2016; the nature, timing and amount of certain capital projects and their expected costs and time to complete; the expectation that the Corporation's significant capital expenditure program should support continuing growth in earnings and dividends; there is no assurance that capital projects perceived as required or completed by the Corporation's regulated utilities will be approved or that conditions to such approvals will not be imposed; the expectation that the Corporation's regulated utilities could experience disruptions and increased costs if they are unable to maintain their asset base; forecast midyear rate base; the expectation that cash required to complete subsidiary capital expenditure programs will be sourced from a combination of cash from operations, borrowings under credit facilities, equity injections from Fortis and long-term debt offerings; the expectation that the Corporation's subsidiaries will be able to source the cash required to fund their 2012 capital expenditure programs; the expected consolidated long-term debt maturities and repayments in 2012 and on average annually over the next five years; the expectation that the Corporation and its subsidiaries will continue to have reasonable access to capital in the near to medium terms; the expectation that the combination of available credit facilities and relatively low annual debt maturities and repayments will provide the Corporation and its subsidiaries with flexibility in the timing of access to capital markets; except for debt at the Exploits River Hydro Partnership ("Exploits Partnership"), the expectation that the Corporation and its subsidiaries will remain compliant with debt covenants during 2012; the expectation that any increase in interest expense and/or fees associated with renewed and extended credit facilities will not materially impact the Corporation's consolidated financial results for 2012; the expected timing of filing of regulatory applications and of receipt of regulatory decisions; the estimated impact a decrease in revenue at Fortis Properties Corporation's ("Fortis Properties") Hospitality Division would have on basic earnings per common share; the expected impact of a change in the US dollar-to-Canadian dollar foreign exchange rate on basic earnings per common share in 2012; the expectation that electricity sales growth at the Corporation's regulated utilities in the Caribbean will be minimal for 2012; the expectation that counterparties to the FortisBC Energy companies' gas derivative contracts will continue to meet their obligations; the expectation that FortisBC will continue efforts in 2012 to further integrate its gas and electricity businesses; the expectation that the Corporation's consolidated earnings and earnings per common share for 2012 will not be materially impacted by the transition to accounting principles generally accepted in the United States ("US GAAP") (see "Recent Developments – Transition to US GAAP"); the expectation of an increase in consolidated defined benefit net pension cost for 2012 and the fact that there is no assurance that the pension plan assets will earn the assumed long-term rates of return in the future; the expected timing of the closing of the acquisition (the "Acquisition") of CH Energy Group, Inc. ("CH Energy Group") by Fortis; and the expectation that the Acquisition will be immediately accretive to earnings per common share, excluding one-time transaction expenses (see "Recent Developments – Agreement to Acquire CH Energy Group").

The forecasts and projections that make up the forward-looking information are based on assumptions which include, but are not limited to: the receipt of applicable regulatory approvals and requested rate orders; no significant variability in interest rates; no significant operational disruptions or environmental liability due to a catastrophic event

or environmental upset caused by severe weather, other acts of nature or other major events; the continued ability to maintain the gas and electricity systems to ensure their continued performance; no severe and prolonged downturn in economic conditions; no significant decline in capital spending; no material capital project and financing cost overrun or delay related to the construction of the Waneta expansion hydroelectric generating facility (the "Waneta Expansion"); sufficient liquidity and capital resources; the expectation that the Corporation will receive appropriate compensation from the Government of Belize ("GOB") for fair value of the Corporation's investment in Belize Electricity Limited ("Belize Electricity") that was expropriated by the GOB; the expectation that Belize Electricity Company Limited ("BECOL") will not be expropriated by the GOB; the expectation that the Corporation will receive fair compensation from the Government of Newfoundland and Labrador related to the expropriation of the Exploits Partnership's hydroelectric assets and water rights; the continuation of regulator-approved mechanisms to flow through the commodity cost of natural gas and energy supply costs in customer rates; the continued ability to hedge exposures to fluctuations in interest rates, foreign exchange rates, natural gas commodity prices and fuel prices; no significant counterparty defaults; the continued competitiveness of natural gas pricing when compared with electricity and other alternative sources of energy; the continued availability of natural gas, fuel and electricity supply; continuation and regulatory approval of power supply and capacity purchase contracts; the ability to fund defined benefit pension plans, earn the assumed long-term rates of return on the related assets and recover net pension costs in rates; the absence of significant changes in government energy plans and environmental laws that may materially affect the operations and cash flows of the Corporation and its subsidiaries; maintenance of adequate insurance coverage; the ability to obtain and maintain licences and permits; retention of existing service areas; the ability to report under US GAAP beyond 2014 or the adoption of International Financial Reporting Standards ("IFRS") after 2014 that allows for the recognition of regulatory assets and liabilities; the continued tax-deferred treatment of earnings from the Corporation's Caribbean operations; continued maintenance of information technology infrastructure; the receipt of CH Energy Group shareholder, regulatory and other approvals required in connection with the Acquisition; continued favourable relations with First Nations; favourable labour relations; and sufficient human resources to deliver service and execute the capital programs. The forward-looking information is subject to risks, uncertainties and other factors that could cause actual results to differ materially from historical results or results anticipated by the forward-looking information. Factors which could cause results or events to differ from current expectations include, but are not limited to: regulatory risk; interest rate risk, including the uncertainty of the impact a continuation of a low interest rate environment may have on allowed rates of return on common shareholders' equity of the Corporation's regulated utilities; operating and maintenance risks; risks associated with changes in economic conditions; capital project budget overrun, completion and financing risk in the Corporation's non-regulated business; capital resources and liquidity risk; risk associated with the amount of compensation to be paid to Fortis for its investment in Belize Electricity that was expropriated by the GOB; the timeliness of the receipt of the compensation and the ability of the GOB to pay the compensation owing to Fortis; risk that the GOB may expropriate BECOL; an ultimate resolution of the expropriation of the hydroelectric assets and water rights of the Exploits Partnership that differs from that which is currently expected by management; weather and seasonality risk; commodity price risk; the continued ability to hedge foreign exchange risk; counterparty risk; competitiveness of natural gas pricing; natural gas, fuel and electricity supply risk; risk associated with the continuation, renewal, replacement and/or regulatory approval of power supply and capacity purchase contracts; defined benefit pension plan performance and funding requirements; risks related to FortisBC Energy (Vancouver Island) Inc. ("FEVI"); environmental risks; insurance coverage risk; loss of licences and permits; risk of loss of service area; risks relating to the ability to close the Acquisition, the timing of such closing and the realization of the anticipated benefits of the Acquisition; risk of not being able to report under US GAAP beyond 2014 or risk that IFRS does not have an accounting standard for rate-regulated entities by the end of 2014 allowing for the recognition of regulatory assets and liabilities; risks related to changes in tax legislation; risk of failure of information technology infrastructure; risk of unexpected outcomes of legal proceedings currently against the Corporation; risk of not being able to access First Nations lands; labour relations risk; and human resources risk. For additional information with respect to the Corporation's risk factors, reference should be made to the section of this Prospectus entitled "Risk Factors" and to the documents incorporated herein by reference.

All forward-looking information in this Prospectus and in the documents incorporated herein by reference is qualified in its entirety by the above cautionary statements and, except as required by law, the Corporation undertakes no obligation to revise or update any forward-looking information as a result of new information, future events or otherwise.

DOCUMENTS INCORPORATED BY REFERENCE

The disclosure documents of the Corporation listed below and filed with the appropriate securities commissions or similar regulatory authorities in each of the provinces of Canada are specifically incorporated by reference into and form an integral part of this Prospectus:

(a) Annual Information Form dated March 15, 2012 for the year ended December 31, 2011 (the "AIF");

(b) audited comparative consolidated financial statements as at December 31, 2011 and December 31, 2010 and for the years ended December 31, 2011 and 2010, together with the notes thereto and the auditors' report thereon dated March 13, 2012, as contained in the Corporation's 2011 Annual Report, prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP");

(c) supplemental audited comparative consolidated financial statements as at December 31, 2011 and December 31, 2010 and for the years ended December 31, 2011 and 2010, together with the notes thereto and the auditor's report thereon dated March 13, 2012, prepared in accordance with US GAAP (the "US GAAP Reconciliation");

(d) Management Discussion and Analysis of financial condition and results of operations for the year ended December 31, 2011 as contained in the Corporation's 2011 Annual Report (the "MD&A");

(e) unaudited comparative interim consolidated financial statements as at March 31, 2012 and for the three months ended March 31, 2012 and 2011, together with the notes thereon, prepared in accordance with US GAAP;

(f) Management Discussion and Analysis of financial condition and results of operations for the three months ended March 31, 2012; and

(g) Management Information Circular dated March 19, 2012 prepared in connection with the Corporation's annual meeting of shareholders held on May 4, 2012 (the "Information Circular").

All documents of the type referred to in the preceding paragraph, any material change report (other than any confidential material change report) and any business acquisition reports, as well as all Prospectus Supplements disclosing additional or updated information subsequently filed by the Corporation with such securities commissions or regulatory authorities after the date of this Prospectus, and prior to the termination of the distribution under this Prospectus, shall be deemed to be incorporated by reference into this Prospectus.

Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Prospectus to the extent that a statement contained herein, or in any other subsequently filed document which also is incorporated or is deemed to be incorporated by reference herein, modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement will not be deemed an admission for any purpose that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus.

When Fortis files a new annual information form and audited consolidated financial statements and related management's discussion and analysis with, and where required, they are accepted by, the applicable securities regulatory authorities during the time that this Prospectus is valid, the previous annual information form, the previous audited consolidated financial statements and related management's discussion and analysis and all unaudited interim consolidated financial statements and related management's discussion and analysis for such periods, all material change reports and any information circular and business acquisition report filed prior to the commencement of the Corporation's financial year in which the new annual information form is filed will be deemed no longer to be incorporated by reference in this Prospectus for purposes of future offers and sales of Securities under this Prospectus. Upon new interim financial statements and the accompanying management's discussion and analysis being filed by the Corporation with the applicable securities regulatory authorities during the term of this Prospectus, all interim financial statements and accompanying management's discussion

and analysis filed prior to the filing of the new interim financial statements shall be deemed no longer to be incorporated by reference into this Prospectus for purposes of future offers and sales of Securities hereunder.

Investors should rely only on the information contained in or incorporated by reference in this Prospectus or any applicable Prospectus Supplement. Fortis has not authorized anyone to provide investors with different or additional information. Fortis is not making an offer of Securities in any jurisdiction where the offer is not permitted by law. Prospective investors should not assume that the information contained in or incorporated by reference in this Prospectus or any applicable Prospectus Supplement is accurate as of any date other than the date on the front of the applicable Prospectus Supplement.

Copies of the documents incorporated herein by reference may be obtained on request without charge from the Secretary of the Corporation at Suite 1201, 139 Water Street, St. John's, Newfoundland and Labrador A1B 3T2 (telephone (709) 737-2800). These documents are also available through the Internet on the Corporation's website at www.fortisinc.com or on the Canadian System for Electronic Document Analysis and Retrieval ("SEDAR") which can be accessed at www.sedar.com. The information contained on, or accessible through, any of these websites is not incorporated by reference into the Prospectus and is not, and should not be considered to be, a part of the Prospectus, unless it is explicitly so incorporated.

ABOUT THIS PROSPECTUS

In this Prospectus and in any Prospectus Supplement, unless otherwise specified or the context otherwise requires, all dollar amounts are expressed in Canadian dollars. References to "dollars" or "$" are to lawful currency of Canada, and references to "US dollars" or "US$" are to lawful currency of the United States.

Unless otherwise indicated, all financial information included and incorporated by reference in this Prospectus or included in any Prospectus Supplement for financial periods beginning prior to January 1, 2012 has been prepared using Canadian GAAP. All financial information included and incorporated by reference in this Prospectus or included in any Prospectus Supplement for financial periods beginning on or after January 1, 2012 has been prepared using US GAAP. For a discussion of the principal differences between the Corporation's financial results as calculated under Canadian GAAP and US GAAP, prospective investors should refer to the US GAAP Reconciliation, incorporated by reference in this Prospectus. See "Recent Developments – Transition to US GAAP" below.

FORTIS

Fortis Inc. was incorporated as 81800 Canada Ltd. under the *Canada Business Corporations Act* on June 28, 1977. The Corporation was continued under the *Corporations Act* (Newfoundland and Labrador) on August 28, 1987 and on October 13, 1987 the Corporation amended its articles to change its name to "Fortis Inc.". The address of the head office and principal place of business of the Corporation is The Fortis Building, Suite 1201, 139 Water Street, St. John's, Newfoundland and Labrador A1B 3T2.

Fortis is the largest investor-owned distribution utility in Canada with total assets of more than $14 billion as at March 31, 2012 and fiscal 2011 revenue totalling approximately $3.7 billion. The Corporation serves more than 2,000,000 gas and electricity customers. Its regulated holdings include electric distribution utilities in five Canadian provinces and two Caribbean countries and a natural gas utility in British Columbia, Canada. As at March 31, 2012, regulated utility assets comprised approximately 91% of the Corporation's total assets, with the balance comprised of non-regulated generation assets, commercial office and retail space and hotels. Fortis is the direct owner of all of the common shares of FortisBC Holdings Inc. ("FortisBC Holdings") (formerly Terasen Inc.), a company that, through its subsidiaries, is the principal distributor of natural gas in British Columbia. Fortis is the indirect owner of all of the common shares of FortisAlberta, a regulated electric utility that distributes electricity generated by other market participants in a substantial portion of southern and central Alberta; FortisBC Inc. ("FortisBC"), a regulated electric utility that generates, transmits and distributes electricity in the southern interior of British Columbia; and Maritime Electric Company Limited ("Maritime Electric"), the principal distributor of electricity on Prince Edward Island. Fortis also holds all of the common shares of Newfoundland Power Inc. ("Newfoundland Power"), the principal distributor of electricity in Newfoundland. As well, through its wholly owned subsidiary FortisOntario Inc. ("FortisOntario") and its subsidiaries, Canadian Niagara Power Inc. ("CNPI") and Cornwall Street Railway, Light and Power Company, Limited, Fortis provides an integrated electric utility service to customers primarily in Fort Erie, Cornwall, Gananoque and Port Colborne in Ontario. Through its wholly owned subsidiary Algoma Power Inc., FortisOntario also distributes electricity to customers in the district of Algoma in northern Ontario.

The Corporation's regulated electric utility assets in the Caribbean consist of its ownership, through wholly owned subsidiaries, of an approximate 60% interest in Caribbean Utilities Company, Ltd. ("Caribbean Utilities"), the sole provider of electricity on Grand Cayman, Cayman Islands. Fortis also owns, through a wholly owned subsidiary, FortisTCI Limited (formerly P.P.C. Limited) and Atlantic Equipment & Power (Turks and Caicos) Ltd. (together, "Fortis Turks and Caicos"), the principal distributor of electricity on the Turks and Caicos Islands.

The Corporation's non-regulated electricity generation operations consist of its 100% interest in each of BECOL, FortisOntario and non-regulated generation assets owned either directly or indirectly by FortisBC, Fortis Properties and Fortis.

BECOL owns and operates the 25-megawatt ("MW") Mollejon, 7-MW Chalillo and 19-MW Vaca hydroelectric generating facilities, all of which are located on the Macal River in Belize. FortisOntario owns and operates a 5-MW gas-fired cogeneration plant in Cornwall, Ontario. The non-regulated electricity generation operations of FortisBC consist of the 16-MW run-of-river Walden hydroelectric power plant near Lillooet, British Columbia. Fortis owns a 51% controlling ownership interest in the non-regulated Waneta Expansion Limited Partnership (the "Waneta Partnership"), which was established in 2010 to construct the Waneta Expansion, a 335-MW hydroelectric generating facility adjacent to the existing Waneta plant in British Columbia.

Through FortisUS Energy Corporation ("FortisUS Energy"), an indirect wholly owned subsidiary of Fortis, the Corporation owns and operates four hydroelectric generating stations in Upper New York State with a total combined capacity of approximately 23 MW. The operations of FortisUS Energy are managed by FortisBC.

Fortis Properties' assets include six small hydroelectric generating stations in eastern Ontario with a combined capacity of 8 MW.

Through Fortis Properties, the Corporation owns 22 hotels in eight Canadian provinces and commercial office and retail space primarily in Atlantic Canada.

Regulated Gas Utilities – Canadian

FortisBC Energy Companies

The natural gas distribution business of FortisBC Holdings is one of the largest in Canada. With approximately 939,000 customers as at March 31, 2012, FortisBC Holding's subsidiaries provide service to over 96% of gas users in British Columbia. FortisBC Energy Inc. ("FEI") (formerly Terasen Gas Inc.) is the largest of these subsidiaries, serving approximately 837,000 customers as at March 31, 2012. With the implementation of a new Customer Care Enhancement Project on January 1, 2012, the gas utilities adjusted their customer count downwards by approximately 17,000 effective January 1, 2012 as a result of a change in their definition of a "customer". FEI has a service area which includes Greater Vancouver, the Fraser Valley and the Thompson, Okanagan, Kootenay and North Central interior regions of British Columbia. FEVI (formerly Terasen Gas (Vancouver Island) Inc.) 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 99,000 customers as at March 31, 2012. In addition to providing transmission and distribution services to customers, FEI and FEVI also obtain natural gas supplies on behalf of most residential and commercial customers. Gas supplies are sourced primarily from north-eastern British Columbia and Alberta. FortisBC Energy (Whistler) Inc. ("FEWI") (formerly Terasen Gas (Whistler) Inc.) owns and operates the natural gas distribution system in the Resort Municipality of Whistler, British Columbia, providing service to approximately 2,600 residential and commercial customers as at March 31, 2012. The FortisBC Energy companies own and operate almost 47,200 kilometres of natural gas distribution and transmission pipelines and met a peak day demand of 1,210 terajoules for 2011.

Regulated Electric Utilities – Canadian

FortisAlberta

FortisAlberta distributed electricity to approximately 501,000 customers in Alberta as at March 31, 2012, using approximately 114,000 kilometres of owned and/or operated distribution lines and met a peak demand of 2,505 MW for 2011. FortisAlberta's business is the ownership and operation of regulated electricity distribution facilities that distribute electricity generated by other market participants from high-voltage transmission substations to end-use customers in central and southern Alberta. FortisAlberta is not involved in the generation, transmission or direct sale of electricity.

FortisBC

FortisBC is an integrated, regulated electric utility that owns a network of generation, transmission and distribution assets located in the southern interior of British Columbia. FortisBC served a diverse mix of approximately 162,500 customers, as at March 31, 2012, with residential customers representing the largest customer segment, and met a peak demand of 669 MW for 2011. FortisBC owns four regulated hydroelectric generating plants with an aggregate capacity of 223 MW that provide approximately 45% of FortisBC's energy and 30% of its peak capacity needs. FortisBC's remaining electricity supply is acquired through long-term power purchase contracts and short-term market purchases. FortisBC's business also includes non-regulated operating, maintenance and management services relating to the 493-MW Waneta hydroelectric generation facility owned by Teck Metals Ltd. and British Columbia Hydro and Power Authority ("BC Hydro"), the 149-MW Brilliant hydroelectric plant, the 120-MW Brilliant expansion plant and the 185-MW Arrow Lakes hydroelectric plant, each owned by Columbia Power Corporation and Columbia Basin Trust ("CPC/CBT"), and the distribution system owned by the City of Kelowna.

Newfoundland Power

Newfoundland Power is a regulated electric utility that operates an integrated generation, transmission and distribution system throughout the island portion of the Province of Newfoundland and Labrador. Newfoundland Power served approximately 248,000 customers as at March 31, 2012, or approximately 87% of electricity consumers in the Province, and met a peak demand of 1,166 MW for 2011. Approximately 93% of the electricity that Newfoundland Power sells to its customers is purchased from Newfoundland and Labrador Hydro Corporation ("Newfoundland Hydro"). Currently, Newfoundland Power has an installed generating capacity of 140 MW, of which 97 MW is hydroelectric generation.

Maritime Electric

Maritime Electric is a regulated electric utility that operates an integrated generation, transmission and distribution system on Prince Edward Island. Maritime Electric directly supplied over 75,000 customers as at March 31, 2012, or 90% of electricity consumers on the Island, and met a peak demand of 224 MW for 2011. Maritime Electric purchases most of the energy it distributes to its customers from New Brunswick Power Corporation under various energy purchase agreements and maintains on-Island generating facilities with an aggregate capacity of 150 MW.

FortisOntario

FortisOntario's regulated distribution operations served approximately 64,000 customers in the Fort Erie, Cornwall, Gananoque, Port Colborne and the District of Algoma in Ontario, as at March 31, 2012, and met a combined peak demand of 276 MW for 2011. Through CNPI, FortisOntario owns international transmission facilities at Fort Erie and owns a 10% interest in each of Westario Power Inc., Rideau St. Lawrence Holdings Inc. and Grimsby Power Inc., three regional electric distribution companies that, together, served approximately 38,000 customers, as at March 31, 2012.

Regulated Electric Utilities – Caribbean

Caribbean Utilities

Fortis holds an indirect approximate 60% controlling ownership interest in Caribbean Utilities as of March 31, 2012. Caribbean Utilities has the exclusive right to distribute and transmit electricity on the island of Grand Cayman, Cayman Islands, pursuant to a 20-year licence entered into on April 3, 2008. Caribbean Utilities also entered into a non-exclusive 21.5-year power generation licence with the Government of the Cayman Islands on April 3, 2008.

Caribbean Utilities served approximately 27,000 customers as at March 31, 2012, has approximately 151 MW of installed diesel-powered generating capacity and met a peak demand of 99 MW for 2011. The Class A Ordinary Shares of Caribbean Utilities are listed for trading on the Toronto Stock Exchange (the "TSX") under the symbol CUP.U.

Fortis Turks and Caicos

Fortis Turks and Caicos served approximately 9,600 customers, or approximately 85% of electricity consumers, on the Turks and Caicos Islands, as at March 31, 2012. Fortis Turks and Caicos is the principal distributor of electricity on Turks and Caicos pursuant to two 50-year licences that expire in 2036 and 2037, respectively. Fortis Turks and Caicos has an installed diesel-powered generating capacity of approximately 65 MW and met a peak demand of approximately 30 MW for 2011.

Expropriated Assets – Belize Electricity

Until June 20, 2011, Fortis held an indirect approximate 70% controlling ownership interest in Belize Electricity, the regulated principal distributor of electricity in Belize, Central America. On June 20, 2011, the Government of Belize ("GOB") enacted legislation leading to the expropriation of the Corporation's investment in Belize Electricity. The consequential loss of control over the operations of the utility resulted in the Corporation discontinuing the consolidation method of accounting for Belize Electricity, effective June 20, 2011. The Corporation has classified the book value of the previous investment in Belize Electricity as a long-term other asset on the consolidated balance sheet. As at March 31, 2012, the long-term other asset, including foreign exchange impacts, totalled $104 million.

In October 2011 Fortis commenced an action in the Belize Supreme Court to challenge the legality of the expropriation of its investment in Belize Electricity and court proceedings with respect to the matter are continuing. Fortis commissioned an independent valuation of its expropriated investment in Belize Electricity and submitted its claim for compensation to the GOB in November 2011. The GOB also commissioned a valuation of Belize Electricity and communicated the results of such valuation in its response to the Corporation's claim for compensation. The fair value determined under the GOB's valuation is significantly lower than the fair value determined under the Corporation's valuation. Pursuant to the expropriation action, Fortis is assessing alternative options for obtaining fair compensation from the GOB.

Non-Regulated – Fortis Generation

Belize

Non-regulated generation operations in Belize are conducted through BECOL under a franchise agreement with the GOB. BECOL owns and operates the 25-MW Mollejon hydroelectric generating facility, the 7-MW Chalillo hydroelectric generating facility and the 19-MW Vaca hydroelectric generating facility. All such facilities are located on the Macal River in Belize. These hydro plants generate average annual energy production of approximately 240 gigawatt hours ("GWh"). BECOL sells its entire output to Belize Electricity under 50-year power purchase agreements expiring in 2055 and 2060. In October 2011, the GOB purportedly amended the Constitution of Belize to require majority government ownership of three public utility providers, including Belize Electricity, but excluding BECOL. The GOB has also indicated it has no intention to expropriate BECOL. Fortis continues to control and consolidate the financial statements of BECOL.

Ontario

Non-regulated generation assets in Ontario are owned and operated by FortisOntario and Fortis Properties and include the 5-MW gas-fired cogeneration plant in Cornwall and six small hydroelectric generating stations with a combined capacity of approximately 8 MW.

Central Newfoundland

The non-regulated generation investment in central Newfoundland is held through the Corporation's indirect 51% interest in the Exploits River Hydro Partnership (the "Exploits Partnership") between AbitibiBowater Inc. ("Abitibi") and Fortis Properties. In December 2008 the Government of Newfoundland and Labrador expropriated Abitibi's hydroelectric assets and water rights in Newfoundland, including those of the Exploits Partnership. The Government of Newfoundland and Labrador has publically stated that it is not its intention to adversely affect the business interests of lenders or independent partners of Abitibi in the Province. The loss of control over cash flows and operations has required Fortis to cease consolidation of the Exploits Partnership, effective February 12, 2009. Discussions between Fortis Properties and Nalcor Energy, acting as agent for the Government of Newfoundland and Labrador, with respect to expropriation matters are ongoing.

British Columbia

Non-regulated generation operations in British Columbia, conducted through FortisBC, include the 16-MW run-of-river Walden hydroelectric power plant near Lillooet. This plant sells its entire output to BC Hydro under a power purchase agreement expiring in 2013.

In October 2010, the Corporation formed the Waneta Partnership with CPC/CBT and concluded definitive agreements to construct the 335-MW Waneta Expansion at an estimated cost of approximately $900 million. The facility is situated adjacent to the Waneta Dam and powerhouse facilities on the Pend d'Oreille River, south of Trail, British Columbia. CPC/CBT are both 100% owned entities of the Government of British Columbia. Fortis owns a controlling 51% interest in the Waneta Partnership and, through FortisBC, will operate and maintain the Waneta Expansion when it comes into service, which is expected in spring 2015. SNC-Lavalin Group Inc. was awarded a contract for approximately $590 million to design and build the Waneta Expansion. Construction began in November 2010 and capital expenditures of approximately $290 million have been incurred on this capital project through March 31, 2012. The Waneta Expansion will be included in the Canal Plant Agreement (as described in the Corporation's AIF) and will receive fixed energy and capacity entitlements based upon long-term average water flows, thereby significantly reducing hydrologic risk associated with the project. The energy output, approximately 630 GWh, and associated capacity required to deliver such energy, from the Waneta Expansion will be sold to BC Hydro under an executed long-term energy purchase agreement. The surplus capacity, equal to 234 MW on an average annual basis, is expected to be sold to FortisBC under a long-term capacity purchase agreement. In November 2011, FortisBC executed the agreement to purchase the capacity from the Waneta Expansion and filed such executed agreement with the British Columbia Utilities Commission (the "BCUC"). The form of the agreement was originally accepted for filing by the BCUC in September 2010. The BCUC is conducting its usual review process of the executed agreement to determine whether a hearing is necessary to decide whether the agreement is in the public interest.

Upper New York State

Non-regulated generation assets in Upper New York State are owned and operated by FortisUS Energy and include four hydroelectric generating stations with a combined generating capacity of approximately 23 MW operating under licences from the U.S. Federal Energy Regulatory Commission. Since January 1, 2007, all four plants have been selling energy at market rates.

Non-Regulated – Fortis Properties

In addition to its non-regulated generation operations, Fortis Properties owns and operates 22 hotels, collectively representing approximately 4,300 rooms, in eight Canadian provinces and approximately 2.7 million square feet of commercial office and retail space primarily in Atlantic Canada.

CAPITAL RESOURCES

This Prospectus will provide the Corporation with the flexibility to access the capital markets in a timely manner. The nature, size and timing of any offering of Securities under this Prospectus will be consistent with the past capital raising practices of the Corporation and will continue to depend upon the Corporation's assessment of its requirements for funding and general market conditions.

The Corporation and its subsidiary regulated gas and electric distribution businesses require ongoing access to capital to fund maintenance and expansion of infrastructure, acquisitions and/or repay maturing debt. To meet short-term capital requirements, the Corporation and its larger regulated utility subsidiaries have secured multi-year committed credit facilities. As at March 31, 2012, the Corporation and its subsidiaries had consolidated authorized lines of credit of $2.2 billion, of which $2.0 billion was available to be drawn. In May 2012, the Corporation increased the amount available for borrowing under its committed corporate credit facility from $800 million to $1 billion, thereby increasing the aggregate authorized amount available to the Corporation and its subsidiaries under all lines of credit to $2.4 billion. As at May 9, 2012, an aggregate amount of approximately $2.1 billion was unused and available to be drawn under these facilities. See "Recent Developments – Corporate Credit Facility".

The Corporation and its subsidiaries will require new capital for the repayment of at least a portion of their maturing debt. As at March 31, 2012, long-term debt maturities over the next five years are expected to average approximately $265 million annually.

RECENT DEVELOPMENTS

Agreement to Acquire CH Energy Group

On February 21, 2012, Fortis announced that it had entered into an agreement to acquire CH Energy Group for US$65.00 per common share in cash, for an aggregate purchase price of approximately US$1.5 billion, including the assumption of approximately US$500 million of debt on closing. The closing of the acquisition, which is expected to occur by the end of the first quarter of 2013, is subject to receipt of CH Energy Group's common shareholders' approval, regulatory and other approvals, and the satisfaction of customary closing conditions. The acquisition is expected to be immediately accretive to Fortis' earnings per common share, excluding one-time acquisition-related expenses.

CH Energy Group is an energy delivery company headquartered in Poughkeepsie, New York. Its main business, Central Hudson Gas & Electric Corporation ("Central Hudson"), is a regulated transmission and distribution utility serving approximately 300,000 electric and 75,000 natural gas customers in eight counties of New York State's Mid-Hudson River Valley. Central Hudson accounts for approximately 93% of the total assets of CH Energy Group. CH Energy Group also owns and operates Central Hudson Enterprises Corporation, a non-regulated subsidiary comprised primarily of a fuel delivery business serving approximately 56,000 customers in the Mid-Atlantic Region. As of December 31, 2011, CH Energy Group's total assets were US$1.7 billion and operating revenues and net income for 2011 totalled US$986 million and US$45 million, respectively. In 2011, Central Hudson accounted for approximately 97% of CH Energy Group's net income. Based on the first quarter results filed by CH Energy Group with the U.S. Securities and Exchange Commission ("SEC") on April 26, 2012, CH Energy Group's total assets at March 31, 2012 were approximately US$1.8 billion and operating revenues and net income for the first quarter totalled approximately US$274 million and US$14.6 million, respectively.

Central Hudson's electric assets, which comprise approximately 77% of its total assets, include approximately 7,300 pole miles (11,748 kilometers) of overhead lines and 1,400 trench miles (2,253 kilometers) of underground lines. The electric business met a peak demand of 1,225 MW in 2011. Central Hudson's natural gas assets, which comprise approximately 23% of its total assets, include approximately 1,185 miles (1,907 kilometers) of distribution pipelines and approximately 164 miles (264 kilometers) of transmission pipelines. The gas business met a peak day demand of 115,807 thousand cubic feet in 2011. Central Hudson is subject to regulation by the New York State Public Service Commission ("NYPSC") under a traditional cost-of-service model.

Central Hudson primarily relies on purchases from third-party providers and the New York Independent System Operator-administered energy and capacity markets to meet the demands of its full-service electric customers. It purchases its gas supply requirements from a number of suppliers at various receipt points on pipelines that it has contracted with for firm transport capacity.

In April 2012, applications were filed with the NYPSC and the Federal Energy Regulatory Commission seeking approval of the transaction. The CH Energy Group shareholder vote on the transaction is expected to occur mid-2012.

Transition to US GAAP

Due to continued uncertainty around the adoption of a rate-regulated accounting standard by the International Accounting Standards Board, Fortis adopted US GAAP, as opposed to IFRS, effective January 1, 2012.

Canadian securities rules allow a reporting issuer to file its financial statements prepared in accordance with US GAAP by qualifying as a SEC issuer. A SEC issuer is defined under the Canadian rules as an issuer that: (a) has a class of securities registered with the SEC under Section 12 of the *U.S. Securities Exchange Act of 1934*, as amended (the "Exchange Act"); or (b) is required to file reports under Section 15(d) of the Exchange Act. The Corporation is not currently a SEC issuer, but on June 9, 2011 was granted exemptive relief by Canadian securities regulators to permit it and its reporting issuer subsidiaries to prepare their financial statements in accordance with US GAAP without qualifying as SEC issuers (the "Exemption"). The Exemption applies to financial years commencing on or after January 1, 2012 but before January 1, 2015, and interim periods therein. The Exemption will terminate in respect of financial statements for annual and interim periods commencing on or after the earlier of: (i) January 1, 2015; or (ii) the date on which the Corporation ceases to have activities subject to rate regulation.

The Corporation's past application of Canadian GAAP referred to US GAAP for guidance on accounting for rate-regulated activities. The adoption of US GAAP in 2012 has resulted in fewer significant changes to the Corporation's accounting policies compared to accounting policy changes that may have resulted from the adoption of IFRS. US GAAP guidance on accounting for rate-regulated activities allows the economic impact of rate-regulated activities to be recognized in the consolidated financial statements in a manner consistent with the timing by which amounts are reflected in customer rates. Fortis believes that the continued application of rate-regulated accounting, and the associated recognition of regulatory assets and liabilities under US GAAP, accurately reflects the impact that rate regulation has on the Corporation's consolidated financial position and results of operations.

The Corporation has prepared and filed its audited Canadian GAAP consolidated financial statements for the year ended December 31, 2011, with 2010 comparatives, in the usual manner. The Corporation has also voluntarily prepared and filed the US GAAP Reconciliation. Beginning with the first quarter of 2012, the Corporation's unaudited interim consolidated financial statements have been prepared in accordance with US GAAP, with the restatement of 2011 comparatives in accordance with US GAAP.

Regulatory Decisions

In April 2012, regulatory decisions were received for 2012/2013 customer gas delivery rates at the FortisBC Energy companies and 2012 customer electricity distribution rates at FortisAlberta which reduce regulatory risk at the utilities. Effective January 1, 2012, the BCUC had previously approved an approximate 3% interim increase in rates for most residential customers at FEI and an approximate 6% interim increase in rates for residential customers at FEWI. The April 2012 decision at the FortisBC Energy companies is expected to result in a decrease in customer gas delivery rates at FEI and FEWI in the range of 1% – 2% from the January 1, 2012 interim rates. The BCUC also approved, as requested, FEVI's customer rates for 2012 and 2013 to remain unchanged from 2011 customer rates. The decision at FortisAlberta approved an average 5% increase in customer distribution electricity rates, consistent with the interim rate increase that was previously approved by the Alberta Utilities Commission effective January 1, 2012.

Corporate Credit Facility

In May 2012 the amount available for borrowing under the Corporation's committed corporate credit facility was increased from $800 million to $1 billion as permitted under the credit facility agreement. As at May 9, 2012, approximately $160 million was drawn and outstanding under this credit facility.

Approval of the 2012 Stock Option Plan and the 2012 Employee Share Purchase Plan

At the Corporation's annual general meeting held on May 4, 2012, the shareholders of the Corporation approved an amended and restated stock option plan (the "2012 Stock Option Plan") and an amended and restated employee share purchase plan (the "2012 ESPP"). Both the 2012 Stock Option Plan and the 2012 ESPP are described in more detail in the Information Circular which is incorporated by reference into this Prospectus. See "Documents Incorporated by Reference".

SHARE CAPITAL OF FORTIS

The authorized share capital of the Corporation consists of an unlimited number of common shares (the "Common Shares"), an unlimited number of First Preference Shares issuable in series and an unlimited number of Second Preference Shares issuable in series, in each case without nominal or par value. As at May 9, 2012, 189,330,675 Common Shares, 5,000,000 Cumulative Redeemable First Preference Shares, Series C (the "First Preference Shares, Series C"), 7,993,500 Cumulative Redeemable First Preference Shares, Series E (the "First Preference Shares, Series E"), 5,000,000 Cumulative Redeemable First Preference Shares, Series F (the "First Preference Shares, Series F"), 9,200,000 Cumulative Redeemable Five-Year Fixed Rate Reset First Preference Shares, Series G (the "First Preference Shares, Series G") and 10,000,000 Cumulative Redeemable Five-Year Fixed Rate Reset First Preference Shares, Series H (the "First Preference Shares, Series H") were issued and outstanding. The Corporation's Common Shares, First Preference Shares, Series C, First Preference Shares, Series E, First Preference Shares, Series F, First Preference Shares, Series G and First Preference Shares, Series H are listed on the TSX under the symbols "FTS", "FTS.PR.C", "FTS.PR.E", "FTS.PR.F", "FTS.PR.G" and "FTS.PR.H", respectively.

EARNINGS COVERAGE RATIOS

The following consolidated earnings coverage ratios have been calculated for the 12 months ended December 31, 2011 and the 12 months ended March 31, 2012. The earnings coverage ratios set forth below do not purport to be indicative of earnings coverage ratios for any future periods. The earnings coverage ratios and dividend and interest requirements do not give effect to the issuance of any Securities that may be issued pursuant to this Prospectus and any Prospectus Supplement, since the aggregate principal amounts and the terms of such Securities are not currently known. The financial ratios included below have been calculated based on financial information prepared in accordance with US GAAP. The ratios for the 12 months ended December 31, 2011 are based on audited financial information.

	12 Months Ended December 31, 2011	12 Months Ended March 31, 2012
Dividend and interest requirements ($ millions)	$ 442	$ 439
Earnings before interest expense and taxes ($ millions)	$ 791	$ 790
Earnings coverage	1.79	1.80

DIVIDEND POLICY

Dividends on the Common Shares are declared at the discretion of the board of directors of Fortis (the "Board of Directors"). The Corporation paid cash dividends on its Common Shares of $1.16 in 2011, $1.12 in 2010 and $1.04 in 2009. On May 3, 2012, the Board of Directors declared a third quarter dividend of $0.30 per Common Share, payable on September 1, 2012 to holders of record of such Common Shares on August 17, 2012.

Regular quarterly dividends at the prescribed annual rate have been paid on all of the First Preference Shares, Series C, First Preference Shares, Series E, First Preference Shares, Series F, First Preference Shares, Series G and

First Preference Shares, Series H, respectively. The Board of Directors declared a third quarter dividend on the First Preference Shares, Series C, First Preference Shares, Series E, First Preference Shares, Series F, First Preference Shares, Series G and First Preference Shares, Series H on May 3, 2012, in each case in accordance with the applicable prescribed annual rate, payable on September 1, 2012 to holders of record of such First Preference Shares on August 17, 2012.

RATINGS

Each of the First Preference Shares, Series C, First Preference Shares, Series E, First Preference Shares, Series F, First Preference Shares, Series G and First Preference Shares, Series H are rated Pfd-2 (low)/Under Review – Developing Implications by DBRS Limited ("DBRS") and P-2/CreditWatch – Negative by Standard & Poor's Rating Services, a division of The McGraw-Hill Companies (Canada) Corporation ("S&P"). The Corporation's unsecured debentures are rated A(low)/Under Review – Developing Implications by DBRS and are rated A-/Credit Watch – Negative by S&P. S&P and DBRS placed the Corporation's credit ratings on "Credit Watch – Negative" and "Under Review – Developing Implications", respectively, in February 2012 after the Corporation announced that it had entered into an agreement to acquire all of the shares of CH Energy Group. Credit ratings relating to the Securities offered pursuant to this Prospectus, where applicable, will be described in the relevant Prospectus Supplement.

The DBRS rating of Pfd-2 (low) is the lowest of three sub-categories within the second highest rating of the six standard categories of ratings utilized by DBRS for preferred shares. The DBRS rating of A(low) is the lowest of three subcategories within the third highest rating of ten major categories for debt securities, ranging from AAA to D. A P-2 rating by S&P is the second of the three sub-categories within the second highest rating of the five standard categories of ratings utilized by S&P for preferred shares. The S&P rating of A- is the lowest standing within the third highest rating of ten major categories for debt securities, ranging from AAA to D.

According to S&P, the rating action "Credit Watch – Negative" means that the Corporation's credit ratings have been placed under surveillance by S&P and that the ratings may be lowered due to S&P's view that there is at least a 50% probability that the Corporation's non-consolidated credit metrics will fall below thresholds previously established for the Corporation's current credit ratings, following the close of the proposed acquisition of CH Energy Group.

According to DBRS, the rating action "Under Review – Developing Implications" means that the Corporation's credit ratings are under review by DBRS due to the uncertainty of the impact on the Corporation's credit ratings upon close of the proposed acquisition of CH Energy Group, but that DBRS expects the Corporation to finance the acquisition of CH Energy Group such that its non-consolidated debt-to-capital structure remains within the 20% range.

Credit ratings are intended to provide investors with an independent measure of the credit quality of an issue of securities. The credit ratings accorded to the First Preference Shares, Series C, First Preference Shares, Series E, First Preference Shares, Series F and First Preference Shares, Series G, First Preference Shares, Series H and the Corporation's unsecured debentures by these rating agencies are not recommendations to purchase, hold or sell such securities, as such ratings do not comment as to market price or suitability for a particular investor. There is no assurance that any rating will remain in effect for any given period of time or that any rating will not be revised or withdrawn entirely by a rating agency in the future if, in its judgment, circumstances so warrant.

Fortis has paid each of DBRS and S&P their customary fees in connection with the provision of the ratings described herein. Fortis has not made any payments to DBRS or S&P for services unrelated to the provision of such ratings.

DESCRIPTION OF SECURITIES OFFERED

Common Shares

Common Shares may be offered separately or together with First Preference Shares, Second Preference Shares, Subscription Receipts or Debentures under this Prospectus.

Dividends

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

Liquidation, Dissolution or Winding-Up

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

Voting Rights

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

First Preference Shares

The following is a summary of the material rights, privileges, conditions and restrictions attached to the First Preference Shares as a class. The specific terms of the First Preference Shares, including the currency in which First Preference Shares may be purchased and redeemed and the currency in which any dividend is payable, if other than Canadian dollars, and the extent to which the general terms described in this section apply to those First Preference Shares, will be set forth in the applicable Prospectus Supplement. One or more series of First Preference Shares may be sold separately or together with Common Shares, Second Preference Shares, Subscription Receipts or Debentures under this Prospectus.

Issuance in Series

The Board of Directors may from time to time issue First Preference Shares in one or more series. Prior to issuing shares in a series, the Board of Directors is required to fix the number of shares in the series and determine the designation, rights, privileges, restrictions and conditions attaching to that series of First Preference Shares.

Priority

The shares of each series of First Preference Shares rank on a parity with the First Preference Shares of every other series and in priority to all other shares of the Corporation, including the Second Preference Shares, as to the payment of dividends, return of capital and the distribution of assets in the event of the liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, or any other distribution of the assets of the Corporation among its shareholders for the purpose of winding-up its affairs. Each series of First Preference Shares participates rateably with every other series of First Preference Shares in respect of accumulated cumulative dividends and returns of capital if any amount of cumulative dividends, whether or not declared, or amount payable on the return of capital in respect of a series of First Preference Shares, is not paid in full.

Voting

The holders of the First Preference Shares are not entitled to any voting rights as a class except to the extent that voting rights may from time to time be attached to any series of First Preference Shares, and except as provided by law or as described below under "Modification". At any meeting of the holders of the First Preference Shares, each holder shall have one vote in respect of each First Preference Share held.

Redemption

Subject to the provisions of the *Corporations Act* (Newfoundland and Labrador) and any provisions relating to any particular series, Fortis, upon giving proper notice, may redeem out of capital or otherwise at any time, or from time to time, the whole or any part of the then outstanding First Preference Shares of any one or more series on payment for each such First Preference Share of such price or prices as may be applicable to such series. Subject to the foregoing, in case a part only of the then outstanding First Preference Shares of any particular series is at any time redeemed, the shares to be redeemed will be selected by lot in such manner as the directors or the transfer agent for the First Preference Shares, if any, decide, or if the directors so determine, may be redeemed *pro rata* disregarding fractions.

Modification

The class provisions attached to the First Preference Shares may only be amended with the prior approval of the holders of the First Preference Shares in addition to any other approvals required by the *Corporations Act* (Newfoundland and Labrador) or any other statutory provisions of like or similar effect in force from time to time. The approval of the holders of the First Preference Shares with respect to any and all matters may be given by at least two-thirds of the votes cast at a meeting of the holders of the First Preference Shares duly called for that purpose.

Second Preference Shares

The rights, privileges, restrictions and conditions attaching to the Second Preference Shares are substantially identical to those attaching to the First Preference Shares, except that the Second Preference Shares are junior to the First Preference Shares with respect to the payment of dividends, repayment of capital and the distribution of assets of the Corporation in the event of a liquidation, dissolution or winding up of the Corporation.

The specific terms of the Second Preference Shares, including the currency in which Second Preference Shares may be purchased and redeemed and the currency in which any dividend is payable, if other than Canadian dollars, and the extent to which the general terms described in this Prospectus apply to those Second Preference Shares, will be set forth in the applicable Prospectus Supplement. One or more series of Second Preference Shares may be sold separately or together with Common Shares, First Preference Shares, Subscription Receipts or Debentures under this Prospectus.

Subscription Receipts

Subscription Receipts may be offered separately or together with Common Shares, First Preference Shares, Second Preference Shares or Debentures, as the case may be. Subscription Receipts will be issued under a subscription receipt agreement that will be entered into by the Corporation at the time of issuance of the Subscription Receipts.

The applicable Prospectus Supplement will include details of the subscription receipt agreement covering the Subscription Receipts being offered. The specific terms of the Subscription Receipts, and the extent to which the general terms described in this section apply to those Subscription Receipts, will be set forth in the applicable Prospectus Supplement. A copy of the subscription receipt agreement will be filed by the Corporation with securities regulatory authorities after it has been entered into by the Corporation.

The subscription receipt agreement will provide each initial purchaser of Subscription Receipts with a contractual right of rescission following the issuance of any Common Shares, First Preference Shares, Second Preference Shares or Debentures, as applicable, to such purchaser upon the exchange of the Subscription Receipts if this Prospectus, the Prospectus Supplement under which the Subscription Receipts are offered, or any amendment hereto or thereto contains a misrepresentation, as such term is defined in the *Securities Act* (Ontario). This contractual right of rescission will entitle such initial purchaser to receive the amount paid for the Subscription Receipts upon surrender of the Securities issued in exchange therefor, provided that such remedy for rescission is exercised in the time stipulated in

the subscription receipt agreement. This right of rescission will not extend to any holders of Subscription Receipts who acquire such Subscription Receipts from an initial purchaser on the open market or otherwise.

The particular terms of each issue of Subscription Receipts that will be described in the related Prospectus Supplement will include, where applicable:

- the number of Subscription Receipts;
- the price at which the Subscription Receipts will be offered;
- the procedures for the exchange of the Subscription Receipts into Common Shares, First Preference Shares, Second Preference Shares or Debentures, as the case may be;
- the number of Common Shares, First Preference Shares, Second Preference Shares or Debentures, as the case may be, that may be obtained upon exercise of each Subscription Receipt;
- the designation and terms of any other Securities with which the Subscription Receipts will be offered, if any, and the number of Subscription Receipts that will be offered with each Security;
- terms relating to the holding and release or return of the gross proceeds from the sale of the Subscription Receipts plus any interest earned thereon;
- material income tax consequences of owning the Subscription Receipts; and
- any other material terms and conditions of the Subscription Receipts.

Securities issued upon the exchange of Subscription Receipts will be issued for no additional consideration.

Debentures

The following sets forth certain general terms and provisions of Debentures. The particular terms and provisions of Debentures offered pursuant to an accompanying Prospectus Supplement, and the extent to which the general terms and provisions described below may apply to such Debentures, will be described in such Prospectus Supplement.

The Debentures may be offered separately or together with the Common Shares, First Preference Shares, Second Preference Shares or Subscription Receipts, as the case may be. The Debentures will be issued in series under the Corporation’s existing trust indenture or one or more trust indentures to be entered into between the Company and a financial institution to which the *Trust and Loan Companies Act* (Canada) applies or a financial institution organized under the laws of any province of Canada and authorized to carry on business as a trustee. Each such trust indenture will set out the terms of the applicable series of Debentures. The statements in this Prospectus relating to any trust indenture and the Debentures to be issued under it are summaries of certain anticipated provisions of the trust indenture and do not purport to be complete and are subject to, and are qualified in their entirety by reference to, all provisions of the applicable trust indenture.

Each trust indenture may provide that Debentures may be issued thereunder up to the aggregate principal amount which may be authorized from time to time by the Corporation. Any Prospectus Supplement for Debentures supplementing this Prospectus will contain the terms and other information with respect to the Debentures being offered, including:

- the designation, aggregate principal amount and authorized denominations of such Debentures,
- the currency for which the Debentures may be purchased and the currency in which the principal and any interest is payable (in either case, if other than Canadian dollars),
- the percentage of the principal amount at which such Debentures will be issued,
- the date or dates on which such Debentures will mature,
- the rate or rates at which such Debentures will bear interest (if any), or the method of determination of such rates (if any),
- the dates on which any such interest will be payable and the record dates for such payments,
- any redemption term or terms under which such Debentures may be defeased,

- any exchange or conversion terms, and
- any other specific terms.

Each series of Debentures may be issued at various times with different maturity dates, may bear interest at different rates and may otherwise vary.

The Debentures will be direct, unsecured obligations of the Company. The Debentures will be senior or subordinated indebtedness of the Company as described in the relevant Prospectus Supplement.

This Prospectus does not qualify for issuance Debentures in respect of which the payment of principal and/or interest may be determined, in whole or in part, by reference to one or more underlying interests including, for example, an equity or debt security, a statistical measure of economic or financial performance including, but not limited to, any currency, consumer price or mortgage index, or the price or value of one or more commodities, indices or other items, or any other item or formula, or any combination or basket of the foregoing items. For greater certainty, this Prospectus may qualify for issuance Debentures in respect of which the payment of principal and/or interest may be determined, in whole or in part, by reference to published rates of a central banking authority or one or more financial institutions, such as a prime rate or bankers' acceptance rate, or to recognized market benchmark interest rates such as LIBOR, EURIBOR or a U.S. Federal funds rate.

CHANGES IN SHARE AND LOAN CAPITAL STRUCTURE

The following describes the changes in the share and loan capital structure of Fortis since March 31, 2012:

- During the period from April 1, 2012 up to and including May 9, 2012, Fortis issued an aggregate of 56,242 Common Shares upon the exercise of options granted pursuant to the 2002 and 2006 Stock Option Plans, for aggregate consideration of $1.4 million.
- During the period from April 1, 2012 up to and including May 9, 2012, the Corporation's consolidated long-term debt and capital lease obligations, including the current portion and committed credit facility borrowings classified as long-term debt, increased by $131 million, largely due to additional borrowings under the Corporation's committed corporate credit facility.

PRIOR SALES

Fortis has not sold or issued any First Preference Shares, Second Preference Shares, Subscription Receipts, Debentures or securities convertible into First Preference Shares, Second Preference Shares or Debentures during the 12 months prior to the date hereof. The following table summarizes the issuances by the Corporation of Common Shares and securities convertible into Common Shares during the 12 months prior to the date of this Prospectus:

Date	Security	Weighted Average Issue Price or Exercise Price per Security, as applicable	Number of Securities
May 2011	Common – Exercise of Stock Options(1)	$20.68	20,524
June 1, 2011	Common – DRIP(2)	$32.64	454,874
June 1, 2011	Common – CSPP(3)	$33.29	10,780
June 2011	Common – Exercise of Stock Options(1)	$21.60	17,148
June 2011	Common(4)	$33.00	9,100,000
July 2011	Common – Exercise of Over-Allotment Option(4)	$33.00	1,240,000
July 2011	Common – Exercise of Stock Options(1)	$28.19	1,707
August 2011	Common – Exercise of Stock Options(1)	$12.04	19,940
September 1, 2011	Common – DRIP(2)	$30.69	528,636
September 1, 2011	Common – CSPP(3)	$31.30	9,146
September 2011	Common – Exercise of Stock Options(1)	$20.68	74,766
October 2011	Common – Exercise of Stock Options(1)	$26.46	70,810
November 2011	Common – Exercise of Stock Options(1)	$15.10	40,928
November 2011	Common – Conversion of US$40 million of Convertible Debentures(5)	$29.63	1,374,098
December 1, 2011	Common – DRIP(2)	$31.86	390,303
December 1, 2011	Common – CSPP(3)	$32.48	9,332
December 2011	Common – Exercise of Stock Options(1)	$23.83	9,413
January 2012	Common – Exercise of Stock Options(1)	$25.41	16,012
February 2012	Common – Exercise of Stock Options(1)	$22.29	3,870
March 1, 2012	Common – DRIP(2)	$31.52	399,640
March 1, 2012	Common – CSPP(3)	$32.14	12,994
March 2012	Common – Exercise of Stock Options(1)	$25.62	13,639
April 2012	Common – Exercise of Stock Options(1)	$25.49	28,290
May 4, 2012	Stock Options convertible into Common Shares(6)	$34.27	789,220
May 1-9, 2012	Common – Exercise of Stock Options(1)	$23.75	27,952

(1) Issued on the exercise of options granted pursuant to the Executive, 2002 and 2006 Stock Option Plans of the Corporation.
(2) Issued pursuant to the Corporation's Dividend Reinvestment Plan ("DRIP").
(3) Issued pursuant to the Corporation's Consumer Share Purchase Plan ("CSPP").
(4) Issued to the public pursuant to a short-form prospectus dated June 8, 2011.
(5) Convertible debentures issued pursuant to a debenture purchase agreement dated November 7, 2006.
(6) Options granted under the 2012 Stock Option Plan of the Corporation.

TRADING PRICES AND VOLUMES

The following tables set forth, for the periods indicated, the reported high and low daily trading prices and the aggregate volume of trading of the Corporation's Common Shares; First Preference Shares, Series C; First Preference Shares, Series E; First Preference Shares, Series F; First Preference Shares, Series G; and First Preference Shares, Series H, on the TSX.

	Trading of Common Shares			Trading of First Preference Shares, Series C		
	TSX			TSX		
	High	Low	Volume	High	Low	Volume
	($)	($)	(#)	($)	($)	(#)
2011						
May	33.85	31.98	15,795,186	26.19	25.54	463,532
June	33.05	30.79	9,954,946	26.04	25.75	348,223
July	32.85	31.53	5,183,546	26.49	25.85	80,991
August	32.75	28.24	14,509,526	26.45	25.86	34,748
September	33.78	31.44	11,207,968	26.14	25.55	135,005
October	34.39	31.32	7,950,203	26.26	25.60	75,014
November	34.16	31.32	18,591,643	26.45	25.75	123,447
December	33.62	31.97	9,940,675	26.21	25.65	187,813
2012						
January	33.67	32.66	7,561,933	26.61	25.90	21,229
February	34.31	31.76	19,233,895	26.54	25.50	50,239
March	33.17	31.70	11,072,696	25.90	25.53	35,364
April	34.35	31.88	7,960,525	26.25	25.53	275,288
May 1 to 9	34.98	33.55	2,888,641	25.95	25.60	9,625

	Trading of First Preference Shares, Series E			Trading of First Preference Shares, Series F		
	TSX			TSX		
	High	Low	Volume	High	Low	Volume
	($)	($)	(#)	($)	($)	(#)
2011						
May	27.34	26.74	272,521	24.00	23.05	87,756
June	27.24	26.61	143,830	24.25	23.16	74,591
July	27.53	26.80	16,908	24.79	24.01	46,339
August	27.86	26.51	367,951	25.10	23.68	67,083
September	27.00	26.59	60,562	25.00	24.33	52,951
October	27.22	26.50	126,929	26.24	24.50	96,924
November	28.12	27.11	114,823	25.69	24.92	56,811
December	27.45	26.98	28,011	26.41	24.98	39,355
2012						
January	27.60	26.97	72,839	25.85	25.05	70,415
February	28.98	26.75	68,038	25.94	25.00	239,924
March	27.58	26.02	53,080	25.60	25.00	328,502
April	26.60	26.05	333,365	25.30	25.00	167,439
May 1 to 9	26.66	26.59	1,430	25.60	25.21	25,850

	Trading of First Preference Shares, Series G			Trading of First Preference Shares, Series H		
	TSX			TSX		
	High	Low	Volume	High	Low	Volume
	($)	($)	(#)	($)	($)	(#)
2011						
May	26.50	25.88	97,923	26.50	25.14	96,623
June	26.99	25.88	128,971	25.96	25.25	251,857
July	26.30	25.81	68,285	25.95	25.21	67,873
August	26.40	25.34	75,920	26.00	25.14	156,853
September	26.30	25.58	110,543	26.05	25.00	94,461
October	26.58	25.80	69,175	26.00	25.10	48,926
November	26.19	25.43	107,174	25.84	25.10	95,476
December	26.65	25.70	40,271	26.00	25.29	210,693
2012						
January	26.45	25.75	47,858	26.00	25.50	263,320
February	26.50	25.35	88,246	26.72	25.60	111,592
March	25.92	25.46	168,124	25.99	25.45	85,935
April	25.85	25.60	54,552	25.93	25.46	28,764
May 1 to 9	25.95	25.73	21,021	26.00	25.61	21,874

USE OF PROCEEDS

Unless otherwise indicated in a Prospectus Supplement relating to a particular offering of Securities, the Corporation intends to use the net proceeds from the sale of Securities to repay indebtedness and/or to, directly or indirectly, finance future growth opportunities. Specific information about the use of net proceeds will be set forth in a Prospectus Supplement. The Corporation may invest funds which the Corporation does not immediately use. Such investments may include short-term marketable investment grade securities. The Corporation may, from time to time, issue securities (including debt securities) other than pursuant to this Prospectus.

PLAN OF DISTRIBUTION

The Corporation may sell the Securities, separately or together, to or through one or more underwriters or dealers, purchasing as principals for public offering and sale by them, and also may sell Securities to one or more other purchasers directly or through agents. Each Prospectus Supplement will set out the terms of the offering, including the name or names of any underwriters, dealers or agents, the purchase price or prices of the Securities (or the manner of determination thereof if offered on a non-fixed price basis), and the proceeds to the Corporation from the sale of the Securities. Only underwriters, dealers or agents so named in the Prospectus Supplement are deemed to be underwriters, dealers or agents, as the case may be, in connection with the Securities offered thereby.

The Securities may be sold, from time to time in one or more transactions at a fixed price or prices which may be changed or at market prices prevailing at the time of sale, at prices related to such prevailing market prices or at negotiated prices. The prices at which the Securities may be offered may vary as between purchasers and during the period of distribution. If, in connection with the offering of Securities at a fixed price or prices, the underwriters have made a *bona fide* effort to sell all of the Securities at the initial offering price fixed in the applicable Prospectus Supplement, the public offering price may be decreased and thereafter further changed, from time to time, to an amount not greater than the initial public offering price fixed in such Prospectus Supplement, in which case the compensation realized by the underwriters, dealers or agents will be decreased by the amount that the aggregate price paid by purchasers for the Securities is less than the gross proceeds paid by the underwriters, dealers or agents to the Corporation.

If underwriters or dealers purchase Securities as principal, the Securities will be acquired by the underwriters or dealers for their own account and may be resold from time to time in one or more transactions, including negotiated transactions, at a fixed public offering price or at varying prices determined at the time of sale. The obligations of the underwriters or dealers to purchase those Securities will be subject to certain conditions precedent, and the underwriters or dealers will be obligated to purchase all the Securities offered by the Prospectus Supplement if any of such Securities are purchased. Any public offering price and any discounts or concessions allowed or re-allowed or paid may be changed from time to time.

The Securities may also be sold directly by the Corporation in accordance with applicable securities laws at prices and upon terms agreed to by the purchaser and the Corporation or through agents designated by the Corporation from time to time. Any agent involved in the offering and sale of the Securities pursuant to a particular Prospectus Supplement will be named, and any commissions payable by the Corporation to that agent will be set forth, in such Prospectus Supplement. Unless otherwise indicated in the Prospectus Supplement, any agent would be acting on a best efforts basis for the period of its appointment.

In connection with the sale of the Securities, underwriters, dealers or agents may receive compensation from the Corporation in the form of commissions, concessions and discounts. Any such commissions may be paid out of the general funds of the Corporation or the proceeds of the sale of the Securities. Underwriters, dealers and agents who participate in the distribution of the Securities may be entitled under agreement to be entered into with the Corporation to indemnification by the Corporation against certain liabilities, including liabilities under Canadian securities legislation, or to contribution with respect to payments which such underwriters, dealers or agents may be required to make in respect thereof. Such underwriters, dealers and agents may engage in transactions with, or perform services for, the Corporation in the ordinary course of business.

In connection with any offering of Securities, the applicable Prospectus Supplement will set forth any intention by the underwriters, dealers or agents to offer, allot or effect transactions which stabilize or maintain the market price of the Securities offered at a level above that which might otherwise prevail in the open market. Such transactions, if commenced, may be interrupted or discontinued at any time.

CERTAIN INCOME TAX CONSIDERATIONS

The applicable Prospectus Supplement will describe certain material Canadian federal income tax consequences to an investor who is a resident of Canada or who is a non-resident of Canada of the acquisition, ownership and disposition of any Securities offered thereunder, including whether the payment of dividends will be subject to Canadian non-resident withholding tax.

RISK FACTORS

An investment in Securities involves certain risks. A prospective purchaser of Securities should carefully consider the risk factors described under the heading "Business Risk Management" in the MD&A found on pages 48 to 61 of the Corporation's 2011 Annual Report and on pages 28 to 29 of the Corporation's Management Discussion and Analysis of financial condition and results of operations for the three months ended March 31, 2012, each of which is incorporated by reference herein. In addition, a prospective purchaser of Securities should carefully consider the other information contained in this Prospectus and in all subsequently filed documents incorporated by reference and those described in a Prospectus Supplement relating to a specific offering of Securities.

Completion of the Acquisition of CH Energy Group

The acquisition of CH Energy Group is subject to certain shareholder, regulatory and other approvals. Failure to obtain, or any delay in obtaining, such approvals could adversely impact the Corporation's ability to close the Acquisition or the timing of such closing. In addition, there is risk that some, or all, of the expected benefits of the acquisition of CH Energy Group may fail to materialize or may not occur within the time periods anticipated by the Corporation. The realization of such benefits may be impacted by a number of factors, many of which are beyond the control of Fortis.

No Market for the Securities

There is currently no trading market for the First Preferred Shares, Second Preferred Shares, Subscription Receipts or Debentures that may be offered pursuant to this Prospectus and any Prospectus Supplement. No assurance can be given that an active or liquid trading market for these securities will develop or be sustained. If an active or liquid market for these Securities fails to develop or be sustained, the prices at which the Securities trade may be adversely affected. Whether or not the Securities will trade at lower prices depends on many factors, including liquidity of these Securities, prevailing interest rates and the markets for similar securities, the market price of the Common Shares, general economic conditions and the Corporation's financial condition, historic financial performance and future prospects.

AUDITOR

The auditors of the Corporation are Ernst & Young LLP, Chartered Accountants, The Fortis Building, 7th Floor, 139 Water Street, St. John's, Newfoundland and Labrador A1C 1B2.

LEGAL MATTERS

Unless otherwise specified in a Prospectus Supplement relating to a specific offering of Securities, certain legal matters relating to the offering of Securities will be passed upon on behalf of the Corporation by Davies Ward Phillips & Vineberg LLP, Toronto and McInnes Cooper, St. John's. At the date hereof, partners and associates of each of Davies Ward Phillips & Vineberg LLP and McInnes Cooper own beneficially, directly or indirectly, less than 1% of any securities of the Corporation or any associate or affiliate of the Corporation.

PURCHASERS' STATUTORY RIGHTS

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may only be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment, irrespective of the determination at a later date of the purchase price of the securities distributed. In several of the provinces, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revisions of the price or damages if the prospectus and any amendment contains

a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revisions of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights or consult with a legal advisor.

AUDITORS' CONSENT

We have read the Short Form Base Shelf Prospectus (the "Prospectus") of Fortis Inc. (the "Corporation") dated May 10, 2012 relating to the issue and sale of Common Shares, First Preference Shares, Second Preference Shares, Subscription Receipts and Debentures of the Corporation. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the incorporation by reference, in the Prospectus, of our reports to the shareholders of the Corporation: (i) on the consolidated balance sheets of the Corporation as at December 31, 2011 and 2010 and the consolidated statements of earnings, retained earnings, comprehensive income and cash flows for each of the years in the two-year period ended December 31, 2011, prepared in accordance with Canadian generally accepted accounting principles; and (ii) on the consolidated balance sheets of the Corporation as at December 31, 2011 and 2010 and the consolidated statements of earnings, retained earnings, comprehensive income and cash flows for each of the years in the two-year period ended December 31, 2011, prepared in accordance with accounting principles generally accepted in the United States. Each such report is dated March 13, 2012.

St. John's, Canada
May 10, 2012

(Signed) ERNST & YOUNG LLP
Chartered Accountants

CERTIFICATE OF FORTIS INC.

Dated: May 10, 2012

This short form prospectus, together with the documents incorporated in this prospectus by reference, will, as of the date of the last supplement to this prospectus relating to the securities offered by the prospectus and the supplement(s), constitute full, true and plain disclosure of all material facts relating to the securities offered by this prospectus and the supplement(s) as required by the securities legislation of each of the provinces of Canada.

(Signed) H. STANLEY MARSHALL President and Chief Executive Officer	(Signed) BARRY V. PERRY Vice-President, Finance and Chief Financial Officer

On behalf of the Board of Directors

(Signed) DAVID G. NORRIS Director	(Signed) PETER E. CASE Director

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. This short form prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities.

Information has been incorporated by reference in this short form prospectus from documents filed with securities commissions or similar authorities in Canada. *Copies of the documents incorporated herein by reference may be obtained on request without charge from the Secretary of the Corporation at Suite 1201, 139 Water Street, St. John's, Newfoundland and Labrador A1B 3T2 (telephone (709) 737-2800) and are also available electronically at www.sedar.com. The securities being offered under this short form prospectus have not been and will not be registered under the United States Securities Act of 1933, as amended, or any state securities laws, and, except in limited circumstances, will not be offered or sold within the United States or for the account or benefit of United States persons. See "Plan of Distribution".*

SHORT FORM PROSPECTUS

New Issue June 29, 2009

FORTIS INC.

$200,000,000

6.51% SENIOR UNSECURED DEBENTURES DUE JULY 4, 2039

The 6.51% senior unsecured debentures (the "Debentures") of Fortis Inc. ("Fortis" or the "Corporation") being offered hereby will mature on July 4, 2039. The Debentures will be issued in denominations of $1,000 and integral multiples thereof. Interest on the Debentures will be payable in equal instalments semi-annually in arrears on January 4 and July 4 of each year, commencing on January 4, 2010. The Debentures will be direct senior unsecured unsubordinated obligations of Fortis and payment of the principal of and interest on the Debentures will rank *pari passu* with all other present and future unsecured and unsubordinated senior indebtedness of the Corporation.

The Corporation may, at its option, in whole at any time or in part from time to time before maturity, on not less than 30 days' and not more than 60 days' prior notice, redeem the Debentures at a redemption price equal to the greater of the principal amount of the Debentures to be redeemed and the Canada Yield Price (as defined herein) of the principal amount thereof to be redeemed, together, in each case, with accrued but unpaid interest to but excluding the date fixed for redemption. See "Details of the Offering — Redemption".

Investing in the Debentures involves certain risks that should be considered by a prospective purchaser. See "Risk Factors".

Price: $999.34 per Debenture to yield 6.51% per annum

	Price to the Public	Agents' Fee(1)	Net Proceeds to Fortis(2)
Per $1,000 principal amount of Debentures	$999.34	$5.00	$994.34
Total	$199,868,000	$1,000,000	$198,868,000

(1) Consisting of the Agents' fee of $5.00 per $1,000.00 principal amount of Debentures.

(2) Before deducting expenses of the issue estimated at $575,000 which, together with the Agents' fees, will be paid out of the general funds of Fortis. See "Plan of Distribution".

There is no market through which the Debentures may be sold and purchasers may not be able to resell Debentures purchased under this Prospectus. This may affect the pricing of the Debentures in the secondary market, the transparency and availability of trading prices, the liquidity of the Debentures and the extent of issuer regulation. See "Risk Factors".

BMO Nesbitt Burns Inc., CIBC World Markets Inc., RBC Dominion Securities Inc., Scotia Capital Inc., TD Securities Inc., HSBC Securities (Canada) Inc. and National Bank Financial Inc. (collectively, the "Agents") have agreed to use their reasonable best efforts to sell the Debentures offered by this short form prospectus (the "Offering") from the Corporation at 99.934% of their principal amount subject to the terms and conditions set forth in the Agency Agreement referred to under "Plan of Distribution" and subject to the approval of certain legal matters on behalf of the Corporation by Davies Ward Phillips & Vineberg LLP, Toronto and McInnes Cooper, St. John's and on behalf of the Agents by Stikeman Elliott LLP, and will receive an aggregate fee of $1,000,000, assuming the full amount of the Debentures offered are sold. In the event the full amount of the Debentures are not sold, the fee paid to the Agents will be pro-rated accordingly.

Each of the Agents is a subsidiary of a Canadian chartered bank that has, either solely, together with its affiliates, or as a member of a syndicate of financial institutions, extended credit facilities to, or holds indebtedness of, the Corporation and/or its subsidiaries. A portion of the net proceeds from the Offering will be used to repay in full the outstanding indebtedness under the credit facility owing by the Corporation to such banks. Consequently, the Corporation may be considered a "connected issuer" of these Agents within the meaning of applicable securities legislation. See "Use of Proceeds" and "Plan of Distribution".

Subscriptions for the Debentures will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that the closing of the Offering will take place on or about July 2, 2009 (the "Closing Date"), or such other date as may be agreed upon by the Corporation and the Agents, but not later than July 15, 2009. A book entry only certificate representing the Debentures distributed hereunder will be issued in registered form only to CDS Clearing and Depository Services Inc. ("CDS") or a nominee thereof and will be deposited with CDS on the Closing Date. No certificates evidencing the Debentures will be issued to purchasers, except in certain limited circumstances, and registration will be made using the depository services of CDS. A purchaser of Debentures will receive only a customer confirmation from a registered dealer who is a CDS participant from or through whom the Debentures are purchased. See "Book-Entry Only System".

TABLE OF CONTENTS

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus (the "Prospectus"), including the documents incorporated herein by reference, contains forward-looking information which reflects management's expectations regarding the future growth, results of operations, performance, business prospects and opportunities of Fortis Inc. ("Fortis" or the "Corporation"), and may not be appropriate for other purposes. All forward-looking information is given pursuant to the "safe harbour" provisions of applicable Canadian securities legislation. The words "anticipates", "believes", "could", "estimates", "expects", "forecasts", "intends", "may", "might", "plans", "projects", "schedule", "should", "will", "would" and similar expressions are often intended to identify forward-looking information, although not all forward-looking information contains these identifying words. The forward-looking information reflects management's current beliefs and is based on information currently available to the Corporation's management. The forward-looking information in this Prospectus, including the documents incorporated herein by reference, includes, but is not limited to, statements regarding: the expected timing of regulatory decisions; consolidated forecasted gross capital expenditures for 2009 and in total over the next five years; the nature, timing and costs associated with certain capital projects; the expected impacts on Fortis of the downturn in the global economy; the electricity sales growth rate expected at the Corporation's regulated utilities in the Caribbean in 2009; the expectation of no significant decrease in annual consolidated operating cash flows in 2009; the expectation that the subsidiaries will be able to source the cash required to fund their 2009 capital expenditure programs; the expectation that the Corporation and its subsidiaries will continue to have reasonable access to long-term capital in the near to medium terms; expected long-term debt maturities and repayments on average annually over the next five years; no material increase in interest expense and/or fees associated with renewed and extended credit facilities being expected in 2009; no material adverse credit rating actions being expected in the near term; the expectation that counterparties to the Terasen Gas companies' gas derivative contracts will continue to meet their obligations; and the expectation of no material increase in defined benefit pension expense in 2009. The forecasts and projections that make up the forward-looking information are based on assumptions which include, but are not limited to: the receipt of applicable regulatory approvals and requested rate orders; no significant operational disruptions or environmental liability due to a catastrophic event or environmental upset caused by severe weather, other acts of nature or other major event; the continued ability to maintain the gas and electricity systems to ensure their continued performance; no significant decline in capital spending in 2009; no severe and prolonged downturn in economic conditions; sufficient liquidity and capital resources; the continuation of regulator-approved mechanisms to flow through the commodity cost of natural gas and energy supply costs in customer rates; the continued ability to hedge exposures to fluctuations in interest rates, foreign exchange rates and natural gas commodity prices; no significant variability in interest rates; no significant counterparty defaults; the continued competitiveness of natural gas pricing when compared with electricity and other alternative sources of energy; the continued availability of natural gas supply; the continued ability to fund defined benefit pension plans; the absence of significant changes in government energy plans and environmental laws that may materially affect the operations and cash flows of the Corporation and its subsidiaries; maintenance of adequate insurance coverage; the ability to obtain and maintain licences and permits; retention of existing service areas; no material decrease in market energy sales prices; favourable relations with First Nations; favourable labour relations; and sufficient human resources to deliver service and execute the capital program. The forward-looking information is subject to risks, uncertainties and other factors that could cause actual results to differ materially from historical results or results anticipated by the forward-looking information. Factors which could cause results or events to differ from current expectations include, but are not limited to: regulatory risk; operating and maintenance risks; economic conditions; capital resources and liquidity risk; weather and seasonality; an ultimate resolution of the expropriation of the assets of the Exploits River Hydro Partnership that differs from what is currently expected by management; commodity price risk; derivative financial instruments and hedging; interest rate risk; counterparty risk; competitiveness of natural gas; natural gas supply; defined benefit pension plan performance and funding requirements; risks related to the development of the Terasen Gas (Vancouver Island) Inc. franchise; the Government of British Columbia's Energy Plan; environmental risks; insurance coverage risk; an unexpected outcome of legal proceedings currently against the Corporation; licences and permits; loss of service area; market energy sales prices; transition to International Financial Reporting Standards; changes in tax legislation; First Nations' lands; labour relations; and human resources. For additional information with respect to the Corporation's risk factors and risk factors relating to the Debentures, reference should be made to the section of this Prospectus entitled "Risk Factors".

All forward-looking information in this Prospectus and in the documents incorporated herein by reference is qualified in its entirety by the above cautionary statements and, except as required by law, the Corporation undertakes no obligation to revise or update any forward-looking information as a result of new information, future events or otherwise.

DOCUMENTS INCORPORATED BY REFERENCE

The disclosure documents of the Corporation listed below and filed with the appropriate securities commissions or similar regulatory authorities in each of the provinces of Canada are specifically incorporated by reference into and form an integral part of this Prospectus:

(a) Annual Information Form dated March 13, 2009 for the year ended December 31, 2008;

(b) audited comparative consolidated financial statements as at December 31, 2008 and for the years ended December 31, 2008 and 2007, together with the notes thereto and the auditors' report thereon dated January 30, 2009, as contained in the Corporation's 2008 Annual Report;

(c) Management Discussion and Analysis of financial condition and results of operations for the year ended December 31, 2008, as contained in the Corporation's 2008 Annual Report;

(d) unaudited comparative interim consolidated financial statements as at March 31, 2009 and for the three months ended March 31, 2009 and 2008, together with the notes thereto;

(e) Management Discussion and Analysis of financial condition and results of operations for the three months ended March 31, 2009; and

(f) Management Information Circular dated April 3, 2009 prepared in connection with the Corporation's annual meeting of shareholders held on May 5, 2009.

Any document of the type referred to in the preceding paragraph, any material change report (other than any confidential material change report) and any business acquisition report subsequently filed by the Corporation with such securities commissions or regulatory authorities after the date of the Prospectus, and prior to the termination of the Offering, shall be deemed to be incorporated by reference into the Prospectus.

Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Prospectus to the extent that a statement contained herein, or in any other subsequently filed document which also is incorporated or is deemed to be incorporated by reference herein, modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement will not be deemed an admission for any purpose that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus.

Copies of the documents incorporated herein by reference may be obtained on request without charge from the Secretary of the Corporation at Suite 1201, 139 Water Street, St. John's, Newfoundland and Labrador A1B 3T2 (telephone (709) 737-2800). These documents are also available through the Internet on the Corporation's website at www.fortisinc.com or under the Corporation's profile on the Canadian System for Electronic Document Analysis and Retrieval ("SEDAR"), which can be accessed at www.sedar.com. The information contained on, or accessible through, any of these websites is not incorporated by reference into the Prospectus and is not, and should not be considered to be, a part of the Prospectus, unless it is explicitly so incorporated.

ELIGIBILITY FOR INVESTMENT

In the opinion of Davies Ward Phillips & Vineberg LLP, counsel to the Corporation, and Stikeman Elliott LLP, counsel to the Agents, the Debentures being offered pursuant to this Prospectus, if issued on the date hereof, would be qualified investments under the *Income Tax Act* (Canada) (the "Tax Act") for a trust governed by a registered retirement savings plan, registered retirement income fund, deferred profit sharing plan ("DPSP") (other than a trust governed by a DPSP for which any employer is the Corporation or is an employer that does not deal at arm's length with the Corporation for purposes of the Tax Act), registered education savings plan, registered disability savings plan or a tax-free savings account ("TFSA"). The Debentures will not be "prohibited investments" for a TFSA where the holder of the TFSA is not a "specified shareholder" of the Corporation, and the Corporation deals at arm's length with such holder for purposes of the Tax Act and any person in which such holder has a "significant interest", as each such term is defined in the Tax Act.

CURRENCY

All dollar amounts in the Prospectus are expressed in Canadian dollars unless otherwise indicated.

SUMMARY

The following information is a summary only and is to be read in conjunction with, and is qualified in its entirety by, the more detailed information appearing elsewhere in the Prospectus and in the documents incorporated by reference herein. Unless otherwise noted or the context otherwise indicates, "Corporation" refers to Fortis Inc. All capitalized terms used but not defined in this Summary are defined under the heading "Details of the Offering — Definitions".

The Offering

Offering: $200,000,000 principal amount of 6.51% senior unsecured debentures (the "Debentures").

Interest: 6.51% per annum from the date of issue, accrued daily and calculated and payable in equal instalments semi-annually in arrears on January 4 and July 4 of each year, commencing January 4, 2010. The initial interest payment, payable on January 4, 2010, will be $32.91 per $1,000 principal amount of Debentures. See "Details of the Offering — Interest Rate and Maturity".

Maturity Date: July 4, 2039.

Redemption: The Corporation may, at its option, in whole at any time or in part from time to time before maturity, on not less than 30 days' and not more than 60 days' prior notice, redeem the Debentures at a price equal to the greater of the principal amount of the Debentures to be redeemed and the Canada Yield Price (as defined below) of the principal amount thereof to be redeemed, together, in each case, with accrued but unpaid interest to but excluding the date fixed for redemption. See "Details of the Offering — Redemption".

"Canada Yield Price" means the price, in respect of the principal amount of the Debentures to be redeemed, calculated as of the business day immediately prior to the business day on which the Corporation gives notice of a redemption of Debentures, equal to the net present value of all scheduled payments of interest and principal on the Debentures from the date of redemption to the date of maturity, using as a discount rate the sum of the Canada Yield (as defined below) on such business day plus 0.65%.

"Canada Yield" means, on any date, the yield to maturity on such date as determined by the arithmetic average (rounded to three decimal places) of the yields quoted at 10:00 a.m. (Toronto time) by two major Canadian investment dealers selected by the Corporation in accordance with the Indenture, assuming semi-annual compounding and calculated in accordance with generally accepted financial practice, which a non-callable Government of Canada bond would carry if issued in Canadian dollars in Canada at 100% of its principal amount on such date with a term to maturity approximately equal to the remaining term to maturity of the particular series of debentures in respect of which the Canada Yield Price is being determined.

Ranking: The Debentures will be direct, senior unsecured unsubordinated obligations of Fortis and payment of the principal of and interest on and other amounts owing in respect of the Debentures will rank *pari passu* with all other present and future unsecured and unsubordinated senior Indebtedness of Fortis and shall have priority over all present and future Subordinated Debt of Fortis. The trust indenture pursuant to which the Debentures will be issued permits the issuance from time to time of an unlimited aggregate principal amount of debentures in one or more series. See "Details of the Offering — Ranking" and "Details of the Offering — Trust Indenture".

Use of Proceeds:	If the full aggregate amount of the Debentures being offered hereby are sold, the estimated net proceeds of the Offering to Fortis will be $198,293,000 (determined after deducting the agents' fee and estimated expenses of the Offering payable by Fortis). The net proceeds of the Offering will be used to repay in full the outstanding indebtedness of approximately $110 million under the Corporation's $600 million committed credit facility and for general corporate purposes. Indebtedness under the Corporation's credit facility was incurred for general corporate purposes and to fund equity injections into the Corporation's utilities in support of their capital expenditure programs. See "Use of Proceeds".
Covenants:	The indenture governing the Debentures will contain certain covenants of the Corporation, including, among other things: (i) that the Corporation shall not, directly or indirectly, create, incur, assume or suffer to exist any Lien on any property or asset now owned or later acquired other than permitted liens; (ii) that the Corporation shall not, and shall take all necessary corporate action to ensure that its Material Subsidiaries shall not, incur any Funded Obligation if immediately thereafter the Corporation's Consolidated Funded Obligations would be in excess of 75% of its Total Consolidated Capitalization; and (iii) that the Corporation shall not declare or pay any dividend (other than stock dividends or cumulative preferred dividends on preferred shares not issued as stock dividends) or make any other distribution on its shares or redeem any of its shares or prepay Subordinated Debt if immediately thereafter the Corporation's Consolidated Funded Obligations would be in excess of 75% of its Total Consolidated Capitalization. See "Details of the Offering — Certain Covenants of the Corporation".
Ratings:	The Debentures have received provisional ratings of "BBB (high)" with a stable trend by DBRS Limited and "A−" by Standard & Poor's Rating Services, a division of The McGraw-Hill Companies (Canada) Corporation. See "Ratings".
Repurchase Upon Change of Control Event:	Upon a Change of Control Event, the Corporation will be required to offer to repurchase from each holder of Debentures all or any portion of such holder's Debentures. The offer must be made within five days of the Change of Control Event and must specify a proposed repurchase date not less than 30 days and not more than 60 days after the date of such offer. Any repurchase of Debentures shall be at 100% of the principal amount of such Debentures, together with interest on such Debentures accrued to the date of repurchase. See "Details of the Offering — Repurchase of Debentures Upon Change of Control Event".
Purchase for Cancellation:	The Corporation shall have the right to purchase Debentures in the market, by tender or private contract, from time to time. Any Debentures purchased by the Corporation shall be cancelled and no Debenture shall be issued in substitution therefore. See "Details of the Offering — Purchase of Debentures for Cancellation".
Listing:	There is no market through which the Debentures may be sold and purchasers may not be able to resell Debentures purchased under this Prospectus. This may affect the pricing of the Debentures in the secondary market, the transparency and availability of trading prices, the liquidity of the Debentures and the extent of issuer regulation. See "Risk Factors".
Earnings Coverage:	Earnings coverage information is provided in this Prospectus under the heading "Earnings Coverage Ratio".
Risk Factors:	An investment in Debentures involves certain risks. See "Risk Factors".

FORTIS

Fortis Inc. (“Fortis” or the “Corporation”) was incorporated as 81800 Canada Ltd. under the *Canada Business Corporations Act* on June 28, 1977. The Corporation was continued under the *Corporations Act* (Newfoundland) on August 28, 1987 and on October 13, 1987 the Corporation amended its articles to change its name to “Fortis Inc.” The address of the head office and principal place of business of the Corporation is The Fortis Building, Suite 1201, 139 Water Street, St. John’s, Newfoundland and Labrador A1B 3T2.

Fortis is the largest investor-owned distribution utility in Canada. As at March 31, 2009, the Corporation had total assets approaching $12 billion and annual revenues for 2008 totalling $3.9 billion, the Corporation serves more than 2,000,000 gas and electricity customers. Its regulated holdings include electric distribution utilities in five Canadian provinces and three Caribbean countries and a natural gas distribution utility in British Columbia. Regulated utility assets comprise approximately 92% of the Corporation’s total assets, with the balance comprised of non-regulated generation assets and commercial real estate and hotels. Fortis is the direct owner of all of the common shares of Terasen Inc. (“Terasen”), a company that, through its subsidiaries, is the principal distributor of natural gas in British Columbia. Fortis is the indirect owner of all of the common shares of FortisAlberta Inc. (“FortisAlberta”), a regulated electric utility that distributes electricity generated by other market participants in Alberta, and FortisBC Inc. (“FortisBC”), a regulated electric utility that generates, transmits and distributes electricity in British Columbia. Fortis also holds all of the common shares of Newfoundland Power Inc. (“Newfoundland Power”) and, through its non-regulated wholly owned subsidiary Fortis Properties Corporation (“Fortis Properties”), holds all of the common shares of Maritime Electric Company, Limited (“Maritime Electric”), which are the principal distributors of electricity in Newfoundland and Prince Edward Island, respectively. As well, through its wholly owned subsidiary FortisOntario Inc. (“FortisOntario”) and its subsidiaries, Canadian Niagara Power Inc. (“CNPI”) and Cornwall Street Railway, Light and Power Company, Limited, Fortis provides an integrated electric utility service to customers primarily in Fort Erie, Cornwall, Gananoque and Port Colborne in Ontario.

The Corporation’s regulated electric utility assets in the Caribbean consist of its ownership, through wholly owned subsidiaries, of an approximate 70% controlling interest in Belize Electricity Limited (“Belize Electricity”), the principal distributor of electricity in Belize, Central America, and an approximate 57% controlling interest in Caribbean Utilities Company, Ltd. (“Caribbean Utilities”), the sole provider of electricity on Grand Cayman, Cayman Islands. Fortis also owns, through a wholly owned subsidiary, P.P.C. Limited and Atlantic Equipment & Power (Turks and Caicos) Ltd. (together, “Fortis Turks and Caicos”), the principal distributor of electricity on the Turks and Caicos Islands.

The Corporation’s non-regulated electricity generation operations consist of its 100% interest in each of Belize Electric Company Limited (“BECOL”), FortisOntario and non-regulated generation assets owned either directly or indirectly by FortisBC, Fortis Properties and Fortis.

BECOL owns and operates the 25-megawatt (“MW”) Mollejon and 7-MW Chalillo hydroelectric generating facilities, both of which are located on the Macal River in Belize. Construction of the U.S.$53 million 19-MW Vaca hydroelectric generating facility, also located on the Macal River, commenced in May 2007 and the facility is expected to come into service at the beginning of 2010. FortisOntario includes the operation of a 5-MW gas-fired cogeneration plant in Cornwall. The non-regulated electricity generation operations of FortisBC consist of the 16-MW run-of-river Walden hydroelectric power plant near Lillooet, British Columbia.

Through FortisUS Energy Corporation (“FortisUS Energy”), an indirect wholly owned subsidiary of Fortis, the Corporation owns and operates four hydroelectric generating stations in upper New York State with a total combined capacity of approximately 23 MW. The operations of FortisUS Energy are managed by Fortis Properties.

Fortis Properties is also the direct owner of a 51% interest in the Exploits River Hydro Partnership (the “Exploits Partnership”). The Exploits Partnership was established with AbitibiBowater Inc., formerly Abitibi-Consolidated Company of Canada (“Abitibi”), which holds the remaining 49% interest. The Exploits Partnership was established to develop additional capacity at Abitibi’s hydroelectric generating plant at Grand Falls-Windsor and redevelop Abitibi’s hydroelectric generating plant at Bishop’s Falls, both in central Newfoundland. See “Non-Regulated — Fortis Generation — Central Newfoundland”.

Fortis Properties also owns six small hydroelectric generating stations in eastern Ontario with a combined capacity of 8 MW.

Through Fortis Properties, the Corporation owns 21 hotels in eight Canadian provinces and commercial real estate primarily in Atlantic Canada.

Regulated Gas Utilities — Canadian

Terasen

The natural gas distribution business of Terasen is one of the largest in Canada. With approximately 934,000 customers, Terasen's subsidiaries provide service to over 96% of gas users in British Columbia. Terasen Gas Inc. ("TGI") is the largest of these subsidiaries, serving approximately 835,500 customers in a service area extending from Vancouver to the Fraser Valley and the interior of British Columbia. Terasen Gas (Vancouver Island) Inc. ("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, serving approximately 96,000 customers. In addition to providing transmission and distribution services to customers, TGI and TGVI also obtain natural gas supplies on behalf of most residential and commercial customers. Gas supplies are sourced primarily from northeastern British Columbia and Alberta. Terasen Gas (Whistler) Inc. owns and operates the newly-converted natural gas distribution system in Whistler, British Columbia, providing service to approximately 2,500 residential and commercial customers. The natural gas pipeline from Squamish to Whistler was completed during the spring of 2009 with the conversion of customer appliances expected to be completed in the late summer of 2009. The Terasen companies own and operate more than 46,000 kilometres of natural gas distribution and transmission pipelines and, as of March 31, 2009, had met a peak day demand of 1,234 terajoules for 2009.

Regulated Electric Utilities — Canadian

FortisAlberta

FortisAlberta distributes electricity to approximately 463,000 customers in Alberta using approximately 108,400 kilometres of distribution lines and, as of March 31, 2009, had met a peak demand of 3,117 MW for 2009. FortisAlberta's business is the ownership and operation of regulated electricity distribution facilities that distribute electricity generated by other market participants from high-voltage transmission substations to end-use customers in central and southern Alberta. FortisAlberta is not involved in the generation, transmission or direct sale of electricity.

FortisBC

FortisBC is an integrated, regulated electric utility that owns a network of generation, transmission and distribution assets located in the southern interior of British Columbia. FortisBC serves a diverse mix of approximately 158,000 customers, with residential customers representing the largest customer segment, and, as of March 31, 2009, had met a peak demand of 714 MW for 2009. FortisBC owns four regulated hydroelectric generating plants with an aggregate capacity of 223 MW that provide approximately 45% of FortisBC's energy and 30% of its capacity needs. FortisBC's remaining electricity supply is acquired through long-term power purchase contracts and short-term market purchases. FortisBC's business also includes operating, maintenance and management services relating to the 450-MW Waneta hydroelectric generation facility owned by Teck Cominco Metals Ltd., the 269-MW Brilliant Hydroelectric Plant and the 185-MW Arrow Lakes Hydroelectric Plant, each owned by Columbia Power Corporation and Columbia Basin Trust, and the distribution system owned by the City of Kelowna.

Newfoundland Power

Newfoundland Power is an electric utility that operates an integrated generation, transmission and distribution system throughout the island portion of the Province of Newfoundland and Labrador. Newfoundland Power serves approximately 237,000 customers, or approximately 85% of electricity consumers in the Province, and, as of March 31, 2009, had met a peak demand of 1,219 MW for 2009. Approximately 92% of the electricity that Newfoundland Power sells to its customers is purchased from Newfoundland and Labrador Hydro Corporation ("Newfoundland Hydro"). Currently, Newfoundland Power has an installed generating capacity of 140 MW, of which 97 MW is hydroelectric generation.

Maritime Electric

Maritime Electric is an electric utility that operates an integrated generation, transmission and distribution system on Prince Edward Island. Maritime Electric directly supplies approximately 73,000 customers, or approximately 90% of electricity consumers on the Island, and, as of March 31, 2009, had met a peak demand of 211 MW for 2009. Maritime Electric purchases most of the energy it distributes to its customers from New Brunswick Power Corporation and maintains on-Island generating facilities with an aggregate capacity of 150 MW.

FortisOntario

FortisOntario's distribution operations serve approximately 52,000 customers in the Fort Erie, Cornwall, Gananoque and Port Colborne areas of Ontario and, as of March 31, 2009, had met a combined peak demand of 222 MW for 2009. Through CNPI, FortisOntario owns international transmission facilities at Fort Erie and owns a 10% interest in each of Westario Power Inc., Rideau St. Lawrence Holdings Inc. and Grimsby Power Incorporated, three regional electric distribution companies that, together, serve more than 37,000 customers.

Regulated Electric Utilities — Caribbean

Belize Electricity

Fortis holds an indirect approximate 70% controlling ownership interest in Belize Electricity, the principal distributor of electricity in Belize, Central America. Belize Electricity directly supplies approximately 74,000 customers in Belize and, as of March 31, 2009, had met a peak demand of 69 MW for 2009.

Caribbean Utilities

Fortis holds an indirect approximate 57% controlling ownership interest in Caribbean Utilities. Caribbean Utilities has the exclusive right to distribute and transmit electricity on the island of Grand Cayman, Cayman Islands, pursuant to a 20-year licence entered into on April 3, 2008. Caribbean Utilities also entered into a non-exclusive 21.5-year power generation licence with the Government of the Cayman Islands on April 3, 2008.

Caribbean Utilities currently serves approximately 25,000 customers, has approximately 137 MW of installed generating capacity and, as of March 31, 2009, had met a peak demand of 85 MW for 2009. The Class A Ordinary Shares of Caribbean Utilities are listed for trading on the Toronto Stock Exchange ("TSX") under the symbol CUP.U.

Fortis Turks and Caicos

Fortis Turks and Caicos serves approximately 9,500 customers, or approximately 85% of electricity consumers, on the Turks and Caicos Islands. Fortis Turks and Caicos is the principal distributor of electricity on Turks and Caicos pursuant to two 50-year licences that expire in 2036 and 2037, respectively. Fortis Turks and Caicos has an installed generating capacity of approximately 51 MW and, as of March 31, 2009, had met a peak demand of 26 MW for 2009.

Non-Regulated — Fortis Generation

Belize

Generation operations in Belize are conducted through BECOL under a franchise agreement with the Government of Belize. BECOL owns and operates the 25-MW Mollejon hydroelectric generating facility and the 7-MW Chalillo hydroelectric generating facility. Both facilities are located on the Macal River in Belize. These generating plants have the capacity of delivering average annual energy production of approximately 160 gigawatt hours ("GWh"). BECOL sells its entire output to Belize Electricity under a 50-year power purchase agreement expiring in 2055. In May 2007, BECOL began construction on the U.S.$53 million 19-MW hydroelectric generating facility at Vaca on the Macal River in Belize. The facility is expected to come into service at the beginning of 2010.

The Minister of Public Utilities of Belize has issued a statutory instrument purporting to declare providers of electricity generation and water services, including BECOL, as public utility providers within the meaning of the Public Utilities Commission Act as of May 1, 2009. Fortis is currently assessing the statutory instrument and its impact on previously negotiated and Belize Public Utility Commission-approved power purchase agreements.

Ontario

Non-regulated generation operations in Ontario are conducted through FortisOntario and Fortis Properties and include the operation of a 5-MW gas-fired cogeneration plant in Cornwall and six small hydroelectric generating stations with a combined capacity of approximately 8 MW.

Central Newfoundland

Non-regulated generation operations in central Newfoundland are conducted through the Corporation's indirect 51% interest in the Exploits Partnership. These operations generate approximately 610 GWh annually, of which 470 GWh was utilized by Abitibi, while the remainder is sold to Newfoundland Hydro under a 30-year take-or-pay power purchase agreement expiring in 2033, which is exempt from regulation.

On December 16, 2008, the Government of Newfoundland and Labrador passed legislation expropriating most of the assets of Abitibi located in Newfoundland and Labrador. As a result, effective the first quarter of 2009, the financial results of the Exploits Partnership are being accounted for in the financial statements of Fortis using the equity method of accounting. Discussions are ongoing with various parties with respect to matters relating to the expropriation.

British Columbia

Non-regulated generation operations in British Columbia are conducted through FortisBC and consist of the 16-MW run-of-river Walden hydroelectric power plant near Lillooet. This plant sells its entire output to British Columbia Hydro & Power Authority under a power purchase agreement expiring in 2013.

Upper New York State

Non-regulated generation operations in upper New York State are conducted through FortisUS Energy and include the operations of four hydroelectric generating stations with a combined generating capacity of approximately 23 MW operating under licences from the United States Federal Energy Regulatory Commission. Since January 1, 2007, all four plants have been selling energy at current market rates.

Non-Regulated — Fortis Properties

In addition to its non-regulated generation operations, Fortis Properties owns and operates 21 hotels in eight Canadian provinces, including a hotel located in Ontario which was acquired in April 2009, with a total of more than 4,000 rooms and approximately 2.8 million square feet of commercial real estate primarily in Atlantic Canada.

CAPITAL RESOURCES

The Corporation's principal businesses of regulated gas and electric distribution require ongoing access to capital markets to allow them to fund maintenance and expansion of infrastructure and repay maturing debt. To meet short-term capital requirements, the Corporation and its larger regulated utility subsidiaries have secured multi-year committed credit facilities. As at March 31, 2009, the Corporation and its subsidiaries had consolidated authorized lines of credit of $2.2 billion, of which $1.6 billion was available to be drawn.

The Corporation and its subsidiaries will require new capital for the repayment of at least a portion of its maturing debt. As at March 31, 2009, long-term debt maturities over the next five years are expected to average approximately $170 million annually.

RECENT DEVELOPMENTS

Financings

On June 2, 2009, FortisBC completed a $105 million public offering of 6.10% senior unsecured medium term note debentures due 2039 under its shelf prospectus. On May 29, 2009, Caribbean Utilities completed the first tranche of a US$40 million private placement of 7.5% senior unsecured notes due 2024 for gross proceeds of US$30 million. On May 25, 2009, Newfoundland Power completed a $65 million private placement of 6.606% first mortgage sinking fund bonds due 2039. The net proceeds from these financings are being used by these Fortis subsidiaries principally to repay a portion of their respective existing indebtedness.

FortisOntario

On April 30, 2009, a power-for-water exchange agreement between FortisOntario and Ontario Power Generation Inc., known as the Niagara Exchange Agreement, expired in accordance with its terms. The Niagara Exchange Agreement provided FortisOntario with a 75 MW water-right entitlement.

On June 23, 2009, FortisOntario entered into an agreement to acquire 100% of the shares of Great Lakes Power Distribution Inc. ("GLPD") from Brookfield Renewable Power Inc. for an estimated aggregate cash purchase price of $68 million, subject to adjustment. The transaction is subject to Ontario Energy Board and *Competition Act* (Canada) approval. GLPD is a distribution utility with a service area of approximately 14,200 square kilometres extending 225 kilometres north and 93 kilometres east of Sault Ste. Marie, Ontario. GLPD's distribution system serves approximately 12,000 customers and has a peak load of approximately 40 MW.

CAPITALIZATION

The following table sets out the consolidated capitalization of the Corporation as at March 31, 2009 and after giving effect to the Offering. The financial information set out below should be read in conjunction with the Corporation's annual audited consolidated financial statements and unaudited interim consolidated financial statements and the notes thereto incorporated by reference into the Prospectus.

	Outstanding at March 31, 2009	*Pro forma* Outstanding at March 31, 2009
	(unaudited)	(unaudited)
	(in millions of dollars)	
Total debt (net of cash)	5,453	5,316[(1)(3)]
Securities offered hereby	0	198
Preference shares[(2)]	320	320
Shareholders' equity		
Common shares	2,462	2,473[(1)]
Preference shares	347	347
Contributed surplus	9	9
Equity portion of convertible debentures	6	6
Accumulated other comprehensive loss	(43)	(43)
Retained earnings	682	682
Total capitalization	9,236	9,308

(1) After giving effect to the Offering and the change in the common share capital and long-term debt from April 1, 2009 to June 25, 2009. See "Changes in Share and Loan Capital Structure".

(2) These preference shares are classified as long-term liabilities in the financial statements of Fortis.

(3) Securities offered hereby are net of after-tax agency fees and Offering expenses.

SHARE CAPITAL OF FORTIS

The authorized share capital of the Corporation consists of an unlimited number of common shares ("Common Shares"), an unlimited number of First Preference Shares issuable in series and an unlimited number of Second Preference Shares issuable in series, in each case without nominal or par value. As at June 25, 2009, 170,310,963 Common Shares, 5,000,000 First Preference Shares, Series C, 7,993,500 First Preference Shares, Series E, 5,000,000 First Preference Shares, Series F and 9,200,000 First Preference Shares, Series G were issued and outstanding. The Corporation's Common Shares, First Preference Shares, Series C, First Preference Shares, Series E, First Preference Shares, Series F and First Preference Shares, Series G are listed on the TSX under the symbols "FTS", "FTS.PR.C", "FTS.PR.E", "FTS.PR.F" and "FTS.PR.G", respectively.

CHANGES IN SHARE AND LOAN CAPITAL STRUCTURE

During the period from April 1, 2009 up to and including June 25, 2009, Fortis issued an aggregate of 552,309 Common Shares pursuant to the Corporation's Consumer Share Purchase Plan, Dividend Reinvestment Plan, Employee Share Purchase Plan and upon the exercise of options granted pursuant to the Executive and 2002 Stock Option Plans, for aggregate consideration of approximately $11.2 million.

During the period from April 1, 2009 up to and including June 25, 2009, the Corporation's consolidated long-term debt and capital lease obligations (including the current portion) increased by approximately $61 million.

TRADING PRICES AND VOLUMES

The following tables set forth, for the periods indicated, the reported high and low daily trading prices and the aggregate volume of trading of the Corporation's Common Shares, First Preference Shares, Series C, First Preference Shares, Series E, First Preference Shares, Series F and First Preference Shares, Series G on the TSX.

	Trading of Common Shares			Trading of First Preference Shares, Series C		
	TSX			TSX		
	High	Low	Volume	High	Low	Volume
	($)	($)	(#)	($)	($)	(#)
2008						
June	28.02	27.05	7,651,899	26.64	25.76	44,426
July	27.65	24.11	10,918,974	26.25	25.80	25,580
August	27.15	24.51	8,347,786	26.24	25.50	91,043
September	26.23	23.50	8,047,826	26.20	25.26	19,704
October	26.75	20.70	19,490,343	26.25	20.44	54,921
November	28.00	24.51	13,933,581	25.50	23.56	124,621
December	27.46	23.15	13,159,441	25.95	24.55	98,670
2009						
January	25.06	22.89	7,809,701	26.65	25.16	97,287
February	24.60	22.33	14,130,845	26.55	25.15	50,592
March	24.24	21.52	14,643,369	25.99	24.50	81,017
April	23.20	21.55	11,180,355	26.65	25.26	79,564
May	24.31	22.15	11,200,604	26.95	25.52	38,926
June 1 to 26	26.12	23.67	9,366,211	27.49	26.36	40,889

	Trading of First Preference Shares, Series E			Trading of First Preference Shares, Series F		
	TSX			TSX		
	High	Low	Volume	High	Low	Volume
	($)	($)	(#)	($)	($)	(#)
2008						
June	26.70	24.80	52,730	21.87	19.00	166,441
July	26.50	24.50	31,794	20.00	18.00	159,824
August	26.49	24.55	39,848	20.35	19.75	100,320
September	26.39	24.85	89,850	20.50	18.50	113,705
October	24.50	23.00	44,208	18.99	16.57	224,945
November	24.99	22.50	28,650	19.78	16.00	100,535
December	25.99	21.00	108,907	17.85	15.50	241,520
2009						
January	27.99	24.25	161,245	19.84	17.00	126,556
February	25.30	25.00	60,300	20.54	18.26	91,487
March	25.00	24.80	64,032	20.40	18.80	65,467
April	25.25	24.90	135,449	20.03	19.01	65,507
May	25.45	24.90	92,569	20.89	19.05	99,625
June 1 to 26	26.48	25.50	32,377	20.50	19.50	73,682

	Trading of First Preference Shares, Series G		
	TSX		
	High	Low	Volume
	($)	($)	(#)
2008			
June	25.50	24.95	263,022
July	25.52	25.01	124,660
August	25.98	25.25	114,417
September	25.80	25.10	156,866
October	25.45	20.00	70,985
November	24.00	18.00	181,916
December	22.00	17.00	296,675
2009			
January	23.00	19.90	128,062
February	23.98	22.29	83,648
March	23.70	21.50	88,211
April	25.00	22.44	117,185
May	25.49	23.94	152,290
June 1 to 26	25.75	24.70	114,491

EARNINGS COVERAGE RATIO

The Corporation's interest and dividend requirements on all of its outstanding debt and First Preference Shares after giving effect to the issue of $200,000,000 principal amount of 6.51% senior unsecured debentures (the "Debentures") to be distributed under this Prospectus, and adjusted to a before-tax equivalent using an effective income tax rate of 19.3%, amounted to $428 million and $416 million for each of the 12 months ended December 31, 2008 and the 12 months ended March 31, 2009, respectively. The Corporation's interest requirements for the 12 months ended December 31, 2008 and 12 months ended March 31, 2009 amounted to $390 million and $374 million, respectively. The Corporation's earnings before interest and income tax for the 12 months ended December 31, 2008 and 12 months ended March 31, 2009 were $687 million and $684 million, respectively, which is 1.60 times and 1.64 times, respectively, the Corporation's aggregate dividend and interest requirements for the periods.

RATINGS

The Debentures are provisionally rated "BBB (high)" with a stable trend by DBRS Limited ("DBRS"). "BBB (high)" is the fourth highest of DBRS's ten rating categories for long-term debt obligations which range from AAA to D. Each rating category from AA to C is subject to a "high" and "low" designation to indicate the relative standing of the securities being rated within a particular rating category.

The Debentures are provisionally rated "A−" by Standard & Poor's Rating Services, a division of The McGraw-Hill Companies (Canada) Corporation ("S&P") using their global scale for long-term debt obligations. The "A−" rating is the third highest of the ten rating categories used by S&P for long-term debt, which range from AAA to D. S&P uses the "+" or " −" designation to reflect the relative strength within the rating category.

Credit ratings are intended to provide investors with an independent measure of the credit quality of an issue of securities. The credit ratings accorded to the Debentures by these rating agencies are not recommendations to purchase, hold or sell the Debentures, as such ratings do not comment as to market price or suitability for a particular investor. There is no assurance that any rating will remain in effect for any given period of time or that any rating will not be revised or withdrawn entirely by a rating agency in the future if, in its judgment, circumstances so warrant.

DETAILS OF THE OFFERING

The following is a summary of the principal terms and conditions of the Debentures and of the Indenture (as defined below) under which they will be issued. This summary does not purport to be complete. For full particulars, reference should be made to the Indenture. Certain capitalized terms used in the following summary are defined under "Definitions" below.

Trust Indenture

The Debentures will be issued under a trust indenture (the "Indenture") to be dated as of the date of closing of this Offering (the "Closing Date"), which is expected to occur on July 2, 2009, between the Corporation and Computershare Trust Company of Canada, as trustee (the "Trustee").

The Indenture permits the issuance from time to time of an unlimited aggregate principal amount of debentures in one or more series. The Prospectus qualifies the distribution of the Debentures which will be issued in an aggregate principal amount of $200,000,000. Additional series of debentures may be issued from time to time pursuant to supplemental indentures to be entered into in accordance with the terms and conditions of the Indenture.

The Corporation may increase at any time the aggregate principal amount of any outstanding series of debentures by issuing additional debentures of that series subject to any limitations as to the maximum principal amount of debentures of such particular series as set out in the Indenture (in respect of the Debentures) and any supplemental indenture (in respect of any other series of debentures). The aggregate principal amount of Debentures that may be issued under the Indenture is limited to the aggregate principal amount of Debentures being offered hereby.

Interest Rate and Maturity

The Debentures will be dated the Closing Date and will mature on July 4, 2039. The Debentures will be offered at 99.934% of their principal amount, plus accrued interest, if any, and will bear interest at a rate of 6.51% per annum. Principal and interest, accrued daily and calculated and payable in equal instalments semi-annually in arrears on January 4 and July 4 of each year, commencing January 4, 2010, and premium, if any, will be payable in lawful money of Canada. The initial interest payment, payable on January 4, 2010, will be $32.91 per $1,000 principal amount of Debentures.

Form of the Debentures and Transfer

The Debentures will be issued in "book-entry only" form through CDS Clearing and Depository Services Inc. ("CDS") or its nominee, in denominations of $1,000 and integral multiples thereof. See "Book-Entry Only System".

Payments

The Corporation will make payments in respect of principal, premium, if any, and interest on Debentures to CDS or its nominee. See "Book-Entry Only System — Payment of Interest and Other Amounts".

Ranking

The Debentures will be direct, senior unsecured unsubordinated obligations of Fortis and payment of the principal of and interest on and other amounts owing in respect of the Debentures will rank *pari passu* with all other present and future unsecured and unsubordinated senior Indebtedness (as defined below) of Fortis and shall have priority over all present and future Subordinated Debt (as defined below) of Fortis.

Redemption

The Debentures will be redeemable, at the Corporation's option, in whole at any time or in part from time to time before maturity, on not less than 30 days' and not more than 60 days' prior notice, at a redemption price equal to the greater of the principal amount of the Debentures to be redeemed and the Canada Yield Price of the principal amount thereof to be redeemed, together, in each case, with accrued but unpaid interest to but excluding the redemption date. "Canada Yield Price" means the price, in respect of the principal amount of the Debentures to be redeemed, calculated as of the business day immediately prior to the business day on which the Corporation gives notice of a redemption of Debentures, equal to the net present value of all scheduled payments of interest and principal on the Debentures from the date of redemption to the date of maturity, using as a discount rate the sum of the Canada Yield on such business day plus 0.65%. "Canada Yield" means, on any date, the yield to maturity on such date as determined by the arithmetic average (rounded to three decimal places) of the yields quoted at 10:00 a.m. (Toronto time) by two major Canadian investment dealers selected by the Corporation in accordance with the Indenture, assuming semi-annual compounding and calculated in accordance with generally accepted financial practice, which a non-callable Government of Canada bond would carry if issued in Canadian dollars in Canada at 100% of its principal amount on such date with a term to maturity approximately equal to the remaining term to maturity of the particular series of debentures in respect of which the Canada Yield Price is being determined.

Where less than all of the outstanding Debentures are to be redeemed, the Debentures to be redeemed will be selected on a *pro rata* basis by the Trustee to the nearest $1,000 principal amount of Debentures registered in the name of each holder; provided that in no case shall a Debenture be redeemed in part unless the remaining principal amount is at least $1,000.

Repurchase of Debentures Upon Change of Control Event

The Indenture will provide that, upon a Change of Control Event, the Corporation will be required to offer to repurchase from each holder of Debentures all or any portion of such holder's Debentures. This repurchase requirement will also apply to any additional debentures issued under the Indenture and indentures supplemental thereto ("Additional Debentures").

Within five days of a Change of Control, the Corporation shall give to each holder of Debentures written notice containing a description, in reasonable detail, of the Change of Control. Within five days of a Change of Control Event, the Corporation shall give to each holder of Debentures written notice thereof containing and constituting an offer to repurchase Debentures as described in the Indenture, accompanied by the certificate described below.

Any such offer shall be an offer to repurchase all or any portion of the Debentures held by each holder on the proposed repurchase date to be specified in such offer that is not less than 30 days and not more than 60 days after the date of such offer (if the proposed repurchase date is not specified in such offer, the proposed repurchase date shall be the first business day which is at least 45 days after the date of such offer).

Any such repurchase of Debentures shall be at 100% of the principal amount of such Debentures, together with interest on such Debentures accrued to the date of repurchase. The repurchase shall be made on the proposed repurchase date.

Each such offer to repurchase Debentures shall be accompanied by a certificate, executed by the Chief Financial Officer of the Corporation and dated the date of such offer, specifying: (i) the proposed repurchase date; (ii) that such offer is made pursuant to the Indenture; (iii) that the Corporation is offering to repurchase all or any portion of the Debentures held by the holder thereof for a price equal to 100% of the principal amount of the Debentures repurchased together with interest on such Debentures accrued to the date of repurchase; (iv) the interest that would be due on each Debenture offered to be repurchased, accrued to the proposed repurchase date; (v) that the conditions required under the Indenture have been fulfilled; and (vi) in reasonable detail, the nature and date of the Change of Control.

Purchase of Debentures for Cancellation

The Corporation shall have the right to purchase Debentures in the market, by tender or private contract, from time to time. Any Debentures purchased by the Corporation shall be cancelled and no Debenture shall be issued in substitution therefor.

Certain Covenants of the Corporation

The Indenture will contain, among other things, covenants and provisions applicable so long as any of the Debentures are outstanding, substantially to the following effect:

Negative Pledge

The Corporation shall not, directly or indirectly, create, incur, assume or suffer to exist any Lien (other than Permitted Liens (as that term is defined in the Indenture)), on any property or asset now owned or hereafter acquired, or any income or profits therefrom, or assign or convey any right to receive income therefrom to secure any Indebtedness, unless (i) if such Lien secures Indebtedness which ranks in priority to or *pari passu* with the Debentures, the Debentures and any Additional Debentures are secured on an equal and rateable basis with the obligations so secured until such time as such Indebtedness is no longer secured by a Lien, or (ii) if such Lien secures Subordinated Debt, any such Lien shall be subordinated to a Lien granted to the holders of the Debentures and any Additional Debentures to the same extent as such Subordinated Debt is subordinated to the Debentures. "Permitted Liens" include, but are not limited to (i) Liens or privileges for taxes, rates, assessments or governmental charges, (ii) purchase money security interests, and (iii) any other Liens (which do not otherwise constitute a Permitted Lien) which secure Indebtedness or other obligations, provided that the aggregate Indebtedness or other obligations secured by such other Liens do not exceed $30 million at any time.

Limitations on Additional Indebtedness

The Corporation shall not, and shall take all necessary corporate action to ensure that no Material Subsidiary will, directly or indirectly, incur, issue, assume, guarantee or otherwise become directly or indirectly liable with respect to any Funded Obligation, unless (i) the aggregate principal amount of the Consolidated Funded Obligations after giving effect thereto does not exceed 75% of its Total Consolidated Capitalization, calculated on a *pro forma* basis, and (ii) no default or Event of Default (as defined herein) shall have occurred and be continuing under the Indenture at the time of, or will occur as a consequence of, such Funded Obligation having been incurred, issued, assumed, guaranteed or otherwise becoming a liability of the Corporation or any Material Subsidiary.

Limitations on Successor Corporations

The Corporation shall not enter into any transaction, or series of transactions, in which all or substantially all of its property and assets would become the property of any other person, whether by way of reorganization, consolidation, amalgamation, arrangement, merger, transfer, sale or otherwise, unless (i) either the Corporation is the surviving entity, or the entity formed by the amalgamation, consolidation or into which the Corporation is merged, or that acquires all or substantially all of the property and assets of the Corporation is organized under the laws of Canada or any of its provinces or territories and expressly assumes all the obligations of the Corporation under the Indenture and any supplemental indentures, and (ii) no default or Event of Default is continuing or will occur as a result of such transaction or series of transactions.

Limitations on Related Party Transactions

The Corporation shall not engage in any transaction with any affiliate on terms that are less favourable to the Corporation than with an unrelated third party.

Limitations on Intercompany Loans and Guarantees

The Corporation shall take all necessary corporate action to ensure that no Material Subsidiary provides loans, guarantees or other forms of financial assistance to another person (other than (i) a subsidiary of such Material Subsidiary, (ii) another Material Subsidiary or (iii) the Corporation) in which the Corporation has a direct or indirect ownership interest (other than a nominal interest or investments made in the normal cash management process); provided, however, that this restriction shall not limit the ability of a Material Subsidiary (A) to provide such financial assistance where such action is in the normal course of such Material Subsidiary's business including, without limitation, the purchase of commercial paper issued by a subsidiary, and (B) to provide such financial assistance provided that the aggregate of all financial assistance given by the Material Subsidiaries shall not exceed at any time 10% of the Consolidated Net Worth.

Limitations on Certain Payments

The Corporation shall not declare or pay any dividend (other than stock dividends or cumulative preferred dividends on preferred shares not issued as stock dividends) or make any other distribution on its shares or redeem, reduce, purchase or otherwise retire or pay off any of its shares or prepay Subordinated Debt if, immediately thereafter, its Consolidated Funded Obligations would be in excess of 75% of its Total Consolidated Capitalization.

Events of Default

Upon the occurrence of an Event of Default that is continuing, the Trustee may, in its discretion and shall, upon receipt of a written request signed by the holders of not less than 25% of the total principal amount of the Debentures and any Additional Debentures then outstanding, declare the Debentures and any Additional Debentures to be immediately due and payable. The occurrence of any one or more of the following shall constitute an "Event of Default" under the Indenture:

(a) if the Corporation shall default in the payment of any principal or premium, if any, on the Debentures or any Additional Debentures when the same becomes due and payable, including, for greater certainty, a default in payment relating to a redemption of all or part of the Debentures, and such default continues for five business days;

(b) if the Corporation shall default in the payment of any interest on the Debentures or any Additional Debentures when the same becomes due and payable under any provision of the Indenture, any supplemental indenture, the Debentures or any Additional Debentures and such default continues for a period of 30 days;

(c) if the Corporation shall fail to comply with its covenant described in "Details of the Offering — Limitations on Successor Corporations";

(d) if the Corporation shall neglect to observe or perform in any material respect any other covenant or condition contained in the Indenture, any supplemental indenture, the Debentures or any Additional Debentures after notice in writing has been given by the Trustee to the Corporation (which notice the Trustee may, in its discretion, independently provide and shall provide upon receipt of a request in writing signed by the holders of not less than 25% of the total principal amount of the Debentures and any Additional Debentures then outstanding) specifying such default and requiring the Corporation to remedy such default, the Corporation shall fail to remedy such default within a period of 60 days unless the Trustee, having regard to the subject matter of the default, shall have agreed to give the Corporation a longer period of time within which to cure such default, and in such event, within the period agreed to by the Trustee;

(e) if any representation or warranty made by the Corporation in the Indenture, any supplemental indenture, the Debentures or any Additional Debentures is proven to be incorrect in any material respect, unless such incorrect representation or warranty is capable of being corrected and the Corporation cures such default within a period of 60 days following written notice from the Trustee (which notice the Trustee may, in its discretion, independently provide and shall provide upon receipt of a request in writing signed by the holders of not less than 25% of the total principal amount of the Debentures and any Additional Debentures then outstanding) specifying the incorrect representation and warranty, unless the Trustee, having regard to the subject matter of the breach, shall have agreed to give the Corporation a longer period of time within which to cure such default, and in such event, within the period agreed to by the Trustee;

(f) if at any time a default is made by the Corporation or any Material Subsidiary with respect to any Indebtedness (excluding amounts due to the holders of the Debentures or any Additional Debentures), where the aggregate principal amount of such Indebtedness exceeds an amount equal to the greater of 5% of the Consolidated Net Worth at such time and $75,000,000, and (i) if the default is a payment default, such default continues to exist for a period exceeding 30 days; provided that if the payment obligation to which the default relates is accelerated, then the default will constitute an Event of Default immediately following such acceleration, and (ii) if the default is not a payment default, then as a result of the default and the passing of any applicable cure period, the maturity of the obligation is accelerated; provided that, in each case, if the default is cured prior to acceleration of the Debentures and any Additional Debentures, then the Event of Default will be deemed to have been cured;

(g) if a resolution is passed for the winding-up or liquidation of the Corporation, unless such winding-up or liquidation is permitted pursuant to the terms of the Indenture, or if the Corporation seeks relief under the *Companies' Creditors Arrangement Act* (Canada), the *Winding Up and Restructuring Act* (Canada) or any other bankruptcy, insolvency or analogous law, or if the Corporation institutes proceedings to be adjudicated bankrupt or insolvent, or consents to the institution of bankruptcy or insolvency proceedings against it or any substantial part of the property of the Corporation, or makes a general assignment for the benefit of creditors, or admits in writing its inability to pay its debts generally as they become due or takes corporate action in furtherance of any of the foregoing purposes;

(h) if a proceeding is instituted against the Corporation with respect to the appointment of a liquidator, trustee in bankruptcy, custodian, receiver or receiver and manager or other person with similar powers with respect to the Corporation or any material part of the property of the Corporation and such proceeding has not been dismissed, discharged, stayed or restrained within 60 days of the institution thereof, provided that during such 60-day period, the proceeding is being defended in good faith by the Corporation and the position of the holders of the Debentures or any Additional Debentures is not being prejudiced in any material respect; or

(i) if an encumbrancer takes possession of property of the Corporation or a Material Subsidiary that constitutes a substantial part of the property of the Corporation considered on a consolidated basis, or any execution is levied or enforced upon property that constitutes a substantial part of the property of the Corporation considered on a consolidated basis, which execution remains unsatisfied for such period of time as would permit such property to be sold thereunder unless such execution is in good faith being contested by the Corporation or such Material Subsidiary and enforcement and any other action or proceeding relating to such execution has been stayed pending the outcome of such contest.

Modification and Waiver

The Indenture will require the prior written consent of the holders of 100% of the outstanding principal amount of the Debentures to amend the terms of the Debentures which affect the interest rate, the timing, currency, amount or other terms relating to the payment of interest, principal, premium or the applicable redemption price or the terms of repayment, redemption or maturity of the Debentures. The Indenture requires the consent of the holders of at least 66⅔% of the outstanding principal amount of the Debentures and any Additional Debentures represented at a meeting of the holders of the Debentures and any Additional Debentures at which quorum is present to amend or waive other terms and conditions of the Debentures or any Additional Debentures, including a waiver of any default and a cancellation of any declaration to make all amounts outstanding to be immediately due and payable.

Regarding the Trustee

Computershare Trust Company of Canada will serve as the trustee, registrar and paying agent under the Indenture.

Governing Law

The Debentures and the Indenture will be governed by and interpreted in accordance with the laws of the Province of Newfoundland and Labrador and the federal laws of Canada applicable therein.

Definitions

Set forth below is a summary of certain defined terms used in the Indenture which have not been defined herein.

(a) "Change of Control" means any of the following events or circumstances:

- (i) individuals who, at the beginning of any period of 12 consecutive calendar months, constitute the Corporation's board of directors (together with any new director whose election by the Corporation's board of directors or whose nomination for election by the Corporation's shareholders was approved by a vote of at least two-thirds of the directors then still in office who either were directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason (other than death or disability) to constitute a majority of the Corporation's board of directors then in office; or

- (ii) if any person (as such term is defined in section 1(1) of the *Securities Act* (Ontario) as in effect on the date of the Indenture) or group of persons acting jointly or in concert (as such phrase is used in Part XX of the *Securities Act* (Ontario) as in effect as of the date of the Indenture), become the "beneficial owners" (as such term is used in section 1.6(1) of Multilateral Instrument 61-101 as in effect on the date of the Indenture), directly or indirectly, of more than 50% of the total voting power of all classes then outstanding of the Corporation's voting shares.

(b) "Change of Control Event" means, and shall be deemed to have occurred if, at any time after the date of the Indenture, (a) a Change of Control shall have occurred and (b) the Corporation shall have failed to furnish to each holder of Debentures and any Additional Debentures written evidence of a rating in respect of the Debentures and any Additional Debentures of at least Investment Grade assigned by one or more Rating Agencies (as defined herein) during the 90 day period beginning from and after the effective date of the Change of Control (and after giving effect thereto). For purposes of the foregoing, if the Corporation shall have ratings from more than one Rating Agency, then (x) in the case where there are two Rating Agencies, a rating of Investment Grade in respect of the Debentures or any Additional Debentures shall be deemed to have occurred only if both Rating Agencies shall have assigned a rating to the Debentures and any Additional Debentures of a least Investment Grade and (y) in the case where there are three or more Rating Agencies, a rating of Investment Grade in respect of the Debentures or any Additional Debentures shall be deemed to have occurred only if at least a majority of the Rating Agencies shall have assigned a rating to the Debentures and any Additional Debentures of at least Investment Grade.

(c) "Consolidated Funded Obligations" means, as at any date, the aggregate amount of Funded Obligations of the Corporation and its subsidiaries determined on a consolidated basis in accordance with Canadian generally accepted accounting principles.

(d) "Consolidated Net Worth" means the Shareholders' Equity of the Corporation and its subsidiaries determined on a consolidated basis in accordance with Canadian generally accepted accounting principles.

(e) "Funded Obligations" means, as at any date, with respect to the Corporation or a subsidiary, all Indebtedness created, assumed or guaranteed, other than Subordinated Debt and all Indebtedness which matures by its terms on, or is renewable at the option of the debtor to, a date not more than 18 months after the date of the original creation, assumption or guarantee thereof.

(f) "Indebtedness" means all items of indebtedness in respect of any borrowed money (including (i) obligations with respect to bankers' acceptances, (ii) contingent reimbursement obligations relating to letters of credit and other financial instruments, (iii) preferred shares or other securities ranking in priority to common shares (except if issued directly by the Corporation), (iv) indebtedness subordinated to senior indebtedness (except Subordinated Debt issued directly by the Corporation) and (v) deposits, investment certificates and other similar liability instruments (in each case other than trade accounts) and all Purchase Money Obligations which, in accordance with Canadian generally accepted accounting principles, would be recorded in the financial statements as at the date as of which Indebtedness is to be determined (provided that preferred shares or other securities referred to in item (iii) above shall constitute Indebtedness regardless of their treatment under Canadian generally accepted accounting principles), and in any event including, without duplication:

(i) obligations secured by any Lien existing on property owned subject to such Lien, whether or not the obligations secured thereby shall have been assumed; and

(ii) guarantees, indemnities, endorsements (other than endorsements for collection in the ordinary course of business) or other contingent liabilities in respect of obligations of another person for indebtedness for borrowed money of that other person in respect of any amounts borrowed by them.

(g) "Investment Grade" means a written rating by any of S&P, DBRS or any other internationally recognized statistical rating agency (each referred to herein as a "Rating Agency" and collectively as "Rating Agencies") with respect to the Debentures or any Additional Debentures of at least "BBB–" in the case of S&P, of at least "BBB (low)" in the case of DBRS and of at least the lowest investment grade rating level assigned by any other Rating Agency.

(h) "Lien" means, with respect to any property or assets, any security interest, mortgage, deed of trust, lien, pledge, hypothecation, encumbrance, charge, assignment, adverse claim, defect of title in, on or of such property or assets, the interest of a vendor or a lessor under any conditional sales contract, hire-purchase agreements, chattel mortgage, title retention agreement or capital lease (or any financing lease having substantially the same economic effect as any of the foregoing) relating to such property or assets and any other arrangement having the effect of providing security.

(i) "Material Subsidiary" means each subsidiary of the Corporation for which (i) the Corporation's share of such subsidiary's Shareholders' Equity therein exceeds 10% of the Shareholders' Equity of the Corporation or (ii) the amount of the Corporation's share of total assets therein exceeds 10% of the total assets of the Corporation.

(j) "Purchase Money Obligation" means any monetary obligation created or assumed as part of the purchase price of real or tangible personal property, whether or not secured, and any extensions, renewals or refundings of any such obligation, provided that the principal amount of such obligation outstanding on the date of such extensions, renewal or refunding is not increased and further provided that any security given in respect of such obligation shall not extend to any property other than the property acquired in connection with which such obligation was created or assumed and improvements, if any, erected or constructed thereon.

(k) "Shareholders' Equity" means (i) in respect of a corporation, the aggregate amount of shareholders' equity (including common share capital, preferred share capital if issued directly by the corporation, contributed surplus and retained earnings) as shown on the most recent quarterly or annual balance sheet of such corporation calculated in accordance with Canadian generally accepted accounting principles and (ii) in respect of any entity other than a corporation (including a partnership), the aggregate amount of equity (including partnership equity) as shown on the most recent quarterly or annual balance sheet of such entity calculated in accordance with Canadian generally accepted accounting principles.

(l) "Subordinated Debt" means Indebtedness which (i) is subordinated in all rights to senior Indebtedness, (ii) has no contractual rights of acceleration until at least 180 days following a default or an Event of Default while any senior Indebtedness remains outstanding, (iii) does not permit any prepayments or any payments to be made in respect thereof at any time when monies are due and payable with respect to senior Indebtedness and (iv) in the event of any insolvency, bankruptcy, receivership, liquidation, arrangement, reorganization or other similar proceeding, is paid only after all senior Indebtedness has been paid in full.

(m) "Total Consolidated Capitalization" means, as at any date, with respect to the Corporation, without duplication, the sum of:

  (i) Consolidated Net Worth;

  (ii) the principal amount of all Consolidated Funded Obligations;

  (iii) the principal amount of all Subordinated Debt;

  (iv) the accumulated provision for deferred income taxes as shown on the most recent quarterly or annual balance sheet of the Corporation in accordance with Canadian generally accepted accounting principles; and

  (v) the amount of any minority interest as shown on the most recent quarterly or annual balance sheet of the Corporation in accordance with Canadian generally accepted accounting principles.

BOOK-ENTRY ONLY SYSTEM

Except as otherwise provided below, the Debentures will be issued in a "book-entry only" form and must be purchased or transferred through participants ("Participants") in the depository service of CDS or its nominee which include securities brokers and dealers, banks and trust companies. On the Closing Date, the Corporation will cause a global certificate representing the Debentures (the "Global Debenture") to be delivered to, and registered in the name of, CDS or a nominee thereof. Except as otherwise provided below, no purchaser of Debentures will be entitled to a certificate or other instrument from the Corporation or CDS evidencing that purchaser's ownership, and no purchaser will be shown on the records maintained by CDS except through a book entry account of a Participant acting on behalf of the purchaser. Each purchaser of Debentures will receive a customer confirmation of purchase from the registered dealer from which the Debentures are purchased in accordance with the practices and procedures of the dealer. The practices of registered dealers may vary, but generally customer confirmations are issued promptly after execution of a customer order. CDS is responsible for establishing and maintaining book-entry accounts for its Participants having interests in the Debentures. Physical certificates evidencing the Debentures will not be issued to purchasers, except in limited circumstances, and registration will be made through the depository service of CDS.

Neither the Corporation nor the Agents (as defined herein) will assume any liability for: (a) any aspect of the records relating to the beneficial ownership of the Debentures held by CDS or the payments relating thereto; (b) maintaining, supervising or reviewing any records relating to the Debentures; or (c) any advice or representation made by or with respect to CDS and relating to the rules governing CDS or any action to be taken by CDS or at the direction of its Participants. The rules governing CDS provide that it acts as the agent and depository for the Participants. As a result, Participants must look solely to CDS and persons, other than Participants, having an interest in the Debentures must look solely to Participants for payments made by or on behalf of the Corporation to CDS in respect of the Debentures.

If: (i) CDS notifies the Corporation that it is unwilling or unable to continue to act as depository in connection with the Global Debenture and the Corporation is unable to locate a qualified successor; (ii) the Corporation determines that CDS is no longer willing, able or qualified to discharge properly its responsibilities as holder of the Global Debenture and the Corporation is unable to locate a qualified successor; (iii) the Corporation executes and delivers to the Trustee a written order to the effect that all or a part of such Global Debenture shall be so exchanged; (iv) CDS ceases to be a clearing agency or otherwise ceases to be eligible to be a depository and the Corporation is unable to locate a qualified successor; (v) the Corporation determines that the Debentures shall no longer be held as book-entry only debentures through CDS; (vi) if, after the occurrence of an Event of Default, CDS advises the Trustee that it has received written notification from Participants, acting on behalf of beneficial holders representing, in the aggregate, more than 50% of the aggregate principal amount of outstanding Debentures that the continuance of CDS's book-entry registration system in respect of the Debentures is no longer in their best interest; or (vii) such right is required by applicable law as determined by the Corporation, then certificates representing the Debentures in fully registered form shall be issued to the beneficial holders of interests in such Global Debenture or their nominees.

Manner of Effecting Transfer

The ability of a purchaser to pledge Debentures or otherwise to take action with respect to such purchaser's interest in Debentures (other than through a Participant) may be limited due to the lack of a physical certificate.

Payment of Interest and Other Amounts

Payment of principal, interest and premium, if any, on the Debentures will be made by the Corporation to CDS or its nominee, as the case may be, as registered holder of the Debentures. As long as CDS or its nominee is the registered owner of the Debentures, CDS or its nominee, as the case may be, will be considered the sole owner of the Debentures for the purposes of receiving payments on the Debentures.

The Corporation expects that CDS or its nominee, upon receipt of any payment in respect of the Debentures, will credit, on the date an amount is payable, the Participants' accounts with payments in an amount proportionate to their respective beneficial interest in the principal amount of such Debentures as shown on the records of CDS or its nominee. The Corporation also expects that payments by the Participants to the owners of beneficial interests in such Debentures held through such Participants will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participants. The responsibility and liability of the Corporation in respect of the Debentures issued in book-entry form is limited to making payment of any amount due on such Debentures to CDS or its nominee.

USE OF PROCEEDS

If the full aggregate amount of the Debentures being offered hereby is sold, the net proceeds of the Offering will be approximately $198 million, determined after deducting the Agents' Fee (as defined herein) and the expenses of the Offering, which expenses are estimated to be $575,000. A portion of the net proceeds of the Offering will be used to repay in full the outstanding indebtedness of approximately $110 million under the Corporation's $600 million committed credit facility and the balance of the net proceeds will be used for general corporate purposes. Indebtedness under the Corporation's credit facility was incurred for general corporate purposes and to fund equity injections into the Corporation's utilities in support of their capital expenditure programs.

PLAN OF DISTRIBUTION

Pursuant to an agreement (the "Agency Agreement") dated June 25, 2009 between the Corporation and BMO Nesbitt Burns Inc., CIBC World Markets Inc., RBC Dominion Securities Inc., Scotia Capital Inc., TD Securities Inc., HSBC Securities (Canada) Inc. and National Bank Financial Inc., as agents (collectively, the "Agents"), the Agents have agreed to use their reasonable best efforts to obtain purchasers to purchase on July 2, 2009 (the "Closing Date"), or on such other date not later than July 15, 2009 as may be agreed upon by the Corporation and the Agents, subject to the terms and conditions contained therein, up to $200,000,000 principal amount of Debentures for total consideration of up to $199,868,000 plus accrued interest, if any, from July 2, 2009 to the date of delivery, payable in cash to the Corporation against delivery of the Debentures. The Agency Agreement provides that the Agents will be paid an agency fee (the "Agents' Fee") per $1,000 principal amount of Debentures equal to $5.00 on account of services rendered. While the Agents have agreed to use their best efforts to sell the Debentures offered hereby, they are not obligated to purchase any Debentures which are not sold.

Assuming the sale of the principal amount of $200,000,000 Debentures, the total price to the public will be $199,868,000, the Agents' Fee will be $1,000,000 and the net proceeds to Fortis will be $198,293,000, after deducting the expenses of the Offering estimated at $575,000 which, together with the Agents' Fee, will be paid out of the general funds of the Corporation.

Subscriptions for the Debentures will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that the closing of the Offering (the "Closing") will take place on the Closing Date or such other date as may be agreed upon by the Corporation and the Agents, but not later than July 15, 2009.

The Agents may not, throughout the period of distribution under this Prospectus, bid for or purchase the Debentures. The foregoing restriction is subject to certain exceptions, as long as the bid or purchase is not engaged in for the purpose of creating actual or apparent active trading in or raising the price of such securities. These exceptions include a bid or purchase permitted under the Universal Market Integrity Rules administered by the Investment Industry Regulatory Organization of Canada relating to market stabilization and passive market making activities and a bid or purchase made for and on behalf of a customer when the order was not solicited during the period of distribution.

The Debentures have not been, and will not be, registered under the United States *Securities Act of 1933*, as amended (the "1933 Act") or any state securities laws and, subject to certain exceptions, may not be offered, or delivered, directly or indirectly, or sold in the United States except in certain transactions exempt from the registration requirements of the 1933

Act and in compliance with any applicable state securities laws. The Agents have agreed that they will not offer or sell the Debentures within the United States, its territories, its possessions and other areas subject to its jurisdiction or to, or for the account or benefit of, a "U.S. person" (as defined in Regulation S under the 1933 Act), except in accordance with the Agency Agreement pursuant to an exemption from the registration requirements of the 1933 Act provided by Rule 144A thereunder and in compliance with applicable state securities laws. In addition, until 40 days after the commencement of the Offering, an offer or sale of Debentures within the United States by any dealer (whether or not participating in the Offering) may violate the registration requirements of the 1933 Act if such offer is made otherwise than in reliance on Rule 144A.

The obligations of the Agents under the Agency Agreement are several and not joint and several and may be terminated at their discretion in certain circumstances, including upon the occurrence of certain stated events. Under the terms of the Agency Agreement, the Agents may be entitled to indemnification by the Corporation against certain liabilities, including liabilities for misrepresentation in the Prospectus.

Each of the Agents is a subsidiary of a Canadian chartered bank that has, either solely, together with its affiliates, or as a member of a syndicate of financial institutions, extended credit facilities to, or holds indebtedness of, the Corporation and/or its subsidiaries (the "Existing Facilities"). A portion of the net proceeds from the Offering will be used to repay in full the outstanding indebtedness under the credit facility owing by the Corporation to such banks. Consequently, the Corporation may be considered a "connected issuer" of these Agents within the meaning of applicable securities legislation. None of these Agents will receive any direct benefit from the Offering other than the Agents' Fee relating to the Offering. The decision to distribute the Debentures hereunder and the determination of the terms of the Offering were made through negotiation between the Corporation and the Agents. No bank had any involvement in such decision or determination. As at June 25, 2009, an aggregate of approximately $561 million was outstanding under the Existing Facilities. Approximately $92 million of the Existing Facilities owing by subsidiaries of Fortis is secured by mortgages on real property owned by such subsidiaries. Fortis and/or its subsidiaries are in compliance with their respective obligations under the Existing Facilities. Since the execution of the Existing Facilities, no breach thereunder has been waived by the lenders thereunder. See "Use of Proceeds".

CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Davies Ward Phillips & Vineberg LLP, counsel to Fortis, and Stikeman Elliott LLP, counsel to the Agents, the following is a general summary of the principal Canadian federal income tax considerations generally applicable to a holder of Debentures (a "Holder") who acquires Debentures pursuant to this Offering and who, at all relevant times, for purposes of the Tax Act, is or is deemed to be resident in Canada, holds Debentures as capital property and deals at arm's length with, and is not affiliated with, Fortis. Generally, a Debenture will be considered to be capital property to a Holder provided that the Holder does not hold the Debenture in the course of carrying on a business and has not acquired the Debenture in a transaction or transactions considered to be an adventure in the nature of trade. Certain Holders whose Debentures might not otherwise qualify as capital property may be entitled to obtain such qualification in certain circumstances by making the irrevocable election permitted by subsection 39(4) of the Tax Act. This summary does not address the Canadian federal income tax considerations applicable to a Holder that is a "financial institution" for the purposes of the "mark-to-market" rules; a Holder in interest in which is a "tax shelter investment"; or a Holder that has elected to determine its Canadian tax results in accordance with the "functional currency" rules, as each such term is defined in the Tax Act. Holders to whom these rules may be relevant should consult their own tax advisors.

This summary is based on the current provisions of the Tax Act and the regulations thereunder (the "Regulations") and counsel's understanding of the current published administrative practices of the Canada Revenue Agency. This summary takes into account all specific proposals to amend the Tax Act and Regulations publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof. This summary does not otherwise take into account or anticipate any changes in law or practice, whether by judicial, governmental or legislative decision or action, nor does it take into account tax legislation or considerations of any province, territory or foreign jurisdiction. The provisions of provincial income tax legislation vary from province to province in Canada and in some cases differ from federal income tax legislation.

This summary is of a general nature only and is not intended to be, nor should it be construed to be, legal or tax advice to any particular Holder, and no representations with respect to the income tax consequences to any particular Holder are made. Accordingly, prospective purchasers should consult their own tax advisors for advice with respect to the tax consequences to them of acquiring, holding and disposing of Debentures, including the application and effect of the income and other tax laws of any country, province, state or local tax authority.

Taxation of Interest on Debentures

A Holder that is a corporation, partnership, unit trust or trust of which a corporation or partnership is a beneficiary will be required to include in its income for a taxation year all interest on a Debenture that accrues to the Holder to the end of that taxation year or becomes receivable or is received by the Holder before the end of that taxation year, except to the extent that such amount was included in its income for a preceding taxation year.

Any other Holder, including an individual, will be required to include in income for a taxation year any interest on a Debenture received or receivable by such Holder in that year (depending upon the method regularly followed by the Holder in computing income), to the extent that such amount was not otherwise included in the Holder's income for that or any preceding taxation year.

Where a Holder is required to include in income interest on a Debenture that accrued before such Debenture was acquired by the Holder, the Holder will be entitled to a deduction in computing income of an equivalent amount. The adjusted cost base to the Holder of the Debenture will be reduced by the amount which is so deductible.

Any premium paid by Fortis to a Holder because of the exercise by Fortis of the right to redeem the Debentures before the maturity thereof will generally be deemed to be interest received at the time by the Holder to the extent that such premium can reasonably be considered to relate to, and does not exceed the value at the time of the redemption of, the interest that would have been paid or payable by Fortis on the Debentures for a taxation year ending after the redemption.

Disposition of Debentures

On a disposition or deemed disposition of a Debenture, including a redemption or a purchase for cancellation, a Holder will generally be required to include in income any premium deemed to be interest and the amount of interest accrued on the Debenture from the date of the last interest payment to the date of disposition to the extent that such amount has not otherwise been included in the Holder's income for the taxation year or a previous taxation year.

In general, a disposition or deemed disposition of a Debenture will give rise to a capital gain (or capital loss) to the extent that the proceeds of disposition, net of any accrued interest or any amount deemed to be interest and any reasonable costs of disposition, exceed (or are less than) the adjusted cost base of the Debenture to the Holder immediately before the disposition. The cost of a Debenture to a Holder thereof will generally be the amount paid for the Debenture.

One-half of the amount of any capital gain (a "taxable capital gain") realized by a Holder in a taxation year generally must be included in the Holder's income in that year and one-half of the amount of any capital loss (an "allowable capital loss") realized by a Holder in a taxation year generally may be deducted from taxable capital gains realized by the Holder in that year. Allowable capital losses in excess of taxable capital gains may be carried back and deducted in any of the three preceding taxation years or carried forward and deducted in any subsequent taxation year against net taxable capital gains realized in such years to the extent and under the circumstances described in the Tax Act. A capital gain realized by an individual (other than certain specified trusts) may give rise to a liability for alternative minimum tax.

Additional Refundable Tax

A Holder that is throughout the year a "Canadian-controlled private corporation" (as defined in the Tax Act) may be liable to pay an additional refundable tax of 6-⅔% on certain investment income, including amounts in respect of interest and taxable capital gains earned or realized in respect of a Debenture.

RISK FACTORS

Risk Factors Relating to the Corporation

An investment in Debentures involves certain risks. A prospective purchaser of Debentures should carefully consider the risk factors described under:

(a) the heading "Risk Factors" found on pages 38 to 50 of the Corporation's Annual Information Form dated March 13, 2009;

(b) the heading "Business Risk Management" in the Management Discussion and Analysis of financial condition and results of operations found on pages 55 to 65 of the Corporation's 2008 Annual Report (the "MD&A");

(c) note 26 “Financial Risk Management” found on pages 122 to 125 in the Corporation’s audited comparative consolidated financial statements as at December 31, 2008 and for the years ended December 31, 2008 and 2007, as contained in the Corporation’s 2008 Annual Report; and

(d) note 19 “Financial Risk Management” found on pages 21 to 24 in the Corporation’s unaudited comparative interim consolidated financial statements as at March 31, 2009 and for the three months ended March 31, 2009 and 2008,

each of which is incorporated by reference herein. In addition, a prospective purchaser of Debentures should carefully consider the risk factors described in this section which relate to the Debentures, as well as the other information contained in this Prospectus (including the documents incorporated by reference herein).

Risk Factors Relating to the Debentures

The value of the Debentures will be affected by the general creditworthiness of the Corporation. The MD&A discusses, among other things, known material trends and events, and risks or uncertainties that are reasonably expected to have a material effect on the Corporation’s business, financial condition or results of operations.

Real or anticipated changes in credit ratings of the Debentures, if any, may affect the market value of such securities. In addition, real or anticipated changes in credit ratings can affect the cost at which the Corporation can transact or obtain funding, and thereby affect the Corporation’s liquidity, business, financial condition or results of operations.

Reference is made to “Earnings Coverage Ratio” in this Prospectus, which is relevant to an assessment of the risk that the Corporation will be unable to pay interest on the Debentures.

The Debentures rank *pari passu* with all other present and future senior unsecured and unsubordinated indebtedness of the Corporation in the event of an insolvency or winding-up of the Corporation.

Prevailing yields on similar securities will affect the market value of the Debentures. Assuming all other factors remain unchanged, the market value of the Debentures will decline as prevailing yields for similar securities rise, and will increase as prevailing yields for similar securities decline. Spreads over the Government of Canada Bond Yield, T-Bill Rate and comparable benchmark rates of interest for similar securities will also affect the market value of the Debentures in an analogous manner.

The Debentures are not redeemable at the option of their Holders. The ability of a Holder to liquidate its holdings of Debentures may be limited.

There can be no assurance that an active trading market will develop for the Debentures after the Offering, or if developed, that such market will be sustained at the price at which the Debentures are initially offered.

AUDITORS

The auditors of the Corporation are Ernst & Young LLP, Chartered Accountants, The Fortis Building, 7th Floor, 139 Water Street, St. John’s, Newfoundland and Labrador A1C 1B2.

LEGAL MATTERS

Certain legal matters relating to this Offering will be passed upon on behalf of the Corporation by Davies Ward Phillips & Vineberg LLP, Toronto and McInnes Cooper, St. John’s and on behalf of the Agents by Stikeman Elliott LLP, Toronto. At the date hereof, partners and associates of each of Davies Ward Phillips & Vineberg LLP, McInnes Cooper and Stikeman Elliott LLP own beneficially, directly or indirectly, less than 1% of any securities of the Corporation or any associate or affiliate of the Corporation.

TRUSTEE AND PAYING AGENT

Computershare Trust Company of Canada at its offices in Toronto and Montreal, is the Trustee under the Indenture. Registers for the registration and transfer of the Debentures will be kept at the offices of the Trustee in Toronto and Montreal. The Trustee is also the paying agent for the Debentures.

PURCHASERS' STATUTORY RIGHTS

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revisions of the price or damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revisions of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights or consult with a legal advisor.

AUDITORS' CONSENT

We have read the short form prospectus (the "Prospectus") of Fortis Inc. (the "Corporation") dated June 29, 2009 relating to the issue and sale of up to $200,000,000 principal amount of 6.51% senior unsecured debentures of the Corporation. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the incorporation by reference, in the above-mentioned Prospectus, of our report to the shareholders of the Corporation on the consolidated balance sheets of the Corporation as at December 31, 2008 and 2007 and the consolidated statements of earnings, retained earnings, comprehensive income and cash flows for the years then ended. Our report is dated January 30, 2009.

St. John's, Canada	(Signed) Ernst & Young LLP
June 29, 2009	Chartered Accountants

CERTIFICATE OF FORTIS INC.

Dated: June 29, 2009

This short form prospectus, together with the documents incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of each of the provinces of Canada.

(Signed) H. Stanley Marshall
President and
Chief Executive Officer

(Signed) Barry V. Perry
Vice President, Finance and
Chief Financial Officer

On behalf of the Board of Directors

(Signed) Geoffrey F. Hyland
Director

(Signed) David G. Norris
Director

CERTIFICATE OF THE AGENTS

Dated: June 29, 2009

To the best of our knowledge, information and belief, this short form prospectus, together with the documents incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of each of the provinces of Canada.

BMO NESBITT BURNS INC.	CIBC WORLD MARKETS INC.
(Signed) P. GRANT WILLIAMS	(Signed) DAVID WILLIAMS

RBC DOMINION SECURITIES INC.	SCOTIA CAPITAL INC.	TD SECURITIES INC.
(Signed) ROBERT M. BROWN	(Signed) D. GREGORY LAWRENCE	(Signed) HAROLD R. HOLLOWAY

HSBC SECURITIES (CANADA) INC.	NATIONAL BANK FINANCIAL INC.
(Signed) NICOLE CATY	(Signed) PAUL PRENDERGAST

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This short form base shelf prospectus has been filed under legislation in all provinces of Canada that permits certain information about these securities to be determined after this prospectus has become final and that permits the omission from this prospectus of that information. The legislation requires the delivery to purchasers of a prospectus supplement containing the omitted information within a specified period of time after agreeing to purchase any of these securities.

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. This short form base shelf prospectus constitutes a public offering of securities only in those jurisdictions where they may be lawfully offered for sale and thereby only by persons permitted to sell such securities.

***Information has been incorporated by reference in this short form base shelf prospectus from documents filed with securities commissions or similar authorities in Canada**. Copies of the documents incorporated herein by reference may be obtained on request without charge from the Secretary of the Corporation at Suite 1201, 139 Water Street, St. John's, Newfoundland and Labrador A1B 3T2 (telephone (709) 737-2800) and are also available electronically at www.sedar.com. The securities being offered under this short form base shelf prospectus have not been and will not be registered under the United States Securities Act of 1933, as amended, or any state securities laws, and, except in limited circumstances, will not be offered or sold within the United States or for the account or benefit of United States persons.*

New Issue May 10, 2012

SHORT FORM BASE SHELF PROSPECTUS

FORTIS INC.

$1,300,000,000

COMMON SHARES
FIRST PREFERENCE SHARES
SECOND PREFERENCE SHARES
SUBSCRIPTION RECEIPTS
DEBENTURES (UNSECURED)

Fortis Inc. ("Fortis" or the "Corporation") may from time to time offer and issue common shares ("Common Shares"), first preference shares (the "First Preference Shares"), second preference shares (the "Second Preference Shares"), subscription receipts ("Subscription Receipts") or unsecured debentures ("Debentures" and together with the Common Shares, First Preference Shares, Second Preference Shares and Subscription Receipts, the "Securities"), having an aggregate offering price of up to $1,300,000,000 (or the equivalent in US dollars or other currencies), during the 25 month period that this short form base shelf prospectus (the "Prospectus"), including any amendments hereto, remains valid. Securities may be offered separately or together, in amounts, at prices and on terms to be determined based on market conditions at the time of sale and set forth in an accompanying shelf prospectus supplement (a "Prospectus Supplement").

The specific variable terms of any offering of Securities will be set out in the applicable Prospectus Supplement including, where applicable: (i) in the case of Common Shares, the number of shares offered and the offering price (or the manner of determination thereof if offered on a non-fixed price basis); (ii) in the case of First Preference Shares and Second Preference Shares, the designation of the particular series, the number of shares offered, the offering price (or the manner of determination thereof if offered on a non-fixed price basis), the currency or currency unit for which such shares may be purchased, any voting rights, any rights to receive dividends, any terms of redemption, any conversion or exchange rights and any other specific terms; (iii) in the case of Subscription Receipts, the offering price (or the manner of determination thereof if offered on a non-fixed price basis), the procedures for the exchange of Subscription Receipts for Common Shares, First Preference Shares, Second Preference Shares or Debentures, as the case may be, and any other specific terms; and (iv) in the case of Debentures, the designation of the Debentures, the aggregate principal amount of the Debentures being offered, the currency or currency unit for which the Debentures may be purchased, authorized denominations, any limit on the aggregate principal amount of the Debentures of the series being offered, the issue and delivery date, the maturity date, the offering price (at par, at a discount or at a premium), the interest rate or method of determining the interest rate, the interest payment date(s), any conversion or exchange rights that are attached to the Debentures, any redemption provisions, any repayment provisions and any other specific terms. A Prospectus Supplement may include other terms pertaining to the Securities that are not within the alternatives and parameters described in this Prospectus.

All shelf information permitted under applicable laws to be omitted from this Prospectus will be contained in one or more Prospectus Supplements that will be delivered to purchasers together with this Prospectus. Each Prospectus Supplement will be incorporated by reference into this Prospectus for the purposes of securities legislation as of the date of the Prospectus Supplement and only for the purposes of the distribution of the Securities to which the Prospectus Supplement pertains.

The Corporation may sell the Securities to or through underwriters or dealers purchasing as principals and may also sell the Securities to one or more purchasers directly subject to obtaining any required exemptive relief or through agents. The Prospectus Supplement relating to a particular offering of Securities will identify each underwriter, dealer or agent, if any, engaged by the Corporation in connection with the offering and sale of Securities and will set forth the terms of the offering of such Securities, the method of distribution of such Securities including, to the extent applicable, the proceeds to the Corporation and any fees, discounts or any other compensation payable to underwriters, dealers or agents and any other material terms of the plan of distribution. Securities may be sold from time to time in one or more transactions at a fixed price or fixed prices, or at non-fixed prices. If offered on a non-fixed price basis, Securities may be offered at market prices prevailing at the time of sale or at prices to be negotiated with purchasers at the time of sale, which prices may vary as between purchasers and during the period of distribution. If Securities are offered on a non-fixed price basis, the underwriters', dealers' or agents' compensation will be increased or decreased by the amount by which the aggregate price paid for Securities by the purchasers exceeds or is less than the gross proceeds paid by the underwriters, dealers or agents to Fortis. See "Plan of Distribution".

No underwriter or dealer has been involved in the preparation of, or has performed any review of, this Prospectus.

The outstanding Common Shares, Cumulative Redeemable First Preference Shares, Series C, Cumulative Redeemable First Preference Shares, Series E, Cumulative Redeemable First Preference Shares, Series F, Cumulative Redeemable Five-Year Fixed Rate Reset First Preference Shares, Series G and Cumulative Redeemable Five-Year Fixed Rate Reset First Preference Shares, Series H of the Corporation are listed on the Toronto Stock Exchange (the "TSX") under the symbols "FTS", "FTS.PR.C", "FTS.PR.E", "FTS.PR.F", "FTS.PR.G" and "FTS.PR.H", respectively. **There is currently no market through which the First Preference Shares, Second Preference Shares, Subscription Receipts or Debentures may be sold and purchasers may not be able to resell any First Preference Shares, Second Preference Shares, Subscription Receipts or Debentures purchased under this Prospectus. This may affect the pricing of the Securities in the secondary market, the transparency and availability of trading prices, the liquidity of the Securities and the extent of issuer regulation. See the "Risk Factors" section of the applicable Prospectus Supplement.**

This Prospectus does not qualify for issuance Debentures in respect of which the payment of principal and/or interest may be determined, in whole or in part, by reference to one or more underlying interests including, for example, an equity or debt security, a statistical measure of economic or financial performance including, but not limited to, any currency, consumer price or mortgage index, or the price or value of one or more commodities, indices or other items, or any other item or formula, or any combination or basket of the foregoing items. For greater certainty, this Prospectus may qualify for issuance Debentures in respect of which the payment of principal and/or interest may be determined, in whole or in part, by reference to published rates of a central banking authority or one or more financial institutions, such as a prime rate or bankers' acceptance rate, or to recognized market benchmark interest rates such as LIBOR, EURIBOR or a U.S. Federal funds rate.

Subject to applicable laws, in connection with any offering of Securities the underwriters, dealers or agents may over-allot or effect transactions which stabilize or maintain the market price of the Securities at levels other than those which may prevail on the open market. Such transactions, if commenced, may be interrupted or discontinued at any time. See "Plan of Distribution".

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Prospectus, including the documents incorporated herein by reference, contains forward-looking information which reflects management's expectations regarding the future growth, results of operations, performance, business prospects and opportunities of Fortis Inc. ("Fortis" or the "Corporation"), and may not be appropriate for other purposes. All forward-looking information is given pursuant to the "safe harbour" provisions of applicable Canadian securities legislation. The words "anticipates", "believes", "budgets", "could", "estimates", "expects", "forecasts", "intends", "may", "might", "plans", "projects", "schedule", "should", "will", "would" and similar expressions are often intended to identify forward-looking information, although not all forward-looking information contains these identifying words. The forward-looking information reflects management's current beliefs and is based on information currently available to the Corporation's management. The forward-looking information in this Prospectus, including the documents incorporated herein by reference, includes, but is not limited to, statements regarding: the Corporation's focus on the United States and Canada in the acquisition of regulated utilities; the pursuit of growth in the Corporation's non-regulated businesses in support of its regulated utility growth strategy; the current environment of low natural gas prices and an abundance of shale gas reserves should help maintain the competitiveness of natural gas versus alternative energy sources in North America; investment to harvest shale oil and gas in Alberta, Canada, is expected to continue and should favourably impact energy sales and rate base investment in FortisAlberta Inc.'s ("FortisAlberta") service territory; the expectation that the Government of British Columbia's new Natural Gas Strategy should favourably impact natural gas throughput at the FortisBC Energy companies; the expected capital investment in Canada's electricity sector over the 20-year period from 2010 through 2030; the Corporation's consolidated forecast gross capital expenditures for 2012 and in total over the five-year period through 2016; the nature, timing and amount of certain capital projects and their expected costs and time to complete; the expectation that the Corporation's significant capital expenditure program should support continuing growth in earnings and dividends; there is no assurance that capital projects perceived as required or completed by the Corporation's regulated utilities will be approved or that conditions to such approvals will not be imposed; the expectation that the Corporation's regulated utilities could experience disruptions and increased costs if they are unable to maintain their asset base; forecast midyear rate base; the expectation that cash required to complete subsidiary capital expenditure programs will be sourced from a combination of cash from operations, borrowings under credit facilities, equity injections from Fortis and long-term debt offerings; the expectation that the Corporation's subsidiaries will be able to source the cash required to fund their 2012 capital expenditure programs; the expected consolidated long-term debt maturities and repayments in 2012 and on average annually over the next five years; the expectation that the Corporation and its subsidiaries will continue to have reasonable access to capital in the near to medium terms; the expectation that the combination of available credit facilities and relatively low annual debt maturities and repayments will provide the Corporation and its subsidiaries with flexibility in the timing of access to capital markets; except for debt at the Exploits River Hydro Partnership ("Exploits Partnership"), the expectation that the Corporation and its subsidiaries will remain compliant with debt covenants during 2012; the expectation that any increase in interest expense and/or fees associated with renewed and extended credit facilities will not materially impact the Corporation's consolidated financial results for 2012; the expected timing of filing of regulatory applications and of receipt of regulatory decisions; the estimated impact a decrease in revenue at Fortis Properties Corporation's ("Fortis Properties") Hospitality Division would have on basic earnings per common share; the expected impact of a change in the US dollar-to-Canadian dollar foreign exchange rate on basic earnings per common share in 2012; the expectation that electricity sales growth at the Corporation's regulated utilities in the Caribbean will be minimal for 2012; the expectation that counterparties to the FortisBC Energy companies' gas derivative contracts will continue to meet their obligations; the expectation that FortisBC will continue efforts in 2012 to further integrate its gas and electricity businesses; the expectation that the Corporation's consolidated earnings and earnings per common share for 2012 will not be materially impacted by the transition to accounting principles generally accepted in the United States ("US GAAP") (see "Recent Developments – Transition to US GAAP"); the expectation of an increase in consolidated defined benefit net pension cost for 2012 and the fact that there is no assurance that the pension plan assets will earn the assumed long-term rates of return in the future; the expected timing of the closing of the acquisition (the "Acquisition") of CH Energy Group, Inc. ("CH Energy Group") by Fortis; and the expectation that the Acquisition will be immediately accretive to earnings per common share, excluding one-time transaction expenses (see "Recent Developments – Agreement to Acquire CH Energy Group").

The forecasts and projections that make up the forward-looking information are based on assumptions which include, but are not limited to: the receipt of applicable regulatory approvals and requested rate orders; no significant variability in interest rates; no significant operational disruptions or environmental liability due to a catastrophic event

or environmental upset caused by severe weather, other acts of nature or other major events; the continued ability to maintain the gas and electricity systems to ensure their continued performance; no severe and prolonged downturn in economic conditions; no significant decline in capital spending; no material capital project and financing cost overrun or delay related to the construction of the Waneta expansion hydroelectric generating facility (the "Waneta Expansion"); sufficient liquidity and capital resources; the expectation that the Corporation will receive appropriate compensation from the Government of Belize ("GOB") for fair value of the Corporation's investment in Belize Electricity Limited ("Belize Electricity") that was expropriated by the GOB; the expectation that Belize Electricity Company Limited ("BECOL") will not be expropriated by the GOB; the expectation that the Corporation will receive fair compensation from the Government of Newfoundland and Labrador related to the expropriation of the Exploits Partnership's hydroelectric assets and water rights; the continuation of regulator-approved mechanisms to flow through the commodity cost of natural gas and energy supply costs in customer rates; the continued ability to hedge exposures to fluctuations in interest rates, foreign exchange rates, natural gas commodity prices and fuel prices; no significant counterparty defaults; the continued competitiveness of natural gas pricing when compared with electricity and other alternative sources of energy; the continued availability of natural gas, fuel and electricity supply; continuation and regulatory approval of power supply and capacity purchase contracts; the ability to fund defined benefit pension plans, earn the assumed long-term rates of return on the related assets and recover net pension costs in rates; the absence of significant changes in government energy plans and environmental laws that may materially affect the operations and cash flows of the Corporation and its subsidiaries; maintenance of adequate insurance coverage; the ability to obtain and maintain licences and permits; retention of existing service areas; the ability to report under US GAAP beyond 2014 or the adoption of International Financial Reporting Standards ("IFRS") after 2014 that allows for the recognition of regulatory assets and liabilities; the continued tax-deferred treatment of earnings from the Corporation's Caribbean operations; continued maintenance of information technology infrastructure; the receipt of CH Energy Group shareholder, regulatory and other approvals required in connection with the Acquisition; continued favourable relations with First Nations; favourable labour relations; and sufficient human resources to deliver service and execute the capital programs. The forward-looking information is subject to risks, uncertainties and other factors that could cause actual results to differ materially from historical results or results anticipated by the forward-looking information. Factors which could cause results or events to differ from current expectations include, but are not limited to: regulatory risk; interest rate risk, including the uncertainty of the impact a continuation of a low interest rate environment may have on allowed rates of return on common shareholders' equity of the Corporation's regulated utilities; operating and maintenance risks; risks associated with changes in economic conditions; capital project budget overrun, completion and financing risk in the Corporation's non-regulated business; capital resources and liquidity risk; risk associated with the amount of compensation to be paid to Fortis for its investment in Belize Electricity that was expropriated by the GOB; the timeliness of the receipt of the compensation and the ability of the GOB to pay the compensation owing to Fortis; risk that the GOB may expropriate BECOL; an ultimate resolution of the expropriation of the hydroelectric assets and water rights of the Exploits Partnership that differs from that which is currently expected by management; weather and seasonality risk; commodity price risk; the continued ability to hedge foreign exchange risk; counterparty risk; competitiveness of natural gas pricing; natural gas, fuel and electricity supply risk; risk associated with the continuation, renewal, replacement and/or regulatory approval of power supply and capacity purchase contracts; defined benefit pension plan performance and funding requirements; risks related to FortisBC Energy (Vancouver Island) Inc. ("FEVI"); environmental risks; insurance coverage risk; loss of licences and permits; risk of loss of service area; risks relating to the ability to close the Acquisition, the timing of such closing and the realization of the anticipated benefits of the Acquisition; risk of not being able to report under US GAAP beyond 2014 or risk that IFRS does not have an accounting standard for rate-regulated entities by the end of 2014 allowing for the recognition of regulatory assets and liabilities; risks related to changes in tax legislation; risk of failure of information technology infrastructure; risk of unexpected outcomes of legal proceedings currently against the Corporation; risk of not being able to access First Nations lands; labour relations risk; and human resources risk. For additional information with respect to the Corporation's risk factors, reference should be made to the section of this Prospectus entitled "Risk Factors" and to the documents incorporated herein by reference.

All forward-looking information in this Prospectus and in the documents incorporated herein by reference is qualified in its entirety by the above cautionary statements and, except as required by law, the Corporation undertakes no obligation to revise or update any forward-looking information as a result of new information, future events or otherwise.

DOCUMENTS INCORPORATED BY REFERENCE

The disclosure documents of the Corporation listed below and filed with the appropriate securities commissions or similar regulatory authorities in each of the provinces of Canada are specifically incorporated by reference into and form an integral part of this Prospectus:

(a) Annual Information Form dated March 15, 2012 for the year ended December 31, 2011 (the "AIF");

(b) audited comparative consolidated financial statements as at December 31, 2011 and December 31, 2010 and for the years ended December 31, 2011 and 2010, together with the notes thereto and the auditors' report thereon dated March 13, 2012, as contained in the Corporation's 2011 Annual Report, prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP");

(c) supplemental audited comparative consolidated financial statements as at December 31, 2011 and December 31, 2010 and for the years ended December 31, 2011 and 2010, together with the notes thereto and the auditor's report thereon dated March 13, 2012, prepared in accordance with US GAAP (the "US GAAP Reconciliation");

(d) Management Discussion and Analysis of financial condition and results of operations for the year ended December 31, 2011 as contained in the Corporation's 2011 Annual Report (the "MD&A");

(e) unaudited comparative interim consolidated financial statements as at March 31, 2012 and for the three months ended March 31, 2012 and 2011, together with the notes thereon, prepared in accordance with US GAAP;

(f) Management Discussion and Analysis of financial condition and results of operations for the three months ended March 31, 2012; and

(g) Management Information Circular dated March 19, 2012 prepared in connection with the Corporation's annual meeting of shareholders held on May 4, 2012 (the "Information Circular").

All documents of the type referred to in the preceding paragraph, any material change report (other than any confidential material change report) and any business acquisition reports, as well as all Prospectus Supplements disclosing additional or updated information subsequently filed by the Corporation with such securities commissions or regulatory authorities after the date of this Prospectus, and prior to the termination of the distribution under this Prospectus, shall be deemed to be incorporated by reference into this Prospectus.

Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Prospectus to the extent that a statement contained herein, or in any other subsequently filed document which also is incorporated or is deemed to be incorporated by reference herein, modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement will not be deemed an admission for any purpose that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus.

When Fortis files a new annual information form and audited consolidated financial statements and related management's discussion and analysis with, and where required, they are accepted by, the applicable securities regulatory authorities during the time that this Prospectus is valid, the previous annual information form, the previous audited consolidated financial statements and related management's discussion and analysis and all unaudited interim consolidated financial statements and related management's discussion and analysis for such periods, all material change reports and any information circular and business acquisition report filed prior to the commencement of the Corporation's financial year in which the new annual information form is filed will be deemed no longer to be incorporated by reference in this Prospectus for purposes of future offers and sales of Securities under this Prospectus. Upon new interim financial statements and the accompanying management's discussion and analysis being filed by the Corporation with the applicable securities regulatory authorities during the term of this Prospectus, all interim financial statements and accompanying management's discussion

and analysis filed prior to the filing of the new interim financial statements shall be deemed no longer to be incorporated by reference into this Prospectus for purposes of future offers and sales of Securities hereunder.

Investors should rely only on the information contained in or incorporated by reference in this Prospectus or any applicable Prospectus Supplement. Fortis has not authorized anyone to provide investors with different or additional information. Fortis is not making an offer of Securities in any jurisdiction where the offer is not permitted by law. Prospective investors should not assume that the information contained in or incorporated by reference in this Prospectus or any applicable Prospectus Supplement is accurate as of any date other than the date on the front of the applicable Prospectus Supplement.

Copies of the documents incorporated herein by reference may be obtained on request without charge from the Secretary of the Corporation at Suite 1201, 139 Water Street, St. John's, Newfoundland and Labrador A1B 3T2 (telephone (709) 737-2800). These documents are also available through the Internet on the Corporation's website at www.fortisinc.com or on the Canadian System for Electronic Document Analysis and Retrieval ("SEDAR") which can be accessed at www.sedar.com. The information contained on, or accessible through, any of these websites is not incorporated by reference into the Prospectus and is not, and should not be considered to be, a part of the Prospectus, unless it is explicitly so incorporated.

ABOUT THIS PROSPECTUS

In this Prospectus and in any Prospectus Supplement, unless otherwise specified or the context otherwise requires, all dollar amounts are expressed in Canadian dollars. References to "dollars" or "$" are to lawful currency of Canada, and references to "US dollars" or "US$" are to lawful currency of the United States.

Unless otherwise indicated, all financial information included and incorporated by reference in this Prospectus or included in any Prospectus Supplement for financial periods beginning prior to January 1, 2012 has been prepared using Canadian GAAP. All financial information included and incorporated by reference in this Prospectus or included in any Prospectus Supplement for financial periods beginning on or after January 1, 2012 has been prepared using US GAAP. For a discussion of the principal differences between the Corporation's financial results as calculated under Canadian GAAP and US GAAP, prospective investors should refer to the US GAAP Reconciliation, incorporated by reference in this Prospectus. See "Recent Developments – Transition to US GAAP" below.

FORTIS

Fortis Inc. was incorporated as 81800 Canada Ltd. under the *Canada Business Corporations Act* on June 28, 1977. The Corporation was continued under the *Corporations Act* (Newfoundland and Labrador) on August 28, 1987 and on October 13, 1987 the Corporation amended its articles to change its name to "Fortis Inc.". The address of the head office and principal place of business of the Corporation is The Fortis Building, Suite 1201, 139 Water Street, St. John's, Newfoundland and Labrador A1B 3T2.

Fortis is the largest investor-owned distribution utility in Canada with total assets of more than $14 billion as at March 31, 2012 and fiscal 2011 revenue totalling approximately $3.7 billion. The Corporation serves more than 2,000,000 gas and electricity customers. Its regulated holdings include electric distribution utilities in five Canadian provinces and two Caribbean countries and a natural gas utility in British Columbia, Canada. As at March 31, 2012, regulated utility assets comprised approximately 91% of the Corporation's total assets, with the balance comprised of non-regulated generation assets, commercial office and retail space and hotels. Fortis is the direct owner of all of the common shares of FortisBC Holdings Inc. ("FortisBC Holdings") (formerly Terasen Inc.), a company that, through its subsidiaries, is the principal distributor of natural gas in British Columbia. Fortis is the indirect owner of all of the common shares of FortisAlberta, a regulated electric utility that distributes electricity generated by other market participants in a substantial portion of southern and central Alberta; FortisBC Inc. ("FortisBC"), a regulated electric utility that generates, transmits and distributes electricity in the southern interior of British Columbia; and Maritime Electric Company Limited ("Maritime Electric"), the principal distributor of electricity on Prince Edward Island. Fortis also holds all of the common shares of Newfoundland Power Inc. ("Newfoundland Power"), the principal distributor of electricity in Newfoundland. As well, through its wholly owned subsidiary FortisOntario Inc. ("FortisOntario") and its subsidiaries, Canadian Niagara Power Inc. ("CNPI") and Cornwall Street Railway, Light and Power Company, Limited, Fortis provides an integrated electric utility service to customers primarily in Fort Erie, Cornwall, Gananoque and Port Colborne in Ontario. Through its wholly owned subsidiary Algoma Power Inc., FortisOntario also distributes electricity to customers in the district of Algoma in northern Ontario.

The Corporation's regulated electric utility assets in the Caribbean consist of its ownership, through wholly owned subsidiaries, of an approximate 60% interest in Caribbean Utilities Company, Ltd. ("Caribbean Utilities"), the sole provider of electricity on Grand Cayman, Cayman Islands. Fortis also owns, through a wholly owned subsidiary, FortisTCI Limited (formerly P.P.C. Limited) and Atlantic Equipment & Power (Turks and Caicos) Ltd. (together, "Fortis Turks and Caicos"), the principal distributor of electricity on the Turks and Caicos Islands.

The Corporation's non-regulated electricity generation operations consist of its 100% interest in each of BECOL, FortisOntario and non-regulated generation assets owned either directly or indirectly by FortisBC, Fortis Properties and Fortis.

BECOL owns and operates the 25-megawatt ("MW") Mollejon, 7-MW Chalillo and 19-MW Vaca hydroelectric generating facilities, all of which are located on the Macal River in Belize. FortisOntario owns and operates a 5-MW gas-fired cogeneration plant in Cornwall, Ontario. The non-regulated electricity generation operations of FortisBC consist of the 16-MW run-of-river Walden hydroelectric power plant near Lillooet, British Columbia. Fortis owns a 51% controlling ownership interest in the non-regulated Waneta Expansion Limited Partnership (the "Waneta Partnership"), which was established in 2010 to construct the Waneta Expansion, a 335-MW hydroelectric generating facility adjacent to the existing Waneta plant in British Columbia.

Through FortisUS Energy Corporation ("FortisUS Energy"), an indirect wholly owned subsidiary of Fortis, the Corporation owns and operates four hydroelectric generating stations in Upper New York State with a total combined capacity of approximately 23 MW. The operations of FortisUS Energy are managed by FortisBC.

Fortis Properties' assets include six small hydroelectric generating stations in eastern Ontario with a combined capacity of 8 MW.

Through Fortis Properties, the Corporation owns 22 hotels in eight Canadian provinces and commercial office and retail space primarily in Atlantic Canada.

Regulated Gas Utilities – Canadian

FortisBC Energy Companies

The natural gas distribution business of FortisBC Holdings is one of the largest in Canada. With approximately 939,000 customers as at March 31, 2012, FortisBC Holding's subsidiaries provide service to over 96% of gas users in British Columbia. FortisBC Energy Inc. ("FEI") (formerly Terasen Gas Inc.) is the largest of these subsidiaries, serving approximately 837,000 customers as at March 31, 2012. With the implementation of a new Customer Care Enhancement Project on January 1, 2012, the gas utilities adjusted their customer count downwards by approximately 17,000 effective January 1, 2012 as a result of a change in their definition of a "customer". FEI has a service area which includes Greater Vancouver, the Fraser Valley and the Thompson, Okanagan, Kootenay and North Central interior regions of British Columbia. FEVI (formerly Terasen Gas (Vancouver Island) Inc.) 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 99,000 customers as at March 31, 2012. In addition to providing transmission and distribution services to customers, FEI and FEVI also obtain natural gas supplies on behalf of most residential and commercial customers. Gas supplies are sourced primarily from north-eastern British Columbia and Alberta. FortisBC Energy (Whistler) Inc. ("FEWI") (formerly Terasen Gas (Whistler) Inc.) owns and operates the natural gas distribution system in the Resort Municipality of Whistler, British Columbia, providing service to approximately 2,600 residential and commercial customers as at March 31, 2012. The FortisBC Energy companies own and operate almost 47,200 kilometres of natural gas distribution and transmission pipelines and met a peak day demand of 1,210 terajoules for 2011.

Regulated Electric Utilities – Canadian

FortisAlberta

FortisAlberta distributed electricity to approximately 501,000 customers in Alberta as at March 31, 2012, using approximately 114,000 kilometres of owned and/or operated distribution lines and met a peak demand of 2,505 MW for 2011. FortisAlberta's business is the ownership and operation of regulated electricity distribution facilities that distribute electricity generated by other market participants from high-voltage transmission substations to end-use customers in central and southern Alberta. FortisAlberta is not involved in the generation, transmission or direct sale of electricity.

FortisBC

FortisBC is an integrated, regulated electric utility that owns a network of generation, transmission and distribution assets located in the southern interior of British Columbia. FortisBC served a diverse mix of approximately 162,500 customers, as at March 31, 2012, with residential customers representing the largest customer segment, and met a peak demand of 669 MW for 2011. FortisBC owns four regulated hydroelectric generating plants with an aggregate capacity of 223 MW that provide approximately 45% of FortisBC's energy and 30% of its peak capacity needs. FortisBC's remaining electricity supply is acquired through long-term power purchase contracts and short-term market purchases. FortisBC's business also includes non-regulated operating, maintenance and management services relating to the 493-MW Waneta hydroelectric generation facility owned by Teck Metals Ltd. and British Columbia Hydro and Power Authority ("BC Hydro"), the 149-MW Brilliant hydroelectric plant, the 120-MW Brilliant expansion plant and the 185-MW Arrow Lakes hydroelectric plant, each owned by Columbia Power Corporation and Columbia Basin Trust ("CPC/CBT"), and the distribution system owned by the City of Kelowna.

Newfoundland Power

Newfoundland Power is a regulated electric utility that operates an integrated generation, transmission and distribution system throughout the island portion of the Province of Newfoundland and Labrador. Newfoundland Power served approximately 248,000 customers as at March 31, 2012, or approximately 87% of electricity consumers in the Province, and met a peak demand of 1,166 MW for 2011. Approximately 93% of the electricity that Newfoundland Power sells to its customers is purchased from Newfoundland and Labrador Hydro Corporation ("Newfoundland Hydro"). Currently, Newfoundland Power has an installed generating capacity of 140 MW, of which 97 MW is hydroelectric generation.

Maritime Electric

Maritime Electric is a regulated electric utility that operates an integrated generation, transmission and distribution system on Prince Edward Island. Maritime Electric directly supplied over 75,000 customers as at March 31, 2012, or 90% of electricity consumers on the Island, and met a peak demand of 224 MW for 2011. Maritime Electric purchases most of the energy it distributes to its customers from New Brunswick Power Corporation under various energy purchase agreements and maintains on-Island generating facilities with an aggregate capacity of 150 MW.

FortisOntario

FortisOntario's regulated distribution operations served approximately 64,000 customers in the Fort Erie, Cornwall, Gananoque, Port Colborne and the District of Algoma in Ontario, as at March 31, 2012, and met a combined peak demand of 276 MW for 2011. Through CNPI, FortisOntario owns international transmission facilities at Fort Erie and owns a 10% interest in each of Westario Power Inc., Rideau St. Lawrence Holdings Inc. and Grimsby Power Inc., three regional electric distribution companies that, together, served approximately 38,000 customers, as at March 31, 2012.

Regulated Electric Utilities – Caribbean

Caribbean Utilities

Fortis holds an indirect approximate 60% controlling ownership interest in Caribbean Utilities as of March 31, 2012. Caribbean Utilities has the exclusive right to distribute and transmit electricity on the island of Grand Cayman, Cayman Islands, pursuant to a 20-year licence entered into on April 3, 2008. Caribbean Utilities also entered into a non-exclusive 21.5-year power generation licence with the Government of the Cayman Islands on April 3, 2008.

Caribbean Utilities served approximately 27,000 customers as at March 31, 2012, has approximately 151 MW of installed diesel-powered generating capacity and met a peak demand of 99 MW for 2011. The Class A Ordinary Shares of Caribbean Utilities are listed for trading on the Toronto Stock Exchange (the "TSX") under the symbol CUP.U.

Fortis Turks and Caicos

Fortis Turks and Caicos served approximately 9,600 customers, or approximately 85% of electricity consumers, on the Turks and Caicos Islands, as at March 31, 2012. Fortis Turks and Caicos is the principal distributor of electricity on Turks and Caicos pursuant to two 50-year licences that expire in 2036 and 2037, respectively. Fortis Turks and Caicos has an installed diesel-powered generating capacity of approximately 65 MW and met a peak demand of approximately 30 MW for 2011.

Expropriated Assets – Belize Electricity

Until June 20, 2011, Fortis held an indirect approximate 70% controlling ownership interest in Belize Electricity, the regulated principal distributor of electricity in Belize, Central America. On June 20, 2011, the Government of Belize ("GOB") enacted legislation leading to the expropriation of the Corporation's investment in Belize Electricity. The consequential loss of control over the operations of the utility resulted in the Corporation discontinuing the consolidation method of accounting for Belize Electricity, effective June 20, 2011. The Corporation has classified the book value of the previous investment in Belize Electricity as a long-term other asset on the consolidated balance sheet. As at March 31, 2012, the long-term other asset, including foreign exchange impacts, totalled $104 million.

In October 2011 Fortis commenced an action in the Belize Supreme Court to challenge the legality of the expropriation of its investment in Belize Electricity and court proceedings with respect to the matter are continuing. Fortis commissioned an independent valuation of its expropriated investment in Belize Electricity and submitted its claim for compensation to the GOB in November 2011. The GOB also commissioned a valuation of Belize Electricity and communicated the results of such valuation in its response to the Corporation's claim for compensation. The fair value determined under the GOB's valuation is significantly lower than the fair value determined under the Corporation's valuation. Pursuant to the expropriation action, Fortis is assessing alternative options for obtaining fair compensation from the GOB.

Non-Regulated – Fortis Generation

Belize

Non-regulated generation operations in Belize are conducted through BECOL under a franchise agreement with the GOB. BECOL owns and operates the 25-MW Mollejon hydroelectric generating facility, the 7-MW Chalillo hydroelectric generating facility and the 19-MW Vaca hydroelectric generating facility. All such facilities are located on the Macal River in Belize. These hydro plants generate average annual energy production of approximately 240 gigawatt hours ("GWh"). BECOL sells its entire output to Belize Electricity under 50-year power purchase agreements expiring in 2055 and 2060. In October 2011, the GOB purportedly amended the Constitution of Belize to require majority government ownership of three public utility providers, including Belize Electricity, but excluding BECOL. The GOB has also indicated it has no intention to expropriate BECOL. Fortis continues to control and consolidate the financial statements of BECOL.

Ontario

Non-regulated generation assets in Ontario are owned and operated by FortisOntario and Fortis Properties and include the 5-MW gas-fired cogeneration plant in Cornwall and six small hydroelectric generating stations with a combined capacity of approximately 8 MW.

Central Newfoundland

The non-regulated generation investment in central Newfoundland is held through the Corporation's indirect 51% interest in the Exploits River Hydro Partnership (the "Exploits Partnership") between AbitibiBowater Inc. ("Abitibi") and Fortis Properties. In December 2008 the Government of Newfoundland and Labrador expropriated Abitibi's hydroelectric assets and water rights in Newfoundland, including those of the Exploits Partnership. The Government of Newfoundland and Labrador has publically stated that it is not its intention to adversely affect the business interests of lenders or independent partners of Abitibi in the Province. The loss of control over cash flows and operations has required Fortis to cease consolidation of the Exploits Partnership, effective February 12, 2009. Discussions between Fortis Properties and Nalcor Energy, acting as agent for the Government of Newfoundland and Labrador, with respect to expropriation matters are ongoing.

British Columbia

Non-regulated generation operations in British Columbia, conducted through FortisBC, include the 16-MW run-of-river Walden hydroelectric power plant near Lillooet. This plant sells its entire output to BC Hydro under a power purchase agreement expiring in 2013.

In October 2010, the Corporation formed the Waneta Partnership with CPC/CBT and concluded definitive agreements to construct the 335-MW Waneta Expansion at an estimated cost of approximately $900 million. The facility is situated adjacent to the Waneta Dam and powerhouse facilities on the Pend d'Oreille River, south of Trail, British Columbia. CPC/CBT are both 100% owned entities of the Government of British Columbia. Fortis owns a controlling 51% interest in the Waneta Partnership and, through FortisBC, will operate and maintain the Waneta Expansion when it comes into service, which is expected in spring 2015. SNC-Lavalin Group Inc. was awarded a contract for approximately $590 million to design and build the Waneta Expansion. Construction began in November 2010 and capital expenditures of approximately $290 million have been incurred on this capital project through March 31, 2012. The Waneta Expansion will be included in the Canal Plant Agreement (as described in the Corporation's AIF) and will receive fixed energy and capacity entitlements based upon long-term average water flows, thereby significantly reducing hydrologic risk associated with the project. The energy output, approximately 630 GWh, and associated capacity required to deliver such energy, from the Waneta Expansion will be sold to BC Hydro under an executed long-term energy purchase agreement. The surplus capacity, equal to 234 MW on an average annual basis, is expected to be sold to FortisBC under a long-term capacity purchase agreement. In November 2011, FortisBC executed the agreement to purchase the capacity from the Waneta Expansion and filed such executed agreement with the British Columbia Utilities Commission (the "BCUC"). The form of the agreement was originally accepted for filing by the BCUC in September 2010. The BCUC is conducting its usual review process of the executed agreement to determine whether a hearing is necessary to decide whether the agreement is in the public interest.

Upper New York State

Non-regulated generation assets in Upper New York State are owned and operated by FortisUS Energy and include four hydroelectric generating stations with a combined generating capacity of approximately 23 MW operating under licences from the U.S. Federal Energy Regulatory Commission. Since January 1, 2007, all four plants have been selling energy at market rates.

Non-Regulated – Fortis Properties

In addition to its non-regulated generation operations, Fortis Properties owns and operates 22 hotels, collectively representing approximately 4,300 rooms, in eight Canadian provinces and approximately 2.7 million square feet of commercial office and retail space primarily in Atlantic Canada.

CAPITAL RESOURCES

This Prospectus will provide the Corporation with the flexibility to access the capital markets in a timely manner. The nature, size and timing of any offering of Securities under this Prospectus will be consistent with the past capital raising practices of the Corporation and will continue to depend upon the Corporation's assessment of its requirements for funding and general market conditions.

The Corporation and its subsidiary regulated gas and electric distribution businesses require ongoing access to capital to fund maintenance and expansion of infrastructure, acquisitions and/or repay maturing debt. To meet short-term capital requirements, the Corporation and its larger regulated utility subsidiaries have secured multi-year committed credit facilities. As at March 31, 2012, the Corporation and its subsidiaries had consolidated authorized lines of credit of $2.2 billion, of which $2.0 billion was available to be drawn. In May 2012, the Corporation increased the amount available for borrowing under its committed corporate credit facility from $800 million to $1 billion, thereby increasing the aggregate authorized amount available to the Corporation and its subsidiaries under all lines of credit to $2.4 billion. As at May 9, 2012, an aggregate amount of approximately $2.1 billion was unused and available to be drawn under these facilities. See "Recent Developments – Corporate Credit Facility".

The Corporation and its subsidiaries will require new capital for the repayment of at least a portion of their maturing debt. As at March 31, 2012, long-term debt maturities over the next five years are expected to average approximately $265 million annually.

RECENT DEVELOPMENTS

Agreement to Acquire CH Energy Group

On February 21, 2012, Fortis announced that it had entered into an agreement to acquire CH Energy Group for US$65.00 per common share in cash, for an aggregate purchase price of approximately US$1.5 billion, including the assumption of approximately US$500 million of debt on closing. The closing of the acquisition, which is expected to occur by the end of the first quarter of 2013, is subject to receipt of CH Energy Group's common shareholders' approval, regulatory and other approvals, and the satisfaction of customary closing conditions. The acquisition is expected to be immediately accretive to Fortis' earnings per common share, excluding one-time acquisition-related expenses.

CH Energy Group is an energy delivery company headquartered in Poughkeepsie, New York. Its main business, Central Hudson Gas & Electric Corporation ("Central Hudson"), is a regulated transmission and distribution utility serving approximately 300,000 electric and 75,000 natural gas customers in eight counties of New York State's Mid-Hudson River Valley. Central Hudson accounts for approximately 93% of the total assets of CH Energy Group. CH Energy Group also owns and operates Central Hudson Enterprises Corporation, a non-regulated subsidiary comprised primarily of a fuel delivery business serving approximately 56,000 customers in the Mid-Atlantic Region. As of December 31, 2011, CH Energy Group's total assets were US$1.7 billion and operating revenues and net income for 2011 totalled US$986 million and US$45 million, respectively. In 2011, Central Hudson accounted for approximately 97% of CH Energy Group's net income. Based on the first quarter results filed by CH Energy Group with the U.S. Securities and Exchange Commission ("SEC") on April 26, 2012, CH Energy Group's total assets at March 31, 2012 were approximately US$1.8 billion and operating revenues and net income for the first quarter totalled approximately US$274 million and US$14.6 million, respectively.

Central Hudson's electric assets, which comprise approximately 77% of its total assets, include approximately 7,300 pole miles (11,748 kilometers) of overhead lines and 1,400 trench miles (2,253 kilometers) of underground lines. The electric business met a peak demand of 1,225 MW in 2011. Central Hudson's natural gas assets, which comprise approximately 23% of its total assets, include approximately 1,185 miles (1,907 kilometers) of distribution pipelines and approximately 164 miles (264 kilometers) of transmission pipelines. The gas business met a peak day demand of 115,807 thousand cubic feet in 2011. Central Hudson is subject to regulation by the New York State Public Service Commission ("NYPSC") under a traditional cost-of-service model.

Central Hudson primarily relies on purchases from third-party providers and the New York Independent System Operator-administered energy and capacity markets to meet the demands of its full-service electric customers. It purchases its gas supply requirements from a number of suppliers at various receipt points on pipelines that it has contracted with for firm transport capacity.

In April 2012, applications were filed with the NYPSC and the Federal Energy Regulatory Commission seeking approval of the transaction. The CH Energy Group shareholder vote on the transaction is expected to occur mid-2012.

Transition to US GAAP

Due to continued uncertainty around the adoption of a rate-regulated accounting standard by the International Accounting Standards Board, Fortis adopted US GAAP, as opposed to IFRS, effective January 1, 2012.

Canadian securities rules allow a reporting issuer to file its financial statements prepared in accordance with US GAAP by qualifying as a SEC issuer. A SEC issuer is defined under the Canadian rules as an issuer that: (a) has a class of securities registered with the SEC under Section 12 of the *U.S. Securities Exchange Act of 1934*, as amended (the "Exchange Act"); or (b) is required to file reports under Section 15(d) of the Exchange Act. The Corporation is not currently a SEC issuer, but on June 9, 2011 was granted exemptive relief by Canadian securities regulators to permit it and its reporting issuer subsidiaries to prepare their financial statements in accordance with US GAAP without qualifying as SEC issuers (the "Exemption"). The Exemption applies to financial years commencing on or after January 1, 2012 but before January 1, 2015, and interim periods therein. The Exemption will terminate in respect of financial statements for annual and interim periods commencing on or after the earlier of: (i) January 1, 2015; or (ii) the date on which the Corporation ceases to have activities subject to rate regulation.

The Corporation's past application of Canadian GAAP referred to US GAAP for guidance on accounting for rate-regulated activities. The adoption of US GAAP in 2012 has resulted in fewer significant changes to the Corporation's accounting policies compared to accounting policy changes that may have resulted from the adoption of IFRS. US GAAP guidance on accounting for rate-regulated activities allows the economic impact of rate-regulated activities to be recognized in the consolidated financial statements in a manner consistent with the timing by which amounts are reflected in customer rates. Fortis believes that the continued application of rate-regulated accounting, and the associated recognition of regulatory assets and liabilities under US GAAP, accurately reflects the impact that rate regulation has on the Corporation's consolidated financial position and results of operations.

The Corporation has prepared and filed its audited Canadian GAAP consolidated financial statements for the year ended December 31, 2011, with 2010 comparatives, in the usual manner. The Corporation has also voluntarily prepared and filed the US GAAP Reconciliation. Beginning with the first quarter of 2012, the Corporation's unaudited interim consolidated financial statements have been prepared in accordance with US GAAP, with the restatement of 2011 comparatives in accordance with US GAAP.

Regulatory Decisions

In April 2012, regulatory decisions were received for 2012/2013 customer gas delivery rates at the FortisBC Energy companies and 2012 customer electricity distribution rates at FortisAlberta which reduce regulatory risk at the utilities. Effective January 1, 2012, the BCUC had previously approved an approximate 3% interim increase in rates for most residential customers at FEI and an approximate 6% interim increase in rates for residential customers at FEWI. The April 2012 decision at the FortisBC Energy companies is expected to result in a decrease in customer gas delivery rates at FEI and FEWI in the range of 1% – 2% from the January 1, 2012 interim rates. The BCUC also approved, as requested, FEVI's customer rates for 2012 and 2013 to remain unchanged from 2011 customer rates. The decision at FortisAlberta approved an average 5% increase in customer distribution electricity rates, consistent with the interim rate increase that was previously approved by the Alberta Utilities Commission effective January 1, 2012.

Corporate Credit Facility

In May 2012 the amount available for borrowing under the Corporation's committed corporate credit facility was increased from $800 million to $1 billion as permitted under the credit facility agreement. As at May 9, 2012, approximately $160 million was drawn and outstanding under this credit facility.

Approval of the 2012 Stock Option Plan and the 2012 Employee Share Purchase Plan

At the Corporation's annual general meeting held on May 4, 2012, the shareholders of the Corporation approved an amended and restated stock option plan (the "2012 Stock Option Plan") and an amended and restated employee share purchase plan (the "2012 ESPP"). Both the 2012 Stock Option Plan and the 2012 ESPP are described in more detail in the Information Circular which is incorporated by reference into this Prospectus. See "Documents Incorporated by Reference".

SHARE CAPITAL OF FORTIS

The authorized share capital of the Corporation consists of an unlimited number of common shares (the "Common Shares"), an unlimited number of First Preference Shares issuable in series and an unlimited number of Second Preference Shares issuable in series, in each case without nominal or par value. As at May 9, 2012, 189,330,675 Common Shares, 5,000,000 Cumulative Redeemable First Preference Shares, Series C (the "First Preference Shares, Series C"), 7,993,500 Cumulative Redeemable First Preference Shares, Series E (the "First Preference Shares, Series E"), 5,000,000 Cumulative Redeemable First Preference Shares, Series F (the "First Preference Shares, Series F"), 9,200,000 Cumulative Redeemable Five-Year Fixed Rate Reset First Preference Shares, Series G (the "First Preference Shares, Series G") and 10,000,000 Cumulative Redeemable Five-Year Fixed Rate Reset First Preference Shares, Series H (the "First Preference Shares, Series H") were issued and outstanding. The Corporation's Common Shares, First Preference Shares, Series C, First Preference Shares, Series E, First Preference Shares, Series F, First Preference Shares, Series G and First Preference Shares, Series H are listed on the TSX under the symbols "FTS", "FTS.PR.C", "FTS.PR.E", "FTS.PR.F", "FTS.PR.G" and "FTS.PR.H", respectively.

EARNINGS COVERAGE RATIOS

The following consolidated earnings coverage ratios have been calculated for the 12 months ended December 31, 2011 and the 12 months ended March 31, 2012. The earnings coverage ratios set forth below do not purport to be indicative of earnings coverage ratios for any future periods. The earnings coverage ratios and dividend and interest requirements do not give effect to the issuance of any Securities that may be issued pursuant to this Prospectus and any Prospectus Supplement, since the aggregate principal amounts and the terms of such Securities are not currently known. The financial ratios included below have been calculated based on financial information prepared in accordance with US GAAP. The ratios for the 12 months ended December 31, 2011 are based on audited financial information.

	12 Months Ended December 31, 2011	12 Months Ended March 31, 2012
Dividend and interest requirements ($ millions)	$ 442	$ 439
Earnings before interest expense and taxes ($ millions)	$ 791	$ 790
Earnings coverage	1.79	1.80

DIVIDEND POLICY

Dividends on the Common Shares are declared at the discretion of the board of directors of Fortis (the "Board of Directors"). The Corporation paid cash dividends on its Common Shares of $1.16 in 2011, $1.12 in 2010 and $1.04 in 2009. On May 3, 2012, the Board of Directors declared a third quarter dividend of $0.30 per Common Share, payable on September 1, 2012 to holders of record of such Common Shares on August 17, 2012.

Regular quarterly dividends at the prescribed annual rate have been paid on all of the First Preference Shares, Series C, First Preference Shares, Series E, First Preference Shares, Series F, First Preference Shares, Series G and

First Preference Shares, Series H, respectively. The Board of Directors declared a third quarter dividend on the First Preference Shares, Series C, First Preference Shares, Series E, First Preference Shares, Series F, First Preference Shares, Series G and First Preference Shares, Series H on May 3, 2012, in each case in accordance with the applicable prescribed annual rate, payable on September 1, 2012 to holders of record of such First Preference Shares on August 17, 2012.

RATINGS

Each of the First Preference Shares, Series C, First Preference Shares, Series E, First Preference Shares, Series F, First Preference Shares, Series G and First Preference Shares, Series H are rated Pfd-2 (low)/Under Review – Developing Implications by DBRS Limited ("DBRS") and P-2/CreditWatch – Negative by Standard & Poor's Rating Services, a division of The McGraw-Hill Companies (Canada) Corporation ("S&P"). The Corporation's unsecured debentures are rated A(low)/Under Review – Developing Implications by DBRS and are rated A-/Credit Watch – Negative by S&P. S&P and DBRS placed the Corporation's credit ratings on "Credit Watch – Negative" and "Under Review – Developing Implications", respectively, in February 2012 after the Corporation announced that it had entered into an agreement to acquire all of the shares of CH Energy Group. Credit ratings relating to the Securities offered pursuant to this Prospectus, where applicable, will be described in the relevant Prospectus Supplement.

The DBRS rating of Pfd-2 (low) is the lowest of three sub-categories within the second highest rating of the six standard categories of ratings utilized by DBRS for preferred shares. The DBRS rating of A(low) is the lowest of three subcategories within the third highest rating of ten major categories for debt securities, ranging from AAA to D. A P-2 rating by S&P is the second of the three sub-categories within the second highest rating of the five standard categories of ratings utilized by S&P for preferred shares. The S&P rating of A- is the lowest standing within the third highest rating of ten major categories for debt securities, ranging from AAA to D.

According to S&P, the rating action "Credit Watch – Negative" means that the Corporation's credit ratings have been placed under surveillance by S&P and that the ratings may be lowered due to S&P's view that there is at least a 50% probability that the Corporation's non-consolidated credit metrics will fall below thresholds previously established for the Corporation's current credit ratings, following the close of the proposed acquisition of CH Energy Group.

According to DBRS, the rating action "Under Review – Developing Implications" means that the Corporation's credit ratings are under review by DBRS due to the uncertainty of the impact on the Corporation's credit ratings upon close of the proposed acquisition of CH Energy Group, but that DBRS expects the Corporation to finance the acquisition of CH Energy Group such that its non-consolidated debt-to-capital structure remains within the 20% range.

Credit ratings are intended to provide investors with an independent measure of the credit quality of an issue of securities. The credit ratings accorded to the First Preference Shares, Series C, First Preference Shares, Series E, First Preference Shares, Series F and First Preference Shares, Series G, First Preference Shares, Series H and the Corporation's unsecured debentures by these rating agencies are not recommendations to purchase, hold or sell such securities, as such ratings do not comment as to market price or suitability for a particular investor. There is no assurance that any rating will remain in effect for any given period of time or that any rating will not be revised or withdrawn entirely by a rating agency in the future if, in its judgment, circumstances so warrant.

Fortis has paid each of DBRS and S&P their customary fees in connection with the provision of the ratings described herein. Fortis has not made any payments to DBRS or S&P for services unrelated to the provision of such ratings.

DESCRIPTION OF SECURITIES OFFERED

Common Shares

Common Shares may be offered separately or together with First Preference Shares, Second Preference Shares, Subscription Receipts or Debentures under this Prospectus.

Dividends

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

Liquidation, Dissolution or Winding-Up

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

Voting Rights

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

First Preference Shares

The following is a summary of the material rights, privileges, conditions and restrictions attached to the First Preference Shares as a class. The specific terms of the First Preference Shares, including the currency in which First Preference Shares may be purchased and redeemed and the currency in which any dividend is payable, if other than Canadian dollars, and the extent to which the general terms described in this section apply to those First Preference Shares, will be set forth in the applicable Prospectus Supplement. One or more series of First Preference Shares may be sold separately or together with Common Shares, Second Preference Shares, Subscription Receipts or Debentures under this Prospectus.

Issuance in Series

The Board of Directors may from time to time issue First Preference Shares in one or more series. Prior to issuing shares in a series, the Board of Directors is required to fix the number of shares in the series and determine the designation, rights, privileges, restrictions and conditions attaching to that series of First Preference Shares.

Priority

The shares of each series of First Preference Shares rank on a parity with the First Preference Shares of every other series and in priority to all other shares of the Corporation, including the Second Preference Shares, as to the payment of dividends, return of capital and the distribution of assets in the event of the liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, or any other distribution of the assets of the Corporation among its shareholders for the purpose of winding-up its affairs. Each series of First Preference Shares participates rateably with every other series of First Preference Shares in respect of accumulated cumulative dividends and returns of capital if any amount of cumulative dividends, whether or not declared, or amount payable on the return of capital in respect of a series of First Preference Shares, is not paid in full.

Voting

The holders of the First Preference Shares are not entitled to any voting rights as a class except to the extent that voting rights may from time to time be attached to any series of First Preference Shares, and except as provided by law or as described below under "Modification". At any meeting of the holders of the First Preference Shares, each holder shall have one vote in respect of each First Preference Share held.

Redemption

Subject to the provisions of the *Corporations Act* (Newfoundland and Labrador) and any provisions relating to any particular series, Fortis, upon giving proper notice, may redeem out of capital or otherwise at any time, or from time to time, the whole or any part of the then outstanding First Preference Shares of any one or more series on payment for each such First Preference Share of such price or prices as may be applicable to such series. Subject to the foregoing, in case a part only of the then outstanding First Preference Shares of any particular series is at any time redeemed, the shares to be redeemed will be selected by lot in such manner as the directors or the transfer agent for the First Preference Shares, if any, decide, or if the directors so determine, may be redeemed *pro rata* disregarding fractions.

Modification

The class provisions attached to the First Preference Shares may only be amended with the prior approval of the holders of the First Preference Shares in addition to any other approvals required by the *Corporations Act* (Newfoundland and Labrador) or any other statutory provisions of like or similar effect in force from time to time. The approval of the holders of the First Preference Shares with respect to any and all matters may be given by at least two-thirds of the votes cast at a meeting of the holders of the First Preference Shares duly called for that purpose.

Second Preference Shares

The rights, privileges, restrictions and conditions attaching to the Second Preference Shares are substantially identical to those attaching to the First Preference Shares, except that the Second Preference Shares are junior to the First Preference Shares with respect to the payment of dividends, repayment of capital and the distribution of assets of the Corporation in the event of a liquidation, dissolution or winding up of the Corporation.

The specific terms of the Second Preference Shares, including the currency in which Second Preference Shares may be purchased and redeemed and the currency in which any dividend is payable, if other than Canadian dollars, and the extent to which the general terms described in this Prospectus apply to those Second Preference Shares, will be set forth in the applicable Prospectus Supplement. One or more series of Second Preference Shares may be sold separately or together with Common Shares, First Preference Shares, Subscription Receipts or Debentures under this Prospectus.

Subscription Receipts

Subscription Receipts may be offered separately or together with Common Shares, First Preference Shares, Second Preference Shares or Debentures, as the case may be. Subscription Receipts will be issued under a subscription receipt agreement that will be entered into by the Corporation at the time of issuance of the Subscription Receipts.

The applicable Prospectus Supplement will include details of the subscription receipt agreement covering the Subscription Receipts being offered. The specific terms of the Subscription Receipts, and the extent to which the general terms described in this section apply to those Subscription Receipts, will be set forth in the applicable Prospectus Supplement. A copy of the subscription receipt agreement will be filed by the Corporation with securities regulatory authorities after it has been entered into by the Corporation.

The subscription receipt agreement will provide each initial purchaser of Subscription Receipts with a contractual right of rescission following the issuance of any Common Shares, First Preference Shares, Second Preference Shares or Debentures, as applicable, to such purchaser upon the exchange of the Subscription Receipts if this Prospectus, the Prospectus Supplement under which the Subscription Receipts are offered, or any amendment hereto or thereto contains a misrepresentation, as such term is defined in the *Securities Act* (Ontario). This contractual right of rescission will entitle such initial purchaser to receive the amount paid for the Subscription Receipts upon surrender of the Securities issued in exchange therefor, provided that such remedy for rescission is exercised in the time stipulated in

the subscription receipt agreement. This right of rescission will not extend to any holders of Subscription Receipts who acquire such Subscription Receipts from an initial purchaser on the open market or otherwise.

The particular terms of each issue of Subscription Receipts that will be described in the related Prospectus Supplement will include, where applicable:

- the number of Subscription Receipts;
- the price at which the Subscription Receipts will be offered;
- the procedures for the exchange of the Subscription Receipts into Common Shares, First Preference Shares, Second Preference Shares or Debentures, as the case may be;
- the number of Common Shares, First Preference Shares, Second Preference Shares or Debentures, as the case may be, that may be obtained upon exercise of each Subscription Receipt;
- the designation and terms of any other Securities with which the Subscription Receipts will be offered, if any, and the number of Subscription Receipts that will be offered with each Security;
- terms relating to the holding and release or return of the gross proceeds from the sale of the Subscription Receipts plus any interest earned thereon;
- material income tax consequences of owning the Subscription Receipts; and
- any other material terms and conditions of the Subscription Receipts.

Securities issued upon the exchange of Subscription Receipts will be issued for no additional consideration.

Debentures

The following sets forth certain general terms and provisions of Debentures. The particular terms and provisions of Debentures offered pursuant to an accompanying Prospectus Supplement, and the extent to which the general terms and provisions described below may apply to such Debentures, will be described in such Prospectus Supplement.

The Debentures may be offered separately or together with the Common Shares, First Preference Shares, Second Preference Shares or Subscription Receipts, as the case may be. The Debentures will be issued in series under the Corporation's existing trust indenture or one or more trust indentures to be entered into between the Company and a financial institution to which the *Trust and Loan Companies Act* (Canada) applies or a financial institution organized under the laws of any province of Canada and authorized to carry on business as a trustee. Each such trust indenture will set out the terms of the applicable series of Debentures. The statements in this Prospectus relating to any trust indenture and the Debentures to be issued under it are summaries of certain anticipated provisions of the trust indenture and do not purport to be complete and are subject to, and are qualified in their entirety by reference to, all provisions of the applicable trust indenture.

Each trust indenture may provide that Debentures may be issued thereunder up to the aggregate principal amount which may be authorized from time to time by the Corporation. Any Prospectus Supplement for Debentures supplementing this Prospectus will contain the terms and other information with respect to the Debentures being offered, including:

- the designation, aggregate principal amount and authorized denominations of such Debentures,
- the currency for which the Debentures may be purchased and the currency in which the principal and any interest is payable (in either case, if other than Canadian dollars),
- the percentage of the principal amount at which such Debentures will be issued,
- the date or dates on which such Debentures will mature,
- the rate or rates at which such Debentures will bear interest (if any), or the method of determination of such rates (if any),
- the dates on which any such interest will be payable and the record dates for such payments,
- any redemption term or terms under which such Debentures may be defeased,

- any exchange or conversion terms, and
- any other specific terms.

Each series of Debentures may be issued at various times with different maturity dates, may bear interest at different rates and may otherwise vary.

The Debentures will be direct, unsecured obligations of the Company. The Debentures will be senior or subordinated indebtedness of the Company as described in the relevant Prospectus Supplement.

This Prospectus does not qualify for issuance Debentures in respect of which the payment of principal and/or interest may be determined, in whole or in part, by reference to one or more underlying interests including, for example, an equity or debt security, a statistical measure of economic or financial performance including, but not limited to, any currency, consumer price or mortgage index, or the price or value of one or more commodities, indices or other items, or any other item or formula, or any combination or basket of the foregoing items. For greater certainty, this Prospectus may qualify for issuance Debentures in respect of which the payment of principal and/or interest may be determined, in whole or in part, by reference to published rates of a central banking authority or one or more financial institutions, such as a prime rate or bankers' acceptance rate, or to recognized market benchmark interest rates such as LIBOR, EURIBOR or a U.S. Federal funds rate.

CHANGES IN SHARE AND LOAN CAPITAL STRUCTURE

The following describes the changes in the share and loan capital structure of Fortis since March 31, 2012:

- During the period from April 1, 2012 up to and including May 9, 2012, Fortis issued an aggregate of 56,242 Common Shares upon the exercise of options granted pursuant to the 2002 and 2006 Stock Option Plans, for aggregate consideration of $1.4 million.
- During the period from April 1, 2012 up to and including May 9, 2012, the Corporation's consolidated long-term debt and capital lease obligations, including the current portion and committed credit facility borrowings classified as long-term debt, increased by $131 million, largely due to additional borrowings under the Corporation's committed corporate credit facility.

PRIOR SALES

Fortis has not sold or issued any First Preference Shares, Second Preference Shares, Subscription Receipts, Debentures or securities convertible into First Preference Shares, Second Preference Shares or Debentures during the 12 months prior to the date hereof. The following table summarizes the issuances by the Corporation of Common Shares and securities convertible into Common Shares during the 12 months prior to the date of this Prospectus:

Date	Security	Weighted Average Issue Price or Exercise Price per Security, as applicable	Number of Securities
May 2011	Common – Exercise of Stock Options[1]	$20.68	20,524
June 1, 2011	Common – DRIP[2]	$32.64	454,874
June 1, 2011	Common – CSPP[3]	$33.29	10,780
June 2011	Common – Exercise of Stock Options[1]	$21.60	17,148
June 2011	Common[4]	$33.00	9,100,000
July 2011	Common – Exercise of Over-Allotment Option[4]	$33.00	1,240,000
July 2011	Common – Exercise of Stock Options[1]	$28.19	1,707
August 2011	Common – Exercise of Stock Options[1]	$12.04	19,940
September 1, 2011	Common – DRIP[2]	$30.69	528,636
September 1, 2011	Common – CSPP[3]	$31.30	9,146
September 2011	Common – Exercise of Stock Options[1]	$20.68	74,766
October 2011	Common – Exercise of Stock Options[1]	$26.46	70,810
November 2011	Common – Exercise of Stock Options[1]	$15.10	40,928
November 2011	Common – Conversion of US$40 million of Convertible Debentures[5]	$29.63	1,374,098
December 1, 2011	Common – DRIP[2]	$31.86	390,303
December 1, 2011	Common – CSPP[3]	$32.48	9,332
December 2011	Common – Exercise of Stock Options[1]	$23.83	9,413
January 2012	Common – Exercise of Stock Options[1]	$25.41	16,012
February 2012	Common – Exercise of Stock Options[1]	$22.29	3,870
March 1, 2012	Common – DRIP[2]	$31.52	399,640
March 1, 2012	Common – CSPP[3]	$32.14	12,994
March 2012	Common – Exercise of Stock Options[1]	$25.62	13,639
April 2012	Common – Exercise of Stock Options[1]	$25.49	28,290
May 4, 2012	Stock Options convertible into Common Shares[6]	$34.27	789,220
May 1-9, 2012	Common – Exercise of Stock Options[1]	$23.75	27,952

(1) Issued on the exercise of options granted pursuant to the Executive, 2002 and 2006 Stock Option Plans of the Corporation.
(2) Issued pursuant to the Corporation's Dividend Reinvestment Plan ("DRIP").
(3) Issued pursuant to the Corporation's Consumer Share Purchase Plan ("CSPP").
(4) Issued to the public pursuant to a short-form prospectus dated June 8, 2011.
(5) Convertible debentures issued pursuant to a debenture purchase agreement dated November 7, 2006.
(6) Options granted under the 2012 Stock Option Plan of the Corporation.

TRADING PRICES AND VOLUMES

The following tables set forth, for the periods indicated, the reported high and low daily trading prices and the aggregate volume of trading of the Corporation's Common Shares; First Preference Shares, Series C; First Preference Shares, Series E; First Preference Shares, Series F; First Preference Shares, Series G; and First Preference Shares, Series H, on the TSX.

	Trading of Common Shares			Trading of First Preference Shares, Series C		
	TSX			TSX		
	High	Low	Volume	High	Low	Volume
	($)	($)	(#)	($)	($)	(#)
2011						
May	33.85	31.98	15,795,186	26.19	25.54	463,532
June	33.05	30.79	9,954,946	26.04	25.75	348,223
July	32.85	31.53	5,183,546	26.49	25.85	80,991
August	32.75	28.24	14,509,526	26.45	25.86	34,748
September	33.78	31.44	11,207,968	26.14	25.55	135,005
October	34.39	31.32	7,950,203	26.26	25.60	75,014
November	34.16	31.32	18,591,643	26.45	25.75	123,447
December	33.62	31.97	9,940,675	26.21	25.65	187,813
2012						
January	33.67	32.66	7,561,933	26.61	25.90	21,229
February	34.31	31.76	19,233,895	26.54	25.50	50,239
March	33.17	31.70	11,072,696	25.90	25.53	35,364
April	34.35	31.88	7,960,525	26.25	25.53	275,288
May 1 to 9	34.98	33.55	2,888,641	25.95	25.60	9,625

	Trading of First Preference Shares, Series E			Trading of First Preference Shares, Series F		
	TSX			TSX		
	High	Low	Volume	High	Low	Volume
	($)	($)	(#)	($)	($)	(#)
2011						
May	27.34	26.74	272,521	24.00	23.05	87,756
June	27.24	26.61	143,830	24.25	23.16	74,591
July	27.53	26.80	16,908	24.79	24.01	46,339
August	27.86	26.51	367,951	25.10	23.68	67,083
September	27.00	26.59	60,562	25.00	24.33	52,951
October	27.22	26.50	126,929	26.24	24.50	96,924
November	28.12	27.11	114,823	25.69	24.92	56,811
December	27.45	26.98	28,011	26.41	24.98	39,355
2012						
January	27.60	26.97	72,839	25.85	25.05	70,415
February	28.98	26.75	68,038	25.94	25.00	239,924
March	27.58	26.02	53,080	25.60	25.00	328,502
April	26.60	26.05	333,365	25.30	25.00	167,439
May 1 to 9	26.66	26.59	1,430	25.60	25.21	25,850

	Trading of First Preference Shares, Series G			Trading of First Preference Shares, Series H		
	TSX			TSX		
	High	Low	Volume	High	Low	Volume
	($)	($)	(#)	($)	($)	(#)
2011						
May	26.50	25.88	97,923	26.50	25.14	96,623
June	26.99	25.88	128,971	25.96	25.25	251,857
July	26.30	25.81	68,285	25.95	25.21	67,873
August	26.40	25.34	75,920	26.00	25.14	156,853
September	26.30	25.58	110,543	26.05	25.00	94,461
October	26.58	25.80	69,175	26.00	25.10	48,926
November	26.19	25.43	107,174	25.84	25.10	95,476
December	26.65	25.70	40,271	26.00	25.29	210,693
2012						
January	26.45	25.75	47,858	26.00	25.50	263,320
February	26.50	25.35	88,246	26.72	25.60	111,592
March	25.92	25.46	168,124	25.99	25.45	85,935
April	25.85	25.60	54,552	25.93	25.46	28,764
May 1 to 9	25.95	25.73	21,021	26.00	25.61	21,874

USE OF PROCEEDS

Unless otherwise indicated in a Prospectus Supplement relating to a particular offering of Securities, the Corporation intends to use the net proceeds from the sale of Securities to repay indebtedness and/or to, directly or indirectly, finance future growth opportunities. Specific information about the use of net proceeds will be set forth in a Prospectus Supplement. The Corporation may invest funds which the Corporation does not immediately use. Such investments may include short-term marketable investment grade securities. The Corporation may, from time to time, issue securities (including debt securities) other than pursuant to this Prospectus.

PLAN OF DISTRIBUTION

The Corporation may sell the Securities, separately or together, to or through one or more underwriters or dealers, purchasing as principals for public offering and sale by them, and also may sell Securities to one or more other purchasers directly or through agents. Each Prospectus Supplement will set out the terms of the offering, including the name or names of any underwriters, dealers or agents, the purchase price or prices of the Securities (or the manner of determination thereof if offered on a non-fixed price basis), and the proceeds to the Corporation from the sale of the Securities. Only underwriters, dealers or agents so named in the Prospectus Supplement are deemed to be underwriters, dealers or agents, as the case may be, in connection with the Securities offered thereby.

The Securities may be sold, from time to time in one or more transactions at a fixed price or prices which may be changed or at market prices prevailing at the time of sale, at prices related to such prevailing market prices or at negotiated prices. The prices at which the Securities may be offered may vary as between purchasers and during the period of distribution. If, in connection with the offering of Securities at a fixed price or prices, the underwriters have made a *bona fide* effort to sell all of the Securities at the initial offering price fixed in the applicable Prospectus Supplement, the public offering price may be decreased and thereafter further changed, from time to time, to an amount not greater than the initial public offering price fixed in such Prospectus Supplement, in which case the compensation realized by the underwriters, dealers or agents will be decreased by the amount that the aggregate price paid by purchasers for the Securities is less than the gross proceeds paid by the underwriters, dealers or agents to the Corporation.

If underwriters or dealers purchase Securities as principal, the Securities will be acquired by the underwriters or dealers for their own account and may be resold from time to time in one or more transactions, including negotiated transactions, at a fixed public offering price or at varying prices determined at the time of sale. The obligations of the underwriters or dealers to purchase those Securities will be subject to certain conditions precedent, and the underwriters or dealers will be obligated to purchase all the Securities offered by the Prospectus Supplement if any of such Securities are purchased. Any public offering price and any discounts or concessions allowed or re-allowed or paid may be changed from time to time.

The Securities may also be sold directly by the Corporation in accordance with applicable securities laws at prices and upon terms agreed to by the purchaser and the Corporation or through agents designated by the Corporation from time to time. Any agent involved in the offering and sale of the Securities pursuant to a particular Prospectus Supplement will be named, and any commissions payable by the Corporation to that agent will be set forth, in such Prospectus Supplement. Unless otherwise indicated in the Prospectus Supplement, any agent would be acting on a best efforts basis for the period of its appointment.

In connection with the sale of the Securities, underwriters, dealers or agents may receive compensation from the Corporation in the form of commissions, concessions and discounts. Any such commissions may be paid out of the general funds of the Corporation or the proceeds of the sale of the Securities. Underwriters, dealers and agents who participate in the distribution of the Securities may be entitled under agreement to be entered into with the Corporation to indemnification by the Corporation against certain liabilities, including liabilities under Canadian securities legislation, or to contribution with respect to payments which such underwriters, dealers or agents may be required to make in respect thereof. Such underwriters, dealers and agents may engage in transactions with, or perform services for, the Corporation in the ordinary course of business.

In connection with any offering of Securities, the applicable Prospectus Supplement will set forth any intention by the underwriters, dealers or agents to offer, allot or effect transactions which stabilize or maintain the market price of the Securities offered at a level above that which might otherwise prevail in the open market. Such transactions, if commenced, may be interrupted or discontinued at any time.

CERTAIN INCOME TAX CONSIDERATIONS

The applicable Prospectus Supplement will describe certain material Canadian federal income tax consequences to an investor who is a resident of Canada or who is a non-resident of Canada of the acquisition, ownership and disposition of any Securities offered thereunder, including whether the payment of dividends will be subject to Canadian non-resident withholding tax.

RISK FACTORS

An investment in Securities involves certain risks. A prospective purchaser of Securities should carefully consider the risk factors described under the heading “Business Risk Management” in the MD&A found on pages 48 to 61 of the Corporation’s 2011 Annual Report and on pages 28 to 29 of the Corporation’s Management Discussion and Analysis of financial condition and results of operations for the three months ended March 31, 2012, each of which is incorporated by reference herein. In addition, a prospective purchaser of Securities should carefully consider the other information contained in this Prospectus and in all subsequently filed documents incorporated by reference and those described in a Prospectus Supplement relating to a specific offering of Securities.

Completion of the Acquisition of CH Energy Group

The acquisition of CH Energy Group is subject to certain shareholder, regulatory and other approvals. Failure to obtain, or any delay in obtaining, such approvals could adversely impact the Corporation’s ability to close the Acquisition or the timing of such closing. In addition, there is risk that some, or all, of the expected benefits of the acquisition of CH Energy Group may fail to materialize or may not occur within the time periods anticipated by the Corporation. The realization of such benefits may be impacted by a number of factors, many of which are beyond the control of Fortis.

No Market for the Securities

There is currently no trading market for the First Preferred Shares, Second Preferred Shares, Subscription Receipts or Debentures that may be offered pursuant to this Prospectus and any Prospectus Supplement. No assurance can be given that an active or liquid trading market for these securities will develop or be sustained. If an active or liquid market for these Securities fails to develop or be sustained, the prices at which the Securities trade may be adversely affected. Whether or not the Securities will trade at lower prices depends on many factors, including liquidity of these Securities, prevailing interest rates and the markets for similar securities, the market price of the Common Shares, general economic conditions and the Corporation’s financial condition, historic financial performance and future prospects.

AUDITOR

The auditors of the Corporation are Ernst & Young LLP, Chartered Accountants, The Fortis Building, 7th Floor, 139 Water Street, St. John’s, Newfoundland and Labrador A1C 1B2.

LEGAL MATTERS

Unless otherwise specified in a Prospectus Supplement relating to a specific offering of Securities, certain legal matters relating to the offering of Securities will be passed upon on behalf of the Corporation by Davies Ward Phillips & Vineberg LLP, Toronto and McInnes Cooper, St. John’s. At the date hereof, partners and associates of each of Davies Ward Phillips & Vineberg LLP and McInnes Cooper own beneficially, directly or indirectly, less than 1% of any securities of the Corporation or any associate or affiliate of the Corporation.

PURCHASERS’ STATUTORY RIGHTS

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may only be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment, irrespective of the determination at a later date of the purchase price of the securities distributed. In several of the provinces, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revisions of the price or damages if the prospectus and any amendment contains

a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revisions of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights or consult with a legal advisor.

AUDITORS' CONSENT

We have read the Short Form Base Shelf Prospectus (the "Prospectus") of Fortis Inc. (the "Corporation") dated May 10, 2012 relating to the issue and sale of Common Shares, First Preference Shares, Second Preference Shares, Subscription Receipts and Debentures of the Corporation. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the incorporation by reference, in the Prospectus, of our reports to the shareholders of the Corporation: (i) on the consolidated balance sheets of the Corporation as at December 31, 2011 and 2010 and the consolidated statements of earnings, retained earnings, comprehensive income and cash flows for each of the years in the two-year period ended December 31, 2011, prepared in accordance with Canadian generally accepted accounting principles; and (ii) on the consolidated balance sheets of the Corporation as at December 31, 2011 and 2010 and the consolidated statements of earnings, retained earnings, comprehensive income and cash flows for each of the years in the two-year period ended December 31, 2011, prepared in accordance with accounting principles generally accepted in the United States. Each such report is dated March 13, 2012.

St. John's, Canada
May 10, 2012

(Signed) ERNST & YOUNG LLP
Chartered Accountants

CERTIFICATE OF FORTIS INC.

Dated: May 10, 2012

This short form prospectus, together with the documents incorporated in this prospectus by reference, will, as of the date of the last supplement to this prospectus relating to the securities offered by the prospectus and the supplement(s), constitute full, true and plain disclosure of all material facts relating to the securities offered by this prospectus and the supplement(s) as required by the securities legislation of each of the provinces of Canada.

(Signed) H. STANLEY MARSHALL
President and
Chief Executive Officer

(Signed) BARRY V. PERRY
Vice-President, Finance and
Chief Financial Officer

On behalf of the Board of Directors

(Signed) DAVID G. NORRIS
Director

(Signed) PETER E. CASE
Director

5. **Full listing of each bond issue applicable for the 2012 Test Year including any future anticipated issues with full details (e.g. principal face value, nominal interest rate, effective rate if issued at discount or premium, relevant benchmark Government of Canada bond, credit spread benchmark, date of issue, date of maturity, length of maturity, etc.**

   - See attached for FEI's bond issues for 2012 Test Year

FEI
Long-term Debt
29-Jun-2012

	Coupon	Maturity	Life	Yield to MATURITY Per FBC	Yield to Maturity Per RBC	29-Jun-12 Market Price (a) ($CAD)	29-Jun-12 Carrying Value ($CAD 000s)	29-Jun-12 Market Price (% of Par)	29-Jun-12 Market Value ($CAD 000s)	29-Jun-12 Current GOC BM Per RBC	29-Jun-12 Current Spread to BM bps	New Issue GOC BM	New Issue Spread to BM bps
FEI													
Series A PMM	11.80%	30-Sep-15	3.25	2.299%	2.258%	129.612	74,955	129.612%	97,151	CAN 2.5 1JUN15	115	CAN 10.50 JUL00	116
Series B PMM	10.30%	30-Sep-16	4.26	2.251%	2.227%	132.466	200,000	132.466%	264,932	CAN 2.75 1SEP16	100	CAN 9.75 JUN21	104
Series 11 MTN	6.95%	21-Sep-29	17.24	3.781%	3.779%	139.846	150,000	139.846%	209,769	CAN 5.75 1JUN29	160	CAN 8 1JUN27	112
Series 18 MTN	6.50%	1-May-34	21.85	3.934%	3.933%	137.359	150,000	137.359%	206,039	CAN 4 1JUN41	160	CAN 5.75 1JUN29	127
Series 19 MTN	5.90%	26-Feb-35	22.68	3.934%	3.933%	129.297	150,000	129.297%	193,946	CAN 4 1JUN41	160	CAN 5.75 1JUN29	118
Series 21 MTN	5.55%	25-Sep-36	24.26	3.934%	3.933%	125.097	120,000	125.097%	150,116	CAN 4 1JUN41	160	CAN 5.75 1JUN29	136
Series 22 MTN	6.00%	2-Oct-37	25.28	3.934%	3.933%	132.881	250,000	132.881%	332,203	CAN 4 1JUN41	160	CAN 5.75 1JUN29	148
Series 23 MTN	5.80%	13-May-38	25.89	3.934%	3.933%	130.119	250,000	130.119%	325,298	CAN 4 1JUN41	160	CAN 5.75 1JUN33	163
Series 24 MTN	6.55%	24-Feb-39	26.67	3.934%	3.913%	142.950	100,000	142.950%	142,950	CAN 4 1JUN41	158	CAN 5.75 1JUN33	285
Series 25 MTN	4.25%	9-Dec-41	29.47	3.933%	3.933%	105.491	100,000	105.491%	105,491	CAN 4 1JUN41	160	CAN 4 1JUN41	163
Total FEI							1,544,955		2,027,893				

SOURCE: RBC Capital Markets, Company documents

6. **All Prospectuses of Equity Offerings of the utility and/or its corporate parent within the last six years, if applicable:**

   - FEI is a wholly-owned privately entity and only issues equity to its parent, FortisBC Holdings Inc.
   - FEI is indirectly and wholly-owned by its ultimate parent, Fortis Inc. (FTS – a TSX listed company)
   - See attached for FTS equity offerings

   a. **Details of any new equity issues from the financial market for the utility and/or corporate parent, if applicable:**

New Issue January 10, 2007

SHORT FORM PROSPECTUS

FORTIS INC.

FORTIS

$149,930,000
5,170,000 Common Shares

This short form prospectus (the ''Prospectus'') qualifies for distribution 5,170,000 common shares (the ''Offered Shares'') of Fortis Inc. (''Fortis'' or the ''Corporation'') which are being offered and sold pursuant to the provisions of an underwriting agreement (the ''Underwriting Agreement'') dated January 4, 2007 among Fortis and Scotia Capital Inc. (''Scotia Capital''), CIBC World Markets Inc. (''CIBCWM''), BMO Nesbitt Burns Inc.(''BMO Nesbitt Burns''), RBC Dominion Securities Inc. (''RBCDS''), TD Securities Inc. (''TD Securities''), Canaccord Capital Corporation (''Canaccord''), HSBC Securities (Canada) Inc. (''HSBC Securities''), National Bank Financial Inc. (''NB Financial'') and UBS Securities Canada Inc. (''UBS Securities'' and, collectively with Scotia Capital, CIBCWM, BMO Nesbitt Burns, RBCDS, TD Securities, Canaccord, HSBC Securities and NB Financial, the ''Underwriters''). The Offered Shares will be issued and sold by Fortis to the Underwriters at the price of $29.00 (the ''Offering Price'') per Offered Share. The Offering Price was determined by negotiation between the Corporation and the Underwriters.

The Toronto Stock Exchange (the ''TSX'') has conditionally approved the listing of the Offered Shares. Listing is subject to the Corporation fulfilling all of the requirements of the TSX on or before April 8, 2007. The Corporation's outstanding common shares (the ''Common Shares'') are listed and posted for trading on the TSX under the symbol ''FTS''. On January 9, 2007, the closing price of the Common Shares on the TSX was $27.34.

Investing in the Offered Shares involves risks, certain of which are described under the heading ''Business Risk Management'' in the Management Discussion and Analysis of financial conditions and results of operations found on pages 62 to 67 of the Corporation's 2005 Annual Report and under the heading ''Risk Factors'' found on pages 44 to 48 of the Corporation's 2005 Annual Information Form. See ''Documents Incorporated by Reference''.

Price: $29.00 per Common Share

	Price to the Public	Underwriters' Fee	Net proceeds to Fortis (1)
Per Common Share	$29.00	$1.16	$27.84
Total	$149,930,000	$5,997,200	$143,932,800

(1) Before deducting expenses of the offering estimated at $550,000 which, together with the Underwriters' fees, will be paid out of the general funds of Fortis. See ''Plan of Distribution''.

Scotia Capital, CIBCWM, BMO Nesbitt Burns, RBCDS, TD Securities, HSBC Securities and NB Financial are each subsidiaries of Canadian chartered banks that have, either solely or as a member of a syndicate of financial institutions, extended credit facilities to the Corporation and/or its subsidiaries. The net proceeds from this offering will be used in part to repay indebtedness under credit facilities owing by the Corporation to certain of such banks. Accordingly, the Corporation may be considered a ''connected issuer'' of such Underwriters under applicable securities legislation. See ''Use of Proceeds'' and ''Plan of Distribution''.

The Underwriters, as principals, conditionally offer the Offered Shares, subject to prior sale, if, as and when issued by Fortis and accepted by the Underwriters in accordance with the conditions contained in the Underwriting Agreement and subject to the approval of certain legal matters on behalf of the Corporation by Davies Ward Phillips & Vineberg LLP, Toronto and McInnes Cooper, St. John's and on behalf of the Underwriters by Stikeman Elliott LLP, Toronto. See ''Plan of Distribution''.

Subscriptions for the Offered Shares will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that the closing of this offering (the ''Closing'') will take place on or about January 18, 2007 (the ''Closing Date''), or such other date as may be agreed upon by the Corporation and the Underwriters, but not later than February 21, 2007.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus (the ''Prospectus''), and the documents incorporated herein by reference, contain forward-looking statements which reflect management's expectations regarding the Corporation's future growth, results of operations, performance and business prospects and opportunities. Wherever possible, words such as ''anticipate'', ''believe'', ''expects'', ''intend'' and similar expressions have been used to identify these forward-looking statements. These statements reflect management's current beliefs and are based on information currently available to the Corporation's management. Forward-looking statements involve significant risks, uncertainties and assumptions. 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, including regulation, derivative instruments and hedging, energy prices, economic conditions, loss of service areas, environmental matters, insurance, labour relations, weather, liquidity risks and human resources. These factors should be considered carefully and prospective investors should not place undue reliance on the forward-looking statements. Although the forward-looking statements contained in the Prospectus, and the documents incorporated herein by reference, are based upon what management believes to be reasonable assumptions, the Corporation cannot assure prospective purchasers that actual results will be consistent with these forward-looking statements. These forward-looking statements are made as of the date of the Prospectus, and the Corporation assumes no obligation to update or revise them to reflect new events or circumstances.

DOCUMENTS INCORPORATED BY REFERENCE

The disclosure documents of Fortis Inc. (''Fortis'' or the ''Corporation'') listed below and filed with the appropriate securities commissions or similar regulatory authorities in each of the provinces of Canada are specifically incorporated by reference into and form an integral part of this Prospectus:

(a) annual information form dated March 29, 2006 for the year ended December 31, 2005;

(b) audited comparative consolidated financial statements for the years ended December 31, 2005 and 2004, together with notes thereto and the auditors' report thereon dated January 27, 2006 as contained in the Corporation's 2005 Annual Report;

(c) Management Discussion and Analysis of financial condition and results of operations for the year ended December 31, 2005 as contained in the Corporation's 2005 Annual Report;

(d) unaudited interim consolidated financial statements as at September 30, 2006 and for the three and nine-month periods ended September 30, 2006 and 2005 and related management discussion and analysis of financial condition and results of operations for the three and nine-month periods ended September 30, 2006;

(e) management information circular dated March 17, 2006 prepared in connection with the Corporation's annual meeting of shareholders held on May 2, 2006;

(f) material change report dated September 15, 2006 describing the entering into of an agreement between the Corporation and a syndicate of underwriters led by BMO Nesbitt Burns Inc. for the public offering by the Corporation of 5,000,000 4.90% cumulative redeemable First Preference Shares, Series F; and

(g) material change report dated January 5, 2007 describing the entering into of an agreement between the Corporation and Scotia Capital Inc. and CIBC World Markets Inc. for the public offering by the Corporation of 5,170,000 common shares.

Any document of the type referred to in the preceding paragraph (other than any confidential material change report) subsequently filed by the Corporation with such securities commissions or regulatory authorities after the date of the Prospectus, and prior to the termination of the offering, shall be deemed to be incorporated by reference into the Prospectus.

Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Prospectus to the extent that a statement contained herein, or in any other subsequently filed document which also is incorporated or is deemed to be incorporated by reference herein, modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement will not be deemed an admission for any purpose that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus.

Copies of the documents incorporated herein by reference may be obtained on request without charge from the Secretary of the Corporation at Suite 1201, 139 Water Street, St. John's, Newfoundland and Labrador A1B 3T2 (telephone (709) 737-2800). These documents are also available through the Internet on the Corporation's website at www.fortisinc.com or on the Canadian System for Electronic Document Analysis and Retrieval (SEDAR) which can be accessed at www.sedar.com. The information contained on, or accessible through, these websites is not incorporated by reference into the Prospectus and is not, and should not be considered to be, a part of the Prospectus, unless it is explicitly so incorporated.

ELIGIBILITY FOR INVESTMENT

In the opinion of Davies Ward Phillips & Vineberg LLP, counsel to the Corporation, and Stikeman Elliott LLP, counsel to the Underwriters, the common shares of the Corporation being offered pursuant to the Prospectus (the ''Offered Shares''), if issued on the date hereof, would be qualified investments under the Income Tax Act (Canada) for a trust governed by a registered retirement savings plan, registered retirement income fund, deferred profit sharing plan or registered education savings plan.

Unless otherwise indicated, dollar amounts in the Prospectus are expressed in Canadian dollars.

FORTIS

Fortis Inc. was incorporated as 81800 Canada Ltd. under the Canada Business Corporations Act on June 28, 1977. The Corporation was continued under the Corporations Act (Newfoundland) on August 28, 1987 and on October 12, 1987 the Corporation amended its articles to change its name to ''Fortis Inc.'' The address of the head office and principal place of business of the Corporation is The Fortis Building, Suite 1201, 139 Water Street, St. John's, Newfoundland and Labrador A1B 3T2.

Fortis is principally a diversified, international electric utility holding company that owns subsidiaries engaged in the regulated distribution of electricity. Regulated utility assets comprise approximately 84% of the Corporation's total assets, with the balance comprised primarily of non-regulated electricity generating assets, and commercial real estate and hotel investments owned and operated through its non-utility subsidiary. Fortis is the indirect owner of all of the common shares of FortisAlberta Inc. (''FortisAlberta'') and FortisBC Inc. (''FortisBC''). Fortis Alberta is a regulated electric utility that distributes electricity generated by other market participants in Alberta. FortisBC is a regulated electric utility that generates, transmits and distributes electricity in British Columbia. Fortis also holds all the common shares of Newfoundland Power Inc. (''Newfoundland Power'') and, through its wholly owned subsidiary Fortis Properties Corporation (''Fortis Properties''), holds all the common shares of Maritime Electric Company, Limited (''Maritime Electric''), which are the principal distributors of electricity in Newfoundland and Prince Edward Island, respectively. As well, through its wholly owned subsidiary FortisOntario Inc. (''FortisOntario'') and its subsidiaries, Canadian Niagara Power Inc. (''CNPI'') and Cornwall Street Railway, Light and Power Company, Limited (''Cornwall Electric''), Fortis distributes electricity to customers primarily in Fort Erie, Port Colborne, Gananoque and Cornwall, Ontario.

The Corporation's regulated electric utility assets in the Caribbean consist of its ownership, through wholly owned subsidiaries, of a 70.1% interest in Belize Electricity Limited (''Belize Electricity''), the primary distributor of electricity in Belize, and an approximate 54% interest in Caribbean Utilities Company Limited (''Caribbean Utilities''), the sole provider of electricity to the island of Grand Cayman, Cayman Islands. On August 28, 2006, Fortis acquired, through a wholly owned subsidiary, all of the outstanding shares of P.P.C. Limited (''PPC'') and Atlantic Equipment & Power (Turks and Caicos) Ltd. (''Atlantic''), which together generate and distribute electricity to approximately 80% of electricity customers in the Turks and Caicos Islands.

The Corporation's non-regulated electricity generation operations consist of its 100% interest in each of Belize Electric Company Limited (''BECOL''), FortisUS Energy Corporation (''FortisUS Energy''), and FortisOntario, as well as non-regulated electricity generation assets owned by FortisBC and Fortis Properties.

Fortis Properties is the direct owner of a 51% interest in the Exploits River Hydro Partnership (the ''Exploits Partnership''). The Exploits Partnership was established with Abitibi-Consolidated Company of Canada (''Abitibi-Consolidated''), which holds the remaining 49% interest, to develop additional capacity at Abitibi-Consolidated's hydroelectric plant at Grand Falls-Windsor and redevelop Abitibi-Consolidated's hydroelectric plant at Bishop's Falls, Newfoundland and Labrador. Fortis Properties' holdings also include six small hydroelectric generating stations in eastern Ontario with a combined capacity of 8 megawatts (''MW'').

BECOL owns and operates both the 25 MW Mollejon and 7 MW Chalillo hydroelectric facilities, located on the Macal River in Belize, Central America. Through FortisUS Energy, a wholly owned subsidiary of Fortis Properties, the Corporation owns and operates 4 hydroelectric generating stations in upper New York State with a total combined capacity of 23 MW. FortisOntario includes 75 MW of water right entitlement associated with the Rankine Generating Station at Niagara Falls and the operation of a 5 MW gas-fired cogeneration plant that provides district heating to 17 commercial customers in Cornwall. The Rankine Generating Station assets have been decommissioned and written down as a result of the implementation of a water and power exchange agreement (the ''Niagara Exchange Agreement'') with Ontario Power Generation Inc. (''OPGI''). The Niagara Exchange Agreement assigns FortisOntario's water rights on the Niagara River to OPGI and facilitates the irrevocable exchange of 75 MW of wholesale electric power supply to FortisOntario from OPGI until April 30, 2009 in exchange for FortisOntario's agreement not to seek renewal of the water entitlement at that time. The non-regulated electricity generation operations of FortisBC conducted through Walden, its wholly owned partnership, include the 16 MW run-of-river Walden hydroelectric power plant near Lillooet, British Columbia.

Through its wholly owned subsidiary, Fortis Properties, the Corporation owns and operates hotels in seven provinces in Canada and commercial real estate in Atlantic Canada. Its holdings include 18 hotels with more than 3,200 rooms and approximately 2.7 million square feet of commercial real estate.

Regulated Utilities — Canadian

FortisAlberta

On May 31, 2004, Fortis, through an indirect wholly owned subsidiary, acquired all of the issued and outstanding shares of FortisAlberta (formerly Aquila Networks Canada (Alberta) Ltd.). FortisAlberta owns and operates the electricity distribution system in a substantial portion of southern and central Alberta. FortisAlberta distributes electricity to approximately 426,000 customers using approximately 104,000 kilometres of power lines. FortisAlberta's business is the ownership and operation of regulated electricity distribution facilities that distribute electricity generated by other market participants from high-voltage transmission substations to end-use customers. FortisAlberta is not involved in the generation, transmission or direct sale of electricity.

FortisBC

On May 31, 2004, Fortis, through an indirect wholly owned subsidiary, acquired all of the issued and outstanding shares of FortisBC (formerly Aquila Networks Canada (British Columbia Ltd.). FortisBC is an integrated regulated electric utility that owns a network of generation, transmission and distribution assets located in the southern interior of British Columbia. FortisBC serves a diverse mix of over 150,000 customers, with residential customers representing the largest customer segment. FortisBC owns four regulated hydroelectric generating plants with an aggregate capacity of 235 MW that provide approximately 50% of the Corporation's energy and 30% of its capacity needs. FortisBC's remaining electricity supply is acquired through long-term power purchase contracts and short-term market purchases. FortisBC includes non-regulated operating, maintenance and management services relating to the 450 MW Waneta hydroelectric generation facility owned by Teck Cominco Metals Ltd., the 149 MW Brilliant Hydroelectric Plant and the 185 MW Arrow Lakes Hydroelectric Plant owned by Columbia Power Corporation and Columbia Basin Trust and the distribution system owned by the City of Kelowna.

FortisBC's assets include the electric utility formerly owned by Princeton Light and Power Company, Limited (the ''PLP Utility''). The PLP Utility serves approximately 3,500 customers, mainly in Princeton, British Columbia. The PLP Utility was purchased by Fortis through an indirect subsidiary on May 31, 2005 and became part of FortisBC on January 1, 2007 as the result of an internal corporate reorganization.

Newfoundland Power

Fortis holds all of the common shares of Newfoundland Power. Newfoundland Power is an electric utility that operates an integrated generation, transmission and distribution system throughout the island portion of the Province of Newfoundland and Labrador. Newfoundland Power serves over 227,000 customers, or approximately 85% of electricity customers in the Province, in approximately 600 communities, and met a peak demand of 1,124 MW in 2005. Approximately 90% of the electricity that Newfoundland Power sells to its customers is purchased from Newfoundland and Labrador Hydro Corporation. Currently, Newfoundland Power has an installed generating capacity of 136 MW, of which 92 MW is hydroelectric generation.

Maritime Electric

Through its subsidiary, Fortis Properties, Fortis owns all of the common shares of Maritime Electric, which is the principal distributor of electricity on Prince Edward Island. Maritime Electric directly supplies approximately 71,000 customers, or approximately 90% of the electricity consumers on the Island, and met a peak demand of 209 MW in 2005. Maritime Electric purchases most of the energy it distributes to its customers from New Brunswick Power Corporation and maintains on-Island generating facilities at Charlottetown and Borden-Carleton with a combined total capacity of 150 MW.

FortisOntario

The Corporation's regulated utility investments in Ontario are comprised of CNPI, including the operations of Port Colborne Hydro, and Cornwall Electric, all of which are owned through FortisOntario. In total, its distribution operations serve approximately 51,500 customers in the Fort Erie, Port Colborne, Cornwall and Gananoque areas of Ontario and met a combined peak demand of 249 MW in 2005. CNPI owns international transmission facilities at

Fort Erie as well as a 10% interest in each of Westario Power Holdings Inc. and Rideau St. Lawrence Holdings Inc., two regional electric distribution companies formed in 2000 that, together, serve approximately 27,000 customers.

Regulated Utilities — Caribbean

Belize Electricity

Fortis, through wholly owned subsidiaries incorporated under the laws of the Cayman Islands, holds a 70.1% interest in Belize Electricity. Belize Electricity is the primary distributor of electricity in the Central American country of Belize. Belize Electricity directly supplies approximately 69,000 customers in Belize and meets a peak demand of 64 MW.

Caribbean Utilities

Fortis, through a wholly owned subsidiary, holds an approximate 54% interest in Caribbean Utilities, the only public electric utility on Grand Cayman, Cayman Islands. Caribbean Utilities has the exclusive right to generate, distribute, transmit and supply electricity to the island of Grand Cayman, Cayman Islands, pursuant to a 25-year exclusive licence. The current licence remains in effect until January 2011 or until replaced by a new licence by the mutual consent of Caribbean Utilities and the Government of the Cayman Islands. Negotiations regarding the renewal of the licence are ongoing. In June 2006, Caribbean Utilities surpassed its pre-Hurricane Ivan customer base and currently serves approximately 22,000 customers. By the end of July 2006, Caribbean Utilities' total owned generating capacity reached 120 MW compared to 123 MW pre-Hurricane Ivan. Hurricane Ivan was a Category V hurricane that struck Grand Cayman in September 2004. In October 2006, Caribbean Utilities achieved a new record peak load at approximately 87 MW, exceeding a pre-Hurricane Ivan peak load of 85 MW.

The Class A Ordinary Shares of Caribbean Utilities are listed for trading on the Toronto Stock Exchange (the ''TSX'') under the symbol CUP.U. The Corporation's investment in Caribbean Utilities resulted from a series of transactions from March 2000 through November 2006. Fortis acquired its indirect controlling interest in Caribbean Utilities on November 7, 2006 through the purchase by its wholly owned subsidiary of approximately 16% of the outstanding Class A Ordinary Shares of Caribbean Utilities from International Power Holdings Ltd. and four other vendors. See ''Recent Developments''. Following these transactions, Fortis beneficially owns 13,565,511 Class A Ordinary Shares, or approximately 54% of the outstanding Class A Ordinary Shares.

Turks and Caicos Utilities

The Corporation owns, through a wholly owned subsidiary, all of the outstanding shares of PPC and Atlantic. Together, PPC and Atlantic serve almost 7,500 customers, or approximately 80% of electricity customers in the Turks and Caicos Islands. PPC is the sole provider of electricity in Provindenciales, North Caicos and Middle Caicos pursuant to a 50-year licence that expires in 2037. Atlantic is the sole provider of electricity in South Caicos pursuant to a 50-year licence that expires in 2036. The utilities have a combined diesel-fired generating capacity of approximately 35 MW and meet a peak demand of approximately 20 MW.

Each utility is regulated under a traditional rate of return on rate base approach, with a fixed rate of return of 17.5% on a defined asset base of approximately US$50 million.

Non-Regulated — Fortis Generation

Ontario

Non-regulated generation assets in Ontario include the operations of FortisOntario and Fortis Properties. Fortis Properties' operations in Ontario consist of six small hydroelectric generating stations, which were originally acquired as Granite Power Distribution and Rideau Falls, with a combined capacity of approximately 8 MW. FortisOntario's assets include 75 MW of water entitlement associated with the Rankine Generating Station at Niagara Falls and the operation of a 5-MW gas-fired cogeneration plant that provides district heating to 17 commercial customers in Cornwall. The Rankine Generating Station assets have been decommissioned and written down as a result of the implementation of the Niagara Exchange Agreement. The Niagara Exchange Agreement assigns FortisOntario's water rights on the Niagara River to OPGI and facilitates the irrevocable exchange of 75 MW of wholesale electric power supply to FortisOntario from OPGI until April 30, 2009 in exchange for FortisOntario's agreement not to seek renewal of the water entitlement at that time.

Belize

Non-regulated generation operations in Belize are conducted through the Corporation's wholly owned indirect subsidiary, BECOL, under a franchise agreement with the Government of Belize. BECOL owns and operates the 25-MW Mollejon hydroelectric facility and the 7-MW Chalillo hydroelectric facility, which was inaugurated on November 15, 2005. Both facilities are located on the Macal River in Belize. These generating plants have the capability of delivering average annual energy production of approximately 160 gigawatt hours (''GWh''). BECOL sells its entire output to Belize Electricity under a 50-year power purchase agreement.

Central Newfoundland

Non-regulated generation operations in central Newfoundland are conducted through the Corporation's indirect 51% interest in the Exploits Partnership. The Exploits Partnership is a partnership with Abitibi-Consolidated that constructed, installed and operates additional capacity at Abitibi-Consolidated's hydroelectric plant at Grand Falls-Windsor and redeveloped the forestry company's hydroelectric plant at Bishop Falls, Newfoundland and Labrador. The 51% interest in the partnership is owned by Fortis Properties. The project undertaken by the Exploits Partnership was completed in November 2003. Abitibi-Consolidated continues to utilize the historical annual generation of approximately 450 GWh while the additional energy produced from the new facilities, approximately 140 GWh, is sold to Newfoundland Hydro under a 30-year take-or-pay power purchase agreement, which is exempt from regulation.

Upper New York State

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

British Columbia

Non-regulated generation operations in British Columbia were acquired as part of FortisBC in May 2004. Generating assets in British Columbia consist of the 16-MW run-of-river Walden hydroelectric power plant near Lillooet, British Columbia. This plant sells its entire output to BC Hydro under a power purchase agreement.

Non-Regulated — Fortis Properties

Fortis has owned all of the issued and outstanding shares of Fortis Properties since its inception in 1989. In addition to its non-regulated generation operations, Fortis Properties owns and operates hotels in seven provinces in Canada and commercial real estate in Atlantic Canada. Its holdings include 18 hotels with more than 3,200 rooms and approximately 2.7 million square feet of commercial real estate. On October 31, 2006, Fortis Properties completed the purchase of four hotels located in Alberta and British Columbia from Lodge Motel (Kelowna) Ltd. for $51.6 million. See ''Recent Developments''.

RECENT DEVELOPMENTS

Acquisition of Hotels in Western Canada

On October 31, 2006, Fortis Properties completed the purchase of four hotels located in Alberta and British Columbia from Lodge Motel (Kelowna) Ltd. for $51.6 million. The purchased hotels were: the Holiday Inn Express and Suites and the Best Western, both in Medicine Hat, Alberta; the Ramada Hotel and Suites, in Lethbridge, Alberta; and the Holiday Inn Express, in Kelowna, British Columbia. Through the purchase, Fortis Properties' hospitality operations were expanded by 454 rooms.

Acquisition of Additional Shares of Caribbean Utilities

On November 7, 2006, Fortis acquired an aggregate of 4,113,116 or approximately 16% of the outstanding Class A Ordinary Shares of Caribbean Utilities from International Power Holdings Ltd. (''International Power'') and four other vendors associated with International Power for US$11.89 per share under a private agreement. Pursuant to this purchase, Fortis acquired control of Caribbean Utilities through its beneficial ownership of approximately 13,565,511 or 54% of the outstanding Class A Ordinary Shares. As a result of acquiring control of Caribbean Utilities, Fortis is now consolidating the financial results of Caribbean Utilities into the financial statements of Fortis.

Previously, Fortis had accounted for its investment in Caribbean Utilities on an equity basis, pursuant to which Fortis only recorded its pro rata share of earnings of Caribbean Utilities in the consolidated statements of earnings of Fortis.

Private Placement of Convertible Debentures

On November 7, 2006, Fortis issued, by way of private placement, US$40 million aggregate principal amount of unsecured subordinated convertible debentures (the ''Debentures''). The Debentures bear interest at an annual rate of 5.5% and mature on November 7, 2016. The Debentures may be redeemed by Fortis at par at any time on or after November 7, 2011 and are convertible into common shares of Fortis (''Common Shares'') at the option of the holder at any time prior to their maturity at US$29.11 per share.

Regulatory Matters

During the fourth quarter of 2006 the allowed regulated returns on equity for FortisBC, FortisAlberta and Newfoundland Power were reset in accordance with an adjustment formula by their respective regulators. The allowed regulated returns on equity for FortisAlberta, FortisBC and Newfoundland Power were reduced from 8.93%, 9.20% and 9.24% to 8.51%, 8.77% and 8.60%, respectively.

On December 6, 2006, Newfoundland Power received approval of its 2007 amortization and cost deferral accounting application from the Newfoundland and Labrador Board of Commissioners of Public Utilities. The order provided for a one-time accounting accrual to offset increased taxes in 2007 and the deferral of increased depreciation and replacement energy expenses in 2007. Recovery of these amounts will be addressed in Newfoundland Power's next general rate proceeding.

During the fourth quarter of 2006 the British Columbia Utilities Commission approved FortisBC's 2007 and 2008 capital plans of $128.6 million (net of customer contributions of $7.2 million) and $111.6 million (net of customer contributions of $8.0 million), respectively, subject to additional approvals for certain projects. Earlier in 2006, a Negotiated Settlement Agreement, approved by the Alberta Energy and Utilities Board (''AEUB''), dealing with FortisAlberta's 2006/2007 Distribution Revenue Requirement included a 2007 capital expenditure program of $177 million (net of customer contributions of $24 million). During the fourth quarter, FortisAlberta's 2007 capital plan was increased to approximately $240 million (net of customer contributions of $33 million) primarily driven by customer growth. The increase in the 2007 capital expenditure program will be included as part of FortisAlberta's 2008 rate application.

Issuance of Debentures by FortisAlberta

On January 3, 2007, FortisAlberta issued $110 million aggregate principal amount of senior unsecured debentures bearing interest at a rate of 4.99% per annum due January 2047.

PRICE RANGE AND TRADING VOLUME OF THE COMMON SHARES

The Common Shares are traded on the TSX under the symbol ''FTS''. The following table sets forth the reported high and low trading prices and trading volumes of the Common Shares as reported by the TSX from November 2005.

Period	High	Low	Volume
2005			
November	$25.50	$22.00	4,436,979
December	$25.64	$23.38	2,905,980
2006			
January	$24.60	$22.76	3,981,812
February	$23.76	$22.00	7,087,013
March	$23.50	$21.65	6,775,211
April	$22.95	$20.89	3,813,271
May	$24.84	$20.36	7,241,148
June	$24.60	$21.16	3,707,157
July	$23.40	$21.99	2,328,812
August	$25.48	$22.15	6,214,513
September	$25.40	$24.00	2,553,872
October	$25.65	$24.12	7,362,894
November	$28.74	$25.15	6,234,745
December	$30.00	$28.01	2,793,265
2007			
January (1 to 9)	$30.00	$27.08	1,822,203

On January 9, 2007 the closing price of the Common Shares was $27.34

SHARE CAPITAL OF FORTIS

The authorized share capital of the Corporation consists of an unlimited number of Common Shares, an unlimited number of First Preference Shares issuable in series and an unlimited number of Second Preference Shares issuable in series, in each case without nominal or par value. As at December 31, 2006, 104,091,542 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 were issued and outstanding.

DIVIDEND POLICY

Dividends on the Common Shares are declared at the discretion of the board of directors of Fortis. The Corporation paid cash dividends on its Common Shares of $0.67 in 2006, $0.588 in 2005 and $0.54 in 2004. On September 28, 2005, the Corporation declared a stock dividend effecting a 4-for-1 stock split of the Corporation's outstanding Common Shares. Each of the foregoing dividend payments is expressed on a post-stock split basis. On December 7, 2006, the Fortis board of directors declared a first quarter dividend of $0.19 per Common Share, payable on March 1, 2007 to holders of record on February 2, 2007.

Regular quarterly dividends at the prescribed annual rate have been paid on all of the Series C First Preference Shares, Series E First Preference Shares and Series F First Preference Shares, respectively. On December 7, 2006, the Fortis board of directors also declared a first quarter dividend on each such series of First Preference Shares in accordance with the applicable prescribed annual rate, in each case payable on March 1, 2007 to holders of record on February 2, 2007.

DESCRIPTION OF COMMON SHARES

Dividends

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

Liquidation, Dissolution or Winding-Up

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

Voting Rights

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

CHANGES IN SHARE AND LOAN CAPITAL STRUCTURE

The following describes the changes in the share and loan capital structure of Fortis since September 30, 2006:

- During the period from September 30, 2006 up to and including December 31, 2006, Fortis issued an aggregate of 385,366 Common Shares pursuant to the Corporation's Consumer Share Purchase Plan, Dividend Reinvestment Plan, Employee Share Purchase Plan and upon the exercise of options granted pursuant to the 2002 Stock Option Plan and the Executive Stock Option Plan for an aggregate consideration of approximately $6.1 million.

- On October 30, 2006, Fortis made a draw down of $20.0 million under its credit facilities for the purpose of funding the acquisition by Fortis Properties of four hotels located in Alberta and British Columbia. See ''Recent Developments''.

- On November 7, 2006, Fortis made draw downs under its credit facilities of an aggregate amount of US$48.6 million for the purpose of funding the acquisition of approximately 16% of the outstanding Class A Ordinary Shares of Caribbean Utilities. See ''Recent Developments''.

- On November 7, 2006, Fortis issued, by way of private placement, US$40 million aggregate principal amount of Debentures. The Debentures bear interest at an annual rate of 5.5% and mature on November 7, 2016. The Debentures may be redeemed by Fortis at any time on or after November 7, 2011 and are convertible into Common Shares at the option of the holder at any time prior to their maturity at US$29.11 per share. The Debentures are subordinated to all other indebtedness of Fortis, other than subordinated indebtedness ranking equally with the Debentures. On November 7, 2006, Fortis repaid US$40 million owing under its credit facilities from the proceeds of the private placement.

- During the period from September 30, 2006 up to and including December 31, 2006, Fortis made net draw downs under its credit facilities in the amount of $29.2 million to fund expenditures incurred in the ordinary course of its business and the operations of its subsidiaries. As of December 31, 2006, there was an aggregate of approximately $84.1 million outstanding under the Corporation's credit facilities.

- As a result of the proposed issuance of Common Shares under this offering, shareholders' equity in the Corporation will increase by approximately $145.6 million to a total of $1.55 billion.

USE OF PROCEEDS

The estimated net proceeds from the sale of the Offered Shares will be approximately $143,382,800, after deducting the Underwriters' fee and the estimated expenses of this offering. The net proceeds of this offering will be principally used to repay approximately $84.4 million previously borrowed under the Corporation's credit facilities, which indebtedness was incurred to fund, in part, the August 28, 2006 acquisition of PPC and Atlantic and other recent acquisitions (see ''Recent Developments — Acquisition of Hotels in Western Canada'' and ''Recent Developments — Acquisition of Additional Shares of Caribbean Utilities'') and for general corporate purposes. The balance of the net proceeds of the offering will be used for general corporate purposes including equity injections into the Corporation's western Canadian regulated utilities in support of their extensive capital expenditure programs and the repayment of certain subsidiary indebtedness.

PLAN OF DISTRIBUTION

Pursuant to an agreement dated January 4, 2007, (the ''Underwriting Agreement'') among Fortis and Scotia Capital Inc. (''Scotia Capital''), CIBC World Markets Inc. (''CIBCWM''), BMO Nesbitt Burns Inc.(''BMO Nesbitt Burns''), RBC Dominion Securities Inc. (''RBCDS''), TD Securities Inc. (''TD Securities''), Canaccord Capital Corporation (''Canaccord''), HSBC Securities (Canada) Inc. (''HSBC Securities''), National Bank Financial Inc. (''NB Financial'') and UBS Securities Canada Inc. (''UBS Securities'' and, collectively with Scotia Capital, CIBCWM, BMO Nesbitt Burns, RBCDS, TD Securities, Canaccord, HSBC Securities and NB Financial, the ''Underwriters''), Fortis has agreed to issue and sell, and the Underwriters have agreed to purchase, as principals, on or about January 18, 2007 (the ''Closing Date''), 5,170,000 Common Shares offered hereby at a price of $29.00 per Common Share (the ''Offering Price'') subject to compliance with all necessary legal requirements and to the conditions contained in the Underwriting Agreement. The Underwriting Agreement provides that the Underwriters will be paid a fee of $1.16 per Common Share. The Offering Price and other terms of the offering for the Offered Shares were determined by negotiation between the Corporation and the Underwriters. The total price to the public will be $29.00, the Underwriters' fee will be $5,997,200 and the net proceeds to Fortis will be $143,932,800.

Subscriptions for the Offered Shares will be received, subject to rejection or allotment in whole or in part, and the right is reserved to close the subscription books at any time without notice. It is expected that the closing (the ''Closing'') of the Offering will take place on the Closing Date or such other date as may be agreed upon by the Corporation and the Underwriters, but not later than February 21, 2007. Certificates evidencing the Offered Shares will be available for delivery at the Closing or shortly thereafter.

Pursuant to rules and policy statements of certain Canadian securities regulators, the Underwriters may not, at any time during the period ending on the date the selling process for the Offered Shares ends and all stabilization arrangements relating to the Offered Shares are terminated, bid for or purchase Offered Shares. The foregoing restrictions are subject to certain exceptions including (a) a bid for or purchase of Offered Shares if the bid or purchase is made through the facilities of the TSX, in accordance with the Universal Market Integrity Rules of Market Regulation Services Inc., (b) a bid or purchase on behalf of a client, other than certain prescribed clients, provided that the client's order was not solicited by the Underwriter, or if the client's order was solicited, the solicitation occurred before the commencement of a prescribed restricted period, and (c) a bid or purchase to cover a short position entered into prior to the commencement of a prescribed restricted period. The Underwriters may engage in market stabilization or market balancing activities on the TSX where the bid for or purchase of the Offered Shares is for the purpose of maintaining a fair and orderly market in the Offered Shares, subject to price limitations applicable to such bids or purchases. Such transactions, if commenced, may be discontinued at any time.

The Offered Shares have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the ''1933 Act'') or any state securities laws and, subject to certain exceptions, may not be offered or sold in the United States. The Underwriters have agreed that they will not offer or sell the Offered Shares within the United States of America, its territories, its possessions and other areas subject to its jurisdiction or to, or for the account or benefit of, a U.S. person (as defined in Regulation S under the 1933 Act), except in accordance with the Underwriting Agreement pursuant to an exemption from the registration requirements of the 1933 Act provided by Rule 144A thereunder and in compliance with applicable state securities laws. In addition, until 40 days after the commencement of the offering of the Offered Shares pursuant to this Prospectus, an offer or sale of Offered Shares within the United States by any dealer (whether or not participating in this offering) may violate the registration requirements of the 1933 Act if such offer is made otherwise than in reliance on Rule 144A.

The obligations of the Underwriters under the Underwriting Agreement are several and may be terminated at their discretion in certain circumstances including upon the occurrence of certain stated events. The Underwriters are, however, obligated to take up and pay for all of the Offered Shares if any are purchased under the Underwriting Agreement. Under the terms of the Underwriting Agreement, the Underwriters may be entitled to indemnification by the Corporation against certain liabilities, including liabilities for misrepresentation in this Prospectus.

Scotia Capital, CIBCWM, BMO Nesbitt Burns, RBCDS, TD Securities, HSBC Securities and NB Financial are each subsidiaries of Canadian chartered banks that have, either solely or as a member of a syndicate of financial institutions, extended credit facilities to the Corporation and/or its subsidiaries. The net proceeds from this offering will be used in part to repay indebtedness under credit facilities owing by the Corporation to certain of such banks. Accordingly, the Corporation may be considered a ''connected issuer'' of such Underwriters under applicable securities legislation. Fortis is currently in compliance with the terms of its credit facilities with such banks. Since the execution of such credit facilities, no breach thereunder has been waived by such banks. The Underwriters will not receive any direct benefit from the offering other than the underwriting commission relating to this offering. The decision to distribute the Offered Shares hereunder and the determination of the terms of this offering were made through negotiation between the Corporation and the Underwriters. No bank had any involvement in such decision or determination. See ''Use of Proceeds''.

The TSX has conditionally approved the listing of the Offered Shares. Listing will be subject to the Corporation fulfilling all of the requirements of the TSX on or before April 8, 2007.

RISK FACTORS

A prospective purchaser of Offered Shares should carefully consider the information contained under the heading ''Business Risk Management'' in the Management Discussion and Analysis of financial conditions and results of operations found on pages 62 to 67 of the Corporation's 2005 Annual Report and under the heading ''Risk Factors'' found on pages 44 to 48 of the Corporation's 2005 Annual Information Form, each of which is incorporated by reference in this Prospectus, as well as the other information contained in this Prospectus (including the documents incorporated by reference herein).

LEGAL MATTERS

Certain legal matters relating to this offering will be passed upon on behalf of the Corporation by Davies Ward Phillips & Vineberg LLP, Toronto, and McInnes Cooper, St. John's and on behalf of the Underwriters by Stikeman Elliott LLP, Toronto. At the date hereof, partners and associates of each of Davies Ward Phillips & Vineberg LLP, McInnes Cooper and Stikeman Elliott LLP own beneficially, directly or indirectly, less than one per cent of any securities of the Corporation or any associate or affiliate of the Corporation.

AUDITORS, TRANSFER AGENT AND REGISTRAR

Ernst & Young LLP, The Fortis Building, 7th Floor, 139 Water Street, St. John's, Newfoundland and Labrador A1C 1B2, are the auditors of the Corporation. The transfer agent and registrar for the Offered Shares is Computershare Trust Company of Canada in Toronto and Montréal.

PURCHASERS' STATUTORY RIGHTS

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights or consult with a legal advisor.

AUDITORS' CONSENT

We have read the short form prospectus of Fortis Inc. (the ''Corporation'') dated January 10, 2007 relating to the issue and sale of 5,170,000 Common Shares of the Corporation. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the incorporation by reference, in the above-mentioned prospectus, of our report to the shareholders of the Corporation on the consolidated balance sheets of the Corporation as at December 31, 2005 and 2004 and the consolidated statements of earnings, retained earnings and cash flows for the years then ended. Our report is dated January 27, 2006.

St. John's, Canada
January 10, 2007

(signed) ERNST & YOUNG LLP
Chartered Accountants

CERTIFICATE OF FORTIS INC.

Dated: January 10, 2007

This short form prospectus, together with the documents incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by the securities legislation of each of the provinces of Canada. For the purpose of the Province of Québec, this simplified prospectus, together with documents incorporated herein by reference and as supplemented by the permanent information record, contains no misrepresentation that is likely to affect the value or the market price of the securities to be distributed.

(Signed) H. STANLEY MARSHALL
President and
Chief Executive Officer

(Signed) BARRY V. PERRY
Vice-President, Finance and
Chief Financial Officer

On behalf of the Board of Directors

(Signed) LINDA L. INKPEN
Director

(Signed) DAVID G. NORRIS
Director

CERTIFICATE OF THE UNDERWRITERS

Dated: January 10, 2007

To the best of our knowledge, information and belief, this short form prospectus, together with the documents incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by the securities legislation of each of the provinces of Canada. For the purpose of the Province of Québec, to our knowledge, this simplified prospectus, together with the documents incorporated herein by reference and as supplemented by the permanent information record, contains no misrepresentation that is likely to affect the value or the market price of the securities to be distributed.

SCOTIA CAPITAL INC.

(Signed) JOHN MATOVICH

CIBC WORLD MARKETS INC.

(Signed) DAVID H. WILLIAMS

BMO NESBITT BURNS INC.

(Signed) JAMES A. TOWER

RBC DOMINION SECURITIES INC.

(Signed) DAVID DAL BELLO

TD SECURITIES INC.

(Signed) HAROLD HOLLOWAY

CANACCORD CAPITAL CORPORATION

(Signed) RONALD A. RIMER

HSBC SECURITIES (CANADA) INC.

(Signed) ROD A. MCISAAC

NATIONAL BANK FINANCIAL INC.

(Signed) MARTIN L. JURAVSKY

UBS SECURITIES CANADA INC.

(Signed) MICHAEL J. KOUSAIE

FORTIS

BOWNE

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O34351

New Issue **March 7, 2007**

SHORT FORM PROSPECTUS

FORTIS INC.

FORTIS

$1,001,000,000
38,500,000 Subscription Receipts, each representing the right to receive one Common Share

Fortis Inc. (''Fortis'' or the ''Corporation'') is hereby qualifying for distribution (the ''Offering'') 38,500,000 subscription receipts (the ''Subscription Receipts''), each of which will entitle the holder thereof to receive, upon satisfaction of the Release Conditions (as defined below), and without payment of additional consideration, one common share of Fortis (a ''Common Share''). The gross proceeds from the sale of the Subscription Receipts (the ''Escrowed Funds'') will be held by Computershare Trust Company of Canada, as escrow agent (the ''Escrow Agent'') and invested in short-term interest bearing or discount debt obligations issued or guaranteed by the Government of Canada or a province, or one or more of the five largest Canadian chartered banks, provided that in all cases such obligation is rated at least R1 (middle) by DBRS Limited or an equivalent rating from an equivalent rating service, pending receipt by the Corporation of all regulatory and government approvals required to finalize the acquisition (the ''Acquisition'') by the Corporation of all of the issued and outstanding shares of Terasen Inc. (''Terasen''), a wholly owned subsidiary of Kinder Morgan, Inc., including that of the British Columbia Utilities Commission, and fulfillment or waiver of all other outstanding conditions precedent to closing the Acquisition as itemized in the Acquisition Agreement (as defined below) (collectively, the ''Release Conditions''). At the time of the Acquisition, Terasen will have divested itself of its petroleum transportation operations and will only hold its natural gas distribution business and an interest in CustomerWorks Limited Partnership. See ''The Acquisition'', ''The Acquired Business'' and ''Details of the Offering''.

If the Release Conditions are satisfied prior to 5:00 p.m. (Toronto time) on November 30, 2007, the Corporation will forthwith execute and deliver a notice of satisfaction and will issue and deliver to the Escrow Agent one Common Share for each Subscription Receipt then outstanding (subject to any applicable adjustment). The Common Shares will be available for delivery commencing on the second business day after the delivery of such notice. The holders of Subscription Receipts will receive, without payment of any additional consideration, one Common Share for each Subscription Receipt held plus an amount equal to the dividends declared on the Common Shares by the Corporation, if any, for which record dates have occurred during the period from the Closing Date (as defined below) to the date of issuance of the Common Shares in respect of the Subscription Receipts. Forthwith upon the Release Conditions being satisfied and the required notice being delivered to the Escrow Agent, the Escrowed Funds, together with interest earned and income generated thereon, will be released to Fortis. In the event that the Release Conditions are not satisfied prior to 5:00 p.m. (Toronto time) on November 30, 2007, or if the Acquisition Agreement is terminated prior to such time (in either case, the ''Termination Time''), holders of Subscription Receipts shall, commencing on the second business day following the Termination Time, be entitled to receive from the Escrow Agent an amount equal to the full subscription price thereof plus their *pro rata* share of the interest earned or income generated on such amount. See ''Details of the Offering''.

Price: $26.00 per Subscription Receipt

	Price to the Public	Underwriters' Fee (1)	Net Proceeds to the Corporation (2)
Per Subscription Receipt	$26.00	$1.04	$24.96
Total (3)	$1,001,000,000	$40,040,000	$960,960,000

(1) One-half of the Underwriters' fee is payable at the closing of the Offering. The other half of the Underwriters' fee is payable only if the Release Conditions have been satisfied prior to the Termination Time and the required notice has been delivered to the Escrow Agent. See ''Plan of Distribution''.

(2) Net proceeds to the Corporation exclude any interest earned and income generated on the Escrowed Funds and are calculated before deducting the expenses of the Offering, estimated at $1,250,000, which, together with the Underwriters' fee, will be paid out of the general funds of Fortis. See ''Plan of Distribution''.

(3) The Corporation has granted to the Underwriters an option (the ''Over-Allotment Option''), exercisable in whole or in part at any time until 30 days following the date of closing of the Offering, to purchase at the Offering Price up to 5,775,000 additional Subscription Receipts to cover over-allotments, if any. If the Over-Allotment Option is exercised in full, the total Price to the Public, Underwriters' Fee and Net Proceeds to the Corporation will be $1,151,150,000, $46,046,000 and $1,105,104,000, respectively. See ''Plan of Distribution''. This prospectus also qualifies the grant of the Over-Allotment Option and the distribution of the securities issuable on the exercise of the Over-Allotment Option.

Underwriters' Position	Maximum Size	Exercise Period	Exercise Price
Over-Allotment Option	5,775,000 Subscription Receipts	Within 30 days following the closing of the Offering	$26.00 per Subscription Receipt

There is currently no market through which the Subscription Receipts may be sold and purchasers may not be able to resell securities purchased under this short form prospectus (the ''Prospectus''). This may affect the pricing of the securities in the secondary market, the transparency and availability of trading prices, the liquidity of the securities, and the extent of issuer regulation. See ''Risk Factors''.

The Toronto Stock Exchange (the ''TSX'') has conditionally approved the listing of the Subscription Receipts, as well as the Common Shares issuable on the exchange of the Subscription Receipts. Listing is subject to the Corporation fulfilling all of the requirements of the TSX on or before June 3, 2007. The Corporation's outstanding Common Shares are listed on the TSX under the symbol ''FTS''. On March 6, 2007, the closing price of the Common Shares on the TSX was $26.80. The Subscription Receipts will be issued and sold by Fortis to the Underwriters (as defined below) at the price of $26.00 (the ''Offering Price'') per Subscription Receipt. The Offering Price and other terms of the Offering were determined by negotiation between the Corporation and the Underwriters.

An investment in the Subscription Receipts, and the Common Shares issuable upon the exchange thereof, involves certain risks that should be considered by a prospective purchaser. See ''Risk Factors''.

CIBC World Markets Inc. (''CIBCWM''), Scotia Capital Inc. (''Scotia Capital''), TD Securities Inc. (''TD Securities''), BMO Nesbitt Burns Inc. (''BMO Nesbitt Burns''), RBC Dominion Securities Inc. (''RBCDS''), National Bank Financial Inc. (''NB Financial''), Canaccord Capital Corporation, Beacon Securities Limited and HSBC Securities (Canada) Inc. (''HSBC Securities'') are acting as underwriters (collectively, the ''Underwriters'') of the Offering. The Underwriters, as principals, conditionally offer the Subscription Receipts, subject to prior sale, if, as and when issued, sold and delivered by the Corporation to, and accepted by, the Underwriters in accordance with the terms and conditions contained in the Underwriting Agreement referred to under ''Plan of Distribution'' and subject to the approval of certain legal matters on behalf of the Corporation by Davies Ward Phillips & Vineberg LLP, Toronto and McInnes Cooper, St. John's and on behalf of the Underwriters by Stikeman Elliott LLP, Toronto. Subject to applicable laws, the Underwriters may, in connection with the Offering, effect transactions which stabilize or maintain the market price of the Subscription Receipts or the Common Shares at levels other than those which may prevail on the open market. Such transactions, if commenced, may be discontinued at any time. See ''Plan of Distribution''.

CIBCWM is an affiliate of a Canadian chartered bank that has agreed to extend credit facilities to the Corporation in connection with financing the Acquisition. CIBCWM is also acting as financial advisor to Fortis in connection with the Acquisition and receiving a fee therefor. In addition, each of CIBCWM, Scotia Capital, TD Securities, BMO Nesbitt Burns, RBCDS, NB Financial and HSBC Securities is a subsidiary of a Canadian chartered bank that has, either solely or as a member of a syndicate of financial institutions, extended credit facilities to the Corporation and/or its subsidiaries. Consequently, the Corporation may be considered a ''connected issuer'' of these Underwriters within the meaning of applicable securities legislation. See ''Plan of Distribution''.

Subscriptions for the Subscription Receipts will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that the closing of the Offering will take place on or about March 15, 2007 (the ''Closing Date''), or such other date as may be agreed upon by the Corporation and the Underwriters, but not later than April 18, 2007. A book entry only certificate representing the Subscription Receipts distributed hereunder will be issued in registered form only to CDS Clearing and Depository Services Inc. (''CDS'') or its nominee and will be deposited with CDS on the Closing Date. The Corporation understands that a purchaser of Subscription Receipts will receive only a customer confirmation from the registered dealer who is a CDS participant from or through whom the Subscription Receipts are purchased. See ''Details of the Offering''.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

The Prospectus, including the documents incorporated herein by reference, contain forward-looking statements which reflect management's expectations regarding the future growth, results of operations, performance, and business prospects and opportunities of Fortis Inc. Wherever possible, words such as ''anticipate'', ''believe'', ''expect'', ''intend'' and similar expressions have been used to identify these forward-looking statements. These statements reflect management's current beliefs and are based on information currently available to the Corporation's management. Forward-looking statements involve significant risk, uncertainties and assumptions. 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 prospective investors should not place undue reliance on the forward-looking statements. Although the forward-looking statements contained in the Prospectus, including the documents incorporated herein by reference, are based upon what management believes to be reasonable assumptions, the Corporation cannot assure prospective purchasers that actual results will be consistent with these forward-looking statements. These forward-looking statements are made as of the date of the Prospectus, and the Corporation assumes no obligation to update or revise them to reflect new events or circumstances.

DOCUMENTS INCORPORATED BY REFERENCE

The disclosure documents of the Corporation listed below and filed with the appropriate securities commissions or similar regulatory authorities in each of the provinces of Canada are specifically incorporated by reference into and form an integral part of this Prospectus:

(a) annual information form dated March 29, 2006 for the year ended December 31, 2005;

(b) audited comparative consolidated financial statements as at December 31, 2005 and for the years ended December 31, 2005 and 2004, together with the notes thereto and the auditors' report thereon dated January 27, 2006 as contained in the Corporation's 2005 Annual Report;

(c) Management Discussion and Analysis of financial condition and results of operations for the year ended December 31, 2005 as contained in the Corporation's 2005 Annual Report;

(d) unaudited comparative interim consolidated financial statements as at September 30, 2006 and for the three- and nine-month periods ended September 30, 2006 and 2005, together with the notes thereto;

(e) Management Discussion and Analysis of financial condition and results of operations for the three- and nine-month periods ended September 30, 2006;

(f) Management Information Circular dated March 17, 2006 prepared in connection with the Corporation's annual meeting of shareholders held on May 2, 2006;

(g) material change report dated September 15, 2006 describing the entering into of an agreement between the Corporation and a syndicate of underwriters led by BMO Nesbitt Burns Inc. for the public offering by the Corporation of 5,000,000 4.90% cumulative redeemable First Preference Shares, Series F;

(h) material change report dated January 5, 2007 describing the entering into of an agreement between the Corporation and Scotia Capital Inc. and CIBCWM for the public offering by the Corporation of 5,170,000 Common Shares;

(i) press release dated February 8, 2007 with respect to the Corporation's unaudited comparative interim consolidated financial statements as at December 31, 2006 and for the three- and twelve-month periods ended December 31, 2006 and 2005, together with the notes thereto, and with respect to the related Management Discussion and Analysis of financial condition and results of operations for the three- and twelve-month periods ended December 31, 2006; and

(j) material change report dated February 28, 2007 describing the entering into of (i) an agreement pursuant to which the Corporation will acquire all of the outstanding shares of Terasen for a purchase price of $3.7 billion, including the assumption of approximately $2.3 billion of debt, and (ii) an agreement between the Corporation, CIBCWM, Scotia Capital and TD Securities for the public offering by the Corporation of 38,500,000 subscription receipts and up to an additional 5,775,000 subscription receipts pursuant to an over-allotment option.

Any document of the type referred to in the preceding paragraph (other than any confidential material change report) subsequently filed by the Corporation with such securities commissions or regulatory authorities after the date of the Prospectus, and prior to the termination of the Offering, shall be deemed to be incorporated by reference into the Prospectus.

Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Prospectus to the extent that a statement contained herein, or in any other subsequently filed document which also is incorporated or is deemed to be incorporated by reference herein, modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement will not be deemed an admission for any purpose that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus.

Copies of the documents incorporated herein by reference may be obtained on request without charge from the Secretary of the Corporation at Suite 1201, 139 Water Street, St. John's, Newfoundland and Labrador A1B 3T2 (telephone (709) 737-2800). These documents are also available through the Internet on the Corporation's website at www.fortisinc.com or on the Canadian System for Electronic Document Analysis and Retrieval (''SEDAR'') which can be accessed at www.sedar.com. Reference is also made to information regarding Terasen Inc. (''Terasen'') which is available through the internet at Terasen's website at www.terasen.com. The information contained on, or accessible through, any of these websites is not incorporated by reference into the Prospectus and is not, and should not be considered to be, a part of the Prospectus, unless it is explicitly so incorporated.

ELIGIBILITY FOR INVESTMENT

In the opinion of Davies Ward Phillips & Vineberg LLP, counsel to the Corporation, and Stikeman Elliott LLP, counsel to the Underwriters, the Subscription Receipts and the Common Shares issuable on the exchange of the Subscription Receipts, if issued on the date hereof, would be qualified investments under the *Income Tax Act* (Canada) (the ''Tax Act'') for a trust governed by a registered retirement savings plan, registered retirement income fund, deferred profit sharing plan or registered education savings plan provided that, in the case of the Subscription Receipts, the Corporation deals at arm's length (within the meaning of the Tax Act) with each person who is an annuitant, beneficiary, employer or subscriber under the governing plan of such trust.

DEFINED TERMS

For an explanation of certain terms and abbreviations used in the Prospectus, reference is made to the ''Glossary of Terms''.

SUMMARY

The following information is a summary only and is to be read in conjunction with, and is qualified in its entirety by, the more detailed information appearing elsewhere in the Prospectus and in the documents incorporated by reference herein.

The Offering

Issuer:	Fortis Inc. (''Fortis'' or the ''Corporation'').
Offering:	38,500,000 subscription receipts (the ''Subscription Receipts''), each representing the right to receive one common share of Fortis (a ''Common Share'').
Amount:	$1,001,000,000 ($1,151,150,000 if the Over-Allotment Option is exercised in full).
Over-Allotment Option:	The Corporation has granted to the Underwriters (as defined below) an option (the ''Over-Allotment Option''), exercisable in whole or in part at any time until 30 days following the date of closing of this offering (the ''Offering''), to purchase at the Offering Price up to 5,775,000 additional Subscription Receipts to cover over-allotments, if any. See ''Plan of Distribution''.
Price:	$26.00 per Subscription Receipt.
Date of Closing:	On or about March 15, 2007 or such date as agreed to by the Corporation and the Underwriters, but not later than April 18, 2007 (the ''Closing Date'').
Escrow of Proceeds:	The gross proceeds from the sale of the Subscription Receipts (the ''Escrowed Funds'') will be held by Computershare Trust Company of Canada, as escrow agent (the ''Escrow Agent'') and invested in short-term interest bearing or discount debt obligations issued or guaranteed by the Government of Canada or a province, or one or more of the five largest Canadian chartered banks, provided that in all cases such obligation is rated at least R1 (middle) by DBRS Limited or an equivalent rating from an equivalent rating service, pending receipt by the Corporation of all regulatory and government approvals required to finalize the acquisition (the ''Acquisition'') by the Corporation of all of the issued and outstanding shares of Terasen Inc. (''Terasen''), a wholly owned subsidiary of Kinder Morgan, Inc. (''Kinder Morgan''), including that of the British Columbia Utilities Commission (the ''BCUC''), and fulfillment or waiver of all other outstanding conditions precedent to closing the Acquisition as itemized in the Acquisition Agreement (as defined below) (collectively, the ''Release Conditions''). If the Release Conditions are satisfied prior to 5:00 p.m. (Toronto time) on November 30, 2007, the Corporation will forthwith execute and deliver a notice of satisfaction and will issue and deliver to the Escrow Agent one Common Share for each Subscription Receipt then outstanding (subject to any applicable adjustment). The Common Shares will be available for delivery commencing on the second business day after the delivery of such notice. The holders of Subscription Receipts will receive, without payment of any additional consideration, one Common

	Share for each Subscription Receipt held plus an amount equal to the dividends declared on the Common Shares by the Corporation, if any, for which record dates have occurred during the period from the Closing Date (as defined below) to the date of issuance of the Common Shares in respect of the Subscription Receipts. Forthwith upon the Release Conditions being satisfied and the required notice being delivered to the Escrow Agent, the Escrowed Funds, together with interest earned and income generated thereon, will be released to Fortis. In the event that the Release Conditions are not satisfied prior to 5:00 p.m. (Toronto time) on November 30, 2007, or if the Acquisition Agreement is terminated prior to such time (in either case, the ''Termination Time''), holders of Subscription Receipts shall, commencing on the second business day following the Termination Time, be entitled to receive from the Escrow Agent an amount equal to the full subscription price thereof plus their *pro rata* share of the interest earned or income generated on such amount. See ''Details of the Offering''.
Use of Proceeds:	The proceeds of the Offering, after deducting the fee payable to CIBC World Markets Inc. (''CIBCWM''), Scotia Capital Inc. (''Scotia Capital''), TD Securities Inc. (''TD Securities''), BMO Nesbitt Burns Inc. (''BMO Nesbitt Burns''), RBC Dominion Securities Inc. (''RBCDS''), National Bank Financial Inc. (''NB Financial''), Canaccord Capital Corporation, Beacon Securities Limited and HSBC Securities (Canada) Inc. (''HSBC Securities'') (collectively, the ''Underwriters'') and expenses of the Offering, which are estimated to be $1,250,000, and assuming no exercise of the Over-Allotment Option, together with funds to be advanced under acquisition financing arranged by the Corporation, will be used to finance the cash portion of the consideration payable for the Acquisition. If the Over-Allotment Option is exercised in full, the estimated proceeds of the Offering will be $1,103,854,000 (after deducting the fee payable to the Underwriters and expenses of the Offering). The gross proceeds from the sale of the Subscription Receipts will be held in escrow pending the satisfaction of the Release Conditions, which is expected to occur in mid-2007. See ''Financing of the Acquisition'', ''Details of the Offering'' and ''Use of Proceeds''.
Subscription Receipts:	Each Subscription Receipt entitles the holder thereof to receive, without payment of additional consideration and upon satisfaction of the Release Conditions, one Common Share, plus an amount equal to the dividends declared on the Common Shares by the Corporation, if any, for which record dates have occurred during the period from the Closing Date to the date of issuance of the Common Shares in respect of the Subscription Receipts. If the Release Conditions are not met prior to the Termination Time, the Corporation will repay to holders of Subscription Receipts an amount equal to the full subscription price thereof plus their *pro rata* share of the interest earned or income generated on such amount. See ''Details of the Offering''.
Risk Factors:	An investment in the Subscription Receipts and the Common Shares issuable upon exchange thereof involves certain risks which should be carefully considered by prospective investors, including: regulation, forecasting accuracy, asset maintenance, operational risks, weather and other natural disasters, the supply and prices of natural gas, seasonality, risks relating to Terasen Gas (Vancouver Island) Inc., obtaining and maintaining government permits, impact of changes in economic

conditions, availability of capital resources and credit ratings, exposure to interest rate changes, counterparty credit risk, potential undisclosed liabilities associated with the Acquisition, ability to maintain satisfactory labour relations, matters relating to insurance, environmental matters, First Nations' Lands, results of operations and financing risks, management of expanding operations, the ability to realize benefits from the Acquisition, the Subscription Receipt structure and the lack of an existing market for the Subscription Receipts. See ''Risk Factors''.

The Acquisition

Overview

On February 26, 2007, Fortis entered into an agreement (the ''Acquisition Agreement'') with 3211953 Nova Scotia Company and Kinder Morgan for the purchase of all of the issued and outstanding shares of Terasen for aggregate consideration of $3.7 billion, including the assumption of approximately $2.3 billion of consolidated indebtedness of Terasen. Terasen is a holding company headquartered in Vancouver, British Columbia, operating two principal lines of business: natural gas distribution and petroleum transportation. Prior to the closing of the Acquisition, Kinder Morgan will cause Terasen to divest itself of its petroleum transportation operations, leaving only the natural gas distribution business operated by Terasen Gas (as defined below). As part of such divestiture, on March 5, 2007, Kinder Morgan announced that it had agreed to sell the Corridor pipeline system, which is owned by Terasen and serves the Athabasca oil sands, to Inter Pipeline Fund.

The closing of the Acquisition is subject to receipt of required regulatory and other approvals, including that of the BCUC, and the satisfaction of certain closing conditions. The closing of the Acquisition is expected to occur in mid-2007. See ''Acquisition Agreement''.

Based on financial information as at September 30, 2006, following the Acquisition, Fortis' total assets will increase by approximately 94% to $8.9 billion. Following the Acquisition, Fortis' regulated rate base assets will increase to approximately $6.0 billion, of which approximately 93% will be located in Canada.

Kinder Morgan

Kinder Morgan is one of the largest energy transportation, storage and distribution companies in North America. It owns an interest in or operates approximately 65,000 kilometers of pipelines that transport primarily natural gas, crude oil, petroleum products and carbon dioxide, and serves more than 1.1 million natural gas distribution customers in British Columbia, Colorado, Nebraska and Wyoming. Kinder Morgan owns the general partner interest of Kinder Morgan Energy Partners, L.P., one of the largest publicly traded pipeline limited partnerships in the United States.

On November 30, 2005, Kinder Morgan completed the acquisition of Terasen (formerly, BC Gas Inc.). On May 19, 2006, Terasen completed the disposition of its water, wastewater and utility services business carried on by Terasen Water and Utility Services Inc. to a consortium led by CAI Capital Management Co.

On August 14, 2006, Kinder Morgan announced that it was selling its natural gas retail distribution operations serving customers in Colorado, Nebraska, Wyoming and Hermosillo, Mexico, to GE Energy Financial Services. On December 19, 2006, management of Kinder Morgan received shareholder approval of a US$22 billion leveraged management buyout offer led by Richard Kinder, Chairman and Chief Executive Officer, Kinder Morgan. The completion of this buyout is pending.

Terasen Gas

The natural gas distribution business of Terasen is carried on by Terasen Gas Inc. (''TGI''), Terasen Gas (Vancouver Island) Inc. (''TGVI'') and Terasen Gas (Whistler) Inc. (''TGWI''). Terasen also owns a 30% interest in

CustomerWorks Limited Partnership (''CWP''). CWP is a non-regulated shared services business in partnership with Enbridge Inc. that provides customer service contact, meter reading, billing, support and credit and collection services primarily to Terasen Gas (as defined below) and Enbridge Gas Distribution Inc. CWP outsources these services to a company owned and operated by Accenture Inc. In this Prospectus, TGI, TGVI, TGWI and CWP are collectively referred to as ''Terasen Gas''.

Terasen Gas is the principal gas distribution utility in British Columbia, serving the populous lower mainland, Vancouver Island and the southern interior of the province. With approximately 900,000 customers in 125 communities, Terasen Gas provides service to over 95% of the gas customers in British Columbia. Terasen Gas owns and operates approximately 44,100 kilometers of natural gas distribution pipelines and approximately 4,300 kilometers of natural gas transmission pipelines. As of September 30, 2006, Terasen Gas had an aggregate of $3.6 billion of assets, an aggregate rate base of almost $3.0 billion and approximately 1,200 employees.

Acquisition Rationale

The business operated by Terasen Gas is attractive to Fortis for the following reasons: (i) Terasen Gas will significantly increase the earnings of Fortis from regulated utilities and be immediately accretive to earnings per share; (ii) the regulated gas distribution business of Terasen Gas complements the regulated electric distribution business of Fortis; and (iii) the service territory of Terasen Gas is experiencing strong economic growth and includes substantially all of the service territory of FortisBC Inc.

Fortis believes that the principal benefits of the Acquisition are as follows:

(a) the purchase price represents approximately 1.2 times the approved rate base of Terasen Gas for 2007 and the Acquisition is expected to be immediately accretive to earnings per share;

(b) the Acquisition will increase the regulated rate base assets and utility earnings of Fortis. Similar to the electric distribution utilities of Fortis, Terasen Gas operates under principally cost-of-service regulation under which an appropriate return on capital is recovered in addition to prudently incurred operating and commodity costs;

(c) Terasen Gas has an attractive gas distribution franchise with a well-diversified, mature, principally residential, customer base. The Acquisition is expected to improve the risk profile of Fortis by providing it with a more economically diverse portfolio of assets;

(d) following the Acquisition, Fortis will be the largest investor-owned utility in gas and electric distribution in Canada with regulated electricity distribution utilities in five Canadian provinces and three Caribbean countries and regulated gas distribution utilities in British Columbia. Following the Acquisition, a large proportion of the business of Fortis will serve the high-growth economies of western Canada; and

(e) Fortis believes the regulated gas distribution business of Terasen Gas is complementary to the Corporation's proven core competencies in managing regulated electric distribution utilities. The Acquisition affords Fortis management an opportunity to deploy its regulatory, operating and financial management expertise to additional Canadian regulated utilities.

See ''Risk Factors — Realization of Acquisition Benefits'' and ''Special Note Regarding Forward-Looking Statements''.

Utility Management Approach of Fortis

Fortis' approach to utility management is based on creating value for customers that ultimately translates into long-term value for shareholders. Fortis structures its operations as separate operating companies in each jurisdiction. Focused local management teams have the benefit of access to utility management experience and expertise of Fortis. The senior management team of Terasen Gas, which Fortis expects to retain, will add valuable operational expertise in natural gas distribution to existing expertise in the electric distribution operations of Fortis. This approach allows local managers to build relationships with, and be responsive to, both customers and regulators. Fortis recognizes that regulation is a key aspect of its core business and has developed a disciplined, cost-conscious asset investment and operating philosophy which is responsive to regulation.

The management of Fortis has substantial experience in integrating newly acquired enterprises into the Fortis Group. In 2004, Fortis acquired all of the issued and outstanding shares of FortisBC Inc. (formerly, Aquila Networks Canada (British Columbia) Ltd.) and FortisAlberta Inc. (formerly, Aquila Networks Canada (Alberta) Ltd.), and has successfully integrated these utilities into the Fortis Group.

FORTIS

Fortis Inc. (''Fortis'' or the ''Corporation'') was incorporated as 81800 Canada Ltd. under the *Canada Business Corporations Act* on June 28, 1977. The Corporation was continued under the *Corporations Act* (Newfoundland) on August 28, 1987 and on October 12, 1987 the Corporation amended its articles to change its name to ''Fortis Inc.'' The address of the head office and principal place of business of the Corporation is The Fortis Building, Suite 1201, 139 Water Street, St. John's, Newfoundland and Labrador A1B 3T2.

Fortis is principally a diversified, international electric utility holding company that owns subsidiaries engaged in the regulated distribution of electricity. Regulated utility assets comprise approximately 86% of the Corporation's total assets, with the balance comprised primarily of non-regulated electricity generating assets, and commercial real estate and hotel investments owned and operated through its non-utility subsidiary. Fortis is the indirect owner of all of the common shares of FortisAlberta Inc. (''FortisAlberta'') (formerly, Aquila Networks Canada (Alberta) Ltd.) and FortisBC Inc. (''FortisBC'') (formerly, Aquila Networks Canada (British Columbia) Ltd.). FortisAlberta is a regulated electric utility that distributes electricity generated by other market participants in Alberta. FortisBC is a regulated electric utility that generates, transmits and distributes electricity in British Columbia. Fortis also holds all the common shares of Newfoundland Power Inc. (''Newfoundland Power'') and, through its wholly owned subsidiary Fortis Properties Corporation (''Fortis Properties''), holds all the common shares of Maritime Electric Company, Limited (''Maritime Electric''), which are the principal distributors of electricity in Newfoundland and on Prince Edward Island, respectively. As well, through its wholly owned subsidiary FortisOntario Inc. (''FortisOntario'') and its subsidiaries, Canadian Niagara Power Inc. (''CNPI'') and Cornwall Street Railway, Light and Power Company, Limited (''Cornwall Electric''), Fortis distributes electricity to customers primarily in Fort Erie, Port Colborne, Gananoque and Cornwall, Ontario.

The Corporation's regulated electric utility assets in the Caribbean consist of its ownership, through wholly owned subsidiaries, of a 70.1% interest in Belize Electricity Limited (''Belize Electricity''), the primary distributor of electricity in Belize, Central America, and an approximate 54% interest in Caribbean Utilities Company, Ltd. (''Caribbean Utilities''), the sole provider of electricity to the island of Grand Cayman, Cayman Islands. On August 28, 2006, Fortis acquired, through a wholly owned subsidiary, all of the outstanding shares of P.P.C. Limited (''PPC'') and Atlantic Equipment & Power (Turks and Caicos) Ltd. (''Atlantic''), (collectively, ''Fortis Turks and Caicos''), which together generate and distribute electricity to approximately 80% of electricity customers in the Turks and Caicos Islands.

The Corporation's non-regulated electricity generation operations consist of its 100% interest in each of Belize Electric Company Limited (''BECOL''), FortisUS Energy Corporation (''FortisUS Energy''), and FortisOntario, as well as non-regulated electricity generation assets owned by FortisBC and Fortis Properties.

Fortis Properties is the direct owner of a 51% interest in the Exploits River Hydro Partnership (the ''Exploits Partnership''). The Exploits Partnership was established with Abitibi-Consolidated Company of Canada (''Abitibi-Consolidated''), which holds the remaining 49% interest, to develop additional capacity at Abitibi-Consolidated's hydroelectric plant at Grand Falls-Windsor and redevelop the forestry company's hydroelectric plant at Bishop's Falls, both in Newfoundland and Labrador. Fortis Properties' assets also include six small hydroelectric generating stations in eastern Ontario with a combined capacity of 8 megawatts (''MW'').

BECOL owns and operates both the 25-MW Mollejon and 7-MW Chalillo hydroelectric facilities, both of which are located on the Macal River in Belize. Through FortisUS Energy, a wholly owned subsidiary of Fortis Properties, the Corporation owns and operates four hydroelectric generating stations in upper New York State with a total combined capacity of approximately 23 MW. FortisOntario includes 75 MW of water right entitlement associated with the Rankine Generating Station at Niagara Falls and the operation of a 5-MW gas-fired cogeneration plant that provides district heating to 17 commercial customers in Cornwall. The Rankine Generating Station assets have been written down following the lay-up of the Station as a result of the implementation of a water and power exchange agreement (the ''Niagara Exchange Agreement'') with Ontario Power Generation Inc. (''OPGI''). The Niagara Exchange Agreement assigns FortisOntario's water rights on the Niagara River to OPGI and facilitates the irrevocable exchange of 75 MW of wholesale electric power supply to FortisOntario from OPGI until April 30, 2009 in exchange for FortisOntario's agreement not to seek renewal of the water entitlement at that time. The non-regulated electricity generation operations of FortisBC consist of the 16-MW run-of-river Walden hydroelectric power plant near Lillooet, British Columbia.

Through its wholly owned subsidiary, Fortis Properties, the Corporation owns and operates hotels in seven provinces in Canada and commercial real estate in Atlantic Canada. Its holdings include 18 hotels with more than 3,200 rooms and approximately 2.7 million square feet of commercial real estate.

Regulated Utilities — Canadian

FortisAlberta

On May 31, 2004, Fortis, through an indirect wholly owned subsidiary, acquired all of the issued and outstanding shares of FortisAlberta. FortisAlberta distributes electricity to approximately 430,000 customers using approximately 104,000 kilometers of power lines and met a peak demand of 2,584 MW in 2006. FortisAlberta's business is the ownership and operation of regulated electricity distribution facilities that distribute electricity generated by other market participants from high-voltage transmission substations to end-use customers in southern and central Alberta. FortisAlberta is not involved in the generation, transmission or direct sale of electricity.

FortisBC

On May 31, 2004, Fortis, through an indirect wholly owned subsidiary, acquired all of the issued and outstanding shares of FortisBC. FortisBC is an integrated regulated electric utility that owns a network of generation, transmission and distribution assets located in the southern interior of British Columbia. FortisBC serves a diverse mix of more than 152,000 customers, with residential customers representing the largest customer segment, and met a peak demand of 718 MW in 2006. FortisBC owns four regulated hydroelectric generating plants with an aggregate capacity of 235 MW that provide approximately 45% of the Corporation's energy and 30% of its capacity needs. FortisBC's remaining electricity supply is acquired through long-term power purchase contracts and short-term market purchases. FortisBC includes non-regulated operating, maintenance and management services relating to the 450-MW Waneta hydroelectric generation facility owned by Teck Cominco Metals Ltd., the 149-MW Brilliant Hydroelectric Plant and the 185-MW Arrow Lakes Hydroelectric Plant owned by Columbia Power Corporation and Columbia Basin Trust, respectively, and the distribution system owned by the City of Kelowna.

FortisBC's assets include the electric utility formerly owned by Princeton Light and Power Company, Limited (the ''PLP Utility''). The PLP Utility serves approximately 3,500 customers, mainly in Princeton, British Columbia. The PLP Utility was purchased by Fortis through an indirect subsidiary on May 31, 2005 and became part of FortisBC on December 31, 2006 as the result of an internal corporate reorganization.

Newfoundland Power

Fortis holds all of the common shares of Newfoundland Power. Newfoundland Power is an electric utility that operates an integrated generation, transmission and distribution system throughout the island portion of the Province of Newfoundland and Labrador. Newfoundland Power serves approximately 230,000 customers, or approximately 85% of electricity customers in the Province, and met a peak demand of 1,166 MW in 2006. Approximately 90% of the electricity that Newfoundland Power sells to its customers is purchased from Newfoundland and Labrador Hydro Corporation (''Newfoundland Hydro''). Currently, Newfoundland Power has an installed generating capacity of 136 MW, of which 92 MW is hydroelectric generation.

Maritime Electric

Through its subsidiary, Fortis Properties, Fortis owns all of the common shares of Maritime Electric, which is the principal distributor of electricity on Prince Edward Island. Maritime Electric directly supplies approximately 71,000 customers, or approximately 90% of the electricity consumers on the Island, and met a peak demand of 216 MW in 2006. Maritime Electric purchases most of the energy it distributes to its customers from New Brunswick Power Corporation and maintains on-Island generating facilities at Charlottetown and Borden-Carleton with a combined capacity of 150 MW.

FortisOntario

The Corporation's regulated utility investments in Ontario are comprised of CNPI, including the operations of Port Colborne Hydro, and Cornwall Electric, all of which are owned through FortisOntario. In total, FortisOntario's distribution operations serve approximately 52,000 customers in the Fort Erie, Port Colborne, Cornwall and Gananoque areas of Ontario and met a combined peak demand of 233 MW in 2006. CNPI owns international transmission facilities at Fort Erie as well as a 10% interest in each of Westario Power Holdings Inc. and Rideau St. Lawrence Holdings Inc., two regional electric distribution companies formed in 2000 that, together, serve more than 27,000 customers.

Regulated Utilities — Caribbean

Belize Electricity

Fortis, through wholly owned subsidiaries, holds a 70.1% interest in Belize Electricity. Belize Electricity is the primary distributor of electricity in the Central American country of Belize. Belize Electricity directly supplies approximately 71,000 customers in Belize and met a peak demand of 67 MW in 2006.

Caribbean Utilities

Fortis, through a wholly owned subsidiary, holds an approximate 54% interest in Caribbean Utilities, the only public electric utility on Grand Cayman, Cayman Islands. Caribbean Utilities has the exclusive right to generate, distribute, transmit and supply electricity to the island of Grand Cayman, Cayman Islands, pursuant to a 25-year licence. The current licence remains in effect until January 2011 or until replaced by a new licence by the mutual consent of Caribbean Utilities and the Government of the Cayman Islands. Negotiations regarding the renewal of the licence are ongoing. Caribbean Utilities currently serves more than 22,000 customers, owns 120 MW of installed generating capacity, and met a peak demand of 87 MW in 2006.

The Class A Ordinary Shares of Caribbean Utilities are listed for trading on the Toronto Stock Exchange (the ''TSX'') under the symbol CUP.U. The Corporation's investment in Caribbean Utilities resulted from a series of transactions from March 2000 through November 2006, as a result of which Fortis beneficially owns 13,565,511, or approximately 54%, of the outstanding Class A Ordinary Shares. See ''Recent Developments''.

Fortis Turks and Caicos

The Corporation owns, through a wholly owned subsidiary, all of the outstanding shares of Fortis Turks and Caicos which serves approximately 7,700 customers, or approximately 80% of electricity customers, in the Turks and Caicos Islands. Fortis Turks and Caicos is the principal distributor of electricity in Providenciales, North Caicos and Middle Caicos pursuant to a 50-year licence that expires in 2037 and is the principal distributor of electricity in South Caicos pursuant to a 50-year licence that expires in 2036. Fortis Turks and Caicos has installed generating capacity of approximately 35 MW and met a peak demand of 25 MW in 2006.

Fortis Turks and Caicos is regulated under a traditional rate of return on rate base approach, with a fixed rate of return of 17.5% on a defined asset base of approximately US$50 million.

Non-Regulated — Fortis Generation

Ontario

Non-regulated generation assets in Ontario include the operations of FortisOntario and Fortis Properties. Fortis Properties' operations in Ontario consist of six small hydroelectric generating stations with a combined capacity of approximately 8 MW. FortisOntario's assets include 75 MW of water entitlement associated with the Rankine Generating Station at Niagara Falls and the operation of a 5-MW gas-fired cogeneration plant that provides district heating to 17 commercial customers in Cornwall. The Rankine Generating Station assets have been written down following the lay-up of the Station as a result of the implementation of the Niagara Exchange Agreement. The Niagara Exchange Agreement assigns FortisOntario's water rights on the Niagara River to OPGI and facilitates the irrevocable exchange of 75 MW of wholesale electric power supply to FortisOntario from OPGI until April 30, 2009 in exchange for FortisOntario's agreement not to seek renewal of the water entitlement at that time.

Belize

Non-regulated generation operations in Belize are conducted through the Corporation's wholly owned indirect subsidiary, BECOL, under a franchise agreement with the Government of Belize. BECOL owns and operates the 25-MW Mollejon hydroelectric facility and the 7-MW Chalillo hydroelectric facility, which was placed in service on November 15, 2005. Both facilities are located on the Macal River in Belize. These generating plants have the capability of delivering average annual energy production of approximately 160 gigawatt hours (''GWh''). BECOL sells its entire output to Belize Electricity under a 50-year power purchase agreement expiring in 2055.

Central Newfoundland

Non-regulated generation operations in central Newfoundland are conducted through the Corporation's indirect 51% interest in the Exploits Partnership. The Exploits Partnership is a partnership with Abitibi-Consolidated that constructed, installed and operates additional capacity at Abitibi-Consolidated's hydroelectric plant at Grand Falls-Windsor and redeveloped the forestry company's hydroelectric plant at Bishop Falls, both in Newfoundland and Labrador. The 51% interest in the partnership is owned by Fortis Properties. Abitibi-Consolidated continues to utilize the historical annual generation of approximately 450 GWh while the additional energy produced from the new facilities, approximately 140 GWh, is sold to Newfoundland Hydro under a 30-year take-or-pay power purchase agreement expiring in 2033, which is exempt from regulation.

Upper New York State

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

British Columbia

Non-regulated generation operations in British Columbia were acquired as part of FortisBC in May 2004. Generating assets in British Columbia consist of the 16-MW run-of-river Walden hydroelectric power plant near Lillooet, British Columbia. This plant sells its entire output to British Columbia Hydro & Power Authority (''BC Hydro'') under a power purchase agreement expiring in 2013.

Non-Regulated — Fortis Properties

Fortis has owned all of the issued and outstanding shares of Fortis Properties since its inception in 1989. In addition to its non-regulated generation operations, Fortis Properties owns and operates hotels in seven provinces in Canada and commercial real estate in Atlantic Canada. Its holdings include 18 hotels with more than 3,200 rooms and approximately 2.7 million square feet of commercial real estate. On November 1, 2006, Fortis Properties completed the purchase of four hotels located in Alberta and British Columbia from Lodge Motel (Kelowna) Ltd. for approximately $52 million. See ''Recent Developments''.

RECENT DEVELOPMENTS

Acquisition of Hotels in Western Canada

On November 1, 2006, Fortis Properties completed the purchase of four hotels located in Alberta and British Columbia from Lodge Motel (Kelowna) Ltd. for approximately $52 million. The purchased hotels were: the Holiday Inn Express and Suites and the Best Western, both in Medicine Hat, Alberta; the Ramada Hotel and Suites, in Lethbridge, Alberta; and the Holiday Inn Express, in Kelowna, British Columbia. Through the purchase, Fortis Properties' hospitality operations were expanded by 454 rooms.

Acquisition of Additional Shares of Caribbean Utilities

On November 7, 2006, Fortis acquired an aggregate of 4,113,116, or approximately 16%, of the outstanding Class A Ordinary Shares of Caribbean Utilities from International Power and four other vendors affiliated with International Power for US$11.89 per share under a private agreement. Pursuant to this purchase, Fortis acquired control of Caribbean Utilities raising its beneficial ownership to 13,565,511, or approximately 54%, of the outstanding Class A Ordinary Shares. As a result of acquiring control of Caribbean Utilities, Fortis now consolidates the financial results of Caribbean Utilities into the financial statements of Fortis. Immediately prior to November 1, 2006, Fortis accounted for its investment in Caribbean Utilities on an equity basis, pursuant to which only its *pro rata* share of earnings of Caribbean Utilities was recorded in the consolidated statements of earnings of Fortis.

Private Placement of Convertible Debentures

On November 7, 2006, Fortis issued, by way of private placement, US$40 million aggregate principal amount of unsecured subordinated convertible debentures (the ''Debentures''). The Debentures bear interest at an annual rate of 5.5% and mature on November 7, 2016. The Debentures may be redeemed by Fortis at par at any time on or after November 7, 2011 and are convertible into common shares of Fortis (''Common Shares'') at the option of the holder at any time prior to their maturity, at US$29.11 per share.

Regulatory Matters

During the fourth quarter of 2006, the allowed regulated rate of return on common equity (''ROE'') for each of FortisBC, FortisAlberta and Newfoundland Power was reset in accordance with an automatic adjustment formula by each utility's respective regulator. The allowed ROEs for FortisAlberta, FortisBC and Newfoundland Power were reduced from 8.93%, 9.20% and 9.24% to 8.51%, 8.77% and 8.60%, respectively, effective January 1, 2007.

On December 5, 2006, Newfoundland Power received approval of its 2007 Amortization and Cost Deferral Accounting application from the Newfoundland and Labrador Board of Commissioners of Public Utilities. The order provided for a portion of the 2005 unbilled revenue balance amortization to offset increased taxes in 2007 and the deferral of increased amortization and replacement energy expenses in 2007. Recovery of these amounts will be addressed in Newfoundland Power's next general rate proceeding.

During the fourth quarter of 2006, the British Columbia Utilities Commission (the ''BCUC'') approved FortisBC's 2007 and 2008 capital plans of $135.8 million (before customer contributions of $7.2 million) and $119.6 million (before customer contributions of $8.0 million), respectively, subject to further approval processes for certain projects. Earlier in 2006, a Negotiated Settlement Agreement, approved by the Alberta Energy and Utilities Board, dealing with FortisAlberta's 2006/2007 Distribution Access Tariff Application included a 2007 capital expenditure program of $201 million (before customer contributions of $24 million and including $10 million in contributions to the Alberta Electric System Operator (''AESO'') for investment in transmission facilities). During the fourth quarter, FortisAlberta's 2007 capital plan was increased to approximately $273 million (before customer contributions of $33 million and including $17 million in contributions to the AESO for investment in transmission facilities), primarily driven by customer growth. The increase in the 2007 capital expenditure program will be included as part of FortisAlberta's 2008 rate application.

Issuance of Debentures by FortisAlberta

On January 3, 2007, FortisAlberta issued $110 million aggregate principal amount of senior unsecured debentures bearing interest at a rate of 4.99% per annum, payable semi-annually, due January 2047.

Issuance of Common Shares by Fortis

On January 18, 2007, Fortis completed the public offering of 5,170,000 Common Shares at a price of $29.00 per share for gross proceeds of $149,930,000.

Second Quarter Dividend

On February 8, 2007, Fortis announced that its Board of Directors had declared a second quarter dividend of $0.21 per Common Share payable on June 1, 2007 to holders of record on May 4, 2007. This dividend represents an increase of 10.5% in the quarterly Common Share dividend of the Corporation, which is the second increase in twelve months. Fortis has increased its annual dividend paid for 34 consecutive years.

2006 Results of Operations

On February 8, 2007, Fortis issued a media release announcing its unaudited results of operations for the year ended December 31, 2006 and the Corporation's unaudited interim consolidated financial statements and related Management Discussion and Analysis of financial condition and results of operations for the three- and twelve-month periods ended December 31, 2006.

Net earnings applicable to Common Shares in 2006 were $147.2 million, 7.4% higher than net earnings of $137.1 million in 2005. Earnings per Common Share were $1.42 compared to $1.35 in 2005. Earnings in 2005 included a $7.9 million after-tax gain resulting from the settlement of contractual matters between FortisOntario and OPGI (the ''Ontario Settlement''). Growth in annual earnings was primarily driven by the performance of FortisAlberta and FortisBC, hydroelectric generation in Belize, Fortis Properties, Belize Electricity and contributions from recently acquired Fortis Turks and Caicos.

Net earnings applicable to Common Shares for the fourth quarter of 2006 were $33.9 million, or $0.33 per Common Share, compared to $22.3 million, or $0.22 per Common Share in the fourth quarter of 2005. The increase in fourth quarter earnings was driven by earnings growth at FortisAlberta, the contribution from Fortis Turks and Caicos and a change in revenue recognition policy by Newfoundland Power in 2006.

Fortis' Canadian Regulated Utilities contributed $112.7 million to earnings in 2006, $7.9 million higher than earnings of $104.8 million in the previous year. The increase was primarily driven by earnings derived from the significant investments in electrical infrastructure made by FortisAlberta and FortisBC and lower corporate income taxes at FortisAlberta.

In 2006, FortisAlberta and FortisBC continued to maintain, enhance and expand their electricity systems to accommodate new customers and to improve system reliability and invested approximately $354 million in aggregate, before customer contributions, in capital projects, up 26% from 2005. The rate bases of FortisAlberta and FortisBC have increased approximately 29% and 36%, respectively, since the utilities were acquired in May 2004.

Fortis' Caribbean Regulated Utilities, comprised of Fortis Turks and Caicos, Belize Electricity and Caribbean Utilities, contributed earnings of $23.6 million in 2006, 21.6% higher than earnings of $19.4 million in 2005. Earnings growth was primarily attributable to $3.5 million of contribution from Fortis Turks and Caicos and improved earnings at Belize Electricity due to lower finance charges, growth in electricity sales and an overall 11% increase in electricity rates, effective July 1, 2005.

In 2006, Fortis Non-regulated Generation operations contributed earnings of $26.7 million compared to $29.6 million in the previous year. Excluding the $7.9 million after-tax Ontario Settlement gain in 2005, earnings were $5.0 million higher year over year. Improved performance in Belize driven by increased hydroelectric production and lower finance charges was partially offset by the impact of lower average wholesale energy prices in Ontario. Hydroelectric production in Belize was 178 GWh, more than two-and-a-half times the level of production in 2005 due to the first full year of operations for the Chalillo hydroelectric generation plant and storage facility. Energy sales in Ontario, which on an annual basis remained relatively consistent at approximately 700 GWh, were at an average annual wholesale energy price per megawatt hour of $46.38 compared to $68.49 in 2005.

Fortis Properties contributed earnings of $18.7 million in 2006, 32.6% higher than earnings of $14.1 million in 2005. The increase in earnings was largely driven by a $1.6 million after-tax gain on the sale of the Days Inn Sydney hotel, reduced corporate income taxes and growth at hotel operations in western Canada.

THE ACQUISITION

Overview

On February 26, 2007, Fortis entered into an agreement (the ''Acquisition Agreement'') with 3211953 Nova Scotia Company and Kinder Morgan Inc. (''Kinder Morgan'') for the purchase (the ''Acquisition'') of all of the issued and outstanding shares of Terasen Inc. (''Terasen'') for aggregate consideration of $3.7 billion, including the assumption of approximately $2.3 billion of consolidated indebtedness of Terasen. Terasen is a holding company headquartered in Vancouver, British Columbia, operating two principal lines of business: natural gas distribution and petroleum transportation. Prior to the closing of the Acquisition, Kinder Morgan will cause Terasen to divest itself of its petroleum transportation operations. As part of such divestiture, on March 5, 2007, Kinder Morgan announced that it had agreed to sell the Corridor pipeline system, which is owned by Terasen and serves the Athabasca oil sands, to Inter Pipeline Fund.

The closing of the Acquisition is subject to receipt of required regulatory and other approvals, including that of the BCUC, and the satisfaction of certain closing conditions. The closing of the Acquisition is expected to occur in mid-2007. See ''Acquisition Agreement''.

Under the Acquisition Agreement, Kinder Morgan or the Corporation may elect to terminate the Acquisition Agreement if the Acquisition is not completed prior to November 30, 2007. The Corporation intends to finance the cash portion of the purchase price for the Acquisition from the net proceeds of this offering (the ''Offering'') and funds to be advanced under acquisition financing arranged by the Corporation for this purpose. See ''Financing of the Acquisition'', ''Use of Proceeds'' and ''Acquisition Agreement''.

Based on financial information as at September 30, 2006, following the Acquisition, Fortis' total assets will increase by approximately 94% to $8.9 billion. Following the Acquisition, Fortis' regulated rate base assets will increase to approximately $6.0 billion, of which approximately 93% will be located in Canada.

Kinder Morgan

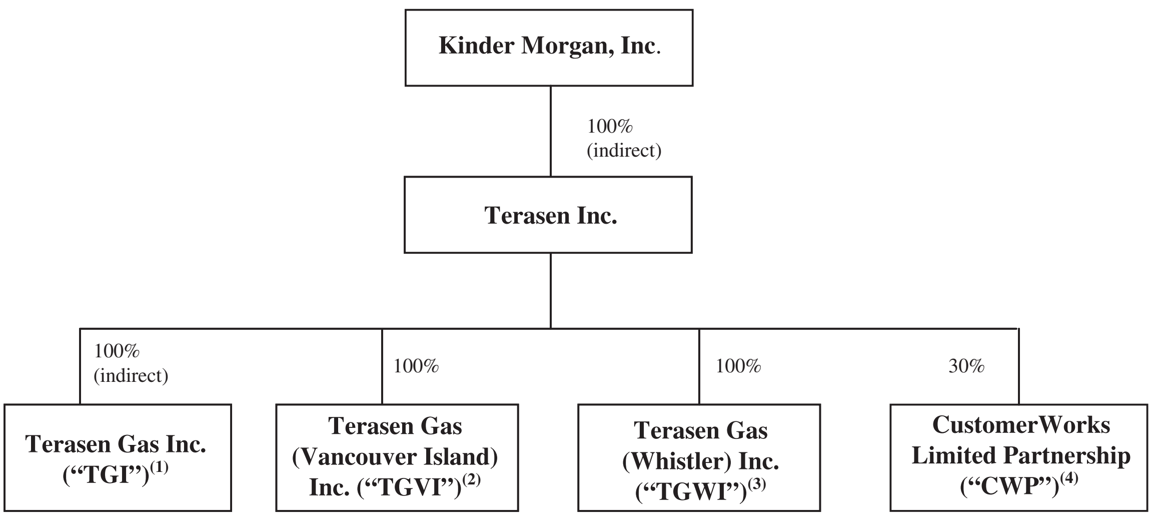
Kinder Morgan is one of the largest energy transportation, storage and distribution companies in North America. It owns an interest in or operates approximately 65,000 kilometers of pipelines that transport primarily natural gas, crude oil, petroleum products and carbon dioxide, and serves more than 1.1 million natural gas distribution customers in British Columbia, Colorado, Nebraska and Wyoming. Kinder Morgan owns the general partner interest of Kinder Morgan Energy Partners, L.P., one of the largest publicly traded pipeline limited partnerships in the United States.

On November 30, 2005, Kinder Morgan completed the acquisition of Terasen (formerly, BC Gas Inc.). On May 19, 2006, Terasen completed the disposition of its water, wastewater and utility services business carried on by Terasen Water and Utility Services Inc. to a consortium led by CAI Capital Management Co.

On August 14, 2006, Kinder Morgan announced that it was selling its natural gas retail distribution operations serving customers in Colorado, Nebraska, Wyoming and Hermosillo, Mexico, to GE Energy Financial Services. On December 19, 2006, management of Kinder Morgan received shareholder approval of a US$22 billion leveraged management buyout offer led by Richard Kinder, Chairman and Chief Executive Officer, Kinder Morgan. The completion of this buyout is pending.

Prior to the closing of the Acquisition, Kinder Morgan will cause Terasen to divest itself of its petroleum transportation operations (the ''Pre-Closing Reorganization''), leaving only the natural gas distribution business operated by Terasen Gas (as defined below). As part of the Pre-Closing Reorganization, on March 5, 2007, Kinder Morgan announced that it had agreed to sell the Corridor pipeline system, which is owned by Terasen and serves the Athabasca oil sands, to Inter Pipeline Fund. Under the Acquisition Agreement, Fortis will be indemnified with respect to claims relating to the Pre-Closing Reorganization. See ''Acquisition Agreement — Indemnities''.

The chart below sets out the material subsidiaries of Terasen following the Pre-Closing Reorganization.



(1) Terasen Gas Inc. provides gas distribution services to approximately 734,000 residential and 82,000 commercial and industrial customers in a service area extending from Vancouver to the Fraser Valley and the interior of British Columbia.

(2) Terasen Gas (Vancouver Island) Inc. owns a combined distribution and transmission system and serves approximately 85,000 residential, commercial and industrial customers along the Sunshine Coast and in various communities on Vancouver Island including Victoria and surrounding areas.

(3) Terasen Gas (Whistler) Inc. owns and operates the propane distribution system in the Whistler area of British Columbia and provides service to approximately 2,350 residential and commercial customers.

(4) CustomerWorks Limited Partnership is a non-regulated shared services business in partnership with Enbridge Inc. that provides customer service contact, meter reading, billing, credit, support and collection services primarily to the natural gas distribution operations of Terasen and Enbridge Gas Inc.

Terasen Gas

The natural gas distribution business of Terasen is carried on by Terasen Gas Inc. (''TGI''), Terasen Gas (Vancouver Island) Inc. (''TGVI'') and Terasen Gas (Whistler) Inc. (''TGWI''). Terasen also owns a 30% interest in CustomerWorks Limited Partnership (''CWP''). CWP is a non-regulated shared services business in partnership with Enbridge Inc. (''Enbridge'') that provides customer service contact, meter reading, billing, support and credit and collection services primarily to Terasen Gas (as defined below) and Enbridge Gas Distribution Inc. (''Enbridge Gas''). CWP outsources these services to a company owned and operated by Accenture Inc. (''Accenture''). In this Prospectus, TGI, TGVI, TGWI and CWP are collectively referred to as ''Terasen Gas''.

Terasen Gas is the principal gas distribution utility in British Columbia, serving the populous lower mainland, Vancouver Island and the southern interior of the province. With approximately 900,000 customers in 125 communities, Terasen Gas provides service to over 95% of the gas customers in British Columbia. Terasen Gas owns and operates approximately 44,100 kilometers of natural gas distribution pipelines and approximately 4,300 kilometers of natural gas transmission pipelines. As of September 30, 2006, Terasen Gas had an aggregate of $3.6 billion of assets, an aggregate rate base of almost $3.0 billion and approximately 1,200 employees.

Acquisition Rationale

The business operated by Terasen Gas is attractive to Fortis for the following reasons: (i) Terasen Gas will significantly increase the earnings of Fortis from regulated utilities and be immediately accretive to earnings per share; (ii) the regulated gas distribution business of Terasen Gas complements the regulated electric distribution business of Fortis; and (iii) the service territory of Terasen Gas is experiencing strong economic growth and includes substantially all of the service territory of FortisBC.

Fortis believes that the principal benefits of the Acquisition are as follows:

(a) the purchase price represents approximately 1.2 times the approved rate base of Terasen Gas for 2007 and the Acquisition is expected to be immediately accretive to earnings per share;

(b) the Acquisition will increase the regulated rate base assets and utility earnings of Fortis. Similar to the electric distribution utilities of Fortis, Terasen Gas operates under principally cost-of-service regulation under which an appropriate return on capital is recovered in addition to prudently incurred operating and commodity costs;

(c) Terasen Gas has an attractive gas distribution franchise with a well-diversified, mature, principally residential, customer base. The Acquisition is expected to improve the risk profile of Fortis by providing it with a more economically diverse portfolio of assets;

(d) following the Acquisition, Fortis will be the largest investor-owned utility in gas and electric distribution in Canada with regulated electricity distribution utilities in five Canadian provinces and three Caribbean countries and regulated gas distribution utilities in British Columbia. Following the Acquisition, a large proportion of the business of Fortis will serve the high-growth economies of western Canada; and

(e) Fortis believes the regulated gas distribution business of Terasen Gas is complementary to the Corporation's proven core competencies in managing regulated electric distribution utilities. The Acquisition affords Fortis management an opportunity to deploy its regulatory, operating and financial management expertise to additional Canadian regulated utilities.

See ''Risk Factors — Realization of Acquisition Benefits'' and ''Special Note Regarding Forward-Looking Statements''.

Utility Management Approach of Fortis

Fortis' approach to utility management is based on creating value for customers that ultimately translates into long-term value for shareholders. Fortis structures its operations as separate operating companies in each jurisdiction. Focused local management teams have the benefit of access to utility management experience and expertise of Fortis. The senior management team of Terasen Gas, which Fortis expects to retain, will add valuable operational expertise in natural gas distribution to existing expertise in the electric distribution operations of Fortis. This approach allows local managers to build relationships with, and be responsive to, both customers and regulators. Fortis recognizes that regulation is a key aspect of its core business and has developed a disciplined, cost-conscious asset investment and operating philosophy which is responsive to regulation.

The management of Fortis has substantial experience in integrating newly acquired enterprises into the Fortis Group. In 2004, Fortis acquired all of the issued and outstanding shares of FortisBC (formerly, Aquila Networks Canada (British Columbia) Ltd.) and FortisAlberta (formerly, Aquila Networks Canada (Alberta) Ltd.), and has successfully integrated these utilities into the Fortis Group.

THE ACQUIRED BUSINESSES

The description of Terasen Gas contained in the Prospectus is based on publicly available information filed by Terasen, TGI and Kinder Morgan and information provided by Kinder Morgan in connection with the Acquisition Agreement. Fortis, after making its purchase investigations, believes it to be accurate in all material respects.

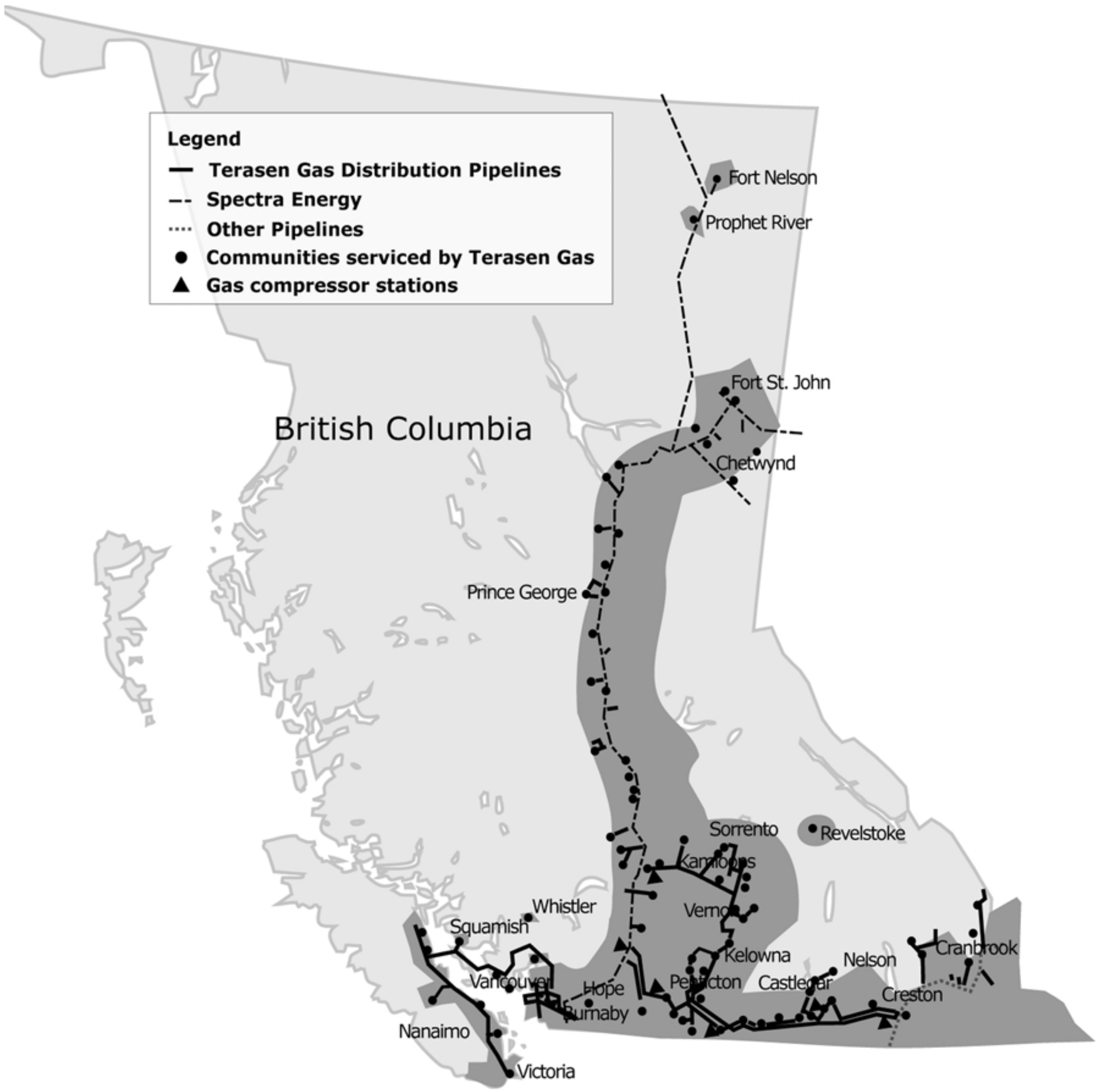
Terasen Inc.

Terasen is a holding company headquartered in Vancouver, British Columbia, operating two principal lines of business: natural gas distribution and petroleum transportation. Prior to the closing of the Acquisition, Kinder Morgan will cause Terasen to divest itself of its petroleum transportation operations. The natural gas distribution business of Terasen is carried on by TGI, TGVI and TGWI. Terasen also owns a 30% interest in CWP, a non-regulated shared services business in partnership with Enbridge that provides customer service contact, meter reading, billing, support and credit and collection services primarily to Terasen Gas and Enbridge Gas. CWP outsources these services to a company owned and operated by Accenture. Terasen has approximately 20 employees principally involved with finance, tax and legal matters.

Terasen was incorporated on August 15, 1985 under the *Company Act* (British Columbia), a predecessor to the *Business Corporations Act* (British Columbia). On April 25, 2003, its name was changed from BC Gas Inc. to Terasen Inc. For further information on Terasen, reference is made to the audited consolidated financial statements of Terasen for the years ended December 31, 2005 and 2004 and related Management Discussion and Analysis of financial condition and results of operations, and the unaudited consolidated financial statements of Terasen for the three- and nine-month periods ended September 30, 2006 and related Management Discussion and Analysis of financial condition and results of operations, which are included in this Prospectus.

Terasen Gas Service Territory

Terasen Gas is one of the largest natural gas distribution businesses in Canada. With approximately 900,000 customers in 125 communities, Terasen Gas provides service to over 95% of the gas customers in British Columbia. Its service area extends from Vancouver to the Fraser Valley, the interior of British Columbia, the area along the Sunshine Coast, as well as Whistler, Squamish and Vancouver Island.



Terasen Gas Inc.

TGI provides service to more than 100 communities with a service territory that has an estimated population of approximately 4,000,000. As at September 30, 2006, TGI and its subsidiaries transported and distributed natural gas to approximately 734,000 residential and 82,000 commercial and industrial customers, representing approximately 87% of the natural gas users in British Columbia. TGI's service area extends from Vancouver to the Fraser Valley and the interior of British Columbia. The transmission and distribution business is carried on under statutes and franchises or operating agreements granting the right to operate in the municipalities or areas served. TGI is regulated by the BCUC. The average rate base of TGI approved by the BCUC for 2007 is approximately $2,474 million.

TGI provides natural gas distribution services to residential, small commercial and industrial heating customers predominantly on a non-contractual basis, whereby the customers are charged based on general services provided. Larger commercial and industrial customers are normally provided with services on a contractual basis.

By early 2006, 16,000 commercial and industrial customers had arranged for some or all of their own gas supply and used TGI's transportation services for delivery. Notwithstanding shifts over time between utility supply and direct purchases, TGI's earnings remain unaffected since TGI's margins remain substantially the same whether or not customers choose to buy natural gas from TGI or arrange their own supply. Customers arranging for their own supply in fact reduce the credit risk to TGI. See ''— Terasen Gas Inc. — Unbundling'' below.

Of TGI's industrial customers, 158 are on interruptible service. The majority of these customers are capable of switching to alternative fuels. Of the various industries that comprise TGI's industrial market, the pulp and paper and wood products industries combined comprise approximately 47% of total system throughput. All other industries individually represent less than 10% of total consumption.

Gas Purchase Agreements

In order to acquire supply resources that ensure reliable natural gas deliveries to its customers, TGI purchases supply from a select list of producers, aggregators, and marketers by adhering to strict standards of counterparty creditworthiness and contract execution/management procedures. TGI contracts for approximately 137 petajoules (''PJ'') of baseload and seasonal supply, of which 120 PJ is delivered off the Spectra Energy Gas Transmission system (the ''Spectra Pipeline System''), and 17 PJ is comprised of Alberta-sourced supply transported into British Columbia via the Alberta and British Columbia systems of TransCanada Pipelines Limited (''TransCanada''). The majority of supply contracts in the current portfolio are one year in length, with the exception of one long-term contract expiring in October 2009. In order to recover its costs, TGI obtains advance BCUC approval of the supply agreements it proposes to enter into.

Peak Shaving Arrangements

TGI incorporates peak shaving and gas storage facilities into its portfolio to (i) manage the load factor of baseload supply contracts throughout the year, (ii) eliminate the risk of supply shortages during a peak throughput day, (iii) reduce the cost of gas during winter months, and (iv) balance daily supply and demand on the distribution system. TGI's peak shaving and storage assets and contracts for 2006 included up to 30 PJ in storage capacity at various locations throughout British Columbia, Alberta and the Pacific Northwest of the United States. These facilities can deliver a maximum daily rate of 600 TJ on a combined basis.

Unbundling

Over the past several years, TGI, the BCUC and a number of interested parties have laid the groundwork for the introduction of natural gas commodity unbundling. As of November 1, 2004, commercial customers of TGI became eligible to sign up to buy their natural gas commodity supply directly from third-party suppliers. TGI continues to provide delivery of the natural gas. Approximately 78,000 commercial customers are eligible to participate in commodity unbundling.

On August 14, 2006, the BCUC released a decision to open a portion of British Columbia's residential natural gas market to competition, allowing homeowners to sign long-term fixed-price contracts for natural gas with companies other than TGI. The BCUC decision was released in response to a proposal from TGI filed with the BCUC on April 18, 2006 and following several weeks of public hearings and submissions from TGI, natural gas marketers and stakeholders. As a result of the BCUC decision, independent marketing companies, known as gas marketers, will be allowed to start offering long-term, fixed-price contracts for natural gas for a period of time ranging from one year to five years, starting in May 2007. TGI will continue delivering the gas to the final consumer, charging for delivery and providing all billing and other services to all customers.

The choice of natural gas suppliers will only be available to TGI's residential customers in the Lower Mainland and the interior of British Columbia. It will not be available on Vancouver Island, the Sunshine Coast, Powell River or Whistler. The opening of a portion of British Columbia's residential natural gas market to competition will not affect TGI's earnings since TGI's margins remain substantially the same whether or not customers choose to buy natural gas from TGI or arrange their own supply.

Transmission Services

TGI serves Greater Vancouver and the Fraser Valley through a transmission and distribution system that connects to the Spectra Pipeline System near Huntingdon, British Columbia. This transmission system also supplies gas to TGVI for delivery to the Sunshine Coast, Vancouver Island and Squamish, British Columbia. In addition, TGI is connected at Huntingdon to Northwest Pipeline to facilitate gas movement both north and south.

In the interior of British Columbia, TGI serves municipalities with numerous connections to the Spectra Pipeline System. Communities in the East Kootenay region of British Columbia are served through connections with the British Columbia system of TransCanada. TGI is connected to TransCanada's British Columbia system through TGI's Southern Crossing Pipeline between Yahk and Oliver. TGI also operates a propane distribution system in Revelstoke, British Columbia.

In addition, TGI provides high-pressure transmission services to customers, such as TGVI, which moves natural gas from the Spectra Pipeline System or the TransCanada system across TGI's system to customers' own facilities.

Transportation tolls on the Spectra Pipeline System and the TransCanada system are regulated by the National Energy Board. TGI pays both fixed and variable charges for use of the pipelines, which are recovered through rates paid by TGI's customers.

Properties

As of September 30, 2006, TGI owned approximately 3,700 kilometers of natural gas transmission pipelines and approximately 41,000 kilometers of natural gas distribution pipelines. In addition to the pipelines, TGI owns properties and equipment utilized for service shops, warehouses, metering, and regulating stations, as well as its main operations center in Surrey, British Columbia.

Title to Properties

TGI's pipelines are constructed for the most part under highways and streets pursuant to permits or orders from the appropriate authorities, franchise or operating agreements entered into with municipalities and rights-of-way held directly or jointly with BC Hydro. Compressor stations and major regulator stations are located on freehold land, rights-of-way owned by TGI or properties shared with BC Hydro.

Franchise and Operating Agreements

TGI currently holds franchise or operating agreements with all of the incorporated municipalities in which it distributes gas in the Greater Vancouver and Fraser Valley service areas, other than Richmond, British Columbia, and with most of the incorporated municipalities in which it distributes gas in the interior of British Columbia. TGI has the right to serve all end users within its franchise area pursuant to these operating agreements. The terms of the franchise agreements range from 10 years to 21 years.

Historically, approximately one quarter of the agreements relating to the interior of British Columbia contained a provision enabling the municipality to purchase the distribution system at the end of the term of the agreement. Some of these agreements have expired and TGI has negotiated or is currently negotiating renewals and extensions of others whereby TGI enters into an arrangement whereby the relevant municipality leases TGI's gas distribution assets within the municipality's boundaries for a term of 35 years for an initial cash payment paid by the municipality to TGI. TGI, in turn, enters into a 17-year operating lease with the municipality whereby TGI operates the gas distribution assets and has the option to terminate the lease of the assets to the municipality at the end of the 17-year term in exchange for a payment to the municipality equal to the unamortized portion of prepaid rent initially paid by the municipality. As at December 31, 2005, TGI had entered into such arrangements having a total value of $153 million.

Capital Program

The 2007 revenue requirements approved by the BCUC for TGI include annual capital expenditures of $129.7 million. Capital expenditures relating to customer growth represent approximately 22% of the annual capital budget forecast, while the remaining amount relates to capital betterments, replacements and life extensions.

Operations

As part of its multi-year Performance-Based Rate (''PBR'') agreement, TGI is required to meet several service quality targets. These target measures include indicators such as emergency response time, speed of answering calls, system integrity, customer satisfaction, meter exchange appointment activity, number of customer complaints to the BCUC and number of prior period adjustments. TGI's operations meet or exceed these target measures.

Environment

In order to minimize impacts from its operations, TGI has developed an Environmental Management System based on a framework, purposes and objectives so as to be compliant with the international standard ISO 14001. TGI's operations meet or exceed legislative standards and environmental protection requirements.

TGI is an active participant in Canada's Voluntary Climate Change Challenge and Registry (''VCR'') and its successor, the Canadian GHG Challenge Registry. For seven consecutive years, TGI has received gold-level reporting status in recognition of its efforts to manage and reduce greenhouse gas emissions. TGI received the VCR Leadership Award in 2001 and 2003, the only company in its sector to have received this award twice. The VCR ranking acknowledges TGI's efforts to develop specific measures and voluntarily set reduction targets.

Employees

TGI has approximately 1,100 employees. Its organized employees are represented by the Canadian Office and Professional Employees Union (''COPEU'') and the International Brotherhood of Electrical Workers (''IBEW'') under collective agreements which expire on March 31, 2007 and March 31, 2011, respectively.

Tax Assessment

TGI has received a Notice of Assessment dated July 31, 2006 from the British Columbia Social Service Tax authority (the ''BC Tax Authority'') for the payment of $37.1 million of additional provincial sales tax and interest on the Southern Crossing Pipeline which was completed in 2000 (the ''Assessment''). In October 2006, TGI made a payment of $10 million pending its appeal of the Assessment as a good faith payment to forestall an order from the BC Tax Authority to provide full payment or security. On October 26, 2006, TGI filed an objection to the Assessment with the BC Tax Authority. The BCUC has allowed TGI to defer the $10 million payment pending resolution of TGI's objection to the Assessment.

Terasen Gas (Vancouver Island) Inc.

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. TGVI is a franchise under development and is supported by the Vancouver Island Natural Gas Pipeline Agreement, as discussed in more detail below.

TGVI has been operating for almost 15 years. Its combined system consists of approximately 615 kilometers of natural gas transmission pipelines and 3,250 kilometers of distribution mains. The combined system has a designed throughput capacity of 144 million cubic feet per day (155 TJ per day). TGVI serves approximately 85,000 residential, commercial and industrial customers along the Sunshine Coast and in various communities on Vancouver Island including Victoria and surrounding areas. TGVI's largest customers are the Vancouver Island Gas Joint Venture, representing seven large pulp and paper mills on Vancouver Island and the Sunshine Coast, and BC Hydro's contracted gas-fired electricity cogeneration facility at Elk Falls, Vancouver Island. During 2005, TGVI delivered approximately 33.6 PJ of gas through its system. The average rate base of TGVI approved by the BCUC for 2007 is approximately $482 million.

TGVI's natural gas supply is transported through TGI's pipeline system. All natural gas flows to TGVI are from this single source on the mainland and are dependent on the use of two undersea high-pressure transmission pipes.

Vancouver Island Natural Gas Pipeline Agreement

The transmission line to Vancouver Island and the distribution systems on Vancouver Island that are currently owned by TGVI were originally constructed between 1989 and 1991 with financial support provided by the provincial and federal governments which included repayable contributions of an aggregate of $75 million from these governments (the ''Repayable Contributions''). In December 1995, the financial support arrangements with the governments were restructured under several agreements, including the Vancouver Island Natural Gas Pipeline Agreement (''VINGPA'') which was entered into between the predecessors of Terasen and TGVI and the Province of British Columbia (the ''Province'').

Under the VINGPA, which runs through to December 31, 2011, the Province has agreed to provide TGVI with financial support in the form of gas royalties on deemed volumes of natural gas transported through the Vancouver

Island pipeline from 1996 through 2011, which decreases the cost of purchased gas by approximately 20%. The royalty payment recognized in 2006 was approximately $36.3 million.

In turn, under the VINGPA, Terasen is required to provide financial support of up to $120 million over the period from 1996 to 2011 to finance the principal amount of the revenue deficiencies incurred by TGVI. Annual revenue deficiencies are calculated as the difference between the approved cost of service and revenue actually received. This funding can be by way of subscription for Class A Instruments (redeemable preferred shares of TGVI) or Class B Instruments (promissory notes issued by TGVI) (''Class B Instruments''), as determined by the BCUC.

Prior to 2003, rates charged by TGVI to its customers were insufficient to recover the cost of service of TGVI in aggregate, meaning that revenues from the sale and transportation of natural gas resulted in an annual revenue deficiency. Terasen and TGVI's former shareholder funded these annual revenue deficiencies in accordance with the VINGPA. The aggregate of the annual revenue deficiencies was funded with Class B Instruments bearing interest at a rate of 275 basis points over the applicable five-year Canada bond rate. The accumulated revenue deficiency resulting from overall revenues being below the cost of service has been recorded in a revenue deficiency deferral account (''RDDA''). Since 2003, the aggregate annual revenues have exceeded the full cost of service and therefore TGVI has been in a revenue surplus position. The revenue surplus is used, in part, to pay down the RDDA balance as well as to pay the interest on the Class B Instruments described above. The BCUC has been directed to include in the cost of service an amount to amortize the RDDA balance over the shortest period reasonably possible, having regard to competitive energy sources and the desirability of rates. As at September 30, 2006, TGVI had issued and outstanding approximately $42 million of Class B Instruments.

As part of the December 1995 restructuring discussed above and concurrently with the entering into of the VINGPA, the predecessor to TGVI entered into the Pacific Coast Energy Pipeline Agreement (the ''PCEPA'') with the Government of Canada and the Province which set out the mechanism for the repayment of the $75 million Repayable Contributions owed to the federal and provincial governments. The PCEPA provides for scheduled repayments but also contemplates earlier non-scheduled prepayments in certain circumstances. Repayments on the $75 million Repayable Contributions go towards increasing the rate base on a dollar-for-dollar basis.

Vancouver Island Gas Joint Venture Transportation Agreement

TGVI provides gas transportation service to the seven pulp and paper mills under the long-term Vancouver Island Gas Joint Venture Transportation Service Agreement that was amended effective January 1, 2005 to extend it beyond the original renewal period by two years to December 31, 2012. The maximum daily volume of firm transportation service under the agreement was 20 TJ per day for 2005. In 2006, the maximum daily volume changed to 12.5 TJ per day for the remainder of the renewal period. The committed volume can be reduced to 8 TJ on twelve months' notice at any time on or after January 1, 2007.

Contractual Arrangements

TGVI has entered into a firm transportation agreement with BC Hydro to serve BC Hydro's gas supply needs at a gas-fired cogeneration plant at Elk Falls, Vancouver Island. The agreement, for 45 TJ per day, expires on December 31, 2007. BC Hydro has an option to extend the agreement for one year. BC Hydro has indicated that it is considering changing the Elk Falls facility from a baseload facility to a dispatchable facility, which will change the transportation agreement from firm to interruptible. Accordingly, there is no certainty with respect to the terms under which the firm transportation agreement with BC Hydro may be extended beyond 2007. Failure to extend the agreement will result in a reduction in TGVI's transportation revenues of approximately $13 million, which would be expected to be recovered through increased rates approved by the BCUC.

On February 16, 2005, the BCUC approved the construction by TGVI of a $100 million liquid natural gas storage facility, subject to several conditions including the execution of a long-term Transportation Service Agreement with BC Hydro backed by the capacity demand requirements of the Duke Point generation project. On June 17, 2005, BC Hydro announced its intention to abandon the Duke Point generation project on Vancouver Island as a result of a continuing appeal process. As a result, the expected construction timeline for TGVI's proposed storage facility has been delayed and, pending re-evaluation, will require BCUC approval prior to proceeding.

Gas Purchase Agreements

In order to acquire effective supply resources that ensure reliable natural gas deliveries to its customers, TGVI purchases supply from a select list of producers, aggregators and marketers by adhering to strict standards of counterparty credit worthiness and contract execution/management procedures. As of November 1, 2005, TGVI contracted approximately 12.5 TJ per day of baseload supply delivered off the Spectra Pipeline System. TGVI also purchased approximately 31.8 TJ per day of seasonal supply to meet the higher loads during the winter months of December 2005 to February 2006.

TGVI maintains storage contracts with Unocal Canada Limited at Aitken Creek Storage facility in northern British Columbia and Northwest Natural Gas Company at Mist Storage facility in Oregon. As at March 14, 2006, TGVI's Aitken Creek Storage contract consisted of 2.1 PJ of capacity with 13.6 TJ of daily deliverability and its Mist storage agreement consisted of 0.69 PJ of capacity with 26.4 TJ of daily deliverability. As at March 14, 2006, TGVI also had access to an estimated 21.1 TJ of daily peaking supply deliverability from various peaking supply arrangements.

Capital Program

TGVI's capital projects for the upcoming years are primarily associated with the expansion of the distribution system and the addition of new customers. The capital expenditures are expected to increase the rate base and expand the customer base. The 2007 revenue requirements approved by the BCUC for TGVI include capital expenditures of $53.7 million, which includes $20.8 million for the Whistler pipeline. The capital expenditures relating to customer growth on Vancouver Island represent approximately 9.1% of the capital budget for 2007, while the remaining amount relates to system expansion, capital betterments, replacements and life extensions.

On June 28, 2006, TGVI and TGWI received final approval from the BCUC to extend natural gas service to Whistler. Under the proposed arrangements, TGVI will extend its transmission system to serve TGWI by the construction of a 50-kilometer pipeline lateral from Squamish to Whistler. It is expected that the pipeline will cost $42.8 million and TGVI's contribution to the pipeline costs, including system conversion, will be approximately $20.8 million. TGWI will pay the remainder of the costs of the pipeline.

Employees

TGVI has approximately 105 employees. Its organized employees are represented by the COPEU and the IBEW under the TGI Collective Agreements. See ''— Terasen Gas Inc. — Employees'' above.

Terasen Gas (Whistler) Inc.

TGWI has owned and operated the propane distribution system at Whistler since 1987. It provides service to approximately 2,350 residential and commercial customers in the Whistler area of British Columbia. TGWI owns and operates two propane storage and vaporization plants and approximately 100 kilometers of distribution pipelines serving customers in the Whistler area. The propane distribution system in Whistler has grown far beyond the original expectations and beyond the size and scale of other similar propane distribution systems in British Columbia and Canada. Today, with annual deliveries exceeding 750,000 GJ, TGWI's propane system is unique in terms of the size of the customer base it serves and the scale of the facilities required by its continued operations. The average rate base of TGWI for 2006 was approximately $16.5 million.

On June 28, 2006, TGVI and TGWI received final approval from the BCUC to extend natural gas service to Whistler. Under the proposed arrangements, TGVI will extend its transmission system to serve TGWI by the construction of a 50-kilometer pipeline lateral from Squamish to Whistler and TGWI will convert its current piped propane system to natural gas. The pipeline, which is scheduled for completion in 2008 and will be co-ordinated with the current Sea-to-Sky Highway upgrade project, will allow TGWI to better service future demand. It is expected that the pipeline will cost $42.8 million and TGWI's contribution to the pipeline costs, including system conversion, will be approximately $22.0 million. TGVI will pay the remainder of the cost of the pipeline. Customer, management and operations services are provided to TGWI by TGI.

Non-Regulated — CustomerWorks Limited Partnership

CWP is a partnership between Terasen and Enbridge that provides shared customer services primarily to the companies' respective regulated operations, Terasen Gas and Enbridge Gas. Enbridge owns a 70% interest in CWP and Terasen owns a 30% interest.

The provision of services by CWP is governed by a customer service agreement dated January 1, 2002, as amended (the ''Customer Service Agreement''). The Customer Service Agreement was initially entered into between BC Gas Utility Ltd. (the predecessor of TGI) and CWP and was subsequently amended to, among other things, provide for the outsourcing of the services by CWP to Accenture Business Services for Utilities Inc., a company indirectly owned and operated by Accenture, and to extend the provision of services to TGVI and TGWI. The Customer Service Agreement was entered into for a five-year term, renewable for additional one-year terms.

The services provided under the Customer Service Agreement include customer contact, meter reading, billing, support, and credit and collection services. The Customer Service Agreement has been approved by the BCUC. The rates under the Customer Service Agreement have both a fixed and service volume based component, include minimum service standards and penalties and are based on market prices. In providing these services, CWP uses a customer information services system under a licence from Enbridge Commercial Services, a subsidiary of Enbridge. During the nine-month period ended September 30, 2006, TGI paid approximately $33.1 million to CWP under the Customer Service Agreement.

Regulation

The Terasen Gas natural gas distribution system operates wholly within British Columbia. Gas utilities which operate wholly within British Columbia are subject to the regulatory jurisdiction of the BCUC which derives its powers from the *Utilities Commission Act* (British Columbia). In addition to approving the rate base and new financings of gas utilities, the BCUC also approves the rates charged to customers. These rates are designed to recover the utilities' costs of providing service and allow the opportunity to meet financial commitments and earn a reasonable and fair ROE. The BCUC has jurisdiction to regulate and approve the terms and conditions under which gas utilities provide service.

As part of the establishment of the rates that a gas utility charges its customers, the BCUC establishes a rate base, approves a capital structure with which to finance such rate base, and is responsible for setting a reasonable and fair rate of return on the debt and equity in the approved capital structure. Rate base is the aggregate of the depreciated cost of property, plant and equipment that is used or useful in serving the public, certain deferral accounts and a reasonable allowance for working capital. The fair rate of return is established by determining the cost of individual components of the capital structure, including ROE, and weighting such costs to determine an aggregate rate of return on rate base. The rates that are established and the terms and conditions of service are contained in a schedule of published and public tariffs. Before any tariff can be put into effect, it must be filed with the BCUC. The BCUC has jurisdiction to approve or refuse any amendment submitted for filing and to determine the rates which should be charged by a utility for its services. The BCUC is required to have due regard, among other things, to fixing rates that are not unjust or unreasonable. In fixing rates the BCUC must determine that such rates reflect a fair and reasonable charge for service of the nature and quality furnished by the utility to its customers and that such rates are sufficient to yield the utility fair and reasonable compensation for its services and a fair and reasonable rate of return on its rate base.

The BCUC uses a future test year in the establishment of rates for a utility. Pursuant to this method, the BCUC forecasts the volume of gas that will be sold and transported, together with all of the costs of the utility (including the rate of return) that the utility will incur in the test year. Rates are fixed to permit the utility to collect all of its costs (including the rate of return) if the forecast sales and transportation volumes are achieved. The forecast sales volumes assume normal weather. Certain costs are fixed and will be incurred regardless of the actual volume of gas sold. Accordingly, if the actual volumes of gas sales are less than those forecast in the test year, the utility might not recover all of the fixed costs. Interest expense, taxes other than income taxes, depreciation and amortization, certain operations and maintenance costs, the portion of the cost of gas that is fixed, such as demand charges or reservation fees, and the fixed portion of transportation costs have the effect of being virtually fixed costs.

In addition to application for approval of interim and annual rate changes, the gas utilities may apply from time to time to the BCUC for rate changes to give effect to the changes in costs beyond the control of the utilities.

The table below summarizes regulatory information pertaining to decisions made by the BCUC with respect to TGI and TGVI. While also regulated by the BCUC, similar regulatory information with respect to TGWI is not available from publicly available BCUC filings.

	Regulated Values				
	2007(1)	2006	2005	2004	2003
TGI					
Rate base ($M)	2,474	2,506	2,406	2,310	2,281
Deemed common equity component of total capital structure (%)	35	35	33	33	33
Allowed ROE (%)	8.37	8.80	9.03	9.15	9.42
TGVI					
Rate base ($M)	482	470	453	441	437
Deemed common equity component of total capital structure (%)	40	40	35	35	35
Allowed ROE (%)	9.07	9.50	9.53	9.65	9.92

(1) As approved by the BCUC.

Terasen Gas Inc.

TGI's allowed ROE is determined annually based on a formula that applies a risk premium to a forecast of long-term Government of Canada Bond yields. On June 30, 2005, TGI applied to the BCUC to increase the deemed equity components from 33% to 38%. The application also requested an increase in allowed ROEs from the levels that result from the then-current formula, which would have yielded 8.29% for TGI in 2006. The BCUC rendered its decision on the application on March 2, 2006, to be effective as of January 1, 2006. The generic ROE formula for a benchmark utility in British Columbia was changed such that it will be reset annually from a forecast of 30-year Canada Bonds plus a 3.90% risk premium when the forecast yield on 30-year Government of Canada Bonds is 5.25%. The risk premium is adjusted annually by 75% of the difference between 5.25% and the forecast yield on 30-year Government of Canada Bonds. For 2007, the forecast 30-year Canada Bond yield is 4.22% resulting in an ROE for TGI of 8.37%.

Two mechanisms to mitigate unanticipated changes in costs and sales volumes, such as changes caused by weather, have been implemented specifically for TGI. The first relates to the recovery of all gas costs through deferral accounts which capture all variances (overages and shortfalls) from forecasts. Balances are either refunded to or recovered from customers as determined by the BCUC. The deferral accounts are called the Commodity Cost Reconciliation Account (''CCRA'') and the Midstream Cost Reconciliation Account (''MCRA''). The second mechanism seeks to stabilize delivery revenues from residential and commercial customers through a deferral account that captures variances in the forecast-versus-actual customer use throughout the year. This mechanism is called the Revenue Stabilization Adjustment Mechanism (''RSAM''). In February 2001, the BCUC issued guidelines for quarterly calculations to be prepared to determine whether customer rate adjustments are needed to reflect prevailing market prices for natural gas and to ensure that rate stabilization account balances are recovered on a timely basis. The balance in the RSAM account at December 31, 2006 was approximately $36 million and the BCUC has approved $11.5 million of this balance to be recovered in 2007 through a rate rider.

The RSAM and CCRA/MCRA accounts reduce TGI's earnings exposure to risks associated with volatility of gas costs and consumer demand. Variances in demand by large volume, industrial transportation customers are not covered by these deferral accounts as their usage is more predictable and less likely to be significantly affected by weather.

The net balances of the RSAM and CCRA/MCRA accounts increased to a receivable of approximately $148.8 million as at September 30, 2006 from a payable of approximately $9.0 million as at December 31, 2005. In order to ensure that the balances in the CCRA/MCRA accounts are recovered on a timely basis, TGI prepares and files quarterly calculations with the BCUC to determine whether customer rate adjustments are needed to reflect prevailing market prices for natural gas costs.

TGI also has in place deferral accounts to absorb short-term and long-term interest rate fluctuations. The interest rate deferral accounts which were in place during 2006 effectively fixed the interest expense on short-term funds attributable to TGI's regulated assets at 4.00% during 2006. The effective fixed short-term interest rate for 2007 has been set at 4.75%. Any variations from these rates throughout the year are recorded in deferral accounts and are subsequently either refunded to or recovered from customers as determined by the BCUC.

In 2003, TGI received BCUC approval of a Negotiated Settlement of a 2004-2007 PBR Plan (the ''TGI Settlement''). The TGI Settlement, which took effect January 1, 2004, establishes a process for determining TGI's delivery charges and incentive mechanisms for improved operating efficiencies. The four-year agreement includes incentives for TGI to operate more efficiently through sharing of the benefits of cost reductions among TGI and its customers. It includes ten service quality indicators designed to ensure TGI provides appropriate service levels and sets out the requirements for an annual review process which will provide a forum for discussion between TGI and interested parties regarding TGI's current performance and future activities. In January 2007, TGI made application to the BCUC to extend the TGI Settlement to 2009.

Operation and maintenance costs and base capital expenditures are subject to an incentive formula which permits recovery of increasing costs due to customer growth and inflation. Operating costs are subject to an adjustment factor based on 50% of inflation during the first two years and 66% of inflation during the last two years. Base capital expenditure amounts are a function of customer numbers and projected customer additions. During the annual review process, non-controllable expenses and extraordinary capital expenditures can be added to or subtracted from revenue requirements under the terms of the TGI Settlement.

The TGI Settlement provides for a 50/50 customer/shareholder sharing mechanism of 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 two consecutive years, the PBR mechanism may be reviewed. The following table sets out the allowed ROE, the earned ROE (before sharing) and the customer share under the sharing mechanism.

TGI Earned ROEs and Shared Earnings through PBR

	2006(1)	2005	2004
Allowed ROE (%)	8.80	9.03	9.15
Earned ROE (%)	10.10	10.78	9.34
Customer share (pre-tax)($M)	8.2	10.5	1.1

(1) Projected as filed by TGI in the 2007 Revenue Requirement Filing.

Terasen Gas (Vancouver Island) Inc.

Pursuant to BCUC orders from 2003 onwards, TGVI's rates have been set so as to fully recover its cost of service plus an amount for the timely amortization of the RDDA in accordance with the government directives. To permit recovery of the outstanding balance in the RDDA, TGVI's rates for residential and commercial customers are set at levels in excess of TGVI's cost of service, but are effectively capped at a comparable price of competitive alternative fuels. TGVI renewed its regulatory settlement in late 2005 for a two-year period, effective January 1, 2006. It provides for a continuation of the operation and maintenance cost incentive arrangements previously in place. The allowed ROE for TGVI was 9.53% for 2005 compared to 9.65% in 2004. TGVI's ROE for 2006 is 9.50% and TGVI's deemed equity component of its capital structure for 2006 is 40%. The 2007 approved ROE for TGVI has been set at 9.07%.

TGVI's approved rate design methodology provides, in effect, that to the extent that cost of service inputs change over time, TGVI's rates will reflect a variable RDDA amortization. The rates generally are set to be equivalent to 90% of comparable electricity price. The RDDA amortization was approximately $12.4 million in 2005 and approximately $6.9 million in 2006. The RDDA has been amortized from approximately $87.9 million as at December 31, 2002 to approximately $41.4 million as at December 31, 2006.

In November 2005, TGVI received BCUC approval of a Negotiated Settlement (the ''TGVI Settlement'') of 2006-2007 revenue requirements. The two-year TGVI Settlement, which took effect as of January 1, 2006, establishes a process for determining TGVI's delivery charges and offers incentive mechanisms for improved operating efficiencies. TGVI is permitted to retain 100% of earnings from savings of controllable operating and maintenance expenses from forecast and TGVI will not be provided any relief from increased controllable operating and maintenance expenses. The operating and maintenance expense forecast is based on actual 2005 costs, adjusted for changes outside of management's control, expected savings from operational synergies with TGI, 66% of inflation and customer growth. TGVI has managed actual operating and maintenance expenses close to forecast. In January 2007, TGVI made an application to the BCUC to extend the TGVI Settlement to 2009.

Competition

Natural gas has maintained a competitive advantage in terms of pricing when compared with alternative sources of energy in British Columbia, despite the significant increase in natural gas commodity prices since 1999. Regulated electricity prices in British Columbia are currently set based on the historical average production costs which are lower than the market price of electricity. Current regulated electricity prices are only marginally higher than comparable, market-based natural gas prices. A further sustained increase in natural gas commodity prices could cause natural gas in British Columbia to be priced at or above electricity, thereby decreasing the use of natural gas by customers.

Hedging

Derivative instruments are used to hedge exposure to fluctuations in natural gas prices and interest rates. The majority of the natural gas supply contracts have floating, rather than fixed, prices. Natural gas price swap contracts are used to fix the effective purchase price. Any differences between the effective cost of natural gas purchased and the price of natural gas included in rates are recorded in deferral accounts (MCRA and CCRA) and, subject to BCUC approval, passed through to customers in future rates.

TGI's short-term borrowings and variable rate long-term debt are exposed to interest rate risk which TGI manages through the use of interest rate derivatives. Any resulting gains or losses are recorded in interest rate deferral accounts and, subject to BCUC approval, passed through to consumers in future rates.

Financing Arrangements

Debentures

Terasen has issued and outstanding two series of unsecured medium term note debentures (''Terasen MTN Debentures''), which are governed by a Trust Indenture dated November 21, 2001 between Terasen (as successor to BC Gas Inc.) and CIBC Mellon Trust Company (the ''2001 Indenture''), as amended and supplemented by a First Series Supplement dated November 22, 2001 (the ''First Supplement''). The aggregate principal amount of debentures that may be issued under the 2001 Indenture is unlimited, subject to the restrictions set forth therein. As at September 30, 2006, Terasen had issued and outstanding $200 million principal amount of 6.30% Series 1 MTN Debentures due December 1, 2008 and $125 million principal amount of 5.56% Series 3 MTN Debentures due September 15, 2014. The First Supplement includes a positive covenant of Terasen that, so long as any MTN Debentures remain outstanding, it shall not create, assume, issue or otherwise incur or become liable for any Funded Indebtedness unless immediately thereafter the Funded Indebtedness of Terasen and its subsidiaries will not be in excess of 75% of Total Consolidated Capitalization. Funded Indebtedness means indebtedness that matures more than 18 months after such indebtedness was incurred, except for non-recourse debt to finance specific assets or subordinated debt. Total Consolidated Capitalization means the sum of (a) the principal amount of consolidated Funded Indebtedness of Terasen and its subsidiaries, (b) the total capital of Terasen, (c) the principal amount of all subordinated debt of Terasen, (d) the sum of consolidated contributed or capital surplus and retained earnings of Terasen, and (e) provision for future income taxes of Terasen.

On April 19, 2000, Terasen issued $125 million of 8.0% unsecured capital securities (the ''Capital Securities'') with a term to maturity of 40 years. The Capital Securities were issued under the terms of a Trust Indenture dated April 19, 2000 between Terasen (as successor to BC Gas Inc.) and CIBC Mellon Trust Company (the ''2000 Indenture''). Terasen may elect to defer payments on the Capital Securities for extension periods not exceeding 10 consecutive semi-annual periods. Terasen may settle such deferred payments in either cash or common shares and has the option to settle principal at maturity through the issuance of common shares at 90% of their market price. The 2000 Indenture provides that if Terasen defers any interest payment on the Capital Securities, it is not permitted to pay dividends on, or purchase or redeem, its common shares for so long as such interest payments are deferred. The Capital Securities are exchangeable at the option of the holder on or after April 19, 2010 for common shares of Terasen at a price equal to the greater of $1 per share and 90% of the market price.Terasen may, at its option, redeem the Capital Securities in whole at a redemption price which, if the Capital Securities are redeemed prior to April 19, 2010, is equal to the greater of Canada Yield Price (as defined in the 2000 Indenture) and 100% of the principal amount of the Capital Securities, together in each case with accrued and unpaid interest, or if the Capital Securities are redeemed on or after April 19, 2010, at a price that is equal to 100% of the principal amount outstanding plus any accrued and unpaid interest.

TGI has issued and outstanding unsecured debentures and medium-term note debentures which are governed by a Trust Indenture dated November 1, 1977 between TGI (as successor to Inland Natural Gas Co. Ltd.) and CIBC Mellon Trust Company (as successor to National Trust Company, Limited), as amended and supplemented (the ''1977 Indenture''). The aggregate principal amount of debentures that may be issued under the 1977 Indenture is unlimited, subject to the restrictions set forth therein. As at September 30, 2006, TGI had issued and outstanding $59.9 million principal amount of 10.75% debentures, Series E due June 8, 2009, and an aggregate of $1,008 million of medium-term note debentures with fixed rates of interest ranging from 5.55% to 6.95% or with floating interest rates, and maturities of not less than one year. The Fourth Supplemental Indenture dated June 1, 1989 and the Tenth Supplemental Indenture dated November 15, 1993 contain certain restrictions on the ability of TGI to issue any debt securities with maturities of more than 18 months, unless certain financial tests are met and subject to certain exceptions.

TGI also has issued and outstanding Series A and Series B Purchase Money Mortgages (the ''Purchase Money Mortgages''), which are secured equally and rateably by a first fixed and specific mortgage and charge on TGI's gas distribution system in the lower mainland of British Columbia that was acquired by TGI from BC Hydro. The Purchase Money Mortgages are governed by a Trust Indenture dated December 3, 1990 between TGI (as successor to B.C. Gas Inc.), Inland Energy Corp. and CIBC Mellon Trust Company (as successor to National Trust Company), as amended and supplemented (the ''1990 Indenture''). The aggregate principal amount of Purchase Money Mortgages that may be issued under the 1990 Indenture is limited to $425 million. As at September 30, 2006, TGI had issued and outstanding $74.9 million aggregate principal amount of 11.80% Series A Purchase Money Mortgages due September 30, 2015 and $200 million aggregate principal amount of $10.30% Series B Purchase Money Mortgages due September 30, 2016.

Credit Facilities

On May 5, 2006, Terasen entered into a Credit Agreement with The Toronto-Dominion Bank, as administrative agent, and the institutions named therein, as lenders (the ''Terasen Credit Agreement''). The Terasen Credit Agreement provides a committed $450 million revolving credit facility which matures on May 5, 2009. The interest rate payable on advances under the credit facility varies based on the type of advance. The credit facility can be used for Terasen's general corporate purposes. The Terasen Credit Agreement contains customary representations and warranties and positive and negative covenants, including a requirement that Terasen maintain a total debt-to-capitalization ratio not higher than 0.75:1 and an interest coverage ratio not less than 1.25:1. The Terasen Credit Agreement contains customary events of default.

On June 21, 2006, TGI entered into a Credit Agreement with Canadian Imperial Bank of Commerce, as administrative agent, lead arranger and sole bookrunner, The Bank of Nova Scotia, as syndication agent and the other lenders identified therein (the ''TGI Credit Agreement''). The TGI Credit Agreement provides a committed $500 million revolving credit facility. The interest rate payable on accommodations under the TGI Credit Agreement varies based on the type of accommodation. The facility can be used for refinancing indebtedness of TGI and for general corporate purposes, including as back-up for TGI's commercial paper program. The TGI Credit Agreement is extendible annually for an additional 365 days at the option of the lenders and matures on June 21, 2009. The TGI Credit Agreement contains customary representations and warranties and positive and negative covenants, including a requirement that TGI maintain a total debt to capitalization ratio not higher than 0.75:1. The TGI Credit Agreement contains customary events of default.

On January 13, 2006, TGVI entered into a Credit Agreement with Royal Bank of Canada, as administrative agent, RBC Capital Markets, as lead arranger and bookrunner, National Bank Financial, as syndication agent, and The Bank of Nova Scotia, as documentation agent, and the other lenders identified therein (the ''TGVI Credit Agreement''). The TGVI Credit Agreement provides for a five-year unsecured, committed, revolving credit facility of $350 million. A portion of the facility was used to refinance TGVI's term facility of $209.5 million. While the borrowings under this facility are short-term bankers' acceptances, the underlying credit facility on which the advances are provided is committed through to January 2011 and the borrowings are primarily to support the longer-term rate base assets of TGVI. The facility can be used for refinancing indebtedness of TGVI and for general corporate purposes, including for capital expenditures. The TGVI Credit Agreement contains customary representations and warranties and positive and negative covenants, including a requirement that TGVI maintain a ratio of institutional indebtedness-to-total capitalization not higher than 0.70:1 and a ratio of earnings to interest expense of at least 2.0:1. The TGVI Credit Agreement contains customary events of default, including a cross default under the VINGPA and certain other agreements.

Concurrently with the TGVI Credit Agreement, TGVI also entered into a $20 million, seven-year unsecured, committed, non-revolving credit facility with Royal Bank of Canada which is to be used only for purposes of funding up to 65% of each repayment of the Repayable Contributions under the PCEPA. The terms of this facility are substantially similar to those contained in the TGVI Credit Agreement. This facility ranks junior to repayment of the Class B Instruments held by Terasen. See ''— Terasen Gas (Vancouver Island) Inc. — Vancouver Island Natural Gas Pipeline Agreement'' above.

The following summary outlines the credit facilities of Terasen, TGI and TGVI as at September 30, 2006.

(in millions of dollars)	Terasen	TGI	TGVI	Total
Total credit facilities	450	500	370	1,320
Credit facilities utilized Borrowings	176	207	284	667
Letters of credit outstanding	73	43.6	—	116.6
Credit facilities available	201	249.4	86	536.4

ACQUISITION AGREEMENT

Fortis has entered into the Acquisition Agreement dated February 26, 2007 with 3211953 Nova Scotia Company (''3211953'') and Kinder Morgan for the purchase of all of the issued and outstanding shares of Terasen. The Acquisition Agreement provides that prior to the closing of the Acquisition, Kinder Morgan will transfer all of the issued and outstanding shares of Terasen which it currently owns to 3211953. In this section of the Prospectus, ''Vendor'' means Kinder Morgan prior to such transfer, and 3211953 upon the occurrence of such transfer. The Acquisition is not a transaction with an informed person, associate or affiliate of Fortis (as such terms are defined in National Instrument 51-102 — *Continuous Disclosure Obligations*).

Purchase Price

The purchase price under the Acquisition Agreement is $3.7 billion, including the assumption of approximately $2.3 billion of consolidated indebtedness of Terasen and the balance in cash. The cash portion of the purchase price (the ''Cash Purchase Price'') will be equal to $1.801 billion minus the unconsolidated indebtedness of Terasen outstanding on the closing of the Acquisition, which management of Fortis expects to be at least $450 million.

Representations and Warranties

Under the Acquisition Agreement, the Vendor and Fortis have made various representations and warranties. The Vendor's representations and warranties relate to, among other things, organization and status, capitalization, title, authority to enter into the Acquisition Agreement and no conflict, consents and approvals, absence of defaults under constating documents or material agreements, absence of certain material changes or events since December 31, 2006, employment matters, pension and employee benefits, securities regulatory filings, reports and financial statements, compliance with laws, possession of permits, restrictions on business activities, legal or regulatory proceedings, material contracts, tax matters, intellectual property, books and records, environmental matters, insurance, brokerage fees, management controls and no U.S. operations. Fortis' representations and warranties relate to, among other things, organization and status, authority to enter into the Acquisition Agreement and no conflict, consents and approvals, availability of financing, legal proceedings, no knowledge of a breach of the Vendor's representations or warranties or disclosure, brokerage fees, nature of investment and independent investigation.

Covenants

The Vendor and Fortis have made covenants relating to the closing of the Acquisition and related matters. In particular, the Vendor has agreed to the following during the period from the date of the Acquisition Agreement until the closing:

(a) Conduct of Business. Terasen and Terasen Gas will carry on business in the usual and ordinary course of business consistent with past practices, maintain material properties and assets in good repair and use commercially reasonable efforts to preserve present business organizations, officers, employees, customers and suppliers;

(b) Dividends. Terasen and Terasen Gas will not declare or pay any dividends on capital stock, except for dividends (i) by TGI or TGVI to Terasen up to an amount such that, immediately after giving effect to such payment, TGI or TGVI, as the case may be, will have a ratio of common equity to total capital of at least 35% and 40%, respectively, and (ii) by Terasen up to but not exceeding the aggregate amount of dividends received by it from TGI and TGVI.

(c) Capital Expenditures. Terasen and Terasen Gas will not make or commit to make any capital expenditures in excess of $5 million, other than (i) to replace or repair damaged or destroyed facilities, (ii) budgeted capital expenditures, (iii) expenditures approved by the BCUC, or (iv) expenditures required by law;

(d) Employees and Benefits. Terasen and Terasen Gas will not increase compensation or benefits for employees, except nominal increases for people who are not officers or directors made in the ordinary course of business consistent with past practice;

(e) Rates. Subject to applicable law, Terasen and Terasen Gas will not implement any changes in any rates or charges (other than changes under existing tariffs, rate schedules or performance-based rate-making arrangements authorized by the BCUC), standards of service or accounting, or execute any agreement relating thereto that could reasonably be expected to materially decrease the revenues of the business unit implementing the change;

(f) Borrowings. Terasen and Terasen Gas will not incur any indebtedness other than in the ordinary course of business and subject to the specified exceptions in the Acquisition Agreement;

(g) Pre-Closing Reorganization. Terasen will complete the Pre-Closing Reorganization prior to closing; and

(h) Discharge of Guarantees. The Vendor shall cause Terasen and Terasen Gas to be discharged from all obligations under certain guarantees by Terasen and Terasen Gas for the benefit of the petroleum transportation business of Terasen.

In addition, the Vendor and Fortis have agreed to use their reasonable efforts to obtain all material authorizations, consents, orders and approvals and to make all necessary filings with the relevant government authorities as required under the Acquisition Agreement.

Indemnities

Pursuant to the Acquisition Agreement, the Vendor has agreed, subject to certain limits, to indemnify and save harmless Fortis and its affiliates, and Fortis, subject to certain limits, has agreed to indemnify and save harmless the Vendor and its affiliates in respect of all losses sustained or incurred by the other resulting from (i) certain misrepresentations or breaches of warranty relating to title to the shares of Terasen and Terasen Gas, organization, corporate status, authority to enter into the Acquisition Agreement, and no breach of constating documents or any laws (the ''Title Warranties''), (ii) any breach of the covenants or obligations to be performed following the closing of the Acquisition contained in the Acquisition Agreement, (iii) the Pre-Closing Reorganization and the operations of the petroleum transportation business of Terasen, in the case of indemnification by the Vendor, and (iv) in the case of indemnification by Fortis, the operations of the Terasen and Terasen Gas businesses (provided that the facts giving rise to the losses do not constitute a breach of the representations and warranties of the Vendor). The indemnities provided by the Vendor or Fortis, as the case may be, with respect to breaches of covenants and obligations to be performed following the closing of the Acquisition are limited in that claims may only be made when (i) the losses suffered exceed $500,000 in each instance or (ii) the aggregate of all such losses exceeds 2.5% of the Cash Purchase Price and, in the latter case, only to the extent of such excess. The maximum amount that can be claimed by Fortis under the indemnity provisions of the Acquisition Agreement is limited to 10% of the Cash Purchase Price with respect to claims for any breach of the covenants or obligations of the Vendor following the closing of the Acquisition, and 100% of the Cash Purchase Price with respect to claims for breaches of the Title Warranties. The maximum amount that can be claimed by the Vendor under the indemnity provisions of the Acquisition Agreement is limited to 10% of the Cash Purchase Price with respect to claims for any breach of the covenants or obligations of Fortis following the closing of the Acquisition contained in the Acquisition Agreement and 100% of the Cash Purchase Price with respect to claims for breaches of the Title Warranties. Claims sustained or incurred by Fortis as a result of the Pre-Closing Reorganization and the operations of the petroleum transportation business of Terasen, and by the Vendor in respect of the operations of the Terasen and Terasen Gas businesses, are not subject to any minimum or maximum limits.

Closing Conditions

The Acquisition Agreement provides that the obligation of Fortis or the Vendor to complete the Acquisition is subject to the fulfillment of a number of conditions, each of which may be waived by such party, including the following:

(a) Accuracy of Representations and Warranties. The representations and warranties of the other party under the Acquisition Agreement are true and correct as of the date of the Acquisition Agreement and as of the closing date (except for representations and warranties made as of an earlier date, which must be true and correct as of such earlier date), except where the failure of such representations and warranties to be true and correct would not be reasonably likely, individually or in the aggregate, to have a Material Adverse Effect on the other party. ''Material Adverse Effect'' is defined in the Acquisition Agreement to mean any adverse and material change relating to the condition (financial or otherwise), results of operations or business of either party that is material to such party and its subsidiaries, taken as a whole, or in the case of the Vendor, that is material to Terasen and Terasen Gas, taken as a whole;

(b) Performance of Covenants. The other party has performed and complied with its material covenants and agreements under the Acquisition Agreement in all material respects;

(c) Legal Proceedings. There must not be any decree, injunction or ruling that would prevent or otherwise make the Acquisition illegal;

(d) Consents and Approvals. Each party has received the governmental and regulatory consents and approvals required to be obtained by it under the Acquisition Agreement. The regulatory approvals that must be obtained prior to the closing of the Acquisition include:

  (i) approval by the BCUC of the transfer of the shares of Terasen to Fortis or a subsidiary of Fortis pursuant to the *Utilities Commission Act* (British Columbia); and

  (ii) one of the following has occurred: (i) an advance ruling certificate has been issued in respect of the Acquisition pursuant to section 102 of the *Competition Act* (Canada) (the ''Competition Act''); (ii) the parties have received written advice that the Commissioner has concluded that she does not have sufficient grounds to initiate proceedings before the Competition Tribunal to challenge the Acquisition under the merger provisions of the Competition Act; or (iii) any applicable waiting period pursuant to section 123 of the Competition Act has expired or been earlier terminated or waived.

(e) Pre-Closing Reorganization. The Pre-Closing Reorganization has been completed.

Termination

The Acquisition Agreement may be terminated by Fortis or the Vendor at any time prior to closing in certain circumstances, including:

(a) the mutual agreement of Fortis and the Vendor;

(b) if the other party has not satisfied the conditions that its representations and warranties under the Acquisition Agreement be true and correct and that it has performed in all material respects the material covenants and agreements required to be performed by it prior to the closing date, and such condition has not been waived on or before the closing date by the party wishing to terminate;

(c) if a government authority issues a final order or injunction restraining or prohibiting the Acquisition;

(d) if prior to the closing, the other party provides additional information disclosing facts that would constitute a breach of such other party's representations and warranties under the Acquisition Agreement and such breach would have a Material Adverse Effect on the party wishing to terminate the Acquisition Agreement, if notice of termination is provided within 10 days of receipt of the relevant information; or

(e) if the closing has not occurred on or before November 30, 2007, unless the failure to close by such date is due to the party wishing to terminate the Acquisition Agreement not having fulfilled its obligations under the agreement.

Kinder Morgan Guarantee

Pursuant to the Acquisition Agreement, Kinder Morgan has irrevocably and unconditionally guaranteed the full and complete performance by 3211953 of all of the obligations of 3211953 under the Acquisition Agreement, such guarantee to be effective upon the transfer by Kinder Morgan of all of the issued and outstanding shares of Terasen to 3211953 prior to the closing of the Acquisition.

FINANCING OF THE ACQUISITION

For purposes of financing the Acquisition, on February 26, 2007, Fortis obtained a commitment letter from Canadian Imperial Bank of Commerce providing for an aggregate of $1.425 billion non-revolving term credit facilities in favour of Fortis consisting of a facility in the amount of $925 million (''Facility A'') and a facility in the amount of $500 million (''Facility B'') (together with ''Facility A'', the ''Credit Facilities''). The Credit Facilities would be sufficient, if necessary, to fund the full Cash Purchase Price for the Acquisition.

The Credit Facilities are unsecured single borrowing credit facilities to be used by Fortis, to the extent required, to finance the payment of the Cash Purchase Price for the Acquisition. Any amount not drawn down under the Credit Facilities will be cancelled after the initial borrowing. Facility A and Facility B will mature on the second and third anniversary of the initial extension of credit under Facility A and Facility B, respectively.

The credit agreement pursuant to which the Credit Facilities will be extended (the ''Credit Agreement'') will contain certain prepayment options in favour of Fortis and certain prepayment obligations upon the occurrence of certain events. In particular, the net proceeds of any equity or debt offering by Fortis (other than certain permitted equity or debt offerings for strategic investments) will be required to be used to prepay the Credit Facilities and any prepayment under the Credit Facilities may not be re-borrowed. Fortis may prepay any balance outstanding under the Credit Facilities without penalty, provided that any such prepayment is in an amount of at least $10 million and subject to any breakage costs being for the account of Fortis.

The Credit Agreement will contain customary representations and warranties and affirmative and negative covenants of Fortis. As part of these covenants, Fortis will be required to maintain a consolidated debt to consolidated capitalization ratio of not more than 0.85:1 after the date of the Acquisition Agreement until the first anniversary of the closing of the Acquisition and 0.75:1 at any time thereafter. These ratios will reduce automatically to 0.75:1 and 0.70:1 at any time during those respective periods, if Fortis has received, free from any escrow conditions, aggregate proceeds from equity issuances of at least $700 million. The Credit Agreement will contain customary events of default. In addition, any failure by Fortis to maintain an investment grade credit rating will constitute an event of default under the Credit Agreement.

Customary fees are payable by Fortis in respect of the Credit Facilities and amounts outstanding under the Credit Facilities will bear interest at market rates.

The net proceeds from the Offering will be used to reduce the amount of the Credit Facilities. Fortis expects that the remainder of Credit Facilities will be repaid from the proceeds of one or more offerings of Common Shares, preferred shares and/or long-term debt.

CAPITALIZATION

The following table sets out the consolidated capitalization of the Corporation as at September 30, 2006 and after giving effect to the Offering (assuming no exercise of the Over-Allotment Option), the issue of 5,170,000 Common Shares on January 18, 2007, the issue of $110 million aggregate principal amount of senior unsecured debentures by FortisAlberta on January 3, 2007, the drawdown of $139.3 million under the Credit Facilities and completion of the Acquisition. The financial information set out below should be read in conjunction with the unaudited consolidated financial statements incorporated by reference into the Prospectus and the unaudited *pro forma* consolidated financial statements included in the Prospectus and, in each case, the notes thereto.

	Outstanding at September 30, 2006	*Pro forma* outstanding at September 30, 2006
	(in millions of dollars)	
Total debt (net of cash)	2,296.1	4,863.0(2)
Preference shares (1)	319.5	319.5
Shareholders' equity		
Securities offered hereby	Nil	974.2
Common shares	822.5	968.1(2)
Preference shares	122.5	122.5
Contributed surplus	4.3	4.3
Equity portion of convertible debentures	1.4	1.4
Foreign currency translation adjustment	(17.8)	(17.8)
Retained earnings	472.2	472.2
Total capitalization	4,020.7	7,707.4

(1) These preference shares are classified as long-term liabilities in the financial statements of Fortis.

(2) After giving effect to the Offering (assuming no exercise of the Over-Allotment Option), the issue of 5,170,000 Common Shares on January 18, 2007, the issue of $110 million aggregate principal amount of senior unsecured debentures by FortisAlberta on January 3, 2007, the drawdown of $139.3 million under the Credit Facilities and completion of the Acquisition.

PRICE RANGE AND TRADING VOLUME OF THE COMMON SHARES

The outstanding Common Shares of Fortis are traded on the TSX under the trading symbol ''FTS''. The following table sets forth the reported high and low trading prices and trading volumes of the Common Shares as reported by the TSX from January 2006.

Period	High	Low	Volume
2006			
January	$24.60	$22.76	3,981,812
February	23.76	22.00	7,087,013
March	23.50	21.65	6,775,211
April	22.95	20.89	3,813,271
May	24.84	20.36	7,241,148
June	24.60	21.16	3,707,157
July	23.40	21.99	2,328,812
August	25.48	22.15	6,214,513
September	25.40	24.00	2,553,872
October	25.65	24.12	7,362,894
November	28.74	25.15	6,234,745
December	30.00	28.01	2,793,265
2007			
January	30.00	26.72	6,030,480
February	27.96	26.00	8,612,015
March 1 to 6	26.81	26.16	2,204,514

On March 6, 2007, the closing price of the Common Shares was $26.80.

SHARE CAPITAL OF FORTIS

The authorized share capital of the Corporation consists of an unlimited number of Common Shares, an unlimited number of First Preference Shares issuable in series and an unlimited number of Second Preference Shares issuable in series, in each case without nominal or par value. As at March 6, 2007, 109,407,397 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 were issued and outstanding.

DIVIDEND POLICY

Dividends on the Common Shares are declared at the discretion of the Board of Directors of Fortis. The Corporation paid cash dividends on its Common Shares of $0.67 in 2006, $0.59 in 2005 and $0.54 in 2004. On December 7, 2006, the Fortis Board of Directors declared a first quarter dividend of $0.19 per Common Share, payable on March 1, 2007 to holders of record on February 2, 2007. On February 8, 2007, Fortis announced that its Board of Directors had declared a second quarter dividend of $0.21 per Common Share, payable on June 1, 2007 to holders of record on May 4, 2007. This dividend represents an increase of 10.5% in the quarterly Common Share dividend of the Corporation, which is the second increase in twelve months. Fortis has increased its annual dividend paid for 34 consecutive years.

Regular quarterly dividends at the prescribed annual rate have been paid on all of the First Preference Shares, Series C, the First Preference Shares, Series E and the First Preference Shares, Series F, respectively. On December 7, 2006, the Fortis Board of Directors also declared a first quarter dividend on each such series of First Preference Shares in accordance with the applicable prescribed annual rate, in each case payable on March 1, 2007 to holders of record on February 2, 2007.

DESCRIPTION OF COMMON SHARES

Dividends

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

Liquidation, Dissolution or Winding-Up

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

Voting Rights

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

DETAILS OF THE OFFERING

Subscription Receipts

The Subscription Receipts will be issued on the Closing Date (as defined below) pursuant to the Subscription Receipt Agreement. The Escrowed Funds will be delivered to and held by the Escrow Agent and invested in short-term interest bearing or discount debt obligations issued or guaranteed by the Government of Canada or a province, or one or more of the five largest Canadian chartered banks, provided in all cases that such obligation is rated at least R1 (middle) by DBRS Limited or an equivalent rating from an equivalent rating service, pending satisfaction of the Release Conditions.

If the Release Conditions are satisfied prior to 5:00 p.m. (Toronto time) on November 30, 2007, the Corporation will forthwith execute and deliver a notice of satisfaction and will issue and deliver to the Escrow Agent one Common Share for each Subscription Receipt then outstanding (subject to any applicable adjustment). The Common Shares will be available for delivery commencing on the second business day after the delivery of such notice. The holders of Subscription Receipts will receive, without payment of any additional consideration, one Common Share for each Subscription Receipt held plus an amount equal to the dividends declared on the Common Shares by the Corporation, if any, for which record dates have occurred during the period from the Closing Date to the date of issuance of the Common Shares in respect of the Subscription Receipts. Forthwith upon the Release Conditions being satisfied and the required notice being delivered to the Escrow Agent, the Escrowed Funds, together with interest earned and income generated thereon, will be released to Fortis.

In the event that the Release Conditions are not satisfied, or if the Acquisition Agreement is terminated, prior to the Termination Time, holders of Subscription Receipts shall, commencing on the second business day following the Termination Time, be entitled to receive from the Escrow Agent an amount equal to the full subscription price thereof plus their *pro rata* share of the interest earned or income generated on such amount. The Escrowed Funds will be applied toward payment of such amount.

In the event that, prior to the date of issue of a Common Share in respect of a Subscription Receipt, there is a subdivision, consolidation, reclassification or other change of the Common Shares or any reorganization, amalgamation, merger or sale of all or substantially all of the Corporation's assets, the Subscription Receipts will thereafter evidence the right of the holder to receive the securities, property or cash deliverable in exchange for or on the conversion of or in respect of the Common Shares to which the holder of a Common Share would have been entitled immediately after such event. Similarly, any distribution to all or substantially all of the holders of Common Shares of rights, options, warrants, evidences of indebtedness or assets will result in an adjustment in the number of Common Shares to be issued to holders of Subscription Receipts. Alternatively, such securities, evidences of indebtedness or assets may, at the option of the Corporation, be issued to the Escrow Agent and delivered to holders of Subscription Receipts on exercise thereof. In case the Corporation, after the Closing Date, takes any action affecting the Common Shares, other than the actions described above, which, in the reasonable opinion of the directors of the Corporation, would materially affect the rights of the holders of Subscription Receipts and/or the rights attached to the Subscription Receipts, then the number of Common Shares which are to be received pursuant to the Subscription Receipts shall be adjusted in such manner, if any, and at such time as the directors of the Corporation may, in their discretion, reasonably determine to be equitable to the holders of Subscription Receipts in such circumstances. The adjustments provided for in this paragraph are cumulative and shall apply to successive subdivisions, consolidations, changes, distributions, issues or other events resulting in any adjustment.

Under the Subscription Receipt Agreement, purchasers of Subscription Receipts will have a contractual right of rescission entitling the purchaser to receive the amount paid for the Subscription Receipts upon surrender of the Subscription Receipts or the Common Shares, as applicable, if the Prospectus and any amendment contains a misrepresentation, as such term is defined in the *Securities Act* (Ontario), provided such remedy for rescission is exercised within 180 days of the Closing Date.

Subject to applicable law, the Corporation will be entitled to purchase the Subscription Receipts in the open market or by private agreement or otherwise.

Subscriptions for the Subscription Receipts will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that the closing of the Offering will take place on or about March 15, 2007, or such other date as may be agreed upon by the Corporation and the Underwriters, but not later than April 18, 2007 (the ''Closing Date''). The Subscription Receipts will be issued in ''book entry only'' form and must be purchased or transferred through a registered dealer who is a CDS participant (a ''CDS Participant''). The Corporation will cause a global certificate or certificates representing newly issued Subscription Receipts to be delivered to and registered in the name of CDS or its nominee. All rights of Subscription Receipt holders must be exercised through, and all payments or other money to which such holders are entitled will be made or delivered by, CDS or the CDS Participant through which the holders hold such Subscription Receipts. Each person who acquires Subscription Receipts will receive only a customer confirmation of purchase from the registered dealer from or through which the Subscription Receipts are acquired in accordance with the practices and procedures of that registered dealer. The practices of registered dealers may vary, but generally customer confirmations are issued promptly after execution of a customer order. CDS is responsible for establishing and maintaining book entry accounts for its CDS Participants having interests in the Subscription Receipts.

The Subscription Receipt Agreement provides for modifications and alternations to the Subscription Receipts issued thereunder by way of an extraordinary resolution. The term ''extraordinary resolution'' is defined in the Subscription Receipt Agreement to mean, in effect, a resolution proposed at a meeting of holders of Subscription Receipts duly convened for that purpose and held in accordance with the Subscription Receipt Agreement at which there are present in person or by proxy at least two holders of Subscription Receipts entitled to receive more than 25% of the aggregate number of Common Shares issuable upon the exchange of the Subscription Receipts which could be received pursuant to all the then-outstanding Subscription Receipts and passed by the affirmative votes of holders of Subscription Receipts entitled to receive not less than 66⅔% of the aggregate number of such Common Shares which could be received pursuant to all the then-outstanding Subscription Receipts represented at the meeting and voted on the poll upon such resolution.

The holders of Subscription Receipts are not shareholders of the Corporation. Holders of Subscription Receipts are entitled only to receive Common Shares on the exchange of their Subscription Receipts and an amount equal to the dividends declared on the Common Shares by the Corporation, if any, for which record dates have occurred during the period from the Closing Date to the date of issuance of the Common Shares in respect of the Subscription Receipts, or to require the Corporation to purchase the Subscription Receipts at the issue price and to be paid a *pro rata* share of interest earned or income generated thereon as described above.

CHANGES IN SHARE AND LOAN CAPITAL STRUCTURE

The following describes the changes in the share and loan capital structure of Fortis since September 30, 2006:

- During the period from October 1, 2006 up to and including March 6, 2007, Fortis issued an aggregate of 531,345 Common Shares pursuant to the Corporation's Consumer Share Purchase Plan, Dividend Reinvestment Plan, Employee Share Purchase Plan and upon the exercise of options granted pursuant to the 2002 Stock Option Plan, the Executive Stock Option Plan and the Director Stock Option Plan for aggregate consideration of approximately $10.2 million.
- On October 30, 2006, Fortis made a draw down of $20.0 million under its credit facilities for the purpose of funding the acquisition by Fortis Properties of four hotels located in Alberta and British Columbia. See ''Recent Developments''.
- On November 7, 2006, Fortis made a draw down under its credit facilities of an amount of US$48.6 million for the purpose of funding, on an interim basis, the acquisition of approximately 16% of the outstanding Class A Ordinary Shares of Caribbean Utilities. See ''Recent Developments''.
- On November 7, 2006, Fortis issued, by way of private placement, US$40 million aggregate principal amount of Debentures. The Debentures bear interest at an annual rate of 5.5% and mature on November 7, 2016. The Debentures may be redeemed by Fortis at any time on or after November 7, 2011 and are convertible into Common Shares at the option of the holder at any time prior to their maturity at US$29.11 per share. The Debentures are subordinated to all other indebtedness of Fortis, other than subordinated indebtedness ranking equally with the Debentures. On November 7, 2006, Fortis repaid US$40 million owing under its credit facilities from the proceeds of the private placement.
- On January 3, 2007, FortisAlberta issued $110 million aggregate principal amount of senior unsecured debentures bearing interest at a rate of 4.99% per annum, payable semi-annually, due January 2047. The proceeds of the offering were primarily used to repay indebtedness under a credit facility.
- On January 18, 2007, the Corporation completed the public offering of 5,170,000 Common Shares at a price of $29.00 per share for gross proceeds of $149,930,000. As a result, shareholders' equity in the Corporation increased by approximately $145.6 million, being the gross proceeds of the offering net of tax-effected issue costs, to a total of $1.55 billion. Fortis used a portion of the proceeds of this offering to repay approximately $84.5 million owing under its credit facilities.

USE OF PROCEEDS

The proceeds to the Corporation from the Offering, after deducting the fee payable to the Underwriters and estimated expenses of the Offering, are expected to be $959,710,000, assuming no exercise of the Over-Allotment Option. If the Over-Allotment Option is exercised in full, the estimated proceeds of the Offering, after deducting the fee payable to the Underwriters and estimated expenses of the Offering, are expected to be $1,103,854,000.

The net proceeds of the Offering, together with funds to be advanced pursuant to the Credit Facilities, will be used to finance the Cash Purchase Price for the Acquisition. See ''Financing of the Acquisition'' and ''Acquisition Agreement''. The gross proceeds from the sale of the Subscription Receipts will be held in escrow pending the satisfaction of the Release Conditions. See ''Details of the Offering''.

PLAN OF DISTRIBUTION

Pursuant to an underwriting agreement dated February 27, 2007 (the ''Underwriting Agreement'') between Fortis and the Underwriters, Fortis has agreed to issue and sell, and the Underwriters have agreed to purchase, as principals, on the Closing Date, 38,500,000 Subscription Receipts offered hereby at the Offering Price of $26.00 per Subscription Receipt, subject to compliance with all the necessary legal requirements and to the conditions contained in the Underwriting Agreement. The Offering Price and other terms of the Offering were determined by negotiation between the Corporation and the Underwriters.

Pursuant to the Underwriting Agreement, the Corporation has granted the Underwriters an over-allotment option (the ''Over-Allotment Option''), exercisable at any time until 30 days following the closing of the Offering, to purchase up to an additional 5,775,000 Subscription Receipts at the Offering Price. The Over-Allotment Option is exercisable in whole or in part only for the purpose of covering over-allotments, if any. This Prospectus also qualifies the grant of the Over-Allotment Option and the distribution of the securities issuable on the exercise of the Over-Allotment Option.

The Underwriting Agreement provides that the Underwriters will be paid a fee of $40,040,000 (assuming no exercise of the Over-Allotment Option) ($1.04 per Subscription Receipt) in consideration for its services in connection with the Offering. One-half of the Underwriters' fee in respect of the Offering is payable on the Closing Date and the other half of the Underwriters' fee is payable only if the Release Conditions have been satisfied prior to the Termination Time and the required notice has been delivered to the Escrow Agent.

Pursuant to rules and policy statements of certain Canadian securities regulators, the Underwriters may not, at any time during the period ending on the date the selling process for the Subscription Receipts ends and all stabilization arrangements relating to the Subscription Receipts are terminated, bid for or purchase Subscription Receipts or Common Shares. The foregoing restrictions are subject to certain exceptions including (a) a bid for or purchase of Subscription Receipts or Common Shares if the bid or purchase is made through the facilities of the TSX, in accordance with the Universal Market Integrity Rules of Market Regulation Services Inc., (b) a bid or purchase on behalf of a client, other than certain prescribed clients, provided that the client's order was not solicited by the Underwriter, or if the client's order was solicited, the solicitation occurred before the commencement of a prescribed restricted period, and (c) a bid or purchase to cover a short position entered into prior to the commencement of a prescribed restricted period. The Underwriters may engage in market stabilization or market balancing activities on the TSX where the bid for or purchase of the Subscription Receipts or the Common Shares is for the purpose of maintaining a fair and orderly market in the Subscription Receipts or Common Shares, subject to price limitations applicable to such bids or purchases. Such transactions, if commenced, may be discontinued at any time.

The Subscription Receipts and the Common Shares for which such Subscription Receipts may be exchanged have not been, and will not be, registered under the United States *Securities Act of 1933*, as amended (the ''1933 Act'') or any state securities laws and, subject to certain exceptions, may not be offered, or delivered, directly or indirectly, or sold in the United States except in certain transactions exempt from the registration requirements of the 1933 Act and in compliance with any applicable state securities laws. The Underwriters have agreed that they will not offer or sell the Subscription Receipts within the United States, its territories, its possessions and other areas subject to its jurisdiction or to, or for the account or benefit of, a ''U.S. person'' (as defined in Regulation S under the 1933 Act), except in accordance with the Underwriting Agreement pursuant to an exemption from the registration requirements of the 1933 Act provided by Rule 144A thereunder and in compliance with applicable state securities laws. In addition, until 40 days after the commencement of the Offering, an offer or sale of Subscription Receipts or Common Shares within the United States by any dealer (whether or not participating in the Offering) may violate the registration requirements of the 1933 Act if such offer is made otherwise than in reliance on Rule 144A.

The obligations of the Underwriters under the Underwriting Agreement are several and may be terminated at their discretion in certain circumstances, including upon the occurrence of certain stated events. The Underwriters are, however, obligated to take up and pay for all of the Subscription Receipts if any are purchased under the Underwriting Agreement. Under the terms of the Underwriting Agreement, the Underwriters may be entitled to indemnification by the Corporation against certain liabilities, including liabilities for misrepresentation in the Prospectus.

CIBCWM is an affiliate of a Canadian chartered bank that has agreed to extend credit facilities to the Corporation in connection with financing the Acquisition. CIBCWM is also acting as financial advisor to Fortis in connection with the Acquisition and receiving a fee therefor. In addition, each of CIBCWM, Scotia Capital, TD Securities, BMO Nesbitt Burns, RBCDS, NB Financial and HSBC Securities is a subsidiary of a Canadian chartered bank that has, either solely or as a member of a syndicate of financial institutions, extended credit facilities to the Corporation and/or its subsidiaries (the ''Existing Facilities''). Consequently, the Corporation may be considered a ''connected issuer'' of these Underwriters within the meaning of applicable securities legislation. None of these Underwriters will receive any direct benefit from the Offering other than the underwriting commission relating to the Offering. The decision to distribute the Subscription Receipts hereunder and the determination of the terms of the Offering were made through negotiation between the Corporation and the Underwriters. No bank had any involvement in such decision or determination. The proceeds of the Offering will be used to finance the Cash Purchase Price for the Acquisition and will not be used to repay the Existing Facilities. As at January 31, 2007, an aggregate of approximately $338 million was outstanding under the Existing Facilities. Fortis and/or its subsidiaries are in compliance with their respective obligations under the Existing Facilities. Since the execution of the Existing Facilities, no breach thereunder has been waived by the lenders thereunder. See ''Use of Proceeds''.

The TSX has conditionally approved the listing of the Subscription Receipts, as well as the Common Shares issuable on the exchange of the Subscription Receipts. Listing is subject to the Corporation fulfilling all of the requirements of the TSX on or before June 3, 2007.

CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Davies Ward Phillips & Vineberg LLP, counsel to the Corporation, and Stikeman Elliott LLP, counsel to the Underwriters, the following is a general summary of the principal Canadian federal income tax considerations generally applicable to a holder who acquires Subscription Receipts pursuant to the Offering who, within the meaning of the *Income Tax Act* (Canada) (the ''Tax Act''), and at all relevant times, is or is deemed to be resident in Canada, deals at arm's length with, and is not affiliated with, the Corporation and holds or will hold the Subscription Receipts and any Common Shares as capital property. Generally, the Subscription Receipts and the Common Shares will be considered to be capital property to a holder provided the holder does not hold the Subscription Receipts and the Common Shares in the course of carrying on a business and has not acquired them in a transaction or transactions considered to be an adventure in the nature of trade. Certain holders whose Common Shares might not otherwise qualify as capital property may, in certain circumstances, make the irrevocable election under subsection 39(4) of the Tax Act to have their Common Shares and every ''Canadian security'' (as defined in the Tax Act) owned by such holder in the taxation year of the election, and in all subsequent years, deemed to be capital property.

The Tax Act contains certain provisions (the ''Mark-to-Market Rules'') relating to securities held by certain financial institutions, registered securities dealers and corporations controlled by one or more of the foregoing. This summary does not take into account the Mark-to-Market Rules and taxpayers that are ''financial institutions'' as defined for the purpose of the Mark-to-Market Rules should consult their tax advisors. This summary is not applicable to a purchaser that is a ''specified financial institution'' or to a purchaser an interest in which is a tax shelter investment, as defined in the Tax Act. Such purchasers should consult their own tax advisors.

This summary is based upon the provisions of the Tax Act and regulations thereunder (the ''Regulations'') in force as at the date hereof, all specific proposals (the ''Tax Proposals'') to amend the Tax Act or Regulations that have been publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof and counsel's understanding of the current published administrative practices of the Canada Revenue Agency. This summary does not otherwise take into account or anticipate any changes in applicable law, whether by legislative, governmental or judicial decision or action, nor does it take into account provincial, territorial or foreign tax laws or considerations, which might differ significantly from those discussed herein.

This summary is of a general nature only and is not intended to be, nor should it be construed to be, legal or tax advice to any particular holder. This summary is not exhaustive of all possible income tax considerations under the Tax Act that may affect a holder. The income tax consequences of acquiring and disposing of Subscription Receipts and Common Shares will vary depending on a number of facts, including the legal status of the holder as an individual, corporation, trust or partnership. Accordingly, prospective holders of Subscription Receipts and Common Shares should consult their own tax advisors with respect to their particular circumstances and the tax consequences to them of holding and disposing of Subscription Receipts and Common Shares.

Exchange of Subscription Receipts

No gain or loss will be realized by a holder on the exchange of Subscription Receipts for Common Shares.

The cost of a Common Share issued to a holder of a Subscription Receipt acquired pursuant to the Offering will be equal to the cost of the Subscription Receipt to the holder. The adjusted cost base to the holder of Common Shares so acquired will be determined by averaging the cost of such Common Shares with the adjusted cost base of all other Common Shares owned at that time by the holder as capital property.

Termination of Subscription Receipts

As described above under ''Details of the Offering'', in the event that the Release Conditions are not satisfied or if the Acquisition Agreement is terminated prior to the Termination Time, holders of Subscription Receipts will be entitled to receive from the Escrow Agent an amount equal to the full subscription price thereof plus their *pro rata* share of the interest earned or income generated thereon. In that event, the amount of such interest or income received or receivable by a holder of Subscription Receipts (depending on the method regularly followed by the holder in computing income) must be included in the income of the holder.

Payment of Dividend Equivalent

As described above under ''Details of the Offering'', if Common Shares are issued in exchange for Subscription Receipts, and if dividends have been declared on the Common Shares of the Corporation to holders of record on a date during the period from the Closing Date to the date of such issuance of Common Shares, the Corporation will make a cash payment to the holders of Subscription Receipts in respect of each Subscription Receipt in an amount equal to the per share amount of such dividend. The equivalent to dividend amount, if any, paid to a holder of Subscription Receipts by the Corporation must be included in the income of the holder. Any amount so included will be taxed as ordinary income and not as a dividend and, as such, will not be subject to the gross-up and dividend tax credit rules described below.

Other Dispositions of Subscription Receipts

A disposition or deemed disposition by a holder of a Subscription Receipt, other than on the exchange of a Subscription Receipt for a Common Share or a disposition of the Subscription Receipt to the Corporation in the event the Release Conditions are not satisfied or if the Acquisition Agreement is terminated prior to the Termination Time, will generally result in the holder realizing a capital gain (or a capital loss) equal to the amount by which the proceeds of disposition exceed (or are less than) the aggregate of the holder's adjusted cost base thereof and any reasonable costs of disposition.

Dividends on Common Shares

Dividends received on Common Shares by a holder who is an individual will be included in the individual's income and will be subject to the gross-up and dividend tax credit rules normally applicable to taxable dividends received from taxable Canadian corporations, including the enhanced gross-up and dividend tax credit for ''eligible dividends'' paid after 2005. A dividend will be eligible for the enhanced gross-up and dividend tax credit if the paying corporation designates the dividend as an eligible dividend. There may be limitations on the ability of a corporation to designate dividends as eligible dividends. The Corporation has advised counsel that it intends to designate all dividends paid on the Common Shares as eligible dividends for these purposes. Taxable dividends received by an individual may give rise to alternative minimum tax under the Tax Act, depending on the individual's circumstances.

Dividends received on Common Shares by a holder that is a corporation will be included in income and normally will be deductible in computing such corporation's taxable income. However, the Tax Act will generally impose a 33⅓% refundable Part IV tax on such dividends received by a corporation that was, at any time in the taxation year in which such dividends were received, a ''private corporation'' as defined in the Tax Act, or a corporation resident in Canada that is controlled by or for the benefit of an individual (other than a trust) or a related group of individuals (other than trusts), to the extent that such dividends are deductible in computing the corporation's taxable income.

Disposition of Common Shares

In general, a disposition or a deemed disposition of a Common Share will give rise to a capital gain (or a capital loss) equal to the amount by which the proceeds of disposition of the Common Share, net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base to the holder of the Common Share immediately before the disposition.

Tax Treatment of Capital Gains and Losses

Generally, one-half of any capital gain realized by a holder in a taxation year will be included in computing the holder's income in such year. One-half of any capital loss realized by a holder in a taxation year normally may be deducted as an allowable capital loss by the holder against taxable capital gains realized by the holder in the year. Any allowable capital loss not deductible in the year it is realized generally may be carried back and deducted against taxable capital gains in any of the three preceding years or carried forward and deducted against taxable capital gains in any subsequent year (in accordance with the rules contained in the Tax Act). Capital gains realized by an individual will be relevant in computing possible liability for the alternative minimum tax.

The amount of any capital loss realized on the disposition or deemed disposition of a Common Share by a holder that is a corporation may be reduced by the amount of dividends received by the holder on the Common Share to the extent and in the circumstances prescribed by the Tax Act. Similar rules may apply where a corporation is a member of a partnership or a beneficiary of a trust that owns Common Shares and where a trust is a member of a partnership that owns Common Shares or a partnership or trust is a beneficiary of a trust that owns Common Shares. Holders to whom these rules may be relevant should consult their own tax advisors.

Additional Refundable Tax

A holder that is a ''Canadian-controlled private corporation'' (as defined in the Tax Act) may be liable to pay an additional refundable tax of 6⅔% on certain investment income, including amounts in respect of taxable capital gains and interest (but not dividends deductible in computing taxable income).

RISK FACTORS

An investment in the Subscription Receipts offered hereby and the Common Shares issuable upon the exchange thereof involves certain risks in addition to those described in the Management Discussion and Analysis of financial condition and results of operations contained in the Corporation's annual information form dated March 29, 2006 incorporated by reference herein. Before investing, prospective purchasers of Subscription Receipts should carefully consider, in light of their own financial circumstances, the factors set out below, as well as the other information contained or incorporated by reference in the Prospectus.

Regulation

The regulated operations of Terasen Gas are subject to the normal uncertainties faced by regulated companies. These uncertainties include the approval by the BCUC of customer rates which permit a reasonable opportunity to recover on a timely basis the estimated costs of providing services, including a fair rate of return on rate base. Upgrades of existing facilities and the addition of new facilities require the approval of the BCUC. There is no assurance that capital projects perceived as required by the management of Terasen Gas will be approved or that conditions to such approval will not be imposed. Capital cost overruns relative to approvals granted might not be recoverable. The ability of Terasen Gas to recover the actual costs of providing services and to earn the approved rates of return depends on achieving the forecasts established in the rate-setting process. Fair regulatory treatment by the BCUC that allows Terasen Gas the opportunity to earn a risk-adjusted ROE comparable to that available on alternative, similar investments is essential for maintaining service quality, as well as for ongoing capital attraction and growth.

The ROEs of Terasen Gas are determined annually by a formula based upon a forecast of long-term interest rates. The ability of Terasen Gas to earn the approved ROEs depends on the accuracy of the forecast for the test year. Actual required ROEs may differ from approved ROEs based on forecast long-term interest rates.

Rate applications that establish revenue requirements may be subject to negotiated settlement procedures. Failing a negotiated settlement, rate applications may be pursued through public hearing processes. There can be no assurance that the rate orders issued will permit Terasen Gas to recover all costs actually incurred and to earn the allowed rate of return. A failure to obtain acceptable rate orders may adversely affect the business carried on by Terasen Gas, the undertaking or timing of proposed expansion projects, the issue and sale of securities, ratings assigned by rating agencies, and other matters which may, in turn, negatively impact Terasen Gas' results of operations or financial position, as well as those of the Corporation.

The TGI Settlement includes incentive mechanisms that provide TGI with an opportunity to earn rates of return in excess of the allowed ROEs determined by the BCUC. While TGI has applied to extend the TGI Settlement to 2009, there is no certainty as to whether this application will be approved, whether and how the terms may be modified, or what the terms of an extended, or new, settlement might be.

Traditionally, British Columbia's regulatory framework was generally based on traditional cost of service methodologies for designing and setting rates. Since 1996, however, incentive-based regulation has been used in the rate setting process. Although Fortis considers the regulatory frameworks in British Columbia to be fair and balanced, uncertainties do exist.

Forecasting Accuracy

Through the forecasting process, it is intended that any changes in cost of service, regardless of whether they are caused by inflation or by level of business activity, would be reflected in new rates approved for that fiscal year based on the anticipated distribution volume. However, as rates are established in advance, based on anticipated distribution volume by class of customer, forecasting accuracy is a risk. Forecasts are also made for the future cost of capital, including the yield rate for long-term Canada Bonds used in the determination of the ROE.

Asset Maintenance

The asset base for Terasen Gas requires maintenance, improvement and expansion. The utility could experience service disruptions and increased costs if it is unable to maintain and replace its assets. The failure to carry out capital expenditure programs could have a material adverse effect on Terasen Gas. Large capital projects can proceed only with the approval of the BCUC. If actual costs exceed the costs forecast in obtaining the approval, it is uncertain as to whether any cost overruns will be approved and recovered.

Operational 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. Losses resulting from any operational accidents or failures or natural disasters could substantially exceed insurance coverage and actual recovery from increased rates approved by the BCUC. Furthermore, Terasen Gas could be subject to claims from its customers for damages caused by the failure to transmit or distribute gas to them in accordance with its contractual obligations. Thus, any major damage to Terasen Gas' facilities could result in lost revenues, repair costs and customer claims that are substantial in amount, which amount could have a material adverse effect on Terasen Gas.

Natural Gas Prices

Prior to 2000, natural gas consistently had a substantial competitive advantage when compared with alternative sources of energy in British Columbia. However, with the increasing price of natural gas, the price of electricity for residential customers in British Columbia is now only marginally higher than the comparable price for natural gas. 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, Terasen Gas' ability 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 Terasen Gas' cost of service 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 its customers.

Weather and Seasonality

Weather during the year 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. Typically, higher net earnings are experienced in the first and fourth quarters, but are offset by net losses in the second and third quarters. See ''The Acquired Business — Regulation''.

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 recover revenue deficiencies from prior years. Recovery of the accumulated deficit puts gas at a cost disadvantage to electricity.

To assist with competitive rates during franchise development, the VINGPA provides royalty revenues from the provincial government which currently cover approximately 20% of the current cost of service. These revenues are due to expire at the end of 2011, after which TGVI's customers will be required to absorb the full commodity cost of gas and the recovery of any remaining accumulated deficit. When the VINGPA expires in 2011, the $75 million non-interest-bearing senior government debt which is currently treated as a government contribution against rate base will become repayable. 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.

Industrial load accounts for more than 65% of the system's throughput for which approximately two thirds is contracted on a year-to-year basis with no long-term commitment. A loss of industrial customers will increase the cost of service to be recovered from residential and commercial customers which may impact the competitiveness of rates.

While the BCUC has approved a rate-setting mechanism for TGVI whereby customer rates are set at levels in excess of TGVI's cost of service to recover amortization of the RDDA, the amount of recovery is limited by the price of competitive alternative fuels. Significant RDDA amortization was recovered in both 2005 and 2006. However, RDDA recovery is sensitive to the relative pricing of natural gas and electricity in TGVI's service area, as well as to margin generated under TGVI's firm transportation agreements discussed below. There is no certainty that TGVI will be able to charge rates that will be sufficient to fully recover the RDDA prior to the expiry of the provincial royalty payments at the end of 2011. Failure by TGVI to recover the RDDA by 2011 may result in an increase in the cost of service.

Government Permits

The acquisition, ownership and operation of gas businesses and assets require numerous permits, approvals and certificates from federal, provincial and local government agencies. Terasen Gas may not be able to obtain or maintain all required regulatory approvals. If there is a delay in obtaining any required regulatory approval or if Terasen Gas fails to maintain or obtain any required approval or fails to comply with any applicable law or regulation, or condition of approval, the operation of its assets and its distribution of gas could be prevented or become subject to additional costs, any of which could have a material adverse effect on Terasen Gas.

Impact of Changes in Economic Conditions

New customer additions at Terasen Gas are typically a result of population growth and new housing starts, which are affected by the state of the British Columbia economy. Terasen Gas is also affected by changes in trends in housing starts from single-family dwellings to multi-family dwellings, for which natural gas has a lower penetration rate. While new housing starts have increased in British Columbia in 2006, growth of new multi-family housing starts continues to significantly outpace that of new single-family housing starts. In addition, more efficient building construction and consistent customer conservation efforts place downward pressure on annual average consumption of natural gas. Prevailing economic conditions also impact sales and transportation service to large-volume commercial and industrial 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 Terasen Gas' natural gas distribution customers 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 critically dependent on a single-source transmission pipeline. In the event of a prolonged service disruption on the Spectra Pipeline System, Terasen Gas' residential customers could experience outages, thereby affecting revenues and incurring costs to safely relight customers.

Access to Capital and Credit Ratings

In order to meet the capital investment and debt repayment requirements of its business, Terasen Gas must have reliable access to sufficient and cost-effective capital. The ability to arrange sufficient and cost-effective financing is subject to numerous factors, including the regulatory environment in British Columbia, the results of operations and financial position of Terasen Gas, conditions in the capital and bank credit markets, the ratings assigned by rating agencies and general economic conditions. There can be no assurance that sufficient capital will be available on acceptable terms to fund such capital expenditures and to repay existing debt.

An inability to maintain an investment-grade credit rating could materially adversely impact Terasen Gas' access to debt financing. In addition, a downgrade of Terasen Gas below investment grade by any of the major credit rating agencies could trigger margin calls and other cash requirements under Terasen Gas' gas purchase and commodity derivative contracts.

Interest Rates

Terasen Gas is exposed to the interest rate risks associated with floating rate debt. Terasen Gas has hedging programs in place to reduce its interest rate risks. The allowed ROEs for TGI and TGVI are determined by formulae that result in lower allowed ROEs if long-term Canada Bond yields decline.

Counterparty Credit Risk

Terasen Gas is exposed to credit risk in the event of non-performance by counterparties to derivative instruments. Terasen Gas is also exposed to significant credit risk on physical off-system sales. Because it deals with high credit quality institutions in accordance with established credit approval practices, Terasen Gas does not expect any counterparties to fail to meet their obligations.

Potential Undisclosed Liabilities Associated with the Acquisition

In connection with the Acquisition, there may be liabilities that the Corporation failed to discover or was unable to quantify in its due diligence which it conducted prior to the execution of the Acquisition Agreement and the Corporation may not be indemnified for some or all of these liabilities. The discovery or quantification of any material liabilities could have a material adverse effect on the Corporation's business, financial condition or future prospects. In addition, the Acquisition Agreement limits the amount for which the Corporation is indemnified. See ''Acquisition Agreement — Indemnities''.

Labour Relations

The organized employees of TGI and TGVI are members of labour unions which have entered into collective bargaining agreements with TGI. The provisions of such collective bargaining agreements affect the flexibility and efficiency of the business carried on by TGI, TGVI and TGWI (which depends on TGI for its customer, management and operation services). TGI considers its relationships with its labour unions to be satisfactory, but there can be no assurance that current relations will continue in future negotiations or that the terms under the present collective bargaining agreements will be renewed. The inability to maintain, or to renew the collective bargaining agreements on acceptable terms, could result in increased labour costs or service interruptions arising from labour disputes for TGI that are not provided for in approved orders, which could have an adverse effect on the results of operations, cash flow and net income of Terasen Gas.

Underinsured and Uninsured Losses

Fortis and Terasen Gas maintain at all times insurance coverage in respect of potential liabilities and the accidental loss of value of certain of their assets from risks, in amounts, with such insurers, as is considered appropriate, taking into account all relevant factors including the practices of owners of similar assets and operations. It is anticipated that such insurance coverage will be maintained. However, not all risks are covered by insurance and no assurance can be given that insurance will be consistently available or will be consistently available on economically feasible terms or that the amounts of insurance will be sufficient to cover losses or claims that may occur involving the assets or operations of Fortis or Terasen Gas.

Environmental Matters

Terasen Gas is subject to numerous laws, regulations and guidelines governing the management, transportation and disposal of hazardous substances and other waste materials and otherwise relating to the protection of the environment and health and safety. Potential environmental damage and costs could arise due to a severe weather event or a major equipment failure. However, there can be no assurance that such costs will be recoverable and, if substantial, unrecovered costs may have a material effect on the business, results of operations and prospects of Terasen Gas.

Terasen Gas is exposed to environmental risks that property owners in British Columbia generally face. These risks include the responsibility of any property owner for the site remediation of any properties determined to be contaminated, whether or not such contamination was actually caused by the owner. Most of Terasen Gas' distribution and transmission facilities have been in place for many years with no apparent adverse environmental impact. However, as facilities are upgraded and as new facilities are added, environmental assessments and regulatory approvals will be required in the ordinary course.

Applicable environmental and safety laws make owners, operators and persons in charge of management and control of facilities subject to prosecution or administrative action for breaches of environmental and safety laws, including the failure to obtain certificates of approval for the discharge of contaminants causing an adverse effect. Terasen Gas has not been notified of any such regulatory action in regard to its operation or occupation of its facilities. However, it is not possible to predict with absolute certainty the position that a regulatory authority will take regarding matters of non-compliance with environmental and safety laws. Changes in environmental, health and safety regulations could also lead to significant increases in costs to Terasen Gas.

First Nations' Lands

Terasen Gas provides service to customers on First Nations reserves in British Columbia and maintains gas distribution facilities on lands that are subject to land claims by various First Nations. A treaty negotiation process involving various First Nations and the Government of British Columbia is underway in British Columbia but the basis upon which settlements might be reached in Terasen Gas' service area is not clear. Furthermore, not all First Nations are participating in the process. To date, the policy of the Government of British Columbia has been to endeavour to structure settlements without prejudicing existing rights held by third parties such as Terasen Gas. However, there can be no certainty that the settlement process will not adversely affect the business of Terasen Gas.

Results of Operations and Financing Risks

Management of the Corporation believes, based on its expectations as to the Corporation's future performance (which reflects, among other things, the completion of the Acquisition), that the cash flow from its operations and funds available to it under its credit facilities will be adequate to enable the Corporation to finance its operations, execute its business strategy and maintain an adequate level of liquidity. However, expected revenue and the costs of planned capital expenditures are only estimates. Moreover, actual cash flows from operations are dependent on regulatory, market and other conditions that are beyond the control of the Corporation. As such, no assurance can be given that management's expectations as to future performance will be realized. In addition, management's expectations as to the Corporation's future performance reflect the current state of its information about Terasen Gas and its operations and there can be no assurance that such information is correct and complete in all material respects.

Management of Expanding Operations

As a result of the Acquisition, significant demands will be placed on the Corporation's managerial, operational and financial personnel and systems. 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.

Realization of Acquisition Benefits

As described in ''The Acquisition — Acquisition Rationale'', the Corporation believes that the Acquisition will provide benefits to Fortis. However, there is a risk that some or all of the expected benefits of the Acquisition may fail to materialize, or may not occur within the time periods anticipated by the Corporation. The realization of such benefits may be affected by a number of factors, many of which are beyond the control of the Corporation.

Subscription Receipt Structure

The Subscription Receipts will be automatically exchanged for Common Shares upon the satisfaction of the Release Conditions. The Corporation may, in its sole discretion, waive certain closing conditions in its favour in the Acquisition Agreement or agree with the Vendor to amend the Acquisition Agreement and consummate the Acquisition on terms that may be substantially different from those contemplated in this Prospectus. As a result, the expected benefits of the Acquisition may not be fully realized. See ''Acquisition Agreement''. There can be no assurance that the Release Conditions will be satisfied on or prior to the Termination Time. Until the Release Conditions are satisfied and the Common Shares are delivered pursuant to the Subscription Receipt Agreement, holders of Subscription Receipts have the rights as described under ''Details of the Offering — Subscription Receipts''.

Market for Securities

There is currently no market through which the Subscription Receipts may be sold. There can be no assurance that an active trading market will develop for the Subscription Receipts after the Offering or, if developed, that such a market will be sustained at the price level of the Offering. The TSX has conditionally approved the listing of the Subscription Receipts, as well as the Common Shares issuable on the exchange of the Subscription Receipts. Listing is subject to the Corporation fulfilling all of the requirements of the TSX on or before June 3, 2007.

AUDITORS

The auditors of the Corporation are Ernst & Young LLP, Chartered Accountants (''Ernst & Young''), The Fortis Building, 7th Floor, 139 Water Street, St. John's, Newfoundland and Labrador, A1C 1B2. Ernst & Young report that they are independent of the Corporation in accordance with the Rules of Professional Conduct of the Institute of Chartered Accountants of Newfoundland.

The auditors of Terasen as at December 31, 2005 were KPMG LLP, Chartered Accountants (''KPMG''), of Vancouver, British Columbia. KPMG report that, as at March 31, 2006 and during the years ended December 31, 2005 and 2004 on which they reported, they were independent of Terasen within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of British Columbia.

LEGAL MATTERS

Certain legal matters relating to this Offering will be passed upon on behalf of the Corporation by Davies Ward Phillips & Vineberg LLP, Toronto and McInnes Cooper, St. John's and on behalf of the Underwriters by Stikeman Elliott LLP, Toronto. At the date hereof, partners and associates of each of Davies Ward Phillips & Vineberg LLP, McInnes Cooper and Stikeman Elliott LLP own beneficially, directly or indirectly, less than 1% of any securities of the Corporation or any associate or affiliate of the Corporation.

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the Subscription Receipts is Computershare Trust Company of Canada in Toronto and Montréal.

PURCHASERS' STATUTORY RIGHTS

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights or consult with a legal advisor.

GLOSSARY OF TERMS

In the Prospectus, unless the context otherwise requires, the following terms have the meanings set forth below.

''1933 Act'' means the United States *Securities Act of 1933*, as amended;

''Acquisition'' means the acquisition by Fortis of all of the issued and outstanding shares of Terasen;

''Acquisition Agreement'' means the acquisition agreement dated February 26, 2007 between Fortis, 3211953 Nova Scotia Company and Kinder Morgan;

''CDS'' means CDS Clearing and Depository Services Inc.;

''Closing Date'' means on or about March 15, 2007, or such other date as agreed to by the Corporation and the Underwriters, but not later than April 18, 2007;

''Corporation'' or **''Fortis''** means Fortis Inc.;

''Credit Facilities'' means the senior unsecured, non-revolving term credit facilities in the aggregate amount of \$1.425 billion, consisting of a facility in the amount of \$925 million and a facility in the amount of \$500 million, to be extended to Fortis pursuant to a commitment letter dated February 26, 2007 from Canadian Imperial Bank of Commerce;

''CWP'' means CustomerWorks Limited Partnership;

''Escrow Agent'' means Computershare Trust Company of Canada or its successor as escrow agent under the Subscription Receipt Agreement;

''Escrowed Funds'' means the gross proceeds from the sale of the Subscription Receipts;

''Offering'' means the distribution of Subscription Receipts pursuant to the Prospectus;

''Release Conditions'' means the receipt by the Corporation of all regulatory and government approvals required to finalize the Acquisition, including that of the BCUC, and fulfillment or waiver of all other outstanding conditions precedent to closing the Acquisition as itemized in the Acquisition Agreement;

''ROE'' means return on equity;

''SEDAR'' means the Canadian System for Electronic Document Analysis and Retrieval;

''Subscription Receipt Agreement'' means the agreement dated as of the Closing Date among the Corporation, CIBC World Markets Inc. and the Escrow Agent governing the terms of the Subscription Receipts;

''Subscription Receipts'' means the subscription receipts of the Corporation offered hereby;

''Terasen'' means Terasen Inc.;

''Terasen Gas'' means, collectively, TGI, TGVI, TGWI and CWP;

''Termination Time'' means the earlier of 5:00 p.m. (Toronto time) on November 30, 2007 or the date on which the Acquisition Agreement is terminated;

''TGI'' means Terasen Gas Inc.;

''TGVI'' means Terasen Gas (Vancouver Island) Inc.;

''TGWI'' means Terasen Gas (Whistler) Inc.;

''TSX'' means the Toronto Stock Exchange;

''Underwriters'' means, collectively, CIBC World Markets Inc., Scotia Capital Inc., TD Securities Inc., BMO Nesbitt Burns Inc., RBC Dominion Securities Inc., National Bank Financial Inc., Canaccord Capital Corporation, Beacon Securities Limited and HSBC Securities (Canada) Inc.; and

''Underwriting Agreement'' means the underwriting agreement dated February 27, 2007, between the Corporation and the Underwriters relating to the sale of the Subscription Receipts offered under the Prospectus.

All dollar amounts in the Prospectus are expressed in Canadian dollars.

AUDITORS' CONSENT

We have read the short form prospectus of Fortis Inc. (the ''Corporation'') dated March 7, 2007 relating to the issue and sale of 38,500,000 subscription receipts of the Corporation. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the incorporation by reference, in the above-mentioned prospectus, of our report to the shareholders of the Corporation on the consolidated balance sheets of the Corporation as at December 31, 2005 and 2004 and the consolidated statements of earnings, retained earnings and cash flows for the years then ended. Our report is dated January 27, 2006.

St. John's, Canada
March 7, 2007

(Signed) ERNST & YOUNG LLP
Chartered Accountants

AUDITORS' CONSENT

We have read the short form prospectus of Fortis Inc. (the ''Corporation'') dated March 7, 2007 relating to the issue and sale of 38,500,000 subscription receipts of the Corporation. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the use in the above-mentioned prospectus of our report to the shareholder of Terasen Inc. on the consolidated statements of financial position of Terasen Inc. as at December 31, 2005 and 2004 and the consolidated statements of earnings, retained earnings and cash flows for the years then ended. Our report is dated February 3, 2006, except as to note 19(b) which is as of March 2, 2006 and note 19(c) which is as of March 31, 2006.

Vancouver, Canada	(Signed) KPMG LLP
March 7, 2007	Chartered Accountants

INDEX TO FINANCIAL STATEMENTS

Terasen Inc.

Consolidated Financial Statements
Years ended December 31, 2005 and 2004

Together with Auditors' Report

AUDITORS' REPORT TO THE SHAREHOLDER

We have audited the consolidated statements of financial position of Terasen Inc. as at December 31, 2005 and 2004 and the consolidated statements of earnings, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(Signed) KPMG LLP
Chartered Accountants

Vancouver, Canada
February 3, 2006, except as to note 19 (b) which is
as of March 2, 2006 and note 19 (c) which is
as of March 31, 2006

TERASEN INC.

CONSOLIDATED STATEMENTS OF EARNINGS

	Years ended December 31 2005	2004 (Restated — notes 1(p) and 3)
	In millions of dollars	
Revenues		
Natural gas distribution	**$1,678.0**	$1,494.1
Petroleum transportation	**227.8**	225.5
Other activities	**46.7**	78.5
	1,952.5	1,798.1
Expenses		
Cost of natural gas	**1,063.7**	885.4
Cost of revenues from other activities	**28.9**	52.8
Operation and maintenance	**320.7**	274.7
Depreciation and amortization	**142.6**	144.5
Property and other taxes	**71.9**	69.9
	1,627.8	1,427.3
Operating Income	**324.7**	370.8
Financing costs (note 14)	**191.4**	175.6
Earnings before share of earnings of equity investments and income taxes	**133.3**	195.2
Equity earnings from Clean Energy net of disposition costs (note 4)	**2.5**	—
Share of earnings of Express System	**21.9**	15.0
Earnings before income taxes and discontinued operations	**157.7**	210.2
Income taxes (note 15)	**51.6**	63.7
Earnings before discontinued operations	**106.1**	146.5
Earnings (loss) from discontinued operations, net of income taxes (note 3)	**(4.9)**	3.3
NET EARNINGS	**$ 101.2**	$ 149.8

TERASEN INC.

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

	Years ended December 31	
	2005	2004
		(Restated — note 1(p))
	In millions of dollars	
Retained earnings, beginning of year	**$418.9**	$355.5
Net earnings	**101.2**	149.8
	520.1	505.3
Dividends on common shares	**95.1**	86.4
Retained earnings, end of year	**$425.0**	$418.9

TERASEN INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	In millions of dollars As at December 31	
	2005	2004 (Restated — note 1(p))
Assets		
Current assets		
Cash and short-term investments	**$ 79.4**	$ 20.0
Accounts receivable	**468.1**	348.6
Inventories of gas in storage and supplies	**205.7**	189.2
Prepaid expenses	**14.1**	9.5
Current portion of rate stabilization accounts (note 7)	**28.4**	27.1
Current assets held for sale (note 3)	**54.8**	—
	850.5	594.4
Property, plant and equipment (note 6)	**3,907.9**	3,892.5
Long-term investment	**238.3**	218.9
Goodwill	**76.4**	128.0
Rate stabilization accounts (note 7)	**48.3**	60.6
Other assets (note 8)	**84.8**	87.4
Long-lived assets held for sale (note 3)	**109.9**	—
	$5,316.1	$4,981.8
Liabilities and shareholder's equity		
Current liabilities		
Short-term notes	**$ 681.0**	$ 248.0
Accounts payable and accrued liabilities	**433.8**	365.7
Income and other taxes payable	**30.8**	36.4
Current portion of rate stabilization accounts (note 7)	**47.9**	27.6
Current portion of long-term debt (note 9)	**398.2**	416.7
Due to parent company	**0.4**	—
Current liabilities held for sale (note 3)	**24.5**	—
	1,616.6	1,094.4
Long-term debt (note 9)	**2,012.9**	2,291.6
Other long-term liabilities and deferred credits (note 10)	**168.5**	156.0
Future income taxes (note 15)	**88.7**	68.7
Long-term liabilities held for sale (note 3)	**13.7**	—
	3,900.4	3,610.7
Shareholder's equity		
Common shares (note 11)	**904.9**	883.4
Contributed surplus (note 12)	**137.5**	132.5
Retained earnings	**425.0**	418.9
Cumulative currency translation adjustment	**(0.7)**	(12.7)
	1,466.7	1,422.1
Less cost of common shares held by Terasen Pipelines (Trans Mountain) Inc.	**51.0**	51.0
	1,415.7	1,371.1
	$5,316.1	$4,981.8

Approved by the Board:

(Signed) JAMES M. STANFORD
Director

(Signed) DOUGLAS W.G. WHITEHEAD
Director

TERASEN INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	In millions of dollars	
	2005	2004
Cash flows provided by (used for)		
Operating activities		
Net earnings	**$101.2**	$149.8
Adjustments for non-cash items		
Loss (earnings) from discontinued operations	**4.9**	(3.3)
Depreciation and amortization	**142.6**	144.5
Equity earnings from Clean Energy	**(2.5)**	—
Share of earnings from long-term investments, in excess of cash distributions	**(19.4)**	(14.3)
Future income taxes	**2.9**	(0.5)
Other	**18.7**	10.2
	248.4	286.4
Decrease in rate stabilization accounts	**10.1**	31.0
Discontinued operations — Water and Utility Services	**5.2**	3.3
Changes in non-cash working capital	**(68.3)**	14.7
	195.4	335.4
Investing activities		
Property, plant and equipment	**(214.7)**	(154.4)
Acquisition of water and utility services businesses (note 4)	**—**	(57.9)
Proceeds on sale of Clean Energy (note 4)	**43.0**	—
Discontinued operations — Water and Utility Services	**(36.8)**	—
Proceeds on sale of other property, plant and equipment	**—**	0.9
Proceeds on sale of natural gas distribution assets (note 10)	**7.2**	64.6
Other assets and deferred credits	**(11.2)**	(13.4)
	(212.5)	(160.2)
Financing activities		
Increase (decrease) in short-term notes	**433.0**	(305.9)
Increase in long-term debt	**601.5**	339.1
Reduction of long-term debt	**(884.9)**	(118.2)
Advances from parent company	**0.4**	—
Discontinued operations — Water and Utility Services	**0.7**	—
Issue of common shares, net of issue costs (note 11)	**20.9**	14.7
Dividends on common shares	**(95.1)**	(86.4)
	76.5	(156.7)
Net increase in cash	**59.4**	18.5
Cash at beginning of year	**20.0**	1.5
Cash at end of year	**$ 79.4**	$ 20.0
Supplemental cash flow information		
Interest paid in the year	**$187.6**	$162.7
Income taxes paid in the year	**48.4**	78.1
Non-cash transactions		
Mark to market on certain gas derivatives deferred in rate-stabilization accounts	**21.2**	—

Cash is defined as cash or bank indebtedness.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in millions of dollars, except where stated otherwise)
YEARS ENDED DECEMBER 31, 2005 AND 2004

Terasen Inc. (''Terasen'' or the ''Company'') provides energy transportation and utility asset management services. Terasen operates in three primary business segments which are separately managed to assess operational performance.

(a) Natural gas distribution operations involve the transmission and distribution of natural gas and propane for residential, commercial, institutional, and industrial customers in British Columbia. The operations are conducted through Terasen Gas Inc. (''Terasen Gas''), serving the Lower Mainland and interior of British Columbia, Terasen Gas (Vancouver Island) Inc. (''TGVI''), serving Vancouver Island and the Sunshine Coast, Terasen Gas (Whistler) Inc., and Terasen Gas (Squamish) Inc.

(b) Petroleum transportation operations are carried out through Terasen Pipelines (Trans Mountain) Inc. (''Trans Mountain''), which owns and operates a common carrier pipeline system for crude and refined petroleum products transported from Edmonton, Alberta to Vancouver, British Columbia and Washington State, Terasen Pipelines (Corridor) Inc. (''Corridor''), which owns a pipeline in northern Alberta transporting diluted bitumen, and the one-third owned entities Express Pipeline LP and Express US Holdings LP (''the Express System''). The Express System transports crude oil from Hardisty, Alberta, through the Rocky Mountain region of the United States and on to Wood River, Illinois.

(c) Water and utility services operations includes providing water and wastewater treatment services, water distribution and wastewater collection, meter reading, meter fleet management and installation services as well as product sales related to the water, sewer and irrigation markets. These operations are provided through Terasen Waterworks (Supply) Inc., Terasen Utility Services Inc., Terasen Utility Services (U.S.) Inc. (collectively ''Terasen Water and Utility Services''), and the Company's 50% interest in Fairbanks Sewer and Water Inc. (''FSW''). These operations have been reclassified to Discontinued Operations as described in Note 3.

(d) Other activities include international consulting activities, the Company's 30% interest in CustomerWorks LP (''CWLP''), corporate financing costs and administration charges, and the Company's 40% (2004 — 45%) interest in Clean Energy Fuels Corp. (''Clean Energy''), which was proportionately consolidated until the first quarter of 2005 and was then equity-accounted for until the investment was sold on October 31, 2005 (Note 4).

The Company operates in Canada and the United States, but at the present time the United States operations are not of sufficient size to be reportable as either operating or geographic segments.

On November 30, 2005, all of the shares of the Company were acquired by Kinder Morgan, Inc. (''KMI'') pursuant to a Combination Agreement dated as of August 1, 2005. The Company's shareholders were able to elect, for each Terasen share held, either (i) $35.75 in cash, (ii) 0.3331 shares of KMI common stock, or (iii) $23.25 in cash plus 0.1165 shares of KMI common stock. In the aggregate, approximately 12.5 million shares of KMI common stock was issued together with cash payments of approximately $2.49 billion to Terasen securityholders. The Company has charged to earnings after-tax costs of $42.9 million associated with the transaction in earnings in the year ended December 31, 2005, mainly from pre-tax investment banking costs of $14.7 million, severance and employee-related costs of $14.4 million, share option costs of $3.6 million as described in Note 12, and the write-off of approximately $15.3 million of income tax expense related to restricted tax loss carry-forwards.

1. SIGNIFICANT ACCOUNTING POLICIES

The preparation of these consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses in the financial statements, as well as the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

In the opinion of management, these consolidated financial statements have been properly prepared within reasonable limits of materiality and reflect the following summary of significant accounting policies.

(a) BASIS OF PRESENTATION

The consolidated financial statements include the accounts of the Company, its subsidiaries, and its proportionate share of the accounts of jointly-controlled entities. Investments in entities which are not subsidiaries or joint ventures, but over which the Company exercises significant influence, are accounted for using the equity method.

Certain of the prior year comparative figures have been reclassified to conform with the current year's presentation.

(b) FOREIGN CURRENCY TRANSLATION

The Company translates its self-sustaining US dollar denominated water and utility service businesses' and Clean Energy's financial statements into Canadian dollars using the current rate method of foreign currency translation. Under this method, assets and liabilities are translated at the rate of exchange in effect at the balance sheet date, revenue and expense items are translated at average rates of exchange for the period, and the exchange gains and losses arising on the translation of the financial statements are recorded in the cumulative currency translation adjustment account in Shareholders' equity.

The Company's US-based petroleum transportation operations are integrated and are translated into Canadian dollars using the temporal method. Under this method, monetary assets and liabilities denominated in foreign currencies are translated at exchange rates in effect at the balance sheet date, with the exception of certain long-term debt in the Express System, which is considered to be a hedge of

1. **SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

U.S. dollar denominated revenues in the Express System. Non-monetary assets and liabilities denominated in foreign currencies are translated at exchange rates in effect on the dates the assets were acquired or liabilities assumed. Revenues and expenses are translated at the average rates of exchange prevailing during the month the transactions occurred. Under this method, exchange gains and losses on translation are reflected in income when incurred.

(c) REGULATION

The natural gas distribution companies are subject to the regulation of the British Columbia Utilities Commission (''the BCUC''), an independent regulatory authority. Both Terasen Gas and TGVI have multi-year agreements that will expire at the end of 2007. These multi-year agreements are cost-of-service based agreements with allowed rates of return on approved rate base set by the BCUC. For 2005, Terasen Gas's allowed rate of return was 9.03% and TGVI's allowed rate of return was 9.53%. The allowed rates of return are based on a notional debt-equity ratio of 67% debt and 33% equity for Terasen Gas and 65% debt and 35% equity for TGVI. The entities have annual review processes for rate approvals, and the allowed rates of return are reset annually unless directed differently by the BCUC.

The Trans Mountain and Express System operations are governed by contractual arrangements with shippers and are regulated in Canada by the National Energy Board and, in the United States, tariff matters are regulated by the Federal Energy Regulatory Commission. Both of these regulatory authorities are independent bodies. Trans Mountain has entered into a memorandum of understanding with shippers on a new five-year agreement which will expire at the end of 2010. The Express System has firm service agreements that extend until 2015.

Corridor's operations are governed by contractual arrangements with shippers and are subject to regulation by the Alberta Energy and Utilities Board (''the AEUB''), an independent regulatory authority. Corridor's rates are cost-of-service based and determined using formulas embedded in agreements with shippers.

FSW is regulated by the Regulatory Commission of Alaska, an independent regulatory authority. FSW has a cost-of-service based agreement with allowed rates of return set by the Regulatory Commission. FSW is currently operating on an interim rate basis while the Commission is hearing a new rate case.

Approximately 95% of the Company's operations are subject to rate regulation by independent regulatory agencies. These regulatory authorities exercise statutory authority over such matters as rates of return, construction and operation of facilities, accounting practices, rates and tolls, and contractual agreements with customers.

In order to recognize the economic effects of regulation, the timing of recognition of certain revenues and expenses in these operations may differ from that otherwise expected under generally accepted accounting principles for non-regulated businesses.

The impacts of rate regulation on the Company's operations for the twelve months ending December 31, 2005 and as at December 31, 2005 are described in these Significant Accounting Policies, and in Note 6 ''Property, Plant and Equipment'', Note 7 ''Rate Stabilization Accounts'', Note 8 ''Other Assets'', Note 10 ''Other Long-Term Liabilities and Deferred Credits'', Note 13 ''Employee Benefit Plans'', Note 14 ''Financing Costs'', and Note 15 ''Income Taxes''.

(d) INVENTORIES

Inventories of gas in storage are valued at weighted-average cost. Supplies and other inventories are valued at the lower of cost and net realizable value.

(e) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at cost less accumulated depreciation and unamortized contributions in aid of construction. Cost includes all direct expenditures for system expansions, betterments and replacements, an allocation of overhead costs and an allowance for funds used during construction. When allowed by the regulators, regulated operations capitalize an allowance for equity funds used during construction at approved rates.

Depreciation of regulated assets is recorded on a straight-line basis over their useful lives. Depreciation rates for regulated assets are approved by the respective regulator, and for non-regulated assets requires the use of management estimates of the useful lives of assets. Depreciation of non-regulated equipment is recorded using the declining balance method.

The cost of regulated depreciable property retired, together with removal costs less salvage, is charged to accumulated depreciation, as is any gain or loss incurred on disposal.

(f) IMPAIRMENT OF LONG-LIVED ASSETS

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

(g) ASSET RETIREMENT OBLIGATIONS

The Company recognizes the fair value of a future asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that results from the acquisition, construction, development, and/or normal use of the assets. The Company concurrently recognizes a corresponding increase in the carrying amount of the related long-lived asset that is depreciated over the life of the asset. The fair value of the asset retirement obligation is estimated using the expected cash

1. **SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

flow approach that reflects a range of possible outcomes discounted at a credit-adjusted risk-free interest rate. Subsequent to the initial measurement, the asset retirement obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. Changes in the obligation due to the passage of time are recognized in income as an operating expense using the interest method. Changes in the obligation due to changes in estimated cash flows are recognized as an adjustment of the carrying amount of the related long-lived asset that is depreciated over the remaining life of the asset.

As the fair value of future removal and site restoration costs for the Company's natural gas distribution and petroleum transportation systems are not currently determinable, the Company has not recognized an asset retirement obligation as at December 31, 2005 and 2004. For regulated operations there is a reasonable expectation that asset retirement costs would be recoverable through future rates or tolls.

(h) RATE STABILIZATION ACCOUNTS

TGVI maintains a BCUC approved Revenue Deficiency Deferral Account (''RDDA'') to accumulate unrecovered costs of providing service to customers or to drawdown such costs where earnings exceed an allowed return as set by the BCUC. The RDDA has accumulated the allowed earnings in excess of achieved earnings prior to 2003 and is to be recovered through future rates. During the years ended December 31, 2005 and 2004, the RDDA has decreased as achieved earnings have exceeded the allowed return.

Terasen Gas is authorized by the BCUC to maintain rate stabilization accounts which mitigate the effect on its earnings of unpredictable and uncontrollable factors, namely volume volatility caused principally by weather and natural gas cost volatility. The Revenue Stabilization Adjustment Mechanism (''RSAM'') accumulates the margin impact of variations in the actual versus forecast volume use for residential and commercial customers.

In 2004, the Gas Cost Reconciliation Account (''GCRA''), which accumulates differences between actual natural gas costs and forecast natural gas costs as recovered in base rates, was replaced by the Commodity Cost Reconciliation Account (''CCRA'') and the Midstream Cost Reconciliation Account (''MCRA''). The two new accounts were approved by the BCUC to segregate costs that are allocable to all sales customers (MCRA) and all residential customers and certain commercial and industrial customers for whom Terasen Gas acquires gas supply (CCRA). TGVI has a Gas Cost Variance Account (''GCVA'') which mitigates the effect on its earnings of natural gas cost volatility. The GCVA is recoverable in rates from customers in TGVI's service areas in future periods.

All rate stabilization account balances for both TGVI and Terasen Gas are amortized and recovered through rates as approved by the BCUC.

(i) DEFERRED CHARGES

The Company defers certain costs which the regulatory authorities or contractual arrangements require or permit to be recovered through future rates or tolls. Deferred charges are amortized over various periods as approved by the regulator and depending on the nature of the costs.

Deferred charges include long-term debt issue costs which are amortized over the term of the related debt.

Deferred charges not subject to regulation relate to projects which are expected to benefit future periods and will be capitalized on completion, expensed on project abandonment, or amortized over their useful lives.

(j) GOODWILL

Goodwill represents the excess of an investment over the fair value of the net assets acquired. Goodwill is not amortized and is tested annually for impairment by comparing the book value with the fair value of the goodwill of the reporting unit to which the goodwill is attributable. Any deficiency in the book value compared to the fair value will be recognized as an impairment loss.

(k) REVENUE RECOGNITION

The Company recognizes revenues when products have been delivered or services have been performed.

The natural gas distribution utilities record revenues from natural gas sales on the basis of regular meter readings and estimates of customer usage since the last meter reading date to the end of the year and are adjusted for the Revenue Stabilization Adjustment Mechanism and other BCUC approved orders.

For the petroleum transportation operations, revenues are recorded when products are delivered and adjusted according to terms prescribed by toll settlements with the shippers and approved by the respective regulator.

For the water and utility services operations revenues are recorded when services have been performed or products have been delivered.

(l) DERIVATIVE FINANCIAL INSTRUMENTS

The Company utilizes derivatives and other financial instruments to manage its exposure to changes in foreign currency exchange, interest rates and energy commodity prices.

A derivative must be designated and effective to be accounted for as a hedge. The Company designates each derivative instrument as a hedge of specific assets or liabilities on the balance sheet, specific firm commitments or anticipated transactions. The Company also assesses, both at inception and on an ongoing basis, whether the derivative instruments that are used in each hedging transaction are highly effective in offsetting changes in fair values or cash flows of the hedged items. Derivatives accounted for as a hedge are not recognized in the consolidated financial statements.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivative financial instruments not designated as effective as a hedge are recorded at fair value at the balance sheet date. The carrying amount of these derivatives, which comprise unrealized gains and losses, are included in accounts receivable in the case of contracts in a gain position and accounts payable and accrued liabilities in the case of contracts in a loss position. The offsetting gain/loss is recorded in the rate stabilization accounts, as realized gains/losses are passed on to customers when realized.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions.

As approved by the regulator, derivatives are used to manage natural gas commodity price risk in the natural gas distribution operations. The majority of natural gas supply contracts have floating, rather than fixed prices. The Company uses natural gas price swap contracts to fix the effective purchase price. Any differences between the effective cost of natural gas purchased and the price of natural gas included in rates are recorded in deferral accounts (CCRA and MCRA), and subject to regulatory approval, are passed through in future rates to customers.

Foreign currency risk in natural gas distribution operations relates mainly to purchases and sales of natural gas denominated in U.S. dollars, and is thereby managed through regulatory deferral accounts.

The Company's short-term borrowings and variable rate long-term debt are exposed to interest rate risk. The Company manages interest rate risk through the use of interest rate derivatives with payments and receipts under interest rate swap contracts being recognized as adjustments to financing costs.

The Company's earnings from the U.S. portion of Trans Mountain's crude oil pipeline system and the Company's investment in the Express System are subject to foreign currency risk. The Company manages some of these foreign currency exposures through the use of foreign currency derivatives.

Unless otherwise approved by regulation, if a derivative instrument is terminated or ceases to be effective prior to maturity, the gain or loss at that date is deferred and recognized in income concurrently with the hedged item. Any subsequent changes in the value of the derivative instrument are reflected in income.

Non-hedge derivatives not subject to regulation are marked to market at the balance sheet date with fluctuations in value charged to earnings.

(m) POST-EMPLOYMENT BENEFIT PLANS

The Company sponsors a number of employee benefits plans. These plans include both defined benefit and defined contribution pension plans, and various other post-retirement benefit plans.

The cost of pensions and other post-retirement benefits earned by employees is actuarially determined as the employee provides service, except when the regulator requires costs to be expensed as paid. The Company uses the projected benefit method based on years of service and management's best estimates of expected returns on plan assets, salary escalation, retirement age of employees, mortality and expected future health-care costs. The discount rate used to value liabilities is based on AA Corporate bond yields. The Company accrues the cost of defined benefit pensions and post-employment benefits as the employee provides services, except when the regulator requires costs to be expensed as paid.

The expected return on plan assets is based on management's estimate of the long-term expected rate of return on plan assets and a market-related value of plan assets. The market-related value of assets as of December 31, 2005 is calculated as the average of the market value of invested assets at December 31, 2005 and two actuarially determined extrapolated market values of invested assets at December 31, 2005. The two extrapolated market values are calculated by using the market value of invested assets at December 31, 2003 rolled forward to December 31, 2005 using 2004 and 2005 net contributions and assumed investment returns, and the market value of invested assets at December 31, 2004 rolled forward to December 31, 2005 using 2005 net contributions and assumed investment returns. These three amounts are then averaged to determine the market-related value of plan assets used in calculating net benefit expense.

Adjustments, in excess of 10% of the greater of the accrued benefit obligation and plan asset fair value, that result from plan amendments, changes in assumptions and experience gains and losses, are amortized over the expected average remaining service life of the employee group covered by the plan. Experience will often deviate from the actuarial assumptions resulting in actuarial gains and losses.

Defined contribution plan costs are expensed by the Company as contributions are payable.

(n) INCOME TAXES

The Company's regulated gas and petroleum operations account for and recover income tax expense in rates as prescribed by their respective regulators. This includes accounting for income taxes by the taxes payable method and accounting for certain deferral and rate stabilization accounts on a net of realized tax basis. Therefore, future income taxes related to temporary differences are not recorded. The taxes payable method is followed as there is a reasonable expectation that all future income taxes will be recovered in rates when they become payable.

The Company's non-regulated operations and FSW follow the asset and liability method of accounting for income taxes. Future income tax assets and liabilities are determined based on temporary differences between the tax bases of assets and liabilities and their carrying values for accounting purposes. Future income tax assets and liabilities are measured at the tax rate that is expected to apply when the temporary differences reverse.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) STOCK-BASED COMPENSATION

The Company had a Share Option Plan whereby officers, directors and certain key employees may be granted options to purchase common shares. The Company uses the fair value based method for valuing stock options granted on or after January 1, 2003. Under the fair value based method, compensation cost is measured at the fair value at the date of grant and is expensed over the award's vesting period.

Prior to January 1, 2003, the Company used the settlement method of accounting for stock options, whereby any consideration paid by employees on the exercise of stock options was credited to common shares and no compensation expense was recognized.

The Company's Share Option Plan was discontinued on November 30, 2005 as a result of the acquisition of the Company by KMI.

The Company issued Deferred Share Units (''DSU's'') to senior management and Board members under long-term compensation programs and also as an optional form of compensation to Board members. The DSU's were marked-to-market at the end of each quarter and gains or losses were recognized in earnings. The DSU's notionally earned dividends that were reinvested as additional DSU's when dividends were paid, and were paid out in cash only on retirement or termination of the individual receiving them. The DSU's were paid out in cash upon the acquisition of the Company by KMI on November 30, 2005.

(p) LIABILITIES AND EQUITY

In accordance with recent changes to the CICA Handbook Section 3861 ''Financial Instruments — Disclosures and Presentation'', the Company's $125 million 8% Capital Securities have been reclassified from shareholders' equity to liabilities because the Capital Securities can be settled by issuing equity at a variable price dependent upon the market value of the Company's common shares at the settlement date. As a result of the change, distributions associated with the Capital Securities are now recorded as financing costs and the related income-tax benefits are recorded within income tax expense. Previously, the distributions were recorded on an after-tax basis as a deduction from net earnings to determine earnings applicable to common shares. There is no impact to earnings applicable to common shares or earnings per share. The changes have been applied retroactively and have increased long-term debt and decreased shareholders' equity, both by $125.0 million, compared to the amounts previously reported as at December 31, 2004. The restatement has also increased financing costs by $10.0 million, decreased income tax expense by $3.4 million and capital securities distributions by $6.6 million compared to the amounts previously reported for the year ended December 31, 2004.

(q) VARIABLE INTEREST ENTITIES

Effective January 1, 2005, the Company adopted the CICA Handbook Accounting Guideline 15 ''Consolidation of Variable Interest Entities''. The Company has performed a review of the entities with whom it conducts business and determined that under the definitions in the Guideline the Company's investment in Express US Holdings LP, part of the Express System, is deemed to be a variable interest entity. As the Company has not been identified as the primary beneficiary of Express US Holdings LP, the Company continues to account for its investment in the Express System on an equity basis. The Company's future exposure to loss regarding its investment is represented by the carrying value of the investment.

2. SEGMENT DISCLOSURES

2005

	Natural gas distribution	Petroleum transportation	Other activities	Total
Revenues	**$1,678.0**	**$ 227.8**	**$46.7**	**$1,952.5**
Cost of natural gas	**1,063.7**	**—**	**—**	**1,063.7**
Cost of revenues from other activities	**—**	**—**	**28.9**	**28.9**
Operation and maintenance	**195.8**	**82.3**	**42.6**	**320.7**
Depreciation and amortization	**96.7**	**37.6**	**8.3**	**142.6**
Property and other taxes	**47.4**	**24.6**	**(0.1)**	**71.9**
	1,403.6	**144.5**	**79.7**	**1,627.8**
Operating income	**274.4**	**83.3**	**(33.0)**	**324.7**
Financing costs	**129.2**	**31.7**	**30.5**	**191.4**
Share of (earnings) of Express System	**—**	**(21.9)**	**—**	**(21.9)**
Income taxes (recovery) on earnings	**54.4**	**9.0**	**(11.8)**	**51.6**
(Earnings) from Clean Energy net of disposition costs	**—**	**—**	**(2.5)**	**(2.5)**
Net earnings (loss) before discontinued operations	**90.8**	**64.5**	**(49.2)**	**106.1**
Earnings (loss) from discontinued operations	**—**	**—**	**(4.9)**	**(4.9)**
Net earnings (loss)	**90.8**	**64.5**	**(54.1)**	**101.2**
Total assets	**3,656.9**	**1,397.1**	**262.1**	**5,316.1**
Goodwill	**76.4**	**—**	**—**	**76.4**
Capital expenditures	**176.3**	**37.4**	**1.0**	**214.7**

2. SEGMENT DISCLOSURES (CONTINUED)

2004

	Natural gas distribution	Petroleum transportation	Other activities	Total
Revenues	$1,494.1	$ 225.5	$78.5	$1,798.1
Cost of natural gas	885.4	—	—	885.4
Cost of revenues from other activities	—	—	52.8	52.8
Operation and maintenance	190.5	66.0	18.2	274.7
Depreciation and amortization	98.7	35.9	9.9	144.5
Property and other taxes	47.1	22.5	0.3	69.9
	1,221.7	124.4	81.2	1,427.3
Operating income	272.4	101.1	(2.7)	370.8
Financing costs	126.2	22.5	26.9	175.6
Share of (earnings) of Express System	—	(15.0)	—	(15.0)
Income taxes (recovery) on earnings	50.3	22.7	(9.3)	63.7
Net earnings (loss)	95.9	70.9	(20.3)	146.5
Earnings from discontinued operations	—	—	3.3	3.3
Net earnings (loss)	95.9	70.9	(17.0)	149.8
Total assets	3,386.2	1,350.4	245.2	4,981.8
Goodwill	76.4	—	51.6	128.0
Capital expenditures	112.3	31.0	11.1	154.4

The segmented disclosures in these consolidated financial statements have been changed from those reported in the December 31, 2004 annual financial statements and no longer include the water and utility services business which are now reported as discontinued operations. Terasen's 30% share of CWLP is now included in other activities. The comparative segment information has been restated to reflect this change.

3. DISCONTINUED OPERATIONS

In January 2006, the Company entered into an agreement to sell Terasen Water and Utility Services, including the Company's 50% equity interest in FSW, to a consortium of external third parties and Terasen Water and Utility Services senior management. The sale does not include the Company's interest in CWLP. The proceeds are anticipated to approximate the consolidated net carrying value of the discontinued operations at December 31, 2005, and no significant gains or losses are expected to occur upon the disposition. The Company anticipates that the sale will be completed at the end of April 2006.

The Company has classified, at December 31, 2005, the assets and liabilities of the entities being sold as assets and liabilities held for sale. The revenue and expense items for 2005 have been classified as net earnings (loss) from discontinued operations and the comparative figures have been restated to conform with this presentation. Gross revenues applicable to the Terasen Water and Utility Services group were $205.1 million in 2005 (2004 — $158.9 million) and pre-tax income was $1.4 million (2004 — $6.4 million). The 2005 pre-tax income includes a charge to earnings of $7.2 million related to currency translation losses arising on the Company's investment in self sustaining foreign operations. Income taxes from discontinued operations includes a charge of $3.4 million on operating earnings from the entities and a write-off of $2.9 million of tax losses expiring as a result of the change in control.

4. ACQUISITIONS AND DISPOSITIONS

DISPOSITION OF CLEAN ENERGY

On October 31, 2005, the Company sold its 40.38% ownership in Clean Energy for proceeds of approximately U.S. $35.9 million. The sale, together with equity earnings of Clean Energy for the nine months ended September 30, 2005, resulted in a gain of $2.5 million, including the recognition of all unrealized gas forward contract gains of Clean Energy in 2005 totalling $10.9 million and the recognition of currency translation losses previously included in shareholders' equity totalling $8.4 million.

WATER AND UTILITY SERVICES ACQUISITIONS

In 2005 the Company purchased two water and utility services businesses for total cash proceeds of $11.2 million. The cash used to purchase these businesses has been included in Investing activities of Discontinued Operations on the Statements of Cash Flow.

On July 31, 2004, the Company acquired a 50 per cent interest in FSW. FSW provides water and wastewater treatment and water distribution and wastewater collection services to Fairbanks, Alaska. The Company paid $40.8 million for its 50 per cent interest after working capital adjustments. The Company has accounted for the acquisition of FSW using the purchase method and has proportionately consolidated its 50% of operations since the date of acquisition.

The Company and the other owners of FSW each have the option to have Terasen acquire the remaining 50 per cent interest in FSW at fair market value in 2009.

During 2004, the Company also acquired 100% of two businesses and increased its investment in two other businesses that provide meter reading, meter fleet management and installation services in Canada and the United States. The Company paid $17.1 million for the interest in

4. ACQUISITIONS AND DISPOSITIONS (CONTINUED)

these businesses after working capital adjustments. The earnings of these acquired businesses have been included in the statement of earnings from the date of acquisition.

The following table provides the allocation of the purchase price over the assets and liabilities acquired in 2004:

	FSW	Other	Total
Working capital	$ 2.2	$ 7.1	$ 9.3
Property, plant and equipment	27.0	1.6	28.6
Goodwill	24.0	8.0	32.0
Other assets	0.5	0.4	0.9
Future income taxes	(2.0)	—	(2.0)
Long-term debt assumed	(10.9)	—	(10.9)
Total cash paid	$ 40.8	$17.1	$ 57.9

5. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES

As at December 31, 2005, the Company has a 30% interest in CWLP and a 50% interest in FSW for which it uses the proportionate consolidation method of accounting. The comparative information for 2004 in the table below includes the Company's interest in Clean Energy which was accounted for under the proportionate consolidated method until the first quarter of 2005, and then equity-accounted until the interest in Clean Energy was sold in 2005. The revenue, expenses, and net income for 2004 has been restated to present the net earnings of the Company's 50% interest in FSW's as earnings from discontinued operations. The Company's proportionate interest in the assets and liabilities of FSW are excluded from the table below as they are classified as assets and liabilities held for sale at December 31, 2005. The Company's proportionate interest in FSW at December 31, 2005 includes $52.8 million of assets and $16.0 million of liabilities, all of which are classified as held for sale.

The Company's proportionate share of assets, liabilities, revenues, expenses, and cash flows related to these entities proportionately consolidated is summarized as follows:

	2005	2004
Current assets	**$10.2**	$ 27.1
Long-term assets (including property, plant and equipment and goodwill)	**35.6**	121.0
Current liabilities	**39.4**	41.3
Long-term liabilities	**—**	20.4
Revenues	**43.5**	73.0
Expenses (including financing costs and income tax)	**36.4**	67.7
Net earnings from continuing operations	**7.1**	5.3
Earnings from discontinued operations	**1.7**	0.6
Cash flows from operating activities	**13.9**	7.8
Cash flows from investing activities	**(0.1)**	(7.5)
Cash flows from financing activities	**—**	0.2

6. PROPERTY, PLANT AND EQUIPMENT

2005

	Weighted average depreciation rate	Cost	Accumulated depreciation	Net book Value
Natural gas distribution systems	**2.31%**	**$3,093.9**	**$ 596.7**	**$2,497.2**
Petroleum pipeline systems	**2.59%**	**1,329.5**	**329.7**	**999.8**
Plant, buildings and equipment	**9.13%**	**427.4**	**167.0**	**260.4**
Land and land rights	**0.15%**	**153.2**	**2.7**	**150.5**
		$5,004.0	**$1,096.1**	**$3,907.9**

2004

	Weighted average depreciation rate	Cost	Accumulated depreciation	Net book Value
Natural gas distribution systems	2.40%	$3,009.6	$ 542.5	$2,467.1
Petroleum pipeline systems	2.51%	1,295.0	295.9	999.1
Water and utility plant and distribution systems	3.71%	34.0	1.8	32.2
Plant, buildings and equipment	8.98%	404.4	160.3	244.1
Land and land rights	0.25%	152.6	2.6	150.0
		$4,895.6	$1,003.1	$3,892.5

6. **PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

As allowed by the regulators, during the year ended December 31, 2005 the Company capitalized an allowance for equity funds during construction at approved rates of $1.0 million (2004 — $1.0 million) and approved capitalized overhead of $31.1 million (2004 — $31.1 million), with offsetting inclusions in earnings.

7. **RATE STABILIZATION ACCOUNTS**

	2005	2004
Current Assets		
RDDA	**$12.8**	$12.9
RSAM	**13.0**	11.1
CCRA	**—**	2.7
Gas Cost Variance Account (TGVI)	**2.6**	0.4
	28.4	27.1
Long-Term Assets		
RDDA	**22.4**	32.7
RSAM	**25.9**	27.9
	48.3	60.6
Current Liabilities		
CCRA	**(21.3)**	—
MCRA	**(26.6)**	(27.6)
	(47.9)	(27.6)
Net rate stabilization accounts	**$28.8**	$60.1

The current portion of the rate stabilization accounts represents the amounts expected to be recovered or refunded in rates over the next year. Actual recoveries/(refunds) will vary depending on actual natural gas consumption and recovery amounts approved by the BCUC.

The RSAM account is anticipated to be recovered in rates over three years. Recovery of the RSAM balance is dependent upon annually approved rates and actual gas consumption volumes. The MCRA and CCRA accounts, which succeeded the GCRA account in 2004, are anticipated to be fully recovered or paid within the next fiscal year.

8. **OTHER ASSETS**

	2005	2004
Deferred charges		
Subject to rate regulation and approved for recovery in rates		
Income taxes recoverable on post-employment benefits	**$10.6**	$ 8.4
Long-term debt issue costs	**9.5**	8.6
Commercial commodity unbundling costs	**3.2**	4.0
Replacement transportation agreement	**3.2**	3.6
Other items included approved for recovery in rates	**12.2**	10.9
Subject to rate regulation but not yet approved for recovery in rates		
Deferred development costs for capital projects	**19.5**	7.9
Corporate capital tax deferrals	**7.5**	7.7
Inland Pacific Connector Development costs	**—**	5.4
Other items subject to rate regulation but not yet approved	**1.7**	0.9
Included in non-regulated entities		
Long-term debt issue costs	**1.0**	1.6
Other items included in non-regulated entities	**2.7**	12.4
	71.1	71.4
Investments	**2.2**	1.3
Long-term receivables	**11.5**	14.7
	$84.8	$87.4

Amortization of these deferred charges in rates for the year ended December 31, 2005 totalled $11.3 million (2004 -$9.0 million).

The deferral account for income taxes on post-employment benefits relates to income tax amounts on post employment benefit expense. The BCUC allows post-employment benefits to be collected from customers through rates calculated on the accrual basis, rather than a cash paid basis, which produces timing differences for income tax purposes. Since Terasen Gas accounts for income taxes using the taxes payable basis of accounting, the tax effect of this timing difference is included in other assets, and will be reduced as cash payments for post-employment benefits exceed required accruals and amounts collected from customers in rates.

Long-term debt issue costs are amortized over the terms of the related debt, whose maturity dates are provided in Note 9 ''Long-Term Debt''.

8. OTHER ASSETS (CONTINUED)

The commercial commodity unbundling costs deferred are costs incurred to develop a third-party marketer alternative for commercial customers to purchase natural gas from suppliers other than Terasen Gas. The BCUC has approved the recovery of these costs in rates over a five-year period, of which four years remain at December 31, 2005.

The deferral account for the replacement transportation agreement relates to amounts that Terasen Gas is allowed to recover from customers in rates in order to cover any shortfall in revenues relative to a minimum amount approved by the BCUC on the Company's Southern Crossing Pipeline. The deferral account is being amortized and recovered in rates over a five-year period, of which four years remain at December 31, 2005.

Deferred development costs for capital projects include costs for projects under development that are expected to be added to regulated rate-base in future periods. These costs include approximately $16.2 million for Trans Mountain TMX expansion costs and $3.3 million for capital projects that are currently in progress by the natural gas distribution operations.

The deferral for corporate capital tax relates to tax payments that were made to the province of British Columbia (''the Province'') related to assessments for corporate capital tax for TGVI and Terasen Gas which the Company believes were incorrectly assessed. The Company is currently in the process of appealing the tax assessments and depending on the success of the appeals, the Company will either be refunded these amounts from the Province or alternatively expects to recover the costs from customers in future rates.

On October 5, 2005, the British Columbia Utilities Commission issued a decision that denied recovery of approximately $5.4 million of costs that Terasen Gas incurred to develop the Inland Pacific Connector pipeline project that is planned to bring new gas transmission capacity to the Lower Mainland of British Columbia when economic conditions make the project viable. The Company still believes that the project is viable and intends to keep all existing permits and land right approvals in place that have already been granted. Terasen Gas has filed an application to have the decision reconsidered, but has recorded an after-tax provision of $3.6 million at December 31, 2005.

Deferred charges for rate regulated entities that have been aggregated in the table above and in the table in ''Other Long-term Liabilities and Deferred Credits'' in Note 10 relate to more than fifty deferral accounts, none of which exceed $1.6 million individually. All of these accounts have been approved by regulators in prior annual rate approvals or orders and are being amortized over various periods depending on the nature of the costs.

9. LONG-TERM DEBT

	2005	2004
Terasen Inc.		
(a) Medium Term Note Debentures:		
6.30% Series 1, due December 1, 2008	**$ 200.0**	$ 200.0
4.85% Series 2, due May 8, 2006	**100.0**	100.0
5.56% Series 3, due September 15, 2014	**125.0**	125.0
(b) 8% Capital Securities, due April 19, 2040	**125.0**	125.0
	550.0	550.0
Terasen Gas Inc.		
(c) Purchase Money Mortgages:		
11.80% Series A, due September 30, 2015	**74.9**	74.9
10.30% Series B, due September 30, 2016	**200.0**	200.0
(d) Debentures and Medium Term Note Debentures:		
9.75% Series D, due December 17, 2006	**20.0**	20.0
10.75% Series E, due June 8, 2009	**59.9**	59.9
6.20% Series 9, due June 2, 2008	**188.0**	188.0
6.95% Series 11, due September 21, 2029	**150.0**	150.0
6.50% Series 12, due July 20, 2005	**—**	200.0
6.50% Series 13, due October 16, 2007	**100.0**	100.0
6.15% Series 16, due July 31, 2006	**100.0**	100.0
Floating Rate Series 17, interest rate of 2.93% (2004) due September 26, 2005	**—**	150.0
6.50% Series 18, due May 1, 2034	**150.0**	150.0
5.90% Series 19, due February 26, 2035	**150.0**	—
Floating Rate Series 20, interest rate of 3.36% due October 24, 2007	**150.0**	—
Various series, weighted average interest rate of 9.63% (2004 — 9.63%) due in 2005	**—**	45.0
Obligations under capital leases, at 6.07% (2004 — 6.23%)	**8.8**	10.8
	1,351.6	1,448.6
Terasen Gas (Vancouver Island) Inc.		
(e) Syndicated credit facility at short-term floating rates, weighted average interest rate of 3.88% (2004 — 3.35%) with maturities of $176.5 million in 2006 and $33.0 million in 2009	**209.5**	214.9
Terasen Pipelines (Trans Mountain) Inc.		
(f) Debentures:		
11.50% Series C, due June 20, 2010	**—**	35.0
	—	35.0
Terasen Pipelines (Corridor) Inc.		
(g) Debentures:		
4.24% Series A, due February 2, 2010	**150.0**	—
5.033% Series B, due February 2, 2015	**150.0**	—
(h) Commercial Paper at short-term floating rates, weighted average interest rate of 2.61% (2004 — 2.51%)	**—**	446.0
	300.0	446.0
Other long-term debt	**—**	13.8
Total long-term debt	**2,411.1**	2,708.3
Less: current portion of long-term debt	**398.2**	416.7
	$2,012.9	$2,291.6

(a) TERASEN INC. MEDIUM TERM NOTE DEBENTURES:
The Company's Medium Term Note Debentures are unsecured obligations but are subject to the restrictions of the Trust Indenture dated November 21, 2001.

(b) TERASEN INC. CAPITAL SECURITIES:
On April 19, 2000, the Company issued $125.0 million of 8.0% Capital Securities with a term to maturity of 40 years for gross proceeds of $123.7 million. The Company may elect to defer payments on these securities and settle such deferred payments in either cash or common shares, and has the option to settle principal at maturity through the issuance of common shares. The securities are exchangeable at the option of the holder on or after April 19, 2010 for common shares of the Company at 90% of the market price, subject to the right of the Company to redeem the securities for cash. Distributions on these securities, net of related income taxes, are deducted from net earnings for the purposes of calculating earnings applicable to common shares.

9. LONG-TERM DEBT (CONTINUED)

(c) TERASEN GAS INC. PURCHASE MONEY MORTGAGES:
The Series A and Series B Purchase Money Mortgages are secured equally and rateably by a first fixed and specific mortgage and charge on Terasen Gas' Coastal Division assets, and are subject to the restrictions of the Trust Indenture dated December 3, 1990. The aggregate principal amount of Purchase Money Mortgages that may be issued under the Trust Indenture is limited to $425 million.

(d) TERASEN GAS INC. DEBENTURES AND MEDIUM TERM NOTE DEBENTURES:
Terasen Gas' debentures are unsecured obligations but are subject to the restrictions of the Trust Indenture dated November 1, 1977, as amended and supplemented.

(e) TERASEN GAS (VANCOUVER ISLAND) INC. BANK SYNDICATE:
The credit facility from the syndicate of banks is secured by a first floating charge over all of the assets of TGVI, assignment of certain material contracts, and assignment of royalty revenue and interruptible incentive payments. Subsequent to year-end the credit facility was renegotiated, and further information is disclosed in Note 19 ''Subsequent Events''.

(f) TERASEN PIPELINES (TRANS MOUNTAIN) INC. DEBENTURES:
The Trans Mountain debentures were unsecured obligations but were subject to the restrictions of the Trust Indenture dated February 18, 1987, as amended and supplemented.

On November 1, 2005, Trans Mountain redeemed the 11.50% Series C Debentures, due June 20, 2010. The total redemption price for the Debentures included a redemption premium of $10.9 million which has been reflected in financing costs for the year ended December 31, 2005. The Company has recognized an income tax benefit associated with the redemption costs of $3.6 million in income taxes for the year ended December 31, 2005.

(g) TERASEN PIPELINES (CORRIDOR) INC. DEBENTURES PAPER:
On February 1, 2005, Terasen Pipelines (Corridor) Inc. (''Corridor'') issued $150 million Series A Debentures and $150 million Series B Debentures. The debentures are unsecured and subject to restrictions of the Trust Indenture. The proceeds were used to repay a portion of Corridor's outstanding commercial paper.

Concurrent with the debenture issuance, Corridor entered into an operating credit facility which has annual renewal provisions. The credit facility is unsecured and will backstop Corridor's commercial paper issuance.

The Company's Series 1 and Series 3 Medium Term Note Debentures and Capital Securities, Terasen Gas' Series B Purchase Money Mortgages, Series E Debentures, and Series 11, Series 13, Series 16, Series 18, and Series 19 Medium Term Note Debentures, and Terasen Pipelines (Corridor) Inc. Series A and Series B Debentures are redeemable in whole or in part at the option of the Company at a price equal to the greater of the Canada Yield Price, as defined in the applicable Trust Indenture, and the principal amount of the debt to be redeemed, plus accrued and unpaid interest to the date specified for redemption. The Canada Yield Price is calculated as an amount that provides a yield slightly above the yield on an equivalent maturity Government of Canada bond.

Required principal repayments over the next five years are as follows:

2006	$398.2
2007	251.8
2008	389.7
2009	94.6
2010	151.8

10. OTHER LONG-TERM LIABILITIES AND DEFERRED CREDITS

	2005	2004
Pension and other post-employment benefit liabilities	**$ 39.7**	$ 30.8
Deferred gains on sale of natural gas distribution assets	**59.2**	60.3
Deferred payment	**36.0**	33.9
Deferred credits		
Subject to rate regulation and approved for refund in rates		
Earnings Sharing Mechanism	**8.8**	1.6
Deferred Interest Mechanism	**2.4**	2.5
Other items included approved for repayment in rates	**6.8**	8.2
Other deferred credits in entities subject to rate regulation	**1.7**	1.8
Other deferred credits/liabilities	**13.9**	16.9
	$168.5	$156.0

The deferred gains on sale of natural gas distribution assets occurred upon the sale and leaseback of pipeline assets to certain municipalities in 2001, 2002, 2004 and 2005. The pre-tax gains of $70.5 million on combined cash proceeds of $141.1 million are being amortized over the 17-year terms of the operating leases that commenced at the time of the sale transactions. These operating lease commitments are included in the table in Note 17.

10. OTHER LONG-TERM LIABILITIES AND DEFERRED CREDITS (CONTINUED)

The deferred payment resulted from the Company's acquisition of TGVI effective January 1, 2002. The deferred payment has a face value of $52.0 million but was discounted at January 1, 2002 to a present value of $28.2 million. The payment is due on December 31, 2011 or sooner if TGVI realizes revenues from transportation revenue contracts to serve power-generating plants which may be constructed in TGVI's service area. If any part of the deferred payment is paid prior to December 31, 2011, the difference between the payment and the carrying value of the debt will be treated as contingent consideration for the acquisition of TGVI and will be added to the cost of the purchase at that time.

The Earnings Sharing Mechanism is a mechanism agreed to in Terasen Gas' multi-year agreement to share, on a 50/50 basis, amounts earned by Terasen Gas on its regulated activities that exceed or are less than amounts allowed by the BCUC in the cost-of-service allowed return calculations. These amounts are shared on an after-tax basis, and are returned to customers in rates.

Terasen Gas has a deferred interest mechanism which has been approved by the BCUC which requires that variances due to differences in long-term and short-term borrowings and interest rates from those that have been approved in rates be returned to customers in future rates. The impact of this mechanism was to increase financing costs for the year ended December 31, 2005 by $2.0 million (2004 — $1.4 million) from what otherwise would be reported. The balance of the deferred interest account is being amortized on a straight-line basis over three years.

Other deferred credits/liabilities includes amounts resulting from the Company's acquisition of TGVI effective January 1, 2002.

Amortization of deferred credits in entities that are subject to rate regulation in rates for the year ended December 31, 2005 totalled $4.5 million (2004 — $3.8 million).

11. SHARE CAPITAL

AUTHORIZED SHARE CAPITAL

The Company is authorized to issue 750,000,000 common shares, 100,000,000 first preference shares and 100,000,000 second preference shares, all without par value.

STOCK SPLIT

On June 14, 2004 the Company carried out a two-for-one stock split effected by paying a stock dividend of one additional common share for each common share held as of June 7, 2004.

All equity-based benefit plans have been amended to reflect the additional shares or options resulting from the stock split. All share and per share data has been amended for comparative and current periods to reflect the stock split.

COMMON SHARES

Changes in the issued and outstanding common shares are as follows:

	2005		2004	
	Number	**Amount**	Number	Amount
Outstanding, beginning of year	**114,355,665**	**$883.4**	113,338,942	$868.7
Issued under:				
Share option plan	**1,283,146**	**21.3**	1,009,761	14.5
Employee share purchase plan	**4,351**	**0.2**	6,962	0.2
	115,643,162	**$904.9**	114,355,665	$883.4
Less common shares held by Trans Mountain	**9,184,188**		9,184,188	
Outstanding, end of year	**106,458,974**		105,171,477	

As at December 31, 2005, Trans Mountain owned 7.9% (2004 — 8.0%) of the common shares of Terasen Inc. The cost of these shares is shown as a deduction from shareholder's equity.

All of the shares outstanding at December 31, 2005 are owned by KMI.

12. SHARE OPTION PLAN AND STOCK-BASED COMPENSATION

SHARE OPTION PLAN

The Company had a Share Option Plan whereby officers and certain key employees could be granted options to purchase a maximum of 12,600,000 unissued common shares with terms up to ten years. There were two categories of options which were issued under the Share Option Plan, Regular Share Options and Performance Based Share Options. The option exercise price was the closing sale price of the common shares on the Toronto Stock Exchange on the trading day prior to the date the option was granted. The Share Option Plan was discontinued on November 30, 2005 as a result of the acquisition of the Company by KMI.

REGULAR SHARE OPTIONS

Since 2000, the Company had granted options with eight-year terms which were exercisable on a cumulative basis and vested at one-third per year on the anniversary of the option grant date. Prior to 2000, the Company granted options with ten-year terms which were exercisable on a cumulative basis at 20% per year.

12. SHARE OPTION PLAN AND STOCK-BASED COMPENSATION (CONTINUED)

REGULAR SHARE OPTIONS OUTSTANDING

	2005		2004	
	Shares under option	**Weighted-average exercise price**	Shares under option	Weighted-average exercise price
Outstanding, beginning of year	**565,868**	**$15.53**	1,118,822	$14.31
Options granted during the year	**5,000**	**29.45**	24,800	23.93
Options exercised	**(287,165)**	**15.15**	(537,716)	13.39
Options forfeited, cancelled and expired	**(82,991)**	**11.59**	(40,038)	17.46
Options purchased by KMI and cancelled	**(200,712)**	**18.12**	—	—
Outstanding, end of year	**—**	**$ —**	565,868	$15.40
Options exercisable, end of year	**—**	**$ —**	348,857	$13.25

PERFORMANCE BASED SHARE OPTIONS

The Company had granted performance based share options with eight-year terms. The options vested at one-third per year on the anniversary of the option grant dates, subject to the market price of the Company's common shares reaching 125% of the option's exercise price for at least 10 out of 15 consecutive trading days within four years of the option grant date. If the market price requirement was not attained within four years of grant date, the participant was still eligible to exercise two-thirds of the granted options if the common share price reached 125% of the option's exercise price for at least 10 out of 15 consecutive trading days during the subsequent four years.

PERFORMANCE BASED SHARE OPTIONS OUTSTANDING

	2005		2004	
	Shares under option	**Weighted-average exercise price**	Shares under option	Weighted-average exercise price
Outstanding, beginning of year	**2,339,619**	**$19.28**	2,304,398	$17.08
Options granted during the year	**850,200**	**29.45**	716,600	23.88
Options exercised	**(995,981)**	**16.96**	(472,045)	15.53
Options forfeited, cancelled and expired	**(262,574)**	**17.09**	(209,334)	19.68
Options purchased by KMI and cancelled	**(1,931,264)**	**25.12**	—	—
Outstanding, end of year	**—**	**$ —**	2,339,619	$19.24
Options exercisable, end of year	**—**	**$ —**	1,020,508	$16.27

STOCK-BASED COMPENSATION

In 2005, 855,200 stock options were granted (2004 — 741,400) at an average exercise price of $29.45 (2004 — $23.88) under the Company's Share Option Plan. The Company has applied the fair value based method of accounting for stock options granted after January 1, 2003. Reported earnings for 2005 include a compensation charge of $2.0 million (2004 — $1.2 million) representing the fair value of options granted in 2003, 2004 and 2005 amortized over their respective vesting periods, with a corresponding increase to contributed surplus. Just prior to the acquisition of the Company by KMI, any outstanding but not yet exercisable options became immediately exercisable and an additional pre-tax charge of $3.6 million was recorded to recognize the accelerated vesting of the remaining options. The options were then purchased by KMI and subsequently cancelled. Had the Company used the fair value based method to account for stock options granted during 2002, pro forma earnings and earnings per share would have been as follows:

		Year ended December 31, 2004
Net earnings	As reported	$149.8 million
	Pro forma	$148.6 million

A Black-Scholes model was used to calculate stock option fair values. The weighted average fair value of options granted in 2005 was $4.33 (2004 — $2.40). Significant assumptions in valuing the options were as follows:

	2005		2004	
	Regular Options	**Performance Based**	Regular Options	Performance Based
Interest rate	3.6%	3.7%	3.5 - 3.7%	3.5%
Expected volatility	16.5%	16.5%	15.1 - 15.4%	15.4%
Expected life	5 years	6 years	5 years	6 years

12. SHARE OPTION PLAN AND STOCK-BASED COMPENSATION (CONTINUED)

DEFERRED SHARE UNITS

The Company had issued Deferred Share Units (''DSU's'') to certain senior employees and directors. At December 31, 2005, there were no (2004 — 52,859) DSU's outstanding due to the payment of all outstanding DSU's at the acquisition of the Company by KMI on November 30, 2005. The liability at December 31, 2005 was nil (2004 — $1.5 million) and was included in other long-term liabilities and deferred credits.

13. EMPLOYEE BENEFIT PLANS

The Company is a sponsor of pension plans for eligible employees. The plans include registered defined benefit pension plans, supplemental unfunded arrangements, which provide pension benefits in excess of statutory limits, and defined contributory plans. The Company also provides post-employment benefits other than pensions for retired employees. The following is a summary of each type of plan:

DEFINED BENEFIT PLANS

Retirement benefits under the defined benefit plans are based on employees' years of credited service and remuneration. Company contributions to the plan are based upon independent actuarial valuations. The most recent actuarial valuations of the defined benefit pension plans for funding purposes were at December 31, 2004 and December 31, 2002 and the date of the next required valuations are December 31, 2005 and December 31, 2007. The December 31, 2005 valuations will not be completed until the second quarter of 2006. The expected weighted average remaining service life of employees covered by the defined benefit pension plans is 11.8 years (2004 — 11.8 years).

DEFINED CONTRIBUTION PLAN

Effective in 2000 for Terasen Gas and 2003 for petroleum transportation operations, all new non-union employees become members of defined contribution pension plans. Company contributions to the plan are based upon employee age and pensionable earnings for employees of the natural gas distribution operations and pensionable earnings for employees of the petroleum transportation operation.

SUPPLEMENTAL PLANS

Certain employees are eligible to receive supplemental benefits under both the defined benefit and defined contribution plans. The supplemental plans provide pension benefits in excess of statutory limits. The supplemental plans are unfunded and are secured by letters of credit.

OTHER POST-EMPLOYMENT BENEFITS

The Company provides retired employees with other post-employment benefits that include, depending on circumstances, supplemental health, dental and life insurance coverage. Post-employment benefits are unfunded and annual expense is recorded on an accrual basis based on independent actuarial determinations, considering among other factors, health care cost escalation. The most recent actuarial valuations were completed as at December 31, 2002 and the December 31, 2005 valuation will not be completed until second quarter of 2006. The expected weighted average remaining service life of employees covered by these benefit plans is 9.9 years (2004 — 9.9 years).

13. EMPLOYEE BENEFIT PLANS (CONTINUED)

The Company measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 each year. The financial positions of the employee defined benefit pension plans and other benefit plans are presented in aggregate in the tables below:

	Pension benefit plans		Other benefit plans	
	2005	2004	**2005**	2004
Plan assets				
Fair value, beginning of year	**$274.5**	$255.3	**$ —**	$ —
Company contributions	**6.9**	5.5	**1.6**	1.5
Contributions by members	**3.3**	2.9	**—**	—
Actual return on plan assets	**28.6**	26.7	**—**	—
Benefits paid	**(14.3)**	(15.2)	**(1.5)**	(1.4)
Other	**(0.5)**	(0.7)	**(0.1)**	(0.1)
Fair value, end of year	**298.5**	274.5	**—**	—
Accrued benefit obligation				
Balance, beginning of year	**298.0**	276.7	**67.3**	61.0
Service cost	**8.5**	8.1	**1.4**	1.3
Interest cost	**17.9**	17.2	**4.1**	3.9
Benefit payments	**(14.3)**	(15.2)	**(1.5)**	(1.4)
Contributions by members	**3.3**	2.9	**—**	—
Plan amendments and curtailments	**0.9**	—	**—**	—
Past service cost	**0.3**	0.5	**0.4**	—
Actuarial loss	**2.8**	—	**—**	—
Change in discount rate	**27.0**	7.8	**10.2**	2.5
Balance, end of year	**344.4**	298.0	**81.9**	67.3
Plan surplus (deficiency)	**(45.9)**	(23.5)	**(81.9)**	(67.3)
Unamortized transitional obligation (benefit)	**(23.8)**	(27.2)	**4.7**	6.2
Unamortized actuarial loss	**62.7**	43.2	**39.7**	32.0
Unamortized past service costs	**7.4**	9.0	**(2.6)**	(3.2)
Accrued benefit asset (liability)	**$ 0.4**	$ 1.5	**$(40.1)**	$(32.3)

The net accrued benefit liability is included in other long-term liabilities and deferred credits (Note 10).

Included in the accrued benefit obligation and fair value of the plan assets at year-end are the following amounts in respect of plans with accrued benefit obligations in excess of fair value of assets:

	Pension benefit plans		Other benefit plans	
	2005	2004	**2005**	2004
Accrued benefit obligations:				
Unfunded plans	**$ 35.9**	$ 28.0	**$ 81.9**	$ 67.3
Funded plans	**258.0**	156.5	**—**	—
	293.9	184.5	**81.9**	67.3
Fair value of plan assets	**246.2**	151.9	**—**	—
Funded status deficit	**$ (47.7)**	$ (32.6)	**$(81.9)**	$(67.3)

The accrued benefit obligations for unfunded pension benefit plans are secured by letters of credit.

13. EMPLOYEE BENEFIT PLANS (CONTINUED)

The net benefit plan expense is as follows:

	Pension benefit plans		Other benefit plans	
	2005	2004	**2005**	2004
Current service cost	**$ 8.7**	$ 8.1	**$1.6**	$1.3
Interest cost on projected benefit obligations	**17.9**	17.2	**4.1**	3.9
Actual return on plan assets	**(28.6)**	(26.7)	**—**	—
Net actuarial gains	**29.8**	7.8	**9.0**	2.5
Past service costs	**0.3**	0.5	**—**	—
Impact of curtailment/settlement	**0.9**	—	**—**	—
Net benefit plan expense before adjustments	**29.0**	6.9	**14.7**	7.7
Adjustments to recognize the long-term nature of employee future benefit costs:				
Difference between actual and expected return on plan assets	**9.2**	7.7	**—**	—
Difference between actual and recognized actuarial gains (losses) in year	**(26.8)**	(5.2)	**(6.4)**	0.1
Difference between actual and recognized past service costs in year	**0.4**	0.1	**(0.3)**	(0.3)
Special termination benefits	**(0.7)**	—	**—**	—
Amortization of transitional obligation (benefit)	**(3.4)**	(3.4)	**1.6**	1.6
Other	**—**	1.5	**—**	—
Net benefit plan expense	**$ 7.7**	$ 7.6	**$9.6**	$9.1
Defined contribution plan expense	**$ 1.6**	$ 2.3		
	$ 9.3	$ 9.9		

BENEFIT PLAN ASSETS

The weighted-average asset allocation by asset category of the Company's funded defined benefit pension plans is as follows:

	Pension benefit plans	
	2005	2004
Equity securities	**57%**	55%
Fixed income securities	**38%**	40%
Other assets	**5%**	5%
Total assets	**100%**	100%

The investment policy for benefit plan assets is to optimize the risk-return using a portfolio of various asset classes. The Company's primary investment objectives are to secure registered pension plans, and maximize investment returns in a cost-effective manner while not compromising the security of the respective plans. The pension plans utilize external investment managers to manage the investment policy. Assets in the plan are held in trust by independent third parties.

The pension plans do not directly hold any shares of the Company.

SIGNIFICANT ASSUMPTIONS

The discount rate assumption used in determining pension and post-retirement benefit obligations and net benefit expense reflects the market yields, as of the measurement date, on high-quality debt instruments. The expected rate of return on plan assets assumption is reviewed annually by management, in conjunction with actuaries. The assumption is based on the expected returns for the various asset classes, weighted by the portfolio allocation.

The weighted average significant actuarial assumptions used to determine the accrued benefit obligation and the benefit plan expense are as follows:

	Pension benefit plans		Other benefit plans	
	2005	2004	**2005**	2004
Accrued benefit obligation				
Discount rate at December 31, based on AA Corporate bonds	**5.00%**	6.00%	**5.00%**	6.00%
Rate of compensation increase	**3.50%**	3.50%	**—**	—
Net benefit plan expense				
Discount rate at January 1, based on AA Corporate bonds	**6.00%**	6.25%	**6.00%**	6.25%
Expected rate of return on plan assets	**7.50%**	7.50%	**—**	—

13. EMPLOYEE BENEFIT PLANS (CONTINUED)

The assumed health-care cost trend rates for other post-employment benefit plans are as follows:

	2005	2004
Extended health benefits		
Initial health care cost trend rate	**9.0%**	9.0%
Annual rate of decline in trend rate	**1.0%**	1.0%
Ultimate health care cost trend rate	**5.0%**	5.0%
Year that the rate reaches the ultimate trend rate	**2008**	2008
Medical Services Plan Benefits Premium trend rate	**4.0%**	4.0%

A one percentage-point change in assumed health-care cost trend rates would have the following effects:

2005	**One percentage-point increase**	**One percentage-point decrease**
Effect on the total of the service cost and interest cost components of the benefit plan expense	$ 1.5	$ (1.2)
Effect on accrued benefit obligation	15.5	(12.9)

CASH FLOWS
Total cash contributions for employee benefit plans consist of:

	Employee benefit plans	
	2005	2004
Funded plans	**$ 5.3**	$4.3
Beneficiaries of unfunded plans	**3.2**	2.7
Defined contribution plans	**1.6**	2.3
Total	**$10.1**	$9.3

The contributions for 2006 are anticipated to be approximately the same as 2005 for both the defined pension benefit plans and other benefit plans.

BENEFIT CHANGES
Effective January 1, 2004, the Company modified its post-employment benefit program for non-union active employees in order to provide future retirees with more choice of coverage and to reduce the Company's exposure to future health and group life cost increases. The new plan is predominantly a defined contribution plan incorporating a Company-paid health spending account, a security health plan and life insurance. Provincial medical services plan premiums will now be paid by the retiree.

All plan members who have retired on or before December 31, 2004 receive benefits under the plans that were in effect when they retired, which includes the payment of provincial medical services plan premiums by the Company. Employees electing to retire during 2005 will have a choice between the new and old plan, and employees retiring after December 31, 2005 will participate in the new plan.

These assumptions, including the post-employment benefit plan changes, were included in the calculation of the accrued benefit obligation at December 31, 2003, 2004 and 2005.

IMPACT OF RATE REGULATION
As required by the regulator, Terasen Gas is required under its approved cost of service model to defer the amounts of pension benefit expense that exceed or are less than the amounts approved by the regulator to be recovered in rates each year. During the year ended December 31, 2005 the Company has deferred pension expense of $0.3 million that exceeded the amount approved by the regulator to be recovered in rates for 2005.

14. FINANCING COSTS

	2005	2004
Interest and expense on long-term debt	**$177.9**	$151.6
Interest on short-term debt	**15.0**	25.1
Interest capitalized	**(1.5)**	(1.1)
	$191.4	$175.6

Included in interest expense on long-term debt for the year ended December 31, 2005 is $10.9 million of redemption premium paid on the redemption of Trans Mountain Debentures during the year.

As allowed by the regulators, during the year ended December 31, 2005, the Company capitalized interest for borrowing requirements for construction of assets that have not been included in rate base of $1.5 million (2004 — $1.1 million).

15. INCOME TAXES

PROVISION FOR INCOME TAXES

	2005	2004
Current income taxes	**$48.7**	$66.3
Future income taxes	**2.9**	(2.6)
	$51.6	$63.7

VARIATION IN EFFECTIVE INCOME TAX RATE

Consolidated income taxes vary from the amount that would be computed by applying the Canadian and United States Federal, British Columbia and Alberta combined statutory income tax rate of 33.77% (2004 — 34.52%) to earnings before income taxes as shown in the following table:

	2005	2004
Earnings before income taxes	**$157.7**	$210.2
Combined statutory income tax rate	**33.77%**	34.52%
Combined income taxes at statutory rate	**$ 53.3**	$ 72.6
Increase (decrease) in income taxes resulting from:		
Capital cost allowance and other deductions claimed for income tax purposes over amounts recorded for accounting purposes	**(10.0)**	(14.7)
Large Corporations Tax in excess of surtax	**6.1**	6.5
Non-deductible expenses and non-taxable income	**9.6**	5.5
Benefit of tax rate changes on losses	**—**	(0.4)
Equity income not subject to tax	**(4.7)**	(3.3)
Write-off of restricted tax loss carryforwards	**5.9**	—
Other permanent differences	**(8.0)**	(2.6)
Other	**(0.6)**	0.1
Actual consolidated income taxes	**$ 51.6**	$ 63.7
Effective income tax rate	**32.72%**	30.30%

FUTURE INCOME TAXES

The net future income tax liability of the Company of $88.7 million (2004 — $68.7 million) relates primarily to the tax effect of temporary differences on non-regulated property, plant and equipment balances and tax benefits repayable to shippers in future periods.

As a result of the Company accounting for income taxes following the taxes payable method for its natural gas distribution and petroleum transportation regulated operations, the Company has not recognized net future income tax liabilities amounting to $301.8 million at December 31, 2005 (2004 — $278.7 million) and has not recognized a future income tax expense of $23.1 million for the year ended December 31, 2005 (2004 — $15.2 million), all of which were calculated using the asset and liability method.

16. FINANCIAL INSTRUMENTS

FAIR VALUE ESTIMATES

The carrying values of cash and short-term investments, accounts receivable, short-term notes and accounts payable and accrued liabilities approximate their fair values due to the relatively short period to maturity of the instruments.

The fair value of the Company's investment in the Express System is estimated to approximate its carrying value.

The fair value of the Company's long-term debt, calculated by discounting the future cash flow of each debt issue at the estimated yield to maturity for the same or similar issues at December 31, 2005, or by using available quoted market prices, is estimated at $2,673.4 million (2004 — $2,818.2 million). The majority of the Company's long-term debt relates to regulated operations which enables the Company to recover the existing financing charges through rates or tolls.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates cannot be determined with precision as they are subjective in nature and involve uncertainties and matters of judgment.

DERIVATIVE INSTRUMENTS

The Company uses derivative instruments to hedge its exposures to fluctuations in natural gas prices, interest rates and foreign currency exchange rates.

16. FINANCIAL INSTRUMENTS (CONTINUED)

Asset (Liability)	Number of swaps and options	Term to maturity (years)	December 31 2005 Carrying Value	2005 Fair Value	2004 Carrying Value	2004 Fair Value
			(in millions)			
Interest Rate Swaps						
Terasen Inc.	**3**	**1 - 9**	**$ —**	**$ 3.6**	$ —	$5.4
TGI	**3**	**2**	**—**	**(1.6)**	—	—
TGVI	**4**	**1 - 4**	**—**	**(0.6)**	—	(3.2)
Corridor	**2**	**5 - 10**	**—**	**0.3**	—	—
Natural Gas Commodity Swaps and Options						
TGI and TGVI	**161**	**Up to 3**	**21.2**	**105.6**	—	(8.3)
Clean Energy	**—**	**—**	**—**	**—**	6.5	6.5
Foreign Currency Swaps						
Terasen Inc.	**—**	**—**	**—**	**—**	(0.6)	(0.6)

The natural gas derivatives fair value reflects only the value of the natural gas derivatives and not the offsetting change in value of the underlying future purchases of natural gas. These fair values reflect the estimated amounts the Company would receive or pay to terminate the contracts at the stated dates.

Included in the carrying value of the natural gas derivatives is $22.2 million of unrealized fair value gains associated with derivative instruments which were deemed to be ineffective at December 31, 2005, and $1.0 million of derivative instruments which did not qualify for hedge accounting that are in a liability position.

Clean Energy, an entity in which the Company held an interest, had historically purchased gas forward contract positions to offset future commodity supply contracts. Since these contracts were not specifically designated as hedges, these positions were marked-to-market at each balance sheet date and gains or losses were reported in the statement of earnings as cost of revenues from other activities. During the year ended December 31, 2005 the Company included in earnings an amount of $10.9 million (2004 — $3.3 million) net of tax and estimated selling expenses pertaining to the Company's proportionate share of Clean Energy's gas forward contracts.

The derivatives entered into by Terasen Gas and TGVI relate to regulated operations and any resulting gains or losses are recorded in rate stabilization accounts, subject to regulatory approval, and passed through to customers in future rates.

The Company is exposed to credit risk in the event of non-performance by counterparties to derivative instruments. Because it deals with high credit quality institutions in accordance with established credit approval practices, the Company does not expect any counterparties to fail to meet their obligations.

17. COMMITMENTS & CONTINGENCIES

The Company's subsidiaries and proportionately consolidated entities have entered into operating leases for certain building space and natural gas distribution assets. In addition, Terasen Gas and TGVI have entered into gas purchase contracts which represent future purchase obligations.

The following table sets forth the Company's operating lease and gas purchase obligations due in the years indicated:

	Operating leases	Purchase obligations	Total
2006	$ 21.3	$ 873.8	$ 895.1
2007	20.2	113.6	133.8
2008	20.6	33.2	53.8
2009	19.3	30.2	49.5
2010	18.2	—	18.2
2011 and later	127.5	—	127.5
	$227.1	$1,050.8	$1,277.9

Gas purchase contract commitments are based on market prices that vary with gas commodity indices. The amounts disclosed reflect index prices that were in effect at December 31, 2005.

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. The government loans are repayable in any fiscal year after 2002 and 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 approved by the BCUC, these loans have been recorded as a government grant and have reduced the amounts reported for property, plant and equipment. The Company anticipates that all of the repayment criteria may be met in 2006 and, if met, will result in an estimated repayment of $4.5 million of these loans in 2006. As the loans are repaid and replaced with non-governmental loans, plant and equipment and long-term debt will increase in accordance with the approved capital structure, as will the rate base used in determining rates. The amounts are not included in the obligations in the table above as the amounts and timing of

17. COMMITMENTS & CONTINGENCIES (CONTINUED)

repayments is dependent upon the approved RDDA recovery each year and the ability to replace the loans with non-government subordinated debt financing on reasonable commercial terms.

A number of claims and lawsuits seeking damages and other relief are pending against the Company. Management is of the opinion, based upon information presently available, that it is unlikely that any liability, to the extent not provided for through insurance or otherwise, would be material in relation to the Company's consolidated financial statements.

18. GUARANTEES

The Company has, for a fee, arranged for the issuance of a letter of credit in the amount of US$15.1 million on behalf of co-investors in the Express System to fund the Debt Service Reserve Account required under the Express System's trust indenture. The letter of credit is subject to annual renewal. If the letter of credit is drawn upon, the Company will have recourse to the co-investors, major Canadian pension funds.

The Company has, for a fee, provided indemnities with respect to performance bonds issued on behalf of Clean Energy in the amount of US$3.5 million. These performance bonds secure construction projects undertaken by Clean Energy, and expire at various dates before October 31, 2006.

The Company has letters of credit outstanding at December 31, 2005 totalling $118.5 million to support its operations and capital projects, including $50.8 million for its unfunded supplemental pension benefit plans and $17.6 million for the letter of credit referred to above on behalf of co-investors in the Express System.

19. SUBSEQUENT EVENTS

(a) On January 13, 2006, Terasen Gas (Vancouver Island) Inc. entered into a five-year unsecured, committed, revolving credit facility of $350 million with a syndicate of banks, of which $296 million was drawn against the facility on January 17, 2006. A portion of the facility was used to refinance TGVI's existing term facility of $209.5 million. The facility will also be utilized to finance working capital requirements and general corporate purposes.

Concurrently with executing the above noted facility, TGVI entered into a $20 million, seven-year unsecured, committed, non-revolving credit facility with one bank. This facility will be utilized for purposes of refinancing any annual prepayments TGVI may be required to make on non-interest bearing government contributions. The terms and conditions are primarily the same as the aforementioned TGVI facility except this facility ranks junior to repayment of TGVI's Class B subordinated debt which is held by the Company.

(b) On March 2, 2006 a Decision was issued by the BCUC approving changes to Terasen Gas' and TGVI's deemed equity components from 33% to 35% and from 35% to 40%, respectively, with effective from January 1, 2006. The same Decision also modified the previously existing generic return on equity (''ROE'') reset formula resulting in an increase in allowed ROE's from the levels that would have resulted from the old formula. The changes increased the allowed ROE for 2006 from 8.29% to 8.80% for Terasen Gas and from 8.79% to 9.50% for TGVI.

(c) Subsequent to year-end, the Company received a letter dated March 31, 2006 from the British Columbia Social Service tax authority indicating their intention to assess additional provincial sales tax on the Southern Crossing Pipeline which was completed in 2000. The letter received does not indicate the amount to be assessed and a formal notice of assessment has not been received. Any assessment will be appealed when it is received and the Company believes this assessment is without merit and it will not have a material adverse impact on the financial results of the Company.

Terasen Inc.

Unaudited Interim Consolidated Financial Statements
Three and nine months ended September 30, 2006

CONSOLIDATED STATEMENTS OF EARNINGS
(Unaudited)

	In millions of dollars			
	Three months ended September 30		Nine months ended September 30	
	2006	2005	**2006**	2005
Revenues				
Natural gas distribution	**$217.0**	$213.7	**$1,204.6**	$1,065.8
Petroleum transportation	**60.4**	57.3	**168.2**	163.0
Other activities	**10.9**	11.6	**33.3**	35.6
	288.3	282.6	**1,406.1**	1,264.4
Expenses				
Cost of natural gas	**108.4**	109.4	**767.4**	637.2
Cost of revenues from other activities	**6.0**	6.5	**21.0**	22.3
Operation and maintenance	**72.1**	68.7	**206.9**	201.3
Depreciation and amortization	**36.1**	35.3	**108.7**	106.0
Property and other taxes	**18.6**	18.0	**56.3**	53.8
	241.2	237.9	**1,160.3**	1,020.6
Operating income	**47.1**	44.7	**245.8**	243.8
Financing costs	**45.6**	44.1	**134.7**	132.9
Earnings before share of equity earnings and income taxes	**1.5**	0.6	**111.1**	110.9
Share of earnings (loss) from Clean Energy	**—**	(4.4)	**—**	2.2
Share of earnings from Express system	**5.8**	5.0	**16.2**	13.7
Earnings before income taxes and discontinued operations	**7.3**	1.2	**127.3**	126.8
Income taxes	**0.7**	0.3	**45.1**	31.9
Earnings before discontinued operations	**6.6**	0.9	**82.2**	94.9
Earnings (loss) from discontinued operations	**(4.1)**	3.1	**(17.0)**	4.9
Net earnings	**$ 2.5**	$ 4.0	**$ 65.2**	$ 99.8

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

(Unaudited)

	Nine months ended September 30	
	2006	2005
	In millions of dollars	
Retained earnings, beginning of period	**$425.0**	$418.9
Net earnings	**65.2**	99.8
	490.2	518.7
Dividends on common shares	**—**	71.2
Retained earnings, end of period	**$490.2**	$447.5

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Unaudited)

	In millions of dollars As at	
	September 30, 2006	December 31, 2005
	(unaudited)	
Assets		
Current assets		
Cash and short-term investments	**$ 82.8**	$ 79.4
Accounts receivable	**188.1**	468.1
Inventories of gas in storage and supplies	**249.7**	205.7
Prepaid expenses	**8.8**	14.1
Current portion of rate stabilization accounts	**142.5**	28.4
Current assets held for sale	**—**	54.8
	671.9	850.5
Property, plant and equipment	**3,994.8**	3,907.9
Long-term investment	**254.5**	238.3
Goodwill	**76.4**	76.4
Rate stabilization accounts	**49.8**	48.3
Other assets	**86.8**	84.8
Long-lived assets held for sale	**—**	109.9
	$5,134.2	$5,316.1
Liabilities and shareholder's equity		
Current liabilities		
Short-term notes	**$ 524.0**	$ 681.0
Accounts payable and accrued liabilities	**427.2**	433.8
Income and other taxes payable	**20.0**	30.8
Current portion of rate stabilization accounts	**—**	47.9
Current portion of long-term debt	**41.0**	398.2
Due to parent company	**6.3**	0.4
Current liabilities held for sale	**—**	24.5
	1,018.5	1,616.6
Long-term debt	**2,367.0**	2,012.9
Other long-term liabilities and deferred credits	**176.9**	168.5
Future income taxes	**71.7**	88.7
Long-term liabilities held for sale	**—**	13.7
	3,634.1	3,900.4
Shareholder's equity		
Common shares	**904.9**	904.9
Contributed surplus	**155.9**	137.5
Retained earnings	**490.2**	425.0
Cumulative currency translation adjustment	**0.1**	(0.7)
	1,551.1	1,466.7
Less cost of common shares held by Terasen Pipelines (Trans Mountain) Inc.	**51.0**	51.0
	1,500.1	1,415.7
	$5,134.2	$5,316.1

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three months ended September 30		Nine months ended September 30	
	2006	2005	**2006**	2005
	In millions of dollars			
Cash flows provided by (used for)				
Operating activities				
Net earnings	**$ 2.5**	$ 4.0	**$ 65.2**	99.8
Adjustments for non-cash items				
Loss from discontinued operations	**4.1**	—	**17.0**	—
Depreciation and amortization	**36.1**	35.8	**108.7**	109.0
Share of equity earnings from long-term investments, in excess of cash distributions	**(5.8)**	(1.7)	**(16.2)**	(14.1)
Future income taxes	**(21.0)**	1.2	**(27.5)**	1.5
Other	**5.4**	8.5	**14.1**	11.5
	21.3	47.8	**161.3**	207.7
Change in rate stabilization accounts	**(19.2)**	(21.5)	**21.5**	2.0
Discontinued operations — water/utility services	**(4.1)**	—	**(17.0)**	—
Changes in working capital	**(50.7)**	(43.3)	**57.2**	(49.0)
	(52.7)	(17.0)	**223.0**	160.7
Investing activities				
Property, plant and equipment	**(84.1)**	(43.4)	**(194.2)**	(170.3)
Proceeds on the sale of water business	**8.3**	—	**132.6**	—
Other assets	**(2.2)**	(9.7)	**(3.9)**	(12.6)
	(78.0)	(53.1)	**(65.5)**	(182.9)
Financing activities				
Increase (decrease) in short-term notes	**148.0**	383.0	**(157.0)**	495.5
Increase in long-term debt	**127.1**	—	**407.8**	450.5
Reduction of long-term debt	**(99.8)**	(350.7)	**(410.8)**	(848.1)
Advances from KMI	**1.3**	—	**5.9**	—
Issue of common shares, net of issue costs	**—**	3.2	**—**	8.7
Dividends on common shares	**—**	(23.8)	**—**	(71.2)
	176.6	11.7	**(154.1)**	35.4
Net increase (decrease) in cash	**45.9**	(58.4)	**3.4**	13.2
Cash at beginning of period	**36.9**	91.6	**79.4**	20.0
Cash at end of period	**$ 82.8**	$ 33.2	**$ 82.8**	$ 33.2
Supplemental cash flow information				
Interest paid in the period	**$ 46.8**	$ 48.9	**$ 137.4**	$ 135.3
Income taxes paid in the period	**16.4**	22.7	**41.5**	48.0
Non-cash transaction				
Mark to market on certain gas derivatives deferred in rate stabilization accounts	**89.6**	—	**185.1**	—

Cash is defined as cash or bank indebtedness.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. BASIS OF PRESENTATION

The accounting policies and methods of application used in the preparation of these interim consolidated financial statements are consistent with the accounting policies used in the Company's year end audited consolidated financial statements of December 31, 2005. These consolidated financial statements do not include all disclosures required for annual financial statements, and therefore these statements should be read in conjunction with the consolidated financial statements for the year ended December 31, 2005. Certain comparative figures have been restated to conform with the current period presentation.

2. SEGMENT DISCLOSURES

	Three months ended September 30			
	Natural gas distribution	Petroleum transportation	Other activities	Total
	(in millions of dollars)			
2006				
Revenues	**$ 217.0**	**$ 60.4**	**$ 10.9**	**$ 288.3**
Earnings (loss) before discontinued operations	**(6.8)**	**17.4**	**(4.0)**	**6.6**
Net earnings (loss)	**(6.8)**	**17.4**	**(8.1)**	**2.5**
Total assets	**3,576.8**	**1,472.7**	**84.7**	**5,134.2**
2005				
Revenues	$ 213.7	$ 57.3	$ 11.6	$ 282.6
Earnings (loss) before discontinued operations	(3.6)	17.2	(12.7)	0.9
Net earnings (loss)	(3.6)	17.2	(9.6)	4.0
Total assets	3,428.3	1,364.5	299.0	5,091.8

	Nine months ended September 30			
	Natural gas distribution	Petroleum transportation	Other activities	Total
	(in millions of dollars)			
2006				
Revenues	**$1,204.6**	**$ 168.2**	**$ 33.3**	**$1,406.1**
Earnings (loss) before discontinued operations	**48.3**	**51.6**	**(17.7)**	**82.2**
Net earnings (loss)	**48.3**	**51.6**	**(34.7)**	**65.2**
Total assets	**3,576.8**	**1,472.7**	**84.7**	**5,134.2**
2005				
Revenues	$1,065.8	$ 163.0	$ 35.6	$1,264.4
Earnings (loss) before discontinued operations	59.8	50.8	(15.7)	94.9
Net earnings (loss)	59.8	50.8	(10.8)	99.8
Total assets	3,428.3	1,364.5	299.0	5,091.8

3. SEASONAL OPERATIONS

Due to the seasonal nature of the Company's natural gas distribution operations, quarterly earnings statements are not indicative of earnings on an annual basis.

4. RELATED PARTY TRANSACTIONS

The Company estimates that its parent company, Kinder Morgan Inc., provided management services totalling approximately $1.1 million (2005 — nil) for the three months ended September 30, 2006 and $8.5 million (2005 — nil) for the nine months ended September 30, 2006.

5. EMPLOYEE BENEFIT PLANS

The Company and its subsidiaries have defined benefit pension plans and defined contribution pension plans for employees. The Company also provides post-employment benefits other than pensions for retired employees. Additional information about these benefit plans can be found in the Company's 2005 Annual Report. The Company's estimated contributions to defined benefit pension plans for 2006 are anticipated to be $10.0 million (2005 actual $10.1 million).

Costs recognized in the periods are presented in the following tables:

	Three months ended September 30			
	Pension benefit plans		Other benefit plans	
	2006	2005	**2006**	2005
	(in millions of dollars)			
Current service cost	**$ 2.3**	$ 2.2	**$0.5**	$0.4
Interest cost on projected benefit obligations	**4.3**	4.5	**1.0**	1.0
Expected return on plan assets	**(5.2)**	(4.8)	**—**	—
Net actuarial losses	**(0.1)**	—	**—**	0.1
Plan amendments	**0.1**	0.2	**—**	—
Net benefit plan expense before adjustments of employee benefit costs:	**1.4**	2.1	**1.5**	1.5
Difference between actual and expected return on plan assets	**0.1**	0.1	**—**	—
Difference between actual and recognized actuarial gains in the year	**1.1**	0.6	**0.8**	0.3
Difference between actual and recognized past service	**0.2**	—	**—**	0.2
Amortization of transitional (benefit) obligation	**(0.8)**	(0.8)	**0.3**	0.4
Net benefit plan expense	**$ 2.0**	$ 2.0	**$2.6**	$2.4
Defined contribution plan expense	**$ 0.5**	$ 0.4		
Total pension expense	**$ 2.5**	$ 2.4		

	Nine months ended September 30			
	Pension benefit plans		Other benefit plans	
	2006	2005	**2006**	2005
	(in millions of dollars)			
Current service cost	**$ 7.0**	$ 6.6	**$1.5**	$1.2
Interest cost on projected benefit obligations	**12.9**	13.5	**3.1**	3.0
Expected return on plan assets	**(15.6)**	(14.4)	**—**	—
Net actuarial losses	**(0.4)**	—	**—**	0.3
Plan amendments	**0.3**	0.6	**—**	
Net benefit plan expense before adjustments of employee benefit costs:	**4.2**	6.3	**4.6**	4.5
Difference between actual and expected return on plan assets	**0.3**	0.3	**—**	—
Difference between actual and recognized actuarial gains in the year	**3.4**	1.8	**2.4**	0.9
Difference between actual and recognized past service	**0.6**	—	**—**	0.6
Amortization of transitional (benefit) obligation	**(2.5)**	(2.4)	**0.9**	1.2
Net benefit plan expense	**$ 6.0**	$ 6.0	**$7.9**	$7.2
Defined contribution plan expense	**$ 1.7**	$ 1.4		
Total pension expense	**$ 7.7**	$ 7.4		

6. CONTINGENCY AND COMMITMENTS

Terasen Gas, a subsidiary of the Company, received a Notice of Assessment dated July 31, 2006 from the British Columbia Social Service Tax authority for $37.1 million of additional provincial sales tax and interest on the Southern Crossing Pipeline, which was completed in 2000. This has not been provided for as the Company will appeal this assessment. Management believes that this assessment is without merit and will not have a material adverse impact on our business, financial position, results of operations or cash flows. In October 2006, the Company 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 to provide full payment or security. The payment has been recorded as a long term receivable and a request for regulatory deferral account treatment has been made. This payment does not reflect Management's belief as to the ultimate sustainability of the assessment.

PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

FORTIS INC.

(Unaudited)

As at September 30, 2006 and for the nine-month period ended September 30, 2006 and the year ended December 31, 2005

UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

The following unaudited *pro forma* consolidated financial statements give effect to the proposed acquisition (the ''Acquisition'') of Terasen Inc. (''Terasen'') under the purchase method of accounting. The unaudited *pro forma* consolidated balance sheet gives effect to the Acquisition as if it had occurred on September 30, 2006. The unaudited *pro forma* consolidated statements of earnings for the nine-month period ended September 30, 2006 and for the year ended December 31, 2005 give effect to the Acquisition as if it was completed on January 1, 2005.

These unaudited *pro forma* consolidated financial statements are presented for illustrative purposes only. The *pro forma* adjustments are based upon available information and certain assumptions that we believe are reasonable in the circumstances, as described in the notes to the unaudited *pro forma* consolidated financial statements.

Terasen is a holding company headquartered in Vancouver, British Columbia, operating two principal lines of business: natural gas distribution and petroleum transportation. Prior to the closing of the Acquisition, Kinder Morgan, Inc. (''Kinder Morgan'') will cause Terasen to divest itself of its petroleum transportation operations. These unaudited *pro forma* consolidated financial statements are based on Terasen's financial statements as at and for the nine months ended September 30, 2006 and for the year ended December 31, 2005. The financial position and results of the petroleum transportation operations have been excluded from the unaudited *pro forma* consolidated balance sheet and statements of earnings, respectively, by way of *pro forma* adjustments. Refer to Notes 2[b] and 2[d].

The *pro forma* information presented, including allocation of purchase price, is based on preliminary estimates of fair values of assets acquired and liabilities assumed, available information and assumptions and may be revised as additional information becomes available. The actual adjustments to our consolidated financial statements upon the closing of the Acquisition will depend on a number of factors, including additional information available and the net assets on the closing date of the Acquisition. Therefore, we believe that the actual adjustments will differ from the *pro forma* adjustments, and the differences may be material. For example, the final purchase price allocation is dependent on, among other things, the finalization of asset and liability valuations. A final determination of these fair values will reflect our consideration of a final valuation prepared by independent third-party appraisers. This final valuation will be based on the actual net tangible and intangible assets and liabilities that exist as of the closing date of the Acquisition. Any final adjustment may change the allocation of purchase price, which could affect the fair value assigned to the assets and liabilities and could result in a change to the unaudited *pro forma* consolidated financial statements, including a change to goodwill.

Fortis Inc.

PRO FORMA CONSOLIDATED BALANCE SHEET
As at September 30, 2006
(Unaudited)
($ millions)

	Fortis Inc.	Terasen Inc.	*Pro forma* adjustments Note		*Pro forma* consolidated balance sheet
ASSETS					
Current					
Cash and cash equivalents	61.4	82.8		—	**144.2**
Accounts receivable	207.3	188.1	2[b]	(22.3)	**373.1**
Prepaid expenses	21.5	8.8	2[b]	(3.2)	**27.1**
Regulatory assets	29.3	142.5		—	**171.8**
Gas inventories, materials and supplies	25.6	249.7	2[b]	(3.2)	**272.1**
	345.1	671.9		(28.7)	**988.3**
Income tax deposit	5.9	—		—	**5.9**
Deferred charges and other assets	161.9	86.8	2[b]	(31.0)	**223.1**
			2[m]	3.0	
			2[n]	2.4	
Regulatory assets	103.4	49.8		—	**153.2**
Future income taxes	8.0	—	2[f]	8.4	**30.9**
			2[g]	14.5	
Utility capital assets	2,831.3	3,994.8	2[b]	(1,158.4)	**5,667.7**
Income producing properties	418.8	—		—	**418.8**
Investments	170.7	254.5	2[b]	(254.5)	**170.7**
Intangibles, net of amortization	10.9	—		—	**10.9**
Goodwill	550.9	76.4	2[b]	631.6	**1,258.9**
	4,606.9	5,134.2		(812.7)	**8,928.4**
LIABILITIES					
Current					
Short-term borrowings	70.7	524.0		—	**594.7**
Accounts payable and accrued charges	264.2	433.5	2[b]	(85.0)	**625.7**
			2[m]	3.0	
			2[l]	10.0	
Dividends payable	21.1	—		—	**21.1**
Income taxes payable	5.9	20.0	2[b]	2.2	**28.1**
Regulatory liabilities	25.5	—		—	**25.5**
Current installments of long-term debt and capital lease obligations	32.8	41.0		—	**73.8**
	420.2	1,018.5		(69.8)	**1,368.9**
Other long-term liabilities and deferred credits	77.2	176.9	2[b]	(16.8)	**237.3**
Regulatory liabilities	33.6	—		—	**33.6**
Future income taxes	46.9	71.7	2[b]	(63.5)	**55.1**
Long-term debt and capital lease obligations	2,254.0	2,367.0	2[b]	(300.0)	**4,484.3**
			2[e]	139.3	
			2[f]	24.0	
Non-controlling interest	50.4	—		—	**50.4**
Preference shares	319.5	—		—	**319.5**
	3,201.8	3,634.1		(286.8)	**6,549.1**
SHAREHOLDERS' EQUITY					
Common shares (i)	822.5	853.9	2[k]	(853.9)	**1,796.7**
			2[g]	1,001.0	
			2[g]	(26.8)	
Preference shares	122.5	—		—	**122.5**
Contributed surplus	4.3	155.9	2[k]	(155.9)	**4.3**
Equity portion of convertible debentures	1.4	—		—	**1.4**
Foreign currency translation adjustment	(17.8)	0.1	2[k]	(0.1)	**(17.8)**
Retained earnings	472.2	490.2	2[k]	(490.2)	**472.2**
	1,405.1	1,500.1		(525.9)	**2,379.3**
	4,606.9	5,134.2		(812.7)	**8,928.4**

(i) Terasen Inc. common shares are net of $51.0 million of shares held by its wholly owned subsidiary, Terasen Pipelines (Trans Mountain) Inc.

See accompanying notes

Fortis Inc.

PRO FORMA CONSOLIDATED STATEMENT OF EARNINGS
For the year ended December 31, 2005
(Unaudited)
($ millions, except for per share amounts)

	Fortis Inc.	Terasen Inc.	*Pro forma* adjustments Note		*Pro forma* consolidated statement of earnings
Operating revenues	1,430.0	1,952.5	2[d]	(227.8)	**3,154.7**
Equity income	11.4	24.4	2[d]	(21.9)	**13.9**
	1,441.4	1,976.9		(249.7)	**3,168.6**
Expenses					
Energy supply	533.9	1,063.7		—	**1,597.6**
Operating	392.4	421.5	2[d]	(106.9)	**707.0**
Amortization	157.6	142.6	2[d]	(37.6)	**263.2**
			2[m]	0.6	
	1,083.9	1,627.8		(143.9)	**2,567.8**
Operating income	357.5	349.1		(105.8)	**600.8**
Finance charges	153.8	191.4	2[d]	(31.7)	**323.2**
			2[e]	7.3	
			2[o]	(5.8)	
			2[n]	1.0	
			2[p]	7.2	
Gain on settlement of contractual matters	(10.0)	—		—	**(10.0)**
	143.8	191.4		(22.0)	**313.2**
Earnings before income taxes, non-controlling interest and discontinued operations	213.7	157.7		(83.8)	**287.6**
Income taxes	70.4	51.6	2[d]	(9.0)	**111.9**
			2[i]	(1.1)	
Earnings before non-controlling interest and discontinued operations	143.3	106.1		(73.7)	**175.7**
Non-controlling interest	6.2	—		—	**6.2**
Earnings before discontinued operations	137.1	106.1		(73.7)	**169.5**
Loss from discontinued operations	—	4.9		—	**4.9**
Net earnings applicable to common shares	137.1	101.2		(73.7)	**164.6**
Average common shares outstanding (number, in millions)	101.8		2[g]	38.5	**140.3**
Earnings per common share before discontinued operations					
Basic	$ 1.35				**$ 1.21**
Diluted	$ 1.24				**$ 1.15**
Earnings per common share					
Basic	$ 1.35				**$ 1.17**
Diluted	$ 1.24				**$ 1.12**

See accompanying notes

Fortis Inc.

PRO FORMA CONSOLIDATED STATEMENT OF EARNINGS
For the nine-month period ended September 30, 2006
(Unaudited)
($ millions, except for per share amounts)

	Fortis Inc.	Terasen Inc.	*Pro forma* Adjustments Note		*Pro forma* consolidated statement of earnings
Operating revenues	1,071.7	1,406.1	2[d]	(168.2)	**2,309.6**
Equity income	6.9	16.2	2[d]	(16.2)	**6.9**
	1,078.6	1,422.3		(184.4)	**2,316.5**
Expenses					
Energy supply	394.0	767.4		—	**1,161.4**
Operating	290.3	284.2	2[d]	(74.3)	**500.2**
Amortization	130.9	108.7	2[d]	(28.1)	**212.0**
			2[m]	0.5	
	815.2	1,160.3		(101.9)	**1,873.6**
Operating income	263.4	262.0		(82.5)	**442.9**
Finance charges	124.4	134.7	2[d]	(20.1)	**246.2**
			2[e]	5.5	
			2[o]	(4.4)	
			2[n]	0.7	
			2[p]	5.4	
Gain on sale of income producing properties	(2.1)	—		—	**(2.1)**
	122.3	134.7		(12.9)	**244.1**
Earnings before income taxes, non-controlling interest and discontinued operations	141.1	127.3		(69.6)	**198.8**
Income taxes	23.1	45.1	2[d]	(10.3)	**57.1**
			2[i]	(0.8)	
Earnings before non-controlling interest and discontinued operations	118.0	82.2		(58.5)	**141.7**
Non-controlling interest	4.7	—		—	**4.7**
Earnings before discontinued operations	113.3	82.2		(58.5)	**137.0**
Loss from discontinued operations	—	17.0		—	**17.0**
Net earnings applicable to common shares	113.3	65.2		(58.5)	**120.0**
Average common shares outstanding (number, in millions)	103.5		2[g]	38.5	**142.0**
Earnings per common share before discontinued operations					
Basic	$ 1.09				**$ 0.96**
Diluted	$ 1.05				**$ 0.94**
Earnings per common share					
Basic	$ 1.09				**$ 0.85**
Diluted	$ 1.05				**$ 0.84**

See accompanying notes

FORTIS INC.

NOTES TO PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. BASIS OF PRESENTATION

The accompanying unaudited *pro forma* consolidated financial statements give effect to the acquisition (the ''Acquisition'') of all of the issued and outstanding shares in Terasen Inc. (''Terasen'') as described in the short form prospectus dated March 7, 2007 (the ''Prospectus''). The accompanying unaudited *pro forma* consolidated financial statements have been prepared by management of Fortis Inc. (''Fortis'' or the ''Corporation'') and are derived from the unaudited and audited consolidated financial statements of Fortis as at and for the nine-month period ended September 30, 2006 and for the year ended December 31, 2005, respectively; and the unaudited and audited financial statements of Terasen as at and for the nine-month period ended September 30, 2006, and for the year ended December 31, 2005, respectively.

The accounting policies used in the preparation of these unaudited *pro forma* consolidated financial statements are those disclosed in the Corporation's audited financial statements. Management has determined that no adjustments to Terasen's financial statements are required to comply with the accounting policies used by Fortis in the preparation of its consolidated financial statements. Certain accounting policies followed by Terasen are different from that of Fortis due to rate regulation associated with a gas utility imposed by the British Columbia Utilities Commission (''BCUC'').

As is standard with similar transactions in regulated utilities, the purchase price is primarily based upon the regulated assets at the point of closing. Based on the purchase price calculation as detailed in the acquisition agreement dated February 26, 2007 (the ''Acquisition Agreement''), the estimated net purchase price of Terasen is $1,099.0 million (refer to Note 2[a]).

The unaudited *pro forma* consolidated balance sheet and unaudited *pro forma* consolidated statements of earnings reflect the acquisition effected on September 30, 2006 and January 1, 2005, respectively. The unaudited *pro forma* consolidated financial statements are not necessarily indicative of the results that actually would have been achieved if the transactions reflected therein had been completed on the dates indicated or the results which may be obtained in the future. For instance, the actual purchase price allocation will reflect the fair value, at the purchase date, of the assets acquired and liabilities assumed based upon the acquirer's evaluation of such assets and liabilities following the closing of the transaction and, accordingly, the final purchase price allocation, as it relates principally to intangible assets, may differ significantly from the preliminary allocation reflected herein.

These unaudited *pro forma* consolidated financial statements should be read in conjunction with the description of the transaction described in the Prospectus; the audited and unaudited financial statements of Terasen, including the notes thereto, included in the Prospectus; and the audited and unaudited consolidated financial statements of Fortis including the notes thereto, incorporated by reference in the Prospectus.

The underlying assumptions for the *pro forma* adjustments provide a reasonable basis for presenting the significant financial effect directly attributable to the Acquisition. These *pro forma* adjustments are tentative and are based on available financial information and certain estimates and assumptions. The actual adjustments to the consolidated financial statements will depend on a number of factors. Therefore, we believe that the actual adjustments will differ from the *pro forma* adjustments, and the differences may be material.

2. PRO FORMA ASSUMPTIONS AND ADJUSTMENTS

[a] These *pro forma* consolidated financial statements give effect to the completion of the Acquisition, as if it had occurred on September 30, 2006 in respect of the *pro forma* consolidated balance sheet, and on January 1, 2005 in respect of the *pro forma* consolidated statements of earnings for the year ended December 31, 2005 and for the nine-month period ended September 30, 2006. The Acquisition has been reflected in the *pro forma* consolidated financial statements using the purchase method.

Estimated Net Purchase Price

	($ millions)
Unadjusted purchase price	1,801.0
Estimated acquisition costs (Note 2[h])	25.0
Estimated net purchase price, before assumed debt	1,826.0
Assumed cash of Terasen in excess of normal working capital	40.0
Assumed short-term notes of Terasen (Note 2[f])	(317.0)
Assumed long-term debt of Terasen (Note 2[f])	(450.0)
Estimated net purchase price	1,099.0

Estimated Net Funding Requirements

	($ millions)
Estimated net purchase price	1,099.0
Assumed short-term notes of Terasen	317.0
Assumed long-term debt of Terasen	450.0
Common share issuance costs (Note 2[g])	41.3
Estimated net funding requirements	1,907.3

Assumed Financing Structure

	($ millions)
Assumed short-term notes of Terasen	317.0
Assumed long-term debt of Terasen	450.0
Common share issuance (Note 2[g])	1,001.0
Incremental long-term debt issuance (Note 2[e])	139.3
	1,907.3

[b] Petroleum Transportation segment net assets and allocation of estimated net purchase price

The estimated net purchase price has been allocated to the fair values of Terasen net assets and liabilities at September 30, 2006, excluding the net assets and liabilities of the petroleum transportation segment which are not being acquired, in accordance with the purchase method, as follows:

	($ millions)				
	Terasen Inc.	**Petroleum Transportation**	Note	**Fair Value and Other Adjustments**	**Net Total**
Assets acquired:					
Cash and cash equivalents	82.8	—		—	**82.8**
Accounts receivable	188.1	(22.3)		—	**165.8**
Prepaid expenses	8.8	(3.2)		—	**5.6**
Regulatory assets	142.5	—		—	**142.5**
Gas inventories, materials and supplies	249.7	(3.2)		—	**246.5**
Current assets	**671.9**	**(28.7)**		—	**643.2**
Deferred charges and other assets	86.8	(31.0)	2[n]	2.4	**58.2**
Regulatory assets	49.8	—		—	**49.8**
Future income taxes	—	—	2[f]	8.4	**8.4**
Utility capital assets	3,994.8	(1,158.4)		—	**2,836.4**
Investments	254.5	(254.5)		—	**—**
Intangibles	—	—		—	**—**
	5,057.8	**(1,472.6)**		10.8	**3,596.0**
Liabilities assumed:					
Short-term borrowings	524.0	—		—	**524.0**
Accounts payable and accrued charges	433.5	(85.0)	2[l]	10.0	**358.5**
Income taxes payable	20.0	2.2		—	**22.2**
Current installments of long-term debt and capital lease obligations	41.0	—		—	**41.0**
Other long-term liabilities and deferred credits	176.9	(16.8)		—	**160.1**
Future income taxes	71.7	(63.5)		—	**8.2**
Long-term debt and capital lease obligations	2,367.0	(300.0)	2[f]	24.0	**2,091.0**
	3,634.1	**(463.1)**		34.0	**3,205.0**
Net assets at fair value, as at September 30, 2006	1,423.7	(1,009.5)		(23.2)	**391.0**
Net purchase price					**1,099.0**
Goodwill					**708.0**
Goodwill previously recorded by Terasen					**(76.4)**
Additional goodwill					**631.6**

Terasen's natural gas distribution business is regulated under traditional cost of service. The determination of revenues 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 the regulated business, no fair market value adjustments are recorded as part of the purchase price on individual assets and liabilities, including intangibles, to be acquired, because all of the economic benefits and obligations associated with them beyond regulated rates of return accrue to the customers. The book value of the assets and liabilities of the regulated business to be acquired has been assigned as fair value for the purchase price allocation.

[c] Goodwill

The excess of the purchase price, including estimated fees and expenses related to the Acquisition, over the preliminary fair value of net assets acquired from Terasen is classified as goodwill on the accompanying *pro forma* consolidated balance sheet.

[d] Results of Petroleum Transportation segment

The acquisition of Terasen does not include the petroleum transportation segment and, as such, the results of this segment for the year ended December 31, 2005 and for the nine months ended September 30, 2006 have been excluded, as follows:

	($ millions)	
	Nine-month period ended Sept 30, 2006	Year ended December 31, 2005
Operating revenues	168.2	227.8
Equity income	16.2	21.9
	184.4	249.7
Expenses		
Operating	74.3	106.9
Amortization	28.1	37.6
Finance charges	20.1	31.7
Income taxes	10.3	9.0
	132.8	185.2

[e] Financing

The Corporation has entered into a bridge financing agreement with its bankers at an assumed rate of 5.10%. This bridge will be refinanced with the issuance of other permanent capital including long-term debt facilities. It is assumed the anticipated debt funding requirement of $139.3 million will be initially financed by the bridge acquisition facility and will be subsequently refinanced at an average rate of 5.25%.

Additional interest expense of the following has been assumed:

	($ millions)	
	Nine-month period ended Sept 30, 2006	Year ended December 31, 2005
Interest on $139.3 million of refinanced incremental debt at 5.25%	5.5	7.3

[f] Assumed debt

Terasen has long-term debt outstanding of $450.0 million, in various series with due dates ranging from 2008 to 2040. The rates range from 5.56% to 8.0%, resulting in the fair market value of the debt exceeding book value by $24.0 million, ($15.6 million, net of future income taxes of $8.4 million), calculated as at September 30, 2006. No adjustment was made to the carrying value of the debt securities of Terasen Gas Inc. and Terasen Gas (Vancouver Island) Inc. This is due to the rate regulated nature of their businesses in which recovery in rates of the costs related to these debt securities is subject to the regulation of the BCUC.

Terasen also has short-term notes of $317.0 million that are being assumed. The remaining short-term notes balance of $207.0 million relates to the BCUC regulated business.

[g] Common share issuance

To fund a portion of the Acquisition purchase price, the Corporation plans to issue approximately 38.5 million common shares on closing resulting in estimated gross proceeds of $1,001.0 million, or net proceeds after common share issuance costs of $974.2 million ($41.3 million common share issuance costs less $14.5 million of future income taxes). The price of $26.00 per share, being the offering price for the issuance of 38.5 million subscription receipts of the Corporation pursuant to the Prospectus dated March 7, 2007, has been used as the issue price per share in the *pro forma* consolidated financial statements.

[h] Acquisition costs

It is assumed Acquisition costs will approximate $25.0 million, and will form part of the investment cost base. These primarily relate to investment banking and legal fees.

[i] Income taxes

Income taxes applicable to the *pro forma* adjustments are tax effected at Fortis' average tax rates of 35.0% and 35.0% for the year ended December 31, 2005 and the nine-month period ended September 30, 2006, respectively.

[j] Earnings per common share

The calculation of the *pro forma* earnings per common share for the year ended December 31, 2005, and for the nine-month period ended September 30, 2006, considers the issuance of 38.5 million common shares as contemplated in the Prospectus dated March 7, 2007, as if the issuance had taken place as at January 1, 2005.

[k] Terasen historical shareholder's equity balances

The historical shareholder's equity, contributed surplus, foreign currency translation and retained earnings balances of Terasen have been eliminated.

[l] Transition costs

Estimated known restructuring costs of $10.0 million are related to an after-tax estimate of expenses associated with a transition plan. The assessment of this plan will be completed as soon as possible after the consummation of the Acquisition and actions under the plan will begin as soon as possible thereafter.

[m] Long-term debt financing costs

Long-term debt financing costs are assumed to approximate $3.0 million, and will be deferred and amortized over the estimated term of the long-term debt of five years.

[n] Fair value of interest rate swaps and related amortization

The fair value of interest rate swaps of Terasen is an asset of $2.4 million as at September 30, 2006. The fair value adjustment will be amortized over the term of the related debt.

[o] Amortization of fair value debt adjustment

The debt fair value adjustment will be amortized over the term of the related debt. Refer to Note 2[f].

[p] Segmentation of short-term interest expense

The $317 million of assumed short-term notes of Terasen includes $110 million which had previously been allocated to the petroleum transportation segment by Terasen. With the acquisition of Terasen and the removal of the petroleum transportation segment, interest on the $110 million of short-term notes has been reallocated back to the remaining business being acquired as follows:

($ millions)	
Nine-month period ended Sept 30, 2006	**Year ended December 31, 2005**
5.4	7.2

INDEX TO MANAGEMENT DISCUSSION AND ANALYSIS

Terasen Inc.

2005 Management Discussion and Analysis
For the Year Ended December 31, 2005
April 10, 2006

This discussion should be read in conjunction with the consolidated financial statements of the Company and related notes for the years ended December 31, 2005 and 2004. In this MD&A, we, us, our, the Company and Terasen mean Terasen Inc., its subsidiaries, joint ventures and investments in significantly influenced companies. Terasen Gas refers to Terasen Gas Inc., TGVI refers to Terasen Gas (Vancouver Island) Inc., Trans Mountain refers to Terasen Pipelines (Trans Mountain) Inc., Corridor refers to Terasen Pipelines (Corridor) Inc., Terasen Pipelines refers to Terasen Pipelines Inc., Express refers to the Express and Platte Pipeline Systems; and Water and Utility Services refers to Terasen Waterworks (Supply) Inc., Terasen Utility Services Inc. and Terasen's 50% interest in Fairbanks Sewer and Water Inc. KMI refers to Kinder Morgan, Inc.

The financial data included in this discussion has been prepared in accordance with Canadian generally accepted accounting principles, and all dollar amounts are in Canadian dollars unless otherwise stated.

About Terasen

On November 30, 2005, all of the shares of the Company were acquired by Kinder Morgan, Inc. (''KMI''), through a subsidiary, pursuant to a Combination Agreement dated as of August 1, 2005. The Company's shareholders were able to elect, for each Terasen share held, either (i) $35.75 in cash, (ii) 0.3331 shares of KMI common stock, or (iii) $23.25 in cash plus 0.1165 shares of KMI common stock. In the aggregate, approximately 12.5 million shares of KMI common stock was issued together with cash payments of approximately $2.49 billion to Terasen securityholders.

Natural Gas Distribution

Terasen's natural gas distribution operations consist primarily of Terasen Gas and TGVI in addition to several small related utility operations. Terasen Gas is the largest distributor of natural gas in British Columbia, serving more than 804,000 customers in more than 100 communities. Major areas served by Terasen Gas are Greater Vancouver, the Fraser Valley and the Thompson, Okanagan, Kootenay and North Central Interior regions of the province. TGVI serves approximately 85,000 customers on Vancouver Island and the Sunshine Coast area and Terasen Gas (Whistler) serves approximately 2,000 customers in the Whistler region. Terasen Gas and TGVI provide transmission and distribution services to their customers, and obtain natural gas supplies on behalf of residential and commercial customers. Gas supplies are sourced primarily from northeastern British Columbia and, through the Company's Southern Crossing Pipeline, from Alberta.

Petroleum Transportation

Terasen's petroleum transportation operations are the Trans Mountain, Corridor, Express and Platte pipelines. These operations are conducted under the Kinder Morgan Canada name. Trans Mountain transports crude oil and refined products from Edmonton, Alberta to Burnaby, British Columbia and also delivers Canadian crude oil to several refineries in Washington State. Trans Mountain also owns the Westridge Marine Terminal, which is located at tidewater in the Port of Vancouver, and a jet fuel pipeline connecting to Vancouver International Airport. Corridor owns a dual pipeline system which transports diluted bitumen and diluent between the Muskeg River mine near Fort McMurray and the Shell upgrader north of Edmonton, Alberta. Corridor commenced commercial operations in May 2003. Terasen also owns a one-third interest in the Express Pipeline and the Platte Pipeline which transports crude oil from Hardisty, Alberta to the Rocky Mountain region of the United States and on to Wood River, Illinois.

Other Activities

In addition to Terasen's core businesses of Natural Gas Distribution and Petroleum Transportation, Terasen owns interests in several smaller businesses including a 30% interest in CustomerWorks LP. CustomerWorks provides billing and customer care services to utilities, municipalities and retail energy companies. CustomerWorks has outsourced the provision of its customer care services to an entity owned and operated by Accenture Inc. Prior to the disposition of Terasen's 40.4% ownership interest in Clean Energy on October 31, 2005, the other activities segment also included Clean Energy Fuel Corp. (''Clean Energy''), a provider of natural gas vehicle refueling infrastructure.

In January 2006, Terasen entered into a Purchase and Sale Agreement to dispose of its interest in its water and utility services operations for proceeds of approximately $125 million. The disposition is expected to be completed by the end of April 2006, subject to regulatory approvals. The water and utility services business has accordingly been reclassified as assets and liabilities held for sale and as discontinued operations. The disposition is not expected to give rise to a material gain or loss.

Results of Operations

Net Earnings

	Years ended December 31	
	2005	2004
	(in millions of dollars)	
Natural gas distribution		
Terasen Gas	**$ 65.3**	$ 69.7
TGVI	**25.5**	26.2
	90.8	95.9
Petroleum transportation		
Trans Mountain	**25.4**	39.4
Corridor	**13.6**	15.6
Express System	**25.5**	15.9
	64.5	70.9
Discontinued operations	**(4.9)**	3.3
Other activities	**(49.2)**	(20.3)
Net earnings	**$101.2**	$149.8

Net earnings for 2005 decreased by $48.6 million compared to 2004. Significant items that impacted net earnings in 2005 were as follows:

Certain items

	($ millions)
KMI transaction costs	$42.9
Inland Pacific Connector costs	3.6
Clean Energy hedging gains and disposition costs	(2.5)
Premium on Trans Mountain debt redemption	7.3
	$51.3

In 2005 the Company has charged to earnings after-tax costs of $42.9 million associated with the acquisition by KMI, mainly from pre-tax investment banking costs of $14.7 million, severance and employee-related costs of $14.4 million, share option costs of $3.6 million, and the write-off of approximately $15.3 million of income tax expense related to restricted tax loss carry-forwards.

In the fourth quarter of 2005 Terasen Gas expensed $3.6 million (after-tax) of costs incurred in connection with the Inland Pacific Connector project that were not permitted recovery in rates by the BCUC.

On October 31, 2005, the Company sold its 40.4% ownership in Clean Energy for proceeds of approximately U.S. $35.9 million. The sale, together with equity earnings of Clean Energy for the ten months ended October 31, 2005, has resulted in a gain of approximately $2.5 million, including the recognition of all unrealized gas forward contract gains of Clean Energy in 2005 totalling $10.9 million and the recognition of currency translation losses previously included in Shareholders' Equity totalling $8.4 million.

On November 1, 2005, Trans Mountain exercised its right to redeem the $35 million Series C Debentures. An after-tax charge to earnings of $7.3 million was incurred in connection with the premium that was paid to redeem the debentures.

The water and utility services business operations earnings have been reclassified to discontinued operations for both 2005 and 2004.

Selected Annual Information

	Years ended December 31		
	2005	2004	2003
	(in millions of dollars)		
Total revenues[1]	**$1,952.5**	$1,798.1	$1,763.1
Net income before discontinued operations[1]	**106.1**	146.5	130.7
Net income[2]	**101.2**	149.8	132.7
Common dividends paid	**95.1**	86.4	79.4
Total assets (restated)[1]	**5,316.1**	4,981.8	4,933.1
Long-term debt[1,3]	**2,012.9**	2,291.6	2,426.1
Current portion of long-term debt	**398.2**	416.7	51.8

1. Total revenues in 2004 and 2003 have been restated to reflect the reclassification of the water and utility services business as discontinued operations. Net income before discontinued operations and long-term debt for 2004 and 2003 have been restated for the reclassification of the Company's capital securities from equity to long-term debt, and the reclassification of the respective financing costs and income taxes. Total assets for 2004 and 2003 have been restated to reflect the reclassification of deferred charges to other long-term liabilities and deferred credits.

2. Terasen is a wholly-owned subsidiary of KMI and accordingly earnings per share information is not disclosed.

3. Excluding current portion of long-term debt.

Growth in total revenues has been caused mainly by higher natural gas commodity prices, particularly in 2005, which are flowed through in customer rates. Net income, when adjusted for the KMI transaction costs and Trans Mountain Series C redemption costs in 2005, has grown since 2003 mainly as a result of strong earnings growth in petroleum transportation. The completion of the Corridor Pipeline project in April 2003 and the Express System expansion in 2005 and throughput growth on the Trans Mountain system have been the main contributors to earnings growth. The increase in total assets from 2004 to 2005 reflected both capital expenditures and growth in natural gas inventories and accounts receivable as a result of higher natural gas commodity prices.

Results by Business Segment

Natural Gas Distribution

	Years ended December 31	
	2005	2004
	(in millions of dollars)	
Natural gas distribution revenues	**$1,678.0**	$1,494.1
Natural gas distribution net earnings	**90.8**	95.9

Revenues from natural gas distribution increased in 2005 compared to 2004 mainly as a result of higher market prices for natural gas, which are flowed through in customer rates. Cost of natural gas increased by a corresponding amount.

Earnings from natural gas distribution declined from $95.9 million in 2004 to $90.8 million in 2005 related to the expensing of costs associated with the KMI acquisition and the expensing of costs associated with the Inland Pacific Connector project, as well as a lower allowed return on equity in both Terasen Gas and TGVI and reduced earnings from accretion of the RDDA acquisition discount in TGVI. These factors were partially offset by strong operating performance in both Terasen Gas and TGVI as discussed below.

TERASEN GAS

Earnings from Terasen Gas decreased from $69.7 million to $65.3 million due to the expensing of $6.4 million of costs related to the KMI acquisition primarily from the expiry of loss carryforwards due to the change in control, a lower allowed return on equity in 2005 compared to 2004, and the expensing of $3.6 million (after-tax) of costs incurred in connection with the Inland Pacific Connector project that were not permitted recovery in rates by the BCUC. These factors were partially offset by strong operating performance, including higher transportation revenue, rate base growth and reduced bad debt expense.

Terasen Gas net customer additions during 2005 were 12,613, up from 11,750 customer additions in 2004. Solid economic conditions and continued strength in new housing starts in British Columbia helped drive the net customer additions in 2005. Terasen Gas industrial sales volumes decreased by 755 terajoules while transportation volumes increased by 1,113 terajoules from the previous year. Terasen Gas earns approximately the same margin regardless of whether a customer contracts for sales or transportation service.

Regulation

Terasen Gas' rates are based on estimates of several items, such as natural gas sales volumes, cost of natural gas, and interest rates. In order to manage the risks associated with some of these estimates, a number of regulatory deferral accounts are in place.

Two mechanisms to ameliorate unanticipated changes in sales volumes, such as changes caused by weather, have been implemented specifically for Terasen Gas. The first, originally called the Gas Cost Reconciliation Account (GCRA), relates to the recovery of all gas costs through a deferral account which captures all variances (overages and shortfalls) from forecasts. Balances are either refunded to or recovered from customers via an application with the BCUC. Creation of the GCRA was approved by the BCUC in October 1993; effective April 2004 the GCRA was split into two new deferral accounts called the Commodity Cost Reconciliation Account (CCRA) and the Midstream Cost Reconciliation Account (MCRA). The CCRA and MCRA were created to support commodity unbundling and the refund/recovery mechanism works the same as that used for the GCRA. The second mechanism seeks to stabilize revenues from residential and commercial customers through a deferral account that captures variances in the forecast versus actual customer use throughout the year. This mechanism is called the Revenue Stabilization Adjustment Mechanism (RSAM).

The RSAM and CCRA/MCRA accounts reduce Terasen Gas' earnings exposure to related risks by deferring any variances between projected and actual gas consumption and gas costs, and refunding or recovering those variances in rates in subsequent periods. Variances in usage by large volume, industrial transportation and sales customers are not covered by these deferral accounts as their usage is more predictable and less likely to be significantly affected by weather.

In 2005, the net balances of the RSAM and CCRA/MCRA accounts decreased to a payable of $9.0 million from a receivable of $14.1 million in 2004. In order to ensure that the balances in the CCRA/MCRA account are recovered on a timely basis, Terasen Gas prepares and files quarterly calculations with the BCUC to determine whether customer rate adjustments are needed to reflect prevailing market prices for natural gas costs.

Short-term and long-term interest rate deferral accounts are also in place to absorb interest rate fluctuations. The interest rate deferral accounts which were in place during 2004 effectively fixed the interest expense on short-term funds attributable to Terasen Gas' regulated assets at 4.00% during 2005, up from 3.25% in 2004. The effective fixed short-term interest rate for 2006 has been set at 4.00%. Any variations from this rate throughout the year are recorded in deferral accounts.

Allowed Return on Equity (ROE) and Capital Structure

Terasen Gas' allowed ROE is determined annually based on a formula that applies a risk premium to a forecast of long-term Government of Canada bond yields. For 2005, the application of the ROE formula set Terasen Gas' allowed ROE at 9.03%, down from 9.15% in 2004. Terasen Gas and TGVI applied to the BCUC in June 2005 to increase their deemed equity components from 33% to 38% and from 35% to 40%, respectively. The same application also requested an increase in allowed ROEs from the levels that would have resulted from the historic formula, which would have been 8.29% for Terasen Gas and 8.79% for TGVI in 2006.

The BCUC rendered its decision on the application on March 2, 2006, to be effective as of January 1, 2006. The generic ROE formula for a benchmark utility in British Columbia was changed such that it will be reset annually off a forecast of 30 Year Canada Bonds plus a 3.90% risk premium when the forecast yield on 30 Year Canada Bond is 5.25% The risk premium is adjusted annually by 75% of the difference between 5.25% and the forecast yield on 30 Year Canada Bonds. The changes increased the allowed ROE from 8.29% to 8.80% for Terasen Gas and from 8.79% to 9.50% for TGVI in 2006. The Decision also resulted in increases in the deemed equity components of Terasen Gas and TGVI to 35% and 40%, respectively.

2004-2007 Performance Based Rate Plan (PBR)

In July 2003, Terasen Gas received BCUC approval of a negotiated settlement for a 2004-2007 PBR. The PBR Settlement establishes a process for determining Terasen Gas' delivery charges and incentive mechanisms for improved operating efficiencies. The four-year agreement includes incentives for Terasen Gas to operate more efficiently through the sharing of the benefits between Terasen Gas and its customers. The PBR Settlement includes ten service quality measures designed to ensure Terasen Gas maintains service levels. It also sets out the requirements for an annual review process which will provide a forum for discussion between Terasen Gas and interested parties regarding its current performance and future activities.

Operation and maintenance costs and base capital expenditures are subject to an incentive formula reflecting increasing costs due to customer growth and inflation, less an adjustment factor based on 50 percent of inflation during the first two years of the PBR and 66 percent of inflation during the last two years. Base capital expenditure amounts are a function of customer numbers and projected customer additions. The PBR Settlement provides for a 50/50 sharing mechanism of earnings above or below the allowed return on equity beginning in 2004.

Upon expiry of the 2004-2007 PBR, there is no certainty as to whether a new negotiated settlement will be entered into, or what the terms of a new settlement might be.

Municipal Leasing Transactions
Certain municipalities in Terasen Gas' service area have an option to purchase the gas distribution franchise within their municipal boundary. In order to address these purchase options, the Company has developed a leasing arrangement that allows Terasen Gas to continue to operate the gas distribution assets by effectively selling the assets to the municipality and leasing them back for a 17 year period. After 17 years, Terasen Gas has an option to repurchase the assets at depreciated value. At December 31, 2005, Terasen Gas had entered into transactions involving a total value of $152.7 million, and the value of future transactions is not expected to be material.

TGVI
Earnings from TGVI remained steady, decreasing only slightly from $26.2 million to $25.5 million.

TGVI net customer additions during 2005 were 4,354, up from 4,233 customer additions in 2004.

Regulation
TGVI is also regulated by the BCUC. In 1995, an agreement was entered into between TGVI, the Province of British Columbia (the Province) and the Government of Canada, which included a Special Direction that was issued to the BCUC. The agreement, which expires no sooner than December, 2011, includes the following terms:

- TGVI receives, for the benefit of its customers, an annual payment until 2011 from the Province based on the wellhead price of natural gas in B.C. This payment amounted to $46.7 million in 2005, up from $33.2 million in 2004.

- The accumulated revenue deficiency resulting from overall revenues being below the cost of service prior to 2003 had been recorded in a Revenue Deficiency Deferral Account (RDDA). When Terasen acquired TGVI, the amount of the RDDA was $85 million, for which Terasen paid a price of $61 million. The accumulated RDDA recorded on Terasen's consolidated financial statements totaled $35.2 million as at December 31, 2005, corresponding to a balance for TGVI regulatory purposes of $48.3 million. The balance on Terasen's consolidated financial statements is down $10.4 million from December 31, 2004. Terasen is committed to fund these revenue deficiencies by purchasing preferred shares or subordinated debt issued by TGVI. The BCUC was directed to set rates beginning in 2003 that amortize the RDDA balance over the shortest period reasonably possible, having regard for TGVI's competitive position relative to alternative energy sources and the desirability of reasonable rates. The earnings impact of the RDDA discount is discussed under Results — Natural Gas Distribution.

- Any variances in the achieved ROE in a particular year from the allowed ROE (other than variances resulting from operation and maintenance costs) are deferred and recorded in the RDDA. The RDDA accumulated by TGVI is funded by the Company. Recovery of the deficiency through rates charged to customers is dependent upon regulatory approval and must be balanced against maintaining the competitiveness of TGVI's service relative to alternative energy sources. As a result, most risks associated with TGVI's annual financial results (other than operating costs) are, subject to BCUC approval, transferred to customers through the RDDA. The Company began recovery of the deficiency in 2003.

TGVI renewed its regulatory settlement in late 2005 for a two-year period effective January 1, 2006. It provides for a continuation of the operation and maintenance cost incentive arrangements previously in place. The allowed ROE for TGVI was 9.53% for 2005, compared to 9.65% in 2004. As described above, TGVI's ROE for 2006 is 9.50% and TGVI's deemed equity component of its capital structure for 2006 is 40%.

To ensure prompt recovery of the RDDA, the BCUC has approved a rate-setting mechanism for TGVI whereby customer rates are set at levels in excess of TGVI's cost of service, but effectively capped by the price of competitive alternative fuels (electricity or heating oil). This has resulted in significant RDDA amortization in both 2004 and 2005. However, RDDA recovery is sensitive to the relative pricing of natural gas and electricity in TGVI's service area, as well as to margin generated under TGVI's firm transportation agreements discussed below. There is no certainty that TGVI will be able to charge rates that will be sufficient to fully recover the RDDA prior to the expiry of the Provincial royalty payments at the end of 2011.

Contractual Arrangements
During 2005 TGVI's firm transportation agreements with the Vancouver Island Gas Joint Venture were renewed. The new agreements extend until 2012, and the committed volume under the contracts were set at 12.5 TJ per day for 2006 to 2012, inclusive, down from 20 TJ per day in 2005.

TGVI has also entered into a firm transportation agreement with BC Hydro to serve BC Hydro's gas supply needs to a gas-fired cogeneration plant at Elk Falls, B.C. The agreement, for 45 TJ per day, expires on December 31, 2007. BC Hydro has an option to extend the agreement for one year. BC Hydro has indicated that it is considering changing the Elk Falls facility from a baseload facility to a dispatchable facility. Accordingly, there is no certainty that the firm transportation agreement with BC Hydro will be extended beyond 2007.

On February 16, 2005, the BCUC approved TGVI's proposed liquefied natural gas (LNG) storage facility, subject to several conditions including the execution of a long-term Transportation Service Agreement (TSA) with BC Hydro backed by the capacity demand requirements of the Duke Point Power project. On June 17, 2005, BC Hydro announced its intention to abandon the Duke Point Power project on Vancouver Island as a result of a continuing appeal process. As a result, the expected construction timeline for TGVI's proposed storage facility has been delayed and, pending re-evaluation, will require BCUC approval prior to proceeding.

Petroleum Transportation

	Years ended December 31	
	2005	2004
	(in millions of dollars)	
Petroleum transportation revenues	**$227.8**	$225.5
Petroleum transportation net earnings	**64.5**	70.9

Revenues from petroleum transportation increased by $2.3 million in 2005 compared to 2004 as a result of higher revenues on the Corridor system, which offset lower throughput on the Trans Mountain system in the first quarter of 2005 as discussed below. Corridor revenues were higher in 2005 as a result of the refund in 2004 of deferral account balances to the Corridor shippers.

Earnings from petroleum transportation declined from $70.9 million in 2004 to $64.5 million in 2005 mainly as a result of lower throughput on the Trans Mountain system and a lower allowed return on equity on the Corridor system, offset in part by higher earnings from the Express System as a result of the completion of the Express expansion project. Earnings in 2005 were also impacted by a $7.3 million aftertax charge to earnings associated with the redemption of the Trans Mountain Series C Debentures.

TRANSPORTATION VOLUMES

	Years ended December 31	
	2005	2004
	(barrels per day)	
Trans Mountain Canadian mainline	**220,900**	236,100
Trans Mountain U.S. mainline	**74,600**	91,700
Express System	**213,000**	175,900

Actual throughput on the Corridor Pipeline does not impact earnings as all of Corridor's capacity is contracted through ship-or-pay arrangements.

Throughput in the first quarter of 2005 on the Trans Mountain system was impacted by the decline in production from the Alberta oilsands resulting from temporary production outages, as well as turnarounds at refineries connected to the Trans Mountain pipeline. These issues affected throughput on both the Canadian and U.S. mainlines. Volumes returned to more normal levels for the remainder of 2005.

Throughput on the Express System increased in 2005 as a result of the completion of the Express expansion project in April 2005.

Trans Mountain

Earnings from Trans Mountain were $25.4 million in 2005, down from $39.4 million in 2004 mainly as a result of the costs of the Trans Mountain Series C Debenture redemption and the reduction in throughput on the Trans Mountain system in the first quarter of 2005.

Regulation

The National Energy Board (NEB) regulates the Canadian portion of Trans Mountain's crude oil and refined products pipeline system. The NEB authorizes pipeline construction and establishes tolls and conditions of service.

In November 2000, Trans Mountain and shipper representatives reached a negotiated agreement to determine Trans Mountain's tolls for the period 2001-2005. This Incentive Toll Settlement (ITS) was approved by the NEB on March 22, 2001 to take effect as of January 1, 2001.

The 2001-2005 ITS establishes base tolls, within a band of approximately 179,000 to 201,000 bpd, on Trans Mountain's Canadian mainline for the term of the settlement. Base tolls are set using a throughput level of approximately 189,000 bpd. Any revenue shortfalls arising from annual throughput levels below 179,000 bpd are recovered from the shippers. Incremental revenues arising from annual throughput above 201,000 bpd are shared equally between Trans Mountain and the shippers. The base tolls do not escalate with inflation unless Canadian inflation rates increase above 3.5%. Trans Mountain keeps all of the benefits achieved through productivity initiatives and operating efficiencies.

In January 2006, Kinder Morgan Canada entered into a memorandum of understanding with the Canadian Association of Petroleum Producers (CAPP) for a new Incentive Toll Settlement (the 2006-2010 ITS). The 2006-2010 ITS will determine the tolls to be charged on the Trans Mountain system over the five-year term of the agreement, to take effect as of January 1, 2006. The agreement will also govern the financial arrangements for the Pump Station Expansion and Anchor Loop projects. The 2006-2010 ITS is subject to National Energy Board (NEB) approval, and Kinder Morgan Canada and CAPP will work toward a final agreement by the end of June 2006. In addition to tolling and expansion parameters, the formal agreement will allow for new pipeline rules and regulations, capacity allocation procedures for the Westridge Marine Terminal and enhanced service standards.

The toll charged for the U.S. portion of Trans Mountain's pipeline in Washington State falls under the jurisdiction of the Federal Energy Regulatory Commission (FERC). Regulation by FERC is on a complaint basis. There were no complaints in 2005.

Trans Mountain Pump Station Expansion Project

On Nov. 10, 2005, Kinder Morgan Canada received approval from the National Energy Board (NEB) to increase the capacity of the Trans Mountain pipeline system from 225,000 bpd to 260,000 bpd. The $230 million expansion is designed to add 35,000 bpd of heavy crude oil capacity by building new and upgrading existing pump stations along the pipeline system between Edmonton, Alberta, and Burnaby, British Columbia. Construction began in early 2006 and the expansion will be in service in early 2007.

Trans Mountain Anchor Loop Project

Kinder Morgan Canada filed a comprehensive environmental report with the Canadian Environmental Assessment Agency on Nov. 15, 2005, and filed a complete NEB application for the Anchor Loop project on February 17, 2006. The $400 million project involves twinning a 158-kilometre section of the existing Trans Mountain pipeline system between Hinton, Alberta, and Jackman, British Columbia, and the addition of three new pump stations. With construction of the Anchor Loop, the Trans Mountain system's capacity will increase from 260,000 bpd to 300,000 bpd by the end of 2008.

Based on management's expectations for petroleum transportation demand to the West Coast of British Columbia and shipper feedback, Kinder Morgan Canada has decided not to seek long-term contracts with shippers for the Pump

Station Expansion Project or the Anchor Loop Project. As a result, there is no certainty that shipments on the Trans Mountain system will be sufficient to adequately recover the entire capital costs of the Pump Station and Anchor Loop expansions. However, the provisions of the 2006-2010 ITS will mitigate Trans Mountain's financial exposure to throughput shortfalls during that timeframe.

Beyond the Anchor Loop project, Kinder Morgan Canada is actively pursuing TMX 2, an approximately $1 billion project that would loop the Trans Mountain pipeline between Valemont and Kamloops and back to Edmonton, increasing throughput by 100,000 bpd, and TMX 3, a $900 million project that would loop the Trans Mountain pipeline between Kamloops and the Lower Mainland, increasing throughput by 300,000 bpd. Kinder Morgan Canada plans to conduct open seasons for both projects in 2006. Further into the future, Kinder Morgan Canada is considering building a new 400,000 bpd pipeline across northern British Columbia to a new deep-water port facility in Kitimat, British Columbia at a projected cost of $2.0 billion.

Kinder Morgan Canada is no longer pursuing the previously announced Spirit Pipeline due to the termination of arrangements with its project partner.

CORRIDOR

Earnings from the Corridor system were $13.6 million in 2005, down from $15.6 million in 2004 as a result of a lower allowed return on equity caused by lower long Canada bond yields in 2005 compared to 2004. The Firm Service Agreement (FSA) between Corridor and its shippers sets pipeline tolls based on conventional cost of service mechanisms. The FSA is a 25-year agreement, with return on equity linked to prevailing long Canada bond yields. Shell Canada Limited, Chevron Canada Limited and Western Oil Sands L.P. have entered into a long-term ship-or-pay contract with Corridor for 60%, 20% and 20%, respectively, of the available capacity on the Corridor Pipeline.

Corridor Pipeline Expansion

Kinder Morgan Canada has initiated engineering, environmental and consultation activities on its proposed Corridor pipeline expansion project. The $1.0 billion expansion includes building a new 42-inch diluent/bitumen (dilbit) pipeline, a new 20 inch products pipeline, tankage and upgrading existing pump stations along the existing pipeline system from the Muskeg River Mine north of Fort McMurray to the Edmonton region. The Corridor pipeline expansion will add an initial 200,000 bpd of dilbit capacity to accommodate the new bitumen production from the Muskeg River Mine. The current dilbit capacity is approximately 258,000 bpd. It is expected to climb to 278,000 by April 2006 by upgrading existing pump station facilities. By 2009, the dilbit capacity of the Corridor system is expected to be approximately 500,000 bpd. An application for the Corridor Pipeline Expansion Project was filed with the Alberta Energy and Utilities Board on December 22, 2005. Pending regulatory and definitive shipper approval, construction will begin in late 2006.

EXPRESS SYSTEM

Earnings from the Express System were $25.5 million in 2005, up $9.6 million from 2004, as a result of the completion of the Express System capacity expansion in April 2005, and the additional throughput that the Express System was able to transport due to the expansion, and due to the realization of additional tax benefits.

In late 2003 and 2004, Terasen conducted open seasons to obtain long-term commitments for a portion of the Express System's uncommitted capacity and for expansion capacity. Express has 84% of its 280,000 bpd post-expansion total capacity contracted. These contracts expire in 2007, 2012, 2014 and 2015 in amounts of 1%, 40%, 11% and 32% of total capacity, respectively. These contracts provide for committed tolls for transportation on the Express System, which can be increased each year by up to 2%. The remaining capacity is made available to shippers as uncommitted capacity.

Other Activities

	Years ended December 31	
	2005	2004
	(in millions of dollars)	
Other activities revenues	**$46.7**	$78.5
Other activities net (loss)	**(49.2)**	(20.3)

Revenues from other activities declined from $78.5 million in 2004 to $46.7 million in 2005 as a result of the change in accounting treatment for Clean Energy from proportionate consolidation to equity accounting.

The loss from other activities increased from $20.3 million in 2004 to $49.2 million in 2005 primarily as a result of $34.4 million of costs incurred in connection with the acquisition of the Company by KMI.

Discontinued Operations

The water and utility services operations incurred a loss of $4.9 million in 2005, compared to earnings of $3.3 million in 2004. The decline in earnings was due to the expiry of tax loss carryforwards associated with the KMI acquisition and the recognition of a currency translation loss resulting from the pending sale of the business, somewhat offset by strong operating performance in the business.

Summary of Quarterly Results

	For the three months ended				
	Mar-31	Jun-30	Sep-30	Dec-31	Total
			($ millions)		
2005					
Revenues (restated)[1]	$627.5	$354.3	$282.6	$688.1	$1,952.5
Net income before discontinued operations	66.9	27.1	0.9	11.2	106.1
Net income	66.3	29.5	4.0	1.4	101.2
2004					
Revenues (restated)[1]	625.1	321.6	275.6	575.8	1,798.1
Net income before discontinued operations	68.6	16.1	7.6	54.2	146.5
Net income	67.9	17.9	10.1	53.9	149.8

1. Revenues for 2004 and 2005 have been restated to reflect the reclassification of the water and utility services business as a discontinued operation, and to reclassify certain revenues from Clean Energy to equity accounting.

Because of natural gas consumption patterns, the natural gas distribution operations of Terasen Gas normally generate higher net earnings in the first and fourth quarters, which are offset by net losses in the second and third quarters. The Company's water and utility services business, which has been reclassified as a discontinued operation, typically experiences stronger second and third quarter results, offset by weaker first and fourth quarter results, based on the level of construction and general economic activity. Earnings from Terasen's petroleum pipeline operations are not subject to material fluctuations due to seasonality. As a result, interim earnings statements are not indicative of earnings on an annual basis.

Revenues in 2005 were generally higher than in 2004 on a quarterly and annual basis as a result of higher natural gas commodity prices in 2005.

March 2005/2004 — Earnings declined by $1.6 million due to temporary lower petroleum transportation throughput resulting from the decline in production from the Alberta oilsands and maintenance turnarounds at refineries connected to the Trans Mountain pipeline. Strong operating results from the other business units were able to offset the majority of the earnings decline from petroleum transportation.

June 2005/2004 — Earnings increased by $11.6 million, driven by growth in earnings from all areas of operations. Customer growth and operating efficiencies in the quarter were the primary factors in the $2.6 million growth in earnings from natural gas distribution. Higher throughput on the Trans Mountain mainline and the implementation of the Express System expansion resulted in a $4.7 million increase in contribution from petroleum transportation. Growth in earnings from Waterworks and Clean Energy were the key drivers of the improvement in year-over-year earnings contribution from water and utility services and other activities.

September 2005/2004 — Earnings declined by $6.1 million over the prior year third quarter, but include the hedging activities and disposition costs associated with Clean Energy and transaction costs associated with the KMI acquisition. After excluding these items, earnings increased by $4.2 million through a combination of growth in earnings from all three business units, which more than offset increased corporate expenses for the quarter.

December 2005/2004 — Earnings declined by $52.5 million mainly as a result of costs incurred in connection with the acquisition of the Company by KMI of $38.9 million, as well as a charge to earnings associated with the redemption of the Trans Mountain Series C Debentures of $7.3 million.

Liquidity and Capital Resources

Consolidated Cash Flow

	Years ended December 31	
	2005	2004
	(in millions of dollars)	
Cash flow provided by (used for):		
Operating activities	**$195.4**	$335.4
Investing activities	**(212.5)**	(160.2)
Financing activities	**76.5**	(156.7)
Net increase in cash	**$ 59.4**	$ 18.5

CASH FLOW FROM OPERATING ACTIVITIES

Cash flow from operating activities declined from $335.4 million in 2004 to $195.4 million in 2005 due to a number of factors. Net earnings were lower in 2005 as a result of the items disclosed above in the ''Certain Items'' table. The net recovery of rate stabilization accounts in 2005 was $10.1 million compared with $31.0 million in 2004, mainly due to higher rate stabilization account receivable balances at the beginning of 2004. In addition, changes in non-cash working capital were a use of $68.3 million in 2005 compared to a source of $14.7 million in 2004, mainly as a result of the impact of higher gas prices on the value of natural gas inventory and accounts receivable.

INVESTING ACTIVITIES

Proceeds from the sale of natural gas distribution assets in municipal leasing transactions largely offset the acquisition of water and utility services businesses in 2004, whereas expenditures on the water and utility services business in 2005 were largely offset by proceeds from the disposition of the Company's interest in Clean Energy.

Capital expenditures totaled $214.7 million in 2005 compared with $154.4 million in 2004. The increase in capital expenditures was primarily attributable to the acquisition of the Coastal Facilities buildings. Prior to January 2005, the Coastal Facilities synthetic lease agreement had been accounted for as an off-balance sheet item. In 2004, Terasen Gas applied to the BCUC for and received approval to unwind the synthetic lease and include the Coastal Facilities assets in rate base. On January 4, 2005, Terasen Gas paid approximately $49.4 million to BCG Coastal Facilities Trust to unwind the synthetic lease. The Coastal Facilities assets have been included in the Terasen Gas rate base commencing January 2005.

FINANCING ACTIVITIES

In February 2005, Terasen Gas issued $150 million of 30-year medium term note debentures at an interest rate of 5.90%. In October 2005, Terasen Gas issued $150 million of two-year medium term note debentures at a floating rate of interest. In the second quarter of 2004, Terasen Gas issued $150 million of medium term note debentures at an interest rate of 6.50%. Funds generated from the issuance of medium term note debentures were used for general corporate purposes of Terasen Gas and to refinance maturing medium term debentures.

In February 2005, Corridor issued $150 million each of 5-year and 10-year unsecured debentures at rates of 4.24% and 5.033%, respectively. Proceeds were used to repay commercial paper issued by Corridor.

In September 2005, Trans Mountain announced that it had exercised its right to redeem the $35 million principal amount 11.50% Series C Debentures, due June 20, 2010. The redemption took place on November 1, 2005. The total redemption price for the Debentures was $1,353.7615 per $1,000 principal amount, which includes accrued and unpaid interest to the redemption date. The redemption price was determined based on the Canada Yield Price, as defined in the Trust Indenture governing the Debentures.

As at December 31, 2005, the Company and its subsidiaries had lines of credit in place totaling $1,175 million to finance cash requirements. These lines enable the respective companies to borrow directly from their bankers, issue bankers' acceptances and support commercial paper issuance. Bank lines of $375 million were unutilized at the end of 2005. Virtually all short-term cash needs are funded through commercial paper and bankers' acceptances in the

Canadian market at rates generally below bank prime. Terasen does not have, nor does it expect to have, any defaults or arrears.

On January 13, 2006, Terasen Gas (Vancouver Island) Inc. entered into a five-year unsecured, committed, revolving credit facility of $350 million with a syndicate of banks, of which $296 million was drawn against the facility on January 17, 2006. A portion of the facility was used to refinance TGVI's existing term facility of $209.5 million. The facility will also be utilized to finance working capital requirements and general corporate purposes.

Concurrently with executing the above noted facility, TGVI entered into a $20 million, seven-year unsecured, committed, non-revolving credit facility with one bank. This facility will be utilized for purposes of refinancing any annual prepayments TGVI may be required to make on non-interest bearing government contributions. The terms and conditions are primarily the same as the aforementioned TGVI facility except this facility ranks junior to repayment of TGVI's Class B subordinated debt which is held by the Company.

Dividends on common shares totaled $95.1 million in 2005, compared to $86.4 million in 2004. The increase reflects an increase in the dividend rate paid on common shares in 2005.

Financial Position

The following table outlines the significant changes in the consolidated balance sheets as at December 31, 2005 compared to December 31, 2004, other than changes arising from the reclassification of the water and utility services business as a discontinued operation.

Balance Sheet Item	Increase (Decrease) ($ millions)	Explanation
Cash and short-term investments	$ 59.4	Increased as a result of significant cash flow in late 2005 that was used to repay short-term notes subsequent to year end.
Accounts receivable	119.5	Increased mainly as a result of the impact of higher gas prices on accounts receivable for Terasen Gas and TGVI, partially offset by the reclassification of accounts receivable in the water and utilities services segment into assets held for resale.
Goodwill	(51.6)	Declined as a result of the disposition of Clean Energy and the reclassification of water and utility services as long lived assets held for resale.
Short-term notes	433.0	The refinancing of the Corridor bank credit facility resulted in the reclassification of Corridor's remaining commercial paper outstanding from long-term debt to short-term notes. In addition, short-term note balances at the end of 2004 were relatively low as a result of long-term debt issuance in 2004 that pre-funded long-term debt maturities in 2005.
Accounts payable and accrued liabilities	68.1	Increased mainly as a result of the impact of higher gas prices on accounts payable for Terasen Gas and TGVI, offset by the reclassification of accounts payable in the water and utilities services segment into liabilities held for resale.
Long-term debt (including current portion)	(297.2)	The refinancing of the Corridor bank credit facility resulted in the reclassification of Corridor's remaining commercial paper outstanding from long-term debt to short-term notes. In addition, long-term debt maturities in 2005 were partially pre-funded by long-term debt issuance in 2004.

Working Capital

Terasen's working capital requirements fluctuate seasonally based on natural gas consumption. Given the regulated nature of its business, Terasen is able to maintain negative working capital balances. Terasen maintains adequate committed credit facilities to meet its working capital requirements. On an annual basis, Terasen generates sufficient cash flow to meet its working capital requirements.

Dividend Restrictions

As part of its approval of the acquisition of Terasen by KMI, the BCUC imposed a number of conditions intended to ring-fence Terasen Gas and TGVI from Terasen. These restrictions included a prohibition on the payment of dividends unless Terasen Gas or TGVI has in place at least as much common equity as that deemed by the BCUC for rate-making purposes. As a result of this and the Decision issued by the BCUC on March 2, 2006 Terasen Gas and TGVI must maintain a percentage of common equity to total capital that is at least as much as that determined by the BCUC from time to time for ratemaking purposes. Dividend payments will not be allowed by the regulator if the requisite equity is not in place.

Dividend policies are set to ensure that Terasen Gas and TGVI maintain at least as much common equity as that deemed by the BCUC for rate-making purposes.

Corridor's credit agreement restricts its ability to issue dividends subject to certain debt-to-total capital requirements. Cash distributions from Express are subject to limitations in the Express financing agreements and decisions made by the Express Board of Directors, which Terasen does not control.

In 2005, none of these restrictions constrained the distribution of subsidiary earnings not otherwise needed for reinvestment.

Credit Ratings

Securities issued by Terasen, Terasen Gas and Corridor are rated by DBRS Inc. (DBRS) and Moody's Investors Service Inc. (Moody's). The ratings assigned to securities issued by the Terasen group of companies are reviewed by these agencies on an ongoing basis.

The table below summarizes the ratings assigned to the Company's various securities at December 31, 2005.

CREDIT RATINGS	DBRS	MOODY'S
Terasen Inc.		
Commercial paper	R-2 (High)	
Unsecured long-term debt	BBB (High)	Baa2
Capital securities	BBBy	Baa3
Terasen Gas Inc.		
Commercial paper	R-1 (Low)	
Secured long-term debt	A	A2
Unsecured long-term debt	A	A3
Terasen Pipelines (Corridor) Inc.		
Commercial paper	R-1 (Low)	
Unsecured long-term debt	A	A2

Trans Mountain's ratings were withdrawn by DBRS in late 2005 following the redemption of Trans Mountain's Series C Debentures. Trans Mountain no longer has indebtedness to third parties.

A number of ratings actions were taken on Terasen in December 2005 following the acquisition of Terasen by KMI to make the ratings consistent with those of KMI. Moody's downgraded the ratings on Terasen's unsecured long-term debt and capital securities by two gradations each (from A3 to Baa2 in the case of unsecured long-term debt). DBRS downgraded Terasen's ratings on unsecured long-term debt and capital securities by one gradation each (from A (Low) to BBB (High) in the case of unsecured long-term debt). DBRS also downgraded Terasen's commercial paper rating from R-1 (Low) to R-2 (High). As a result, it is no longer economic for Terasen to issue commercial paper in the Canadian market, and Terasen is issuing Bankers' Acceptances under its committed credit facilities to fund its short-term borrowing requirements.

Also in December 2005, Moody's downgraded Terasen Gas' long-term debt ratings by one gradation. However, Moody's noted that this downgrade was unrelated to the KMI acquisition, and was a result of Terasen Gas' weak financial profile compared to its peers.

After reassessing its relationship with Standard & Poor's Ratings Services, a division of the McGraw-Hill Companies (Canada) Corporation (S&P), Terasen decided early in 2004 to discontinue the engagement of S&P to provide credit ratings on the debt of Terasen and Terasen Gas. Terasen believes the credit ratings issued by Moody's and DBRS will be sufficient to service the requirements of creditors and maintain the Company's access to capital. S&P continues to provide an unsolicited rating on Terasen's outstanding debt based on publicly available information. As of December 31, 2005, Terasen's unsecured long-term debt was rated BBB– by S&P.

There is a provision in Terasen's $450 million credit facilities that a downgrade of Terasen's unsecured long-term debt rating below BBB (low) or Baa3 by DBRS or Moody's, respectively, would shorten the remaining term of Terasen's credit facility to ten months. In addition, a downgrade of Terasen Gas below investment grade by any of the major credit rating agencies could trigger margin calls and other cash requirements under Terasen Gas' gas purchase and commodity derivative contracts.

Projected Capital Expenditures

Terasen has estimated total 2006 consolidated capital expenditures of $501 million. Major capital expenditures in 2006 include construction on the Trans Mountain Pump Station Expansion project ($168 million), initial expenditures on the Corridor Pipeline Expansion ($95 million) and upgrades to the Trans Mountain U.S. mainline in Washington State to support future expansion ($31 million).

The Company expects to finance capital expenditures in 2006 with a combination of proceeds from the refinancing of TGVI's credit facility and shareholder advances, short-term borrowings and internally generated funds. The Company does not expect to pay common dividends to its shareholder in 2006, instead retaining its earnings for reinvestment in growth opportunities.

Off-Balance Sheet Arrangements

In 2000, Terasen Gas entered into a leasing arrangement with a syndicate of Canadian banks and the BCG Coastal Facilities Trust, a special-purpose entity, to finance new building facilities in the Greater Vancouver area. The Coastal Facilities synthetic lease agreement had been accounted for as an off-balance sheet item. As at December 31, 2004, the value of the Coastal Facilities leasing agreement was approximately $49.4 million. Lease payments of approximately $4.5 million were made by Terasen Gas in 2004.

In 2004, Terasen Gas applied to the BCUC for and received approval to unwind the synthetic lease and include the Coastal Facilities assets in rate base. On January 4, 2005, Terasen Gas paid approximately $49.4 million to BCG Coastal Facilities Trust to unwind the synthetic lease. The Coastal Facilities assets have been included in the Terasen Gas rate base commencing January 2005.

Other than the Coastal Facilities lease, which has been refinanced, there are no other material off-balance sheet agreements.

Transactions with Related Parties

The Company has not had any significant transactions with related parties outside of the consolidated group in 2005.

Changes in Accounting Policies

Liabilities and Equity

In accordance with recent changes to the CICA Handbook Section 3861 ''Financial Instruments — Disclosures and Presentation'', the Company's $125 million 8% Capital Securities have been reclassified from shareholders' equity to liabilities because the Capital Securities can be settled by issuing equity at a variable price dependent upon the market value of the Company's common shares at the settlement date. As a result of the change, distributions associated with the Capital Securities are now recorded as financing costs and the related income-tax benefits are recorded within income tax expense. Previously, the distributions were recorded on an after-tax basis as a deduction from net earnings to determine earnings applicable to common shares. There is no impact to earnings applicable to common shares or earnings per share. The changes have been applied retroactively and have increased long-term debt and decreased shareholders' equity, both by $125.0 million, compared to the amounts previously reported as at December 31, 2004. The restatement has also increased financing costs by $10.0 million, decreased income tax expense by $3.4 million and capital securities distributions by $6.6 million compared to the amounts previously reported for the year ended December 31, 2004.

Variable Interest Entities

In January 2005, the Company adopted the CICA Handbook Accounting Guideline 15 ''Consolidation of Variable Interest Entities''. The Company has performed a review of the entities with whom it conducts business and determined that under the definitions in the Guideline the Company's investment in Express US Holdings LP, part of the Express System (the ''Express System''), is deemed to be a variable interest entity. As the Company has not been identified as the primary beneficiary of Express US Holdings LP, the Company continues to account for its investment in the Express System on an equity basis. The Company's future exposure to loss regarding its investment is represented by the carrying value of the investment.

Rate Regulated Entities

The Canadian Institute of Chartered Accountants have undertaken a project to review and change how rate regulated enterprises recognize and measure regulated assets and liabilities. The results of this project could introduce significant volatility into the earnings of such businesses, which may include the elimination of regulatory deferral accounts. The project could also require rate regulated enterprises to include future income taxes payable on their balance sheets. There is very real risk that this could negatively affect debt covenant compliance and impact utilities' ability to attract financing and equity capital. The industry has actively intervened in this process over the past two years, and an exposure draft on this matter is anticipated in late 2006.

Disclosure Controls and Procedures

The President and the Chief Financial Officer evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Multilateral Instrument 52-109) and concluded that the company's disclosure controls and procedures were effective as of December 31, 2005.

Financial Instruments

Fair Value Estimates

The fair value of the Company's long-term debt, calculated by discounting the future cash flow of each debt issue at the estimated yield to maturity for the same or similar issues at December 31, 2005, or by using available quoted market prices, is estimated at $2,673.4 million. The majority of the Company's long-term debt relates to regulated operations which enables the Company to recover the existing financing charges through rates or tolls.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates cannot be determined with precision as they are subjective in nature and involve uncertainties and matters of judgment.

Derivative Instruments

The Company uses derivative instruments to hedge its exposures to fluctuations in natural gas prices and interest rates. As approved by the regulator, derivatives are used to manage natural gas price risk in the natural gas distribution operations. The majority of the natural gas supply contracts have floating, rather than fixed prices. The Company uses natural gas price swap contracts to fix the effective purchase price. Any differences between the effective cost of natural gas purchased and the price of natural gas included in rates are recorded in a deferral account (MCRA and CCRA), and subject to regulatory approval, are passed through in future rates to customers.

The Company's short-term borrowings and variable rate long-term debt are exposed to interest rate risk. The Company manages interest rate risk through the use of interest rate derivatives. Foreign currency risk in natural gas distribution operations relates mainly to purchases and sales of natural gas denominated in U.S. dollars, and is thereby managed through regulatory deferral accounts.

The Company's earnings from the U.S. portion of Trans Mountain's crude oil pipeline system and the Company's investment in the Express System are subject to foreign currency risk. The Company's earnings are also subject to translation risk associated with certain Express System assets and liabilities.

			December 31, 2005		December 31, 2004	
Asset (Liability)	**Number of swaps and options**	**Term to maturity (years)**	**Carrying Value**	**Fair Value**	**Carrying Value**	**Fair Value**
			(in millions)			
Interest Rate Swaps[1]						
Terasen Inc.	3	1 - 9	$ —	$ 3.6	$ —	$5.4
TGI	3	2	—	(1.6)	—	—
TGVI	4	1 - 4	—	(0.6)	—	(3.2)
Corridor	2	5 - 10	—	0.3	—	—
Natural Gas Commodity Swaps and Options						
Terasen Gas and TGVI[2]	161	Up to 3	21.2	105.6	—	(8.3)
Clean Energy[3]	—	—	—	—	6.5	6.5
Foreign Currency Swaps						
Terasen Inc.[4]	—	—	—	—	(0.6)	(0.6)

1 The interest rate derivatives entered into by Terasen Inc. resulted in lower interest expense of $4.8 million in 2005, compared with a $3.6 million interest expense reduction in 2004. The derivatives entered into by TGI and TGVI relate to regulated operations and any resulting gains or losses are recorded in deferral accounts, subject to regulatory approval, and passed through to customers in future rates. The gains and losses associated with derivatives entered into by Corridor are similarly passed through to shippers in future rates.

2 The natural gas derivatives fair value reflects only the value of the natural gas derivatives and not the offsetting change in value of the underlying future purchases of natural gas. These fair values reflect the estimated amounts the Company would receive or pay to terminate the contracts at the stated dates. Included in the carrying value of the natural gas derivatives is $22.2 million of unrealized fair value gains associated with derivative instruments which were deemed to be ineffective at December 31, 2005, and $1.0 million of derivative instruments which did not qualify for hedge accounting that are in a liability position. The gains and losses associated with natural gas derivatives are recorded in deferral accounts, subject to regulatory approval, and passed through to customers in future rates.

3 Clean Energy entered into natural gas commodity derivatives to manage its exposure to the cost of natural gas. These transactions resulted in a $10.9 million contribution to earnings in 2005, compared with a $3.3 million contribution in 2004. The carrying and fair value of Clean Energy's natural gas commodity swaps at December 31, 2004 reflected Terasen's 45.0% ownership interest at that time. Terasen disposed of its interest in Clean Energy on October 31, 2005.

4 The change in fair value of the derivatives of $1.6 million in 2005 and $0.7 million in 2004 has been included in the earnings contribution from the Express System for the respective periods.

Outstanding Share Data

December 31, 2005

Common shares issued and outstanding	115,643,162
Less: Common shares held by Terasen Pipelines (Trans Mountain) Inc.	9,184,188
	106,458,974
8.0% capital securities issued and outstanding	$125,000,000

Terasen is an indirect wholly-owned subsidiary of Kinder Morgan, Inc. At December 31, 2005 all of the common shares of the Company are owned by Kinder Morgan, Inc.

The 8.0% capital securities are exchangeable on or after April 19, 2010 for common shares of the Company at 90% of the market price, subject to the right of the Company to redeem the securities for cash. A maximum of 125,000,000 common shares could be issued if this right was exercised.

Forward Looking Statement

When used in this report, the words ''anticipate'', ''expect'', ''project'', ''believe'', ''estimate'', ''forecast'' and similar expressions are intended to identify forward looking statements, which include statements relating to pending and proposed projects or possible acquisitions. Such statements are subject to certain risks, uncertainties and assumptions pertaining to operating performance, regulatory parameters, economic conditions and, in the case of pending and proposed projects, risks relating to design and construction, regulatory processes, obtaining financing and performance of other parties, including partners, contractors and suppliers and in the case of possible acquisitions, obtaining financing, acquiring assets or companies at an appropriate price and the ability to effect synergies in a timely and cost-effective manner.

Additional Information

Additional information relating to Terasen Inc. is available on SEDAR at www.sedar.com.

Terasen Inc.

Interim Management's Discussion and Analysis
For the three and nine Months Ended September 30, 2006
Dated November 27, 2006

The following discussion of the financial condition and the results of operations of Terasen Inc. (Terasen or the Company) should be read in conjunction with the Company's December 31, 2005 annual audited consolidated financial statements and related notes together with Management's Discussion and Analysis and the unaudited interim consolidated financial statements and related notes for the periods ended September 30, 2006.

In this MD&A, we, us, our, the Company and Terasen mean Terasen Inc., its subsidiaries, joint ventures and investments in significantly influenced companies. Terasen Gas refers to Terasen Gas Inc., TGVI refers to Terasen Gas (Vancouver Island) Inc., Trans Mountain refers to Terasen Pipelines (Trans Mountain) Inc., Corridor refers to Terasen Pipelines (Corridor) Inc., Kinder Morgan Canada refers to Kinder Morgan Canada Inc., Express refers to the Express and Platte Pipeline Systems; and Water and Utility Services refers to Terasen Waterworks (Supply) Inc., Terasen Utility Services Inc. and Terasen's 50% interest in Fairbanks Sewer and Water Inc. KMI or the parent refers to Kinder Morgan, Inc.

The financial data included in the discussion provided in this report has been prepared in accordance with Canadian generally accepted accounting principles, and all dollar amounts are in Canadian dollars.

THIRD QUARTER 2006 FINANCIAL RESULTS

Result of Operations

NET EARNINGS	Three months ended September 30		Nine months ended September 30	
	2006	2005	**2006**	2005
	In millions of dollars			
Natural gas distribution	**$(6.8)**	$(3.6)	**$48.3**	$59.8
Petroleum transportation	**17.4**	17.2	**51.6**	50.8
Discontinued operations[1]	**(4.1)**	3.1	**(17.0)**	4.9
Other activities	**(4.0)**	(12.7)	**(17.7)**	(15.7)
Net earnings	**$ 2.5**	$ 4.0	**$65.2**	$99.8

1 In January 2006, Terasen entered into a Purchase and Sale Agreement to dispose of its interest in its water and utility services operations for proceeds of approximately $132 million. The disposition was completed on May 19, 2006 with the proceeds from the sale being used to reduce debt. The disposition gave rise to a $17.0 million loss which has been fully recorded.

Terasen reported earnings of $2.5 million for the three months ended September 30, 2006 compared with earnings of $4.0 million in the corresponding quarter of 2005. For the nine months ended September 30, 2006, earnings were $65.2 million compared to $99.8 million in the nine months of 2005. The decrease in earnings for the nine months is mainly due to a provision of $14.5 million made for retroactive tax amending legislation that was introduced in a provincial legislature, a loss of $17.0 million recorded on the sale of water and utility services operations and the $2.2 million loss of earnings from Clean Energy operations which was disposed on October 31, 2005.

Results by Business Segment

Natural Gas Distribution

	Three months ended September 30		Nine months ended September 30	
	2006	2005	**2006**	2005
	In millions of dollars			
Revenues	**$217.0**	$213.7	**$1,204.6**	$1,065.8
Net earnings	**$ (6.8)**	$ (3.6)	**$ 48.3**	$ 59.8

For the three and nine months ending September 30, 2006, revenues from natural gas distribution increased by $3.3 million and $138.8 million, respectively, compared to the corresponding periods in 2005. Cost of natural gas, on a year-over-year basis, decreased $1.0 million in the third quarter and increased $130.2 million for the nine months ended September 30, 2006. Higher revenues and cost of natural gas reflected mainly the higher commodity cost of gas charged to customers due to higher market prices and some customer growth in the quarter. Changes in both consumption levels and the commodity cost of natural gas do not materially impact earnings as a result of regulatory deferral accounts.

As noted in the Company's annual 2005 Management's Discussion and Analysis, the allowed Return on Equity (''ROE'') for 2006 for Terasen Gas has been set at 8.80% (9.03% in 2005) and at 9.50% for TGVI (9.53% in 2005), In addition, the deemed equity components for Terasen Gas and TGVI, with the approval of the British Columbia Utilities Commission (''BCUC'') were increased to 35% and 40% respectively in 2006 compared to 33% and 35% in 2005.

For the three months ended September 30, 2006, Terasen Gas and TGVI net customer additions were 1,102 and 1,150 respectively, bringing the total number of utility customers to 896,488 at September 30, 2006. Although the net increase of 6,126 customers for the first three quarters of 2006 is lower than the 8,446 net new customers reported in the same period of 2005, favorable economic conditions and housing activity in British Columbia continue to drive customer growth in the region.

Although the above items result in higher earnings for both Terasen Gas and TGVI, overall loss for the gas distribution segment have increased by $3.2 million in the third quarter of 2006, mainly due to higher non-recurring bad debt expenses related to the unbilled basic charge revenues in the current quarter compared to the same quarter in the prior year. Earnings for the first nine months of 2006 were $48.3 million compared to $59.8 million in 2005. The decline in the earnings in 2006 compared to 2005 is mainly due to a tax provision made in the second quarter related to the retroactive tax amending legislation in the Province of Quebec. The remaining difference is a result of TGVI's operations and maintenance (''O&M'') expenses which were rebased as part of its 2006-2007 rate settlement and reduced the contribution of incentive earnings in 2006. In addition, Terasen Gas has changed the timing of its recognition of earnings sharing obligation related to its forecast O&M and capital expenditures incentives to coincide with the timing of revenues received. Previously, these obligations were recognized on a straight line basis. This change affects the timing of revenues and net earnings for each quarter but is not a material amount.

Petroleum Transportation

	Three months ended September 30		Nine months ended September 30	
	2006	2005	**2006**	2005
	In millions of dollars			
Revenues	**$60.4**	$57.3	**$168.2**	$163.0
Net earnings	**$17.4**	$17.2	**$ 51.6**	$ 50.8

	Three months ended September 30		Nine months ended September 30	
Transportation volumes	**2006**	2005	**2006**	2005
	(barrels per day)			
Trans Mountain Canadian mainline	**236,700**	229,100	**230,700**	213,900
Trans Mountain U.S. mainline	**103,000**	84,900	**97,800**	68,200
Express System	**249,200**	224,600	**230,700**	205,200

Actual throughput on the Corridor Pipeline does not impact earnings as all of Corridor's capacity is contracted through ship-or-pay arrangements.

Revenues from petroleum transportation were $60.4 million in the third quarter of 2006, up $3.1 million from the same quarter of 2005 mainly due to higher throughput in the third quarter of 2006 offset partially by lower tolls. For the first three quarters of 2006, revenues were $168.2 million as compared to $163.0 million in the same period of 2005. Year-to-date revenues were slightly higher than the previous year's nine months as the first quarter of 2005 was negatively impacted by temporary production outages and turnarounds at refineries, the impact of which is shown in the throughput figures.

Earnings from petroleum transportation were $17.4 million in the third quarter of 2006, up $0.2 million from the previous year's third quarter mainly due to higher revenues, as described above, offset by higher power and O&M expenses. Earnings increased to $51.6 million in the first nine months of 2006 compared to $50.8 million in the corresponding period of 2005, mainly due higher earnings in TransMountain due to the increase in revenues described above.

Other activities

	Three months ended September 30		Nine months ended September 30	
	2006	2005	**2006**	2005
	In millions of dollars			
Revenues	**$10.9**	$ 11.6	**$ 33.3**	$ 35.6
Net loss before discontinued operations	**$ (4.0)**	$ (12.7)	**$ (17.7)**	$ (15.7)

During the third quarter of 2006, revenues from other activities decreased by $0.7 million on a year-over-year basis as a result of a decrease in international operations revenues and a slight decrease in revenues from CustomerWorks LP due to some lower rates from contracts renegotiated in 2006. The loss from other activities decreased from $12.7 million in the third quarter of 2005 to $4.0 million in the third quarter of 2006. On a year to date basis, the loss increased to $17.7 million from a loss $15.7 million in the first nine months of 2005. The year over year change is primarily due to the inclusion of earnings and gains from hedging activities from Clean Energy in 2005, which Terasen disposed of on October 31, 2005, a tax provision of $3.5 million made in the second quarter of 2006 for retroactive tax amending legislation that was introduced in a provincial legislature and higher operating expenses due to management fees to KMI and $4.0 million of non-recurring charges in 2005 related to the acquisition of Terasen by Kinder Morgan.

Discontinued Operations

The water and utility operations incurred an incremental loss of $4.1 million in the third quarter of 2006 compared to $3.1 million of income in the corresponding period of 2005. The total loss recorded on the disposition of these operations amounted to $17.0 million.

QUARTERLY FINANCIAL INFORMATION

	2006			2005				2004
	Sept.	June	Mar.	Dec.	Sept.	June	Mar.	Dec.
Revenues	$288.3	$367.3	$750.5	$688.1	$282.6	$354.3	$627.5	$575.8
Net earnings before discontinued operations	$ 6.6	$ 6.1	$ 69.5	$ 11.2	$ 0.9	$ 27.1	$ 66.9	$ 54.2
Net (loss) earnings	$ 2.5	$ (1.6)	$ 64.3	$ 1.4	$ 4.0	$ 29.5	$ 66.3	$ 53.9

December 2005/2004 — Earnings declined by $52.5 million mainly as a result of costs incurred in connection with the acquisition of the Company by KMI of $38.9 million, as well as a charge to earnings associated with the redemption of the Trans Mountain Series C Debentures of $7.3 million.

March 2006/2005 — Earnings decreased by $2.0 million due to the expected loss of $5.0 million on the sale of the water and utility operation, offset by higher petroleum transportation throughput as the first quarter of 2005 was negatively impacted by the decline in production from the Alberta oilsands and maintenance turnarounds at refineries connected to the Trans Mountain pipeline. Higher throughput in the Express system also contributed to higher earnings as the expansion Project was completed in April 2005.

June 2006/2005 — Earnings decreased by $31.1 million due to a provision of $14.5 million made for retroactive tax amending legislation that was introduced in a provincial legislature, an incremental loss of $7.7 million recorded on the sale of water and utility services operations, the loss of earnings from Clean Energy operations which was disposed on October 2005, and higher operating expenses due to higher management fees.

September 2006/2005 — Earnings decreased by $1.5 million due to a loss on disposal of the water business offset by lower costs in 2006 due to 2005 one time transaction costs of $4.1 million on the sale of Clean Energy and $4.0 million of transaction costs associated with the Kinder Morgan acquisition incurred in 2005.

SEASONALITY

Because of natural gas consumption patterns, the natural gas distribution operations of Terasen Gas normally generate higher net earnings in the first and fourth quarters, which are offset by net losses in the second and third quarters. Earnings from Terasen's petroleum pipeline operations are not subject to material fluctuations due to seasonality. As a result, interim earnings statements are not indicative of earnings on an annual basis.

LIQUIDITY AND CAPITAL RESOURCES

Terasen expects to generate sufficient cash from operations to meet its working capital needs and to maintain its financial capacity and flexibility. The Company's liquidity and capacity to access capital markets to maintain operations and fund growth remain substantially unchanged since December 31, 2005.

CONSOLIDATED CASH FLOW

	Three months ended September 30		Nine months ended September 30	
	2006	2005	**2006**	2005
	In millions of dollars			
Cash flow provided by (used for):				
Operating activities	**$ (52.6)**	$ (17.0)	**$ 223.0**	$ 160.7
Investing activities	**$ (78.0)**	$ (53.1)	**$ (65.5)**	$ (182.9)
Financing activities	**$176.5**	$ 11.7	**$ (154.1)**	$ 35.4
Net increase in cash	**$ 45.9**	$ (58.4)	**$ 3.4**	$ 13.2

CASH FLOW FROM OPERATING ACTIVITIES

Cash from operations refers to cash generated before the impact of working capital and rate-stabilization deferral account changes. Cash from operations for the three months ended September 30, 2006 was $21.3 million, compared to $47.8 million in the corresponding period of 2005. Cash flow from for operating activities, which includes the impact of changes in working capital and deferral accounts, was $223.0 million in the first nine months of 2006 compared with $160.7 million in the corresponding period of 2005.

Between December 31, 2005 and September 30, 2006, accounts receivable, accounts payable and accrued liabilities declined while gas in storage inventory increased as a result of the typical seasonal increase in natural gas consumption during the period. These changes in working capital accounts and rate stabilization accounts generated increased cash flow from operating activities compared to 2005.

INVESTING ACTIVITIES

Capital expenditures totaled $84.1 million in the third quarter of 2006 compared to $43.4 million in the corresponding period in 2005. Year to date capital expenditures were $194.2 million in 2006 compared to $170.3 million in the first nine months of 2005. The increase in the third quarter is mainly due to expenditures incurred in the pipeline operations as construction of the first phase of the expansion of the Trans Mountain system West Coast pipeline expansion (''TMX'') is underway. The increase in capital expenditures on a year to date basis was primarily attributable to the TMX expansion which is currently underway. The decrease in the overall investing activities is due to the proceeds from the sale of the water and utility services business.

There have been no material changes to Terasen's planned capital expenditures from those reported in the Company's Annual 2005 Management's Discussion and Analysis.

FINANCING ACTIVITIES

On January 13, 2006, TGVI entered into a five-year unsecured, committed, revolving credit facility of $350 million with a syndicate of banks, of which $296 million was drawn against the facility on January 17, 2006. A portion of the facility was used to refinance TGVI's existing term facility of $209.5 million. The facility will also be utilized to finance working capital requirements and general corporate purposes.

Concurrently with executing the above noted facility, TGVI entered into a $20 million, seven-year unsecured, committed, non-revolving credit facility with one bank. This facility will be utilized for purposes of refinancing any annual prepayments TGVI may be required to make on non-interest bearing government contributions. The terms and conditions are primarily the same as those for the aforementioned TGVI facility except this facility ranks junior to repayment of TGVI's Class B subordinated debt which is held by the Company. Borrowings outstanding under this facility were $3.7 million as of September 30th, 2006.

On May 9, 2006, Terasen Inc. entered into a $450 million three-year revolving credit facility. This facility replaces three bi-lateral facilities aggregating $450 million and includes terms and conditions similar to the facilities it replaced.

On June 21, 2006, Terasen Gas Inc. entered into a $500 million three-year revolving credit facility, extendible annually for an additional 364 days at the option of the lenders. This facility replaces five bi-lateral facilities aggregating $500 million and includes terms and conditions similar to the facilities it replaced.

In September 2006, Terasen Gas issued $120 million of 30-year medium term note debentures at an interest rate of 5.55%. Funds generated from the issuance of medium term note debentures were used to repay $100 million which matured in the quarter with the remainder available to fund the retirement of a $20 million debenture which is due to mature in the fourth quarter.

As at September 30, 2006, the Company and its subsidiaries had lines of credit in place totaling $1,175 million to finance cash requirements. These lines enable the respective companies to borrow directly from their bankers, issue bankers' acceptances and support commercial paper issuance. Bank lines of $534 million were unutilized at September 30, 2006. Utilized lines are used for short term borrowings and letters of credit. Virtually all short-term cash needs are funded through commercial paper and bankers' acceptances in the Canadian market at rates generally below bank prime. Terasen does not have, nor does it expect to have, any defaults or arrears. The company has thirty eight letters of credit outstanding totaling $117 million.

In addition to the above lines of credit, TGVI on its $350 million credit facility had borrowings outstanding at September 30, 2006 of $284 million. While the borrowings are short-term bankers acceptances, the underlying credit facility on which the advances are provided is committed through to January 2011 and the borrowings are primarily to support the longer term rate base assets of TGVI. Accordingly, a portion of the borrowings have been classified as long term debt in the consolidated balance sheet.

On June 30, 2006, TGVI made a $6.2 million payment on its government loans, of which, approximately $3.7 million was refinanced through borrowings under its $20 million non-revolving credit facility and the remaining amount funded with cash on hand.

No dividends were declared in the first nine months of 2006 compared to $23.8 million in the third quarter of 2005 and $71.2 million in the first nine months of 2005.

FINANCIAL POSITION

The following table outlines the significant changes in the consolidated balance sheets as at September 30, 2006 compared to December 31, 2005, other than changes arising from the reclassification of the water and utility services business as a discontinued operation.

Balance Sheet Item	Increase (Decrease) ($ millions)	Explanation
Accounts receivable	$(280.0)	Decrease is mainly due to lower sales of gas in the summer months compared to winter.
Rate stabilization accounts (including current and long term)	163.5	The increase in the net asset position of rate stabilization accounts is mainly due to the fair value mark to market for the gas derivatives. The derivatives are ''out of the money'' and any losses are passed through to customers.
Short-term notes	(157.0)	Decrease is due to the repayment of short-term notes from the refinancing of TGVI and due to the lower debt requirements in the utility operations as a result of the higher equity requirements as rendered by the BCUC decision.
Inventories of gas in storage and supplies	44.0	Increase is mainly due a build up in supply in anticipation for usage in the cooler winter months.

WORKING CAPITAL

Terasen's working capital requirements fluctuate seasonally based on natural gas consumption. Given the regulated nature of its business, Terasen is able to maintain negative working capital balances. Terasen maintains adequate committed credit facilities to meet its working capital requirements. On an annual basis, Terasen generates sufficient cash flow to meet its working capital requirements.

LETTERS OF CREDIT

$117 million of letters of credit were outstanding at September 30, 2006 primarily related to unfunded pension plans and guarantees to third parties for power purchases and on behalf of co-investors in the Express System to fund the Debt Service Account.

CREDIT RATINGS

Following the Kinder Morgan Inc management buyout offer announced in May 2006, both DBRS and Moody's have placed Terasen Inc.'s credit ratings under review with negative implications and possible downgrades. There have been no other changes to the Company's credit ratings from those reported in the annual 2005 Management's Discussion and Analysis.

TRANSACTIONS WITH RELATED PARTIES

The Company estimates that its parent company, Kinder Morgan Inc., provided corporate management services it receives totaling approximately $1.2 million for the three-months ended September 30, 2006. Year to date corporate management service fees were $8.5 million.

FINANCIAL AND OTHER INSTRUMENTS

The Company hedges its exposure to fluctuations in natural gas prices and interest rates through the use of derivative instruments. The table below indicates the valuation of the derivative instruments as at September 30, 2006. For more information on Terasen's derivatives please refer to Terasen's 2005 Annual Management's Discussion and Analysis.

			September 30, 2006		December 31,2005	
Asset (Liability)	**Number of swaps**	**Term to maturity (years)**	**Carrying Value**	**Fair Value**	**Carrying Value**	**Fair Value**
				(in millions)		
Interest Rate Swaps						
Terasen Inc.	2	2 - 9	$	$ 1.6	$ —	$ 3.6
Terasen Gas[1]	3	2	—	(1.1)	—	(1.6)
TGVI[1]	2	3	—	(0.5)	—	(0.6)
Corridor[1]	2	4 - 9		(0.4)	—	(0.3)
Natural Gas Commodity Swaps Terasen Gas and TGVI[1,2]	263	Up to 3	(162.8)	(176.5)	21.2	105.6

1 The derivatives entered into by Terasen Gas and TGVI relate to regulated operations and any resulting gains or losses are, subject to regulatory approval, passed through to customers in future rates. The derivatives entered into by Corridor are done so on behalf of its shippers and any gains are losses are passed through directly to its shippers.

2 The natural gas derivatives fair value reflects only the value of the natural gas derivatives and not the offsetting change in value of the underlying future purchases of natural gas. These fair values reflect the estimated amounts the Company would receive or pay to terminate the contracts at the stated dates.

BUSINESS DEVELOPMENT

The following is an update on Terasen's business development activities during the first nine months of 2006. More information on the Company's business development activities is provided in Terasen's 2005 annual Management's Discussion and Analysis.

TERASEN GAS (WHISTLER) ("TGW") AND TERASEN GAS VANCOUVER ISLAND ("TGVI")

On June 28, 2006, TGW and TGVI received final approval from the BCUC to extend natural gas service to Whistler. Under the proposed arrangements, TGVI will extend its transmission system to serve TGW by the construction of a 50 kilometre pipeline lateral from Squamish to Whistler and TGW will convert its current piped propane system to natural gas. The pipeline construction is expected to commence in the fall of 2006 and will be co-ordinated with the current Sea to Sky Highway upgrade project. Gas service is expected to be available by November 2008.

CORRIDOR EXPANSION

We have initiated engineering, environmental, consultation and procurement activities on the proposed Corridor pipeline expansion project, as authorized and supported by shipper resolutions and the underlying firm service agreement. The proposed C$1.6 billion expansion includes building a new 42-inch diameter diluent/bitumen (''dilbit'') pipeline, a new 20-inch diameter products pipeline, tankage and upgrading existing pump stations along the existing pipeline system from the Muskeg River Mine north of Fort McMurray to the Edmonton region. The Corridor pipeline expansion would add an initial 180,000 bpd of dilbit capacity to accommodate the new bitumen production from the Muskeg River Mine. An expansion of the Corridor pipeline system has been completed in 2006 increasing the dilbit capacity to 278,000 barrels per day (''bpd'') by upgrading existing pump station facilities. By 2009, the dilbit capacity of the Corridor system is expected to be approximately 460,000 bpd. An application for the Corridor pipeline expansion project was filed with the Alberta Energy Utilities Board and Alberta Environment on December 22, 2005, and approval was received in August 2006. Construction of the Corridor pipeline expansion is expected to begin in November 2006 as the shippers have received definitive approval of their Muskeg River Mine expansion.

TMX

On February 17, 2006, Kinder Morgan Canada filed a complete National Energy Board (''NEB'') application for the Anchor Loop project. On November 15, 2005, Kinder Morgan Canada filed a comprehensive environmental report with the Canadian Environmental Assessment Agency regarding the project. The C$435 million project involves looping a 98-mile section of the existing Trans Mountain pipeline system between Hinton, Alberta, and Jackman, British Columbia, and the addition of three new pump stations. With construction of the Anchor Loop, the Trans Mountain system's capacity will increase from 260,000 bpd to 300,000 bpd by the end of 2008. The public hearing of the application was held the week of August 8, 2006. On October 26, 2006, the NEB released its favorable decision on the application.

RISK ASSESSMENT

The risk profile of Terasen remains substantially unchanged from the profile outlined in Terasen's 2005 Annual Management's Discussion and Analysis.

FORWARD LOOKING STATEMENT

When used in this report, the words ''anticipate'', ''expect'', ''project'', ''believe'', ''estimate'', ''forecast'' and similar expressions are intended to identify forward looking statements, which include statements relating to pending and proposed projects or possible acquisitions. Such statements are subject to certain risks, uncertainties and assumptions pertaining to operating performance, regulatory parameters, economic conditions and, in the case of pending and proposed projects, risks relating to design and construction, regulatory processes, obtaining financing and performance of other parties, including partners, contractors and suppliers and in the case of possible acquisitions, obtaining financing, acquiring assets or companies at an appropriate price and the ability to effect synergies in a timely and cost-effective manner.

ADDITIONAL INFORMATION

Additional information relating to Terasen including its Annual Information Form is available on SEDAR at www.sedar.com.

CERTIFICATE OF FORTIS INC.

Dated: March 7, 2007

This short form prospectus, together with the documents incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by the securities legislation of each of the provinces of Canada. For the purpose of the Province of Québec, this simplified prospectus, together with documents incorporated herein by reference and as supplemented by the permanent information record, contains no misrepresentation that is likely to affect the value or the market price of the securities to be distributed.

(Signed) H. Stanley Marshall President and Chief Executive Officer	(Signed) Barry V. Perry Vice-President, Finance and Chief Financial Officer

On behalf of the Board of Directors

(Signed) Bruce Chafe Director	(Signed) David G. Norris Director

CERTIFICATE OF THE UNDERWRITERS

Dated: March 7, 2007

To the best of our knowledge, information and belief, this short form prospectus, together with the documents incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by the securities legislation of each of the provinces of Canada. For the purpose of the Province of Québec, to our knowledge, this simplified prospectus, together with the documents incorporated herein by reference and as supplemented by the permanent information record, contains no misrepresentation that is likely to affect the value or the market price of the securities to be distributed.

CIBC World Markets Inc.	Scotia Capital Inc.	TD Securities Inc.
(Signed) David H. Williams	(Signed) John Matovich	(Signed) Harold R. Holloway

BMO Nesbitt Burns Inc.	RBC Dominion Securities Inc.
(Signed) James A. Tower	(Signed) David Dal Bello

National Bank Financial Inc.

(Signed) Robert B. Wonnacott

Canaccord Capital Corporation

(Signed) Ronald A. Rimer

Beacon Securities Limited	HSBC Securities (Canada) Inc.
(Signed) Lonsdale W. Holland	(Signed) Jeffrey B. Allsop

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No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. This short form prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and thereby only by persons permitted to sell such securities.

Information has been incorporated by reference in this short form prospectus from documents filed with securities commissions or similar authorities in Canada. *Copies of the documents incorporated herein by reference may be obtained on request without charge from the Secretary of the Corporation at Suite 1201, 139 Water Street, St. John's, Newfoundland and Labrador A1B 3T2 (telephone (709) 737-2800) and are also available electronically at www.sedar.com. The securities being offered under this short form prospectus have not been and will not be registered under the United States Securities Act of 1933, as amended, or any state securities laws, and, except in limited circumstances, will not be offered or sold within the United States or for the account or benefit of United States persons. See "Plan of Distribution".*

SHORT FORM PROSPECTUS

New Issue December 12, 2008

FORTIS INC.

$300,105,000

11,700,000 COMMON SHARES

This short form prospectus (the "Prospectus") qualifies for distribution (the "Offering") 11,700,000 common shares (the "Offered Shares") of Fortis Inc. ("Fortis" or the "Corporation") which are being offered and sold pursuant to the provisions of an underwriting agreement (the "Underwriting Agreement") dated December 5, 2008 between Fortis and Scotia Capital Inc. ("Scotia Capital"), CIBC World Markets Inc. ("CIBCWM"), RBC Dominion Securities Inc. ("RBCDS"), BMO Nesbitt Burns Inc. ("BMO Nesbitt Burns"), TD Securities Inc. ("TD Securities"), HSBC Securities (Canada) Inc. ("HSBC Securities"), National Bank Financial Inc. ("NB Financial"), Beacon Securities Limited and Canaccord Capital Corporation (collectively, the "Underwriters"). The Offered Shares will be issued and sold by Fortis to the Underwriters at the price of $25.65 (the "Offering Price") per Offered Share. The Offering Price was determined by negotiation between the Corporation and the Underwriters.

The Underwriters may offer the Offered Shares at a lower price than the Offering Price. See "Plan of Distribution".

The Toronto Stock Exchange (the "TSX") has conditionally approved the listing of the Offered Shares distributed under this Prospectus on the TSX. Listing will be subject to the Corporation fulfilling all of the listing requirements of the TSX on or before March 3, 2009. On December 11, 2008, the closing price of the common shares of Fortis on the TSX was $25.05.

Investing in the Offered Shares involves certain risks that should be considered by a prospective purchaser. See "Risk Factors".

Price: $25.65 per Common Share

	Price to the Public	Underwriters' Fee	Net Proceeds to Fortis(1)(2)
Per Common Share	$25.65	$1.026	$24.624
Total	$300,105,000	$12,004,200	$288,100,800

(1) Before deducting expenses of the Offering estimated at $750,000 which, together with the Underwriters' fees, will be paid out of the general funds of Fortis. See "Plan of Distribution".

(2) The Corporation has granted to the Underwriters an option (the "Over-Allotment Option"), exercisable in whole or in part at any time until 30 days following the date of closing of the Offering, to purchase at the Offering Price up to 1,755,000 additional Offered Shares (the "Additional Shares") to cover over-allotments, if any, and for market stabilization purposes. If the Over-Allotment Option is exercised in full, the total "Price to the Public", "Underwriters' Fee" and "Net Proceeds to Fortis" will be $345,120,750, $13,804,830 and $331,315,920, respectively. See "Plan of Distribution". This Prospectus also qualifies the grant of the Over-Allotment Option and the distribution of the Additional Shares issuable on the exercise of the Over-Allotment Option. References to Offered Shares include any Additional Shares unless otherwise noted or unless the context precludes such inclusion.

A purchaser who acquires Offered Shares forming part of the Over-Allotment Option acquires those securities under this Prospectus, regardless of whether the Over-Allotment Option is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases.

Underwriters' Position	Number of Shares Available	Exercise Period	Exercise Price
Over-Allotment Option	1,755,000	Within 30 days following the closing of the Offering	$25.65 per share

Each of Scotia Capital, CIBCWM, RBCDS, BMO Nesbitt Burns, TD Securities, HSBC Securities and NB Financial is a subsidiary of a Canadian chartered bank that has, either solely or as a member of a syndicate of financial institutions, extended credit facilities to, or holds other indebtedness of, the Corporation and/or its subsidiaries. All or a portion of the net proceeds from the Offering will be used towards repaying indebtedness under a credit facility owing by the Corporation to certain of such banks or their affiliates. Consequently, the Corporation may be considered a "connected issuer" of these Underwriters within the meaning of applicable securities legislation. See "Use of Proceeds" and "Plan of Distribution".

The Underwriters, as principals, conditionally offer the Offered Shares, subject to prior sale, if, as and when issued by Fortis and accepted by the Underwriters in accordance with the conditions contained in the Underwriting Agreement and subject to the approval of certain legal matters on behalf of the Corporation by Davies Ward Phillips & Vineberg LLP, Toronto and McInnes Cooper, St. John's and on behalf of the Underwriters by Stikeman Elliott LLP, Toronto. Subject to applicable laws, the Underwriters may, in connection with the Offering, over-allot or effect transactions which stabilize or maintain the market price of the Offered Shares at levels other than those which may prevail on the open market. Such transactions, if commenced, may be discontinued at any time. See "Plan of Distribution".

Subscriptions for the Offered Shares will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that the closing of the Offering (the "Closing") will take place on or about December 19, 2008 (the "Closing Date"), or such other date as may be agreed upon by the Corporation and the Underwriters, but not later than January 23, 2009. Certificates evidencing the Offered Shares will be available for delivery at the Closing or shortly thereafter.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus (the "Prospectus"), including the documents incorporated herein by reference, contains forward-looking information which reflects management's expectations regarding the future growth, results of operations, performance, business prospects and opportunities of Fortis Inc. ("Fortis" or the "Corporation"), and may not be appropriate for other purposes. All forward-looking information is given pursuant to the "safe harbour" provisions of applicable Canadian securities legislation. The words "anticipates", "believes", "could", "estimates", "expects", "forecasts", "intends", "may", "might", "plans", "projects", "schedule", "should", "will", "would" and similar expressions are often intended to identify forward-looking information, although not all forward-looking information contains these identifying words. The forward-looking information reflects management's current beliefs and is based on information currently available to the Corporation's management. The forward-looking information in this Prospectus, including the documents incorporated herein by reference, includes, but is not limited to, statements regarding: the Corporation's expectation that cash required to complete the consolidated capital expenditure program and to finance acquisitions will be derived from a combination of internally generated funds, borrowings under credit facilities and the issuance of common shares, preference shares and long-term debt; the Corporation's consolidated forecasted gross capital expenditures for 2008 and in total over the next five years, as well as significant capital projects in 2008 and their expected cost and time to complete; the Corporation's belief that its capital program should drive growth in earnings; the expected average annual amount of the Corporation's long-term debt maturing over the next five years; the Corporation's expectation of the impact of foreign exchange on 2008 basic earnings per common share; the expected timing of regulatory decisions; the timing of the judicial review of legislation adopted by the Government of Belize relating to Belize Electricity Limited; the expectation that counterparties to the Terasen gas companies' derivative financial instruments will continue to meet their obligations; and the expected impact of Hurricane Ike on the fourth quarter 2008 revenue of P.P.C. Limited and Atlantic Equipment & Power (Turks and Caicos) Ltd. The forecasts and projections that make up the forward-looking information are based on assumptions which include, but are not limited to: the receipt of applicable regulatory approvals and requested rate orders; the absence of significant operational disruptions or environmental liabilities due to a catastrophic event or environmental upset caused by severe weather, other acts of nature or other major events; the Corporation's ability to maintain its gas and electricity systems to ensure their continued performance; the competitiveness of natural gas pricing when compared with electricity and other alternative sources of energy; the availability of natural gas supply; favourable economic conditions; the level of interest rates; the ability to hedge certain risks; the absence of counterparty defaults; access to capital and availability of liquidity; maintenance of adequate insurance coverage; the ability to obtain licences and permits; the level of energy prices; retention of existing service areas; favourable labour relations; and sufficient human resources to deliver service and execute the capital program. The forward-looking information is subject to risks, uncertainties and other factors that could cause actual results to differ materially from historical results or results anticipated by the forward-looking information. The factors which could cause results or events to differ from current expectations include, but are not limited to: regulation; operating and maintenance risks; natural gas prices and supply; economic conditions; weather and seasonality; interest rates; changes in tax legislation; derivative financial instruments and hedging; counterparty risk; risks relating to Terasen Gas (Vancouver Island) Inc.; capital resources and liquidity risk; environment; insurance; pension plan performance and funding requirements; transition to International Financial Reporting Standards; licences and permits; energy prices and the cessation of the Niagara Exchange Agreement (as defined herein) (see "Fortis — Non-Regulated — Fortis Generation — Ontario"); loss of service area; First Nations lands; labour relations; and human resources. For additional information with respect to the Corporation's risk factors, reference should be made to the section of this Prospectus entitled "Risk Factors" and to the documents incorporated herein by reference.

All forward-looking information in this Prospectus and in the documents incorporated herein by reference is qualified in its entirety by the above cautionary statements and, except as required by law, the Corporation undertakes no obligation to revise or update any forward-looking information as a result of new information, future events or otherwise.

DOCUMENTS INCORPORATED BY REFERENCE

The disclosure documents of the Corporation listed below and filed with the appropriate securities commissions or similar regulatory authorities in each of the provinces of Canada are specifically incorporated by reference into and form an integral part of this Prospectus:

(a) Annual Information Form dated March 28, 2008 for the year ended December 31, 2007;

(b) audited comparative consolidated financial statements as at December 31, 2007 and December 31, 2006 and for the years ended December 31, 2007 and 2006, together with the notes thereto and the auditors' report thereon dated February 1, 2008, as contained in the Corporation's 2007 Annual Report;

(c) Management Discussion and Analysis of financial condition and results of operations for the year ended December 31, 2007 as contained in the Corporation's 2007 Annual Report;

(d) unaudited comparative interim consolidated financial statements as at September 30, 2008 and for the three and nine months ended September 30, 2008 and 2007, together with the notes thereto;

(e) Management Discussion and Analysis of financial condition and results of operations for the three and nine months ended September 30, 2008;

(f) Management Information Circular dated April 4, 2008 prepared in connection with the Corporation's annual meeting of shareholders held on May 6, 2008; and

(g) business acquisition report dated June 13, 2007 with respect to the acquisition by the Corporation of all of the outstanding shares of Terasen Inc. ("Terasen") on May 17, 2007.

Any document of the type referred to in the preceding paragraph and any material change report (other than any confidential material change report) subsequently filed by the Corporation with such securities commissions or regulatory authorities after the date of the Prospectus, and prior to the termination of the Offering, shall be deemed to be incorporated by reference into the Prospectus.

Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Prospectus to the extent that a statement contained herein, or in any other subsequently filed document which also is incorporated or is deemed to be incorporated by reference herein, modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement will not be deemed an admission for any purpose that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus.

Copies of the documents incorporated herein by reference may be obtained on request without charge from the Secretary of the Corporation at Suite 1201, 139 Water Street, St. John's, Newfoundland and Labrador A1B 3T2 (telephone (709) 737-2800). These documents are also available through the Internet on the Corporation's website at www.fortisinc.com or on the Canadian System for Electronic Document Analysis and Retrieval ("SEDAR") which can be accessed at www.sedar.com. The information contained on, or accessible through, any of these websites is not incorporated by reference into the Prospectus and is not, and should not be considered to be, a part of the Prospectus, unless it is explicitly so incorporated.

ELIGIBILITY FOR INVESTMENT

In the opinion of Davies Ward Phillips & Vineberg LLP, counsel to the Corporation, and Stikeman Elliott LLP, counsel to the Underwriters, the common shares of the Corporation being offered pursuant to the Prospectus, if issued on the date hereof, would be qualified investments under the *Income Tax Act* (Canada) for a trust governed by a registered retirement savings plan, registered retirement income fund, deferred profit sharing plan, registered education savings plan or registered disability savings plan and, beginning in 2009, a tax-free savings account.

CURRENCY

All dollar amounts in the Prospectus are expressed in Canadian dollars unless otherwise indicated.

FORTIS

Fortis Inc. ("Fortis" or the "Corporation") was incorporated as 81800 Canada Ltd. under the *Canada Business Corporations Act* on June 28, 1977. The Corporation was continued under the *Corporations Act* (Newfoundland) on August 28, 1987 and on October 13, 1987 the Corporation amended its articles to change its name to "Fortis Inc." The address of the head office and principal place of business of the Corporation is The Fortis Building, Suite 1201, 139 Water Street, St. John's, Newfoundland and Labrador A1B 3T2.

Fortis is the largest investor-owned distribution utility in Canada, serving more than 2,000,000 gas and electricity customers. Its regulated holdings include electric distribution utilities in five Canadian provinces and three Caribbean countries and a natural gas utility in British Columbia. Regulated utility assets comprise approximately 92% of the Corporation's total assets, with the balance comprised of non-regulated generation assets and commercial real estate and hotels. Fortis is the direct owner of all of the common shares of Terasen Inc. ("Terasen"), a company that, through its subsidiaries, is the principal distributor of natural gas in British Columbia. Fortis is the indirect owner of all of the common shares of FortisAlberta Inc. ("FortisAlberta"), a regulated electric utility that distributes electricity generated by other market participants in Alberta, and FortisBC Inc. ("FortisBC"), a regulated electric utility that generates, transmits and distributes electricity in British Columbia. Fortis also holds all of the common shares of Newfoundland Power Inc. ("Newfoundland Power") and, through its non-regulated wholly owned subsidiary Fortis Properties Corporation ("Fortis Properties"), holds all of the common shares of Maritime Electric Company, Limited ("Maritime Electric"), which are the principal distributors of electricity in Newfoundland and Prince Edward Island, respectively. As well, through its wholly owned subsidiary FortisOntario Inc. ("FortisOntario") and its subsidiaries, Canadian Niagara Power Inc. ("CNPI") and Cornwall Street Railway, Light and Power Company, Limited, Fortis provides an integrated electric utility service to customers primarily in Fort Erie, Cornwall, Gananoque and Port Colborne in Ontario.

The Corporation's regulated electric utility assets in the Caribbean consist of its ownership, through wholly owned subsidiaries, of an approximate 70% interest in Belize Electricity Limited ("Belize Electricity"), the principal distributor of electricity in Belize, Central America, and an approximate 57% interest in Caribbean Utilities Company, Ltd. ("Caribbean Utilities"), the sole provider of electricity on Grand Cayman, Cayman Islands. Fortis also owns, through a wholly owned subsidiary, P.P.C. Limited and Atlantic Equipment & Power (Turks and Caicos) Ltd. (together, "Fortis Turks and Caicos"), the principal distributor of electricity on the Turks and Caicos Islands.

The Corporation's non-regulated electricity generation operations consist of its 100% interest in each of Belize Electric Company Limited ("BECOL"), FortisOntario and non-regulated generation assets owned by Fortis Properties and FortisBC.

BECOL owns and operates the 25-megawatt ("MW") Mollejon and 7-MW Chalillo hydroelectric generating facilities, both of which are located on the Macal River in Belize. Construction of the U.S.$53 million 19-MW Vaca hydroelectric generating facility, also located on the Macal River, commenced in May 2007 and the facility is expected to come into service in late 2009. FortisOntario includes 75 MW of water-right entitlement associated with a water and power exchange agreement (the "Niagara Exchange Agreement") with Ontario Power Generation Inc., which expires April 30, 2009, and the operation of a 5-MW gas-fired cogeneration plant in Cornwall. The non-regulated electricity generation operations of FortisBC consist of the 16-MW run-of-river Walden hydroelectric power plant near Lillooet, British Columbia.

Through FortisUS Energy Corporation ("FortisUS Energy"), a wholly owned subsidiary of Fortis Properties, the Corporation owns and operates four hydroelectric generating stations in upper New York State with a total combined capacity of approximately 23 MW. Fortis Properties' assets also include six small hydroelectric generating stations in eastern Ontario with a combined capacity of 8 MW.

Fortis Properties is also the direct owner of a 51% interest in the Exploits River Hydro Partnership (the "Exploits Partnership"). The Exploits Partnership was established with Abitibi-Consolidated Company of Canada ("Abitibi-Consolidated"), which holds the remaining 49% interest, to develop additional capacity at Abitibi-Consolidated's hydroelectric generating plant at Grand Falls-Windsor and redevelop Abitibi-Consolidated's hydroelectric generating plant at Bishop's Falls, both in central Newfoundland.

Through Fortis Properties, the Corporation owns 20 hotels in eight Canadian provinces and commercial real estate primarily in Atlantic Canada.

Regulated Gas Utilities — Canadian

Terasen

The natural gas distribution business of Terasen is one of the largest in Canada. With approximately 924,200 customers, Terasen's subsidiaries provide service to over 96% of gas users in British Columbia. Terasen Gas Inc. ("TGI") is the largest of these subsidiaries, serving approximately 828,200 customers in a service area extending from Vancouver to the Fraser Valley and the interior of British Columbia. Terasen Gas (Vancouver Island) Inc. ("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, serving approximately 93,600 customers. In addition to providing transmission and distribution services to customers, TGI and TGVI also obtain natural gas supplies on behalf of most residential and commercial customers. Gas supplies are sourced primarily from northeastern British Columbia and Alberta. Terasen Gas (Whistler) Inc. owns and operates the propane distribution system in Whistler, British Columbia, providing service to approximately 2,400 residential and commercial customers. The Terasen companies own and operate more than 45,000 kilometres of natural gas distribution and transmission pipelines and met a peak day demand of 1,313 terajoules to date in 2008.

Regulated Electric Utilities — Canadian

FortisAlberta

FortisAlberta distributes electricity to approximately 456,800 customers in Alberta using approximately 107,200 kilometres of distribution lines and met a peak demand of 3,150 MW to date in 2008. FortisAlberta's business is the ownership and operation of regulated electricity distribution facilities that distribute electricity generated by other market participants from high-voltage transmission substations to end-use customers in central and southern Alberta. FortisAlberta is not involved in the generation, transmission or direct sale of electricity.

FortisBC

FortisBC is an integrated, regulated electric utility that owns a network of generation, transmission and distribution assets located in the southern interior of British Columbia. FortisBC serves a diverse mix of approximately 155,000 customers, with residential customers representing the largest customer segment, and met a peak demand of 663 MW to date in 2008. FortisBC owns four regulated hydroelectric generating plants with an aggregate capacity of 223 MW that provide approximately 45% of FortisBC's energy and 30% of its capacity needs. FortisBC's remaining electricity supply is acquired through long-term power purchase contracts and short-term market purchases. FortisBC's business also includes operating, maintenance and management services relating to the 450-MW Waneta hydroelectric generation facility owned by Teck Cominco Metals Ltd., the 149-MW Brilliant Hydroelectric Plant and the 185-MW Arrow Lakes Hydroelectric Plant, each owned by Columbia Power Corporation and Columbia Basin Trust, and the distribution system owned by the City of Kelowna.

Newfoundland Power

Newfoundland Power is an electric utility that operates an integrated generation, transmission and distribution system throughout the island portion of the Province of Newfoundland and Labrador. Newfoundland Power serves more than 234,000 customers, or 85% of electricity consumers in the Province, and met a peak demand of 1,188 MW to date in 2008. Approximately 90% of the electricity that Newfoundland Power sells to its customers is purchased from Newfoundland and Labrador Hydro Corporation ("Newfoundland Hydro"). Currently, Newfoundland Power has an installed generating capacity of 139 MW, of which 96 MW is hydroelectric generation.

Maritime Electric

Maritime Electric is an electric utility that operates an integrated generation, transmission and distribution system on Prince Edward Island. Maritime Electric directly supplies approximately 73,000 customers, or 90% of electricity consumers on the Island, and met a peak demand of 213 MW to date in 2008. Maritime Electric purchases most of the energy it distributes to its customers from New Brunswick Power Corporation and maintains on-Island generating facilities with an aggregate capacity of 150 MW.

FortisOntario

FortisOntario's distribution operations serve approximately 52,000 customers in the Fort Erie, Cornwall, Gananoque and Port Colborne areas of Ontario and met a combined peak demand of 226 MW to date in 2008. Through CNPI, FortisOntario owns international transmission facilities at Fort Erie and owns a 10% interest in each of Westario Power Inc. and Rideau St. Lawrence Holdings Inc., two regional electric distribution companies that, together, serve more than 27,000 customers. FortisOntario has also entered into an agreement to acquire 10% of Grimsby Power Inc. ("Grimsby Power"), an Ontario regional electrical distribution company with approximately 10,000 customers. FortisOntario's acquisition of an interest in Grimsby Power is subject to regulatory approval.

Regulated Electric Utilities — Caribbean

Belize Electricity

Fortis holds an indirect approximate 70% interest in Belize Electricity, the principal distributor of electricity in Belize, Central America. Belize Electricity directly supplies approximately 73,900 customers in Belize and met a peak demand of 74 MW to date in 2008.

Caribbean Utilities

Fortis holds an indirect approximate 57% interest in Caribbean Utilities. Caribbean Utilities has the exclusive right to distribute and transmit electricity on the island of Grand Cayman, Cayman Islands, pursuant to a 20-year licence entered into on April 3, 2008. Caribbean Utilities also entered into a non-exclusive 21.5-year power generation licence with the Government of the Cayman Islands on April 3, 2008.

Caribbean Utilities currently serves more than 24,000 customers, has approximately 137 MW of installed generating capacity and met a peak demand of 94 MW to date in 2008. The Class A Ordinary Shares of Caribbean Utilities are listed for trading on the Toronto Stock Exchange (the "TSX") under the symbol CUP.U.

Fortis Turks and Caicos

Fortis Turks and Caicos serves more than 9,000 customers, or approximately 85% of electricity consumers, on the Turks and Caicos Islands. Fortis Turks and Caicos is the principal distributor of electricity on Turks and Caicos pursuant to two 50-year licences that expire in 2036 and 2037, respectively. Fortis Turks and Caicos has an installed generating capacity of approximately 48 MW and met a peak demand of 29 MW to date in 2008.

Non-Regulated — Fortis Generation

Belize

Non-regulated generation operations in Belize are conducted through BECOL under a franchise agreement with the Government of Belize. BECOL owns and operates the 25-MW Mollejon hydroelectric generating facility and the 7-MW Chalillo hydroelectric generating facility. Both facilities are located on the Macal River in Belize. These generating plants have the capacity of delivering average annual energy production of approximately 160 gigawatt hours ("GWh"). BECOL sells its entire output to Belize Electricity under a 50-year power purchase agreement expiring in 2055. In May 2007, BECOL began construction on the U.S.$53 million 19-MW hydroelectric generating facility at Vaca on the Macal River in Belize.

Ontario

Non-regulated generation operations in Ontario are conducted through FortisOntario and Fortis Properties and include 75 MW of water-right entitlement associated with the Niagara Exchange Agreement, which expires on April 30, 2009, the operation of a 5-MW gas-fired cogeneration plant in Cornwall and six small hydroelectric generating stations with a combined capacity of approximately 8 MW.

Central Newfoundland

Non-regulated generation operations in central Newfoundland are conducted through the Corporation's indirect 51% interest in the Exploits Partnership. These operations generate approximately 610 GWh annually, of which 470 GWh is utilized by Abitibi-Consolidated, while the remainder is sold to Newfoundland Hydro under a 30-year take-or-pay power purchase agreement expiring in 2033, which is exempt from regulation.

British Columbia

Non-regulated generation operations in British Columbia are conducted through FortisBC and consist of the 16-MW run-of-river Walden hydroelectric power plant near Lillooet. This plant sells its entire output to British Columbia Hydro & Power Authority under a power purchase agreement expiring in 2013.

Upper New York State

Non-regulated generation operations in upper New York State are conducted through FortisUS Energy and include the operations of four hydroelectric generating stations with a combined generating capacity of approximately 23 MW operating under licences from the U.S. Federal Energy Regulatory Commission. Since January 1, 2007, all four plants have been selling energy at market rates.

Non-Regulated — Fortis Properties

In addition to its non-regulated generation operations, Fortis Properties owns and operates 20 hotels with more than 3,800 rooms in eight Canadian provinces and approximately 2.8 million square feet of commercial real estate primarily in Atlantic Canada.

CAPITAL RESOURCES

The Corporation's principal businesses of regulated gas and electric distribution require ongoing access to capital markets to allow them to fund maintenance and expansion of infrastructure and repay maturing debt. To meet short-term capital requirements, the Corporation and its larger regulated utility subsidiaries have secured multi-year committed credit facilities. As at September 30, 2008, the Corporation and its subsidiaries had consolidated authorized lines of credit of $2.2 billion, of which $1.5 billion was available to be drawn.

The Corporation and its subsidiaries will require new capital for the repayment of at least a portion of its maturing debt. As at September 30, 2008, long-term debt maturities over the next five years are expected to average approximately $180 million annually.

RECENT DEVELOPMENTS

First Quarter Dividend

On December 10, 2008, the Corporation announced that its board of directors (the "Board of Directors") had declared dividends for the first quarter of 2009 of $0.26 per Common Share, $0.340625 per First Preference Share, Series C, $0.3063 per First Preference Share, Series E, $0.3063 per First Preference Share, Series F and $0.3281 per First Preference Share, Series G, each payable on March 1, 2009 to holders of record on February 6, 2009. The Corporation has increased its annual dividend payments on the Common Shares in each of the past 36 years.

Corporate Matters

On December 10, 2008, the Corporation announced that the Board of Directors had approved an amendment and restatement of the Corporation's Dividend Reinvestment and Share Purchase Plan to provide a 2% discount on the purchase of Common Shares issued from treasury with reinvested dividends. The discount is effective beginning with dividends payable on March 1, 2009 and will continue until further notice by the Corporation. The Corporation reserves the right to amend or cancel the discount at any time or to deliver Common Shares purchased by the Corporation on the open market under the plan, in which case the discount would not apply. The Corporation's Amended and Restated Dividend Reinvestment and Share Purchase Plan remains subject to final approval by the TSX.

Issue of Debt

On December 8, 2008, FortisAlberta filed a preliminary short form base shelf prospectus to qualify the offering of medium term note debentures in the aggregate principal amount of up to $350 million in the 25-month period following the date of the final base shelf prospectus relating to such offering. FortisAlberta must file a final short form base shelf prospectus prior to issuing medium term note debentures, which prospectus must receive the approval of the relevant securities regulatory authorities in Canada.

CAPITALIZATION

The following table sets out the consolidated capitalization of the Corporation as at September 30, 2008 and after giving effect to the distribution (the "Offering") of 11,700,000 common shares (the "Offered Shares") of Fortis (assuming no exercise of the Over-Allotment Option (as defined herein) and after deducting the Underwriters' Fee (as defined herein) and the expenses of the Offering) and the approximate $260 million increase in credit facility borrowings by the Corporation from October 1, 2008 up to and including December 10, 2008 and the repayment on December 1, 2008 of $200 million of maturing long-term debt of Terasen. See "Changes in Share and Loan Capital Structure". The financial information set out below should be read in conjunction with the Corporation's audited consolidated financial statements and unaudited interim consolidated financial statements incorporated by reference into the Prospectus and the notes thereto.

	Outstanding at September 30, 2008	*Pro forma* Outstanding at September 30, 2008
	(unaudited)	(unaudited)
	(in millions of dollars)	
Total debt (net of cash)	5,529	5,302(1)
Preference shares(2)	320	320
Shareholders' equity		
Securities offered hereby	Nil	292(1)
Common shares	2,153	2,153
Preference shares(3)	347	347
Contributed surplus	8	8
Equity portion of convertible debentures	5	5
Accumulated other comprehensive loss	(77)	(77)
Retained earnings	602	602
Total capitalization	8,887	8,952

(1) After giving effect to the net proceeds from the Offering (assuming no exercise of the Over-Allotment Option), determined after deducting the Underwriters' Fee and the expenses of the Offering on an after-tax basis, and the approximate $260 million increase in credit facility borrowings by the Corporation from October 1, 2008 up to and including December 10, 2008 and the repayment on December 1, 2008 of $200 million of maturing long-term debt at Terasen. See "Changes in Share and Loan Capital Structure".

(2) First Preference Shares, Series C and First Preference Shares, Series E (as defined below), which are classified as long-term liabilities in the financial statements of Fortis.

(3) First Preference Shares, Series F and First Preference Shares, Series G (as defined below).

SHARE CAPITAL OF FORTIS

The authorized share capital of the Corporation consists of an unlimited number of common shares (the "Common Shares"), an unlimited number of First Preference Shares issuable in series and an unlimited number of Second Preference Shares issuable in series, in each case without nominal or par value. As at December 10, 2008, 157,467,158 Common Shares, 5,000,000 Cumulative Redeemable First Preference Shares, Series C (the "First Preference Shares, Series C"), 7,993,500 Cumulative Redeemable First Preference Shares, Series E (the "First Preference Shares, Series E"), 5,000,000 Cumulative Redeemable First Preference Shares, Series F (the "First Preference Shares, Series F") and 9,200,000 Cumulative Redeemable Five-Year Fixed Rate Reset First Preference Shares, Series G (the "First Preference Shares, Series G") were issued and outstanding. The Corporation's Common Shares, First Preference Shares, Series C, First Preference Shares, Series E, First Preference Shares, Series F and First Preference Shares, Series G, are listed on the TSX under the symbols "FTS", "FTS.PR.C", "FTS.PR.E", "FTS.PR.F" and "FTS.PR.G", respectively.

DIVIDEND POLICY

Dividends on the Common Shares are declared at the discretion of the Board of Directors. The Corporation paid cash dividends on its Common Shares of $1.00 in 2008, $0.82 in 2007 and $0.67 in 2006. On December 10, 2008, the Board of Directors declared a dividend for the first quarter of 2009 of $0.26 per Common Share, payable on March 1, 2009 to holders of record on February 6, 2009. See "Recent Developments — First Quarter Dividend".

Regular quarterly dividends at the prescribed annual rate have been paid on all of the First Preference Shares, Series C; First Preference Shares, Series E; First Preference Shares, Series F; and First Preference Shares, Series G, respectively. The Board of Directors declared a dividend for the first quarter of 2009 on the First Preference Shares, Series C; First Preference Shares, Series E; First Preference Shares, Series F; and First Preference Shares, Series G on December 10, 2008, in each case in accordance with the applicable prescribed annual rate, payable on March 1, 2009 to holders of record on February 6, 2009. See "Recent Developments — First Quarter Dividend".

DESCRIPTION OF COMMON SHARES

Dividends

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

Liquidation, Dissolution or Winding-Up

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

Voting Rights

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

CHANGES IN SHARE AND LOAN CAPITAL STRUCTURE

The following describes the changes in the share and loan capital structure of Fortis since September 30, 2008:

- During the period from October 1, 2008 up to and including December 10, 2008, Fortis issued an aggregate of 163,969 Common Shares pursuant to the Corporation's Consumer Share Purchase Plan, Dividend Reinvestment Plan, Employee Share Purchase Plan and upon the exercise of options granted pursuant to the 2002 and 2006 Stock Option Plans, for aggregate consideration of approximately $4.0 million.
- During the period from October 1, 2008 up to and including December 10, 2008, drawings of approximately $260 million were made by Fortis under its credit facility primarily to repay $200 million of indebtedness of Terasen that matured on December 1, 2008 and for general corporate purposes.
- As a result of the proposed issuance of 11,700,000 Offered Shares (assuming no exercise of the Over-Allotment Option), shareholders' equity in the Corporation will increase by approximately $292 million to a total of $3.3 billion.

TRADING PRICES AND VOLUMES

The following tables set forth, for the periods indicated, the reported high and low daily trading prices and the aggregate volume of trading of the Corporation's Common Shares, First Preference Shares, Series C; First Preference Shares, Series E; First Preference Shares, Series F; and First Preference Shares, Series G, on the TSX.

	Trading of Common Shares			Trading of First Preference Shares, Series C		
	TSX			TSX		
	High	Low	Volume	High	Low	Volume
	($)	($)	(#)	($)	($)	(#)
2007						
December	29.08	26.71	5,669,675	27.39	26.06	112,267
2008						
January	29.50	26.52	11,699,266	27.39	26.27	23,148
February	29.89	27.77	9,436,783	27.39	26.31	20,357
March	29.24	26.36	7,245,917	26.50	25.60	28,658
April	29.94	26.85	10,311,561	27.75	25.76	18,972
May	28.34	26.80	11,864,145	26.75	25.37	123,787
June	28.02	27.05	7,651,899	26.64	25.76	44,426
July	27.65	24.11	10,918,974	26.25	25.80	25,580
August	27.15	24.51	8,347,786	26.24	25.50	91,043
September	26.23	23.50	8,047,826	26.20	25.26	19,704
October	26.75	20.70	19,490,343	26.25	20.44	54,921
November	28.00	24.51	13,933,581	25.50	23.56	124,621
December 1 to December 11	27.46	24.25	6,632,713	25.00	24.55	57,000

	Trading of First Preference Shares, Series E			Trading of First Preference Shares, Series F		
	TSX			TSX		
	High	Low	Volume	High	Low	Volume
	($)	($)	(#)	($)	($)	(#)
2007						
December	26.60	25.96	40,635	21.45	20.50	256,585
2008						
January	26.62	25.98	115,209	22.50	21.33	206,795
February	26.96	26.49	10,705	23.50	22.00	111,470
March	26.89	25.50	43,889	23.20	21.25	103,475
April	26.50	25.51	33,454	22.88	21.09	116,137
May	25.97	25.00	330,602	22.40	21.40	86,078
June	26.70	24.80	52,730	21.87	19.00	166,441
July	26.50	24.50	31,794	20.00	18.00	159,824
August	26.49	24.55	39,848	20.35	19.75	100,320
September	26.39	24.85	89,850	20.50	18.50	113,705
October	24.50	23.00	44,208	18.99	16.57	224,945
November	24.99	22.50	28,650	19.78	16.00	100,535
December 1 to December 11	23.60	21.00	12,850	17.85	15.75	86,910

	Trading of First Preference Shares, Series G		
	TSX		
	High	Low	Volume
	($)	($)	(#)
2008			
May	25.10	24.84	426,990
June	25.50	24.95	263,022
July	25.52	25.01	124,660
August	25.98	25.25	114,417
September	25.80	25.10	156,866
October	25.45	20.00	70,985
November	24.00	18.00	181,916
December 1 to December 11	19.95	17.00	181,571

USE OF PROCEEDS

The net proceeds of the Offering will be approximately $287 million, determined after deducting the underwriting fee and the expenses of the Offering, which are estimated to be $750,000. If the Over-Allotment Option is exercised in full, the net proceeds of the Offering, determined after deducting the underwriting fee and estimated expenses of the Offering, are expected to be approximately $330 million. The net proceeds from the Offering will be used to repay indebtedness under the Corporation's credit facility and for general corporate purposes. Indebtedness under the Corporation's credit facility that will be repaid was originally incurred primarily to repay $200 million of Terasen debt that matured on December 1, 2008 and for general corporate purposes.

PLAN OF DISTRIBUTION

Pursuant to an underwriting agreement dated December 5, 2008 (the "Underwriting Agreement") between Fortis and Scotia Capital Inc. ("Scotia Capital"), CIBC World Markets Inc. ("CIBCWM"), RBC Dominion Securities Inc. ("RBCDS"), BMO Nesbitt Burns Inc. ("BMO Nesbitt Burns"), TD Securities Inc. ("TD Securities"), HSBC Securities (Canada) Inc. ("HSBC Securities"), National Bank Financial Inc. ("NB Financial"), Beacon Securities Limited and Canaccord Capital Corporation (collectively, the "Underwriters"), Fortis has agreed to issue and sell, and the Underwriters have agreed to purchase, as principals, on or about December 19, 2008 (the "Closing Date"), the Offered Shares offered hereby at the price of $25.65 per Common Share (the "Offering Price"), payable in cash to Fortis against delivery, subject to compliance with all of the necessary legal requirements and to the conditions contained in the Underwriting Agreement. The obligations of the Underwriters under the Underwriting Agreement may be terminated at their discretion on the basis of their assessment of the state of the financial markets and may also be terminated upon the occurrence of certain stated events. The Underwriters are, however, obligated to take up and pay for all of the Offered Shares if any of the Offered Shares are purchased under the Underwriting Agreement. The Offering Price and other terms of the Offering were determined by negotiation between the Corporation and the Underwriters.

The Corporation has agreed to pay fees to the Underwriters in the amount of $1.026 per Offered Share, in consideration of services rendered by the Underwriters in connection with the Offering (the "Underwriters' Fee"). Assuming that the Over-Allotment Option (as defined below) is not exercised, the total price to the public will be $300,105,000, the Underwriters' Fee will be $12,004,200 and the net proceeds to Fortis will be approximately $287 million, after deducting the expenses of the Offering estimated at $750,000 which, together with the Underwriters' Fee, will be paid out of the general funds of the Corporation.

The Corporation has granted the Underwriters the option (the "Over-Allotment Option"), exercisable in whole or in part at any time until 30 days following the Closing Date, to purchase up to an additional 1,755,000 Offered Shares (the "Additional Shares") at the Offering Price. The Over-Allotment Option is exercisable in whole or in part only for the purpose of covering over-allotments, if any, and for market stabilization purposes. This short form prospectus qualifies the grant of the Over-Allotment Option and the distribution of the Additional Shares issuable upon exercise of the Over-Allotment Option.

A purchaser who acquires Offered Shares forming part of the Over-Allotment Option acquires those securities under this Prospectus, regardless of whether the Over-Allotment Option is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases.

Subscriptions for the Offered Shares will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that the closing of the Offering (the "Closing") will take place on the Closing Date, or such other date as may be agreed upon by the Corporation and the Underwriters, but not later than January 23, 2009. Certificates evidencing the Offered Shares will be available for delivery at the Closing or shortly thereafter.

Pursuant to rules and policy statements of certain Canadian securities regulators, the Underwriters may not, at any time during the period ending on the date the selling process for the Offered Shares ends and all stabilization arrangements relating to the Offered Shares are terminated, bid for or purchase Offered Shares. The foregoing restrictions are subject to certain exceptions including: (i) a bid for or purchase of Offered Shares if the bid or purchase is made through the facilities of the TSX, in accordance with the Universal Market Integrity Rules of the Investment Industry Regulatory Organization of Canada; (ii) a bid or purchase on behalf of a client, other than certain prescribed clients, provided that the client's order was not solicited by the Underwriter, or if the client's order was solicited, the solicitation occurred before the commencement of a prescribed restricted period; and (iii) a bid or purchase to cover a short position entered into prior to the commencement of a prescribed restricted period. The Underwriters may engage in market stabilization or market balancing activities on the TSX where the bid for or purchase of the Offered Shares is for the purpose of maintaining a fair and orderly market in the Offered Shares, subject to price limitations applicable to such bids or purchases. Such transactions, if commenced, may be discontinued at any time.

The Offered Shares have not been, and will not be, registered under the United States *Securities Act of 1933*, as amended (the "1933 Act") or any state securities laws and, subject to certain exceptions, may not be offered, or delivered, directly or indirectly, or sold in the United States except in certain transactions exempt from the registration requirements of the 1933 Act and in compliance with any applicable state securities laws. The Underwriters have agreed that they will not offer or sell the Offered Shares within the United States, its territories, its possessions and other areas subject to its jurisdiction, except in accordance with the Underwriting Agreement pursuant to an exemption from the registration requirements of the 1933 Act provided by Rule 144A thereunder and in compliance with applicable state securities laws. In addition, until 40 days after the commencement of the Offering, an offer or sale of Offered Shares within the United States by any dealer (whether or not participating in the Offering) may violate the registration requirements of the 1933 Act if such offer is made otherwise than in reliance on Rule 144A.

The obligations of the Underwriters under the Underwriting Agreement are several (and not joint and several) and may be terminated at their discretion in certain circumstances, including upon the occurrence of certain stated events. The Underwriters are, however, obligated to take up and pay for all of the Offered Shares if any are purchased under the Underwriting Agreement. Under the terms of the Underwriting Agreement, the Underwriters may be entitled to indemnification by the Corporation against certain liabilities, including liabilities for misrepresentation in the Prospectus.

The Underwriters propose to offer the Offered Shares initially at the Offering Price set forth on the cover page of this Prospectus. After the Underwriters have made reasonable efforts to sell all the Offered Shares at such price, the Offering Price may be decreased, and further changed from time to time to an amount not greater than the Offering Price specified herein. The compensation realized by the Underwriters will be decreased by the amount that the aggregate price paid by the purchasers for the Offered Shares is less than the gross proceeds paid by the Underwriters to the Corporation.

Each of Scotia Capital, CIBCWM, RBCDS, BMO Nesbitt Burns, TD Securities, HSBC Securities and NB Financial is a subsidiary of a Canadian chartered bank that has, either solely or as a member of a syndicate of financial institutions, extended credit facilities to, or holds other indebtedness of, the Corporation and/or its subsidiaries (the "Existing Indebtedness"). All or a portion of the net proceeds from the Offering will be used towards repaying indebtedness under a credit facility owing by the Corporation to certain of such banks or their affiliates. Consequently, the Corporation may be considered a "connected issuer" of these Underwriters within the meaning of applicable securities legislation. None of these Underwriters will receive any direct benefit from the Offering other than the Underwriters' Fee relating to the Offering. The decision to distribute the Offered Shares hereunder and the determination of the terms of the Offering were made through negotiation between the Corporation and the Underwriters. No bank had any involvement in such decision or determination. As at December 10, 2008, an aggregate of approximately $957 million was outstanding under the Existing Indebtedness. Fortis and/or its subsidiaries are in compliance with their respective obligations under the Existing Indebtedness, other than with respect to certain of Belize Electricity's debt as previously disclosed in the Corporation's public disclosure. Since the execution of the agreements governing the Existing Indebtedness, no breach thereunder has been waived by the lenders thereunder. See “Use of Proceeds”.

The TSX has conditionally approved the listing of the Offered Shares distributed under this Prospectus on the TSX. Listing will be subject to the Corporation fulfilling all of the listing requirements of the TSX on or before March 3, 2009.

RISK FACTORS

An investment in the Offered Shares involves certain risks. A prospective purchaser of Offered Shares should carefully consider the risk factors described under:

(a) the heading “Risk Factors” found on pages 40 to 48 of the Corporation’s Annual Information Form dated March 28, 2008;

(b) the heading “Business Risk Management” in the Management Discussion and Analysis of financial condition and results of operations found on pages 60 through 66 of the Corporation’s 2007 Annual Report (the “MD&A”);

(c) note 18 “Financial Risk Management” found on pages 24 through 28 in the Corporation’s unaudited comparative interim consolidated financial statements as at September 30, 2008 and for the three and nine months ended September 30, 2008 and 2007; and

(d) the heading “Risk Factors” found on pages A-13 to A-17 of the Corporation’s business acquisition report dated June 13, 2007 with respect to the acquisition by the Corporation of all of the outstanding shares of Terasen on May 17, 2007 (the “Terasen Acquisition”),

each of which is incorporated by reference herein. In addition, a prospective purchaser of Offered Shares should carefully consider the risk factors described below and in the other information contained in this Prospectus (including the documents incorporated by reference herein).

International Financial Reporting Standards

The Accounting Standards Board of the Canadian Institute of Chartered Accountants has announced that Canadian publicly accountable enterprises are required to adopt International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board, effective January 1, 2011. IFRS will require increased financial statement disclosure as compared to Canadian GAAP and accounting policy differences between Canadian GAAP and IFRS will need to be addressed by Fortis. The Corporation is currently considering the impact a conversion to IFRS would have on its future financial reporting.

Defined Benefit Pension Plans

The market value of the Corporation’s consolidated defined benefit pension plan assets has declined as a result of the recent volatility in the capital markets and their related indices. A reduction in the market value of the Corporation’s consolidated defined benefit pension plan assets has the impact of increasing future pension expense and funding requirements, however, the impact is not estimable at this time. Any increase in pension expense at the Corporation’s regulated utilities is eligible for recovery in future customer rates, subject to regulatory approval.

Ongoing Market Volatility

The financial markets have recently experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of companies and that have often been unrelated to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that continuing fluctuations in price will not occur. Accordingly, the market price of the Common Shares may decline even if its operating results, underlying asset values or prospects have not changed.

AUDITORS

The auditors of the Corporation are Ernst & Young LLP, Chartered Accountants (“Ernst & Young”), The Fortis Building, 7th Floor, 139 Water Street, St. John’s, Newfoundland and Labrador A1C 1B2.

The auditors of Terasen during the period of May 2006 to July 2007 were PricewaterhouseCoopers LLP, Chartered Accountants (“PWC”), of Vancouver, British Columbia. PWC reports that, during the period from May 2006 to July 2007, it was independent of Terasen within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of British Columbia. Following completion of the Terasen Acquisition, Ernst & Young became the auditors of Terasen and its subsidiaries.

LEGAL MATTERS

Certain legal matters relating to this Offering will be passed upon on behalf of the Corporation by Davies Ward Phillips & Vineberg LLP, Toronto and McInnes Cooper, St. John’s and on behalf of the Underwriters by Stikeman Elliott LLP, Toronto. At the date hereof, partners and associates of each of Davies Ward Phillips & Vineberg LLP, McInnes Cooper and Stikeman Elliott LLP own beneficially, directly or indirectly, less than 1% of any securities of the Corporation or any associate or affiliate of the Corporation.

TRANSFER AGENT AND REGISTRAR

The Transfer Agent and Registrar for the Offered Shares is Computershare Trust Company of Canada in Toronto and Montréal.

PURCHASERS’ STATUTORY RIGHTS

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revisions of the price or damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revisions of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser’s province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser’s province for the particulars of these rights or consult with a legal advisor.

AUDITORS' CONSENT

We have read the Short Form Prospectus of Fortis Inc. (the "Corporation") dated December 12, 2008 relating to the issue and sale of 11,700,000 Common Shares of the Corporation. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the incorporation by reference, in the above-mentioned Prospectus, of our report to the shareholders of the Corporation on the consolidated balance sheets of the Corporation as at December 31, 2007 and 2006 and the consolidated statements of earnings, retained earnings, comprehensive income and cash flows for the years then ended. Our report is dated February 1, 2008.

St. John's, Canada
December 12, 2008

(Signed) Ernst & Young LLP
Chartered Accountants

AUDITORS' CONSENT

We have read the Short Form Prospectus of Fortis Inc. (the "Corporation") dated December 12, 2008 relating to the issue and sale of 11,700,000 Common Shares of the Corporation. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the incorporation by reference, in the above-mentioned Prospectus, of our report to the shareholder of Terasen Inc. on the consolidated statements of financial position of Terasen Inc. as at December 31, 2006 and the consolidated statements of earnings, retained earnings and cash flows for the year then ended, included in the business acquisition report of the Corporation dated June 13, 2007. Our report is dated March 29, 2007.

Vancouver, Canada
December 12, 2008

(Signed) PricewaterhouseCoopers LLP
Chartered Accountants

CERTIFICATE OF FORTIS INC.

Dated: December 12, 2008

This short form prospectus, together with the documents incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of each of the provinces of Canada.

(Signed) H. STANLEY MARSHALL
President and
Chief Executive Officer

(Signed) BARRY V. PERRY
Vice-President, Finance and
Chief Financial Officer

On behalf of the Board of Directors

(Signed) GEOFFREY F. HYLAND
Director

(Signed) DAVID G. NORRIS
Director

CERTIFICATE OF THE UNDERWRITERS

Dated: December 12, 2008

To the best of our knowledge, information and belief, this short form prospectus, together with the documents incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of each of the provinces of Canada.

SCOTIA CAPITAL INC.	CIBC WORLD MARKETS INC.	RBC DOMINION SECURITIES INC.
(Signed) JOHN MATOVICH	(Signed) DAVID WILLIAMS	(Signed) DAVID DAL BELLO

BMO NESBITT BURNS INC.	TD SECURITIES INC.
(Signed) STEVEN BRAUN	(Signed) HAROLD R. HOLLOWAY
HSBC SECURITIES (CANADA) INC.	**NATIONAL BANK FINANCIAL INC.**
(Signed) ROD A. MCISAAC	(Signed) PAUL PRENDERGAST
BEACON SECURITIES LIMITED	**CANACCORD CAPITAL CORPORATION**
(Signed) JANE M. SMITH	(Signed) STEPHEN J. SWAFFIELD

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No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. This short form prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and thereby only by persons permitted to sell such securities.

Information has been incorporated by reference in this short form prospectus from documents filed with securities commissions or similar authorities in Canada. *Copies of the documents incorporated herein by reference may be obtained on request without charge from the Secretary of the Corporation at Suite 1201, 139 Water Street, St. John's, Newfoundland and Labrador A1B 3T2 (telephone (709) 737-2800) and are also available electronically at www.sedar.com. The securities being offered under this short form prospectus have not been and will not be registered under the United States Securities Act of 1933, as amended, or any state securities laws, and, except in limited circumstances, will not be offered or sold within the United States or for the account or benefit of United States persons. See "Plan of Distribution".*

SHORT FORM PROSPECTUS

New Issue June 8, 2011

FORTIS INC.

FORTIS

$300,300,000

9,100,000 COMMON SHARES

This short form prospectus (the "Prospectus") qualifies for distribution (the "Offering") 9,100,000 common shares (the "Offered Shares") of Fortis Inc. ("Fortis" or the "Corporation") which are being offered and sold pursuant to the provisions of an underwriting agreement (the "Underwriting Agreement") dated June 1, 2011 between Fortis and Scotia Capital Inc. ("Scotia Capital"), RBC Dominion Securities Inc. ("RBCDS"), BMO Nesbitt Burns Inc. ("BMO Capital Markets"), CIBC World Markets Inc. ("CIBCWM"), National Bank Financial Inc. ("NB Financial"), TD Securities Inc. ("TDSI"), HSBC Securities (Canada) Inc. ("HSBC Securities") and Beacon Securities Ltd. (collectively, the "Underwriters"). The Offered Shares will be issued and sold by Fortis to the Underwriters at the price of $33.00 (the "Offering Price") per Offered Share. The Offering Price was determined by negotiation between the Corporation and the Underwriters.

The Underwriters may offer the Offered Shares at a lower price than the Offering Price. See "Plan of Distribution".

The Toronto Stock Exchange (the "TSX") has conditionally approved the listing on the TSX of the Offered Shares distributed under this Prospectus. Listing will be subject to the Corporation fulfilling all of the listing requirements of the TSX on or before August 28, 2011. On June 7, 2011, the closing price of the common shares of Fortis on the TSX was $32.10.

Investing in the Offered Shares involves certain risks that should be considered by a prospective purchaser. See "Risk Factors".

Price: $33.00 per Common Share

	Price to the Public	Underwriters' Fee	Net Proceeds to Fortis(1)(2)
Per Common Share	$33.00	$1.32	$31.68
Total	$300,300,000	$12,012,000	$288,288,000

(1) Before deducting expenses of the Offering estimated at $600,000 which, together with the Underwriters' Fee (as defined herein), will be paid out of the general funds of Fortis. See "Plan of Distribution".

(2) The Corporation has granted to the Underwriters an option (the "Over-Allotment Option"), exercisable in whole or in part at any time until 30 days following the date of closing of the Offering, to purchase at the Offering Price up to 1,365,000 additional Offered Shares (the "Additional Shares") to cover over-allotments, if any, and for market stabilization purposes. If the Over-Allotment Option is exercised in full, the total "Price to the Public", "Underwriters' Fee" and "Net Proceeds to Fortis" will be $345,345,000, $13,813,800 and $331,531,200, respectively. See "Plan of Distribution". This Prospectus also qualifies the grant of the Over-Allotment Option and the distribution of the Additional Shares issuable on the exercise of the Over-Allotment Option. References to Offered Shares include any Additional Shares unless otherwise noted or unless the context precludes such inclusion.

A purchaser who acquires Offered Shares forming part of the Underwriters' over-allocation position acquires those securities under this Prospectus, regardless of whether the Underwriters' over-allocation position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases.

Underwriters' Position	Number of Shares Available	Exercise Period	Exercise Price
Over-Allotment Option	1,365,000	Within 30 days following the closing of the Offering	$33.00 per share

Each of Scotia Capital, RBCDS, BMO Capital Markets, CIBCWM, NB Financial, TDSI and HSBC Securities is a subsidiary of a Canadian chartered bank that has, either solely or as a member of a syndicate of financial institutions, extended credit facilities to, or holds other indebtedness of, the Corporation and/or its subsidiaries. A portion of the net proceeds from the Offering will be used towards repaying indebtedness under a credit facility owing by the Corporation to certain of such banks or their affiliates. **Consequently, the Corporation may be considered a "connected issuer" of these Underwriters within the meaning of applicable securities legislation. See "Use of Proceeds" and "Plan of Distribution".**

The Underwriters, as principals, conditionally offer the Offered Shares, subject to prior sale, if, as and when issued by Fortis and accepted by the Underwriters in accordance with the conditions contained in the Underwriting Agreement and subject to the approval of certain legal matters on behalf of the Corporation by Davies Ward Phillips & Vineberg LLP, Toronto and McInnes Cooper, St. John's and on behalf of the Underwriters by Stikeman Elliott LLP, Toronto. Subject to applicable laws, the Underwriters may, in connection with the Offering, over-allot or effect transactions which stabilize or maintain the market price of the Offered Shares at levels other than those which may prevail on the open market. Such transactions, if commenced, may be discontinued at any time. See "Plan of Distribution".

Subscriptions for the Offered Shares will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that the closing of the Offering (the "Closing") will take place on or about June 15, 2011 (the "Closing Date"), or such other date as may be agreed upon by the Corporation and the Underwriters, but not later than July 20, 2011. Certificates evidencing the Offered Shares will be available for delivery at the Closing or shortly thereafter.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus (the "Prospectus"), including the documents incorporated herein by reference, contains forward-looking information which reflects management's expectations regarding the future growth, results of operations, performance, business prospects and opportunities of Fortis Inc. ("Fortis" or the "Corporation"), and may not be appropriate for other purposes. All forward-looking information is given pursuant to the "safe harbour" provisions of applicable Canadian securities legislation. The words "anticipates", "believes", "budgets", "could", "estimates", "expects", "forecasts", "intends", "may", "might", "plans", "projects", "schedule", "should", "will", "would" and similar expressions are often intended to identify forward-looking information, although not all forward-looking information contains these identifying words. The forward-looking information reflects management's current beliefs and is based on information currently available to the Corporation's management. The forward-looking information in this Prospectus, including the documents incorporated herein by reference, includes, but is not limited to, statements regarding: the expected timing of filing of regulatory applications and of receipt of regulatory decisions; the expectation that cash required to complete subsidiary capital expenditure programs will be sourced from a combination of cash from operations, borrowings under credit facilities, equity injections from Fortis and long-term debt issues; the expected total capital cost for the construction of the 335-megawatt ("MW") hydroelectric generating facility adjacent to the existing Waneta plant in British Columbia (the "Waneta Expansion") and its expected completion date; the expectation that organic earnings' growth for the Corporation's regulated utilities in Canada will be primarily driven by rate base growth at FortisAlberta Inc. and FortisBC Inc.; the expected timing of the close of the sale of the joint-use poles at Newfoundland Power Inc.; consolidated forecasted gross capital expenditures for 2011 and in total over the five-year period from 2011 through 2015; the expectation that the Corporation's significant capital program should drive growth in earnings and dividends; expected average annual consolidated long-term debt maturities and repayments over the next five years; the expectation that the Corporation and its utilities will continue to have reasonable access to capital in the near to medium terms; the expected 2% growth in electricity sales for 2011 at the Corporation's regulated utilities in the Caribbean; the expected average annual energy production from the Macal River in Belize; the nature, timing and amount of certain capital projects and their expected costs and time to complete; the expectation that the Corporation's subsidiaries will be able to source the cash required to fund their 2011 capital expenditure programs; the expectation that there will be no material increase in consolidated interest expense and/or fees associated with renewed and extended credit facilities in 2011; expected earnings' contribution from Belize Electricity Limited ("Belize Electricity") in the course of normal operations to the consolidated earnings of Fortis; the estimated impact a decrease in revenue at Fortis Properties Corporation's Hospitality Division would have on basic earnings per common share; the expected impact of a change in the US dollar-to-Canadian dollar foreign exchange rate on basic earnings per common share in 2011; the expectation that counterparties to the FortisBC Energy companies' gas derivative contracts will continue to meet their obligations; except for debt at Belize Electricity and Exploits River Hydro Partnership ("Exploits Partnership"), the expectation that the Corporation and its subsidiaries will remain compliant with debt covenants during 2011; no expected material adverse credit rating actions in the near term; the anticipated completion of the acquisition (the "Acquisition") by the Corporation of Central Vermont Public Service Corporation ("CVPS") (see "Recent Developments — Agreement to Acquire Central Vermont Public Service Corporation"); the expectation of an increase in consolidated defined benefit net pension cost for 2011; the expectation that Fortis will become a U.S. Securities and Exchange issuer by December 31, 2011; and the expected impact of the transition to U.S. generally accepted accounting principles. The forecasts and projections that make up the forward-looking information are based on assumptions which include, but are not limited to: the receipt of applicable regulatory approvals and requested rate orders; no significant operational disruptions or environmental liability due to a catastrophic event or environmental upset caused by severe weather, other acts of nature or other major events; the continued ability to maintain the gas and electricity systems to ensure their continued performance; no material capital project and financing cost overrun or delay related to the construction of the Waneta Expansion; no significant decline in capital spending in 2011; no severe and prolonged downturn in economic conditions; sufficient liquidity and capital resources; the continuation of regulator-approved mechanisms to flow through the commodity cost of natural gas and energy supply costs in customer rates; the continued ability to hedge exposures to fluctuations in interest rates, foreign exchange rates and natural gas commodity prices; no significant variability in interest rates; no significant counterparty defaults; the continued competitiveness of natural gas pricing when compared with electricity and other alternative sources of energy; the continued availability of natural gas and fuel supply; the continued ability to fund defined benefit pension plans; the absence of significant changes in government energy plans and environmental laws that may materially affect the operations and cash flows of the Corporation and its subsidiaries; maintenance of adequate insurance coverage; the ability to obtain and maintain licences and permits; retention of existing service areas; maintenance of information technology infrastructure; the receipt of CVPS shareholder, regulatory and other approvals required in connection with the Acquisition; favourable relations with First Nations; favourable labour relations; and sufficient human resources to deliver service and execute the capital programs. The forward-looking information is subject to risks, uncertainties and other factors that could cause actual results to differ materially from historical results or results anticipated by the forward-looking information. Factors which could cause results or events to differ from current expectations include, but are not limited to: regulatory risk; operating and maintenance risks; capital project budget overrun, completion and financing risk in the Corporation's non-regulated business; economic conditions; capital resources and liquidity risk; weather and seasonality; commodity price risk; derivative financial instruments and hedging; interest rate risk; counterparty risk; competitiveness of natural gas; natural gas and fuel supply; defined benefit pension plan performance and funding requirements; risks related to the development of the FortisBC Energy (Vancouver Island) Inc. franchise; environmental risks; insurance coverage risk; loss of licences and permits; loss of service area; risks relating to the completion of the Acquisition and the realization of the anticipated benefits of the Acquisition; the risk of transition to new accounting standards that do not recognize the impact of rate-regulation; changes in tax legislation; information technology infrastructure; an ultimate resolution of the expropriation of the assets of the Exploits Partnership that differs from what is currently expected by management; an unexpected outcome of legal proceedings currently against the Corporation; relations with First Nations; labour relations; and human resources. For additional information with respect to the Corporation's risk factors and risk factors relating to the Common Shares, reference should be made to the section of this Prospectus entitled "Risk Factors".

All forward-looking information in this Prospectus and in the documents incorporated herein by reference is qualified in its entirety by the above cautionary statements and, except as required by law, the Corporation undertakes no obligation to revise or update any forward-looking information as a result of new information, future events or otherwise.

DOCUMENTS INCORPORATED BY REFERENCE

The disclosure documents of the Corporation listed below and filed with the appropriate securities commissions or similar regulatory authorities in each of the provinces of Canada are specifically incorporated by reference into and form an integral part of this Prospectus:

(a) Annual Information Form dated March 7, 2011 for the year ended December 31, 2010 (the "AIF");

(b) audited comparative consolidated financial statements as at December 31, 2010 and December 31, 2009 and for the years ended December 31, 2010 and 2009, together with the notes thereto and the auditors' report thereon dated March 2, 2011, as contained in the Corporation's 2010 Annual Report;

(c) Management Discussion and Analysis of financial condition and results of operations for the year ended December 31, 2010 as contained in the Corporation's 2010 Annual Report;

(d) unaudited comparative interim consolidated financial statements as at March 31, 2011 and for the three months ended March 31, 2011 and 2010, together with the notes thereto;

(e) Management Discussion and Analysis of financial condition and results of operations for the three months ended March 31, 2011; and

(f) Management Information Circular dated March 21, 2011 prepared in connection with the Corporation's annual meeting of shareholders held on May 6, 2011.

Any document of the type referred to in the preceding paragraph and any material change report (other than any confidential material change report) or business acquisition report subsequently filed by the Corporation with such securities commissions or regulatory authorities after the date of the Prospectus, and prior to the termination of the Offering, shall be deemed to be incorporated by reference into the Prospectus.

Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Prospectus to the extent that a statement contained herein, or in any other subsequently filed document which also is incorporated or is deemed to be incorporated by reference herein, modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement will not be deemed an admission for any purpose that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus.

Copies of the documents incorporated herein by reference may be obtained on request without charge from the Secretary of the Corporation at Suite 1201, 139 Water Street, St. John's, Newfoundland and Labrador A1B 3T2 (telephone (709) 737-2800). These documents are also available through the internet on the Corporation's website at www.fortisinc.com or on the Canadian System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com. The information contained on, or accessible through, any of these websites is not incorporated by reference into the Prospectus and is not, and should not be considered to be, a part of the Prospectus, unless it is explicitly so incorporated.

ELIGIBILITY FOR INVESTMENT

In the opinion of Davies Ward Phillips & Vineberg LLP, counsel to the Corporation, and Stikeman Elliott LLP, counsel to the Underwriters, provided that the Offered Shares are listed on a designated stock exchange for purposes of the *Income Tax Act* (Canada) (the "Tax Act") (which currently includes the TSX), the Offered Shares, if issued on the date hereof, would be qualified investments under the Tax Act for a trust governed by a registered retirement savings plan, registered retirement income fund, deferred profit sharing plan ("DPSP") (other than a trust governed by a DPSP for which any employer is the Corporation or is an employer that does not deal at arm's length with the Corporation for purpose of the Tax Act), registered education savings plan, registered disability savings plan or a tax-free savings account ("TFSA"). The Offered Shares will not be "prohibited investments" for a TFSA where the holder of the TFSA is not a "specified shareholder" of the Corporation, and the Corporation deals at arm's length with such holder for purposes of the Tax Act and any person in which such holder has a "significant interest", as each such term is defined in the Tax Act. In the 2011 Canadian federal budget released on March 22, 2011, the Minister of Finance proposed amendments to the Tax Act to extend the "prohibited investment" rules to registered retirement savings plans and registered retirement income funds.

CURRENCY

All dollar amounts in the Prospectus are expressed in Canadian dollars unless otherwise indicated.

FORTIS

Fortis Inc. was incorporated as 81800 Canada Ltd. under the *Canada Business Corporations Act* on June 28, 1977. The Corporation was continued under the *Corporations Act* (Newfoundland and Labrador) on August 28, 1987 and on October 13, 1987 the Corporation amended its articles to change its name to “Fortis Inc.” The address of the head office and principal place of business of the Corporation is The Fortis Building, Suite 1201, 139 Water Street, St. John’s, Newfoundland and Labrador A1B 3T2.

Fortis is the largest investor-owned distribution utility in Canada with total assets of approximately $13 billion and fiscal 2010 revenue totalling approximately $3.7 billion. The Corporation serves approximately 2,100,000 gas and electricity customers. Its regulated holdings include electric distribution utilities in five Canadian provinces and three Caribbean countries and a natural gas utility in British Columbia, Canada. Regulated utility assets comprise approximately 92% of the Corporation’s total assets, with the balance comprised of non-regulated generation assets, commercial office and retail space and hotels. Fortis is the direct owner of all of the common shares of FortisBC Holdings Inc. (“FortisBC Holdings”) (formerly Terasen Inc.), a company that, through its subsidiaries, is the principal distributor of natural gas in British Columbia. Fortis is the indirect owner of all of the common shares of FortisAlberta Inc. (“FortisAlberta”), a regulated electric utility that distributes electricity generated by other market participants in a substantial portion of southern and central Alberta; FortisBC Inc. (“FortisBC”), a regulated electric utility that generates, transmits and distributes electricity in the southern interior of British Columbia; and Maritime Electric Company, Limited (“Maritime Electric”), the principal distributor of electricity on Prince Edward Island. Fortis also holds all of the common shares of Newfoundland Power Inc. (“Newfoundland Power”), the principal distributor of electricity in Newfoundland. As well, through its wholly owned subsidiary FortisOntario Inc. (“FortisOntario”) and its subsidiaries, Canadian Niagara Power Inc. (“CNPI”) and Cornwall Street Railway, Light and Power Company, Limited, Fortis provides an integrated electric utility service to customers primarily in Fort Erie, Cornwall, Gananoque and Port Colborne in Ontario. Through its wholly owned subsidiary Algoma Power Inc., FortisOntario also distributes electricity to customers in the district of Algoma in northern Ontario.

The Corporation’s regulated electric utility assets in the Caribbean consist of its ownership, through wholly owned subsidiaries, of an approximate 70% interest in Belize Electricity Limited (“Belize Electricity”), the principal distributor of electricity in Belize, Central America, and an approximate 59% interest in Caribbean Utilities Company, Ltd. (“Caribbean Utilities”), the sole provider of electricity on Grand Cayman, Cayman Islands. Fortis also owns, through a wholly owned subsidiary, P.P.C. Limited and Atlantic Equipment & Power (Turks and Caicos) Ltd. (together, “Fortis Turks and Caicos”), the principal distributor of electricity on the Turks and Caicos Islands.

The Corporation’s non-regulated electricity generation operations consist of its 100% interest in each of Belize Electric Company Limited (“BECOL”), FortisOntario and non-regulated generation assets owned either directly or indirectly by FortisBC, Fortis Properties Corporation (“Fortis Properties”) and Fortis.

BECOL owns and operates the 25-megawatt (“MW”) Mollejon, 7-MW Chalillo and 19-MW Vaca hydroelectric generating facilities, all of which are located on the Macal River in Belize. FortisOntario owns and operates a 5-MW gas-fired cogeneration plant in Cornwall, Ontario. The non-regulated electricity generation operations of FortisBC consist of the 16-MW run-of-river Walden hydroelectric power plant near Lillooet, British Columbia. Fortis owns a 51% controlling ownership interest in the non-regulated Waneta Expansion Limited Partnership (the “Waneta Partnership”), which was established in 2010 to construct a 335 MW hydroelectric generating facility adjacent to the existing Waneta plant in British Columbia (the “Waneta Expansion”).

Through FortisUS Energy Corporation (“FortisUS Energy”), an indirect wholly owned subsidiary of Fortis, the Corporation owns and operates four hydroelectric generating stations in upper New York State with a total combined capacity of approximately 23 MW. The operations of FortisUS Energy are managed by Fortis Properties.

Fortis Properties is also the direct owner of a 51% interest in the Exploits River Hydro Partnership (the “Exploits Partnership”). The Exploits Partnership was established with AbitibiBowater Inc., formerly Abitibi-Consolidated Company of Canada (“Abitibi”), which holds the remaining 49% interest. The Exploits Partnership was established to develop additional capacity at Abitibi’s hydroelectric generating plant at Grand Falls-Windsor and redevelop Abitibi’s hydroelectric generating plant at Bishop’s Falls, in central Newfoundland. See “Non-Regulated — Fortis Generation — Central Newfoundland”.

Fortis Properties' assets also include six small hydroelectric generating stations in eastern Ontario with a combined capacity of 8 MW.

Through Fortis Properties, the Corporation owns 21 hotels in eight Canadian provinces and commercial real estate primarily in Atlantic Canada.

Regulated Gas Utilities — Canadian

FortisBC Energy Companies

The natural gas distribution business of FortisBC Holdings is one of the largest in Canada. With approximately 950,400 customers as at March 31, 2011, FortisBC Holding's subsidiaries provide service to over 96% of gas users in British Columbia. FortisBC Energy Inc. ("FEI") (formerly Terasen Gas Inc.) is the largest of these subsidiaries, serving approximately 847,200 customers as at March 31, 2011 in a service area extending from Vancouver to the Fraser Valley and the interior of British Columbia. FortisBC Energy (Vancouver Island) Inc. ("FEVI") (formerly Terasen Gas (Vancouver Island) Inc.) 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, serving approximately 100,600 customers as at March 31, 2011. In addition to providing transmission and distribution services to customers, FEI and FEVI also obtain natural gas supplies on behalf of most residential and commercial customers. Gas supplies are sourced primarily from northeastern British Columbia and Alberta. FortisBC Energy (Whistler) Inc. (formerly Terasen Gas (Whistler) Inc.) owns and operates the natural gas distribution system in Whistler, British Columbia, providing service to approximately 2,600 residential and commercial customers. The FortisBC Energy companies own and operate almost 46,500 kilometres of natural gas distribution and transmission pipelines and met a peak day demand of 1,421 terajoules for 2010.

Regulated Electric Utilities — Canadian

FortisAlberta

FortisAlberta distributed electricity to approximately 493,000 customers in Alberta as at March 31, 2011, using approximately 112,500 kilometres of distribution lines and met a peak demand of 2,555 MW for 2010. FortisAlberta's business is the ownership and operation of regulated electricity distribution facilities that distribute electricity generated by other market participants from high-voltage transmission substations to end-use customers in central and southern Alberta. FortisAlberta is not involved in the generation, transmission or direct sale of electricity.

FortisBC

FortisBC is an integrated, regulated electric utility that owns a network of generation, transmission and distribution assets located in the southern interior of British Columbia. FortisBC served a diverse mix of approximately 161,000 customers, as at March 31, 2011, with residential customers representing the largest customer segment, and met a peak demand of 707 MW for 2010. FortisBC owns four regulated hydroelectric generating plants with an aggregate capacity of 223 MW that provide approximately 45% of FortisBC's energy and 30% of its peak capacity needs. FortisBC's remaining electricity supply is acquired through long-term power purchase contracts and short-term market purchases. FortisBC's business also includes non-regulated operating, maintenance and management services relating to the 493-MW Waneta hydroelectric generation facility owned by Teck Metals Ltd. and British Columbia Hydro and Power Authority ("BC Hydro"), the 149-MW Brilliant hydroelectric plant, the 120-MW Brilliant expansion plant and the 185-MW Arrow Lakes hydroelectric plant, each owned by Columbia Power Corporation and Columbia Basin Trust ("CPC/CBT"), and the distribution system owned by the City of Kelowna.

Newfoundland Power

Newfoundland Power is a regulated electric utility that operates an integrated generation, transmission and distribution system throughout the island portion of the Province of Newfoundland and Labrador. Newfoundland Power served over 244,000 customers as at March 31, 2011, or approximately 86% of electricity consumers in the Province, and met a peak demand of 1,206 MW for 2010. Approximately 93% of the electricity that Newfoundland Power sells to its customers is purchased from Newfoundland and Labrador Hydro Corporation ("Newfoundland Hydro"). Currently, Newfoundland Power has an installed generating capacity of 140 MW, of which 97 MW is hydroelectric generation.

Maritime Electric

Maritime Electric is a regulated electric utility that operates an integrated generation, transmission and distribution system on Prince Edward Island. Maritime Electric directly supplied over 74,000 customers as at March 31, 2011, or 90% of electricity consumers on the Island, and met a peak demand of 207 MW for 2010. Maritime Electric purchases most of the energy it distributes to its customers from New Brunswick Power Corporation and maintains on-Island generating facilities with an aggregate capacity of 150 MW.

FortisOntario

FortisOntario's regulated distribution operations served more than 64,000 customers in the Fort Erie, Cornwall, Gananoque, Port Colborne and the District of Algoma in Ontario, as at March 31, 2011, and met a combined peak demand of 273 MW for 2010. Through CNPI, FortisOntario owns international transmission facilities at Fort Erie and owns a 10% interest in each of Westario Power Inc., Rideau St. Lawrence Holdings Inc. and Grimsby Power Inc., three regional electric distribution companies that, together, serve approximately 38,000 customers.

Regulated Electric Utilities — Caribbean

Belize Electricity

Fortis holds an indirect approximate 70% controlling ownership interest in Belize Electricity, the regulated principal distributor of electricity in Belize, Central America. Belize Electricity directly supplied approximately 77,000 customers in Belize, as at March 31, 2011, and met a peak demand of 81 MW for 2010. See "Recent Developments — Belize Electricity".

Caribbean Utilities

Fortis holds an indirect approximate 59% controlling ownership interest in Caribbean Utilities. Caribbean Utilities has the exclusive right to distribute and transmit electricity on the island of Grand Cayman, Cayman Islands, pursuant to a 20-year licence entered into on April 3, 2008. Caribbean Utilities also entered into a non-exclusive 21.5-year power generation licence with the Government of the Cayman Islands on April 3, 2008.

Caribbean Utilities served approximately 26,000 customers as at March 31, 2011, has approximately 151 MW of installed generating capacity and met a record peak demand of 102 MW for 2010. The Class A Ordinary Shares of Caribbean Utilities are listed for trading on the TSX under the symbol CUP.U.

Fortis Turks and Caicos

Fortis Turks and Caicos served approximately 9,000 customers, or approximately 80% of electricity consumers, on the Turks and Caicos Islands, as at March 31, 2011. Fortis Turks and Caicos is the principal distributor of electricity on Turks and Caicos pursuant to two 50-year licences that expire in 2036 and 2037, respectively. Fortis Turks and Caicos has an installed generating capacity of approximately 57 MW and met a record peak demand of approximately 31 MW for 2010.

Non-Regulated — Fortis Generation

Belize

Non-regulated generation operations in Belize are conducted through BECOL under a franchise agreement with the Government of Belize. BECOL owns and operates the 25-MW Mollejon hydroelectric generating facility, the 7-MW Chalillo hydroelectric generating facility and the 19-MW Vaca hydroelectric generating facility. All such facilities are located on the Macal River in Belize. These hydro plants generate average annual energy production of approximately 240 gigawatt hours ("GWh"). BECOL sells its entire output to Belize Electricity under 50-year power purchase agreements expiring in 2055 and 2060.

Ontario

Non-regulated generation assets in Ontario are owned and operated by FortisOntario and Fortis Properties and include the 5-MW gas-fired cogeneration plant in Cornwall and five small hydroelectric generating stations with a combined capacity of approximately 8 MW.

Central Newfoundland

The non-regulated generation investment in central Newfoundland is held through the Corporation's indirect 51% interest in the Exploits Partnership. The assets generate approximately 610 GWh annually, of which 470 GWh was utilized by Abitibi, while the remainder is sold to Newfoundland Hydro under a 30-year take-or-pay power purchase agreement which is exempt from regulation, expiring in 2033.

In December 2008 the Government of Newfoundland and Labrador expropriated Abitibi's hydroelectric assets and water rights in Newfoundland, including those of the Exploits Partnership. The loss of control over cash flows and operations has required Fortis to cease consolidation of the Exploits Partnership, effective February 12, 2009. Discussions are ongoing with various parties with respect to matters relating to the expropriation.

British Columbia

Non-regulated generation operations in British Columbia, conducted through FortisBC, include the 16-MW run-of-river Walden hydroelectric power plant near Lillooet. This plant sells its entire output to BC Hydro under a power purchase agreement expiring in 2013.

In October 2010, the Corporation formed the Waneta Partnership with CPC/CBT and concluded definitive agreements to construct the 335-MW Waneta Expansion at an estimated cost of approximately $900 million. The facility is situated adjacent to the Waneta Dam and powerhouse facilities on the Pend d'Oreille River, south of Trail, British Columbia. CPC/CBT are both 100% owned entities of the Government of British Columbia. Fortis owns a controlling 51% interest in the Waneta Partnership and, through FortisBC, will operate and maintain the Waneta Expansion when it comes into service, which is expected in spring 2015. SNC-Lavalin Group Inc. was awarded a contract for approximately $590 million to design and build the Waneta Expansion. Construction began in November 2010 and capital expenditures of approximately $75 million were incurred on this capital project in 2010. The Waneta Expansion will be included in the Canal Plant Agreement (as described in the Corporation's AIF) and will receive fixed energy and capacity entitlements based upon long-term average water flows, thereby significantly reducing hydrologic risk associated with the project. The energy output, approximately 630 GWh (and associated capacity required to deliver such energy), from the Waneta Expansion will be sold to BC Hydro under a recently executed long-term energy purchase agreement. The surplus capacity, equal to 234 MW on an average annual basis, will be sold to FortisBC under a long-term capacity purchase agreement, which was accepted by the British Columbia Utilities Commission in September 2010.

Upper New York State

Non-regulated generation assets in Upper New York State are owned and operated by FortisUS Energy and include four hydroelectric generating stations with a combined generating capacity of approximately 23 MW operating under licences from the U.S. Federal Energy Regulatory Commission. Since January 1, 2007, all four plants have been selling energy at market rates.

Non-Regulated — Fortis Properties

In addition to its non-regulated generation operations, Fortis Properties owns and operates 21 hotels, with more than 4,100 rooms, in eight Canadian provinces and approximately 2.7 million square feet of commercial real estate primarily in Atlantic Canada.

CAPITAL RESOURCES

The Corporation and its subsidiary regulated gas and electric distribution businesses require ongoing access to capital to fund maintenance and expansion of infrastructure, acquisitions and/or repay maturing debt. To meet short-term capital requirements, the Corporation and its larger regulated utility subsidiaries have secured multi-year committed credit facilities. As at March 31, 2011, the Corporation and its subsidiaries had consolidated authorized lines of credit of $2.1 billion, of which $1.5 billion was available to be drawn.

The Corporation and its subsidiaries will require new capital for the repayment of at least a portion of their maturing debt. As at March 31, 2011, long-term debt maturities over the next five years are expected to average approximately $250 million annually.

RECENT DEVELOPMENTS

Agreement to Acquire Central Vermont Public Service Corporation

On May 27, 2011, Fortis entered into an agreement (the "Merger Agreement") to acquire all of the outstanding common shares of Central Vermont Public Service Corporation ("CVPS"), the largest integrated electric utility in Vermont, for US$35.10 per share in cash, for an aggregate purchase price of approximately US$700 million, including the assumption of approximately US$230 million of debt on closing (the "Acquisition"). The common shares of CVPS are listed on the New York Stock Exchange. The closing of the Acquisition is subject to receipt of the approval of the shareholders of CVPS and regulatory and other approvals, including those of the Vermont Public Service Board ("PSB") and the U.S. Federal Energy Regulatory Commission ("FERC"), and the satisfaction of customary closing conditions. Fortis expects the closing of the Acquisition to occur within six to 12 months.

CVPS is engaged principally in the purchase, production, transmission, distribution and sale of electricity. CVPS serves nearly 160,000 customers in about two-thirds of the cities and towns throughout the State of Vermont. Its electric system consists of approximately 9,000 miles of distribution lines and more than 600 miles of sub-transmission lines. CVPS holds directly and indirectly an approximate 41% ownership interest in Vermont Transco LLC, which owns and operates the high-voltage transmission system in Vermont. In 2010, total assets and rate base assets of CVPS were approximately US$711 million and US$426 million, respectively. For CVPS, the allowed rate of return on common equity for 2011 has been set at 9.45%. The equity level in its capital structure is currently 57%.

CVPS customer rates are among the lowest of major utilities in New England. Approximately 50% and 40% of the energy supply in 2010 for CVPS was derived from nuclear and hydroelectric sources, respectively, making it one of the cleanest energy supplies in the United States. Most of the energy sold by CVPS is acquired from Hydro-Québec and the Vermont Yankee nuclear power plant through power purchase agreements. CVPS participates in the New England regional wholesale electric power markets operated by ISO New England Inc., the regional bulk power transmission organization established to assure reliable and economical power supply in New England.

The Acquisition represents the initial entry by Fortis into the U.S. regulated electric utility marketplace and establishes a foundation for Fortis to grow its utility business in the United States. Fortis believes that CVPS is a well-run utility whose operations are very similar to those of the Corporation's Canadian regulated utilities, allowing Fortis and CVPS to use their collective competencies to further enhance service to customers and returns to the Corporation's shareholders. CVPS will remain autonomous in the Fortis model. The headquarters of CVPS will remain in Rutland, Vermont.

Based on financial information as at March 31, 2011, following the Acquisition, the total assets of Fortis will increase by approximately 7% to approximately $13.9 billion as at March 31, 2011. The Corporation's regulated electric and gas utility operations will account for approximately 55% and 37%, respectively, of the total assets of Fortis. Following the Acquisition, total regulated utility assets will be approximately 92% of the total assets of Fortis. Regulated utility assets in Canada and the United States will account for approximately 85% of the total assets of Fortis.

The business operated by CVPS is attractive to Fortis for the following reasons:

(a) the Acquisition is expected to be accretive to earnings per common share of Fortis in the first full year of ownership;

(b) CVPS operates a well-maintained and efficient electric system in an attractive service franchise area, serving a diversified, mature and primarily residential, customer base;

(c) the Acquisition affords Fortis management an opportunity to deploy its core competencies in regulatory, operating and financial management expertise to a U.S. regulated utility;

(d) similar to the Canadian regulated utilities of Fortis, CVPS operates principally under cost-of-service regulation. The regulatory framework at CVPS enables CVPS to earn stable returns with minimal regulatory lag, while allowing timely recovery of fuel, purchased power and transmission costs, along with capital program costs;

(e) the Acquisition will increase the regulated rate base assets and utility earnings of Fortis and mitigate the business risks associated with regulated utility operations through increased diversification of assets and earnings by geographic location and regulatory environment; and

(f) CVPS expects rate base investment to reach approximately US$650 million by 2015, representing a compound average annual growth rate of approximately 9% from 2010 to 2015.

The management of Fortis has substantial experience integrating newly acquired enterprises into the Fortis group of companies. In 2004, Fortis completed the $1.5 billion acquisition of FortisBC and FortisAlberta, (formerly, Aquila Networks Canada (British Columbia) Ltd. and Aquila Networks Canada (Alberta) Ltd., respectively), two electric utilities that today serve approximately 654,000 electricity customers in Alberta and British Columbia, Canada. In 2007, Fortis completed the $3.7 billion acquisition of FortisBC Energy (formerly known as Terasen), one of the largest natural gas distribution utilities in Canada, serving approximately 950,000 natural gas customers in British Columbia, Canada.

Upon close of the transaction, Fortis expects to purchase CVPS for cash with proceeds from borrowings under its $600 million committed term credit facility.

See “Risk Factors — Failure to Complete Acquisition”; “— Potential Undisclosed Liabilities Associated with the Acquisition”; and “— Realization of Acquisition Benefits”.

Belize Electricity

Belize Electricity represents approximately 2% of the total assets of Fortis. In June 2008, the Public Utilities Commission of Belize (“PUC”) issued a rate order that has had a significant negative impact on the financial condition and operations of Belize Electricity. The order effectively disallowed the recovery of previously incurred fuel and purchased power costs in customer rates and set customer rates at a level that does not allow Belize Electricity to earn a fair and reasonable return. Belize Electricity appealed the PUC rate order to the Supreme Court of Belize. On March 15, 2011, the court rendered its judgment dismissing Belize Electricity’s application and finding that, among other things, the generally accepted concept of Good Utility Practice is not applicable in Belize. Belize Electricity has appealed this judgment to the Court of Appeal of Belize; however, a hearing is not expected until the first quarter of 2012. On May 16, 2011, the Supreme Court of Belize granted Belize Electricity’s application to enjoin the PUC from engaging in any rate making proceedings or taking any enforcement or penal actions against Belize Electricity pending the appeal of its judgment.

Belize Electricity has been in default of covenants under its long-term lending agreements since 2008 and has had no access to credit during this period. Belize Electricity is facing serious cash constraints and is currently unable to pay for energy purchases. It has received some assistance from the Government of Belize. Discussions are continuing with the Government of Belize to address the current financial difficulties facing Belize Electricity pending a commercially acceptable resolution to the regulatory issues currently before the courts.

CAPITALIZATION

The following table sets out the consolidated capitalization of the Corporation as at March 31, 2011, after giving effect to the Offering (assuming no exercise of the Over-Allotment Option (as defined herein) and after deducting the Underwriters' Fee (as defined herein) and the expenses of the Offering), and the change in long-term debt and capital lease obligations from April 1, 2011 to June 6, 2011. See "Changes in Share and Loan Capital Structure". The financial information set out below should be read in conjunction with the Corporation's audited consolidated financial statements and unaudited interim consolidated financial statements and the notes thereto incorporated by reference into the Prospectus.

	Outstanding as at March 31, 2011 (unaudited)	Pro forma Outstanding as at March 31, 2011[(1)] (unaudited)
	(in millions of dollars)	
Total debt (net of cash)	5,829	5,703
Preference shares[(2)]	320	320
Shareholders' equity		
Securities offered hereby	Nil	291
Common shares	2,607	2,607
Preference shares[(3)]	592	592
Contributed surplus	12	12
Equity portion of convertible debentures	5	5
Accumulated other comprehensive loss	(97)	(97)
Retained earnings	870	870
Total capitalization[(4)]	10,138	10,303

(1) After giving effect to the net proceeds from the Offering (assuming no exercise of the Over-Allotment Option), determined after deducting the Underwriters' Fee and the expenses of the Offering on an after-tax basis, and the change in long-term debt and capital lease obligations from April 1, 2011 to June 6, 2011. See "Changes in Share and Loan Capital Structure".

(2) First Preference Shares, Series C and First Preference Shares, Series E (as defined below), which are classified as long-term liabilities in the financial statements of Fortis.

(3) First Preference Shares, Series F; First Preference Shares, Series G; and First Preference Shares, Series H (as defined below).

(4) Excludes non-controlling interests.

SHARE CAPITAL OF FORTIS

The authorized share capital of the Corporation consists of an unlimited number of common shares (the "Common Shares"), an unlimited number of First Preference Shares issuable in series and an unlimited number of Second Preference Shares issuable in series, in each case without nominal or par value. As at June 6, 2011, 175,942,051 Common Shares; 5,000,000 Cumulative Redeemable First Preference Shares, Series C (the "First Preference Shares, Series C"); 7,993,500 Cumulative Redeemable First Preference Shares, Series E (the "First Preference Shares, Series E"); 5,000,000 Cumulative Redeemable First Preference Shares, Series F (the "First Preference Shares, Series F"); 9,200,000 Cumulative Redeemable Five-Year Fixed Rate Reset First Preference Shares, Series G (the "First Preference Shares, Series G"); and 10,000,000 Cumulative Redeemable Five-Year Fixed Rate Reset First Preference Shares, Series H (the "First Preference Shares, Series H") were issued and outstanding. The Corporation's Common Shares; First Preference Shares, Series C; First Preference Shares, Series E; First Preference Shares, Series F; First Preference Shares, Series G; and First Preference Shares, Series H, are listed on the TSX under the symbols "FTS", "FTS.PR.C", "FTS.PR.E", "FTS.PR.F", "FTS.PR.G" and "FTS.PR.H", respectively.

DIVIDEND POLICY

Dividends on the Common Shares are declared at the discretion of the board of directors of Fortis (the "Board of Directors"). The Corporation paid cash dividends on its Common Shares of $1.12 in 2010, $1.04 in 2009 and $1.00 in 2008. On March 2, 2011, the Board of Directors declared a second quarter dividend of $0.29 per Common Share, payable on June 1, 2011 to holders of record on May 13, 2011. On May 5, 2011, the Board of Directors declared a third quarter dividend of $0.29 per Common Share, payable on September 1, 2011 to holders of record on August 12, 2011.

Regular quarterly dividends at the prescribed annual rate have been paid on all of the First Preference Shares, Series C; First Preference Shares, Series E; First Preference Shares, Series F; First Preference Shares, Series G; and First Preference Shares, Series H, respectively. The Board of Directors declared a second quarter dividend on the First Preference Shares, Series C; First Preference Shares, Series E; First Preference Shares, Series F; First Preference Shares, Series G; and First Preference Shares, Series H, on March 2, 2011, in each case in accordance with the applicable prescribed annual rate, payable on June 1, 2011 to holders of record on May 13, 2011. On May 5, 2011, the Board of Directors declared a third quarter dividend on the First Preference Shares, Series C; First Preference Shares, Series E; First Preference Shares, Series F; First Preference Shares, Series G; and First Preference Shares, Series H, in each case in accordance with the applicable prescribed annual rate, payable on September 1, 2011 to holders of record on August 12, 2011.

DESCRIPTION OF COMMON SHARES

Dividends

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

Liquidation, Dissolution or Winding-Up

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

Voting Rights

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

CHANGES IN SHARE AND LOAN CAPITAL STRUCTURE

The following describes the changes in the share and loan capital structure of Fortis since March 31, 2011:

- During the period from April 1, 2011 up to and including June 6, 2011, Fortis issued an aggregate of 520,394 Common Shares pursuant to the Corporation's Dividend Reinvestment Plan and Consumer Share Purchase Plan and upon the exercise of options granted pursuant to the Executive, 2002 and 2006 Stock Option Plans, for aggregate consideration of approximately $16.1 million.
- As a result of the proposed issuance of 9,100,000 Offered Shares (assuming no exercise of the Over-Allotment Option), shareholders' equity (excluding non-controlling interests) in the Corporation will increase by approximately $291 million to a total of $4.3 billion.
- During the period from April 1, 2011 up to and including June 6, 2011, consolidated long-term debt and capital lease obligations (including current portion and borrowings under committed credit facilities classified as long-term) increased by $161 million. The increase in debt was incurred mainly in support of infrastructure investment at the regulated utilities.

PRIOR SALES

The following table summarizes the issuances by the Corporation of Common Shares and securities convertible into Common Shares within the 12 months prior to the date of this Prospectus:

Date	Security	Weighted Average Issue Price or Exercise Price per Security, as applicable	Number of Securities
June 2010	Common – Exercise of Stock Options(4)	$19.66	10,945
July 2010	Common – Exercise of Stock Options(4)	$13.46	32,360
August 2010	Common – Exercise of Stock Options(4)	$17.10	93,241
September 1, 2010	Common – DRIP(1)	$28.61	534,356
September 1, 2010	Common – CSPP(3)	$29.17	11,006
September 2010	Common – Exercise of Stock Options(4)	$14.03	43,716
October 2010	Common – Exercise of Stock Options(4)	$18.45	110,815
November 2010	Common – Exercise of Stock Options(4)	$24.91	69,945
December 1, 2010	Common – DRIP(1)	$31.39	494,891
December 1, 2010	Common – CSPP(3)	$32.01	12,446
December 2010	Common – Exercise of Stock Options(4)	$18.42	125,271
January 2011	Common – Exercise of Stock Options(4)	$18.31	388,267
February 2011	Common – Exercise of Stock Options(4)	$28.27	11,674
March 1, 2011	Common – DRIP(1)	$32.40	514,542
March 1, 2011	Common – CSPP(3)	$33.04	13,539
March 2, 2011	Issue of Stock Options	$32.95	828,512
March 2011	Common – Exercise of Stock Options(4)	$22.09	100,734
April 2011	Common – Exercise of Stock Options(4)	$12.98	34,216
May 2011	Common – Exercise of Stock Options(4)	$20.68	20,524
June 1, 2011	Common – DRIP(1)	$32.64	454,874
June 1, 2011	Common – CSPP(3)	$33.29	10,780

(1) Issued pursuant to the Corporation's Dividend Reinvestment Plan ("DRIP").

(2) Issued pursuant to the Corporation's Employee Share Purchase Plan ("ESPP").

(3) Issued pursuant to the Corporation's Consumer Share Purchase Plan ("CSPP").

(4) Issued on the exercise of options granted pursuant to the Executive, 2002 and 2006 Stock Option Plans of the Corporation.

TRADING PRICES AND VOLUMES

The following tables set forth, for the periods indicated, the reported high and low daily trading prices and the aggregate volume of trading of the Corporation's Common Shares: First Preference Shares, Series C; First Preference Shares, Series E; First Preference Shares, Series F; First Preference Shares, Series G; and First Preference Shares, Series H, on the TSX.

	Trading of Common Shares			Trading of First Preference Shares, Series C		
	TSX			TSX		
	High	Low	Volume	High	Low	Volume
	($)	($)	(#)	($)	($)	(#)
2010 June	28.35	26.51	10,261,047	26.36	25.75	19,692
July	29.37	26.83	7,559,548	27.00	26.20	19,206
August	29.51	28.25	12,267,132	26.60	26.26	6,191
September	32.39	29.45	10,444,191	26.67	26.20	82,791
October	33.34	31.22	7,443,166	27.10	26.20	82,316
November	33.63	30.50	14,538,415	27.90	26.00	55,307
December	34.54	32.27	9,124,490	26.27	25.50	72,697
2011						
January	34.74	33.30	7,432,455	26.89	26.05	161,956
February	35.45	32.30	9,925,791	26.10	25.60	329,057
March	33.59	31.53	10,482,063	25.85	25.63	81,458
April	33.28	31.05	5,367,214	26.33	26.00	71,764
May	33.85	31.98	15,795,186	26.19	25.54	463,532
June 1 to June 7	33.05	32.07	2,065,011	26.04	25.75	231,192

	Trading of First Preference Shares, Series E			Trading of First Preference Shares, Series F		
	TSX			TSX		
	High	Low	Volume	High	Low	Volume
	($)	($)	(#)	($)	($)	(#)
2010 June	26.70	26.01	35,587	21.20	20.01	43,550
July	26.85	26.25	233,990	21.90	20.95	47,155
August	27.83	26.15	66,419	21.92	21.54	54,955
September	27.99	26.88	48,182	22.84	21.91	305,678
October	27.40	26.82	176,316	23.49	22.60	49,843
November	27.69	26.90	46,446	23.91	23.01	55,907
December	27.31	26.75	387,978	23.20	22.55	105,720
2011						
January	27.59	26.75	163,482	23.50	22.76	66,772
February	26.87	26.31	236,757	23.75	22.61	59,272
March	27.00	26.21	36,423	23.88	22.90	87,710
April	27.07	26.45	29,389	23.81	23.00	44,696
May	27.34	26.74	272,521	24.00	23.05	87,756
June 1 to June 7	27.24	26.87	43,308	24.25	24.00	16,175

	Trading of First Preference Shares, Series G			Trading of First Preference Shares, Series H		
	TSX			TSX		
	High	Low	Volume	High	Low	Volume
	($)	($)	(#)	($)	($)	(#)
2010 June	26.24	25.61	67,343	25.10	24.40	157,834
July	26.49	25.75	398,816	25.25	24.80	83,340
August	26.74	25.70	100,414	25.51	24.71	140,492
September	26.72	25.91	92,166	26.00	25.15	141,417
October	26.70	26.00	105,727	26.00	25.45	152,170
November	27.25	25.99	78,194	26.22	25.39	433,361
December	26.74	25.30	103,646	25.61	25.25	510,574
2011						
January	26.62	25.95	51,868	25.90	25.25	192,555
February	26.49	25.53	57,289	25.91	25.25	96,073
March	26.57	25.56	110,302	25.73	24.97	163,231
April	26.58	26.25	94,098	25.52	25.05	101,246
May	26.50	25.88	97,923	26.50	25.14	96,623
June 1 to June 7	26.99	25.88	16,880	25.80	25.65	13,080

USE OF PROCEEDS

The net proceeds of the Offering will be approximately $287.7 million, determined after deducting the Underwriters' Fee (as defined below) and the expenses of the Offering, which are estimated to be $600,000. If the Over-Allotment Option is exercised in full, the net proceeds of the Offering, determined after deducting the Underwriters' Fee and estimated expenses of the Offering, are expected to be approximately $330.9 million. The net proceeds from the Offering will be used to repay indebtedness incurred under the Corporation's existing committed credit facility, finance additional equity injections into the western Canadian regulated utilities and the Waneta Partnership in support of investment in infrastructure, and for general corporate purposes. Indebtedness under the Corporation's credit facility that will be repaid was originally incurred to finance equity injections in certain of the Corporation's subsidiaries and for general corporate purposes.

PLAN OF DISTRIBUTION

Pursuant to an underwriting agreement dated June 1, 2011 (the "Underwriting Agreement") between Fortis and Scotia Capital Inc. ("Scotia Capital"), RBC Dominion Securities Inc. ("RBCDS"), BMO Nesbitt Burns Inc. ("BMO Capital Markets"), CIBC World Markets Inc. ("CIBCWM"), National Bank Financial Inc. ("NB Financial"), TD Securities Inc. ("TDSI"), HSBC Securities (Canada) Inc. ("HSBC Securities") and Beacon Securities Ltd. (collectively, the "Underwriters"), Fortis has agreed to issue and sell, and the Underwriters have agreed to purchase, as principals, on or about June 15, 2011 (the "Closing Date"), the Offered Shares offered hereby at the price of $33.00 per Common Share (the "Offering Price"), payable in cash to Fortis against delivery, subject to compliance with all of the necessary legal requirements and to the conditions contained in the Underwriting Agreement. The obligations of the Underwriters under the Underwriting Agreement are several (and not joint and several) and may be terminated at their discretion in certain circumstances including upon the occurrence of certain stated events. The Underwriters are, however, obligated to take up and pay for all of the Offered Shares if any of the Offered Shares are purchased under the Underwriting Agreement. Under the terms of the Underwriting Agreement, the Underwriters may be entitled to indemnification by the Corporation against certain liabilities, including liabilities for misrepresentation in the Prospectus. The Offering Price and other terms of the Offering were determined by negotiation between the Corporation and the Underwriters.

The Corporation has agreed to pay fees to the Underwriters in the amount of $1.32 per Offered Share, in consideration of services rendered by the Underwriters in connection with the Offering (the "Underwriters' Fee"). Assuming that the Over-Allotment Option (as defined below) is not exercised, the total price to the public will be $300,300,000, the Underwriters' Fee will be $12,012,000 and the net proceeds to Fortis will be approximately $287.7 million, after deducting the expenses of the Offering estimated at $600,000 which, together with the Underwriters' Fee, will be paid out of the general funds of the Corporation.

The Corporation has granted the Underwriters the option (the "Over-Allotment Option"), exercisable in whole or in part at any time until 30 days following the Closing Date, to purchase up to an additional 1,365,000 Offered Shares (the "Additional Shares") at the Offering Price. The Over-Allotment Option is exercisable in whole or in part only for the purpose of covering over-allotments, if any, and for market stabilization purposes. This Prospectus qualifies the grant of the Over-Allotment Option and the distribution of the Additional Shares issuable upon exercise of the Over-Allotment Option.

A purchaser who acquires Offered Shares forming part of the Underwriters' over-allocation position acquires those securities under this Prospectus, regardless of whether the Underwriters' over-allocation position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases.

Subscriptions for the Offered Shares will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that the closing of the Offering (the "Closing") will take place on the Closing Date, or such other date as may be agreed upon by the Corporation and the Underwriters, but not later than July 20, 2011. Certificates evidencing the Offered Shares will be available for delivery at the Closing or shortly thereafter.

Pursuant to rules and policy statements of certain Canadian securities regulators, the Underwriters may not, at any time during the period ending on the date the selling process for the Offered Shares ends and all stabilization arrangements relating to the Offered Shares are terminated, bid for or purchase Offered Shares. The foregoing restrictions are subject to certain exceptions including: (i) a bid for or purchase of Offered Shares if the bid or purchase is made through the facilities of the TSX, in accordance with the Universal Market Integrity Rules of the Investment Industry Regulatory Organization of Canada; (ii) a bid or purchase on behalf of a client, other than certain prescribed clients, provided that the client's order was not solicited by the Underwriter, or if the client's order was solicited, the solicitation occurred before the commencement of a prescribed restricted period; and (iii) a bid or purchase to cover a short position entered into prior to the commencement of a prescribed restricted period. The Underwriters may engage in market stabilization or market balancing activities on the TSX where the bid for or purchase of the Offered Shares is for the purpose of maintaining a fair and orderly market in the Offered Shares, subject to price limitations applicable to such bids or purchases. Such transactions, if commenced, may be discontinued at any time.

The Offered Shares have not been, and will not be, registered under the United States *Securities Act of 1933*, as amended (the "1933 Act") or any state securities laws and, subject to certain exceptions, may not be offered, or delivered, directly or indirectly, or sold in the United States except in certain transactions exempt from the registration requirements of the 1933 Act and in compliance with any applicable state securities laws. The Underwriters have agreed that they will not offer or sell the Offered Shares within the United States, its territories, its possessions and other areas subject to its jurisdiction except in accordance with the Underwriting Agreement pursuant to an exemption from the registration requirements of the 1933 Act provided by Rule 144A thereunder and in compliance with applicable state securities laws. In addition, until 40 days after the commencement of the Offering, an offer or sale of Offered Shares within the United States by any dealer (whether or not participating in the Offering) may violate the registration requirements of the 1933 Act if such offer is made otherwise than in reliance on Rule 144A.

The Underwriters propose to offer the Offered Shares initially at the Offering Price set forth on the cover page of this Prospectus. After the Underwriters have made reasonable efforts to sell all the Offered Shares at such price, the Offering Price may be decreased, and further changed from time to time to an amount not greater than the Offering Price specified herein. The compensation realized by the Underwriters will be decreased by the amount that the aggregate price paid by the purchasers for the Offered Shares is less than the gross proceeds paid by the Underwriters to the Corporation.

Each of Scotia Capital, RBCDS, BMO Capital Markets, CIBCWM, NB Financial, TDSI and HSBC Securities is a subsidiary of a Canadian chartered bank that has, either solely or as a member of a syndicate of financial institutions, extended credit facilities to, or holds other indebtedness of, the Corporation and/or its subsidiaries (the "Existing Indebtedness"). A portion of the net proceeds from the Offering will be used towards repaying indebtedness under a credit facility owing by the Corporation to certain of such banks or their affiliates. Consequently, the Corporation may be considered a "connected issuer" of these Underwriters within the meaning of applicable securities legislation. None of these Underwriters will receive any direct benefit from the Offering other than the Underwriters' Fee relating to the Offering. The decision to distribute the Offered Shares hereunder and the determination of the terms of the Offering were made through negotiation between the Corporation and the Underwriters. No bank had any involvement in such decision or determination. As at June 6, 2011, an aggregate of approximately $630 million was outstanding under the Existing Indebtedness. Fortis and/or its subsidiaries are in compliance with their respective obligations under the Existing Indebtedness, other than with respect to certain of Belize Electricity's and the Exploits Partnership's debt as previously disclosed in the Corporation's public disclosure. Since the execution of the agreements governing the Existing Indebtedness, no breach thereunder has been waived by the lenders thereunder. See "Use of Proceeds".

The TSX has conditionally approved the listing on the TSX of the Offered Shares distributed under this Prospectus. Listing will be subject to the Corporation fulfilling all of the listing requirements of the TSX on or before August 28, 2011.

RISK FACTORS

An investment in the Offered Shares involves certain risks. A prospective purchaser of Offered Shares should carefully consider the risk factors described under:

(a) the heading "Risk Factors" found on page 33 of the Corporation's Annual Information Form dated March 7, 2011 for the year ended December 31, 2010;

(b) the heading "Business Risk Management" in the Management Discussion and Analysis of financial condition and results of operations found on pages 44 through 54 of the Corporation's 2010 Annual Report (the "MD&A");

(c) the heading "Business Risk Management" on page 25 of the Management Discussion and Analysis of financial condition and results of operations for the three months ended March 31, 2011; and

(d) Note 18 "Financial Risk Management" found on pages 18 through 21 in the Corporation's unaudited comparative interim consolidated financial statements as at March 31, 2011 and for the three months ended March 31, 2011 and 2010,

each of which is incorporated by reference herein.

In addition, a prospective purchaser of Offered Shares should carefully consider the risk factors described below and in the other information contained in this Prospectus (including the documents incorporated by reference herein).

Failure to Complete Acquisition

The completion of the Acquisition is subject to receipt of CVPS shareholder, regulatory and other approvals, including those of the PSB and FERC, and the satisfaction of certain closing conditions contained in the Merger Agreement. The failure to obtain the required approvals or satisfy the conditions contained in the Merger Agreement may result in the termination of the Merger Agreement. The termination of the Merger Agreement may have a negative effect on the market price of the Common Shares.

Potential Undisclosed Liabilities Associated with the Acquisition

In connection with the Acquisition, there may be liabilities that the Corporation failed to discover or was unable to quantify in the due diligence which it conducted prior to the execution of the Merger Agreement and the Corporation may not be indemnified for some or all of these liabilities. The discovery or quantification of any material liabilities could have a material adverse effect on the Corporation's business, financial condition or future prospects.

Realization of Acquisition Benefits

The Corporation believes that the Acquisition will provide benefits to Fortis as described under the heading "Recent Developments — Agreement to Acquire Central Vermont Public Service Corporation". However, there is a risk that some or all of the expected benefits of the Acquisition may fail to materialize, or may not occur within the time periods anticipated by the Corporation. The realization of such benefits may be affected by a number of factors, many of which are beyond the control of the Corporation.

AUDITORS

The auditors of the Corporation are Ernst & Young LLP, Chartered Accountants ("Ernst & Young"), The Fortis Building, 7th Floor, 139 Water Street, St. John's, Newfoundland and Labrador A1C 1B2.

LEGAL MATTERS

Certain legal matters relating to this Offering will be passed upon on behalf of the Corporation by Davies Ward Phillips & Vineberg LLP, Toronto and McInnes Cooper, St. John's and on behalf of the Underwriters by Stikeman Elliott LLP, Toronto. At the date hereof, partners and associates of each of Davies Ward Phillips & Vineberg LLP, McInnes Cooper and Stikeman Elliott LLP own beneficially, directly or indirectly, less than 1% of any securities of the Corporation or any associate or affiliate of the Corporation.

TRANSFER AGENT AND REGISTRAR

The Transfer Agent and Registrar for the Offered Shares is Computershare Trust Company of Canada in Toronto and Montréal.

PURCHASERS' STATUTORY RIGHTS

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revisions of the price or damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revisions of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights or consult with a legal advisor.

AUDITORS' CONSENT

We have read the Short Form Prospectus (the "Prospectus") of Fortis Inc. (the "Corporation") dated June 8, 2011 relating to the issue and sale of 9,100,000 Common Shares of the Corporation. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the incorporation by reference, in the Prospectus, of our report to the shareholders of the Corporation on the consolidated balance sheets of the Corporation as at December 31, 2010 and 2009 and the consolidated statements of earnings, retained earnings, comprehensive income and cash flows for each of the years in the two year period then ended. Our report is dated March 2, 2011.

St. John's, Canada
June 8, 2011

(Signed) Ernst & Young LLP
Chartered Accountants

CERTIFICATE OF FORTIS INC.

Dated: June 8, 2011

This short form prospectus, together with the documents incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of each of the provinces of Canada.

(Signed) H. STANLEY MARSHALL President and Chief Executive Officer	(Signed) BARRY V. PERRY Vice-President, Finance and Chief Financial Officer

On behalf of the Board of Directors

(Signed) DAVID G. NORRIS Director	(Signed) PETER E. CASE Director

CERTIFICATE OF THE UNDERWRITERS

Dated: June 8, 2011

To the best of our knowledge, information and belief, this short form prospectus, together with the documents incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of each of the provinces of Canada.

Scotia Capital Inc.	**RBC Dominion Securities Inc.**
(Signed) Stephen MacCulloch	(Signed) David Dal Bello

BMO Nesbitt Burns Inc.	**CIBC World Markets Inc.**	**National Bank Financial Inc.**	**TD Securities Inc.**
(Signed) James A. Tower	(Signed) David H. Williams	(Signed) Iain Watson	(Signed) Harold R. Holloway

HSBC Securities (Canada) Inc.

(Signed) Nicole Caty

Beacon Securities Limited

(Signed) Daniel Holland

FORTIS

RR DONNELLEY
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Information has been incorporated by reference in this short form prospectus from documents filed with securities commissions or similar authorities in Canada. *Copies of the documents incorporated herein by reference may be obtained on request without charge from the Secretary of the Corporation at Suite 1201, 139 Water Street, St. John's, Newfoundland and Labrador A1B 3T2 (telephone (709) 737-2800) and are also available electronically at www.sedar.com. For the purpose of the Province of Québec, this simplified prospectus contains information to be completed by consulting the permanent information record. A copy of the permanent information record may be obtained without charge from the Secretary of the issuer at the above-mentioned address and telephone number and is also available electronically at www.sedar.com. The securities being offered under this short form prospectus have not been and will not be registered under the United States Securities Act of 1933, as amended, or any state securities laws, and, except in limited circumstances, will not be offered or sold within the United States or for the account or benefit of United States persons. See ''Plan of Distribution''.*

New Issue September 20, 2006

SHORT FORM PROSPECTUS

FORTIS INC.

FORTIS

$125,000,000

5,000,000 FIRST PREFERENCE SHARES, SERIES F

This short form prospectus (the ''Prospectus'') qualifies for distribution 5,000,000 Cumulative Redeemable First Preference Shares, Series F (the ''Series F First Preference Shares'') of Fortis Inc. (''Fortis'' or the ''Corporation'') which are being offered and sold pursuant to the provisions of an underwriting agreement (the ''Underwriting Agreement'') dated September 13, 2006 between Fortis and BMO Nesbitt Burns Inc. (''BMO Nesbitt Burns''), CIBC World Markets Inc. (''CIBCWM''), RBC Dominion Securities Inc. (''RBCDS''), Scotia Capital Inc. (''Scotia Capital''), HSBC Securities (Canada) Inc. (''HSBC Securities''), National Bank Financial Inc. (''NB Financial''), TD Securities Inc. (''TD Securities''), Beacon Securities Limited and Canaccord Capital Corporation (collectively, the ''Underwriters''). The Series F First Preference Shares will be issued and sold by Fortis to the Underwriters at the price of $25.00 (the ''Offering Price'') per Series F First Preference Share. The Offering Price was determined by negotiation between the Corporation and the Underwriters.

The Series F First Preference Shares of the Corporation will be entitled to fixed cumulative preferential cash dividends, if, as and when declared by the board of directors of the Corporation at a rate of $1.2250 per share per annum, to accrue from the date of original issue, payable in equal quarterly installments of $0.3063 per share on the first day of March, June, September and December of each year. Assuming an issue date of September 28, 2006 the first dividend will be payable as of December 1, 2006 in the amount of $0.2148 per Series F First Preference Share.

On or after December 1, 2011, the Corporation may, at its option, upon not less than 30 days and not more than 60 days prior written notice, redeem for cash the Series F First Preference Shares, in whole at any time or in part from time to time, at $26.00 per share if redeemed before December 1, 2012, at $25.75 per share if redeemed on or after December 1, 2012 but before December 1, 2013, at $25.50 per share if redeemed on or after December 1, 2013 but before December 1, 2014, at $25.25 per share if redeemed on or after December 1, 2014 but before December 1, 2015, and at $25.00 per share if redeemed on or after December 1, 2015, plus in each case, all accrued and unpaid dividends up to but excluding the date fixed for redemption. See ''Details of the Offering — Specific Provisions of Series F First Preference Shares''.

The Toronto Stock Exchange (the ''TSX'') has conditionally approved the listing of the Series F First Preference Shares. Listing is subject to the Corporation fulfilling all of the requirements of the TSX on or before December 14, 2006, including distribution of the Series F First Preference Shares to a minimum number of public securityholders.

Investing in the Series F First Preference Shares involves risks, certain of which are described under the heading ''Business Risk Management'' in Management Discussion and Analysis of financial conditions and results of operations found on pages 62 to 67 of the Corporation's 2005 Annual Report and under the heading ''Risk Factors'' found on pages 44 to 48 of the Corporation's 2005 Annual Information Form. See ''Documents Incorporated by Reference''.

Price: $25.00 per Series F First Preference Share

	Price to the Public	**Underwriters' Fee** (1)	**Net proceeds to Fortis** (2)
Per Series F First Preference Share	$25.00	$0.75	$24.25
Total	$125,000,000	$3,750,000	$121,250,000

(1) The Underwriters' fee for the Series F First Preference Shares is $0.25 per share for each such share sold to institutions and $0.75 per share for all other Series F First Preference Shares purchased by the Underwriters. The Underwriters' fee indicated in the table assumes that no Series F First Preference Shares are sold to institutions.

(2) Before deducting expenses of the offering estimated at $550,000 which, together with the Underwriters' fees, will be paid out of the general funds of Fortis. See ''Plan of Distribution''.

BMO Nesbitt Burns, CIBCWM, RBCDS, Scotia Capital, HSBC Securities, NB Financial and TD Securities are each subsidiaries of Canadian chartered banks that have, either solely or as a member of a syndicate of financial institutions, extended credit facilities to the Corporation and/or its subsidiaries. The net proceeds from this offering will be used in part to repay indebtedness under credit facilities owing by the Corporation to certain of such banks. Accordingly, the Corporation may be considered a ''connected issuer'' of such Underwriters under applicable securities legislation. See ''Use of Proceeds'' and ''Plan of Distribution''.

The Underwriters, as principals, conditionally offer the Series F First Preference Shares, subject to prior sale, if, as and when issued by Fortis and accepted by the Underwriters in accordance with the conditions contained in the Underwriting Agreement and subject to the approval of certain legal matters on behalf of the Corporation by Davies Ward Phillips & Vineberg LLP, Toronto and McInnes Cooper, St. John's and on behalf of the Underwriters by Stikeman Elliott LLP, Toronto. See ''Plan of Distribution''.

Subscriptions for the Series F First Preference Shares will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that the closing of this offering will take place on or about September 28, 2006 (the ''Closing Date''), or such other date as may be agreed upon by the Corporation and the Underwriters, but not later than November 2, 2006.

A book entry only certificate representing the Series F First Preference Shares distributed hereunder will be issued in registered form only to The Canadian Depository for Securities Limited (''CDS'') or its nominee and will be deposited with CDS on the Closing Date. The Corporation understands that a purchaser of Series F First Preference Shares will receive only a customer confirmation from a registered dealer who is a CDS participant from or through whom the Series F First Preference Shares are purchased. See ''Book Entry Only System''.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus (the ''Prospectus''), and the documents incorporated herein by reference, contain forward-looking statements which reflect management's expectations regarding the Corporation's future growth, results of operations, performance and business prospects and opportunities. Wherever possible, words such as ''anticipate'', ''believe'', ''expects'', ''intend'' and similar expressions have been used to identify these forward-looking statements. These statements reflect management's current beliefs and are based on information currently available to the Corporation's management. Forward-looking statements involve significant risks, uncertainties and assumptions. 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, including regulation, derivative instruments and hedging, energy prices, economic conditions, loss of service areas, environmental matters, insurance, labour relations, weather, liquidity risks and human resources. These factors should be considered carefully and prospective investors should not place undue reliance on the forward-looking statements. Although the forward-looking statements contained in the Prospectus, and the documents incorporated herein by reference, are based upon what management believes to be reasonable assumptions, the Corporation cannot assure prospective purchasers that actual results will be consistent with these forward-looking statements. These forward-looking statements are made as of the date of the Prospectus, and the Corporation assumes no obligation to update or revise them to reflect new events or circumstances.

DOCUMENTS INCORPORATED BY REFERENCE

The disclosure documents of the Corporation listed below and filed with the appropriate securities commissions or similar regulatory authorities in each of the provinces of Canada are specifically incorporated by reference into and form an integral part of this Prospectus:

(a) annual information form dated March 29, 2006 for the year ended December 31, 2005;

(b) audited comparative consolidated financial statements for the years ended December 31, 2005 and 2004, together with notes thereto and the auditors' report thereon dated January 27, 2006 as contained in the Corporation's 2005 Annual Report;

(c) management discussion and analysis of financial condition and results of operations for the year ended December 31, 2005 as contained in the Corporation's 2005 Annual Report;

(d) unaudited interim consolidated financial statements as at June 30, 2006 and for the three and six month periods ended June 30, 2006 and 2005 and related management discussion and analysis of financial condition and results of operations for the three and six month periods ended June 30, 2006;

(e) management information circular dated March 17, 2006 prepared in connection with the Corporation's annual meeting of shareholders held on May 2, 2006, excluding the portions that appear under the headings ''Report on Corporate Governance'', ''Report on Executive Compensation'' and ''Performance Graph''; and

(f) material change report dated September 15, 2006 describing the entering into of an agreement between the Corporation and a syndicate of underwriters led by BMO Nesbitt Burns in respect of this offering.

Any document of the type referred to in the preceding paragraph and any material change report (other than any confidential material change report) subsequently filed by the Corporation with such securities commissions or regulatory authorities after the date of the Prospectus, and prior to the termination of the offering, shall be deemed to be incorporated by reference into the Prospectus.

Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Prospectus to the extent that a statement contained herein, or in any other subsequently filed document which also is incorporated or is deemed to be incorporated by reference herein, modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement will not be deemed an admission for any purpose that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus.

Copies of the documents incorporated herein by reference may be obtained on request without charge from the Secretary of the Corporation at Suite 1201, 139 Water Street, St. John's, Newfoundland and Labrador A1B 3T2 (telephone (709) 737-2800). These documents are also available through the Internet on the Corporation's website at www.fortisinc.com or on the Canadian System for Electronic Document Analysis and Retrieval (SEDAR) which can be accessed at www.sedar.com. The information contained on, or accessible through, these websites is not incorporated by reference into the Prospectus and is not, and should not be considered to be, a part of the Prospectus, unless it is explicitly so incorporated.

ELIGIBILITY FOR INVESTMENT

In the opinion of Davies Ward Phillips & Vineberg LLP, counsel to the Corporation, and Stikeman Elliott LLP, counsel to the Underwriters, the Series F First Preference Shares, if issued on the date hereof, would be qualified investments under the *Income Tax Act* (Canada) (the ''Tax Act'') for a trust governed by a registered retirement savings plan, registered retirement income fund, deferred profit sharing plan or registered education savings plan.

Unless otherwise indicated, dollar amounts in the Prospectus are expressed in Canadian dollars.

SUMMARY OF THE OFFERING

This summary is qualified by the more detailed information appearing elsewhere in this Prospectus. Unless otherwise noted or the context otherwise indicates, the term ''Corporation'' refers to Fortis Inc.

Issue:	5,000,000 Cumulative Redeemable First Preference Shares, Series F
Amount:	$125,000,000
Price:	$25.00 per Series F First Preference Share
Use of Proceeds:	The net proceeds of the offering will be approximately $121 million, determined after deducting the underwriting commission and the estimated expenses of this offering payable by the Corporation. A portion of the net proceeds of this offering will be used to repay approximately $72 million previously borrowed under the Corporation's credit facilities, which indebtedness was incurred: (i) to partially fund the acquisition by Fortis of certain electric utilities located in the Turks and Caicos Islands on August 28, 2006 (see ''Recent Developments''); (ii) to fund equity injections into the Corporation's western Canadian regulated electric utilities and Belize Electricity Limited in support of their extensive capital expenditure programs; and (iii) for general corporate purposes. The balance of the net proceeds of the offering will be used to fund further equity injections into the Corporation's western Canadian regulated electric utilities in support of their extensive capital expenditure programs and for general corporate purposes.
Dividends:	The holders of the Series F First Preference Shares will be entitled to receive fixed cumulative preferential cash dividends, if, as and when declared by the board of directors of the Corporation, in an amount equal to $1.2250 per share per annum, payable in equal quarterly installments of $0.3063 per share on the first day of March, June, September and December of each year. Assuming an issue date of September 28, 2006, the first such dividend will be payable on December 1, 2006 in the amount of $0.2148 per share.
Redemption:	The Series F First Preference Shares are not redeemable before December 1, 2011. On or after that date, the Series F First Preference Shares are redeemable by the Corporation in whole at any time or in part from time to time upon not less than 30 days and not more than 60 days prior written notice, at $26.00 per share if redeemed before December 1, 2012, at $25.75 per share if redeemed on or after December 1, 2012 but before December 1, 2013, at $25.50 per share if redeemed on or after December 1, 2013 but before December 1, 2014, at $25.25 per share if redeemed on or after December 1, 2014 but before December 1, 2015, and at $25.00 per share thereafter, plus in each case, all accrued and unpaid dividends up to but excluding the date fixed for redemption.
Purchase for Cancellation:	Subject to applicable law and any necessary regulatory approvals, the Corporation will be entitled to purchase Series F First Preference Shares for cancellation in the open market or by private agreement or otherwise at the lowest price or prices at which, in the opinion of the board of directors of the Corporation, such shares are obtainable.
Priority:	The Series F First Preference Shares rank on a parity with any other series of First Preference Shares of the Corporation and senior to all other shares of the Corporation with respect to priority to the payment of dividends, return of capital and the distribution of assets on the dissolution, liquidation or winding-up of the Corporation.

Voting Rights:	The Series F First Preference Shares are non-voting unless the Corporation fails to pay eight quarterly dividends on the Series F First Preference Shares, whether or not consecutive and whether or not such dividends have been declared and whether or not there are any monies of the Corporation properly applicable to the payment of dividends. In that event and for only so long as any such dividends remain in arrears, the holders of the Series F First Preference Shares will be entitled to receive notice of and to attend all shareholders' meetings, other than meetings at which only holders of another specified class or series are entitled to vote, and will be entitled to one vote for each Series F First Preference Share held.
Ratings:	Dominion Bond Rating Service Limited: pfd-3(high), Standard & Poor's: P-2(Low).
Tax on Preference Share Dividends:	The Corporation will elect, in the manner and within the time provided under subsection 191.2(1) of the Tax Act, to pay or cause payment of the tax under Part VI.1 of the Tax Act at a rate such that the corporate holders of Series F First Preference Shares will not be required to pay tax under Part IV.1 of the Tax Act on dividends received on such shares. See ''Details of the Offering'' and ''Canadian Federal Income Tax Considerations''.
Listing:	The TSX has conditionally approved the listing of the Series F First Preference Shares. Listing is subject to the Corporation fulfilling all of the requirements of the TSX on or before December 14, 2006, including distribution of the Series F First Preference Shares to a minimum number of public securityholders.
Earnings Coverage:	Earnings coverage information is provided in the Prospectus under the heading ''Earnings Coverage Ratio''.

FORTIS

Fortis Inc. was incorporated as 81800 Canada Ltd. under the *Canada Business Corporations Act* on June 28, 1977. The Corporation was continued under the *Corporations Act* (Newfoundland) on August 28, 1987 and on October 12, 1987 the Corporation amended its articles to change its name to ''Fortis Inc.'' The address of the head office and principal place of business of the Corporation is The Fortis Building, Suite 1201, 139 Water Street, St. John's, Newfoundland and Labrador A1B 3T2.

Fortis is principally a diversified, international electric utility holding company that owns subsidiaries engaged in the regulated distribution of electricity. Regulated utility assets comprise approximately 84% of the Corporation's total assets, with the balance comprised primarily of non-regulated electricity generating assets, and commercial real estate and hotel investments owned and operated through its non-utility subsidiary. Fortis holds all the common shares of Newfoundland Power Inc. (''Newfoundland Power'') and, through Fortis Properties Corporation (''Fortis Properties''), holds all the common shares of Maritime Electric Company, Limited (''Maritime Electric''), which are the principal distributors of electricity in Newfoundland and Prince Edward Island, respectively. As well, through its wholly owned subsidiary FortisOntario Inc. (''FortisOntario'') and its subsidiaries, Canadian Niagara Power Inc. (''CNPI'') and Cornwall Street Railway, Light and Power Company, Limited (''Cornwall Electric''), Fortis distributes electricity to customers primarily in Fort Erie, Port Colborne, Gananoque and Cornwall, Ontario.

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

The Corporation's regulated electric utility assets in the Caribbean consist of its ownership, through wholly owned subsidiaries, of a 70.1% interest in Belize Electricity Limited (''Belize Electricity''), the primary distributor of electricity in Belize, and an approximate 37.4% interest in Caribbean Utilities Company Limited (''Caribbean Utilities''), the sole provider of electricity to the island of Grand Cayman, Cayman Islands. On August 28, 2006, Fortis acquired, through a wholly owned subsidiary, all of the outstanding shares of P.P.C. Limited (''PPC'') and Atlantic Equipment & Power (Turks and Caicos) Ltd. (''Atlantic''), which together generate and distribute electricity to 80% of electricity customers in the Turks and Caicos Islands. See ''Recent Developments''.

The Corporation's non-regulated electricity generation operations consist of its 100% interest in each of CNE Energy Inc. (''CNE Energy''), Belize Electric Company Limited (''BECOL''), FortisUS Energy Corporation (''FortisUS Energy''), and FortisOntario, as well as non-regulated electricity generation assets owned by FortisBC.

CNE Energy, a non-regulated indirect subsidiary, holds a 51% interest in the Exploits River Hydro Partnership (the ''Exploits Partnership''). The Exploits Partnership was established with Abitibi-Consolidated Company of Canada (''Abitibi-Consolidated''), which holds the remaining 49% interest, to develop additional capacity at Abitibi-Consolidated's hydroelectric plant at Grand Falls-Windsor and redevelop Abitibi-Consolidated's hydroelectric plant at Bishop's Falls, Newfoundland and Labrador. As of December 31, 2005, CNE Energy also included the non-regulated electricity generation operations of the former FortisOntario Generation Corporation (''FortisOntario Generation''), which consists of six small hydroelectric generating stations in eastern Ontario with a combined capacity of 8 megawatts (''MW'').

BECOL owns and operates both the 25 MW Mollejon and 7 MW Chalillo hydroelectric facilities, located on the Macal River in Belize, Central America. Through FortisUS Energy, a wholly owned subsidiary of Fortis Properties, the Corporation owns and operates 4 hydroelectric generating stations in Upper New York State with a total combined capacity of 23 MW. FortisOntario includes 75 MW of water entitlement associated with the Rankine Generating Station at Niagara Falls and the operation of a 5 MW gas-fired cogeneration plant that provides district heating to 17 commercial customers in Cornwall. During 2005, the Rankine Generating Station assets were written down as a result of the implementation of a water and power exchange agreement with Ontario Power Generation Inc. (''OPGI'') (the ''Niagara Exchange Agreement''). The Niagara Exchange Agreement assigns FortisOntario water rights on the Niagara River to OPGI and facilitates the irrevocable exchange of 75 MW of wholesale electric power supply to FortisOntario from OPGI until April 30, 2009 in exchange for FortisOntario's agreement not to seek renewal of the water entitlement at that time. The non-regulated electricity generation operations of FortisBC conducted through

Walden, its wholly owned partnership, include the 16 MW run-of-river Walden hydroelectric power plant near Lillooet, British Columbia.

Through its wholly owned subsidiary, Fortis Properties, the Corporation owns and operates hotels in six provinces in Canada and commercial real estate in Atlantic Canada. Its holdings include 14 hotels with more than 2,800 rooms and approximately 2.7 million square feet of commercial real estate.

Regulated Utilities — Canadian

FortisAlberta

On May 31, 2004, Fortis, through an indirect wholly owned subsidiary, acquired all of the issued and outstanding shares of FortisAlberta (formerly Aquila Networks Canada (Alberta) Ltd.). FortisAlberta owns and operates the electricity distribution system in a substantial portion of southern and central Alberta. FortisAlberta distributes electricity to approximately 421,000 customers using approximately 104,000 kilometres of power lines. FortisAlberta's business is the ownership and operation of regulated electricity distribution facilities that distribute electricity generated by other market participants from high-voltage transmission substations to end-use customers. FortisAlberta is not involved in the generation, transmission or direct sale of electricity.

FortisBC

On May 31, 2004, Fortis, through an indirect wholly owned subsidiary, acquired all of the issued and outstanding shares of FortisBC (formerly Aquila Networks Canada (British Columbia Ltd.). FortisBC is an integrated regulated electric utility that owns a network of generation, transmission and distribution assets located in the southern interior of British Columbia. FortisBC serves a diverse mix of approximately 150,000 customers, with residential customers representing the largest customer segment. FortisBC owns four regulated hydroelectric generating plants with an aggregate capacity of 235 MW that provide approximately 50% of the Corporation's energy and 30% of its capacity needs. FortisBC's remaining electricity supply is acquired through long-term power purchase contracts and short-term market purchases. FortisBC includes non-regulated operating, maintenance and management services relating to the 450 MW Waneta hydroelectric generation facility owned by Teck Cominco Metals Ltd., the 149 MW Brilliant Hydroelectric Plant and the 185 MW Arrow Lakes Hydroelectric Plant owned by Columbia Power Corporation and Columbia Basin Trust and the distribution system owned by the City of Kelowna.

Fortis also indirectly owns all of the outstanding shares of Princeton Light and Power Company, Limited (''PLP''), which was purchased on May 31, 2005 and is an electric utility that serves approximately 3,200 customers, mainly in Princeton, British Columbia. PLP presently purchases its wholesale power from FortisBC.

Newfoundland Power

Fortis holds all of the common shares of Newfoundland Power. Newfoundland Power is an electric utility that operates an integrated generation, transmission and distribution system throughout the island portion of the Province of Newfoundland and Labrador. Newfoundland Power serves over 227,000 customers, or 85% of electricity customers in the Province, in approximately 600 communities, and met a peak demand of 1,124 MW in 2005. Approximately 90% of the electricity that Newfoundland Power sells to its customers is purchased from Newfoundland and Labrador Hydro Corporation. Currently, Newfoundland Power has an installed generating capacity of 136 MW, of which 92 MW is hydroelectric generation.

Maritime Electric

Through its subsidiary, Fortis Properties, Fortis owns all of the common shares of Maritime Electric, which is the principal distributor of electricity on Prince Edward Island. Maritime Electric directly supplies approximately 70,300 customers, or approximately 90% of the electricity consumers on the Island, and met a peak demand of 209 MW in 2005. Maritime Electric purchases most of the energy it distributes to its customers from New Brunswick Power Corporation and maintains on-Island generating facilities at Charlottetown and Borden-Carleton with a combined total capacity of 150 MW.

FortisOntario

The Corporation's regulated utility investments in Ontario are comprised of CNPI, including the operations of Port Colborne Hydro, and Cornwall Electric, all of which are owned through FortisOntario. In total, its distribution operations serve approximately 51,300 customers in the Fort Erie, Port Colborne, Cornwall and Gananoque areas of Ontario and met a combined peak demand of 249 MW in 2005. CNPI owns international transmission facilities at Fort Erie as well as a 10% interest in each of Westario Power Holdings Inc. and Rideau St. Lawrence Holdings Inc., two regional electric distribution companies formed in 2000 that, together, serve approximately 27,000 customers.

Regulated Utilities — Caribbean

Belize Electricity

Fortis, through wholly owned subsidiaries incorporated under the laws of the Cayman Islands, holds a 70.1% interest in Belize Electricity. Belize Electricity is the primary distributor of electricity in the Central American country of Belize. Belize Electricity directly supplies approximately 69,000 customers in Belize and meets a peak demand of 64 MW.

Caribbean Utilities

Fortis, through a wholly owned subsidiary, holds an approximate 37.4% interest in Caribbean Utilities, the only public electric utility on Grand Cayman, Cayman Islands. Caribbean Utilities has the exclusive right to generate, distribute, transmit and supply electricity to the island of Grand Cayman, Cayman Islands, pursuant to a 25-year exclusive licence issued in 1986. Caribbean Utilities serves more than 21,600 customers and, by the end of July 2006, Caribbean Utilities' total owned generating capacity reached 120 MW compared to 123 MW pre-Hurricane Ivan. Hurricane Ivan was a Category V hurricane that struck Grand Cayman in September 2004.

The Class A Ordinary Shares of Caribbean Utilities are listed for trading on the Toronto Stock Exchange (the ''TSX'') under the symbol CUP.U. The Corporation's investment in Caribbean Utilities resulted from a series of transactions from March 2000 through June 2006. Following these transactions, Fortis beneficially owns 9,452,395 Class A Ordinary Shares, or approximately 37.4% of the outstanding Class A Ordinary Shares.

Non-Regulated — Fortis Generation

Ontario

Non-regulated generation assets in Ontario include the operations of FortisOntario and the former FortisOntario Generation. On December 14, 2005, FortisOntario Generation was transferred from FortisOntario to Fortis Properties and, subsequently, on January 1, 2006, FortisOntario Generation was amalgamated with CNE Energy and continues to operate as CNE Energy. CNE Energy's operations in Ontario consist of six small hydroelectric generating stations, which were originally acquired as Granite Power Distribution and Rideau Falls, with a combined capacity of approximately 8 MW. FortisOntario's assets include 75 MW of water entitlement associated with the Rankine Generating Station at Niagara Falls and the operation of a 5-MW gas-fired cogeneration plant that provides district heating to 17 commercial customers in Cornwall. During 2005, the Rankine Generating Station assets were written down as a result of the implementation of the Niagara Exchange Agreement. The Niagara Exchange Agreement assigns FortisOntario's water rights on the Niagara River to OPGI and facilitates the irrevocable exchange of 75 MW of wholesale electric power supply to FortisOntario from OPGI until April 30, 2009 in exchange for FortisOntario's agreement not to seek renewal of the water entitlement at that time.

Belize

Non-regulated generation operations in Belize are conducted through the Corporation's wholly owned indirect subsidiary, BECOL, under a franchise agreement with the Government of Belize. Fortis acquired a 95% interest in BECOL in 2001 for total consideration of approximately $103 million. On May 20, 2004, Fortis acquired the remaining five per cent interest in BECOL from the Social Security Board of the Government of Belize for $4.8 million, making it a wholly owned indirect subsidiary of the Corporation. BECOL owns and operates the 25 MW Mollejon hydroelectric facility and the 7-MW Chalillo hydroelectric facility, which was inaugurated on November 15, 2005. Both facilities are located on the Macal River in Belize. These generating plants have the capability of delivering average annual energy production of approximately 160 gigawatt hours (''GWh''). BECOL sells its entire output to Belize Electricity under a 50 year power purchase agreement.

Central Newfoundland

Non-regulated generation operations in central Newfoundland are conducted through the Corporation's indirect 51% interest in the Exploits Partnership. The Exploits Partnership is a partnership with Abitibi-Consolidated that constructed, installed and operates additional capacity at Abitibi-Consolidated's hydroelectric plant at Grand Falls-Windsor and redeveloped the forestry company's hydroelectric plant at Bishop Falls, Newfoundland and Labrador. The 51% interest in the partnership is owned through CNE Energy, a wholly owned subsidiary of Fortis Properties, which was transferred from the Corporation's direct control on December 1, 2005. On December 1, 2005, the name of CNE Energy replaced the previous name of Central Newfoundland Energy Inc. On January 1, 2006, CNE Energy and FortisOntario Generation amalgamated and continue to operate as CNE Energy. The project undertaken by the Exploits Partnership was completed in November 2003. Abitibi-Consolidated continues to utilize the historical annual generation of approximately 450 GWh while the additional energy produced from the new facilities, approximately 140 GWh, is sold to Newfoundland Hydro under a 30-year take-or-pay power purchase agreement, which is exempt from regulation.

Upper New York State

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

British Columbia

Non-regulated generation operations in British Columbia were acquired as part of FortisBC in May 2004. Generating assets in British Columbia consist of the 16-MW run-of-river Walden hydroelectric power plant near Lillooet, British Columbia. This plant sells its entire output to BC Hydro under a power purchase agreement.

Non-Regulated — Fortis Properties

Fortis has owned all of the issued and outstanding shares of Fortis Properties since its inception in 1989. Fortis Properties owns and operates hotels in six provinces in Canada and commercial real estate in Atlantic Canada. Its holdings include 14 hotels with more than 2,800 rooms and approximately 2.7 million square feet of commercial real estate.

RECENT DEVELOPMENTS

On August 28, 2006, the Corporation acquired, through its wholly owned subsidiary Fortis Energy (Bermuda) Ltd., all of the outstanding shares of PPC and Atlantic. The aggregate purchase price, including assumed debt of approximately US$20,000,000, was approximately US$90,000,000.

Together, PPC and Atlantic serve almost 7,500 customers, or approximately 80% of electricity customers in the Turks and Caicos Islands. PPC is the sole provider of electricity in Provindenciales, North Caicos and Middle Caicos pursuant to an exclusive 50-year licence that expires in 2037. Atlantic is the sole provider of electricity in South Caicos pursuant to an exclusive 50-year licence that expires in 2036. The utilities have a combined diesel-fired generating capacity of approximately 35 MW and meet a peak demand of approximately 20 MW.

Each utility is regulated under a traditional rate of return on rate base approach, with a fixed rate of return of 17.5% on a defined asset base. The combined defined asset base of the two utilities as at June 30, 2006 was approximately US$50,000,000.

Following the closing of the purchase of PPC and Atlantic, the Premier of the Turks and Caicos Islands questioned whether the consent of the Government of the Turks and Caicos Islands was required in connection with the transaction and referred the matter to the Attorney General for review. Fortis is of the view that no such consent was required.

SHARE CAPITAL OF FORTIS

The authorized share capital of the Corporation consists of an unlimited number of Common Shares and an unlimited number of First Preference Shares issuable in series and an unlimited number of Second Preference Shares issuable in series, in each case without nominal or par value. As at September 20, 2006, 103,706,175 Common Shares, 5,000,000 First Preference Shares Series C and 7,993,500 First Preference Shares Series E were issued and outstanding.

Holders of Common Shares are entitled to dividends on a *pro rata* basis if, as and when declared by the board of directors of Fortis. Subject to the rights of the holders of the First Preference Shares and Second Preference Shares and any other class of shares of the Corporation entitled to receive dividends in priority to or rateably with the holders of the Common Shares, the board of directors of Fortis may declare dividends on the Common Shares to the exclusion of any other class of shares of the Corporation. On the liquidation, dissolution or winding-up of Fortis, holders of Common Shares are entitled to participate rateably in any distribution of assets of Fortis, subject to the rights of holders of First Preference Shares and Second Preference Shares and any other class of shares of the Corporation entitled to receive the assets of the Corporation on such a distribution in priority to or rateably with the holders of the Common Shares. Holders of the Common Shares are entitled to receive notice of and to attend all annual and special meetings of the shareholders of Fortis, other than separate meetings of holders of any class or series of shares, and to one vote in respect of each Common Share held at such meetings.

EARNINGS COVERAGE RATIO

The Corporation's dividend requirements on all of its First Preference Shares after giving effect to the issue of 5,000,000 Series F First Preference Shares, and adjusted to a before-tax equivalent using an effective income tax rate of 32.9%, amounted to $34 million for each of the 12 months ended December 31, 2005 and the 12 months ended June 30, 2006. The Corporation's interest requirements for the 12 months ended December 31, 2005 and 12 months ended June 30, 2006, respectively, amounted to $187 million and $186 million. The Corporation's earnings before interest and income tax for the 12 months ended December 31, 2005 and 12 months ended June 30, 2006, were $364 million and $340 million, respectively, which is 1.95 times and 1.83 times the Corporation's aggregate dividend and interest requirements for the periods, respectively.

RATINGS

The Series F First Preference Shares are rated pfd-3(high) by Dominion Bond Rating Service Limited (''DBRS''). The Series F First Preference Shares are rated P-2(Low) by Standard & Poor's (''S&P'').

The DBRS rating of pfd-3(high) is the highest of three sub-categories within the third highest rating of the six standard categories of ratings utilized by DBRS for preferred shares. A P-2(Low) rating by S&P is the lowest of the three sub-categories within the second highest rating of the eight standard categories of ratings utilized by S&P for preferred shares.

Credit ratings are intended to provide investors with an independent measure of the credit quality of an issue of securities. The credit ratings accorded to the Series F First Preference Shares by these rating agencies are not recommendations to purchase, hold or sell the Series F First Preference Shares, as such ratings do not comment as to market price or suitability for a particular investor. There is no assurance that any rating will remain in effect for any given period of time or that any rating will not be revised or withdrawn entirely by a rating agency in the future if, in its judgment, circumstances so warrant.

DETAILS OF THE OFFERING

Specific Provisions of First Preference Shares

The following is a summary of the material rights, privileges, conditions and restrictions attached to the First Preference Shares as a class.

Issuance in Series

The board of directors of the Corporation may from time to time issue First Preference Shares in one or more series. Prior to issuing shares in a series, the board of directors is required to fix the number of shares in the series and determine the designation, rights, privileges, restrictions and conditions attaching to that series of First Preference Shares.

Priority

The First Preference Shares rank on a parity with the First Preference Shares of every other series and in priority to all other shares of the Corporation as to the payment of dividends, return of capital and the distribution of assets in the event of the liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, or any other distribution of the assets of the Corporation among its shareholders for the purpose of winding-up its affairs. Each series of First Preference Shares participates rateably with every other series of First Preference Shares in respect of accumulated cumulative dividends and return of capital if any amount of cumulative dividends, whether or not declared, or amount payable on the return of capital in respect of a series of First Preference Shares, is not paid in full.

Voting

The holders of the First Preference Shares are not entitled to any voting rights as a class except to the extent that voting rights may from time to time be attached to any series of First Preference Shares, and except as provided by law or as described below under ''Modification''. At any meeting of the holders of the First Preference Shares, each holder shall have one vote in respect of each First Preference Share held.

Modification

The class provisions attached to the First Preference Shares may only be amended with the prior approval of the holders of the First Preference Shares in addition to any other approvals required by the *Corporations Act* (Newfoundland and Labrador) or any other statutory provisions of like or similar effect in force from time to time. The approval of the holders of the First Preference Shares with respect to any and all matters may be given by at least two-thirds of the votes cast at a meeting of the holders of the First Preference Shares duly called for that purpose.

Specific Provisions of Series F First Preference Shares

The following is a summary of the material rights, privileges, restrictions and conditions attached to the Series F First Preference Shares.

Issue Price

The Series F First Preference Shares will have an issue price of $25.00 per share.

Priority

The Series F First Preference Shares rank on a parity with any other series of First Preference Shares of the Corporation and senior to all other shares of the Corporation with respect to priority to the payment of dividends, return of capital and the distribution of assets on the dissolution, liquidation or winding-up of the Corporation.

Dividends

The holders of the Series F First Preference Shares will be entitled to receive fixed cumulative preferential cash dividends, if, as and when declared by the board of directors of the Corporation, in an amount equal to $1.2250 per share per annum, accruing from the date of original issue, payable in equal quarterly installments on the first day of March, June, September and December of each year. Assuming an issue date of September 28, 2006, the first such dividend will be payable on December 1, 2006 and will be $0.2148 per share and thereafter the quarterly dividend will be $0.3063 per share.

Redemption

The Series F First Preference Shares are not redeemable before December 1, 2011. On or after this date, subject to the terms of any shares of the Corporation ranking prior to the Series F First Preference Shares, to applicable law and to the provisions described under ''Restrictions on Dividends and Retirement and Issue of Shares'' below, the Corporation may, at its option, at any time redeem all, or from time to time any part, of the outstanding Series F First Preference Shares by the payment of an amount in cash for each such share so redeemed of $26.00 if redeemed before December 1, 2012, $25.75 on or after December 1, 2012 but if redeemed before December 1, 2013, of $25.50 if redeemed on or after December 1, 2013 but before December 1, 2014, of $25.25 if redeemed on or after December 1, 2014 but before December 1, 2015, and of $25.00 if redeemed on or after December 1, 2015, plus in each case, all accrued and unpaid dividends up to but excluding the date fixed for redemption (less any tax required to be deducted and withheld by the Corporation).

Notice of any redemption will be given by the Corporation not less than 30 days and not more than 60 days prior to the date fixed for redemption. If less than all the outstanding Series F First Preference Shares are at any time to be redeemed, the shares will be redeemed on a *pro rata* basis.

Purchase for Cancellation

Subject to applicable law, any necessary regulatory approvals and the provisions described under ''Restrictions on Dividends and Retirement and Issue of Shares'' below, the Corporation may, at any time, purchase for cancellation the whole or any part of the Series F First Preference Shares in the open market or by private agreement or otherwise at the lowest price or prices at which, in the opinion of the board of directors of the Corporation, such shares are obtainable.

Liquidation, Dissolution and Winding-Up

In the event of the liquidation, dissolution or winding-up of the Corporation or any other distribution of assets of the Corporation among its shareholders for the purpose of winding up its affairs, the holders of the Series F First Preference Shares will be entitled to payment of an amount equal to $25.00 per share, plus an amount equal to all accrued and unpaid dividends up to but excluding the date fixed for payment or distribution (less any tax required to be deducted and withheld by the Corporation), before any amount is paid or any assets of the Corporation are distributed to the holders of the Common Shares or any other shares ranking junior as to capital to the Series F First Preference Shares. The holders of the Series F First Preference Shares will not be entitled to share in any further distribution of the assets of the Corporation.

Restrictions on Dividends and Retirement and Issue of Shares

So long as any of the Series F First Preference Shares are outstanding, the Corporation will not, without the approval of the holders of the Series F First Preference Shares:

(a) declare, pay or set apart for payment any dividends (other than stock dividends payable in shares of the Corporation ranking as to capital and dividends junior to the Series F First Preference Shares) on any shares of the Corporation ranking as to dividends junior to the Series F First Preference Shares;

(b) except out of the net cash proceeds of a substantially concurrent issue of shares of the Corporation ranking as to return of capital and dividends junior to the Series F First Preference Shares, redeem or call for redemption, purchase or otherwise pay off, retire or make any return of capital in respect of any shares of the Corporation ranking as to capital junior to the Series F First Preference Shares;

(c) redeem or call for redemption, purchase or otherwise pay off or retire for value or make any return of capital in respect of less than all of the Series F First Preference Shares then outstanding;

(d) except pursuant to any purchase obligation, sinking fund, retraction privilege or mandatory redemption provisions attaching thereto, redeem or call for redemption, purchase or otherwise pay off or retire for value or make any return of capital in respect of any First Preference Shares, ranking as to dividends or capital on a parity with the Series F First Preference Shares; or

(e) issue any additional Series F First Preference Shares or any shares ranking as to dividends or capital prior to or on a parity with the Series F First Preference Shares,

unless, in each such case, all accrued and unpaid dividends up to and including the dividend payable for the last completed period for which dividends were payable on the Series F First Preference Shares and on all other shares of the Corporation ranking as to dividends prior to or on a parity with the Series F First Preference Shares with respect to the payment of dividends have been declared and paid or set apart for payment.

Shareholder Approvals

The approval of all amendments to the rights, privileges, restrictions and conditions attaching to the Series F First Preference Shares as a series and any other approval to be given by the holders of the Series F First Preference Shares may be given by a resolution carried by an affirmative vote of at least two-thirds of the votes cast at a meeting at which the holders of not less than a majority of the outstanding Series F First Preference Shares are present or represented by proxy or, if no quorum is present at such meeting, at an adjourned meeting at which the holders of Series F First Preference Shares then present would form the necessary quorum. At any meeting of holders of Series F First Preference Shares as a series, each such holder shall be entitled to one vote in respect of each Series F First Preference Share held.

Voting Rights

The holders of the Series F First Preference Shares will not be entitled (except as otherwise provided by law and except for meetings of the holders of First Preference Shares as a class and meetings of the holders of Series F First Preference Shares as a series) to receive notice of, attend at, or vote at, any meeting of shareholders of the Corporation unless and until the Corporation fails to pay eight quarterly dividends on the Series F First Preference Shares, whether or not consecutive and whether or not such dividends have been declared and whether or not there are any monies of the Corporation properly applicable to the payment of dividends. In the event of such non-payment, and for only so long as any such dividends remain in arrears, the holders of the Series F First Preference Shares will have the right to receive notice of and to attend each meeting of shareholders of the Corporation which takes place more than 60 days after the date on which the failure first occurs (other than a separate meeting of the holders of another series or class of shares) and such holders shall have the right, at any such meeting, to one vote for each Series F First Preference Share held. Subject to applicable law, no other voting rights shall attach to the Series F First Preference Shares in any circumstances. The voting rights of the holders of the Series F First Preference Shares shall forthwith cease upon payment by the Corporation of any and all such dividends in arrears on the Series F First Preference Shares to which the holders are entitled, until such time as the Corporation may again fail to pay eight quarterly dividends on the Series F First Preference Shares, whether or not consecutive and whether or not such dividends have been declared and whether or not there are any monies of the Corporation properly applicable to the payment of dividends, in which event such voting rights shall become effective again and so on from time to time.

Tax on Dividends

The Corporation will elect, in the manner and within the time provided under subsection 191.2(1) of the Tax Act, to pay or cause payment of tax under Part VI.1 of the Tax Act at a rate such that the corporate holders of Series F First Preference Shares will not be required to pay tax under Part IV.1 of the Tax Act on dividends received on such shares.

CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Davies Ward Phillips & Vineberg LLP and Stikeman Elliott LLP, the following is a summary of the principal Canadian federal income tax considerations generally applicable to a holder of Series F First Preference Shares who purchases the Series F First Preference Shares pursuant to this Prospectus (a ''Holder'') and who, at all relevant times for purposes of the Tax Act, is a resident of Canada, deals at arm's length with the Corporation, holds the Series F First Preference Shares as capital property and is not affiliated with the Corporation. Generally, the Series F First Preference Shares will be considered capital property of a Holder provided the Holder does not hold such shares in the course of carrying on a business and has not acquired them in a transaction or transactions considered to be an adventure in the nature of trade. A Holder whose Series F First Preference Shares do not otherwise qualify as capital property may make, in certain circumstances, an irrevocable election under subsection 39(4) of the Tax Act to have such shares and every ''Canadian security'' (as defined in the Tax Act) owned by such Holder in the taxation year of the election and all subsequent taxation years deemed to be capital property.

This summary does not take into account the ''mark-to-market'' rules applicable to a ''financial institution'' within the meaning of section 142.2 of the Tax Act and such institutions are advised to consult with their own tax advisors.

This summary is of a general nature only and is not intended to be, nor should it be construed to be, legal or tax advice to any particular purchaser. Accordingly, prospective purchasers should consult their own tax advisors with respect to their particular circumstances.

This summary is based on the current provisions of the Tax Act and the regulations thereunder, all specific proposals to amend the Tax Act and the regulations publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof and counsel's understanding of the current published administrative practices of the Canada Revenue Agency (''CRA''). This summary does not otherwise take into account or anticipate any change in law, whether by legislative, governmental or judicial decision or action, nor does it take into account or consider any provincial, territorial or foreign income tax legislation or considerations.

Dividends

Dividends (including deemed dividends) received on the Series F First Preference Shares by an individual must be included in the individual's income and generally will be subject to the gross-up and dividend tax credit rules normally applicable to taxable dividends received by an individual from taxable Canadian corporations. Draft legislation released by the Minister of Finance (Canada) on June 29, 2006 proposes to enhance such gross-up and dividend tax credit for ''eligible dividends'' paid after 2005. Under the draft legislation, a dividend will be eligible for the enhanced gross-up and dividend tax credit if the dividend recipient receives written notice from the paying corporation designating the dividend as an eligible dividend. Assuming the legislation is enacted in the form proposed, Fortis anticipates that it will provide such written notice of such designation. There may be limitations on the ability of a corporation to designate dividends as eligible dividends.

Dividends (including deemed dividends) received on the Series F First Preference Shares by a corporation must be included in computing the corporation's income and will generally be deductible in computing the taxable income of the corporation.

The Series F First Preference Shares are ''taxable preferred shares'' as defined in the Tax Act. The terms of the Series F First Preference Shares require the Corporation to make the necessary election under Part VI.1 of the Tax Act so that corporate Holders will not be subject to tax under Part IV.1 of the Tax Act on dividends received (or deemed to be received) on the Series F First Preference Shares. Thus, provided that such election is made, dividends on the Series F First Preferred Shares received (or deemed to be received) by a corporation will not be subject to the 10% tax payable under Part IV.1 of the Tax Act.

A ''private corporation'', as defined in the Tax Act, or any other corporation controlled (whether by reason of a beneficial interest in one or more trusts or otherwise) by or for the benefit of an individual (other than a trust) or a related group of individuals (other than trusts), will generally be liable to pay refundable tax under Part IV of the Tax Act of 33⅓% on dividends received (or deemed to be received) on the Series F First Preference Shares to the extent such dividends are deductible in computing its taxable income.

Redemption

If the Corporation redeems or otherwise acquires a Series F First Preference Share (otherwise than by a purchase in the open market in the manner in which shares are normally purchased by a member of the public in the open market), the Holder will be deemed to have received a dividend equal to the amount, if any, paid by the Corporation in excess of the paid-up capital (as determined for purposes of the Tax Act) of such share at such time. Generally, the difference between the amount paid by the Corporation and the amount of the deemed dividend will be treated as proceeds of disposition for the purposes of computing the capital gain or capital loss arising on the disposition of such share. In the case of a corporate shareholder, it is possible that in certain circumstances all or part of the deemed dividend may be treated as proceeds of disposition and not a dividend.

Dispositions

A Holder who disposes of or is deemed to dispose of the Series F First Preference Shares (either on redemption or otherwise) will generally realize a capital gain (or sustain a capital loss) to the extent that the proceeds of disposition, net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base of such shares to such Holder. The amount of any deemed dividend arising on the redemption or acquisition by the Corporation of Series F First Preference Shares will not generally be included in computing the proceeds of disposition for the Series F First Preference Shares. If the Holder is a corporation, any capital loss arising on the disposition of a Series F First Preference Share may, in certain circumstances, be reduced by the amount of any dividends, including deemed dividends, which have been received on the Series F First Preference Shares. Analogous rules apply to a partnership or trust of which a corporation, trust or partnership is a member or beneficiary.

One-half of any capital gain (a ''taxable capital gain'') realized by a Holder in a taxation year must be included in the Holder's income in that year and one-half of any capital loss (an ''allowable capital loss'') sustained by a Holder in a taxation year will be deducted from the Holder's taxable capital gains in that year. Allowable capital losses in excess of taxable capital gains generally may be carried back and deducted in any of the three preceding taxation years or carried forward and deducted in any subsequent taxation year against net taxable capital gains realized in such years to the extent and under the circumstances described in the Tax Act.

Capital gains realized by an individual may give rise to a liability for minimum tax under the Tax Act. A Canadian-controlled private corporation, as defined in the Tax Act, may be subject to an additional refundable tax of $6\frac{2}{3}\%$ on investment income (including taxable capital gains).

BOOK ENTRY ONLY SYSTEM

Except as otherwise provided below, the Series F First Preference Shares will be issued in a ''book-entry only'' form and must be purchased or transferred through participants (''Participants'') in the depository service of CDS or its nominee which include securities brokers and dealers, banks and trust companies. On the date of closing, the Corporation will cause a global certificate representing the Series F First Preference Shares to be delivered to, and registered in the name of, CDS or its nominee. Except as otherwise provided below, no purchaser of Series F First Preference Shares will be entitled to a certificate or other instrument from the Corporation or CDS evidencing that purchaser's ownership, and no purchaser will be shown on the records maintained by CDS except through a book entry account of a Participant acting on behalf of the purchaser. Each purchaser of Series F First Preference Shares will receive a customer confirmation of purchase from the registered dealer from which the Series F First Preference Shares are purchased in accordance with the practices and procedures of the dealer. The practices of registered dealers may vary, but generally customer confirmations are issued promptly after execution of a customer order. CDS is responsible for establishing and maintaining book entry accounts for its Participants having interests in the Series F First Preference Shares. Physical certificates evidencing the Series F First Preference Shares will not be issued to purchasers, except in limited circumstances, and registration will be made through the depository service of CDS.

Neither the Corporation nor the Underwriters will assume any liability for (a) any aspect of the records relating to the beneficial ownership of the Series F First Preference Shares held by CDS or the payments relating thereto, (b) maintaining, supervising or reviewing any records relating to the Series F First Preference Shares, or (c) any advice or representation made by or with respect to CDS and those contained in this prospectus and relating to the rules governing CDS or any action to be taken by CDS or at the direction of its Participants. The rules governing CDS provide that it acts as the agent and depository for the Participants. As a result, Participants must look solely to CDS and persons, other than Participants, having an interest in the Series F First Preference Shares must look solely to Participants for payments made by or on behalf of the Corporation to CDS in respect of the Series F First Preference Shares.

If (i) required by applicable law, (ii) the book entry system ceases to exist, (iii) CDS advises the Corporation that it is no longer willing or able to discharge properly its responsibilities as depository with respect to the Series F First Preference Shares and the Corporation is unable to locate a qualified successor, or (iv) the Corporation, at its option, decides to terminate the book entry system, then certificates representing the Series F First Preference Shares will be made available.

Manner of Effecting Transfer or Redemption

A transfer or redemption of Series F First Preference Shares will be effected through records maintained by CDS or its nominee with respect to interests of Participants, and on the records of Participants with respect to interests of persons other than Participants. Purchasers of Series F First Preference Shares who are not Participants, but who wish to purchase, sell or otherwise transfer ownership of or other interests in Series F First Preference Shares, may do so only through Participants.

CHANGES IN SHARE AND LOAN CAPITAL STRUCTURE

The following describes the changes in the share and loan capital structure of Fortis since June 30, 2006:

- During the period from June 30, 2006 up to and including September 20, 2006, Fortis issued an aggregate of 217,095 Common Shares pursuant to the Corporation's Consumer Share Purchase Plan, Dividend Reinvestment Plan, Employee Share Purchase Plan and upon the exercise of options granted pursuant to the 2002 Stock Option Plan and the Executive Stock Option Plan for an aggregate consideration of $3,280,379.
- On August 25, 2006, Fortis made draw downs under its credit facilities of an aggregate amount of approximately $75 million for the purpose of funding the acquisition of PPC and Atlantic. See ''Recent Developments''. As at September 8, 2006, there was an aggregate of approximately $120 million outstanding under the Corporation's credit facilities.

USE OF PROCEEDS

The estimated net proceeds from the sale of the Series F First Preference Shares will be approximately $121 million, after deducting the Underwriters' fee and the estimated expenses of this offering. A portion of the net proceeds of this offering will be used to repay approximately $72 million previously borrowed under the Corporation's credit facilities, which indebtedness was incurred: (i) to partially fund the acquisition by Fortis of PPC and Atlantic on August 28, 2006 (see ''Recent Developments''); (ii) to fund equity injections into the Corporation's western Canadian regulated electric utilities and Belize Electricity Limited in support of their extensive capital expenditure programs; and (iii) for general corporate purposes. The balance of the net proceeds of the offering will be used to fund further equity injections into the Corporation's western Canadian regulated electric utilities in support of their extensive capital expenditure programs and for general corporate purposes.

PLAN OF DISTRIBUTION

Pursuant to an agreement dated as of September 13, 2006 (the ''Underwriting Agreement'') between Fortis and the Underwriters, Fortis has agreed to issue and sell, and the Underwriters have agreed to purchase, as principals, on the Closing Date or on such later date as may be agreed upon, but in any event not later than November 2, 2006, 5,000,000 Series F First Preference Shares offered hereby at a price of $25.00 per Series F First Preference Share subject to compliance with all necessary legal requirements and to the conditions contained in the Underwriting Agreement. The Corporation has agreed to pay fees to the Underwriters in the amount of $0.25 per Series F First Preference Share sold to institutions and $0.75 per Series F First Preference Share for all other Series F First Preference Shares purchased by the Underwriters in consideration of services rendered by the Underwriters in connection with the offering. The Offering Price and other terms of the offering for the Series F First Preference Shares were determined by negotiation between the Corporation and the Underwriters. The total price to the public will be $125,000,000, the Underwriters' fee will be $3,750,000 (assuming that no Series F First Preference Shares are sold to institutions) and the net proceeds to Fortis will be $121,250,000.

Pursuant to rules and policy statements of certain Canadian securities regulators, the Underwriters may not, at any time during the period ending on the date the selling process for the Series F First Preference Shares ends and all stabilization arrangements relating to the Series F First Preference Shares are terminated, bid for or purchase Series F First Preference Shares. The foregoing restrictions are subject to certain exceptions including (a) a bid for or purchase of Series F First Preference Shares if the bid or purchase is made through the facilities of the TSX, in accordance with the Universal Market Integrity Rules of Market Regulation Services Inc., (b) a bid or purchase on behalf of a client, other than certain prescribed clients, provided that the client's order was not solicited by the Underwriter, or if the client's order was solicited, the solicitation occurred before the commencement of a prescribed restricted period, and (c) a bid or purchase to cover a short position entered into prior to the commencement of a prescribed restricted period. The Underwriters may engage in market stabilization or market balancing activities on the TSX where the bid for or purchase of the Series F First Preference Shares is for the purpose of maintaining a fair and orderly market in the Series F First Preference Shares, subject to price limitations applicable to such bids or purchases. Such transactions, if commenced, may be discontinued at any time.

The Series F First Preference Shares have not been, and will not be, registered under the United States *Securities Act of 1933*, as amended (the ''1933 Act'') or any state securities laws and, subject to certain exceptions, may not be offered or sold in the United States. The Underwriters have agreed that they will not offer or sell the Series F First Preference Shares within the United States of America, its territories, its possessions and other areas subject to its jurisdiction or to, or for the account or benefit of, a U.S. person (as defined in Regulation S under the 1933 Act), except in accordance with the Underwriting Agreement pursuant to an exemption from the registration requirements of the 1933 Act provided by Rule 144A thereunder and in compliance with applicable state securities laws. In addition, until 40 days after the commencement of the offering of the Series F First Preference Shares pursuant to this Prospectus, an offer or sale of Series F First Preference Shares within the United States by any dealer (whether or not participating in this offering) may violate the registration requirements of the 1933 Act if such offer is made otherwise than in reliance on Rule 144A.

The obligations of the Underwriters under the Underwriting Agreement are several and may be terminated at their discretion in certain circumstances including upon the occurrence of certain stated events. The Underwriters are, however, obligated to take up and pay for all of the Series F First Preference Shares if any are purchased under the

Underwriting Agreement. Under the terms of the Underwriting Agreement, the Underwriters may be entitled to indemnification by the Corporation against certain liabilities, including liabilities for misrepresentation in this Prospectus.

BMO Nesbitt Burns, CIBCWM, RBCDS, Scotia Capital, HSBC Securities, NB Financial and TD Securities are each subsidiaries of Canadian chartered banks that have, either solely or as a member of a syndicate of financial institutions, extended credit facilities to the Corporation and/or its subsidiaries. The net proceeds from this offering will be used in part to repay indebtedness under credit facilities owing by the Corporation to certain of such banks. Accordingly, the Corporation may be considered a ''connected issuer'' of such Underwriters under applicable securities legislation. Fortis is currently in compliance with the terms of its credit facilities with such banks. Since the execution of such credit facilities, no breach thereunder has been waived by such banks. The Underwriters will not receive any direct benefit from the offering other than the underwriting commission relating to this offering. The decision to distribute the Series F First Preference Shares hereunder and the determination of the terms of this offering were made through negotiation between the Corporation and the Underwriters. No bank had any involvement in such decision or determination. See ''Use of Proceeds''.

The TSX has conditionally approved the listing of the Series F First Preference Shares. Listing is subject to the Corporation fulfilling all of the requirements of the TSX on or before December 14, 2006, including distribution of the Series F First Preference Shares to a minimum number of public securityholders.

RISK FACTORS

A prospective purchaser of Series F First Preference Shares should carefully consider the information contained under the heading ''Business Risk Management'' in the Management Discussion and Analysis of financial conditions and results of operations found on pages 62 to 67 of the Corporation's 2005 Annual Report and under the heading ''Risk Factors'' found on pages 44 to 48 of the Corporation's 2005 Annual Information Form, each of which is incorporated by reference in this Prospectus, as well as the other information contained in this Prospectus (including the documents incorporated by reference herein).

LEGAL MATTERS

Certain legal matters relating to this offering will be passed upon on behalf of the Corporation by Davies Ward Phillips & Vineberg LLP, Toronto, and McInnes Cooper, St. John's and on behalf of the Underwriters by Stikeman Elliott LLP, Toronto. At the date hereof, partners and associates of each of Davies Ward Phillips & Vineberg LLP, McInnes Cooper and Stikeman Elliott LLP own beneficially, directly or indirectly, less than one per cent of any securities of the Corporation or any associate or affiliate of the Corporation.

AUDITORS, TRANSFER AGENT AND REGISTRAR

Ernst & Young LLP, The Fortis Building, 7th Floor, 139 Water Street, St. John's, Newfoundland and Labrador A1C 1B2, are the auditors of the Corporation. The transfer agent and registrar for the Series F First Preference Shares is Computershare Trust Company of Canada in Toronto and Montréal.

PURCHASERS' STATUTORY RIGHTS

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces, the securities legislation further provides a purchaser with remedies for recession or, in some jurisdictions, damages if the prospectus and any amendments contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights or consult with a legal advisor.

AUDITOR'S CONSENT

We have read the short form prospectus of Fortis Inc. (the ''Corporation'') dated September 20, 2006 relating to the issue and sale of 5,000,000 First Preference Shares, Series F of the Corporation. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the incorporation by reference, in the above-mentioned prospectus, of our report to the shareholders of the Corporation on the consolidated balance sheets of the Corporation as at December 31, 2005 and 2004 and the consolidated statements of earnings, retained earnings and cash flows for the years then ended. Our report is dated January 27, 2006.

St. John's, Canada	(signed) Ernst & Young LLP
September 20, 2006	Chartered Accountants

CERTIFICATE OF FORTIS INC.

Dated: September 20, 2006

This short form prospectus, together with the documents incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by the securities legislation of each of the provinces of Canada. For the purpose of the Province of Québec, this simplified prospectus, together with documents incorporated herein by reference and as supplemented by the permanent information record, contains no misrepresentation that is likely to affect the value or the market price of the securities to be distributed.

(Signed) H. STANLEY MARSHALL
President and
Chief Executive Officer

(Signed) BARRY V. PERRY
Vice-President, Finance and
Chief Financial Officer

On behalf of the Board of Directors

(Signed) BRUCE CHAFE
Director

(Signed) DAVID G. NORRIS
Director

CERTIFICATE OF THE UNDERWRITERS

Dated: September 20, 2006

To the best of our knowledge, information and belief, this short form prospectus, together with the documents incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by the securities legislation of each of the provinces of Canada. For the purpose of the Province of Québec, to our knowledge, this simplified prospectus, together with the documents incorporated herein by reference and as supplemented by the permanent information record, contains no misrepresentation that is likely to affect the value or the market price of the securities to be distributed.

BMO Nesbitt Burns Inc.

(Signed) James A. Tower

CIBC World Markets Inc.	**RBC Dominion Securities Inc.**	**Scotia Capital Inc.**
(Signed) David H. Williams	(Signed) David Dal Bello	(Signed) John Matovich
HSBC Securities (Canada) Inc.	**National Bank Financial Inc.**	**TD Securities Inc.**
(Signed) Rod A. McIsaac	(Signed) Martin L. Juravsky	(Signed) Harold Holloway

Beacon Securities Limited	**Canaccord Capital Corporation**
(Signed) Robert MacKay	(Signed) Ronald A. Rimer

FORTIS

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SHORT FORM PROSPECTUS

New Issue May 15, 2008

FORTIS INC.

FORTIS

$200,000,000

8,000,000 CUMULATIVE REDEEMABLE FIVE-YEAR FIXED RATE RESET FIRST PREFERENCE SHARES, SERIES G

This short form prospectus (the "Prospectus") qualifies for distribution (the "Offering") 8,000,000 Cumulative Redeemable Five-Year Fixed Rate Reset First Preference Shares, Series G (the "Series G First Preference Shares") of Fortis Inc. ("Fortis" or the "Corporation") which are being offered and sold pursuant to the provisions of an underwriting agreement (the "Underwriting Agreement") dated May 8, 2008 between Fortis and Scotia Capital Inc. ("Scotia Capital"), CIBC World Markets Inc. ("CIBCWM"), BMO Nesbitt Burns Inc. ("BMO Nesbitt Burns"), National Bank Financial Inc. ("NB Financial"), RBC Dominion Securities Inc. ("RBCDS"), TD Securities Inc. ("TD Securities"), Desjardins Securities Inc. and Beacon Securities Limited (collectively, the "Underwriters"). The Series G First Preference Shares will be issued and sold by Fortis to the Underwriters at the price of $25.00 (the "Offering Price") per Series G First Preference Share. The Offering Price was determined by negotiation between the Corporation and the Underwriters.

The holders of Series G First Preference Shares will be entitled to fixed cumulative preferential cash dividends, if, as and when declared by the board of directors of the Corporation (the "Board of Directors") for the initial period commencing on the date of original issue and ending on and including August 31, 2013 (the "Initial Fixed Rate Period") at a rate of $1.3125 per share per annum payable in equal quarterly instalments of $0.3281 per share on the first day of March, June, September and December of each year. Assuming an issue date of May 23, 2008, the first dividend will be payable on September 1, 2008 in the amount of $0.3622 per Series G First Preference Share.

For each five-year period after the Initial Fixed Rate Period (each, a "Subsequent Fixed Rate Period"), the holders of Series G First Preference Shares will be entitled to receive fixed cumulative preferential cash dividends, if, as and when declared by the Board of Directors, payable quarterly on the first day of March, June, September and December in each year, in the amount per share per annum determined by multiplying the Annual Fixed Dividend Rate (as defined herein) applicable to such Subsequent Fixed Rate Period by $25.00. The Annual Fixed Dividend Rate for an ensuing Subsequent Fixed Rate Period will be determined by the Corporation on the 30th day prior to the first day of such Subsequent Fixed Rate Period (the "Fixed Rate Calculation Date") and will be equal to the sum of the Government of Canada Bond Yield (as defined herein) on the Fixed Rate Calculation Date plus 2.13%. See "Details of the Offering — Specific Provisions of Series G First Preference Shares".

On September 1, 2013, and on September 1 every five years thereafter, the Corporation may, at its option, upon not less than 30 days and not more than 60 days prior written notice, redeem for cash all or any part of the outstanding Series G First Preference Shares by the payment of $25.00 per share plus all accrued and unpaid dividends. See "Details of the Offering — Specific Provisions of Series G First Preference Shares".

The Series G First Preference Shares do not have a fixed maturity date and are not redeemable at the option of the holders. See "Risk Factors".

The Toronto Stock Exchange (the "TSX") has conditionally approved the listing of the Series G First Preference Shares distributed under this Prospectus on the TSX. Listing will be subject to the Corporation fulfilling all of the listing requirements of the TSX on or before August 4, 2008.

Investing in the Series G First Preference Shares involves certain risks that should be considered by a prospective purchaser. See "Risk Factors".

Price: $25.00 per share to yield initially 5.25% per annum

	Price to the Public	Underwriters' Fee(1)	Net Proceeds to Fortis(2)(3)
Per share	$25.00	$0.75	$24.25
Total	$200,000,000	$6,000,000	$194,000,000

(1) The Underwriters' fee is $0.25 for each share sold to certain institutions and $0.75 per share for all other Series G First Preference Shares purchased by the Underwriters. The Underwriters' fee indicated in the table assumes that no Series G First Preference Shares are sold to such institutions.

(2) Before deducting expenses of the Offering estimated at $650,000 which, together with the Underwriters' fees, will be paid out of the general funds of Fortis. See "Plan of Distribution".

(3) The Corporation has granted to the Underwriters an option (the "Over-Allotment Option"), exercisable in whole or in part at any time until 30 days following the date of closing of the Offering, to purchase at the Offering Price up to 1,200,000 additional Series G First Preference Shares (the "Additional Shares") to cover over-allotments, if any, and for market stabilization purposes. If the Over-Allotment Option is exercised in full, the total "Price to the Public", "Underwriters' Fee" and "Net Proceeds to Fortis" (assuming that no Series G First Preference Shares are sold to the institutions referred to in Note (1) above) will be $230,000,000, $6,900,000 and $223,100,000, respectively. See "Plan of Distribution". This Prospectus also qualifies the grant of the Over-Allotment Option and the distribution of the Additional Shares issuable on the exercise of the Over-Allotment Option. References to Offered Shares includes any Additional Shares unless otherwise noted or unless the context precludes such inclusion.

A purchaser who acquires Series G First Preference Shares forming part of the Underwriters' Over-Allotment Option acquires those securities under this Prospectus, regardless of whether the Over-Allotment Option is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases.

Underwriters' Position	Number of Shares Available	Exercise Period	Exercise Price
Over-Allotment Option	1,200,000	Within 30 days following the closing of the Offering	$25.00 per share

There is currently no market through which the Series G First Preference Shares may be sold and purchasers may not be able to resell securities purchased under this Prospectus. This may affect the pricing of the securities in the secondary market, the transparency and availability of trading prices, the liquidity of the securities, and the extent of issuer regulation. See "Risk Factors".

The Corporation's First Preference Shares, Series C, First Preference Shares, Series E and First Preference Shares, Series F are listed on the TSX under the symbols "FTS.PR.C", "FTS.PR.E" and "FTS.PR.F", respectively. On May 14, 2008, the closing price of the First Preference Shares, Series C, First Preference Shares, Series E and First Preference Shares, Series F was $26.15, $25.38 and $21.70, respectively.

Each of Scotia Capital, CIBCWM, BMO Nesbitt Burns, NB Financial, RBCDS and TD Securities is a subsidiary of a Canadian chartered bank that has, either solely or as a member of a syndicate of financial institutions, extended credit facilities to the Corporation and/or its subsidiaries. A portion of the net proceeds from the Offering will be used to repay indebtedness under credit facilities owing by the Corporation to certain of such banks. Consequently, the Corporation may be considered a "connected issuer" of these Underwriters within the meaning of applicable securities legislation. See "Use of Proceeds" and "Plan of Distribution".

The Underwriters, as principals, conditionally offer the Series G First Preference Shares, subject to prior sale, if, as and when issued by Fortis and accepted by the Underwriters in accordance with the conditions contained in the Underwriting Agreement and subject to the approval of certain legal matters on behalf of the Corporation by Davies Ward Phillips & Vineberg LLP, Toronto and McInnes Cooper, St. John's and on behalf of the Underwriters by Stikeman Elliott LLP, Toronto. Subject to applicable laws, the Underwriters may, in connection with the Offering, over-allot or effect transactions which stabilize or maintain the market price of the Series G First Preference Shares at levels other than those which may prevail on the open market. Such transactions, if commenced, may be discontinued at any time. See "Plan of Distribution".

Subscriptions for the Series G First Preference Shares will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that the closing of the Offering will take place on or about May 23, 2008 (the "Closing Date"), or such other date as may be agreed upon by the Corporation and the Underwriters, but not later than June 26, 2008. A book entry only certificate representing the Series G First Preference Shares distributed hereunder will be issued in registered form only to CDS Clearing and Depository Services Inc. ("CDS") or its nominee and will be deposited with CDS on the Closing Date. The Corporation understands that a purchaser of Series G First Preference Shares will receive only a customer confirmation from a registered dealer who is a CDS participant from or through whom the Series G First Preference Shares are purchased. See "Book Entry Only System".

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus (the "Prospectus"), including the documents incorporated herein by reference, contain forward-looking information which reflect management's expectations regarding the future growth, results of operations, performance, business prospects and opportunities of Fortis Inc. ("Fortis" or the "Corporation"), and may not be appropriate for other purposes. All forward-looking information is given pursuant to the "safe harbour" provisions of applicable Canadian securities legislation. The words "anticipates", "believes", "budgets", "could", "estimates", "expects", "forecasts", "intends", "may", "might", "plans", "projects", "schedule", "should", "will", "would" and similar expressions are often intended to identify forward-looking information, although not all forward-looking information contains these identifying words. The forward-looking information reflects management's current beliefs and is based on information currently available to the Corporation's management. The forward-looking information in this Prospectus, including the documents incorporated herein by reference, includes but is not limited to, statements regarding: the Corporation's expectation to generate sufficient cash required to complete planned capital programs from a combination of long-term debt and short-term borrowings, internally generated funds and the issuance of common shares and preference shares; the Corporation's belief that it does not anticipate any difficulties in accessing the required capital on reasonable market terms; the Corporation's consolidated forecasted gross capital expenditures for 2008 and in total over the next five years, as well as significant capital projects in 2008 and their expected cost and time to complete; the Corporation's belief that its capital program should drive growth in earnings and dividends; and the Corporation's expectation of the impact of foreign exchange on 2008 basic earnings per common share. The forecasts and projections that make up the forward-looking information are based on assumptions which include, but are not limited to: the receipt of applicable regulatory approvals and requested rate orders; the absence of significant operational disruptions or environmental liability due to a catastrophic event or environmental upset caused by severe weather, other acts of nature or other major events; the Corporation's ability to maintain its gas and electricity systems to ensure their continued performance; the competitiveness of natural gas pricing when compared with electricity and other alternative sources of energy; the availability of natural gas supply; favourable economic conditions; the level of interest rates; the ability to hedge certain risks; access to capital; maintenance of adequate insurance coverage; the ability to obtain licences and permits; the level of energy prices; retention of existing service areas; favourable labour relations; and sufficient human resources to deliver service and execute the capital program. The forward-looking information is subject to risks, uncertainties and other factors that could cause actual results to differ materially from historical results or results anticipated by the forward-looking information. The factors which could cause results or events to differ from current expectations include, but are not limited to: regulation; integration of Terasen Inc. (for more information refer to the business acquisition report incorporated by reference in this Prospectus) and management of expanded operations; operating and maintenance risks; natural gas prices and supply; economic conditions; weather and seasonality; interest rates; changes in tax legislation; derivative instruments and hedging; risks relating to Terasen Gas (Vancouver Island) Inc.; capital resources; environment; insurance; licences and permits; energy prices and the cessation of the Niagara Exchange Agreement (as defined herein), see "Fortis — Non-Regulated — Fortis Generation — Ontario"; loss of service area; First Nations lands; counterparty risk; labour relations; human resources; and liquidity risk. For additional information with respect to the Corporation's risk factors, reference should be made to the section of this Prospectus entitled "Risk Factors" and to the documents incorporated herein by reference.

All forward-looking information in this Prospectus and in the documents incorporated herein by reference is qualified in its entirety by the above cautionary statements and, except as required by law, the Corporation undertakes no obligation to revise or update any forward-looking information as a result of new information, future events or otherwise.

DOCUMENTS INCORPORATED BY REFERENCE

The disclosure documents of the Corporation listed below and filed with the appropriate securities commissions or similar regulatory authorities in each of the provinces of Canada are specifically incorporated by reference into and form an integral part of this Prospectus:

(a) Annual Information Form dated March 28, 2008 for the year ended December 31, 2007;

(b) audited comparative consolidated financial statements as at December 31, 2007 and December 31, 2006 and for the years ended December 31, 2007 and 2006, together with the notes thereto and the auditors' report thereon dated February 1, 2008, as contained in the Corporation's 2007 Annual Report;

(c) Management Discussion and Analysis of financial condition and results of operations for the year ended December 31, 2007 as contained in the Corporation's 2007 Annual Report;

(d) unaudited comparative interim consolidated financial statements as at March 31, 2008 and for the three months ended March 31, 2008 and 2007, together with the notes thereto;

(e) Management Discussion and Analysis of financial condition and results of operations for the three months ended March 31, 2008;

(f) Management Information Circular dated April 4, 2008 prepared in connection with the Corporation's annual meeting of shareholders held on May 6, 2008; and

(g) business acquisition report dated June 13, 2007 with respect to the acquisition by the Corporation of all of the issued and outstanding shares of Terasen Inc. on May 17, 2007.

Any document of the type referred to in the preceding paragraph and any material change report (other than any confidential material change report) subsequently filed by the Corporation with such securities commissions or regulatory authorities after the date of the Prospectus, and prior to the termination of the Offering, shall be deemed to be incorporated by reference into the Prospectus.

Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Prospectus to the extent that a statement contained herein, or in any other subsequently filed document which also is incorporated or is deemed to be incorporated by reference herein, modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement will not be deemed an admission for any purpose that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus.

Copies of the documents incorporated herein by reference may be obtained on request without charge from the Secretary of the Corporation at Suite 1201, 139 Water Street, St. John's, Newfoundland and Labrador A1B 3T2 (telephone (709) 737-2800). These documents are also available through the Internet on the Corporation's website at www.fortisinc.com or on the Canadian System for Electronic Document Analysis and Retrieval ("SEDAR") which can be accessed at www.sedar.com. The information contained on, or accessible through, any of these websites is not incorporated by reference into the Prospectus and is not, and should not be considered to be, a part of the Prospectus, unless it is explicitly so incorporated.

ELIGIBILITY FOR INVESTMENT

In the opinion of Davies Ward Phillips & Vineberg LLP, counsel to the Corporation, and Stikeman Elliott LLP, counsel to the Underwriters, the Series G First Preference Shares, if issued on the date hereof, would be qualified investments under the *Income Tax Act* (Canada) for a trust governed by a registered retirement savings plan, registered retirement income fund, deferred profit sharing plan, registered education savings plan or registered disability savings plan.

All dollar amounts in the Prospectus are expressed in Canadian dollars unless otherwise indicated.

SUMMARY

The following information is a summary only and is to be read in conjunction with, and is qualified in its entirety by, the more detailed information appearing elsewhere in the Prospectus and in the documents incorporated by reference herein. Unless otherwise noted or the context otherwise indicates, "Corporation" refers to Fortis Inc.

The Offering

Issue: 8,000,000 Cumulative Redeemable Five-Year Fixed Rate Reset First Preference Shares, Series G (the "Series G First Preference Shares").

Amount: $200,000,000 ($230,000,000 if the Over-Allotment Option (as defined below) is exercised in full).

Price: $25.00 per Series G First Preference Share (the "Offering Price").

Over-Allotment Option: The Corporation has granted to Scotia Capital Inc. ("Scotia Capital"), CIBC World Markets Inc. ("CIBCWM"), BMO Nesbitt Burns Inc. ("BMO Nesbitt Burns"), National Bank Financial Inc. ("NB Financial"), RBC Dominion Securities Inc. ("RBCDS"), TD Securities Inc. ("TD Securities"), Desjardins Securities Inc. ("Desjardins") and Beacon Securities Limited ("Beacon Securities") (collectively, the "Underwriters") an option (the "Over-Allotment Option"), exercisable in whole or in part at any time until 30 days following the date of closing of this offering (the "Offering"), to purchase at the Offering Price up to 1,200,000 additional Series G First Preference Shares to cover over-allotments, if any, and for market stabilization purposes. See "Plan of Distribution".

Use of Proceeds: The net proceeds of the Offering will be approximately $193 million, assuming no exercise of the Over-Allotment Option, determined after deducting the underwriting fee and the expenses of the Offering, which are estimated to be $650,000. A portion of the net proceeds of the Offering will be used to repay the total amount outstanding of approximately $170 million under the Corporation's committed credit facility, which indebtedness was incurred to fund a portion of the purchase price for the acquisition (the "Terasen Acquisition") of all of the issued and outstanding shares of Terasen Inc. ("Terasen") on May 17, 2007 and the purchase price for the acquisition (the "Delta Regina Acquisition") of the Delta Regina hotel on August 1, 2007. The balance of the net proceeds will be used for general corporate purposes. See "Use of Proceeds".

Dividends: The holders of Series G First Preference Shares will be entitled to receive fixed cumulative preferential cash dividends, if, as and when declared by the board of directors of the Corporation (the "Board of Directors") for the initial period commencing on the date of original issue of the Series G First Preference Shares (the "Closing Date") and ending on and including August 31, 2013 (the "Initial Fixed Rate Period"), in an amount equal to $1.3125 per share per annum, payable in equal quarterly instalments of $0.3281 per share on the first day of March, June, September and December of each year. Assuming an issue date of May 23, 2008, the first dividend will be payable on September 1, 2008 in the amount of $0.3622 per share.

For each five-year period after the Initial Fixed Rate Period (each, a "Subsequent Fixed Rate Period"), the holders of Series G First Preference Shares will be entitled to receive fixed cumulative preferential cash dividends, if, as and when declared by the Board of Directors, payable quarterly on the first day of March, June, September and December in each year, in the amount per share per annum determined by multiplying the Annual Fixed Dividend Rate (as defined below) applicable to such

	Subsequent Fixed Rate Period by $25.00. The “Annual Fixed Dividend Rate” for an ensuing Subsequent Fixed Rate Period will be determined by the Corporation on the 30th day prior to the first day of such Subsequent Fixed Rate Period (each, a “Fixed Rate Calculation Date”) and will be equal to the sum of the Government of Canada Bond Yield (as defined herein) on the applicable Fixed Rate Calculation Date plus 2.13%.
Redemption:	The Series G First Preference Shares are not redeemable before September 1, 2013. On September 1, 2013, and on September 1 every five years thereafter, the Corporation may, at its option, upon not less than 30 days and not more than 60 days prior written notice, redeem for cash all or any part of the outstanding Series G First Preference Shares by the payment of $25.00 per share plus all accrued and unpaid dividends. The Series G First Preference Shares are not redeemable at the option of the holders.
Ratings:	DBRS Limited: Pfd-3 (high), Standard & Poor’s: P-2.
Purchase for Cancellation:	Subject to applicable law and any necessary regulatory approvals, the Corporation will be entitled to purchase Series G First Preference Shares for cancellation in the open market or by private agreement or otherwise at the lowest price or prices at which, in the opinion of the Board of Directors, such shares are obtainable.
Priority:	The Series G First Preference Shares rank on a parity with any other series of First Preference Shares of the Corporation and senior to all other shares of the Corporation with respect to priority to the payment of dividends, return of capital and the distribution of assets on the dissolution, liquidation or winding-up of the Corporation.
Voting Rights:	The Series G First Preference Shares are non-voting unless the Corporation fails to pay eight quarterly dividends on the Series G First Preference Shares, whether or not consecutive and whether or not such dividends have been declared and whether or not there are any monies of the Corporation properly applicable to the payment of dividends. In that event and for only so long as any such dividends remain in arrears, the holders of the Series G First Preference Shares will be entitled to receive notice of and to attend all shareholders’ meetings, other than meetings at which only holders of another specified class or series are entitled to vote, and will be entitled to one vote for each Series G First Preference Share held.
Tax on Preference Share Dividends:	The Corporation will elect, in the manner and within the time provided under subsection 191.2(1) of the *Income Tax Act* (Canada) (the “Tax Act”), to pay or cause payment of the tax under Part VI.1 of the Tax Act at a rate such that the corporate holders of Series G First Preference Shares will not be required to pay tax under Part IV.1 of the Tax Act on dividends received on such shares. See “Details of the Offering” and “Canadian Federal Income Tax Considerations”.
Listing:	The Toronto Stock Exchange (the “TSX”) has conditionally approved the listing of the Series G First Preference Shares distributed under this Prospectus on the TSX. Listing will be subject to the Corporation fulfilling all of the listing requirements of the TSX on or before August 4, 2008.
Earnings Coverage:	Earnings coverage information is provided in this Prospectus under the heading “Earnings Coverage Ratio”.

FORTIS

Fortis Inc. was incorporated as 81800 Canada Ltd. under the *Canada Business Corporations Act* on June 28, 1977. The Corporation was continued under the *Corporations Act* (Newfoundland) on August 28, 1987 and on October 13, 1987 the Corporation amended its articles to change its name to "Fortis Inc.". The address of the head office and principal place of business of the Corporation is The Fortis Building, Suite 1201, 139 Water Street, St. John's, Newfoundland and Labrador A1B 3T2.

Fortis is the largest investor-owned distribution utility in Canada, serving almost 2,000,000 gas and electricity customers. Its regulated holdings include a natural gas distribution utility in British Columbia and electric distribution utilities in five Canadian provinces and three Caribbean countries. Regulated utility assets comprise approximately 92% of the Corporation's total assets, with the balance comprised of non-regulated hydroelectric generation assets and commercial real estate and hotels. Fortis is the direct owner of all of the common shares of Terasen Inc. ("Terasen"), a company that, through its subsidiaries, is the principal distributor of natural gas in British Columbia. Fortis is the indirect owner of all of the common shares of FortisAlberta Inc. ("FortisAlberta"), a regulated electric utility that distributes electricity generated by other market participants in Alberta, and FortisBC Inc. ("FortisBC"), a regulated electric utility that generates, transmits and distributes electricity in British Columbia. Fortis also holds all of the common shares of Newfoundland Power Inc. ("Newfoundland Power") and, through its non-regulated wholly owned subsidiary Fortis Properties Corporation ("Fortis Properties"), holds all of the common shares of Maritime Electric Company, Limited ("Maritime Electric"), which are the principal distributors of electricity in Newfoundland and Prince Edward Island, respectively. As well, through its wholly owned subsidiary FortisOntario Inc. ("FortisOntario") and its subsidiaries, Canadian Niagara Power Inc. ("CNPI") and Cornwall Street Railway, Light and Power Company, Limited ("Cornwall-Electric"), Fortis provides an integrated electric utility service to customers primarily in Fort Erie, Cornwall, Gananoque and Port Colborne in Ontario.

The Corporation's regulated electric utility assets in the Caribbean consist of its ownership, through wholly owned subsidiaries, of a 70.1% interest in Belize Electricity Limited ("Belize Electricity"), the principal distributor of electricity in Belize, Central America, and an approximate 54% interest in Caribbean Utilities Company, Ltd. ("Caribbean Utilities"), the sole provider of electricity on Grand Cayman, Cayman Islands. Fortis also owns, through a wholly owned subsidiary, P.P.C. Limited ("PPC") and Atlantic Equipment & Power (Turks and Caicos) Ltd. ("Atlantic" and together with PPC, "Fortis Turks and Caicos"), the principal distributor of electricity on the Turks and Caicos Islands.

The Corporation's non-regulated electricity generation operations consist of its 100% interest in each of Belize Electric Company Limited ("BECOL"), FortisOntario and FortisUS Energy Corporation ("FortisUS Energy"), and non-regulated generation assets owned by Fortis Properties and FortisBC.

BECOL owns and operates the 25-megawatt ("MW") Mollejon and 7-MW Chalillo hydroelectric generating facilities, both of which are located on the Macal River in Belize. Construction of the US$53 million 18-MW Vaca hydroelectric generating facility, also located on the Macal River, commenced in May 2007 and is expected to come into service late in 2009. FortisOntario includes 75 MW of water-right entitlement associated with a water and power exchange agreement (the "Niagara Exchange Agreement") with Ontario Power Generation Inc., which expires April 30, 2009, and the operation of a 5-MW gas-fired cogeneration plant in Cornwall. The non-regulated electricity generation operations of FortisBC consist of the 16-MW run-of-river Walden hydroelectric power plant near Lillooet, British Columbia. Through FortisUS Energy, a wholly owned subsidiary of Fortis Properties, the Corporation owns and operates four hydroelectric generating stations in upper New York State with a total combined capacity of approximately 23 MW.

Fortis Properties is the direct owner of a 51% interest in the Exploits River Hydro Partnership (the "Exploits Partnership"). The Exploits Partnership was established with Abitibi-Consolidated Company of Canada ("Abitibi-Consolidated"), which holds the remaining 49% interest, to develop additional capacity at Abitibi-Consolidated's hydroelectric generating plant at Grand Falls-Windsor and redevelop Abitibi-Consolidated's hydroelectric generating plant at Bishop's Falls, both in central Newfoundland. Fortis Properties' assets also include six small hydroelectric generating stations in eastern Ontario with a combined capacity of 8 MW.

Through Fortis Properties, the Corporation has investments in hotels in eight Canadian provinces and commercial real estate primarily in Atlantic Canada.

Regulated Gas Utilities — Canadian

Terasen

The natural gas distribution business of Terasen is one of the largest in Canada. With more than 921,000 customers, Terasen's subsidiaries provide service to over 96% of gas users in British Columbia. Terasen Gas Inc. ("TGI") is the largest of these subsidiaries, serving approximately 827,000 customers in a service area extending from Vancouver to the Fraser Valley and the interior of British Columbia. Terasen Gas (Vancouver Island) Inc. ("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, serving approximately 92,000 customers. In addition to providing transmission and distribution services to customers, TGI and TGVI also obtain natural gas supplies on behalf of most residential and commercial customers. Gas supplies are sourced primarily from northeastern British Columbia and Alberta. Terasen Gas (Whistler) Inc. owns and operates the propane distribution system in Whistler, British Columbia, providing service to approximately 2,400 residential and commercial customers. The Terasen companies own and operate more than 45,000 kilometers of natural gas distribution and transmission pipelines and met a peak day demand of 1,360 terajoules in 2007.

Regulated Electric Utilities — Canadian

FortisAlberta

FortisAlberta distributes electricity to approximately 451,300 customers in Alberta using approximately 106,000 kilometers of distribution lines and met a peak demand of 3,182 MW in 2007. FortisAlberta's business is the ownership and operation of regulated electricity distribution facilities that distribute electricity generated by other market participants from high-voltage transmission substations to end-use customers in central and southern Alberta. FortisAlberta is not involved in the generation, transmission or direct sale of electricity.

FortisBC

FortisBC is an integrated, regulated electric utility that owns a network of generation, transmission and distribution assets located in the southern interior of British Columbia. FortisBC serves a diverse mix of approximately 154,000 customers, with residential customers representing the largest customer segment, and met a peak demand of 683 MW in 2007. FortisBC owns four regulated hydroelectric generating plants with an aggregate capacity of 223 MW that provide approximately 45% of FortisBC's energy and 30% of its capacity needs. FortisBC's remaining electricity supply is acquired through long-term power purchase contracts and short-term market purchases. FortisBC's business also includes non-regulated operating, maintenance and management services relating to the 450-MW Waneta hydroelectric generation facility owned by Teck Cominco Metals Ltd., the 149-MW Brilliant Hydroelectric Plant and the 185-MW Arrow Lakes Hydroelectric Plant, each owned by Columbia Power Corporation and Columbia Basin Trust, and the distribution system owned by the City of Kelowna.

Newfoundland Power

Newfoundland Power is an electric utility that operates an integrated generation, transmission and distribution system throughout the island portion of the Province of Newfoundland and Labrador. Newfoundland Power serves more than 233,000 customers, or 85% of electricity consumers in the Province, and met a peak demand of 1,142 MW in 2007. Approximately 90% of the electricity that Newfoundland Power sells to its customers is purchased from Newfoundland and Labrador Hydro Corporation ("Newfoundland Hydro"). Currently, Newfoundland Power has an installed generating capacity of 139 MW, of which 96 MW is hydroelectric generation.

Maritime Electric

Maritime Electric is an electric utility that operates an integrated generation, transmission and distribution system on Prince Edward Island. Maritime Electric directly supplies approximately 72,000 customers, or 90% of electricity consumers on the Island, and met a peak demand of 218 MW in 2007. Maritime Electric purchases most of the energy it distributes to its customers from New Brunswick Power Corporation and maintains on-Island generating facilities with an aggregate capacity of 150 MW.

FortisOntario

FortisOntario's distribution operations serve approximately 52,000 customers in the Fort Erie, Cornwall, Gananoque and Port Colborne areas of Ontario and met a combined peak demand of 234 MW in 2007. Through CNPI, FortisOntario owns international transmission facilities at Fort Erie and owns a 10% interest in each of Westario Power Inc. and Rideau St. Lawrence Holdings Inc., two regional electric distribution companies that, together, serve more than 27,000 customers.

Regulated Electric Utilities — Caribbean

Belize Electricity

Fortis holds an indirect 70.1% interest in Belize Electricity. Belize Electricity is the principal distributor of electricity in Belize, Central America. Belize Electricity directly supplies approximately 73,000 customers in Belize and met a peak demand of 70 MW in 2007.

Caribbean Utilities

Fortis holds an indirect approximate 54% interest in Caribbean Utilities. Caribbean Utilities has the exclusive right to distribute and transmit electricity on the island of Grand Cayman, Cayman Islands, pursuant to a 20-year licence entered into on April 3, 2008. Caribbean Utilities also entered into a non-exclusive 21.5-year power generation licence with the Government of the Cayman Islands on April 3, 2008.

Caribbean Utilities currently serves more than 23,000 customers, has approximately 137 MW of installed generating capacity and met a record peak demand of 93 MW in 2007. The Class A Ordinary Shares of Caribbean Utilities are listed for trading on the TSX under the symbol CUP.U.

Fortis Turks and Caicos

Fortis Turks and Caicos serves more than 8,700 customers, or 85% of electricity consumers, on the Turks and Caicos Islands. Fortis Turks and Caicos is the principal distributor of electricity on Turks and Caicos pursuant to two 50-year licences that expire in 2036 and 2037, respectively. Fortis Turks and Caicos has an installed generating capacity of approximately 48 MW and met a peak demand of 28 MW in 2007.

Non-Regulated — Fortis Generation

Belize

Non-regulated generation operations in Belize are conducted through BECOL under a franchise agreement with the Government of Belize. BECOL owns and operates the 25-MW Mollejon hydroelectric generating facility and the 7-MW Chalillo hydroelectric generating facility. Both facilities are located on the Macal River in Belize. These generating plants have the capability of delivering average annual energy production of approximately 160 gigawatt hours (“GWh”). BECOL sells its entire output to Belize Electricity under a 50-year power purchase agreement expiring in 2055. In May 2007, BECOL began construction on the US$53 million 18-MW hydroelectric generating facility at Vaca on the Macal River in Belize.

Ontario

Non-regulated generation operations in Ontario are conducted through FortisOntario and Fortis Properties and include 75 MW of water-right entitlement associated with the Niagara Exchange Agreement, which expires on April 30, 2009, the operation of a 5-MW gas-fired cogeneration plant in Cornwall and six small hydroelectric generating stations with a combined capacity of approximately 8 MW.

Central Newfoundland

Non-regulated generation operations in central Newfoundland are conducted through the Corporation’s indirect 51% interest in the Exploits Partnership. These operations generate approximately 590 GWh annually, of which 450 GWh is utilized by Abitibi-Consolidated, while the remainder is sold to Newfoundland Hydro under a 30-year take-or-pay power purchase agreement expiring in 2033, which is exempt from regulation.

British Columbia

Non-regulated generation operations in British Columbia are conducted through FortisBC and consist of the 16-MW run-of-river Walden hydroelectric power plant near Lillooet. This plant sells its entire output to British Columbia Hydro & Power Authority under a power purchase agreement expiring in 2013.

Upper New York State

Non-regulated generation operations in upper New York State are conducted through FortisUS Energy and include the operations of four hydroelectric generating stations with a combined generating capacity of approximately 23 MW operating under licences from the United States Federal Energy Regulatory Commission. Since January 1, 2007, all four plants have been selling energy at current market rates.

Non-Regulated — Fortis Properties

In addition to its non-regulated generation operations, Fortis Properties owns and operates 19 hotels with more than 3,500 rooms in eight Canadian provinces and approximately 2.8 million square feet of commercial real estate primarily in Atlantic Canada.

RECENT DEVELOPMENTS

First Quarter Earnings

Net earnings applicable to the common shares of Fortis (the "Common Shares") were $91 million, or $0.58 per Common Share for the first quarter of 2008, representing an increase of $49 million from earnings of $42 million, or $0.38 per Common Share, for the first quarter of 2007.

Growth in earnings was primarily attributable to the contribution from the Terasen regulated gas utilities and also reflected improved performance at Caribbean Utilities. The growth was partially offset by higher corporate costs associated with the Terasen Acquisition and lower earnings at Newfoundland Power associated with a shift in the quarterly distribution of annual purchased power expense. Newfoundland Power's annual earnings are not expected to be impacted by the shift in quarterly earnings distribution; however, earnings are expected to be lower in the first and fourth quarters of 2008 and higher in the second and third quarters of 2008 compared to the same periods in 2007.

Corporate Matters

On May 6, 2008, the Corporation held its annual meeting of shareholders. Bruce Chafe, the former Chair of the Board of Directors, did not stand for re-election as a director in accordance with the Corporation's director tenure policy. Following the annual meeting, the Corporation appointed independent director Geoffrey F. Hyland as the new Chair of the Board of Directors.

Regulatory Matters

On May 2, 2008, the Public Utilities Commission of Belize ("PUC") issued its initial decision (the "Initial Decision") on the annual tariff review proceeding for Belize Electricity. The PUC has denied Belize Electricity's requested increase of 13.4%. Belize Electricity has filed an objection to the Initial Decision because it fails to provide a rate structure that enables Belize Electricity to adequately fund operating activities and capital programs necessary to meet the needs of its customers. Belize Electricity's objection will cause the PUC to appoint an independent expert to review the Initial Decision. The final decision of the PUC is expected to incorporate the advice of the independent expert. Following the Initial Decision, Belize Electricity determined that it would suspend all dividend payments until such time as this matter is satisfactorily resolved.

Issue of Debt

On April 24, 2008, TGI filed a short form base shelf prospectus qualifying the offering of an aggregate principal amount of up to $600 million in medium term note debentures during the 25-month period from the date of the prospectus. On May 13, 2008, TGI issued debentures under this shelf prospectus in an aggregate principal amount of $250 million. The debentures have an interest rate of 5.80% per annum and will mature in 2038. The net proceeds will be used by TGI to repay maturing long-term debt and existing short-term indebtedness, and for general corporate purposes.

Third Quarter Dividend

On May 5, 2008, the Corporation announced that the Board of Directors had declared third quarter dividends of $0.25 per Common Share, $0.340625 per First Preference Share, Series C, $0.3063 per First Preference Share, Series E and $0.3063 per First Preference Share, Series F, each payable on September 1, 2008 to holders of record on August 8, 2008. The Corporation has increased its annual dividend payments on the Common Shares in each of the past 35 years.

CAPITALIZATION

The following table sets out the consolidated capitalization of the Corporation as at March 31, 2008 and after giving effect to the Offering (assuming no exercise of the Over-Allotment Option). The financial information set out below should be read in conjunction with the Corporation's annual audited consolidated financial statements and unaudited interim consolidated financial statements incorporated by reference into the Prospectus and the notes thereto.

	Outstanding at March 31, 2008	*Pro forma* Outstanding at March 31, 2008
	(unaudited)	(unaudited)
	(in millions of dollars)	
Total debt (net of cash)	5,480	5,287(1)
Preference shares(2)	320	320
Shareholders' equity		
Securities offered hereby	Nil	195(1)(3)
Common shares	2,142	2,142
Preference shares	122	122
Contributed surplus	6	6
Equity portion of convertible debentures	5	5
Accumulated other comprehensive loss	(84)	(84)
Retained earnings	603	603
Total capitalization	8,594	8,596

(1) After giving effect to the Offering (assuming no exercise of the Over-Allotment Option).

(2) These preference shares are classified as long-term liabilities in the financial statements of Fortis.

(3) Securities offered hereby are net of after tax underwriting fees and Offering expenses.

SHARE CAPITAL OF FORTIS

The authorized share capital of the Corporation consists of an unlimited number of Common Shares, an unlimited number of First Preference Shares issuable in series and an unlimited number of Second Preference Shares issuable in series, in each case without nominal or par value. As at May 14, 2008, 156,920,008 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 were issued and outstanding. The Corporation's Common Shares, First Preference Shares, Series C, First Preference Shares, Series E and First Preference Shares, Series F are listed on the TSX under the symbols "FTS", "FTS.PR.C", "FTS.PR.E" and "FTS.PR.F", respectively.

CHANGES IN SHARE AND LOAN CAPITAL STRUCTURE

During the period from April 1, 2008 up to and including May 14, 2008, Fortis issued an aggregate of 166,109 Common Shares upon the exercise of options granted pursuant to the Corporation's 2002 Stock Option Plan and the conversion of subordinated convertible debentures, for aggregate consideration of approximately $2.2 million.

TRADING PRICES AND VOLUMES

The following tables set forth, for the periods indicated, the reported high and low daily trading prices and the aggregate volume of trading of the Corporation's Common Shares, First Preference Shares, Series C, First Preference Shares, Series E and First Preference Shares, Series F on the TSX for the periods indicated. The Corporation issued 44,275,000 Subscription Receipts on March 15, 2007 pursuant to a final short form prospectus filed on March 7, 2007. The Subscription Receipts were converted into Common Shares on May 17, 2007. During May 2007 the reported high and low daily trading prices of the Subscription Receipts were $28.50 and $27.58, respectively, with an aggregate trading volume of 2,428,138.

	Trading of Common Shares			Trading of First Preference Shares, Series C		
	TSX			TSX		
	High	Low	Volume	High	Low	Volume
	($)	($)	(#)	($)	($)	(#)
2007						
May	29.20	27.60	12,386,718	26.90	26.60	50,746
June	28.30	25.98	9,673,844	26.90	26.00	31,318
July	27.25	26.00	7,740,082	26.99	26.00	18,620
August	26.75	24.50	8,001,795	27.00	26.00	37,063
September	27.27	25.84	5,790,099	27.44	26.30	19,772
October	28.24	26.52	5,763,406	26.94	26.34	90,960
November	27.99	26.36	6,475,494	26.99	26.00	102,218
December	29.08	26.71	5,669,675	27.39	26.06	112,267
2008						
January	29.50	26.52	11,699,266	27.39	26.27	23,148
February	29.89	27.77	9,436,783	27.39	26.31	20,357
March	29.24	26.36	7,245,917	26.50	25.60	28,658
April	29.94	26.85	10,311,561	27.75	25.76	18,972
May 1 to May 14	28.34	26.80	6,666,605	26.61	25.37	64,327

	Trading of First Preference Shares, Series E			Trading of First Preference Shares, Series F		
	TSX			TSX		
	High	Low	Volume	High	Low	Volume
	($)	($)	(#)	($)	($)	(#)
2007						
May	27.15	25.75	50,773	25.70	24.65	200,736
June	26.56	25.40	10,763	24.89	21.56	246,137
July	26.29	25.70	25,200	23.49	22.88	115,474
August	26.37	25.50	22,658	23.48	22.76	63,504
September	26.49	25.65	19,884	23.55	22.00	71,898
October	26.33	25.83	78,377	22.38	20.81	201,019
November	26.54	25.90	26,720	21.70	20.11	215,375
December	26.60	25.96	40,635	21.45	20.50	256,585
2008						
January	26.62	25.98	115,209	22.50	21.33	206,795
February	26.96	26.49	10,705	23.50	22.00	111,470
March	26.89	25.50	43,889	23.20	21.25	103,475
April	26.50	25.51	33,454	22.88	21.09	116,137
May 1 to May 14	25.90	25.16	19,400	22.40	21.66	30,228

EARNINGS COVERAGE RATIO

The Corporation's dividend requirements on all of its First Preference Shares after giving effect to the issue of 9,200,000 Series G First Preference Shares to be distributed under this Prospectus, assuming complete exercise of the Over-Allotment Option, and adjusted to a before-tax equivalent using an effective income tax rate of 14.4%, amounted to $41 million and $46 million for each of the 12 months ended December 31, 2007 and the 12 months ended March 31, 2008, respectively. The Corporation's interest requirements for the 12 months ended December 31, 2007 and 12 months ended March 31, 2008 amounted to $284 million and $322 million, respectively. The Corporation's earnings before interest and income tax for the 12 months ended December 31, 2007 and 12 months ended March 31, 2008 were

$534 million and $648 million, respectively, which is 1.6 times and 1.8 times, respectively, the Corporation's aggregate dividend and interest requirements for the periods.

RATINGS

The Series G First Preference Shares are rated Pfd-3 (high) by DBRS Limited ("DBRS"). The Series G First Preference Shares are rated P-2 by Standard & Poor's Rating Services, a division of The McGraw-Hill Companies (Canada) Corporation ("S&P").

The DBRS rating of Pfd-3 (high) is the highest of three sub-categories within the third highest rating of the six standard categories of ratings utilized by DBRS for preferred shares. A P-2 rating by S&P is the second of the three sub-categories within the second highest rating of the eight standard categories of ratings utilized by S&P for preferred shares.

Credit ratings are intended to provide investors with an independent measure of the credit quality of an issue of securities. The credit ratings accorded to the Series G First Preference Shares by these rating agencies are not recommendations to purchase, hold or sell the Series G First Preference Shares, as such ratings do not comment as to market price or suitability for a particular investor. There is no assurance that any rating will remain in effect for any given period of time or that any rating will not be revised or withdrawn entirely by a rating agency in the future if, in its judgment, circumstances so warrant.

DETAILS OF THE OFFERING

Specific Provisions of First Preference Shares

The following is a summary of the material rights, privileges, conditions and restrictions attached to the First Preference Shares as a class.

Issuance in Series

The Board of Directors may from time to time issue First Preference Shares in one or more series. Prior to issuing shares in a series, the Board of Directors is required to fix the number of shares in the series and determine the designation, rights, privileges, restrictions and conditions attaching to that series of First Preference Shares.

Priority

The shares of each series of First Preference Shares rank on a parity with the First Preference Shares of every other series and in priority to all other shares of the Corporation as to the payment of dividends, return of capital and the distribution of assets in the event of the liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, or any other distribution of the assets of the Corporation among its shareholders for the purpose of winding up its affairs. Each series of First Preference Shares participates rateably with every other series of First Preference Shares in respect of accumulated cumulative dividends and return of capital if any amount of cumulative dividends, whether or not declared, or amount payable on the return of capital in respect of a series of First Preference Shares, is not paid in full.

Voting

The holders of the First Preference Shares are not entitled to any voting rights as a class except to the extent that voting rights may from time to time be attached to any series of First Preference Shares, and except as provided by law or as described below under "Modification". At any meeting of the holders of the First Preference Shares, each holder shall have one vote in respect of each First Preference Share held.

Modification

The class provisions attached to the First Preference Shares may only be amended with the prior approval of the holders of the First Preference Shares in addition to any other approvals required by the *Corporations Act* (Newfoundland and Labrador) or any other statutory provisions of like or similar effect in force from time to time. The approval of the holders of the First Preference Shares with respect to any and all matters may be given by at least two-thirds of the votes cast at a meeting of the holders of the First Preference Shares duly called for that purpose.

Business Days

If any action or payment is required to be taken or made by the Corporation on a day that is not a business day, then such action will be taken or such payment will be made on the next succeeding day that is a business day.

Specific Provisions of Series G First Preference Shares

The following is a summary of the material rights, privileges, restrictions and conditions attached to the Series G First Preference Shares.

Definition of Terms

The following definitions are relevant to the Series G First Preference Shares.

"**Annual Fixed Dividend Rate**" means, for any Subsequent Fixed Rate Period, the rate of interest (expressed as a percentage rounded down to the nearest one hundred-thousandth of one percent (with 0.000005% being rounded up)) equal to the sum of the Government of Canada Bond Yield on the applicable Fixed Rate Calculation Date plus 2.13%.

"**Bloomberg Screen GCAN5YR Page**" means the display designated as page "GCAN5YR<INDEX>" on the Bloomberg Financial L.P. service (or such other page as may replace the GCAN5YR page on that service) for purposes of displaying the Government of Canada Bond Yield.

"**Fixed Rate Calculation Date**" means, for any Subsequent Fixed Rate Period, the 30^{th} day prior to the first day of such Subsequent Fixed Rate Period.

"**Government of Canada Bond Yield**" on any date means the yield to maturity on such date (assuming semi-annual compounding) of a Canadian dollar denominated non-callable Government of Canada bond with a term to maturity of five years as quoted as of 10:00 a.m. (Toronto time) on such date and which appears on the Bloomberg Screen GCAN5YR Page on such date; provided that, if such rate does not appear on the Bloomberg Screen GCAN5YR Page on such date, the Government of Canada Bond Yield will mean the average of the yields determined by two registered Canadian investment dealers selected by the Corporation, as being the yield to maturity on such date (assuming semi-annual compounding) which a Canadian dollar denominated non-callable Government of Canada bond would carry if issued in Canadian dollars at 100% of its principal amount on such date with a term to maturity of five years.

"**Initial Fixed Rate Period**" means the period commencing on the Closing Date and ending on and including August 31, 2013.

"**Subsequent Fixed Rate Period**" means, for the initial Subsequent Fixed Rate Period, the period commencing on September 1, 2013, and ending on and including August 31, 2018, and for each succeeding Subsequent Fixed Rate Period, the period commencing on the first day of September immediately following the end of the immediately preceding Subsequent Fixed Rate Period and ending on and including August 31 in the fifth year thereafter.

Issue Price

The Series G First Preference Shares will have an issue price of $25.00 per share.

Dividends

During the Initial Fixed Rate Period, the holders of the Series G First Preference Shares will be entitled to receive fixed cumulative preferential cash dividends, if, as and when declared by the Board of Directors, in an amount equal to $1.3125 per share per annum, accruing from the date of original issue, payable quarterly on the first day of March, June, September and December in each year, at a rate equal to $0.3281 per share. The initial dividend, if declared, will be payable on September 1, 2008 and will be $0.3622 per share, based on the anticipated Closing Date of May 23, 2008.

During each Subsequent Fixed Rate Period after the Initial Fixed Rate Period, the holders of the Series G First Preference Shares will be entitled to receive fixed cumulative preferential cash dividends, if, as and when declared by the Board of Directors, payable quarterly on the first day of March, June September and December in each year, in the amount per share per annum determined by multiplying the Annual Fixed Dividend Rate applicable to such Subsequent Fixed Rate Period by $25.00.

The Annual Fixed Dividend Rate applicable to a Subsequent Fixed Rate Period will be determined by the Corporation on the Fixed Rate Calculation Date. Such determination will, in the absence of manifest error, be final and binding upon the Corporation and upon all holders of the Series G First Preference Shares. The Corporation will, on the Fixed Rate Calculation Date, give written notice of the Annual Fixed Dividend Rate for the ensuing Subsequent Fixed Rate Period to the registered holders of the then outstanding Series G First Preference Shares.

Redemption

The Series G First Preference Shares are not redeemable before September 1, 2013. On September 1, 2013, and on September 1 every five years thereafter, subject to the terms of any shares of the Corporation ranking prior to the Series G First Preference Shares, to applicable law and to the provisions described under "Restrictions on Dividends and Retirement and Issue of Shares" below, the Corporation may, at its option, redeem all or any part of the then outstanding Series G First Preference Shares by the payment of an amount in cash for each such share so redeemed of $25.00 plus all accrued and unpaid dividends up to but excluding the date fixed for redemption (less any tax required to be deducted and withheld by the Corporation).

Notice of any redemption will be given by the Corporation not less than 30 days and not more than 60 days prior to the date fixed for redemption. If less than all of the outstanding Series G First Preference Shares are at any time to be redeemed, the shares to be redeemed will be redeemed on a *pro rata* basis.

If the Corporation gives notice to the registered holders of the Series G First Preference Shares of the redemption of all the Series G First Preference Shares, the Corporation will not be required to give notice as provided hereunder to the registered holders of the Series G First Preference Shares of an Annual Fixed Dividend Rate.

Purchase for Cancellation

Subject to applicable law, any necessary regulatory approvals and the provisions described under "Restrictions on Dividends and Retirement and Issue of Shares" below, the Corporation may, at any time, purchase for cancellation the whole or any part of the Series G First Preference Shares in the open market or by private agreement or otherwise at the lowest price or prices at which, in the opinion of the Board of Directors, such shares are obtainable.

Liquidation, Dissolution and Winding-Up

In the event of liquidation, dissolution or winding-up of the Corporation or any other distribution of the assets of the Corporation among its shareholders for the purpose of winding up its affairs, the holders of the Series G First Preference Shares will be entitled to payment of an amount equal to $25.00 per share, plus an amount equal to all accrued and unpaid dividends up to but excluding the date fixed for payment or distribution (less any tax required to be deducted and withheld by the Corporation), before any amount is paid or any assets of the Corporation are distributed to the holders of the Common Shares or any other shares ranking junior as to capital to the Series G First Preference Shares. The holders of the Series G First Preference Shares will not be entitled to share in any further distribution of the assets of the Corporation.

Restrictions on Dividends and Retirement and Issue of Shares

So long as any of the Series G First Preference Shares are outstanding, the Corporation will not, without the approval of the holders of the Series G First Preference Shares:

(a) declare, pay or set apart for payment any dividends (other than stock dividends payable in shares of the Corporation ranking as to capital and dividends junior to the Series G First Preference Shares) on any shares of the Corporation ranking as to dividends junior to the Series G First Preference Shares;

(b) except out of the net cash proceeds of a substantially concurrent issue of shares of the Corporation ranking as to return of capital and dividends junior to the Series G First Preference Shares, redeem or call for redemption, purchase or otherwise pay off, retire or make any return of capital in respect of any shares of the Corporation ranking as to capital junior to the Series G First Preference Shares;

(c) redeem or call for redemption, purchase or otherwise pay off or retire for value or make any return of capital in respect of less than all of the Series G First Preference Shares then outstanding;

(d) except pursuant to any purchase obligation, sinking fund, retraction privilege or mandatory redemption provisions attaching thereto, redeem or call for redemption, purchase or otherwise pay off or retire for value or make any return of capital in respect of any First Preference Shares, ranking as to dividends or capital on a parity with the Series G First Preference Shares; or

(e) issue any additional Series G First Preference Shares or any shares ranking as to dividends or capital prior to or on a parity with the Series G First Preference Shares,

unless, in each such case, all accrued and unpaid dividends up to and including the dividend payable for the last completed period for which dividends were payable on the Series G First Preference Shares and on all other shares of the Corporation ranking as to dividends prior to or on a parity with the Series G First Preference Shares with respect to the payment of dividends have been declared and paid or set apart for payment.

Shareholder Approvals

The approval of all amendments to the rights, privileges, restrictions and conditions attaching to the Series G First Preference Shares as a series and any other approval to be given by the holders of the Series G First Preference Shares may be given by a resolution carried by an affirmative vote of at least two-thirds of the votes cast at a meeting at which the holders of not less than a majority of the outstanding Series G First Preference Shares are present or represented by proxy or, if no quorum is present at such meeting, at an adjourned meeting at which the holders of Series G First Preference Shares then present would form the necessary quorum. At any meeting of holders of Series G First Preference Shares as a series, each such holder shall be entitled to one vote in respect of each Series G First Preference Share held.

Voting Rights

The holders of the Series G First Preference Shares will not be entitled (except as otherwise provided by law and except for meetings of the holders of First Preference Shares as a class and meetings of the holders of Series G First Preference Shares as a series) to receive notice of, attend at, or vote at, any meeting of shareholders of the Corporation unless and until the Corporation fails to pay eight quarterly dividends on the Series G First Preference Shares, whether or not consecutive and whether or not such dividends have been declared and whether or not there are any monies of the Corporation properly applicable to the payment of dividends. In the event of such non-payment, and for only so long as any such dividends remain in arrears, the holders of the Series G First Preference Shares will have the right to receive notice of and to attend each meeting of shareholders of the Corporation which takes place more than 60 days after the date on which the failure first occurs (other than a separate meeting of the holders of another series or class of shares) and such holders shall have the right, at any such meeting, to one vote for each Series G First Preference Share held. Subject to applicable law, no other voting rights shall attach to the Series G First Preference Shares in any circumstances. The voting rights of the holders of the Series G First Preference Shares shall forthwith cease upon payment by the Corporation of any and all such dividends in arrears on the Series G First Preference Shares to which the holders are entitled, until such time as the Corporation may again fail to pay eight quarterly dividends on the Series G First Preference Shares, whether or not consecutive and whether or not such dividends have been declared and whether or not there are any monies of the Corporation properly applicable to the payment of dividends, in which event such voting rights shall become effective again and so on from time to time.

Tax Election

The Corporation will elect, in the manner and within the time provided under subsection 191.2(1) of the Tax Act, to pay or cause payment of tax under Part VI.1 of the Tax Act at a rate such that the corporate holders of Series G First Preference Shares will not be required to pay tax under Part IV.1 of the Tax Act on dividends received on such shares.

BOOK ENTRY ONLY SYSTEM

Except as otherwise provided below, the Series G First Preference Shares will be issued in a "book-entry only" form and must be purchased or transferred through participants ("Participants") in the depository service of CDS Clearing and Depository Services Inc. ("CDS") or its nominee which include securities brokers and dealers, banks and trust companies. On the Closing Date, the Corporation will cause a global certificate representing the Series G First Preference Shares to be delivered to, and registered in the name of, CDS or its nominee. Except as otherwise provided below, no purchaser of Series G First Preference Shares will be entitled to a certificate or other instrument from the Corporation or CDS evidencing that purchaser's ownership, and no purchaser will be shown on the records maintained by CDS except through a book entry account of a Participant acting on behalf of the purchaser. Each purchaser of Series G First Preference Shares will receive a customer confirmation of purchase from the registered dealer from which the Series G First Preference Shares are purchased in accordance with the practices and procedures of the dealer. The practices of registered dealers may vary, but generally customer confirmations are issued promptly after execution of a customer order. CDS is responsible for establishing and maintaining book entry accounts for its Participants having interests in the Series G First Preference Shares. Physical certificates evidencing the Series G First Preference Shares will not be issued to purchasers, except in limited circumstances, and registration will be made through the depository service of CDS.

Neither the Corporation nor the Underwriters will assume any liability for: (a) any aspect of the records relating to the beneficial ownership of the Series G First Preference Shares held by CDS or the payments relating thereto;

(b) maintaining, supervising or reviewing any records relating to the Series G First Preference Shares; or (c) any advice or representation made by or with respect to CDS and those contained in this Prospectus and relating to the rules governing CDS or any action to be taken by CDS or at the direction of its Participants. The rules governing CDS provide that it acts as the agent and depository for the Participants. As a result, Participants must look solely to CDS and persons, other than Participants, having an interest in the Series G First Preference Shares must look solely to Participants for payments made by or on behalf of the Corporation to CDS in respect of the Series G First Preference Shares.

If (i) required by applicable law, (ii) the book entry system ceases to exist, (iii) CDS advises the Corporation that it is no longer willing or able to discharge properly its responsibilities as depository with respect to the Series G First Preference Shares and the Corporation is unable to locate a qualified successor, or (iv) the Corporation, at its option, decides to terminate the book entry system, then certificates representing the Series G First Preference Shares will be made available.

Manner of Effecting Transfer or Redemption

A transfer or redemption of Series G First Preference Shares will be effected through records maintained by CDS or its nominee with respect to interests of Participants, and on the records of Participants with respect to interests of persons other than Participants. Persons who are holders of Series G First Preference Shares who are not Participants, but who wish to purchase, sell or otherwise transfer ownership of or other interests in Series G First Preference Shares may do so only through Participants.

USE OF PROCEEDS

The net proceeds of the Offering will be approximately $193 million, determined after deducting the underwriting commission and the expenses of the Offering, which are estimated to be $650,000. If the Over-Allotment Option is exercised in full, the net proceeds of the Offering, determined after deducting the underwriting fee and estimated expenses of the Offering, are expected to be $222 million. A portion of the net proceeds of the Offering will be used to repay the total amount outstanding of approximately $170 million under the Corporation's committed credit facility, which indebtedness was incurred to fund a portion of the purchase price for the Terasen Acquisition and the purchase price for the Delta Regina Acquisition. The balance of the net proceeds will be used for general corporate purposes.

PLAN OF DISTRIBUTION

Pursuant to an underwriting agreement dated May 8, 2008 (the "Underwriting Agreement") between Fortis and the Underwriters, Fortis has agreed to issue and sell, and the Underwriters have agreed to purchase, as principals, on the Closing Date, 8,000,000 Series G First Preference Shares offered hereby at the Offering Price of $25.00 per Series G First Preference Share, payable in cash to Fortis against delivery, subject to compliance with all of the necessary legal requirements and to the conditions contained in the Underwriting Agreement. The obligations of the Underwriters under the Underwriting Agreement may be terminated at their discretion on the basis of their assessment of the state of the financial markets and may also be terminated upon the occurrence of certain stated events. The Underwriters are, however, obligated to take up and pay for all securities if any of the securities are purchased under the Underwriting Agreement. The Offering Price and other terms of the Offering were determined by negotiation between the Corporation and the Underwriters.

The Corporation has agreed to pay fees to the Underwriters in the amount of $0.25 per Series G First Preference Share sold to certain institutions and $0.75 per Series G First Preference Share for all other Series G First Preference Shares purchased by the Underwriters, in consideration of services rendered by the Underwriters in connection with the Offering. Assuming that no Series G First Preference Shares are sold to such institutions and the Over-Allotment Option is not exercised, the total price to the public will be $200 million, the Underwriters' fee will be $6 million and the net proceeds to Fortis will be $193 million, after deducting the expenses of the Offering estimated at $650,000 which, together with the Underwriter's Fee, will be paid out of the general funds of the Corporation.

The Corporation has granted the Underwriters the option, exercisable in whole or in part at any time until 30 days following the Closing Date to purchase up to an additional 1,200,000 Series G First Preference Shares (the "Additional Shares") at the Offering Price. The Over-Allotment Option is exercisable in whole or in part only for the purpose of covering over-allotments, if any, and for market stabilization purposes. This short form prospectus qualifies the grant of the Over-Allotment Option and the distribution of the Additional Shares issuable upon exercise of the Over-Allotment

Option. The Underwriters will be paid an underwriting fee equal to $0.25 per Option Share sold to certain institutions and $0.75 per Additional Share with respect to all other Additional Shares.

A purchaser who acquires Series G First Preference Shares forming part of the Over-Allotment Option acquires those securities under this Prospectus, regardless of whether the Over-Allotment Option is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases.

Pursuant to rules and policy statements of certain Canadian securities regulators, the Underwriters may not, at any time during the period ending on the date the selling process for the Series G First Preference Shares ends and all stabilization arrangements relating to the Series G First Preference Shares are terminated, bid for or purchase Series G First Preference Shares. The foregoing restrictions are subject to certain exceptions including (i) a bid for or purchase of Series G First Preference Shares if the bid or purchase is made through the facilities of the TSX, in accordance with the Universal Market Integrity Rules of Market Regulation Services Inc., (ii) a bid or purchase on behalf of a client, other than certain prescribed clients, provided that the client's order was not solicited by the Underwriter, or if the client's order was solicited, the solicitation occurred before the commencement of a prescribed restricted period, and (iii) a bid or purchase to cover a short position entered into prior to the commencement of a prescribed restricted period. The Underwriters may engage in market stabilization or market balancing activities on the TSX where the bid for or purchase of the Series G First Preference Shares is for the purpose of maintaining a fair and orderly market in the Series G First Preference Shares, subject to price limitations applicable to such bids or purchases. Such transactions, if commenced, may be discontinued at any time.

The Series G First Preference Shares have not been, and will not be, registered under the United States *Securities Act of 1933*, as amended (the "1933 Act") or any state securities laws and, subject to certain exceptions, may not be offered, or delivered, directly or indirectly, or sold in the United States except in certain transactions exempt from the registration requirements of the 1933 Act and in compliance with any applicable state securities laws. The Underwriters have agreed that they will not offer or sell the Series G First Preference Shares within the United States, its territories, its possessions and other areas subject to its jurisdiction or to, or for the account or benefit of, a "U.S. person" (as defined in Regulation S under the 1933 Act), except in accordance with the Underwriting Agreement pursuant to an exemption from the registration requirements of the 1933 Act provided by Rule 144A thereunder and in compliance with applicable state securities laws. In addition, until 40 days after the commencement of the Offering, an offer or sale of Series G First Preference Shares within the United States by any dealer (whether or not participating in the Offering) may violate the registration requirements of the 1933 Act if such offer is made otherwise than in reliance on Rule 144A.

The obligations of the Underwriters under the Underwriting Agreement are several (and not joint and several) and may be terminated at their discretion in certain circumstances, including upon the occurrence of certain stated events. The Underwriters are, however, obligated to take up and pay for all of the Series G First Preference Shares if any are purchased under the Underwriting Agreement. Under the terms of the Underwriting Agreement, the Underwriters may be entitled to indemnification by the Corporation against certain liabilities, including liabilities for misrepresentation in the Prospectus.

Each of Scotia Capital, CIBCWM, BMO Nesbitt Burns, NB Financial, RBCDS and TD Securities is a subsidiary of a Canadian chartered bank that has, either solely or as a member of a syndicate of financial institutions, extended credit facilities to the Corporation and/or its subsidiaries (the "Existing Facilities"). A portion of the net proceeds from the Offering will be used to repay indebtedness under credit facilities owing by the Corporation to certain of such banks. Consequently, the Corporation may be considered a "connected issuer" of these Underwriters within the meaning of applicable securities legislation. None of these Underwriters will receive any direct benefit from the Offering other than the underwriting fee relating to the Offering. The decision to distribute the Series G First Preference Shares hereunder and the determination of the terms of the Offering were made through negotiation between the Corporation and the Underwriters. No bank had any involvement in such decision or determination. As at May 13, 2008, an aggregate of approximately $545 million was outstanding under the Existing Facilities. Fortis and/or its subsidiaries are in compliance with their respective obligations under the Existing Facilities. Since the execution of the Existing Facilities, no breach thereunder has been waived by the lenders thereunder. See "Use of Proceeds".

The TSX has conditionally approved the listing of the Series G First Preference Shares distributed under this Prospectus on the TSX. Listing will be subject to the Corporation fulfilling all of the listing requirements of the TSX on or before August 4, 2008.

CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Davies Ward Phillips & Vineberg LLP, counsel to Fortis, and Stikeman Elliott LLP, counsel to the Underwriters, the following is a summary of the principal Canadian federal income tax considerations generally applicable to a holder of Series G First Preference Shares acquired pursuant to this Prospectus (a "Holder") who, at all relevant times for purposes of the Tax Act, is or is deemed to be a resident of Canada, deals at arm's length with Fortis, holds Series G First Preference Shares as capital property, is not exempt from tax under Part I of the Tax Act and is not affiliated with Fortis. Generally, the Series G First Preference Shares will be considered to be capital property to a Holder provided the Holder does not hold the Series G First Preference Shares in the course of carrying on a business and has not acquired them in a transaction or transactions considered to be an adventure in the nature of trade. A Holder whose Series G First Preference Shares do not otherwise qualify as capital property may make, in certain circumstances, the irrevocable election under subsection 39(4) of the Tax Act to have such shares and every "Canadian security" (as defined in the Tax Act) owned by such Holder in the taxation year of the election and all subsequent years deemed to be capital property.

This summary is based on the current provisions of the Tax Act and the regulations thereunder, all specific proposals to amend the Tax Act and the regulations publicly announced by, or on behalf of, the Minister of Finance (Canada) prior to the date hereof and counsel's understanding of the current published administrative practices of the Canada Revenue Agency. This summary does not otherwise take into account or anticipate any change in law, whether by legislative, governmental or judicial decision or action, nor does it take into account or consider any provincial, territorial or foreign income tax legislation or considerations.

This summary does not take into account the "mark-to-market rules" applicable to a "financial institution" within the meaning of section 142.2 of the Tax Act and such institutions are advised to consult with their own tax advisors. This summary is not applicable to a purchaser that is a "specified financial institution", a purchaser an interest in which is a "tax shelter investment" or a purchaser to whom the "functional currency" reporting rules apply, each as defined in the Tax Act. Such purchasers should consult their own tax advisors.

This summary is of a general nature only and is not intended to be, nor should it be construed to be, legal or tax advice to any particular purchaser. Accordingly, prospective purchasers should consult their own tax advisors with respect to their particular circumstances.

Dividends

Dividends, including deemed dividends, received on the Series G First Preference Shares by a Holder who is an individual must be included in the individual's income and generally will be subject to the gross-up and dividend tax credit rules normally applicable to taxable dividends received by an individual from taxable Canadian corporations, including the enhanced gross-up and dividend tax credit rules applicable to any dividends designated by Fortis as "eligible dividends". There may be limitations on the ability of a corporation to designate dividends as eligible dividends. Fortis has advised counsel it intends to designate all dividends paid on the Series G First Preference Shares as eligible dividends for these purposes. Taxable dividends received by an individual or a trust (other than certain specified trusts) may give rise to alternative minimum tax under the Tax Act.

Dividends, including deemed dividends, received on the Series G First Preference Shares by a Holder that is a corporation must be included in computing the corporation's income and will generally be deductible in computing the taxable income of the corporation.

The Series G First Preference Shares are "taxable preferred shares" as defined in the Tax Act. The terms of the Series G First Preference Shares require Fortis to make the necessary election under Part VI.1 of the Tax Act so that corporate Holders will not be subject to the 10% tax payable under Part IV.1 of the Tax Act on dividends received, or deemed to be received, on the Series G First Preference Shares.

A "private corporation" (as defined in the Tax Act) or any other corporation controlled (whether by reason of a beneficial interest in one or more trusts or otherwise) by or for the benefit of an individual (other than a trust) or a related group of individuals (other than trusts) will generally be liable to pay refundable tax under Part IV of the Tax Act of 33⅓% on dividends received, or deemed to be received, on the Series G First Preference Shares, to the extent such dividends are deductible in computing its taxable income.

Dispositions

A Holder who disposes of, or is deemed to dispose of, Series G First Preference Shares (either on redemption of the shares or other acquisition by Fortis) will generally realize a capital gain (or a capital loss) to the extent that the proceeds of disposition, net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base of such shares to such Holder. The amount of any deemed dividend arising on the redemption or acquisition by Fortis of any such shares (see "Redemptions" below) will not generally be included in computing the proceeds of disposition for such shares.

If the Holder is a corporation, any capital loss arising on the disposition of a Series G First Preference Share may be reduced, in certain circumstances, by the amount of any dividends, including deemed dividends, which have been received on such share to the extent and under the circumstances described in the Tax Act. Analogous rules apply to a partnership or trust of which a corporation, trust or partnership is a member or beneficiary.

Capital Gains and Capital Losses

One-half of any capital gain (a "taxable capital gain") realized by a Holder in a taxation year must be included in the Holder's income in that year and one-half of any capital loss (an "allowable capital loss") realized by a Holder in a taxation year will be deducted from the Holder's taxable capital gains in that year. Allowable capital losses in excess of taxable capital gains generally may be carried back and deducted in any of the three preceding taxation years or carried forward and deducted in any subsequent year against net taxable capital gains realized in such years to the extent and under the circumstances described in the Tax Act.

Capital gains realized by an individual or a trust (other than certain specified trusts) may give rise to a liability for alternative minimum tax under the Tax Act. A Canadian-controlled private corporation, as defined in the Tax Act, may be subject to an additional refundable tax of 6⅔% on investment income (including taxable capital gains).

Redemptions

If Fortis redeems or otherwise acquires a Series G First Preference Share (other than by a purchase in the open market in the manner in which shares are normally purchased by a member of the public in the open market), the Holder will be deemed to have received a dividend equal to the amount, if any, paid by Fortis in excess of the paid-up capital (as determined for purposes of the Tax Act) of such share at such time. Generally, the difference between the amount paid by Fortis and the amount of the deemed dividend will be treated as proceeds of disposition for the purposes of computing the capital gain or capital loss arising on the disposition of such share. In the case of a corporate shareholder, it is possible that in certain circumstances all or part of the deemed dividend may be treated as proceeds of disposition and not as a dividend.

RISK FACTORS

An investment in the Series G First Preference Shares involves certain risks. A prospective purchaser of Series G First Preference Shares should carefully consider the risk factors described under the heading "Risk Factors" found on pages 40 to 48 of the Corporation's Annual Information Form dated March 28, 2008, under the heading "Business Risk Management" in the Management Discussion and Analysis of financial condition and results of operations found on pages 60 to 66 of the Corporation's 2007 Annual Report (the "MD&A"), under note 17 "Financial Risk Management" found on pages 20 to 23 in the Corporation's unaudited comparative interim consolidated financial statements as at March 31, 2008 and for the three months ended March 31, 2008 and 2007 and under the heading "Risk Factors" found on pages A-13 to A-17 of the Corporation's business acquisition report with respect to the Terasen Acquisition dated June 13, 2007, each of which is incorporated by reference herein. In addition, a prospective purchaser of Series G First Preference Shares should carefully consider the risk factors described in this section which relate to the terms of the Series G First Preference Shares, as well as the other information contained in this Prospectus (including the documents incorporated by reference herein).

The value of the Series G First Preference Shares will be affected by the general creditworthiness of the Corporation. The MD&A discusses, among other things, known material trends and events, and risks or uncertainties that are reasonably expected to have a material effect on the Corporation's business, financial condition or results of operations.

Real or anticipated changes in credit ratings on the Series G First Preference Shares, if any, may affect the market value of such shares. In addition, real or anticipated changes in credit ratings can affect the cost at which the Corporation can transact or obtain funding, and thereby affect the Corporation's liquidity, business, financial condition or results of operations.

Reference is made to "Earnings Coverage" in this Prospectus, which is relevant to an assessment of the risk that the Corporation will be unable to pay dividends on the Series G First Preference Shares.

The Series G First Preference Shares rank equally with other First Preference Shares of the Corporation in the event of an insolvency or winding-up of the Corporation. If the Corporation becomes insolvent or is wound up, the Corporation's assets must be used to pay deposit liabilities and other debt, including subordinated debt, before payments may be made on the Series G First Preference Shares.

Prevailing yields on similar securities will affect the market value of the Series G First Preference Shares. Assuming all other factors remain unchanged, the market value of the Series G First Preference Shares will decline as prevailing yields for similar securities rise, and will increase as prevailing yields for similar securities decline. Spreads over the Government of Canada Bond Yield, T-Bill Rate and comparable benchmark rates of interest for similar securities will also affect the market value of the Series G First Preference Shares in an analogous manner.

The Series G First Preference Shares do not have a fixed maturity date and are not redeemable at the option of their Holders. The ability of a Holder to liquidate its holdings of Series G First Preference Shares may be limited.

The dividend rate in respect of the Series G First Preference Shares will reset every five years. In each case, the new dividend rate is unlikely to be the same as, and may be lower than, the dividend rate for the applicable preceding dividend period.

Stock market volatility may affect the market price of the Series G First Preference Shares for reasons unrelated to the Corporation's performance.

There can be no assurance that an active trading market will develop for the Series G First Preference Shares after the Offering, or if developed, that such market will be sustained at the Offering Price of the Series G First Preference Shares.

AUDITORS

The auditors of the Corporation are Ernst & Young LLP, Chartered Accountants ("Ernst & Young"), The Fortis Building, 7th Floor, 139 Water Street, St. John's, Newfoundland and Labrador A1C 1B2.

The auditors of Terasen during the period of May 2006 to July 2007 were PricewaterhouseCoopers LLP, Chartered Accountants ("PWC"), of Vancouver, British Columbia. PWC reports that it was independent of Terasen for the period of May 2006 to July 2007 within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of British Columbia. Following completion of the Terasen Acquisition, Ernst & Young became the auditors of Terasen and its subsidiaries.

LEGAL MATTERS

Certain legal matters relating to this Offering will be passed upon on behalf of the Corporation by Davies Ward Phillips & Vineberg LLP, Toronto and McInnes Cooper, St. John's and on behalf of the Underwriters by Stikeman Elliott LLP, Toronto. At the date hereof, partners and associates of each of Davies Ward Phillips & Vineberg LLP, McInnes Cooper and Stikeman Elliott LLP own beneficially, directly or indirectly, less than 1% of any securities of the Corporation or any associate or affiliate of the Corporation.

TRANSFER AGENT AND REGISTRAR

The Transfer Agent and Registrar for the Series G First Preference Shares is Computershare Investor Services Inc. in Toronto and Montréal.

PURCHASERS' STATUTORY RIGHTS

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights or consult with a legal advisor.

AUDITORS' CONSENT

We have read the Short Form Prospectus of Fortis Inc. (the "Corporation") dated May 15, 2008 relating to the issue and sale of 8,000,000 Cumulative Redeemable Five-Year Fixed Rate Reset Preferred Shares, Series G of the Corporation. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the incorporation by reference, in the above-mentioned Prospectus, of our report to the shareholders of the Corporation on the consolidated balance sheets of the Corporation as at December 31, 2007 and 2006 and the consolidated statements of earnings, retained earnings, comprehensive income and cash flows for the years then ended. Our report is dated February 1, 2008.

St. John's, Canada	(Signed) Ernst & Young LLP
May 15, 2008	Chartered Accountants

AUDITORS' CONSENT

We have read the Short Form Prospectus of Fortis Inc. (the "Corporation") dated May 15, 2008 relating to the issue and sale of 8,000,000 Cumulative Redeemable Five-Year Fixed Rate Reset Preferred Shares, Series G of the Corporation. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the incorporation by reference, in the above-mentioned Prospectus, of our report to the shareholder of Terasen Inc. on the consolidated statements of financial position of Terasen Inc. as at December 31, 2006 and the consolidated statements of earnings, retained earnings and cash flows for the year then ended, included in the business acquisition report of the Corporation dated June 13, 2007. Our report is dated March 29, 2007.

Vancouver, Canada	(Signed) PricewaterhouseCoopers LLP
May 15, 2008	Chartered Accountants

CERTIFICATE OF FORTIS INC.

Dated: May 15, 2008

This short form prospectus, together with the documents incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of each of the provinces of Canada.

(Signed) H. Stanley Marshall
President and
Chief Executive Officer

(Signed) Barry V. Perry
Vice President, Finance and
Chief Financial Officer

On behalf of the Board of Directors

(Signed) Geoffrey F. Hyland
Director

(Signed) David G. Norris
Director

CERTIFICATE OF THE UNDERWRITERS

Dated: May 15, 2008

To the best of our knowledge, information and belief, this short form prospectus, together with the documents incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of each of the provinces of Canada.

SCOTIA CAPITAL INC.	CIBC WORLD MARKETS INC.
(Signed) JOHN MATOVICH	(Signed) DAVID H. WILLIAMS

BMO NESBITT BURNS INC.	NATIONAL BANK FINANCIAL INC.	RBC DOMINION SECURITIES INC.	TD SECURITIES INC.
(Signed) JAMES A. TOWER	(Signed) PAUL PRENDERGAST	(Signed) DAVID DAL BELLO	(Signed) HAROLD R. HOLLOWAY

DESJARDINS SECURITIES INC.	BEACON SECURITIES LIMITED
(Signed) THOMAS L. JARMAI	(Signed) JANE SMITH

FORTIS

BOWNE

PRINTED IN CANADA
O40581

SHORT FORM PROSPECTUS

New Issue January 18, 2010

FORTIS INC.

$250,000,000

10,000,000 CUMULATIVE REDEEMABLE FIVE-YEAR FIXED RATE RESET FIRST PREFERENCE SHARES, SERIES H

This short form prospectus (the "Prospectus") qualifies for distribution (the "Offering") 10,000,000 Cumulative Redeemable Five-Year Fixed Rate Reset First Preference Shares, Series H (the "Series H First Preference Shares") of Fortis Inc. ("Fortis" or the "Corporation") which are being offered and sold pursuant to the provisions of an underwriting agreement (the "Underwriting Agreement") dated January 12, 2010 between Fortis and TD Securities Inc. ("TDSI"), Scotia Capital Inc. ("Scotia Capital"), RBC Dominion Securities Inc. ("RBCDS"), CIBC World Markets Inc. ("CIBCWM"), BMO Nesbitt Burns Inc. ("BMO Capital Markets"), National Bank Financial Inc. ("NB Financial"), HSBC Securities (Canada) Inc. ("HSBC Securities"), Beacon Securities Limited and Canaccord Financial Ltd. (collectively, the "Underwriters"). The Series H First Preference Shares will be issued and sold by Fortis to the Underwriters at the price of $25.00 (the "Offering Price") per Series H First Preference Share. The Offering Price was determined by negotiation between the Corporation and the Underwriters.

The holders of Series H First Preference Shares will be entitled to fixed cumulative preferential cash dividends, if, as and when declared by the board of directors of the Corporation (the "Board of Directors") for the initial period commencing on the date of original issue to, but excluding, June 1, 2015 (the "Initial Fixed Rate Period") at a rate of $1.0625 per share per annum payable in equal quarterly instalments of $0.2656 per share on the first day of March, June, September and December of each year. Assuming an issue date of January 26, 2010, the first dividend will be payable on June 1, 2010 in the amount of $0.3668 per Series H First Preference Share.

For each five-year period after the Initial Fixed Rate Period (each, a "Subsequent Fixed Rate Period"), the holders of Series H First Preference Shares will be entitled to receive fixed cumulative preferential cash dividends, if, as and when declared by the Board of Directors, payable quarterly on the first day of March, June, September and December of each year, in the amount per share per annum determined by multiplying the Annual Fixed Dividend Rate (as defined herein) applicable to such Subsequent Fixed Rate Period by $25.00. The Annual Fixed Dividend Rate for an ensuing Subsequent Fixed Rate Period will be determined by the Corporation on the 30th day prior to the first day of such Subsequent Fixed Rate Period (the "Fixed Rate Calculation Date") and will be equal to the sum of the Government of Canada Bond Yield (as defined herein) on the Fixed Rate Calculation Date plus 1.45%. See "Details of the Offering — Specific Provisions of Series H First Preference Shares".

Option to Convert into Series I First Preference Shares

The holders of Series H First Preference Shares will have the right, at their option, to convert any or all of their shares into Cumulative Redeemable Floating Rate First Preference Shares, Series I of the Corporation (the "Series I First Preference Shares"), subject to certain conditions, on June 1, 2015, and on June 1 every five years thereafter (each, a "Series H Conversion Date"). The holders of Series I First Preference Shares will be entitled to receive floating rate cumulative preferential cash dividends, if, as and when declared by the Board of Directors, payable quarterly on the first day of March, June, September and December of each year (the initial quarterly dividend period and each subsequent quarterly dividend period referred to as a "Quarterly Floating Rate Period"), in the amount per share determined by multiplying the applicable Floating Quarterly Dividend Rate (as defined herein) by $25.00. The Floating Quarterly Dividend Rate will be equal to the sum of the T-Bill Rate (as defined herein) plus 1.45% (calculated on the basis of the actual number of days elapsed in the applicable Quarterly Floating Rate Period divided by 365) determined by the Corporation on the 30th day prior to the first day of the applicable Quarterly Floating Rate Period. See "Details of the Offering — Specific Provisions of Series I First Preference Shares".

On June 1, 2015, and on June 1 every five years thereafter, the Corporation may, at its option, upon not less than 30 days and not more than 60 days prior written notice, redeem for cash all or any part of the outstanding Series H First Preference Shares by the payment of $25.00 per share plus all accrued and unpaid dividends up to but excluding the date fixed for redemption. See "Details of the Offering — Specific Provisions of Series H First Preference Shares".

Holders of Series I First Preference Shares will have the right, at their option, to convert their shares into Series H First Preference Shares, subject to certain conditions, on June 1, 2020 and on June 1 every five years thereafter (each, a "Series I Conversion Date"). See "Details of the Offering — Specific Provisions of Series I First Preference Shares".

On each Series I Conversion Date, the Corporation may, at its option, redeem for cash all or any part of the outstanding Series I First Preference Shares by the payment of $25.00 per share plus all accrued and unpaid dividends up to but excluding the date fixed for redemption. On any date after June 1, 2015 that is not a Series I Conversion Date, the Corporation may, at its option, at any time redeem for cash all or any part of the outstanding Series I First Preference Shares by the payment of $25.50 per share plus all accrued and unpaid dividends up to but excluding the date fixed for redemption. Notice of any redemption will be given by the Corporation not less than 30 days and not more than 60 days prior to the date fixed for redemption. See "Details of the Offering — Specific Provisions of Series I First Preference Shares".

The Series H First Preference Shares and the Series I First Preference Shares do not have a fixed maturity date and are not redeemable at the option of the holders of Series H First Preference Shares or Series I First Preference Shares, as applicable. See "Risk Factors".

The Underwriters may offer the Series H First Preference Shares at a lower price than the Offering Price. See "Plan of Distribution".

The Toronto Stock Exchange (the "TSX") has conditionally approved the listing on the TSX of the Series H First Preference Shares distributed under this Prospectus and the Series I First Preference Shares into which the Series H First Preference Shares are convertible. Listing of the Series H First Preference Shares and the Series I First Preference Shares will be subject to the Corporation fulfilling all of the listing requirements of the TSX.

Investing in the Series H First Preference Shares involves certain risks that should be considered by a prospective purchaser. See "Risk Factors".

Price: $25.00 per share to yield initially 4.25% per annum

	Price to the Public	Underwriters' Fee(1)	Net Proceeds to Fortis(2)
Per share	$25.00	$0.75	$24.25
Total	$250,000,000	$7,500,000	$242,500,000

(1) The Underwriters' fee is $0.25 per share for each share sold to certain institutions and $0.75 per share for all other Series H First Preference Shares purchased by the Underwriters. The Underwriters' fee indicated in the table assumes that no Series H First Preference Shares are sold to such institutions.

(2) Before deducting expenses of the Offering estimated at $650,000 which, together with the Underwriters' fees, will be paid out of the general funds of Fortis. See "Plan of Distribution".

There is currently no market through which the Series H First Preference Shares may be sold and purchasers may not be able to resell securities purchased under this Prospectus. This may affect the pricing of the securities in the secondary market, the transparency and availability of trading prices, the liquidity of the securities, and the extent of issuer regulation. See "Risk Factors".

The Corporation's First Preference Shares, Series C, First Preference Shares, Series E, First Preference Shares, Series F and First Preference Shares, Series G are listed on the TSX under the symbols "FTS.PR.C", "FTS.PR.E", "FTS.PR.F" and "FTS.PR.G", respectively. On January 15, 2010, the closing price of the First Preference Shares, Series C, First Preference Shares, Series E, First Preference Shares, Series F and First Preference Shares, Series G, was $26.50, $26.47, $21.98 and $25.99, respectively.

Each of TDSI, Scotia Capital, RBCDS, CIBCWM, BMO Capital Markets, NB Financial and HSBC Securities is a subsidiary of a Canadian chartered bank that has, either solely or as a member of a syndicate of financial institutions, extended credit facilities to, or holds other indebtedness of, the Corporation and/or its subsidiaries. A portion of the net proceeds from the Offering will be used towards repaying indebtedness under a credit facility owing by the Corporation to certain of such banks or their affiliates. Consequently, the Corporation may be considered a "connected issuer" of these Underwriters within the meaning of applicable securities legislation. See "Use of Proceeds" and "Plan of Distribution".

The Underwriters, as principals, conditionally offer the Series H First Preference Shares, subject to prior sale, if, as and when issued by Fortis and accepted by the Underwriters in accordance with the conditions contained in the Underwriting Agreement and subject to the approval of certain legal matters on behalf of the Corporation by Davies Ward Phillips & Vineberg LLP, Toronto and McInnes Cooper, St. John's and on behalf of the Underwriters by Stikeman Elliott LLP, Toronto. Subject to applicable laws, the Underwriters may, in connection with the Offering effect transactions which stabilize or maintain the market price of the Series H First Preference Shares at levels other than those which may prevail on the open market. Such transactions, if commenced, may be discontinued at any time. See "Plan of Distribution".

Subscriptions for the Series H First Preference Shares will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that the closing of the Offering (the "Closing") will take place on or about January 26, 2010 (the "Closing Date"), or such other date as may be agreed upon by the Corporation and the Underwriters, but not later than March 2, 2010. A book entry only certificate representing the Series H First Preference Shares distributed hereunder will be issued in registered form only to CDS Clearing and Depository Services Inc. ("CDS") or its nominee and will be deposited with CDS on the Closing Date. The Corporation understands that a purchaser of Series H First Preference Shares will receive only a customer confirmation from a registered dealer who is a CDS participant from or through whom the Series H First Preference Shares are purchased. See "Book Entry Only System".

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus (the "Prospectus"), including the documents incorporated herein by reference, contains forward-looking information which reflects management's expectations regarding the future growth, results of operations, performance, business prospects and opportunities of Fortis Inc. ("Fortis" or the "Corporation"), and may not be appropriate for other purposes. All forward-looking information is given pursuant to the "safe harbour" provisions of applicable Canadian securities legislation. The words "anticipates", "believes", "could", "estimates", "expects", "forecasts", "intends", "may", "might", "plans", "projects", "schedule", "should", "will", "would" and similar expressions are often intended to identify forward-looking information, although not all forward-looking information contains these identifying words. The forward-looking information reflects management's current beliefs and is based on information currently available to the Corporation's management. The forward-looking information in this Prospectus, including the documents incorporated herein by reference, includes, but is not limited to, statements regarding: the expected timing of regulatory decisions; consolidated forecasted gross capital expenditures for 2009 and in total over the five-year period from 2009 through to 2013; the nature, timing and amount of certain capital projects; the expected impact on Fortis of the downturn in the global economy; the electricity sales growth rate expected at the Corporation's regulated utilities in the Caribbean in 2009; the expectation of no significant decrease in annual consolidated operating cash flows in 2009; the expectation that the subsidiaries will be able to source the cash required to fund their 2009 capital expenditure programs; the expectation that the Corporation and its subsidiaries will continue to have reasonable access to long-term capital in the near to medium terms; expected long-term debt maturities and repayments on average annually over the next five years; the expectation of no material increase in interest expense and/or fees associated with renewed and extended credit facilities in 2009; the expectation of no material adverse credit rating actions in the near term; the expectation that counterparties to the Terasen Gas companies' gas derivative contracts will continue to meet their obligations; and the expectation of no material increase in defined benefit pension expense in 2009. The forecasts and projections that make up the forward-looking information are based on assumptions which include, but are not limited to: the receipt of applicable regulatory approvals and requested rate orders; no significant operational disruptions or environmental liability due to a catastrophic event or environmental upset caused by severe weather, other acts of nature or other major event; the continued ability to maintain the gas and electricity systems to ensure their continued performance; no significant decline in capital spending; no severe and prolonged downturn in economic conditions; sufficient liquidity and capital resources; the continuation of regulator-approved mechanisms to flow through the commodity cost of natural gas and energy supply costs in customer rates; the continued ability to hedge exposures to fluctuations in interest rates, foreign exchange rates and natural gas commodity prices; no significant variability in interest rates; no significant counterparty defaults; the continued competitiveness of natural gas pricing when compared with electricity and other alternative sources of energy; the continued availability of natural gas supply; the continued ability to fund defined benefit pension plans; the absence of significant changes in government energy plans and environmental laws that may materially affect the operations and cash flows of the Corporation and its subsidiaries; maintenance of adequate insurance coverage; the ability to obtain and maintain licences and permits; retention of existing service areas; no material decrease in market energy sales prices; favourable relations with First Nations; favourable labour relations; and sufficient human resources to deliver service and execute the capital program. The forward-looking information is subject to risks, uncertainties and other factors that could cause actual results to differ materially from historical results or results anticipated by the forward-looking information. Factors which could cause results or events to differ from current expectations include, but are not limited to: regulatory risk; operating and maintenance risks; economic conditions; capital resources and liquidity risk; weather and seasonality; an ultimate resolution of the expropriation of the assets of the Exploits River Hydro Partnership that differs from what is currently expected by management; commodity price risk; derivative financial instruments and hedging; interest rate risk; counterparty risk; competitiveness of natural gas; natural gas supply; defined benefit pension plan performance and funding requirements; risks related to the development of the Terasen Gas (Vancouver Island) Inc. franchise; the Government of British Columbia's Energy Plan; environmental risks; insurance coverage risk; an unexpected outcome of legal proceedings currently against the Corporation; licences and permits; loss of service area; market energy sales prices; changes in current assumptions and expectations associated with the transition to International Financial Reporting Standards; changes in tax legislation; relations with First Nations; labour relations; and human resources. For additional information with respect to the Corporation's risk factors and risk factors relating to the Series H First Preference Shares and the Series I First Preference Shares, reference should be made to the section of this Prospectus entitled "Risk Factors".

All forward-looking information in this Prospectus and in the documents incorporated herein by reference is qualified in its entirety by the above cautionary statements and, except as required by law, the Corporation undertakes no obligation to revise or update any forward-looking information as a result of new information, future events or otherwise.

DOCUMENTS INCORPORATED BY REFERENCE

The disclosure documents of the Corporation listed below and filed with the appropriate securities commissions or similar regulatory authorities in each of the provinces of Canada are specifically incorporated by reference into and form an integral part of this Prospectus:

(a) Annual Information Form dated March 13, 2009 for the year ended December 31, 2008;

(b) audited comparative consolidated financial statements as at December 31, 2008 and December 31, 2007 and for the years ended December 31, 2008 and 2007, together with the notes thereto and the auditors' report thereon dated January 30, 2009, as contained in the Corporation's 2008 Annual Report;

(c) Management Discussion and Analysis of financial condition and results of operations for the year ended December 31, 2008 as contained in the Corporation's 2008 Annual Report;

(d) unaudited comparative interim consolidated financial statements as at September 30, 2009 and for the three and nine months ended September 30, 2009 and 2008, together with the notes thereto;

(e) Management Discussion and Analysis of financial condition and results of operations for the three and nine months ended September 30, 2009; and

(f) Management Information Circular dated April 3, 2009 prepared in connection with the Corporation's annual meeting of shareholders held on May 5, 2009.

Any document of the type referred to in the preceding paragraph and any material change report (other than any confidential material change report) or business acquisition report subsequently filed by the Corporation with such securities commissions or regulatory authorities after the date of the Prospectus, and prior to the termination of the Offering, shall be deemed to be incorporated by reference into the Prospectus.

Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Prospectus to the extent that a statement contained herein, or in any other subsequently filed document which also is incorporated or is deemed to be incorporated by reference herein, modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement will not be deemed an admission for any purpose that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus.

Copies of the documents incorporated herein by reference may be obtained on request without charge from the Secretary of the Corporation at Suite 1201, 139 Water Street, St. John's, Newfoundland and Labrador A1B 3T2 (telephone (709) 737-2800). These documents are also available through the Internet on the Corporation's website at www.fortisinc.com or on the Canadian System for Electronic Document Analysis and Retrieval ("SEDAR") which can be accessed at www.sedar.com. The information contained on, or accessible through, any of these websites is not incorporated by reference into the Prospectus and is not, and should not be considered to be, a part of the Prospectus, unless it is explicitly so incorporated.

ELIGIBILITY FOR INVESTMENT

In the opinion of Davies Ward Phillips & Vineberg LLP, counsel to the Corporation, and Stikeman Elliott LLP, counsel to the Underwriters, the Series H First Preference Shares, if issued on the date hereof, would be qualified investments under the *Income Tax Act* (Canada) (the "Tax Act") for a trust governed by a registered retirement savings plan, registered retirement income fund, deferred profit sharing plan ("DPSP") (other than a trust governed by a DPSP for which any employer is the Corporation or is an employer that does not deal at arm's length with the Corporation for purpose of the Tax Act), registered education savings plan, registered disability savings plan or a tax-free savings account ("TFSA"). The Series H Preference Shares will not be "prohibited investments" for a TFSA where the holder of the TFSA is not a "specified shareholder" of the Corporation, and the Corporation deals at arm's length with such holder for purposes of the Tax Act and any person in which such holder has a "significant interest", as each such term is defined in the Tax Act.

CURRENCY

All dollar amounts in the Prospectus are expressed in Canadian dollars unless otherwise indicated.

SUMMARY

The following information is a summary only and is to be read in conjunction with, and is qualified in its entirety by, the more detailed information appearing elsewhere in the Prospectus and in the documents incorporated by reference herein. Unless otherwise noted or the context otherwise indicates, "Corporation" refers to Fortis Inc.

The Offering

Issue: 10,000,000 Cumulative Redeemable Five-Year Fixed Rate Reset First Preference Shares, Series H (the "Series H First Preference Shares").

Amount: $250,000,000.

Price: $25.00 per Series H First Preference Share (the "Offering Price").

Use of Proceeds: The net proceeds of the distribution of the Series H First Preference Shares (the "Offering") will be approximately $241.85 million, determined after deducting the underwriting fee and the expenses of the Offering, which are estimated to be $650,000. The net proceeds of the Offering will be used to repay $129 million outstanding under the Corporation's $600 million committed credit facility, which indebtedness was incurred: (i) for funding equity injections into FortisAlberta Inc. and FortisBC Inc. in support of their capital expenditure programs; (ii) to fund a portion of the acquisition purchase price of Great Lakes Power Distribution Inc.; and (iii) for general corporate purposes. A portion of the proceeds will also be used towards funding an approximate $125 million equity injection into Terasen Gas Inc. to repay indebtedness under the utility's credit facilities incurred to support working capital and capital expenditure requirements. See "Use of Proceeds".

Principal Characteristics of Series H First Preference Shares:

Dividends: The holders of Series H First Preference Shares will be entitled to receive fixed cumulative preferential cash dividends, if, as and when declared by the board of directors of the Corporation (the "Board of Directors") for the initial period commencing on the date of original issue of the Series H First Preference Shares which is expected to be on or about January 26, 2010 (the "Closing Date") to, but excluding, June 1, 2015, in an amount equal to $1.0625 per share per annum, payable in equal quarterly instalments of $0.2656 per share on the first day of March, June, September and December of each year. Assuming an issue date of January 26, 2010, the first dividend will be payable on June 1, 2010 in the amount of $0.3668 per share.

For each five-year period commencing on the first day of June beginning on June 1, 2015, the holders of Series H First Preference Shares will be entitled to receive fixed cumulative preferential cash dividends, if, as and when declared by the Board of Directors, payable quarterly on the first day of March, June, September and December of each year, in the amount per share per annum determined by multiplying the Annual Fixed Dividend Rate (as defined herein) applicable to each subsequent five-year period by $25.00. The Annual Fixed Dividend Rate for each ensuing five-year period will be determined by the Corporation on the 30th day prior to the first day of such five-year period and will be equal to the sum of the Government of Canada Bond Yield (as defined herein) on each such day plus 1.45%.

Redemption: The Series H First Preference Shares are not redeemable by the Corporation before June 1, 2015. On June 1, 2015, and on June 1 every five years thereafter (each, a "Series H Conversion Date"), the Corporation may, at its option, upon not less than 30 days and not more than 60 days prior written

notice, redeem for cash all or any part of the outstanding Series H First Preference Shares by the payment of $25.00 per share plus all accrued and unpaid dividends up to but excluding the date fixed for redemption (less any tax required to be deducted and withheld by the Corporation under applicable laws).

The Series H First Preference Shares are not redeemable at the option of their holders.

Conversion into Series I First Preference Shares: The holders of Series H First Preference Shares will, subject to the automatic conversion provisions described herein and the right of the Corporation to redeem those shares, have the right, at their option, to convert, on each Series H Conversion Date, any or all of their Series H First Preference Shares into an equal number of Cumulative Redeemable Floating Rate First Preference Shares, Series I (the "Series I First Preference Shares") upon giving to the Corporation written notice thereof not earlier than the 30th day prior to, but not later than 5:00 p.m. (Toronto time) on the 15th day preceding, a Series H Conversion Date. Once received by the Corporation, such written notice is irrevocable.

Automatic Conversion Provisions: If the Corporation determines, after having taken into account all shares tendered for conversion by holders of Series H First Preference Shares and Series I First Preference Shares, as the case may be, that there would be outstanding on any Series H Conversion Date less than 1,000,000 Series H First Preference Shares, such remaining Series H First Preference Shares will automatically be converted on such Series H Conversion Date into an equal number of Series I First Preference Shares. Additionally, if the Corporation determines that, after conversion, there would be outstanding on such Series H Conversion Date less than 1,000,000 Series I First Preference Shares, then no Series H First Preference Shares will be converted into Series I First Preference Shares.

Ratings: DBRS Limited: Pfd-3 (high), Standard & Poor's: P-2.

Principal Characteristics of Series I First Preference Shares:

Dividends: The holders of Series I First Preference Shares will be entitled to receive floating rate cumulative preferential cash dividends, if, as and when declared by the Board of Directors, payable quarterly on the first day of March, June, September and December of each year, in the amount per share determined by multiplying the applicable Floating Quarterly Dividend Rate (as defined herein) by $25.00.

On the 30th day prior to the commencement of the initial quarterly dividend period beginning on June 1, 2015, and on the 30th day prior to the first day of each subsequent quarterly dividend period, the Corporation will determine the Floating Quarterly Dividend Rate for the ensuing quarterly dividend period. The Floating Quarterly Dividend Rate will be equal to the sum of the T-Bill Rate (as defined herein) as at the 30th day prior to the first day of the applicable quarterly dividend period plus 1.45% (calculated on the basis of the actual number of days elapsed in the applicable quarterly dividend period divided by 365). The T-Bill Rate will be the average yield expressed as a percentage per annum on three-month Government of Canada Treasury Bills, as reported by the Bank of Canada, for the most recent treasury bills auction preceding the date on which the Floating Quarterly Dividend Rate is determined.

Redemption:	On June 1, 2020, and on June 1 every five years thereafter (each, a "Series I Conversion Date"), the Corporation may, at its option, redeem for cash all or any part of the outstanding Series I First Preference Shares by the payment of $25.00 per share plus all accrued and unpaid dividends up to but excluding the date fixed for redemption (less any tax required to be deducted and withheld by the Corporation under applicable laws). On any date after June 1, 2015 that is not a Series I Conversion Date, the Corporation may, at its option, redeem for cash all or any part of the outstanding Series I First Preference Shares by the payment of $25.50 per share plus all accrued and unpaid dividends up to but excluding the date fixed for redemption (less any tax required to be deducted and withheld by the Corporation under applicable laws). Notice of any redemption will be given by the Corporation not less than 30 days and not more than 60 days prior to the date fixed for redemption. The Series I First Preference Shares are not redeemable at the option of their holders.
Conversion into Series H First Preference Shares:	Holders of Series I First Preference Shares will, subject to the automatic conversion provisions described herein and the right of the Corporation to redeem those shares, have the right, at their option, to convert, on each Series I Conversion Date, any or all of their Series I First Preference Shares into an equal number of Series H First Preference Shares upon giving to the Corporation written notice thereof not earlier than the 30th day prior to, but not later than 5:00 p.m. (Toronto time) on the 15th day preceding, a Series I Conversion Date. Once received by the Corporation, such written notice is irrevocable.
Automatic Conversion Provision:	If the Corporation determines, after having taken into account all shares tendered for conversion by holders of Series I First Preference Shares and Series H First Preference Shares, as the case may be, that there would be outstanding on any Series I Conversion Date less than 1,000,000 Series I First Preference Shares, such remaining Series I First Preference Shares will automatically be converted on such Series I Conversion Date into an equal number of Series H First Preference Shares. Additionally, if the Corporation determines that, after conversion, there would be outstanding on such Series I Conversion Date less than 1,000,000 Series H First Preference Shares, then no Series I First Preference Shares will be converted into Series H First Preference Shares.
Rights Applicable to Series H First Preference Shares and Series I First Preference Shares:	
Purchase for Cancellation:	Subject to applicable law and any necessary regulatory approvals, the Corporation will be entitled to purchase Series H First Preference Shares and Series I First Preference Shares for cancellation in the open market or by private agreement or otherwise at the lowest price or prices at which, in the opinion of the Board of Directors, such shares are obtainable.
Priority:	The Series H First Preference Shares and Series I First Preference Shares rank on a parity with any other series of First Preference Shares of the Corporation and senior to all other shares of the Corporation with respect to priority to the payment of dividends, return of capital and the distribution of assets on the dissolution, liquidation or winding-up of the Corporation.

Voting Rights:	The Series H First Preference Shares and Series I First Preference Shares are non-voting unless the Corporation fails to pay eight quarterly dividends on the Series H First Preference Shares or Series I First Preference Shares, as applicable, whether or not consecutive and whether or not such dividends have been declared and whether or not there are any monies of the Corporation properly applicable to the payment of dividends. In that event and for only so long as any such dividends remain in arrears, the holders of the Series H First Preference Shares or Series I First Preference Shares, as applicable, will be entitled to receive notice of and to attend all shareholders' meetings which take place more than 60 days after the date on which the failure first occurs, other than meetings at which only holders of another specified class or series are entitled to vote, and will be entitled to one vote for each Series H First Preference Share or Series I First Preference Share held, as applicable.
Tax on Preference Share Dividends:	The Corporation will elect, in the manner and within the time provided under subsection 191.2(1) of the *Income Tax Act* (Canada) (the "Tax Act"), to pay or cause payment of the tax under Part VI.1 of the Tax Act at a rate such that the corporate holders of Series H First Preference Shares and Series I First Preference Shares will not be required to pay tax under Part IV.1 of the Tax Act on dividends received on such shares. See "Details of the Offering" and "Canadian Federal Income Tax Considerations".
Listing:	The Toronto Stock Exchange (the "TSX") has conditionally approved the listing on the TSX of the Series H First Preference Shares distributed under this Prospectus and the Series I First Preference Shares into which the Series H First Preference Shares are convertible. Listing of the Series H First Preference Shares and the Series I First Preference Shares will be subject to the Corporation fulfilling all of the listing requirements of the TSX.
Earnings Coverage:	Earnings coverage information is provided in this Prospectus under the heading "Earnings Coverage Ratio".

FORTIS

Fortis Inc. was incorporated as 81800 Canada Ltd. under the *Canada Business Corporations Act* on June 28, 1977. The Corporation was continued under the *Corporations Act* (Newfoundland) on August 28, 1987 and on October 13, 1987 the Corporation amended its articles to change its name to "Fortis Inc." The address of the head office and principal place of business of the Corporation is The Fortis Building, Suite 1201, 139 Water Street, St. John's, Newfoundland and Labrador A1B 3T2.

Fortis is the largest investor-owned distribution utility in Canada with total assets approaching $12 billion and fiscal 2008 revenues totalling $3.9 billion. The Corporation serves more than 2,000,000 gas and electricity customers. Its regulated holdings include electric distribution utilities in five Canadian provinces and three Caribbean countries and a natural gas utility in British Columbia. Regulated utility assets comprise approximately 92% of the Corporation's total assets, with the balance comprised of non-regulated generation assets and commercial real estate and hotels. Fortis is the direct owner of all of the common shares of Terasen Inc. ("Terasen"), a company that, through its subsidiaries, is the principal distributor of natural gas in British Columbia. Fortis is the indirect owner of all of the common shares of FortisAlberta Inc. ("FortisAlberta"), a regulated electric utility that distributes electricity generated by other market participants in Alberta, FortisBC Inc. ("FortisBC"), a regulated electric utility that generates, transmits and distributes electricity in British Columbia and Maritime Electric Company Limited ("Maritime Electric"), the principal distributor of electricity on Prince Edward Island. Fortis also holds all of the common shares of Newfoundland Power Inc. ("Newfoundland Power"), the principal distributor of electricity in Newfoundland. As well, through its wholly owned subsidiary FortisOntario Inc. ("FortisOntario") and its subsidiaries, Canadian Niagara Power Inc. ("CNPI") and Cornwall Street Railway, Light and Power Company, Limited, Fortis provides an integrated electric utility service to customers primarily in Fort Erie, Cornwall, Gananoque and Port Colborne in Ontario. Through its wholly-owned subsidiary Algoma Power Inc. ("Algoma Power"), FortisOntario also distributes electricity to customers in the district of Algoma in northern Ontario.

The Corporation's regulated electric utility assets in the Caribbean consist of its ownership, through wholly owned subsidiaries, of an approximate 70% interest in Belize Electricity Limited ("Belize Electricity"), the principal distributor of electricity in Belize, Central America, and an approximate 59% interest in Caribbean Utilities Company, Ltd. ("Caribbean Utilities"), the sole provider of electricity on Grand Cayman, Cayman Islands. Fortis also owns, through a wholly owned subsidiary, P.P.C. Limited and Atlantic Equipment & Power (Turks and Caicos) Ltd. (together, "Fortis Turks and Caicos"), the principal distributor of electricity on the Turks and Caicos Islands.

The Corporation's non-regulated electricity generation operations consist of its 100% interest in each of Belize Electric Company Limited ("BECOL"), FortisOntario and non-regulated generation assets owned either directly or indirectly by FortisBC, Fortis Properties Corporation ("Fortis Properties") and Fortis.

BECOL owns and operates the 25-megawatt ("MW") Mollejon and 7-MW Chalillo hydroelectric generating facilities, both of which are located on the Macal River in Belize. Construction of the US$53 million 19-MW Vaca hydroelectric generating facility, also located on the Macal River, commenced in May 2007 and is expected to come into service early in the first quarter of 2010. FortisOntario includes the operation of a 5-MW gas-fired cogeneration plant in Cornwall, Ontario. The non-regulated electricity generation operations of FortisBC consist of the 16-MW run-of-river Walden hydroelectric power plant near Lillooet, British Columbia.

Through FortisUS Energy Corporation ("FortisUS Energy"), an indirect wholly owned subsidiary of Fortis, the Corporation owns and operates four hydroelectric generating stations in upper New York State with a total combined capacity of approximately 23 MW. The operations of FortisUS Energy are managed by Fortis Properties.

Fortis Properties is also the direct owner of a 51% interest in the Exploits River Hydro Partnership (the "Exploits Partnership"). The Exploits Partnership was established with AbitibiBowater Inc., formerly Abitibi-Consolidated Company of Canada ("Abitibi"), which holds the remaining 49% interest. The Exploits Partnership was established to develop additional capacity at Abitibi's hydroelectric generating plant at Grand Falls-Windsor and redevelop Abitibi's hydroelectric generating plant at Bishop's Falls, both in central Newfoundland. See "Non-Regulated — Fortis Generation — Central Newfoundland".

Fortis Properties' assets also include six small hydroelectric generating stations in eastern Ontario with a combined capacity of 8 MW.

Through Fortis Properties, the Corporation owns 21 hotels in eight Canadian provinces and commercial real estate primarily in Atlantic Canada.

Regulated Gas Utilities — Canadian

Terasen

The natural gas distribution business of Terasen is one of the largest in Canada. With approximately 939,600 customers, Terasen's subsidiaries provide service to over 96% of gas users in British Columbia. Terasen Gas Inc. ("TGI") is the largest of these subsidiaries, serving approximately 839,000 customers in a service area extending from Vancouver to the Fraser Valley and the interior of British Columbia. Terasen Gas (Vancouver Island) Inc. ("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, serving approximately 98,000 customers. In addition to providing transmission and distribution services to customers, TGI and TGVI also obtain natural gas supplies on behalf of most residential and commercial customers. Gas supplies are sourced primarily from northeastern British Columbia and Alberta. Terasen Gas (Whistler) Inc. ("TGWI") owns and operates the natural gas distribution system in Whistler, British Columbia, providing service to approximately 2,600 residential and commercial customers. The Terasen companies own and operate more than 46,000 kilometres of natural gas distribution and transmission pipelines and met a peak day demand of 1,234 terajoules for 2009.

Regulated Electric Utilities — Canadian

FortisAlberta

FortisAlberta distributes electricity to approximately 480,000 customers in Alberta using approximately 110,200 kilometres of distribution lines and met a peak demand of more than 3,110 MW for 2009. FortisAlberta's business is the ownership and operation of regulated electricity distribution facilities that distribute electricity generated by other market participants from high-voltage transmission substations to end-use customers in central and southern Alberta. FortisAlberta is not involved in the generation, transmission or direct sale of electricity.

FortisBC

FortisBC is an integrated, regulated electric utility that owns a network of generation, transmission and distribution assets located in the southern interior of British Columbia. FortisBC serves a diverse mix of approximately 159,000 customers, with residential customers representing the largest customer segment and met a peak demand of 714 MW for 2009. FortisBC owns four regulated hydroelectric generating plants with an aggregate capacity of 223 MW that provide approximately 45% of FortisBC's energy and 30% of its capacity needs. FortisBC's remaining electricity supply is acquired through long-term power purchase contracts and short-term market purchases. FortisBC's business also includes non-regulated operating, maintenance and management services relating to the 450-MW Waneta hydroelectric generation facility owned by Teck Cominco Metals Ltd., the 149-MW Brilliant Hydroelectric Plant, the 120-MW Brilliant Expansion Plant and the 185-MW Arrow Lakes Hydroelectric Plant, each owned by Columbia Power Corporation and Columbia Basin Trust, and the distribution system owned by the City of Kelowna.

Newfoundland Power

Newfoundland Power is an electric utility that operates an integrated generation, transmission and distribution system throughout the island portion of the Province of Newfoundland and Labrador. Newfoundland Power serves approximately 239,000 customers, or approximately 85% of electricity consumers in the Province, and met a peak demand of 1,219 MW for 2009. Approximately 92% of the electricity that Newfoundland Power sells to its customers is purchased from Newfoundland and Labrador Hydro Corporation ("Newfoundland Hydro"). Currently, Newfoundland Power has an installed generating capacity of 140 MW, of which 97 MW is hydroelectric generation.

Maritime Electric

Maritime Electric is an electric utility that operates an integrated generation, transmission and distribution system on Prince Edward Island. Maritime Electric directly supplies approximately 73,600 customers, or 90% of electricity consumers on the Island, and met a peak demand of 219 MW for 2009. Maritime Electric purchases most of the energy it distributes to its customers from New Brunswick Power Corporation and maintains on-Island generating facilities with an aggregate capacity of 150 MW.

FortisOntario

FortisOntario's distribution operations serve more than 52,000 customers in the Fort Erie, Cornwall, Gananoque and Port Colborne areas of Ontario and met a combined peak demand of 224 MW for 2009. Through CNPI, FortisOntario owns international transmission facilities at Fort Erie and owns a 10% interest in each of Westario Power Inc., Rideau St. Lawrence Holdings Inc. and Grimsby Power Inc., three regional electric distribution companies that, together, serve approximately 38,000 customers. FortisOntario also owns, as of October 2009, Algoma Power (formerly Great Lakes Power Distribution Inc.), a regulated electric distribution utility serving approximately 12,000 customers in the district of Algoma in northern Ontario which met a peak demand of 41 MW for 2009.

Regulated Electric Utilities — Caribbean

Belize Electricity

Fortis holds an indirect approximate 70% controlling interest in Belize Electricity, the principal distributor of electricity in Belize, Central America. Belize Electricity directly supplies approximately 75,500 customers in Belize and met a peak demand of 76 MW for 2009.

Caribbean Utilities

Fortis holds an indirect approximate 59% controlling interest in Caribbean Utilities. Caribbean Utilities has the exclusive right to distribute and transmit electricity on the island of Grand Cayman, Cayman Islands, pursuant to a 20-year licence entered into on April 3, 2008. Caribbean Utilities also entered into a non-exclusive 21.5-year power generation licence with the Government of the Cayman Islands on April 3, 2008.

Caribbean Utilities serves approximately 25,500 customers, has approximately 153 MW of installed generating capacity and met a peak demand 98 MW for 2009. The Class A Ordinary Shares of Caribbean Utilities are listed for trading on the TSX under the symbol CUP.U.

Fortis Turks and Caicos

Fortis Turks and Caicos serves approximately 9,000 customers, or approximately 85% of electricity consumers, on the Turks and Caicos Islands. Fortis Turks and Caicos is the principal distributor of electricity on the Turks and Caicos Islands pursuant to two 50-year licences that expire in 2036 and 2037, respectively. Fortis Turks and Caicos has an installed generating capacity of approximately 54 MW and met a peak demand of approximately 30 MW for 2009.

Non-Regulated — Fortis Generation

Belize

Non-regulated generation operations in Belize are conducted through BECOL under a franchise agreement with the Government of Belize. BECOL owns and operates the 25-MW Mollejon hydroelectric generating facility and the 7-MW Chalillo hydroelectric generating facility. Both facilities are located on the Macal River in Belize. These generating plants have the capacity of delivering average annual energy production of approximately 160 gigawatt hours ("GWh"). BECOL sells its entire output to Belize Electricity under a 50-year power purchase agreement expiring in 2055. In May 2007, BECOL began construction on the US$53 million 19-MW hydroelectric generating facility at Vaca on the Macal River in Belize. The facility is expected to come into service early in the first quarter of 2010.

The Minister of Public Utilities of Belize has issued a statutory instrument purporting to declare providers of electricity generation and water services, including BECOL, as public utility providers within the meaning of the Public Utilities Commission Act as of May 1, 2009. Fortis is currently assessing the statutory instrument and its impact on previously negotiated power purchase agreements that were approved by the Belize Public Utility Commission.

Ontario

Non-regulated generation operations in Ontario are conducted through FortisOntario and Fortis Properties and include the operation of a 5-MW gas-fired cogeneration plant in Cornwall and six small hydroelectric generating stations with a combined capacity of approximately 8 MW.

Central Newfoundland

Non-regulated generation operations in central Newfoundland are conducted through the Corporation's indirect 51% interest in the Exploits Partnership. These operations generate approximately 610 GWh annually, of which 470 GWh was utilized by Abitibi, while the remainder is sold to Newfoundland Hydro under a 30-year take-or-pay power purchase agreement expiring in 2033, which is exempt from regulation.

On December 16, 2008, the Government of Newfoundland and Labrador passed legislation expropriating most of the assets of Abitibi located in Newfoundland and Labrador. As a result, effective the first quarter of 2009, the financial results of the Exploits Partnership are being accounted for in the financial statements of Fortis using the equity method of accounting. Discussions are ongoing with various parties with respect to matters relating to the expropriation.

British Columbia

Non-regulated generation operations in British Columbia are conducted through FortisBC and consist of the 16-MW run-of-river Walden hydroelectric power plant near Lillooet. This plant sells its entire output to British Columbia Hydro & Power Authority under a power purchase agreement expiring in 2013.

Upper New York State

Non-regulated generation operations in upper New York State are conducted through FortisUS Energy and include the operations of four hydroelectric generating stations with a combined generating capacity of approximately 23 MW operating under licences from the U.S. Federal Energy Regulatory Commission. Since January 1, 2007, all four plants have been selling energy at market rates.

Non-Regulated — Fortis Properties

In addition to its non-regulated generation operations, Fortis Properties owns and operates 21 hotels, with more than 4,000 rooms, in eight Canadian provinces and approximately 2.8 million square feet of commercial real estate primarily in Atlantic Canada.

CAPITAL RESOURCES

The Corporation's principal businesses of regulated gas and electric distribution require ongoing access to capital markets to allow them to fund maintenance and expansion of infrastructure and repay maturing debt. To meet short-term capital requirements, the Corporation and its larger regulated utility subsidiaries have secured multi-year committed credit facilities. As at September 30, 2009, the Corporation and its subsidiaries had consolidated authorized lines of credit of $2.2 billion, of which $1.6 billion was available to be drawn.

The Corporation and its subsidiaries will require new capital for the repayment of at least a portion of their maturing debt. As at September 30, 2009, long-term debt maturities over the next five years are expected to average approximately $157 million annually.

RECENT DEVELOPMENTS

In October 2009, FortisOntario acquired Great Lakes Power Distribution Inc., subsequently renamed Algoma Power, for an aggregate purchase price of approximately $75 million. Algoma Power is an electric distribution utility serving approximately 12,000 customers in the district of Algoma in northern Ontario.

In October 2009, FortisAlberta issued 30-year $125 million 5.37% unsecured debentures, the net proceeds of which were used to partially repay committed credit facility borrowings that were incurred primarily to finance capital expenditures, and for general corporate purposes.

In November 2009, the Alberta Utilities Commission ("AUC") issued a decision establishing a generic allowed rate of return on common shareholder's equity ("ROE") for all Alberta utilities it regulates at 9.00 per cent for each of 2009 and 2010. The allowed ROE of 9.00 per cent is up from the 8.61 per cent that the former automatic adjustment mechanism used to establish ROE would have provided for FortisAlberta in 2009. The ROE automatic adjustment mechanism will no longer apply until further reviewed by the AUC, which is expected in 2011. The AUC also increased the deemed equity component of FortisAlberta's total capital structure to 41 per cent from 37 per cent, effective January 1, 2009. The AUC also ordered that the generic allowed ROE for all Alberta utilities that it regulates be established on an interim basis for 2011 at 9.00 per cent.

In November and December 2009, the British Columbia Utilities Commission ("BCUC") approved: (i) a Negotiated Settlement Agreement ("NSA") pertaining to the 2010 and 2011 Revenue Requirements Applications for each of TGI and TGVI; (ii) an increase in the deemed equity component of TGI's total capital structure, effective January 1, 2010, to 40 per cent from 35 per cent; (iii) an increase in TGI's allowed ROE, effective July 1, 2009, to 9.50 per cent from 8.47 per cent; and (iv) an increase in the allowed ROE to 10 per cent, effective July 1, 2009, from 9.17 per cent for each of TGVI and TGWI. The BCUC-approved NSAs did not include provisions to allow the continued use of a performance-based rate-setting mechanism at TGI and TGVI. The BCUC also determined that the former automatic adjustment mechanism used to establish ROE will no longer apply and the allowed ROEs as determined in the BCUC decision will apply until further reviewed by the BCUC.

In December 2009, the Newfoundland and Labrador Board of Commissioners of Public Utilities ("PUB") approved an NSA pertaining to Newfoundland Power's 2010 General Rate Application and increased the company's allowed ROE to 9.00 per cent from 8.95 per cent, effective January 1, 2010. The PUB also ordered that Newfoundland Power's allowed ROE for each of 2011 and 2012 shall be determined using the ROE automatic adjustment formula.

In December 2009, the Ontario Energy Board ("OEB") issued its *Report of the Board on the Cost of Capital for Ontario's Regulated Utilities*. Based on current economic indicators, the allowed ROE for 2010 has been set at 9.75 per cent for utilities in Ontario regulated by the OEB, including FortisOntario. The ROE formula has been refined to reduce sensitivity to changes in long-term Canada bond yields and includes an additional factor for utility bond spreads.

In December 2009, the BCUC approved an NSA pertaining to FortisBC's 2010 Revenue Requirements Application and increased the company's allowed ROE to 9.90 per cent from 8.87 per cent, effective January 1, 2010, as a result of the BCUC decision increasing the allowed ROE of TGI, the benchmark utility in British Columbia.

On January 11, 2010, the Corporation announced that the Board of Directors had declared first quarter dividends, payable on March 1, 2010, of $0.28 per Common Share, $0.340625 per First Preference Share, Series C, $0.3063 per First Preference Share, Series E, $0.3063 per First Preference Share, Series F and $0.3281 per First Preference Share, Series G. The Corporation has increased its annual dividend payments on Common Shares for 37 consecutive years.

CAPITALIZATION

The following table sets out the consolidated capitalization of the Corporation as at September 30, 2009 and after giving effect to the Offering and the change in the common share capital and long-term debt and capital lease obligations from October 1, 2009 to January 15, 2010. See "Changes in Share and Loan Capital Structure". The financial information set out below should be read in conjunction with the Corporation's audited consolidated financial statements and unaudited interim consolidated financial statements incorporated by reference into the Prospectus and the notes thereto.

	Outstanding at September 30, 2009	***Pro forma* Outstanding at September 30, 2009**
	(unaudited)	(unaudited)
	(in millions of dollars)	
Total debt (net of cash)	5,604	5,494[(1)]
Preference shares[(2)]	320	320
Shareholders' equity		
Securities offered hereby[(3)]	Nil	244
Common shares	2,482	2,498[(1)]
Preference shares[(4)]	347	347
Contributed surplus	10	10
Equity portion of convertible debentures	5	5
Accumulated other comprehensive loss	(79)	(79)
Retained earnings	682	682
Total capitalization	9,371	9,521

(1) After giving effect to the Offering and the change in the common share capital and long-term debt and capital lease obligations from October 1, 2009 to January 15, 2010. See "Changes in Share and Loan Capital Structure".

(2) First Preference Shares, Series C and First Preference Shares, Series E (as defined below), which are classified as long-term liabilities in the financial statements of Fortis.

(3) Securities offered hereby are net of the after-tax Underwriters' Fee and Offering expenses.

(4) First Preference Shares, Series F and First Preference Shares, Series G (as defined below).

SHARE CAPITAL OF FORTIS

The authorized share capital of the Corporation consists of an unlimited number of common shares (the "Common Shares"), an unlimited number of First Preference Shares issuable in series and an unlimited number of Second Preference Shares issuable in series, in each case without nominal or par value. As at January 15, 2010, 171,333,571 Common Shares, 5,000,000 Cumulative Redeemable First Preference Shares, Series C (the "First Preference Shares, Series C"), 7,993,500 Cumulative Redeemable First Preference Shares, Series E (the "First Preference Shares, Series E"), 5,000,000 Cumulative Redeemable First Preference Shares, Series F (the "First Preference Shares, Series F") and 9,200,000 Cumulative Redeemable Five-Year Fixed Rate Reset First Preference Shares, Series G (the "First Preference Shares, Series G") were issued and outstanding. The Corporation's Common Shares, First Preference Shares, Series C, First Preference Shares, Series E, First Preference Shares, Series F and First Preference Shares, Series G, are listed on the TSX under the symbols "FTS", "FTS.PR.C", "FTS.PR.E", "FTS.PR.F" and "FTS.PR.G", respectively.

CHANGES IN SHARE AND LOAN CAPITAL STRUCTURE

The following describes the changes in the share and loan capital structure of Fortis since September 30, 2009:

- During the period from October 1, 2009 up to and including January 15, 2010, Fortis issued an aggregate of 680,462 Common Shares pursuant to the Corporation's Consumer Share Purchase Plan, Dividend Reinvestment Plan, Employee Share Purchase Plan and upon the exercise of options granted pursuant to the 2002 Stock Option and Executive Stock Option Plans, for aggregate consideration of $15.5 million.
- During the period from October 1, 2009 up to and including January 15, 2010, the Corporation's consolidated long-term debt and capital lease obligations, including current portion and committed credit facility borrowings classified as long-term, increased by approximately $132 million. This change includes: (i) the impact of the issuance by FortisAlberta, in October 2009, of 30-year $125 million 5.37% unsecured debentures, the net proceeds of which were used to partially repay committed credit facility borrowings that were incurred primarily to finance capital expenditures, and for general corporate purposes; and (ii) additional borrowings of approximately $129 million under the Corporation's committed credit facility. See "Use of Proceeds".
- As a result of the proposed issuance of the Series H First Preference Shares, shareholders' equity in the Corporation will increase by approximately $244 million to a total of $3.7 billion.

TRADING PRICES AND VOLUMES

The following tables set forth, for the periods indicated, the reported high and low daily trading prices and the aggregate volume of trading of the Corporation's Common Shares, First Preference Shares, Series C, First Preference Shares, Series E, First Preference Shares, Series F and First Preference Shares, Series G on the TSX.

	Trading of Common Shares			Trading of First Preference Shares, Series C		
	TSX			TSX		
	High	Low	Volume	High	Low	Volume
	($)	($)	(#)	($)	($)	(#)
2009						
January	25.06	22.89	7,809,701	26.65	25.16	97,287
February	24.60	22.33	14,130,845	26.55	25.15	50,592
March	24.24	21.52	14,643,369	25.99	24.50	81,017
April	23.20	21.55	11,180,355	26.65	25.26	79,564
May	24.31	22.15	11,200,604	26.95	25.52	38,926
June	26.25	23.67	10,446,255	27.49	25.58	42,894
July	26.19	24.00	9,178,843	27.18	25.70	211,455
August	25.99	24.61	8,110,618	27.75	26.60	44,986
September	25.39	24.62	8,323,744	27.00	26.20	301,981
October	26.24	24.61	8,776,294	26.60	26.35	71,673
November	27.13	25.10	8,018,968	26.60	26.20	34,639
December	29.24	26.19	9,343,236	26.50	26.30	35,380
2010						
January 1 to January 15	28.90	28.15	3,880,746	26.64	26.30	243,385

	Trading of First Preference Shares, Series E			Trading of First Preference Shares, Series F		
	TSX			TSX		
	High	Low	Volume	High	Low	Volume
	($)	($)	(#)	($)	($)	(#)
2009						
January	27.99	24.25	161,245	19.84	17.00	126,556
February	25.30	25.00	60,300	20.54	18.26	91,487
March	25.00	24.80	64,032	20.40	18.80	65,467
April	25.25	24.90	135,449	20.03	19.01	65,507
May	25.45	24.90	92,569	20.89	19.05	99,625
June	26.48	25.50	63,207	20.50	19.50	79,762
July	26.39	25.80	273,473	22.07	19.78	71,397
August	27.00	25.80	78,233	22.95	20.75	101,294
September	27.77	26.16	38,648	22.76	20.89	52,237
October	26.89	25.55	22,395	21.95	21.19	90,588
November	26.75	25.95	316,465	22.25	21.50	74,136
December	27.00	26.25	140,681	21.70	21.15	57,368
2010						
January 1 to January 15	26.99	26.40	89,415	22.05	21.50	53,727

	Trading of First Preference Shares, Series G		
	TSX		
	High	Low	Volume
	($)	($)	(#)
2009			
January	23.00	19.90	128,062
February	23.98	22.29	83,648
March	23.70	21.50	88,211
April	25.00	22.44	117,185
May	25.49	23.94	152,290
June	25.75	24.70	121,421
July	26.36	25.25	164,608
August	26.67	25.10	208,514
September	26.24	25.21	180,506
October	26.01	25.35	145,816
November	26.49	25.75	51,453
December	27.17	26.10	63,422
2010			
January 1 to January 15	26.75	25.56	62,435

EARNINGS COVERAGE RATIO

The Corporation's dividend requirements on all of its First Preference Shares, after giving effect to the issue of 10,000,000 Series H First Preference Shares to be distributed under this Prospectus and adjusted to a before-tax equivalent, amounted to $52 million, using an effective income tax rate of 19.3%, and $55 million, using an effective income tax rate of 14.3%, for each of the 12 months ended December 31, 2008 and the 12 months ended September 30, 2009, respectively. The Corporation's interest requirements for the 12 months ended December 31, 2008 and 12 months ended September 30, 2009 amounted to $393 million and $367 million, respectively. The Corporation's earnings before interest and income tax for the 12 months ended December 31, 2008 and 12 months ended September 30, 2009 were $687 million and $687 million, respectively, which is 1.54 times and 1.63 times, respectively, the Corporation's aggregate dividend and interest requirements for the periods.

RATINGS

The Series H First Preference Shares are rated Pfd-3 (high) by DBRS Limited ("DBRS"). The Series H First Preference Shares are rated P-2 by Standard & Poor's Rating Services, a division of The McGraw-Hill Companies (Canada) Corporation ("S&P").

The DBRS rating of Pfd-3 (high) is the highest of three sub-categories within the third-highest rating of the six standard categories of ratings utilized by DBRS for preferred shares. A P-2 rating by S&P is the second of the three sub-categories within the second highest rating of the eight standard categories of ratings utilized by S&P for preferred shares.

Credit ratings are intended to provide investors with an independent measure of the credit quality of an issue of securities. The credit ratings accorded to the Series H First Preference Shares by these rating agencies are not recommendations to purchase, hold or sell the Series H First Preference Shares, as such ratings do not comment as to market price or suitability for a particular investor. There is no assurance that any rating will remain in effect for any given period of time or that any rating will not be revised or withdrawn entirely by a rating agency in the future if, in its judgment, circumstances so warrant.

DETAILS OF THE OFFERING

Specific Provisions of First Preference Shares

The following is a summary of the material rights, privileges, conditions and restrictions attached to the First Preference Shares as a class.

Issuance in Series

The Board of Directors may from time to time issue First Preference Shares in one or more series. Prior to issuing shares in a series, the Board of Directors is required to fix the number of shares in the series and determine the designation, rights, privileges, restrictions and conditions attaching to that series of First Preference Shares.

Priority

The shares of each series of First Preference Shares rank in parity with the First Preference Shares of every other series and in priority to all other shares of the Corporation as to the payment of dividends, return of capital and the distribution of assets in the event of the liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, or any other distribution of the assets of the Corporation among its shareholders for the purpose of winding-up its affairs. Each series of First Preference Shares participates rateably with every other series of First Preference Shares in respect of accumulated cumulative dividends and return of capital if any amount of cumulative dividends, whether or not declared, or amount payable on the return of capital in respect of a series of First Preference Shares, is not paid in full.

Voting

The holders of the First Preference Shares are not entitled to any voting rights as a class except to the extent that voting rights may from time to time be attached to any series of First Preference Shares, and except as provided by law or as described below under "Modification". At any meeting of the holders of the First Preference Shares, each holder shall have one vote in respect of each First Preference Share held.

Modification

The class provisions attached to the First Preference Shares may only be amended with the prior approval of the holders of the First Preference Shares in addition to any other approvals required by the *Corporations Act* (Newfoundland and Labrador) or any other statutory provisions of like or similar effect in force from time to time. The approval of the holders of the First Preference Shares with respect to any and all matters may be given by at least two-thirds of the votes cast at a meeting of the holders of the First Preference Shares duly called for that purpose.

Specific Provisions of Series H First Preference Shares

The following is a summary of the material rights, privileges, restrictions and conditions attached to the Series H First Preference Shares.

Definition of Terms

The following definitions are relevant to the Series H First Preference Shares.

"**Annual Fixed Dividend Rate**" means, for any Subsequent Fixed Rate Period, the rate of interest (expressed as a percentage rounded to the nearest one hundred-thousandth of one percent (with 0.000005% being rounded up)) equal to the sum of the Government of Canada Bond Yield on the applicable Fixed Rate Calculation Date plus 1.45%.

"**Bloomberg Screen GCAN5YR Page**" means the display designated as page "GCAN5YR<INDEX>" on the Bloomberg Financial L.P. service (or such other page as may replace the GCAN5YR page on that service) for purposes of displaying the Government of Canada Bond Yield.

"**Fixed Rate Calculation Date**" means, for any Subsequent Fixed Rate Period, the 30th day prior to the first day of such Subsequent Fixed Rate Period.

"**Government of Canada Bond Yield**" on any date means the yield to maturity on such date (assuming semi-annual compounding) of a Canadian dollar denominated non-callable Government of Canada bond with a term to maturity of five years as quoted as of 10:00 a.m. (Toronto time) on such date and which appears on the Bloomberg Screen GCAN5YR Page on such date, provided that, if such rate does not appear on the Bloomberg Screen GCAN5YR Page on such date, the Government of Canada Bond Yield will mean the average of the yields determined by two registered Canadian investment dealers selected by the Corporation as being the yield to maturity on such date (assuming semi-annual compounding) that a Canadian dollar denominated non-callable Government of Canada bond would carry if issued in Canadian dollars at 100% of its principal amount on such date with a term to maturity of five years.

"**Initial Fixed Rate Period**" means the period commencing on the Closing Date to, but excluding, June 1, 2015.

"**Subsequent Fixed Rate Period**" means, for the initial Subsequent Fixed Rate Period, the period commencing on June 1, 2015 to, but excluding, June 1, 2020 and, for each succeeding Subsequent Fixed Rate Period, the period commencing on the first day of June immediately following the end of the immediately preceding Subsequent Fixed Rate Period to, but excluding, June 1 in the fifth year thereafter.

Issue Price

The Series H First Preference Shares will have an issue price of $25.00 per share.

Dividends

During the Initial Fixed Rate Period, the holders of the Series H First Preference Shares will be entitled to receive fixed cumulative preferential cash dividends, if, as and when declared by the Board of Directors, in an amount equal to $1.0625 per share per annum, accruing from the date of original issue, payable in equal quarterly instalments on the first day of March, June, September and December of each year in an amount equal to $0.2656 per share. The initial dividend, if declared, will be payable on June 1, 2010 and will be $0.3668 per share, based on the anticipated Closing Date of January 26, 2010.

During each Subsequent Fixed Rate Period after the Initial Fixed Rate Period, the holders of the Series H First Preference Shares will be entitled to receive fixed cumulative preferential cash dividends, if, as and when declared by the Board of Directors, payable in equal quarterly instalments on the first day of March, June, September and December of each year, in the amount per share per annum determined by multiplying the Annual Fixed Dividend Rate applicable to such Subsequent Fixed Rate Period by $25.00.

The Annual Fixed Dividend Rate applicable to a Subsequent Fixed Rate Period will be determined by the Corporation on the Fixed Rate Calculation Date. Such determination will, in the absence of manifest error, be final and binding upon the Corporation and upon all holders of the Series H First Preference Shares. The Corporation will, on the Fixed Rate Calculation Date, give written notice of the Annual Fixed Dividend Rate for the ensuing Subsequent Fixed Rate Period to the registered holders of the then outstanding Series H First Preference Shares. If the Corporation gives notice to the holders of the Series H First Preference Shares of its intention to redeem all of the Series H First Preference Shares (as described below), the Corporation will not be required to give written notice of the Annual Fixed Dividend Rate for the ensuing Subsequent Fixed Rate Period.

Redemption

The Series H First Preference Shares are not redeemable by the Corporation before June 1, 2015. On June 1, 2015, and on June 1 every five years thereafter (each, a "Series H Conversion Date"), subject to the terms of any shares of the Corporation ranking prior to the Series H First Preference Shares, to applicable law and to the provisions described under "Restrictions on Dividends and Retirement and Issue of Shares" below, the Corporation may, at its option, redeem all or any part of the then outstanding Series H First Preference Shares by the payment of an amount in cash for each such share so redeemed of $25.00 plus all accrued and unpaid dividends up to but excluding the date fixed for redemption (less any tax required to be deducted and withheld by the Corporation).

Notice of any redemption will be given by the Corporation not less than 30 days and not more than 60 days prior to the date fixed for redemption. If less than all of the outstanding Series H First Preference Shares are at any time to be redeemed, the shares to be redeemed will be redeemed on a *pro rata* basis.

The Series H First Preference Shares are not redeemable at the option of their holders.

Conversion of Series H First Preference Shares into Series I First Preference Shares

The holders of Series H First Preference Shares will have the right, at their option, on each Series H Conversion Date, to convert, subject to the restrictions on conversion described below and the payment or delivery to the Corporation of evidence of payment of the tax (if any) payable in connection with such conversion, all or any of the Series H First Preference Shares registered in their name into Series I First Preference Shares, on the basis of one Series I First Preference Share for each Series H First Preference Share. The conversion of the Series H First Preference Shares may be effected by delivery to the Corporation of written notice thereof not earlier than the 30th day prior to, but not later than 5:00 p.m. (Toronto time) on the 15th day preceding, a Series H Conversion Date. Once received by the Corporation, such written notice is irrevocable.

The Corporation will, not less than 30 days and not more than 60 days prior to the applicable Series H Conversion Date, give notice in writing to the then registered holders of the Series H First Preference Shares of the above-mentioned conversion right. On the 30th day prior to each Series H Conversion Date, the Corporation will give notice in writing to the then registered holders of the Series H First Preference Shares of the Floating Quarterly Dividend Rate (as defined below) applicable to the Series I First Preference Shares for the next succeeding Quarterly Floating Rate Period (as defined below).

The holders of Series H First Preference Shares will not be entitled to convert their shares into Series I First Preference Shares if the Corporation determines that there would remain outstanding on a Series H Conversion Date less than 1,000,000 Series I First Preference Shares, after having taken into account all Series H First Preference Shares tendered for conversion into Series I First Preference Shares and all Series I First Preference Shares tendered for conversion into Series H First Preference Shares. The Corporation will give notice in writing thereof to all affected registered holders of Series H First Preference Shares at least seven days prior to the applicable Series H Conversion Date. Furthermore, if the Corporation determines that there would remain outstanding on a Series H Conversion Date less than 1,000,000 Series H First Preference Shares, after having taken into account all Series H First Preference Shares tendered for conversion into Series I First Preference Shares and all Series I First Preference Shares tendered for conversion into Series H First Preference Shares, then all, but not part, of the remaining outstanding Series H First Preference Shares will automatically be converted into Series I First Preference Shares on the basis of one Series I First Preference Share for each Series H First Preference Share on the applicable Series H Conversion Date and the Corporation will give notice in writing thereof to the then registered holders of such remaining Series H First Preference Shares at least seven days prior to the Series H Conversion Date.

If the Corporation gives notice to the registered holders of the Series H First Preference Shares of the redemption of all the Series H First Preference Shares, the Corporation will not be required to give notice as provided hereunder to the registered holders of the Series H First Preference Shares of a Floating Quarterly Dividend Rate or the conversion right of holders of Series H First Preference Shares and the right of any holder of Series H First Preference Shares to convert such Series H First Preference Shares will cease and terminate in that event.

A holder of Series H First Preference Shares on the record date for any dividend declared payable on such shares will be entitled to such dividend notwithstanding that such shares are converted into Series I First Preference Shares after such record date and on or before the date of the payment of such dividend.

Upon the exercise by a holder of Series H First Preference Shares of its right to convert Series H First Preference Shares into Series I First Preference Shares or upon an automatic conversion of Series H First Preference Shares, the Corporation reserves the right not to issue any Series I First Preference Shares to any person whose address is in, or whom the Corporation or its transfer agent has reason to believe is a resident of, any jurisdiction outside of Canada to the extent that such issue would require the Corporation to take any action to comply with the securities laws or other laws of such jurisdiction.

Purchase for Cancellation

Subject to applicable law, any necessary regulatory approvals and the provisions described under "Restrictions on Dividends and Retirement and Issue of Shares" below, the Corporation may, at any time, purchase for cancellation the whole or any part of the Series H First Preference Shares in the open market or by private agreement or otherwise at the lowest price or prices at which, in the opinion of the Board of Directors, such shares are obtainable.

Liquidation, Dissolution and Winding-Up

In the event of the liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, or any other distribution of the assets of the Corporation among its shareholders for the purpose of winding-up its affairs, the holders of the Series H First Preference Shares will be entitled to payment of an amount equal to $25.00 per share, plus an amount equal to all accrued and unpaid dividends up to but excluding the date fixed for payment or distribution (less any tax required to be deducted and withheld by the Corporation), before any amount is paid or any assets of the Corporation are distributed to the holders of the Common Shares or any other shares ranking junior as to capital to the Series H First Preference Shares. The holders of the Series H First Preference Shares will not be entitled to share in any further distribution of the assets of the Corporation.

Restrictions on Dividends and Retirement and Issue of Shares

So long as any of the Series H First Preference Shares are outstanding, the Corporation will not, without the approval of the holders of the Series H First Preference Shares:

(a) declare, pay or set apart for payment any dividends (other than stock dividends payable in shares of the Corporation ranking as to capital and dividends junior to the Series H First Preference Shares) on any shares of the Corporation ranking as to dividends junior to the Series H First Preference Shares;

(b) except out of the net cash proceeds of a substantially concurrent issue of shares of the Corporation ranking as to capital and dividends junior to the Series H First Preference Shares, redeem or call for redemption, purchase or otherwise pay off, retire or make any return of capital in respect of any shares of the Corporation ranking as to capital junior to the Series H First Preference Shares;

(c) redeem or call for redemption, purchase or otherwise pay off or retire for value or make any return of capital in respect of less than all of the Series H First Preference Shares then outstanding;

(d) except pursuant to any purchase obligation, sinking fund, retraction privilege or mandatory redemption provisions attaching thereto, redeem or call for redemption, purchase or otherwise pay off or retire for value or make any return of capital in respect of any First Preference Shares, ranking as to dividends or capital on a parity with the Series H First Preference Shares; or

(e) issue any additional Series H First Preference Shares (other than in accordance with the conversion provisions of the Series I First Preference Shares) or any shares ranking as to dividends or capital prior to or on a parity with the Series H First Preference Shares (other than any Series I First Preference Shares issued in accordance with the conversion provisions of the Series H First Preference Shares),

unless, in each such case, all accrued and unpaid dividends up to and including the dividend payable for the last completed period for which dividends were payable on the Series H First Preference Shares and on all other shares of the Corporation ranking as to dividends prior to or on a parity with the Series H First Preference Shares with respect to the payment of dividends have been declared and paid or set apart for payment.

Shareholder Approvals

The approval of all amendments to the rights, privileges, restrictions and conditions attaching to the Series H First Preference Shares as a series and any other approval to be given by the holders of the Series H First Preference Shares may be given in such manner as then required by law, subject to a minimum requirement that such approval be given by a resolution in writing signed by all the holders of the Series H First Preference Shares or by a resolution carried by an affirmative vote of at least two-thirds of the votes cast at a meeting at which the holders of not less than a majority of the outstanding Series H First Preference Shares are present or represented by proxy or, if no quorum is present at such meeting, at an adjourned meeting at which the holders of Series H First Preference Shares then present would form the necessary quorum. At any meeting of holders of Series H First Preference Shares as a series, each such holder shall be entitled to one vote in respect of each Series H First Preference Share held.

Voting Rights

The holders of the Series H First Preference Shares will not be entitled (except as otherwise provided by law and except for meetings of the holders of First Preference Shares as a class and meetings of the holders of Series H First Preference Shares as a series) to receive notice of, attend at or vote at any meeting of shareholders of the Corporation, unless and until the Corporation fails to pay eight quarterly dividends on the Series H First Preference Shares, whether or not consecutive and whether or not such dividends have been declared and whether or not there are any monies of the Corporation properly applicable to the payment of dividends. In the event of such non-payment, and for only so long as any such dividends remain in arrears, the holders of the Series H First Preference Shares will have the right to receive notice of and to attend each meeting of shareholders of the Corporation which takes place more than 60 days after the date on which the failure first occurs (other than a separate meeting of the holders of another series or class of shares) and such holders shall have the right, at any such meeting, to one vote for each Series H First Preference Share held. Subject to applicable law, no other voting rights shall attach to the Series H First Preference Shares in any circumstances. The voting rights of the holders of the Series H First Preference Shares shall forthwith cease upon payment by the Corporation of any and all such dividends in arrears on the Series H First Preference Shares to which the holders are entitled, until such time as the Corporation may again fail to pay eight quarterly dividends on the Series H First Preference Shares, whether or not consecutive and whether or not such dividends have been declared and whether or not there are any monies of the Corporation properly applicable to the payment of dividends, in which event such voting rights shall become effective again and so on from time to time.

Tax Election

The Corporation will elect, in the manner and within the time provided under subsection 191.2(1) of the Tax Act, to pay or cause payment of tax under Part VI.1 of the Tax Act at a rate such that the corporate holders of Series H First Preference Shares will not be required to pay tax under Part IV.1 of the Tax Act on dividends received on such shares.

Business Days

If any action or payment is required to be taken or made by the Corporation on a day that is not a business day, then such action will be taken or such payment will be made on the next succeeding day that is a business day.

Specific Provisions of Series I First Preference Shares

The following is a summary of the material rights, privileges, restrictions and conditions attached to the Series I First Preference Shares.

Definition of Terms

The following definitions are relevant to the Series I First Preference Shares.

“**Bloomberg Screen CA3MAY Page**” means the display designated as page “CA3MAY<INDEX>” on the Bloomberg Financial L.P. service (or such other page as may replace the CA3MAY page or that service) for purposes of displaying the T-Bill Rate.

“**Floating Quarterly Dividend Rate**” means, for any Quarterly Floating Rate Period, the rate of interest (expressed as a percentage rate rounded to the nearest one hundred-thousandth of one percent (with 0.000005% being rounded up)) equal to the sum of the T-Bill Rate on the applicable Floating Rate Calculation Date plus 1.45% (calculated on the basis of the actual number of days elapsed in such Quarterly Floating Rate Period divided by 365).

“**Floating Rate Calculation Date**” means, for any Quarterly Floating Rate Period, the 30th day prior to the first day of such Quarterly Floating Rate Period.

“**Quarterly Commencement Date**” means the first day of each of March, June, September and December of each year.

"**Quarterly Floating Rate Period**" means, for the initial Quarterly Floating Rate Period, the period commencing on June 1, 2015 and ending on and including August 31, 2015, and thereafter the period from and including the day immediately following the end of the immediately preceding Quarterly Floating Rate Period to, but excluding, the next succeeding Quarterly Commencement Date.

"**T-Bill Rate**" means, for any Quarterly Floating Rate Period, the average yield expressed as a percentage per annum on three-month Government of Canada Treasury Bills, as reported by the Bank of Canada, for the most recent treasury bills auction preceding the applicable Floating Rate Calculation Date as quoted on the Bloomberg Screen CA3MAY Page; provided that if such information does not appear on the Bloomberg Screen CA3MAY Page on the applicable Floating Rate Calculation Date, then as determined by the Corporation.

Issue Price

The Series I First Preference Shares will have an issue price of $25.00 per share.

Dividends

The holders of the Series I First Preference Shares will be entitled to receive floating rate cumulative preferential cash dividends, if, as and when declared by the Board of Directors payable quarterly on the first day of March, June, September and December of each year, in the amount per share determined by multiplying the applicable Floating Quarterly Dividend Rate by $25.00.

The Floating Quarterly Dividend Rate for each Quarterly Floating Rate Period will be determined by the Corporation on the Floating Rate Calculation Date. Such determination will, in the absence of manifest error, be final and binding upon the Corporation and upon all holders of Series I First Preference Shares. The Corporation will, on the Floating Rate Calculation Date, give written notice of the Floating Quarterly Dividend Rate for the ensuing Quarterly Floating Rate Period to all registered holders of the then outstanding Series I First Preference Shares. If the Corporation gives notice to the holders of the Series I First Preference Shares of its intention to redeem all of the Series I First Preference shares (as described below), the Corporation will not be required to give written notice of the Floating Quarterly Dividend Rate for the ensuing Quarterly Floating Rate Period.

Redemption

Subject to the terms of any shares of the Corporation ranking prior to the Series I First Preference Shares, to applicable law and to the provisions described under "Restrictions on Dividends and Retirement and Issue of Shares" below, the Corporation may, at its option, redeem all or any part of the then outstanding Series I First Preference Shares by the payment of an amount in cash for each such share so redeemed of: (i) $25.00 plus all accrued and unpaid dividends up to but excluding the date fixed for redemption (less any tax required to be deducted and withheld by the Corporation), in the case of redemptions on June 1, 2020 and June 1 every five years thereafter (each, a "Series I Conversion Date"); or (ii) $25.50 plus all accrued and unpaid dividends up to but excluding the date fixed for redemption (less any tax required to be deducted and withheld by the Corporation), in the case of redemptions on any date after June 1, 2015 that is not a Series I Conversion Date.

Notice of any redemption will be given by the Corporation not less than 30 days and not more than 60 days prior to the date fixed for redemption. If less than all of the outstanding Series I First Preference Shares are at any time to be redeemed, the shares to be redeemed will be redeemed on a *pro rata* basis.

The Series I First Preference Shares are not redeemable at the option of their holders.

Conversion of Series I First Preference Shares into Series H First Preference Shares

The holders of Series I First Preference Shares will have the right, at their option, on each Series I Conversion Date, to convert, subject to the restrictions on conversion described below and the payment or delivery to the Corporation of evidence of payment of the tax (if any) payable in connection with such conversion, all or any of the Series I First Preference Shares registered in their name into Series H First Preference Shares on the basis of one Series H First Preference Share for each Series I First Preference Share. The conversion of Series I First Preference Shares may be effected by delivery to the Corporation of written notice thereof not earlier than the 30th day prior to, but not later than 5:00 p.m. (Toronto time) on the 15th day preceding, a Series I Conversion Date. Once received by the Corporation, such written notice is irrevocable.

The Corporation will, not less than 30 days and not more than 60 days prior to the applicable Series I Conversion Date, give notice in writing to the then registered holders of the Series I First Preference Shares of the above-mentioned conversion right. On the 30th day prior to each Series I Conversion Date, the Corporation will give notice in writing to the then registered holders of the Series I First Preference Shares of the Annual Fixed Dividend Rate applicable to the Series H First Preference Shares for the next succeeding Subsequent Fixed Rate Period.

The holders of Series I First Preference Shares will not be entitled to convert their shares into Series H First Preference Shares if the Corporation determines that there would remain outstanding on a Series I Conversion Date less than 1,000,000 Series H First Preference Shares, after having taken into account all Series I First Preference Shares tendered for conversion into Series H First Preference Shares and all Series H First Preference Shares tendered for conversion into Series I First Preference Shares. The Corporation will give notice in writing thereof to all affected registered holders of Series I First Preference Shares at least seven days prior to the applicable Series I Conversion Date. Furthermore, if the Corporation determines that there would remain outstanding on a Series I Conversion Date less than 1,000,000 Series I First Preference Shares, after having taken into account all Series I First Preference Shares tendered for conversion into Series H First Preference Shares and all Series H First Preference Shares tendered for conversion into Series I First Preference Shares, then all, but not part, of the remaining outstanding Series I First Preference Shares will automatically be converted into Series H First Preference Shares on the basis of one Series H First Preference Share for each Series I First Preference Share on the applicable Series I Conversion Date and the Corporation will give notice in writing thereof to the then registered holders of such remaining Series I First Preference Shares at least seven days prior to the Series I Conversion Date.

If the Corporation gives notice to the registered holders of the Series I First Preference Shares of the redemption of all the Series I First Preference Shares, the Corporation will not be required to give notice as provided hereunder to the registered holders of the Series I First Preference Shares of an Annual Fixed Dividend Rate or the conversion right of holders of Series I First Preference Shares and the right of any holder of Series I First Preference Shares to convert such Series I First Preference Shares will cease and terminate in that event.

A holder of Series I First Preference Shares on the record date for any dividend declared payable on such shares will be entitled to such dividend notwithstanding that such shares are converted into Series H First Preference Shares after such record date and on or before the date of the payment of such dividend.

Upon the exercise by a holder of Series I First Preference Shares of its right to convert Series I First Preference Shares into Series H First Preference Shares or upon an automatic conversion of Series I First Preference Shares, the Corporation reserves the right not to issue any Series H First Preference Shares to any person whose address is in, or whom the Corporation or its transfer agent has reason to believe is a resident of, any jurisdiction outside of Canada to the extent that such issue would require the Corporation to take any action to comply with the securities laws or other laws of such jurisdiction.

Purchase for Cancellation

Subject to applicable law, any necessary regulatory approvals and the provisions described under “Restrictions on Dividends and Retirement and Issue of Shares” below, the Corporation may, at any time, purchase for cancellation the whole or any part of the Series I First Preference Shares in the open market or by private agreement or otherwise at the lowest price or prices at which, in the opinion of the Board of Directors, such shares are obtainable.

Liquidation, Dissolution and Winding-Up

In the event of the liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, or any other distribution of the assets of the Corporation among its shareholders for the purpose of winding-up its affairs, the holders of the Series I First Preference Shares will be entitled to payment of an amount equal to $25.00 per share, plus an amount equal to all accrued and unpaid dividends up to but excluding the date fixed for payment or distribution (less any tax required to be deducted and withheld by the Corporation), before any amount is paid or any assets of the Corporation are distributed to the holders of the Common Shares or any other shares ranking junior as to capital to the Series I First Preference Shares. The holders of the Series I First Preference Shares will not be entitled to share in any further distribution of the assets of the Corporation.

Restrictions on Dividends and Retirement and Issue of Shares

So long as any of the Series I First Preference Shares are outstanding, the Corporation will not, without the approval of the holders of the Series I First Preference Shares:

(a) declare, pay or set apart for payment any dividends (other than stock dividends payable in shares of the Corporation ranking as to capital and dividends junior to the Series I First Preference Shares) on any shares of the Corporation ranking as to dividends junior to the Series I First Preference Shares;

(b) except out of the net cash proceeds of a substantially concurrent issue of shares of the Corporation ranking as to capital and dividends junior to the Series I First Preference Shares, redeem or call for redemption, purchase or otherwise pay off, retire or make any return of capital in respect of any shares of the Corporation ranking as to capital junior to the Series I First Preference Shares;

(c) redeem or call for redemption, purchase or otherwise pay off or retire for value or make any return of capital in respect of less than all of the Series I First Preference Shares then outstanding;

(d) except pursuant to any purchase obligation, sinking fund, retraction privilege or mandatory redemption provisions attaching thereto, redeem or call for redemption, purchase or otherwise pay off or retire for value or make any return of capital in respect of any First Preference Shares, ranking as to dividends or capital on a parity with the Series I First Preference Shares; or

(e) issue any additional Series I First Preference Shares (other than in accordance with the conversion provisions of the Series H First Preference Shares) or any shares ranking as to dividends or capital prior to or on a parity with the Series I First Preference Shares (other than any Series H First Preference Shares issued in accordance with the conversion provisions of the Series I First Preference Shares),

unless, in each such case, all accrued and unpaid dividends up to and including the dividend payable for the last completed period for which dividends were payable on the Series I First Preference Shares and on all other shares of the Corporation ranking as to dividends prior to or on a parity with the Series I First Preference Shares with respect to the payment of dividends have been declared and paid or set apart for payment.

Shareholder Approvals

The approval of all amendments to the rights, privileges, restrictions and conditions attaching to the Series I First Preference Shares as a series and any other approval to be given by the holders of the Series I First Preference Shares may be given in such manner as then required by law, subject to a minimum requirement that such approval be given by a resolution in writing signed by all the holders of the Series I First Preference Shares or by a resolution carried by an affirmative vote of at least two-thirds of the votes cast at a meeting at which the holders of not less than a majority of the outstanding Series I First Preference Shares are present or represented by proxy or, if no quorum is present at such meeting, at an adjourned meeting at which the holders of Series I First Preference Shares then present would form the necessary quorum. At any meeting of holders of Series I First Preference Shares as a series, each such holder shall be entitled to one vote in respect of each Series I First Preference Share.

Voting Rights

The holders of the Series I First Preference Shares will not be entitled (except as otherwise provided by law and except for meetings of the holders of First Preference Shares as a class and meetings of the holders of Series I First Preference Shares as a series) to receive notice of, attend at, or vote at any meeting of shareholders of the Corporation unless and until the Corporation fails to pay eight quarterly dividends on the Series I First Preference Shares, whether or not consecutive and whether or not such dividends have been declared and whether or not there are any monies of the Corporation properly applicable to the payment of dividends. In the event of such non-payment, and for only so long as any such dividends remain in arrears, the holders of the Series I First Preference Shares will have the right to receive notice of and to attend each meeting of shareholders of the Corporation which takes place more than 60 days after the date on which the failure first occurs (other than a separate meeting of the holders of another series or class of shares) and such holders shall have the right, at any such meeting, to one vote for each Series I First Preference Share held. Subject to applicable law, no other voting rights shall attach to the Series I First Preference Shares in any circumstances. The voting rights of the holders of the Series I First Preference Shares shall forthwith cease upon payment by the Corporation of any and all such dividends in arrears on the Series I First Preference Shares to which the holders are entitled, until such time as the Corporation may again fail to pay eight quarterly dividends on the Series I First Preference Shares, whether or not consecutive and whether or not such dividends have been declared and whether or not there are any monies of the

Corporation properly applicable to the payment of dividends, in which event such voting rights shall become effective again and so on from time to time.

Tax Election

The Corporation will elect, in the manner and within the time provided under subsection 191.2(1) of the Tax Act, to pay or cause payment of tax under Part VI.1 of the Tax Act at a rate such that the corporate holders of Series I First Preference Shares will not be required to pay tax under Part IV.1 of the Tax Act on dividends received on such shares.

Business Days

If any action or payment is required to be taken or made by the Corporation on a day that is not a business day, then such action will be taken or such payment will be made on the next succeeding day that is a business day.

BOOK ENTRY ONLY SYSTEM

Except as otherwise provided below, the Series H First Preference Shares and Series I First Preference Shares will be issued in a "book entry only" form and must be purchased or transferred through participants ("Participants") in the depository service of CDS Clearing and Depository Services Inc. ("CDS") or its nominee which include securities brokers and dealers, banks and trust companies. On the Closing Date, the Corporation will cause a global certificate representing the Series H First Preference Shares to be delivered to, and registered in the name of, CDS or its nominee. Except as otherwise provided below, no purchaser of Series H First Preference Shares or Series I First Preference Shares, as applicable, will be entitled to a certificate or other instrument from the Corporation or CDS evidencing that purchaser's ownership, and no purchaser will be shown on the records maintained by CDS except through a book entry account of a Participant acting on behalf of the purchaser. Each purchaser of Series H First Preference Shares or Series I First Preference Shares, as applicable, will receive a customer confirmation of purchase from the registered dealer from which the Series H First Preference Shares or Series I First Preference Shares, as applicable, are purchased in accordance with the practices and procedures of the dealer. The practices of registered dealers may vary, but generally, customer confirmations are issued promptly after execution of a customer order. CDS is responsible for establishing and maintaining book entry accounts for its Participants having interests in the Series H First Preference Shares or Series I First Preference Shares, as applicable. Physical certificates evidencing the Series H First Preference Shares and Series I First Preference Shares will not be issued to purchasers, except in limited circumstances, and registration will be made through the depository service of CDS.

Neither the Corporation nor the Underwriters will assume any liability for: (a) any aspect of the records relating to the beneficial ownership of the Series H First Preference Shares or Series I First Preference Shares, as applicable, held by CDS or the payments relating thereto; (b) maintaining, supervising or reviewing any records relating to the Series H First Preference Shares or Series I First Preference Shares, as applicable; or (c) any advice or representation made by or with respect to CDS and those contained in this Prospectus and relating to the rules governing CDS or any action to be taken by CDS or at the direction of its Participants. The rules governing CDS provide that it acts as the agent and depository for the Participants. As a result, Participants must look solely to CDS and persons, other than Participants, having an interest in the Series H First Preference Shares or Series I First Preference Shares, as applicable, must look solely to Participants for payments made by or on behalf of the Corporation to CDS in respect of the Series H First Preference Shares or Series I First Preference Shares, as applicable.

If (i) required by applicable law, (ii) the book entry system ceases to exist, (iii) CDS advises the Corporation that it is no longer willing or able to discharge properly its responsibilities as depository with respect to the Series H First Preference Shares or Series I First Preference Shares, as applicable, and the Corporation is unable to locate a qualified successor, or (iv) the Corporation, at its option, decides to terminate the book entry system, then certificates representing the Series H First Preference Shares or Series I First Preference Shares, as applicable, will be made available.

Manner of Effecting Conversion, Transfer or Redemption

A conversion, transfer or redemption of Series H First Preference Shares or Series I First Preference Shares, as applicable, will be effected through records maintained by CDS or its nominee with respect to interests of Participants, and on the records of Participants with respect to interests of persons other than Participants. Persons who are holders of Series H First Preference Shares or Series I First Preference Shares, as applicable, who are not Participants, but who wish to purchase, sell or otherwise transfer ownership of or other interests in Series H First Preference Shares or Series I First Preference Shares, may do so only through Participants.

USE OF PROCEEDS

The net proceeds of the Offering will be approximately $241.85 million, determined after deducting the Underwriters' Fee (as defined below) and the expenses of the Offering, which are estimated to be $650,000. The net proceeds of the Offering will be used to repay $129 million outstanding under the Corporation's $600 million committed credit facility, which indebtedness was incurred: (i) for funding equity injections into FortisAlberta and FortisBC in support of their capital expenditure programs; (ii) to fund a portion of the acquisition purchase price of Great Lakes Power Distribution Inc.; and (iii) for general corporate purposes. A portion of the proceeds will also be used towards funding an approximate $125 million equity injection into TGI to repay indebtedness under the utility's credit facilities incurred to support working capital and capital expenditure requirements.

PLAN OF DISTRIBUTION

Pursuant to an underwriting agreement dated January 12, 2010 (the "Underwriting Agreement") between Fortis and TD Securities Inc. ("TDSI"), Scotia Capital Inc. ("Scotia Capital"), RBC Dominion Securities Inc. ("RBCDS"), CIBC World Markets Inc. ("CIBCWM"), BMO Nesbitt Burns Inc. ("BMO Capital Markets"), National Bank Financial Inc. ("NB Financial"), HSBC Securities (Canada) Inc. ("HSBC Securities"), Beacon Securities Limited and Canaccord Financial Ltd. (collectively, the "Underwriters"), Fortis has agreed to issue and sell, and the Underwriters have agreed to purchase, as principals, on the Closing Date, 10,000,000 Series H First Preference Shares offered hereby at the Offering Price of $25.00 per Series H First Preference Share, payable in cash to Fortis against delivery, subject to compliance with all of the necessary legal requirements and to the conditions contained in the Underwriting Agreement. The obligations of the Underwriters under the Underwriting Agreement may be terminated at their discretion on the basis of their assessment of the state of the financial markets and may also be terminated upon the occurrence of certain stated events. The Underwriters are, however, obligated to take up and pay for all of the Series H First Preference Shares if any of the Series H First Preference Shares are purchased under the Underwriting Agreement. The Offering Price and other terms of the Offering were determined by negotiation between the Corporation and the Underwriters.

The Corporation has agreed to pay fees to the Underwriters in the amount of $0.25 per Series H First Preference Share sold to certain institutions and $0.75 per Series H First Preference Share for all other Series H First Preference Shares purchased by the Underwriters, in consideration of services rendered by the Underwriters in connection with the Offering (the "Underwriters' Fee"). Assuming that no Series H First Preference Shares are sold to such institutions, the total price to the public will be $250 million, the Underwriters' Fee will be $7.5 million and the net proceeds to Fortis will be approximately $241.85 million, after deducting the expenses of the Offering estimated at $650,000 which, together with the Underwriters' Fee, will be paid out of the general funds of the Corporation.

Subscriptions for the Series H First Preference Shares will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that the closing of the Offering will take place on the Closing Date, or such other date as may be agreed upon by the Corporation and the Underwriters, but not later than March 2, 2010.

Pursuant to rules and policy statements of certain Canadian securities regulators, the Underwriters may not, throughout the distribution period, bid for or purchase Series H First Preference Shares. The foregoing restrictions are subject to certain exceptions on the condition that the bid or purchase is not engaged in for the purpose of creating actual or apparent active trading in, or raising the price of, the Series H First Preference Shares. These exceptions include: (i) a bid for or purchase of Series H First Preference Shares if the bid or purchase is made through the facilities of the TSX, in accordance with the Universal Market Integrity Rules administered by the Investment Industry Regulating Organization of Canada relating to market stabilization and passive market making activities; and (ii) a bid or purchase made for or on behalf of a client, other than certain prescribed clients, provided that the client's order was not solicited by the Underwriter or where the order was not solicited during the period of distribution. The Underwriters may engage in market stabilization or market balancing activities on the TSX where the bid for or purchase of the Series H First Preference Shares is for the purpose of maintaining a fair and orderly market in the Series H First Preference Shares, subject to price limitations applicable to such bids or purchases. Such transactions, if commenced, may be discontinued at any time.

The Series H First Preference Shares and the Series I First Preference Shares have not been, and will not be, registered under the United States *Securities Act of 1933*, as amended (the "1933 Act") or any state securities laws and, subject to certain exceptions, may not be offered, or delivered, directly or indirectly, or sold in the United States except in certain transactions exempt from the registration requirements of the 1933 Act and in compliance with any applicable state securities laws. The Underwriters have agreed that they will not offer or sell the Series H First Preference Shares within the United States, its territories, its possessions and other areas subject to its jurisdiction or to, or for the account or benefit of, a "U.S. person" (as defined in Regulation S under the 1933 Act), except in accordance with the Underwriting Agreement pursuant to an exemption from the registration requirements of the 1933 Act provided by Rule 144A thereunder and in compliance with applicable state securities laws. In addition, until 40 days after the commencement of the Offering, an offer or sale of Series H First Preference Shares within the United States by any dealer (whether or not participating in the Offering) may violate the registration requirements of the 1933 Act if such offer is made otherwise than in reliance on Rule 144A.

The obligations of the Underwriters under the Underwriting Agreement are several (and not joint and several) and may be terminated at their discretion in certain circumstances, including upon the occurrence of certain stated events. The Underwriters are, however, obligated to take up and pay for all of the Series H First Preference Shares if any are purchased under the Underwriting Agreement. Under the terms of the Underwriting Agreement, the Underwriters may be entitled to indemnification by the Corporation against certain liabilities, including liabilities for misrepresentation in the Prospectus.

The Underwriters propose to offer the Series H First Preference Shares initially at the Offering Price set forth on the cover page of this Prospectus. After the Underwriters have made reasonable efforts to sell all of the Series H First Preference Shares at such price, the Offering Price may be decreased and further changed from time to time to an amount not greater than the Offering Price specified herein. The compensation realized by the Underwriters will be decreased by the amount that the aggregate price paid by the purchasers for the Series H First Preference Shares is less than the gross proceeds paid by the Underwriters to the Corporation.

Each of TDSI, Scotia Capital, RBCDS, CIBCWM, BMO Capital Markets, NB Financial and HSBC Securities is a subsidiary of a Canadian chartered bank that has, either solely or as a member of a syndicate of financial institutions, extended credit facilities to, or holds other indebtedness of, the Corporation and/or its subsidiaries (the "Existing Indebtedness"). A portion of the net proceeds from the Offering will be used towards repaying indebtedness under an unsecured credit facility owing by the Corporation to certain of such banks or their affiliates. Consequently, the Corporation may be considered a "connected issuer" of these Underwriters within the meaning of applicable securities legislation. None of these Underwriters will receive any direct benefit from the Offering other than the Underwriters' Fee relating to the Offering. The decision to distribute the Series H First Preference Shares hereunder and the determination of the terms of the Offering were made through negotiation between the Corporation and the Underwriters. No bank had any involvement in such decision or determination. As at January 15, 2010, an aggregate of approximately $671 million was outstanding under the Existing Indebtedness. Fortis and/or its subsidiaries are in compliance with their respective obligations under the Existing Indebtedness. Since the execution of the agreements governing the Existing Indebtedness, no breach thereunder has been waived by the lenders thereunder. See "Use of Proceeds".

The TSX has conditionally approved the listing on the TSX of the Series H Preference Shares distributed under this Prospectus and the Series I Preference Shares into which the Series H Preference Shares are convertible. Listing of the Series H First Preference Shares and the Series I First Preference Shares will be subject to the Corporation fulfilling all of the listing requirements of the TSX.

CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Davies Ward Phillips & Vineberg LLP, counsel to Fortis, and, Stikeman Elliott LLP, counsel to the Underwriters, the following is a summary of the principal Canadian federal income tax considerations generally applicable to a holder of Series H First Preference Shares acquired pursuant to this Prospectus (a "Holder") who, at all relevant times for purposes of the Tax Act, is or is deemed to be a resident of Canada, deals at arm's length and is not affiliated with Fortis, holds Series H First Preference Shares and any Series I First Preference Shares acquired upon the conversion of Series H First Preference Shares (collectively, the "Securities") as capital property and is not exempt from tax under Part I of the Tax Act. Generally, the Securities will be considered to be capital property to a Holder provided the Holder does not hold the Securities in the course of carrying on a business and has not acquired them in a transaction or transactions considered to be an adventure in the nature of trade. A Holder whose Series H First Preference Shares or Series I First Preference Shares do not otherwise qualify as capital property may make, in certain circumstances, the irrevocable election under subsection 39(4) of the Tax Act to have such shares and every "Canadian security" (as defined in the Tax Act) owned by such Holder in the taxation year of the election and all subsequent years deemed to be capital property.

This summary is based on the current provisions of the Tax Act and the regulations thereunder, all specific proposals to amend the Tax Act and the regulations publicly announced by, or on behalf of, the Minister of Finance (Canada) prior to the date hereof and counsel's understanding of the current published administrative practices of the Canada Revenue Agency. This summary does not otherwise take into account or anticipate any change in law, whether by legislative, governmental or judicial decision or action, nor does it take into account or consider any provincial, territorial or foreign income tax legislation or considerations.

This summary does not apply to a Holder: (i) that is a "financial institution" for the purposes of the "mark-to-market" rules; (ii) that is a "specified financial institution"; (iii) an interest in which is a "tax shelter investment"; or (iv) that has elected to determine its Canadian tax results in accordance with the "functional currency" rules, as each of those terms is defined in the Tax Act. Such Holders should consult their own tax advisors.

This summary is of a general nature only and is not intended to be, nor should it be construed to be, legal or tax advice to any particular purchaser. Accordingly, prospective purchasers should consult their own tax advisors with respect to their particular circumstances.

Conversion

The exercise by a Holder of the right to convert such Holder's Series H First Preference Share into a Series I First Preference Share or the automatic conversion of a Series H First Preference Share into a Series I First Preference Share will be deemed not to constitute a disposition of such Series H First Preference Share and will not give rise to a capital gain or capital loss. The cost to the Holder of the Series I First Preference Share issued on such conversion will be the adjusted cost base to such Holder of such Series H First Preference Share immediately before such conversion. The adjusted cost base of all Series I First Preference Shares of the Holder will be determined in accordance with the cost averaging rules in the Tax Act.

The exercise by a Holder of the right to convert such Holder's Series I First Preference Share into a Series H First Preference Share or the automatic conversion of a Series I First Preference Share into a Series H First Preference Share will be deemed not to constitute the disposition of such Series I First Preference Share and will not give rise to a capital gain or capital loss. The cost to the Holder of the Series H First Preference Share issued in such conversion will be the adjusted cost base to such Holder of such Series I First Preference Share immediately before such conversion. The adjusted cost base of all Series H First Preference Shares of the Holder will be determined in accordance with the cost averaging rules in the Tax Act.

Dividends

Dividends, including deemed dividends, received on the Series H First Preference Shares or the Series I First Preference Shares by a Holder who is an individual must be included in the individual's income and generally will be subject to the gross-up and dividend tax credit rules normally applicable to taxable dividends received by an individual from taxable Canadian corporations, including the enhanced gross-up and dividend tax credit rules applicable to any dividends designated by Fortis as "eligible dividends". There may be limitations on the ability of a corporation to designate dividends as eligible dividends. Fortis has advised counsel it intends to designate all dividends paid on the Series H First Preference Shares and Series I First Preference Shares as eligible dividends for these purposes. Taxable dividends received by an individual or a trust (other than certain specified trusts) may give rise to alternative minimum tax under the Tax Act.

Dividends, including deemed dividends, received on the Series H First Preference Shares or the Series I First Preference Shares by a Holder that is a corporation must be included in computing the corporation's income and will generally be deductible in computing the taxable income of the corporation.

The Series H First Preference Shares and the Series I First Preference Shares are "taxable preferred shares" as defined in the Tax Act. The terms of the Series H First Preference Shares and the terms of the Series I First Preference Shares require Fortis to make the necessary election under Part VI.1 of the Tax Act so that corporate Holders will not be subject to the 10% tax payable under Part IV.1 of the Tax Act on dividends received, or deemed to be received, on the Series H First Preference Shares and the Series I First Preference Shares.

A "private corporation" (as defined in the Tax Act) or any other corporation controlled (whether by reason of a beneficial interest in one or more trusts or otherwise) by or for the benefit of an individual (other than a trust) or a related group of individuals (other than trusts) will generally be liable to pay refundable tax under Part IV of the Tax Act of $33\frac{1}{3}\%$ on dividends received, or deemed to be received, on the Series H First Preference Shares and the Series I First Preference Shares, to the extent such dividends are deductible in computing its taxable income.

Dispositions

A Holder who disposes of, or is deemed to dispose of, Series H First Preference Shares or Series I First Preference Shares (either on redemption of the shares or other acquisition by Fortis but not including a conversion) will generally realize a capital gain (or a capital loss) to the extent that the proceeds of disposition, net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base of such shares to such Holder. The amount of any deemed dividend arising on the redemption or acquisition by Fortis of any such shares (see “Redemptions” below) will not generally be included in computing the proceeds of disposition for such shares.

If the Holder is a corporation, any capital loss arising on the disposition of a Series H First Preference Share or Series I First Preference Share, as the case may be, may be reduced, in certain circumstances, by the amount of any dividends, including deemed dividends, which have been received on such share to the extent and under the circumstances described in the Tax Act. Analogous rules apply to a partnership or trust of which a corporation, trust or partnership is a member or beneficiary.

Capital Gains and Capital Losses

One-half of any capital gain (a “taxable capital gain”) realized by a Holder in a taxation year must be included in the Holder’s income in that year and one-half of any capital loss (an “allowable capital loss”) realized by a Holder in a taxation year will be deducted from the Holder’s taxable capital gains in that year. Allowable capital losses in excess of taxable capital gains generally may be carried back and deducted in any of the three preceding taxation years or carried forward and deducted in any subsequent year against net taxable capital gains realized in such years to the extent and under the circumstances described in the Tax Act.

Capital gains realized by an individual or a trust (other than certain specified trusts) may give rise to a liability for alternative minimum tax under the Tax Act. A Canadian-controlled private corporation, as defined in the Tax Act, may be subject to an additional refundable tax of 6⅔% on investment income (including taxable capital gains).

Redemptions

If Fortis redeems or otherwise acquires a Series H First Preference Share or a Series I First Preference Share (otherwise than by a purchase in the open market in the manner in which shares are normally purchased by a member of the public in the open market), the Holder will be deemed to have received a dividend equal to the amount, if any, paid by Fortis in excess of the paid-up capital (as determined for purposes of the Tax Act) of such share at such time. Generally, the difference between the amount paid by Fortis and the amount of the deemed dividend will be treated as proceeds of disposition for the purposes of computing the capital gain or capital loss arising on the disposition of such share. In the case of a corporate shareholder, it is possible that in certain circumstances all or part of the deemed dividend may be treated as proceeds of disposition and not as a dividend.

RISK FACTORS

An investment in the Series H First Preference Shares involves certain risks. A prospective purchaser of Series H First Preference Shares should carefully consider the risk factors described under:

(a) the heading “Risk Factors” found on pages 38 to 50 of the Corporation’s Annual Information Form dated March 13, 2009;

(b) the heading “Business Risk Management” in the Management Discussion and Analysis of financial condition and results of operations found on pages 55 to 65 of the Corporation’s 2008 Annual Report (the “MD&A”);

(c) note 26 “Financial Risk Management” found on pages 122 to 125 in the Corporation’s audited comparative consolidated financial statements as at December 31, 2008 and for the years ended December 31, 2008 and 2007, as contained in the Corporation’s 2008 Annual Report; and

(d) note 20 “Financial Risk Management” found on pages 25 to 29 in the Corporation’s unaudited comparative interim consolidated financial statements as at September 30, 2009 and for the three and nine months ended September 30, 2009 and 2008,

each of which is incorporated by reference herein. In addition, a prospective purchaser of Series H First Preference Shares should carefully consider the risk factors described in this section which relate to the terms of the Series H First Preference Shares and the Series I First Preference Shares, as well as the other information contained in this Prospectus (including the documents incorporated by reference herein).

Terms of Series H First Preference Shares and Series I First Preference Shares

The value of the Series H First Preference Shares and the Series I First Preference Shares will be affected by the general creditworthiness of the Corporation. The MD&A discusses, among other things, known material trends and events, and risks or uncertainties that are reasonably expected to have a material effect on the Corporation's business, financial condition or results of operations.

Real or anticipated changes in credit ratings on the Series H First Preference Shares or the Series I First Preference Shares, if any, may affect the market value of such shares. In addition, real or anticipated changes in credit ratings can affect the cost at which the Corporation can transact or obtain funding, and thereby affect the Corporation's liquidity, business, financial condition or results of operations.

Equity and debt capital market conditions and volatility can affect the market price of the Series H First Preference Shares and the Series I First Preference Shares for reasons unrelated to the Corporation's performance.

Reference is made to "Earnings Coverage" in this Prospectus, which is relevant to an assessment of the risk that the Corporation will be unable to pay dividends on the Series H First Preference Shares or the Series I First Preference Shares.

The Series H First Preference Shares rank, and the Series I First Preference Shares will, if and when issued, rank, equally with other First Preference Shares of the Corporation in the event of an insolvency or winding-up of the Corporation. If the Corporation becomes insolvent or is wound-up, the Corporation's assets must be used to pay liabilities and other debt, including subordinated debt, before payments may be made on the Series H First Preference Shares or the Series I First Preference Shares.

Prevailing yields on similar securities will affect the market value of the Series H First Preference Shares and the Series I First Preference Shares. Assuming all other factors remain unchanged, the market value of the Series H First Preference Shares and the Series I First Preference Shares will decline as prevailing yields for similar securities rise, and will increase as prevailing yields for similar securities decline. Spreads over the Government of Canada Bond Yield, T-Bill Rate and comparable benchmark rates of interest for similar securities will also affect the market value of the Series H First Preference Shares and the Series I First Preference Shares in an analogous manner.

Neither the Series H First Preference Shares nor the Series I First Preference Shares have a fixed maturity date, or are redeemable at the option of their holders. The ability of a holder to liquidate its holdings of Series H First Preference Shares or Series I First Preference Shares, as applicable, may be limited.

The dividend rate in respect of the Series H First Preference Shares and the Series I First Preference Shares will, following the Initial Fixed Rate Period, reset every five years and quarterly, respectively. In each case, the new dividend rate is unlikely to be the same as, and may be lower than, the dividend rate for the applicable preceding dividend period.

An investment in the Series H First Preference Shares may become an investment in Series I First Preference Shares without the consent of the holder in the event of an automatic conversion in the circumstances described under "Conversion of Series H First Preference Shares into Series I First Preference Shares" above. Upon the automatic conversion of the Series H First Preference Shares into Series I First Preference Shares, the dividend rate on the Series I First Preference Shares will be a floating rate that is adjusted quarterly by reference to the T-Bill Rate, which may vary from time to time.

There can be no assurance that an active trading market will develop for the Series H First Preference Shares after the Offering or for the Series I First Preference Shares following the issuance of any of those shares, or if developed, that such market will be sustained at the Offering Price of the Series H First Preference Shares or the issue price of the Series I First Preference Shares.

The Series I First Preference Shares have not been assigned credit ratings and there can be no assurance that they will, once issued, be assigned credit ratings comparable to the credit ratings of the Series H First Preference Shares.

AUDITORS

The auditors of the Corporation are Ernst & Young LLP, Chartered Accountants, The Fortis Building, 7th Floor, 139 Water Street, St. John's, Newfoundland and Labrador A1C 1B2.

LEGAL MATTERS

Certain legal matters relating to this Offering will be passed upon on behalf of the Corporation by Davies Ward Phillips & Vineberg LLP, Toronto and McInnes Cooper, St. John's and on behalf of the Underwriters by Stikeman Elliott

LLP, Toronto. At the date hereof, partners and associates of each of Davies Ward Phillips & Vineberg LLP, McInnes Cooper and Stikeman Elliott LLP own beneficially, directly or indirectly, less than 1% of any securities of the Corporation or any associate or affiliate of the Corporation.

TRANSFER AGENT AND REGISTRAR

The Transfer Agent and Registrar for the Series H First Preference Shares and the Series I First Preference Shares is Computershare Trust Company of Canada in Toronto and Montréal.

PURCHASERS' STATUTORY RIGHTS

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revisions of the price or damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revisions of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights or consult with a legal advisor.

AUDITORS' CONSENT

We have read the Short Form Prospectus of Fortis Inc. (the "Corporation") dated January 18, 2010 relating to the issue and sale of 10,000,000 Cumulative Redeemable Five-Year Fixed Rate Reset First Preference Shares, Series H of the Corporation. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the incorporation by reference, in the above-mentioned Prospectus, of our report to the shareholders of the Corporation on the consolidated balance sheets of the Corporation as at December 31, 2008 and 2007 and the consolidated statements of earnings, retained earnings, comprehensive income and cash flows for the years then ended. Our report is dated January 30, 2009.

St. John's, Canada	(Signed) Ernst & Young LLP
January 18, 2010	Chartered Accountants

CERTIFICATE OF FORTIS INC.

Dated: January 18, 2010

This short form prospectus, together with the documents incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of each of the provinces of Canada.

(Signed) H. STANLEY MARSHALL President and Chief Executive Officer	(Signed) BARRY V. PERRY Vice President, Finance and Chief Financial Officer

On behalf of the Board of Directors

(Signed) GEOFFREY F. HYLAND Director	(Signed) DAVID G. NORRIS Director

CERTIFICATE OF THE UNDERWRITERS

Dated: January 18, 2010

To the best of our knowledge, information and belief, this short form prospectus, together with the documents incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of each of the provinces of Canada.

TD Securities Inc.	Scotia Capital Inc.	RBC Dominion Securities Inc.	CIBC World Markets Inc.
(signed) Harold R. Holloway	(signed) Robert V. Mah	(signed) David Dal Bello	(signed) David Williams

BMO Nesbitt Burns Inc.	National Bank Financial Inc.
(signed) James A. Tower	(signed) Paul Prendergast

HSBC Securities (Canada) Inc.

(signed) Rod A. McIsaac

Beacon Securities Limited	Canaccord Financial Ltd.
(signed) Jane M. Smith	(signed) Stephen J. Swaffield

This short form base shelf prospectus has been filed under legislation in all provinces of Canada that permits certain information about these securities to be determined after this prospectus has become final and that permits the omission from this prospectus of that information. The legislation requires the delivery to purchasers of a prospectus supplement containing the omitted information within a specified period of time after agreeing to purchase any of these securities.

Information has been incorporated by reference in this short form base shelf prospectus from documents filed with securities commissions or similar authorities in Canada*. Copies of the documents incorporated herein by reference may be obtained on request without charge from the Secretary of the Corporation at Suite 1201, 139 Water Street, St. John's, Newfoundland and Labrador A1B 3T2 (telephone (709) 737-2800) and are also available electronically at www.sedar.com. The securities being offered under this short form base shelf prospectus have not been and will not be registered under the United States Securities Act of 1933, as amended, or any state securities laws, and, except in limited circumstances, will not be offered or sold within the United States or for the account or benefit of United States persons.*

New Issue May 10, 2012

SHORT FORM BASE SHELF PROSPECTUS

FORTIS INC.

FORTIS

$1,300,000,000

COMMON SHARES
FIRST PREFERENCE SHARES
SECOND PREFERENCE SHARES
SUBSCRIPTION RECEIPTS
DEBENTURES (UNSECURED)

Fortis Inc. ("Fortis" or the "Corporation") may from time to time offer and issue common shares ("Common Shares"), first preference shares (the "First Preference Shares"), second preference shares (the "Second Preference Shares"), subscription receipts ("Subscription Receipts") or unsecured debentures ("Debentures" and together with the Common Shares, First Preference Shares, Second Preference Shares and Subscription Receipts, the "Securities"), having an aggregate offering price of up to $1,300,000,000 (or the equivalent in US dollars or other currencies), during the 25 month period that this short form base shelf prospectus (the "Prospectus"), including any amendments hereto, remains valid. Securities may be offered separately or together, in amounts, at prices and on terms to be determined based on market conditions at the time of sale and set forth in an accompanying shelf prospectus supplement (a "Prospectus Supplement").

The specific variable terms of any offering of Securities will be set out in the applicable Prospectus Supplement including, where applicable: (i) in the case of Common Shares, the number of shares offered and the offering price (or the manner of determination thereof if offered on a non-fixed price basis); (ii) in the case of First Preference Shares and Second Preference Shares, the designation of the particular series, the number of shares offered, the offering price (or the manner of determination thereof if offered on a non-fixed price basis), the currency or currency unit for which such shares may be purchased, any voting rights, any rights to receive dividends, any terms of redemption, any conversion or exchange rights and any other specific terms; (iii) in the case of Subscription Receipts, the offering price (or the manner of determination thereof if offered on a non-fixed price basis), the procedures for the exchange of Subscription Receipts for Common Shares, First Preference Shares, Second Preference Shares or Debentures, as the case may be, and any other specific terms; and (iv) in the case of Debentures, the designation of the Debentures, the aggregate principal amount of the Debentures being offered, the currency or currency unit for which the Debentures may be purchased, authorized denominations, any limit on the aggregate principal amount of the Debentures of the series being offered, the issue and delivery date, the maturity date, the offering price (at par, at a discount or at a premium), the interest rate or method of determining the interest rate, the interest payment date(s), any conversion or exchange rights that are attached to the Debentures, any redemption provisions, any repayment provisions and any other specific terms. A Prospectus Supplement may include other terms pertaining to the Securities that are not within the alternatives and parameters described in this Prospectus.

All shelf information permitted under applicable laws to be omitted from this Prospectus will be contained in one or more Prospectus Supplements that will be delivered to purchasers together with this Prospectus. Each Prospectus Supplement will be incorporated by reference into this Prospectus for the purposes of securities legislation as of the date of the Prospectus Supplement and only for the purposes of the distribution of the Securities to which the Prospectus Supplement pertains.

The Corporation may sell the Securities to or through underwriters or dealers purchasing as principals and may also sell the Securities to one or more purchasers directly subject to obtaining any required exemptive relief or through agents. The Prospectus Supplement relating to a particular offering of Securities will identify each underwriter, dealer or agent, if any, engaged by the Corporation in connection with the offering and sale of Securities and will set forth the terms of the offering of such Securities, the method of distribution of such Securities including, to the extent applicable, the proceeds to the Corporation and any fees, discounts or any other compensation payable to underwriters, dealers or agents and any other material terms of the plan of distribution. Securities may be sold from time to time in one or more transactions at a fixed price or fixed prices, or at non-fixed prices. If offered on a non-fixed price basis, Securities may be offered at market prices prevailing at the time of sale or at prices to be negotiated with purchasers at the time of sale, which prices may vary as between purchasers and during the period of distribution. If Securities are offered on a non-fixed price basis, the underwriters', dealers' or agents' compensation will be increased or decreased by the amount by which the aggregate price paid for Securities by the purchasers exceeds or is less than the gross proceeds paid by the underwriters, dealers or agents to Fortis. See "Plan of Distribution".

No underwriter or dealer has been involved in the preparation of, or has performed any review of, this Prospectus.

The outstanding Common Shares, Cumulative Redeemable First Preference Shares, Series C, Cumulative Redeemable First Preference Shares, Series E, Cumulative Redeemable First Preference Shares, Series F, Cumulative Redeemable Five-Year Fixed Rate Reset First Preference Shares, Series G and Cumulative Redeemable Five-Year Fixed Rate Reset First Preference Shares, Series H of the Corporation are listed on the Toronto Stock Exchange (the "TSX") under the symbols "FTS", "FTS.PR.C", "FTS.PR.E", "FTS.PR.F", "FTS.PR.G" and "FTS.PR.H", respectively. **There is currently no market through which the First Preference Shares, Second Preference Shares, Subscription Receipts or Debentures may be sold and purchasers may not be able to resell any First Preference Shares, Second Preference Shares, Subscription Receipts or Debentures purchased under this Prospectus. This may affect the pricing of the Securities in the secondary market, the transparency and availability of trading prices, the liquidity of the Securities and the extent of issuer regulation. See the "Risk Factors" section of the applicable Prospectus Supplement.**

This Prospectus does not qualify for issuance Debentures in respect of which the payment of principal and/or interest may be determined, in whole or in part, by reference to one or more underlying interests including, for example, an equity or debt security, a statistical measure of economic or financial performance including, but not limited to, any currency, consumer price or mortgage index, or the price or value of one or more commodities, indices or other items, or any other item or formula, or any combination or basket of the foregoing items. For greater certainty, this Prospectus may qualify for issuance Debentures in respect of which the payment of principal and/or interest may be determined, in whole or in part, by reference to published rates of a central banking authority or one or more financial institutions, such as a prime rate or bankers' acceptance rate, or to recognized market benchmark interest rates such as LIBOR, EURIBOR or a U.S. Federal funds rate.

Subject to applicable laws, in connection with any offering of Securities the underwriters, dealers or agents may over-allot or effect transactions which stabilize or maintain the market price of the Securities at levels other than those which may prevail on the open market. Such transactions, if commenced, may be interrupted or discontinued at any time. See "Plan of Distribution".

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Prospectus, including the documents incorporated herein by reference, contains forward-looking information which reflects management's expectations regarding the future growth, results of operations, performance, business prospects and opportunities of Fortis Inc. ("Fortis" or the "Corporation"), and may not be appropriate for other purposes. All forward-looking information is given pursuant to the "safe harbour" provisions of applicable Canadian securities legislation. The words "anticipates", "believes", "budgets", "could", "estimates", "expects", "forecasts", "intends", "may", "might", "plans", "projects", "schedule", "should", "will", "would" and similar expressions are often intended to identify forward-looking information, although not all forward-looking information contains these identifying words. The forward-looking information reflects management's current beliefs and is based on information currently available to the Corporation's management. The forward-looking information in this Prospectus, including the documents incorporated herein by reference, includes, but is not limited to, statements regarding: the Corporation's focus on the United States and Canada in the acquisition of regulated utilities; the pursuit of growth in the Corporation's non-regulated businesses in support of its regulated utility growth strategy; the current environment of low natural gas prices and an abundance of shale gas reserves should help maintain the competitiveness of natural gas versus alternative energy sources in North America; investment to harvest shale oil and gas in Alberta, Canada, is expected to continue and should favourably impact energy sales and rate base investment in FortisAlberta Inc.'s ("FortisAlberta") service territory; the expectation that the Government of British Columbia's new Natural Gas Strategy should favourably impact natural gas throughput at the FortisBC Energy companies; the expected capital investment in Canada's electricity sector over the 20-year period from 2010 through 2030; the Corporation's consolidated forecast gross capital expenditures for 2012 and in total over the five-year period through 2016; the nature, timing and amount of certain capital projects and their expected costs and time to complete; the expectation that the Corporation's significant capital expenditure program should support continuing growth in earnings and dividends; there is no assurance that capital projects perceived as required or completed by the Corporation's regulated utilities will be approved or that conditions to such approvals will not be imposed; the expectation that the Corporation's regulated utilities could experience disruptions and increased costs if they are unable to maintain their asset base; forecast midyear rate base; the expectation that cash required to complete subsidiary capital expenditure programs will be sourced from a combination of cash from operations, borrowings under credit facilities, equity injections from Fortis and long-term debt offerings; the expectation that the Corporation's subsidiaries will be able to source the cash required to fund their 2012 capital expenditure programs; the expected consolidated long-term debt maturities and repayments in 2012 and on average annually over the next five years; the expectation that the Corporation and its subsidiaries will continue to have reasonable access to capital in the near to medium terms; the expectation that the combination of available credit facilities and relatively low annual debt maturities and repayments will provide the Corporation and its subsidiaries with flexibility in the timing of access to capital markets; except for debt at the Exploits River Hydro Partnership ("Exploits Partnership"), the expectation that the Corporation and its subsidiaries will remain compliant with debt covenants during 2012; the expectation that any increase in interest expense and/or fees associated with renewed and extended credit facilities will not materially impact the Corporation's consolidated financial results for 2012; the expected timing of filing of regulatory applications and of receipt of regulatory decisions; the estimated impact a decrease in revenue at Fortis Properties Corporation's ("Fortis Properties") Hospitality Division would have on basic earnings per common share; the expected impact of a change in the US dollar-to-Canadian dollar foreign exchange rate on basic earnings per common share in 2012; the expectation that electricity sales growth at the Corporation's regulated utilities in the Caribbean will be minimal for 2012; the expectation that counterparties to the FortisBC Energy companies' gas derivative contracts will continue to meet their obligations; the expectation that FortisBC will continue efforts in 2012 to further integrate its gas and electricity businesses; the expectation that the Corporation's consolidated earnings and earnings per common share for 2012 will not be materially impacted by the transition to accounting principles generally accepted in the United States ("US GAAP") (see "Recent Developments – Transition to US GAAP"); the expectation of an increase in consolidated defined benefit net pension cost for 2012 and the fact that there is no assurance that the pension plan assets will earn the assumed long-term rates of return in the future; the expected timing of the closing of the acquisition (the "Acquisition") of CH Energy Group, Inc. ("CH Energy Group") by Fortis; and the expectation that the Acquisition will be immediately accretive to earnings per common share, excluding one-time transaction expenses (see "Recent Developments – Agreement to Acquire CH Energy Group").

The forecasts and projections that make up the forward-looking information are based on assumptions which include, but are not limited to: the receipt of applicable regulatory approvals and requested rate orders; no significant variability in interest rates; no significant operational disruptions or environmental liability due to a catastrophic event

or environmental upset caused by severe weather, other acts of nature or other major events; the continued ability to maintain the gas and electricity systems to ensure their continued performance; no severe and prolonged downturn in economic conditions; no significant decline in capital spending; no material capital project and financing cost overrun or delay related to the construction of the Waneta expansion hydroelectric generating facility (the "Waneta Expansion"); sufficient liquidity and capital resources; the expectation that the Corporation will receive appropriate compensation from the Government of Belize ("GOB") for fair value of the Corporation's investment in Belize Electricity Limited ("Belize Electricity") that was expropriated by the GOB; the expectation that Belize Electricity Company Limited ("BECOL") will not be expropriated by the GOB; the expectation that the Corporation will receive fair compensation from the Government of Newfoundland and Labrador related to the expropriation of the Exploits Partnership's hydroelectric assets and water rights; the continuation of regulator-approved mechanisms to flow through the commodity cost of natural gas and energy supply costs in customer rates; the continued ability to hedge exposures to fluctuations in interest rates, foreign exchange rates, natural gas commodity prices and fuel prices; no significant counterparty defaults; the continued competitiveness of natural gas pricing when compared with electricity and other alternative sources of energy; the continued availability of natural gas, fuel and electricity supply; continuation and regulatory approval of power supply and capacity purchase contracts; the ability to fund defined benefit pension plans, earn the assumed long-term rates of return on the related assets and recover net pension costs in rates; the absence of significant changes in government energy plans and environmental laws that may materially affect the operations and cash flows of the Corporation and its subsidiaries; maintenance of adequate insurance coverage; the ability to obtain and maintain licences and permits; retention of existing service areas; the ability to report under US GAAP beyond 2014 or the adoption of International Financial Reporting Standards ("IFRS") after 2014 that allows for the recognition of regulatory assets and liabilities; the continued tax-deferred treatment of earnings from the Corporation's Caribbean operations; continued maintenance of information technology infrastructure; the receipt of CH Energy Group shareholder, regulatory and other approvals required in connection with the Acquisition; continued favourable relations with First Nations; favourable labour relations; and sufficient human resources to deliver service and execute the capital programs. The forward-looking information is subject to risks, uncertainties and other factors that could cause actual results to differ materially from historical results or results anticipated by the forward-looking information. Factors which could cause results or events to differ from current expectations include, but are not limited to: regulatory risk; interest rate risk, including the uncertainty of the impact a continuation of a low interest rate environment may have on allowed rates of return on common shareholders' equity of the Corporation's regulated utilities; operating and maintenance risks; risks associated with changes in economic conditions; capital project budget overrun, completion and financing risk in the Corporation's non-regulated business; capital resources and liquidity risk; risk associated with the amount of compensation to be paid to Fortis for its investment in Belize Electricity that was expropriated by the GOB; the timeliness of the receipt of the compensation and the ability of the GOB to pay the compensation owing to Fortis; risk that the GOB may expropriate BECOL; an ultimate resolution of the expropriation of the hydroelectric assets and water rights of the Exploits Partnership that differs from that which is currently expected by management; weather and seasonality risk; commodity price risk; the continued ability to hedge foreign exchange risk; counterparty risk; competitiveness of natural gas pricing; natural gas, fuel and electricity supply risk; risk associated with the continuation, renewal, replacement and/or regulatory approval of power supply and capacity purchase contracts; defined benefit pension plan performance and funding requirements; risks related to FortisBC Energy (Vancouver Island) Inc. ("FEVI"); environmental risks; insurance coverage risk; loss of licences and permits; risk of loss of service area; risks relating to the ability to close the Acquisition, the timing of such closing and the realization of the anticipated benefits of the Acquisition; risk of not being able to report under US GAAP beyond 2014 or risk that IFRS does not have an accounting standard for rate-regulated entities by the end of 2014 allowing for the recognition of regulatory assets and liabilities; risks related to changes in tax legislation; risk of failure of information technology infrastructure; risk of unexpected outcomes of legal proceedings currently against the Corporation; risk of not being able to access First Nations lands; labour relations risk; and human resources risk. For additional information with respect to the Corporation's risk factors, reference should be made to the section of this Prospectus entitled "Risk Factors" and to the documents incorporated herein by reference.

All forward-looking information in this Prospectus and in the documents incorporated herein by reference is qualified in its entirety by the above cautionary statements and, except as required by law, the Corporation undertakes no obligation to revise or update any forward-looking information as a result of new information, future events or otherwise.

DOCUMENTS INCORPORATED BY REFERENCE

The disclosure documents of the Corporation listed below and filed with the appropriate securities commissions or similar regulatory authorities in each of the provinces of Canada are specifically incorporated by reference into and form an integral part of this Prospectus:

(a) Annual Information Form dated March 15, 2012 for the year ended December 31, 2011 (the "AIF");

(b) audited comparative consolidated financial statements as at December 31, 2011 and December 31, 2010 and for the years ended December 31, 2011 and 2010, together with the notes thereto and the auditors' report thereon dated March 13, 2012, as contained in the Corporation's 2011 Annual Report, prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP");

(c) supplemental audited comparative consolidated financial statements as at December 31, 2011 and December 31, 2010 and for the years ended December 31, 2011 and 2010, together with the notes thereto and the auditor's report thereon dated March 13, 2012, prepared in accordance with US GAAP (the "US GAAP Reconciliation");

(d) Management Discussion and Analysis of financial condition and results of operations for the year ended December 31, 2011 as contained in the Corporation's 2011 Annual Report (the "MD&A");

(e) unaudited comparative interim consolidated financial statements as at March 31, 2012 and for the three months ended March 31, 2012 and 2011, together with the notes thereon, prepared in accordance with US GAAP;

(f) Management Discussion and Analysis of financial condition and results of operations for the three months ended March 31, 2012; and

(g) Management Information Circular dated March 19, 2012 prepared in connection with the Corporation's annual meeting of shareholders held on May 4, 2012 (the "Information Circular").

All documents of the type referred to in the preceding paragraph, any material change report (other than any confidential material change report) and any business acquisition reports, as well as all Prospectus Supplements disclosing additional or updated information subsequently filed by the Corporation with such securities commissions or regulatory authorities after the date of this Prospectus, and prior to the termination of the distribution under this Prospectus, shall be deemed to be incorporated by reference into this Prospectus.

Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Prospectus to the extent that a statement contained herein, or in any other subsequently filed document which also is incorporated or is deemed to be incorporated by reference herein, modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement will not be deemed an admission for any purpose that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus.

When Fortis files a new annual information form and audited consolidated financial statements and related management's discussion and analysis with, and where required, they are accepted by, the applicable securities regulatory authorities during the time that this Prospectus is valid, the previous annual information form, the previous audited consolidated financial statements and related management's discussion and analysis and all unaudited interim consolidated financial statements and related management's discussion and analysis for such periods, all material change reports and any information circular and business acquisition report filed prior to the commencement of the Corporation's financial year in which the new annual information form is filed will be deemed no longer to be incorporated by reference in this Prospectus for purposes of future offers and sales of Securities under this Prospectus. Upon new interim financial statements and the accompanying management's discussion and analysis being filed by the Corporation with the applicable securities regulatory authorities during the term of this Prospectus, all interim financial statements and accompanying management's discussion

and analysis filed prior to the filing of the new interim financial statements shall be deemed no longer to be incorporated by reference into this Prospectus for purposes of future offers and sales of Securities hereunder.

Investors should rely only on the information contained in or incorporated by reference in this Prospectus or any applicable Prospectus Supplement. Fortis has not authorized anyone to provide investors with different or additional information. Fortis is not making an offer of Securities in any jurisdiction where the offer is not permitted by law. Prospective investors should not assume that the information contained in or incorporated by reference in this Prospectus or any applicable Prospectus Supplement is accurate as of any date other than the date on the front of the applicable Prospectus Supplement.

Copies of the documents incorporated herein by reference may be obtained on request without charge from the Secretary of the Corporation at Suite 1201, 139 Water Street, St. John's, Newfoundland and Labrador A1B 3T2 (telephone (709) 737-2800). These documents are also available through the Internet on the Corporation's website at www.fortisinc.com or on the Canadian System for Electronic Document Analysis and Retrieval ("SEDAR") which can be accessed at www.sedar.com. The information contained on, or accessible through, any of these websites is not incorporated by reference into the Prospectus and is not, and should not be considered to be, a part of the Prospectus, unless it is explicitly so incorporated.

ABOUT THIS PROSPECTUS

In this Prospectus and in any Prospectus Supplement, unless otherwise specified or the context otherwise requires, all dollar amounts are expressed in Canadian dollars. References to "dollars" or "$" are to lawful currency of Canada, and references to "US dollars" or "US$" are to lawful currency of the United States.

Unless otherwise indicated, all financial information included and incorporated by reference in this Prospectus or included in any Prospectus Supplement for financial periods beginning prior to January 1, 2012 has been prepared using Canadian GAAP. All financial information included and incorporated by reference in this Prospectus or included in any Prospectus Supplement for financial periods beginning on or after January 1, 2012 has been prepared using US GAAP. For a discussion of the principal differences between the Corporation's financial results as calculated under Canadian GAAP and US GAAP, prospective investors should refer to the US GAAP Reconciliation, incorporated by reference in this Prospectus. See "Recent Developments – Transition to US GAAP" below.

FORTIS

Fortis Inc. was incorporated as 81800 Canada Ltd. under the *Canada Business Corporations Act* on June 28, 1977. The Corporation was continued under the *Corporations Act* (Newfoundland and Labrador) on August 28, 1987 and on October 13, 1987 the Corporation amended its articles to change its name to "Fortis Inc.". The address of the head office and principal place of business of the Corporation is The Fortis Building, Suite 1201, 139 Water Street, St. John's, Newfoundland and Labrador A1B 3T2.

Fortis is the largest investor-owned distribution utility in Canada with total assets of more than $14 billion as at March 31, 2012 and fiscal 2011 revenue totalling approximately $3.7 billion. The Corporation serves more than 2,000,000 gas and electricity customers. Its regulated holdings include electric distribution utilities in five Canadian provinces and two Caribbean countries and a natural gas utility in British Columbia, Canada. As at March 31, 2012, regulated utility assets comprised approximately 91% of the Corporation's total assets, with the balance comprised of non-regulated generation assets, commercial office and retail space and hotels. Fortis is the direct owner of all of the common shares of FortisBC Holdings Inc. ("FortisBC Holdings") (formerly Terasen Inc.), a company that, through its subsidiaries, is the principal distributor of natural gas in British Columbia. Fortis is the indirect owner of all of the common shares of FortisAlberta, a regulated electric utility that distributes electricity generated by other market participants in a substantial portion of southern and central Alberta; FortisBC Inc. ("FortisBC"), a regulated electric utility that generates, transmits and distributes electricity in the southern interior of British Columbia; and Maritime Electric Company Limited ("Maritime Electric"), the principal distributor of electricity on Prince Edward Island. Fortis also holds all of the common shares of Newfoundland Power Inc. ("Newfoundland Power"), the principal distributor of electricity in Newfoundland. As well, through its wholly owned subsidiary FortisOntario Inc. ("FortisOntario") and its subsidiaries, Canadian Niagara Power Inc. ("CNPI") and Cornwall Street Railway, Light and Power Company, Limited, Fortis provides an integrated electric utility service to customers primarily in Fort Erie, Cornwall, Gananoque and Port Colborne in Ontario. Through its wholly owned subsidiary Algoma Power Inc., FortisOntario also distributes electricity to customers in the district of Algoma in northern Ontario.

The Corporation's regulated electric utility assets in the Caribbean consist of its ownership, through wholly owned subsidiaries, of an approximate 60% interest in Caribbean Utilities Company, Ltd. ("Caribbean Utilities"), the sole provider of electricity on Grand Cayman, Cayman Islands. Fortis also owns, through a wholly owned subsidiary, FortisTCI Limited (formerly P.P.C. Limited) and Atlantic Equipment & Power (Turks and Caicos) Ltd. (together, "Fortis Turks and Caicos"), the principal distributor of electricity on the Turks and Caicos Islands.

The Corporation's non-regulated electricity generation operations consist of its 100% interest in each of BECOL, FortisOntario and non-regulated generation assets owned either directly or indirectly by FortisBC, Fortis Properties and Fortis.

BECOL owns and operates the 25-megawatt ("MW") Mollejon, 7-MW Chalillo and 19-MW Vaca hydroelectric generating facilities, all of which are located on the Macal River in Belize. FortisOntario owns and operates a 5-MW gas-fired cogeneration plant in Cornwall, Ontario. The non-regulated electricity generation operations of FortisBC consist of the 16-MW run-of-river Walden hydroelectric power plant near Lillooet, British Columbia. Fortis owns a 51% controlling ownership interest in the non-regulated Waneta Expansion Limited Partnership (the "Waneta Partnership"), which was established in 2010 to construct the Waneta Expansion, a 335-MW hydroelectric generating facility adjacent to the existing Waneta plant in British Columbia.

Through FortisUS Energy Corporation ("FortisUS Energy"), an indirect wholly owned subsidiary of Fortis, the Corporation owns and operates four hydroelectric generating stations in Upper New York State with a total combined capacity of approximately 23 MW. The operations of FortisUS Energy are managed by FortisBC.

Fortis Properties' assets include six small hydroelectric generating stations in eastern Ontario with a combined capacity of 8 MW.

Through Fortis Properties, the Corporation owns 22 hotels in eight Canadian provinces and commercial office and retail space primarily in Atlantic Canada.

Regulated Gas Utilities – Canadian

FortisBC Energy Companies

The natural gas distribution business of FortisBC Holdings is one of the largest in Canada. With approximately 939,000 customers as at March 31, 2012, FortisBC Holding's subsidiaries provide service to over 96% of gas users in British Columbia. FortisBC Energy Inc. ("FEI") (formerly Terasen Gas Inc.) is the largest of these subsidiaries, serving approximately 837,000 customers as at March 31, 2012. With the implementation of a new Customer Care Enhancement Project on January 1, 2012, the gas utilities adjusted their customer count downwards by approximately 17,000 effective January 1, 2012 as a result of a change in their definition of a "customer". FEI has a service area which includes Greater Vancouver, the Fraser Valley and the Thompson, Okanagan, Kootenay and North Central interior regions of British Columbia. FEVI (formerly Terasen Gas (Vancouver Island) Inc.) 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 99,000 customers as at March 31, 2012. In addition to providing transmission and distribution services to customers, FEI and FEVI also obtain natural gas supplies on behalf of most residential and commercial customers. Gas supplies are sourced primarily from north-eastern British Columbia and Alberta. FortisBC Energy (Whistler) Inc. ("FEWI") (formerly Terasen Gas (Whistler) Inc.) owns and operates the natural gas distribution system in the Resort Municipality of Whistler, British Columbia, providing service to approximately 2,600 residential and commercial customers as at March 31, 2012. The FortisBC Energy companies own and operate almost 47,200 kilometres of natural gas distribution and transmission pipelines and met a peak day demand of 1,210 terajoules for 2011.

Regulated Electric Utilities – Canadian

FortisAlberta

FortisAlberta distributed electricity to approximately 501,000 customers in Alberta as at March 31, 2012, using approximately 114,000 kilometres of owned and/or operated distribution lines and met a peak demand of 2,505 MW for 2011. FortisAlberta's business is the ownership and operation of regulated electricity distribution facilities that distribute electricity generated by other market participants from high-voltage transmission substations to end-use customers in central and southern Alberta. FortisAlberta is not involved in the generation, transmission or direct sale of electricity.

FortisBC

FortisBC is an integrated, regulated electric utility that owns a network of generation, transmission and distribution assets located in the southern interior of British Columbia. FortisBC served a diverse mix of approximately 162,500 customers, as at March 31, 2012, with residential customers representing the largest customer segment, and met a peak demand of 669 MW for 2011. FortisBC owns four regulated hydroelectric generating plants with an aggregate capacity of 223 MW that provide approximately 45% of FortisBC's energy and 30% of its peak capacity needs. FortisBC's remaining electricity supply is acquired through long-term power purchase contracts and short-term market purchases. FortisBC's business also includes non-regulated operating, maintenance and management services relating to the 493-MW Waneta hydroelectric generation facility owned by Teck Metals Ltd. and British Columbia Hydro and Power Authority ("BC Hydro"), the 149-MW Brilliant hydroelectric plant, the 120-MW Brilliant expansion plant and the 185-MW Arrow Lakes hydroelectric plant, each owned by Columbia Power Corporation and Columbia Basin Trust ("CPC/CBT"), and the distribution system owned by the City of Kelowna.

Newfoundland Power

Newfoundland Power is a regulated electric utility that operates an integrated generation, transmission and distribution system throughout the island portion of the Province of Newfoundland and Labrador. Newfoundland Power served approximately 248,000 customers as at March 31, 2012, or approximately 87% of electricity consumers in the Province, and met a peak demand of 1,166 MW for 2011. Approximately 93% of the electricity that Newfoundland Power sells to its customers is purchased from Newfoundland and Labrador Hydro Corporation ("Newfoundland Hydro"). Currently, Newfoundland Power has an installed generating capacity of 140 MW, of which 97 MW is hydroelectric generation.

Maritime Electric

Maritime Electric is a regulated electric utility that operates an integrated generation, transmission and distribution system on Prince Edward Island. Maritime Electric directly supplied over 75,000 customers as at March 31, 2012, or 90% of electricity consumers on the Island, and met a peak demand of 224 MW for 2011. Maritime Electric purchases most of the energy it distributes to its customers from New Brunswick Power Corporation under various energy purchase agreements and maintains on-Island generating facilities with an aggregate capacity of 150 MW.

FortisOntario

FortisOntario's regulated distribution operations served approximately 64,000 customers in the Fort Erie, Cornwall, Gananoque, Port Colborne and the District of Algoma in Ontario, as at March 31, 2012, and met a combined peak demand of 276 MW for 2011. Through CNPI, FortisOntario owns international transmission facilities at Fort Erie and owns a 10% interest in each of Westario Power Inc., Rideau St. Lawrence Holdings Inc. and Grimsby Power Inc., three regional electric distribution companies that, together, served approximately 38,000 customers, as at March 31, 2012.

Regulated Electric Utilities – Caribbean

Caribbean Utilities

Fortis holds an indirect approximate 60% controlling ownership interest in Caribbean Utilities as of March 31, 2012. Caribbean Utilities has the exclusive right to distribute and transmit electricity on the island of Grand Cayman, Cayman Islands, pursuant to a 20-year licence entered into on April 3, 2008. Caribbean Utilities also entered into a non-exclusive 21.5-year power generation licence with the Government of the Cayman Islands on April 3, 2008.

Caribbean Utilities served approximately 27,000 customers as at March 31, 2012, has approximately 151 MW of installed diesel-powered generating capacity and met a peak demand of 99 MW for 2011. The Class A Ordinary Shares of Caribbean Utilities are listed for trading on the Toronto Stock Exchange (the "TSX") under the symbol CUP.U.

Fortis Turks and Caicos

Fortis Turks and Caicos served approximately 9,600 customers, or approximately 85% of electricity consumers, on the Turks and Caicos Islands, as at March 31, 2012. Fortis Turks and Caicos is the principal distributor of electricity on Turks and Caicos pursuant to two 50-year licences that expire in 2036 and 2037, respectively. Fortis Turks and Caicos has an installed diesel-powered generating capacity of approximately 65 MW and met a peak demand of approximately 30 MW for 2011.

Expropriated Assets – Belize Electricity

Until June 20, 2011, Fortis held an indirect approximate 70% controlling ownership interest in Belize Electricity, the regulated principal distributor of electricity in Belize, Central America. On June 20, 2011, the Government of Belize ("GOB") enacted legislation leading to the expropriation of the Corporation's investment in Belize Electricity. The consequential loss of control over the operations of the utility resulted in the Corporation discontinuing the consolidation method of accounting for Belize Electricity, effective June 20, 2011. The Corporation has classified the book value of the previous investment in Belize Electricity as a long-term other asset on the consolidated balance sheet. As at March 31, 2012, the long-term other asset, including foreign exchange impacts, totalled $104 million.

In October 2011 Fortis commenced an action in the Belize Supreme Court to challenge the legality of the expropriation of its investment in Belize Electricity and court proceedings with respect to the matter are continuing. Fortis commissioned an independent valuation of its expropriated investment in Belize Electricity and submitted its claim for compensation to the GOB in November 2011. The GOB also commissioned a valuation of Belize Electricity and communicated the results of such valuation in its response to the Corporation's claim for compensation. The fair value determined under the GOB's valuation is significantly lower than the fair value determined under the Corporation's valuation. Pursuant to the expropriation action, Fortis is assessing alternative options for obtaining fair compensation from the GOB.

Non-Regulated – Fortis Generation

Belize

Non-regulated generation operations in Belize are conducted through BECOL under a franchise agreement with the GOB. BECOL owns and operates the 25-MW Mollejon hydroelectric generating facility, the 7-MW Chalillo hydroelectric generating facility and the 19-MW Vaca hydroelectric generating facility. All such facilities are located on the Macal River in Belize. These hydro plants generate average annual energy production of approximately 240 gigawatt hours ("GWh"). BECOL sells its entire output to Belize Electricity under 50-year power purchase agreements expiring in 2055 and 2060. In October 2011, the GOB purportedly amended the Constitution of Belize to require majority government ownership of three public utility providers, including Belize Electricity, but excluding BECOL. The GOB has also indicated it has no intention to expropriate BECOL. Fortis continues to control and consolidate the financial statements of BECOL.

Ontario

Non-regulated generation assets in Ontario are owned and operated by FortisOntario and Fortis Properties and include the 5-MW gas-fired cogeneration plant in Cornwall and six small hydroelectric generating stations with a combined capacity of approximately 8 MW.

Central Newfoundland

The non-regulated generation investment in central Newfoundland is held through the Corporation's indirect 51% interest in the Exploits River Hydro Partnership (the "Exploits Partnership") between AbitibiBowater Inc. ("Abitibi") and Fortis Properties. In December 2008 the Government of Newfoundland and Labrador expropriated Abitibi's hydroelectric assets and water rights in Newfoundland, including those of the Exploits Partnership. The Government of Newfoundland and Labrador has publically stated that it is not its intention to adversely affect the business interests of lenders or independent partners of Abitibi in the Province. The loss of control over cash flows and operations has required Fortis to cease consolidation of the Exploits Partnership, effective February 12, 2009. Discussions between Fortis Properties and Nalcor Energy, acting as agent for the Government of Newfoundland and Labrador, with respect to expropriation matters are ongoing.

British Columbia

Non-regulated generation operations in British Columbia, conducted through FortisBC, include the 16-MW run-of-river Walden hydroelectric power plant near Lillooet. This plant sells its entire output to BC Hydro under a power purchase agreement expiring in 2013.

In October 2010, the Corporation formed the Waneta Partnership with CPC/CBT and concluded definitive agreements to construct the 335-MW Waneta Expansion at an estimated cost of approximately $900 million. The facility is situated adjacent to the Waneta Dam and powerhouse facilities on the Pend d'Oreille River, south of Trail, British Columbia. CPC/CBT are both 100% owned entities of the Government of British Columbia. Fortis owns a controlling 51% interest in the Waneta Partnership and, through FortisBC, will operate and maintain the Waneta Expansion when it comes into service, which is expected in spring 2015. SNC-Lavalin Group Inc. was awarded a contract for approximately $590 million to design and build the Waneta Expansion. Construction began in November 2010 and capital expenditures of approximately $290 million have been incurred on this capital project through March 31, 2012. The Waneta Expansion will be included in the Canal Plant Agreement (as described in the Corporation's AIF) and will receive fixed energy and capacity entitlements based upon long-term average water flows, thereby significantly reducing hydrologic risk associated with the project. The energy output, approximately 630 GWh, and associated capacity required to deliver such energy, from the Waneta Expansion will be sold to BC Hydro under an executed long-term energy purchase agreement. The surplus capacity, equal to 234 MW on an average annual basis, is expected to be sold to FortisBC under a long-term capacity purchase agreement. In November 2011, FortisBC executed the agreement to purchase the capacity from the Waneta Expansion and filed such executed agreement with the British Columbia Utilities Commission (the "BCUC"). The form of the agreement was originally accepted for filing by the BCUC in September 2010. The BCUC is conducting its usual review process of the executed agreement to determine whether a hearing is necessary to decide whether the agreement is in the public interest.

Upper New York State

Non-regulated generation assets in Upper New York State are owned and operated by FortisUS Energy and include four hydroelectric generating stations with a combined generating capacity of approximately 23 MW operating under licences from the U.S. Federal Energy Regulatory Commission. Since January 1, 2007, all four plants have been selling energy at market rates.

Non-Regulated – Fortis Properties

In addition to its non-regulated generation operations, Fortis Properties owns and operates 22 hotels, collectively representing approximately 4,300 rooms, in eight Canadian provinces and approximately 2.7 million square feet of commercial office and retail space primarily in Atlantic Canada.

CAPITAL RESOURCES

This Prospectus will provide the Corporation with the flexibility to access the capital markets in a timely manner. The nature, size and timing of any offering of Securities under this Prospectus will be consistent with the past capital raising practices of the Corporation and will continue to depend upon the Corporation's assessment of its requirements for funding and general market conditions.

The Corporation and its subsidiary regulated gas and electric distribution businesses require ongoing access to capital to fund maintenance and expansion of infrastructure, acquisitions and/or repay maturing debt. To meet short-term capital requirements, the Corporation and its larger regulated utility subsidiaries have secured multi-year committed credit facilities. As at March 31, 2012, the Corporation and its subsidiaries had consolidated authorized lines of credit of $2.2 billion, of which $2.0 billion was available to be drawn. In May 2012, the Corporation increased the amount available for borrowing under its committed corporate credit facility from $800 million to $1 billion, thereby increasing the aggregate authorized amount available to the Corporation and its subsidiaries under all lines of credit to $2.4 billion. As at May 9, 2012, an aggregate amount of approximately $2.1 billion was unused and available to be drawn under these facilities. See "Recent Developments – Corporate Credit Facility".

The Corporation and its subsidiaries will require new capital for the repayment of at least a portion of their maturing debt. As at March 31, 2012, long-term debt maturities over the next five years are expected to average approximately $265 million annually.

RECENT DEVELOPMENTS

Agreement to Acquire CH Energy Group

On February 21, 2012, Fortis announced that it had entered into an agreement to acquire CH Energy Group for US$65.00 per common share in cash, for an aggregate purchase price of approximately US$1.5 billion, including the assumption of approximately US$500 million of debt on closing. The closing of the acquisition, which is expected to occur by the end of the first quarter of 2013, is subject to receipt of CH Energy Group's common shareholders' approval, regulatory and other approvals, and the satisfaction of customary closing conditions. The acquisition is expected to be immediately accretive to Fortis' earnings per common share, excluding one-time acquisition-related expenses.

CH Energy Group is an energy delivery company headquartered in Poughkeepsie, New York. Its main business, Central Hudson Gas & Electric Corporation ("Central Hudson"), is a regulated transmission and distribution utility serving approximately 300,000 electric and 75,000 natural gas customers in eight counties of New York State's Mid-Hudson River Valley. Central Hudson accounts for approximately 93% of the total assets of CH Energy Group. CH Energy Group also owns and operates Central Hudson Enterprises Corporation, a non-regulated subsidiary comprised primarily of a fuel delivery business serving approximately 56,000 customers in the Mid-Atlantic Region. As of December 31, 2011, CH Energy Group's total assets were US$1.7 billion and operating revenues and net income for 2011 totalled US$986 million and US$45 million, respectively. In 2011, Central Hudson accounted for approximately 97% of CH Energy Group's net income. Based on the first quarter results filed by CH Energy Group with the U.S. Securities and Exchange Commission ("SEC") on April 26, 2012, CH Energy Group's total assets at March 31, 2012 were approximately US$1.8 billion and operating revenues and net income for the first quarter totalled approximately US$274 million and US$14.6 million, respectively.

Central Hudson's electric assets, which comprise approximately 77% of its total assets, include approximately 7,300 pole miles (11,748 kilometers) of overhead lines and 1,400 trench miles (2,253 kilometers) of underground lines. The electric business met a peak demand of 1,225 MW in 2011. Central Hudson's natural gas assets, which comprise approximately 23% of its total assets, include approximately 1,185 miles (1,907 kilometers) of distribution pipelines and approximately 164 miles (264 kilometers) of transmission pipelines. The gas business met a peak day demand of 115,807 thousand cubic feet in 2011. Central Hudson is subject to regulation by the New York State Public Service Commission ("NYPSC") under a traditional cost-of-service model.

Central Hudson primarily relies on purchases from third-party providers and the New York Independent System Operator-administered energy and capacity markets to meet the demands of its full-service electric customers. It purchases its gas supply requirements from a number of suppliers at various receipt points on pipelines that it has contracted with for firm transport capacity.

In April 2012, applications were filed with the NYPSC and the Federal Energy Regulatory Commission seeking approval of the transaction. The CH Energy Group shareholder vote on the transaction is expected to occur mid-2012.

Transition to US GAAP

Due to continued uncertainty around the adoption of a rate-regulated accounting standard by the International Accounting Standards Board, Fortis adopted US GAAP, as opposed to IFRS, effective January 1, 2012.

Canadian securities rules allow a reporting issuer to file its financial statements prepared in accordance with US GAAP by qualifying as a SEC issuer. A SEC issuer is defined under the Canadian rules as an issuer that: (a) has a class of securities registered with the SEC under Section 12 of the *U.S. Securities Exchange Act of 1934*, as amended (the "Exchange Act"); or (b) is required to file reports under Section 15(d) of the Exchange Act. The Corporation is not currently a SEC issuer, but on June 9, 2011 was granted exemptive relief by Canadian securities regulators to permit it and its reporting issuer subsidiaries to prepare their financial statements in accordance with US GAAP without qualifying as SEC issuers (the "Exemption"). The Exemption applies to financial years commencing on or after January 1, 2012 but before January 1, 2015, and interim periods therein. The Exemption will terminate in respect of financial statements for annual and interim periods commencing on or after the earlier of: (i) January 1, 2015; or (ii) the date on which the Corporation ceases to have activities subject to rate regulation.

The Corporation's past application of Canadian GAAP referred to US GAAP for guidance on accounting for rate-regulated activities. The adoption of US GAAP in 2012 has resulted in fewer significant changes to the Corporation's accounting policies compared to accounting policy changes that may have resulted from the adoption of IFRS. US GAAP guidance on accounting for rate-regulated activities allows the economic impact of rate-regulated activities to be recognized in the consolidated financial statements in a manner consistent with the timing by which amounts are reflected in customer rates. Fortis believes that the continued application of rate-regulated accounting, and the associated recognition of regulatory assets and liabilities under US GAAP, accurately reflects the impact that rate regulation has on the Corporation's consolidated financial position and results of operations.

The Corporation has prepared and filed its audited Canadian GAAP consolidated financial statements for the year ended December 31, 2011, with 2010 comparatives, in the usual manner. The Corporation has also voluntarily prepared and filed the US GAAP Reconciliation. Beginning with the first quarter of 2012, the Corporation's unaudited interim consolidated financial statements have been prepared in accordance with US GAAP, with the restatement of 2011 comparatives in accordance with US GAAP.

Regulatory Decisions

In April 2012, regulatory decisions were received for 2012/2013 customer gas delivery rates at the FortisBC Energy companies and 2012 customer electricity distribution rates at FortisAlberta which reduce regulatory risk at the utilities. Effective January 1, 2012, the BCUC had previously approved an approximate 3% interim increase in rates for most residential customers at FEI and an approximate 6% interim increase in rates for residential customers at FEWI. The April 2012 decision at the FortisBC Energy companies is expected to result in a decrease in customer gas delivery rates at FEI and FEWI in the range of 1% – 2% from the January 1, 2012 interim rates. The BCUC also approved, as requested, FEVI's customer rates for 2012 and 2013 to remain unchanged from 2011 customer rates. The decision at FortisAlberta approved an average 5% increase in customer distribution electricity rates, consistent with the interim rate increase that was previously approved by the Alberta Utilities Commission effective January 1, 2012.

Corporate Credit Facility

In May 2012 the amount available for borrowing under the Corporation's committed corporate credit facility was increased from $800 million to $1 billion as permitted under the credit facility agreement. As at May 9, 2012, approximately $160 million was drawn and outstanding under this credit facility.

Approval of the 2012 Stock Option Plan and the 2012 Employee Share Purchase Plan

At the Corporation's annual general meeting held on May 4, 2012, the shareholders of the Corporation approved an amended and restated stock option plan (the "2012 Stock Option Plan") and an amended and restated employee share purchase plan (the "2012 ESPP"). Both the 2012 Stock Option Plan and the 2012 ESPP are described in more detail in the Information Circular which is incorporated by reference into this Prospectus. See "Documents Incorporated by Reference".

SHARE CAPITAL OF FORTIS

The authorized share capital of the Corporation consists of an unlimited number of common shares (the "Common Shares"), an unlimited number of First Preference Shares issuable in series and an unlimited number of Second Preference Shares issuable in series, in each case without nominal or par value. As at May 9, 2012, 189,330,675 Common Shares, 5,000,000 Cumulative Redeemable First Preference Shares, Series C (the "First Preference Shares, Series C"), 7,993,500 Cumulative Redeemable First Preference Shares, Series E (the "First Preference Shares, Series E"), 5,000,000 Cumulative Redeemable First Preference Shares, Series F (the "First Preference Shares, Series F"), 9,200,000 Cumulative Redeemable Five-Year Fixed Rate Reset First Preference Shares, Series G (the "First Preference Shares, Series G") and 10,000,000 Cumulative Redeemable Five-Year Fixed Rate Reset First Preference Shares, Series H (the "First Preference Shares, Series H") were issued and outstanding. The Corporation's Common Shares, First Preference Shares, Series C, First Preference Shares, Series E, First Preference Shares, Series F, First Preference Shares, Series G and First Preference Shares, Series H are listed on the TSX under the symbols "FTS", "FTS.PR.C", "FTS.PR.E", "FTS.PR.F", "FTS.PR.G" and "FTS.PR.H", respectively.

EARNINGS COVERAGE RATIOS

The following consolidated earnings coverage ratios have been calculated for the 12 months ended December 31, 2011 and the 12 months ended March 31, 2012. The earnings coverage ratios set forth below do not purport to be indicative of earnings coverage ratios for any future periods. The earnings coverage ratios and dividend and interest requirements do not give effect to the issuance of any Securities that may be issued pursuant to this Prospectus and any Prospectus Supplement, since the aggregate principal amounts and the terms of such Securities are not currently known. The financial ratios included below have been calculated based on financial information prepared in accordance with US GAAP. The ratios for the 12 months ended December 31, 2011 are based on audited financial information.

	12 Months Ended December 31, 2011	12 Months Ended March 31, 2012
Dividend and interest requirements ($ millions)	$ 442	$ 439
Earnings before interest expense and taxes ($ millions)	$ 791	$ 790
Earnings coverage	1.79	1.80

DIVIDEND POLICY

Dividends on the Common Shares are declared at the discretion of the board of directors of Fortis (the "Board of Directors"). The Corporation paid cash dividends on its Common Shares of $1.16 in 2011, $1.12 in 2010 and $1.04 in 2009. On May 3, 2012, the Board of Directors declared a third quarter dividend of $0.30 per Common Share, payable on September 1, 2012 to holders of record of such Common Shares on August 17, 2012.

Regular quarterly dividends at the prescribed annual rate have been paid on all of the First Preference Shares, Series C, First Preference Shares, Series E, First Preference Shares, Series F, First Preference Shares, Series G and

First Preference Shares, Series H, respectively. The Board of Directors declared a third quarter dividend on the First Preference Shares, Series C, First Preference Shares, Series E, First Preference Shares, Series F, First Preference Shares, Series G and First Preference Shares, Series H on May 3, 2012, in each case in accordance with the applicable prescribed annual rate, payable on September 1, 2012 to holders of record of such First Preference Shares on August 17, 2012.

RATINGS

Each of the First Preference Shares, Series C, First Preference Shares, Series E, First Preference Shares, Series F, First Preference Shares, Series G and First Preference Shares, Series H are rated Pfd-2 (low)/Under Review – Developing Implications by DBRS Limited ("DBRS") and P-2/CreditWatch – Negative by Standard & Poor's Rating Services, a division of The McGraw-Hill Companies (Canada) Corporation ("S&P"). The Corporation's unsecured debentures are rated A(low)/Under Review – Developing Implications by DBRS and are rated A-/Credit Watch – Negative by S&P. S&P and DBRS placed the Corporation's credit ratings on "Credit Watch – Negative" and "Under Review – Developing Implications", respectively, in February 2012 after the Corporation announced that it had entered into an agreement to acquire all of the shares of CH Energy Group. Credit ratings relating to the Securities offered pursuant to this Prospectus, where applicable, will be described in the relevant Prospectus Supplement.

The DBRS rating of Pfd-2 (low) is the lowest of three sub-categories within the second highest rating of the six standard categories of ratings utilized by DBRS for preferred shares. The DBRS rating of A(low) is the lowest of three subcategories within the third highest rating of ten major categories for debt securities, ranging from AAA to D. A P-2 rating by S&P is the second of the three sub-categories within the second highest rating of the five standard categories of ratings utilized by S&P for preferred shares. The S&P rating of A- is the lowest standing within the third highest rating of ten major categories for debt securities, ranging from AAA to D.

According to S&P, the rating action "Credit Watch – Negative" means that the Corporation's credit ratings have been placed under surveillance by S&P and that the ratings may be lowered due to S&P's view that there is at least a 50% probability that the Corporation's non-consolidated credit metrics will fall below thresholds previously established for the Corporation's current credit ratings, following the close of the proposed acquisition of CH Energy Group.

According to DBRS, the rating action "Under Review – Developing Implications" means that the Corporation's credit ratings are under review by DBRS due to the uncertainty of the impact on the Corporation's credit ratings upon close of the proposed acquisition of CH Energy Group, but that DBRS expects the Corporation to finance the acquisition of CH Energy Group such that its non-consolidated debt-to-capital structure remains within the 20% range.

Credit ratings are intended to provide investors with an independent measure of the credit quality of an issue of securities. The credit ratings accorded to the First Preference Shares, Series C, First Preference Shares, Series E, First Preference Shares, Series F and First Preference Shares, Series G, First Preference Shares, Series H and the Corporation's unsecured debentures by these rating agencies are not recommendations to purchase, hold or sell such securities, as such ratings do not comment as to market price or suitability for a particular investor. There is no assurance that any rating will remain in effect for any given period of time or that any rating will not be revised or withdrawn entirely by a rating agency in the future if, in its judgment, circumstances so warrant.

Fortis has paid each of DBRS and S&P their customary fees in connection with the provision of the ratings described herein. Fortis has not made any payments to DBRS or S&P for services unrelated to the provision of such ratings.

DESCRIPTION OF SECURITIES OFFERED

Common Shares

Common Shares may be offered separately or together with First Preference Shares, Second Preference Shares, Subscription Receipts or Debentures under this Prospectus.

Dividends

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

Liquidation, Dissolution or Winding-Up

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

Voting Rights

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

First Preference Shares

The following is a summary of the material rights, privileges, conditions and restrictions attached to the First Preference Shares as a class. The specific terms of the First Preference Shares, including the currency in which First Preference Shares may be purchased and redeemed and the currency in which any dividend is payable, if other than Canadian dollars, and the extent to which the general terms described in this section apply to those First Preference Shares, will be set forth in the applicable Prospectus Supplement. One or more series of First Preference Shares may be sold separately or together with Common Shares, Second Preference Shares, Subscription Receipts or Debentures under this Prospectus.

Issuance in Series

The Board of Directors may from time to time issue First Preference Shares in one or more series. Prior to issuing shares in a series, the Board of Directors is required to fix the number of shares in the series and determine the designation, rights, privileges, restrictions and conditions attaching to that series of First Preference Shares.

Priority

The shares of each series of First Preference Shares rank on a parity with the First Preference Shares of every other series and in priority to all other shares of the Corporation, including the Second Preference Shares, as to the payment of dividends, return of capital and the distribution of assets in the event of the liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, or any other distribution of the assets of the Corporation among its shareholders for the purpose of winding-up its affairs. Each series of First Preference Shares participates rateably with every other series of First Preference Shares in respect of accumulated cumulative dividends and returns of capital if any amount of cumulative dividends, whether or not declared, or amount payable on the return of capital in respect of a series of First Preference Shares, is not paid in full.

Voting

The holders of the First Preference Shares are not entitled to any voting rights as a class except to the extent that voting rights may from time to time be attached to any series of First Preference Shares, and except as provided by law or as described below under "Modification". At any meeting of the holders of the First Preference Shares, each holder shall have one vote in respect of each First Preference Share held.

Redemption

Subject to the provisions of the *Corporations Act* (Newfoundland and Labrador) and any provisions relating to any particular series, Fortis, upon giving proper notice, may redeem out of capital or otherwise at any time, or from time to time, the whole or any part of the then outstanding First Preference Shares of any one or more series on payment for each such First Preference Share of such price or prices as may be applicable to such series. Subject to the foregoing, in case a part only of the then outstanding First Preference Shares of any particular series is at any time redeemed, the shares to be redeemed will be selected by lot in such manner as the directors or the transfer agent for the First Preference Shares, if any, decide, or if the directors so determine, may be redeemed *pro rata* disregarding fractions.

Modification

The class provisions attached to the First Preference Shares may only be amended with the prior approval of the holders of the First Preference Shares in addition to any other approvals required by the *Corporations Act* (Newfoundland and Labrador) or any other statutory provisions of like or similar effect in force from time to time. The approval of the holders of the First Preference Shares with respect to any and all matters may be given by at least two-thirds of the votes cast at a meeting of the holders of the First Preference Shares duly called for that purpose.

Second Preference Shares

The rights, privileges, restrictions and conditions attaching to the Second Preference Shares are substantially identical to those attaching to the First Preference Shares, except that the Second Preference Shares are junior to the First Preference Shares with respect to the payment of dividends, repayment of capital and the distribution of assets of the Corporation in the event of a liquidation, dissolution or winding up of the Corporation.

The specific terms of the Second Preference Shares, including the currency in which Second Preference Shares may be purchased and redeemed and the currency in which any dividend is payable, if other than Canadian dollars, and the extent to which the general terms described in this Prospectus apply to those Second Preference Shares, will be set forth in the applicable Prospectus Supplement. One or more series of Second Preference Shares may be sold separately or together with Common Shares, First Preference Shares, Subscription Receipts or Debentures under this Prospectus.

Subscription Receipts

Subscription Receipts may be offered separately or together with Common Shares, First Preference Shares, Second Preference Shares or Debentures, as the case may be. Subscription Receipts will be issued under a subscription receipt agreement that will be entered into by the Corporation at the time of issuance of the Subscription Receipts.

The applicable Prospectus Supplement will include details of the subscription receipt agreement covering the Subscription Receipts being offered. The specific terms of the Subscription Receipts, and the extent to which the general terms described in this section apply to those Subscription Receipts, will be set forth in the applicable Prospectus Supplement. A copy of the subscription receipt agreement will be filed by the Corporation with securities regulatory authorities after it has been entered into by the Corporation.

The subscription receipt agreement will provide each initial purchaser of Subscription Receipts with a contractual right of rescission following the issuance of any Common Shares, First Preference Shares, Second Preference Shares or Debentures, as applicable, to such purchaser upon the exchange of the Subscription Receipts if this Prospectus, the Prospectus Supplement under which the Subscription Receipts are offered, or any amendment hereto or thereto contains a misrepresentation, as such term is defined in the *Securities Act* (Ontario). This contractual right of rescission will entitle such initial purchaser to receive the amount paid for the Subscription Receipts upon surrender of the Securities issued in exchange therefor, provided that such remedy for rescission is exercised in the time stipulated in

the subscription receipt agreement. This right of rescission will not extend to any holders of Subscription Receipts who acquire such Subscription Receipts from an initial purchaser on the open market or otherwise.

The particular terms of each issue of Subscription Receipts that will be described in the related Prospectus Supplement will include, where applicable:

- the number of Subscription Receipts;
- the price at which the Subscription Receipts will be offered;
- the procedures for the exchange of the Subscription Receipts into Common Shares, First Preference Shares, Second Preference Shares or Debentures, as the case may be;
- the number of Common Shares, First Preference Shares, Second Preference Shares or Debentures, as the case may be, that may be obtained upon exercise of each Subscription Receipt;
- the designation and terms of any other Securities with which the Subscription Receipts will be offered, if any, and the number of Subscription Receipts that will be offered with each Security;
- terms relating to the holding and release or return of the gross proceeds from the sale of the Subscription Receipts plus any interest earned thereon;
- material income tax consequences of owning the Subscription Receipts; and
- any other material terms and conditions of the Subscription Receipts.

Securities issued upon the exchange of Subscription Receipts will be issued for no additional consideration.

Debentures

The following sets forth certain general terms and provisions of Debentures. The particular terms and provisions of Debentures offered pursuant to an accompanying Prospectus Supplement, and the extent to which the general terms and provisions described below may apply to such Debentures, will be described in such Prospectus Supplement.

The Debentures may be offered separately or together with the Common Shares, First Preference Shares, Second Preference Shares or Subscription Receipts, as the case may be. The Debentures will be issued in series under the Corporation's existing trust indenture or one or more trust indentures to be entered into between the Company and a financial institution to which the *Trust and Loan Companies Act* (Canada) applies or a financial institution organized under the laws of any province of Canada and authorized to carry on business as a trustee. Each such trust indenture will set out the terms of the applicable series of Debentures. The statements in this Prospectus relating to any trust indenture and the Debentures to be issued under it are summaries of certain anticipated provisions of the trust indenture and do not purport to be complete and are subject to, and are qualified in their entirety by reference to, all provisions of the applicable trust indenture.

Each trust indenture may provide that Debentures may be issued thereunder up to the aggregate principal amount which may be authorized from time to time by the Corporation. Any Prospectus Supplement for Debentures supplementing this Prospectus will contain the terms and other information with respect to the Debentures being offered, including:

- the designation, aggregate principal amount and authorized denominations of such Debentures,
- the currency for which the Debentures may be purchased and the currency in which the principal and any interest is payable (in either case, if other than Canadian dollars),
- the percentage of the principal amount at which such Debentures will be issued,
- the date or dates on which such Debentures will mature,
- the rate or rates at which such Debentures will bear interest (if any), or the method of determination of such rates (if any),
- the dates on which any such interest will be payable and the record dates for such payments,
- any redemption term or terms under which such Debentures may be defeased,

- any exchange or conversion terms, and
- any other specific terms.

Each series of Debentures may be issued at various times with different maturity dates, may bear interest at different rates and may otherwise vary.

The Debentures will be direct, unsecured obligations of the Company. The Debentures will be senior or subordinated indebtedness of the Company as described in the relevant Prospectus Supplement.

This Prospectus does not qualify for issuance Debentures in respect of which the payment of principal and/or interest may be determined, in whole or in part, by reference to one or more underlying interests including, for example, an equity or debt security, a statistical measure of economic or financial performance including, but not limited to, any currency, consumer price or mortgage index, or the price or value of one or more commodities, indices or other items, or any other item or formula, or any combination or basket of the foregoing items. For greater certainty, this Prospectus may qualify for issuance Debentures in respect of which the payment of principal and/or interest may be determined, in whole or in part, by reference to published rates of a central banking authority or one or more financial institutions, such as a prime rate or bankers' acceptance rate, or to recognized market benchmark interest rates such as LIBOR, EURIBOR or a U.S. Federal funds rate.

CHANGES IN SHARE AND LOAN CAPITAL STRUCTURE

The following describes the changes in the share and loan capital structure of Fortis since March 31, 2012:

- During the period from April 1, 2012 up to and including May 9, 2012, Fortis issued an aggregate of 56,242 Common Shares upon the exercise of options granted pursuant to the 2002 and 2006 Stock Option Plans, for aggregate consideration of $1.4 million.
- During the period from April 1, 2012 up to and including May 9, 2012, the Corporation's consolidated long-term debt and capital lease obligations, including the current portion and committed credit facility borrowings classified as long-term debt, increased by $131 million, largely due to additional borrowings under the Corporation's committed corporate credit facility.

PRIOR SALES

Fortis has not sold or issued any First Preference Shares, Second Preference Shares, Subscription Receipts, Debentures or securities convertible into First Preference Shares, Second Preference Shares or Debentures during the 12 months prior to the date hereof. The following table summarizes the issuances by the Corporation of Common Shares and securities convertible into Common Shares during the 12 months prior to the date of this Prospectus:

Date	Security	Weighted Average Issue Price or Exercise Price per Security, as applicable	Number of Securities
May 2011	Common – Exercise of Stock Options(1)	$20.68	20,524
June 1, 2011	Common – DRIP(2)	$32.64	454,874
June 1, 2011	Common – CSPP(3)	$33.29	10,780
June 2011	Common – Exercise of Stock Options(1)	$21.60	17,148
June 2011	Common(4)	$33.00	9,100,000
July 2011	Common – Exercise of Over-Allotment Option(4)	$33.00	1,240,000
July 2011	Common – Exercise of Stock Options(1)	$28.19	1,707
August 2011	Common – Exercise of Stock Options(1)	$12.04	19,940
September 1, 2011	Common – DRIP(2)	$30.69	528,636
September 1, 2011	Common – CSPP(3)	$31.30	9,146
September 2011	Common – Exercise of Stock Options(1)	$20.68	74,766
October 2011	Common – Exercise of Stock Options(1)	$26.46	70,810
November 2011	Common – Exercise of Stock Options(1)	$15.10	40,928
November 2011	Common – Conversion of US$40 million of Convertible Debentures(5)	$29.63	1,374,098
December 1, 2011	Common – DRIP(2)	$31.86	390,303
December 1, 2011	Common – CSPP(3)	$32.48	9,332
December 2011	Common – Exercise of Stock Options(1)	$23.83	9,413
January 2012	Common – Exercise of Stock Options(1)	$25.41	16,012
February 2012	Common – Exercise of Stock Options(1)	$22.29	3,870
March 1, 2012	Common – DRIP(2)	$31.52	399,640
March 1, 2012	Common – CSPP(3)	$32.14	12,994
March 2012	Common – Exercise of Stock Options(1)	$25.62	13,639
April 2012	Common – Exercise of Stock Options(1)	$25.49	28,290
May 4, 2012	Stock Options convertible into Common Shares(6)	$34.27	789,220
May 1-9, 2012	Common – Exercise of Stock Options(1)	$23.75	27,952

(1) Issued on the exercise of options granted pursuant to the Executive, 2002 and 2006 Stock Option Plans of the Corporation.
(2) Issued pursuant to the Corporation's Dividend Reinvestment Plan ("DRIP").
(3) Issued pursuant to the Corporation's Consumer Share Purchase Plan ("CSPP").
(4) Issued to the public pursuant to a short-form prospectus dated June 8, 2011.
(5) Convertible debentures issued pursuant to a debenture purchase agreement dated November 7, 2006.
(6) Options granted under the 2012 Stock Option Plan of the Corporation.

TRADING PRICES AND VOLUMES

The following tables set forth, for the periods indicated, the reported high and low daily trading prices and the aggregate volume of trading of the Corporation's Common Shares; First Preference Shares, Series C; First Preference Shares, Series E; First Preference Shares, Series F; First Preference Shares, Series G; and First Preference Shares, Series H, on the TSX.

	Trading of Common Shares			Trading of First Preference Shares, Series C		
	TSX			TSX		
	High	Low	Volume	High	Low	Volume
	($)	($)	(#)	($)	($)	(#)
2011						
May	33.85	31.98	15,795,186	26.19	25.54	463,532
June	33.05	30.79	9,954,946	26.04	25.75	348,223
July	32.85	31.53	5,183,546	26.49	25.85	80,991
August	32.75	28.24	14,509,526	26.45	25.86	34,748
September	33.78	31.44	11,207,968	26.14	25.55	135,005
October	34.39	31.32	7,950,203	26.26	25.60	75,014
November	34.16	31.32	18,591,643	26.45	25.75	123,447
December	33.62	31.97	9,940,675	26.21	25.65	187,813
2012						
January	33.67	32.66	7,561,933	26.61	25.90	21,229
February	34.31	31.76	19,233,895	26.54	25.50	50,239
March	33.17	31.70	11,072,696	25.90	25.53	35,364
April	34.35	31.88	7,960,525	26.25	25.53	275,288
May 1 to 9	34.98	33.55	2,888,641	25.95	25.60	9,625

	Trading of First Preference Shares, Series E			Trading of First Preference Shares, Series F		
	TSX			TSX		
	High	Low	Volume	High	Low	Volume
	($)	($)	(#)	($)	($)	(#)
2011						
May	27.34	26.74	272,521	24.00	23.05	87,756
June	27.24	26.61	143,830	24.25	23.16	74,591
July	27.53	26.80	16,908	24.79	24.01	46,339
August	27.86	26.51	367,951	25.10	23.68	67,083
September	27.00	26.59	60,562	25.00	24.33	52,951
October	27.22	26.50	126,929	26.24	24.50	96,924
November	28.12	27.11	114,823	25.69	24.92	56,811
December	27.45	26.98	28,011	26.41	24.98	39,355
2012						
January	27.60	26.97	72,839	25.85	25.05	70,415
February	28.98	26.75	68,038	25.94	25.00	239,924
March	27.58	26.02	53,080	25.60	25.00	328,502
April	26.60	26.05	333,365	25.30	25.00	167,439
May 1 to 9	26.66	26.59	1,430	25.60	25.21	25,850

	Trading of First Preference Shares, Series G			Trading of First Preference Shares, Series H		
	TSX			TSX		
	High	Low	Volume	High	Low	Volume
	($)	($)	(#)	($)	($)	(#)
2011						
May	26.50	25.88	97,923	26.50	25.14	96,623
June	26.99	25.88	128,971	25.96	25.25	251,857
July	26.30	25.81	68,285	25.95	25.21	67,873
August	26.40	25.34	75,920	26.00	25.14	156,853
September	26.30	25.58	110,543	26.05	25.00	94,461
October	26.58	25.80	69,175	26.00	25.10	48,926
November	26.19	25.43	107,174	25.84	25.10	95,476
December	26.65	25.70	40,271	26.00	25.29	210,693
2012						
January	26.45	25.75	47,858	26.00	25.50	263,320
February	26.50	25.35	88,246	26.72	25.60	111,592
March	25.92	25.46	168,124	25.99	25.45	85,935
April	25.85	25.60	54,552	25.93	25.46	28,764
May 1 to 9	25.95	25.73	21,021	26.00	25.61	21,874

USE OF PROCEEDS

Unless otherwise indicated in a Prospectus Supplement relating to a particular offering of Securities, the Corporation intends to use the net proceeds from the sale of Securities to repay indebtedness and/or to, directly or indirectly, finance future growth opportunities. Specific information about the use of net proceeds will be set forth in a Prospectus Supplement. The Corporation may invest funds which the Corporation does not immediately use. Such investments may include short-term marketable investment grade securities. The Corporation may, from time to time, issue securities (including debt securities) other than pursuant to this Prospectus.

PLAN OF DISTRIBUTION

The Corporation may sell the Securities, separately or together, to or through one or more underwriters or dealers, purchasing as principals for public offering and sale by them, and also may sell Securities to one or more other purchasers directly or through agents. Each Prospectus Supplement will set out the terms of the offering, including the name or names of any underwriters, dealers or agents, the purchase price or prices of the Securities (or the manner of determination thereof if offered on a non-fixed price basis), and the proceeds to the Corporation from the sale of the Securities. Only underwriters, dealers or agents so named in the Prospectus Supplement are deemed to be underwriters, dealers or agents, as the case may be, in connection with the Securities offered thereby.

The Securities may be sold, from time to time in one or more transactions at a fixed price or prices which may be changed or at market prices prevailing at the time of sale, at prices related to such prevailing market prices or at negotiated prices. The prices at which the Securities may be offered may vary as between purchasers and during the period of distribution. If, in connection with the offering of Securities at a fixed price or prices, the underwriters have made a *bona fide* effort to sell all of the Securities at the initial offering price fixed in the applicable Prospectus Supplement, the public offering price may be decreased and thereafter further changed, from time to time, to an amount not greater than the initial public offering price fixed in such Prospectus Supplement, in which case the compensation realized by the underwriters, dealers or agents will be decreased by the amount that the aggregate price paid by purchasers for the Securities is less than the gross proceeds paid by the underwriters, dealers or agents to the Corporation.

If underwriters or dealers purchase Securities as principal, the Securities will be acquired by the underwriters or dealers for their own account and may be resold from time to time in one or more transactions, including negotiated transactions, at a fixed public offering price or at varying prices determined at the time of sale. The obligations of the underwriters or dealers to purchase those Securities will be subject to certain conditions precedent, and the underwriters or dealers will be obligated to purchase all the Securities offered by the Prospectus Supplement if any of such Securities are purchased. Any public offering price and any discounts or concessions allowed or re-allowed or paid may be changed from time to time.

The Securities may also be sold directly by the Corporation in accordance with applicable securities laws at prices and upon terms agreed to by the purchaser and the Corporation or through agents designated by the Corporation from time to time. Any agent involved in the offering and sale of the Securities pursuant to a particular Prospectus Supplement will be named, and any commissions payable by the Corporation to that agent will be set forth, in such Prospectus Supplement. Unless otherwise indicated in the Prospectus Supplement, any agent would be acting on a best efforts basis for the period of its appointment.

In connection with the sale of the Securities, underwriters, dealers or agents may receive compensation from the Corporation in the form of commissions, concessions and discounts. Any such commissions may be paid out of the general funds of the Corporation or the proceeds of the sale of the Securities. Underwriters, dealers and agents who participate in the distribution of the Securities may be entitled under agreement to be entered into with the Corporation to indemnification by the Corporation against certain liabilities, including liabilities under Canadian securities legislation, or to contribution with respect to payments which such underwriters, dealers or agents may be required to make in respect thereof. Such underwriters, dealers and agents may engage in transactions with, or perform services for, the Corporation in the ordinary course of business.

In connection with any offering of Securities, the applicable Prospectus Supplement will set forth any intention by the underwriters, dealers or agents to offer, allot or effect transactions which stabilize or maintain the market price of the Securities offered at a level above that which might otherwise prevail in the open market. Such transactions, if commenced, may be interrupted or discontinued at any time.

CERTAIN INCOME TAX CONSIDERATIONS

The applicable Prospectus Supplement will describe certain material Canadian federal income tax consequences to an investor who is a resident of Canada or who is a non-resident of Canada of the acquisition, ownership and disposition of any Securities offered thereunder, including whether the payment of dividends will be subject to Canadian non-resident withholding tax.

RISK FACTORS

An investment in Securities involves certain risks. A prospective purchaser of Securities should carefully consider the risk factors described under the heading "Business Risk Management" in the MD&A found on pages 48 to 61 of the Corporation's 2011 Annual Report and on pages 28 to 29 of the Corporation's Management Discussion and Analysis of financial condition and results of operations for the three months ended March 31, 2012, each of which is incorporated by reference herein. In addition, a prospective purchaser of Securities should carefully consider the other information contained in this Prospectus and in all subsequently filed documents incorporated by reference and those described in a Prospectus Supplement relating to a specific offering of Securities.

Completion of the Acquisition of CH Energy Group

The acquisition of CH Energy Group is subject to certain shareholder, regulatory and other approvals. Failure to obtain, or any delay in obtaining, such approvals could adversely impact the Corporation's ability to close the Acquisition or the timing of such closing. In addition, there is risk that some, or all, of the expected benefits of the acquisition of CH Energy Group may fail to materialize or may not occur within the time periods anticipated by the Corporation. The realization of such benefits may be impacted by a number of factors, many of which are beyond the control of Fortis.

No Market for the Securities

There is currently no trading market for the First Preferred Shares, Second Preferred Shares, Subscription Receipts or Debentures that may be offered pursuant to this Prospectus and any Prospectus Supplement. No assurance can be given that an active or liquid trading market for these securities will develop or be sustained. If an active or liquid market for these Securities fails to develop or be sustained, the prices at which the Securities trade may be adversely affected. Whether or not the Securities will trade at lower prices depends on many factors, including liquidity of these Securities, prevailing interest rates and the markets for similar securities, the market price of the Common Shares, general economic conditions and the Corporation's financial condition, historic financial performance and future prospects.

AUDITOR

The auditors of the Corporation are Ernst & Young LLP, Chartered Accountants, The Fortis Building, 7th Floor, 139 Water Street, St. John's, Newfoundland and Labrador A1C 1B2.

LEGAL MATTERS

Unless otherwise specified in a Prospectus Supplement relating to a specific offering of Securities, certain legal matters relating to the offering of Securities will be passed upon on behalf of the Corporation by Davies Ward Phillips & Vineberg LLP, Toronto and McInnes Cooper, St. John's. At the date hereof, partners and associates of each of Davies Ward Phillips & Vineberg LLP and McInnes Cooper own beneficially, directly or indirectly, less than 1% of any securities of the Corporation or any associate or affiliate of the Corporation.

PURCHASERS' STATUTORY RIGHTS

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may only be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment, irrespective of the determination at a later date of the purchase price of the securities distributed. In several of the provinces, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revisions of the price or damages if the prospectus and any amendment contains

a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revisions of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights or consult with a legal advisor.

AUDITORS' CONSENT

We have read the Short Form Base Shelf Prospectus (the "Prospectus") of Fortis Inc. (the "Corporation") dated May 10, 2012 relating to the issue and sale of Common Shares, First Preference Shares, Second Preference Shares, Subscription Receipts and Debentures of the Corporation. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the incorporation by reference, in the Prospectus, of our reports to the shareholders of the Corporation: (i) on the consolidated balance sheets of the Corporation as at December 31, 2011 and 2010 and the consolidated statements of earnings, retained earnings, comprehensive income and cash flows for each of the years in the two-year period ended December 31, 2011, prepared in accordance with Canadian generally accepted accounting principles; and (ii) on the consolidated balance sheets of the Corporation as at December 31, 2011 and 2010 and the consolidated statements of earnings, retained earnings, comprehensive income and cash flows for each of the years in the two-year period ended December 31, 2011, prepared in accordance with accounting principles generally accepted in the United States. Each such report is dated March 13, 2012.

St. John's, Canada
May 10, 2012

(Signed) ERNST & YOUNG LLP
Chartered Accountants

CERTIFICATE OF FORTIS INC.

Dated: May 10, 2012

This short form prospectus, together with the documents incorporated in this prospectus by reference, will, as of the date of the last supplement to this prospectus relating to the securities offered by the prospectus and the supplement(s), constitute full, true and plain disclosure of all material facts relating to the securities offered by this prospectus and the supplement(s) as required by the securities legislation of each of the provinces of Canada.

(Signed) H. STANLEY MARSHALL President and Chief Executive Officer	(Signed) BARRY V. PERRY Vice-President, Finance and Chief Financial Officer

On behalf of the Board of Directors

(Signed) DAVID G. NORRIS Director	(Signed) PETER E. CASE Director

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. This short form prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and thereby only by persons permitted to sell such securities.

Information has been incorporated by reference in this short form prospectus from documents filed with securities commissions or similar authorities in Canada. *Copies of the documents incorporated herein by reference may be obtained on request without charge from the Secretary of the Corporation at Suite 1201, 139 Water Street, St. John's, Newfoundland and Labrador A1B 3T2 (telephone (709) 737-2800) and are also available electronically at www.sedar.com. For the purpose of the Province of Québec, this simplified prospectus contains information to be completed by consulting the permanent information record. A copy of the permanent information record may be obtained without charge from the Secretary of the Corporation at the above-mentioned address and telephone number and is also available electronically at www.sedar.com. The securities being offered under this short form prospectus have not been and will not be registered under the United States Securities Act of 1933, as amended, or any state securities laws, and, except in limited circumstances, will not be offered or sold within the United States or for the account or benefit of United States persons. See ''Plan of Distribution''.*

New Issue **March 7, 2007**

SHORT FORM PROSPECTUS

FORTIS INC.

FORTIS

$1,001,000,000
38,500,000 Subscription Receipts, each representing the right to receive one Common Share

Fortis Inc. (''Fortis'' or the ''Corporation'') is hereby qualifying for distribution (the ''Offering'') 38,500,000 subscription receipts (the ''Subscription Receipts''), each of which will entitle the holder thereof to receive, upon satisfaction of the Release Conditions (as defined below), and without payment of additional consideration, one common share of Fortis (a ''Common Share''). The gross proceeds from the sale of the Subscription Receipts (the ''Escrowed Funds'') will be held by Computershare Trust Company of Canada, as escrow agent (the ''Escrow Agent'') and invested in short-term interest bearing or discount debt obligations issued or guaranteed by the Government of Canada or a province, or one or more of the five largest Canadian chartered banks, provided that in all cases such obligation is rated at least R1 (middle) by DBRS Limited or an equivalent rating from an equivalent rating service, pending receipt by the Corporation of all regulatory and government approvals required to finalize the acquisition (the ''Acquisition'') by the Corporation of all of the issued and outstanding shares of Terasen Inc. (''Terasen''), a wholly owned subsidiary of Kinder Morgan, Inc., including that of the British Columbia Utilities Commission, and fulfillment or waiver of all other outstanding conditions precedent to closing the Acquisition as itemized in the Acquisition Agreement (as defined below) (collectively, the ''Release Conditions''). At the time of the Acquisition, Terasen will have divested itself of its petroleum transportation operations and will only hold its natural gas distribution business and an interest in CustomerWorks Limited Partnership. See ''The Acquisition'', ''The Acquired Business'' and ''Details of the Offering''.

If the Release Conditions are satisfied prior to 5:00 p.m. (Toronto time) on November 30, 2007, the Corporation will forthwith execute and deliver a notice of satisfaction and will issue and deliver to the Escrow Agent one Common Share for each Subscription Receipt then outstanding (subject to any applicable adjustment). The Common Shares will be available for delivery commencing on the second business day after the delivery of such notice. The holders of Subscription Receipts will receive, without payment of any additional consideration, one Common Share for each Subscription Receipt held plus an amount equal to the dividends declared on the Common Shares by the Corporation, if any, for which record dates have occurred during the period from the Closing Date (as defined below) to the date of issuance of the Common Shares in respect of the Subscription Receipts. Forthwith upon the Release Conditions being satisfied and the required notice being delivered to the Escrow Agent, the Escrowed Funds, together with interest earned and income generated thereon, will be released to Fortis. In the event that the Release Conditions are not satisfied prior to 5:00 p.m. (Toronto time) on November 30, 2007, or if the Acquisition Agreement is terminated prior to such time (in either case, the ''Termination Time''), holders of Subscription Receipts shall, commencing on the second business day following the Termination Time, be entitled to receive from the Escrow Agent an amount equal to the full subscription price thereof plus their *pro rata* share of the interest earned or income generated on such amount. See ''Details of the Offering''.

Price: $26.00 per Subscription Receipt

	Price to the Public	Underwriters' Fee (1)	Net Proceeds to the Corporation (2)
Per Subscription Receipt	$26.00	$1.04	$24.96
Total (3)	$1,001,000,000	$40,040,000	$960,960,000

(1) One-half of the Underwriters' fee is payable at the closing of the Offering. The other half of the Underwriters' fee is payable only if the Release Conditions have been satisfied prior to the Termination Time and the required notice has been delivered to the Escrow Agent. See ''Plan of Distribution''.

(2) Net proceeds to the Corporation exclude any interest earned and income generated on the Escrowed Funds and are calculated before deducting the expenses of the Offering, estimated at $1,250,000, which, together with the Underwriters' fee, will be paid out of the general funds of Fortis. See ''Plan of Distribution''.

(3) The Corporation has granted to the Underwriters an option (the ''Over-Allotment Option''), exercisable in whole or in part at any time until 30 days following the date of closing of the Offering, to purchase at the Offering Price up to 5,775,000 additional Subscription Receipts to cover over-allotments, if any. If the Over-Allotment Option is exercised in full, the total Price to the Public, Underwriters' Fee and Net Proceeds to the Corporation will be $1,151,150,000, $46,046,000 and $1,105,104,000, respectively. See ''Plan of Distribution''. This prospectus also qualifies the grant of the Over-Allotment Option and the distribution of the securities issuable on the exercise of the Over-Allotment Option.

Underwriters' Position	Maximum Size	Exercise Period	Exercise Price
Over-Allotment Option	5,775,000 Subscription Receipts	Within 30 days following the closing of the Offering	$26.00 per Subscription Receipt

There is currently no market through which the Subscription Receipts may be sold and purchasers may not be able to resell securities purchased under this short form prospectus (the ''Prospectus''). This may affect the pricing of the securities in the secondary market, the transparency and availability of trading prices, the liquidity of the securities, and the extent of issuer regulation. See ''Risk Factors''.

The Toronto Stock Exchange (the ''TSX'') has conditionally approved the listing of the Subscription Receipts, as well as the Common Shares issuable on the exchange of the Subscription Receipts. Listing is subject to the Corporation fulfilling all of the requirements of the TSX on or before June 3, 2007. The Corporation's outstanding Common Shares are listed on the TSX under the symbol ''FTS''. On March 6, 2007, the closing price of the Common Shares on the TSX was $26.80. The Subscription Receipts will be issued and sold by Fortis to the Underwriters (as defined below) at the price of $26.00 (the ''Offering Price'') per Subscription Receipt. The Offering Price and other terms of the Offering were determined by negotiation between the Corporation and the Underwriters.

An investment in the Subscription Receipts, and the Common Shares issuable upon the exchange thereof, involves certain risks that should be considered by a prospective purchaser. See ''Risk Factors''.

CIBC World Markets Inc. (''CIBCWM''), Scotia Capital Inc. (''Scotia Capital''), TD Securities Inc. (''TD Securities''), BMO Nesbitt Burns Inc. (''BMO Nesbitt Burns''), RBC Dominion Securities Inc. (''RBCDS''), National Bank Financial Inc. (''NB Financial''), Canaccord Capital Corporation, Beacon Securities Limited and HSBC Securities (Canada) Inc. (''HSBC Securities'') are acting as underwriters (collectively, the ''Underwriters'') of the Offering. The Underwriters, as principals, conditionally offer the Subscription Receipts, subject to prior sale, if, as and when issued, sold and delivered by the Corporation to, and accepted by, the Underwriters in accordance with the terms and conditions contained in the Underwriting Agreement referred to under ''Plan of Distribution'' and subject to the approval of certain legal matters on behalf of the Corporation by Davies Ward Phillips & Vineberg LLP, Toronto and McInnes Cooper, St. John's and on behalf of the Underwriters by Stikeman Elliott LLP, Toronto. Subject to applicable laws, the Underwriters may, in connection with the Offering, effect transactions which stabilize or maintain the market price of the Subscription Receipts or the Common Shares at levels other than those which may prevail on the open market. Such transactions, if commenced, may be discontinued at any time. See ''Plan of Distribution''.

CIBCWM is an affiliate of a Canadian chartered bank that has agreed to extend credit facilities to the Corporation in connection with financing the Acquisition. CIBCWM is also acting as financial advisor to Fortis in connection with the Acquisition and receiving a fee therefor. In addition, each of CIBCWM, Scotia Capital, TD Securities, BMO Nesbitt Burns, RBCDS, NB Financial and HSBC Securities is a subsidiary of a Canadian chartered bank that has, either solely or as a member of a syndicate of financial institutions, extended credit facilities to the Corporation and/or its subsidiaries. Consequently, the Corporation may be considered a ''connected issuer'' of these Underwriters within the meaning of applicable securities legislation. See ''Plan of Distribution''.

Subscriptions for the Subscription Receipts will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that the closing of the Offering will take place on or about March 15, 2007 (the ''Closing Date''), or such other date as may be agreed upon by the Corporation and the Underwriters, but not later than April 18, 2007. A book entry only certificate representing the Subscription Receipts distributed hereunder will be issued in registered form only to CDS Clearing and Depository Services Inc. (''CDS'') or its nominee and will be deposited with CDS on the Closing Date. The Corporation understands that a purchaser of Subscription Receipts will receive only a customer confirmation from the registered dealer who is a CDS participant from or through whom the Subscription Receipts are purchased. See ''Details of the Offering''.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

The Prospectus, including the documents incorporated herein by reference, contain forward-looking statements which reflect management's expectations regarding the future growth, results of operations, performance, and business prospects and opportunities of Fortis Inc. Wherever possible, words such as ''anticipate'', ''believe'', ''expect'', ''intend'' and similar expressions have been used to identify these forward-looking statements. These statements reflect management's current beliefs and are based on information currently available to the Corporation's management. Forward-looking statements involve significant risk, uncertainties and assumptions. 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 prospective investors should not place undue reliance on the forward-looking statements. Although the forward-looking statements contained in the Prospectus, including the documents incorporated herein by reference, are based upon what management believes to be reasonable assumptions, the Corporation cannot assure prospective purchasers that actual results will be consistent with these forward-looking statements. These forward-looking statements are made as of the date of the Prospectus, and the Corporation assumes no obligation to update or revise them to reflect new events or circumstances.

DOCUMENTS INCORPORATED BY REFERENCE

The disclosure documents of the Corporation listed below and filed with the appropriate securities commissions or similar regulatory authorities in each of the provinces of Canada are specifically incorporated by reference into and form an integral part of this Prospectus:

(a) annual information form dated March 29, 2006 for the year ended December 31, 2005;

(b) audited comparative consolidated financial statements as at December 31, 2005 and for the years ended December 31, 2005 and 2004, together with the notes thereto and the auditors' report thereon dated January 27, 2006 as contained in the Corporation's 2005 Annual Report;

(c) Management Discussion and Analysis of financial condition and results of operations for the year ended December 31, 2005 as contained in the Corporation's 2005 Annual Report;

(d) unaudited comparative interim consolidated financial statements as at September 30, 2006 and for the three- and nine-month periods ended September 30, 2006 and 2005, together with the notes thereto;

(e) Management Discussion and Analysis of financial condition and results of operations for the three- and nine-month periods ended September 30, 2006;

(f) Management Information Circular dated March 17, 2006 prepared in connection with the Corporation's annual meeting of shareholders held on May 2, 2006;

(g) material change report dated September 15, 2006 describing the entering into of an agreement between the Corporation and a syndicate of underwriters led by BMO Nesbitt Burns Inc. for the public offering by the Corporation of 5,000,000 4.90% cumulative redeemable First Preference Shares, Series F;

(h) material change report dated January 5, 2007 describing the entering into of an agreement between the Corporation and Scotia Capital Inc. and CIBCWM for the public offering by the Corporation of 5,170,000 Common Shares;

(i) press release dated February 8, 2007 with respect to the Corporation's unaudited comparative interim consolidated financial statements as at December 31, 2006 and for the three- and twelve-month periods ended December 31, 2006 and 2005, together with the notes thereto, and with respect to the related Management Discussion and Analysis of financial condition and results of operations for the three- and twelve-month periods ended December 31, 2006; and

(j) material change report dated February 28, 2007 describing the entering into of (i) an agreement pursuant to which the Corporation will acquire all of the outstanding shares of Terasen for a purchase price of $3.7 billion, including the assumption of approximately $2.3 billion of debt, and (ii) an agreement between the Corporation, CIBCWM, Scotia Capital and TD Securities for the public offering by the Corporation of 38,500,000 subscription receipts and up to an additional 5,775,000 subscription receipts pursuant to an over-allotment option.

Any document of the type referred to in the preceding paragraph (other than any confidential material change report) subsequently filed by the Corporation with such securities commissions or regulatory authorities after the date of the Prospectus, and prior to the termination of the Offering, shall be deemed to be incorporated by reference into the Prospectus.

Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Prospectus to the extent that a statement contained herein, or in any other subsequently filed document which also is incorporated or is deemed to be incorporated by reference herein, modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement will not be deemed an admission for any purpose that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus.

Copies of the documents incorporated herein by reference may be obtained on request without charge from the Secretary of the Corporation at Suite 1201, 139 Water Street, St. John's, Newfoundland and Labrador A1B 3T2 (telephone (709) 737-2800). These documents are also available through the Internet on the Corporation's website at www.fortisinc.com or on the Canadian System for Electronic Document Analysis and Retrieval (''SEDAR'') which can be accessed at www.sedar.com. Reference is also made to information regarding Terasen Inc. (''Terasen'') which is available through the internet at Terasen's website at www.terasen.com. The information contained on, or accessible through, any of these websites is not incorporated by reference into the Prospectus and is not, and should not be considered to be, a part of the Prospectus, unless it is explicitly so incorporated.

ELIGIBILITY FOR INVESTMENT

In the opinion of Davies Ward Phillips & Vineberg LLP, counsel to the Corporation, and Stikeman Elliott LLP, counsel to the Underwriters, the Subscription Receipts and the Common Shares issuable on the exchange of the Subscription Receipts, if issued on the date hereof, would be qualified investments under the *Income Tax Act* (Canada) (the ''Tax Act'') for a trust governed by a registered retirement savings plan, registered retirement income fund, deferred profit sharing plan or registered education savings plan provided that, in the case of the Subscription Receipts, the Corporation deals at arm's length (within the meaning of the Tax Act) with each person who is an annuitant, beneficiary, employer or subscriber under the governing plan of such trust.

DEFINED TERMS

For an explanation of certain terms and abbreviations used in the Prospectus, reference is made to the ''Glossary of Terms''.

SUMMARY

The following information is a summary only and is to be read in conjunction with, and is qualified in its entirety by, the more detailed information appearing elsewhere in the Prospectus and in the documents incorporated by reference herein.

The Offering

Issuer:	Fortis Inc. (''Fortis'' or the ''Corporation'').
Offering:	38,500,000 subscription receipts (the ''Subscription Receipts''), each representing the right to receive one common share of Fortis (a ''Common Share'').
Amount:	$1,001,000,000 ($1,151,150,000 if the Over-Allotment Option is exercised in full).
Over-Allotment Option:	The Corporation has granted to the Underwriters (as defined below) an option (the ''Over-Allotment Option''), exercisable in whole or in part at any time until 30 days following the date of closing of this offering (the ''Offering''), to purchase at the Offering Price up to 5,775,000 additional Subscription Receipts to cover over-allotments, if any. See ''Plan of Distribution''.
Price:	$26.00 per Subscription Receipt.
Date of Closing:	On or about March 15, 2007 or such date as agreed to by the Corporation and the Underwriters, but not later than April 18, 2007 (the ''Closing Date'').
Escrow of Proceeds:	The gross proceeds from the sale of the Subscription Receipts (the ''Escrowed Funds'') will be held by Computershare Trust Company of Canada, as escrow agent (the ''Escrow Agent'') and invested in short-term interest bearing or discount debt obligations issued or guaranteed by the Government of Canada or a province, or one or more of the five largest Canadian chartered banks, provided that in all cases such obligation is rated at least R1 (middle) by DBRS Limited or an equivalent rating from an equivalent rating service, pending receipt by the Corporation of all regulatory and government approvals required to finalize the acquisition (the ''Acquisition'') by the Corporation of all of the issued and outstanding shares of Terasen Inc. (''Terasen''), a wholly owned subsidiary of Kinder Morgan, Inc. (''Kinder Morgan''), including that of the British Columbia Utilities Commission (the ''BCUC''), and fulfillment or waiver of all other outstanding conditions precedent to closing the Acquisition as itemized in the Acquisition Agreement (as defined below) (collectively, the ''Release Conditions''). If the Release Conditions are satisfied prior to 5:00 p.m. (Toronto time) on November 30, 2007, the Corporation will forthwith execute and deliver a notice of satisfaction and will issue and deliver to the Escrow Agent one Common Share for each Subscription Receipt then outstanding (subject to any applicable adjustment). The Common Shares will be available for delivery commencing on the second business day after the delivery of such notice. The holders of Subscription Receipts will receive, without payment of any additional consideration, one Common

	Share for each Subscription Receipt held plus an amount equal to the dividends declared on the Common Shares by the Corporation, if any, for which record dates have occurred during the period from the Closing Date (as defined below) to the date of issuance of the Common Shares in respect of the Subscription Receipts. Forthwith upon the Release Conditions being satisfied and the required notice being delivered to the Escrow Agent, the Escrowed Funds, together with interest earned and income generated thereon, will be released to Fortis. In the event that the Release Conditions are not satisfied prior to 5:00 p.m. (Toronto time) on November 30, 2007, or if the Acquisition Agreement is terminated prior to such time (in either case, the ''Termination Time''), holders of Subscription Receipts shall, commencing on the second business day following the Termination Time, be entitled to receive from the Escrow Agent an amount equal to the full subscription price thereof plus their *pro rata* share of the interest earned or income generated on such amount. See ''Details of the Offering''.
Use of Proceeds:	The proceeds of the Offering, after deducting the fee payable to CIBC World Markets Inc. (''CIBCWM''), Scotia Capital Inc. (''Scotia Capital''), TD Securities Inc. (''TD Securities''), BMO Nesbitt Burns Inc. (''BMO Nesbitt Burns''), RBC Dominion Securities Inc. (''RBCDS''), National Bank Financial Inc. (''NB Financial''), Canaccord Capital Corporation, Beacon Securities Limited and HSBC Securities (Canada) Inc. (''HSBC Securities'') (collectively, the ''Underwriters'') and expenses of the Offering, which are estimated to be $1,250,000, and assuming no exercise of the Over-Allotment Option, together with funds to be advanced under acquisition financing arranged by the Corporation, will be used to finance the cash portion of the consideration payable for the Acquisition. If the Over-Allotment Option is exercised in full, the estimated proceeds of the Offering will be $1,103,854,000 (after deducting the fee payable to the Underwriters and expenses of the Offering). The gross proceeds from the sale of the Subscription Receipts will be held in escrow pending the satisfaction of the Release Conditions, which is expected to occur in mid-2007. See ''Financing of the Acquisition'', ''Details of the Offering'' and ''Use of Proceeds''.
Subscription Receipts:	Each Subscription Receipt entitles the holder thereof to receive, without payment of additional consideration and upon satisfaction of the Release Conditions, one Common Share, plus an amount equal to the dividends declared on the Common Shares by the Corporation, if any, for which record dates have occurred during the period from the Closing Date to the date of issuance of the Common Shares in respect of the Subscription Receipts. If the Release Conditions are not met prior to the Termination Time, the Corporation will repay to holders of Subscription Receipts an amount equal to the full subscription price thereof plus their *pro rata* share of the interest earned or income generated on such amount. See ''Details of the Offering''.
Risk Factors:	An investment in the Subscription Receipts and the Common Shares issuable upon exchange thereof involves certain risks which should be carefully considered by prospective investors, including: regulation, forecasting accuracy, asset maintenance, operational risks, weather and other natural disasters, the supply and prices of natural gas, seasonality, risks relating to Terasen Gas (Vancouver Island) Inc., obtaining and maintaining government permits, impact of changes in economic

conditions, availability of capital resources and credit ratings, exposure to interest rate changes, counterparty credit risk, potential undisclosed liabilities associated with the Acquisition, ability to maintain satisfactory labour relations, matters relating to insurance, environmental matters, First Nations' Lands, results of operations and financing risks, management of expanding operations, the ability to realize benefits from the Acquisition, the Subscription Receipt structure and the lack of an existing market for the Subscription Receipts. See ''Risk Factors''.

The Acquisition

Overview

On February 26, 2007, Fortis entered into an agreement (the ''Acquisition Agreement'') with 3211953 Nova Scotia Company and Kinder Morgan for the purchase of all of the issued and outstanding shares of Terasen for aggregate consideration of $3.7 billion, including the assumption of approximately $2.3 billion of consolidated indebtedness of Terasen. Terasen is a holding company headquartered in Vancouver, British Columbia, operating two principal lines of business: natural gas distribution and petroleum transportation. Prior to the closing of the Acquisition, Kinder Morgan will cause Terasen to divest itself of its petroleum transportation operations, leaving only the natural gas distribution business operated by Terasen Gas (as defined below). As part of such divestiture, on March 5, 2007, Kinder Morgan announced that it had agreed to sell the Corridor pipeline system, which is owned by Terasen and serves the Athabasca oil sands, to Inter Pipeline Fund.

The closing of the Acquisition is subject to receipt of required regulatory and other approvals, including that of the BCUC, and the satisfaction of certain closing conditions. The closing of the Acquisition is expected to occur in mid-2007. See ''Acquisition Agreement''.

Based on financial information as at September 30, 2006, following the Acquisition, Fortis' total assets will increase by approximately 94% to $8.9 billion. Following the Acquisition, Fortis' regulated rate base assets will increase to approximately $6.0 billion, of which approximately 93% will be located in Canada.

Kinder Morgan

Kinder Morgan is one of the largest energy transportation, storage and distribution companies in North America. It owns an interest in or operates approximately 65,000 kilometers of pipelines that transport primarily natural gas, crude oil, petroleum products and carbon dioxide, and serves more than 1.1 million natural gas distribution customers in British Columbia, Colorado, Nebraska and Wyoming. Kinder Morgan owns the general partner interest of Kinder Morgan Energy Partners, L.P., one of the largest publicly traded pipeline limited partnerships in the United States.

On November 30, 2005, Kinder Morgan completed the acquisition of Terasen (formerly, BC Gas Inc.). On May 19, 2006, Terasen completed the disposition of its water, wastewater and utility services business carried on by Terasen Water and Utility Services Inc. to a consortium led by CAI Capital Management Co.

On August 14, 2006, Kinder Morgan announced that it was selling its natural gas retail distribution operations serving customers in Colorado, Nebraska, Wyoming and Hermosillo, Mexico, to GE Energy Financial Services. On December 19, 2006, management of Kinder Morgan received shareholder approval of a US$22 billion leveraged management buyout offer led by Richard Kinder, Chairman and Chief Executive Officer, Kinder Morgan. The completion of this buyout is pending.

Terasen Gas

The natural gas distribution business of Terasen is carried on by Terasen Gas Inc. (''TGI''), Terasen Gas (Vancouver Island) Inc. (''TGVI'') and Terasen Gas (Whistler) Inc. (''TGWI''). Terasen also owns a 30% interest in

CustomerWorks Limited Partnership (''CWP''). CWP is a non-regulated shared services business in partnership with Enbridge Inc. that provides customer service contact, meter reading, billing, support and credit and collection services primarily to Terasen Gas (as defined below) and Enbridge Gas Distribution Inc. CWP outsources these services to a company owned and operated by Accenture Inc. In this Prospectus, TGI, TGVI, TGWI and CWP are collectively referred to as ''Terasen Gas''.

Terasen Gas is the principal gas distribution utility in British Columbia, serving the populous lower mainland, Vancouver Island and the southern interior of the province. With approximately 900,000 customers in 125 communities, Terasen Gas provides service to over 95% of the gas customers in British Columbia. Terasen Gas owns and operates approximately 44,100 kilometers of natural gas distribution pipelines and approximately 4,300 kilometers of natural gas transmission pipelines. As of September 30, 2006, Terasen Gas had an aggregate of $3.6 billion of assets, an aggregate rate base of almost $3.0 billion and approximately 1,200 employees.

Acquisition Rationale

The business operated by Terasen Gas is attractive to Fortis for the following reasons: (i) Terasen Gas will significantly increase the earnings of Fortis from regulated utilities and be immediately accretive to earnings per share; (ii) the regulated gas distribution business of Terasen Gas complements the regulated electric distribution business of Fortis; and (iii) the service territory of Terasen Gas is experiencing strong economic growth and includes substantially all of the service territory of FortisBC Inc.

Fortis believes that the principal benefits of the Acquisition are as follows:

(a) the purchase price represents approximately 1.2 times the approved rate base of Terasen Gas for 2007 and the Acquisition is expected to be immediately accretive to earnings per share;

(b) the Acquisition will increase the regulated rate base assets and utility earnings of Fortis. Similar to the electric distribution utilities of Fortis, Terasen Gas operates under principally cost-of-service regulation under which an appropriate return on capital is recovered in addition to prudently incurred operating and commodity costs;

(c) Terasen Gas has an attractive gas distribution franchise with a well-diversified, mature, principally residential, customer base. The Acquisition is expected to improve the risk profile of Fortis by providing it with a more economically diverse portfolio of assets;

(d) following the Acquisition, Fortis will be the largest investor-owned utility in gas and electric distribution in Canada with regulated electricity distribution utilities in five Canadian provinces and three Caribbean countries and regulated gas distribution utilities in British Columbia. Following the Acquisition, a large proportion of the business of Fortis will serve the high-growth economies of western Canada; and

(e) Fortis believes the regulated gas distribution business of Terasen Gas is complementary to the Corporation's proven core competencies in managing regulated electric distribution utilities. The Acquisition affords Fortis management an opportunity to deploy its regulatory, operating and financial management expertise to additional Canadian regulated utilities.

See ''Risk Factors — Realization of Acquisition Benefits'' and ''Special Note Regarding Forward-Looking Statements''.

Utility Management Approach of Fortis

Fortis' approach to utility management is based on creating value for customers that ultimately translates into long-term value for shareholders. Fortis structures its operations as separate operating companies in each jurisdiction. Focused local management teams have the benefit of access to utility management experience and expertise of Fortis. The senior management team of Terasen Gas, which Fortis expects to retain, will add valuable operational expertise in natural gas distribution to existing expertise in the electric distribution operations of Fortis. This approach allows local managers to build relationships with, and be responsive to, both customers and regulators. Fortis recognizes that regulation is a key aspect of its core business and has developed a disciplined, cost-conscious asset investment and operating philosophy which is responsive to regulation.

The management of Fortis has substantial experience in integrating newly acquired enterprises into the Fortis Group. In 2004, Fortis acquired all of the issued and outstanding shares of FortisBC Inc. (formerly, Aquila Networks Canada (British Columbia) Ltd.) and FortisAlberta Inc. (formerly, Aquila Networks Canada (Alberta) Ltd.), and has successfully integrated these utilities into the Fortis Group.

FORTIS

Fortis Inc. (''Fortis'' or the ''Corporation'') was incorporated as 81800 Canada Ltd. under the *Canada Business Corporations Act* on June 28, 1977. The Corporation was continued under the *Corporations Act* (Newfoundland) on August 28, 1987 and on October 12, 1987 the Corporation amended its articles to change its name to ''Fortis Inc.'' The address of the head office and principal place of business of the Corporation is The Fortis Building, Suite 1201, 139 Water Street, St. John's, Newfoundland and Labrador A1B 3T2.

Fortis is principally a diversified, international electric utility holding company that owns subsidiaries engaged in the regulated distribution of electricity. Regulated utility assets comprise approximately 86% of the Corporation's total assets, with the balance comprised primarily of non-regulated electricity generating assets, and commercial real estate and hotel investments owned and operated through its non-utility subsidiary. Fortis is the indirect owner of all of the common shares of FortisAlberta Inc. (''FortisAlberta'') (formerly, Aquila Networks Canada (Alberta) Ltd.) and FortisBC Inc. (''FortisBC'') (formerly, Aquila Networks Canada (British Columbia) Ltd.). FortisAlberta is a regulated electric utility that distributes electricity generated by other market participants in Alberta. FortisBC is a regulated electric utility that generates, transmits and distributes electricity in British Columbia. Fortis also holds all the common shares of Newfoundland Power Inc. (''Newfoundland Power'') and, through its wholly owned subsidiary Fortis Properties Corporation (''Fortis Properties''), holds all the common shares of Maritime Electric Company, Limited (''Maritime Electric''), which are the principal distributors of electricity in Newfoundland and on Prince Edward Island, respectively. As well, through its wholly owned subsidiary FortisOntario Inc. (''FortisOntario'') and its subsidiaries, Canadian Niagara Power Inc. (''CNPI'') and Cornwall Street Railway, Light and Power Company, Limited (''Cornwall Electric''), Fortis distributes electricity to customers primarily in Fort Erie, Port Colborne, Gananoque and Cornwall, Ontario.

The Corporation's regulated electric utility assets in the Caribbean consist of its ownership, through wholly owned subsidiaries, of a 70.1% interest in Belize Electricity Limited (''Belize Electricity''), the primary distributor of electricity in Belize, Central America, and an approximate 54% interest in Caribbean Utilities Company, Ltd. (''Caribbean Utilities''), the sole provider of electricity to the island of Grand Cayman, Cayman Islands. On August 28, 2006, Fortis acquired, through a wholly owned subsidiary, all of the outstanding shares of P.P.C. Limited (''PPC'') and Atlantic Equipment & Power (Turks and Caicos) Ltd. (''Atlantic''), (collectively, ''Fortis Turks and Caicos''), which together generate and distribute electricity to approximately 80% of electricity customers in the Turks and Caicos Islands.

The Corporation's non-regulated electricity generation operations consist of its 100% interest in each of Belize Electric Company Limited (''BECOL''), FortisUS Energy Corporation (''FortisUS Energy''), and FortisOntario, as well as non-regulated electricity generation assets owned by FortisBC and Fortis Properties.

Fortis Properties is the direct owner of a 51% interest in the Exploits River Hydro Partnership (the ''Exploits Partnership''). The Exploits Partnership was established with Abitibi-Consolidated Company of Canada (''Abitibi-Consolidated''), which holds the remaining 49% interest, to develop additional capacity at Abitibi-Consolidated's hydroelectric plant at Grand Falls-Windsor and redevelop the forestry company's hydroelectric plant at Bishop's Falls, both in Newfoundland and Labrador. Fortis Properties' assets also include six small hydroelectric generating stations in eastern Ontario with a combined capacity of 8 megawatts (''MW'').

BECOL owns and operates both the 25-MW Mollejon and 7-MW Chalillo hydroelectric facilities, both of which are located on the Macal River in Belize. Through FortisUS Energy, a wholly owned subsidiary of Fortis Properties, the Corporation owns and operates four hydroelectric generating stations in upper New York State with a total combined capacity of approximately 23 MW. FortisOntario includes 75 MW of water right entitlement associated with the Rankine Generating Station at Niagara Falls and the operation of a 5-MW gas-fired cogeneration plant that provides district heating to 17 commercial customers in Cornwall. The Rankine Generating Station assets have been written down following the lay-up of the Station as a result of the implementation of a water and power exchange agreement (the ''Niagara Exchange Agreement'') with Ontario Power Generation Inc. (''OPGI''). The Niagara Exchange Agreement assigns FortisOntario's water rights on the Niagara River to OPGI and facilitates the irrevocable exchange of 75 MW of wholesale electric power supply to FortisOntario from OPGI until April 30, 2009 in exchange for FortisOntario's agreement not to seek renewal of the water entitlement at that time. The non-regulated electricity generation operations of FortisBC consist of the 16-MW run-of-river Walden hydroelectric power plant near Lillooet, British Columbia.

Through its wholly owned subsidiary, Fortis Properties, the Corporation owns and operates hotels in seven provinces in Canada and commercial real estate in Atlantic Canada. Its holdings include 18 hotels with more than 3,200 rooms and approximately 2.7 million square feet of commercial real estate.

Regulated Utilities — Canadian

FortisAlberta

On May 31, 2004, Fortis, through an indirect wholly owned subsidiary, acquired all of the issued and outstanding shares of FortisAlberta. FortisAlberta distributes electricity to approximately 430,000 customers using approximately 104,000 kilometers of power lines and met a peak demand of 2,584 MW in 2006. FortisAlberta's business is the ownership and operation of regulated electricity distribution facilities that distribute electricity generated by other market participants from high-voltage transmission substations to end-use customers in southern and central Alberta. FortisAlberta is not involved in the generation, transmission or direct sale of electricity.

FortisBC

On May 31, 2004, Fortis, through an indirect wholly owned subsidiary, acquired all of the issued and outstanding shares of FortisBC. FortisBC is an integrated regulated electric utility that owns a network of generation, transmission and distribution assets located in the southern interior of British Columbia. FortisBC serves a diverse mix of more than 152,000 customers, with residential customers representing the largest customer segment, and met a peak demand of 718 MW in 2006. FortisBC owns four regulated hydroelectric generating plants with an aggregate capacity of 235 MW that provide approximately 45% of the Corporation's energy and 30% of its capacity needs. FortisBC's remaining electricity supply is acquired through long-term power purchase contracts and short-term market purchases. FortisBC includes non-regulated operating, maintenance and management services relating to the 450-MW Waneta hydroelectric generation facility owned by Teck Cominco Metals Ltd., the 149-MW Brilliant Hydroelectric Plant and the 185-MW Arrow Lakes Hydroelectric Plant owned by Columbia Power Corporation and Columbia Basin Trust, respectively, and the distribution system owned by the City of Kelowna.

FortisBC's assets include the electric utility formerly owned by Princeton Light and Power Company, Limited (the ''PLP Utility''). The PLP Utility serves approximately 3,500 customers, mainly in Princeton, British Columbia. The PLP Utility was purchased by Fortis through an indirect subsidiary on May 31, 2005 and became part of FortisBC on December 31, 2006 as the result of an internal corporate reorganization.

Newfoundland Power

Fortis holds all of the common shares of Newfoundland Power. Newfoundland Power is an electric utility that operates an integrated generation, transmission and distribution system throughout the island portion of the Province of Newfoundland and Labrador. Newfoundland Power serves approximately 230,000 customers, or approximately 85% of electricity customers in the Province, and met a peak demand of 1,166 MW in 2006. Approximately 90% of the electricity that Newfoundland Power sells to its customers is purchased from Newfoundland and Labrador Hydro Corporation (''Newfoundland Hydro''). Currently, Newfoundland Power has an installed generating capacity of 136 MW, of which 92 MW is hydroelectric generation.

Maritime Electric

Through its subsidiary, Fortis Properties, Fortis owns all of the common shares of Maritime Electric, which is the principal distributor of electricity on Prince Edward Island. Maritime Electric directly supplies approximately 71,000 customers, or approximately 90% of the electricity consumers on the Island, and met a peak demand of 216 MW in 2006. Maritime Electric purchases most of the energy it distributes to its customers from New Brunswick Power Corporation and maintains on-Island generating facilities at Charlottetown and Borden-Carleton with a combined capacity of 150 MW.

FortisOntario

The Corporation's regulated utility investments in Ontario are comprised of CNPI, including the operations of Port Colborne Hydro, and Cornwall Electric, all of which are owned through FortisOntario. In total, FortisOntario's distribution operations serve approximately 52,000 customers in the Fort Erie, Port Colborne, Cornwall and Gananoque areas of Ontario and met a combined peak demand of 233 MW in 2006. CNPI owns international transmission facilities at Fort Erie as well as a 10% interest in each of Westario Power Holdings Inc. and Rideau St. Lawrence Holdings Inc., two regional electric distribution companies formed in 2000 that, together, serve more than 27,000 customers.

Regulated Utilities — Caribbean

Belize Electricity

Fortis, through wholly owned subsidiaries, holds a 70.1% interest in Belize Electricity. Belize Electricity is the primary distributor of electricity in the Central American country of Belize. Belize Electricity directly supplies approximately 71,000 customers in Belize and met a peak demand of 67 MW in 2006.

Caribbean Utilities

Fortis, through a wholly owned subsidiary, holds an approximate 54% interest in Caribbean Utilities, the only public electric utility on Grand Cayman, Cayman Islands. Caribbean Utilities has the exclusive right to generate, distribute, transmit and supply electricity to the island of Grand Cayman, Cayman Islands, pursuant to a 25-year licence. The current licence remains in effect until January 2011 or until replaced by a new licence by the mutual consent of Caribbean Utilities and the Government of the Cayman Islands. Negotiations regarding the renewal of the licence are ongoing. Caribbean Utilities currently serves more than 22,000 customers, owns 120 MW of installed generating capacity, and met a peak demand of 87 MW in 2006.

The Class A Ordinary Shares of Caribbean Utilities are listed for trading on the Toronto Stock Exchange (the ''TSX'') under the symbol CUP.U. The Corporation's investment in Caribbean Utilities resulted from a series of transactions from March 2000 through November 2006, as a result of which Fortis beneficially owns 13,565,511, or approximately 54%, of the outstanding Class A Ordinary Shares. See ''Recent Developments''.

Fortis Turks and Caicos

The Corporation owns, through a wholly owned subsidiary, all of the outstanding shares of Fortis Turks and Caicos which serves approximately 7,700 customers, or approximately 80% of electricity customers, in the Turks and Caicos Islands. Fortis Turks and Caicos is the principal distributor of electricity in Providenciales, North Caicos and Middle Caicos pursuant to a 50-year licence that expires in 2037 and is the principal distributor of electricity in South Caicos pursuant to a 50-year licence that expires in 2036. Fortis Turks and Caicos has installed generating capacity of approximately 35 MW and met a peak demand of 25 MW in 2006.

Fortis Turks and Caicos is regulated under a traditional rate of return on rate base approach, with a fixed rate of return of 17.5% on a defined asset base of approximately US$50 million.

Non-Regulated — Fortis Generation

Ontario

Non-regulated generation assets in Ontario include the operations of FortisOntario and Fortis Properties. Fortis Properties' operations in Ontario consist of six small hydroelectric generating stations with a combined capacity of approximately 8 MW. FortisOntario's assets include 75 MW of water entitlement associated with the Rankine Generating Station at Niagara Falls and the operation of a 5-MW gas-fired cogeneration plant that provides district heating to 17 commercial customers in Cornwall. The Rankine Generating Station assets have been written down following the lay-up of the Station as a result of the implementation of the Niagara Exchange Agreement. The Niagara Exchange Agreement assigns FortisOntario's water rights on the Niagara River to OPGI and facilitates the irrevocable exchange of 75 MW of wholesale electric power supply to FortisOntario from OPGI until April 30, 2009 in exchange for FortisOntario's agreement not to seek renewal of the water entitlement at that time.

Belize

Non-regulated generation operations in Belize are conducted through the Corporation's wholly owned indirect subsidiary, BECOL, under a franchise agreement with the Government of Belize. BECOL owns and operates the 25-MW Mollejon hydroelectric facility and the 7-MW Chalillo hydroelectric facility, which was placed in service on November 15, 2005. Both facilities are located on the Macal River in Belize. These generating plants have the capability of delivering average annual energy production of approximately 160 gigawatt hours (''GWh''). BECOL sells its entire output to Belize Electricity under a 50-year power purchase agreement expiring in 2055.

Central Newfoundland

Non-regulated generation operations in central Newfoundland are conducted through the Corporation's indirect 51% interest in the Exploits Partnership. The Exploits Partnership is a partnership with Abitibi-Consolidated that constructed, installed and operates additional capacity at Abitibi-Consolidated's hydroelectric plant at Grand Falls-Windsor and redeveloped the forestry company's hydroelectric plant at Bishop Falls, both in Newfoundland and Labrador. The 51% interest in the partnership is owned by Fortis Properties. Abitibi-Consolidated continues to utilize the historical annual generation of approximately 450 GWh while the additional energy produced from the new facilities, approximately 140 GWh, is sold to Newfoundland Hydro under a 30-year take-or-pay power purchase agreement expiring in 2033, which is exempt from regulation.

Upper New York State

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

British Columbia

Non-regulated generation operations in British Columbia were acquired as part of FortisBC in May 2004. Generating assets in British Columbia consist of the 16-MW run-of-river Walden hydroelectric power plant near Lillooet, British Columbia. This plant sells its entire output to British Columbia Hydro & Power Authority (''BC Hydro'') under a power purchase agreement expiring in 2013.

Non-Regulated — Fortis Properties

Fortis has owned all of the issued and outstanding shares of Fortis Properties since its inception in 1989. In addition to its non-regulated generation operations, Fortis Properties owns and operates hotels in seven provinces in Canada and commercial real estate in Atlantic Canada. Its holdings include 18 hotels with more than 3,200 rooms and approximately 2.7 million square feet of commercial real estate. On November 1, 2006, Fortis Properties completed the purchase of four hotels located in Alberta and British Columbia from Lodge Motel (Kelowna) Ltd. for approximately $52 million. See ''Recent Developments''.

RECENT DEVELOPMENTS

Acquisition of Hotels in Western Canada

On November 1, 2006, Fortis Properties completed the purchase of four hotels located in Alberta and British Columbia from Lodge Motel (Kelowna) Ltd. for approximately $52 million. The purchased hotels were: the Holiday Inn Express and Suites and the Best Western, both in Medicine Hat, Alberta; the Ramada Hotel and Suites, in Lethbridge, Alberta; and the Holiday Inn Express, in Kelowna, British Columbia. Through the purchase, Fortis Properties' hospitality operations were expanded by 454 rooms.

Acquisition of Additional Shares of Caribbean Utilities

On November 7, 2006, Fortis acquired an aggregate of 4,113,116, or approximately 16%, of the outstanding Class A Ordinary Shares of Caribbean Utilities from International Power and four other vendors affiliated with International Power for US$11.89 per share under a private agreement. Pursuant to this purchase, Fortis acquired control of Caribbean Utilities raising its beneficial ownership to 13,565,511, or approximately 54%, of the outstanding Class A Ordinary Shares. As a result of acquiring control of Caribbean Utilities, Fortis now consolidates the financial results of Caribbean Utilities into the financial statements of Fortis. Immediately prior to November 1, 2006, Fortis accounted for its investment in Caribbean Utilities on an equity basis, pursuant to which only its *pro rata* share of earnings of Caribbean Utilities was recorded in the consolidated statements of earnings of Fortis.

Private Placement of Convertible Debentures

On November 7, 2006, Fortis issued, by way of private placement, US$40 million aggregate principal amount of unsecured subordinated convertible debentures (the ''Debentures''). The Debentures bear interest at an annual rate of 5.5% and mature on November 7, 2016. The Debentures may be redeemed by Fortis at par at any time on or after November 7, 2011 and are convertible into common shares of Fortis (''Common Shares'') at the option of the holder at any time prior to their maturity, at US$29.11 per share.

Regulatory Matters

During the fourth quarter of 2006, the allowed regulated rate of return on common equity (''ROE'') for each of FortisBC, FortisAlberta and Newfoundland Power was reset in accordance with an automatic adjustment formula by each utility's respective regulator. The allowed ROEs for FortisAlberta, FortisBC and Newfoundland Power were reduced from 8.93%, 9.20% and 9.24% to 8.51%, 8.77% and 8.60%, respectively, effective January 1, 2007.

On December 5, 2006, Newfoundland Power received approval of its 2007 Amortization and Cost Deferral Accounting application from the Newfoundland and Labrador Board of Commissioners of Public Utilities. The order provided for a portion of the 2005 unbilled revenue balance amortization to offset increased taxes in 2007 and the deferral of increased amortization and replacement energy expenses in 2007. Recovery of these amounts will be addressed in Newfoundland Power's next general rate proceeding.

During the fourth quarter of 2006, the British Columbia Utilities Commission (the ''BCUC'') approved FortisBC's 2007 and 2008 capital plans of $135.8 million (before customer contributions of $7.2 million) and $119.6 million (before customer contributions of $8.0 million), respectively, subject to further approval processes for certain projects. Earlier in 2006, a Negotiated Settlement Agreement, approved by the Alberta Energy and Utilities Board, dealing with FortisAlberta's 2006/2007 Distribution Access Tariff Application included a 2007 capital expenditure program of $201 million (before customer contributions of $24 million and including $10 million in contributions to the Alberta Electric System Operator (''AESO'') for investment in transmission facilities). During the fourth quarter, FortisAlberta's 2007 capital plan was increased to approximately $273 million (before customer contributions of $33 million and including $17 million in contributions to the AESO for investment in transmission facilities), primarily driven by customer growth. The increase in the 2007 capital expenditure program will be included as part of FortisAlberta's 2008 rate application.

Issuance of Debentures by FortisAlberta

On January 3, 2007, FortisAlberta issued $110 million aggregate principal amount of senior unsecured debentures bearing interest at a rate of 4.99% per annum, payable semi-annually, due January 2047.

Issuance of Common Shares by Fortis

On January 18, 2007, Fortis completed the public offering of 5,170,000 Common Shares at a price of $29.00 per share for gross proceeds of $149,930,000.

Second Quarter Dividend

On February 8, 2007, Fortis announced that its Board of Directors had declared a second quarter dividend of $0.21 per Common Share payable on June 1, 2007 to holders of record on May 4, 2007. This dividend represents an increase of 10.5% in the quarterly Common Share dividend of the Corporation, which is the second increase in twelve months. Fortis has increased its annual dividend paid for 34 consecutive years.

2006 Results of Operations

On February 8, 2007, Fortis issued a media release announcing its unaudited results of operations for the year ended December 31, 2006 and the Corporation's unaudited interim consolidated financial statements and related Management Discussion and Analysis of financial condition and results of operations for the three- and twelve-month periods ended December 31, 2006.

Net earnings applicable to Common Shares in 2006 were $147.2 million, 7.4% higher than net earnings of $137.1 million in 2005. Earnings per Common Share were $1.42 compared to $1.35 in 2005. Earnings in 2005 included a $7.9 million after-tax gain resulting from the settlement of contractual matters between FortisOntario and OPGI (the ''Ontario Settlement''). Growth in annual earnings was primarily driven by the performance of FortisAlberta and FortisBC, hydroelectric generation in Belize, Fortis Properties, Belize Electricity and contributions from recently acquired Fortis Turks and Caicos.

Net earnings applicable to Common Shares for the fourth quarter of 2006 were $33.9 million, or $0.33 per Common Share, compared to $22.3 million, or $0.22 per Common Share in the fourth quarter of 2005. The increase in fourth quarter earnings was driven by earnings growth at FortisAlberta, the contribution from Fortis Turks and Caicos and a change in revenue recognition policy by Newfoundland Power in 2006.

Fortis' Canadian Regulated Utilities contributed $112.7 million to earnings in 2006, $7.9 million higher than earnings of $104.8 million in the previous year. The increase was primarily driven by earnings derived from the significant investments in electrical infrastructure made by FortisAlberta and FortisBC and lower corporate income taxes at FortisAlberta.

In 2006, FortisAlberta and FortisBC continued to maintain, enhance and expand their electricity systems to accommodate new customers and to improve system reliability and invested approximately $354 million in aggregate, before customer contributions, in capital projects, up 26% from 2005. The rate bases of FortisAlberta and FortisBC have increased approximately 29% and 36%, respectively, since the utilities were acquired in May 2004.

Fortis' Caribbean Regulated Utilities, comprised of Fortis Turks and Caicos, Belize Electricity and Caribbean Utilities, contributed earnings of $23.6 million in 2006, 21.6% higher than earnings of $19.4 million in 2005. Earnings growth was primarily attributable to $3.5 million of contribution from Fortis Turks and Caicos and improved earnings at Belize Electricity due to lower finance charges, growth in electricity sales and an overall 11% increase in electricity rates, effective July 1, 2005.

In 2006, Fortis Non-regulated Generation operations contributed earnings of $26.7 million compared to $29.6 million in the previous year. Excluding the $7.9 million after-tax Ontario Settlement gain in 2005, earnings were $5.0 million higher year over year. Improved performance in Belize driven by increased hydroelectric production and lower finance charges was partially offset by the impact of lower average wholesale energy prices in Ontario. Hydroelectric production in Belize was 178 GWh, more than two-and-a-half times the level of production in 2005 due to the first full year of operations for the Chalillo hydroelectric generation plant and storage facility. Energy sales in Ontario, which on an annual basis remained relatively consistent at approximately 700 GWh, were at an average annual wholesale energy price per megawatt hour of $46.38 compared to $68.49 in 2005.

Fortis Properties contributed earnings of $18.7 million in 2006, 32.6% higher than earnings of $14.1 million in 2005. The increase in earnings was largely driven by a $1.6 million after-tax gain on the sale of the Days Inn Sydney hotel, reduced corporate income taxes and growth at hotel operations in western Canada.

THE ACQUISITION

Overview

On February 26, 2007, Fortis entered into an agreement (the ''Acquisition Agreement'') with 3211953 Nova Scotia Company and Kinder Morgan Inc. (''Kinder Morgan'') for the purchase (the ''Acquisition'') of all of the issued and outstanding shares of Terasen Inc. (''Terasen'') for aggregate consideration of $3.7 billion, including the assumption of approximately $2.3 billion of consolidated indebtedness of Terasen. Terasen is a holding company headquartered in Vancouver, British Columbia, operating two principal lines of business: natural gas distribution and petroleum transportation. Prior to the closing of the Acquisition, Kinder Morgan will cause Terasen to divest itself of its petroleum transportation operations. As part of such divestiture, on March 5, 2007, Kinder Morgan announced that it had agreed to sell the Corridor pipeline system, which is owned by Terasen and serves the Athabasca oil sands, to Inter Pipeline Fund.

The closing of the Acquisition is subject to receipt of required regulatory and other approvals, including that of the BCUC, and the satisfaction of certain closing conditions. The closing of the Acquisition is expected to occur in mid-2007. See ''Acquisition Agreement''.

Under the Acquisition Agreement, Kinder Morgan or the Corporation may elect to terminate the Acquisition Agreement if the Acquisition is not completed prior to November 30, 2007. The Corporation intends to finance the cash portion of the purchase price for the Acquisition from the net proceeds of this offering (the ''Offering'') and funds to be advanced under acquisition financing arranged by the Corporation for this purpose. See ''Financing of the Acquisition'', ''Use of Proceeds'' and ''Acquisition Agreement''.

Based on financial information as at September 30, 2006, following the Acquisition, Fortis' total assets will increase by approximately 94% to $8.9 billion. Following the Acquisition, Fortis' regulated rate base assets will increase to approximately $6.0 billion, of which approximately 93% will be located in Canada.

Kinder Morgan

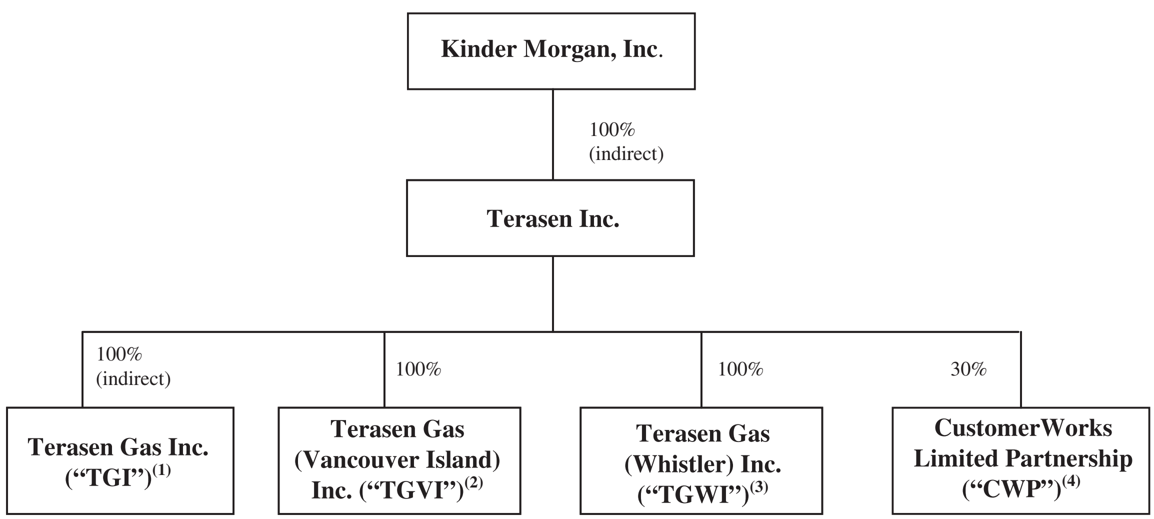
Kinder Morgan is one of the largest energy transportation, storage and distribution companies in North America. It owns an interest in or operates approximately 65,000 kilometers of pipelines that transport primarily natural gas, crude oil, petroleum products and carbon dioxide, and serves more than 1.1 million natural gas distribution customers in British Columbia, Colorado, Nebraska and Wyoming. Kinder Morgan owns the general partner interest of Kinder Morgan Energy Partners, L.P., one of the largest publicly traded pipeline limited partnerships in the United States.

On November 30, 2005, Kinder Morgan completed the acquisition of Terasen (formerly, BC Gas Inc.). On May 19, 2006, Terasen completed the disposition of its water, wastewater and utility services business carried on by Terasen Water and Utility Services Inc. to a consortium led by CAI Capital Management Co.

On August 14, 2006, Kinder Morgan announced that it was selling its natural gas retail distribution operations serving customers in Colorado, Nebraska, Wyoming and Hermosillo, Mexico, to GE Energy Financial Services. On December 19, 2006, management of Kinder Morgan received shareholder approval of a US$22 billion leveraged management buyout offer led by Richard Kinder, Chairman and Chief Executive Officer, Kinder Morgan. The completion of this buyout is pending.

Prior to the closing of the Acquisition, Kinder Morgan will cause Terasen to divest itself of its petroleum transportation operations (the ''Pre-Closing Reorganization''), leaving only the natural gas distribution business operated by Terasen Gas (as defined below). As part of the Pre-Closing Reorganization, on March 5, 2007, Kinder Morgan announced that it had agreed to sell the Corridor pipeline system, which is owned by Terasen and serves the Athabasca oil sands, to Inter Pipeline Fund. Under the Acquisition Agreement, Fortis will be indemnified with respect to claims relating to the Pre-Closing Reorganization. See ''Acquisition Agreement — Indemnities''.

The chart below sets out the material subsidiaries of Terasen following the Pre-Closing Reorganization.



(1) Terasen Gas Inc. provides gas distribution services to approximately 734,000 residential and 82,000 commercial and industrial customers in a service area extending from Vancouver to the Fraser Valley and the interior of British Columbia.

(2) Terasen Gas (Vancouver Island) Inc. owns a combined distribution and transmission system and serves approximately 85,000 residential, commercial and industrial customers along the Sunshine Coast and in various communities on Vancouver Island including Victoria and surrounding areas.

(3) Terasen Gas (Whistler) Inc. owns and operates the propane distribution system in the Whistler area of British Columbia and provides service to approximately 2,350 residential and commercial customers.

(4) CustomerWorks Limited Partnership is a non-regulated shared services business in partnership with Enbridge Inc. that provides customer service contact, meter reading, billing, credit, support and collection services primarily to the natural gas distribution operations of Terasen and Enbridge Gas Inc.

Terasen Gas

The natural gas distribution business of Terasen is carried on by Terasen Gas Inc. (''TGI''), Terasen Gas (Vancouver Island) Inc. (''TGVI'') and Terasen Gas (Whistler) Inc. (''TGWI''). Terasen also owns a 30% interest in CustomerWorks Limited Partnership (''CWP''). CWP is a non-regulated shared services business in partnership with Enbridge Inc. (''Enbridge'') that provides customer service contact, meter reading, billing, support and credit and collection services primarily to Terasen Gas (as defined below) and Enbridge Gas Distribution Inc. (''Enbridge Gas''). CWP outsources these services to a company owned and operated by Accenture Inc. (''Accenture''). In this Prospectus, TGI, TGVI, TGWI and CWP are collectively referred to as ''Terasen Gas''.

Terasen Gas is the principal gas distribution utility in British Columbia, serving the populous lower mainland, Vancouver Island and the southern interior of the province. With approximately 900,000 customers in 125 communities, Terasen Gas provides service to over 95% of the gas customers in British Columbia. Terasen Gas owns and operates approximately 44,100 kilometers of natural gas distribution pipelines and approximately 4,300 kilometers of natural gas transmission pipelines. As of September 30, 2006, Terasen Gas had an aggregate of $3.6 billion of assets, an aggregate rate base of almost $3.0 billion and approximately 1,200 employees.

Acquisition Rationale

The business operated by Terasen Gas is attractive to Fortis for the following reasons: (i) Terasen Gas will significantly increase the earnings of Fortis from regulated utilities and be immediately accretive to earnings per share; (ii) the regulated gas distribution business of Terasen Gas complements the regulated electric distribution business of Fortis; and (iii) the service territory of Terasen Gas is experiencing strong economic growth and includes substantially all of the service territory of FortisBC.

Fortis believes that the principal benefits of the Acquisition are as follows:

(a) the purchase price represents approximately 1.2 times the approved rate base of Terasen Gas for 2007 and the Acquisition is expected to be immediately accretive to earnings per share;

(b) the Acquisition will increase the regulated rate base assets and utility earnings of Fortis. Similar to the electric distribution utilities of Fortis, Terasen Gas operates under principally cost-of-service regulation under which an appropriate return on capital is recovered in addition to prudently incurred operating and commodity costs;

(c) Terasen Gas has an attractive gas distribution franchise with a well-diversified, mature, principally residential, customer base. The Acquisition is expected to improve the risk profile of Fortis by providing it with a more economically diverse portfolio of assets;

(d) following the Acquisition, Fortis will be the largest investor-owned utility in gas and electric distribution in Canada with regulated electricity distribution utilities in five Canadian provinces and three Caribbean countries and regulated gas distribution utilities in British Columbia. Following the Acquisition, a large proportion of the business of Fortis will serve the high-growth economies of western Canada; and

(e) Fortis believes the regulated gas distribution business of Terasen Gas is complementary to the Corporation's proven core competencies in managing regulated electric distribution utilities. The Acquisition affords Fortis management an opportunity to deploy its regulatory, operating and financial management expertise to additional Canadian regulated utilities.

See ''Risk Factors — Realization of Acquisition Benefits'' and ''Special Note Regarding Forward-Looking Statements''.

Utility Management Approach of Fortis

Fortis' approach to utility management is based on creating value for customers that ultimately translates into long-term value for shareholders. Fortis structures its operations as separate operating companies in each jurisdiction. Focused local management teams have the benefit of access to utility management experience and expertise of Fortis. The senior management team of Terasen Gas, which Fortis expects to retain, will add valuable operational expertise in natural gas distribution to existing expertise in the electric distribution operations of Fortis. This approach allows local managers to build relationships with, and be responsive to, both customers and regulators. Fortis recognizes that regulation is a key aspect of its core business and has developed a disciplined, cost-conscious asset investment and operating philosophy which is responsive to regulation.

The management of Fortis has substantial experience in integrating newly acquired enterprises into the Fortis Group. In 2004, Fortis acquired all of the issued and outstanding shares of FortisBC (formerly, Aquila Networks Canada (British Columbia) Ltd.) and FortisAlberta (formerly, Aquila Networks Canada (Alberta) Ltd.), and has successfully integrated these utilities into the Fortis Group.

THE ACQUIRED BUSINESSES

The description of Terasen Gas contained in the Prospectus is based on publicly available information filed by Terasen, TGI and Kinder Morgan and information provided by Kinder Morgan in connection with the Acquisition Agreement. Fortis, after making its purchase investigations, believes it to be accurate in all material respects.

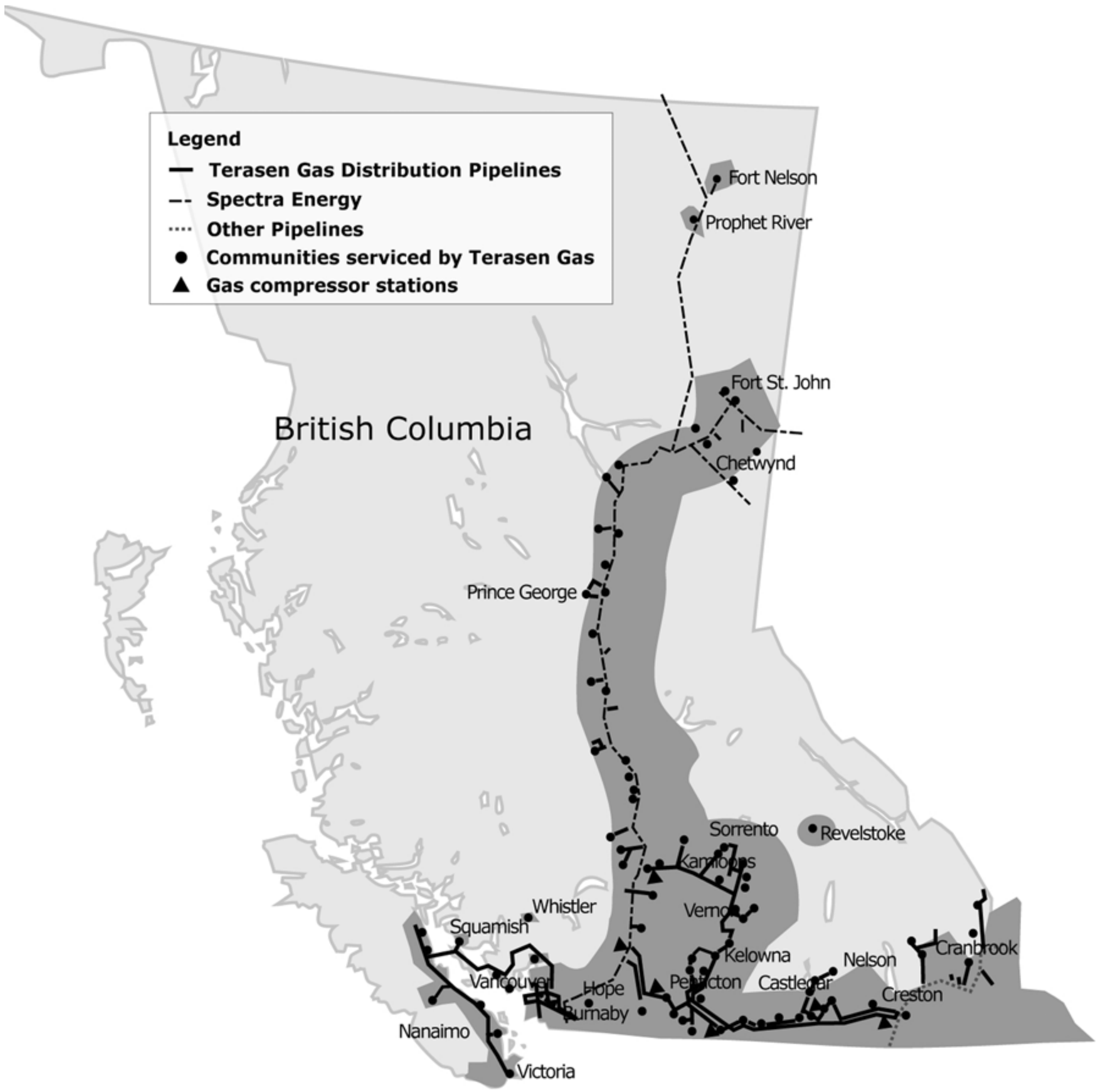
Terasen Inc.

Terasen is a holding company headquartered in Vancouver, British Columbia, operating two principal lines of business: natural gas distribution and petroleum transportation. Prior to the closing of the Acquisition, Kinder Morgan will cause Terasen to divest itself of its petroleum transportation operations. The natural gas distribution business of Terasen is carried on by TGI, TGVI and TGWI. Terasen also owns a 30% interest in CWP, a non-regulated shared services business in partnership with Enbridge that provides customer service contact, meter reading, billing, support and credit and collection services primarily to Terasen Gas and Enbridge Gas. CWP outsources these services to a company owned and operated by Accenture. Terasen has approximately 20 employees principally involved with finance, tax and legal matters.

Terasen was incorporated on August 15, 1985 under the *Company Act* (British Columbia), a predecessor to the *Business Corporations Act* (British Columbia). On April 25, 2003, its name was changed from BC Gas Inc. to Terasen Inc. For further information on Terasen, reference is made to the audited consolidated financial statements of Terasen for the years ended December 31, 2005 and 2004 and related Management Discussion and Analysis of financial condition and results of operations, and the unaudited consolidated financial statements of Terasen for the three- and nine-month periods ended September 30, 2006 and related Management Discussion and Analysis of financial condition and results of operations, which are included in this Prospectus.

Terasen Gas Service Territory

Terasen Gas is one of the largest natural gas distribution businesses in Canada. With approximately 900,000 customers in 125 communities, Terasen Gas provides service to over 95% of the gas customers in British Columbia. Its service area extends from Vancouver to the Fraser Valley, the interior of British Columbia, the area along the Sunshine Coast, as well as Whistler, Squamish and Vancouver Island.



Terasen Gas Inc.

TGI provides service to more than 100 communities with a service territory that has an estimated population of approximately 4,000,000. As at September 30, 2006, TGI and its subsidiaries transported and distributed natural gas to approximately 734,000 residential and 82,000 commercial and industrial customers, representing approximately 87% of the natural gas users in British Columbia. TGI's service area extends from Vancouver to the Fraser Valley and the interior of British Columbia. The transmission and distribution business is carried on under statutes and franchises or operating agreements granting the right to operate in the municipalities or areas served. TGI is regulated by the BCUC. The average rate base of TGI approved by the BCUC for 2007 is approximately $2,474 million.

TGI provides natural gas distribution services to residential, small commercial and industrial heating customers predominantly on a non-contractual basis, whereby the customers are charged based on general services provided. Larger commercial and industrial customers are normally provided with services on a contractual basis.

By early 2006, 16,000 commercial and industrial customers had arranged for some or all of their own gas supply and used TGI's transportation services for delivery. Notwithstanding shifts over time between utility supply and direct purchases, TGI's earnings remain unaffected since TGI's margins remain substantially the same whether or not customers choose to buy natural gas from TGI or arrange their own supply. Customers arranging for their own supply in fact reduce the credit risk to TGI. See ''— Terasen Gas Inc. — Unbundling'' below.

Of TGI's industrial customers, 158 are on interruptible service. The majority of these customers are capable of switching to alternative fuels. Of the various industries that comprise TGI's industrial market, the pulp and paper and wood products industries combined comprise approximately 47% of total system throughput. All other industries individually represent less than 10% of total consumption.

Gas Purchase Agreements

In order to acquire supply resources that ensure reliable natural gas deliveries to its customers, TGI purchases supply from a select list of producers, aggregators, and marketers by adhering to strict standards of counterparty creditworthiness and contract execution/management procedures. TGI contracts for approximately 137 petajoules (''PJ'') of baseload and seasonal supply, of which 120 PJ is delivered off the Spectra Energy Gas Transmission system (the ''Spectra Pipeline System''), and 17 PJ is comprised of Alberta-sourced supply transported into British Columbia via the Alberta and British Columbia systems of TransCanada Pipelines Limited (''TransCanada''). The majority of supply contracts in the current portfolio are one year in length, with the exception of one long-term contract expiring in October 2009. In order to recover its costs, TGI obtains advance BCUC approval of the supply agreements it proposes to enter into.

Peak Shaving Arrangements

TGI incorporates peak shaving and gas storage facilities into its portfolio to (i) manage the load factor of baseload supply contracts throughout the year, (ii) eliminate the risk of supply shortages during a peak throughput day, (iii) reduce the cost of gas during winter months, and (iv) balance daily supply and demand on the distribution system. TGI's peak shaving and storage assets and contracts for 2006 included up to 30 PJ in storage capacity at various locations throughout British Columbia, Alberta and the Pacific Northwest of the United States. These facilities can deliver a maximum daily rate of 600 TJ on a combined basis.

Unbundling

Over the past several years, TGI, the BCUC and a number of interested parties have laid the groundwork for the introduction of natural gas commodity unbundling. As of November 1, 2004, commercial customers of TGI became eligible to sign up to buy their natural gas commodity supply directly from third-party suppliers. TGI continues to provide delivery of the natural gas. Approximately 78,000 commercial customers are eligible to participate in commodity unbundling.

On August 14, 2006, the BCUC released a decision to open a portion of British Columbia's residential natural gas market to competition, allowing homeowners to sign long-term fixed-price contracts for natural gas with companies other than TGI. The BCUC decision was released in response to a proposal from TGI filed with the BCUC on April 18, 2006 and following several weeks of public hearings and submissions from TGI, natural gas marketers and stakeholders. As a result of the BCUC decision, independent marketing companies, known as gas marketers, will be allowed to start offering long-term, fixed-price contracts for natural gas for a period of time ranging from one year to five years, starting in May 2007. TGI will continue delivering the gas to the final consumer, charging for delivery and providing all billing and other services to all customers.

The choice of natural gas suppliers will only be available to TGI's residential customers in the Lower Mainland and the interior of British Columbia. It will not be available on Vancouver Island, the Sunshine Coast, Powell River or Whistler. The opening of a portion of British Columbia's residential natural gas market to competition will not affect TGI's earnings since TGI's margins remain substantially the same whether or not customers choose to buy natural gas from TGI or arrange their own supply.

Transmission Services

TGI serves Greater Vancouver and the Fraser Valley through a transmission and distribution system that connects to the Spectra Pipeline System near Huntingdon, British Columbia. This transmission system also supplies gas to TGVI for delivery to the Sunshine Coast, Vancouver Island and Squamish, British Columbia. In addition, TGI is connected at Huntingdon to Northwest Pipeline to facilitate gas movement both north and south.

In the interior of British Columbia, TGI serves municipalities with numerous connections to the Spectra Pipeline System. Communities in the East Kootenay region of British Columbia are served through connections with the British Columbia system of TransCanada. TGI is connected to TransCanada's British Columbia system through TGI's Southern Crossing Pipeline between Yahk and Oliver. TGI also operates a propane distribution system in Revelstoke, British Columbia.

In addition, TGI provides high-pressure transmission services to customers, such as TGVI, which moves natural gas from the Spectra Pipeline System or the TransCanada system across TGI's system to customers' own facilities.

Transportation tolls on the Spectra Pipeline System and the TransCanada system are regulated by the National Energy Board. TGI pays both fixed and variable charges for use of the pipelines, which are recovered through rates paid by TGI's customers.

Properties

As of September 30, 2006, TGI owned approximately 3,700 kilometers of natural gas transmission pipelines and approximately 41,000 kilometers of natural gas distribution pipelines. In addition to the pipelines, TGI owns properties and equipment utilized for service shops, warehouses, metering, and regulating stations, as well as its main operations center in Surrey, British Columbia.

Title to Properties

TGI's pipelines are constructed for the most part under highways and streets pursuant to permits or orders from the appropriate authorities, franchise or operating agreements entered into with municipalities and rights-of-way held directly or jointly with BC Hydro. Compressor stations and major regulator stations are located on freehold land, rights-of-way owned by TGI or properties shared with BC Hydro.

Franchise and Operating Agreements

TGI currently holds franchise or operating agreements with all of the incorporated municipalities in which it distributes gas in the Greater Vancouver and Fraser Valley service areas, other than Richmond, British Columbia, and with most of the incorporated municipalities in which it distributes gas in the interior of British Columbia. TGI has the right to serve all end users within its franchise area pursuant to these operating agreements. The terms of the franchise agreements range from 10 years to 21 years.

Historically, approximately one quarter of the agreements relating to the interior of British Columbia contained a provision enabling the municipality to purchase the distribution system at the end of the term of the agreement. Some of these agreements have expired and TGI has negotiated or is currently negotiating renewals and extensions of others whereby TGI enters into an arrangement whereby the relevant municipality leases TGI's gas distribution assets within the municipality's boundaries for a term of 35 years for an initial cash payment paid by the municipality to TGI. TGI, in turn, enters into a 17-year operating lease with the municipality whereby TGI operates the gas distribution assets and has the option to terminate the lease of the assets to the municipality at the end of the 17-year term in exchange for a payment to the municipality equal to the unamortized portion of prepaid rent initially paid by the municipality. As at December 31, 2005, TGI had entered into such arrangements having a total value of $153 million.

Capital Program

The 2007 revenue requirements approved by the BCUC for TGI include annual capital expenditures of $129.7 million. Capital expenditures relating to customer growth represent approximately 22% of the annual capital budget forecast, while the remaining amount relates to capital betterments, replacements and life extensions.

Operations

As part of its multi-year Performance-Based Rate (''PBR'') agreement, TGI is required to meet several service quality targets. These target measures include indicators such as emergency response time, speed of answering calls, system integrity, customer satisfaction, meter exchange appointment activity, number of customer complaints to the BCUC and number of prior period adjustments. TGI's operations meet or exceed these target measures.

Environment

In order to minimize impacts from its operations, TGI has developed an Environmental Management System based on a framework, purposes and objectives so as to be compliant with the international standard ISO 14001. TGI's operations meet or exceed legislative standards and environmental protection requirements.

TGI is an active participant in Canada's Voluntary Climate Change Challenge and Registry (''VCR'') and its successor, the Canadian GHG Challenge Registry. For seven consecutive years, TGI has received gold-level reporting status in recognition of its efforts to manage and reduce greenhouse gas emissions. TGI received the VCR Leadership Award in 2001 and 2003, the only company in its sector to have received this award twice. The VCR ranking acknowledges TGI's efforts to develop specific measures and voluntarily set reduction targets.

Employees

TGI has approximately 1,100 employees. Its organized employees are represented by the Canadian Office and Professional Employees Union (''COPEU'') and the International Brotherhood of Electrical Workers (''IBEW'') under collective agreements which expire on March 31, 2007 and March 31, 2011, respectively.

Tax Assessment

TGI has received a Notice of Assessment dated July 31, 2006 from the British Columbia Social Service Tax authority (the ''BC Tax Authority'') for the payment of $37.1 million of additional provincial sales tax and interest on the Southern Crossing Pipeline which was completed in 2000 (the ''Assessment''). In October 2006, TGI made a payment of $10 million pending its appeal of the Assessment as a good faith payment to forestall an order from the BC Tax Authority to provide full payment or security. On October 26, 2006, TGI filed an objection to the Assessment with the BC Tax Authority. The BCUC has allowed TGI to defer the $10 million payment pending resolution of TGI's objection to the Assessment.

Terasen Gas (Vancouver Island) Inc.

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. TGVI is a franchise under development and is supported by the Vancouver Island Natural Gas Pipeline Agreement, as discussed in more detail below.

TGVI has been operating for almost 15 years. Its combined system consists of approximately 615 kilometers of natural gas transmission pipelines and 3,250 kilometers of distribution mains. The combined system has a designed throughput capacity of 144 million cubic feet per day (155 TJ per day). TGVI serves approximately 85,000 residential, commercial and industrial customers along the Sunshine Coast and in various communities on Vancouver Island including Victoria and surrounding areas. TGVI's largest customers are the Vancouver Island Gas Joint Venture, representing seven large pulp and paper mills on Vancouver Island and the Sunshine Coast, and BC Hydro's contracted gas-fired electricity cogeneration facility at Elk Falls, Vancouver Island. During 2005, TGVI delivered approximately 33.6 PJ of gas through its system. The average rate base of TGVI approved by the BCUC for 2007 is approximately $482 million.

TGVI's natural gas supply is transported through TGI's pipeline system. All natural gas flows to TGVI are from this single source on the mainland and are dependent on the use of two undersea high-pressure transmission pipes.

Vancouver Island Natural Gas Pipeline Agreement

The transmission line to Vancouver Island and the distribution systems on Vancouver Island that are currently owned by TGVI were originally constructed between 1989 and 1991 with financial support provided by the provincial and federal governments which included repayable contributions of an aggregate of $75 million from these governments (the ''Repayable Contributions''). In December 1995, the financial support arrangements with the governments were restructured under several agreements, including the Vancouver Island Natural Gas Pipeline Agreement (''VINGPA'') which was entered into between the predecessors of Terasen and TGVI and the Province of British Columbia (the ''Province'').

Under the VINGPA, which runs through to December 31, 2011, the Province has agreed to provide TGVI with financial support in the form of gas royalties on deemed volumes of natural gas transported through the Vancouver

Island pipeline from 1996 through 2011, which decreases the cost of purchased gas by approximately 20%. The royalty payment recognized in 2006 was approximately $36.3 million.

In turn, under the VINGPA, Terasen is required to provide financial support of up to $120 million over the period from 1996 to 2011 to finance the principal amount of the revenue deficiencies incurred by TGVI. Annual revenue deficiencies are calculated as the difference between the approved cost of service and revenue actually received. This funding can be by way of subscription for Class A Instruments (redeemable preferred shares of TGVI) or Class B Instruments (promissory notes issued by TGVI) (''Class B Instruments''), as determined by the BCUC.

Prior to 2003, rates charged by TGVI to its customers were insufficient to recover the cost of service of TGVI in aggregate, meaning that revenues from the sale and transportation of natural gas resulted in an annual revenue deficiency. Terasen and TGVI's former shareholder funded these annual revenue deficiencies in accordance with the VINGPA. The aggregate of the annual revenue deficiencies was funded with Class B Instruments bearing interest at a rate of 275 basis points over the applicable five-year Canada bond rate. The accumulated revenue deficiency resulting from overall revenues being below the cost of service has been recorded in a revenue deficiency deferral account (''RDDA''). Since 2003, the aggregate annual revenues have exceeded the full cost of service and therefore TGVI has been in a revenue surplus position. The revenue surplus is used, in part, to pay down the RDDA balance as well as to pay the interest on the Class B Instruments described above. The BCUC has been directed to include in the cost of service an amount to amortize the RDDA balance over the shortest period reasonably possible, having regard to competitive energy sources and the desirability of rates. As at September 30, 2006, TGVI had issued and outstanding approximately $42 million of Class B Instruments.

As part of the December 1995 restructuring discussed above and concurrently with the entering into of the VINGPA, the predecessor to TGVI entered into the Pacific Coast Energy Pipeline Agreement (the ''PCEPA'') with the Government of Canada and the Province which set out the mechanism for the repayment of the $75 million Repayable Contributions owed to the federal and provincial governments. The PCEPA provides for scheduled repayments but also contemplates earlier non-scheduled prepayments in certain circumstances. Repayments on the $75 million Repayable Contributions go towards increasing the rate base on a dollar-for-dollar basis.

Vancouver Island Gas Joint Venture Transportation Agreement

TGVI provides gas transportation service to the seven pulp and paper mills under the long-term Vancouver Island Gas Joint Venture Transportation Service Agreement that was amended effective January 1, 2005 to extend it beyond the original renewal period by two years to December 31, 2012. The maximum daily volume of firm transportation service under the agreement was 20 TJ per day for 2005. In 2006, the maximum daily volume changed to 12.5 TJ per day for the remainder of the renewal period. The committed volume can be reduced to 8 TJ on twelve months' notice at any time on or after January 1, 2007.

Contractual Arrangements

TGVI has entered into a firm transportation agreement with BC Hydro to serve BC Hydro's gas supply needs at a gas-fired cogeneration plant at Elk Falls, Vancouver Island. The agreement, for 45 TJ per day, expires on December 31, 2007. BC Hydro has an option to extend the agreement for one year. BC Hydro has indicated that it is considering changing the Elk Falls facility from a baseload facility to a dispatchable facility, which will change the transportation agreement from firm to interruptible. Accordingly, there is no certainty with respect to the terms under which the firm transportation agreement with BC Hydro may be extended beyond 2007. Failure to extend the agreement will result in a reduction in TGVI's transportation revenues of approximately $13 million, which would be expected to be recovered through increased rates approved by the BCUC.

On February 16, 2005, the BCUC approved the construction by TGVI of a $100 million liquid natural gas storage facility, subject to several conditions including the execution of a long-term Transportation Service Agreement with BC Hydro backed by the capacity demand requirements of the Duke Point generation project. On June 17, 2005, BC Hydro announced its intention to abandon the Duke Point generation project on Vancouver Island as a result of a continuing appeal process. As a result, the expected construction timeline for TGVI's proposed storage facility has been delayed and, pending re-evaluation, will require BCUC approval prior to proceeding.

Gas Purchase Agreements

In order to acquire effective supply resources that ensure reliable natural gas deliveries to its customers, TGVI purchases supply from a select list of producers, aggregators and marketers by adhering to strict standards of counterparty credit worthiness and contract execution/management procedures. As of November 1, 2005, TGVI contracted approximately 12.5 TJ per day of baseload supply delivered off the Spectra Pipeline System. TGVI also purchased approximately 31.8 TJ per day of seasonal supply to meet the higher loads during the winter months of December 2005 to February 2006.

TGVI maintains storage contracts with Unocal Canada Limited at Aitken Creek Storage facility in northern British Columbia and Northwest Natural Gas Company at Mist Storage facility in Oregon. As at March 14, 2006, TGVI's Aitken Creek Storage contract consisted of 2.1 PJ of capacity with 13.6 TJ of daily deliverability and its Mist storage agreement consisted of 0.69 PJ of capacity with 26.4 TJ of daily deliverability. As at March 14, 2006, TGVI also had access to an estimated 21.1 TJ of daily peaking supply deliverability from various peaking supply arrangements.

Capital Program

TGVI's capital projects for the upcoming years are primarily associated with the expansion of the distribution system and the addition of new customers. The capital expenditures are expected to increase the rate base and expand the customer base. The 2007 revenue requirements approved by the BCUC for TGVI include capital expenditures of $53.7 million, which includes $20.8 million for the Whistler pipeline. The capital expenditures relating to customer growth on Vancouver Island represent approximately 9.1% of the capital budget for 2007, while the remaining amount relates to system expansion, capital betterments, replacements and life extensions.

On June 28, 2006, TGVI and TGWI received final approval from the BCUC to extend natural gas service to Whistler. Under the proposed arrangements, TGVI will extend its transmission system to serve TGWI by the construction of a 50-kilometer pipeline lateral from Squamish to Whistler. It is expected that the pipeline will cost $42.8 million and TGVI's contribution to the pipeline costs, including system conversion, will be approximately $20.8 million. TGWI will pay the remainder of the costs of the pipeline.

Employees

TGVI has approximately 105 employees. Its organized employees are represented by the COPEU and the IBEW under the TGI Collective Agreements. See ''— Terasen Gas Inc. — Employees'' above.

Terasen Gas (Whistler) Inc.

TGWI has owned and operated the propane distribution system at Whistler since 1987. It provides service to approximately 2,350 residential and commercial customers in the Whistler area of British Columbia. TGWI owns and operates two propane storage and vaporization plants and approximately 100 kilometers of distribution pipelines serving customers in the Whistler area. The propane distribution system in Whistler has grown far beyond the original expectations and beyond the size and scale of other similar propane distribution systems in British Columbia and Canada. Today, with annual deliveries exceeding 750,000 GJ, TGWI's propane system is unique in terms of the size of the customer base it serves and the scale of the facilities required by its continued operations. The average rate base of TGWI for 2006 was approximately $16.5 million.

On June 28, 2006, TGVI and TGWI received final approval from the BCUC to extend natural gas service to Whistler. Under the proposed arrangements, TGVI will extend its transmission system to serve TGWI by the construction of a 50-kilometer pipeline lateral from Squamish to Whistler and TGWI will convert its current piped propane system to natural gas. The pipeline, which is scheduled for completion in 2008 and will be co-ordinated with the current Sea-to-Sky Highway upgrade project, will allow TGWI to better service future demand. It is expected that the pipeline will cost $42.8 million and TGWI's contribution to the pipeline costs, including system conversion, will be approximately $22.0 million. TGVI will pay the remainder of the cost of the pipeline. Customer, management and operations services are provided to TGWI by TGI.

Non-Regulated — CustomerWorks Limited Partnership

CWP is a partnership between Terasen and Enbridge that provides shared customer services primarily to the companies' respective regulated operations, Terasen Gas and Enbridge Gas. Enbridge owns a 70% interest in CWP and Terasen owns a 30% interest.

The provision of services by CWP is governed by a customer service agreement dated January 1, 2002, as amended (the ''Customer Service Agreement''). The Customer Service Agreement was initially entered into between BC Gas Utility Ltd. (the predecessor of TGI) and CWP and was subsequently amended to, among other things, provide for the outsourcing of the services by CWP to Accenture Business Services for Utilities Inc., a company indirectly owned and operated by Accenture, and to extend the provision of services to TGVI and TGWI. The Customer Service Agreement was entered into for a five-year term, renewable for additional one-year terms.

The services provided under the Customer Service Agreement include customer contact, meter reading, billing, support, and credit and collection services. The Customer Service Agreement has been approved by the BCUC. The rates under the Customer Service Agreement have both a fixed and service volume based component, include minimum service standards and penalties and are based on market prices. In providing these services, CWP uses a customer information services system under a licence from Enbridge Commercial Services, a subsidiary of Enbridge. During the nine-month period ended September 30, 2006, TGI paid approximately $33.1 million to CWP under the Customer Service Agreement.

Regulation

The Terasen Gas natural gas distribution system operates wholly within British Columbia. Gas utilities which operate wholly within British Columbia are subject to the regulatory jurisdiction of the BCUC which derives its powers from the *Utilities Commission Act* (British Columbia). In addition to approving the rate base and new financings of gas utilities, the BCUC also approves the rates charged to customers. These rates are designed to recover the utilities' costs of providing service and allow the opportunity to meet financial commitments and earn a reasonable and fair ROE. The BCUC has jurisdiction to regulate and approve the terms and conditions under which gas utilities provide service.

As part of the establishment of the rates that a gas utility charges its customers, the BCUC establishes a rate base, approves a capital structure with which to finance such rate base, and is responsible for setting a reasonable and fair rate of return on the debt and equity in the approved capital structure. Rate base is the aggregate of the depreciated cost of property, plant and equipment that is used or useful in serving the public, certain deferral accounts and a reasonable allowance for working capital. The fair rate of return is established by determining the cost of individual components of the capital structure, including ROE, and weighting such costs to determine an aggregate rate of return on rate base. The rates that are established and the terms and conditions of service are contained in a schedule of published and public tariffs. Before any tariff can be put into effect, it must be filed with the BCUC. The BCUC has jurisdiction to approve or refuse any amendment submitted for filing and to determine the rates which should be charged by a utility for its services. The BCUC is required to have due regard, among other things, to fixing rates that are not unjust or unreasonable. In fixing rates the BCUC must determine that such rates reflect a fair and reasonable charge for service of the nature and quality furnished by the utility to its customers and that such rates are sufficient to yield the utility fair and reasonable compensation for its services and a fair and reasonable rate of return on its rate base.

The BCUC uses a future test year in the establishment of rates for a utility. Pursuant to this method, the BCUC forecasts the volume of gas that will be sold and transported, together with all of the costs of the utility (including the rate of return) that the utility will incur in the test year. Rates are fixed to permit the utility to collect all of its costs (including the rate of return) if the forecast sales and transportation volumes are achieved. The forecast sales volumes assume normal weather. Certain costs are fixed and will be incurred regardless of the actual volume of gas sold. Accordingly, if the actual volumes of gas sales are less than those forecast in the test year, the utility might not recover all of the fixed costs. Interest expense, taxes other than income taxes, depreciation and amortization, certain operations and maintenance costs, the portion of the cost of gas that is fixed, such as demand charges or reservation fees, and the fixed portion of transportation costs have the effect of being virtually fixed costs.

In addition to application for approval of interim and annual rate changes, the gas utilities may apply from time to time to the BCUC for rate changes to give effect to the changes in costs beyond the control of the utilities.

The table below summarizes regulatory information pertaining to decisions made by the BCUC with respect to TGI and TGVI. While also regulated by the BCUC, similar regulatory information with respect to TGWI is not available from publicly available BCUC filings.

	Regulated Values				
	2007(1)	2006	2005	2004	2003
TGI					
Rate base ($M)	2,474	2,506	2,406	2,310	2,281
Deemed common equity component of total capital structure (%)	35	35	33	33	33
Allowed ROE (%)	8.37	8.80	9.03	9.15	9.42
TGVI					
Rate base ($M)	482	470	453	441	437
Deemed common equity component of total capital structure (%)	40	40	35	35	35
Allowed ROE (%)	9.07	9.50	9.53	9.65	9.92

(1) As approved by the BCUC.

Terasen Gas Inc.

TGI's allowed ROE is determined annually based on a formula that applies a risk premium to a forecast of long-term Government of Canada Bond yields. On June 30, 2005, TGI applied to the BCUC to increase the deemed equity components from 33% to 38%. The application also requested an increase in allowed ROEs from the levels that result from the then-current formula, which would have yielded 8.29% for TGI in 2006. The BCUC rendered its decision on the application on March 2, 2006, to be effective as of January 1, 2006. The generic ROE formula for a benchmark utility in British Columbia was changed such that it will be reset annually from a forecast of 30-year Canada Bonds plus a 3.90% risk premium when the forecast yield on 30-year Government of Canada Bonds is 5.25%. The risk premium is adjusted annually by 75% of the difference between 5.25% and the forecast yield on 30-year Government of Canada Bonds. For 2007, the forecast 30-year Canada Bond yield is 4.22% resulting in an ROE for TGI of 8.37%.

Two mechanisms to mitigate unanticipated changes in costs and sales volumes, such as changes caused by weather, have been implemented specifically for TGI. The first relates to the recovery of all gas costs through deferral accounts which capture all variances (overages and shortfalls) from forecasts. Balances are either refunded to or recovered from customers as determined by the BCUC. The deferral accounts are called the Commodity Cost Reconciliation Account (''CCRA'') and the Midstream Cost Reconciliation Account (''MCRA''). The second mechanism seeks to stabilize delivery revenues from residential and commercial customers through a deferral account that captures variances in the forecast-versus-actual customer use throughout the year. This mechanism is called the Revenue Stabilization Adjustment Mechanism (''RSAM''). In February 2001, the BCUC issued guidelines for quarterly calculations to be prepared to determine whether customer rate adjustments are needed to reflect prevailing market prices for natural gas and to ensure that rate stabilization account balances are recovered on a timely basis. The balance in the RSAM account at December 31, 2006 was approximately $36 million and the BCUC has approved $11.5 million of this balance to be recovered in 2007 through a rate rider.

The RSAM and CCRA/MCRA accounts reduce TGI's earnings exposure to risks associated with volatility of gas costs and consumer demand. Variances in demand by large volume, industrial transportation customers are not covered by these deferral accounts as their usage is more predictable and less likely to be significantly affected by weather.

The net balances of the RSAM and CCRA/MCRA accounts increased to a receivable of approximately $148.8 million as at September 30, 2006 from a payable of approximately $9.0 million as at December 31, 2005. In order to ensure that the balances in the CCRA/MCRA accounts are recovered on a timely basis, TGI prepares and files quarterly calculations with the BCUC to determine whether customer rate adjustments are needed to reflect prevailing market prices for natural gas costs.

TGI also has in place deferral accounts to absorb short-term and long-term interest rate fluctuations. The interest rate deferral accounts which were in place during 2006 effectively fixed the interest expense on short-term funds attributable to TGI's regulated assets at 4.00% during 2006. The effective fixed short-term interest rate for 2007 has been set at 4.75%. Any variations from these rates throughout the year are recorded in deferral accounts and are subsequently either refunded to or recovered from customers as determined by the BCUC.

In 2003, TGI received BCUC approval of a Negotiated Settlement of a 2004-2007 PBR Plan (the ''TGI Settlement''). The TGI Settlement, which took effect January 1, 2004, establishes a process for determining TGI's delivery charges and incentive mechanisms for improved operating efficiencies. The four-year agreement includes incentives for TGI to operate more efficiently through sharing of the benefits of cost reductions among TGI and its customers. It includes ten service quality indicators designed to ensure TGI provides appropriate service levels and sets out the requirements for an annual review process which will provide a forum for discussion between TGI and interested parties regarding TGI's current performance and future activities. In January 2007, TGI made application to the BCUC to extend the TGI Settlement to 2009.

Operation and maintenance costs and base capital expenditures are subject to an incentive formula which permits recovery of increasing costs due to customer growth and inflation. Operating costs are subject to an adjustment factor based on 50% of inflation during the first two years and 66% of inflation during the last two years. Base capital expenditure amounts are a function of customer numbers and projected customer additions. During the annual review process, non-controllable expenses and extraordinary capital expenditures can be added to or subtracted from revenue requirements under the terms of the TGI Settlement.

The TGI Settlement provides for a 50/50 customer/shareholder sharing mechanism of 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 two consecutive years, the PBR mechanism may be reviewed. The following table sets out the allowed ROE, the earned ROE (before sharing) and the customer share under the sharing mechanism.

TGI Earned ROEs and Shared Earnings through PBR

	2006(1)	2005	2004
Allowed ROE (%)	8.80	9.03	9.15
Earned ROE (%)	10.10	10.78	9.34
Customer share (pre-tax)($M)	8.2	10.5	1.1

(1) Projected as filed by TGI in the 2007 Revenue Requirement Filing.

Terasen Gas (Vancouver Island) Inc.

Pursuant to BCUC orders from 2003 onwards, TGVI's rates have been set so as to fully recover its cost of service plus an amount for the timely amortization of the RDDA in accordance with the government directives. To permit recovery of the outstanding balance in the RDDA, TGVI's rates for residential and commercial customers are set at levels in excess of TGVI's cost of service, but are effectively capped at a comparable price of competitive alternative fuels. TGVI renewed its regulatory settlement in late 2005 for a two-year period, effective January 1, 2006. It provides for a continuation of the operation and maintenance cost incentive arrangements previously in place. The allowed ROE for TGVI was 9.53% for 2005 compared to 9.65% in 2004. TGVI's ROE for 2006 is 9.50% and TGVI's deemed equity component of its capital structure for 2006 is 40%. The 2007 approved ROE for TGVI has been set at 9.07%.

TGVI's approved rate design methodology provides, in effect, that to the extent that cost of service inputs change over time, TGVI's rates will reflect a variable RDDA amortization. The rates generally are set to be equivalent to 90% of comparable electricity price. The RDDA amortization was approximately $12.4 million in 2005 and approximately $6.9 million in 2006. The RDDA has been amortized from approximately $87.9 million as at December 31, 2002 to approximately $41.4 million as at December 31, 2006.

In November 2005, TGVI received BCUC approval of a Negotiated Settlement (the ''TGVI Settlement'') of 2006-2007 revenue requirements. The two-year TGVI Settlement, which took effect as of January 1, 2006, establishes a process for determining TGVI's delivery charges and offers incentive mechanisms for improved operating efficiencies. TGVI is permitted to retain 100% of earnings from savings of controllable operating and maintenance expenses from forecast and TGVI will not be provided any relief from increased controllable operating and maintenance expenses. The operating and maintenance expense forecast is based on actual 2005 costs, adjusted for changes outside of management's control, expected savings from operational synergies with TGI, 66% of inflation and customer growth. TGVI has managed actual operating and maintenance expenses close to forecast. In January 2007, TGVI made an application to the BCUC to extend the TGVI Settlement to 2009.

Competition

Natural gas has maintained a competitive advantage in terms of pricing when compared with alternative sources of energy in British Columbia, despite the significant increase in natural gas commodity prices since 1999. Regulated electricity prices in British Columbia are currently set based on the historical average production costs which are lower than the market price of electricity. Current regulated electricity prices are only marginally higher than comparable, market-based natural gas prices. A further sustained increase in natural gas commodity prices could cause natural gas in British Columbia to be priced at or above electricity, thereby decreasing the use of natural gas by customers.

Hedging

Derivative instruments are used to hedge exposure to fluctuations in natural gas prices and interest rates. The majority of the natural gas supply contracts have floating, rather than fixed, prices. Natural gas price swap contracts are used to fix the effective purchase price. Any differences between the effective cost of natural gas purchased and the price of natural gas included in rates are recorded in deferral accounts (MCRA and CCRA) and, subject to BCUC approval, passed through to customers in future rates.

TGI's short-term borrowings and variable rate long-term debt are exposed to interest rate risk which TGI manages through the use of interest rate derivatives. Any resulting gains or losses are recorded in interest rate deferral accounts and, subject to BCUC approval, passed through to consumers in future rates.

Financing Arrangements

Debentures

Terasen has issued and outstanding two series of unsecured medium term note debentures (''Terasen MTN Debentures''), which are governed by a Trust Indenture dated November 21, 2001 between Terasen (as successor to BC Gas Inc.) and CIBC Mellon Trust Company (the ''2001 Indenture''), as amended and supplemented by a First Series Supplement dated November 22, 2001 (the ''First Supplement''). The aggregate principal amount of debentures that may be issued under the 2001 Indenture is unlimited, subject to the restrictions set forth therein. As at September 30, 2006, Terasen had issued and outstanding \$200 million principal amount of 6.30% Series 1 MTN Debentures due December 1, 2008 and \$125 million principal amount of 5.56% Series 3 MTN Debentures due September 15, 2014. The First Supplement includes a positive covenant of Terasen that, so long as any MTN Debentures remain outstanding, it shall not create, assume, issue or otherwise incur or become liable for any Funded Indebtedness unless immediately thereafter the Funded Indebtedness of Terasen and its subsidiaries will not be in excess of 75% of Total Consolidated Capitalization. Funded Indebtedness means indebtedness that matures more than 18 months after such indebtedness was incurred, except for non-recourse debt to finance specific assets or subordinated debt. Total Consolidated Capitalization means the sum of (a) the principal amount of consolidated Funded Indebtedness of Terasen and its subsidiaries, (b) the total capital of Terasen, (c) the principal amount of all subordinated debt of Terasen, (d) the sum of consolidated contributed or capital surplus and retained earnings of Terasen, and (e) provision for future income taxes of Terasen.

On April 19, 2000, Terasen issued \$125 million of 8.0% unsecured capital securities (the ''Capital Securities'') with a term to maturity of 40 years. The Capital Securities were issued under the terms of a Trust Indenture dated April 19, 2000 between Terasen (as successor to BC Gas Inc.) and CIBC Mellon Trust Company (the ''2000 Indenture''). Terasen may elect to defer payments on the Capital Securities for extension periods not exceeding 10 consecutive semi-annual periods. Terasen may settle such deferred payments in either cash or common shares and has the option to settle principal at maturity through the issuance of common shares at 90% of their market price. The 2000 Indenture provides that if Terasen defers any interest payment on the Capital Securities, it is not permitted to pay dividends on, or purchase or redeem, its common shares for so long as such interest payments are deferred. The Capital Securities are exchangeable at the option of the holder on or after April 19, 2010 for common shares of Terasen at a price equal to the greater of \$1 per share and 90% of the market price.Terasen may, at its option, redeem the Capital Securities in whole at a redemption price which, if the Capital Securities are redeemed prior to April 19, 2010, is equal to the greater of Canada Yield Price (as defined in the 2000 Indenture) and 100% of the principal amount of the Capital Securities, together in each case with accrued and unpaid interest, or if the Capital Securities are redeemed on or after April 19, 2010, at a price that is equal to 100% of the principal amount outstanding plus any accrued and unpaid interest.

TGI has issued and outstanding unsecured debentures and medium-term note debentures which are governed by a Trust Indenture dated November 1, 1977 between TGI (as successor to Inland Natural Gas Co. Ltd.) and CIBC Mellon Trust Company (as successor to National Trust Company, Limited), as amended and supplemented (the ''1977 Indenture''). The aggregate principal amount of debentures that may be issued under the 1977 Indenture is unlimited, subject to the restrictions set forth therein. As at September 30, 2006, TGI had issued and outstanding $59.9 million principal amount of 10.75% debentures, Series E due June 8, 2009, and an aggregate of $1,008 million of medium-term note debentures with fixed rates of interest ranging from 5.55% to 6.95% or with floating interest rates, and maturities of not less than one year. The Fourth Supplemental Indenture dated June 1, 1989 and the Tenth Supplemental Indenture dated November 15, 1993 contain certain restrictions on the ability of TGI to issue any debt securities with maturities of more than 18 months, unless certain financial tests are met and subject to certain exceptions.

TGI also has issued and outstanding Series A and Series B Purchase Money Mortgages (the ''Purchase Money Mortgages''), which are secured equally and rateably by a first fixed and specific mortgage and charge on TGI's gas distribution system in the lower mainland of British Columbia that was acquired by TGI from BC Hydro. The Purchase Money Mortgages are governed by a Trust Indenture dated December 3, 1990 between TGI (as successor to B.C. Gas Inc.), Inland Energy Corp. and CIBC Mellon Trust Company (as successor to National Trust Company), as amended and supplemented (the ''1990 Indenture''). The aggregate principal amount of Purchase Money Mortgages that may be issued under the 1990 Indenture is limited to $425 million. As at September 30, 2006, TGI had issued and outstanding $74.9 million aggregate principal amount of 11.80% Series A Purchase Money Mortgages due September 30, 2015 and $200 million aggregate principal amount of $10.30% Series B Purchase Money Mortgages due September 30, 2016.

Credit Facilities

On May 5, 2006, Terasen entered into a Credit Agreement with The Toronto-Dominion Bank, as administrative agent, and the institutions named therein, as lenders (the ''Terasen Credit Agreement''). The Terasen Credit Agreement provides a committed $450 million revolving credit facility which matures on May 5, 2009. The interest rate payable on advances under the credit facility varies based on the type of advance. The credit facility can be used for Terasen's general corporate purposes. The Terasen Credit Agreement contains customary representations and warranties and positive and negative covenants, including a requirement that Terasen maintain a total debt-to-capitalization ratio not higher than 0.75:1 and an interest coverage ratio not less than 1.25:1. The Terasen Credit Agreement contains customary events of default.

On June 21, 2006, TGI entered into a Credit Agreement with Canadian Imperial Bank of Commerce, as administrative agent, lead arranger and sole bookrunner, The Bank of Nova Scotia, as syndication agent and the other lenders identified therein (the ''TGI Credit Agreement''). The TGI Credit Agreement provides a committed $500 million revolving credit facility. The interest rate payable on accommodations under the TGI Credit Agreement varies based on the type of accommodation. The facility can be used for refinancing indebtedness of TGI and for general corporate purposes, including as back-up for TGI's commercial paper program. The TGI Credit Agreement is extendible annually for an additional 365 days at the option of the lenders and matures on June 21, 2009. The TGI Credit Agreement contains customary representations and warranties and positive and negative covenants, including a requirement that TGI maintain a total debt to capitalization ratio not higher than 0.75:1. The TGI Credit Agreement contains customary events of default.

On January 13, 2006, TGVI entered into a Credit Agreement with Royal Bank of Canada, as administrative agent, RBC Capital Markets, as lead arranger and bookrunner, National Bank Financial, as syndication agent, and The Bank of Nova Scotia, as documentation agent, and the other lenders identified therein (the ''TGVI Credit Agreement''). The TGVI Credit Agreement provides for a five-year unsecured, committed, revolving credit facility of $350 million. A portion of the facility was used to refinance TGVI's term facility of $209.5 million. While the borrowings under this facility are short-term bankers' acceptances, the underlying credit facility on which the advances are provided is committed through to January 2011 and the borrowings are primarily to support the longer-term rate base assets of TGVI. The facility can be used for refinancing indebtedness of TGVI and for general corporate purposes, including for capital expenditures. The TGVI Credit Agreement contains customary representations and warranties and positive and negative covenants, including a requirement that TGVI maintain a ratio of institutional indebtedness-to-total capitalization not higher than 0.70:1 and a ratio of earnings to interest expense of at least 2.0:1. The TGVI Credit Agreement contains customary events of default, including a cross default under the VINGPA and certain other agreements.

Concurrently with the TGVI Credit Agreement, TGVI also entered into a $20 million, seven-year unsecured, committed, non-revolving credit facility with Royal Bank of Canada which is to be used only for purposes of funding up to 65% of each repayment of the Repayable Contributions under the PCEPA. The terms of this facility are substantially similar to those contained in the TGVI Credit Agreement. This facility ranks junior to repayment of the Class B Instruments held by Terasen. See ''— Terasen Gas (Vancouver Island) Inc. — Vancouver Island Natural Gas Pipeline Agreement'' above.

The following summary outlines the credit facilities of Terasen, TGI and TGVI as at September 30, 2006.

(in millions of dollars)	Terasen	TGI	TGVI	Total
Total credit facilities	450	500	370	1,320
Credit facilities utilized Borrowings	176	207	284	667
Letters of credit outstanding	73	43.6	—	116.6
Credit facilities available	201	249.4	86	536.4

ACQUISITION AGREEMENT

Fortis has entered into the Acquisition Agreement dated February 26, 2007 with 3211953 Nova Scotia Company (''3211953'') and Kinder Morgan for the purchase of all of the issued and outstanding shares of Terasen. The Acquisition Agreement provides that prior to the closing of the Acquisition, Kinder Morgan will transfer all of the issued and outstanding shares of Terasen which it currently owns to 3211953. In this section of the Prospectus, ''Vendor'' means Kinder Morgan prior to such transfer, and 3211953 upon the occurrence of such transfer. The Acquisition is not a transaction with an informed person, associate or affiliate of Fortis (as such terms are defined in National Instrument 51-102 — *Continuous Disclosure Obligations*).

Purchase Price

The purchase price under the Acquisition Agreement is $3.7 billion, including the assumption of approximately $2.3 billion of consolidated indebtedness of Terasen and the balance in cash. The cash portion of the purchase price (the ''Cash Purchase Price'') will be equal to $1.801 billion minus the unconsolidated indebtedness of Terasen outstanding on the closing of the Acquisition, which management of Fortis expects to be at least $450 million.

Representations and Warranties

Under the Acquisition Agreement, the Vendor and Fortis have made various representations and warranties. The Vendor's representations and warranties relate to, among other things, organization and status, capitalization, title, authority to enter into the Acquisition Agreement and no conflict, consents and approvals, absence of defaults under constating documents or material agreements, absence of certain material changes or events since December 31, 2006, employment matters, pension and employee benefits, securities regulatory filings, reports and financial statements, compliance with laws, possession of permits, restrictions on business activities, legal or regulatory proceedings, material contracts, tax matters, intellectual property, books and records, environmental matters, insurance, brokerage fees, management controls and no U.S. operations. Fortis' representations and warranties relate to, among other things, organization and status, authority to enter into the Acquisition Agreement and no conflict, consents and approvals, availability of financing, legal proceedings, no knowledge of a breach of the Vendor's representations or warranties or disclosure, brokerage fees, nature of investment and independent investigation.

Covenants

The Vendor and Fortis have made covenants relating to the closing of the Acquisition and related matters. In particular, the Vendor has agreed to the following during the period from the date of the Acquisition Agreement until the closing:

(a) Conduct of Business. Terasen and Terasen Gas will carry on business in the usual and ordinary course of business consistent with past practices, maintain material properties and assets in good repair and use commercially reasonable efforts to preserve present business organizations, officers, employees, customers and suppliers;

(b) Dividends. Terasen and Terasen Gas will not declare or pay any dividends on capital stock, except for dividends (i) by TGI or TGVI to Terasen up to an amount such that, immediately after giving effect to such payment, TGI or TGVI, as the case may be, will have a ratio of common equity to total capital of at least 35% and 40%, respectively, and (ii) by Terasen up to but not exceeding the aggregate amount of dividends received by it from TGI and TGVI.

(c) Capital Expenditures. Terasen and Terasen Gas will not make or commit to make any capital expenditures in excess of $5 million, other than (i) to replace or repair damaged or destroyed facilities, (ii) budgeted capital expenditures, (iii) expenditures approved by the BCUC, or (iv) expenditures required by law;

(d) Employees and Benefits. Terasen and Terasen Gas will not increase compensation or benefits for employees, except nominal increases for people who are not officers or directors made in the ordinary course of business consistent with past practice;

(e) Rates. Subject to applicable law, Terasen and Terasen Gas will not implement any changes in any rates or charges (other than changes under existing tariffs, rate schedules or performance-based rate-making arrangements authorized by the BCUC), standards of service or accounting, or execute any agreement relating thereto that could reasonably be expected to materially decrease the revenues of the business unit implementing the change;

(f) Borrowings. Terasen and Terasen Gas will not incur any indebtedness other than in the ordinary course of business and subject to the specified exceptions in the Acquisition Agreement;

(g) Pre-Closing Reorganization. Terasen will complete the Pre-Closing Reorganization prior to closing; and

(h) Discharge of Guarantees. The Vendor shall cause Terasen and Terasen Gas to be discharged from all obligations under certain guarantees by Terasen and Terasen Gas for the benefit of the petroleum transportation business of Terasen.

In addition, the Vendor and Fortis have agreed to use their reasonable efforts to obtain all material authorizations, consents, orders and approvals and to make all necessary filings with the relevant government authorities as required under the Acquisition Agreement.

Indemnities

Pursuant to the Acquisition Agreement, the Vendor has agreed, subject to certain limits, to indemnify and save harmless Fortis and its affiliates, and Fortis, subject to certain limits, has agreed to indemnify and save harmless the Vendor and its affiliates in respect of all losses sustained or incurred by the other resulting from (i) certain misrepresentations or breaches of warranty relating to title to the shares of Terasen and Terasen Gas, organization, corporate status, authority to enter into the Acquisition Agreement, and no breach of constating documents or any laws (the ''Title Warranties''), (ii) any breach of the covenants or obligations to be performed following the closing of the Acquisition contained in the Acquisition Agreement, (iii) the Pre-Closing Reorganization and the operations of the petroleum transportation business of Terasen, in the case of indemnification by the Vendor, and (iv) in the case of indemnification by Fortis, the operations of the Terasen and Terasen Gas businesses (provided that the facts giving rise to the losses do not constitute a breach of the representations and warranties of the Vendor). The indemnities provided by the Vendor or Fortis, as the case may be, with respect to breaches of covenants and obligations to be performed following the closing of the Acquisition are limited in that claims may only be made when (i) the losses suffered exceed $500,000 in each instance or (ii) the aggregate of all such losses exceeds 2.5% of the Cash Purchase Price and, in the latter case, only to the extent of such excess. The maximum amount that can be claimed by Fortis under the indemnity provisions of the Acquisition Agreement is limited to 10% of the Cash Purchase Price with respect to claims for any breach of the covenants or obligations of the Vendor following the closing of the Acquisition, and 100% of the Cash Purchase Price with respect to claims for breaches of the Title Warranties. The maximum amount that can be claimed by the Vendor under the indemnity provisions of the Acquisition Agreement is limited to 10% of the Cash Purchase Price with respect to claims for any breach of the covenants or obligations of Fortis following the closing of the Acquisition contained in the Acquisition Agreement and 100% of the Cash Purchase Price with respect to claims for breaches of the Title Warranties. Claims sustained or incurred by Fortis as a result of the Pre-Closing Reorganization and the operations of the petroleum transportation business of Terasen, and by the Vendor in respect of the operations of the Terasen and Terasen Gas businesses, are not subject to any minimum or maximum limits.

Closing Conditions

The Acquisition Agreement provides that the obligation of Fortis or the Vendor to complete the Acquisition is subject to the fulfillment of a number of conditions, each of which may be waived by such party, including the following:

(a) Accuracy of Representations and Warranties. The representations and warranties of the other party under the Acquisition Agreement are true and correct as of the date of the Acquisition Agreement and as of the closing date (except for representations and warranties made as of an earlier date, which must be true and correct as of such earlier date), except where the failure of such representations and warranties to be true and correct would not be reasonably likely, individually or in the aggregate, to have a Material Adverse Effect on the other party. ''Material Adverse Effect'' is defined in the Acquisition Agreement to mean any adverse and material change relating to the condition (financial or otherwise), results of operations or business of either party that is material to such party and its subsidiaries, taken as a whole, or in the case of the Vendor, that is material to Terasen and Terasen Gas, taken as a whole;

(b) Performance of Covenants. The other party has performed and complied with its material covenants and agreements under the Acquisition Agreement in all material respects;

(c) Legal Proceedings. There must not be any decree, injunction or ruling that would prevent or otherwise make the Acquisition illegal;

(d) Consents and Approvals. Each party has received the governmental and regulatory consents and approvals required to be obtained by it under the Acquisition Agreement. The regulatory approvals that must be obtained prior to the closing of the Acquisition include:

    (i) approval by the BCUC of the transfer of the shares of Terasen to Fortis or a subsidiary of Fortis pursuant to the *Utilities Commission Act* (British Columbia); and

    (ii) one of the following has occurred: (i) an advance ruling certificate has been issued in respect of the Acquisition pursuant to section 102 of the *Competition Act* (Canada) (the ''Competition Act''); (ii) the parties have received written advice that the Commissioner has concluded that she does not have sufficient grounds to initiate proceedings before the Competition Tribunal to challenge the Acquisition under the merger provisions of the Competition Act; or (iii) any applicable waiting period pursuant to section 123 of the Competition Act has expired or been earlier terminated or waived.

(e) Pre-Closing Reorganization. The Pre-Closing Reorganization has been completed.

Termination

The Acquisition Agreement may be terminated by Fortis or the Vendor at any time prior to closing in certain circumstances, including:

(a) the mutual agreement of Fortis and the Vendor;

(b) if the other party has not satisfied the conditions that its representations and warranties under the Acquisition Agreement be true and correct and that it has performed in all material respects the material covenants and agreements required to be performed by it prior to the closing date, and such condition has not been waived on or before the closing date by the party wishing to terminate;

(c) if a government authority issues a final order or injunction restraining or prohibiting the Acquisition;

(d) if prior to the closing, the other party provides additional information disclosing facts that would constitute a breach of such other party's representations and warranties under the Acquisition Agreement and such breach would have a Material Adverse Effect on the party wishing to terminate the Acquisition Agreement, if notice of termination is provided within 10 days of receipt of the relevant information; or

(e) if the closing has not occurred on or before November 30, 2007, unless the failure to close by such date is due to the party wishing to terminate the Acquisition Agreement not having fulfilled its obligations under the agreement.

Kinder Morgan Guarantee

Pursuant to the Acquisition Agreement, Kinder Morgan has irrevocably and unconditionally guaranteed the full and complete performance by 3211953 of all of the obligations of 3211953 under the Acquisition Agreement, such guarantee to be effective upon the transfer by Kinder Morgan of all of the issued and outstanding shares of Terasen to 3211953 prior to the closing of the Acquisition.

FINANCING OF THE ACQUISITION

For purposes of financing the Acquisition, on February 26, 2007, Fortis obtained a commitment letter from Canadian Imperial Bank of Commerce providing for an aggregate of $1.425 billion non-revolving term credit facilities in favour of Fortis consisting of a facility in the amount of $925 million (''Facility A'') and a facility in the amount of $500 million (''Facility B'') (together with ''Facility A'', the ''Credit Facilities''). The Credit Facilities would be sufficient, if necessary, to fund the full Cash Purchase Price for the Acquisition.

The Credit Facilities are unsecured single borrowing credit facilities to be used by Fortis, to the extent required, to finance the payment of the Cash Purchase Price for the Acquisition. Any amount not drawn down under the Credit Facilities will be cancelled after the initial borrowing. Facility A and Facility B will mature on the second and third anniversary of the initial extension of credit under Facility A and Facility B, respectively.

The credit agreement pursuant to which the Credit Facilities will be extended (the ''Credit Agreement'') will contain certain prepayment options in favour of Fortis and certain prepayment obligations upon the occurrence of certain events. In particular, the net proceeds of any equity or debt offering by Fortis (other than certain permitted equity or debt offerings for strategic investments) will be required to be used to prepay the Credit Facilities and any prepayment under the Credit Facilities may not be re-borrowed. Fortis may prepay any balance outstanding under the Credit Facilities without penalty, provided that any such prepayment is in an amount of at least $10 million and subject to any breakage costs being for the account of Fortis.

The Credit Agreement will contain customary representations and warranties and affirmative and negative covenants of Fortis. As part of these covenants, Fortis will be required to maintain a consolidated debt to consolidated capitalization ratio of not more than 0.85:1 after the date of the Acquisition Agreement until the first anniversary of the closing of the Acquisition and 0.75:1 at any time thereafter. These ratios will reduce automatically to 0.75:1 and 0.70:1 at any time during those respective periods, if Fortis has received, free from any escrow conditions, aggregate proceeds from equity issuances of at least $700 million. The Credit Agreement will contain customary events of default. In addition, any failure by Fortis to maintain an investment grade credit rating will constitute an event of default under the Credit Agreement.

Customary fees are payable by Fortis in respect of the Credit Facilities and amounts outstanding under the Credit Facilities will bear interest at market rates.

The net proceeds from the Offering will be used to reduce the amount of the Credit Facilities. Fortis expects that the remainder of Credit Facilities will be repaid from the proceeds of one or more offerings of Common Shares, preferred shares and/or long-term debt.

CAPITALIZATION

The following table sets out the consolidated capitalization of the Corporation as at September 30, 2006 and after giving effect to the Offering (assuming no exercise of the Over-Allotment Option), the issue of 5,170,000 Common Shares on January 18, 2007, the issue of $110 million aggregate principal amount of senior unsecured debentures by FortisAlberta on January 3, 2007, the drawdown of $139.3 million under the Credit Facilities and completion of the Acquisition. The financial information set out below should be read in conjunction with the unaudited consolidated financial statements incorporated by reference into the Prospectus and the unaudited *pro forma* consolidated financial statements included in the Prospectus and, in each case, the notes thereto.

	Outstanding at September 30, 2006	*Pro forma* outstanding at September 30, 2006
	(in millions of dollars)	
Total debt (net of cash)	2,296.1	4,863.0(2)
Preference shares (1)	319.5	319.5
Shareholders' equity		
Securities offered hereby	Nil	974.2
Common shares	822.5	968.1(2)
Preference shares	122.5	122.5
Contributed surplus	4.3	4.3
Equity portion of convertible debentures	1.4	1.4
Foreign currency translation adjustment	(17.8)	(17.8)
Retained earnings	472.2	472.2
Total capitalization	4,020.7	7,707.4

(1) These preference shares are classified as long-term liabilities in the financial statements of Fortis.

(2) After giving effect to the Offering (assuming no exercise of the Over-Allotment Option), the issue of 5,170,000 Common Shares on January 18, 2007, the issue of $110 million aggregate principal amount of senior unsecured debentures by FortisAlberta on January 3, 2007, the drawdown of $139.3 million under the Credit Facilities and completion of the Acquisition.

PRICE RANGE AND TRADING VOLUME OF THE COMMON SHARES

The outstanding Common Shares of Fortis are traded on the TSX under the trading symbol ''FTS''. The following table sets forth the reported high and low trading prices and trading volumes of the Common Shares as reported by the TSX from January 2006.

Period	High	Low	Volume
2006			
January	$24.60	$22.76	3,981,812
February	23.76	22.00	7,087,013
March	23.50	21.65	6,775,211
April	22.95	20.89	3,813,271
May	24.84	20.36	7,241,148
June	24.60	21.16	3,707,157
July	23.40	21.99	2,328,812
August	25.48	22.15	6,214,513
September	25.40	24.00	2,553,872
October	25.65	24.12	7,362,894
November	28.74	25.15	6,234,745
December	30.00	28.01	2,793,265
2007			
January	30.00	26.72	6,030,480
February	27.96	26.00	8,612,015
March 1 to 6	26.81	26.16	2,204,514

On March 6, 2007, the closing price of the Common Shares was $26.80.

SHARE CAPITAL OF FORTIS

The authorized share capital of the Corporation consists of an unlimited number of Common Shares, an unlimited number of First Preference Shares issuable in series and an unlimited number of Second Preference Shares issuable in series, in each case without nominal or par value. As at March 6, 2007, 109,407,397 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 were issued and outstanding.

DIVIDEND POLICY

Dividends on the Common Shares are declared at the discretion of the Board of Directors of Fortis. The Corporation paid cash dividends on its Common Shares of $0.67 in 2006, $0.59 in 2005 and $0.54 in 2004. On December 7, 2006, the Fortis Board of Directors declared a first quarter dividend of $0.19 per Common Share, payable on March 1, 2007 to holders of record on February 2, 2007. On February 8, 2007, Fortis announced that its Board of Directors had declared a second quarter dividend of $0.21 per Common Share, payable on June 1, 2007 to holders of record on May 4, 2007. This dividend represents an increase of 10.5% in the quarterly Common Share dividend of the Corporation, which is the second increase in twelve months. Fortis has increased its annual dividend paid for 34 consecutive years.

Regular quarterly dividends at the prescribed annual rate have been paid on all of the First Preference Shares, Series C, the First Preference Shares, Series E and the First Preference Shares, Series F, respectively. On December 7, 2006, the Fortis Board of Directors also declared a first quarter dividend on each such series of First Preference Shares in accordance with the applicable prescribed annual rate, in each case payable on March 1, 2007 to holders of record on February 2, 2007.

DESCRIPTION OF COMMON SHARES

Dividends

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

Liquidation, Dissolution or Winding-Up

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

Voting Rights

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

DETAILS OF THE OFFERING

Subscription Receipts

The Subscription Receipts will be issued on the Closing Date (as defined below) pursuant to the Subscription Receipt Agreement. The Escrowed Funds will be delivered to and held by the Escrow Agent and invested in short-term interest bearing or discount debt obligations issued or guaranteed by the Government of Canada or a province, or one or more of the five largest Canadian chartered banks, provided in all cases that such obligation is rated at least R1 (middle) by DBRS Limited or an equivalent rating from an equivalent rating service, pending satisfaction of the Release Conditions.

If the Release Conditions are satisfied prior to 5:00 p.m. (Toronto time) on November 30, 2007, the Corporation will forthwith execute and deliver a notice of satisfaction and will issue and deliver to the Escrow Agent one Common Share for each Subscription Receipt then outstanding (subject to any applicable adjustment). The Common Shares will be available for delivery commencing on the second business day after the delivery of such notice. The holders of Subscription Receipts will receive, without payment of any additional consideration, one Common Share for each Subscription Receipt held plus an amount equal to the dividends declared on the Common Shares by the Corporation, if any, for which record dates have occurred during the period from the Closing Date to the date of issuance of the Common Shares in respect of the Subscription Receipts. Forthwith upon the Release Conditions being satisfied and the required notice being delivered to the Escrow Agent, the Escrowed Funds, together with interest earned and income generated thereon, will be released to Fortis.

In the event that the Release Conditions are not satisfied, or if the Acquisition Agreement is terminated, prior to the Termination Time, holders of Subscription Receipts shall, commencing on the second business day following the Termination Time, be entitled to receive from the Escrow Agent an amount equal to the full subscription price thereof plus their *pro rata* share of the interest earned or income generated on such amount. The Escrowed Funds will be applied toward payment of such amount.

In the event that, prior to the date of issue of a Common Share in respect of a Subscription Receipt, there is a subdivision, consolidation, reclassification or other change of the Common Shares or any reorganization, amalgamation, merger or sale of all or substantially all of the Corporation's assets, the Subscription Receipts will thereafter evidence the right of the holder to receive the securities, property or cash deliverable in exchange for or on the conversion of or in respect of the Common Shares to which the holder of a Common Share would have been entitled immediately after such event. Similarly, any distribution to all or substantially all of the holders of Common Shares of rights, options, warrants, evidences of indebtedness or assets will result in an adjustment in the number of Common Shares to be issued to holders of Subscription Receipts. Alternatively, such securities, evidences of indebtedness or assets may, at the option of the Corporation, be issued to the Escrow Agent and delivered to holders of Subscription Receipts on exercise thereof. In case the Corporation, after the Closing Date, takes any action affecting the Common Shares, other than the actions described above, which, in the reasonable opinion of the directors of the Corporation, would materially affect the rights of the holders of Subscription Receipts and/or the rights attached to the Subscription Receipts, then the number of Common Shares which are to be received pursuant to the Subscription Receipts shall be adjusted in such manner, if any, and at such time as the directors of the Corporation may, in their discretion, reasonably determine to be equitable to the holders of Subscription Receipts in such circumstances. The adjustments provided for in this paragraph are cumulative and shall apply to successive subdivisions, consolidations, changes, distributions, issues or other events resulting in any adjustment.

Under the Subscription Receipt Agreement, purchasers of Subscription Receipts will have a contractual right of rescission entitling the purchaser to receive the amount paid for the Subscription Receipts upon surrender of the Subscription Receipts or the Common Shares, as applicable, if the Prospectus and any amendment contains a misrepresentation, as such term is defined in the *Securities Act* (Ontario), provided such remedy for rescission is exercised within 180 days of the Closing Date.

Subject to applicable law, the Corporation will be entitled to purchase the Subscription Receipts in the open market or by private agreement or otherwise.

Subscriptions for the Subscription Receipts will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that the closing of the Offering will take place on or about March 15, 2007, or such other date as may be agreed upon by the Corporation and the Underwriters, but not later than April 18, 2007 (the ''Closing Date''). The Subscription Receipts will be issued in ''book entry only'' form and must be purchased or transferred through a registered dealer who is a CDS participant (a ''CDS Participant''). The Corporation will cause a global certificate or certificates representing newly issued Subscription Receipts to be delivered to and registered in the name of CDS or its nominee. All rights of Subscription Receipt holders must be exercised through, and all payments or other money to which such holders are entitled will be made or delivered by, CDS or the CDS Participant through which the holders hold such Subscription Receipts. Each person who acquires Subscription Receipts will receive only a customer confirmation of purchase from the registered dealer from or through which the Subscription Receipts are acquired in accordance with the practices and procedures of that registered dealer. The practices of registered dealers may vary, but generally customer confirmations are issued promptly after execution of a customer order. CDS is responsible for establishing and maintaining book entry accounts for its CDS Participants having interests in the Subscription Receipts.

The Subscription Receipt Agreement provides for modifications and alternations to the Subscription Receipts issued thereunder by way of an extraordinary resolution. The term ''extraordinary resolution'' is defined in the Subscription Receipt Agreement to mean, in effect, a resolution proposed at a meeting of holders of Subscription Receipts duly convened for that purpose and held in accordance with the Subscription Receipt Agreement at which there are present in person or by proxy at least two holders of Subscription Receipts entitled to receive more than 25% of the aggregate number of Common Shares issuable upon the exchange of the Subscription Receipts which could be received pursuant to all the then-outstanding Subscription Receipts and passed by the affirmative votes of holders of Subscription Receipts entitled to receive not less than 66⅔% of the aggregate number of such Common Shares which could be received pursuant to all the then-outstanding Subscription Receipts represented at the meeting and voted on the poll upon such resolution.

The holders of Subscription Receipts are not shareholders of the Corporation. Holders of Subscription Receipts are entitled only to receive Common Shares on the exchange of their Subscription Receipts and an amount equal to the dividends declared on the Common Shares by the Corporation, if any, for which record dates have occurred during the period from the Closing Date to the date of issuance of the Common Shares in respect of the Subscription Receipts, or to require the Corporation to purchase the Subscription Receipts at the issue price and to be paid a *pro rata* share of interest earned or income generated thereon as described above.

CHANGES IN SHARE AND LOAN CAPITAL STRUCTURE

The following describes the changes in the share and loan capital structure of Fortis since September 30, 2006:

- During the period from October 1, 2006 up to and including March 6, 2007, Fortis issued an aggregate of 531,345 Common Shares pursuant to the Corporation's Consumer Share Purchase Plan, Dividend Reinvestment Plan, Employee Share Purchase Plan and upon the exercise of options granted pursuant to the 2002 Stock Option Plan, the Executive Stock Option Plan and the Director Stock Option Plan for aggregate consideration of approximately $10.2 million.
- On October 30, 2006, Fortis made a draw down of $20.0 million under its credit facilities for the purpose of funding the acquisition by Fortis Properties of four hotels located in Alberta and British Columbia. See ''Recent Developments''.
- On November 7, 2006, Fortis made a draw down under its credit facilities of an amount of US$48.6 million for the purpose of funding, on an interim basis, the acquisition of approximately 16% of the outstanding Class A Ordinary Shares of Caribbean Utilities. See ''Recent Developments''.
- On November 7, 2006, Fortis issued, by way of private placement, US$40 million aggregate principal amount of Debentures. The Debentures bear interest at an annual rate of 5.5% and mature on November 7, 2016. The Debentures may be redeemed by Fortis at any time on or after November 7, 2011 and are convertible into Common Shares at the option of the holder at any time prior to their maturity at US$29.11 per share. The Debentures are subordinated to all other indebtedness of Fortis, other than subordinated indebtedness ranking equally with the Debentures. On November 7, 2006, Fortis repaid US$40 million owing under its credit facilities from the proceeds of the private placement.
- On January 3, 2007, FortisAlberta issued $110 million aggregate principal amount of senior unsecured debentures bearing interest at a rate of 4.99% per annum, payable semi-annually, due January 2047. The proceeds of the offering were primarily used to repay indebtedness under a credit facility.
- On January 18, 2007, the Corporation completed the public offering of 5,170,000 Common Shares at a price of $29.00 per share for gross proceeds of $149,930,000. As a result, shareholders' equity in the Corporation increased by approximately $145.6 million, being the gross proceeds of the offering net of tax-effected issue costs, to a total of $1.55 billion. Fortis used a portion of the proceeds of this offering to repay approximately $84.5 million owing under its credit facilities.

USE OF PROCEEDS

The proceeds to the Corporation from the Offering, after deducting the fee payable to the Underwriters and estimated expenses of the Offering, are expected to be $959,710,000, assuming no exercise of the Over-Allotment Option. If the Over-Allotment Option is exercised in full, the estimated proceeds of the Offering, after deducting the fee payable to the Underwriters and estimated expenses of the Offering, are expected to be $1,103,854,000.

The net proceeds of the Offering, together with funds to be advanced pursuant to the Credit Facilities, will be used to finance the Cash Purchase Price for the Acquisition. See ''Financing of the Acquisition'' and ''Acquisition Agreement''. The gross proceeds from the sale of the Subscription Receipts will be held in escrow pending the satisfaction of the Release Conditions. See ''Details of the Offering''.

PLAN OF DISTRIBUTION

Pursuant to an underwriting agreement dated February 27, 2007 (the ''Underwriting Agreement'') between Fortis and the Underwriters, Fortis has agreed to issue and sell, and the Underwriters have agreed to purchase, as principals, on the Closing Date, 38,500,000 Subscription Receipts offered hereby at the Offering Price of $26.00 per Subscription Receipt, subject to compliance with all the necessary legal requirements and to the conditions contained in the Underwriting Agreement. The Offering Price and other terms of the Offering were determined by negotiation between the Corporation and the Underwriters.

Pursuant to the Underwriting Agreement, the Corporation has granted the Underwriters an over-allotment option (the ''Over-Allotment Option''), exercisable at any time until 30 days following the closing of the Offering, to purchase up to an additional 5,775,000 Subscription Receipts at the Offering Price. The Over-Allotment Option is exercisable in whole or in part only for the purpose of covering over-allotments, if any. This Prospectus also qualifies the grant of the Over-Allotment Option and the distribution of the securities issuable on the exercise of the Over-Allotment Option.

The Underwriting Agreement provides that the Underwriters will be paid a fee of $40,040,000 (assuming no exercise of the Over-Allotment Option) ($1.04 per Subscription Receipt) in consideration for its services in connection with the Offering. One-half of the Underwriters' fee in respect of the Offering is payable on the Closing Date and the other half of the Underwriters' fee is payable only if the Release Conditions have been satisfied prior to the Termination Time and the required notice has been delivered to the Escrow Agent.

Pursuant to rules and policy statements of certain Canadian securities regulators, the Underwriters may not, at any time during the period ending on the date the selling process for the Subscription Receipts ends and all stabilization arrangements relating to the Subscription Receipts are terminated, bid for or purchase Subscription Receipts or Common Shares. The foregoing restrictions are subject to certain exceptions including (a) a bid for or purchase of Subscription Receipts or Common Shares if the bid or purchase is made through the facilities of the TSX, in accordance with the Universal Market Integrity Rules of Market Regulation Services Inc., (b) a bid or purchase on behalf of a client, other than certain prescribed clients, provided that the client's order was not solicited by the Underwriter, or if the client's order was solicited, the solicitation occurred before the commencement of a prescribed restricted period, and (c) a bid or purchase to cover a short position entered into prior to the commencement of a prescribed restricted period. The Underwriters may engage in market stabilization or market balancing activities on the TSX where the bid for or purchase of the Subscription Receipts or the Common Shares is for the purpose of maintaining a fair and orderly market in the Subscription Receipts or Common Shares, subject to price limitations applicable to such bids or purchases. Such transactions, if commenced, may be discontinued at any time.

The Subscription Receipts and the Common Shares for which such Subscription Receipts may be exchanged have not been, and will not be, registered under the United States *Securities Act of 1933*, as amended (the ''1933 Act'') or any state securities laws and, subject to certain exceptions, may not be offered, or delivered, directly or indirectly, or sold in the United States except in certain transactions exempt from the registration requirements of the 1933 Act and in compliance with any applicable state securities laws. The Underwriters have agreed that they will not offer or sell the Subscription Receipts within the United States, its territories, its possessions and other areas subject to its jurisdiction or to, or for the account or benefit of, a ''U.S. person'' (as defined in Regulation S under the 1933 Act), except in accordance with the Underwriting Agreement pursuant to an exemption from the registration requirements of the 1933 Act provided by Rule 144A thereunder and in compliance with applicable state securities laws. In addition, until 40 days after the commencement of the Offering, an offer or sale of Subscription Receipts or Common Shares within the United States by any dealer (whether or not participating in the Offering) may violate the registration requirements of the 1933 Act if such offer is made otherwise than in reliance on Rule 144A.

The obligations of the Underwriters under the Underwriting Agreement are several and may be terminated at their discretion in certain circumstances, including upon the occurrence of certain stated events. The Underwriters are, however, obligated to take up and pay for all of the Subscription Receipts if any are purchased under the Underwriting Agreement. Under the terms of the Underwriting Agreement, the Underwriters may be entitled to indemnification by the Corporation against certain liabilities, including liabilities for misrepresentation in the Prospectus.

CIBCWM is an affiliate of a Canadian chartered bank that has agreed to extend credit facilities to the Corporation in connection with financing the Acquisition. CIBCWM is also acting as financial advisor to Fortis in connection with the Acquisition and receiving a fee therefor. In addition, each of CIBCWM, Scotia Capital, TD Securities, BMO Nesbitt Burns, RBCDS, NB Financial and HSBC Securities is a subsidiary of a Canadian chartered bank that has, either solely or as a member of a syndicate of financial institutions, extended credit facilities to the Corporation and/or its subsidiaries (the ''Existing Facilities''). Consequently, the Corporation may be considered a ''connected issuer'' of these Underwriters within the meaning of applicable securities legislation. None of these Underwriters will receive any direct benefit from the Offering other than the underwriting commission relating to the Offering. The decision to distribute the Subscription Receipts hereunder and the determination of the terms of the Offering were made through negotiation between the Corporation and the Underwriters. No bank had any involvement in such decision or determination. The proceeds of the Offering will be used to finance the Cash Purchase Price for the Acquisition and will not be used to repay the Existing Facilities. As at January 31, 2007, an aggregate of approximately $338 million was outstanding under the Existing Facilities. Fortis and/or its subsidiaries are in compliance with their respective obligations under the Existing Facilities. Since the execution of the Existing Facilities, no breach thereunder has been waived by the lenders thereunder. See ''Use of Proceeds''.

The TSX has conditionally approved the listing of the Subscription Receipts, as well as the Common Shares issuable on the exchange of the Subscription Receipts. Listing is subject to the Corporation fulfilling all of the requirements of the TSX on or before June 3, 2007.

CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Davies Ward Phillips & Vineberg LLP, counsel to the Corporation, and Stikeman Elliott LLP, counsel to the Underwriters, the following is a general summary of the principal Canadian federal income tax considerations generally applicable to a holder who acquires Subscription Receipts pursuant to the Offering who, within the meaning of the *Income Tax Act* (Canada) (the ''Tax Act''), and at all relevant times, is or is deemed to be resident in Canada, deals at arm's length with, and is not affiliated with, the Corporation and holds or will hold the Subscription Receipts and any Common Shares as capital property. Generally, the Subscription Receipts and the Common Shares will be considered to be capital property to a holder provided the holder does not hold the Subscription Receipts and the Common Shares in the course of carrying on a business and has not acquired them in a transaction or transactions considered to be an adventure in the nature of trade. Certain holders whose Common Shares might not otherwise qualify as capital property may, in certain circumstances, make the irrevocable election under subsection 39(4) of the Tax Act to have their Common Shares and every ''Canadian security'' (as defined in the Tax Act) owned by such holder in the taxation year of the election, and in all subsequent years, deemed to be capital property.

The Tax Act contains certain provisions (the ''Mark-to-Market Rules'') relating to securities held by certain financial institutions, registered securities dealers and corporations controlled by one or more of the foregoing. This summary does not take into account the Mark-to-Market Rules and taxpayers that are ''financial institutions'' as defined for the purpose of the Mark-to-Market Rules should consult their tax advisors. This summary is not applicable to a purchaser that is a ''specified financial institution'' or to a purchaser an interest in which is a tax shelter investment, as defined in the Tax Act. Such purchasers should consult their own tax advisors.

This summary is based upon the provisions of the Tax Act and regulations thereunder (the ''Regulations'') in force as at the date hereof, all specific proposals (the ''Tax Proposals'') to amend the Tax Act or Regulations that have been publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof and counsel's understanding of the current published administrative practices of the Canada Revenue Agency. This summary does not otherwise take into account or anticipate any changes in applicable law, whether by legislative, governmental or judicial decision or action, nor does it take into account provincial, territorial or foreign tax laws or considerations, which might differ significantly from those discussed herein.

This summary is of a general nature only and is not intended to be, nor should it be construed to be, legal or tax advice to any particular holder. This summary is not exhaustive of all possible income tax considerations under the Tax Act that may affect a holder. The income tax consequences of acquiring and disposing of Subscription Receipts and Common Shares will vary depending on a number of facts, including the legal status of the holder as an individual, corporation, trust or partnership. Accordingly, prospective holders of Subscription Receipts and Common Shares should consult their own tax advisors with respect to their particular circumstances and the tax consequences to them of holding and disposing of Subscription Receipts and Common Shares.

Exchange of Subscription Receipts

No gain or loss will be realized by a holder on the exchange of Subscription Receipts for Common Shares.

The cost of a Common Share issued to a holder of a Subscription Receipt acquired pursuant to the Offering will be equal to the cost of the Subscription Receipt to the holder. The adjusted cost base to the holder of Common Shares so acquired will be determined by averaging the cost of such Common Shares with the adjusted cost base of all other Common Shares owned at that time by the holder as capital property.

Termination of Subscription Receipts

As described above under ''Details of the Offering'', in the event that the Release Conditions are not satisfied or if the Acquisition Agreement is terminated prior to the Termination Time, holders of Subscription Receipts will be entitled to receive from the Escrow Agent an amount equal to the full subscription price thereof plus their *pro rata* share of the interest earned or income generated thereon. In that event, the amount of such interest or income received or receivable by a holder of Subscription Receipts (depending on the method regularly followed by the holder in computing income) must be included in the income of the holder.

Payment of Dividend Equivalent

As described above under ''Details of the Offering'', if Common Shares are issued in exchange for Subscription Receipts, and if dividends have been declared on the Common Shares of the Corporation to holders of record on a date during the period from the Closing Date to the date of such issuance of Common Shares, the Corporation will make a cash payment to the holders of Subscription Receipts in respect of each Subscription Receipt in an amount equal to the per share amount of such dividend. The equivalent to dividend amount, if any, paid to a holder of Subscription Receipts by the Corporation must be included in the income of the holder. Any amount so included will be taxed as ordinary income and not as a dividend and, as such, will not be subject to the gross-up and dividend tax credit rules described below.

Other Dispositions of Subscription Receipts

A disposition or deemed disposition by a holder of a Subscription Receipt, other than on the exchange of a Subscription Receipt for a Common Share or a disposition of the Subscription Receipt to the Corporation in the event the Release Conditions are not satisfied or if the Acquisition Agreement is terminated prior to the Termination Time, will generally result in the holder realizing a capital gain (or a capital loss) equal to the amount by which the proceeds of disposition exceed (or are less than) the aggregate of the holder's adjusted cost base thereof and any reasonable costs of disposition.

Dividends on Common Shares

Dividends received on Common Shares by a holder who is an individual will be included in the individual's income and will be subject to the gross-up and dividend tax credit rules normally applicable to taxable dividends received from taxable Canadian corporations, including the enhanced gross-up and dividend tax credit for ''eligible dividends'' paid after 2005. A dividend will be eligible for the enhanced gross-up and dividend tax credit if the paying corporation designates the dividend as an eligible dividend. There may be limitations on the ability of a corporation to designate dividends as eligible dividends. The Corporation has advised counsel that it intends to designate all dividends paid on the Common Shares as eligible dividends for these purposes. Taxable dividends received by an individual may give rise to alternative minimum tax under the Tax Act, depending on the individual's circumstances.

Dividends received on Common Shares by a holder that is a corporation will be included in income and normally will be deductible in computing such corporation's taxable income. However, the Tax Act will generally impose a 33⅓% refundable Part IV tax on such dividends received by a corporation that was, at any time in the taxation year in which such dividends were received, a ''private corporation'' as defined in the Tax Act, or a corporation resident in Canada that is controlled by or for the benefit of an individual (other than a trust) or a related group of individuals (other than trusts), to the extent that such dividends are deductible in computing the corporation's taxable income.

Disposition of Common Shares

In general, a disposition or a deemed disposition of a Common Share will give rise to a capital gain (or a capital loss) equal to the amount by which the proceeds of disposition of the Common Share, net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base to the holder of the Common Share immediately before the disposition.

Tax Treatment of Capital Gains and Losses

Generally, one-half of any capital gain realized by a holder in a taxation year will be included in computing the holder's income in such year. One-half of any capital loss realized by a holder in a taxation year normally may be deducted as an allowable capital loss by the holder against taxable capital gains realized by the holder in the year. Any allowable capital loss not deductible in the year it is realized generally may be carried back and deducted against taxable capital gains in any of the three preceding years or carried forward and deducted against taxable capital gains in any subsequent year (in accordance with the rules contained in the Tax Act). Capital gains realized by an individual will be relevant in computing possible liability for the alternative minimum tax.

The amount of any capital loss realized on the disposition or deemed disposition of a Common Share by a holder that is a corporation may be reduced by the amount of dividends received by the holder on the Common Share to the extent and in the circumstances prescribed by the Tax Act. Similar rules may apply where a corporation is a member of a partnership or a beneficiary of a trust that owns Common Shares and where a trust is a member of a partnership that owns Common Shares or a partnership or trust is a beneficiary of a trust that owns Common Shares. Holders to whom these rules may be relevant should consult their own tax advisors.

Additional Refundable Tax

A holder that is a ''Canadian-controlled private corporation'' (as defined in the Tax Act) may be liable to pay an additional refundable tax of 6⅔% on certain investment income, including amounts in respect of taxable capital gains and interest (but not dividends deductible in computing taxable income).

RISK FACTORS

An investment in the Subscription Receipts offered hereby and the Common Shares issuable upon the exchange thereof involves certain risks in addition to those described in the Management Discussion and Analysis of financial condition and results of operations contained in the Corporation's annual information form dated March 29, 2006 incorporated by reference herein. Before investing, prospective purchasers of Subscription Receipts should carefully consider, in light of their own financial circumstances, the factors set out below, as well as the other information contained or incorporated by reference in the Prospectus.

Regulation

The regulated operations of Terasen Gas are subject to the normal uncertainties faced by regulated companies. These uncertainties include the approval by the BCUC of customer rates which permit a reasonable opportunity to recover on a timely basis the estimated costs of providing services, including a fair rate of return on rate base. Upgrades of existing facilities and the addition of new facilities require the approval of the BCUC. There is no assurance that capital projects perceived as required by the management of Terasen Gas will be approved or that conditions to such approval will not be imposed. Capital cost overruns relative to approvals granted might not be recoverable. The ability of Terasen Gas to recover the actual costs of providing services and to earn the approved rates of return depends on achieving the forecasts established in the rate-setting process. Fair regulatory treatment by the BCUC that allows Terasen Gas the opportunity to earn a risk-adjusted ROE comparable to that available on alternative, similar investments is essential for maintaining service quality, as well as for ongoing capital attraction and growth.

The ROEs of Terasen Gas are determined annually by a formula based upon a forecast of long-term interest rates. The ability of Terasen Gas to earn the approved ROEs depends on the accuracy of the forecast for the test year. Actual required ROEs may differ from approved ROEs based on forecast long-term interest rates.

Rate applications that establish revenue requirements may be subject to negotiated settlement procedures. Failing a negotiated settlement, rate applications may be pursued through public hearing processes. There can be no assurance that the rate orders issued will permit Terasen Gas to recover all costs actually incurred and to earn the allowed rate of return. A failure to obtain acceptable rate orders may adversely affect the business carried on by Terasen Gas, the undertaking or timing of proposed expansion projects, the issue and sale of securities, ratings assigned by rating agencies, and other matters which may, in turn, negatively impact Terasen Gas' results of operations or financial position, as well as those of the Corporation.

The TGI Settlement includes incentive mechanisms that provide TGI with an opportunity to earn rates of return in excess of the allowed ROEs determined by the BCUC. While TGI has applied to extend the TGI Settlement to 2009, there is no certainty as to whether this application will be approved, whether and how the terms may be modified, or what the terms of an extended, or new, settlement might be.

Traditionally, British Columbia's regulatory framework was generally based on traditional cost of service methodologies for designing and setting rates. Since 1996, however, incentive-based regulation has been used in the rate setting process. Although Fortis considers the regulatory frameworks in British Columbia to be fair and balanced, uncertainties do exist.

Forecasting Accuracy

Through the forecasting process, it is intended that any changes in cost of service, regardless of whether they are caused by inflation or by level of business activity, would be reflected in new rates approved for that fiscal year based on the anticipated distribution volume. However, as rates are established in advance, based on anticipated distribution volume by class of customer, forecasting accuracy is a risk. Forecasts are also made for the future cost of capital, including the yield rate for long-term Canada Bonds used in the determination of the ROE.

Asset Maintenance

The asset base for Terasen Gas requires maintenance, improvement and expansion. The utility could experience service disruptions and increased costs if it is unable to maintain and replace its assets. The failure to carry out capital expenditure programs could have a material adverse effect on Terasen Gas. Large capital projects can proceed only with the approval of the BCUC. If actual costs exceed the costs forecast in obtaining the approval, it is uncertain as to whether any cost overruns will be approved and recovered.

Operational 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. Losses resulting from any operational accidents or failures or natural disasters could substantially exceed insurance coverage and actual recovery from increased rates approved by the BCUC. Furthermore, Terasen Gas could be subject to claims from its customers for damages caused by the failure to transmit or distribute gas to them in accordance with its contractual obligations. Thus, any major damage to Terasen Gas' facilities could result in lost revenues, repair costs and customer claims that are substantial in amount, which amount could have a material adverse effect on Terasen Gas.

Natural Gas Prices

Prior to 2000, natural gas consistently had a substantial competitive advantage when compared with alternative sources of energy in British Columbia. However, with the increasing price of natural gas, the price of electricity for residential customers in British Columbia is now only marginally higher than the comparable price for natural gas. 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, Terasen Gas' ability 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 Terasen Gas' cost of service 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 its customers.

Weather and Seasonality

Weather during the year 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. Typically, higher net earnings are experienced in the first and fourth quarters, but are offset by net losses in the second and third quarters. See ''The Acquired Business — Regulation''.

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 recover revenue deficiencies from prior years. Recovery of the accumulated deficit puts gas at a cost disadvantage to electricity.

To assist with competitive rates during franchise development, the VINGPA provides royalty revenues from the provincial government which currently cover approximately 20% of the current cost of service. These revenues are due to expire at the end of 2011, after which TGVI's customers will be required to absorb the full commodity cost of gas and the recovery of any remaining accumulated deficit. When the VINGPA expires in 2011, the $75 million non-interest-bearing senior government debt which is currently treated as a government contribution against rate base will become repayable. 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.

Industrial load accounts for more than 65% of the system's throughput for which approximately two thirds is contracted on a year-to-year basis with no long-term commitment. A loss of industrial customers will increase the cost of service to be recovered from residential and commercial customers which may impact the competitiveness of rates.

While the BCUC has approved a rate-setting mechanism for TGVI whereby customer rates are set at levels in excess of TGVI's cost of service to recover amortization of the RDDA, the amount of recovery is limited by the price of competitive alternative fuels. Significant RDDA amortization was recovered in both 2005 and 2006. However, RDDA recovery is sensitive to the relative pricing of natural gas and electricity in TGVI's service area, as well as to margin generated under TGVI's firm transportation agreements discussed below. There is no certainty that TGVI will be able to charge rates that will be sufficient to fully recover the RDDA prior to the expiry of the provincial royalty payments at the end of 2011. Failure by TGVI to recover the RDDA by 2011 may result in an increase in the cost of service.

Government Permits

The acquisition, ownership and operation of gas businesses and assets require numerous permits, approvals and certificates from federal, provincial and local government agencies. Terasen Gas may not be able to obtain or maintain all required regulatory approvals. If there is a delay in obtaining any required regulatory approval or if Terasen Gas fails to maintain or obtain any required approval or fails to comply with any applicable law or regulation, or condition of approval, the operation of its assets and its distribution of gas could be prevented or become subject to additional costs, any of which could have a material adverse effect on Terasen Gas.

Impact of Changes in Economic Conditions

New customer additions at Terasen Gas are typically a result of population growth and new housing starts, which are affected by the state of the British Columbia economy. Terasen Gas is also affected by changes in trends in housing starts from single-family dwellings to multi-family dwellings, for which natural gas has a lower penetration rate. While new housing starts have increased in British Columbia in 2006, growth of new multi-family housing starts continues to significantly outpace that of new single-family housing starts. In addition, more efficient building construction and consistent customer conservation efforts place downward pressure on annual average consumption of natural gas. Prevailing economic conditions also impact sales and transportation service to large-volume commercial and industrial 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 Terasen Gas' natural gas distribution customers 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 critically dependent on a single-source transmission pipeline. In the event of a prolonged service disruption on the Spectra Pipeline System, Terasen Gas' residential customers could experience outages, thereby affecting revenues and incurring costs to safely relight customers.

Access to Capital and Credit Ratings

In order to meet the capital investment and debt repayment requirements of its business, Terasen Gas must have reliable access to sufficient and cost-effective capital. The ability to arrange sufficient and cost-effective financing is subject to numerous factors, including the regulatory environment in British Columbia, the results of operations and financial position of Terasen Gas, conditions in the capital and bank credit markets, the ratings assigned by rating agencies and general economic conditions. There can be no assurance that sufficient capital will be available on acceptable terms to fund such capital expenditures and to repay existing debt.

An inability to maintain an investment-grade credit rating could materially adversely impact Terasen Gas' access to debt financing. In addition, a downgrade of Terasen Gas below investment grade by any of the major credit rating agencies could trigger margin calls and other cash requirements under Terasen Gas' gas purchase and commodity derivative contracts.

Interest Rates

Terasen Gas is exposed to the interest rate risks associated with floating rate debt. Terasen Gas has hedging programs in place to reduce its interest rate risks. The allowed ROEs for TGI and TGVI are determined by formulae that result in lower allowed ROEs if long-term Canada Bond yields decline.

Counterparty Credit Risk

Terasen Gas is exposed to credit risk in the event of non-performance by counterparties to derivative instruments. Terasen Gas is also exposed to significant credit risk on physical off-system sales. Because it deals with high credit quality institutions in accordance with established credit approval practices, Terasen Gas does not expect any counterparties to fail to meet their obligations.

Potential Undisclosed Liabilities Associated with the Acquisition

In connection with the Acquisition, there may be liabilities that the Corporation failed to discover or was unable to quantify in its due diligence which it conducted prior to the execution of the Acquisition Agreement and the Corporation may not be indemnified for some or all of these liabilities. The discovery or quantification of any material liabilities could have a material adverse effect on the Corporation's business, financial condition or future prospects. In addition, the Acquisition Agreement limits the amount for which the Corporation is indemnified. See ''Acquisition Agreement — Indemnities''.

Labour Relations

The organized employees of TGI and TGVI are members of labour unions which have entered into collective bargaining agreements with TGI. The provisions of such collective bargaining agreements affect the flexibility and efficiency of the business carried on by TGI, TGVI and TGWI (which depends on TGI for its customer, management and operation services). TGI considers its relationships with its labour unions to be satisfactory, but there can be no assurance that current relations will continue in future negotiations or that the terms under the present collective bargaining agreements will be renewed. The inability to maintain, or to renew the collective bargaining agreements on acceptable terms, could result in increased labour costs or service interruptions arising from labour disputes for TGI that are not provided for in approved orders, which could have an adverse effect on the results of operations, cash flow and net income of Terasen Gas.

Underinsured and Uninsured Losses

Fortis and Terasen Gas maintain at all times insurance coverage in respect of potential liabilities and the accidental loss of value of certain of their assets from risks, in amounts, with such insurers, as is considered appropriate, taking into account all relevant factors including the practices of owners of similar assets and operations. It is anticipated that such insurance coverage will be maintained. However, not all risks are covered by insurance and no assurance can be given that insurance will be consistently available or will be consistently available on economically feasible terms or that the amounts of insurance will be sufficient to cover losses or claims that may occur involving the assets or operations of Fortis or Terasen Gas.

Environmental Matters

Terasen Gas is subject to numerous laws, regulations and guidelines governing the management, transportation and disposal of hazardous substances and other waste materials and otherwise relating to the protection of the environment and health and safety. Potential environmental damage and costs could arise due to a severe weather event or a major equipment failure. However, there can be no assurance that such costs will be recoverable and, if substantial, unrecovered costs may have a material effect on the business, results of operations and prospects of Terasen Gas.

Terasen Gas is exposed to environmental risks that property owners in British Columbia generally face. These risks include the responsibility of any property owner for the site remediation of any properties determined to be contaminated, whether or not such contamination was actually caused by the owner. Most of Terasen Gas' distribution and transmission facilities have been in place for many years with no apparent adverse environmental impact. However, as facilities are upgraded and as new facilities are added, environmental assessments and regulatory approvals will be required in the ordinary course.

Applicable environmental and safety laws make owners, operators and persons in charge of management and control of facilities subject to prosecution or administrative action for breaches of environmental and safety laws, including the failure to obtain certificates of approval for the discharge of contaminants causing an adverse effect. Terasen Gas has not been notified of any such regulatory action in regard to its operation or occupation of its facilities. However, it is not possible to predict with absolute certainty the position that a regulatory authority will take regarding matters of non-compliance with environmental and safety laws. Changes in environmental, health and safety regulations could also lead to significant increases in costs to Terasen Gas.

First Nations' Lands

Terasen Gas provides service to customers on First Nations reserves in British Columbia and maintains gas distribution facilities on lands that are subject to land claims by various First Nations. A treaty negotiation process involving various First Nations and the Government of British Columbia is underway in British Columbia but the basis upon which settlements might be reached in Terasen Gas' service area is not clear. Furthermore, not all First Nations are participating in the process. To date, the policy of the Government of British Columbia has been to endeavour to structure settlements without prejudicing existing rights held by third parties such as Terasen Gas. However, there can be no certainty that the settlement process will not adversely affect the business of Terasen Gas.

Results of Operations and Financing Risks

Management of the Corporation believes, based on its expectations as to the Corporation's future performance (which reflects, among other things, the completion of the Acquisition), that the cash flow from its operations and funds available to it under its credit facilities will be adequate to enable the Corporation to finance its operations, execute its business strategy and maintain an adequate level of liquidity. However, expected revenue and the costs of planned capital expenditures are only estimates. Moreover, actual cash flows from operations are dependent on regulatory, market and other conditions that are beyond the control of the Corporation. As such, no assurance can be given that management's expectations as to future performance will be realized. In addition, management's expectations as to the Corporation's future performance reflect the current state of its information about Terasen Gas and its operations and there can be no assurance that such information is correct and complete in all material respects.

Management of Expanding Operations

As a result of the Acquisition, significant demands will be placed on the Corporation's managerial, operational and financial personnel and systems. 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.

Realization of Acquisition Benefits

As described in ''The Acquisition — Acquisition Rationale'', the Corporation believes that the Acquisition will provide benefits to Fortis. However, there is a risk that some or all of the expected benefits of the Acquisition may fail to materialize, or may not occur within the time periods anticipated by the Corporation. The realization of such benefits may be affected by a number of factors, many of which are beyond the control of the Corporation.

Subscription Receipt Structure

The Subscription Receipts will be automatically exchanged for Common Shares upon the satisfaction of the Release Conditions. The Corporation may, in its sole discretion, waive certain closing conditions in its favour in the Acquisition Agreement or agree with the Vendor to amend the Acquisition Agreement and consummate the Acquisition on terms that may be substantially different from those contemplated in this Prospectus. As a result, the expected benefits of the Acquisition may not be fully realized. See ''Acquisition Agreement''. There can be no assurance that the Release Conditions will be satisfied on or prior to the Termination Time. Until the Release Conditions are satisfied and the Common Shares are delivered pursuant to the Subscription Receipt Agreement, holders of Subscription Receipts have the rights as described under ''Details of the Offering — Subscription Receipts''.

Market for Securities

There is currently no market through which the Subscription Receipts may be sold. There can be no assurance that an active trading market will develop for the Subscription Receipts after the Offering or, if developed, that such a market will be sustained at the price level of the Offering. The TSX has conditionally approved the listing of the Subscription Receipts, as well as the Common Shares issuable on the exchange of the Subscription Receipts. Listing is subject to the Corporation fulfilling all of the requirements of the TSX on or before June 3, 2007.

AUDITORS

The auditors of the Corporation are Ernst & Young LLP, Chartered Accountants (''Ernst & Young''), The Fortis Building, 7th Floor, 139 Water Street, St. John's, Newfoundland and Labrador, A1C 1B2. Ernst & Young report that they are independent of the Corporation in accordance with the Rules of Professional Conduct of the Institute of Chartered Accountants of Newfoundland.

The auditors of Terasen as at December 31, 2005 were KPMG LLP, Chartered Accountants (''KPMG''), of Vancouver, British Columbia. KPMG report that, as at March 31, 2006 and during the years ended December 31, 2005 and 2004 on which they reported, they were independent of Terasen within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of British Columbia.

LEGAL MATTERS

Certain legal matters relating to this Offering will be passed upon on behalf of the Corporation by Davies Ward Phillips & Vineberg LLP, Toronto and McInnes Cooper, St. John's and on behalf of the Underwriters by Stikeman Elliott LLP, Toronto. At the date hereof, partners and associates of each of Davies Ward Phillips & Vineberg LLP, McInnes Cooper and Stikeman Elliott LLP own beneficially, directly or indirectly, less than 1% of any securities of the Corporation or any associate or affiliate of the Corporation.

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the Subscription Receipts is Computershare Trust Company of Canada in Toronto and Montréal.

PURCHASERS' STATUTORY RIGHTS

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights or consult with a legal advisor.

GLOSSARY OF TERMS

In the Prospectus, unless the context otherwise requires, the following terms have the meanings set forth below.

''1933 Act'' means the United States *Securities Act of 1933*, as amended;

''Acquisition'' means the acquisition by Fortis of all of the issued and outstanding shares of Terasen;

''Acquisition Agreement'' means the acquisition agreement dated February 26, 2007 between Fortis, 3211953 Nova Scotia Company and Kinder Morgan;

''CDS'' means CDS Clearing and Depository Services Inc.;

''Closing Date'' means on or about March 15, 2007, or such other date as agreed to by the Corporation and the Underwriters, but not later than April 18, 2007;

''Corporation'' or **''Fortis''** means Fortis Inc.;

''Credit Facilities'' means the senior unsecured, non-revolving term credit facilities in the aggregate amount of $1.425 billion, consisting of a facility in the amount of $925 million and a facility in the amount of $500 million, to be extended to Fortis pursuant to a commitment letter dated February 26, 2007 from Canadian Imperial Bank of Commerce;

''CWP'' means CustomerWorks Limited Partnership;

''Escrow Agent'' means Computershare Trust Company of Canada or its successor as escrow agent under the Subscription Receipt Agreement;

''Escrowed Funds'' means the gross proceeds from the sale of the Subscription Receipts;

''Offering'' means the distribution of Subscription Receipts pursuant to the Prospectus;

''Release Conditions'' means the receipt by the Corporation of all regulatory and government approvals required to finalize the Acquisition, including that of the BCUC, and fulfillment or waiver of all other outstanding conditions precedent to closing the Acquisition as itemized in the Acquisition Agreement;

''ROE'' means return on equity;

''SEDAR'' means the Canadian System for Electronic Document Analysis and Retrieval;

''Subscription Receipt Agreement'' means the agreement dated as of the Closing Date among the Corporation, CIBC World Markets Inc. and the Escrow Agent governing the terms of the Subscription Receipts;

''Subscription Receipts'' means the subscription receipts of the Corporation offered hereby;

''Terasen'' means Terasen Inc.;

''Terasen Gas'' means, collectively, TGI, TGVI, TGWI and CWP;

''Termination Time'' means the earlier of 5:00 p.m. (Toronto time) on November 30, 2007 or the date on which the Acquisition Agreement is terminated;

''TGI'' means Terasen Gas Inc.;

''TGVI'' means Terasen Gas (Vancouver Island) Inc.;

''TGWI'' means Terasen Gas (Whistler) Inc.;

''TSX'' means the Toronto Stock Exchange;

''Underwriters'' means, collectively, CIBC World Markets Inc., Scotia Capital Inc., TD Securities Inc., BMO Nesbitt Burns Inc., RBC Dominion Securities Inc., National Bank Financial Inc., Canaccord Capital Corporation, Beacon Securities Limited and HSBC Securities (Canada) Inc.; and

''Underwriting Agreement'' means the underwriting agreement dated February 27, 2007, between the Corporation and the Underwriters relating to the sale of the Subscription Receipts offered under the Prospectus.

All dollar amounts in the Prospectus are expressed in Canadian dollars.

AUDITORS' CONSENT

We have read the short form prospectus of Fortis Inc. (the ''Corporation'') dated March 7, 2007 relating to the issue and sale of 38,500,000 subscription receipts of the Corporation. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the incorporation by reference, in the above-mentioned prospectus, of our report to the shareholders of the Corporation on the consolidated balance sheets of the Corporation as at December 31, 2005 and 2004 and the consolidated statements of earnings, retained earnings and cash flows for the years then ended. Our report is dated January 27, 2006.

St. John's, Canada
March 7, 2007

(Signed) Ernst & Young LLP
Chartered Accountants

AUDITORS' CONSENT

We have read the short form prospectus of Fortis Inc. (the ''Corporation'') dated March 7, 2007 relating to the issue and sale of 38,500,000 subscription receipts of the Corporation. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the use in the above-mentioned prospectus of our report to the shareholder of Terasen Inc. on the consolidated statements of financial position of Terasen Inc. as at December 31, 2005 and 2004 and the consolidated statements of earnings, retained earnings and cash flows for the years then ended. Our report is dated February 3, 2006, except as to note 19(b) which is as of March 2, 2006 and note 19(c) which is as of March 31, 2006.

Vancouver, Canada	(Signed) KPMG LLP
March 7, 2007	Chartered Accountants

INDEX TO FINANCIAL STATEMENTS

Terasen Inc.

Consolidated Financial Statements
Years ended December 31, 2005 and 2004

Together with Auditors' Report

AUDITORS' REPORT TO THE SHAREHOLDER

We have audited the consolidated statements of financial position of Terasen Inc. as at December 31, 2005 and 2004 and the consolidated statements of earnings, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(Signed) KPMG LLP
Chartered Accountants

Vancouver, Canada
February 3, 2006, except as to note 19 (b) which is
as of March 2, 2006 and note 19 (c) which is
as of March 31, 2006

TERASEN INC.

CONSOLIDATED STATEMENTS OF EARNINGS

	Years ended December 31	
	2005	2004
		(Restated — notes 1(p) and 3)
	In millions of dollars	
Revenues		
Natural gas distribution	**$1,678.0**	$1,494.1
Petroleum transportation	**227.8**	225.5
Other activities	**46.7**	78.5
	1,952.5	1,798.1
Expenses		
Cost of natural gas	**1,063.7**	885.4
Cost of revenues from other activities	**28.9**	52.8
Operation and maintenance	**320.7**	274.7
Depreciation and amortization	**142.6**	144.5
Property and other taxes	**71.9**	69.9
	1,627.8	1,427.3
Operating Income	**324.7**	370.8
Financing costs (note 14)	**191.4**	175.6
Earnings before share of earnings of equity investments and income taxes	**133.3**	195.2
Equity earnings from Clean Energy net of disposition costs (note 4)	**2.5**	—
Share of earnings of Express System	**21.9**	15.0
Earnings before income taxes and discontinued operations	**157.7**	210.2
Income taxes (note 15)	**51.6**	63.7
Earnings before discontinued operations	**106.1**	146.5
Earnings (loss) from discontinued operations, net of income taxes (note 3)	**(4.9)**	3.3
NET EARNINGS	**$ 101.2**	$ 149.8

TERASEN INC.

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

	Years ended December 31	
	2005	2004
		(Restated — note 1(p))
	In millions of dollars	
Retained earnings, beginning of year	**$418.9**	$355.5
Net earnings	**101.2**	149.8
	520.1	505.3
Dividends on common shares	**95.1**	86.4
Retained earnings, end of year	**$425.0**	$418.9

TERASEN INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	In millions of dollars As at December 31	
	2005	2004 (Restated — note 1(p))
Assets		
Current assets		
Cash and short-term investments	**$ 79.4**	$ 20.0
Accounts receivable	**468.1**	348.6
Inventories of gas in storage and supplies	**205.7**	189.2
Prepaid expenses	**14.1**	9.5
Current portion of rate stabilization accounts (note 7)	**28.4**	27.1
Current assets held for sale (note 3)	**54.8**	—
	850.5	594.4
Property, plant and equipment (note 6)	**3,907.9**	3,892.5
Long-term investment	**238.3**	218.9
Goodwill	**76.4**	128.0
Rate stabilization accounts (note 7)	**48.3**	60.6
Other assets (note 8)	**84.8**	87.4
Long-lived assets held for sale (note 3)	**109.9**	—
	$5,316.1	$4,981.8
Liabilities and shareholder's equity		
Current liabilities		
Short-term notes	**$ 681.0**	$ 248.0
Accounts payable and accrued liabilities	**433.8**	365.7
Income and other taxes payable	**30.8**	36.4
Current portion of rate stabilization accounts (note 7)	**47.9**	27.6
Current portion of long-term debt (note 9)	**398.2**	416.7
Due to parent company	**0.4**	—
Current liabilities held for sale (note 3)	**24.5**	—
	1,616.6	1,094.4
Long-term debt (note 9)	**2,012.9**	2,291.6
Other long-term liabilities and deferred credits (note 10)	**168.5**	156.0
Future income taxes (note 15)	**88.7**	68.7
Long-term liabilities held for sale (note 3)	**13.7**	—
	3,900.4	3,610.7
Shareholder's equity		
Common shares (note 11)	**904.9**	883.4
Contributed surplus (note 12)	**137.5**	132.5
Retained earnings	**425.0**	418.9
Cumulative currency translation adjustment	**(0.7)**	(12.7)
	1,466.7	1,422.1
Less cost of common shares held by Terasen Pipelines (Trans Mountain) Inc.	**51.0**	51.0
	1,415.7	1,371.1
	$5,316.1	$4,981.8

Approved by the Board:

(Signed) James M. Stanford
Director

(Signed) Douglas W.G. Whitehead
Director

TERASEN INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	In millions of dollars	
	2005	2004
Cash flows provided by (used for)		
Operating activities		
Net earnings	**$101.2**	$149.8
Adjustments for non-cash items		
Loss (earnings) from discontinued operations	**4.9**	(3.3)
Depreciation and amortization	**142.6**	144.5
Equity earnings from Clean Energy	**(2.5)**	—
Share of earnings from long-term investments, in excess of cash distributions	**(19.4)**	(14.3)
Future income taxes	**2.9**	(0.5)
Other	**18.7**	10.2
	248.4	286.4
Decrease in rate stabilization accounts	**10.1**	31.0
Discontinued operations — Water and Utility Services	**5.2**	3.3
Changes in non-cash working capital	**(68.3)**	14.7
	195.4	335.4
Investing activities		
Property, plant and equipment	**(214.7)**	(154.4)
Acquisition of water and utility services businesses (note 4)	**—**	(57.9)
Proceeds on sale of Clean Energy (note 4)	**43.0**	—
Discontinued operations — Water and Utility Services	**(36.8)**	—
Proceeds on sale of other property, plant and equipment	**—**	0.9
Proceeds on sale of natural gas distribution assets (note 10)	**7.2**	64.6
Other assets and deferred credits	**(11.2)**	(13.4)
	(212.5)	(160.2)
Financing activities		
Increase (decrease) in short-term notes	**433.0**	(305.9)
Increase in long-term debt	**601.5**	339.1
Reduction of long-term debt	**(884.9)**	(118.2)
Advances from parent company	**0.4**	—
Discontinued operations — Water and Utility Services	**0.7**	—
Issue of common shares, net of issue costs (note 11)	**20.9**	14.7
Dividends on common shares	**(95.1)**	(86.4)
	76.5	(156.7)
Net increase in cash	**59.4**	18.5
Cash at beginning of year	**20.0**	1.5
Cash at end of year	**$ 79.4**	$ 20.0
Supplemental cash flow information		
Interest paid in the year	**$187.6**	$162.7
Income taxes paid in the year	**48.4**	78.1
Non-cash transactions		
Mark to market on certain gas derivatives deferred in rate-stabilization accounts	**21.2**	—

Cash is defined as cash or bank indebtedness.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in millions of dollars, except where stated otherwise)
YEARS ENDED DECEMBER 31, 2005 AND 2004

Terasen Inc. (''Terasen'' or the ''Company'') provides energy transportation and utility asset management services. Terasen operates in three primary business segments which are separately managed to assess operational performance.

(a) Natural gas distribution operations involve the transmission and distribution of natural gas and propane for residential, commercial, institutional, and industrial customers in British Columbia. The operations are conducted through Terasen Gas Inc. (''Terasen Gas''), serving the Lower Mainland and interior of British Columbia, Terasen Gas (Vancouver Island) Inc. (''TGVI''), serving Vancouver Island and the Sunshine Coast, Terasen Gas (Whistler) Inc., and Terasen Gas (Squamish) Inc.

(b) Petroleum transportation operations are carried out through Terasen Pipelines (Trans Mountain) Inc. (''Trans Mountain''), which owns and operates a common carrier pipeline system for crude and refined petroleum products transported from Edmonton, Alberta to Vancouver, British Columbia and Washington State, Terasen Pipelines (Corridor) Inc. (''Corridor''), which owns a pipeline in northern Alberta transporting diluted bitumen, and the one-third owned entities Express Pipeline LP and Express US Holdings LP (''the Express System''). The Express System transports crude oil from Hardisty, Alberta, through the Rocky Mountain region of the United States and on to Wood River, Illinois.

(c) Water and utility services operations includes providing water and wastewater treatment services, water distribution and wastewater collection, meter reading, meter fleet management and installation services as well as product sales related to the water, sewer and irrigation markets. These operations are provided through Terasen Waterworks (Supply) Inc., Terasen Utility Services Inc., Terasen Utility Services (U.S.) Inc. (collectively ''Terasen Water and Utility Services''), and the Company's 50% interest in Fairbanks Sewer and Water Inc. (''FSW''). These operations have been reclassified to Discontinued Operations as described in Note 3.

(d) Other activities include international consulting activities, the Company's 30% interest in CustomerWorks LP (''CWLP''), corporate financing costs and administration charges, and the Company's 40% (2004 — 45%) interest in Clean Energy Fuels Corp. (''Clean Energy''), which was proportionately consolidated until the first quarter of 2005 and was then equity-accounted for until the investment was sold on October 31, 2005 (Note 4).

The Company operates in Canada and the United States, but at the present time the United States operations are not of sufficient size to be reportable as either operating or geographic segments.

On November 30, 2005, all of the shares of the Company were acquired by Kinder Morgan, Inc. (''KMI'') pursuant to a Combination Agreement dated as of August 1, 2005. The Company's shareholders were able to elect, for each Terasen share held, either (i) $35.75 in cash, (ii) 0.3331 shares of KMI common stock, or (iii) $23.25 in cash plus 0.1165 shares of KMI common stock. In the aggregate, approximately 12.5 million shares of KMI common stock was issued together with cash payments of approximately $2.49 billion to Terasen securityholders. The Company has charged to earnings after-tax costs of $42.9 million associated with the transaction in earnings in the year ended December 31, 2005, mainly from pre-tax investment banking costs of $14.7 million, severance and employee-related costs of $14.4 million, share option costs of $3.6 million as described in Note 12, and the write-off of approximately $15.3 million of income tax expense related to restricted tax loss carry-forwards.

1. SIGNIFICANT ACCOUNTING POLICIES

The preparation of these consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses in the financial statements, as well as the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

In the opinion of management, these consolidated financial statements have been properly prepared within reasonable limits of materiality and reflect the following summary of significant accounting policies.

(a) BASIS OF PRESENTATION

The consolidated financial statements include the accounts of the Company, its subsidiaries, and its proportionate share of the accounts of jointly-controlled entities. Investments in entities which are not subsidiaries or joint ventures, but over which the Company exercises significant influence, are accounted for using the equity method.

Certain of the prior year comparative figures have been reclassified to conform with the current year's presentation.

(b) FOREIGN CURRENCY TRANSLATION

The Company translates its self-sustaining US dollar denominated water and utility service businesses' and Clean Energy's financial statements into Canadian dollars using the current rate method of foreign currency translation. Under this method, assets and liabilities are translated at the rate of exchange in effect at the balance sheet date, revenue and expense items are translated at average rates of exchange for the period, and the exchange gains and losses arising on the translation of the financial statements are recorded in the cumulative currency translation adjustment account in Shareholders' equity.

The Company's US-based petroleum transportation operations are integrated and are translated into Canadian dollars using the temporal method. Under this method, monetary assets and liabilities denominated in foreign currencies are translated at exchange rates in effect at the balance sheet date, with the exception of certain long-term debt in the Express System, which is considered to be a hedge of

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

U.S. dollar denominated revenues in the Express System. Non-monetary assets and liabilities denominated in foreign currencies are translated at exchange rates in effect on the dates the assets were acquired or liabilities assumed. Revenues and expenses are translated at the average rates of exchange prevailing during the month the transactions occurred. Under this method, exchange gains and losses on translation are reflected in income when incurred.

(c) REGULATION

The natural gas distribution companies are subject to the regulation of the British Columbia Utilities Commission (''the BCUC''), an independent regulatory authority. Both Terasen Gas and TGVI have multi-year agreements that will expire at the end of 2007. These multi-year agreements are cost-of-service based agreements with allowed rates of return on approved rate base set by the BCUC. For 2005, Terasen Gas's allowed rate of return was 9.03% and TGVI's allowed rate of return was 9.53%. The allowed rates of return are based on a notional debt-equity ratio of 67% debt and 33% equity for Terasen Gas and 65% debt and 35% equity for TGVI. The entities have annual review processes for rate approvals, and the allowed rates of return are reset annually unless directed differently by the BCUC.

The Trans Mountain and Express System operations are governed by contractual arrangements with shippers and are regulated in Canada by the National Energy Board and, in the United States, tariff matters are regulated by the Federal Energy Regulatory Commission. Both of these regulatory authorities are independent bodies. Trans Mountain has entered into a memorandum of understanding with shippers on a new five-year agreement which will expire at the end of 2010. The Express System has firm service agreements that extend until 2015.

Corridor's operations are governed by contractual arrangements with shippers and are subject to regulation by the Alberta Energy and Utilities Board (''the AEUB''), an independent regulatory authority. Corridor's rates are cost-of-service based and determined using formulas embedded in agreements with shippers.

FSW is regulated by the Regulatory Commission of Alaska, an independent regulatory authority. FSW has a cost-of-service based agreement with allowed rates of return set by the Regulatory Commission. FSW is currently operating on an interim rate basis while the Commission is hearing a new rate case.

Approximately 95% of the Company's operations are subject to rate regulation by independent regulatory agencies. These regulatory authorities exercise statutory authority over such matters as rates of return, construction and operation of facilities, accounting practices, rates and tolls, and contractual agreements with customers.

In order to recognize the economic effects of regulation, the timing of recognition of certain revenues and expenses in these operations may differ from that otherwise expected under generally accepted accounting principles for non-regulated businesses.

The impacts of rate regulation on the Company's operations for the twelve months ending December 31, 2005 and as at December 31, 2005 are described in these Significant Accounting Policies, and in Note 6 ''Property, Plant and Equipment'', Note 7 ''Rate Stabilization Accounts'', Note 8 ''Other Assets'', Note 10 ''Other Long-Term Liabilities and Deferred Credits'', Note 13 ''Employee Benefit Plans'', Note 14 ''Financing Costs'', and Note 15 ''Income Taxes''.

(d) INVENTORIES

Inventories of gas in storage are valued at weighted-average cost. Supplies and other inventories are valued at the lower of cost and net realizable value.

(e) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at cost less accumulated depreciation and unamortized contributions in aid of construction. Cost includes all direct expenditures for system expansions, betterments and replacements, an allocation of overhead costs and an allowance for funds used during construction. When allowed by the regulators, regulated operations capitalize an allowance for equity funds used during construction at approved rates.

Depreciation of regulated assets is recorded on a straight-line basis over their useful lives. Depreciation rates for regulated assets are approved by the respective regulator, and for non-regulated assets requires the use of management estimates of the useful lives of assets. Depreciation of non-regulated equipment is recorded using the declining balance method.

The cost of regulated depreciable property retired, together with removal costs less salvage, is charged to accumulated depreciation, as is any gain or loss incurred on disposal.

(f) IMPAIRMENT OF LONG-LIVED ASSETS

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

(g) ASSET RETIREMENT OBLIGATIONS

The Company recognizes the fair value of a future asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that results from the acquisition, construction, development, and/or normal use of the assets. The Company concurrently recognizes a corresponding increase in the carrying amount of the related long-lived asset that is depreciated over the life of the asset. The fair value of the asset retirement obligation is estimated using the expected cash

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

flow approach that reflects a range of possible outcomes discounted at a credit-adjusted risk-free interest rate. Subsequent to the initial measurement, the asset retirement obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. Changes in the obligation due to the passage of time are recognized in income as an operating expense using the interest method. Changes in the obligation due to changes in estimated cash flows are recognized as an adjustment of the carrying amount of the related long-lived asset that is depreciated over the remaining life of the asset.

As the fair value of future removal and site restoration costs for the Company's natural gas distribution and petroleum transportation systems are not currently determinable, the Company has not recognized an asset retirement obligation as at December 31, 2005 and 2004. For regulated operations there is a reasonable expectation that asset retirement costs would be recoverable through future rates or tolls.

(h) RATE STABILIZATION ACCOUNTS

TGVI maintains a BCUC approved Revenue Deficiency Deferral Account (''RDDA'') to accumulate unrecovered costs of providing service to customers or to drawdown such costs where earnings exceed an allowed return as set by the BCUC. The RDDA has accumulated the allowed earnings in excess of achieved earnings prior to 2003 and is to be recovered through future rates. During the years ended December 31, 2005 and 2004, the RDDA has decreased as achieved earnings have exceeded the allowed return.

Terasen Gas is authorized by the BCUC to maintain rate stabilization accounts which mitigate the effect on its earnings of unpredictable and uncontrollable factors, namely volume volatility caused principally by weather and natural gas cost volatility. The Revenue Stabilization Adjustment Mechanism (''RSAM'') accumulates the margin impact of variations in the actual versus forecast volume use for residential and commercial customers.

In 2004, the Gas Cost Reconciliation Account (''GCRA''), which accumulates differences between actual natural gas costs and forecast natural gas costs as recovered in base rates, was replaced by the Commodity Cost Reconciliation Account (''CCRA'') and the Midstream Cost Reconciliation Account (''MCRA''). The two new accounts were approved by the BCUC to segregate costs that are allocable to all sales customers (MCRA) and all residential customers and certain commercial and industrial customers for whom Terasen Gas acquires gas supply (CCRA). TGVI has a Gas Cost Variance Account (''GCVA'') which mitigates the effect on its earnings of natural gas cost volatility. The GCVA is recoverable in rates from customers in TGVI's service areas in future periods.

All rate stabilization account balances for both TGVI and Terasen Gas are amortized and recovered through rates as approved by the BCUC.

(i) DEFERRED CHARGES

The Company defers certain costs which the regulatory authorities or contractual arrangements require or permit to be recovered through future rates or tolls. Deferred charges are amortized over various periods as approved by the regulator and depending on the nature of the costs.

Deferred charges include long-term debt issue costs which are amortized over the term of the related debt.

Deferred charges not subject to regulation relate to projects which are expected to benefit future periods and will be capitalized on completion, expensed on project abandonment, or amortized over their useful lives.

(j) GOODWILL

Goodwill represents the excess of an investment over the fair value of the net assets acquired. Goodwill is not amortized and is tested annually for impairment by comparing the book value with the fair value of the goodwill of the reporting unit to which the goodwill is attributable. Any deficiency in the book value compared to the fair value will be recognized as an impairment loss.

(k) REVENUE RECOGNITION

The Company recognizes revenues when products have been delivered or services have been performed.

The natural gas distribution utilities record revenues from natural gas sales on the basis of regular meter readings and estimates of customer usage since the last meter reading date to the end of the year and are adjusted for the Revenue Stabilization Adjustment Mechanism and other BCUC approved orders.

For the petroleum transportation operations, revenues are recorded when products are delivered and adjusted according to terms prescribed by toll settlements with the shippers and approved by the respective regulator.

For the water and utility services operations revenues are recorded when services have been performed or products have been delivered.

(l) DERIVATIVE FINANCIAL INSTRUMENTS

The Company utilizes derivatives and other financial instruments to manage its exposure to changes in foreign currency exchange, interest rates and energy commodity prices.

A derivative must be designated and effective to be accounted for as a hedge. The Company designates each derivative instrument as a hedge of specific assets or liabilities on the balance sheet, specific firm commitments or anticipated transactions. The Company also assesses, both at inception and on an ongoing basis, whether the derivative instruments that are used in each hedging transaction are highly effective in offsetting changes in fair values or cash flows of the hedged items. Derivatives accounted for as a hedge are not recognized in the consolidated financial statements.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivative financial instruments not designated as effective as a hedge are recorded at fair value at the balance sheet date. The carrying amount of these derivatives, which comprise unrealized gains and losses, are included in accounts receivable in the case of contracts in a gain position and accounts payable and accrued liabilities in the case of contracts in a loss position. The offsetting gain/loss is recorded in the rate stabilization accounts, as realized gains/losses are passed on to customers when realized.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions.

As approved by the regulator, derivatives are used to manage natural gas commodity price risk in the natural gas distribution operations. The majority of natural gas supply contracts have floating, rather than fixed prices. The Company uses natural gas price swap contracts to fix the effective purchase price. Any differences between the effective cost of natural gas purchased and the price of natural gas included in rates are recorded in deferral accounts (CCRA and MCRA), and subject to regulatory approval, are passed through in future rates to customers.

Foreign currency risk in natural gas distribution operations relates mainly to purchases and sales of natural gas denominated in U.S. dollars, and is thereby managed through regulatory deferral accounts.

The Company's short-term borrowings and variable rate long-term debt are exposed to interest rate risk. The Company manages interest rate risk through the use of interest rate derivatives with payments and receipts under interest rate swap contracts being recognized as adjustments to financing costs.

The Company's earnings from the U.S. portion of Trans Mountain's crude oil pipeline system and the Company's investment in the Express System are subject to foreign currency risk. The Company manages some of these foreign currency exposures through the use of foreign currency derivatives.

Unless otherwise approved by regulation, if a derivative instrument is terminated or ceases to be effective prior to maturity, the gain or loss at that date is deferred and recognized in income concurrently with the hedged item. Any subsequent changes in the value of the derivative instrument are reflected in income.

Non-hedge derivatives not subject to regulation are marked to market at the balance sheet date with fluctuations in value charged to earnings.

(m) POST-EMPLOYMENT BENEFIT PLANS

The Company sponsors a number of employee benefits plans. These plans include both defined benefit and defined contribution pension plans, and various other post-retirement benefit plans.

The cost of pensions and other post-retirement benefits earned by employees is actuarially determined as the employee provides service, except when the regulator requires costs to be expensed as paid. The Company uses the projected benefit method based on years of service and management's best estimates of expected returns on plan assets, salary escalation, retirement age of employees, mortality and expected future health-care costs. The discount rate used to value liabilities is based on AA Corporate bond yields. The Company accrues the cost of defined benefit pensions and post-employment benefits as the employee provides services, except when the regulator requires costs to be expensed as paid.

The expected return on plan assets is based on management's estimate of the long-term expected rate of return on plan assets and a market-related value of plan assets. The market-related value of assets as of December 31, 2005 is calculated as the average of the market value of invested assets at December 31, 2005 and two actuarially determined extrapolated market values of invested assets at December 31, 2005. The two extrapolated market values are calculated by using the market value of invested assets at December 31, 2003 rolled forward to December 31, 2005 using 2004 and 2005 net contributions and assumed investment returns, and the market value of invested assets at December 31, 2004 rolled forward to December 31, 2005 using 2005 net contributions and assumed investment returns. These three amounts are then averaged to determine the market-related value of plan assets used in calculating net benefit expense.

Adjustments, in excess of 10% of the greater of the accrued benefit obligation and plan asset fair value, that result from plan amendments, changes in assumptions and experience gains and losses, are amortized over the expected average remaining service life of the employee group covered by the plan. Experience will often deviate from the actuarial assumptions resulting in actuarial gains and losses.

Defined contribution plan costs are expensed by the Company as contributions are payable.

(n) INCOME TAXES

The Company's regulated gas and petroleum operations account for and recover income tax expense in rates as prescribed by their respective regulators. This includes accounting for income taxes by the taxes payable method and accounting for certain deferral and rate stabilization accounts on a net of realized tax basis. Therefore, future income taxes related to temporary differences are not recorded. The taxes payable method is followed as there is a reasonable expectation that all future income taxes will be recovered in rates when they become payable.

The Company's non-regulated operations and FSW follow the asset and liability method of accounting for income taxes. Future income tax assets and liabilities are determined based on temporary differences between the tax bases of assets and liabilities and their carrying values for accounting purposes. Future income tax assets and liabilities are measured at the tax rate that is expected to apply when the temporary differences reverse.

1. **SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

(o) STOCK-BASED COMPENSATION

The Company had a Share Option Plan whereby officers, directors and certain key employees may be granted options to purchase common shares. The Company uses the fair value based method for valuing stock options granted on or after January 1, 2003. Under the fair value based method, compensation cost is measured at the fair value at the date of grant and is expensed over the award's vesting period.

Prior to January 1, 2003, the Company used the settlement method of accounting for stock options, whereby any consideration paid by employees on the exercise of stock options was credited to common shares and no compensation expense was recognized.

The Company's Share Option Plan was discontinued on November 30, 2005 as a result of the acquisition of the Company by KMI.

The Company issued Deferred Share Units (''DSU's'') to senior management and Board members under long-term compensation programs and also as an optional form of compensation to Board members. The DSU's were marked-to-market at the end of each quarter and gains or losses were recognized in earnings. The DSU's notionally earned dividends that were reinvested as additional DSU's when dividends were paid, and were paid out in cash only on retirement or termination of the individual receiving them. The DSU's were paid out in cash upon the acquisition of the Company by KMI on November 30, 2005.

(p) LIABILITIES AND EQUITY

In accordance with recent changes to the CICA Handbook Section 3861 ''Financial Instruments — Disclosures and Presentation'', the Company's $125 million 8% Capital Securities have been reclassified from shareholders' equity to liabilities because the Capital Securities can be settled by issuing equity at a variable price dependent upon the market value of the Company's common shares at the settlement date. As a result of the change, distributions associated with the Capital Securities are now recorded as financing costs and the related income-tax benefits are recorded within income tax expense. Previously, the distributions were recorded on an after-tax basis as a deduction from net earnings to determine earnings applicable to common shares. There is no impact to earnings applicable to common shares or earnings per share. The changes have been applied retroactively and have increased long-term debt and decreased shareholders' equity, both by $125.0 million, compared to the amounts previously reported as at December 31, 2004. The restatement has also increased financing costs by $10.0 million, decreased income tax expense by $3.4 million and capital securities distributions by $6.6 million compared to the amounts previously reported for the year ended December 31, 2004.

(q) VARIABLE INTEREST ENTITIES

Effective January 1, 2005, the Company adopted the CICA Handbook Accounting Guideline 15 ''Consolidation of Variable Interest Entities''. The Company has performed a review of the entities with whom it conducts business and determined that under the definitions in the Guideline the Company's investment in Express US Holdings LP, part of the Express System, is deemed to be a variable interest entity. As the Company has not been identified as the primary beneficiary of Express US Holdings LP, the Company continues to account for its investment in the Express System on an equity basis. The Company's future exposure to loss regarding its investment is represented by the carrying value of the investment.

2. **SEGMENT DISCLOSURES**

2005

	Natural gas distribution	Petroleum transportation	Other activities	Total
Revenues	**$1,678.0**	**$ 227.8**	**$46.7**	**$1,952.5**
Cost of natural gas	**1,063.7**	**—**	**—**	**1,063.7**
Cost of revenues from other activities	**—**	**—**	**28.9**	**28.9**
Operation and maintenance	**195.8**	**82.3**	**42.6**	**320.7**
Depreciation and amortization	**96.7**	**37.6**	**8.3**	**142.6**
Property and other taxes	**47.4**	**24.6**	**(0.1)**	**71.9**
	1,403.6	**144.5**	**79.7**	**1,627.8**
Operating income	**274.4**	**83.3**	**(33.0)**	**324.7**
Financing costs	**129.2**	**31.7**	**30.5**	**191.4**
Share of (earnings) of Express System	**—**	**(21.9)**	**—**	**(21.9)**
Income taxes (recovery) on earnings	**54.4**	**9.0**	**(11.8)**	**51.6**
(Earnings) from Clean Energy net of disposition costs	**—**	**—**	**(2.5)**	**(2.5)**
Net earnings (loss) before discontinued operations	**90.8**	**64.5**	**(49.2)**	**106.1**
Earnings (loss) from discontinued operations	**—**	**—**	**(4.9)**	**(4.9)**
Net earnings (loss)	**90.8**	**64.5**	**(54.1)**	**101.2**
Total assets	**3,656.9**	**1,397.1**	**262.1**	**5,316.1**
Goodwill	**76.4**	**—**	**—**	**76.4**
Capital expenditures	**176.3**	**37.4**	**1.0**	**214.7**

2. SEGMENT DISCLOSURES (CONTINUED)

2004

	Natural gas distribution	Petroleum transportation	Other activities	Total
Revenues	$1,494.1	$ 225.5	$78.5	$1,798.1
Cost of natural gas	885.4	—	—	885.4
Cost of revenues from other activities	—	—	52.8	52.8
Operation and maintenance	190.5	66.0	18.2	274.7
Depreciation and amortization	98.7	35.9	9.9	144.5
Property and other taxes	47.1	22.5	0.3	69.9
	1,221.7	124.4	81.2	1,427.3
Operating income	272.4	101.1	(2.7)	370.8
Financing costs	126.2	22.5	26.9	175.6
Share of (earnings) of Express System	—	(15.0)	—	(15.0)
Income taxes (recovery) on earnings	50.3	22.7	(9.3)	63.7
Net earnings (loss)	95.9	70.9	(20.3)	146.5
Earnings from discontinued operations	—	—	3.3	3.3
Net earnings (loss)	95.9	70.9	(17.0)	149.8
Total assets	3,386.2	1,350.4	245.2	4,981.8
Goodwill	76.4	—	51.6	128.0
Capital expenditures	112.3	31.0	11.1	154.4

The segmented disclosures in these consolidated financial statements have been changed from those reported in the December 31, 2004 annual financial statements and no longer include the water and utility services business which are now reported as discontinued operations. Terasen's 30% share of CWLP is now included in other activities. The comparative segment information has been restated to reflect this change.

3. DISCONTINUED OPERATIONS

In January 2006, the Company entered into an agreement to sell Terasen Water and Utility Services, including the Company's 50% equity interest in FSW, to a consortium of external third parties and Terasen Water and Utility Services senior management. The sale does not include the Company's interest in CWLP. The proceeds are anticipated to approximate the consolidated net carrying value of the discontinued operations at December 31, 2005, and no significant gains or losses are expected to occur upon the disposition. The Company anticipates that the sale will be completed at the end of April 2006.

The Company has classified, at December 31, 2005, the assets and liabilities of the entities being sold as assets and liabilities held for sale. The revenue and expense items for 2005 have been classified as net earnings (loss) from discontinued operations and the comparative figures have been restated to conform with this presentation. Gross revenues applicable to the Terasen Water and Utility Services group were $205.1 million in 2005 (2004 — $158.9 million) and pre-tax income was $1.4 million (2004 — $6.4 million). The 2005 pre-tax income includes a charge to earnings of $7.2 million related to currency translation losses arising on the Company's investment in self sustaining foreign operations. Income taxes from discontinued operations includes a charge of $3.4 million on operating earnings from the entities and a write-off of $2.9 million of tax losses expiring as a result of the change in control.

4. ACQUISITIONS AND DISPOSITIONS

DISPOSITION OF CLEAN ENERGY

On October 31, 2005, the Company sold its 40.38% ownership in Clean Energy for proceeds of approximately U.S. $35.9 million. The sale, together with equity earnings of Clean Energy for the nine months ended September 30, 2005, resulted in a gain of $2.5 million, including the recognition of all unrealized gas forward contract gains of Clean Energy in 2005 totalling $10.9 million and the recognition of currency translation losses previously included in shareholders' equity totalling $8.4 million.

WATER AND UTILITY SERVICES ACQUISITIONS

In 2005 the Company purchased two water and utility services businesses for total cash proceeds of $11.2 million. The cash used to purchase these businesses has been included in Investing activities of Discontinued Operations on the Statements of Cash Flow.

On July 31, 2004, the Company acquired a 50 per cent interest in FSW. FSW provides water and wastewater treatment and water distribution and wastewater collection services to Fairbanks, Alaska. The Company paid $40.8 million for its 50 per cent interest after working capital adjustments. The Company has accounted for the acquisition of FSW using the purchase method and has proportionately consolidated its 50% of operations since the date of acquisition.

The Company and the other owners of FSW each have the option to have Terasen acquire the remaining 50 per cent interest in FSW at fair market value in 2009.

During 2004, the Company also acquired 100% of two businesses and increased its investment in two other businesses that provide meter reading, meter fleet management and installation services in Canada and the United States. The Company paid $17.1 million for the interest in

4. ACQUISITIONS AND DISPOSITIONS (CONTINUED)

these businesses after working capital adjustments. The earnings of these acquired businesses have been included in the statement of earnings from the date of acquisition.

The following table provides the allocation of the purchase price over the assets and liabilities acquired in 2004:

	FSW	Other	Total
Working capital	$ 2.2	$ 7.1	$ 9.3
Property, plant and equipment	27.0	1.6	28.6
Goodwill	24.0	8.0	32.0
Other assets	0.5	0.4	0.9
Future income taxes	(2.0)	—	(2.0)
Long-term debt assumed	(10.9)	—	(10.9)
Total cash paid	$ 40.8	$17.1	$ 57.9

5. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES

As at December 31, 2005, the Company has a 30% interest in CWLP and a 50% interest in FSW for which it uses the proportionate consolidation method of accounting. The comparative information for 2004 in the table below includes the Company's interest in Clean Energy which was accounted for under the proportionate consolidated method until the first quarter of 2005, and then equity-accounted until the interest in Clean Energy was sold in 2005. The revenue, expenses, and net income for 2004 has been restated to present the net earnings of the Company's 50% interest in FSW's as earnings from discontinued operations. The Company's proportionate interest in the assets and liabilities of FSW are excluded from the table below as they are classified as assets and liabilities held for sale at December 31, 2005. The Company's proportionate interest in FSW at December 31, 2005 includes $52.8 million of assets and $16.0 million of liabilities, all of which are classified as held for sale.

The Company's proportionate share of assets, liabilities, revenues, expenses, and cash flows related to these entities proportionately consolidated is summarized as follows:

	2005	2004
Current assets	**$10.2**	$ 27.1
Long-term assets (including property, plant and equipment and goodwill)	**35.6**	121.0
Current liabilities	**39.4**	41.3
Long-term liabilities	**—**	20.4
Revenues	**43.5**	73.0
Expenses (including financing costs and income tax)	**36.4**	67.7
Net earnings from continuing operations	**7.1**	5.3
Earnings from discontinued operations	**1.7**	0.6
Cash flows from operating activities	**13.9**	7.8
Cash flows from investing activities	**(0.1)**	(7.5)
Cash flows from financing activities	**—**	0.2

6. PROPERTY, PLANT AND EQUIPMENT

2005

	Weighted average depreciation rate	Cost	Accumulated depreciation	Net book Value
Natural gas distribution systems	**2.31%**	**$3,093.9**	**$ 596.7**	**$2,497.2**
Petroleum pipeline systems	**2.59%**	**1,329.5**	**329.7**	**999.8**
Plant, buildings and equipment	**9.13%**	**427.4**	**167.0**	**260.4**
Land and land rights	**0.15%**	**153.2**	**2.7**	**150.5**
		$5,004.0	**$1,096.1**	**$3,907.9**

2004

	Weighted average depreciation rate	Cost	Accumulated depreciation	Net book Value
Natural gas distribution systems	2.40%	$3,009.6	$ 542.5	$2,467.1
Petroleum pipeline systems	2.51%	1,295.0	295.9	999.1
Water and utility plant and distribution systems	3.71%	34.0	1.8	32.2
Plant, buildings and equipment	8.98%	404.4	160.3	244.1
Land and land rights	0.25%	152.6	2.6	150.0
		$4,895.6	$1,003.1	$3,892.5

6. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

As allowed by the regulators, during the year ended December 31, 2005 the Company capitalized an allowance for equity funds during construction at approved rates of $1.0 million (2004 — $1.0 million) and approved capitalized overhead of $31.1 million (2004 — $31.1 million), with offsetting inclusions in earnings.

7. RATE STABILIZATION ACCOUNTS

	2005	2004
Current Assets		
RDDA	**$12.8**	$12.9
RSAM	**13.0**	11.1
CCRA	**—**	2.7
Gas Cost Variance Account (TGVI)	**2.6**	0.4
	28.4	27.1
Long-Term Assets		
RDDA	**22.4**	32.7
RSAM	**25.9**	27.9
	48.3	60.6
Current Liabilities		
CCRA	**(21.3)**	—
MCRA	**(26.6)**	(27.6)
	(47.9)	(27.6)
Net rate stabilization accounts	**$28.8**	$60.1

The current portion of the rate stabilization accounts represents the amounts expected to be recovered or refunded in rates over the next year. Actual recoveries/(refunds) will vary depending on actual natural gas consumption and recovery amounts approved by the BCUC.

The RSAM account is anticipated to be recovered in rates over three years. Recovery of the RSAM balance is dependent upon annually approved rates and actual gas consumption volumes. The MCRA and CCRA accounts, which succeeded the GCRA account in 2004, are anticipated to be fully recovered or paid within the next fiscal year.

8. OTHER ASSETS

	2005	2004
Deferred charges		
Subject to rate regulation and approved for recovery in rates		
Income taxes recoverable on post-employment benefits	**$10.6**	$ 8.4
Long-term debt issue costs	**9.5**	8.6
Commercial commodity unbundling costs	**3.2**	4.0
Replacement transportation agreement	**3.2**	3.6
Other items included approved for recovery in rates	**12.2**	10.9
Subject to rate regulation but not yet approved for recovery in rates		
Deferred development costs for capital projects	**19.5**	7.9
Corporate capital tax deferrals	**7.5**	7.7
Inland Pacific Connector Development costs	**—**	5.4
Other items subject to rate regulation but not yet approved	**1.7**	0.9
Included in non-regulated entities		
Long-term debt issue costs	**1.0**	1.6
Other items included in non-regulated entities	**2.7**	12.4
	71.1	71.4
Investments	**2.2**	1.3
Long-term receivables	**11.5**	14.7
	$84.8	$87.4

Amortization of these deferred charges in rates for the year ended December 31, 2005 totalled $11.3 million (2004 -$9.0 million).

The deferral account for income taxes on post-employment benefits relates to income tax amounts on post employment benefit expense. The BCUC allows post-employment benefits to be collected from customers through rates calculated on the accrual basis, rather than a cash paid basis, which produces timing differences for income tax purposes. Since Terasen Gas accounts for income taxes using the taxes payable basis of accounting, the tax effect of this timing difference is included in other assets, and will be reduced as cash payments for post-employment benefits exceed required accruals and amounts collected from customers in rates.

Long-term debt issue costs are amortized over the terms of the related debt, whose maturity dates are provided in Note 9 ''Long-Term Debt''.

8. OTHER ASSETS (CONTINUED)

The commercial commodity unbundling costs deferred are costs incurred to develop a third-party marketer alternative for commercial customers to purchase natural gas from suppliers other than Terasen Gas. The BCUC has approved the recovery of these costs in rates over a five-year period, of which four years remain at December 31, 2005.

The deferral account for the replacement transportation agreement relates to amounts that Terasen Gas is allowed to recover from customers in rates in order to cover any shortfall in revenues relative to a minimum amount approved by the BCUC on the Company's Southern Crossing Pipeline. The deferral account is being amortized and recovered in rates over a five-year period, of which four years remain at December 31, 2005.

Deferred development costs for capital projects include costs for projects under development that are expected to be added to regulated rate-base in future periods. These costs include approximately $16.2 million for Trans Mountain TMX expansion costs and $3.3 million for capital projects that are currently in progress by the natural gas distribution operations.

The deferral for corporate capital tax relates to tax payments that were made to the province of British Columbia (''the Province'') related to assessments for corporate capital tax for TGVI and Terasen Gas which the Company believes were incorrectly assessed. The Company is currently in the process of appealing the tax assessments and depending on the success of the appeals, the Company will either be refunded these amounts from the Province or alternatively expects to recover the costs from customers in future rates.

On October 5, 2005, the British Columbia Utilities Commission issued a decision that denied recovery of approximately $5.4 million of costs that Terasen Gas incurred to develop the Inland Pacific Connector pipeline project that is planned to bring new gas transmission capacity to the Lower Mainland of British Columbia when economic conditions make the project viable. The Company still believes that the project is viable and intends to keep all existing permits and land right approvals in place that have already been granted. Terasen Gas has filed an application to have the decision reconsidered, but has recorded an after-tax provision of $3.6 million at December 31, 2005.

Deferred charges for rate regulated entities that have been aggregated in the table above and in the table in ''Other Long-term Liabilities and Deferred Credits'' in Note 10 relate to more than fifty deferral accounts, none of which exceed $1.6 million individually. All of these accounts have been approved by regulators in prior annual rate approvals or orders and are being amortized over various periods depending on the nature of the costs.

9. LONG-TERM DEBT

	2005	2004
Terasen Inc.		
(a) Medium Term Note Debentures:		
6.30% Series 1, due December 1, 2008	**$ 200.0**	$ 200.0
4.85% Series 2, due May 8, 2006	**100.0**	100.0
5.56% Series 3, due September 15, 2014	**125.0**	125.0
(b) 8% Capital Securities, due April 19, 2040	**125.0**	125.0
	550.0	550.0
Terasen Gas Inc.		
(c) Purchase Money Mortgages:		
11.80% Series A, due September 30, 2015	**74.9**	74.9
10.30% Series B, due September 30, 2016	**200.0**	200.0
(d) Debentures and Medium Term Note Debentures:		
9.75% Series D, due December 17, 2006	**20.0**	20.0
10.75% Series E, due June 8, 2009	**59.9**	59.9
6.20% Series 9, due June 2, 2008	**188.0**	188.0
6.95% Series 11, due September 21, 2029	**150.0**	150.0
6.50% Series 12, due July 20, 2005	**—**	200.0
6.50% Series 13, due October 16, 2007	**100.0**	100.0
6.15% Series 16, due July 31, 2006	**100.0**	100.0
Floating Rate Series 17, interest rate of 2.93% (2004) due September 26, 2005	**—**	150.0
6.50% Series 18, due May 1, 2034	**150.0**	150.0
5.90% Series 19, due February 26, 2035	**150.0**	—
Floating Rate Series 20, interest rate of 3.36% due October 24, 2007	**150.0**	—
Various series, weighted average interest rate of 9.63% (2004 — 9.63%) due in 2005	**—**	45.0
Obligations under capital leases, at 6.07% (2004 — 6.23%)	**8.8**	10.8
	1,351.6	1,448.6
Terasen Gas (Vancouver Island) Inc.		
(e) Syndicated credit facility at short-term floating rates, weighted average interest rate of 3.88% (2004 — 3.35%) with maturities of $176.5 million in 2006 and $33.0 million in 2009	**209.5**	214.9
Terasen Pipelines (Trans Mountain) Inc.		
(f) Debentures:		
11.50% Series C, due June 20, 2010	**—**	35.0
	—	35.0
Terasen Pipelines (Corridor) Inc.		
(g) Debentures:		
4.24% Series A, due February 2, 2010	**150.0**	—
5.033% Series B, due February 2, 2015	**150.0**	—
(h) Commercial Paper at short-term floating rates, weighted average interest rate of 2.61% (2004 — 2.51%)	**—**	446.0
	300.0	446.0
Other long-term debt	**—**	13.8
Total long-term debt	**2,411.1**	2,708.3
Less: current portion of long-term debt	**398.2**	416.7
	$2,012.9	$2,291.6

(a) TERASEN INC. MEDIUM TERM NOTE DEBENTURES:
The Company's Medium Term Note Debentures are unsecured obligations but are subject to the restrictions of the Trust Indenture dated November 21, 2001.

(b) TERASEN INC. CAPITAL SECURITIES:
On April 19, 2000, the Company issued $125.0 million of 8.0% Capital Securities with a term to maturity of 40 years for gross proceeds of $123.7 million. The Company may elect to defer payments on these securities and settle such deferred payments in either cash or common shares, and has the option to settle principal at maturity through the issuance of common shares. The securities are exchangeable at the option of the holder on or after April 19, 2010 for common shares of the Company at 90% of the market price, subject to the right of the Company to redeem the securities for cash. Distributions on these securities, net of related income taxes, are deducted from net earnings for the purposes of calculating earnings applicable to common shares.

9. LONG-TERM DEBT (CONTINUED)

(c) TERASEN GAS INC. PURCHASE MONEY MORTGAGES:
The Series A and Series B Purchase Money Mortgages are secured equally and rateably by a first fixed and specific mortgage and charge on Terasen Gas' Coastal Division assets, and are subject to the restrictions of the Trust Indenture dated December 3, 1990. The aggregate principal amount of Purchase Money Mortgages that may be issued under the Trust Indenture is limited to $425 million.

(d) TERASEN GAS INC. DEBENTURES AND MEDIUM TERM NOTE DEBENTURES:
Terasen Gas' debentures are unsecured obligations but are subject to the restrictions of the Trust Indenture dated November 1, 1977, as amended and supplemented.

(e) TERASEN GAS (VANCOUVER ISLAND) INC. BANK SYNDICATE:
The credit facility from the syndicate of banks is secured by a first floating charge over all of the assets of TGVI, assignment of certain material contracts, and assignment of royalty revenue and interruptible incentive payments. Subsequent to year-end the credit facility was renegotiated, and further information is disclosed in Note 19 ''Subsequent Events''.

(f) TERASEN PIPELINES (TRANS MOUNTAIN) INC. DEBENTURES:
The Trans Mountain debentures were unsecured obligations but were subject to the restrictions of the Trust Indenture dated February 18, 1987, as amended and supplemented.

On November 1, 2005, Trans Mountain redeemed the 11.50% Series C Debentures, due June 20, 2010. The total redemption price for the Debentures included a redemption premium of $10.9 million which has been reflected in financing costs for the year ended December 31, 2005. The Company has recognized an income tax benefit associated with the redemption costs of $3.6 million in income taxes for the year ended December 31, 2005.

(g) TERASEN PIPELINES (CORRIDOR) INC. DEBENTURES PAPER:
On February 1, 2005, Terasen Pipelines (Corridor) Inc. (''Corridor'') issued $150 million Series A Debentures and $150 million Series B Debentures. The debentures are unsecured and subject to restrictions of the Trust Indenture. The proceeds were used to repay a portion of Corridor's outstanding commercial paper.

Concurrent with the debenture issuance, Corridor entered into an operating credit facility which has annual renewal provisions. The credit facility is unsecured and will backstop Corridor's commercial paper issuance.

The Company's Series 1 and Series 3 Medium Term Note Debentures and Capital Securities, Terasen Gas' Series B Purchase Money Mortgages, Series E Debentures, and Series 11, Series 13, Series 16, Series 18, and Series 19 Medium Term Note Debentures, and Terasen Pipelines (Corridor) Inc. Series A and Series B Debentures are redeemable in whole or in part at the option of the Company at a price equal to the greater of the Canada Yield Price, as defined in the applicable Trust Indenture, and the principal amount of the debt to be redeemed, plus accrued and unpaid interest to the date specified for redemption. The Canada Yield Price is calculated as an amount that provides a yield slightly above the yield on an equivalent maturity Government of Canada bond.

Required principal repayments over the next five years are as follows:

2006	$398.2
2007	251.8
2008	389.7
2009	94.6
2010	151.8

10. OTHER LONG-TERM LIABILITIES AND DEFERRED CREDITS

	2005	2004
Pension and other post-employment benefit liabilities	**$ 39.7**	$ 30.8
Deferred gains on sale of natural gas distribution assets	**59.2**	60.3
Deferred payment	**36.0**	33.9
Deferred credits		
Subject to rate regulation and approved for refund in rates		
Earnings Sharing Mechanism	**8.8**	1.6
Deferred Interest Mechanism	**2.4**	2.5
Other items included approved for repayment in rates	**6.8**	8.2
Other deferred credits in entities subject to rate regulation	**1.7**	1.8
Other deferred credits/liabilities	**13.9**	16.9
	$168.5	$156.0

The deferred gains on sale of natural gas distribution assets occurred upon the sale and leaseback of pipeline assets to certain municipalities in 2001, 2002, 2004 and 2005. The pre-tax gains of $70.5 million on combined cash proceeds of $141.1 million are being amortized over the 17-year terms of the operating leases that commenced at the time of the sale transactions. These operating lease commitments are included in the table in Note 17.

10. OTHER LONG-TERM LIABILITIES AND DEFERRED CREDITS (CONTINUED)

The deferred payment resulted from the Company's acquisition of TGVI effective January 1, 2002. The deferred payment has a face value of $52.0 million but was discounted at January 1, 2002 to a present value of $28.2 million. The payment is due on December 31, 2011 or sooner if TGVI realizes revenues from transportation revenue contracts to serve power-generating plants which may be constructed in TGVI's service area. If any part of the deferred payment is paid prior to December 31, 2011, the difference between the payment and the carrying value of the debt will be treated as contingent consideration for the acquisition of TGVI and will be added to the cost of the purchase at that time.

The Earnings Sharing Mechanism is a mechanism agreed to in Terasen Gas' multi-year agreement to share, on a 50/50 basis, amounts earned by Terasen Gas on its regulated activities that exceed or are less than amounts allowed by the BCUC in the cost-of-service allowed return calculations. These amounts are shared on an after-tax basis, and are returned to customers in rates.

Terasen Gas has a deferred interest mechanism which has been approved by the BCUC which requires that variances due to differences in long-term and short-term borrowings and interest rates from those that have been approved in rates be returned to customers in future rates. The impact of this mechanism was to increase financing costs for the year ended December 31, 2005 by $2.0 million (2004 — $1.4 million) from what otherwise would be reported. The balance of the deferred interest account is being amortized on a straight-line basis over three years.

Other deferred credits/liabilities includes amounts resulting from the Company's acquisition of TGVI effective January 1, 2002.

Amortization of deferred credits in entities that are subject to rate regulation in rates for the year ended December 31, 2005 totalled $4.5 million (2004 — $3.8 million).

11. SHARE CAPITAL

AUTHORIZED SHARE CAPITAL
The Company is authorized to issue 750,000,000 common shares, 100,000,000 first preference shares and 100,000,000 second preference shares, all without par value.

STOCK SPLIT
On June 14, 2004 the Company carried out a two-for-one stock split effected by paying a stock dividend of one additional common share for each common share held as of June 7, 2004.

All equity-based benefit plans have been amended to reflect the additional shares or options resulting from the stock split. All share and per share data has been amended for comparative and current periods to reflect the stock split.

COMMON SHARES
Changes in the issued and outstanding common shares are as follows:

	2005		2004	
	Number	**Amount**	Number	Amount
Outstanding, beginning of year	**114,355,665**	**$883.4**	113,338,942	$868.7
Issued under:				
Share option plan	**1,283,146**	**21.3**	1,009,761	14.5
Employee share purchase plan	**4,351**	**0.2**	6,962	0.2
	115,643,162	**$904.9**	114,355,665	$883.4
Less common shares held by Trans Mountain	**9,184,188**		9,184,188	
Outstanding, end of year	**106,458,974**		105,171,477	

As at December 31, 2005, Trans Mountain owned 7.9% (2004 — 8.0%) of the common shares of Terasen Inc. The cost of these shares is shown as a deduction from shareholder's equity.

All of the shares outstanding at December 31, 2005 are owned by KMI.

12. SHARE OPTION PLAN AND STOCK-BASED COMPENSATION

SHARE OPTION PLAN
The Company had a Share Option Plan whereby officers and certain key employees could be granted options to purchase a maximum of 12,600,000 unissued common shares with terms up to ten years. There were two categories of options which were issued under the Share Option Plan, Regular Share Options and Performance Based Share Options. The option exercise price was the closing sale price of the common shares on the Toronto Stock Exchange on the trading day prior to the date the option was granted. The Share Option Plan was discontinued on November 30, 2005 as a result of the acquisition of the Company by KMI.

REGULAR SHARE OPTIONS
Since 2000, the Company had granted options with eight-year terms which were exercisable on a cumulative basis and vested at one-third per year on the anniversary of the option grant date. Prior to 2000, the Company granted options with ten-year terms which were exercisable on a cumulative basis at 20% per year.

12. SHARE OPTION PLAN AND STOCK-BASED COMPENSATION (CONTINUED)

REGULAR SHARE OPTIONS OUTSTANDING

	2005		2004	
	Shares under option	**Weighted-average exercise price**	Shares under option	Weighted-average exercise price
Outstanding, beginning of year	**565,868**	**$15.53**	1,118,822	$14.31
Options granted during the year	**5,000**	**29.45**	24,800	23.93
Options exercised	**(287,165)**	**15.15**	(537,716)	13.39
Options forfeited, cancelled and expired	**(82,991)**	**11.59**	(40,038)	17.46
Options purchased by KMI and cancelled	**(200,712)**	**18.12**	—	—
Outstanding, end of year	**—**	**$ —**	565,868	$15.40
Options exercisable, end of year	**—**	**$ —**	348,857	$13.25

PERFORMANCE BASED SHARE OPTIONS

The Company had granted performance based share options with eight-year terms. The options vested at one-third per year on the anniversary of the option grant dates, subject to the market price of the Company's common shares reaching 125% of the option's exercise price for at least 10 out of 15 consecutive trading days within four years of the option grant date. If the market price requirement was not attained within four years of grant date, the participant was still eligible to exercise two-thirds of the granted options if the common share price reached 125% of the option's exercise price for at least 10 out of 15 consecutive trading days during the subsequent four years.

PERFORMANCE BASED SHARE OPTIONS OUTSTANDING

	2005		2004	
	Shares under option	**Weighted-average exercise price**	Shares under option	Weighted-average exercise price
Outstanding, beginning of year	**2,339,619**	**$19.28**	2,304,398	$17.08
Options granted during the year	**850,200**	**29.45**	716,600	23.88
Options exercised	**(995,981)**	**16.96**	(472,045)	15.53
Options forfeited, cancelled and expired	**(262,574)**	**17.09**	(209,334)	19.68
Options purchased by KMI and cancelled	**(1,931,264)**	**25.12**	—	—
Outstanding, end of year	**—**	**$ —**	2,339,619	$19.24
Options exercisable, end of year	**—**	**$ —**	1,020,508	$16.27

STOCK-BASED COMPENSATION

In 2005, 855,200 stock options were granted (2004 — 741,400) at an average exercise price of $29.45 (2004 — $23.88) under the Company's Share Option Plan. The Company has applied the fair value based method of accounting for stock options granted after January 1, 2003. Reported earnings for 2005 include a compensation charge of $2.0 million (2004 — $1.2 million) representing the fair value of options granted in 2003, 2004 and 2005 amortized over their respective vesting periods, with a corresponding increase to contributed surplus. Just prior to the acquisition of the Company by KMI, any outstanding but not yet exercisable options became immediately exercisable and an additional pre-tax charge of $3.6 million was recorded to recognize the accelerated vesting of the remaining options. The options were then purchased by KMI and subsequently cancelled. Had the Company used the fair value based method to account for stock options granted during 2002, pro forma earnings and earnings per share would have been as follows:

		Year ended December 31, 2004
Net earnings	As reported	$149.8 million
	Pro forma	$148.6 million

A Black-Scholes model was used to calculate stock option fair values. The weighted average fair value of options granted in 2005 was $4.33 (2004 — $2.40). Significant assumptions in valuing the options were as follows:

	2005		2004	
	Regular Options	**Performance Based**	Regular Options	Performance Based
Interest rate	3.6%	3.7%	3.5 - 3.7%	3.5%
Expected volatility	16.5%	16.5%	15.1 - 15.4%	15.4%
Expected life	5 years	6 years	5 years	6 years

12. SHARE OPTION PLAN AND STOCK-BASED COMPENSATION (CONTINUED)

DEFERRED SHARE UNITS

The Company had issued Deferred Share Units (''DSU's'') to certain senior employees and directors. At December 31, 2005, there were no (2004 — 52,859) DSU's outstanding due to the payment of all outstanding DSU's at the acquisition of the Company by KMI on November 30, 2005. The liability at December 31, 2005 was nil (2004 — $1.5 million) and was included in other long-term liabilities and deferred credits.

13. EMPLOYEE BENEFIT PLANS

The Company is a sponsor of pension plans for eligible employees. The plans include registered defined benefit pension plans, supplemental unfunded arrangements, which provide pension benefits in excess of statutory limits, and defined contributory plans. The Company also provides post-employment benefits other than pensions for retired employees. The following is a summary of each type of plan:

DEFINED BENEFIT PLANS

Retirement benefits under the defined benefit plans are based on employees' years of credited service and remuneration. Company contributions to the plan are based upon independent actuarial valuations. The most recent actuarial valuations of the defined benefit pension plans for funding purposes were at December 31, 2004 and December 31, 2002 and the date of the next required valuations are December 31, 2005 and December 31, 2007. The December 31, 2005 valuations will not be completed until the second quarter of 2006. The expected weighted average remaining service life of employees covered by the defined benefit pension plans is 11.8 years (2004 — 11.8 years).

DEFINED CONTRIBUTION PLAN

Effective in 2000 for Terasen Gas and 2003 for petroleum transportation operations, all new non-union employees become members of defined contribution pension plans. Company contributions to the plan are based upon employee age and pensionable earnings for employees of the natural gas distribution operations and pensionable earnings for employees of the petroleum transportation operation.

SUPPLEMENTAL PLANS

Certain employees are eligible to receive supplemental benefits under both the defined benefit and defined contribution plans. The supplemental plans provide pension benefits in excess of statutory limits. The supplemental plans are unfunded and are secured by letters of credit.

OTHER POST-EMPLOYMENT BENEFITS

The Company provides retired employees with other post-employment benefits that include, depending on circumstances, supplemental health, dental and life insurance coverage. Post-employment benefits are unfunded and annual expense is recorded on an accrual basis based on independent actuarial determinations, considering among other factors, health care cost escalation. The most recent actuarial valuations were completed as at December 31, 2002 and the December 31, 2005 valuation will not be completed until second quarter of 2006. The expected weighted average remaining service life of employees covered by these benefit plans is 9.9 years (2004 — 9.9 years).

13. EMPLOYEE BENEFIT PLANS (CONTINUED)

The Company measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 each year. The financial positions of the employee defined benefit pension plans and other benefit plans are presented in aggregate in the tables below:

	Pension benefit plans		Other benefit plans	
	2005	2004	**2005**	2004
Plan assets				
Fair value, beginning of year	**$274.5**	$255.3	**$ —**	$ —
Company contributions	**6.9**	5.5	**1.6**	1.5
Contributions by members	**3.3**	2.9	**—**	—
Actual return on plan assets	**28.6**	26.7	**—**	—
Benefits paid	**(14.3)**	(15.2)	**(1.5)**	(1.4)
Other	**(0.5)**	(0.7)	**(0.1)**	(0.1)
Fair value, end of year	**298.5**	274.5	**—**	—
Accrued benefit obligation				
Balance, beginning of year	**298.0**	276.7	**67.3**	61.0
Service cost	**8.5**	8.1	**1.4**	1.3
Interest cost	**17.9**	17.2	**4.1**	3.9
Benefit payments	**(14.3)**	(15.2)	**(1.5)**	(1.4)
Contributions by members	**3.3**	2.9	**—**	—
Plan amendments and curtailments	**0.9**	—	**—**	—
Past service cost	**0.3**	0.5	**0.4**	—
Actuarial loss	**2.8**	—	**—**	—
Change in discount rate	**27.0**	7.8	**10.2**	2.5
Balance, end of year	**344.4**	298.0	**81.9**	67.3
Plan surplus (deficiency)	**(45.9)**	(23.5)	**(81.9)**	(67.3)
Unamortized transitional obligation (benefit)	**(23.8)**	(27.2)	**4.7**	6.2
Unamortized actuarial loss	**62.7**	43.2	**39.7**	32.0
Unamortized past service costs	**7.4**	9.0	**(2.6)**	(3.2)
Accrued benefit asset (liability)	**$ 0.4**	$ 1.5	**$(40.1)**	$(32.3)

The net accrued benefit liability is included in other long-term liabilities and deferred credits (Note 10).

Included in the accrued benefit obligation and fair value of the plan assets at year-end are the following amounts in respect of plans with accrued benefit obligations in excess of fair value of assets:

	Pension benefit plans		Other benefit plans	
	2005	2004	**2005**	2004
Accrued benefit obligations:				
Unfunded plans	**$ 35.9**	$ 28.0	**$ 81.9**	$ 67.3
Funded plans	**258.0**	156.5	**—**	—
	293.9	184.5	**81.9**	67.3
Fair value of plan assets	**246.2**	151.9	**—**	—
Funded status deficit	**$ (47.7)**	$ (32.6)	**$(81.9)**	$(67.3)

The accrued benefit obligations for unfunded pension benefit plans are secured by letters of credit.

13. EMPLOYEE BENEFIT PLANS (CONTINUED)

The net benefit plan expense is as follows:

	Pension benefit plans		Other benefit plans	
	2005	2004	**2005**	2004
Current service cost	**$ 8.7**	$ 8.1	**$1.6**	$1.3
Interest cost on projected benefit obligations	**17.9**	17.2	**4.1**	3.9
Actual return on plan assets	**(28.6)**	(26.7)	**—**	—
Net actuarial gains	**29.8**	7.8	**9.0**	2.5
Past service costs	**0.3**	0.5	**—**	—
Impact of curtailment/settlement	**0.9**	—	**—**	—
Net benefit plan expense before adjustments	**29.0**	6.9	**14.7**	7.7
Adjustments to recognize the long-term nature of employee future benefit costs:				
Difference between actual and expected return on plan assets	**9.2**	7.7	**—**	—
Difference between actual and recognized actuarial gains (losses) in year	**(26.8)**	(5.2)	**(6.4)**	0.1
Difference between actual and recognized past service costs in year	**0.4**	0.1	**(0.3)**	(0.3)
Special termination benefits	**(0.7)**	—	**—**	—
Amortization of transitional obligation (benefit)	**(3.4)**	(3.4)	**1.6**	1.6
Other	**—**	1.5	**—**	—
Net benefit plan expense	**$ 7.7**	$ 7.6	**$9.6**	$9.1
Defined contribution plan expense	**$ 1.6**	$ 2.3		
	$ 9.3	$ 9.9		

BENEFIT PLAN ASSETS

The weighted-average asset allocation by asset category of the Company's funded defined benefit pension plans is as follows:

	Pension benefit plans	
	2005	2004
Equity securities	**57%**	55%
Fixed income securities	**38%**	40%
Other assets	**5%**	5%
Total assets	**100%**	100%

The investment policy for benefit plan assets is to optimize the risk-return using a portfolio of various asset classes. The Company's primary investment objectives are to secure registered pension plans, and maximize investment returns in a cost-effective manner while not compromising the security of the respective plans. The pension plans utilize external investment managers to manage the investment policy. Assets in the plan are held in trust by independent third parties.

The pension plans do not directly hold any shares of the Company.

SIGNIFICANT ASSUMPTIONS

The discount rate assumption used in determining pension and post-retirement benefit obligations and net benefit expense reflects the market yields, as of the measurement date, on high-quality debt instruments. The expected rate of return on plan assets assumption is reviewed annually by management, in conjunction with actuaries. The assumption is based on the expected returns for the various asset classes, weighted by the portfolio allocation.

The weighted average significant actuarial assumptions used to determine the accrued benefit obligation and the benefit plan expense are as follows:

	Pension benefit plans		Other benefit plans	
	2005	2004	**2005**	2004
Accrued benefit obligation				
Discount rate at December 31, based on AA Corporate bonds	**5.00%**	6.00%	**5.00%**	6.00%
Rate of compensation increase	**3.50%**	3.50%	**—**	—
Net benefit plan expense				
Discount rate at January 1, based on AA Corporate bonds	**6.00%**	6.25%	**6.00%**	6.25%
Expected rate of return on plan assets	**7.50%**	7.50%	**—**	—

13. EMPLOYEE BENEFIT PLANS (CONTINUED)

The assumed health-care cost trend rates for other post-employment benefit plans are as follows:

	2005	2004
Extended health benefits		
Initial health care cost trend rate	**9.0%**	9.0%
Annual rate of decline in trend rate	**1.0%**	1.0%
Ultimate health care cost trend rate	**5.0%**	5.0%
Year that the rate reaches the ultimate trend rate	**2008**	2008
Medical Services Plan Benefits Premium trend rate	**4.0%**	4.0%

A one percentage-point change in assumed health-care cost trend rates would have the following effects:

2005	**One percentage-point increase**	**One percentage-point decrease**
Effect on the total of the service cost and interest cost components of the benefit plan expense	$ 1.5	$ (1.2)
Effect on accrued benefit obligation	15.5	(12.9)

CASH FLOWS

Total cash contributions for employee benefit plans consist of:

	Employee benefit plans	
	2005	2004
Funded plans	**$ 5.3**	$4.3
Beneficiaries of unfunded plans	**3.2**	2.7
Defined contribution plans	**1.6**	2.3
Total	**$10.1**	$9.3

The contributions for 2006 are anticipated to be approximately the same as 2005 for both the defined pension benefit plans and other benefit plans.

BENEFIT CHANGES

Effective January 1, 2004, the Company modified its post-employment benefit program for non-union active employees in order to provide future retirees with more choice of coverage and to reduce the Company's exposure to future health and group life cost increases. The new plan is predominantly a defined contribution plan incorporating a Company-paid health spending account, a security health plan and life insurance. Provincial medical services plan premiums will now be paid by the retiree.

All plan members who have retired on or before December 31, 2004 receive benefits under the plans that were in effect when they retired, which includes the payment of provincial medical services plan premiums by the Company. Employees electing to retire during 2005 will have a choice between the new and old plan, and employees retiring after December 31, 2005 will participate in the new plan.

These assumptions, including the post-employment benefit plan changes, were included in the calculation of the accrued benefit obligation at December 31, 2003, 2004 and 2005.

IMPACT OF RATE REGULATION

As required by the regulator, Terasen Gas is required under its approved cost of service model to defer the amounts of pension benefit expense that exceed or are less than the amounts approved by the regulator to be recovered in rates each year. During the year ended December 31, 2005 the Company has deferred pension expense of $0.3 million that exceeded the amount approved by the regulator to be recovered in rates for 2005.

14. FINANCING COSTS

	2005	2004
Interest and expense on long-term debt	**$177.9**	$151.6
Interest on short-term debt	**15.0**	25.1
Interest capitalized	**(1.5)**	(1.1)
	$191.4	$175.6

Included in interest expense on long-term debt for the year ended December 31, 2005 is $10.9 million of redemption premium paid on the redemption of Trans Mountain Debentures during the year.

As allowed by the regulators, during the year ended December 31, 2005, the Company capitalized interest for borrowing requirements for construction of assets that have not been included in rate base of $1.5 million (2004 — $1.1 million).

15. INCOME TAXES

PROVISION FOR INCOME TAXES

	2005	2004
Current income taxes	**$48.7**	$66.3
Future income taxes	**2.9**	(2.6)
	$51.6	$63.7

VARIATION IN EFFECTIVE INCOME TAX RATE

Consolidated income taxes vary from the amount that would be computed by applying the Canadian and United States Federal, British Columbia and Alberta combined statutory income tax rate of 33.77% (2004 — 34.52%) to earnings before income taxes as shown in the following table:

	2005	2004
Earnings before income taxes	**$157.7**	$210.2
Combined statutory income tax rate	**33.77%**	34.52%
Combined income taxes at statutory rate	**$ 53.3**	$ 72.6
Increase (decrease) in income taxes resulting from:		
Capital cost allowance and other deductions claimed for income tax purposes over amounts recorded for accounting purposes	**(10.0)**	(14.7)
Large Corporations Tax in excess of surtax	**6.1**	6.5
Non-deductible expenses and non-taxable income	**9.6**	5.5
Benefit of tax rate changes on losses	**—**	(0.4)
Equity income not subject to tax	**(4.7)**	(3.3)
Write-off of restricted tax loss carryforwards	**5.9**	—
Other permanent differences	**(8.0)**	(2.6)
Other	**(0.6)**	0.1
Actual consolidated income taxes	**$ 51.6**	$ 63.7
Effective income tax rate	**32.72%**	30.30%

FUTURE INCOME TAXES

The net future income tax liability of the Company of $88.7 million (2004 — $68.7 million) relates primarily to the tax effect of temporary differences on non-regulated property, plant and equipment balances and tax benefits repayable to shippers in future periods.

As a result of the Company accounting for income taxes following the taxes payable method for its natural gas distribution and petroleum transportation regulated operations, the Company has not recognized net future income tax liabilities amounting to $301.8 million at December 31, 2005 (2004 — $278.7 million) and has not recognized a future income tax expense of $23.1 million for the year ended December 31, 2005 (2004 — $15.2 million), all of which were calculated using the asset and liability method.

16. FINANCIAL INSTRUMENTS

FAIR VALUE ESTIMATES

The carrying values of cash and short-term investments, accounts receivable, short-term notes and accounts payable and accrued liabilities approximate their fair values due to the relatively short period to maturity of the instruments.

The fair value of the Company's investment in the Express System is estimated to approximate its carrying value.

The fair value of the Company's long-term debt, calculated by discounting the future cash flow of each debt issue at the estimated yield to maturity for the same or similar issues at December 31, 2005, or by using available quoted market prices, is estimated at $2,673.4 million (2004 — $2,818.2 million). The majority of the Company's long-term debt relates to regulated operations which enables the Company to recover the existing financing charges through rates or tolls.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates cannot be determined with precision as they are subjective in nature and involve uncertainties and matters of judgment.

DERIVATIVE INSTRUMENTS

The Company uses derivative instruments to hedge its exposures to fluctuations in natural gas prices, interest rates and foreign currency exchange rates.

16. FINANCIAL INSTRUMENTS (CONTINUED)

			December 31			
			2005		2004	
Asset (Liability)	Number of swaps and options	Term to maturity (years)	Carrying Value	Fair Value	Carrying Value	Fair Value
			(in millions)			
Interest Rate Swaps						
Terasen Inc.	**3**	**1 - 9**	**$ —**	**$ 3.6**	$ —	$5.4
TGI	**3**	**2**	**—**	**(1.6)**	—	—
TGVI	**4**	**1 - 4**	**—**	**(0.6)**	—	(3.2)
Corridor	**2**	**5 - 10**	**—**	**0.3**	—	—
Natural Gas Commodity Swaps and Options						
TGI and TGVI	**161**	**Up to 3**	**21.2**	**105.6**	—	(8.3)
Clean Energy	**—**	**—**	**—**	**—**	6.5	6.5
Foreign Currency Swaps						
Terasen Inc.	**—**	**—**	**—**	**—**	(0.6)	(0.6)

The natural gas derivatives fair value reflects only the value of the natural gas derivatives and not the offsetting change in value of the underlying future purchases of natural gas. These fair values reflect the estimated amounts the Company would receive or pay to terminate the contracts at the stated dates.

Included in the carrying value of the natural gas derivatives is $22.2 million of unrealized fair value gains associated with derivative instruments which were deemed to be ineffective at December 31, 2005, and $1.0 million of derivative instruments which did not qualify for hedge accounting that are in a liability position.

Clean Energy, an entity in which the Company held an interest, had historically purchased gas forward contract positions to offset future commodity supply contracts. Since these contracts were not specifically designated as hedges, these positions were marked-to-market at each balance sheet date and gains or losses were reported in the statement of earnings as cost of revenues from other activities. During the year ended December 31, 2005 the Company included in earnings an amount of $10.9 million (2004 — $3.3 million) net of tax and estimated selling expenses pertaining to the Company's proportionate share of Clean Energy's gas forward contracts.

The derivatives entered into by Terasen Gas and TGVI relate to regulated operations and any resulting gains or losses are recorded in rate stabilization accounts, subject to regulatory approval, and passed through to customers in future rates.

The Company is exposed to credit risk in the event of non-performance by counterparties to derivative instruments. Because it deals with high credit quality institutions in accordance with established credit approval practices, the Company does not expect any counterparties to fail to meet their obligations.

17. COMMITMENTS & CONTINGENCIES

The Company's subsidiaries and proportionately consolidated entities have entered into operating leases for certain building space and natural gas distribution assets. In addition, Terasen Gas and TGVI have entered into gas purchase contracts which represent future purchase obligations.

The following table sets forth the Company's operating lease and gas purchase obligations due in the years indicated:

	Operating leases	Purchase obligations	Total
2006	$ 21.3	$ 873.8	$ 895.1
2007	20.2	113.6	133.8
2008	20.6	33.2	53.8
2009	19.3	30.2	49.5
2010	18.2	—	18.2
2011 and later	127.5	—	127.5
	$227.1	$1,050.8	$1,277.9

Gas purchase contract commitments are based on market prices that vary with gas commodity indices. The amounts disclosed reflect index prices that were in effect at December 31, 2005.

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. The government loans are repayable in any fiscal year after 2002 and 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 approved by the BCUC, these loans have been recorded as a government grant and have reduced the amounts reported for property, plant and equipment. The Company anticipates that all of the repayment criteria may be met in 2006 and, if met, will result in an estimated repayment of $4.5 million of these loans in 2006. As the loans are repaid and replaced with non-governmental loans, plant and equipment and long-term debt will increase in accordance with the approved capital structure, as will the rate base used in determining rates. The amounts are not included in the obligations in the table above as the amounts and timing of

17. COMMITMENTS & CONTINGENCIES (CONTINUED)

repayments is dependent upon the approved RDDA recovery each year and the ability to replace the loans with non-government subordinated debt financing on reasonable commercial terms.

A number of claims and lawsuits seeking damages and other relief are pending against the Company. Management is of the opinion, based upon information presently available, that it is unlikely that any liability, to the extent not provided for through insurance or otherwise, would be material in relation to the Company's consolidated financial statements.

18. GUARANTEES

The Company has, for a fee, arranged for the issuance of a letter of credit in the amount of US$15.1 million on behalf of co-investors in the Express System to fund the Debt Service Reserve Account required under the Express System's trust indenture. The letter of credit is subject to annual renewal. If the letter of credit is drawn upon, the Company will have recourse to the co-investors, major Canadian pension funds.

The Company has, for a fee, provided indemnities with respect to performance bonds issued on behalf of Clean Energy in the amount of US$3.5 million. These performance bonds secure construction projects undertaken by Clean Energy, and expire at various dates before October 31, 2006.

The Company has letters of credit outstanding at December 31, 2005 totalling $118.5 million to support its operations and capital projects, including $50.8 million for its unfunded supplemental pension benefit plans and $17.6 million for the letter of credit referred to above on behalf of co-investors in the Express System.

19. SUBSEQUENT EVENTS

(a) On January 13, 2006, Terasen Gas (Vancouver Island) Inc. entered into a five-year unsecured, committed, revolving credit facility of $350 million with a syndicate of banks, of which $296 million was drawn against the facility on January 17, 2006. A portion of the facility was used to refinance TGVI's existing term facility of $209.5 million. The facility will also be utilized to finance working capital requirements and general corporate purposes.

Concurrently with executing the above noted facility, TGVI entered into a $20 million, seven-year unsecured, committed, non-revolving credit facility with one bank. This facility will be utilized for purposes of refinancing any annual prepayments TGVI may be required to make on non-interest bearing government contributions. The terms and conditions are primarily the same as the aforementioned TGVI facility except this facility ranks junior to repayment of TGVI's Class B subordinated debt which is held by the Company.

(b) On March 2, 2006 a Decision was issued by the BCUC approving changes to Terasen Gas' and TGVI's deemed equity components from 33% to 35% and from 35% to 40%, respectively, with effective from January 1, 2006. The same Decision also modified the previously existing generic return on equity (''ROE'') reset formula resulting in an increase in allowed ROE's from the levels that would have resulted from the old formula. The changes increased the allowed ROE for 2006 from 8.29% to 8.80% for Terasen Gas and from 8.79% to 9.50% for TGVI.

(c) Subsequent to year-end, the Company received a letter dated March 31, 2006 from the British Columbia Social Service tax authority indicating their intention to assess additional provincial sales tax on the Southern Crossing Pipeline which was completed in 2000. The letter received does not indicate the amount to be assessed and a formal notice of assessment has not been received. Any assessment will be appealed when it is received and the Company believes this assessment is without merit and it will not have a material adverse impact on the financial results of the Company.

Terasen Inc.

Unaudited Interim Consolidated Financial Statements
Three and nine months ended September 30, 2006

CONSOLIDATED STATEMENTS OF EARNINGS
(Unaudited)

	In millions of dollars			
	Three months ended September 30		Nine months ended September 30	
	2006	2005	**2006**	2005
Revenues				
Natural gas distribution	**$217.0**	$213.7	**$1,204.6**	$1,065.8
Petroleum transportation	**60.4**	57.3	**168.2**	163.0
Other activities	**10.9**	11.6	**33.3**	35.6
	288.3	282.6	**1,406.1**	1,264.4
Expenses				
Cost of natural gas	**108.4**	109.4	**767.4**	637.2
Cost of revenues from other activities	**6.0**	6.5	**21.0**	22.3
Operation and maintenance	**72.1**	68.7	**206.9**	201.3
Depreciation and amortization	**36.1**	35.3	**108.7**	106.0
Property and other taxes	**18.6**	18.0	**56.3**	53.8
	241.2	237.9	**1,160.3**	1,020.6
Operating income	**47.1**	44.7	**245.8**	243.8
Financing costs	**45.6**	44.1	**134.7**	132.9
Earnings before share of equity earnings and income taxes	**1.5**	0.6	**111.1**	110.9
Share of earnings (loss) from Clean Energy	**—**	(4.4)	**—**	2.2
Share of earnings from Express system	**5.8**	5.0	**16.2**	13.7
Earnings before income taxes and discontinued operations	**7.3**	1.2	**127.3**	126.8
Income taxes	**0.7**	0.3	**45.1**	31.9
Earnings before discontinued operations	**6.6**	0.9	**82.2**	94.9
Earnings (loss) from discontinued operations	**(4.1)**	3.1	**(17.0)**	4.9
Net earnings	**$ 2.5**	$ 4.0	**$ 65.2**	$ 99.8

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

(Unaudited)

	Nine months ended September 30	
	2006	2005
	In millions of dollars	
Retained earnings, beginning of period	**$425.0**	$418.9
Net earnings	**65.2**	99.8
	490.2	518.7
Dividends on common shares	**—**	71.2
Retained earnings, end of period	**$490.2**	$447.5

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Unaudited)

	In millions of dollars As at	
	September 30, 2006	December 31, 2005
	(unaudited)	
Assets		
Current assets		
Cash and short-term investments	**$ 82.8**	$ 79.4
Accounts receivable	**188.1**	468.1
Inventories of gas in storage and supplies	**249.7**	205.7
Prepaid expenses	**8.8**	14.1
Current portion of rate stabilization accounts	**142.5**	28.4
Current assets held for sale	**—**	54.8
	671.9	850.5
Property, plant and equipment	**3,994.8**	3,907.9
Long-term investment	**254.5**	238.3
Goodwill	**76.4**	76.4
Rate stabilization accounts	**49.8**	48.3
Other assets	**86.8**	84.8
Long-lived assets held for sale	**—**	109.9
	$5,134.2	$5,316.1
Liabilities and shareholder's equity		
Current liabilities		
Short-term notes	**$ 524.0**	$ 681.0
Accounts payable and accrued liabilities	**427.2**	433.8
Income and other taxes payable	**20.0**	30.8
Current portion of rate stabilization accounts	**—**	47.9
Current portion of long-term debt	**41.0**	398.2
Due to parent company	**6.3**	0.4
Current liabilities held for sale	**—**	24.5
	1,018.5	1,616.6
Long-term debt	**2,367.0**	2,012.9
Other long-term liabilities and deferred credits	**176.9**	168.5
Future income taxes	**71.7**	88.7
Long-term liabilities held for sale	**—**	13.7
	3,634.1	3,900.4
Shareholder's equity		
Common shares	**904.9**	904.9
Contributed surplus	**155.9**	137.5
Retained earnings	**490.2**	425.0
Cumulative currency translation adjustment	**0.1**	(0.7)
	1,551.1	1,466.7
Less cost of common shares held by Terasen Pipelines (Trans Mountain) Inc.	**51.0**	51.0
	1,500.1	1,415.7
	$5,134.2	$5,316.1

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Three months ended September 30		Nine months ended September 30	
	2006	2005	**2006**	2005
	In millions of dollars			
Cash flows provided by (used for)				
Operating activities				
Net earnings	**$ 2.5**	$ 4.0	**$ 65.2**	99.8
Adjustments for non-cash items				
Loss from discontinued operations	**4.1**	—	**17.0**	—
Depreciation and amortization	**36.1**	35.8	**108.7**	109.0
Share of equity earnings from long-term investments, in excess of cash distributions	**(5.8)**	(1.7)	**(16.2)**	(14.1)
Future income taxes	**(21.0)**	1.2	**(27.5)**	1.5
Other	**5.4**	8.5	**14.1**	11.5
	21.3	47.8	**161.3**	207.7
Change in rate stabilization accounts	**(19.2)**	(21.5)	**21.5**	2.0
Discontinued operations — water/utility services	**(4.1)**	—	**(17.0)**	—
Changes in working capital	**(50.7)**	(43.3)	**57.2**	(49.0)
	(52.7)	(17.0)	**223.0**	160.7
Investing activities				
Property, plant and equipment	**(84.1)**	(43.4)	**(194.2)**	(170.3)
Proceeds on the sale of water business	**8.3**	—	**132.6**	—
Other assets	**(2.2)**	(9.7)	**(3.9)**	(12.6)
	(78.0)	(53.1)	**(65.5)**	(182.9)
Financing activities				
Increase (decrease) in short-term notes	**148.0**	383.0	**(157.0)**	495.5
Increase in long-term debt	**127.1**	—	**407.8**	450.5
Reduction of long-term debt	**(99.8)**	(350.7)	**(410.8)**	(848.1)
Advances from KMI	**1.3**	—	**5.9**	—
Issue of common shares, net of issue costs	**—**	3.2	**—**	8.7
Dividends on common shares	**—**	(23.8)	**—**	(71.2)
	176.6	11.7	**(154.1)**	35.4
Net increase (decrease) in cash	**45.9**	(58.4)	**3.4**	13.2
Cash at beginning of period	**36.9**	91.6	**79.4**	20.0
Cash at end of period	**$ 82.8**	$ 33.2	**$ 82.8**	$ 33.2
Supplemental cash flow information				
Interest paid in the period	**$ 46.8**	$ 48.9	**$ 137.4**	$ 135.3
Income taxes paid in the period	**16.4**	22.7	**41.5**	48.0
Non-cash transaction				
Mark to market on certain gas derivatives deferred in rate stabilization accounts	**89.6**	—	**185.1**	—

Cash is defined as cash or bank indebtedness.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. BASIS OF PRESENTATION

The accounting policies and methods of application used in the preparation of these interim consolidated financial statements are consistent with the accounting policies used in the Company's year end audited consolidated financial statements of December 31, 2005. These consolidated financial statements do not include all disclosures required for annual financial statements, and therefore these statements should be read in conjunction with the consolidated financial statements for the year ended December 31, 2005. Certain comparative figures have been restated to conform with the current period presentation.

2. SEGMENT DISCLOSURES

	Three months ended September 30			
	Natural gas distribution	Petroleum transportation	Other activities	Total
	(in millions of dollars)			
2006				
Revenues	**$ 217.0**	**$ 60.4**	**$ 10.9**	**$ 288.3**
Earnings (loss) before discontinued operations	**(6.8)**	**17.4**	**(4.0)**	**6.6**
Net earnings (loss)	**(6.8)**	**17.4**	**(8.1)**	**2.5**
Total assets	**3,576.8**	**1,472.7**	**84.7**	**5,134.2**
2005				
Revenues	$ 213.7	$ 57.3	$ 11.6	$ 282.6
Earnings (loss) before discontinued operations	(3.6)	17.2	(12.7)	0.9
Net earnings (loss)	(3.6)	17.2	(9.6)	4.0
Total assets	3,428.3	1,364.5	299.0	5,091.8

	Nine months ended September 30			
	Natural gas distribution	Petroleum transportation	Other activities	Total
	(in millions of dollars)			
2006				
Revenues	**$1,204.6**	**$ 168.2**	**$ 33.3**	**$1,406.1**
Earnings (loss) before discontinued operations	**48.3**	**51.6**	**(17.7)**	**82.2**
Net earnings (loss)	**48.3**	**51.6**	**(34.7)**	**65.2**
Total assets	**3,576.8**	**1,472.7**	**84.7**	**5,134.2**
2005				
Revenues	$1,065.8	$ 163.0	$ 35.6	$1,264.4
Earnings (loss) before discontinued operations	59.8	50.8	(15.7)	94.9
Net earnings (loss)	59.8	50.8	(10.8)	99.8
Total assets	3,428.3	1,364.5	299.0	5,091.8

3. SEASONAL OPERATIONS

Due to the seasonal nature of the Company's natural gas distribution operations, quarterly earnings statements are not indicative of earnings on an annual basis.

4. RELATED PARTY TRANSACTIONS

The Company estimates that its parent company, Kinder Morgan Inc., provided management services totalling approximately $1.1 million (2005 — nil) for the three months ended September 30, 2006 and $8.5 million (2005 — nil) for the nine months ended September 30, 2006.

5. EMPLOYEE BENEFIT PLANS

The Company and its subsidiaries have defined benefit pension plans and defined contribution pension plans for employees. The Company also provides post-employment benefits other than pensions for retired employees. Additional information about these benefit plans can be found in the Company's 2005 Annual Report. The Company's estimated contributions to defined benefit pension plans for 2006 are anticipated to be $10.0 million (2005 actual $10.1 million).

Costs recognized in the periods are presented in the following tables:

	Three months ended September 30			
	Pension benefit plans		Other benefit plans	
	2006	2005	**2006**	2005
	(in millions of dollars)			
Current service cost	**$ 2.3**	$ 2.2	**$0.5**	$0.4
Interest cost on projected benefit obligations	**4.3**	4.5	**1.0**	1.0
Expected return on plan assets	**(5.2)**	(4.8)	**—**	—
Net actuarial losses	**(0.1)**	—	**—**	0.1
Plan amendments	**0.1**	0.2	**—**	—
Net benefit plan expense before adjustments of employee benefit costs:	**1.4**	2.1	**1.5**	1.5
Difference between actual and expected return on plan assets	**0.1**	0.1	**—**	—
Difference between actual and recognized actuarial gains in the year	**1.1**	0.6	**0.8**	0.3
Difference between actual and recognized past service	**0.2**	—	**—**	0.2
Amortization of transitional (benefit) obligation	**(0.8)**	(0.8)	**0.3**	0.4
Net benefit plan expense	**$ 2.0**	$ 2.0	**$2.6**	$2.4
Defined contribution plan expense	**$ 0.5**	$ 0.4		
Total pension expense	**$ 2.5**	$ 2.4		

	Nine months ended September 30			
	Pension benefit plans		Other benefit plans	
	2006	2005	**2006**	2005
	(in millions of dollars)			
Current service cost	**$ 7.0**	$ 6.6	**$1.5**	$1.2
Interest cost on projected benefit obligations	**12.9**	13.5	**3.1**	3.0
Expected return on plan assets	**(15.6)**	(14.4)	**—**	—
Net actuarial losses	**(0.4)**	—	**—**	0.3
Plan amendments	**0.3**	0.6	**—**	
Net benefit plan expense before adjustments of employee benefit costs:	**4.2**	6.3	**4.6**	4.5
Difference between actual and expected return on plan assets	**0.3**	0.3	**—**	—
Difference between actual and recognized actuarial gains in the year	**3.4**	1.8	**2.4**	0.9
Difference between actual and recognized past service	**0.6**	—	**—**	0.6
Amortization of transitional (benefit) obligation	**(2.5)**	(2.4)	**0.9**	1.2
Net benefit plan expense	**$ 6.0**	$ 6.0	**$7.9**	$7.2
Defined contribution plan expense	**$ 1.7**	$ 1.4		
Total pension expense	**$ 7.7**	$ 7.4		

6. CONTINGENCY AND COMMITMENTS

Terasen Gas, a subsidiary of the Company, received a Notice of Assessment dated July 31, 2006 from the British Columbia Social Service Tax authority for $37.1 million of additional provincial sales tax and interest on the Southern Crossing Pipeline, which was completed in 2000. This has not been provided for as the Company will appeal this assessment. Management believes that this assessment is without merit and will not have a material adverse impact on our business, financial position, results of operations or cash flows. In October 2006, the Company 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 to provide full payment or security. The payment has been recorded as a long term receivable and a request for regulatory deferral account treatment has been made. This payment does not reflect Management's belief as to the ultimate sustainability of the assessment.

PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

FORTIS INC.

(Unaudited)

As at September 30, 2006 and for the nine-month period ended September 30, 2006 and the year ended December 31, 2005

UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

The following unaudited *pro forma* consolidated financial statements give effect to the proposed acquisition (the ''Acquisition'') of Terasen Inc. (''Terasen'') under the purchase method of accounting. The unaudited *pro forma* consolidated balance sheet gives effect to the Acquisition as if it had occurred on September 30, 2006. The unaudited *pro forma* consolidated statements of earnings for the nine-month period ended September 30, 2006 and for the year ended December 31, 2005 give effect to the Acquisition as if it was completed on January 1, 2005.

These unaudited *pro forma* consolidated financial statements are presented for illustrative purposes only. The *pro forma* adjustments are based upon available information and certain assumptions that we believe are reasonable in the circumstances, as described in the notes to the unaudited *pro forma* consolidated financial statements.

Terasen is a holding company headquartered in Vancouver, British Columbia, operating two principal lines of business: natural gas distribution and petroleum transportation. Prior to the closing of the Acquisition, Kinder Morgan, Inc. (''Kinder Morgan'') will cause Terasen to divest itself of its petroleum transportation operations. These unaudited *pro forma* consolidated financial statements are based on Terasen's financial statements as at and for the nine months ended September 30, 2006 and for the year ended December 31, 2005. The financial position and results of the petroleum transportation operations have been excluded from the unaudited *pro forma* consolidated balance sheet and statements of earnings, respectively, by way of *pro forma* adjustments. Refer to Notes 2[b] and 2[d].

The *pro forma* information presented, including allocation of purchase price, is based on preliminary estimates of fair values of assets acquired and liabilities assumed, available information and assumptions and may be revised as additional information becomes available. The actual adjustments to our consolidated financial statements upon the closing of the Acquisition will depend on a number of factors, including additional information available and the net assets on the closing date of the Acquisition. Therefore, we believe that the actual adjustments will differ from the *pro forma* adjustments, and the differences may be material. For example, the final purchase price allocation is dependent on, among other things, the finalization of asset and liability valuations. A final determination of these fair values will reflect our consideration of a final valuation prepared by independent third-party appraisers. This final valuation will be based on the actual net tangible and intangible assets and liabilities that exist as of the closing date of the Acquisition. Any final adjustment may change the allocation of purchase price, which could affect the fair value assigned to the assets and liabilities and could result in a change to the unaudited *pro forma* consolidated financial statements, including a change to goodwill.

Fortis Inc.

PRO FORMA CONSOLIDATED BALANCE SHEET
As at September 30, 2006
(Unaudited)
($ millions)

	Fortis Inc.	Terasen Inc.	*Pro forma* adjustments Note		*Pro forma* consolidated balance sheet
ASSETS					
Current					
Cash and cash equivalents	61.4	82.8		—	**144.2**
Accounts receivable	207.3	188.1	2[b]	(22.3)	**373.1**
Prepaid expenses	21.5	8.8	2[b]	(3.2)	**27.1**
Regulatory assets	29.3	142.5		—	**171.8**
Gas inventories, materials and supplies	25.6	249.7	2[b]	(3.2)	**272.1**
	345.1	671.9		(28.7)	**988.3**
Income tax deposit	5.9	—		—	**5.9**
Deferred charges and other assets	161.9	86.8	2[b]	(31.0)	**223.1**
			2[m]	3.0	
			2[n]	2.4	
Regulatory assets	103.4	49.8		—	**153.2**
Future income taxes	8.0	—	2[f]	8.4	**30.9**
			2[g]	14.5	
Utility capital assets	2,831.3	3,994.8	2[b]	(1,158.4)	**5,667.7**
Income producing properties	418.8	—		—	**418.8**
Investments	170.7	254.5	2[b]	(254.5)	**170.7**
Intangibles, net of amortization	10.9	—		—	**10.9**
Goodwill	550.9	76.4	2[b]	631.6	**1,258.9**
	4,606.9	5,134.2		(812.7)	**8,928.4**
LIABILITIES					
Current					
Short-term borrowings	70.7	524.0		—	**594.7**
Accounts payable and accrued charges	264.2	433.5	2[b]	(85.0)	**625.7**
			2[m]	3.0	
			2[l]	10.0	
Dividends payable	21.1	—		—	**21.1**
Income taxes payable	5.9	20.0	2[b]	2.2	**28.1**
Regulatory liabilities	25.5	—		—	**25.5**
Current installments of long-term debt and capital lease obligations	32.8	41.0		—	**73.8**
	420.2	1,018.5		(69.8)	**1,368.9**
Other long-term liabilities and deferred credits	77.2	176.9	2[b]	(16.8)	**237.3**
Regulatory liabilities	33.6	—		—	**33.6**
Future income taxes	46.9	71.7	2[b]	(63.5)	**55.1**
Long-term debt and capital lease obligations	2,254.0	2,367.0	2[b]	(300.0)	**4,484.3**
			2[e]	139.3	
			2[f]	24.0	
Non-controlling interest	50.4	—		—	**50.4**
Preference shares	319.5	—		—	**319.5**
	3,201.8	3,634.1		(286.8)	**6,549.1**
SHAREHOLDERS' EQUITY					
Common shares (i)	822.5	853.9	2[k]	(853.9)	**1,796.7**
			2[g]	1,001.0	
			2[g]	(26.8)	
Preference shares	122.5	—		—	**122.5**
Contributed surplus	4.3	155.9	2[k]	(155.9)	**4.3**
Equity portion of convertible debentures	1.4	—		—	**1.4**
Foreign currency translation adjustment	(17.8)	0.1	2[k]	(0.1)	**(17.8)**
Retained earnings	472.2	490.2	2[k]	(490.2)	**472.2**
	1,405.1	1,500.1		(525.9)	**2,379.3**
	4,606.9	5,134.2		(812.7)	**8,928.4**

(i) Terasen Inc. common shares are net of $51.0 million of shares held by its wholly owned subsidiary, Terasen Pipelines (Trans Mountain) Inc.

See accompanying notes

Fortis Inc.

PRO FORMA CONSOLIDATED STATEMENT OF EARNINGS
For the year ended December 31, 2005
(Unaudited)
($ millions, except for per share amounts)

	Fortis Inc.	Terasen Inc.	*Pro forma* adjustments Note		*Pro forma* consolidated statement of earnings
Operating revenues	1,430.0	1,952.5	2[d]	(227.8)	**3,154.7**
Equity income	11.4	24.4	2[d]	(21.9)	**13.9**
	1,441.4	1,976.9		(249.7)	**3,168.6**
Expenses					
Energy supply	533.9	1,063.7		—	**1,597.6**
Operating	392.4	421.5	2[d]	(106.9)	**707.0**
Amortization	157.6	142.6	2[d]	(37.6)	**263.2**
			2[m]	0.6	
	1,083.9	1,627.8		(143.9)	**2,567.8**
Operating income	357.5	349.1		(105.8)	**600.8**
Finance charges	153.8	191.4	2[d]	(31.7)	**323.2**
			2[e]	7.3	
			2[o]	(5.8)	
			2[n]	1.0	
			2[p]	7.2	
Gain on settlement of contractual matters	(10.0)	—		—	**(10.0)**
	143.8	191.4		(22.0)	**313.2**
Earnings before income taxes, non-controlling interest and discontinued operations	213.7	157.7		(83.8)	**287.6**
Income taxes	70.4	51.6	2[d]	(9.0)	**111.9**
			2[i]	(1.1)	
Earnings before non-controlling interest and discontinued operations	143.3	106.1		(73.7)	**175.7**
Non-controlling interest	6.2	—		—	**6.2**
Earnings before discontinued operations	137.1	106.1		(73.7)	**169.5**
Loss from discontinued operations	—	4.9		—	**4.9**
Net earnings applicable to common shares	137.1	101.2		(73.7)	**164.6**
Average common shares outstanding (number, in millions)	101.8		2[g]	38.5	**140.3**
Earnings per common share before discontinued operations					
Basic	$ 1.35				**$ 1.21**
Diluted	$ 1.24				**$ 1.15**
Earnings per common share					
Basic	$ 1.35				**$ 1.17**
Diluted	$ 1.24				**$ 1.12**

See accompanying notes

Fortis Inc.

PRO FORMA CONSOLIDATED STATEMENT OF EARNINGS
For the nine-month period ended September 30, 2006
(Unaudited)
($ millions, except for per share amounts)

	Fortis Inc.	Terasen Inc.	*Pro forma* Adjustments Note		*Pro forma* consolidated statement of earnings
Operating revenues	1,071.7	1,406.1	2[d]	(168.2)	**2,309.6**
Equity income	6.9	16.2	2[d]	(16.2)	**6.9**
	1,078.6	1,422.3		(184.4)	**2,316.5**
Expenses					
Energy supply	394.0	767.4		—	**1,161.4**
Operating	290.3	284.2	2[d]	(74.3)	**500.2**
Amortization	130.9	108.7	2[d]	(28.1)	**212.0**
			2[m]	0.5	
	815.2	1,160.3		(101.9)	**1,873.6**
Operating income	263.4	262.0		(82.5)	**442.9**
Finance charges	124.4	134.7	2[d]	(20.1)	**246.2**
			2[e]	5.5	
			2[o]	(4.4)	
			2[n]	0.7	
			2[p]	5.4	
Gain on sale of income producing properties	(2.1)	—		—	**(2.1)**
	122.3	134.7		(12.9)	**244.1**
Earnings before income taxes, non-controlling interest and discontinued operations	141.1	127.3		(69.6)	**198.8**
Income taxes	23.1	45.1	2[d]	(10.3)	**57.1**
			2[i]	(0.8)	
Earnings before non-controlling interest and discontinued operations	118.0	82.2		(58.5)	**141.7**
Non-controlling interest	4.7	—		—	**4.7**
Earnings before discontinued operations	113.3	82.2		(58.5)	**137.0**
Loss from discontinued operations	—	17.0		—	**17.0**
Net earnings applicable to common shares	113.3	65.2		(58.5)	**120.0**
Average common shares outstanding (number, in millions)	103.5		2[g]	38.5	**142.0**
Earnings per common share before discontinued operations					
Basic	$ 1.09				**$ 0.96**
Diluted	$ 1.05				**$ 0.94**
Earnings per common share					
Basic	$ 1.09				**$ 0.85**
Diluted	$ 1.05				**$ 0.84**

See accompanying notes

FORTIS INC.

NOTES TO PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. BASIS OF PRESENTATION

The accompanying unaudited *pro forma* consolidated financial statements give effect to the acquisition (the ''Acquisition'') of all of the issued and outstanding shares in Terasen Inc. (''Terasen'') as described in the short form prospectus dated March 7, 2007 (the ''Prospectus''). The accompanying unaudited *pro forma* consolidated financial statements have been prepared by management of Fortis Inc. (''Fortis'' or the ''Corporation'') and are derived from the unaudited and audited consolidated financial statements of Fortis as at and for the nine-month period ended September 30, 2006 and for the year ended December 31, 2005, respectively; and the unaudited and audited financial statements of Terasen as at and for the nine-month period ended September 30, 2006, and for the year ended December 31, 2005, respectively.

The accounting policies used in the preparation of these unaudited *pro forma* consolidated financial statements are those disclosed in the Corporation's audited financial statements. Management has determined that no adjustments to Terasen's financial statements are required to comply with the accounting policies used by Fortis in the preparation of its consolidated financial statements. Certain accounting policies followed by Terasen are different from that of Fortis due to rate regulation associated with a gas utility imposed by the British Columbia Utilities Commission (''BCUC'').

As is standard with similar transactions in regulated utilities, the purchase price is primarily based upon the regulated assets at the point of closing. Based on the purchase price calculation as detailed in the acquisition agreement dated February 26, 2007 (the ''Acquisition Agreement''), the estimated net purchase price of Terasen is $1,099.0 million (refer to Note 2[a]).

The unaudited *pro forma* consolidated balance sheet and unaudited *pro forma* consolidated statements of earnings reflect the acquisition effected on September 30, 2006 and January 1, 2005, respectively. The unaudited *pro forma* consolidated financial statements are not necessarily indicative of the results that actually would have been achieved if the transactions reflected therein had been completed on the dates indicated or the results which may be obtained in the future. For instance, the actual purchase price allocation will reflect the fair value, at the purchase date, of the assets acquired and liabilities assumed based upon the acquirer's evaluation of such assets and liabilities following the closing of the transaction and, accordingly, the final purchase price allocation, as it relates principally to intangible assets, may differ significantly from the preliminary allocation reflected herein.

These unaudited *pro forma* consolidated financial statements should be read in conjunction with the description of the transaction described in the Prospectus; the audited and unaudited financial statements of Terasen, including the notes thereto, included in the Prospectus; and the audited and unaudited consolidated financial statements of Fortis including the notes thereto, incorporated by reference in the Prospectus.

The underlying assumptions for the *pro forma* adjustments provide a reasonable basis for presenting the significant financial effect directly attributable to the Acquisition. These *pro forma* adjustments are tentative and are based on available financial information and certain estimates and assumptions. The actual adjustments to the consolidated financial statements will depend on a number of factors. Therefore, we believe that the actual adjustments will differ from the *pro forma* adjustments, and the differences may be material.

2. PRO FORMA ASSUMPTIONS AND ADJUSTMENTS

[a] These *pro forma* consolidated financial statements give effect to the completion of the Acquisition, as if it had occurred on September 30, 2006 in respect of the *pro forma* consolidated balance sheet, and on January 1, 2005 in respect of the *pro forma* consolidated statements of earnings for the year ended December 31, 2005 and for the nine-month period ended September 30, 2006. The Acquisition has been reflected in the *pro forma* consolidated financial statements using the purchase method.

Estimated Net Purchase Price

	($ millions)
Unadjusted purchase price	1,801.0
Estimated acquisition costs (Note 2[h])	25.0
Estimated net purchase price, before assumed debt	1,826.0
Assumed cash of Terasen in excess of normal working capital	40.0
Assumed short-term notes of Terasen (Note 2[f])	(317.0)
Assumed long-term debt of Terasen (Note 2[f])	(450.0)
Estimated net purchase price	1,099.0

Estimated Net Funding Requirements

	($ millions)
Estimated net purchase price	1,099.0
Assumed short-term notes of Terasen	317.0
Assumed long-term debt of Terasen	450.0
Common share issuance costs (Note 2[g])	41.3
Estimated net funding requirements	1,907.3

Assumed Financing Structure

	($ millions)
Assumed short-term notes of Terasen	317.0
Assumed long-term debt of Terasen	450.0
Common share issuance (Note 2[g])	1,001.0
Incremental long-term debt issuance (Note 2[e])	139.3
	1,907.3

[b] Petroleum Transportation segment net assets and allocation of estimated net purchase price

The estimated net purchase price has been allocated to the fair values of Terasen net assets and liabilities at September 30, 2006, excluding the net assets and liabilities of the petroleum transportation segment which are not being acquired, in accordance with the purchase method, as follows:

	($ millions)				
	Terasen Inc.	Petroleum Transportation	Fair Value and Other Adjustments		Net Total
			Note		
Assets acquired:					
Cash and cash equivalents	82.8	—		—	**82.8**
Accounts receivable	188.1	(22.3)		—	**165.8**
Prepaid expenses	8.8	(3.2)		—	**5.6**
Regulatory assets	142.5	—		—	**142.5**
Gas inventories, materials and supplies	249.7	(3.2)		—	**246.5**
Current assets	**671.9**	**(28.7)**		—	**643.2**
Deferred charges and other assets	86.8	(31.0)	2[n]	2.4	**58.2**
Regulatory assets	49.8	—		—	**49.8**
Future income taxes	—	—	2[f]	8.4	**8.4**
Utility capital assets	3,994.8	(1,158.4)		—	**2,836.4**
Investments	254.5	(254.5)		—	**—**
Intangibles	—	—		—	**—**
	5,057.8	**(1,472.6)**		10.8	**3,596.0**
Liabilities assumed:					
Short-term borrowings	524.0	—		—	**524.0**
Accounts payable and accrued charges	433.5	(85.0)	2[l]	10.0	**358.5**
Income taxes payable	20.0	2.2		—	**22.2**
Current installments of long-term debt and capital lease obligations	41.0	—		—	**41.0**
Other long-term liabilities and deferred credits	176.9	(16.8)		—	**160.1**
Future income taxes	71.7	(63.5)		—	**8.2**
Long-term debt and capital lease obligations	2,367.0	(300.0)	2[f]	24.0	**2,091.0**
	3,634.1	**(463.1)**		34.0	**3,205.0**
Net assets at fair value, as at September 30, 2006	1,423.7	(1,009.5)		(23.2)	**391.0**
Net purchase price					**1,099.0**
Goodwill					**708.0**
Goodwill previously recorded by Terasen					**(76.4)**
Additional goodwill					**631.6**

Terasen's natural gas distribution business is regulated under traditional cost of service. The determination of revenues 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 the regulated business, no fair market value adjustments are recorded as part of the purchase price on individual assets and liabilities, including intangibles, to be acquired, because all of the economic benefits and obligations associated with them beyond regulated rates of return accrue to the customers. The book value of the assets and liabilities of the regulated business to be acquired has been assigned as fair value for the purchase price allocation.

[c] Goodwill

The excess of the purchase price, including estimated fees and expenses related to the Acquisition, over the preliminary fair value of net assets acquired from Terasen is classified as goodwill on the accompanying *pro forma* consolidated balance sheet.

[d] Results of Petroleum Transportation segment

The acquisition of Terasen does not include the petroleum transportation segment and, as such, the results of this segment for the year ended December 31, 2005 and for the nine months ended September 30, 2006 have been excluded, as follows:

	($ millions)	
	Nine-month period ended Sept 30, 2006	Year ended December 31, 2005
Operating revenues	168.2	227.8
Equity income	16.2	21.9
	184.4	249.7
Expenses		
Operating	74.3	106.9
Amortization	28.1	37.6
Finance charges	20.1	31.7
Income taxes	10.3	9.0
	132.8	185.2

[e] Financing

The Corporation has entered into a bridge financing agreement with its bankers at an assumed rate of 5.10%. This bridge will be refinanced with the issuance of other permanent capital including long-term debt facilities. It is assumed the anticipated debt funding requirement of $139.3 million will be initially financed by the bridge acquisition facility and will be subsequently refinanced at an average rate of 5.25%.

Additional interest expense of the following has been assumed:

	($ millions)	
	Nine-month period ended Sept 30, 2006	Year ended December 31, 2005
Interest on $139.3 million of refinanced incremental debt at 5.25%	5.5	7.3

[f] Assumed debt

Terasen has long-term debt outstanding of $450.0 million, in various series with due dates ranging from 2008 to 2040. The rates range from 5.56% to 8.0%, resulting in the fair market value of the debt exceeding book value by $24.0 million, ($15.6 million, net of future income taxes of $8.4 million), calculated as at September 30, 2006. No adjustment was made to the carrying value of the debt securities of Terasen Gas Inc. and Terasen Gas (Vancouver Island) Inc. This is due to the rate regulated nature of their businesses in which recovery in rates of the costs related to these debt securities is subject to the regulation of the BCUC.

Terasen also has short-term notes of $317.0 million that are being assumed. The remaining short-term notes balance of $207.0 million relates to the BCUC regulated business.

[g] Common share issuance

To fund a portion of the Acquisition purchase price, the Corporation plans to issue approximately 38.5 million common shares on closing resulting in estimated gross proceeds of $1,001.0 million, or net proceeds after common share issuance costs of $974.2 million ($41.3 million common share issuance costs less $14.5 million of future income taxes). The price of $26.00 per share, being the offering price for the issuance of 38.5 million subscription receipts of the Corporation pursuant to the Prospectus dated March 7, 2007, has been used as the issue price per share in the *pro forma* consolidated financial statements.

[h] Acquisition costs

It is assumed Acquisition costs will approximate $25.0 million, and will form part of the investment cost base. These primarily relate to investment banking and legal fees.

[i] Income taxes

Income taxes applicable to the *pro forma* adjustments are tax effected at Fortis' average tax rates of 35.0% and 35.0% for the year ended December 31, 2005 and the nine-month period ended September 30, 2006, respectively.

[j] Earnings per common share

The calculation of the *pro forma* earnings per common share for the year ended December 31, 2005, and for the nine-month period ended September 30, 2006, considers the issuance of 38.5 million common shares as contemplated in the Prospectus dated March 7, 2007, as if the issuance had taken place as at January 1, 2005.

[k] Terasen historical shareholder's equity balances

The historical shareholder's equity, contributed surplus, foreign currency translation and retained earnings balances of Terasen have been eliminated.

[l] Transition costs

Estimated known restructuring costs of $10.0 million are related to an after-tax estimate of expenses associated with a transition plan. The assessment of this plan will be completed as soon as possible after the consummation of the Acquisition and actions under the plan will begin as soon as possible thereafter.

[m] Long-term debt financing costs

Long-term debt financing costs are assumed to approximate $3.0 million, and will be deferred and amortized over the estimated term of the long-term debt of five years.

[n] Fair value of interest rate swaps and related amortization

The fair value of interest rate swaps of Terasen is an asset of $2.4 million as at September 30, 2006. The fair value adjustment will be amortized over the term of the related debt.

[o] Amortization of fair value debt adjustment

The debt fair value adjustment will be amortized over the term of the related debt. Refer to Note 2[f].

[p] Segmentation of short-term interest expense

The $317 million of assumed short-term notes of Terasen includes $110 million which had previously been allocated to the petroleum transportation segment by Terasen. With the acquisition of Terasen and the removal of the petroleum transportation segment, interest on the $110 million of short-term notes has been reallocated back to the remaining business being acquired as follows:

($ millions)	
Nine-month period ended Sept 30, 2006	Year ended December 31, 2005
5.4	7.2

INDEX TO MANAGEMENT DISCUSSION AND ANALYSIS

Terasen Inc.

2005 Management Discussion and Analysis
For the Year Ended December 31, 2005
April 10, 2006

This discussion should be read in conjunction with the consolidated financial statements of the Company and related notes for the years ended December 31, 2005 and 2004. In this MD&A, we, us, our, the Company and Terasen mean Terasen Inc., its subsidiaries, joint ventures and investments in significantly influenced companies. Terasen Gas refers to Terasen Gas Inc., TGVI refers to Terasen Gas (Vancouver Island) Inc., Trans Mountain refers to Terasen Pipelines (Trans Mountain) Inc., Corridor refers to Terasen Pipelines (Corridor) Inc., Terasen Pipelines refers to Terasen Pipelines Inc., Express refers to the Express and Platte Pipeline Systems; and Water and Utility Services refers to Terasen Waterworks (Supply) Inc., Terasen Utility Services Inc. and Terasen's 50% interest in Fairbanks Sewer and Water Inc. KMI refers to Kinder Morgan, Inc.

The financial data included in this discussion has been prepared in accordance with Canadian generally accepted accounting principles, and all dollar amounts are in Canadian dollars unless otherwise stated.

About Terasen

On November 30, 2005, all of the shares of the Company were acquired by Kinder Morgan, Inc. (''KMI''), through a subsidiary, pursuant to a Combination Agreement dated as of August 1, 2005. The Company's shareholders were able to elect, for each Terasen share held, either (i) $35.75 in cash, (ii) 0.3331 shares of KMI common stock, or (iii) $23.25 in cash plus 0.1165 shares of KMI common stock. In the aggregate, approximately 12.5 million shares of KMI common stock was issued together with cash payments of approximately $2.49 billion to Terasen securityholders.

Natural Gas Distribution

Terasen's natural gas distribution operations consist primarily of Terasen Gas and TGVI in addition to several small related utility operations. Terasen Gas is the largest distributor of natural gas in British Columbia, serving more than 804,000 customers in more than 100 communities. Major areas served by Terasen Gas are Greater Vancouver, the Fraser Valley and the Thompson, Okanagan, Kootenay and North Central Interior regions of the province. TGVI serves approximately 85,000 customers on Vancouver Island and the Sunshine Coast area and Terasen Gas (Whistler) serves approximately 2,000 customers in the Whistler region. Terasen Gas and TGVI provide transmission and distribution services to their customers, and obtain natural gas supplies on behalf of residential and commercial customers. Gas supplies are sourced primarily from northeastern British Columbia and, through the Company's Southern Crossing Pipeline, from Alberta.

Petroleum Transportation

Terasen's petroleum transportation operations are the Trans Mountain, Corridor, Express and Platte pipelines. These operations are conducted under the Kinder Morgan Canada name. Trans Mountain transports crude oil and refined products from Edmonton, Alberta to Burnaby, British Columbia and also delivers Canadian crude oil to several refineries in Washington State. Trans Mountain also owns the Westridge Marine Terminal, which is located at tidewater in the Port of Vancouver, and a jet fuel pipeline connecting to Vancouver International Airport. Corridor owns a dual pipeline system which transports diluted bitumen and diluent between the Muskeg River mine near Fort McMurray and the Shell upgrader north of Edmonton, Alberta. Corridor commenced commercial operations in May 2003. Terasen also owns a one-third interest in the Express Pipeline and the Platte Pipeline which transports crude oil from Hardisty, Alberta to the Rocky Mountain region of the United States and on to Wood River, Illinois.

Other Activities

In addition to Terasen's core businesses of Natural Gas Distribution and Petroleum Transportation, Terasen owns interests in several smaller businesses including a 30% interest in CustomerWorks LP. CustomerWorks provides billing and customer care services to utilities, municipalities and retail energy companies. CustomerWorks has outsourced the provision of its customer care services to an entity owned and operated by Accenture Inc. Prior to the disposition of Terasen's 40.4% ownership interest in Clean Energy on October 31, 2005, the other activities segment also included Clean Energy Fuel Corp. (''Clean Energy''), a provider of natural gas vehicle refueling infrastructure.

In January 2006, Terasen entered into a Purchase and Sale Agreement to dispose of its interest in its water and utility services operations for proceeds of approximately $125 million. The disposition is expected to be completed by the end of April 2006, subject to regulatory approvals. The water and utility services business has accordingly been reclassified as assets and liabilities held for sale and as discontinued operations. The disposition is not expected to give rise to a material gain or loss.

Results of Operations

Net Earnings

	Years ended December 31	
	2005	2004
	(in millions of dollars)	
Natural gas distribution		
Terasen Gas	**$ 65.3**	$ 69.7
TGVI	**25.5**	26.2
	90.8	95.9
Petroleum transportation		
Trans Mountain	**25.4**	39.4
Corridor	**13.6**	15.6
Express System	**25.5**	15.9
	64.5	70.9
Discontinued operations	**(4.9)**	3.3
Other activities	**(49.2)**	(20.3)
Net earnings	**$101.2**	$149.8

Net earnings for 2005 decreased by $48.6 million compared to 2004. Significant items that impacted net earnings in 2005 were as follows:

Certain items

	($ millions)
KMI transaction costs	$42.9
Inland Pacific Connector costs	3.6
Clean Energy hedging gains and disposition costs	(2.5)
Premium on Trans Mountain debt redemption	7.3
	$51.3

In 2005 the Company has charged to earnings after-tax costs of $42.9 million associated with the acquisition by KMI, mainly from pre-tax investment banking costs of $14.7 million, severance and employee-related costs of $14.4 million, share option costs of $3.6 million, and the write-off of approximately $15.3 million of income tax expense related to restricted tax loss carry-forwards.

In the fourth quarter of 2005 Terasen Gas expensed $3.6 million (after-tax) of costs incurred in connection with the Inland Pacific Connector project that were not permitted recovery in rates by the BCUC.

On October 31, 2005, the Company sold its 40.4% ownership in Clean Energy for proceeds of approximately U.S. $35.9 million. The sale, together with equity earnings of Clean Energy for the ten months ended October 31, 2005, has resulted in a gain of approximately $2.5 million, including the recognition of all unrealized gas forward contract gains of Clean Energy in 2005 totalling $10.9 million and the recognition of currency translation losses previously included in Shareholders' Equity totalling $8.4 million.

On November 1, 2005, Trans Mountain exercised its right to redeem the $35 million Series C Debentures. An after-tax charge to earnings of $7.3 million was incurred in connection with the premium that was paid to redeem the debentures.

The water and utility services business operations earnings have been reclassified to discontinued operations for both 2005 and 2004.

Selected Annual Information

	Years ended December 31		
	2005	2004	2003
	(in millions of dollars)		
Total revenues[1]	**$1,952.5**	$1,798.1	$1,763.1
Net income before discontinued operations[1]	**106.1**	146.5	130.7
Net income[2]	**101.2**	149.8	132.7
Common dividends paid	**95.1**	86.4	79.4
Total assets (restated)[1]	**5,316.1**	4,981.8	4,933.1
Long-term debt[1,3]	**2,012.9**	2,291.6	2,426.1
Current portion of long-term debt	**398.2**	416.7	51.8

1. Total revenues in 2004 and 2003 have been restated to reflect the reclassification of the water and utility services business as discontinued operations. Net income before discontinued operations and long-term debt for 2004 and 2003 have been restated for the reclassification of the Company's capital securities from equity to long-term debt, and the reclassification of the respective financing costs and income taxes. Total assets for 2004 and 2003 have been restated to reflect the reclassification of deferred charges to other long-term liabilities and deferred credits.
2. Terasen is a wholly-owned subsidiary of KMI and accordingly earnings per share information is not disclosed.
3. Excluding current portion of long-term debt.

Growth in total revenues has been caused mainly by higher natural gas commodity prices, particularly in 2005, which are flowed through in customer rates. Net income, when adjusted for the KMI transaction costs and Trans Mountain Series C redemption costs in 2005, has grown since 2003 mainly as a result of strong earnings growth in petroleum transportation. The completion of the Corridor Pipeline project in April 2003 and the Express System expansion in 2005 and throughput growth on the Trans Mountain system have been the main contributors to earnings growth. The increase in total assets from 2004 to 2005 reflected both capital expenditures and growth in natural gas inventories and accounts receivable as a result of higher natural gas commodity prices.

Results by Business Segment

Natural Gas Distribution

	Years ended December 31	
	2005	2004
	(in millions of dollars)	
Natural gas distribution revenues	**$1,678.0**	$1,494.1
Natural gas distribution net earnings	**90.8**	95.9

Revenues from natural gas distribution increased in 2005 compared to 2004 mainly as a result of higher market prices for natural gas, which are flowed through in customer rates. Cost of natural gas increased by a corresponding amount.

Earnings from natural gas distribution declined from $95.9 million in 2004 to $90.8 million in 2005 related to the expensing of costs associated with the KMI acquisition and the expensing of costs associated with the Inland Pacific Connector project, as well as a lower allowed return on equity in both Terasen Gas and TGVI and reduced earnings from accretion of the RDDA acquisition discount in TGVI. These factors were partially offset by strong operating performance in both Terasen Gas and TGVI as discussed below.

TERASEN GAS

Earnings from Terasen Gas decreased from $69.7 million to $65.3 million due to the expensing of $6.4 million of costs related to the KMI acquisition primarily from the expiry of loss carryforwards due to the change in control, a lower allowed return on equity in 2005 compared to 2004, and the expensing of $3.6 million (after-tax) of costs incurred in connection with the Inland Pacific Connector project that were not permitted recovery in rates by the BCUC. These factors were partially offset by strong operating performance, including higher transportation revenue, rate base growth and reduced bad debt expense.

Terasen Gas net customer additions during 2005 were 12,613, up from 11,750 customer additions in 2004. Solid economic conditions and continued strength in new housing starts in British Columbia helped drive the net customer additions in 2005. Terasen Gas industrial sales volumes decreased by 755 terajoules while transportation volumes increased by 1,113 terajoules from the previous year. Terasen Gas earns approximately the same margin regardless of whether a customer contracts for sales or transportation service.

Regulation

Terasen Gas' rates are based on estimates of several items, such as natural gas sales volumes, cost of natural gas, and interest rates. In order to manage the risks associated with some of these estimates, a number of regulatory deferral accounts are in place.

Two mechanisms to ameliorate unanticipated changes in sales volumes, such as changes caused by weather, have been implemented specifically for Terasen Gas. The first, originally called the Gas Cost Reconciliation Account (GCRA), relates to the recovery of all gas costs through a deferral account which captures all variances (overages and shortfalls) from forecasts. Balances are either refunded to or recovered from customers via an application with the BCUC. Creation of the GCRA was approved by the BCUC in October 1993; effective April 2004 the GCRA was split into two new deferral accounts called the Commodity Cost Reconciliation Account (CCRA) and the Midstream Cost Reconciliation Account (MCRA). The CCRA and MCRA were created to support commodity unbundling and the refund/recovery mechanism works the same as that used for the GCRA. The second mechanism seeks to stabilize revenues from residential and commercial customers through a deferral account that captures variances in the forecast versus actual customer use throughout the year. This mechanism is called the Revenue Stabilization Adjustment Mechanism (RSAM).

The RSAM and CCRA/MCRA accounts reduce Terasen Gas' earnings exposure to related risks by deferring any variances between projected and actual gas consumption and gas costs, and refunding or recovering those variances in rates in subsequent periods. Variances in usage by large volume, industrial transportation and sales customers are not covered by these deferral accounts as their usage is more predictable and less likely to be significantly affected by weather.

In 2005, the net balances of the RSAM and CCRA/MCRA accounts decreased to a payable of $9.0 million from a receivable of $14.1 million in 2004. In order to ensure that the balances in the CCRA/MCRA account are recovered on a timely basis, Terasen Gas prepares and files quarterly calculations with the BCUC to determine whether customer rate adjustments are needed to reflect prevailing market prices for natural gas costs.

Short-term and long-term interest rate deferral accounts are also in place to absorb interest rate fluctuations. The interest rate deferral accounts which were in place during 2004 effectively fixed the interest expense on short-term funds attributable to Terasen Gas' regulated assets at 4.00% during 2005, up from 3.25% in 2004. The effective fixed short-term interest rate for 2006 has been set at 4.00%. Any variations from this rate throughout the year are recorded in deferral accounts.

Allowed Return on Equity (ROE) and Capital Structure

Terasen Gas' allowed ROE is determined annually based on a formula that applies a risk premium to a forecast of long-term Government of Canada bond yields. For 2005, the application of the ROE formula set Terasen Gas' allowed ROE at 9.03%, down from 9.15% in 2004. Terasen Gas and TGVI applied to the BCUC in June 2005 to increase their deemed equity components from 33% to 38% and from 35% to 40%, respectively. The same application also requested an increase in allowed ROEs from the levels that would have resulted from the historic formula, which would have been 8.29% for Terasen Gas and 8.79% for TGVI in 2006.

The BCUC rendered its decision on the application on March 2, 2006, to be effective as of January 1, 2006. The generic ROE formula for a benchmark utility in British Columbia was changed such that it will be reset annually off a forecast of 30 Year Canada Bonds plus a 3.90% risk premium when the forecast yield on 30 Year Canada Bond is 5.25% The risk premium is adjusted annually by 75% of the difference between 5.25% and the forecast yield on 30 Year Canada Bonds. The changes increased the allowed ROE from 8.29% to 8.80% for Terasen Gas and from 8.79% to 9.50% for TGVI in 2006. The Decision also resulted in increases in the deemed equity components of Terasen Gas and TGVI to 35% and 40%, respectively.

2004-2007 Performance Based Rate Plan (PBR)

In July 2003, Terasen Gas received BCUC approval of a negotiated settlement for a 2004-2007 PBR. The PBR Settlement establishes a process for determining Terasen Gas' delivery charges and incentive mechanisms for improved operating efficiencies. The four-year agreement includes incentives for Terasen Gas to operate more efficiently through the sharing of the benefits between Terasen Gas and its customers. The PBR Settlement includes ten service quality measures designed to ensure Terasen Gas maintains service levels. It also sets out the requirements for an annual review process which will provide a forum for discussion between Terasen Gas and interested parties regarding its current performance and future activities.

Operation and maintenance costs and base capital expenditures are subject to an incentive formula reflecting increasing costs due to customer growth and inflation, less an adjustment factor based on 50 percent of inflation during the first two years of the PBR and 66 percent of inflation during the last two years. Base capital expenditure amounts are a function of customer numbers and projected customer additions. The PBR Settlement provides for a 50/50 sharing mechanism of earnings above or below the allowed return on equity beginning in 2004.

Upon expiry of the 2004-2007 PBR, there is no certainty as to whether a new negotiated settlement will be entered into, or what the terms of a new settlement might be.

Municipal Leasing Transactions

Certain municipalities in Terasen Gas' service area have an option to purchase the gas distribution franchise within their municipal boundary. In order to address these purchase options, the Company has developed a leasing arrangement that allows Terasen Gas to continue to operate the gas distribution assets by effectively selling the assets to the municipality and leasing them back for a 17 year period. After 17 years, Terasen Gas has an option to repurchase the assets at depreciated value. At December 31, 2005, Terasen Gas had entered into transactions involving a total value of $152.7 million, and the value of future transactions is not expected to be material.

TGVI

Earnings from TGVI remained steady, decreasing only slightly from $26.2 million to $25.5 million.

TGVI net customer additions during 2005 were 4,354, up from 4,233 customer additions in 2004.

Regulation

TGVI is also regulated by the BCUC. In 1995, an agreement was entered into between TGVI, the Province of British Columbia (the Province) and the Government of Canada, which included a Special Direction that was issued to the BCUC. The agreement, which expires no sooner than December, 2011, includes the following terms:

- TGVI receives, for the benefit of its customers, an annual payment until 2011 from the Province based on the wellhead price of natural gas in B.C. This payment amounted to $46.7 million in 2005, up from $33.2 million in 2004.
- The accumulated revenue deficiency resulting from overall revenues being below the cost of service prior to 2003 had been recorded in a Revenue Deficiency Deferral Account (RDDA). When Terasen acquired TGVI, the amount of the RDDA was $85 million, for which Terasen paid a price of $61 million. The accumulated RDDA recorded on Terasen's consolidated financial statements totaled $35.2 million as at December 31, 2005, corresponding to a balance for TGVI regulatory purposes of $48.3 million. The balance on Terasen's consolidated financial statements is down $10.4 million from December 31, 2004. Terasen is committed to fund these revenue deficiencies by purchasing preferred shares or subordinated debt issued by TGVI. The BCUC was directed to set rates beginning in 2003 that amortize the RDDA balance over the shortest period reasonably possible, having regard for TGVI's competitive position relative to alternative energy sources and the desirability of reasonable rates. The earnings impact of the RDDA discount is discussed under Results — Natural Gas Distribution.
- Any variances in the achieved ROE in a particular year from the allowed ROE (other than variances resulting from operation and maintenance costs) are deferred and recorded in the RDDA. The RDDA accumulated by TGVI is funded by the Company. Recovery of the deficiency through rates charged to customers is dependent upon regulatory approval and must be balanced against maintaining the competitiveness of TGVI's service relative to alternative energy sources. As a result, most risks associated with TGVI's annual financial results (other than operating costs) are, subject to BCUC approval, transferred to customers through the RDDA. The Company began recovery of the deficiency in 2003.

TGVI renewed its regulatory settlement in late 2005 for a two-year period effective January 1, 2006. It provides for a continuation of the operation and maintenance cost incentive arrangements previously in place. The allowed ROE for TGVI was 9.53% for 2005, compared to 9.65% in 2004. As described above, TGVI's ROE for 2006 is 9.50% and TGVI's deemed equity component of its capital structure for 2006 is 40%.

To ensure prompt recovery of the RDDA, the BCUC has approved a rate-setting mechanism for TGVI whereby customer rates are set at levels in excess of TGVI's cost of service, but effectively capped by the price of competitive alternative fuels (electricity or heating oil). This has resulted in significant RDDA amortization in both 2004 and 2005. However, RDDA recovery is sensitive to the relative pricing of natural gas and electricity in TGVI's service area, as well as to margin generated under TGVI's firm transportation agreements discussed below. There is no certainty that TGVI will be able to charge rates that will be sufficient to fully recover the RDDA prior to the expiry of the Provincial royalty payments at the end of 2011.

Contractual Arrangements
During 2005 TGVI's firm transportation agreements with the Vancouver Island Gas Joint Venture were renewed. The new agreements extend until 2012, and the committed volume under the contracts were set at 12.5 TJ per day for 2006 to 2012, inclusive, down from 20 TJ per day in 2005.

TGVI has also entered into a firm transportation agreement with BC Hydro to serve BC Hydro's gas supply needs to a gas-fired cogeneration plant at Elk Falls, B.C. The agreement, for 45 TJ per day, expires on December 31, 2007. BC Hydro has an option to extend the agreement for one year. BC Hydro has indicated that it is considering changing the Elk Falls facility from a baseload facility to a dispatchable facility. Accordingly, there is no certainty that the firm transportation agreement with BC Hydro will be extended beyond 2007.

On February 16, 2005, the BCUC approved TGVI's proposed liquefied natural gas (LNG) storage facility, subject to several conditions including the execution of a long-term Transportation Service Agreement (TSA) with BC Hydro backed by the capacity demand requirements of the Duke Point Power project. On June 17, 2005, BC Hydro announced its intention to abandon the Duke Point Power project on Vancouver Island as a result of a continuing appeal process. As a result, the expected construction timeline for TGVI's proposed storage facility has been delayed and, pending re-evaluation, will require BCUC approval prior to proceeding.

Petroleum Transportation

	Years ended December 31	
	2005	2004
	(in millions of dollars)	
Petroleum transportation revenues	**$227.8**	$225.5
Petroleum transportation net earnings	**64.5**	70.9

Revenues from petroleum transportation increased by $2.3 million in 2005 compared to 2004 as a result of higher revenues on the Corridor system, which offset lower throughput on the Trans Mountain system in the first quarter of 2005 as discussed below. Corridor revenues were higher in 2005 as a result of the refund in 2004 of deferral account balances to the Corridor shippers.

Earnings from petroleum transportation declined from $70.9 million in 2004 to $64.5 million in 2005 mainly as a result of lower throughput on the Trans Mountain system and a lower allowed return on equity on the Corridor system, offset in part by higher earnings from the Express System as a result of the completion of the Express expansion project. Earnings in 2005 were also impacted by a $7.3 million aftertax charge to earnings associated with the redemption of the Trans Mountain Series C Debentures.

TRANSPORTATION VOLUMES

	Years ended December 31	
	2005	2004
	(barrels per day)	
Trans Mountain Canadian mainline	**220,900**	236,100
Trans Mountain U.S. mainline	**74,600**	91,700
Express System	**213,000**	175,900

Actual throughput on the Corridor Pipeline does not impact earnings as all of Corridor's capacity is contracted through ship-or-pay arrangements.

Throughput in the first quarter of 2005 on the Trans Mountain system was impacted by the decline in production from the Alberta oilsands resulting from temporary production outages, as well as turnarounds at refineries connected to the Trans Mountain pipeline. These issues affected throughput on both the Canadian and U.S. mainlines. Volumes returned to more normal levels for the remainder of 2005.

Throughput on the Express System increased in 2005 as a result of the completion of the Express expansion project in April 2005.

TRANS MOUNTAIN

Earnings from Trans Mountain were $25.4 million in 2005, down from $39.4 million in 2004 mainly as a result of the costs of the Trans Mountain Series C Debenture redemption and the reduction in throughput on the Trans Mountain system in the first quarter of 2005.

Regulation

The National Energy Board (NEB) regulates the Canadian portion of Trans Mountain's crude oil and refined products pipeline system. The NEB authorizes pipeline construction and establishes tolls and conditions of service.

In November 2000, Trans Mountain and shipper representatives reached a negotiated agreement to determine Trans Mountain's tolls for the period 2001-2005. This Incentive Toll Settlement (ITS) was approved by the NEB on March 22, 2001 to take effect as of January 1, 2001.

The 2001-2005 ITS establishes base tolls, within a band of approximately 179,000 to 201,000 bpd, on Trans Mountain's Canadian mainline for the term of the settlement. Base tolls are set using a throughput level of approximately 189,000 bpd. Any revenue shortfalls arising from annual throughput levels below 179,000 bpd are recovered from the shippers. Incremental revenues arising from annual throughput above 201,000 bpd are shared equally between Trans Mountain and the shippers. The base tolls do not escalate with inflation unless Canadian inflation rates increase above 3.5%. Trans Mountain keeps all of the benefits achieved through productivity initiatives and operating efficiencies.

In January 2006, Kinder Morgan Canada entered into a memorandum of understanding with the Canadian Association of Petroleum Producers (CAPP) for a new Incentive Toll Settlement (the 2006-2010 ITS). The 2006-2010 ITS will determine the tolls to be charged on the Trans Mountain system over the five-year term of the agreement, to take effect as of January 1, 2006. The agreement will also govern the financial arrangements for the Pump Station Expansion and Anchor Loop projects. The 2006-2010 ITS is subject to National Energy Board (NEB) approval, and Kinder Morgan Canada and CAPP will work toward a final agreement by the end of June 2006. In addition to tolling and expansion parameters, the formal agreement will allow for new pipeline rules and regulations, capacity allocation procedures for the Westridge Marine Terminal and enhanced service standards.

The toll charged for the U.S. portion of Trans Mountain's pipeline in Washington State falls under the jurisdiction of the Federal Energy Regulatory Commission (FERC). Regulation by FERC is on a complaint basis. There were no complaints in 2005.

Trans Mountain Pump Station Expansion Project

On Nov. 10, 2005, Kinder Morgan Canada received approval from the National Energy Board (NEB) to increase the capacity of the Trans Mountain pipeline system from 225,000 bpd to 260,000 bpd. The $230 million expansion is designed to add 35,000 bpd of heavy crude oil capacity by building new and upgrading existing pump stations along the pipeline system between Edmonton, Alberta, and Burnaby, British Columbia. Construction began in early 2006 and the expansion will be in service in early 2007.

Trans Mountain Anchor Loop Project

Kinder Morgan Canada filed a comprehensive environmental report with the Canadian Environmental Assessment Agency on Nov. 15, 2005, and filed a complete NEB application for the Anchor Loop project on February 17, 2006. The $400 million project involves twinning a 158-kilometre section of the existing Trans Mountain pipeline system between Hinton, Alberta, and Jackman, British Columbia, and the addition of three new pump stations. With construction of the Anchor Loop, the Trans Mountain system's capacity will increase from 260,000 bpd to 300,000 bpd by the end of 2008.

Based on management's expectations for petroleum transportation demand to the West Coast of British Columbia and shipper feedback, Kinder Morgan Canada has decided not to seek long-term contracts with shippers for the Pump

Station Expansion Project or the Anchor Loop Project. As a result, there is no certainty that shipments on the Trans Mountain system will be sufficient to adequately recover the entire capital costs of the Pump Station and Anchor Loop expansions. However, the provisions of the 2006-2010 ITS will mitigate Trans Mountain's financial exposure to throughput shortfalls during that timeframe.

Beyond the Anchor Loop project, Kinder Morgan Canada is actively pursuing TMX 2, an approximately $1 billion project that would loop the Trans Mountain pipeline between Valemont and Kamloops and back to Edmonton, increasing throughput by 100,000 bpd, and TMX 3, a $900 million project that would loop the Trans Mountain pipeline between Kamloops and the Lower Mainland, increasing throughput by 300,000 bpd. Kinder Morgan Canada plans to conduct open seasons for both projects in 2006. Further into the future, Kinder Morgan Canada is considering building a new 400,000 bpd pipeline across northern British Columbia to a new deep-water port facility in Kitimat, British Columbia at a projected cost of $2.0 billion.

Kinder Morgan Canada is no longer pursuing the previously announced Spirit Pipeline due to the termination of arrangements with its project partner.

CORRIDOR

Earnings from the Corridor system were $13.6 million in 2005, down from $15.6 million in 2004 as a result of a lower allowed return on equity caused by lower long Canada bond yields in 2005 compared to 2004. The Firm Service Agreement (FSA) between Corridor and its shippers sets pipeline tolls based on conventional cost of service mechanisms. The FSA is a 25-year agreement, with return on equity linked to prevailing long Canada bond yields. Shell Canada Limited, Chevron Canada Limited and Western Oil Sands L.P. have entered into a long-term ship-or-pay contract with Corridor for 60%, 20% and 20%, respectively, of the available capacity on the Corridor Pipeline.

Corridor Pipeline Expansion

Kinder Morgan Canada has initiated engineering, environmental and consultation activities on its proposed Corridor pipeline expansion project. The $1.0 billion expansion includes building a new 42-inch diluent/bitumen (dilbit) pipeline, a new 20 inch products pipeline, tankage and upgrading existing pump stations along the existing pipeline system from the Muskeg River Mine north of Fort McMurray to the Edmonton region. The Corridor pipeline expansion will add an initial 200,000 bpd of dilbit capacity to accommodate the new bitumen production from the Muskeg River Mine. The current dilbit capacity is approximately 258,000 bpd. It is expected to climb to 278,000 by April 2006 by upgrading existing pump station facilities. By 2009, the dilbit capacity of the Corridor system is expected to be approximately 500,000 bpd. An application for the Corridor Pipeline Expansion Project was filed with the Alberta Energy and Utilities Board on December 22, 2005. Pending regulatory and definitive shipper approval, construction will begin in late 2006.

EXPRESS SYSTEM

Earnings from the Express System were $25.5 million in 2005, up $9.6 million from 2004, as a result of the completion of the Express System capacity expansion in April 2005, and the additional throughput that the Express System was able to transport due to the expansion, and due to the realization of additional tax benefits.

In late 2003 and 2004, Terasen conducted open seasons to obtain long-term commitments for a portion of the Express System's uncommitted capacity and for expansion capacity. Express has 84% of its 280,000 bpd post-expansion total capacity contracted. These contracts expire in 2007, 2012, 2014 and 2015 in amounts of 1%, 40%, 11% and 32% of total capacity, respectively. These contracts provide for committed tolls for transportation on the Express System, which can be increased each year by up to 2%. The remaining capacity is made available to shippers as uncommitted capacity.

Other Activities

	Years ended December 31	
	2005	2004
	(in millions of dollars)	
Other activities revenues	**$46.7**	$78.5
Other activities net (loss)	**(49.2)**	(20.3)

Revenues from other activities declined from $78.5 million in 2004 to $46.7 million in 2005 as a result of the change in accounting treatment for Clean Energy from proportionate consolidation to equity accounting.

The loss from other activities increased from $20.3 million in 2004 to $49.2 million in 2005 primarily as a result of $34.4 million of costs incurred in connection with the acquisition of the Company by KMI.

Discontinued Operations

The water and utility services operations incurred a loss of $4.9 million in 2005, compared to earnings of $3.3 million in 2004. The decline in earnings was due to the expiry of tax loss carryforwards associated with the KMI acquisition and the recognition of a currency translation loss resulting from the pending sale of the business, somewhat offset by strong operating performance in the business.

Summary of Quarterly Results

	For the three months ended				
	Mar-31	Jun-30	Sep-30	Dec-31	Total
			($ millions)		
2005					
Revenues (restated)[1]	$627.5	$354.3	$282.6	$688.1	$1,952.5
Net income before discontinued operations	66.9	27.1	0.9	11.2	106.1
Net income	66.3	29.5	4.0	1.4	101.2
2004					
Revenues (restated)[1]	625.1	321.6	275.6	575.8	1,798.1
Net income before discontinued operations	68.6	16.1	7.6	54.2	146.5
Net income	67.9	17.9	10.1	53.9	149.8

1. Revenues for 2004 and 2005 have been restated to reflect the reclassification of the water and utility services business as a discontinued operation, and to reclassify certain revenues from Clean Energy to equity accounting.

Because of natural gas consumption patterns, the natural gas distribution operations of Terasen Gas normally generate higher net earnings in the first and fourth quarters, which are offset by net losses in the second and third quarters. The Company's water and utility services business, which has been reclassified as a discontinued operation, typically experiences stronger second and third quarter results, offset by weaker first and fourth quarter results, based on the level of construction and general economic activity. Earnings from Terasen's petroleum pipeline operations are not subject to material fluctuations due to seasonality. As a result, interim earnings statements are not indicative of earnings on an annual basis.

Revenues in 2005 were generally higher than in 2004 on a quarterly and annual basis as a result of higher natural gas commodity prices in 2005.

March 2005/2004 — Earnings declined by $1.6 million due to temporary lower petroleum transportation throughput resulting from the decline in production from the Alberta oilsands and maintenance turnarounds at refineries connected to the Trans Mountain pipeline. Strong operating results from the other business units were able to offset the majority of the earnings decline from petroleum transportation.

June 2005/2004 — Earnings increased by $11.6 million, driven by growth in earnings from all areas of operations. Customer growth and operating efficiencies in the quarter were the primary factors in the $2.6 million growth in earnings from natural gas distribution. Higher throughput on the Trans Mountain mainline and the implementation of the Express System expansion resulted in a $4.7 million increase in contribution from petroleum transportation. Growth in earnings from Waterworks and Clean Energy were the key drivers of the improvement in year-over-year earnings contribution from water and utility services and other activities.

September 2005/2004 — Earnings declined by $6.1 million over the prior year third quarter, but include the hedging activities and disposition costs associated with Clean Energy and transaction costs associated with the KMI acquisition. After excluding these items, earnings increased by $4.2 million through a combination of growth in earnings from all three business units, which more than offset increased corporate expenses for the quarter.

December 2005/2004 — Earnings declined by $52.5 million mainly as a result of costs incurred in connection with the acquisition of the Company by KMI of $38.9 million, as well as a charge to earnings associated with the redemption of the Trans Mountain Series C Debentures of $7.3 million.

Liquidity and Capital Resources

Consolidated Cash Flow

	Years ended December 31	
	2005	2004
	(in millions of dollars)	
Cash flow provided by (used for):		
Operating activities	**$195.4**	$335.4
Investing activities	**(212.5)**	(160.2)
Financing activities	**76.5**	(156.7)
Net increase in cash	**$ 59.4**	$ 18.5

CASH FLOW FROM OPERATING ACTIVITIES

Cash flow from operating activities declined from $335.4 million in 2004 to $195.4 million in 2005 due to a number of factors. Net earnings were lower in 2005 as a result of the items disclosed above in the ''Certain Items'' table. The net recovery of rate stabilization accounts in 2005 was $10.1 million compared with $31.0 million in 2004, mainly due to higher rate stabilization account receivable balances at the beginning of 2004. In addition, changes in non-cash working capital were a use of $68.3 million in 2005 compared to a source of $14.7 million in 2004, mainly as a result of the impact of higher gas prices on the value of natural gas inventory and accounts receivable.

INVESTING ACTIVITIES

Proceeds from the sale of natural gas distribution assets in municipal leasing transactions largely offset the acquisition of water and utility services businesses in 2004, whereas expenditures on the water and utility services business in 2005 were largely offset by proceeds from the disposition of the Company's interest in Clean Energy.

Capital expenditures totaled $214.7 million in 2005 compared with $154.4 million in 2004. The increase in capital expenditures was primarily attributable to the acquisition of the Coastal Facilities buildings. Prior to January 2005, the Coastal Facilities synthetic lease agreement had been accounted for as an off-balance sheet item. In 2004, Terasen Gas applied to the BCUC for and received approval to unwind the synthetic lease and include the Coastal Facilities assets in rate base. On January 4, 2005, Terasen Gas paid approximately $49.4 million to BCG Coastal Facilities Trust to unwind the synthetic lease. The Coastal Facilities assets have been included in the Terasen Gas rate base commencing January 2005.

FINANCING ACTIVITIES

In February 2005, Terasen Gas issued $150 million of 30-year medium term note debentures at an interest rate of 5.90%. In October 2005, Terasen Gas issued $150 million of two-year medium term note debentures at a floating rate of interest. In the second quarter of 2004, Terasen Gas issued $150 million of medium term note debentures at an interest rate of 6.50%. Funds generated from the issuance of medium term note debentures were used for general corporate purposes of Terasen Gas and to refinance maturing medium term debentures.

In February 2005, Corridor issued $150 million each of 5-year and 10-year unsecured debentures at rates of 4.24% and 5.033%, respectively. Proceeds were used to repay commercial paper issued by Corridor.

In September 2005, Trans Mountain announced that it had exercised its right to redeem the $35 million principal amount 11.50% Series C Debentures, due June 20, 2010. The redemption took place on November 1, 2005. The total redemption price for the Debentures was $1,353.7615 per $1,000 principal amount, which includes accrued and unpaid interest to the redemption date. The redemption price was determined based on the Canada Yield Price, as defined in the Trust Indenture governing the Debentures.

As at December 31, 2005, the Company and its subsidiaries had lines of credit in place totaling $1,175 million to finance cash requirements. These lines enable the respective companies to borrow directly from their bankers, issue bankers' acceptances and support commercial paper issuance. Bank lines of $375 million were unutilized at the end of 2005. Virtually all short-term cash needs are funded through commercial paper and bankers' acceptances in the

Canadian market at rates generally below bank prime. Terasen does not have, nor does it expect to have, any defaults or arrears.

On January 13, 2006, Terasen Gas (Vancouver Island) Inc. entered into a five-year unsecured, committed, revolving credit facility of $350 million with a syndicate of banks, of which $296 million was drawn against the facility on January 17, 2006. A portion of the facility was used to refinance TGVI's existing term facility of $209.5 million. The facility will also be utilized to finance working capital requirements and general corporate purposes.

Concurrently with executing the above noted facility, TGVI entered into a $20 million, seven-year unsecured, committed, non-revolving credit facility with one bank. This facility will be utilized for purposes of refinancing any annual prepayments TGVI may be required to make on non-interest bearing government contributions. The terms and conditions are primarily the same as the aforementioned TGVI facility except this facility ranks junior to repayment of TGVI's Class B subordinated debt which is held by the Company.

Dividends on common shares totaled $95.1 million in 2005, compared to $86.4 million in 2004. The increase reflects an increase in the dividend rate paid on common shares in 2005.

Financial Position

The following table outlines the significant changes in the consolidated balance sheets as at December 31, 2005 compared to December 31, 2004, other than changes arising from the reclassification of the water and utility services business as a discontinued operation.

Balance Sheet Item	Increase (Decrease) ($ millions)	Explanation
Cash and short-term investments	$ 59.4	Increased as a result of significant cash flow in late 2005 that was used to repay short-term notes subsequent to year end.
Accounts receivable	119.5	Increased mainly as a result of the impact of higher gas prices on accounts receivable for Terasen Gas and TGVI, partially offset by the reclassification of accounts receivable in the water and utilities services segment into assets held for resale.
Goodwill	(51.6)	Declined as a result of the disposition of Clean Energy and the reclassification of water and utility services as long lived assets held for resale.
Short-term notes	433.0	The refinancing of the Corridor bank credit facility resulted in the reclassification of Corridor's remaining commercial paper outstanding from long-term debt to short-term notes. In addition, short-term note balances at the end of 2004 were relatively low as a result of long-term debt issuance in 2004 that pre-funded long-term debt maturities in 2005.
Accounts payable and accrued liabilities	68.1	Increased mainly as a result of the impact of higher gas prices on accounts payable for Terasen Gas and TGVI, offset by the reclassification of accounts payable in the water and utilities services segment into liabilities held for resale.
Long-term debt (including current portion)	(297.2)	The refinancing of the Corridor bank credit facility resulted in the reclassification of Corridor's remaining commercial paper outstanding from long-term debt to short-term notes. In addition, long-term debt maturities in 2005 were partially pre-funded by long-term debt issuance in 2004.

Working Capital

Terasen's working capital requirements fluctuate seasonally based on natural gas consumption. Given the regulated nature of its business, Terasen is able to maintain negative working capital balances. Terasen maintains adequate committed credit facilities to meet its working capital requirements. On an annual basis, Terasen generates sufficient cash flow to meet its working capital requirements.

Dividend Restrictions

As part of its approval of the acquisition of Terasen by KMI, the BCUC imposed a number of conditions intended to ring-fence Terasen Gas and TGVI from Terasen. These restrictions included a prohibition on the payment of dividends unless Terasen Gas or TGVI has in place at least as much common equity as that deemed by the BCUC for rate-making purposes. As a result of this and the Decision issued by the BCUC on March 2, 2006 Terasen Gas and TGVI must maintain a percentage of common equity to total capital that is at least as much as that determined by the BCUC from time to time for ratemaking purposes. Dividend payments will not be allowed by the regulator if the requisite equity is not in place.

Dividend policies are set to ensure that Terasen Gas and TGVI maintain at least as much common equity as that deemed by the BCUC for rate-making purposes.

Corridor's credit agreement restricts its ability to issue dividends subject to certain debt-to-total capital requirements. Cash distributions from Express are subject to limitations in the Express financing agreements and decisions made by the Express Board of Directors, which Terasen does not control.

In 2005, none of these restrictions constrained the distribution of subsidiary earnings not otherwise needed for reinvestment.

Credit Ratings

Securities issued by Terasen, Terasen Gas and Corridor are rated by DBRS Inc. (DBRS) and Moody's Investors Service Inc. (Moody's). The ratings assigned to securities issued by the Terasen group of companies are reviewed by these agencies on an ongoing basis.

The table below summarizes the ratings assigned to the Company's various securities at December 31, 2005.

CREDIT RATINGS	DBRS	MOODY'S
Terasen Inc.		
Commercial paper	R-2 (High)	
Unsecured long-term debt	BBB (High)	Baa2
Capital securities	BBBy	Baa3
Terasen Gas Inc.		
Commercial paper	R-1 (Low)	
Secured long-term debt	A	A2
Unsecured long-term debt	A	A3
Terasen Pipelines (Corridor) Inc.		
Commercial paper	R-1 (Low)	
Unsecured long-term debt	A	A2

Trans Mountain's ratings were withdrawn by DBRS in late 2005 following the redemption of Trans Mountain's Series C Debentures. Trans Mountain no longer has indebtedness to third parties.

A number of ratings actions were taken on Terasen in December 2005 following the acquisition of Terasen by KMI to make the ratings consistent with those of KMI. Moody's downgraded the ratings on Terasen's unsecured long-term debt and capital securities by two gradations each (from A3 to Baa2 in the case of unsecured long-term debt). DBRS downgraded Terasen's ratings on unsecured long-term debt and capital securities by one gradation each (from A (Low) to BBB (High) in the case of unsecured long-term debt). DBRS also downgraded Terasen's commercial paper rating from R-1 (Low) to R-2 (High). As a result, it is no longer economic for Terasen to issue commercial paper in the Canadian market, and Terasen is issuing Bankers' Acceptances under its committed credit facilities to fund its short-term borrowing requirements.

Also in December 2005, Moody's downgraded Terasen Gas' long-term debt ratings by one gradation. However, Moody's noted that this downgrade was unrelated to the KMI acquisition, and was a result of Terasen Gas' weak financial profile compared to its peers.

After reassessing its relationship with Standard & Poor's Ratings Services, a division of the McGraw-Hill Companies (Canada) Corporation (S&P), Terasen decided early in 2004 to discontinue the engagement of S&P to provide credit ratings on the debt of Terasen and Terasen Gas. Terasen believes the credit ratings issued by Moody's and DBRS will be sufficient to service the requirements of creditors and maintain the Company's access to capital. S&P continues to provide an unsolicited rating on Terasen's outstanding debt based on publicly available information. As of December 31, 2005, Terasen's unsecured long-term debt was rated BBB– by S&P.

There is a provision in Terasen's $450 million credit facilities that a downgrade of Terasen's unsecured long-term debt rating below BBB (low) or Baa3 by DBRS or Moody's, respectively, would shorten the remaining term of Terasen's credit facility to ten months. In addition, a downgrade of Terasen Gas below investment grade by any of the major credit rating agencies could trigger margin calls and other cash requirements under Terasen Gas' gas purchase and commodity derivative contracts.

Projected Capital Expenditures

Terasen has estimated total 2006 consolidated capital expenditures of $501 million. Major capital expenditures in 2006 include construction on the Trans Mountain Pump Station Expansion project ($168 million), initial expenditures on the Corridor Pipeline Expansion ($95 million) and upgrades to the Trans Mountain U.S. mainline in Washington State to support future expansion ($31 million).

The Company expects to finance capital expenditures in 2006 with a combination of proceeds from the refinancing of TGVI's credit facility and shareholder advances, short-term borrowings and internally generated funds. The Company does not expect to pay common dividends to its shareholder in 2006, instead retaining its earnings for reinvestment in growth opportunities.

Off-Balance Sheet Arrangements

In 2000, Terasen Gas entered into a leasing arrangement with a syndicate of Canadian banks and the BCG Coastal Facilities Trust, a special-purpose entity, to finance new building facilities in the Greater Vancouver area. The Coastal Facilities synthetic lease agreement had been accounted for as an off-balance sheet item. As at December 31, 2004, the value of the Coastal Facilities leasing agreement was approximately $49.4 million. Lease payments of approximately $4.5 million were made by Terasen Gas in 2004.

In 2004, Terasen Gas applied to the BCUC for and received approval to unwind the synthetic lease and include the Coastal Facilities assets in rate base. On January 4, 2005, Terasen Gas paid approximately $49.4 million to BCG Coastal Facilities Trust to unwind the synthetic lease. The Coastal Facilities assets have been included in the Terasen Gas rate base commencing January 2005.

Other than the Coastal Facilities lease, which has been refinanced, there are no other material off-balance sheet agreements.

Transactions with Related Parties

The Company has not had any significant transactions with related parties outside of the consolidated group in 2005.

Changes in Accounting Policies

Liabilities and Equity

In accordance with recent changes to the CICA Handbook Section 3861 ''Financial Instruments — Disclosures and Presentation'', the Company's $125 million 8% Capital Securities have been reclassified from shareholders' equity to liabilities because the Capital Securities can be settled by issuing equity at a variable price dependent upon the market value of the Company's common shares at the settlement date. As a result of the change, distributions associated with the Capital Securities are now recorded as financing costs and the related income-tax benefits are recorded within income tax expense. Previously, the distributions were recorded on an after-tax basis as a deduction from net earnings to determine earnings applicable to common shares. There is no impact to earnings applicable to common shares or earnings per share. The changes have been applied retroactively and have increased long-term debt and decreased shareholders' equity, both by $125.0 million, compared to the amounts previously reported as at December 31, 2004. The restatement has also increased financing costs by $10.0 million, decreased income tax expense by $3.4 million and capital securities distributions by $6.6 million compared to the amounts previously reported for the year ended December 31, 2004.

Variable Interest Entities
In January 2005, the Company adopted the CICA Handbook Accounting Guideline 15 ''Consolidation of Variable Interest Entities''. The Company has performed a review of the entities with whom it conducts business and determined that under the definitions in the Guideline the Company's investment in Express US Holdings LP, part of the Express System (the ''Express System''), is deemed to be a variable interest entity. As the Company has not been identified as the primary beneficiary of Express US Holdings LP, the Company continues to account for its investment in the Express System on an equity basis. The Company's future exposure to loss regarding its investment is represented by the carrying value of the investment.

Rate Regulated Entities
The Canadian Institute of Chartered Accountants have undertaken a project to review and change how rate regulated enterprises recognize and measure regulated assets and liabilities. The results of this project could introduce significant volatility into the earnings of such businesses, which may include the elimination of regulatory deferral accounts. The project could also require rate regulated enterprises to include future income taxes payable on their balance sheets. There is very real risk that this could negatively affect debt covenant compliance and impact utilities' ability to attract financing and equity capital. The industry has actively intervened in this process over the past two years, and an exposure draft on this matter is anticipated in late 2006.

Disclosure Controls and Procedures
The President and the Chief Financial Officer evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Multilateral Instrument 52-109) and concluded that the company's disclosure controls and procedures were effective as of December 31, 2005.

Financial Instruments

Fair Value Estimates
The fair value of the Company's long-term debt, calculated by discounting the future cash flow of each debt issue at the estimated yield to maturity for the same or similar issues at December 31, 2005, or by using available quoted market prices, is estimated at $2,673.4 million. The majority of the Company's long-term debt relates to regulated operations which enables the Company to recover the existing financing charges through rates or tolls.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates cannot be determined with precision as they are subjective in nature and involve uncertainties and matters of judgment.

Derivative Instruments
The Company uses derivative instruments to hedge its exposures to fluctuations in natural gas prices and interest rates. As approved by the regulator, derivatives are used to manage natural gas price risk in the natural gas distribution operations. The majority of the natural gas supply contracts have floating, rather than fixed prices. The Company uses natural gas price swap contracts to fix the effective purchase price. Any differences between the effective cost of natural gas purchased and the price of natural gas included in rates are recorded in a deferral account (MCRA and CCRA), and subject to regulatory approval, are passed through in future rates to customers.

The Company's short-term borrowings and variable rate long-term debt are exposed to interest rate risk. The Company manages interest rate risk through the use of interest rate derivatives. Foreign currency risk in natural gas distribution operations relates mainly to purchases and sales of natural gas denominated in U.S. dollars, and is thereby managed through regulatory deferral accounts.

The Company's earnings from the U.S. portion of Trans Mountain's crude oil pipeline system and the Company's investment in the Express System are subject to foreign currency risk. The Company's earnings are also subject to translation risk associated with certain Express System assets and liabilities.

			December 31, 2005		December 31, 2004	
Asset (Liability)	**Number of swaps and options**	**Term to maturity (years)**	**Carrying Value**	**Fair Value**	**Carrying Value**	**Fair Value**
			(in millions)			
Interest Rate Swaps[1]						
Terasen Inc.	3	1 - 9	$ —	$ 3.6	$ —	$5.4
TGI	3	2	—	(1.6)	—	—
TGVI	4	1 - 4	—	(0.6)	—	(3.2)
Corridor	2	5 - 10	—	0.3	—	—
Natural Gas Commodity Swaps and Options						
Terasen Gas and TGVI[2]	161	Up to 3	21.2	105.6	—	(8.3)
Clean Energy[3]	—	—	—	—	6.5	6.5
Foreign Currency Swaps						
Terasen Inc.[4]	—	—	—	—	(0.6)	(0.6)

1 The interest rate derivatives entered into by Terasen Inc. resulted in lower interest expense of $4.8 million in 2005, compared with a $3.6 million interest expense reduction in 2004. The derivatives entered into by TGI and TGVI relate to regulated operations and any resulting gains or losses are recorded in deferral accounts, subject to regulatory approval, and passed through to customers in future rates. The gains and losses associated with derivatives entered into by Corridor are similarly passed through to shippers in future rates.

2 The natural gas derivatives fair value reflects only the value of the natural gas derivatives and not the offsetting change in value of the underlying future purchases of natural gas. These fair values reflect the estimated amounts the Company would receive or pay to terminate the contracts at the stated dates. Included in the carrying value of the natural gas derivatives is $22.2 million of unrealized fair value gains associated with derivative instruments which were deemed to be ineffective at December 31, 2005, and $1.0 million of derivative instruments which did not qualify for hedge accounting that are in a liability position. The gains and losses associated with natural gas derivatives are recorded in deferral accounts, subject to regulatory approval, and passed through to customers in future rates.

3 Clean Energy entered into natural gas commodity derivatives to manage its exposure to the cost of natural gas. These transactions resulted in a $10.9 million contribution to earnings in 2005, compared with a $3.3 million contribution in 2004. The carrying and fair value of Clean Energy's natural gas commodity swaps at December 31, 2004 reflected Terasen's 45.0% ownership interest at that time. Terasen disposed of its interest in Clean Energy on October 31, 2005.

4 The change in fair value of the derivatives of $1.6 million in 2005 and $0.7 million in 2004 has been included in the earnings contribution from the Express System for the respective periods.

Outstanding Share Data

December 31, 2005

Common shares issued and outstanding	115,643,162
Less: Common shares held by Terasen Pipelines (Trans Mountain) Inc.	9,184,188
	106,458,974
8.0% capital securities issued and outstanding	$125,000,000

Terasen is an indirect wholly-owned subsidiary of Kinder Morgan, Inc. At December 31, 2005 all of the common shares of the Company are owned by Kinder Morgan, Inc.

The 8.0% capital securities are exchangeable on or after April 19, 2010 for common shares of the Company at 90% of the market price, subject to the right of the Company to redeem the securities for cash. A maximum of 125,000,000 common shares could be issued if this right was exercised.

Forward Looking Statement

When used in this report, the words ''anticipate'', ''expect'', ''project'', ''believe'', ''estimate'', ''forecast'' and similar expressions are intended to identify forward looking statements, which include statements relating to pending and proposed projects or possible acquisitions. Such statements are subject to certain risks, uncertainties and assumptions pertaining to operating performance, regulatory parameters, economic conditions and, in the case of pending and proposed projects, risks relating to design and construction, regulatory processes, obtaining financing and performance of other parties, including partners, contractors and suppliers and in the case of possible acquisitions, obtaining financing, acquiring assets or companies at an appropriate price and the ability to effect synergies in a timely and cost-effective manner.

Additional Information

Additional information relating to Terasen Inc. is available on SEDAR at www.sedar.com.

Terasen Inc.

Interim Management's Discussion and Analysis
For the three and nine Months Ended September 30, 2006
Dated November 27, 2006

The following discussion of the financial condition and the results of operations of Terasen Inc. (Terasen or the Company) should be read in conjunction with the Company's December 31, 2005 annual audited consolidated financial statements and related notes together with Management's Discussion and Analysis and the unaudited interim consolidated financial statements and related notes for the periods ended September 30, 2006.

In this MD&A, we, us, our, the Company and Terasen mean Terasen Inc., its subsidiaries, joint ventures and investments in significantly influenced companies. Terasen Gas refers to Terasen Gas Inc., TGVI refers to Terasen Gas (Vancouver Island) Inc., Trans Mountain refers to Terasen Pipelines (Trans Mountain) Inc., Corridor refers to Terasen Pipelines (Corridor) Inc., Kinder Morgan Canada refers to Kinder Morgan Canada Inc., Express refers to the Express and Platte Pipeline Systems; and Water and Utility Services refers to Terasen Waterworks (Supply) Inc., Terasen Utility Services Inc. and Terasen's 50% interest in Fairbanks Sewer and Water Inc. KMI or the parent refers to Kinder Morgan, Inc.

The financial data included in the discussion provided in this report has been prepared in accordance with Canadian generally accepted accounting principles, and all dollar amounts are in Canadian dollars.

THIRD QUARTER 2006 FINANCIAL RESULTS

Result of Operations

NET EARNINGS	Three months ended September 30		Nine months ended September 30	
	2006	2005	**2006**	2005
	In millions of dollars			
Natural gas distribution	**$(6.8)**	$(3.6)	**$48.3**	$59.8
Petroleum transportation	**17.4**	17.2	**51.6**	50.8
Discontinued operations[1]	**(4.1)**	3.1	**(17.0)**	4.9
Other activities	**(4.0)**	(12.7)	**(17.7)**	(15.7)
Net earnings	**$ 2.5**	$ 4.0	**$65.2**	$99.8

1 In January 2006, Terasen entered into a Purchase and Sale Agreement to dispose of its interest in its water and utility services operations for proceeds of approximately $132 million. The disposition was completed on May 19, 2006 with the proceeds from the sale being used to reduce debt. The disposition gave rise to a $17.0 million loss which has been fully recorded.

Terasen reported earnings of $2.5 million for the three months ended September 30, 2006 compared with earnings of $4.0 million in the corresponding quarter of 2005. For the nine months ended September 30, 2006, earnings were $65.2 million compared to $99.8 million in the nine months of 2005. The decrease in earnings for the nine months is mainly due to a provision of $14.5 million made for retroactive tax amending legislation that was introduced in a provincial legislature, a loss of $17.0 million recorded on the sale of water and utility services operations and the $2.2 million loss of earnings from Clean Energy operations which was disposed on October 31, 2005.

Results by Business Segment

Natural Gas Distribution

	Three months ended September 30		Nine months ended September 30	
	2006	2005	**2006**	2005
	In millions of dollars			
Revenues	**$217.0**	$213.7	**$1,204.6**	$1,065.8
Net earnings	**$ (6.8)**	$ (3.6)	**$ 48.3**	$ 59.8

For the three and nine months ending September 30, 2006, revenues from natural gas distribution increased by $3.3 million and $138.8 million, respectively, compared to the corresponding periods in 2005. Cost of natural gas, on a year-over-year basis, decreased $1.0 million in the third quarter and increased $130.2 million for the nine months ended September 30, 2006. Higher revenues and cost of natural gas reflected mainly the higher commodity cost of gas charged to customers due to higher market prices and some customer growth in the quarter. Changes in both consumption levels and the commodity cost of natural gas do not materially impact earnings as a result of regulatory deferral accounts.

As noted in the Company's annual 2005 Management's Discussion and Analysis, the allowed Return on Equity (''ROE'') for 2006 for Terasen Gas has been set at 8.80% (9.03% in 2005) and at 9.50% for TGVI (9.53% in 2005), In addition, the deemed equity components for Terasen Gas and TGVI, with the approval of the British Columbia Utilities Commission (''BCUC'') were increased to 35% and 40% respectively in 2006 compared to 33% and 35% in 2005.

For the three months ended September 30, 2006, Terasen Gas and TGVI net customer additions were 1,102 and 1,150 respectively, bringing the total number of utility customers to 896,488 at September 30, 2006. Although the net increase of 6,126 customers for the first three quarters of 2006 is lower than the 8,446 net new customers reported in the same period of 2005, favorable economic conditions and housing activity in British Columbia continue to drive customer growth in the region.

Although the above items result in higher earnings for both Terasen Gas and TGVI, overall loss for the gas distribution segment have increased by $3.2 million in the third quarter of 2006, mainly due to higher non-recurring bad debt expenses related to the unbilled basic charge revenues in the current quarter compared to the same quarter in the prior year. Earnings for the first nine months of 2006 were $48.3 million compared to $59.8 million in 2005. The decline in the earnings in 2006 compared to 2005 is mainly due to a tax provision made in the second quarter related to the retroactive tax amending legislation in the Province of Quebec. The remaining difference is a result of TGVI's operations and maintenance (''O&M'') expenses which were rebased as part of its 2006-2007 rate settlement and reduced the contribution of incentive earnings in 2006. In addition, Terasen Gas has changed the timing of its recognition of earnings sharing obligation related to its forecast O&M and capital expenditures incentives to coincide with the timing of revenues received. Previously, these obligations were recognized on a straight line basis. This change affects the timing of revenues and net earnings for each quarter but is not a material amount.

Petroleum Transportation

	Three months ended September 30		Nine months ended September 30	
	2006	2005	**2006**	2005
	In millions of dollars			
Revenues	**$60.4**	$57.3	**$168.2**	$163.0
Net earnings	**$17.4**	$17.2	**$ 51.6**	$ 50.8

Transportation volumes	Three months ended September 30		Nine months ended September 30	
	2006	2005	**2006**	2005
	(barrels per day)			
Trans Mountain Canadian mainline	**236,700**	229,100	**230,700**	213,900
Trans Mountain U.S. mainline	**103,000**	84,900	**97,800**	68,200
Express System	**249,200**	224,600	**230,700**	205,200

Actual throughput on the Corridor Pipeline does not impact earnings as all of Corridor's capacity is contracted through ship-or-pay arrangements.

Revenues from petroleum transportation were $60.4 million in the third quarter of 2006, up $3.1 million from the same quarter of 2005 mainly due to higher throughput in the third quarter of 2006 offset partially by lower tolls. For the first three quarters of 2006, revenues were $168.2 million as compared to $163.0 million in the same period of 2005. Year-to-date revenues were slightly higher than the previous year's nine months as the first quarter of 2005 was negatively impacted by temporary production outages and turnarounds at refineries, the impact of which is shown in the throughput figures.

Earnings from petroleum transportation were $17.4 million in the third quarter of 2006, up $0.2 million from the previous year's third quarter mainly due to higher revenues, as described above, offset by higher power and O&M expenses. Earnings increased to $51.6 million in the first nine months of 2006 compared to $50.8 million in the corresponding period of 2005, mainly due higher earnings in TransMountain due to the increase in revenues described above.

Other activities

	Three months ended September 30		Nine months ended September 30	
	2006	2005	**2006**	2005
	In millions of dollars			
Revenues	**$10.9**	$ 11.6	**$ 33.3**	$ 35.6
Net loss before discontinued operations	**$ (4.0)**	$ (12.7)	**$ (17.7)**	$ (15.7)

During the third quarter of 2006, revenues from other activities decreased by $0.7 million on a year-over-year basis as a result of a decrease in international operations revenues and a slight decrease in revenues from CustomerWorks LP due to some lower rates from contracts renegotiated in 2006. The loss from other activities decreased from $12.7 million in the third quarter of 2005 to $4.0 million in the third quarter of 2006. On a year to date basis, the loss increased to $17.7 million from a loss $15.7 million in the first nine months of 2005. The year over year change is primarily due to the inclusion of earnings and gains from hedging activities from Clean Energy in 2005, which Terasen disposed of on October 31, 2005, a tax provision of $3.5 million made in the second quarter of 2006 for retroactive tax amending legislation that was introduced in a provincial legislature and higher operating expenses due to management fees to KMI and $4.0 million of non-recurring charges in 2005 related to the acquisition of Terasen by Kinder Morgan.

Discontinued Operations

The water and utility operations incurred an incremental loss of $4.1 million in the third quarter of 2006 compared to $3.1 million of income in the corresponding period of 2005. The total loss recorded on the disposition of these operations amounted to $17.0 million.

QUARTERLY FINANCIAL INFORMATION

	2006			**2005**				**2004**
	Sept.	**June**	**Mar.**	**Dec.**	**Sept.**	**June**	**Mar.**	**Dec.**
Revenues	$288.3	$367.3	$750.5	$688.1	$282.6	$354.3	$627.5	$575.8
Net earnings before discontinued operations	$ 6.6	$ 6.1	$ 69.5	$ 11.2	$ 0.9	$ 27.1	$ 66.9	$ 54.2
Net (loss) earnings	$ 2.5	$ (1.6)	$ 64.3	$ 1.4	$ 4.0	$ 29.5	$ 66.3	$ 53.9

December 2005/2004 — Earnings declined by $52.5 million mainly as a result of costs incurred in connection with the acquisition of the Company by KMI of $38.9 million, as well as a charge to earnings associated with the redemption of the Trans Mountain Series C Debentures of $7.3 million.

March 2006/2005 — Earnings decreased by $2.0 million due to the expected loss of $5.0 million on the sale of the water and utility operation, offset by higher petroleum transportation throughput as the first quarter of 2005 was negatively impacted by the decline in production from the Alberta oilsands and maintenance turnarounds at refineries connected to the Trans Mountain pipeline. Higher throughput in the Express system also contributed to higher earnings as the expansion Project was completed in April 2005.

June 2006/2005 — Earnings decreased by $31.1 million due to a provision of $14.5 million made for retroactive tax amending legislation that was introduced in a provincial legislature, an incremental loss of $7.7 million recorded on the sale of water and utility services operations, the loss of earnings from Clean Energy operations which was disposed on October 2005, and higher operating expenses due to higher management fees.

September 2006/2005 — Earnings decreased by $1.5 million due to a loss on disposal of the water business offset by lower costs in 2006 due to 2005 one time transaction costs of $4.1 million on the sale of Clean Energy and $4.0 million of transaction costs associated with the Kinder Morgan acquisition incurred in 2005.

SEASONALITY

Because of natural gas consumption patterns, the natural gas distribution operations of Terasen Gas normally generate higher net earnings in the first and fourth quarters, which are offset by net losses in the second and third quarters. Earnings from Terasen's petroleum pipeline operations are not subject to material fluctuations due to seasonality. As a result, interim earnings statements are not indicative of earnings on an annual basis.

LIQUIDITY AND CAPITAL RESOURCES

Terasen expects to generate sufficient cash from operations to meet its working capital needs and to maintain its financial capacity and flexibility. The Company's liquidity and capacity to access capital markets to maintain operations and fund growth remain substantially unchanged since December 31, 2005.

CONSOLIDATED CASH FLOW

	Three months ended September 30		Nine months ended September 30	
	2006	2005	**2006**	2005
	In millions of dollars			
Cash flow provided by (used for):				
Operating activities	**$ (52.6)**	$ (17.0)	**$ 223.0**	$ 160.7
Investing activities	**$ (78.0)**	$ (53.1)	**$ (65.5)**	$ (182.9)
Financing activities	**$176.5**	$ 11.7	**$ (154.1)**	$ 35.4
Net increase in cash	**$ 45.9**	$ (58.4)	**$ 3.4**	$ 13.2

CASH FLOW FROM OPERATING ACTIVITIES

Cash from operations refers to cash generated before the impact of working capital and rate-stabilization deferral account changes. Cash from operations for the three months ended September 30, 2006 was $21.3 million, compared to $47.8 million in the corresponding period of 2005. Cash flow from for operating activities, which includes the impact of changes in working capital and deferral accounts, was $223.0 million in the first nine months of 2006 compared with $160.7 million in the corresponding period of 2005.

Between December 31, 2005 and September 30, 2006, accounts receivable, accounts payable and accrued liabilities declined while gas in storage inventory increased as a result of the typical seasonal increase in natural gas consumption during the period. These changes in working capital accounts and rate stabilization accounts generated increased cash flow from operating activities compared to 2005.

INVESTING ACTIVITIES

Capital expenditures totaled $84.1 million in the third quarter of 2006 compared to $43.4 million in the corresponding period in 2005. Year to date capital expenditures were $194.2 million in 2006 compared to $170.3 million in the first nine months of 2005. The increase in the third quarter is mainly due to expenditures incurred in the pipeline operations as construction of the first phase of the expansion of the Trans Mountain system West Coast pipeline expansion (''TMX'') is underway. The increase in capital expenditures on a year to date basis was primarily attributable to the TMX expansion which is currently underway. The decrease in the overall investing activities is due to the proceeds from the sale of the water and utility services business.

There have been no material changes to Terasen's planned capital expenditures from those reported in the Company's Annual 2005 Management's Discussion and Analysis.

FINANCING ACTIVITIES

On January 13, 2006, TGVI entered into a five-year unsecured, committed, revolving credit facility of $350 million with a syndicate of banks, of which $296 million was drawn against the facility on January 17, 2006. A portion of the facility was used to refinance TGVI's existing term facility of $209.5 million. The facility will also be utilized to finance working capital requirements and general corporate purposes.

Concurrently with executing the above noted facility, TGVI entered into a $20 million, seven-year unsecured, committed, non-revolving credit facility with one bank. This facility will be utilized for purposes of refinancing any annual prepayments TGVI may be required to make on non-interest bearing government contributions. The terms and conditions are primarily the same as those for the aforementioned TGVI facility except this facility ranks junior to repayment of TGVI's Class B subordinated debt which is held by the Company. Borrowings outstanding under this facility were $3.7 million as of September 30th, 2006.

On May 9, 2006, Terasen Inc. entered into a $450 million three-year revolving credit facility. This facility replaces three bi-lateral facilities aggregating $450 million and includes terms and conditions similar to the facilities it replaced.

On June 21, 2006, Terasen Gas Inc. entered into a $500 million three-year revolving credit facility, extendible annually for an additional 364 days at the option of the lenders. This facility replaces five bi-lateral facilities aggregating $500 million and includes terms and conditions similar to the facilities it replaced.

In September 2006, Terasen Gas issued $120 million of 30-year medium term note debentures at an interest rate of 5.55%. Funds generated from the issuance of medium term note debentures were used to repay $100 million which matured in the quarter with the remainder available to fund the retirement of a $20 million debenture which is due to mature in the fourth quarter.

As at September 30, 2006, the Company and its subsidiaries had lines of credit in place totaling $1,175 million to finance cash requirements. These lines enable the respective companies to borrow directly from their bankers, issue bankers' acceptances and support commercial paper issuance. Bank lines of $534 million were unutilized at September 30, 2006. Utilized lines are used for short term borrowings and letters of credit. Virtually all short-term cash needs are funded through commercial paper and bankers' acceptances in the Canadian market at rates generally below bank prime. Terasen does not have, nor does it expect to have, any defaults or arrears. The company has thirty eight letters of credit outstanding totaling $117 million.

In addition to the above lines of credit, TGVI on its $350 million credit facility had borrowings outstanding at September 30, 2006 of $284 million. While the borrowings are short-term bankers acceptances, the underlying credit facility on which the advances are provided is committed through to January 2011 and the borrowings are primarily to support the longer term rate base assets of TGVI. Accordingly, a portion of the borrowings have been classified as long term debt in the consolidated balance sheet.

On June 30, 2006, TGVI made a $6.2 million payment on its government loans, of which, approximately $3.7 million was refinanced through borrowings under its $20 million non-revolving credit facility and the remaining amount funded with cash on hand.

No dividends were declared in the first nine months of 2006 compared to $23.8 million in the third quarter of 2005 and $71.2 million in the first nine months of 2005.

FINANCIAL POSITION

The following table outlines the significant changes in the consolidated balance sheets as at September 30, 2006 compared to December 31, 2005, other than changes arising from the reclassification of the water and utility services business as a discontinued operation.

Balance Sheet Item	Increase (Decrease) ($ millions)	Explanation
Accounts receivable	$(280.0)	Decrease is mainly due to lower sales of gas in the summer months compared to winter.
Rate stabilization accounts (including current and long term)	163.5	The increase in the net asset position of rate stabilization accounts is mainly due to the fair value mark to market for the gas derivatives. The derivatives are ''out of the money'' and any losses are passed through to customers.
Short-term notes	(157.0)	Decrease is due to the repayment of short-term notes from the refinancing of TGVI and due to the lower debt requirements in the utility operations as a result of the higher equity requirements as rendered by the BCUC decision.
Inventories of gas in storage and supplies	44.0	Increase is mainly due a build up in supply in anticipation for usage in the cooler winter months.

WORKING CAPITAL

Terasen's working capital requirements fluctuate seasonally based on natural gas consumption. Given the regulated nature of its business, Terasen is able to maintain negative working capital balances. Terasen maintains adequate committed credit facilities to meet its working capital requirements. On an annual basis, Terasen generates sufficient cash flow to meet its working capital requirements.

LETTERS OF CREDIT

$117 million of letters of credit were outstanding at September 30, 2006 primarily related to unfunded pension plans and guarantees to third parties for power purchases and on behalf of co-investors in the Express System to fund the Debt Service Account.

CREDIT RATINGS

Following the Kinder Morgan Inc management buyout offer announced in May 2006, both DBRS and Moody's have placed Terasen Inc.'s credit ratings under review with negative implications and possible downgrades. There have been no other changes to the Company's credit ratings from those reported in the annual 2005 Management's Discussion and Analysis.

TRANSACTIONS WITH RELATED PARTIES

The Company estimates that its parent company, Kinder Morgan Inc., provided corporate management services it receives totaling approximately $1.2 million for the three-months ended September 30, 2006. Year to date corporate management service fees were $8.5 million.

FINANCIAL AND OTHER INSTRUMENTS

The Company hedges its exposure to fluctuations in natural gas prices and interest rates through the use of derivative instruments. The table below indicates the valuation of the derivative instruments as at September 30, 2006. For more information on Terasen's derivatives please refer to Terasen's 2005 Annual Management's Discussion and Analysis.

			September 30, 2006		December 31,2005	
Asset (Liability)	**Number of swaps**	**Term to maturity (years)**	**Carrying Value**	**Fair Value**	**Carrying Value**	**Fair Value**
			(in millions)			
Interest Rate Swaps						
Terasen Inc.	2	2 - 9	$	$ 1.6	$ —	$ 3.6
Terasen Gas[1]	3	2	—	(1.1)	—	(1.6)
TGVI[1]	2	3	—	(0.5)	—	(0.6)
Corridor[1]	2	4 - 9		(0.4)	—	(0.3)
Natural Gas Commodity Swaps Terasen Gas and TGVI[1,2]	263	Up to 3	(162.8)	(176.5)	21.2	105.6

1 The derivatives entered into by Terasen Gas and TGVI relate to regulated operations and any resulting gains or losses are, subject to regulatory approval, passed through to customers in future rates. The derivatives entered into by Corridor are done so on behalf of its shippers and any gains are losses are passed through directly to its shippers.

2 The natural gas derivatives fair value reflects only the value of the natural gas derivatives and not the offsetting change in value of the underlying future purchases of natural gas. These fair values reflect the estimated amounts the Company would receive or pay to terminate the contracts at the stated dates.

BUSINESS DEVELOPMENT

The following is an update on Terasen's business development activities during the first nine months of 2006. More information on the Company's business development activities is provided in Terasen's 2005 annual Management's Discussion and Analysis.

TERASEN GAS (WHISTLER) (''TGW'') AND TERASEN GAS VANCOUVER ISLAND (''TGVI'')

On June 28, 2006, TGW and TGVI received final approval from the BCUC to extend natural gas service to Whistler. Under the proposed arrangements, TGVI will extend its transmission system to serve TGW by the construction of a 50 kilometre pipeline lateral from Squamish to Whistler and TGW will convert its current piped propane system to natural gas. The pipeline construction is expected to commence in the fall of 2006 and will be co-ordinated with the current Sea to Sky Highway upgrade project. Gas service is expected to be available by November 2008.

CORRIDOR EXPANSION

We have initiated engineering, environmental, consultation and procurement activities on the proposed Corridor pipeline expansion project, as authorized and supported by shipper resolutions and the underlying firm service agreement. The proposed C$1.6 billion expansion includes building a new 42-inch diameter diluent/bitumen (''dilbit'') pipeline, a new 20-inch diameter products pipeline, tankage and upgrading existing pump stations along the existing pipeline system from the Muskeg River Mine north of Fort McMurray to the Edmonton region. The Corridor pipeline expansion would add an initial 180,000 bpd of dilbit capacity to accommodate the new bitumen production from the Muskeg River Mine. An expansion of the Corridor pipeline system has been completed in 2006 increasing the dilbit capacity to 278,000 barrels per day (''bpd'') by upgrading existing pump station facilities. By 2009, the dilbit capacity of the Corridor system is expected to be approximately 460,000 bpd. An application for the Corridor pipeline expansion project was filed with the Alberta Energy Utilities Board and Alberta Environment on December 22, 2005, and approval was received in August 2006. Construction of the Corridor pipeline expansion is expected to begin in November 2006 as the shippers have received definitive approval of their Muskeg River Mine expansion.

TMX

On February 17, 2006, Kinder Morgan Canada filed a complete National Energy Board (''NEB'') application for the Anchor Loop project. On November 15, 2005, Kinder Morgan Canada filed a comprehensive environmental report with the Canadian Environmental Assessment Agency regarding the project. The C$435 million project involves looping a 98-mile section of the existing Trans Mountain pipeline system between Hinton, Alberta, and Jackman, British Columbia, and the addition of three new pump stations. With construction of the Anchor Loop, the Trans Mountain system's capacity will increase from 260,000 bpd to 300,000 bpd by the end of 2008. The public hearing of the application was held the week of August 8, 2006. On October 26, 2006, the NEB released its favorable decision on the application.

RISK ASSESSMENT

The risk profile of Terasen remains substantially unchanged from the profile outlined in Terasen's 2005 Annual Management's Discussion and Analysis.

FORWARD LOOKING STATEMENT

When used in this report, the words ''anticipate'', ''expect'', ''project'', ''believe'', ''estimate'', ''forecast'' and similar expressions are intended to identify forward looking statements, which include statements relating to pending and proposed projects or possible acquisitions. Such statements are subject to certain risks, uncertainties and assumptions pertaining to operating performance, regulatory parameters, economic conditions and, in the case of pending and proposed projects, risks relating to design and construction, regulatory processes, obtaining financing and performance of other parties, including partners, contractors and suppliers and in the case of possible acquisitions, obtaining financing, acquiring assets or companies at an appropriate price and the ability to effect synergies in a timely and cost-effective manner.

ADDITIONAL INFORMATION

Additional information relating to Terasen including its Annual Information Form is available on SEDAR at www.sedar.com.

CERTIFICATE OF FORTIS INC.

Dated: March 7, 2007

This short form prospectus, together with the documents incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by the securities legislation of each of the provinces of Canada. For the purpose of the Province of Québec, this simplified prospectus, together with documents incorporated herein by reference and as supplemented by the permanent information record, contains no misrepresentation that is likely to affect the value or the market price of the securities to be distributed.

(Signed) H. Stanley Marshall
President and
Chief Executive Officer

(Signed) Barry V. Perry
Vice-President, Finance and
Chief Financial Officer

On behalf of the Board of Directors

(Signed) Bruce Chafe
Director

(Signed) David G. Norris
Director

CERTIFICATE OF THE UNDERWRITERS

Dated: March 7, 2007

To the best of our knowledge, information and belief, this short form prospectus, together with the documents incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by the securities legislation of each of the provinces of Canada. For the purpose of the Province of Québec, to our knowledge, this simplified prospectus, together with the documents incorporated herein by reference and as supplemented by the permanent information record, contains no misrepresentation that is likely to affect the value or the market price of the securities to be distributed.

CIBC World Markets Inc.	Scotia Capital Inc.	TD Securities Inc.
(Signed) David H. Williams	(Signed) John Matovich	(Signed) Harold R. Holloway

BMO Nesbitt Burns Inc.	RBC Dominion Securities Inc.
(Signed) James A. Tower	(Signed) David Dal Bello

National Bank Financial Inc.

(Signed) Robert B. Wonnacott

Canaccord Capital Corporation

(Signed) Ronald A. Rimer

Beacon Securities Limited	HSBC Securities (Canada) Inc.
(Signed) Lonsdale W. Holland	(Signed) Jeffrey B. Allsop

FORTIS

BOWNE
PRINTED IN CANADA
O35040

New Issue June 20, 2012

PROSPECTUS SUPPLEMENT

TO THE SHORT FORM BASE SHELF PROSPECTUS DATED MAY 10, 2012

FORTIS INC.

FORTIS

$601,250,000

18,500,000 Subscription Receipts, each representing the right to receive one Common Share

Fortis Inc. ("Fortis" or the "Corporation") is hereby qualifying for distribution (the "Offering") 18,500,000 subscription receipts (the "Subscription Receipts"), each of which will entitle the holder thereof to receive, upon satisfaction of the Release Conditions (as defined below), and without payment of additional consideration, one common share of Fortis (a "Common Share"). The gross proceeds from the sale of the Subscription Receipts (the "Escrowed Funds") will be held by Computershare Trust Company of Canada, as escrow agent (the "Escrow Agent"), and invested in short-term interest bearing or discount debt obligations (in either Canadian or U.S. dollars) issued or guaranteed by the Government of Canada or a province, or one or more of the five largest Canadian chartered banks, provided that in all cases such obligation is rated at least R1 (middle) by DBRS Limited or an equivalent rating from an equivalent rating service, pending receipt by the Corporation of all regulatory and government approvals required to finalize the acquisition (the "Acquisition") by an indirect wholly-owned subsidiary of the Corporation of all of the issued and outstanding shares of CH Energy Group, Inc. ("CH Energy Group"), and fulfillment or waiver of all other outstanding conditions precedent to closing the Acquisition as itemized in the Acquisition Agreement (as defined below) (collectively, the "Release Conditions"). See "Recent Developments – Acquisition of CH Energy Group", "CH Energy Group Acquisition Agreement" and "Details of the Offering".

If the Release Conditions are satisfied prior to 5:00 p.m. (Toronto time) on June 30, 2013 (the "Deadline"), the Corporation will forthwith execute and deliver a notice of satisfaction and will issue and deliver to the Escrow Agent one Common Share for each Subscription Receipt then outstanding (subject to any applicable adjustment). The Common Shares will be available for delivery commencing on the second business day after the delivery of such notice. The holders of Subscription Receipts will receive, without payment of any additional consideration, one Common Share for each Subscription Receipt held plus an amount per Subscription Receipt equal to the cash dividends declared on the Common Shares by the Corporation, if any, for which record dates have occurred during the period from the Closing Date (as defined below) to the date of issuance of the Common Shares in respect of the Subscription Receipts. Forthwith upon the Release Conditions being satisfied and the required notice being delivered to the Escrow Agent, the Escrowed Funds, together with interest earned and yield generated thereon, will be released to Fortis. In the event that the Release Conditions are not satisfied prior to the Deadline, or if the Acquisition Agreement is terminated prior to the Deadline (in either case, the "Termination Time"), holders of Subscription Receipts shall, commencing on the second business day following the Termination Time, be entitled to receive from the Escrow Agent an amount equal to the full subscription price thereof plus their *pro rata* share of the interest earned and yield generated on such amount. If, as a result of foreign exchange losses due to U.S. dollar investments, there are insufficient Escrowed Funds to repay to holders of Subscription Receipts the full subscription price thereof, the Corporation will make up any shortfall. See "Details of the Offering".

Price: $32.50 per Subscription Receipt

	Price to the Public	Underwriters' Fee (1)	Net Proceeds to the Corporation (2)
Per Subscription Receipt	$ 32.50	$ 1.30	$ 31.20
Total(3)	$601,250,000	$24,050,000	$577,200,000

(1) One-half of the Underwriters' fee is payable at the closing of the Offering. The other half of the Underwriters' fee is payable only if the Release Conditions have been satisfied prior to the Termination Time and the required notice has been delivered to the Escrow Agent to release the Escrowed Funds to the Corporation. See "Plan of Distribution".

(2) Net proceeds to the Corporation exclude any interest earned and yield generated on the Escrowed Funds and are calculated before deducting the expenses of the Offering, estimated at $600,000, which, together with the Underwriters' fee, will be paid out of the general funds of Fortis. See "Plan of Distribution".

(3) The Corporation has granted to the Underwriters an option (the "Over-Allotment Option"), exercisable in whole or in part at any time until 30 days following the Closing Date, to purchase at the Offering Price (as defined below) up to 2,775,000 additional Subscription Receipts to cover over-allotments, if any, and for market stabilization purposes. If the Over-Allotment Option is exercised in full, the total "Price to the Public", "Underwriters' Fee" and "Net Proceeds to the Corporation" will be $691,437,500, $27,657,500 and $663,780,000, respectively. See "Plan of Distribution". This Prospectus Supplement also qualifies the grant of the Over-Allotment Option and the distribution of the additional Subscription Receipts issuable on the exercise of the Over-Allotment Option. A purchaser who acquires securities forming part of the Underwriters' over-allocation position acquires those securities under this Prospectus Supplement and the Prospectus, regardless of whether the over-allocation position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases.

Underwriters' Position	Maximum Size	Exercise Period	Exercise Price
Over-Allotment Option	2,775,000 Subscription Receipts	Within 30 days following the Closing Date	$32.50 per Subscription Receipt

There is currently no market through which the Subscription Receipts may be sold and purchasers may not be able to resell securities purchased under the Prospectus, as supplemented by this Prospectus Supplement. This may affect the pricing of the securities in the secondary market, the transparency and availability of trading prices, the liquidity of the securities, and the extent of issuer regulation. See "Risk Factors".

The Toronto Stock Exchange (the "TSX") has conditionally approved the listing of the Subscription Receipts, as well as the Common Shares issuable on the exchange of the Subscription Receipts. Listing is subject to the Corporation fulfilling all of the requirements of the TSX on or before September 17, 2012. The Corporation's outstanding Common Shares are listed on the TSX under the symbol "FTS". On June 19, 2012, the closing price of the Common Shares on the TSX was $33.08. The Subscription Receipts will be issued and sold by Fortis to the Underwriters (as defined below) at the price of $32.50 (the "Offering Price") per Subscription Receipt. The Offering Price and other terms of the Offering were determined by negotiation between the Corporation and the Underwriters. After the Underwriters have made reasonable efforts to sell all the Subscription Receipts at the Offering Price, the Underwriters may sell the Subscription Receipts to the public at prices below the Offering Price. Any such reduction will not affect the proceeds received by the Corporation.

An investment in the Subscription Receipts, and the Common Shares issuable upon the exchange thereof, involves certain risks that should be considered by a prospective purchaser. See "Risk Factors" and "Special Note Regarding Forward-Looking Statements".

Each of CIBC World Markets Inc. ("CIBC"), Scotia Capital Inc. ("Scotia Capital"), TD Securities Inc. ("TDSI"), Merrill Lynch Canada Inc. ("Merrill Lynch"), BMO Nesbitt Burns Inc. ("BMO Capital Markets"), RBC Dominion Securities Inc. ("RBC Capital Markets"), Desjardins Securities Inc. ("Desjardins Securities"), HSBC Securities (Canada) Inc. ("HSBC Securities"), Morgan Stanley Canada Limited ("Morgan Stanley"), National Bank Financial Inc. ("NB Financial") and Beacon Securities Limited are acting as underwriters (collectively, the "Underwriters") of the Offering. The Underwriters, as principals, conditionally offer the Subscription Receipts, subject to prior sale, if, as and when issued, sold and delivered by the Corporation to, and accepted by, the Underwriters in accordance with the terms and conditions contained in the Underwriting Agreement referred to under "Plan of Distribution" and subject to the approval of certain legal matters on behalf of the Corporation by Davies Ward Phillips & Vineberg LLP, Toronto and McInnes Cooper, St. John's and on behalf of the Underwriters by Stikeman Elliott LLP, Toronto. Subject to applicable laws, the Underwriters may, in connection with the Offering, effect transactions which stabilize or maintain the market price of the Subscription Receipts or the Common Shares at levels other than those which may prevail on the open market. Such transactions, if commenced, may be discontinued at any time. See "Plan of Distribution".

Each of CIBC, Scotia Capital, TDSI, Merrill Lynch, BMO Capital Markets, RBC Capital Markets, Desjardins Securities, HSBC Securities, Morgan Stanley and NB Financial is an affiliate of a financial institution that has, either solely or as a member of a syndicate of financial institutions, extended credit facilities to, or holds other indebtedness of, the Corporation and/or its subsidiaries. **Consequently, the Corporation may be considered a "connected issuer" of these Underwriters within the meaning of applicable securities legislation. See "Plan of Distribution".**

Subscriptions for the Subscription Receipts will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that the closing of the Offering will take place on or about June 27, 2012, or such other date as may be agreed upon by the Corporation and the Underwriters, but not later than July 6, 2012 (the "Closing Date"). A book entry only certificate representing the Subscription Receipts distributed hereunder will be issued in registered form only to CDS Clearing and Depository Services Inc. ("CDS") or its nominee and will be deposited with CDS on the Closing Date. The Corporation understands that a purchaser of Subscription Receipts will receive only a customer confirmation from the registered dealer (who is a CDS participant) from or through whom the Subscription Receipts are purchased. Except as otherwise stated herein, holders of beneficial interests in the Subscription Receipts will not be entitled to receive physical certificates representing their ownership. See "Details of the Offering".

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IMPORTANT NOTICE ABOUT INFORMATION IN THIS PROSPECTUS SUPPLEMENT AND THE ACCOMPANYING PROSPECTUS

This document is in two parts. The first part is this Prospectus Supplement, which describes the specific terms of the Subscription Receipts and also adds to and updates certain information contained in the Prospectus and the documents incorporated by reference therein. The second part, the Prospectus, gives more general information, some of which may not apply to the Subscription Receipts offered hereunder.

Prospective investors should rely only on the information contained in or incorporated by reference into this Prospectus Supplement and the Prospectus. The Corporation has not authorized any other person to provide prospective investors with additional or different information. If anyone provides prospective investors with different or inconsistent information, prospective investors should not rely on it. The Corporation and the Underwriters are offering to sell, and seeking offers to buy, the Subscription Receipts only in jurisdictions where offers and sales are permitted. Prospective investors should assume that the information appearing in this Prospectus Supplement and the Prospectus, as well as information the Corporation has previously filed with the securities regulatory authority in each of the provinces of Canada that is incorporated herein and in the Prospectus by reference, is accurate as of their respective dates only. The Corporation's business, financial condition, results of operations and prospects may have changed since those dates.

PRESENTATION OF FINANCIAL INFORMATION

Unless otherwise indicated, all financial information included and incorporated by reference in this Prospectus Supplement and the Prospectus for financial periods beginning prior to January 1, 2012 (other than the US GAAP Reconciliation (as defined below)) has been prepared using Canadian generally accepted accounting principles ("Canadian GAAP"). All financial information included and incorporated by reference in this Prospectus Supplement and the Prospectus for financial periods beginning on or after January 1, 2012 has been prepared using accounting principles generally accepted in the United States ("US GAAP"). For a discussion of the principal differences between the Corporation's financial results as calculated under Canadian GAAP and US GAAP, prospective investors should refer to the US GAAP Reconciliation incorporated by reference in this Prospectus Supplement.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Prospectus Supplement and the Prospectus, including the documents incorporated herein and therein by reference, contain forward-looking information which reflects management's expectations regarding the future growth, results of operations, performance, business prospects and opportunities of Fortis, and may not be appropriate for other purposes. All forward-looking information is given pursuant to the "safe harbour" provisions of applicable Canadian securities legislation. The words "anticipates", "believes", "budgets", "could", "estimates", "expects", "forecasts", "intends", "may", "might", "plans", "projects", "schedule", "should", "will", "would" and similar expressions are often intended to identify forward-looking information, although not all forward-looking information contains these identifying words. The forward-looking information reflects management's current beliefs and is based on information currently available to the Corporation's management. The forward-looking information in this Prospectus Supplement and the Prospectus, including the documents incorporated herein and therein by reference, includes, but is not limited to, statements regarding: the Corporation's focus on the United States and Canada in the acquisition of regulated utilities; the pursuit of growth in the Corporation's non-regulated businesses in support of its regulated utility growth strategy; the current environment of low natural gas prices and an abundance of shale gas reserves should help maintain the competitiveness of natural gas versus alternative energy sources in North America; investment to harvest shale oil and gas in Alberta, Canada, is expected to continue and should favourably impact energy sales and rate base investment in FortisAlberta Inc.'s service territory; the expectation that the Government of British Columbia's new Natural Gas Strategy should favourably impact natural gas throughput at the FortisBC Energy companies; the expected capital investment in Canada's electricity sector over the 20-year period from 2010 through 2030; the Corporation's consolidated forecast gross capital expenditures for 2012 and in total over the five-year period through 2016; the nature, timing and amount of certain capital projects and their expected costs and time to complete; the expectation that the Corporation's significant capital expenditure program should support continuing growth in earnings and dividends; there is no assurance that capital projects perceived as required or completed by the Corporation's regulated utilities will be approved or that conditions to such approvals will not be imposed; the expectation that the Corporation's regulated utilities could experience disruptions and increased costs if they are unable to maintain their asset base; forecast midyear rate base; the expectation that cash required to complete subsidiary capital expenditure programs will be sourced from a combination of cash from operations, borrowings under credit facilities, equity injections from Fortis and long-term debt offerings; the expectation that the Corporation's subsidiaries will be able to source the cash required to fund their 2012 capital expenditure programs; the expected consolidated long-term debt maturities and repayments in 2012 and on average annually over the next five years; the expectation that the Corporation and its subsidiaries will continue to have reasonable access to capital in the near to medium terms; the expectation that the combination of available credit facilities and relatively low annual debt maturities and repayments will provide the Corporation and its subsidiaries with flexibility in the timing of access to capital markets; except for debt at the Exploits River Hydro Partnership ("Exploits Partnership"), the expectation that the Corporation and its subsidiaries will remain compliant with debt covenants during 2012; the expectation that any increase in interest expense and/or fees associated with renewed and extended credit facilities will not materially impact the Corporation's consolidated financial results for 2012; the expected timing of filing of regulatory applications and of receipt of regulatory decisions; the estimated impact a decrease in revenue at Fortis Properties Corporation's Hospitality Division would have on basic earnings per common share; the expected impact of a change in the US dollar-to-Canadian dollar foreign exchange rate on basic earnings per common share in 2012; the expectation that electricity sales growth at the Corporation's regulated utilities in the Caribbean will be minimal for 2012; the expectation that counterparties to the FortisBC Energy companies' gas derivative contracts will continue to meet their obligations; the expectation that FortisBC will continue efforts in 2012 to further integrate its gas and electricity businesses; the expectation that the Corporation's consolidated earnings and earnings per common share for 2012 will not be materially impacted by the transition to US GAAP (see "Recent Developments – Transition to US GAAP" in the Prospectus); the expectation of an increase in consolidated defined benefit net pension cost for 2012 and the fact that there is no assurance that the pension plan assets will earn the assumed long-term rates of return in the future; the expected timing of the closing of the Acquisition; the expectation that the Acquisition will be immediately accretive to earnings per common share, excluding one-time acquisition-related expenses (see "Recent Developments – Acquisition of CH Energy Group" and "CH Energy Group Acquisition Agreement"); and the expected closing date of the Offering.

The forecasts and projections that make up the forward-looking information are based on assumptions which include, but are not limited to: the receipt of applicable regulatory approvals and requested rate orders; no significant variability in interest rates; no significant operational disruptions or environmental liability due to a catastrophic event or environmental upset caused by severe weather, other acts of nature or other major events; the continued ability to maintain the gas and electricity systems to ensure their continued performance; no severe and prolonged downturn in economic conditions; no significant decline in capital spending; no material capital project and financing cost overrun or delay related to the construction of the Waneta expansion hydroelectric generating facility (the "Waneta Expansion"); sufficient liquidity and capital resources; the expectation that the Corporation will receive appropriate compensation from the Government of Belize ("GOB") for fair value of the Corporation's investment in Belize Electricity Limited ("Belize Electricity") that was expropriated by the GOB; the expectation that Belize Electricity Company Limited ("BECOL") will not be expropriated by the GOB; the expectation that the Corporation will receive fair compensation from the Government of Newfoundland and Labrador related to the expropriation of the Exploits Partnership's hydroelectric assets and water rights; the continuation of regulator-approved mechanisms to flow through the commodity cost of natural gas and energy supply costs in customer rates; the ability to hedge exposures to fluctuations in interest rates, foreign exchange rates, natural gas commodity prices and fuel prices; no significant counterparty defaults; the continued competitiveness of natural gas pricing when compared with electricity and other alternative sources of energy; the continued availability of natural gas, fuel and electricity supply; continuation and regulatory approval of power supply and capacity purchase contracts; the ability to fund defined benefit pension plans, earn the assumed long-term rates of return on the related assets and recover net pension costs in customer rates; the absence of significant changes in government energy plans and environmental laws that may materially affect the operations and cash flows of the Corporation and its subsidiaries; maintenance of adequate insurance coverage; the ability to obtain and maintain licences and permits; retention of existing service areas; the ability to report under US GAAP beyond 2014 or the adoption of International Financial Reporting Standards ("IFRS") after 2014 that allows for the recognition of regulatory assets and liabilities; the continued tax-deferred treatment of earnings from the Corporation's Caribbean operations; continued maintenance of information technology infrastructure; the receipt of CH Energy Group shareholder, regulatory and other approvals required in connection with the Acquisition; continued favourable relations with First Nations; favourable labour relations; and sufficient human resources to deliver service and execute the consolidated capital program. The forward-looking information is subject to risks, uncertainties and other factors that could cause actual results to differ materially from historical results or results anticipated by the forward-looking information. Factors which could cause results or events to differ from current expectations include, but are not limited to: regulatory risk; interest rate risk, including the uncertainty of the impact a continuation of a low interest rate environment may have on allowed rates of return on common shareholders' equity of the Corporation's regulated utilities; operating and maintenance risks; risks associated with changes in economic conditions; capital project budget overrun, completion and financing risk in the Corporation's non-regulated business; capital resources and liquidity risk; risk associated with the amount of compensation to be paid to Fortis for its investment in Belize Electricity that was expropriated by the GOB; the timeliness of the receipt of the compensation and the ability of the GOB to pay the compensation owing to Fortis; risk that the GOB may expropriate BECOL; an ultimate resolution of the expropriation of the hydroelectric assets and water rights of the Exploits Partnership that differs from that which is currently expected by management; weather and seasonality risk; commodity price risk; the continued ability to hedge foreign exchange risk; counterparty risk; competitiveness of natural gas; natural gas, fuel and electricity supply risk; risk associated with the continuation, renewal, replacement and/or regulatory approval of power supply and capacity purchase contracts; risk associated with defined benefit pension plan performance and funding requirements; risks related to FortisBC Energy (Vancouver Island) Inc.; environmental risks; insurance coverage risk; risk of loss of licences and permits; risk of loss of service area; risks relating to the ability to close the Acquisition, the timing of such closing and the realization of the anticipated benefits of the Acquisition; risk of not being able to report under US GAAP beyond 2014 or risk that IFRS does not have an accounting standard for rate-regulated entities by the end of 2014 allowing for the recognition of regulatory assets and liabilities; risks related to changes in tax legislation; risk of failure of information technology infrastructure; risk of not being able to access First Nations lands; labour relations risk; human resources risk; and risk of unexpected outcomes of legal proceedings currently against the Corporation. For additional information with respect to the Corporation's risk factors, reference should be made to the section of this Prospectus Supplement and the Prospectus entitled "Risk Factors", to the documents incorporated herein and therein by reference and to the Corporation's continuous disclosure materials filed from time to time with Canadian securities regulatory authorities.

All forward-looking information in this Prospectus Supplement and the Prospectus and in the documents incorporated herein and therein by reference is qualified in its entirety by the above cautionary statements and, except as required by law, the Corporation undertakes no obligation to revise or update any forward-looking information as a result of new information, future events or otherwise.

DOCUMENTS INCORPORATED BY REFERENCE

This Prospectus Supplement is deemed to be incorporated by reference into the Prospectus solely for the purposes of the Offering of Subscription Receipts (including any such Subscription Receipts issued under the Over-Allotment Option) and the Common Shares issuable on exchange of Subscription Receipts offered hereby.

The disclosure documents of the Corporation listed below and filed with the appropriate securities commissions or similar regulatory authorities in each of the provinces of Canada are specifically incorporated by reference into and form an integral part of this Prospectus Supplement and the Prospectus:

(a) Annual Information Form dated March 15, 2012 for the year ended December 31, 2011;

(b) audited comparative consolidated financial statements as at December 31, 2011 and December 31, 2010 and for the years ended December 31, 2011 and 2010, together with the notes thereto and the auditors' report thereon dated March 13, 2012, as contained in the Corporation's 2011 Annual Report, prepared in accordance with Canadian GAAP;

(c) supplemental audited comparative consolidated financial statements as at December 31, 2011 and December 31, 2010 and for the years ended December 31, 2011 and 2010, together with the notes thereto and the auditor's report thereon dated March 13, 2012, prepared in accordance with US GAAP (the "US GAAP Reconciliation");

(d) Management Discussion and Analysis of financial condition and results of operations for the year ended December 31, 2011 as contained in the Corporation's 2011 Annual Report (the "Annual MD&A");

(e) unaudited comparative interim consolidated financial statements as at March 31, 2012 and for the three months ended March 31, 2012 and 2011, together with the notes thereon, prepared in accordance with US GAAP;

(f) Management Discussion and Analysis of financial condition and results of operations for the three months ended March 31, 2012 (the "First Quarter MD&A"); and

(g) Management Information Circular dated March 19, 2012 prepared in connection with the Corporation's annual meeting of shareholders held on May 4, 2012.

Any document of the type referred to in the preceding paragraph, any material change report (other than any confidential material change report) and any business acquisition report subsequently filed by the Corporation with such securities commissions or regulatory authorities after the date of the Prospectus Supplement, and prior to the termination of the Offering, shall be deemed to be incorporated by reference into this Prospectus Supplement and the Prospectus.

Any statement contained in a document incorporated or deemed to be incorporated by reference in this Prospectus Supplement or the Prospectus shall be deemed to be modified or superseded for purposes of this Prospectus Supplement to the extent that a statement contained herein, or in any other subsequently filed document which also is incorporated or is deemed to be incorporated by reference herein, modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement will not be deemed an admission for any purpose that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus Supplement or the Prospectus.

Copies of the documents incorporated herein by reference may be obtained on request without charge from the Secretary of the Corporation at Suite 1201, 139 Water Street, St. John's, Newfoundland and Labrador A1B 3T2 (telephone (709) 737-2800). These documents are also available through the Internet on the Corporation's website at www.fortisinc.com or on the Canadian System for Electronic Document Analysis and Retrieval ("SEDAR") which can be accessed at www.sedar.com. The information contained on, or accessible through, any of these websites is not incorporated by reference into this Prospectus Supplement or the Prospectus and is not, and should not be considered to be, a part of this Prospectus Supplement or the Prospectus, unless it is explicitly so incorporated.

ELIGIBILITY FOR INVESTMENT

In the opinion of Davies Ward Phillips & Vineberg LLP, counsel to the Corporation, and Stikeman Elliott LLP, counsel to the Underwriters, the Subscription Receipts and the Common Shares issuable on the exchange of the Subscription Receipts, if issued on the date hereof, would be qualified investments under the Income Tax Act (Canada) (the "Tax Act") for a trust governed by a registered retirement savings plan ("RRSP"), a registered retirement income fund ("RRIF"), a deferred profit sharing plan ("DPSP") (other than a trust governed by a DPSP for which any employer is the Corporation or is an employer that does not deal at arm's length with the Corporation for purposes of the Tax Act), a registered education savings plan, a registered disability savings plan or a tax-free savings account ("TFSA") provided that, in the case of the Subscription Receipts, the Subscription Receipts are listed on a "designated stock exchange" (which includes the TSX) and, in the case of the Common Shares, the Common Shares are listed on a "designated stock exchange" (which includes the TSX) or the Corporation is a "public corporation", as such terms are defined in the Tax Act.

Notwithstanding that the Subscription Receipts and the Common Shares may be qualified investments for a trust governed by a TFSA, RRSP or RRIF, the holder of a TFSA or the annuitant of a RRSP or RRIF, as the case may be, will be subject to a penalty tax in respect of the Subscription Receipts or the Common Shares held in the TFSA, RRSP or RRIF if such Subscription Receipts or Common Shares, as the case may be, are a "prohibited investment" within the meaning of the Tax Act. The Subscription Receipts and the Common Shares will not be a "prohibited investment" under the Tax Act for a TFSA, RRSP or RRIF provided the holder of the TFSA or the annuitant of the RRSP or RRIF, as the case may be, deals at arm's length with the Corporation and does not have a "significant interest" (within the meaning of the prohibited investment rules in the Tax Act) in the Corporation or in a corporation, partnership or trust that does not deal at arm's length with the Corporation. Prospective purchasers of Subscription Receipts should consult with their own tax advisors with respect to the prohibited investment rules (including having regard to any relieving amendments that may be made as a result of a recent comfort letter issued by the Department of Finance).

CURRENCY

In this Prospectus Supplement, unless otherwise specified or the context otherwise requires, all dollar amounts are expressed in Canadian dollars. References to "dollars", "$" or "Cdn$" are to lawful currency of Canada. References to "US Dollars" or "US$" are to lawful currency of the United States of America.

On June 19, 2012, the noon buying rate as reported by the Bank of Canada was US$1.00 = Cdn$1.0178.

DEFINED TERMS

For an explanation of certain terms and abbreviations used in the Prospectus, reference is made to the "Glossary of Terms".

SUMMARY

The following information is a summary only and is to be read in conjunction with, and is qualified in its entirety by, the more detailed information appearing elsewhere in this Prospectus Supplement, the Prospectus and in the documents incorporated by reference herein and therein.

The Offering

Issuer:	Fortis Inc. ("Fortis" or the "Corporation").
Offering:	18,500,000 subscription receipts (the "Subscription Receipts"), each representing the right to receive one common share of Fortis (a "Common Share") (the "Offering").
Amount:	$601,250,000 ($691,437,500 if the Over-Allotment Option (as defined below) is exercised in full).
Over-Allotment Option:	The Corporation has granted to each of CIBC World Markets Inc. ("CIBC"), Scotia Capital Inc. ("Scotia Capital"), TD Securities Inc. ("TDSI"), Merrill Lynch Canada Inc. ("Merrill Lynch"), BMO Nesbitt Burns Inc. ("BMO Capital Markets"), RBC Dominion Securities Inc. ("RBC Capital Markets"), Desjardins Securities Inc. ("Desjardins Securities"), HSBC Securities (Canada) Inc. ("HSBC Securities"), Morgan Stanley Canada Limited ("Morgan Stanley"), National Bank Financial Inc. ("NB Financial") and Beacon Securities Limited (collectively, the "Underwriters") an option (the "Over-Allotment Option"), exercisable in whole or in part at any time until 30 days following the Closing Date (as defined below), to purchase at the Offering Price up to 2,775,000 additional Subscription Receipts to cover over-allotments, if any, and for market stabilization purposes. See "Plan of Distribution".
Price:	$32.50 per Subscription Receipt.
Date of Closing:	On or about June 27, 2012 or such other date as may be agreed to by the Corporation and the Underwriters, but not later than July 6, 2012 (the "Closing Date").
Escrow of Proceeds:	The gross proceeds from the sale of the Subscription Receipts (the "Escrowed Funds") will be held by Computershare Trust Company of Canada, as escrow agent (the "Escrow Agent") and invested in short-term interest bearing or discount debt obligations (in either Canadian or U.S. dollars) issued or guaranteed by the Government of Canada or a province, or one or more of the five largest Canadian chartered banks, provided that in all cases such obligation is rated at least R1 (middle) by DBRS Limited or an equivalent rating from an equivalent rating service, pending receipt by the Corporation of all regulatory and government approvals required to finalize the acquisition (the "Acquisition") by an indirect wholly-owned subsidiary of the Corporation of all of the issued and outstanding shares of CH Energy Group, Inc. ("CH Energy Group"), and fulfillment or waiver of all other outstanding conditions precedent to closing the Acquisition as itemized in the Acquisition Agreement (as defined below) (collectively, the "Release Conditions"). If the Release Conditions are satisfied prior to 5:00 p.m. (Toronto time) on June 30, 2013 (the "Deadline"), the Corporation will forthwith execute and deliver a notice of satisfaction and will issue and deliver to the Escrow Agent one Common Share for each Subscription Receipt then outstanding (subject to any applicable adjustment). The Common Shares will be available for delivery commencing on the second business day after the delivery of such notice. The holders of Subscription Receipts will receive, without payment of any additional consideration, one Common Share for each Subscription Receipt held plus an amount per Subscription Receipt equal to the cash

dividends declared on the Common Shares by the Corporation, if any, for which record dates have occurred during the period from the Closing Date (as defined below) to the date of issuance of the Common Shares in respect of the Subscription Receipts. Forthwith upon the Release Conditions being satisfied and the required notice being delivered to the Escrow Agent, the Escrowed Funds, together with interest earned and yield generated thereon, will be released to Fortis. In the event that the Release Conditions are not satisfied prior to the Deadline, or if the Acquisition Agreement is terminated prior to the Deadline (in either case, the "Termination Time"), holders of Subscription Receipts shall, commencing on the second business day following the Termination Time, be entitled to receive from the Escrow Agent an amount equal to the full subscription price thereof plus their *pro rata* share of the interest earned and yield generated on such amount. If, as a result of foreign exchange losses due to U.S. dollar investments, there are insufficient Escrowed Funds to repay to holders of Subscription Receipts the full subscription price thereof, the Corporation will make up any shortfall. See "Details of the Offering".

Use of Proceeds: The net proceeds of the Offering, after deducting the Underwriters' fee and estimated expenses of the Offering, which are estimated to be $600,000, and assuming no exercise of the Over-Allotment Option, together with the cash on hand and/or funds to be drawn down from the Corporation's existing committed corporate credit facility, will be used to finance the cash consideration payable for the Acquisition. If the Over-Allotment Option is exercised in full, the estimated net proceeds of the Offering will be $663,180,000 (after deducting the Underwriters' fee and estimated expenses of the Offering). The gross proceeds from the sale of the Subscription Receipts will be held in escrow by the Escrow Agent pending the satisfaction of the Release Conditions. See "Details of the Offering" and "Use of Proceeds".

Subscription Receipts: Each Subscription Receipt entitles the holder thereof to receive, upon satisfaction of the Release Conditions and without payment of additional consideration, one Common Share, plus an amount equal to the dividends declared on the Common Shares by the Corporation, if any, for which record dates have occurred during the period from the Closing Date to the date of issuance of the Common Shares in respect of the Subscription Receipts. If the Release Conditions are not satisfied prior to the Termination Time, the Corporation will repay to holders of Subscription Receipts an amount equal to the full subscription price thereof plus their *pro rata* share of the interest earned and yield generated on such amount. See "Details of the Offering".

Risk Factors: An investment in the Subscription Receipts and the Common Shares issuable upon exchange thereof involves certain risks which should be carefully considered by prospective investors. See "Risk Factors".

RECENT DEVELOPMENTS

Acquisition of CH Energy Group

On February 20, 2012, Fortis and certain subsidiaries of Fortis entered into an agreement and plan of merger with CH Energy Group which provides for, among other things, the acquisition by an indirect wholly-owned subsidiary of Fortis of all of the issued and outstanding common shares of CH Energy Group for US$65.00 per common share in cash, and the merger of CH Energy Group into the subsidiary of Fortis (the "Acquisition Agreement"). The closing of the Acquisition is expected to occur by the end of the first quarter of 2013. The Acquisition is subject to receipt of CH Energy Group's common shareholders' approval, regulatory and other approvals, and the satisfaction of customary closing conditions. The Acquisition is expected to be immediately accretive to Fortis' earnings per Common Share, excluding one-time acquisition-related expenses. See "Recent Developments – Agreement to Acquire CH Energy Group" in the Prospectus.

On June 19, 2012, CH Energy Group held a meeting of its common shareholders to vote on the Acquisition. At the meeting, shareholders of CH Energy Group passed a resolution to approve the Acquisition, thereby satisfying this condition to closing.

The Acquisition is subject to certain governmental approvals, including approval by each of the New York Public Service Commission (the "NYPSC") and the Federal Energy Regulatory Commission (the "FERC"). Applications were filed in April 2012 with the NYPSC and the FERC seeking such approvals. See "CH Energy Group Acquisition Agreement – Closing Conditions".

CH Energy Group is an energy delivery company headquartered in Poughkeepsie, New York. Its main business, Central Hudson Gas & Electric Corporation ("Central Hudson"), is a regulated transmission and distribution utility serving approximately 300,000 electric and 75,000 natural gas customers in eight counties of New York State's Mid-Hudson River Valley.

The business operated by CH Energy Group is attractive to Fortis for the following reasons:

(a) the Acquisition enables Fortis to enter into the U.S. regulated electric and gas distribution business with a reasonably sized utility;

(b) the Acquisition is expected to be immediately accretive to earnings per Common Share, excluding one-time acquisition-related expenses;

(c) CH Energy Group has a strong balance sheet and Central Hudson has strong investment-grade credit ratings;

(d) Central Hudson, a single-state utility, operates a well-maintained electric and gas distribution system, serving a diversified, primarily residential and commercial customer base;

(e) similar to the electric distribution utilities of Fortis, Central Hudson operates principally under cost-of-service regulation. The utility has earned stable returns and is allowed timely recovery of costs related to purchased electricity and natural gas supply, transmission and capital programs. Other positive mechanisms include full recovery and deferral provisions for pension and other post-retirement benefit expense, manufactured gas plant site remediation and revenue decoupling mechanisms. For the three years beginning on July 1, 2010, Central Hudson's rates have been established using a 10% return on equity and a capital structure containing 48% common equity;

(f) Central Hudson's continued investment in its electric and gas businesses is expected to result in attractive rate base growth; and

(g) the Acquisition increases diversification of the Corporation's regulated assets and earnings by geographic location and regulatory jurisdiction.

See "Risk Factors" and "Special Note Regarding Forward-Looking Statements".

S&P Affirms Fortis Credit Rating

On May 23, 2012, Standard & Poor's Ratings Services ("S&P") affirmed its ratings, including its "A-" long-term corporate credit rating for Fortis and its subsidiary FortisAlberta Inc. with a stable outlook. S&P removed the ratings from CreditWatch with negative implications, where they were placed on February 22, 2012. See "Ratings" in the Prospectus.

Regulatory Matters

In May 2012, the British Columbia Utilities Commission (the "BCUC") determined that the executed Waneta Capacity Purchase Agreement for the sale of 234 MW of average capacity from the Waneta Expansion to FortisBC Inc. ("FortisBC") is in the public interest and has been accepted for filing without a hearing.

In June 2012, the Newfoundland and Labrador Board of Commissioners of Public Utilities (the "PUB") approved an allowed rate of return on common equity ("ROE") for Newfoundland Power Inc. ("NPI") of 8.8% for 2012. Customer rates and allowed ROE for 2013 are expected to be determined based upon a general rate application that the PUB has directed NPI to file by September 14, 2012.

Legal Matters

In May 2012, CH Energy Group entered into a proposed settlement agreement with CH Energy Group shareholders pertaining to several complaints, which named Fortis and other defendants, and which were filed in, or transferred to, the Supreme Court of the State of New York, County of New York, challenging the proposed Acquisition. The complaints generally alleged that the directors of CH Energy Group breached their fiduciary duties in connection with the proposed Acquisition and that CH Energy Group, Fortis, FortisUS Inc. and Cascade Acquisition Sub Inc. aided and abetted that breach. The settlement agreement is subject to court approval.

Labour Relations Matters

In May 2012, the FortisBC Energy companies applied to the British Columbia Labour Relations Board to have certain work functions designated essential after the International Brotherhood of Electrical Workers ("IBEW"), Local 213, representing employees working primarily in gas distribution and transmission including functions such as installations, emergency response and the repair and maintenance of the gas pipeline system, served the FortisBC Energy companies with strike notice. Until an essential services plan is approved by the British Columbia Labour Relations Board, no strike action can legally occur. The collective agreement between the FortisBC Energy companies and IBEW, Local 213, expired on March 31, 2011. Collective bargaining between the parties has been ongoing over the past year and is continuing.

CH ENERGY GROUP ACQUISITION AGREEMENT

Set forth below is a description of the material terms of the Acquisition Agreement. The description is a summary only and is qualified in its entirety by the full text of the Acquisition Agreement. A copy of the Acquisition Agreement was filed on the Corporation's SEDAR profile at www.sedar.com. This summary is not intended to be, and should not be relied upon as, disclosure of any facts and circumstances relating to Fortis or CH Energy Group.

Purchase Price

Pursuant to the terms of the Acquisition Agreement, Fortis has agreed to acquire CH Energy Group for an aggregate purchase price of approximately US$1.5 billion, comprised of approximately US$1 billion in cash (the "Cash Purchase Price") and the assumption of approximately US$500 million of debt on Closing.

Representations and Warranties

Under the Acquisition Agreement, CH Energy Group and Fortis and certain subsidiaries of Fortis (collectively, the "Purchaser") have made various representations and warranties. CH Energy Group's representations and warranties relate to, among other things: organization and qualification; capitalization; authority to enter into the Acquisition Agreement and no conflict; consents and approvals; possession of permits; compliance with laws; securities regulatory filings; reports and financial statements; internal control and disclosure controls; absence of undisclosed liabilities;

absence of certain material changes or events since December 31, 2011; information in the CH Energy Group proxy statement; employment matters; pension and employee benefits; material contracts; real and personal property; environmental matters; intellectual property; tax matters; opinion of financial advisor; insurance; required shareholder vote; brokers; regulation as a utility; regulatory filings; takeover laws; and trading. The Purchaser's representations and warranties relate to, among other things: organization and qualification; authority to enter into the Acquisition Agreement and no conflict; consents and approvals; information supplied to CH Energy Group for inclusion in its proxy statement; legal proceedings; ownership of CH Energy Group capital stock; availability of funds to consummate the Acquisition; ownership of the merger subsidiary and prior activities of such subsidiary; management agreements; and brokerage fees.

Covenants

CH Energy Group and the Purchaser have made covenants relating to the closing of the Acquisition and related matters. CH Energy Group and the Purchaser have agreed, among other things, to use their reasonable best efforts to take all appropriate action and to do all things necessary to complete and otherwise give effect to the Acquisition, including to satisfy the conditions described below under " – Closing Conditions" and to obtain the regulatory consents and approvals described below under " – Closing Conditions – Governmental Consents and Approvals", including to make all necessary filings with the relevant government authorities as required under the Acquisition Agreement.

During the period from the date of the Acquisition Agreement until the closing of the Acquisition, CH Energy Group will, and CH Energy Group will cause its subsidiaries to: (i) conduct their operations only in the ordinary course of business; (ii) comply in all material respects with applicable laws, orders and permits; and (iii) use their commercially reasonable best efforts (A) to maintain satisfactory relationships with third parties and governmental entities and (B) to preserve their business organization, key officers and employees, except as permitted or required by the Acquisition Agreement, or as required by law, government authority or the New York Stock Exchange.

The Acquisition Agreement also contains specific restrictive covenants with respect to certain non-permissible activities of CH Energy Group and its subsidiaries during the period from the date of the Acquisition Agreement until the closing of the Acquisition. These restrictive covenants provide that, subject to certain exceptions (including as permitted or required by the Acquisition Agreement), CH Energy Group and its subsidiaries will not take certain actions without the prior written approval of the Purchaser (such approval not to be unreasonably withheld, delayed or conditioned), including the following: (i) amend its articles, by-laws or equivalent organizational documents; (ii) issue equity securities other than pursuant to existing security-based compensation arrangements; (iii) sell, pledge or dispose of assets; (iv) pay dividends or make other distributions (other than the payment of regular quarterly cash dividends at the times and in the manner paid in the past, the payment of dividends on preferred stock in accordance with their terms, inter-company dividends between the CH Energy Group of companies and dividend equivalent rights under security-based compensation arrangements); (v) acquire, redeem or amend the terms of its equity securities; (vi) merge or consolidate with another entity, or liquidate, dissolve, restructure, recapitalize or otherwise reorganize (or adopt any resolution related thereto); (vii) acquire (including by merger, consolidation or acquisition of stock or assets) any interest in any entity or any assets; (viii) incur, redeem, repurchase, defease or cancel any indebtedness other than in the ordinary course of business; (ix) make loans, advances or capital contributions to, or investments in, any person other than a wholly-owned subsidiary; (x) increase the compensation payable to directors, officers or employees; (xi) establish or amend any employee compensation plan or collective bargaining agreement; (xii) make or revise a material tax election that is inconsistent with past practices or not in the ordinary course of business; (xiii) change financial or tax accounting methods; (xiv) make or commit to capital expenditures in excess of the capital expenditures budget, other than as required by a governmental entity or as a result of an emergency; (xv) terminate or allow a material permit to lapse; (xvi) enter into, amend or terminate a material contract; (xvii) terminate employees or introduce a program or effort concerning the termination of employment of employees; (xviii) settle any litigation, investigation, proceeding or other claim above certain threshold amounts; (xix) change energy price risk management policies or enter into physical commodity transactions; (xx) change the terms of insurance policies; (xxi) lower pricing for energy or capacity sold wholesale; and (xxii) assign or license any material intellectual property. In addition, from the date of the Acquisition Agreement until the time of closing, CH Energy Group and its subsidiaries must obtain the Purchaser's consent prior to initiating any general rate case and must consult with the Purchaser prior to making any material change to its rates or charges.

Closing Conditions

The Acquisition Agreement provides that the obligation of the Purchaser or CH Energy Group to consummate the Acquisition is subject to the fulfillment of a number of conditions, each of which may be waived by such party, including the following:

(a) Shareholder Approval. CH Energy Group must have obtained approval of the Acquisition Agreement and the transactions contemplated thereby, including the Acquisition, from the holders of CH Energy Group's common shares representing a majority of the votes of all outstanding common shares entitled to vote at a duly convened meeting of CH Energy Group's common shareholders. On June 19, 2012, CH Energy Group held a meeting of its common shareholders and approved the Acquisition, thereby satisfying this condition to closing;

(b) Accuracy of Representations and Warranties. The representations and warranties of the other party under the Acquisition Agreement (other than those made by CH Energy Group with respect to its capitalization and corporate authority and those made by the Purchaser with respect to its corporate authority) are true and correct as of the date of the Acquisition Agreement and as of the closing date, except: (X) in the case of the Purchaser, where the failure of such representations and warranties to be true and correct, individually or in the aggregate, would not reasonably be expected to prevent or materially delay or impair the ability of the Purchaser to consummate the Acquisition; and (Y) in the case of CH Energy Group, where the failure of such representations and warranties to be true and correct, individually or in the aggregate, have not had and would not be reasonably likely to have a Company Material Adverse Effect. "Company Material Adverse Effect" is defined in the Acquisition Agreement to mean any fact, change, event, circumstance, occurrence, effect or development that is materially adverse to: (i) the business, assets, liabilities, financial condition or results of operations of CH Energy Group or its subsidiaries, taken as a whole; or (ii) the ability of CH Energy Group to consummate the Acquisition on a timely basis in accordance with the Acquisition Agreement, provided that certain external events will not constitute a Company Material Adverse Effect unless they have a materially disproportionate effect on CH Energy Group and its subsidiaries, taken as a whole. The representations and warranties made by CH Energy Group and the Purchaser with respect to authority to enter into the Acquisition Agreement must be true and correct in all material respects and those made by CH Energy Group with respect to its capitalization must be true and correct in all respects (except for *de minimus* inaccuracies) as of the date of the Acquisition Agreement and as of the closing date of the Acquisition;

(c) Performance of Covenants. The other party has performed or complied in all material respects with all agreements and covenants required by the Acquisition Agreement to be performed or complied with on or prior to the closing date;

(d) Legal Proceedings. There must not be any order, decree, judgment, injunction or other ruling or law that has the effect of making the merger of CH Energy Group into an indirect wholly-owned subsidiary of Fortis illegal or would otherwise prohibit consummation of the Acquisition;

(e) Governmental Consents and Approvals. Each party has received the governmental and regulatory consents and approvals required to be obtained by it under the Acquisition Agreement. The regulatory approvals that must be obtained prior to the closing of the Acquisition include:

  (i) approval of the Acquisition by the NYPSC and the FERC;

  (ii) the expiration or termination of any applicable waiting period, together with any extensions thereof, under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended; and

  (iii) written confirmation from the Committee on Foreign Investment in the United States ("CFIUS") that CFIUS has reviewed the information provided to it regarding the Acquisition and based on its review and, where applicable, investigation, has determined that there are no unresolved national security concerns with respect to the Acquisition.

Termination

The Acquisition Agreement may be terminated by the Purchaser or CH Energy Group at any time prior to closing in certain circumstances, including:

(a) the mutual written consent of the Purchaser and CH Energy Group;

(b) if the Acquisition has not closed by February 20, 2013 provided, however, that if the only unsatisfied conditions to closing are the obtaining of the regulatory approvals described above under " – Closing Conditions – Governmental Consents and Approvals", then such date shall be extended to August 20, 2013 (subject to any waiting period imposed by law);

(c) if a government authority issues a final order or injunction restraining or prohibiting the Acquisition; or

(d) if the other party fails to comply with any of its covenants and agreements or breaches its representations and warranties, and such failure to comply is not cured within 30 days and results in a failure to satisfy the conditions to closing.

CAPITALIZATION

The following table sets out the consolidated capitalization of the Corporation as at March 31, 2012 and after giving effect to the net proceeds from the Offering (assuming no exercise of the Over-Allotment Option), determined after deducting the Underwriters' fee and estimated expenses of the Offering on an after-tax basis, and the change in long-term debt and capital lease obligations from April 1, 2012 up to and including June 18, 2012. See "Changes in Share and Loan Capital Structure". The financial information set out below has been prepared in accordance with US GAAP.

	Outstanding at March 31, 2012 (unaudited)	*Pro forma* Outstanding at March 31, 2012 (unaudited)[1]
	(in millions of dollars)	
Total debt and capital lease obligations[2] (net of cash)	6,186	6,337
Shareholders' equity		
Securities offered hereby	Nil	584
Common shares	3,050	3,050
Preference shares	912	912
Additional paid-in capital	15	15
Accumulated other comprehensive loss	(96)	(96)
Retained earnings	932	932
Total capitalization[3]	10,999	11,734

(1) After giving effect to the net proceeds from the Offering (assuming no exercise of the Over-Allotment Option), determined after deducting the Underwriters' fee and estimated expenses of the Offering on an after-tax basis, and the change in long-term debt and capital lease obligations from April 1, 2012 up to and including June 18, 2012. See "Changes in Share and Loan Capital Structure".

(2) Includes long-term debt and capital lease obligations, including current portion, and short-term borrowings.

(3) Excludes non-controlling interests.

SHARE CAPITAL OF FORTIS

The authorized share capital of the Corporation consists of an unlimited number of Common Shares, an unlimited number of First Preference Shares issuable in series and an unlimited number of Second Preference Shares issuable in series, in each case without nominal or par value. As at June 19, 2012, 189,967,208 Common Shares, 5,000,000 Cumulative Redeemable First Preference Shares, Series C (the "First Preference Shares, Series C"), 7,993,500 Cumulative Redeemable First Preference Shares, Series E (the "First Preference Shares, Series E"), 5,000,000 Cumulative Redeemable First Preference Shares, Series F (the "First Preference Shares, Series F"), 9,200,000 Cumulative Redeemable Five-Year Fixed Rate Reset First Preference Shares, Series G (the "First Preference Shares, Series G") and 10,000,000 Cumulative Redeemable Five-Year Fixed Rate Reset First Preference Shares, Series H (the "First Preference Shares Series H") were issued and outstanding. The Corporation's Common Shares, First Preference Shares, Series C, First Preference Shares, Series E, First Preference Shares, Series F, First Preference Shares, Series G and First Preference Shares, Series H, are listed on the TSX under the symbols "FTS", "FTS.PR.C", "FTS.PR.E", "FTS.PR.F", "FTS.PR.G" and "FTS.PR.H", respectively.

CHANGES IN SHARE AND LOAN CAPITAL STRUCTURE

The following describes the changes in the share and loan capital structure of Fortis since March 31, 2012:

- During the period from April 1, 2012 up to and including June 18, 2012, Fortis issued an aggregate of 692,775 Common Shares pursuant to the Corporation's Dividend Reinvestment Plan and Consumer Share Purchase Plan and upon the exercise of options granted pursuant to the 2002 and 2006 Stock Option Plans, for aggregate consideration of approximately $20.3 million.
- During the period from April 1, 2012 up to and including June 18, 2012, the Corporation's consolidated long-term debt and capital lease obligation, including the current portion and committed credit facility borrowings classified as long-term debt, increased by $151 million, largely due to additional borrowing under the Corporation's committed corporate credit facility.

TRADING PRICES AND VOLUMES

The following tables set forth, for the periods indicated, the reported high and low daily trading prices and the aggregate volume of trading of the Corporation's Common Shares: First Preference Shares, Series C; First Preference Shares, Series E; First Preference Shares, Series F; First Preference Shares, Series G; and First Preference Shares, Series H, on the TSX.

	Trading of Common Shares			Trading of First Preference Shares, Series C		
	TSX			TSX		
	High	Low	Volume	High	Low	Volume
	($)	($)	(#)	($)	($)	(#)
2011						
June	33.05	30.79	9,954,946	26.04	25.75	348,223
July	32.85	31.53	5,183,546	26.49	25.85	80,991
August	32.75	28.24	14,509,526	26.45	25.86	34,748
September	33.78	31.44	11,207,968	26.14	25.55	135,005
October	34.39	31.32	7,950,203	26.26	25.60	75,014
November	34.16	31.32	18,591,643	26.45	25.75	123,447
December	33.62	31.97	9,940,675	26.21	25.65	187,813
2012						
January	33.67	32.66	7,561,933	26.61	25.90	21,229
February	34.31	31.76	19,233,895	26.54	25.50	50,239
March	33.17	31.70	11,072,696	25.90	25.53	35,364
April	34.35	31.88	7,960,525	26.25	25.53	275,288
May	34.98	32.08	11,877,137	25.95	25.38	135,930
June 1 to June 19	34.00	32.16	8,504,440	25.60	25.42	53,827

	Trading of First Preference Shares, Series E			Trading of First Preference Shares, Series F		
	TSX			TSX		
	High	Low	Volume	High	Low	Volume
	($)	($)	(#)	($)	($)	(#)
2011						
June	27.24	26.61	143,830	24.25	23.16	74,591
July	27.53	26.80	16,908	24.79	24.01	46,339
August	27.86	26.51	367,951	25.10	23.68	67,083
September	27.00	26.59	60,562	25.00	24.33	52,951
October	27.22	26.50	126,929	26.24	24.50	96,924
November	28.12	27.11	114,823	25.69	24.92	56,811
December	27.45	26.98	28,011	26.41	24.98	39,355
2012						
January	27.60	26.97	72,839	25.85	25.05	70,415
February	28.98	26.75	68,038	25.94	25.00	239,924
March	27.58	26.02	53,080	25.60	25.00	328,502
April	26.60	26.05	333,365	25.30	25.00	167,439
May	26.75	26.16	277,108	25.60	24.54	91,659
June 1 to June 19	26.90	26.40	42,765	25.50	25.18	119,631

	Trading of First Preference Shares, Series G			Trading of First Preference Shares, Series H		
	TSX			TSX		
	High	Low	Volume	High	Low	Volume
	($)	($)	(#)	($)	($)	(#)
2011						
June	26.99	25.88	128,971	25.96	25.25	251,857
July	26.30	25.81	68,285	25.95	25.21	67,873
August	26.40	25.34	75,920	26.00	25.14	156,853
September	26.30	25.58	110,543	26.05	25.00	94,461
October	26.58	25.80	69,175	26.00	25.10	48,926
November	26.19	25.43	107,174	25.84	25.10	95,476
December	26.65	25.70	40,271	26.00	25.29	210,693
2012						
January	26.45	25.75	47,858	26.00	25.50	263,320
February	26.50	25.35	88,246	26.72	25.60	111,592
March	25.92	25.46	168,124	25.99	25.45	85,935
April	25.85	25.60	54,552	25.93	25.46	28,764
May	25.95	25.52	71,254	26.00	24.95	70,501
June 1 to June 19	25.75	25.42	104,450	25.60	24.84	101,419

DETAILS OF THE OFFERING

The Offering consists of 18,500,000 Subscription Receipts at a price of $32.50 per Subscription Receipt. Each Subscription Receipt represents the right to receive, without payment of additional consideration, one Common Share upon satisfaction of the Release Conditions.

Set forth below is a summary of the material attributes and characteristics of the Subscription Receipts. This summary does not purport to be complete and reference should be made to the subscription receipt agreement to be dated as of the Closing Date among Fortis, CIBC, Scotia Capital, TDSI and the Escrow Agent (the “Subscription Receipt Agreement”). The Subscription Receipt Agreement will be filed with the securities regulatory authorities in Canada on the Closing Date of the Offering.

The Subscription Receipts will be issued on the Closing Date pursuant to the Subscription Receipt Agreement. The Escrowed Funds will be delivered to and held by the Escrow Agent and invested in short-term interest bearing or discount debt obligations (in either Canadian or U.S. dollars) issued or guaranteed by the Government of Canada or a province, or one or more of the five largest Canadian chartered banks, provided in all cases that such obligation is rated at least R1 (middle) by DBRS Limited or an equivalent rating from an equivalent rating service, pending satisfaction of the Release Conditions.

If the Release Conditions are satisfied prior to the Deadline, the Corporation will forthwith execute and deliver a notice of satisfaction and will issue and deliver to the Escrow Agent one Common Share for each Subscription Receipt then outstanding (subject to any applicable adjustment). See “Description of Securities Offered – Common Shares” in the Prospectus. The Common Shares will be available for delivery commencing on the second business day after the delivery of such notice. The holders of Subscription Receipts will receive, without payment of any additional consideration, one Common Share for each Subscription Receipt held plus an amount per Subscription Receipt equal to the cash dividends declared on the Common Shares by the Corporation, if any, for which record dates have occurred during the period from the Closing Date to the date of issuance of the Common Shares in respect of the Subscription Receipts. Forthwith upon the Release Conditions being satisfied and the required notice being delivered to the Escrow Agent, the Escrowed Funds, together with interest earned and yield generated thereon, will be released to Fortis.

In the event that the Release Conditions are not satisfied, or if the Acquisition Agreement is terminated, prior to the Termination Time, holders of Subscription Receipts shall, commencing on the second business day following the Termination Time, be entitled to receive from the Escrow Agent an amount equal to the full subscription price thereof plus their *pro rata* share of the interest earned and yield generated on such amount. The Escrowed Funds will be applied toward payment of such amount. If, as a result of foreign exchange losses due to U.S. dollar investments, there are insufficient Escrowed Funds to repay to holders of Subscription Receipts the full subscription price thereof, the Corporation will make up any shortfall.

In the event that, prior to the date of issue of a Common Share in respect of a Subscription Receipt, there occurs a subdivision, consolidation, reclassification or other change of the Common Shares or any reorganization, amalgamation, merger or sale of all or substantially all of the Corporation's assets, the Subscription Receipts will thereafter evidence the right of the holder to receive the securities, property or cash deliverable in exchange for or on the conversion of or in respect of the Common Shares to which the holder of a Common Share would have been entitled immediately after such event. Similarly, any distribution to all or substantially all of the holders of Common Shares of rights, options, warrants, evidences of indebtedness or assets will result in an adjustment in the number of Common Shares to be issued to holders of Subscription Receipts. Alternatively, such securities, evidences of indebtedness or assets may, at the option of the Corporation, be issued to the Escrow Agent and delivered to holders of Subscription Receipts on exercise thereof. In case the Corporation, after the Closing Date, takes any action affecting the Common Shares, other than the actions described above, which, in the reasonable opinion of the directors of the Corporation, would materially affect the rights of the holders of Subscription Receipts and/or the rights attached to the Subscription Receipts, then the number of Common Shares which are to be received pursuant to the Subscription Receipts shall be adjusted in such manner, if any, and at such time as the directors of the Corporation may, in their discretion, reasonably determine to be equitable to the holders of Subscription Receipts in such circumstances. The adjustments provided for in this paragraph are cumulative and shall apply to successive subdivisions, consolidations, changes, distributions, issues or other events resulting in any adjustment.

Under the Subscription Receipt Agreement, purchasers of Subscription Receipts will have a contractual right of rescission entitling the purchaser to receive the amount paid for the Subscription Receipts upon surrender of the Subscription Receipts or the Common Shares, as applicable, if the Prospectus and any amendment contains a misrepresentation, as such term is defined in the *Securities Act* (Ontario), provided such remedy for rescission is exercised within 180 days of the Closing Date. This contractual right of rescission extends only to initial purchasers of Subscription Receipts and will not extend to any holders of Subscription Receipts who acquire such Subscription Receipts from an initial purchaser in the open market or otherwise. The Corporation will not be liable under this contractual right of rescission if the purchaser of Subscription Receipts had knowledge of the misrepresentation.

Subject to applicable law, the Corporation will be entitled to purchase the Subscription Receipts in the open market or by private agreement or otherwise.

Subscriptions for the Subscription Receipts will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that the closing of the Offering will take place on or about June 27, 2012, or such other date as may be agreed upon by the Corporation and the Underwriters, but not later than July 6, 2012 (the "Closing Date"). The Subscription Receipts will be issued in "book entry only" form and must be purchased or transferred through a registered dealer who is a CDS participant (a "CDS Participant"). The Corporation will cause a global certificate or certificates representing newly issued Subscription Receipts to be delivered to and registered in the name of CDS or its nominee. All rights of Subscription Receipt holders must be exercised through, and all payments or other money to which such holders are entitled will be made or delivered by, CDS or the CDS Participant through which the holders hold such Subscription Receipts. Each person who acquires Subscription Receipts will receive only a customer confirmation of purchase from the registered dealer from or through which the Subscription Receipts are acquired in accordance with the practices and procedures of that registered dealer. The practices of registered dealers may vary, but generally customer confirmations are issued promptly after execution of a customer order. CDS is responsible for establishing and maintaining book entry accounts for its CDS Participants having interests in the Subscription Receipts. If the Subscription Receipts are no longer eligible for the book-entry only system or CDS resigns or is removed from its responsibilities as depository and Fortis is unable to locate a qualified successor, beneficial owners of the Subscription Receipts represented by a global certificate at such time will receive definitive certificates representing the Subscription Receipts.

Common Shares issued upon exchange of the Subscription Receipts will be issued and registered to CDS or its nominee under the book-entry only system. Except in limited circumstances, no holder of a Common Share will be entitled to a certificate evidencing that person's interest in or ownership of a Common Share, and a holder of Subscription Receipts will receive only a customer confirmation from the registered dealer (a Participant through which the holder's Subscription Receipts are purchased) that Common Shares have been issued.

None of Fortis, the Underwriters or their respective affiliates will assume any liability for: (i) any aspect of the records relating to the beneficial ownership of the Subscription Receipts held by CDS or its nominee or the payments relating thereto; (ii) maintaining, supervising or reviewing any records relating to the Subscription Receipts; or (iii) any advice or representation made by or with respect to CDS and contained in this Prospectus Supplement or the Prospectus and relating to the rules governing CDS or any action to be taken by CDS or at the direction of a CDS Participant. The rules governing CDS provide that it acts as the agent and depositary for the CDS Participants. As a result, CDS Participants must look solely to CDS and beneficial owners of the Subscription Receipts must look solely to CDS Participants for any payments on the Subscription Receipts paid by, or on behalf of, Fortis to CDS.

The Subscription Receipt Agreement provides for modifications and alterations to the Subscription Receipts issued thereunder by way of an extraordinary resolution. The term "extraordinary resolution" is defined in the Subscription Receipt Agreement to mean, in effect, a resolution proposed at a meeting of holders of Subscription Receipts duly convened for that purpose and held in accordance with the Subscription Receipt Agreement at which there are present in person or by proxy at least two holders of Subscription Receipts entitled to receive more than 25% of the aggregate number of Common Shares issuable upon the exchange of the Subscription Receipts which could be received pursuant to all the then-outstanding Subscription Receipts and passed by the affirmative votes of holders of Subscription Receipts entitled to receive not less than 66⅔% of the aggregate number of such Common Shares which could be received pursuant to all the then-outstanding Subscription Receipts represented at the meeting and voted on the poll upon such resolution.

The holders of Subscription Receipts are not shareholders of the Corporation. Holders of Subscription Receipts are entitled only to receive Common Shares on the exchange of their Subscription Receipts and an amount equal to the dividends declared on the Common Shares by the Corporation, if any, for which record dates have occurred during the period from the Closing Date to the date of issuance of the Common Shares in respect of the Subscription Receipts, or to require the Corporation to purchase the Subscription Receipts at the Offering Price and to be paid a *pro rata* share of interest earned and yield generated thereon as described above.

USE OF PROCEEDS

The net proceeds to the Corporation from the Offering, after deducting the Underwriters' fee and estimated expenses of the Offering, are expected to be $576,600,000, assuming no exercise of the Over-Allotment Option. If the Over-Allotment Option is exercised in full, the estimated net proceeds of the Offering, after deducting the Underwriters' fee and estimated expenses of the Offering, are expected to be $663,180,000.

The net proceeds of the Offering, together with cash on hand and/or funds to be drawn down from the Corporation's existing committed corporate credit facility, will be used to finance the Cash Purchase Price for the Acquisition. See "CH Energy Group Acquisition Agreement". The gross proceeds from the sale of the Subscription Receipts will be held in escrow by the Escrow Agent pending the satisfaction of the Release Conditions. See "Details of the Offering".

PLAN OF DISTRIBUTION

Pursuant to an underwriting agreement dated June 20, 2012 (the "Underwriting Agreement") between Fortis and the Underwriters, Fortis has agreed to issue and sell, and the Underwriters have agreed to purchase, as principals, on the Closing Date, 18,500,000 Subscription Receipts offered hereby at the Offering Price of $32.50 per Subscription Receipt, subject to compliance with all the necessary legal requirements and to the conditions contained in the Underwriting Agreement. After the Underwriters have made reasonable efforts to sell all the Subscription Receipts at the Offering Price, the Underwriters may sell the Subscription Receipts to the public at prices below the Offering Price. Any such reduction will not affect the proceeds received by the Corporation. The Offering Price and other terms of the Offering were determined by negotiation between the Corporation and the Underwriters.

The Corporation has granted the Underwriters an over-allotment option (the "Over-Allotment Option"), exercisable at any time until 30 days following the Closing Date, to purchase up to an additional 2,775,000 Subscription Receipts at the Offering Price. The Over-Allotment Option is exercisable in whole or in part only for the purpose of covering over-allotments, if any, and for market stabilization purposes. This Prospectus Supplement also qualifies the grant of the Over-Allotment Option and the distribution of the securities issuable on the exercise of the Over-Allotment Option. A purchaser who acquires securities forming part of the Underwriters' over-allocation position acquires those securities under this Prospectus Supplement and the Prospectus, regardless of whether the over-allocation position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases.

The Underwriting Agreement provides that the Underwriters will be paid a fee of $24,050,000 (assuming no exercise of the Over-Allotment Option) ($1.30 per Subscription Receipt) in consideration for their services in connection with the Offering. One-half of the Underwriters' fee in respect of the Offering is payable on the Closing Date and the other half of the Underwriters' fee is payable only if the Release Conditions have been satisfied prior to the Termination Time and the required notice has been delivered to the Escrow Agent to release the Escrowed Funds to the Corporation.

Pursuant to rules and policy statements of certain Canadian securities regulators, the Underwriters may not, at any time during the period ending on the date the selling process for the Subscription Receipts ends and all stabilization arrangements relating to the Subscription Receipts are terminated, bid for or purchase Subscription Receipts or Common Shares. The foregoing restrictions are subject to certain exceptions including (a) a bid for or purchase of Subscription Receipts or Common Shares if the bid or purchase is made through the facilities of the TSX, in accordance with the Universal Market Integrity Rules administered by the Investment Industry Regulating Organization of Canada relating to market stabilization and passive market making activities; and (b) a bid or purchase made for or on behalf of a client, other than certain prescribed clients, provided that the client's order was not solicited by the Underwriter, or if the client's order was solicited, the solicitation did not occur during the period of distribution. The Underwriters may engage in market stabilization or market balancing activities on the TSX where the bid for or purchase of the Subscription Receipts or the Common Shares is for the purpose of maintaining a fair and orderly market in the Subscription Receipts or Common Shares, subject to price limitations applicable to such bids or purchases. Such transactions, if commenced, may be discontinued at any time.

The Subscription Receipts and the Common Shares for which such Subscription Receipts may be exchanged have not been, and will not be, registered under the United States *Securities Act of 1933*, as amended (the "1933 Act") or any state securities laws and, subject to certain exceptions, may not be offered, or delivered, directly or indirectly, or sold in the United States except in certain transactions exempt from the registration requirements of the 1933 Act and in compliance with any applicable state securities laws. The Underwriters have agreed that they will not offer or sell the Subscription Receipts within the United States, its territories, its possessions and other areas subject to its jurisdiction, except in accordance with the Underwriting Agreement pursuant to an exemption from the registration requirements of the 1933 Act provided by Rule 144A thereunder and in compliance with applicable state securities laws. In addition, until 40 days after the commencement of the Offering, an offer or sale of Subscription Receipts or Common Shares within the United States by any dealer (whether or not participating in the Offering) may violate the registration requirements of the 1933 Act if such offer is made otherwise than in reliance on Rule 144A.

The obligations of the Underwriters under the Underwriting Agreement are several (and not joint or joint and several) and may be terminated at their discretion in certain circumstances, including upon the occurrence of certain stated events. The Underwriters are, however, obligated to take up and pay for all of the Subscription Receipts if any are purchased under the Underwriting Agreement. Under the terms of the Underwriting Agreement, the Underwriters may be entitled to indemnification by the Corporation against certain liabilities, including liabilities for misrepresentation in this Prospectus Supplement and the Prospectus.

Each of CIBC, Scotia Capital, TDSI, Merrill Lynch, BMO Capital Markets, RBC Capital Markets, Desjardins Securities, HSBC Securities, Morgan Stanley and NB Financial is an affiliate of a financial institution that has, either solely or as a member of a syndicate of financial institutions, extended credit facilities to, or holds other indebtedness of, the Corporation and/or its subsidiaries (the "Existing Indebtedness"). Consequently, the Corporation may be considered a "connected issuer" of these Underwriters within the meaning of applicable securities legislation. None of these Underwriters will receive any direct benefit from the Offering other than the Underwriters' fee relating to the Offering. The decision to distribute the Subscription Receipts hereunder and the determination of the terms of the Offering were made through negotiation between the Corporation and the Underwriters. No bank had any involvement in such decision or determination. The proceeds of the Offering will be used to finance the Cash Purchase Price for the Acquisition and will not be used to repay the Existing Indebtedness. As at June 18, 2012, an aggregate of approximately $395 million was outstanding under the Existing Indebtedness. Fortis and/or its subsidiaries are in compliance with their respective obligations under the Existing Indebtedness. Since the execution of the agreements governing the Existing Indebtedness, no breach thereunder has been waived by the lenders thereunder. See "Use of Proceeds".

There is currently no market through which the Subscription Receipts may be sold and purchasers may not be able to resell Subscription Receipts purchased under this Prospectus Supplement. This may affect the pricing of the Subscription Receipts in the secondary market, the transparency and availability of trading prices, the liquidity of the Subscription Receipts and the extent of issuer regulation. The TSX has conditionally approved the listing of the Subscription Receipts, as well as the Common Shares issuable on the exchange of the Subscription Receipts. Listing is subject to the Corporation fulfilling all of the requirements of the TSX on or before September 17, 2012.

CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Davies Ward Phillips & Vineberg LLP, counsel to the Corporation, and Stikeman Elliott LLP, counsel to the Underwriters, the following is a general summary of the principal Canadian federal income tax considerations generally applicable to a holder who acquires Subscription Receipts pursuant to the Offering who, within the meaning of the *Income Tax Act* (Canada) (the "Tax Act"), and at all relevant times, is or is deemed to be resident in Canada, deals at arm's length with, and is not affiliated with, the Corporation and holds or will hold the Subscription Receipts and any Common Shares as capital property. Generally, the Subscription Receipts and the Common Shares will be considered to be capital property to a holder provided the holder does not hold the Subscription Receipts and the Common Shares in the course of carrying on a business and has not acquired them in a transaction or transactions considered to be an adventure or concern in the nature of trade. Certain holders whose Common Shares might not otherwise qualify as capital property may, in certain circumstances, make the irrevocable election under subsection 39(4) of the Tax Act to have their Common Shares and every "Canadian security" (as defined in the Tax Act) owned by such holder in the taxation year of the election, and in all subsequent years, deemed to be capital property.

This summary does not apply to a purchaser: (i) that is a "financial institution" for the purposes of the "mark-to-market" rules; (ii) that is a "specified financial institution"; (iii) an interest in which is a "tax shelter investment"; or (iv) that has elected to determine its Canadian tax results in accordance with the "functional currency" rules, as each of those terms is defined in the Tax Act. Such purchasers should consult their own tax advisors.

This summary is based upon the provisions of the Tax Act and regulations thereunder (the "Regulations") in force as at the date hereof, all specific proposals (the "Tax Proposals") to amend the Tax Act or Regulations that have been publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof and counsel's understanding of the current published administrative practices of the Canada Revenue Agency. This summary does not otherwise take into account or anticipate any changes in applicable law, whether by legislative, governmental or judicial decision or action, nor does it take into account provincial, territorial or foreign tax laws or considerations, which might differ significantly from those discussed herein.

This summary is of a general nature only and is not intended to be, nor should it be construed to be, legal or tax advice to any particular holder. This summary is not exhaustive of all possible income tax considerations under the Tax Act that may affect a holder. The income tax consequences of acquiring and disposing of Subscription Receipts and Common Shares will vary depending on a number of facts, including the legal status of the holder as an individual, corporation, trust or partnership. Accordingly, prospective holders of Subscription Receipts and Common Shares should consult their own tax advisors with respect to their particular circumstances and the tax consequences to them of holding and disposing of Subscription Receipts and Common Shares.

Exchange of Subscription Receipts

No gain or loss will be realized by a holder on the exchange of Subscription Receipts for Common Shares.

The cost of a Common Share issued to a holder of a Subscription Receipt acquired pursuant to the Offering will be equal to the cost of the Subscription Receipt to the holder. For the purposes of determining the adjusted cost base to the holder of Common Shares so acquired, the cost of such Common Shares will be determined by averaging the cost of such Common Shares with the adjusted cost base of all other Common Shares owned at that time by the holder as capital property.

Termination of Subscription Receipts

As described above under "Details of the Offering", in the event that the Release Conditions are not satisfied or if the Acquisition Agreement is terminated prior to the Termination Time, holders of Subscription Receipts will be entitled to receive from the Escrow Agent an amount equal to the full subscription price thereof plus their *pro rata* share of the interest earned and yield generated thereon. In that event, the amount of such interest or income received by a holder of Subscription Receipts must be included in the income of the holder.

Payment of Dividend Equivalent

As described above under “Details of the Offering”, if Common Shares are issued in exchange for Subscription Receipts, and if dividends have been declared on the Common Shares of the Corporation to holders of record on a date during the period from the Closing Date to the date of such issuance of Common Shares, the Corporation will make a cash payment to the holders of Subscription Receipts in respect of each Subscription Receipt in an amount equal to the per share amount of such dividend. The dividend equivalent amount, if any, paid to a holder of Subscription Receipts by the Corporation must be included in the income of the holder. Any amount so included will be taxed as ordinary income and not as a dividend and, as such, will not be subject to the gross-up and dividend tax credit rules described below.

Other Dispositions of Subscription Receipts

A disposition or deemed disposition by a holder of a Subscription Receipt, other than on the exchange of a Subscription Receipt for a Common Share or a disposition of the Subscription Receipt to the Corporation in the event the Release Conditions are not satisfied or if the Acquisition Agreement is terminated prior to the Termination Time will generally result in the holder realizing a capital gain (or a capital loss) equal to the amount by which the proceeds of disposition exceed (or are less than) the aggregate of the holder’s adjusted cost base thereof and any reasonable costs of disposition.

Dividends on Common Shares

Dividends received on Common Shares by a holder who is an individual will be included in the individual’s income and will be subject to the gross-up and dividend tax credit rules normally applicable to taxable dividends received from taxable Canadian corporations, including the enhanced gross-up and dividend tax credit for “eligible dividends”. A dividend will be eligible for the enhanced gross-up and dividend tax credit if the paying corporation designates the dividend as an eligible dividend. There may be limitations on the ability of a corporation to designate dividends as eligible dividends. The Corporation has advised counsel that it intends to designate all dividends paid on the Common Shares as eligible dividends for these purposes. Taxable dividends received by an individual may give rise to alternative minimum tax under the Tax Act, depending on the individual’s circumstances.

Dividends received on Common Shares by a holder that is a corporation will be included in income and normally will be deductible in computing such corporation’s taxable income. However, the Tax Act will generally impose a 33 1⁄3% refundable Part IV tax on such dividends received by a corporation that was, at any time in the taxation year in which such dividends were received, a “private corporation” as defined in the Tax Act, or a corporation resident in Canada that is controlled by or for the benefit of an individual (other than a trust) or a related group of individuals (other than trusts), to the extent that such dividends are deductible in computing the corporation’s taxable income.

Disposition of Common Shares

In general, a disposition or a deemed disposition of a Common Share will give rise to a capital gain (or a capital loss) equal to the amount by which the proceeds of disposition of the Common Share, net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base to the holder of the Common Share immediately before the disposition.

Tax Treatment of Capital Gains and Losses

Generally, one-half of a capital gain (a “taxable capital gain”) will be included in the holder’s income, and one-half of a capital loss (an “allowable capital loss”) will be deducted against taxable capital gains realized by such holder in the same taxation year. Any excess of allowable capital losses over taxable capital gains may be carried back to prior taxation years or forward to subsequent taxation years and applied against capital gains in those years in accordance with the detailed rules contained in the Tax Act. Capital gains realized by an individual will be relevant in computing possible liability for the alternative minimum tax.

The amount of any capital loss realized on the disposition or deemed disposition of a Common Share by a holder that is a corporation may be reduced by the amount of dividends received by the holder on the Common Share to the extent and in the circumstances prescribed by the Tax Act. Similar rules may apply where a corporation is a member of a partnership or a beneficiary of a trust that owns Common Shares and where a trust is a member of a partnership that owns Common Shares or a partnership or trust is a beneficiary of a trust that owns Common Shares. Holders to whom these rules may be relevant should consult their own tax advisors.

Additional Refundable Tax

A holder that is a "Canadian-controlled private corporation" (as defined in the Tax Act) may be liable to pay an additional refundable tax of 6⅔% on certain investment income, including amounts in respect of taxable capital gains and interest (but not dividends deductible in computing taxable income).

RISK FACTORS

An investment in the Subscription Receipts offered hereby and the Common Shares issuable upon the exchange thereof involves certain risks in addition to those described in the Corporation's Annual MD&A (at pages 48 to 61) and in the Corporation's First Quarter MD&A (at pages 28 to 29), each of which is incorporated by reference herein. See also "Risk Factors" in the Prospectus. Before investing, prospective purchasers of Subscription Receipts should carefully consider, in light of their own financial circumstances, the factors set out below, as well as the other information contained or incorporated by reference in the Prospectus.

Subscription Receipt Structure

The Subscription Receipts will be automatically exchanged for Common Shares upon the satisfaction of the Release Conditions. The Corporation may, in its sole discretion, waive certain closing conditions in its favour in the Acquisition Agreement or agree with CH Energy Group to amend the Acquisition Agreement and consummate the Acquisition on terms that may be substantially different from those contemplated in this Prospectus Supplement. As a result, the expected benefits of the Acquisition may not be fully realized. See "CH Energy Group Acquisition Agreement". There can be no assurance that the Release Conditions will be satisfied on or prior to the Termination Time. Until the Release Conditions are satisfied and the Common Shares are delivered pursuant to the Subscription Receipt Agreement, holders of Subscription Receipts have the rights as described under "Details of the Offering".

Market for Securities

There is currently no market through which the Subscription Receipts may be sold and purchasers of Subscription Receipts may not be able to resell the Subscription Receipts purchased under this Prospectus Supplement. The price offered to the public for Subscription Receipts and the number of Subscription Receipts to be issued have been determined by negotiations among Fortis and the Underwriters. The price paid for each Subscription Receipt may bear no relationship to the price at which Subscription Receipts will trade in the public market subsequent to this Offering. Fortis cannot predict at what price the Subscription Receipts will trade and there can be no assurance that an active trading market will develop for the Subscription Receipts or, if developed, that such market will be sustained.

The TSX has conditionally approved the listing of the Subscription Receipts, as well as the Common Shares issuable on the exchange of the Subscription Receipts. Listing is subject to the Corporation fulfilling all of the requirements of the TSX on or before September 17, 2012.

Monies in Escrow

The proceeds of the Offering are being held in escrow by the Escrow Agent pending the closing of the Acquisition or termination of the Acquisition Agreement. There can be no assurance that the conditions for the release of the Escrowed Funds will be satisfied prior to the Termination Time.

Potential Undisclosed Liabilities Associated with the Acquisition

In connection with the Acquisition, there may be liabilities that the Corporation failed to discover or was unable to quantify in the due diligence which it conducted prior to the execution of the Acquisition Agreement and the Corporation may not be indemnified for some or all of these liabilities. The discovery on quantification of any material liabilities could have a material adverse effect on the Corporation's business, financial condition or future prospects.

MATERIAL CONTRACTS

The material contracts and other instruments entered into by, or to be entered into by, or to become binding upon Fortis or its subsidiaries in connection with the Acquisition or the Offering are as follows:

- the Subscription Receipt Agreement referred to under "Details of the Offering"; and
- the Underwriting Agreement referred to under "Plan of Distribution".

Copies of the foregoing agreements as well as the Acquisition Agreement may be inspected during regular business hours at the offices of the Corporation, at Suite 1201, 139 Water Street, St. John's, Newfoundland and Labrador A1B 3T2 (telephone (709) 737-2800) until the expiry of the 30 day period following the date of this Prospectus Supplement and are also available electronically at www.sedar.com.

AUDITORS

The auditors of the Corporation are Ernst & Young LLP, Chartered Accountants ("Ernst & Young"), The Fortis Building, 7th Floor, 139 Water Street, St. John's, Newfoundland and Labrador, A1C 1B2. Ernst & Young report that they are independent of the Corporation in accordance with the Rules of Professional Conduct of the Institute of Chartered Accountants of Newfoundland.

LEGAL MATTERS

Certain legal matters relating to this Offering will be passed upon on behalf of the Corporation by Davies Ward Phillips & Vineberg LLP, Toronto and McInnes Cooper, St. John's and on behalf of the Underwriters by Stikeman Elliott LLP, Toronto. At the date hereof, partners and associates of each of Davies Ward Phillips & Vineberg LLP, McInnes Cooper and Stikeman Elliott LLP own beneficially, directly or indirectly, less than 1% of any securities of the Corporation or any associate or affiliate of the Corporation.

TRANSFER AGENT AND REGISTRAR

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

PURCHASERS' STATUTORY RIGHTS

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may only be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment, irrespective of the determination at a later date of the purchase price of the securities distributed. In several of the provinces, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revisions of the price or damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revisions of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights or consult with a legal advisor.

GLOSSARY OF TERMS

In the Prospectus Supplement, unless the context otherwise requires, the following terms have the meanings set forth below.

"**1933 Act**" means the United States *Securities Act of 1933*, as amended;

"**Acquisition**" means the acquisition by Fortis of all of the issued and outstanding shares of CH Energy Group;

"**Acquisition Agreement**" means the agreement and plan of merger dated as of February 20, 2012 between Fortis, certain subsidiaries of Fortis and CH Energy Group;

"Cash Purchase Price" means the cash portion of the purchase price for CH Energy Group, which is equal to approximately US$1 billion;

"**CDS**" means CDS Clearing and Depository Services Inc.;

"**CH Energy Group**" means CH Energy Group, Inc.;

"**CFIUS**" means the Committee on Foreign Investment in the United States under Section 721 of Title VII of the Defense Production Act of 1950, as amended by the Omnibus Trade and Competitiveness Act of 1988, as modified by the Foreign Investment and National Security Act of 2007;

"**Closing Date**" means on or about June 27, 2012, or such other date as agreed to by the Corporation and the Underwriters, but not later than July 6, 2012;

"**Common Share**" means a common share in the capital of Fortis;

"**Company Material Adverse Effect**" means any fact, change, event, circumstance, occurrence, effect or development that is materially adverse to (i) the business, assets, liabilities, financial condition or results of operations of CH Energy Group or its subsidiaries, taken as a whole, or (ii) the ability of CH Energy Group to consummate the Acquisition on a timely basis in accordance with the Acquisition Agreement, provided that certain external events will not constitute a Company Material Adverse Effect unless they have a materially disproportionate effect on CH Energy Group and its subsidiaries, taken as a whole;

"**Corporation**" or "**Fortis**" means Fortis Inc.;

"**Deadline**" means 5:00 p.m. (Toronto time) on June 30, 2013;

"**Escrow Agent**" means Computershare Trust Company of Canada or its successor as escrow agent under the Subscription Receipt Agreement;

"**Escrowed Funds**" means the gross proceeds from the sale of the Subscription Receipts to be placed in escrow with the Escrow Agent;

"**FERC**" means the Federal Energy Regulatory Commission;

"**NYPSC**" means the New York Public Service Commission;

"**Offering**" means the distribution of Subscription Receipts pursuant to the Prospectus Supplement;

"**Offering Price**" means the price of $32.50 per Subscription Receipt;

"**Over-Allotment Option**" means the option granted by the Corporation to the Underwriters, exercisable in whole or in part at any time until 30 days following the Closing Date, to purchase at the Offering Price up to 2,775,000 additional Subscription Receipts to cover over-allotments, if any, and for market stabilization purposes;

"**Prospectus**" means the short form base shelf prospectus of the Corporation dated May 10, 2012;

“**Prospectus Supplement**” means this prospectus supplement to the Prospectus;

“**Release Conditions**” means the receipt by the Corporation of all regulatory and government approvals required to finalize the Acquisition, including those of the NYPSC and the FERC, and fulfillment or waiver of all other outstanding conditions precedent to closing the Acquisition as itemized in the Acquisition Agreement;

“**SEDAR**” means the Canadian System for Electronic Document Analysis and Retrieval;

“**Subscription Receipt Agreement**” means the agreement dated as of the Closing Date among the Corporation, CIBC, Scotia Capital, TDSI and the Escrow Agent governing the terms of the Subscription Receipts;

“**Subscription Receipts**” means the subscription receipts of the Corporation offered hereby;

“**Termination Time**” means the earlier of 5:00 p.m. (Toronto time) on June 30, 2013 or the date on which the Acquisition Agreement is terminated;

“**TSX**” means the Toronto Stock Exchange;

“**Underwriters**” means, collectively CIBC World Markets Inc., Scotia Capital Inc., TD Securities Inc., Merrill Lynch Canada Inc., BMO Nesbitt Burns Inc., RBC Dominion Securities Inc., Desjardins Securities Inc., HSBC Securities (Canada) Inc., Morgan Stanley Canada Limited, National Bank Financial Inc. and Beacon Securities Limited; and

“**Underwriting Agreement**” means the underwriting agreement dated June 20, 2012, between the Corporation and the Underwriters relating to the sale of the Subscription Receipts offered under the Prospectus.

AUDITORS' CONSENT

We have read the prospectus supplement (the "Supplement") of Fortis Inc. (the "Corporation") dated June 20, 2012 to the short form base shelf prospectus dated May 10, 2012 (the "Base Shelf" and together with the Supplement, the "Prospectus"), relating to the issue and sale of 18,500,000 subscription receipts, each representing the right to receive one common share of the Corporation. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the incorporation by reference, in the Prospectus, of our reports to the shareholders of the Corporation: (i) on the consolidated balance sheets of the Corporation as at December 31, 2011 and 2010 and the consolidated statements of earnings, retained earnings, comprehensive income and cash flows for each of the years in the two-year period ended December 31, 2011, prepared in accordance with Canadian generally accepted accounting principles; and (ii) on the consolidated balance sheets of the Corporation as at December 31, 2011 and 2010 and the consolidated statements of earnings, retained earnings, comprehensive income and cash flows for each of the years in the two-year period ended December 31, 2011, prepared in accordance with accounting principles generally accepted in the United States. Each such report is dated March 13, 2012.

St. John's, Canada
June 20, 2012

(Signed) ERNST & YOUNG LLP
Chartered Accountants

CERTIFICATE OF THE UNDERWRITERS

Dated: June 20, 2012

To the best of our knowledge, information and belief, the short form prospectus dated May 10, 2012, together with the documents incorporated in the prospectus by reference, as supplemented by the foregoing, constitutes full, true and plain disclosure of all material facts relating to the securities offered by the prospectus and this supplement as required by the securities legislation of each of the provinces of Canada.

CIBC World Markets Inc.	**Scotia Capital Inc.**	**TD Securities Inc.**
(Signed) David H. Williams	(Signed) Stuart Lochray	(Signed) Harold R. Holloway
Merrill Lynch Canada Inc.	**BMO Nesbitt Burns Inc.**	**RBC Dominion Securities Inc.**
(Signed) Eric Giroux	(Signed) James A. Tower	(Signed) David Dal Bello

Desjardins Securities Inc.	**HSBC Securities (Canada) Inc.**	**Morgan Stanley Canada Limited**	**National Bank Financial Inc.**
(Signed) A. Thomas Little	(Signed) Laura McElwain	(Signed) Dougal Macdonald	(Signed) William Tebbutt

Beacon Securities Limited

(Signed) Daniel Holland

This short form base shelf prospectus has been filed under legislation in all provinces of Canada that permits certain information about these securities to be determined after this prospectus has become final and that permits the omission from this prospectus of that information. The legislation requires the delivery to purchasers of a prospectus supplement containing the omitted information within a specified period of time after agreeing to purchase any of these securities.

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. This short form base shelf prospectus constitutes a public offering of securities only in those jurisdictions where they may be lawfully offered for sale and thereby only by persons permitted to sell such securities.

***Information has been incorporated by reference in this short form base shelf prospectus from documents filed with securities commissions or similar authorities in Canada**. Copies of the documents incorporated herein by reference may be obtained on request without charge from the Secretary of the Corporation at Suite 1201, 139 Water Street, St. John's, Newfoundland and Labrador A1B 3T2 (telephone (709) 737-2800) and are also available electronically at www.sedar.com. The securities being offered under this short form base shelf prospectus have not been and will not be registered under the United States Securities Act of 1933, as amended, or any state securities laws, and, except in limited circumstances, will not be offered or sold within the United States or for the account or benefit of United States persons.*

New Issue May 10, 2012

SHORT FORM BASE SHELF PROSPECTUS

FORTIS INC.

$1,300,000,000

COMMON SHARES
FIRST PREFERENCE SHARES
SECOND PREFERENCE SHARES
SUBSCRIPTION RECEIPTS
DEBENTURES (UNSECURED)

Fortis Inc. ("Fortis" or the "Corporation") may from time to time offer and issue common shares ("Common Shares"), first preference shares (the "First Preference Shares"), second preference shares (the "Second Preference Shares"), subscription receipts ("Subscription Receipts") or unsecured debentures ("Debentures" and together with the Common Shares, First Preference Shares, Second Preference Shares and Subscription Receipts, the "Securities"), having an aggregate offering price of up to $1,300,000,000 (or the equivalent in US dollars or other currencies), during the 25 month period that this short form base shelf prospectus (the "Prospectus"), including any amendments hereto, remains valid. Securities may be offered separately or together, in amounts, at prices and on terms to be determined based on market conditions at the time of sale and set forth in an accompanying shelf prospectus supplement (a "Prospectus Supplement").

The specific variable terms of any offering of Securities will be set out in the applicable Prospectus Supplement including, where applicable: (i) in the case of Common Shares, the number of shares offered and the offering price (or the manner of determination thereof if offered on a non-fixed price basis); (ii) in the case of First Preference Shares and Second Preference Shares, the designation of the particular series, the number of shares offered, the offering price (or the manner of determination thereof if offered on a non-fixed price basis), the currency or currency unit for which such shares may be purchased, any voting rights, any rights to receive dividends, any terms of redemption, any conversion or exchange rights and any other specific terms; (iii) in the case of Subscription Receipts, the offering price (or the manner of determination thereof if offered on a non-fixed price basis), the procedures for the exchange of Subscription Receipts for Common Shares, First Preference Shares, Second Preference Shares or Debentures, as the case may be, and any other specific terms; and (iv) in the case of Debentures, the designation of the Debentures, the aggregate principal amount of the Debentures being offered, the currency or currency unit for which the Debentures may be purchased, authorized denominations, any limit on the aggregate principal amount of the Debentures of the series being offered, the issue and delivery date, the maturity date, the offering price (at par, at a discount or at a premium), the interest rate or method of determining the interest rate, the interest payment date(s), any conversion or exchange rights that are attached to the Debentures, any redemption provisions, any repayment provisions and any other specific terms. A Prospectus Supplement may include other terms pertaining to the Securities that are not within the alternatives and parameters described in this Prospectus.

All shelf information permitted under applicable laws to be omitted from this Prospectus will be contained in one or more Prospectus Supplements that will be delivered to purchasers together with this Prospectus. Each Prospectus Supplement will be incorporated by reference into this Prospectus for the purposes of securities legislation as of the date of the Prospectus Supplement and only for the purposes of the distribution of the Securities to which the Prospectus Supplement pertains.

The Corporation may sell the Securities to or through underwriters or dealers purchasing as principals and may also sell the Securities to one or more purchasers directly subject to obtaining any required exemptive relief or through agents. The Prospectus Supplement relating to a particular offering of Securities will identify each underwriter, dealer or agent, if any, engaged by the Corporation in connection with the offering and sale of Securities and will set forth the terms of the offering of such Securities, the method of distribution of such Securities including, to the extent applicable, the proceeds to the Corporation and any fees, discounts or any other compensation payable to underwriters, dealers or agents and any other material terms of the plan of distribution. Securities may be sold from time to time in one or more transactions at a fixed price or fixed prices, or at non-fixed prices. If offered on a non-fixed price basis, Securities may be offered at market prices prevailing at the time of sale or at prices to be negotiated with purchasers at the time of sale, which prices may vary as between purchasers and during the period of distribution. If Securities are offered on a non-fixed price basis, the underwriters', dealers' or agents' compensation will be increased or decreased by the amount by which the aggregate price paid for Securities by the purchasers exceeds or is less than the gross proceeds paid by the underwriters, dealers or agents to Fortis. See "Plan of Distribution".

No underwriter or dealer has been involved in the preparation of, or has performed any review of, this Prospectus.

The outstanding Common Shares, Cumulative Redeemable First Preference Shares, Series C, Cumulative Redeemable First Preference Shares, Series E, Cumulative Redeemable First Preference Shares, Series F, Cumulative Redeemable Five-Year Fixed Rate Reset First Preference Shares, Series G and Cumulative Redeemable Five-Year Fixed Rate Reset First Preference Shares, Series H of the Corporation are listed on the Toronto Stock Exchange (the "TSX") under the symbols "FTS", "FTS.PR.C", "FTS.PR.E", "FTS.PR.F", "FTS.PR.G" and "FTS.PR.H", respectively. **There is currently no market through which the First Preference Shares, Second Preference Shares, Subscription Receipts or Debentures may be sold and purchasers may not be able to resell any First Preference Shares, Second Preference Shares, Subscription Receipts or Debentures purchased under this Prospectus. This may affect the pricing of the Securities in the secondary market, the transparency and availability of trading prices, the liquidity of the Securities and the extent of issuer regulation. See the "Risk Factors" section of the applicable Prospectus Supplement.**

This Prospectus does not qualify for issuance Debentures in respect of which the payment of principal and/or interest may be determined, in whole or in part, by reference to one or more underlying interests including, for example, an equity or debt security, a statistical measure of economic or financial performance including, but not limited to, any currency, consumer price or mortgage index, or the price or value of one or more commodities, indices or other items, or any other item or formula, or any combination or basket of the foregoing items. For greater certainty, this Prospectus may qualify for issuance Debentures in respect of which the payment of principal and/or interest may be determined, in whole or in part, by reference to published rates of a central banking authority or one or more financial institutions, such as a prime rate or bankers' acceptance rate, or to recognized market benchmark interest rates such as LIBOR, EURIBOR or a U.S. Federal funds rate.

Subject to applicable laws, in connection with any offering of Securities the underwriters, dealers or agents may over-allot or effect transactions which stabilize or maintain the market price of the Securities at levels other than those which may prevail on the open market. Such transactions, if commenced, may be interrupted or discontinued at any time. See "Plan of Distribution".

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Prospectus, including the documents incorporated herein by reference, contains forward-looking information which reflects management's expectations regarding the future growth, results of operations, performance, business prospects and opportunities of Fortis Inc. ("Fortis" or the "Corporation"), and may not be appropriate for other purposes. All forward-looking information is given pursuant to the "safe harbour" provisions of applicable Canadian securities legislation. The words "anticipates", "believes", "budgets", "could", "estimates", "expects", "forecasts", "intends", "may", "might", "plans", "projects", "schedule", "should", "will", "would" and similar expressions are often intended to identify forward-looking information, although not all forward-looking information contains these identifying words. The forward-looking information reflects management's current beliefs and is based on information currently available to the Corporation's management. The forward-looking information in this Prospectus, including the documents incorporated herein by reference, includes, but is not limited to, statements regarding: the Corporation's focus on the United States and Canada in the acquisition of regulated utilities; the pursuit of growth in the Corporation's non-regulated businesses in support of its regulated utility growth strategy; the current environment of low natural gas prices and an abundance of shale gas reserves should help maintain the competitiveness of natural gas versus alternative energy sources in North America; investment to harvest shale oil and gas in Alberta, Canada, is expected to continue and should favourably impact energy sales and rate base investment in FortisAlberta Inc.'s ("FortisAlberta") service territory; the expectation that the Government of British Columbia's new Natural Gas Strategy should favourably impact natural gas throughput at the FortisBC Energy companies; the expected capital investment in Canada's electricity sector over the 20-year period from 2010 through 2030; the Corporation's consolidated forecast gross capital expenditures for 2012 and in total over the five-year period through 2016; the nature, timing and amount of certain capital projects and their expected costs and time to complete; the expectation that the Corporation's significant capital expenditure program should support continuing growth in earnings and dividends; there is no assurance that capital projects perceived as required or completed by the Corporation's regulated utilities will be approved or that conditions to such approvals will not be imposed; the expectation that the Corporation's regulated utilities could experience disruptions and increased costs if they are unable to maintain their asset base; forecast midyear rate base; the expectation that cash required to complete subsidiary capital expenditure programs will be sourced from a combination of cash from operations, borrowings under credit facilities, equity injections from Fortis and long-term debt offerings; the expectation that the Corporation's subsidiaries will be able to source the cash required to fund their 2012 capital expenditure programs; the expected consolidated long-term debt maturities and repayments in 2012 and on average annually over the next five years; the expectation that the Corporation and its subsidiaries will continue to have reasonable access to capital in the near to medium terms; the expectation that the combination of available credit facilities and relatively low annual debt maturities and repayments will provide the Corporation and its subsidiaries with flexibility in the timing of access to capital markets; except for debt at the Exploits River Hydro Partnership ("Exploits Partnership"), the expectation that the Corporation and its subsidiaries will remain compliant with debt covenants during 2012; the expectation that any increase in interest expense and/or fees associated with renewed and extended credit facilities will not materially impact the Corporation's consolidated financial results for 2012; the expected timing of filing of regulatory applications and of receipt of regulatory decisions; the estimated impact a decrease in revenue at Fortis Properties Corporation's ("Fortis Properties") Hospitality Division would have on basic earnings per common share; the expected impact of a change in the US dollar-to-Canadian dollar foreign exchange rate on basic earnings per common share in 2012; the expectation that electricity sales growth at the Corporation's regulated utilities in the Caribbean will be minimal for 2012; the expectation that counterparties to the FortisBC Energy companies' gas derivative contracts will continue to meet their obligations; the expectation that FortisBC will continue efforts in 2012 to further integrate its gas and electricity businesses; the expectation that the Corporation's consolidated earnings and earnings per common share for 2012 will not be materially impacted by the transition to accounting principles generally accepted in the United States ("US GAAP") (see "Recent Developments – Transition to US GAAP"); the expectation of an increase in consolidated defined benefit net pension cost for 2012 and the fact that there is no assurance that the pension plan assets will earn the assumed long-term rates of return in the future; the expected timing of the closing of the acquisition (the "Acquisition") of CH Energy Group, Inc. ("CH Energy Group") by Fortis; and the expectation that the Acquisition will be immediately accretive to earnings per common share, excluding one-time transaction expenses (see "Recent Developments – Agreement to Acquire CH Energy Group").

The forecasts and projections that make up the forward-looking information are based on assumptions which include, but are not limited to: the receipt of applicable regulatory approvals and requested rate orders; no significant variability in interest rates; no significant operational disruptions or environmental liability due to a catastrophic event

or environmental upset caused by severe weather, other acts of nature or other major events; the continued ability to maintain the gas and electricity systems to ensure their continued performance; no severe and prolonged downturn in economic conditions; no significant decline in capital spending; no material capital project and financing cost overrun or delay related to the construction of the Waneta expansion hydroelectric generating facility (the "Waneta Expansion"); sufficient liquidity and capital resources; the expectation that the Corporation will receive appropriate compensation from the Government of Belize ("GOB") for fair value of the Corporation's investment in Belize Electricity Limited ("Belize Electricity") that was expropriated by the GOB; the expectation that Belize Electricity Company Limited ("BECOL") will not be expropriated by the GOB; the expectation that the Corporation will receive fair compensation from the Government of Newfoundland and Labrador related to the expropriation of the Exploits Partnership's hydroelectric assets and water rights; the continuation of regulator-approved mechanisms to flow through the commodity cost of natural gas and energy supply costs in customer rates; the continued ability to hedge exposures to fluctuations in interest rates, foreign exchange rates, natural gas commodity prices and fuel prices; no significant counterparty defaults; the continued competitiveness of natural gas pricing when compared with electricity and other alternative sources of energy; the continued availability of natural gas, fuel and electricity supply; continuation and regulatory approval of power supply and capacity purchase contracts; the ability to fund defined benefit pension plans, earn the assumed long-term rates of return on the related assets and recover net pension costs in rates; the absence of significant changes in government energy plans and environmental laws that may materially affect the operations and cash flows of the Corporation and its subsidiaries; maintenance of adequate insurance coverage; the ability to obtain and maintain licences and permits; retention of existing service areas; the ability to report under US GAAP beyond 2014 or the adoption of International Financial Reporting Standards ("IFRS") after 2014 that allows for the recognition of regulatory assets and liabilities; the continued tax-deferred treatment of earnings from the Corporation's Caribbean operations; continued maintenance of information technology infrastructure; the receipt of CH Energy Group shareholder, regulatory and other approvals required in connection with the Acquisition; continued favourable relations with First Nations; favourable labour relations; and sufficient human resources to deliver service and execute the capital programs. The forward-looking information is subject to risks, uncertainties and other factors that could cause actual results to differ materially from historical results or results anticipated by the forward-looking information. Factors which could cause results or events to differ from current expectations include, but are not limited to: regulatory risk; interest rate risk, including the uncertainty of the impact a continuation of a low interest rate environment may have on allowed rates of return on common shareholders' equity of the Corporation's regulated utilities; operating and maintenance risks; risks associated with changes in economic conditions; capital project budget overrun, completion and financing risk in the Corporation's non-regulated business; capital resources and liquidity risk; risk associated with the amount of compensation to be paid to Fortis for its investment in Belize Electricity that was expropriated by the GOB; the timeliness of the receipt of the compensation and the ability of the GOB to pay the compensation owing to Fortis; risk that the GOB may expropriate BECOL; an ultimate resolution of the expropriation of the hydroelectric assets and water rights of the Exploits Partnership that differs from that which is currently expected by management; weather and seasonality risk; commodity price risk; the continued ability to hedge foreign exchange risk; counterparty risk; competitiveness of natural gas pricing; natural gas, fuel and electricity supply risk; risk associated with the continuation, renewal, replacement and/or regulatory approval of power supply and capacity purchase contracts; defined benefit pension plan performance and funding requirements; risks related to FortisBC Energy (Vancouver Island) Inc. ("FEVI"); environmental risks; insurance coverage risk; loss of licences and permits; risk of loss of service area; risks relating to the ability to close the Acquisition, the timing of such closing and the realization of the anticipated benefits of the Acquisition; risk of not being able to report under US GAAP beyond 2014 or risk that IFRS does not have an accounting standard for rate-regulated entities by the end of 2014 allowing for the recognition of regulatory assets and liabilities; risks related to changes in tax legislation; risk of failure of information technology infrastructure; risk of unexpected outcomes of legal proceedings currently against the Corporation; risk of not being able to access First Nations lands; labour relations risk; and human resources risk. For additional information with respect to the Corporation's risk factors, reference should be made to the section of this Prospectus entitled "Risk Factors" and to the documents incorporated herein by reference.

All forward-looking information in this Prospectus and in the documents incorporated herein by reference is qualified in its entirety by the above cautionary statements and, except as required by law, the Corporation undertakes no obligation to revise or update any forward-looking information as a result of new information, future events or otherwise.

DOCUMENTS INCORPORATED BY REFERENCE

The disclosure documents of the Corporation listed below and filed with the appropriate securities commissions or similar regulatory authorities in each of the provinces of Canada are specifically incorporated by reference into and form an integral part of this Prospectus:

(a) Annual Information Form dated March 15, 2012 for the year ended December 31, 2011 (the "AIF");

(b) audited comparative consolidated financial statements as at December 31, 2011 and December 31, 2010 and for the years ended December 31, 2011 and 2010, together with the notes thereto and the auditors' report thereon dated March 13, 2012, as contained in the Corporation's 2011 Annual Report, prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP");

(c) supplemental audited comparative consolidated financial statements as at December 31, 2011 and December 31, 2010 and for the years ended December 31, 2011 and 2010, together with the notes thereto and the auditor's report thereon dated March 13, 2012, prepared in accordance with US GAAP (the "US GAAP Reconciliation");

(d) Management Discussion and Analysis of financial condition and results of operations for the year ended December 31, 2011 as contained in the Corporation's 2011 Annual Report (the "MD&A");

(e) unaudited comparative interim consolidated financial statements as at March 31, 2012 and for the three months ended March 31, 2012 and 2011, together with the notes thereon, prepared in accordance with US GAAP;

(f) Management Discussion and Analysis of financial condition and results of operations for the three months ended March 31, 2012; and

(g) Management Information Circular dated March 19, 2012 prepared in connection with the Corporation's annual meeting of shareholders held on May 4, 2012 (the "Information Circular").

All documents of the type referred to in the preceding paragraph, any material change report (other than any confidential material change report) and any business acquisition reports, as well as all Prospectus Supplements disclosing additional or updated information subsequently filed by the Corporation with such securities commissions or regulatory authorities after the date of this Prospectus, and prior to the termination of the distribution under this Prospectus, shall be deemed to be incorporated by reference into this Prospectus.

Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Prospectus to the extent that a statement contained herein, or in any other subsequently filed document which also is incorporated or is deemed to be incorporated by reference herein, modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement will not be deemed an admission for any purpose that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus.

When Fortis files a new annual information form and audited consolidated financial statements and related management's discussion and analysis with, and where required, they are accepted by, the applicable securities regulatory authorities during the time that this Prospectus is valid, the previous annual information form, the previous audited consolidated financial statements and related management's discussion and analysis and all unaudited interim consolidated financial statements and related management's discussion and analysis for such periods, all material change reports and any information circular and business acquisition report filed prior to the commencement of the Corporation's financial year in which the new annual information form is filed will be deemed no longer to be incorporated by reference in this Prospectus for purposes of future offers and sales of Securities under this Prospectus. Upon new interim financial statements and the accompanying management's discussion and analysis being filed by the Corporation with the applicable securities regulatory authorities during the term of this Prospectus, all interim financial statements and accompanying management's discussion

and analysis filed prior to the filing of the new interim financial statements shall be deemed no longer to be incorporated by reference into this Prospectus for purposes of future offers and sales of Securities hereunder.

Investors should rely only on the information contained in or incorporated by reference in this Prospectus or any applicable Prospectus Supplement. Fortis has not authorized anyone to provide investors with different or additional information. Fortis is not making an offer of Securities in any jurisdiction where the offer is not permitted by law. Prospective investors should not assume that the information contained in or incorporated by reference in this Prospectus or any applicable Prospectus Supplement is accurate as of any date other than the date on the front of the applicable Prospectus Supplement.

Copies of the documents incorporated herein by reference may be obtained on request without charge from the Secretary of the Corporation at Suite 1201, 139 Water Street, St. John's, Newfoundland and Labrador A1B 3T2 (telephone (709) 737-2800). These documents are also available through the Internet on the Corporation's website at www.fortisinc.com or on the Canadian System for Electronic Document Analysis and Retrieval ("SEDAR") which can be accessed at www.sedar.com. The information contained on, or accessible through, any of these websites is not incorporated by reference into the Prospectus and is not, and should not be considered to be, a part of the Prospectus, unless it is explicitly so incorporated.

ABOUT THIS PROSPECTUS

In this Prospectus and in any Prospectus Supplement, unless otherwise specified or the context otherwise requires, all dollar amounts are expressed in Canadian dollars. References to "dollars" or "$" are to lawful currency of Canada, and references to "US dollars" or "US$" are to lawful currency of the United States.

Unless otherwise indicated, all financial information included and incorporated by reference in this Prospectus or included in any Prospectus Supplement for financial periods beginning prior to January 1, 2012 has been prepared using Canadian GAAP. All financial information included and incorporated by reference in this Prospectus or included in any Prospectus Supplement for financial periods beginning on or after January 1, 2012 has been prepared using US GAAP. For a discussion of the principal differences between the Corporation's financial results as calculated under Canadian GAAP and US GAAP, prospective investors should refer to the US GAAP Reconciliation, incorporated by reference in this Prospectus. See "Recent Developments – Transition to US GAAP" below.

FORTIS

Fortis Inc. was incorporated as 81800 Canada Ltd. under the *Canada Business Corporations Act* on June 28, 1977. The Corporation was continued under the *Corporations Act* (Newfoundland and Labrador) on August 28, 1987 and on October 13, 1987 the Corporation amended its articles to change its name to "Fortis Inc.". The address of the head office and principal place of business of the Corporation is The Fortis Building, Suite 1201, 139 Water Street, St. John's, Newfoundland and Labrador A1B 3T2.

Fortis is the largest investor-owned distribution utility in Canada with total assets of more than $14 billion as at March 31, 2012 and fiscal 2011 revenue totalling approximately $3.7 billion. The Corporation serves more than 2,000,000 gas and electricity customers. Its regulated holdings include electric distribution utilities in five Canadian provinces and two Caribbean countries and a natural gas utility in British Columbia, Canada. As at March 31, 2012, regulated utility assets comprised approximately 91% of the Corporation's total assets, with the balance comprised of non-regulated generation assets, commercial office and retail space and hotels. Fortis is the direct owner of all of the common shares of FortisBC Holdings Inc. ("FortisBC Holdings") (formerly Terasen Inc.), a company that, through its subsidiaries, is the principal distributor of natural gas in British Columbia. Fortis is the indirect owner of all of the common shares of FortisAlberta, a regulated electric utility that distributes electricity generated by other market participants in a substantial portion of southern and central Alberta; FortisBC Inc. ("FortisBC"), a regulated electric utility that generates, transmits and distributes electricity in the southern interior of British Columbia; and Maritime Electric Company Limited ("Maritime Electric"), the principal distributor of electricity on Prince Edward Island. Fortis also holds all of the common shares of Newfoundland Power Inc. ("Newfoundland Power"), the principal distributor of electricity in Newfoundland. As well, through its wholly owned subsidiary FortisOntario Inc. ("FortisOntario") and its subsidiaries, Canadian Niagara Power Inc. ("CNPI") and Cornwall Street Railway, Light and Power Company, Limited, Fortis provides an integrated electric utility service to customers primarily in Fort Erie, Cornwall, Gananoque and Port Colborne in Ontario. Through its wholly owned subsidiary Algoma Power Inc., FortisOntario also distributes electricity to customers in the district of Algoma in northern Ontario.

The Corporation's regulated electric utility assets in the Caribbean consist of its ownership, through wholly owned subsidiaries, of an approximate 60% interest in Caribbean Utilities Company, Ltd. ("Caribbean Utilities"), the sole provider of electricity on Grand Cayman, Cayman Islands. Fortis also owns, through a wholly owned subsidiary, FortisTCI Limited (formerly P.P.C. Limited) and Atlantic Equipment & Power (Turks and Caicos) Ltd. (together, "Fortis Turks and Caicos"), the principal distributor of electricity on the Turks and Caicos Islands.

The Corporation's non-regulated electricity generation operations consist of its 100% interest in each of BECOL, FortisOntario and non-regulated generation assets owned either directly or indirectly by FortisBC, Fortis Properties and Fortis.

BECOL owns and operates the 25-megawatt ("MW") Mollejon, 7-MW Chalillo and 19-MW Vaca hydroelectric generating facilities, all of which are located on the Macal River in Belize. FortisOntario owns and operates a 5-MW gas-fired cogeneration plant in Cornwall, Ontario. The non-regulated electricity generation operations of FortisBC consist of the 16-MW run-of-river Walden hydroelectric power plant near Lillooet, British Columbia. Fortis owns a 51% controlling ownership interest in the non-regulated Waneta Expansion Limited Partnership (the "Waneta Partnership"), which was established in 2010 to construct the Waneta Expansion, a 335-MW hydroelectric generating facility adjacent to the existing Waneta plant in British Columbia.

Through FortisUS Energy Corporation ("FortisUS Energy"), an indirect wholly owned subsidiary of Fortis, the Corporation owns and operates four hydroelectric generating stations in Upper New York State with a total combined capacity of approximately 23 MW. The operations of FortisUS Energy are managed by FortisBC.

Fortis Properties' assets include six small hydroelectric generating stations in eastern Ontario with a combined capacity of 8 MW.

Through Fortis Properties, the Corporation owns 22 hotels in eight Canadian provinces and commercial office and retail space primarily in Atlantic Canada.

Regulated Gas Utilities – Canadian

FortisBC Energy Companies

The natural gas distribution business of FortisBC Holdings is one of the largest in Canada. With approximately 939,000 customers as at March 31, 2012, FortisBC Holding's subsidiaries provide service to over 96% of gas users in British Columbia. FortisBC Energy Inc. ("FEI") (formerly Terasen Gas Inc.) is the largest of these subsidiaries, serving approximately 837,000 customers as at March 31, 2012. With the implementation of a new Customer Care Enhancement Project on January 1, 2012, the gas utilities adjusted their customer count downwards by approximately 17,000 effective January 1, 2012 as a result of a change in their definition of a "customer". FEI has a service area which includes Greater Vancouver, the Fraser Valley and the Thompson, Okanagan, Kootenay and North Central interior regions of British Columbia. FEVI (formerly Terasen Gas (Vancouver Island) Inc.) 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 99,000 customers as at March 31, 2012. In addition to providing transmission and distribution services to customers, FEI and FEVI also obtain natural gas supplies on behalf of most residential and commercial customers. Gas supplies are sourced primarily from north-eastern British Columbia and Alberta. FortisBC Energy (Whistler) Inc. ("FEWI") (formerly Terasen Gas (Whistler) Inc.) owns and operates the natural gas distribution system in the Resort Municipality of Whistler, British Columbia, providing service to approximately 2,600 residential and commercial customers as at March 31, 2012. The FortisBC Energy companies own and operate almost 47,200 kilometres of natural gas distribution and transmission pipelines and met a peak day demand of 1,210 terajoules for 2011.

Regulated Electric Utilities – Canadian

FortisAlberta

FortisAlberta distributed electricity to approximately 501,000 customers in Alberta as at March 31, 2012, using approximately 114,000 kilometres of owned and/or operated distribution lines and met a peak demand of 2,505 MW for 2011. FortisAlberta's business is the ownership and operation of regulated electricity distribution facilities that distribute electricity generated by other market participants from high-voltage transmission substations to end-use customers in central and southern Alberta. FortisAlberta is not involved in the generation, transmission or direct sale of electricity.

FortisBC

FortisBC is an integrated, regulated electric utility that owns a network of generation, transmission and distribution assets located in the southern interior of British Columbia. FortisBC served a diverse mix of approximately 162,500 customers, as at March 31, 2012, with residential customers representing the largest customer segment, and met a peak demand of 669 MW for 2011. FortisBC owns four regulated hydroelectric generating plants with an aggregate capacity of 223 MW that provide approximately 45% of FortisBC's energy and 30% of its peak capacity needs. FortisBC's remaining electricity supply is acquired through long-term power purchase contracts and short-term market purchases. FortisBC's business also includes non-regulated operating, maintenance and management services relating to the 493-MW Waneta hydroelectric generation facility owned by Teck Metals Ltd. and British Columbia Hydro and Power Authority ("BC Hydro"), the 149-MW Brilliant hydroelectric plant, the 120-MW Brilliant expansion plant and the 185-MW Arrow Lakes hydroelectric plant, each owned by Columbia Power Corporation and Columbia Basin Trust ("CPC/CBT"), and the distribution system owned by the City of Kelowna.

Newfoundland Power

Newfoundland Power is a regulated electric utility that operates an integrated generation, transmission and distribution system throughout the island portion of the Province of Newfoundland and Labrador. Newfoundland Power served approximately 248,000 customers as at March 31, 2012, or approximately 87% of electricity consumers in the Province, and met a peak demand of 1,166 MW for 2011. Approximately 93% of the electricity that Newfoundland Power sells to its customers is purchased from Newfoundland and Labrador Hydro Corporation ("Newfoundland Hydro"). Currently, Newfoundland Power has an installed generating capacity of 140 MW, of which 97 MW is hydroelectric generation.

Maritime Electric

Maritime Electric is a regulated electric utility that operates an integrated generation, transmission and distribution system on Prince Edward Island. Maritime Electric directly supplied over 75,000 customers as at March 31, 2012, or 90% of electricity consumers on the Island, and met a peak demand of 224 MW for 2011. Maritime Electric purchases most of the energy it distributes to its customers from New Brunswick Power Corporation under various energy purchase agreements and maintains on-Island generating facilities with an aggregate capacity of 150 MW.

FortisOntario

FortisOntario's regulated distribution operations served approximately 64,000 customers in the Fort Erie, Cornwall, Gananoque, Port Colborne and the District of Algoma in Ontario, as at March 31, 2012, and met a combined peak demand of 276 MW for 2011. Through CNPI, FortisOntario owns international transmission facilities at Fort Erie and owns a 10% interest in each of Westario Power Inc., Rideau St. Lawrence Holdings Inc. and Grimsby Power Inc., three regional electric distribution companies that, together, served approximately 38,000 customers, as at March 31, 2012.

Regulated Electric Utilities – Caribbean

Caribbean Utilities

Fortis holds an indirect approximate 60% controlling ownership interest in Caribbean Utilities as of March 31, 2012. Caribbean Utilities has the exclusive right to distribute and transmit electricity on the island of Grand Cayman, Cayman Islands, pursuant to a 20-year licence entered into on April 3, 2008. Caribbean Utilities also entered into a non-exclusive 21.5-year power generation licence with the Government of the Cayman Islands on April 3, 2008.

Caribbean Utilities served approximately 27,000 customers as at March 31, 2012, has approximately 151 MW of installed diesel-powered generating capacity and met a peak demand of 99 MW for 2011. The Class A Ordinary Shares of Caribbean Utilities are listed for trading on the Toronto Stock Exchange (the "TSX") under the symbol CUP.U.

Fortis Turks and Caicos

Fortis Turks and Caicos served approximately 9,600 customers, or approximately 85% of electricity consumers, on the Turks and Caicos Islands, as at March 31, 2012. Fortis Turks and Caicos is the principal distributor of electricity on Turks and Caicos pursuant to two 50-year licences that expire in 2036 and 2037, respectively. Fortis Turks and Caicos has an installed diesel-powered generating capacity of approximately 65 MW and met a peak demand of approximately 30 MW for 2011.

Expropriated Assets – Belize Electricity

Until June 20, 2011, Fortis held an indirect approximate 70% controlling ownership interest in Belize Electricity, the regulated principal distributor of electricity in Belize, Central America. On June 20, 2011, the Government of Belize ("GOB") enacted legislation leading to the expropriation of the Corporation's investment in Belize Electricity. The consequential loss of control over the operations of the utility resulted in the Corporation discontinuing the consolidation method of accounting for Belize Electricity, effective June 20, 2011. The Corporation has classified the book value of the previous investment in Belize Electricity as a long-term other asset on the consolidated balance sheet. As at March 31, 2012, the long-term other asset, including foreign exchange impacts, totalled $104 million.

In October 2011 Fortis commenced an action in the Belize Supreme Court to challenge the legality of the expropriation of its investment in Belize Electricity and court proceedings with respect to the matter are continuing. Fortis commissioned an independent valuation of its expropriated investment in Belize Electricity and submitted its claim for compensation to the GOB in November 2011. The GOB also commissioned a valuation of Belize Electricity and communicated the results of such valuation in its response to the Corporation's claim for compensation. The fair value determined under the GOB's valuation is significantly lower than the fair value determined under the Corporation's valuation. Pursuant to the expropriation action, Fortis is assessing alternative options for obtaining fair compensation from the GOB.

Non-Regulated – Fortis Generation

Belize

Non-regulated generation operations in Belize are conducted through BECOL under a franchise agreement with the GOB. BECOL owns and operates the 25-MW Mollejon hydroelectric generating facility, the 7-MW Chalillo hydroelectric generating facility and the 19-MW Vaca hydroelectric generating facility. All such facilities are located on the Macal River in Belize. These hydro plants generate average annual energy production of approximately 240 gigawatt hours ("GWh"). BECOL sells its entire output to Belize Electricity under 50-year power purchase agreements expiring in 2055 and 2060. In October 2011, the GOB purportedly amended the Constitution of Belize to require majority government ownership of three public utility providers, including Belize Electricity, but excluding BECOL. The GOB has also indicated it has no intention to expropriate BECOL. Fortis continues to control and consolidate the financial statements of BECOL.

Ontario

Non-regulated generation assets in Ontario are owned and operated by FortisOntario and Fortis Properties and include the 5-MW gas-fired cogeneration plant in Cornwall and six small hydroelectric generating stations with a combined capacity of approximately 8 MW.

Central Newfoundland

The non-regulated generation investment in central Newfoundland is held through the Corporation's indirect 51% interest in the Exploits River Hydro Partnership (the "Exploits Partnership") between AbitibiBowater Inc. ("Abitibi") and Fortis Properties. In December 2008 the Government of Newfoundland and Labrador expropriated Abitibi's hydroelectric assets and water rights in Newfoundland, including those of the Exploits Partnership. The Government of Newfoundland and Labrador has publically stated that it is not its intention to adversely affect the business interests of lenders or independent partners of Abitibi in the Province. The loss of control over cash flows and operations has required Fortis to cease consolidation of the Exploits Partnership, effective February 12, 2009. Discussions between Fortis Properties and Nalcor Energy, acting as agent for the Government of Newfoundland and Labrador, with respect to expropriation matters are ongoing.

British Columbia

Non-regulated generation operations in British Columbia, conducted through FortisBC, include the 16-MW run-of-river Walden hydroelectric power plant near Lillooet. This plant sells its entire output to BC Hydro under a power purchase agreement expiring in 2013.

In October 2010, the Corporation formed the Waneta Partnership with CPC/CBT and concluded definitive agreements to construct the 335-MW Waneta Expansion at an estimated cost of approximately $900 million. The facility is situated adjacent to the Waneta Dam and powerhouse facilities on the Pend d'Oreille River, south of Trail, British Columbia. CPC/CBT are both 100% owned entities of the Government of British Columbia. Fortis owns a controlling 51% interest in the Waneta Partnership and, through FortisBC, will operate and maintain the Waneta Expansion when it comes into service, which is expected in spring 2015. SNC-Lavalin Group Inc. was awarded a contract for approximately $590 million to design and build the Waneta Expansion. Construction began in November 2010 and capital expenditures of approximately $290 million have been incurred on this capital project through March 31, 2012. The Waneta Expansion will be included in the Canal Plant Agreement (as described in the Corporation's AIF) and will receive fixed energy and capacity entitlements based upon long-term average water flows, thereby significantly reducing hydrologic risk associated with the project. The energy output, approximately 630 GWh, and associated capacity required to deliver such energy, from the Waneta Expansion will be sold to BC Hydro under an executed long-term energy purchase agreement. The surplus capacity, equal to 234 MW on an average annual basis, is expected to be sold to FortisBC under a long-term capacity purchase agreement. In November 2011, FortisBC executed the agreement to purchase the capacity from the Waneta Expansion and filed such executed agreement with the British Columbia Utilities Commission (the "BCUC"). The form of the agreement was originally accepted for filing by the BCUC in September 2010. The BCUC is conducting its usual review process of the executed agreement to determine whether a hearing is necessary to decide whether the agreement is in the public interest.

Upper New York State

Non-regulated generation assets in Upper New York State are owned and operated by FortisUS Energy and include four hydroelectric generating stations with a combined generating capacity of approximately 23 MW operating under licences from the U.S. Federal Energy Regulatory Commission. Since January 1, 2007, all four plants have been selling energy at market rates.

Non-Regulated – Fortis Properties

In addition to its non-regulated generation operations, Fortis Properties owns and operates 22 hotels, collectively representing approximately 4,300 rooms, in eight Canadian provinces and approximately 2.7 million square feet of commercial office and retail space primarily in Atlantic Canada.

CAPITAL RESOURCES

This Prospectus will provide the Corporation with the flexibility to access the capital markets in a timely manner. The nature, size and timing of any offering of Securities under this Prospectus will be consistent with the past capital raising practices of the Corporation and will continue to depend upon the Corporation's assessment of its requirements for funding and general market conditions.

The Corporation and its subsidiary regulated gas and electric distribution businesses require ongoing access to capital to fund maintenance and expansion of infrastructure, acquisitions and/or repay maturing debt. To meet short-term capital requirements, the Corporation and its larger regulated utility subsidiaries have secured multi-year committed credit facilities. As at March 31, 2012, the Corporation and its subsidiaries had consolidated authorized lines of credit of $2.2 billion, of which $2.0 billion was available to be drawn. In May 2012, the Corporation increased the amount available for borrowing under its committed corporate credit facility from $800 million to $1 billion, thereby increasing the aggregate authorized amount available to the Corporation and its subsidiaries under all lines of credit to $2.4 billion. As at May 9, 2012, an aggregate amount of approximately $2.1 billion was unused and available to be drawn under these facilities. See "Recent Developments – Corporate Credit Facility".

The Corporation and its subsidiaries will require new capital for the repayment of at least a portion of their maturing debt. As at March 31, 2012, long-term debt maturities over the next five years are expected to average approximately $265 million annually.

RECENT DEVELOPMENTS

Agreement to Acquire CH Energy Group

On February 21, 2012, Fortis announced that it had entered into an agreement to acquire CH Energy Group for US$65.00 per common share in cash, for an aggregate purchase price of approximately US$1.5 billion, including the assumption of approximately US$500 million of debt on closing. The closing of the acquisition, which is expected to occur by the end of the first quarter of 2013, is subject to receipt of CH Energy Group's common shareholders' approval, regulatory and other approvals, and the satisfaction of customary closing conditions. The acquisition is expected to be immediately accretive to Fortis' earnings per common share, excluding one-time acquisition-related expenses.

CH Energy Group is an energy delivery company headquartered in Poughkeepsie, New York. Its main business, Central Hudson Gas & Electric Corporation ("Central Hudson"), is a regulated transmission and distribution utility serving approximately 300,000 electric and 75,000 natural gas customers in eight counties of New York State's Mid-Hudson River Valley. Central Hudson accounts for approximately 93% of the total assets of CH Energy Group. CH Energy Group also owns and operates Central Hudson Enterprises Corporation, a non-regulated subsidiary comprised primarily of a fuel delivery business serving approximately 56,000 customers in the Mid-Atlantic Region. As of December 31, 2011, CH Energy Group's total assets were US$1.7 billion and operating revenues and net income for 2011 totalled US$986 million and US$45 million, respectively. In 2011, Central Hudson accounted for approximately 97% of CH Energy Group's net income. Based on the first quarter results filed by CH Energy Group with the U.S. Securities and Exchange Commission ("SEC") on April 26, 2012, CH Energy Group's total assets at March 31, 2012 were approximately US$1.8 billion and operating revenues and net income for the first quarter totalled approximately US$274 million and US$14.6 million, respectively.

Central Hudson's electric assets, which comprise approximately 77% of its total assets, include approximately 7,300 pole miles (11,748 kilometers) of overhead lines and 1,400 trench miles (2,253 kilometers) of underground lines. The electric business met a peak demand of 1,225 MW in 2011. Central Hudson's natural gas assets, which comprise approximately 23% of its total assets, include approximately 1,185 miles (1,907 kilometers) of distribution pipelines and approximately 164 miles (264 kilometers) of transmission pipelines. The gas business met a peak day demand of 115,807 thousand cubic feet in 2011. Central Hudson is subject to regulation by the New York State Public Service Commission ("NYPSC") under a traditional cost-of-service model.

Central Hudson primarily relies on purchases from third-party providers and the New York Independent System Operator-administered energy and capacity markets to meet the demands of its full-service electric customers. It purchases its gas supply requirements from a number of suppliers at various receipt points on pipelines that it has contracted with for firm transport capacity.

In April 2012, applications were filed with the NYPSC and the Federal Energy Regulatory Commission seeking approval of the transaction. The CH Energy Group shareholder vote on the transaction is expected to occur mid-2012.

Transition to US GAAP

Due to continued uncertainty around the adoption of a rate-regulated accounting standard by the International Accounting Standards Board, Fortis adopted US GAAP, as opposed to IFRS, effective January 1, 2012.

Canadian securities rules allow a reporting issuer to file its financial statements prepared in accordance with US GAAP by qualifying as a SEC issuer. A SEC issuer is defined under the Canadian rules as an issuer that: (a) has a class of securities registered with the SEC under Section 12 of the *U.S. Securities Exchange Act of 1934*, as amended (the "Exchange Act"); or (b) is required to file reports under Section 15(d) of the Exchange Act. The Corporation is not currently a SEC issuer, but on June 9, 2011 was granted exemptive relief by Canadian securities regulators to permit it and its reporting issuer subsidiaries to prepare their financial statements in accordance with US GAAP without qualifying as SEC issuers (the "Exemption"). The Exemption applies to financial years commencing on or after January 1, 2012 but before January 1, 2015, and interim periods therein. The Exemption will terminate in respect of financial statements for annual and interim periods commencing on or after the earlier of: (i) January 1, 2015; or (ii) the date on which the Corporation ceases to have activities subject to rate regulation.

The Corporation's past application of Canadian GAAP referred to US GAAP for guidance on accounting for rate-regulated activities. The adoption of US GAAP in 2012 has resulted in fewer significant changes to the Corporation's accounting policies compared to accounting policy changes that may have resulted from the adoption of IFRS. US GAAP guidance on accounting for rate-regulated activities allows the economic impact of rate-regulated activities to be recognized in the consolidated financial statements in a manner consistent with the timing by which amounts are reflected in customer rates. Fortis believes that the continued application of rate-regulated accounting, and the associated recognition of regulatory assets and liabilities under US GAAP, accurately reflects the impact that rate regulation has on the Corporation's consolidated financial position and results of operations.

The Corporation has prepared and filed its audited Canadian GAAP consolidated financial statements for the year ended December 31, 2011, with 2010 comparatives, in the usual manner. The Corporation has also voluntarily prepared and filed the US GAAP Reconciliation. Beginning with the first quarter of 2012, the Corporation's unaudited interim consolidated financial statements have been prepared in accordance with US GAAP, with the restatement of 2011 comparatives in accordance with US GAAP.

Regulatory Decisions

In April 2012, regulatory decisions were received for 2012/2013 customer gas delivery rates at the FortisBC Energy companies and 2012 customer electricity distribution rates at FortisAlberta which reduce regulatory risk at the utilities. Effective January 1, 2012, the BCUC had previously approved an approximate 3% interim increase in rates for most residential customers at FEI and an approximate 6% interim increase in rates for residential customers at FEWI. The April 2012 decision at the FortisBC Energy companies is expected to result in a decrease in customer gas delivery rates at FEI and FEWI in the range of 1% – 2% from the January 1, 2012 interim rates. The BCUC also approved, as requested, FEVI's customer rates for 2012 and 2013 to remain unchanged from 2011 customer rates. The decision at FortisAlberta approved an average 5% increase in customer distribution electricity rates, consistent with the interim rate increase that was previously approved by the Alberta Utilities Commission effective January 1, 2012.

Corporate Credit Facility

In May 2012 the amount available for borrowing under the Corporation's committed corporate credit facility was increased from \$800 million to \$1 billion as permitted under the credit facility agreement. As at May 9, 2012, approximately \$160 million was drawn and outstanding under this credit facility.

Approval of the 2012 Stock Option Plan and the 2012 Employee Share Purchase Plan

At the Corporation's annual general meeting held on May 4, 2012, the shareholders of the Corporation approved an amended and restated stock option plan (the "2012 Stock Option Plan") and an amended and restated employee share purchase plan (the "2012 ESPP"). Both the 2012 Stock Option Plan and the 2012 ESPP are described in more detail in the Information Circular which is incorporated by reference into this Prospectus. See "Documents Incorporated by Reference".

SHARE CAPITAL OF FORTIS

The authorized share capital of the Corporation consists of an unlimited number of common shares (the "Common Shares"), an unlimited number of First Preference Shares issuable in series and an unlimited number of Second Preference Shares issuable in series, in each case without nominal or par value. As at May 9, 2012, 189,330,675 Common Shares, 5,000,000 Cumulative Redeemable First Preference Shares, Series C (the "First Preference Shares, Series C"), 7,993,500 Cumulative Redeemable First Preference Shares, Series E (the "First Preference Shares, Series E"), 5,000,000 Cumulative Redeemable First Preference Shares, Series F (the "First Preference Shares, Series F"), 9,200,000 Cumulative Redeemable Five-Year Fixed Rate Reset First Preference Shares, Series G (the "First Preference Shares, Series G") and 10,000,000 Cumulative Redeemable Five-Year Fixed Rate Reset First Preference Shares, Series H (the "First Preference Shares, Series H") were issued and outstanding. The Corporation's Common Shares, First Preference Shares, Series C, First Preference Shares, Series E, First Preference Shares, Series F, First Preference Shares, Series G and First Preference Shares, Series H are listed on the TSX under the symbols "FTS", "FTS.PR.C", "FTS.PR.E", "FTS.PR.F", "FTS.PR.G" and "FTS.PR.H", respectively.

EARNINGS COVERAGE RATIOS

The following consolidated earnings coverage ratios have been calculated for the 12 months ended December 31, 2011 and the 12 months ended March 31, 2012. The earnings coverage ratios set forth below do not purport to be indicative of earnings coverage ratios for any future periods. The earnings coverage ratios and dividend and interest requirements do not give effect to the issuance of any Securities that may be issued pursuant to this Prospectus and any Prospectus Supplement, since the aggregate principal amounts and the terms of such Securities are not currently known. The financial ratios included below have been calculated based on financial information prepared in accordance with US GAAP. The ratios for the 12 months ended December 31, 2011 are based on audited financial information.

	12 Months Ended December 31, 2011	12 Months Ended March 31, 2012
Dividend and interest requirements (\$ millions)	\$ 442	\$ 439
Earnings before interest expense and taxes (\$ millions)	\$ 791	\$ 790
Earnings coverage	1.79	1.80

DIVIDEND POLICY

Dividends on the Common Shares are declared at the discretion of the board of directors of Fortis (the "Board of Directors"). The Corporation paid cash dividends on its Common Shares of \$1.16 in 2011, \$1.12 in 2010 and \$1.04 in 2009. On May 3, 2012, the Board of Directors declared a third quarter dividend of \$0.30 per Common Share, payable on September 1, 2012 to holders of record of such Common Shares on August 17, 2012.

Regular quarterly dividends at the prescribed annual rate have been paid on all of the First Preference Shares, Series C, First Preference Shares, Series E, First Preference Shares, Series F, First Preference Shares, Series G and

First Preference Shares, Series H, respectively. The Board of Directors declared a third quarter dividend on the First Preference Shares, Series C, First Preference Shares, Series E, First Preference Shares, Series F, First Preference Shares, Series G and First Preference Shares, Series H on May 3, 2012, in each case in accordance with the applicable prescribed annual rate, payable on September 1, 2012 to holders of record of such First Preference Shares on August 17, 2012.

RATINGS

Each of the First Preference Shares, Series C, First Preference Shares, Series E, First Preference Shares, Series F, First Preference Shares, Series G and First Preference Shares, Series H are rated Pfd-2 (low)/Under Review – Developing Implications by DBRS Limited ("DBRS") and P-2/CreditWatch – Negative by Standard & Poor's Rating Services, a division of The McGraw-Hill Companies (Canada) Corporation ("S&P"). The Corporation's unsecured debentures are rated A(low)/Under Review – Developing Implications by DBRS and are rated A-/Credit Watch – Negative by S&P. S&P and DBRS placed the Corporation's credit ratings on "Credit Watch – Negative" and "Under Review – Developing Implications", respectively, in February 2012 after the Corporation announced that it had entered into an agreement to acquire all of the shares of CH Energy Group. Credit ratings relating to the Securities offered pursuant to this Prospectus, where applicable, will be described in the relevant Prospectus Supplement.

The DBRS rating of Pfd-2 (low) is the lowest of three sub-categories within the second highest rating of the six standard categories of ratings utilized by DBRS for preferred shares. The DBRS rating of A(low) is the lowest of three subcategories within the third highest rating of ten major categories for debt securities, ranging from AAA to D. A P-2 rating by S&P is the second of the three sub-categories within the second highest rating of the five standard categories of ratings utilized by S&P for preferred shares. The S&P rating of A- is the lowest standing within the third highest rating of ten major categories for debt securities, ranging from AAA to D.

According to S&P, the rating action "Credit Watch – Negative" means that the Corporation's credit ratings have been placed under surveillance by S&P and that the ratings may be lowered due to S&P's view that there is at least a 50% probability that the Corporation's non-consolidated credit metrics will fall below thresholds previously established for the Corporation's current credit ratings, following the close of the proposed acquisition of CH Energy Group.

According to DBRS, the rating action "Under Review – Developing Implications" means that the Corporation's credit ratings are under review by DBRS due to the uncertainty of the impact on the Corporation's credit ratings upon close of the proposed acquisition of CH Energy Group, but that DBRS expects the Corporation to finance the acquisition of CH Energy Group such that its non-consolidated debt-to-capital structure remains within the 20% range.

Credit ratings are intended to provide investors with an independent measure of the credit quality of an issue of securities. The credit ratings accorded to the First Preference Shares, Series C, First Preference Shares, Series E, First Preference Shares, Series F and First Preference Shares, Series G, First Preference Shares, Series H and the Corporation's unsecured debentures by these rating agencies are not recommendations to purchase, hold or sell such securities, as such ratings do not comment as to market price or suitability for a particular investor. There is no assurance that any rating will remain in effect for any given period of time or that any rating will not be revised or withdrawn entirely by a rating agency in the future if, in its judgment, circumstances so warrant.

Fortis has paid each of DBRS and S&P their customary fees in connection with the provision of the ratings described herein. Fortis has not made any payments to DBRS or S&P for services unrelated to the provision of such ratings.

DESCRIPTION OF SECURITIES OFFERED

Common Shares

Common Shares may be offered separately or together with First Preference Shares, Second Preference Shares, Subscription Receipts or Debentures under this Prospectus.

Dividends

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

Liquidation, Dissolution or Winding-Up

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

Voting Rights

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

First Preference Shares

The following is a summary of the material rights, privileges, conditions and restrictions attached to the First Preference Shares as a class. The specific terms of the First Preference Shares, including the currency in which First Preference Shares may be purchased and redeemed and the currency in which any dividend is payable, if other than Canadian dollars, and the extent to which the general terms described in this section apply to those First Preference Shares, will be set forth in the applicable Prospectus Supplement. One or more series of First Preference Shares may be sold separately or together with Common Shares, Second Preference Shares, Subscription Receipts or Debentures under this Prospectus.

Issuance in Series

The Board of Directors may from time to time issue First Preference Shares in one or more series. Prior to issuing shares in a series, the Board of Directors is required to fix the number of shares in the series and determine the designation, rights, privileges, restrictions and conditions attaching to that series of First Preference Shares.

Priority

The shares of each series of First Preference Shares rank on a parity with the First Preference Shares of every other series and in priority to all other shares of the Corporation, including the Second Preference Shares, as to the payment of dividends, return of capital and the distribution of assets in the event of the liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, or any other distribution of the assets of the Corporation among its shareholders for the purpose of winding-up its affairs. Each series of First Preference Shares participates rateably with every other series of First Preference Shares in respect of accumulated cumulative dividends and returns of capital if any amount of cumulative dividends, whether or not declared, or amount payable on the return of capital in respect of a series of First Preference Shares, is not paid in full.

Voting

The holders of the First Preference Shares are not entitled to any voting rights as a class except to the extent that voting rights may from time to time be attached to any series of First Preference Shares, and except as provided by law or as described below under "Modification". At any meeting of the holders of the First Preference Shares, each holder shall have one vote in respect of each First Preference Share held.

Redemption

Subject to the provisions of the *Corporations Act* (Newfoundland and Labrador) and any provisions relating to any particular series, Fortis, upon giving proper notice, may redeem out of capital or otherwise at any time, or from time to time, the whole or any part of the then outstanding First Preference Shares of any one or more series on payment for each such First Preference Share of such price or prices as may be applicable to such series. Subject to the foregoing, in case a part only of the then outstanding First Preference Shares of any particular series is at any time redeemed, the shares to be redeemed will be selected by lot in such manner as the directors or the transfer agent for the First Preference Shares, if any, decide, or if the directors so determine, may be redeemed *pro rata* disregarding fractions.

Modification

The class provisions attached to the First Preference Shares may only be amended with the prior approval of the holders of the First Preference Shares in addition to any other approvals required by the *Corporations Act* (Newfoundland and Labrador) or any other statutory provisions of like or similar effect in force from time to time. The approval of the holders of the First Preference Shares with respect to any and all matters may be given by at least two-thirds of the votes cast at a meeting of the holders of the First Preference Shares duly called for that purpose.

Second Preference Shares

The rights, privileges, restrictions and conditions attaching to the Second Preference Shares are substantially identical to those attaching to the First Preference Shares, except that the Second Preference Shares are junior to the First Preference Shares with respect to the payment of dividends, repayment of capital and the distribution of assets of the Corporation in the event of a liquidation, dissolution or winding up of the Corporation.

The specific terms of the Second Preference Shares, including the currency in which Second Preference Shares may be purchased and redeemed and the currency in which any dividend is payable, if other than Canadian dollars, and the extent to which the general terms described in this Prospectus apply to those Second Preference Shares, will be set forth in the applicable Prospectus Supplement. One or more series of Second Preference Shares may be sold separately or together with Common Shares, First Preference Shares, Subscription Receipts or Debentures under this Prospectus.

Subscription Receipts

Subscription Receipts may be offered separately or together with Common Shares, First Preference Shares, Second Preference Shares or Debentures, as the case may be. Subscription Receipts will be issued under a subscription receipt agreement that will be entered into by the Corporation at the time of issuance of the Subscription Receipts.

The applicable Prospectus Supplement will include details of the subscription receipt agreement covering the Subscription Receipts being offered. The specific terms of the Subscription Receipts, and the extent to which the general terms described in this section apply to those Subscription Receipts, will be set forth in the applicable Prospectus Supplement. A copy of the subscription receipt agreement will be filed by the Corporation with securities regulatory authorities after it has been entered into by the Corporation.

The subscription receipt agreement will provide each initial purchaser of Subscription Receipts with a contractual right of rescission following the issuance of any Common Shares, First Preference Shares, Second Preference Shares or Debentures, as applicable, to such purchaser upon the exchange of the Subscription Receipts if this Prospectus, the Prospectus Supplement under which the Subscription Receipts are offered, or any amendment hereto or thereto contains a misrepresentation, as such term is defined in the *Securities Act* (Ontario). This contractual right of rescission will entitle such initial purchaser to receive the amount paid for the Subscription Receipts upon surrender of the Securities issued in exchange therefor, provided that such remedy for rescission is exercised in the time stipulated in

the subscription receipt agreement. This right of rescission will not extend to any holders of Subscription Receipts who acquire such Subscription Receipts from an initial purchaser on the open market or otherwise.

The particular terms of each issue of Subscription Receipts that will be described in the related Prospectus Supplement will include, where applicable:

- the number of Subscription Receipts;
- the price at which the Subscription Receipts will be offered;
- the procedures for the exchange of the Subscription Receipts into Common Shares, First Preference Shares, Second Preference Shares or Debentures, as the case may be;
- the number of Common Shares, First Preference Shares, Second Preference Shares or Debentures, as the case may be, that may be obtained upon exercise of each Subscription Receipt;
- the designation and terms of any other Securities with which the Subscription Receipts will be offered, if any, and the number of Subscription Receipts that will be offered with each Security;
- terms relating to the holding and release or return of the gross proceeds from the sale of the Subscription Receipts plus any interest earned thereon;
- material income tax consequences of owning the Subscription Receipts; and
- any other material terms and conditions of the Subscription Receipts.

Securities issued upon the exchange of Subscription Receipts will be issued for no additional consideration.

Debentures

The following sets forth certain general terms and provisions of Debentures. The particular terms and provisions of Debentures offered pursuant to an accompanying Prospectus Supplement, and the extent to which the general terms and provisions described below may apply to such Debentures, will be described in such Prospectus Supplement.

The Debentures may be offered separately or together with the Common Shares, First Preference Shares, Second Preference Shares or Subscription Receipts, as the case may be. The Debentures will be issued in series under the Corporation’s existing trust indenture or one or more trust indentures to be entered into between the Company and a financial institution to which the *Trust and Loan Companies Act* (Canada) applies or a financial institution organized under the laws of any province of Canada and authorized to carry on business as a trustee. Each such trust indenture will set out the terms of the applicable series of Debentures. The statements in this Prospectus relating to any trust indenture and the Debentures to be issued under it are summaries of certain anticipated provisions of the trust indenture and do not purport to be complete and are subject to, and are qualified in their entirety by reference to, all provisions of the applicable trust indenture.

Each trust indenture may provide that Debentures may be issued thereunder up to the aggregate principal amount which may be authorized from time to time by the Corporation. Any Prospectus Supplement for Debentures supplementing this Prospectus will contain the terms and other information with respect to the Debentures being offered, including:

- the designation, aggregate principal amount and authorized denominations of such Debentures,
- the currency for which the Debentures may be purchased and the currency in which the principal and any interest is payable (in either case, if other than Canadian dollars),
- the percentage of the principal amount at which such Debentures will be issued,
- the date or dates on which such Debentures will mature,
- the rate or rates at which such Debentures will bear interest (if any), or the method of determination of such rates (if any),
- the dates on which any such interest will be payable and the record dates for such payments,
- any redemption term or terms under which such Debentures may be defeased,

- any exchange or conversion terms, and
- any other specific terms.

Each series of Debentures may be issued at various times with different maturity dates, may bear interest at different rates and may otherwise vary.

The Debentures will be direct, unsecured obligations of the Company. The Debentures will be senior or subordinated indebtedness of the Company as described in the relevant Prospectus Supplement.

This Prospectus does not qualify for issuance Debentures in respect of which the payment of principal and/or interest may be determined, in whole or in part, by reference to one or more underlying interests including, for example, an equity or debt security, a statistical measure of economic or financial performance including, but not limited to, any currency, consumer price or mortgage index, or the price or value of one or more commodities, indices or other items, or any other item or formula, or any combination or basket of the foregoing items. For greater certainty, this Prospectus may qualify for issuance Debentures in respect of which the payment of principal and/or interest may be determined, in whole or in part, by reference to published rates of a central banking authority or one or more financial institutions, such as a prime rate or bankers' acceptance rate, or to recognized market benchmark interest rates such as LIBOR, EURIBOR or a U.S. Federal funds rate.

CHANGES IN SHARE AND LOAN CAPITAL STRUCTURE

The following describes the changes in the share and loan capital structure of Fortis since March 31, 2012:

- During the period from April 1, 2012 up to and including May 9, 2012, Fortis issued an aggregate of 56,242 Common Shares upon the exercise of options granted pursuant to the 2002 and 2006 Stock Option Plans, for aggregate consideration of $1.4 million.
- During the period from April 1, 2012 up to and including May 9, 2012, the Corporation's consolidated long-term debt and capital lease obligations, including the current portion and committed credit facility borrowings classified as long-term debt, increased by $131 million, largely due to additional borrowings under the Corporation's committed corporate credit facility.

PRIOR SALES

Fortis has not sold or issued any First Preference Shares, Second Preference Shares, Subscription Receipts, Debentures or securities convertible into First Preference Shares, Second Preference Shares or Debentures during the 12 months prior to the date hereof. The following table summarizes the issuances by the Corporation of Common Shares and securities convertible into Common Shares during the 12 months prior to the date of this Prospectus:

Date	Security	Weighted Average Issue Price or Exercise Price per Security, as applicable	Number of Securities
May 2011	Common – Exercise of Stock Options(1)	$20.68	20,524
June 1, 2011	Common – DRIP(2)	$32.64	454,874
June 1, 2011	Common – CSPP(3)	$33.29	10,780
June 2011	Common – Exercise of Stock Options(1)	$21.60	17,148
June 2011	Common(4)	$33.00	9,100,000
July 2011	Common – Exercise of Over-Allotment Option(4)	$33.00	1,240,000
July 2011	Common – Exercise of Stock Options(1)	$28.19	1,707
August 2011	Common – Exercise of Stock Options(1)	$12.04	19,940
September 1, 2011	Common – DRIP(2)	$30.69	528,636
September 1, 2011	Common – CSPP(3)	$31.30	9,146
September 2011	Common – Exercise of Stock Options(1)	$20.68	74,766
October 2011	Common – Exercise of Stock Options(1)	$26.46	70,810
November 2011	Common – Exercise of Stock Options(1)	$15.10	40,928
November 2011	Common – Conversion of US$40 million of Convertible Debentures(5)	$29.63	1,374,098
December 1, 2011	Common – DRIP(2)	$31.86	390,303
December 1, 2011	Common – CSPP(3)	$32.48	9,332
December 2011	Common – Exercise of Stock Options(1)	$23.83	9,413
January 2012	Common – Exercise of Stock Options(1)	$25.41	16,012
February 2012	Common – Exercise of Stock Options(1)	$22.29	3,870
March 1, 2012	Common – DRIP(2)	$31.52	399,640
March 1, 2012	Common – CSPP(3)	$32.14	12,994
March 2012	Common – Exercise of Stock Options(1)	$25.62	13,639
April 2012	Common – Exercise of Stock Options(1)	$25.49	28,290
May 4, 2012	Stock Options convertible into Common Shares(6)	$34.27	789,220
May 1-9, 2012	Common – Exercise of Stock Options(1)	$23.75	27,952

(1) Issued on the exercise of options granted pursuant to the Executive, 2002 and 2006 Stock Option Plans of the Corporation.
(2) Issued pursuant to the Corporation's Dividend Reinvestment Plan ("DRIP").
(3) Issued pursuant to the Corporation's Consumer Share Purchase Plan ("CSPP").
(4) Issued to the public pursuant to a short-form prospectus dated June 8, 2011.
(5) Convertible debentures issued pursuant to a debenture purchase agreement dated November 7, 2006.
(6) Options granted under the 2012 Stock Option Plan of the Corporation.

TRADING PRICES AND VOLUMES

The following tables set forth, for the periods indicated, the reported high and low daily trading prices and the aggregate volume of trading of the Corporation's Common Shares; First Preference Shares, Series C; First Preference Shares, Series E; First Preference Shares, Series F; First Preference Shares, Series G; and First Preference Shares, Series H, on the TSX.

	Trading of Common Shares			Trading of First Preference Shares, Series C		
	TSX			TSX		
	High	Low	Volume	High	Low	Volume
	($)	($)	(#)	($)	($)	(#)
2011						
May	33.85	31.98	15,795,186	26.19	25.54	463,532
June	33.05	30.79	9,954,946	26.04	25.75	348,223
July	32.85	31.53	5,183,546	26.49	25.85	80,991
August	32.75	28.24	14,509,526	26.45	25.86	34,748
September	33.78	31.44	11,207,968	26.14	25.55	135,005
October	34.39	31.32	7,950,203	26.26	25.60	75,014
November	34.16	31.32	18,591,643	26.45	25.75	123,447
December	33.62	31.97	9,940,675	26.21	25.65	187,813
2012						
January	33.67	32.66	7,561,933	26.61	25.90	21,229
February	34.31	31.76	19,233,895	26.54	25.50	50,239
March	33.17	31.70	11,072,696	25.90	25.53	35,364
April	34.35	31.88	7,960,525	26.25	25.53	275,288
May 1 to 9	34.98	33.55	2,888,641	25.95	25.60	9,625

	Trading of First Preference Shares, Series E			Trading of First Preference Shares, Series F		
	TSX			TSX		
	High	Low	Volume	High	Low	Volume
	($)	($)	(#)	($)	($)	(#)
2011						
May	27.34	26.74	272,521	24.00	23.05	87,756
June	27.24	26.61	143,830	24.25	23.16	74,591
July	27.53	26.80	16,908	24.79	24.01	46,339
August	27.86	26.51	367,951	25.10	23.68	67,083
September	27.00	26.59	60,562	25.00	24.33	52,951
October	27.22	26.50	126,929	26.24	24.50	96,924
November	28.12	27.11	114,823	25.69	24.92	56,811
December	27.45	26.98	28,011	26.41	24.98	39,355
2012						
January	27.60	26.97	72,839	25.85	25.05	70,415
February	28.98	26.75	68,038	25.94	25.00	239,924
March	27.58	26.02	53,080	25.60	25.00	328,502
April	26.60	26.05	333,365	25.30	25.00	167,439
May 1 to 9	26.66	26.59	1,430	25.60	25.21	25,850

	Trading of First Preference Shares, Series G			Trading of First Preference Shares, Series H		
	TSX			TSX		
	High	Low	Volume	High	Low	Volume
	($)	($)	(#)	($)	($)	(#)
2011						
May	26.50	25.88	97,923	26.50	25.14	96,623
June	26.99	25.88	128,971	25.96	25.25	251,857
July	26.30	25.81	68,285	25.95	25.21	67,873
August	26.40	25.34	75,920	26.00	25.14	156,853
September	26.30	25.58	110,543	26.05	25.00	94,461
October	26.58	25.80	69,175	26.00	25.10	48,926
November	26.19	25.43	107,174	25.84	25.10	95,476
December	26.65	25.70	40,271	26.00	25.29	210,693
2012						
January	26.45	25.75	47,858	26.00	25.50	263,320
February	26.50	25.35	88,246	26.72	25.60	111,592
March	25.92	25.46	168,124	25.99	25.45	85,935
April	25.85	25.60	54,552	25.93	25.46	28,764
May 1 to 9	25.95	25.73	21,021	26.00	25.61	21,874

USE OF PROCEEDS

Unless otherwise indicated in a Prospectus Supplement relating to a particular offering of Securities, the Corporation intends to use the net proceeds from the sale of Securities to repay indebtedness and/or to, directly or indirectly, finance future growth opportunities. Specific information about the use of net proceeds will be set forth in a Prospectus Supplement. The Corporation may invest funds which the Corporation does not immediately use. Such investments may include short-term marketable investment grade securities. The Corporation may, from time to time, issue securities (including debt securities) other than pursuant to this Prospectus.

PLAN OF DISTRIBUTION

The Corporation may sell the Securities, separately or together, to or through one or more underwriters or dealers, purchasing as principals for public offering and sale by them, and also may sell Securities to one or more other purchasers directly or through agents. Each Prospectus Supplement will set out the terms of the offering, including the name or names of any underwriters, dealers or agents, the purchase price or prices of the Securities (or the manner of determination thereof if offered on a non-fixed price basis), and the proceeds to the Corporation from the sale of the Securities. Only underwriters, dealers or agents so named in the Prospectus Supplement are deemed to be underwriters, dealers or agents, as the case may be, in connection with the Securities offered thereby.

The Securities may be sold, from time to time in one or more transactions at a fixed price or prices which may be changed or at market prices prevailing at the time of sale, at prices related to such prevailing market prices or at negotiated prices. The prices at which the Securities may be offered may vary as between purchasers and during the period of distribution. If, in connection with the offering of Securities at a fixed price or prices, the underwriters have made a *bona fide* effort to sell all of the Securities at the initial offering price fixed in the applicable Prospectus Supplement, the public offering price may be decreased and thereafter further changed, from time to time, to an amount not greater than the initial public offering price fixed in such Prospectus Supplement, in which case the compensation realized by the underwriters, dealers or agents will be decreased by the amount that the aggregate price paid by purchasers for the Securities is less than the gross proceeds paid by the underwriters, dealers or agents to the Corporation.

If underwriters or dealers purchase Securities as principal, the Securities will be acquired by the underwriters or dealers for their own account and may be resold from time to time in one or more transactions, including negotiated transactions, at a fixed public offering price or at varying prices determined at the time of sale. The obligations of the underwriters or dealers to purchase those Securities will be subject to certain conditions precedent, and the underwriters or dealers will be obligated to purchase all the Securities offered by the Prospectus Supplement if any of such Securities are purchased. Any public offering price and any discounts or concessions allowed or re-allowed or paid may be changed from time to time.

The Securities may also be sold directly by the Corporation in accordance with applicable securities laws at prices and upon terms agreed to by the purchaser and the Corporation or through agents designated by the Corporation from time to time. Any agent involved in the offering and sale of the Securities pursuant to a particular Prospectus Supplement will be named, and any commissions payable by the Corporation to that agent will be set forth, in such Prospectus Supplement. Unless otherwise indicated in the Prospectus Supplement, any agent would be acting on a best efforts basis for the period of its appointment.

In connection with the sale of the Securities, underwriters, dealers or agents may receive compensation from the Corporation in the form of commissions, concessions and discounts. Any such commissions may be paid out of the general funds of the Corporation or the proceeds of the sale of the Securities. Underwriters, dealers and agents who participate in the distribution of the Securities may be entitled under agreement to be entered into with the Corporation to indemnification by the Corporation against certain liabilities, including liabilities under Canadian securities legislation, or to contribution with respect to payments which such underwriters, dealers or agents may be required to make in respect thereof. Such underwriters, dealers and agents may engage in transactions with, or perform services for, the Corporation in the ordinary course of business.

In connection with any offering of Securities, the applicable Prospectus Supplement will set forth any intention by the underwriters, dealers or agents to offer, allot or effect transactions which stabilize or maintain the market price of the Securities offered at a level above that which might otherwise prevail in the open market. Such transactions, if commenced, may be interrupted or discontinued at any time.

CERTAIN INCOME TAX CONSIDERATIONS

The applicable Prospectus Supplement will describe certain material Canadian federal income tax consequences to an investor who is a resident of Canada or who is a non-resident of Canada of the acquisition, ownership and disposition of any Securities offered thereunder, including whether the payment of dividends will be subject to Canadian non-resident withholding tax.

RISK FACTORS

An investment in Securities involves certain risks. A prospective purchaser of Securities should carefully consider the risk factors described under the heading "Business Risk Management" in the MD&A found on pages 48 to 61 of the Corporation's 2011 Annual Report and on pages 28 to 29 of the Corporation's Management Discussion and Analysis of financial condition and results of operations for the three months ended March 31, 2012, each of which is incorporated by reference herein. In addition, a prospective purchaser of Securities should carefully consider the other information contained in this Prospectus and in all subsequently filed documents incorporated by reference and those described in a Prospectus Supplement relating to a specific offering of Securities.

Completion of the Acquisition of CH Energy Group

The acquisition of CH Energy Group is subject to certain shareholder, regulatory and other approvals. Failure to obtain, or any delay in obtaining, such approvals could adversely impact the Corporation's ability to close the Acquisition or the timing of such closing. In addition, there is risk that some, or all, of the expected benefits of the acquisition of CH Energy Group may fail to materialize or may not occur within the time periods anticipated by the Corporation. The realization of such benefits may be impacted by a number of factors, many of which are beyond the control of Fortis.

No Market for the Securities

There is currently no trading market for the First Preferred Shares, Second Preferred Shares, Subscription Receipts or Debentures that may be offered pursuant to this Prospectus and any Prospectus Supplement. No assurance can be given that an active or liquid trading market for these securities will develop or be sustained. If an active or liquid market for these Securities fails to develop or be sustained, the prices at which the Securities trade may be adversely affected. Whether or not the Securities will trade at lower prices depends on many factors, including liquidity of these Securities, prevailing interest rates and the markets for similar securities, the market price of the Common Shares, general economic conditions and the Corporation's financial condition, historic financial performance and future prospects.

AUDITOR

The auditors of the Corporation are Ernst & Young LLP, Chartered Accountants, The Fortis Building, 7th Floor, 139 Water Street, St. John's, Newfoundland and Labrador A1C 1B2.

LEGAL MATTERS

Unless otherwise specified in a Prospectus Supplement relating to a specific offering of Securities, certain legal matters relating to the offering of Securities will be passed upon on behalf of the Corporation by Davies Ward Phillips & Vineberg LLP, Toronto and McInnes Cooper, St. John's. At the date hereof, partners and associates of each of Davies Ward Phillips & Vineberg LLP and McInnes Cooper own beneficially, directly or indirectly, less than 1% of any securities of the Corporation or any associate or affiliate of the Corporation.

PURCHASERS' STATUTORY RIGHTS

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may only be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment, irrespective of the determination at a later date of the purchase price of the securities distributed. In several of the provinces, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revisions of the price or damages if the prospectus and any amendment contains

a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revisions of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights or consult with a legal advisor.

AUDITORS' CONSENT

We have read the Short Form Base Shelf Prospectus (the "Prospectus") of Fortis Inc. (the "Corporation") dated May 10, 2012 relating to the issue and sale of Common Shares, First Preference Shares, Second Preference Shares, Subscription Receipts and Debentures of the Corporation. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the incorporation by reference, in the Prospectus, of our reports to the shareholders of the Corporation: (i) on the consolidated balance sheets of the Corporation as at December 31, 2011 and 2010 and the consolidated statements of earnings, retained earnings, comprehensive income and cash flows for each of the years in the two-year period ended December 31, 2011, prepared in accordance with Canadian generally accepted accounting principles; and (ii) on the consolidated balance sheets of the Corporation as at December 31, 2011 and 2010 and the consolidated statements of earnings, retained earnings, comprehensive income and cash flows for each of the years in the two-year period ended December 31, 2011, prepared in accordance with accounting principles generally accepted in the United States. Each such report is dated March 13, 2012.

St. John's, Canada	(Signed) ERNST & YOUNG LLP
May 10, 2012	Chartered Accountants

CERTIFICATE OF FORTIS INC.

Dated: May 10, 2012

This short form prospectus, together with the documents incorporated in this prospectus by reference, will, as of the date of the last supplement to this prospectus relating to the securities offered by the prospectus and the supplement(s), constitute full, true and plain disclosure of all material facts relating to the securities offered by this prospectus and the supplement(s) as required by the securities legislation of each of the provinces of Canada.

(Signed) H. STANLEY MARSHALL President and Chief Executive Officer	(Signed) BARRY V. PERRY Vice-President, Finance and Chief Financial Officer

On behalf of the Board of Directors

(Signed) DAVID G. NORRIS Director	(Signed) PETER E. CASE Director

FORTIS

RR DONNELLEY
Printed in Canada

7. Latest annual filing to the Commission of Operational and Financial Results.

- See attached documents for FEI's latest annual filing

FORTIS BC™

Diane Roy
Director, Regulatory Affairs - Gas
FortisBC Energy Inc.

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Email: gas.regulatory.affairs@fortisbc.com

April 30, 2012

British Columbia Utilities Commission
6th Floor, 900 Howe Street
Vancouver, BC
V6Z 2N3

Attention: Ms. Alanna Gillis, Commission Secretary

Dear Ms. Gillis:

Re: FortisBC Energy Inc.
2011 Annual Report of FortisBC Energy Inc.

Please find attached, for the British Columbia Utilities Commission (the "Commission") review, three (3) copies of the FortisBC Energy Inc. (the "Company") 2011 Annual Report of Actual results.

We trust that the Commission will find this filing in order. If there are any questions regarding this filing, please contact the undersigned.

Yours very truly,

FORTISBC ENERGY INC.

Original signed:

Diane Roy

Attachment

FORTISBC ENERGY INC.

LOWER MAINLAND, INLAND AND COLUMBIA

SERVICE AREAS

2011

GAS COMPANIES

ANNUAL REPORT

April 30, 2012

GAS COMPANIES

ANNUAL REPORT

OF

FORTISBC ENERGY INC.

(Lower Mainland, Inland and Columbia Service Areas)

FortisBC Energy Inc.

(Exact Legal Name of Utility)

16705 Fraser Highway, Surrey, B.C. V4N 0E8

(Address of Principal Business Office)

TO THE

BRITISH COLUMBIA UTILITIES COMMISSION

For the Period January 1, 2011 To December 31, 2011

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TABLE OF CONTENTS

FORTISBC ENERGY INC.
UTILITY RATE BASE
SCHEDULE II
($000)

Line No.	Description	Reference	Approved 2011	Year Ended 12/31/2011 Actual	Normalization	Normal	Difference	Reasons for Difference
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1	Gross Plant in service, Beginning	#8.2, 8.3	$ 3,453,394	$ 3,388,862	$ -	$ 3,388,862	$ (64,532)	- See Page 5.1
2	CPCN's	#8.2, 8.3	-	31,268	-	31,268	31,268	
3								
4	Additions/Transfers/Adjustments	#8.2, 8.3	136,234	156,826	-	156,826	20,592	- See Page 5.1
5	Disposals/Retirements	#8.2, 8.3	(51,250)	(31,925)	-	(31,925)	19,325	- See Page 5.1
6	Gross Plant in service, Ending	#8.2, 8.3	3,538,378	3,545,030	-	3,545,030	6,652	
7								
8	Accumulated Depreciation Beginning - Plant	#9	(835,365)	(847,514)		(847,514)	(12,149)	
9	Accumulated Depreciation Ending - Plant	#9	(885,651)	(922,011)		(922,011)	(36,360)	
10								
11	Contributions in aid of construction, Beginning	#10	(183,885)	(164,149)	-	(164,149)	19,736	- See Page 5.2
12	Contributions in aid of construction, Ending	#10	(194,753)	(180,038)		(180,038)	14,715	
13								
14	Accumulated Amortization Beginning - CIAC	#10	47,062	46,752		46,752	(310)	
15	Accumulated Amortization Ending - CIAC	#10	50,245	49,620	-	49,620	(625)	- See Page 5.2
16								
17	Net plant in service, Mid-year		$ 2,494,713	$ 2,458,277	$ -	$ 2,458,277	$ (36,436)	
18	Adjustment to 13-month average	#8.4	-	(12,823)	-	(12,823)	(12,823)	- See Page 5.2
19	Work in progress, no AFUDC	#12	15,627	17,224	-	17,224	1,597	- See Page 5.2
20								
21	Sub-total		2,510,340	2,462,678	-	2,462,678	(47,662)	
22								
23	Construction Advances	#11	(670)	(624)	-	(624)	46	
24	Unamortized deferred charges	#13	6,770	(13,703)	-	(13,703)	(20,473)	- See Page 13.1 / 5.2
25	Cash working capital	#14	(6,534)	(3,284)	499	(2,785)	3,749	- See Page 5.3
26	Other working capital	#15	120,761	119,556	-	119,556	(1,205)	- See Page 5.3
27	Future Income Taxes Regulatory Asset	#40.2	292,155	271,859	-	271,859	(20,296)	
28	Future Income Taxes Regulatory Liability	#40.2	(292,155)	(271,859)	-	(271,859)	20,296	
29	LILO Benefit		(1,482)	(1,482)	-	(1,482)	-	
30	**Utility rate base**		$ 2,629,185	$ 2,563,141	$ 499	$ 2,563,640	$ (65,545)	
31								
32	# Indicates Annual Report Reference Page No.							

FORTISBC ENERGY INC.

2011 RATE BASE
- EXPLANATION OF VARIANCES FROM 2011 DECISION

FORTISBC ENERGY INC.
UTILITY RATE BASE
COMPARISON OF 2011 APPROVED TO 2011 NORMALIZED RESULTS

($ MILLIONS)

Particulars	2011 Approved	2011 Normal	Variance	Reasons for Difference
PLANT IN SERVICE, BEGINNING	$ 3,453.4	$ 3,388.9	$ (64.5)	The Normal 2011 balance was lower than the approved amount as a result of the timing of capital expenditures.
ADDITIONS TO GAS PLANT IN SERVICE				
Additions/Transfers/Adjustments	$ 136.2	$ 156.8	$ 20.6	Additions were higher than approved in Transmission Plant, Natural Gas Transportation, and General Plant Equipment.
Disposals/Retirements	$ (51.3)	$ (31.9)	$ 19.3	Retirements were lower than approved in Distribution Plant.

FORTISBC ENERGY INC.
UTILITY RATE BASE
COMPARISON OF 2011 APPROVED TO 2011 NORMALIZED RESULTS
($ MILLIONS)

Particulars	2011 Approved	2011 Normal	Variance	Reasons for Difference
CONTRIBUTIONS IN AID OF CONSTRUCTION				
Computer Software Tax Savings	$ (17.1)	$ (15.9)	$ 1.2	Forecasted opening 2011 balance was higher than actual.
All Other	(177.6)	(164.2)	13.5	Forecasted opening 2011 balance was higher than actual.
Total CIAC (Page 10)	$ (194.8)	$ (180.0)	$ 14.7	
ACCUMULATED DEPRECIATION	$ (50.2)	$ (49.6)	$ 0.6	Accumulated depreciation was lower than approved because forecasted opening 2011 balance was higher than actual.
ADJUSTMENT TO 13-MONTH AVERAGE	$ 0	$ (12.8)	$ (12.8)	Variance due to timing differences; plant additions put into service later than approved.
WORK IN PROGRESS, NO AFUDC	$ 15.6	$ 17.2	$ 1.6	
UNAMORTIZED DEFERRED CHARGES	$ 6.8	$ (13.7)	$ (20.5)	See Page 13 for details.

FORTISBC ENERGY INC.
UTILITY RATE BASE
COMPARISON OF 2011 APPROVED TO 2011 NORMALIZED RESULTS

($ MILLIONS)

Particulars	2011 Approved	2011 Normal	Variance	Reasons for Difference
CASH WORKING CAPITAL				
Cash Required for Operating Expenses	$ 2.8	$ 6.6	$ 3.8	Increase was primarily due to a longer lag time than forecast.
Less – Funds Available:				
Reserve for Bad Debts	(6.0)	(5.5)	0.5	
Withholdings From Employees	(3.2)	(3.8)	(0.6)	
Average	$ (6.4)	$ (2.8)	$ 3.7	
OTHER WORKING CAPITAL				
Gas in Storage	$ 114.8	$ 114.8	$ -	
Inventories	1.2	0.5	(0.7)	
All Other	4.7	4.2	(0.5)	
	$ 120.7	$ 119.5	$ (1.2)	

FORTISBC ENERGY INC.
ADDITIONS TO GAS PLANT IN SERVICE
($000)

Line No.	Particulars	Approved 2011	Actual 2011	Difference Increase (Decrease)
	(1)	(2)	(3)	(4)
1	CPCNs			
2				
3	Opening Work in Progress	$ 62,672	$ 48,031	$ (14,641)
4				
5	Add - Capital Expenditures - CPCNs	80,423	41,779	(38,644)
6				
7	Less - Closing Work in Progress	(143,095)	(58,542)	84,553
8				
9	Total Opening Plant Additions - CPCNs	$ -	$ 31,268	$ 31,268
10				
11				
12	Non-CPCNs			
13				
14	Opening Work in Progress	$ 24,877	$ 30,007	$ 5,130
15				
16	Add - Capital Expenditures - Non-CPCNs	107,006	122,676	15,670
17				
18	Less - Closing Work in Progress	(25,706)	(25,914)	(208)
19				
20	Non-CPCN Additions to Gas Plant in Service	106,177	126,769	20,592
21				
22				
23	Less: Opening WIP Adjustment	-	-	-
24				
25	Add: O&M Charged to Construction	30,055	30,055	-
26				
27	Total Plant Additions - Non-CPCNs	$ 136,232	$ 156,824	$ 20,592

FORTISBC ENERGY INC.
ADDITIONS TO GAS PLANT IN SERVICE (CPCNs)
SUMMARY OF SIGNIFICANT CPCN PROJECTS
($000)

Line No.	Particulars	Actual 2010	Actual 2011	Difference Increase (Decrease)
	(1)	(2)	(3)	(4)
1	Significant Projects - CPCNs			
2				
3	Opening WIP			
4	Low Pressure Replacement Program	$ 103	$ -	$ (103)
5	Distribution Mobile Solution	185	-	(185)
6	SBSA Fraser River Crossing	10,366	20,162	9,797
7	Customer Care Enhancement Project	-	26,723	26,723
8	Kootenay River Crossing Project	-	1,146	1,146
9	Other	-	-	
10				
11	Sub-Total	10,655	48,031	37,376
12				
13	Add: Capital Expenditures			
14	Low Pressure Replacement Program	-	-	-
15	Distribution Mobile Solution	-	-	-
16	SBSA Fraser River Crossing	10,298	11,105	808
17	Customer Care Enhancement Project	26,723	29,828	3,105
18	Kootenay River Crossing Project	1,147	845	(302)
19	Other	(589)	-	589
20				
21	Sub-Total	37,579	41,779	4,200
22				
23	Less: Closing WIP			
24	Low Pressure Replacement Program	-	-	-
25	Distribution Mobile Solution	-	-	-
26	SBSA Fraser River Crossing	(20,162)	-	20,162
27	Customer Care Enhancement Project	(26,723)	(56,551)	(29,828)
28	Kootenay River Crossing Project	(1,146)	(1,991)	(845)
29	Other	-	-	-
30				
31	Sub-Total	(48,031)	(58,542)	(10,511)
32				
33	Additions to Gas Plant in Service			
34	Low Pressure Replacement Program	103	-	(103)
35	Distribution Mobile Solution	185	-	(185)
36	SBSA Fraser River Crossing	501	31,268	30,766
37	Customer Care Enhancement Project	-	-	-
38	Kootenay River Crossing Project	2	-	(2)
39	Other	(589)	-	589
40				
41	Total Significant Projects - CPCNs	203	31,268	31,065
42				
43	CPCNs - Other	-	-	-
44				
45	Total Opening CPCN Additions	$ 203	$ 31,268	$ 31,065

FORTISBC ENERGY INC.
ADDITIONS TO GAS PLANT IN SERVICE (NON-CPCNs)
SUMMARY OF SIGNIFICANT PROJECTS
($000)

Line No.	Particulars	Actual 2010	Actual 2011	Difference Increase (Decrease)
	(1)	(3)	(3)	(4)
1	Significant Projects - Non-CPCNs			
2				
3	Opening WIP			
4	Regulator Evergreening	$ 875	$ 2,664	$ 1,789
5	CTS Current Year Damage Remediation	354	-	(354)
6	TP Compressor & Telemetry -Minor Capital	2,204	998	(1,206)
7	LNG Cold Box Replacement	-	-	-
8	Gateway Project	-	251	251
9	ITS Arial Crossing Replacement	693	-	(693)
10	Seal Oil Pump Addn - Compr Stns	564	603	39
11	SCP Code Compliance Upgrades	955	1,022	66
12	Facilities - Owned Structures	-	-	-
13	Cathodic Protection Analysis Phase	-	-	-
14	Customer Care Initiative	2,477	514	(1,963)
15	IT Desktop Rrefresh 2009	-	-	-
16	Pigging Barrel / Valve Station Upgrades	929	1,042	113
17	Nucleus Replacement Project	-	-	-
18	Scada Upgrades	1,478	1,583	105
19	IT Microsoft Vista Upgrade	1,018	-	(1,018)
20	Compression Ops- Lower Mainland	973	83	(890)
21	2011 Microsoft Enterprise Licenses	-	-	-
22	Disaster Recovery Project	-	2,551	2,551
23	TGI - Transmission PM Phase 1 Project	-	1,184	1,184
24	Other	11,000	17,512	6,512
25				
26	Sub-Total	$ 23,520	$ 30,007	$ 6,487
27				
28	Add: Capital Expenditures			
29	Regulator Evergreening	$ 2,246	$ 4,425	$ 2,178
30	CTS Current Year Damage Remediation	8	-	(8)
31	TP Compressor & Telemetry -Minor Capital	1,072	262	(810)
32	LNG Cold Box Replacement	43	-	(43)
33	Gateway Project	194	(819)	(1,013)
34	ITS Arial Crossing Replacement	(239)	-	239
35	Seal Oil Pump Addn - Compr Stns	39	7	(32)
36	SCP Code Compliance Upgrades	66	23	(43)
37	Facilities - Owned Structures	264	18	(246)
38	Cathodic Protection Analysis Phase	1	-	(1)
39	Customer Care Initiative	(1,963)	34	1,997
40	IT Desktop Rrefresh 2009	17	-	(17)
41	Pigging Barrel / Valve Station Upgrades	195	58	(137)
42	Nucleus Replacement Project	(91)	-	91
43	Scada Upgrades	105	36	(69)
44	IT Microsoft Vista Upgrade	362	-	(362)
45	Compression Ops- Lower Mainland	161	-	(161)
46	2011 Microsoft Enterprise Licenses	-	1,378	1,378
47	Disaster Recovery Project	2,551	1,173	(1,378)
48	TGI - Transmission PM Phase 1 Project	1,184	417	(767)
49	2010 Desktop Refresh	1,170	(54)	(1,224)
50	Gateway Project- Transmission	-	842	842
51	TP Valves Replacements	-	1,047	1,047
52	TP Valve Replacement - SN	-	1,015	1,015
53	Mobile GIS	-	1,183	1,183
54	Integrated Work Management System	-	853	853
55	Evergreening - Network Infra Ref	-	1,185	1,185
56	Other	85,731	109,592	23,862
57				
58	Sub-Total	$ 93,114	$ 122,676	$ 29,562

FORTISBC ENERGY INC.
ADDITIONS TO GAS PLANT IN SERVICE (NON-CPCNs)
SUMMARY OF SIGNIFICANT PROJECTS
($000)

Line No.	Particulars	Actual 2010	Actual 2011	Difference Increase (Decrease)
	(1)	(3)	(3)	(4)
1	Less: Closing WIP			
2	Regulator Evergreening	$ (2,664)	$ (112)	$ 2,551
3	CTS Current Year Damage Remediation	-	-	-
4	TP Compressor & Telemetry -Minor Capital	(998)	-	998
5	LNG Cold Box Replacement	-	-	-
6	Gateway Project	(251)	491	741
7	ITS Arial Crossing Replacement	-	-	-
8	Seal Oil Pump Addn - Compr Stns	(603)	-	603
9	SCP Code Compliance Upgrades	(1,022)	-	1,022
10	Facilities - Owned Structures	-	-	-
11	Cathodic Protection Analysis Phase	-	-	-
12	Customer Care Initiative	(514)	(548)	(34)
13	IT Desktop Rrefresh 2009	-	-	-
14	Pigging Barrel / Valve Station Upgrades	(1,042)	-	1,042
15	Nucleus Replacement Project	-	-	-
16	Scada Upgrades	(1,583)	-	1,583
17	IT Microsoft Vista Upgrade	-	-	-
18	Compression Ops- Lower Mainland	(83)	-	83
19	2009 Microsoft Enterprise Licenses	-	-	-
20	Disaster Recovery Project	(2,551)	-	2,551
21	TGI - Transmission PM Phase 1 Project	(1,184)	-	1,184
22	2010 Desktop Refresh	-	-	-
23	Gateway Project- Transmission	-	(1,876)	(1,876)
24	TP Valves Replacements	-	(223)	(223)
25	TP Valve Replacement - SN	-	(255)	(255)
26	Mobile GIS	-	-	-
27	Integrated Work Manage System	-	(853)	(853)
28	Evergreening - Network Infra Ref	-	-	-
29	Other	(17,512)	(22,539)	(5,027)
30				
31	Sub-Total	$ (30,007)	$ (25,914)	$ 4,093
32				
33	Additions to Gas Plant in Service			
34	Regulator Evergreening	$ 457	$ 6,976	$ 6,519
35	CTS Current Year Damage Remediation	361	-	(361)
36	TP Compressor & Telemetry -Minor Capital	2,277	1,260	(1,017)
37	LNG Cold Box Replacement	43	-	(43)
38	Gateway Project	(57)	(78)	(21)
39	ITS Arial Crossing Replacement	454	-	(454)
40	Seal Oil Pump Addn - Compr Stns	-	610	610
41	SCP Code Compliance Upgrades	-	1,045	1,045
42	Facilities - Owned Structures	264	18	(246)
43	Cathodic Protection Analysis Phase	1	-	(1)
44	Customer Care Initiative	-	-	-
45	IT Desktop Rrefresh 2009	17	-	(17)
46	Pigging Barrel / Valve Station Upgrades	82	1,100	1,018
47	Nucleus Replacement Project	(91)	-	91
48	Scada Upgrades	-	1,619	1,619
49	IT Microsoft Vista Upgrade	1,379	-	(1,379)
50	Compression Ops- Lower Mainland	1,051	83	(968)
51	2009 Microsoft Enterprise Licenses	-	1,378	1,378
52	Disaster Recovery Project	-	3,724	3,724
53	TGI - Transmission PM Phase 1 Project	-	1,602	1,602
54	2010 Desktop Refresh	1,170	(54)	(1,224)
55	Gateway Project- Transmission	-	(1,033)	(1,033)
56	TP Valves Replacements	-	825	825
57	TP Valve Replacement - SN	-	761	761
58	Mobile GIS	-	1,183	1,183
59	Integrated Work Manage System	-	-	-
60	Evergreening - Network Infra Ref	-	1,185	1,185
61	Other	79,219	104,566	25,347
62				
63	Total Opening Non-CPCN Additions	$ 86,627	$ 126,769	$ 40,141

FORTISBC ENERGY INC.
GAS PLANT IN SERVICE
($000)

Line No.	B.C.U.C. Account	Approved 2011	Balance 12/31/2010	2011 CPCN's	2011 Adjustments	2011 Additions	2011 Retirements	2011 Transfers/ Recovery	Balance 12/31/2011
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1	401 Franchise Consents	$ 99	$ 99	$ -	$ -	$ -	$ -	$ -	$ 99
2	402 Application Software - 8Y	58,570	44,918	-	-	3,986	(11,301)	-	37,603
3	402 Application Software - 5Y	5,057	10,797	-	-	4,481	(91)	-	15,187
4	402 Other Intangible Plant	751	750	-	-	-	-	-	750
5	461 TP Land Rights	44,027	44,043	-	-	370	16	-	44,429
6	461 TP Land Rights - Byron Creek	16	15	-	1	-	-	-	16
7	471 DS Land Rights	1,065	1,211	-	2	0	-	-	1,213
8	471 DS Land Rights - Byron Creek	-	(0)	-	1	-	-	-	1
9	**TOTAL INTANGIBLE PLANT**	109,585	101,833	-	4	8,838	(11,376)	-	99,299
10									
11	430 Manufactured Gas - Land	31	31	-	-	-	-	-	31
12	432 Manufactured Gas - Struct. and Improvements	475	464	-	4	10	-	-	477
13	433 Manufacturing Equipment	850	146	-	-	-	-	-	146
14	434 Gas Holders - Manufacturing	663	358	-	88	243	-	-	689
15	436 Compressor Equipment	53	53	-	-	-	-	-	53
16	437 Measuring and Regulating Equipment	309	309	-	33	91	-	-	434
17	440/441 Land in Fee Simple and Land Rights	928	928	-	-	-	-	-	928
18	442 Structures and Improvements	4,885	4,959	-	-	-	-	-	4,959
19	443 Gas Holders - Storage	19,089	16,494	-	1	3	-	-	16,499
20	449 Local Storage Equipment	23,410	24,155	-	151	40	-	-	24,346
21	**TOTAL MANUF. GAS / LOCAL STORAGE**	50,693	47,897	-	277	388	-	-	48,562
22									
23	460 Land in Fee Simple	7,408	7,402	-	-	-	-	-	7,402
24	461 Land Rights	-	0	-	(1)	-	-	-	(1)
25	462 Compressor Structures	14,690	14,729	-	180	114	-	-	15,023
26	463 Measuring Structures	4,949	5,380	-	45	64	(10)	-	5,479
27	464 Other Structures and Improvements	5,960	6,014	-	2	-	-	-	6,015
28	465 Mains	800,779	731,108	31,268	7,955	17,400	(850)	-	786,881
29	465 Mains - Inspection	3,942	3,164	-	-	-	(138)	-	3,026
30	466 Compressor Equipment	114,677	108,581	-	1,012	2,746	(715)	-	111,625
31	466 Compressor Equipment - Overhaul	-	2,285	-	-	-	-	-	2,285
32	467 Measuring and Regulating Equipment	38,119	34,744	-	344	2,095	(21)	-	37,162
33	468 Communication Structures and Equipment	346	346	-	-	-	-	-	346
34	**TOTAL TRANSMISSION PLANT**	$ 990,870	$ 913,752	$ 31,268	$ 9,538	$ 22,419	$ (1,734)	$ -	$ 975,243

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GAS PLANT IN SERVICE
($000)

Line No.	B.C.U.C. Account	Approved 2011	Balance 12/31/2010	2011 CPCN's	2011 Adjustments	2011 Additions	2011 Retirements	2011 Transfers/ Recovery	Balance 12/31/2011
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1	470 Land	$ 3,418	$ 3,414	$ -	$ -	$ -	$ -	$ -	$ 3,414
2	471 Land Rights	-	-	-	(4)	-	-	-	(4)
3	472 Structures and Improvements	14,804	15,751	-	278	1,248	(10)	-	17,266
4	473 Services	732,330	707,611	-	7,898	21,513	(3,765)	-	733,257
5	474 House Regulators and Meter Installations	156,117	150,786	-	7,393	17,862	(68)	-	175,973
6	475 Mains	923,684	909,233	-	6,412	14,567	(1,050)	-	929,162
7	476 Compressor Equipments	571	1,026	-	111	308	-	-	1,446
8	477 Measuring and Regulating Equipment	98,488	87,686	-	1,083	2,607	(482)	-	90,894
9	478 Meters	210,099	214,504	-	(3,448)	10,509	(4,760)	-	216,805
10	479 Other Distribution Equipment	-	-	-	-	-	-	-	-
11	**TOTAL DISTRIBUTION PLANT**	2,139,511	2,090,010	-	19,723	68,614	(10,134)	-	2,168,214
12									
13	472 Bio Gas Struct. & Improvements	-	-	-	132	4	-	-	137
14	475 Bio Gas Mains – Municipal Land	-	-	-	75	4	-	-	78
15	475 Bio Gas Mains – Private Land	-	-	-	11	30	-	-	41
16	418 Bio Gas Purification Overhaul	-	-	-	-	-	-	-	-
17	418 Bio Gas Purification Upgrader	-	-	-	-	-	-	-	-
18	477 Bio Gas Reg & Meter Equipment	-	-	-	268	11	-	-	279
19	478 Bio Gas Meters	-	-	-	7	-	-	-	7
20	474 Bio Gas Reg & Meter Installations	-	-	-	22	-	-	-	22
21	**TOTAL BIO GAS**	-	-	-	515	50	-	-	564
22									
23	476 NG Transportation CNG Dispensing Equipment	-	-	-	-	1,428	-	-	1,428
24	476 NG Transportation LNG Dispensing Equipment	-	-	-	-	530	-	-	530
25	476 NG Transportation CNG Foundations	-	-	-	-	102	-	-	102
26	476 NG Transportation LNG Foundations	-	-	-	-	53	-	-	53
27	476 NG Transportation LNG Pumps (Pumps only apply	-	-	-	-	-	-	-	-
28	476 NG Transportation CNG Dehydrator	-	-	-	-	77	-	-	77
29	476 NG Transportation LNG Dehydrator	-	-	-	-	-	-	-	-
30	**TOTAL NG FOR TRANSPORTATION**	$ -	$ -	$ -	$ -	$ 2,190	$ -	$ -	$ 2,190

0
GAS PLANT IN SERVICE
($000)

Line No.	B.C.U.C. Account	Approved 2011	Balance 12/31/2010	2011 CPCN's	2011 Adjustments	2011 Additions	2011 Retirements	2011 Transfers/ Recovery	Balance 12/31/2011
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1	480 Land	$ 22,160	$ 20,142	$ -	$ -	$ 2,107	$ -	$ -	$ 22,250
2	482 Structures and Improvements	94,602	91,587	-	-	3,149	(140)	-	94,596
3	483 Office Furniture and Equipment						-	-	
4	- Furniture & Equipment	22,970	24,137	-	-	214	(1,608)	-	22,744
5	- Computers - Hardware	21,484	14,304	-	-	9,463	-	-	23,767
6	- Computers - Software	635	1,504	-	-	1,622	(480)	-	2,646
7	484 Transportation Equipment	5,515	1,474	-	-	523	(368)	-	1,628
8	484 Vehicles - Leased	28,745	26,997	-	-	4,541	(3,117)	-	28,421
9	485 Heavy Work Equipment	830	1,133	-	-	225	(6)	-	1,351
10	486 Tools and Work Equipment	34,419	39,243	-	-	2,137	(1,854)	-	39,526
11	487 Equipment on Customer's Premises	24	24	-	-	-	-	-	24
12	488 Communication Equipment	14,721	13,211	-	-	289	(1,107)	-	12,393
13	489 Other General Equipment	-	-	-	-	-	-	-	-
14	**TOTAL GENERAL EQUIPMENT**	$ 246,105	$ 233,756	$ -	$ -	$ 24,270	$ (8,680)	$ -	$ 249,345
15									
16									
17	497 Allowance for Funds Used During Construction	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
18	498 Overhead Charged To Construction	-	-	-	(30,055)	30,055	-	-	-
19	499 Plant Suspense	-	-	-	-	-	-	-	-
20	**TOTAL UNCLASSIFIED PLANT**	$ -	$ -	$ -	$ (30,055)	$ 30,055	$ -	$ -	$ -
21									
22	Less - ADR Adjustment	-	-	-	-	-	-	-	-
23									
24	**TOTAL CAPITAL**	$ 3,536,764	$ 3,387,248	$ 31,268	$ 2	$ 156,824	$ (31,925)	$ -	$ 3,543,416
25									
26	Cross References	#4	#4	#4	#4 (A)	#4	#4		#4

FORTISBC ENERGY INC.
INTANGIBLE PLANT
($000)

Line No.	B.C.U.C. Account	Approved 2011	Balance 12/31/2010	CPCN	2011 Adjustments	2011 Additions	2011 Retirements	2011 Transfers/ Recovery	Balance 12/31/2011
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1	118 Utility plant acquisition adjustment	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
2									
3	172 Preliminary survey and								
4	investigation charges	-	-	-	-	-	-	-	-
5									
6	176 Unamortized conversion expense	886	886	-	-	-	-	-	886
7									
8	178 Organization expense	728	728	-	-	-	-	-	728
9									
10	179 Other deferred charges	-	-	-	-	-	-	-	-
11									
12	TOTAL INTANGIBLE PLANT	$ 1,614	$ 1,614	$ -	$ -	$ -	$ -	$ -	$ 1,614
13									
14									
15	Cross Reference	#4							#4

FORTISBC ENERGY INC.
13 MONTH AVERAGE GAS PLANT IN SERVICE
($000)

Line No.	Particulars	January	February	March	April	May	June	July	August	September	October	November	December	Total 2011
1	Plant In Service, Beginning	$ 3,387,248	$ 3,395,955	$ 3,398,553	$ 3,408,041	$ 3,421,815	$ 3,433,911	$ 3,448,721	$ 3,462,551	$ 3,470,557	$ 3,480,137	$ 3,502,311	$ 3,529,375	$ 3,387,248
2	Add: 2011 CPCNs	-									12,935	12,150	6,183	31,268
3	Plant in Service, Beginning	3,387,248	3,395,955	3,398,553	3,408,041	3,421,815	3,433,911	3,448,721	3,462,551	3,470,557	3,493,073	3,514,461	3,535,558	3,418,515
4														
5	Add: Adjustments	-	2	-	-	-	-	-	-	-	-	-	-	2
6														
7	Add: Capital Additions	8,707	7,481	10,637	14,990	12,493	16,799	13,976	9,100	10,500	9,661	16,931	25,549	156,824
8														
9														
10														
11	Total Plant Additions	8,707	7,483	10,637	14,990	12,493	16,799	13,976	9,100	10,500	9,661	16,931	25,549	156,826
12														
13	Less: Retirements	-	(4,885)	(1,148)	(1,216)	(397)	(1,989)	(146)	(1,094)	(920)	(422)	(2,016)	(17,694)	(31,928)
14														
15	Plant in Service, Ending	$ 3,395,955	$ 3,398,553	$ 3,408,041	$ 3,421,815	$ 3,433,911	$ 3,448,721	$ 3,462,551	$ 3,470,557	$ 3,480,137	$ 3,502,311	$ 3,529,375	$ 3,543,413	$ 3,543,413
16														
17														
18														
19										Mid-Year Average Plant in Service				$ 3,465,330
20										13 Month Average Plant in Service				3,452,507
21														
22										Adjustment to 13- Month Average				$ (12,823)
23														
24	Cross Reference													#4

FORTISBC ENERGY INC.
CONTINUITY OF ACCUMULATED DEPRECIATION
($000)

					2011						
Line No.	Description	Reference	Approved 2011	Balance 12/31/2010	2011 CPCN	Depreciation	Adjustments	Retirements	Retirement Costs	Proceeds on Disposal	Balance 12/31/2011
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
1	Intangible Plant	#9.1	$ 27,349	$ 27,748	$ -	$ 7,593	$ 186	$ (11,392)	$ -	$ -	$ 24,135
2	Gas Plant Held for Future Use	#9.1	-	-	-	-	-	-	-	-	-
3	Manufactured Gas Production Plant	#9.1	23,760	22,109	-	1,460	7	-	-	-	23,576
4	Transmission Plant	#9.2	278,091	256,247	-	19,625	(25)	(1,061)	-	-	274,786
5	Distribution Plant	#9.2	472,302	469,650	-	57,818	324	(4,681)	-	-	523,112
6	Bio Gas	#9.3	-	62,026	-	3	-	-	-	-	62,029
7	NG for Transportation	#9.3	-	-	-	27	-	-	-	-	27
8	AES	#9.3	-	-	-	-	-	-	-	-	-
9	General Plant	#9.3	84,156	9,742	-	12,930	2	(8,320)	-	-	14,354
10	Unclassified Plant	#9.3	(7)	(8)	-	-	-	-	-	-	(8)
11			885,651	847,514	-	99,456	495	(25,453)	-	-	922,011
12	Retirement Work in Progress		-	-	-	-	-	-	-	-	-
13			885,651	847,514	-	99,456	495	(25,453)	-	-	922,011
14	Less-Gas Plant Held For Future Use	#9.1	-	-	-	-	-	-	-	-	-
15											
16	**Total**		$ 885,651	$ 847,514	$ -	$ 99,456	$ 495 *	$ (25,453)	$ -	$ -	$ 922,011
	Less: Capital Lease Vehicle Depreciation allocated to Capital Projects					$ (695)					
				Net Depreciation Expense		$ 98,760					
	* Balance includes capital leases										
17	Reconciliation with General Ledger										
18	Accumulated Depreciation	(105)		$ 939,296							$ 1,013,794
19	Plant Acquisition Adj.	(117-05)		$ -							-
20	Conversion Expense	(175-05)		$ -							-
21	Organization Expense	(178-05)		$ -							-
22	Other Deferred Charges	(179)		$ -							-
23				939,296							1,013,794
24	Retirement Work in Progress	(103)		-							-
25				939,296							1,013,794
26	Gas Plant Held for Future Use	(105-05)		-							-
27	Non-utility Gas Plant Depreciation	(105)		(91,783)							(91,783)
28	Adjustment			-							-
29	**Total**			$ 847,514							$ 922,011
30											
31	Cross References			#4		#9.3 / #34	#9.3	#9.3	#9.3	#9.3	#4

FORTISBC ENERGY INC.
DEPRECIATION AND AMORTIZATION WORKSHEET
($000)

Line No.	Account	Mid-Year 2011	Annual Depreciation Rate %	2011 CPCN	2011 Depreciation	2011 Adjustments	2011 Retirements	Accumulated Balance 12/31/2010	Accumulated Balance 12/31/2011
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(10)	(11)
	INTANGIBLE PLANT								
1	175-00 Unamortized Conversion Expense	$ 886	1.00%	$ -	$ 9	$ -	$ -	$ 530	$ 539
2	178-00 Organization Expense	728	1.00%	-	7	-	-	376	383
3	179-01 Other Deferred Charges	-		-	-	-	-	-	-
4	401-00 Franchise and Consents	99	19.76%	-	20	-	-	68	88
5	402-00 Utility Plant Acquisition Adj.	-	23.66%	-	15	-	-	42	56
6	461-00 TP Land Rights	44,236	0.00%	-	-	16	-	651	667
7	461-00 TP Land Rights - Byron Creek	16	0.00%	-	-	-	-	19	19
8	471-00 TP Land Rights	1,212	0.00%	-	-	-	-	2	2
9	471-00 TP Land Rights - Byron Creek	-	0.00%	-	-	-	-	1	1
10	402-01 Application Software - 12.5%	41,260	12.50%	-	5,658	1	(11,301)	21,918	16,277
11	402-02 Application Software - 20%	12,992	20.00%	-	1,864	169	(91)	3,955	5,897
12	402-00 Other Intangible Plant	750	2.14%	-	21	-	-	186	206
		$ 102,179		$ -	$ 7,593	$ 186	$ (11,392)	$ 27,748	$ 24,135
13	MANUFACTURED GAS/LOCAL STORAGE PLANT								
14	430 Manufactured Gas - Land	$ 31	0.00%	$ -	$ -	$ -	$ -	$ -	$ -
15	432 Manufact'd Gas - Structrures & Improvements			-	-	-	-	-	-
16	-Frame Buildings	-	3.00%	-	-	-	-	(1)	(1)
17	-Masonry Buildings	470	3.28%	-	15	-	-	105	120
18	433 Manufacturing Equipment	146	6.30%	-	9	-	-	61	70
19	434 Gas Holders - Manufacturing	523	3.90%	-	14	-	-	187	201
20	436 Compressor Equipment	53	4.96%	-	3	-	-	26	29
21	437 Measuring & Regulating	371	19.50%	-	62	-	-	212	274
22	440/441 Land in Fee Simple and Land Rights	928	0.00%	-	-	-	-	1	1
23	442 Structures and Improvements	4,959	3.65%	-	181	-	-	2,431	2,612
24	443 Gas Holders Storage	16,496	2.18%	-	360	-	-	10,043	10,403
25	449 Local Storage Equipment	24,251	3.36%	-	816	7	-	9,044	9,867
26		$ 48,228		$ -	$ 1,460	$ 7	$ -	$ 22,109	$ 23,576

FORTISBC ENERGY INC.
DEPRECIATION AND AMORTIZATION WORKSHEET (CONT'D)
($000)

Line No.	Account	Mid-Year 2011	Annual Depreciation Rate %	2011 2011 CPCN	2011 Depreciation	2011 Adjustments	2011 Retirements	Accumulated Balance 12/31/2010	Accumulated Balance 12/31/2011
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(10)	(11)
1	TRANSMISSION PLANT								
2	460-00 Land	$ 7,402	0.00%	$ -	$ -	$ -	$ -	$ 401	$ 401
3	461-00 Land Rights	-	0.00%	-	-	-	-	-	-
4	462-00 Structure and Improvements								
5	- Compressor Stations	14,876	3.84%	-	575	0	-	5,787	6,362
6	463-00 - Measuring & Regulating	5,429	4.27%	-	231	1	(6)	1,501	1,727
7	464-00 - Other	6,015	2.88%	-	173	0	-	1,547	1,720
8	465-00 Mains & Crossings	758,022	1.63%	-	12,138	95	(560)	193,490	205,163
9	465-00 Mains & Crossings - Byron Creek	972	5.00%	-	49	-	-	840	889
10	465-00 Mains - Inspections	3,095	Term - Inspection	-	728	-	(138)	633	1,224
11	466-00 Compressor Equipment	110,103	3.18%	-	3,489	1	(349)	38,207	41,349
12	466-00 Compressor Overhaul	2,285	Term - Overhaul	-	102	-	-	94	196
13	467-00 Measuring & Regulating	28,207	7.19%	-	2,021	(123)	(8)	7,260	9,150
14	468-00 Telemetering	7,747	1.33%	-	99	1	(0)	6,193	6,293
15	468-00 Communication Equipment	346	5.32%	-	18	-	-	295	313
16	469-00 Other Transmission Equipment	-		-	-	-	-	-	-
17		$ 944,499		$ -	$ 19,625	$ (25)	$ (1,061)	$ 256,247	$ 274,786
18	DISTRIBUTION PLANT								
19	470-00 Land	$ 3,414	0.00%	$ -	$ -	$ -	$ -	$ 26	$ 26
20	471-00 Land Rights	(2)	0.00%	-	-	-	-	-	-
21	472-00 Structures & Improvements								
22	- Leasehold Alterations	-	Term - Lease	-	-	-	-	-	-
23	- Frame Buildings	16,401	3.60%	-	565	1	(8)	3,713	4,272
24	- Masonry Buildings	-	1.50%	-	-	-	-	-	-
25	- Byron Creek	107	5.00%	-	5	-	-	22	27
26	473-00 Services	720,434	2.25%	-	16,035	7	(1,269)	112,210	126,982
27	474-00 House Regulator & Meter Installation	163,379	5.21%	-	7,840	70	(41)	4,584	12,452
28	475-00 Mains	919,197	1.89%	-	17,325	65	(468)	268,575	285,497
29	476-00 Compressed Natural Gas								
30	- Commercial Cardlock Station - Lochburn	-	20.00%	-	-	-	-	-	-
31	- Compressor Equipment - Coastal	-	5.00%	-	-	-	-	-	-
32	- All Other	1,236	25.04%	-	305	-	-	546	851
33	477-00 Measuring & Regulating	82,898	5.72%	-	4,706	115	(173)	17,571	22,219
34	477-10 Telemetering	6,229	0.25%	-	15	(60)	(189)	6,334	6,100
35	477-00 Byron Creek	163	0.00%	-	4	-	-	204	208
36	478 Meters	215,655	5.31%	-	11,017	127	(2,532)	55,867	64,479
37	479 Other Distribution Equipment	-	0.00%	-	-	-	-	-	-
38		$ 2,129,111		$ -	$ 57,818	$ 324	$ (4,681)	$ 469,650	$ 523,112

FORTISBC ENERGY INC.
DEPRECIATION AND AMORTIZATION WORKSHEET (CONT'D)
($000)

Line No.	Account	Mid-Year 2011	Annual Depreciation Rate %	2011: 2011 CPCN	2011: Depreciation	2011: Adjustments	2011: Retirements	Accumulated Balance 12/31/2010	Accumulated Balance 12/31/2011
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(10)	(11)
	BIO GAS								
1	472 Bio Gas Struct. & Improvements	$ 68	3.60%	$ -	$ 1	$ -	$ -	$ -	$ 1
2	475 Bio Gas Mains – Municipal Land	39	1.89%	-	1	-	-	-	1
3	475 Bio Gas Mains – Private Land	21	1.89%	-	-	-	-	-	-
4	418 Bio Gas Purification Overhaul	-	13.33%	-	-	-	-	-	-
5	418 Bio Gas Purification Upgrader	-	6.67%	-	-	-	-	-	-
6	477 Bio Gas Reg & Meter Equipment	139	5.72%	-	2	-	-	-	2
7	478 Bio Gas Meters	4	5.31%	-	-	-	-	-	-
8	474 Bio Gas Reg & Meter Installations	11		-	-	-	-	-	-
9		$ 282		$ -	$ 3	$ -	$ -	$ -	$ 3
10									
11	NG FOR TRANSPORTATION								
12	476 NG Transportation CNG Dispensing Equipment	$ 714	5.00%	$ -	$ 21	$ -	$ -	$ -	$ 21
13	476 NG Transportation LNG Dispensing Equipment	265	5.00%	-	2	-	-	-	2
14	476 NG Transportation CNG Foundations	51	5.00%	-	2	-	-	-	2
15	476 NG Transportation LNG Foundations	26	5.00%	-	-	-	-	-	-
16	476 NG Transportation LNG Pumps (Pumps only apply to LNG)	-	10.00%	-	-	-	-	-	-
17	476 NG Transportation CNG Dehydrator	39	5.00%	-	1	-	-	-	1
18	476 NG Transportation LNG Dehydrator	-	5.00%	-	-	-	-	-	-
19		$ 1,095		$ -	$ 26	$ -	$ -	$ -	$ 26

FORTISBC ENERGY INC.
DEPRECIATION AND AMORTIZATION WORKSHEET (CONT'D)
($000)

Line No.	Account	Mid-Year 2011	Annual Depreciation Rate %	2011 2011 CPCN	2011 Depreciation	2011 Adjustments	2011 Retirements	Accumulated Balance 12/31/2010	Accumulated Balance 12/31/2011
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(10)	(11)
	GENERAL PLANT								
1	480-00 Land	$ 21,196	0.00%	$ -	$ -	$ -	$ -	$ 30	$ 30
2	482-00 Structures & Improvements								
3	-Leasehold Alterations	162	Term - Lease	-	37	-	(4)	124	158
4	-Masonry Build. Lochburn Admin. Warehouse	83,732	2.50%	-	2,093	-	-	11,549	13,642
5	-Frame Buildings	9,198	3.67%	-	372	-	(74)	2,020	2,318
6	-All Other - Masonry Buildings	-		-	-	-	-	-	-
7	483-00 Office Furniture & Equipment								
8	-Furniture & Equipment	23,440	6.67%	-	1,130	2	(1,584)	14,438	13,986
9	-Computers - Hardware	19,036	20.00%	-	3,244	-	(0)	4,813	8,056
10	-Computers - Software	2,075	20.00%	-	427	-	(472)	772	727
11	-Computers - Infrastructure/Custom	-	12.50%	-	-	-	-	-	-
12	-All Other			-	-	-	-	-	-
13	484-00 Transportation Equipment	1,551	7.70%	-	105	-	(360)	764	509
14	484-10 Vehicles - Leased	27,709	Term - Lease	-	2,819	(1)	(2,973)	14,061	13,905
15	485-00 Maintenance & Repair Equipment	1,242	6.64%	-	98	-	(3)	268	363
16	486-00 Tools & Work Equipment	39,384	5.00%	-	1,958	1	(1,809)	16,305	16,455
17	487-00 Equipment on Customers' Premises	24	6.67%	-	2	-	-	8	10
18	- VRA Compressor	-		-	-	-	-	-	-
19	- VRA Compressor Installation Cost	-		-	-	-	-	-	-
20	488-00 Communication - Structures & Equip.	7,703	6.67%	-	320	1	(89)	3,608	3,840
21	488-00 Communication - Radios	5,099	6.67%	-	326	-	(952)	3,008	2,381
22	489 Other General Equipment	-	0.00%	-	-	-	-	-	-
23		$ 241,551		$ -	$ 12,930	$ 2	$ (8,320)	$ 71,768	$ 76,380
24	UNCLASSIFIED PLANT								
25	498-00 Overhead	-	2.20%	-	-	-	-	(7)	(7)
26	499 Plant Suspense	-	0.00%	-	-	-	-	-	-
27	TOTAL AMORTIZATION								
28	TOTAL DEPRECIATION								
29		$ 3,466,945		$ -	$ 99,455	$ 495	$ (25,453)	$ 847,514	$ 922,011
30									
31	Less: Capital Lease Vehicle Depreciation allocated to Capital Projects				$ (695)				
32									
33			Net Depreciation Expense		$ 98,760				

FORTISBC ENERGY INC.
AVERAGE CONTRIBUTIONS IN AID OF CONSTRUCTION
($000)

Line No.	Particulars	Approved 2011	Balance 12/31/2010	Adjustment	2011 Additions	Retirements	Balance 12/31/2011	Difference
	(1)	(3)	(4)	(5)	(6)	(7)	(9)	(10)
1	**CIAC**							
2								
3	Distribution Contributions	$ 153,842	$ 144,790	$ (20,979)	$ 17,926	$ -	$ 141,737	$ (12,105)
4								
5	Transmission Contributions	23,798	-	20,979	1,457	-	22,437	(1,361)
6								
7	Others	-	-	-	-	-	-	-
8								
9	Software Tax Savings - Non-Infrastructure	-	-	-	-	-	-	-
10	- Infrastructure/Custom	17,113	19,358	-	-	(3,494)	15,864	(1,249)
11								
12	TOTAL Contributions	194,753	164,149	-	19,384	(3,494)	180,038	(14,715)
13								
14								
15								
16	**Amortization**							
17								
18	Distribution Contributions	(39,984)	(36,157)	1,538	(3,675)	-	(38,294)	1,690
19								
20	Transmission Contributions	(654)	-	(1,538)	(267)	-	(1,805)	(1,151)
21								
22	Others	(1)	-	-	-	-	-	1
23								
24	Software Tax Savings - Non-Infrastructure		-	-	-	-	-	-
25	- Infrastructure/Custom	(9,606)	(10,595)	-	(2,420)	3,494	(9,521)	85
26								
27	TOTAL Amortization	(50,245)	(46,752)	-	(6,361)	3,494	(49,620)	625
28								
29	**NET CONTRIBUTIONS**	$ 144,508	$ 117,396	$ -	$ 13,022	$ -	$ 130,418	$ (14,090)

FORTISBC ENERGY INC.
AVERAGE CONSTRUCTION ADVANCES (255)
($000)

Line No.	Particulars	Approved 2011	Year Ended 12/31/2011	Difference
	(1)	(2)	(3)	(4)
1	January 1		$ 656	
2	January 31		$ 620	
3	February 28		$ 620	
4	March 31		$ 620	
5	April 30		$ 620	
6	May 31		$ 620	
7	June 30		$ 620	
8	July 31		$ 620	
9	August 31		$ 620	
10	September 30		$ 622	
11	October 31		$ 623	
12	November 30		$ 623	
13	December 31		$ 623	
14				
15	Total		$ 8,109	
16				
17				
18	Average	$ 670	$ 624	$ (46)
19				
20				
21				
22				
23	Reference	#4	#4	#4

FORTISBC ENERGY INC.
GAS PLANT UNDER CONSTRUCTION (115/116)
($000)

Line No.	Particulars (1)	Approved 2011 (2)	Actual 2011 Total C.W.I.P. (115/116) (3)	Actual 2011 C.W.I.P. Not Earning AFUDC (4)	Difference (5)
1	Balance December 31, 2010		$ 73,526		
2					
3	Adjustment for 2011 CPCN Additions		(31,268)		
4					
5	Balance January 1, 2011		42,258	$ 20,896	
6	January 31		72,150	$ 14,623	
7	February 28		76,195	$ 15,388	
8	March 31		81,293	$ 15,595	
9	April 30		81,592	$ 16,042	
10	May 31		89,170	$ 17,001	
11	June 30		88,712	$ 15,481	
12	July 31		90,264	$ 16,080	
13	August 31		99,011	$ 18,480	
14	September 30		105,069	$ 18,955	
15	October 31		95,990	$ 19,177	
16	November 30		85,084	$ 20,232	
17	December 31		79,773	$ 15,964	
18					
19	Total		$ 1,086,562	$ 223,914	
20					
21	Average	$ 15,627		$ 17,224	$ 1,597
22					
23	Reference	#4		#4	#4

FORTISBC ENERGY INC.
UNAMORTIZED DEFERRED CHARGES AND AMORTIZATION
($000)

Line No.	Particulars	Fcst Mid-Year 2011	Balance 12/31/2010	Gross Additions	Less-Taxes	Net Additions	Amortization Expense	Recoveries Rider	Recoveries Tax on Rider	Balance 12/31/2011	Mid-Year Average 2011	Difference
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
1	Margin Related											
2	Commodity Cost Reconciliation Account (CCRA) [1]	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
3	CCRA Interest	-	(810)	(169)	45	(125)	-	-	-	(935)	(873)	(873)
4	Midstream Cost Reconciliation Account (MCRA) [1]	-	-	-	-	-			-	-	-	-
5	MCRA Interest	-	(2,054)	(174)	46	(128)	-	-	-	(2,182)	(2,118)	(2,118)
6	Revenue Stabilization Adjustment Mechanism (RSAM) [1]	(6,583)	(8,777)	-	-	-	-	5,971	(1,582)	(4,388)	(6,583)	(0)
7	RSAM Interest	51	(25)	(164)	43	(120)	-	7	(2)	(140)	(83)	(134)
8	Revelstoke Propane Cost Deferral Account	-	(16)	127	(34)	93	-	-	-	77	31	31
9	SCP Mitigation Revenues Variance Account	(3,065)	(5,389)	(6,307)	1,454	(4,853)	1,736	-	-	(8,506)	(6,948)	(3,883)
10	Deferred interest on Gas in Storage	-	182	(206)	55	(152)	-	-	-	30	106	106
11												
12	Energy Policy Related											
13	Energy Efficiency & Conservation (EEC)	33,460	8,750	13,082	(2,779)	10,303	(2,525)	-	-	16,528	12,639	(20,821)
14	EEC NGV Incentives	-	1,867	2,962	(785)	2,177	-	-	-	4,044	2,956	2,956
15	NGV Conversion Grants	217	92	-	-	-	(51)	-	-	41	67	(150)
16												
17	Non-Controllable Items											
18	Property Tax Deferral	(254)	(1,079)	(2,164)	573	(1,590)	184	-	-	(2,485)	(1,782)	(1,528)
19	Insurance Variance	-	(727)	(515)	136	(378)	-	-	-	(1,105)	(916)	(916)
20	Pension & OPEB Variance	-	1,592	8,023	-	8,023	-	-	-	9,615	5,604	5,604
21	BCUC Levies Variance	-	164	176	(47)	129	-	-	-	293	229	229
22	Interest Variance	(1,238)	(5,980)	(4,480)	1,187	(3,293)	722	-	-	(8,551)	(7,266)	(6,029)
23	Interest Variance - Funding benefits via Customer Deposits	195	843	253	(67)	186	(13)	-	-	1,016	930	735
24	Income Tax Rate Variance	(308)	(3,207)	(4,888)	484	(4,405)	205	-	-	(7,406)	(5,307)	(4,999)
25	Olympics Security Costs Deferral	2,016	1,188	-	-	-	(806)	-	-	382	785	(1,231)
26	IFRS Conversion Costs	535	702	(39)	10	(29)	(196)	-	-	477	590	55
27	US GAAP Conversion Costs	-	-	761	(202)	559	-	-	-	559	280	280
28												
29	Cost of Current Applications											
30	2009 ROE & Cost of Capital Application	309	732	28	(7)	20	(88)	-	-	664	698	389
31	2010-2011 Revenue Requirement Application	199	234	-	-	-	(398)	-	-	(164)	35	(164)
32	CCE CPCN Application	132	244	-	-	-	(38)	-	-	206	225	93
33	2012 Revenue Requirement Application	-	45	1,052	(279)	773	-	-	-	818	432	432
34												
35	Other											
36	Gains and Losses on Asset Disposition	-	14,817	6,182	-	6,182	-	-	-	20,999	17,908	17,908
37	Deferred Removal Costs	-	1,373	4,456	(1,121)	3,335	-	-	-	4,708	3,041	3,041
38	IFRS Transitional Adjustments	26,807	(6,575)	171	-	171	-	-	-	(6,404)	(6,490)	(33,297)
39	Pension & OPEB Funding	(46,691)	(11,293)	(9,240)	-	(9,240)	-	-	-	(20,533)	(15,913)	30,778
40	2010 Revenue Surplus Deferral Account	(3,269)	(6,537)	-	-	-	6,537	-	-	-	(3,269)	(1)
41												
42	Residual Deferred Charges											
43	SCP Tax Reassessment	7,408	669	(725)	28	(697)	-	-	-	(28)	321	(7,087)
44	Earnings Sharing Mechanism	(3,151)	(6,081)	1,637	450	2,087	-	5,798	(1,536)	268	(2,907)	244
45	Carbon Tax Cost of Service	-	(66)	-	-	-	-	-	-	(66)	(66)	(66)
46	OSC Certification Compliance	-	(59)	-	-	-	-	-	-	(59)	(59)	(59)
47												
48	Total Deferred Charges for Rate Base	$ 6,770	$ (25,181)	$ 9,836	$ (806)	$ 9,030	$ 5,269	$ 11,776	$ (3,121)	$ (2,227)	$ (13,703)	$ (20,473)

[1] *All balances pertaining to the CCRA, MCRA, and RSAM are based on those as submitted and approved per the 2011 Revenue Requirement Application.*

FORTISBC ENERGY INC.
UNAMORTIZED DEFERRED CHARGES AND AMORTIZATION
DIFFERENCE ANALYSIS
($000)

Line No.	Particulars	2011 Decision	2011 Results: Opening Balance	2011 Results: Changes During Year	2011 Results: Closing Balance	2011 Results: Mid-Year	Difference	Reasons for Difference
	(1)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1	Recorded Results							
2	IFRS Transitional Adjustments	$ 26,807	$ (6,575)	$ 171	$ (6,404)	$ (6,490)	$ (33,297)	Forecasted additions in 2011 were higher than actual
3	Energy Efficiency & Conservation (EEC)	33,460	8,750	7,778	16,528	12,639	(20,821)	Actual EEC spend less than forecast
4	SCP Tax Reassessment	7,408	669	(697)	(28)	321	(7,087)	Forecasted opening 2011 balance was higher than actual
5	Deferred Interest	(1,043)	(5,137)	(2,398)	(7,535)	(6,336)	(5,293)	Forecasted opening 2011 balance was higher than actual
6	Income Tax Variance	(308)	(3,207)	(4,199)	(7,406)	(5,307)	(4,999)	Forecasted opening 2011 balance was higher than actual. Also, addition of removal costs tax benefit of $3.0 million
7	SCP Mitigation Revenues Variance	(3,065)	(5,389)	(3,117)	(8,506)	(6,948)	(3,883)	Revenue additions in 2011 that were not forecasted
8	M.C.R.A./C.C.R.A. Interest	-	(2,864)	(253)	(3,117)	(2,991)	(2,991)	Additions in 2011 whereas no balance was forecasted
9	Property Tax	(254)	(1,079)	(1,406)	(2,485)	(1,782)	(1,528)	Forecasted opening 2011 balance was higher than actual. Also, there was no forecasted 2011 addition.
10	Olympic Security Costs Deferral	2,016	1,188	(806)	382	785	(1,231)	Forecasted opening 2011 balance was higher than actual.
11	EEC NGV Incentives	-	1,867	2,177	4,044	2,956	2,956	There was no forecasted balance for 2011
12	Deferred Removal Costs	-	1,373	3,335	4,708	3,041	3,041	There was no forecasted balance for 2011
13	Pension & OPEB Variance	-	1,592	8,023	9,615	5,604	5,604	There was no forecasted balance for 2011
14	Gains and Losses on Asset Disposition	-	14,817	6,182	20,999	17,908	17,908	There was no forecasted balance for 2011
15	Pension & OPEB Funding	(46,691)	(11,293)	(9,240)	(20,533)	(15,913)	30,778	Forecasted additions in 2011 were lower than actual
16	All Other	(11,560)	(19,893)	17,404	(2,489)	(11,190)	370	
17	Total	$ 6,770	$ (25,181)	$ 22,954	$ (2,227)	$ (13,703)	$ (20,473)	

FORTISBC ENERGY INC.
WORKING CAPITAL ALLOWANCE
($000)

Line No.	Particulars (1)	Approved 2011 (2)	Year Ended 12/31/2011 Actual (3)	Normalization (4)	Normal (5)	Difference (6)
1	Revenue lead days	38.8	38.8	0.0	38.8	0.0
2						
3	Expense lag days	(38.2)	(36.9)	0.4	(36.5)	1.7
4						
5	Net lead (lag) days	0.6	1.9	0.4	2.3	1.7
6						
7						
8	Cash Working Capital					
9	Cash Required for Operating Expenses [1]	$ 2,785	$ 6,050	$ 499	$ 6,549	$ 3,764
10						
11	Less - Funds Available:					
12	Reserve for Bad Debts	(6,063)	(5,525)	-	(5,525)	538
13	Withholdings From Employees	(3,256)	(3,809)	-	(3,809)	(553)
14						
15	Average	(6,534)	(3,284)	499	(2,785)	3,749
16						
17	Other Working Capital Items					
18	Inventories	1,226	546	-	546	(680)
19	Transmission Line Pack Gas	4,731	4,206	-	4,206	(525)
20	Gas in Storage [2]	114,804	114,804	-	114,804	-
21						
22	Average - See Page 15	120,761	119,556	-	119,556	(1,205)
23						
24	Total	$ 114,227	$ 116,272	$ 499	$ 116,771	$ 2,544
25						
26	Reference	#4	#4	#4	#4	#4

[1] Cash Required for Operating Expenses is calculated as Total Expenses from Page 14.2 Column 2 multiplied by Net lead (lag) days from row 5 above, divided by 365.

[2] Balance pertaining to Gas in Storage is based on the submitted and approved balance per the 2011 Revenue Requirement Application.

FORTISBC ENERGY INC.
CASH WORKING CAPITAL
LEAD TIME FROM DATE OF PAYMENT TO RECEIPT OF CASH
FOR THE YEAR ENDED DECEMBER 31, 2011
($000)

Line No.	Particulars	Revenue	Lead Days Service to Collection	Dollar Days	Reference
	(1)	(2)	(3)	(4)	(5)
1	REVENUE, RECORDED				
2					
3	Gas Sales and Transportation Revenue				
4	Residential and Commercial	$ 1,254,826	38.4	$ 48,204,764	
5	Small Industrial - Firm Service	21,635	45.0	973,575	
6	Small Industrial - Interruptible/Transp.	32,990	45.0	1,484,550	
7	NGV Fuel - Stations	549	41.7	22,894	
8	- VRA's	-	-	-	
9	Large Industrials	32,566	42.5	1,384,056	
10					
11	Total Gas Sales and Transportation Revenue	1,342,566	38.8	52,069,839	
12					
13	Other Revenues				
14	Late Payment Charges	2,978	38.3	114,057	
15	Returned Cheque Charges	72	38.3	2,758	
16	Connection Charges	2,548	38.3	97,588	
17	Other Utility Income	15,524	38.3	594,569	
18	NGV Tank Rental	-	-	-	
19					
20	Total Revenue	$ 1,363,688	38.8	$ 52,878,812	
21					
22					
23	REVENUE, NORMALIZED				
24					
25	Gas Sales Revenue				
26	Residential and Commercial	$ 1,109,677	38.4	$ 42,639,460	
27	Small Industrial - Firm Service	21,002	45.0	945,090	
28	Small Industrial - Interruptible/Transp.	31,530	45.0	1,418,850	
29	NGV Fuel - Stations	599	41.7	24,979	
30	- VRA's	-	-	-	
31	Large Industrials	35,545	42.5	1,510,663	
32					
33	Total Gas Sales and Transportation Revenue	1,198,353	38.8	46,539,042	
34					
35	Other Revenues				
36	Late Payment Charges	2,978	38.3	114,057	
37	Returned Cheque Charges	72	38.3	2,758	
38	Connection Charges	2,548	38.3	97,588	
39	Other Utility Income	15,524	38.3	594,569	
40	NGV Tank Rental	-	-	-	
41					
42	Total Revenue	$ 1,219,475	38.8	$ 47,348,015	

FORTISBC ENERGY INC.
CASH WORKING CAPITAL
LAG TIME IN PAYMENT OF EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2011
($000)

Line No.	Particulars	Amount	Lag Days Expense to Payment	Dollar Days	Reference
	(1)	(2)	(3)	(4)	(5)
1	EXPENSES, RECORDED				
2					
3					
4	Operation & Maintenance Expenses	$ 183,551	25.5	$ 4,680,551	
5	Gas Purchases	762,720	40.2	30,661,344	
6					
7	Taxes other than income				
8	Property taxes	50,211	2.0	100,422	
9	Franchise taxes	7,876	420.3	3,310,283	
10	Carbon Tax	130,271	29.1	3,790,886	
11	Goods and Service Tax	-	38.8	-	
12	S. S. Tax	-	37.1	-	
13	Harmonized Sales Tax	(3,813)	38.8	(147,944)	
14	Income Tax	31,372	15.2	476,854	
15					
16	Total	$ 1,162,188	36.9	$ 42,872,396	
17					
18					
19	EXPENSES, NORMALIZED				
20					
21					
22	Operation & Maintenance Expenses	$ 183,551	25.5	$ 4,680,551	
23	Gas Purchases	639,890	40.2	25,723,579	
24					
25	Taxes other than income				
26	Property taxes	50,211	2.0	100,422	
27	Franchise taxes	7,876	420.3	3,310,283	
28	Carbon Tax	130,271	29.1	3,790,886	
29	Goods and Service Tax	-	38.8	-	
30	S. S. Tax	-	37.1	-	
31	Harmonized Sales Tax	(3,813)	38.8	(147,944)	
32	Income Tax	31,337	15.2	476,322	
33					
34	Total	$ 1,039,323	36.5	$ 37,934,099	

FORTISBC ENERGY INC.
OTHER WORKING CAPITAL ITEMS
FOR THE YEAR ENDED DECEMBER 31, 2011
($000)

Line No.	Particulars	Transmission Line Pack	Inventories	Gas in Storage [1]	Total
	(1)	(2)	(3)	(4)	(6)
1	Approved 2011	$ 4,731	$ 1,226	$ 114,804	$ 120,761
2					
3	Actual (Average)	$ 4,206	$ 546	$ 114,804	$ 119,556
4					
5	Cross Reference	(153)	(150/151/154)	(152)	#4
6					
7	Balances- January 1	$ 4,795	$ 535	$ 121,112	$ 126,442
8	- January 31	4,550	507	83,469	88,526
9	- February 28	4,424	513	48,461	53,397
10	- March 31	3,767	511	20,049	24,327
11	- April 30	3,627	552	28,335	32,514
12	- May 31	3,638	554	59,005	63,197
13	- June 30	3,746	515	96,668	100,929
14	- July 31	3,827	522	134,438	138,787
15	- August 31	4,027	569	171,110	175,706
16	- September 30	4,669	586	203,511	208,766
17	- October 31	4,106	569	207,536	212,211
18	- November 30	4,671	611	178,575	183,857
19	- December 31	4,826	552	140,183	145,561
20					
21	Total	$ 54,672	$ 7,096	$ 1,492,451	$ 1,554,220
22					
23	Average	$ 4,206	$ 546	$ 114,804	$ 119,556
24					
25	Difference	$ (525)	$ (680)	$ -	$ (1,205)
26					
27					
28	Reference	#14	#5.3 / #14	#5.3 / #14	#14

[1] *Balance pertaining to Gas in Storage is based on the submitted and approved balance per the 2011 Revenue Requirement Application.*

FORTISBC ENERGY INC.
INVENTORIES
FOR THE YEAR ENDED DECEMBER 31, 2011
($000)

Line No.	Particulars	2010 Recorded	2011 Recorded	Increase (Decrease)
	(1)	(2)	(3)	(4)
1	Recorded 13-Month Average Maintenance and Construction Inventories			
2				
3	Pipe	$ 60	$ 55	$ (5)
4				
5	Fittings	247	213	(34)
6				
7	Meter and Regulators	204	218	14
8				
9	Supplies and Other	69	60	(9)
10				
11		580	546	(34)
12				
13				
14	Manufacturing Inventories	-	-	-
15				
16	Total	$ 580	$ 546	$ (34)

FORTISBC ENERGY INC.
UTILITY INCOME AND EARNED RETURN
($000)

Line No.	Description (1)	Reference (2)	2011 Approved (3)	Year Ended 12/31/2011 Actual (4)	Normalization (5)	Normal (6)	Difference (7)	Reasons for Difference (8)
1	**ENERGY VOLUMES (TJ)**							
2	Sales		113,846	119,848	(7,215)	112,633	(1,213)	- See Page 18
3	Transportation		91,014	85,815	49	85,864	(5,150)	- See Page 18
4	Total	#18	204,860	205,663	(7,166)	198,497	(6,363)	
5								
6	**AVERAGE RATE PER GJ**	#18.1						
7	Sales		$12.859	$10.475	($0.615)	$9.860	($2.999)	
8	Transportation		$0.856	$0.977	$0.006	$0.983	$0.127	
9	Average		$7.527	$6.512	($0.492)	$6.020	($1.507)	
10								
11	**UTILITY REVENUE**							
12	Sales - Present Rates		$ 1,463,963	$ 1,255,379	$ (144,822)	$ 1,110,557	$ (353,406)	
13	- Decrease			-	-	-	-	
14	Transportation - Present Rates		77,938	83,839	541	84,380	6,442	
15	- Decrease			-	-	-	-	
16	**Total Revenue**	#18	1,541,901	1,339,218	(144,281)	1,194,937	(346,964)	
17								
18	Cost of Gas Sold (Including Gas Lost)	#24/25	989,627	762,720	(122,830)	639,890	(349,737)	- See Pages 24 and 25
19	**Gross Margin**		552,274	576,498	(21,451)	555,047	2,773	- See Page 17
20	RSAM Revenue		-	(25,801)	21,311	(4,490)	(4,490)	- See Page 17
21	**Adjusted Gross Margin**		552,274	550,697	(140)	550,557	(1,717)	
22								
23	Operation & Maintenance	#26	184,625	183,551	-	183,551	(1,074)	- See Page 17
24	Property and Sundry Taxes	(305)	50,211	50,211	-	50,211	-	- See Page 17
25	Depreciation and Amortization	#34	88,588	87,130	-	87,130	(1,458)	- See Page 17
26	Removal Cost Provision	#34	11,290	11,290	-	11,290	-	
27	Capitalized Depreciation	#34	-	-	-	-	-	
28	NSP Provision		1,025	800	-	800	(225)	- See Page 17
29	Other Operating Revenue	#35	(24,394)	(24,470)	-	(24,470)	(76)	- See Page 17
30			311,345	308,512	-	308,512	(2,833)	
31	Utility Income before Income Taxes		240,929	242,185	(140)	242,045	1,116	
32	Income Taxes	#40	32,517	31,372	(35)	31,337	(1,180)	
33	**EARNED RETURN**		$ 208,412	$ 210,813	$ (105)	$ 210,708	$ 2,296	
34	**UTILITY RATE BASE**	#4	$ 2,629,185	$ 2,563,141	$ 499	$ 2,563,640	$ (65,545)	
35								
36	**RETURN ON RATE BASE**	#45	7.93%	8.22%	0.00%	8.22%	0.29%	

FORTISBC ENERGY INC.

DIFFERENCE ANALYSIS

- For volume, revenue and gas cost variances, see Pages 18, 19 and 25.

- Utility Income, Before Income Taxes (Page 16, Line 31).

  The favorable variance of $1.1 million (2011 Decision vs. 2011 Approved) is attributable to the following areas:

  1. Gross Margin before Rate Stabilization (RSAM) adjustments is higher than Approved by $2.8 million primarily due to higher consumption as a result of higher customer additions than forecast.

  2. RSAM Revenue

     Rate Schedules 1, 2, 3 and 23 are subject to adjustments under the approved Rate Stabilization Adjustment Mechanism (RSAM). As a result of higher than forecast normalized use per customer, ($4.5) million would be recorded in the RSAM on a normalized basis for these rate classes.

  3. Operating and Maintenance Expenses

     Operation and Maintenance Expense was $1.1 million lower than 2011 Approved. See Pages 26 and 27.

  4. Property Tax

     The variance between forecast and actual property tax is accrued in a deferral account.

  5. Depreciation and Amortization

     Depreciation and Amortization Expense was $1.5 million lower than 2011 Approved. See Page 5.2.

  6. NSP Provision

     The NSP Provision amount was $0.2 million lower than 2011 Approved.

  7. Other Revenue

     Other Revenues were $0.1 million more than 2011 Approved.

FORTISBC ENERGY INC.
MARKET AND UNIT PRICES
SCHEDULE IA
($000)

Line No.	Description	Reference	2011 Decision	Year Ended 12/31/2011 Actual	Normalization	Normal	Difference	Reasons for Difference
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1	**VOLUMES (TJ)**							
2	Sales							
3	Residential		68,579	73,504	(4,571)	68,933	354	
4	Commercial		41,771	43,353	(2,592)	40,761	(1,010)	
5	Small Industrial/Seasonal		3,392	2,927	(57)	2,870	(522)	
6	Large Industrial		-	-	-	-	-	
7	NGV Fuel		104	64	5	69	(35)	
8	Intercompany Sales		-	-	-	-	-	
9	Burrard (Firm, Interruptible & Swing Gas)		-	-	-	-	-	
10	Total Sales		113,846	119,848	(7,215)	112,633	(1,213)	
11								
12	Transportation							
13	Commercial (Rate 23)		6,177	7,775	(402)	7,373	1,196	
14	Small Industrial		19,405	20,084	(220)	19,864	459	
15	Large Industrial		27,117	34,303	640	34,943	7,826	
16	Burrard Thermal		1,719	409	29	438	(1,281)	
17	FortisBC Energy (Vancouver Island)		36,596	23,244	2	23,246	(13,350)	
18	Total Transportation		91,014	85,815	49	85,864	(5,150)	
19	Total Sales and Transportation	#16	204,860	205,663	(7,166)	198,497	(6,363)	For details, see Divisional
20								Pages 18 and 19
21	**REVENUE**							
22	Sales							
23	Residential		$ 929,275	$ 812,503	$ (85,669)	$ 726,834	$ (202,441)	
24	Commercial		503,438	420,692	(58,570)	362,122	(141,316)	
25	Small Industrial/Seasonal		30,180	21,635	(633)	21,002	(9,178)	
26	Large Industrial		-	-	-	-	-	
27	NGV Fuel		1,070	549	50	599	(471)	
28	Intercompany Sales		-	-	-	-	-	
29	Burrard (Firm, Interruptible & Swing Gas)		-	-	-	-	-	
30	Total Sales		1,463,963	1,255,379	(144,822)	1,110,557	(353,406)	
31								
32	Transportation							
33	Commercial (Rate 23)		17,670	21,631	(910)	20,721	3,051	
34	Small Industrial		33,520	32,990	(1,460)	31,530	(1,990)	
35	Large Industrial		16,752	19,277	2,856	22,133	5,381	
36	Burrard Thermal		9,996	9,941	55	9,996	-	
37	Total Transportation		77,938	83,839	541	84,380	6,442	
38	Total Sales and Transportation	#16	1,541,901	1,339,218	(144,281)	1,194,937	(346,964)	
39								
40	FortisBC Energy (Vancouver Island) Wheeling charges included in Other Revenue							
41	- Sales		-	-	-	-	-	
42	- Transportation		3,455	3,348	68	3,416	(39)	For details, see Divisional
43	Total		$ 1,545,356	$ 1,342,566	$ (144,213)	$ 1,198,353	$ (347,003)	Pages 18 and 19

FORTISBC ENERGY INC.
MARKET AND UNIT PRICES
SCHEDULE IA
($000)

Line No.	Description	Reference	2011 Decision	Year Ended 12/31/2011 Actual	Normalization	Normal	Difference	Reasons for Difference
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1	**CUSTOMERS - 12 MONTH AVERAGE**							
2	Residential		759,267	762,050	-	762,050	2,783	
3	Commercial		82,377	80,819	-	80,819	(1,558)	
4	Small Industrial/Seasonal - Sales		299	258	-	258	(41)	
5	Commercial (Rate 23) - T-Service		1,318	1,438	-	1,438	120	
6	Small Industrial - T-Service		678	655	-	655	(23)	
7	Large Industrial - Sales/T-Service		44	42	-	42	(2)	
8	NGV/VRA		32	20	-	20	(12)	
9	Total		844,015	845,282	-	845,282	1,267	
10								
11	**AVERAGE GJ PER YEAR**							
12	Residential		90.3	96.5	(6.0)	90.5	0.1	
13	Commercial		507.1	536.4	(32.1)	504.3	(2.7)	
14	Small Industrial/Seasonal - Sales		11,344.5	11,345.0	(221.0)	11,124.0	(220.5)	
15	Commercial (Rate 23) - T-Service		4,686.6	5,406.8	(279.5)	5,127.3	440.7	
16	Small Industrial - T-Service		28,620.9	30,662.6	(335.9)	30,326.7	1,705.8	
17	Small Industrial - Total		12,624.8	13,094.9	(288.9)	12,806.0	181.2	
18	NGV		3,250.0	3,200.0	250.0	3,450.0	200.0	
19								
20	**AVERAGE $ PER GJ**							
21	Sales							
22	Residential		$13.55	$11.05	($0.51)	$10.54	($3.01)	
23	Commercial		$12.05	$9.70	($0.82)	$8.88	($3.17)	
24	Small Industrial/Seasonal - Sales		$8.90	$7.39	($0.07)	$7.32	($1.58)	
25	Large Industrial		$0.00	$0.00	$0.00	$0.00	$0.00	
26	NGV Fuel		$10.29	$8.58	$0.10	$8.68	($1.61)	
27	Burrard (Firm, Interruptible & Swing Gas)		$0.00	$0.00	$0.00	$0.00	$0.00	
28	Intercompany Sales		$0.00	$0.00	$0.00	$0.00	$0.00	
29	Total Sales		$12.86	$10.47	($0.61)	$9.86	($3.00)	
30	Transportation							
31	Commercial (Rate 23) - T-Service		$2.86	$2.78	$0.03	$2.81	($0.05)	
32	Small Industrial		$1.73	$1.64	($0.05)	$1.59	($0.14)	
33	Large Industrial including							
34	Burrard Thermal and Terasen Gas (Vancouver Island)		$0.46	$0.56	$0.05	$0.61	$0.15	
35	Total Sales & Transportation		$7.54	$6.53	($0.49)	$6.04	($1.51)	
36								
37	**ANNUAL COST PER CUSTOMER**							
38	Sales							
39	Residential		$1,224	$1,066	($112)	$954	($270)	
40	Commercial		$6,111	$5,205	($724)	$4,481	($1,630)	
41	Small Industrial/Seasonal - Sales		$100,936	$83,857	($2,454)	$81,403	($19,533)	
42	Commercial (Rate 23) - T-Service		$13,407	$15,042	($632)	$14,410	$1,003	
43	Small Industrial - T-Service		$49,440	$50,366	($2,229)	$48,137	($1,303)	
44	NGV / VRA		$33,438	$27,450	$2,500	$29,950	($3,488)	

FORTISBC ENERGY INC.
MARKET AND UNIT PRICES
SCHEDULE IA
($000)

Line No.	Description	Reference	2011 Decision	Year Ended 12/31/2011 Actual	Year Ended 12/31/2011 Normalization	Year Ended 12/31/2011 Normal	Difference	Reasons for Difference
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1	**VOLUMES (TJ)**							
2	Sales							
3	Residential		51,350	55,349	(3,827)	51,522	172	- See Page 19.1 (R 1)
4	Commercial		32,070	33,687	(2,064)	31,623	(447)	- See Page 19.1 (R 2 & 3)
5	Small Industrial - Firm Service (Schedule 4, 5)		2,817	2,384	(14)	2,370	(447)	- See Page 19.2 (R 4 & 5)
6	Small Industrial - Interruptible (Schedule 7, 8)		-	14	(14)	-	-	- See Page 19.2 (R 7)
7	Large Industrial		-	-	-	-	-	
8	NGV Fuel		92	62	3	65	(27)	
9	Burrard (Firm, Interruptible & Swing Gas)		-	-	-	-	-	
10	Total Sales		86,329	91,496	(5,916)	85,580	(749)	
11								
12	Transportation							
13	Commercial (Rate 23)		4,974	6,282	(345)	5,937	963	- See Page 19.1 (R 23)
14	Small Industrial		14,176	14,279	(180)	14,099	(77)	- See Page 19.2 (R 25 & 27)
15	Large Industrial		10,726	11,271	337	11,608	882	- See Page 19.2 (R 22)
16	Burrard Thermal		1,719	409	29	438	(1,281)	- See Page 19.2 (R 22)
17	Terasen Gas (Vancouver Island)		36,596	23,244	2	23,246	(13,350)	
18	Total Transportation		68,191	55,485	(157)	55,328	(12,863)	
19	Total Sales and Transportation	#16	154,520	146,981	(6,073)	140,908	(13,612)	
20								
21	**REVENUE**							
22	Sales							
23	Residential		$ 696,171	$ 603,642	$ (66,057)	$ 537,585	$ (158,586)	
24	Commercial		388,624	322,831	(44,778)	278,053	(110,571)	
25	Small Industrial - Firm Service (Schedule 4, 5)		25,153	17,632	(201)	17,431	(7,722)	
26	Small Industrial - Interruptible (Schedule 7, 8)		12	97	(97)	-	(12)	
27	Large Industrial		-	-	-	-	-	
28	NGV Fuel		952	534	27	561	(391)	
29	Burrard (Firm, Interruptible & Swing Gas)		-	-	-	-	-	
30	Total Sales		1,110,912	944,736	(111,106)	833,630	(277,282)	
31								
32	Transportation							
33	Commercial (Rate 23)		14,269	17,539	(780)	16,759	2,490	
34	Small Industrial		25,034	24,453	(831)	23,622	(1,412)	
35	Large Industrial		9,559	10,037	313	10,350	791	
36	Burrard Thermal		9,996	9,941	55	9,996	-	
37	Total Transportation		58,858	61,970	(1,243)	60,727	1,869	
38	Total Sales and Transportation	#16	1,169,770	1,006,706	(112,349)	894,357	(275,413)	
39								
40	Terasen Gas (Vancouver Island) Wheeling charges included in Other Revenue							
41	- Sales		-	-	-	-	-	
42	- Transportation		3,455	3,348	68	3,416	(39)	
43	Total		$ 1,173,225	$ 1,010,054	$ (112,281)	$ 897,773	$ (275,452)	

FORTISBC ENERGY INC.
MARKET AND UNIT PRICES
SCHEDULE IA
($000)

Line No.	Description	Reference	2011 Decision	Year Ended 12/31/2011 Actual	Normalization	Normal	Difference	Reasons for Difference
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1	**CUSTOMERS - 12 MONTH AVERAGE**							
2	Residential		527,709	530,430	-	530,430	2,721	
3	Commercial		58,342	57,166	-	57,166	(1,176)	
4	Small Industrial/Seasonal - Sales		258	218	-	218	(40)	
5	Commercial (Rate 23) - T-Service		1,076	1,187	-	1,187	111	
6	Small Industrial - T-Service		567	550	-	550	(17)	
7	Large Industrial - Sales/T-Service		22	21	-	21	(1)	
8	NGV/VRA		31	18	-	18	(13)	
9	Total		588,005	589,590	-	589,590	1,585	
10								
11	**AVERAGE GJ PER YEAR**							
12	Residential		97.3	104.3	(7.2)	97.1	(0.2)	
13	Commercial		549.7	589.3	(36.1)	553.2	3.5	
14	Small Industrial/Seasonal - Sales		10,918.6	11,000.0	(128.4)	10,871.6	(47.0)	
15	Commercial (Rate 23) - T-Service		4,622.7	5,292.3	(290.6)	5,001.7	379.0	
16	Small Industrial - T-Service		25,001.8	25,961.8	(327.3)	25,634.5	632.7	
17	Small Industrial - Total		20,597.6	21,714.8	(270.8)	21,444.0	846.4	
18	NGV		2,967.7	3,444.4	166.7	3,611.1	643.4	
19								
20	**AVERAGE $ PER GJ**							
21	Sales							
22	Residential		$13.56	$10.91	($0.48)	$10.43	($3.13)	
23	Commercial		$12.12	$9.58	($0.79)	$8.79	($3.33)	
24	Small Industrial/Seasonal - Sales		$8.93	$7.39	($0.04)	$7.35	($1.58)	
25	Large Industrial		$0.00	$0.00	$0.00	$0.00	$0.00	
26	NGV Fuel		$10.35	$8.61	$0.02	$8.63	($1.72)	
27	Burrard (Firm, Interruptible & Swing Gas)		$0.00	$0.00	$0.00	$0.00	$0.00	
28								
29	Total Sales		$12.87	$10.33	($0.59)	$9.74	($3.13)	
30	Transportation							
31	Commercial (Rate 23) - T-Service		$2.87	$2.79	$0.03	$2.82	($0.05)	
32	Small Industrial		$1.77	$1.71	($0.03)	$1.68	($0.09)	
33	Large Industrial including							
34	Burrard Thermal and Terasen Gas (Vancouver Island)		$0.47	$0.67	$0.00	$0.67	$0.20	
35	Total Sales & Transportation		$7.59	$6.87	($0.50)	$6.37	($1.22)	
36								
37	**ANNUAL COST PER CUSTOMER**							
38	Sales							
39	Residential		$1,319	$1,138	($125)	$1,013	($306)	
40	Commercial		$6,661	$5,647	($783)	$4,864	($1,797)	
41	Small Industrial/Seasonal - Sales		$97,539	$81,326	($1,367)	$79,959	($17,580)	
42	Commercial (Rate 23) - T-Service		13,261	$14,776	($657)	$14,119	$858	
43	Small Industrial - T-Service		$44,152	$44,460	($1,511)	$42,949	($1,203)	
44	NGV / VRA		$30,710	$29,667	$1,500	$31,167	$457	

FORTISBC ENERGY INC.
MARKET AND UNIT PRICES
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Line No.	Description	Reference	2011 Decision	Year Ended 12/31/2011 Actual	Normalization	Normal	Difference	Reasons for Difference
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1	**VOLUMES (TJ)**							
2	Sales							
3	Residential		15,555	16,471	(704)	15,767	212	- See Page 19.3 (R 1)
4	Commercial		8,652	8,703	(504)	8,199	(453)	- See Page 19.3 (R 2 & 3)
5	Small Industrial/Seasonal		535	517	(28)	489	(46)	- See Page 19.4 (R 4, 5 & 7)
6	Large Industrial		-	-	-	-	-	
7	NGV Fuel		12	2	2	4	(8)	
8	Intercompany Sales		-	-	-	-	-	
9	Total Sales		24,754	25,693	(1,234)	24,459	(295)	
10								
11	Transportation							
12	Commercial (Rate 23)		1,144	1,389	(54)	1,335	191	- See Page 19.3 (R 23)
13	Small Industrial		4,940	5,458	(40)	5,418	478	- See Page 19.4 (R 25 & 27)
14	Large Industrial		13,319	16,647	110	16,757	3,438	- See Page 19.4 (R 22)
15	Total Transportation		19,403	23,494	16	23,510	4,107	
16								
17	Total Sales and Transportation	#16	44,157	49,187	(1,218)	47,969	3,812	
18								
19	**REVENUE**							
20	Sales							
21	Residential		$ 210,661	$ 189,651	$ (18,059)	$ 171,592	$ (39,069)	
22	Commercial		102,487	88,216	(12,588)	75,628	(26,859)	
23	Small Industrial/Seasonal		4,652	3,809	(327)	3,482	(1,170)	
24	Large Industrial		-	-	-	-	-	
25	NGV Fuel		118	15	23	38	(80)	
26	Intercompany Sales		-	-	-	-	-	
27	Total Sales		317,918	281,691	(30,951)	250,740	(67,178)	
28								
29	Transportation							
30	Commercial (Rate 23)		3,231	3,805	(125)	3,680	449	
31	Small Industrial		7,929	7,962	(631)	7,331	(598)	
32	Large Industrial		5,630	7,040	1,355	8,395	2,765	
33	Total Transportation		16,790	18,807	599	19,406	2,616	
34								
35	Total Sales and Transportation	#16	334,708	300,498	(30,352)	270,146	(64,562)	
36	Other		-	-	-	-	-	
37								
38	Total	#16	$334,708	$300,498	($30,352)	$270,146	($64,562)	

FORTISBC ENERGY INC.
MARKET AND UNIT PRICES
SCHEDULE IA
($000)

Line No.	Description	Reference	2011 Decision	Year Ended 12/31/2011 Actual	Normalization	Normal	Difference	Reasons for Difference
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1	**CUSTOMERS - 12 MONTH AVERAGE**							
2	Residential		211,090	211,125	-	211,125	35	
3	Commercial		21,833	21,503	-	21,503	(330)	
4	Small Industrial/Seasonal - Sales		37	38	-	38	1	
5	Commercial (Rate 23) - T-Service		229	232	-	232	3	
6	Small Industrial - T-Service		101	95	-	95	(6)	
7	Large Industrial - Sales/T-Service		16	15	-	15	(1)	
8	NGV/VRA		1	2	-	2	1	
9	Total		233,307	233,010	-	233,010	(297)	
10								
11	**AVERAGE GJ PER YEAR**							
12	Residential		73.7	78.0	(3.3)	74.7	1.0	
13	Commercial		396.3	404.7	(23.4)	381.3	(15.0)	
14	Small Industrial/Seasonal - Sales		14,459.5	13,605.3	(736.8)	12,868.4	(1,591.0)	
15	Commercial (Rate 23) - T-Service		4,995.6	5,987.1	(232.8)	5,754.3	758.7	
16	Small Industrial - T-Service		48,910.9	57,452.6	(421.1)	57,031.6	8,120.7	
17	Small Industrial - Total		39,673.9	44,924.8	(511.3)	44,413.5	4,739.6	
18	NGV		2,414.3	3,500.0	0.0	3,500.0	1,085.7	
19								
20	**AVERAGE $ PER GJ**							
21	Sales							
22	Residential		$13.54	$11.51	($0.63)	$10.88	($2.66)	
23	Commercial		$11.85	$10.14	($0.92)	$9.22	($2.63)	
24	Small Industrial/Seasonal - Sales		$8.70	$7.37	($0.25)	$7.12	($1.58)	
25	Large Industrial		$0.00	$0.00	$0.00	$0.00	$0.00	
26	NGV Fuel		$9.83	$7.50	$2.00	$9.50	($0.33)	
27	Intercompany Sales		$0.00	$0.00	$0.00	$0.00	$0.00	
28	Total Sales		$12.84	$10.96	($0.71)	$10.25	($2.59)	
29	Transportation							
30	Commercial (Rate 23) - T-Service		$2.82	$2.74	$0.02	$2.76	($0.06)	
31	Small Industrial		$1.61	$1.46	($0.11)	$1.35	($0.26)	
32	Large Industrial		$0.42	$0.42	$0.08	$0.50	$0.08	
33	Total Sales & Transportation		$7.58	$6.11	($0.48)	$5.63	($1.95)	
34								
35	**ANNUAL COST PER CUSTOMER**							
36	Sales							
37	Residential		$998	$898	($85)	$813	($185)	
38	Commercial		$4,694	$4,102	($585)	$3,517	($1,177)	
39	Small Industrial/Seasonal - Sales		$125,730	$100,237	($8,605)	$91,632	($34,098)	
40	Commercial (Rate 23) - T-Service		$14,109	$16,401	($539)	$15,862	$1,753	
41	Small Industrial - T-Service		$78,505	$83,811	($6,643)	$77,168	($1,337)	
42	NGV / VRA		$118,000	$7,500	$11,500	$19,000	($99,000)	

FORTISBC ENERGY INC.
MARKET AND UNIT PRICES
SCHEDULE IA
($000)

Line No.	Description	Reference	2011 Decision	Year Ended 12/31/2011 Actual	Normalization	Normal	Difference	Reasons for Difference
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1	**VOLUMES (TJ)**							
2	Sales							
3	Residential		1,674	1,684	(40)	1,644	(30)	- See Page 19.5 (R 1)
4	Commercial		1,049	963	(24)	939	(110)	- See Page 19.5 (R 2 & 3)
5	Small Industrial		40	12	(1)	11	(29)	- See Page 19.6 (R 5)
6	Large Industrial		-	-	-	-	-	
7	NGV Fuel		-	-	-	-	-	
8								
9	Total Sales		2,763	2,659	(65)	2,594	(169)	
10								
11	Transportation							
12	Commercial (Rate 23)		59	104	(3)	101	42	- See Page 19.5 (R 23)
13	Small Industrial		289	347	-	347	58	- See Page 19.6 (R 25 & 27)
14	Large Industrial		2,934	5,615	203	5,818	2,884	- See Page 19.6 (R 22)
15	Byron Creek		138	770	(10)	760	622	
16	Total Transportation		3,420	6,836	190	7,026	3,606	
17								
18	Total Sales and Transportation	#16	6,183	9,495	125	9,620	3,437	
19								
20	**REVENUE**							
21	Sales							
22	Residential		$ 22,443	$ 19,210	$ (1,553)	$ 17,657	$ (4,786)	
23	Commercial		12,327	9,645	(1,204)	8,441	(3,886)	
24	Small Industrial		363	97	(8)	89	(274)	
25	Large Industrial		-	-	-	-	-	
26	NGV Fuel		-	-	-	-	-	
27								
28	Total Sales		35,133	28,952	(2,765)	26,187	(8,946)	
29								
30	Transportation							
31	Commercial (Rate 23)		170	287	(5)	282	112	
32	Small Industrial		557	575	2	577	20	
33	Large Industrial		1,510	2,142	1,186	3,328	1,818	
34	Total Transportation		2,237	3,004	1,183	4,187	1,950	
35								
36	Total Sales and Transportation	#16	37,370	31,956	(1,582)	30,374	(6,996)	
37	Byron Creek		53	58	2	60	7	
38								
39	Total	#16	$37,423	$32,014	($1,580)	$30,434	($6,989)	

FORTISBC ENERGY INC.
MARKET AND UNIT PRICES
SCHEDULE IA
($000)

Line No.	Description	Reference	2011 Decision	Year Ended 12/31/2011 Actual	Normalization	Normal	Difference	Reasons for Difference
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1	**CUSTOMERS - 12 MONTH AVERAGE**							
2	Residential		20,468	20,495	-	20,495	27	
3	Commercial		2,202	2,150	-	2,150	(52)	
4	Small Industrial - Sales		4	2	-	2	(2)	
5	Commercial (Rate 23) - T-Service		13	19	-	19	6	
6	Small Industrial - T-Service		10	10	-	10	-	
7	Large Industrial - Sales/T-Service		6	6	-	6	-	
8	NGV/VRA		-	-	-	-	-	
9	Total		22,703	22,682	-	22,682	(21)	
10								
11	**AVERAGE GJ PER YEAR**							
12	Residential		81.8	82.2	(2.0)	80.2	(1.6)	
13	Commercial		476.4	447.9	(11.2)	436.7	(39.6)	
14	Small Industrial - Sales		10,000.0	6,000.0	(500.0)	5,500.0	(4,500.0)	
15	Commercial (Rate 23) - T-Service		4,538.0	5,474.0	(158.0)	5,316.0	778.0	
16	Small Industrial - T-Service		28,900.0	34,700.0	0.0	34,700.0	5,800.0	
17	Small Industrial - Total		23,500.0	29,916.7	(83.3)	29,833.3	6,333.3	
18	NGV		0.0	0.0	0.0	0.0	0.0	
19								
20	**AVERAGE $ PER GJ**							
21	Sales							
22	Residential		$13.41	$11.41	($0.67)	$10.74	($2.67)	
23	Commercial		$11.75	$10.02	($1.03)	$8.99	($2.76)	
24	Small Industrial - Sales		$9.08	$8.08	$0.01	$8.09	($0.99)	
25	Large Industrial		$0.00	$0.00	$0.00	$0.00	$0.00	
26	NGV Fuel		$0.00	$0.00	$0.00	$0.00	$0.00	
27	Intercompany Sales		$0.00	$0.00	$0.00	$0.00	$0.00	
28	Total Sales		$12.72	$10.89	($0.79)	$10.10	($2.62)	
29	Transportation							
30	Commercial (Rate 23) - T-Service		$2.88	$2.76	$0.03	$2.79	($0.09)	
31	Small Industrial		$1.93	$1.66	$0.00	$1.66	($0.27)	
32	Large Industrial		$0.51	$0.38	$0.19	$0.57	$0.06	
33	Total Sales & Transportation		$6.05	$3.37	($0.21)	$3.16	($2.89)	
34								
35	**ANNUAL COST PER CUSTOMER**							
36	Sales							
37	Residential		$1,096	$937	($75)	$862	($234)	
38	Commercial		$5,598	$4,486	($560)	$3,926	($1,672)	
39	Small Industrial - Sales		$90,750	$48,500	($4,000)	$44,500	($46,250)	
40	Commercial (Rate 23) - T-Service		$13,077	$15,105	($263)	$14,842	$1,765	
41	Small Industrial - T-Service		$55,700	$57,500	$200	$57,700	$2,000	
42	NGV / VRA		$0	$0	$0	$0	$0	

FORTISBC ENERGY INC.

DIFFERENCE ANALYSIS

Residential/Commercial Volumes/Small Industrial Volumes (Page 18, Lines 3, 4 and 5)

General

In general, the 2011 normalized volumes (excluding VI Wheeling, Burrard & Large Industrial) were 0.3% higher than approved and customer growth was 0.1% higher than approved. Residential volumes increased by .5% and commercial/small industrial volumes decreased by 1.6% for the reasons noted below . The increase in residential customer growth of 0.4% was offset by a decrease for commercial/small industrial customers by 1.8%.

Residential

Overall, normalized residential consumption increased by .5% during 2011 as compared to the approved. This difference is primarily attributed to: 1) The number of customers were 0.4% above the amount approved for 2011 which contributed to the higher than the approved consumption and 2) the UPC did not decline as rapidly in 2011 as it had in the past, leading to a slightly higher UPC than forecasted. This is offset by 1) ongoing replacement of less efficient heating appliance with new, high efficient appliances in existing homes; and, 2) new homes being built with better insulation and higher efficiency heating appliances.

	2011 Approved		2011 Normalized		Variance	
Residential - Consumption	68,579	TJ	68,933	TJ	354	TJ
Residential - Customers - 12 month average	759,267	Customers	762,050	Customers	2,783	Customers
Residential - Use rate per Customer	90.3		90.5		0.1	

Commercial/Small Industrial

Overall, the consumption and total number of commercial normalized customers were lower than the approved. The commercial (2,3 & 23) consumption increased slightly by .4% as compared to the 2011 approved mainly due to colder than normal weather. The small industrial consumption (5 & 25) decreased by 7.8% and is mainly due to less customers.

	2011 Approved		2011 Normalized		Variance	
Commercial/Small Industrial (Page 18, Lines 4 and 5)	45,163	TJ	43,631	TJ	(1,532)	TJ
Add: Schedules 23	6,177		7,373		1,196	
Schedules 25	13,817		13,236		(581)	
Less: Schedule 7	(23)		(113)		(90)	
Schedule 4	(185)		(223)		(38)	
Schedules 2, 3, 5, 23, 25	**64,949**	TJ	**63,904**	TJ	**(1,045)**	TJ

FORTISBC ENERGY INC. - LOWER MAINLAND SERVICE AREA

DIFFERENCE ANALYSIS - VOLUMES

1. **Residential/Commercial Volumes (Page 18.2, Lines 3, 4 and 13)**

	2011						
	Recorded			Normalized			
Particulars	TJ	% of Col. (5)	Adjustments	TJ	% of Col. (7)	2011 Approved	Difference (Unfavourable)/ Favourable
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Volumes (TJ)							
Rate 1	55,349	107.4%	(3,827)	51,522	100.3%	51,350	172
Rate 2	18,848	107.5%	(1,318)	17,530	97.2%	18,027	(497)
Rate 3	14,839	105.3%	(746)	14,093	100.4%	14,043	50
Rate 23	6,282	105.8%	(345)	5,937	119.4%	4,974	963

a) Normalization Adjustments

Adjustments to usage were made by relating temperature to consumption.
Overall, the weather for the year ending 12/31/2011 was 7% colder than normal.

b) Difference

The difference between the 2011 Approved and 2011 Normalized is comprised of a mix of consumption behaviour (use per customer), and the average number of customers served.

	2011 Approved	2011 Normalized	Difference
i) Use per Customer	GJ	GJ	%
Rate 1	97.3	97.1	99.8%
Rate 2	333.1	330.0	99.1%
Rate 3	3,325.4	3,484.9	104.8%
Rate 23	4,622.7	5,001.7	108.2%
ii) Customers - 12-Month Average			
Rate 1	527,709	530,430	100.5%
Rate 2	54,119	53,122	98.2%
Rate 3	4,223	4,044	95.8%
Rate 23	1,076	1,187	110.3%

FORTISBC ENERGY INC. - LOWER MAINLAND SERVICE AREA

DIFFERENCE ANALYSIS - VOLUMES

2. **Industrial Volumes (Page 18.2, Lines 5, 6, 7,14 and 15)**

a) Normalization Adjustments

Normalization of industrial volumes involves adding back customers' actual strike and curtailment volumes and subtracting a budget (normal) level of strike and curtailment.

The total industrial normalization effect for small and large sales and transportation is the combination of Lines 5, 6, 7, 14 and 15 in Column 5.

Actual Strike	-	TJ
Forecast Strike	-	
Actual Curtailment	-	
Forecast Curtailment	-	
Other Adjustments - Timing	129	
Total	129	TJ

b) Difference

Due to a number of industrial customers migrating to new rate classes, the small and large industrial sales transportation volumes in page 18.2, lines 5, 6, 7, 14 & 15 and accounts from page 18.3 lines 4, 6 & 7 need to be combined.

	2011 Approved		**2011 Normalized**		**Difference**	
Rate Class	Average Accounts	TJ	Average Accounts	TJ	Average Accounts	TJ
4	10	88	12	127	2	39
5	247	2,729	204	2,243	(43)	(486)
7	1	-	2	-	1	-
22	23	12,445	22	12,046	(1)	(399)
25	484	9,356	469	8,904	(15)	(452)
27	83	4,820	81	5,195	(2)	375
Total	848	29,438	790	28,515	(58)	(923)

FORTISBC ENERGY INC. - INLAND SERVICE AREA

DIFFERENCE ANALYSIS - VOLUMES

1. **Residential/Commercial Volumes (Page 18.4, Lines 3, 4 and 12)**

	2011						
	Recorded			Normalized			
Particulars	TJ	% of Col. (5)	Adjustments	TJ	% of Col. (7)	2011 Approved	Difference (Unfavourable)/ Favourable
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Volumes (TJ)							
Rate 1	16,471	104.5%	(704)	15,767	101.4%	15,555	212
Rate 2	6,008	105.6%	(316)	5,692	97.3%	5,851	(159)
Rate 3	2,695	107.5%	(188)	2,507	89.5%	2,801	(294)
Rate 23	1,389	104.0%	(54)	1,335	116.7%	1,144	191

a) Normalization Adjustments

Adjustments to usage were made by relating temperature to consumption.
Overall, the weather for the year ending 12/31/2011 was 1% colder than normal.

b) Difference

The difference between the 2011 Approved and 2011 Normalized is comprised of a mix of consumption behaviour (use per customer), and the average number of customers served.

	2011 Approved	2011 Normalized	Difference
i) Use per Customer	GJ	GJ	%
Rate 1	73.7	74.7	101.3%
Rate 2	278.4	273.9	98.4%
Rate 3	3,436.8	3,472.3	101.0%
Rate 23	4,995.6	5,754.3	115.2%
ii) Customers - 12-Month Average			
Rate 1	211,090	211,125	100.0%
Rate 2	21,018	20,781	98.9%
Rate 3	815	722	88.6%
Rate 23	229	232	101.3%

FORTISBC ENERGY INC. - INLAND SERVICE AREA

DIFFERENCE ANALYSIS - VOLUMES

2. **Industrial Volumes (Page 18.4, Lines 5, 6, 13, and 14)**

a) Normalization

The normalization process involves adding back in the actual strike and curtailment then backing out the forecast strike and curtailment.

Industrial Normalization:

Actual Strike Adjustment	-	TJ
Forecast Strike	-	
Actual Curtailment	-	
Forecast Curtailment	-	
Other Adjustments - Timing	42	
Total	42	TJ

b) Variance Analysis:

	2011 Approved		2011 Normalized		Difference	
Rate Class	Average Accounts	TJ	Average Accounts	TJ	Average Accounts	TJ
4	6	97	7	97	1	-
5	30	415	28	280	(2)	(135)
7	1	23	3	112	2	89
22	16	13,319	15	16,757	(1)	3,438
25	88	4,192	77	4,027	(11)	(165)
27	13	748	18	1,391	5	643
Total	154	18,794	148	22,664	(6)	3,870

FORTISBC ENERGY INC. - COLUMBIA SERVICE AREA

DIFFERENCE ANALYSIS - VOLUMES

1. **Residential/Commercial Volumes (Page 18.6, Lines 3, 4 and 12)**

	2011						
	Recorded			Normalized			
Particulars	TJ	% of Col. (5)	Adjustments	TJ	% of Col. (7)	2011 Approved	Difference (Unfavourable)/ Favourable
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Volumes (TJ)							
Rate 1	1,684	102.4%	(40)	1,644	98.2%	1,674	(30)
Rate 2	682	103.2%	(21)	661	91.2%	725	(64)
Rate 3	281	101.1%	(3)	278	85.8%	324	(46)
Rate 23	104	103.0%	(3)	101	171.2%	59	42

a) Normalization Adjustments

Adjustments to useage were made by relating temperature to consumption.
Overall, the weather for the year ending 12/31/2011 was 3% colder than normal.

b) Difference

The difference between the 2011 Approved and 2011 Normalized is comprised of a mix of consumption behaviour (use per customer), and the average number of customers served.

	2011 Approved	2011 Normalized	Difference
i) Use per Customer	GJ	GJ	%
Rate 1	81.8	80.2	98.1%
Rate 2	343.0	318.9	93.0%
Rate 3	3,681.8	3,610.4	98.1%
Rate 23	4,538.5	5,315.8	117.1%
ii) Customers - 12-Month Average			
Rate 1	20,468	20,495	100.1%
Rate 2	2,114	2,073	98.1%
Rate 3	88	77	87.5%
Rate 23	13	19	146.2%

FORTISBC ENERGY INC. - COLUMBIA SERVICE AREA

DIFFERENCE ANALYSIS - VOLUMES

2. **Industrial Volumes (Page 18.6, Lines 5, 13, and 14)**

a) Normalization

The normalization of industrial volumes involves adding back customers' actual curtailments and strike adjustments and subtracting a budget (normal) level of curtailments and strike adjustments.

Actual Strike	-	TJ
Forecast Strike	-	
Actual Curtailment	-	
Forecast Curtailment	-	
Other Adjustments - Timing	202	
Total	202	TJ

b) Difference

The higher industrial transportation volumes are mainly due to the rate 22 customers increased consumption.

	2011 Approved		2011 Normalized		Difference	
Rate Class	Average Accounts	TJ	Average Accounts	TJ	Average Accounts	TJ
5	4	40	2	11	(2)	(29)
22	6	2,934	6	5,818	-	2,884
25	8	269	8	305	-	36
27	2	20	2	42	-	22
Total	20	3,263	18	6,176	(2)	2,913

FORTISBC ENERGY INC.
DIFFERENCE ANALYSIS - REVENUES
FOR THE YEAR ENDED DECEMBER 31, 2011

1. Normalization Adjustments

   Normalized revenues are calculated for all customer classes for which sales volumes are adjusted. Normal revenues are determined by applying the rates in effect to the normalized volumes. Revenue adjustments are explained by the energy and customer variances noted on earlier pages.

2. Difference Analysis

   For the residential, commercial and small industrial sales classes, the revenue differences (Page 18, Lines 23, 24 and 25) and average revenue per gigajoule differences (Page 18.1, Lines 22, 23 and 24) are attributable to the volume and price differences. For further explanation of volume differences see Page 17 and divisional Pages 19.

FORTISBC ENERGY INC. - LOWER MAINLAND SERVICE AREA
ESTIMATE OF COMPETITIVE FUEL PRICES BY
CUSTOMER CLASSIFICATION AS OF FEBRUARY, 2012

Line No.	Particulars	Residential (a)	Small Commercial (b)	Large Commercial (c)	Small Industrial (d)
1	NATURAL GAS				
2	Average Retail Price	$ 10.39	$ 9.25	$ 8.03	$ 7.47
3	($/Gigajoule)				
4	ELECTRICITY BC Hydro				
5	Average Retail Price - Tier 1 (Residential Only) ($/kW.h)	$ 0.0684	$ 0.0903	$ 0.0606	$ 0.0606
6	Average Retail Price - Tier 2 (Residential Only) ($/kW.h)	$ 0.0986			
7	Electric 100% eff., adjusted to gas efficiency of:	90%	90%	90%	90%
8	Useful Energy Cost - Tier 1 ($/Gigajoule)	$ 17.10	$ 22.58	$ 15.15	$ 15.15
9	Useful Energy Cost - Tier 2 ($/Gigajoule)	$ 24.65			
10	FURNACE OIL				
11	Average Retail Price	$ 1.08	$ 1.08	$ 1.08	$ 1.08
12	($/litre)				
14	Average Retail Price	$ 27.84	$ 27.84	$ 27.84	$ 27.84
15	($/Gigajoule)				

FORTISBC ENERGY INC. - INLAND SERVICE AREA
ESTIMATE OF COMPETITIVE FUEL PRICES BY
CUSTOMER CLASSIFICATION AS OF FEBRUARY, 2012

Line No.	Particulars	Residential (a)	Small Commercial (b)	Large Commercial (c)	Small Industrial (d)
1	NATURAL GAS				
2	Average Retail Price	$ 10.77	$ 9.42	$ 8.05	$ 7.35
3	($/Gigajoule)				
4	ELECTRICITY BC Hydro				
5	Average Retail Price - Tier 1 (Residential Only) ($/kW.h)	$ 0.0684	$ 0.0903	$ 0.0606	$ 0.0606
6	Average Retail Price - Tier 2 (Residential Only) ($/kW.h)	$ 0.0986			
7	Electric 100% eff., adjusted to gas efficiency of:	90%	90%	90%	90%
8	Useful Energy Cost	$ 17.10	$ 22.58	$ 15.15	$ 15.15
9	($/Gigajoule)	$ 24.65			
10	ELECTRICITY Fortis				
11	Average Retail Price (c and d exclusive of demand charge)	$ 0.09447	$ 0.08386	$ 0.06690	$ 0.04583
12	($/KW.h)				
13	Electric 100% eff., adjusted to gas efficiency of:	90%	90%	90%	90%
14	Useful Energy Cost	$ 23.62	$ 20.97	$ 16.73	$ 11.46
15	($/Gigajoule)				
16	FURNACE OIL				
17	Average Retail Price	$ 1.20	$ 1.20	$ 1.20	$ 1.20
18	($/litre)				
20	Average Retail Price	$ 30.96	$ 30.96	$ 30.96	$ 30.96
21	($/Gigajoule)				

FORTISBC ENERGY INC. - COLUMBIA SERVICE AREA
ESTIMATE OF COMPETITIVE FUEL PRICES BY
CUSTOMER CLASSIFICATION AS OF FEBRUARY, 2012

Line No.	Particulars	Residential (a)	Small Commercial (b)	Large Commercial (c)	Small Industrial (d)
1	NATURAL GAS				
2	Average Retail Price	$ 10.68	$ 9.19	$ 7.96	$ 7.54
3	($/Gigajoule)				
4	ELECTRICITY BC Hydro				
5	Average Retail Price - Tier 1 (Residential Only) ($/kW.h)	$ 0.0684	$ 0.0903	$ 0.0606	$ 0.0606
6	Average Retail Price - Tier 2 (Residential Only) ($/kW.h)	$ 0.0986			
7	Electric 100% eff., adjusted to gas efficiency of:	90%	90%	90%	90%
8	Useful Energy Cost	$ 17.10	$ 22.58	$ 15.15	$ 15.15
9	($/Gigajoule)	$ 24.65			
10	ELECTRICITY Fortis				
11	Average Retail Price (c and d exclusive of demand charge)	$ 0.09447	$ 0.08386	$ 0.06690	$ 0.04583
12	(cents/KW.h)				
13	Electric 100% efficient, gas efficiency adjusted	90%	90%	90%	90%
14	Useful Energy Cost	$ 23.62	$ 20.97	$ 16.73	$ 11.46
15	($/Gigajoule)				
16	FURNACE OIL				
17	Average Retail Price	$ 1.20	$ 1.20	$ 1.20	$ 1.20
18	($/litre)				
20	Average Retail Price	$ 30.96	$ 30.96	$ 30.96	$ 30.96
21	($/Gigajoule)				

Notes to Competitive Fuel Price Table

- All prices exclude applicable federal and provincial sales taxes. Natural gas rates do not include franchise fees.
- The energy prices shown here are meant to be representative. Actual prices may differ depending upon consumption levels by FortisBC Energy Inc. service territory.
- 1 Gigajoule = 277.78 KW.h
- 1 Gigajoule = 25.8 litres of fuel oil.
- Electricity rates exclude basic and demand charges (with the exception of the blended rates as per the *Hydro Québec 2011 Comparison of Electricity Prices in Major North American Cities*, used for the large commercial and small industrial comparisons). Electricity prices reflect the consumption levels based on the natural gas equivalent in the respective FortisBC Energy Inc. service territory.
- Electricity is presumed to be 100% efficient, however the useful energy cost is adjusted down to reflect the efficiency level of natural gas (90%).
- Fuel oil prices based on the February 7, 2012 weekly posting of the Weekly Pump Price Survey by Kent Marketing Services/ MJ Ervin & Associates. Bulk (large quantities) prices may be negotiated between the buyer and seller, and are not taken into account for this comparison.

Natural Gas
(a) Based on FortisBC Energy Rate Schedule 1, effective January 1, 2012.
(b) Based on FortisBC Energy Rate Schedule 2, effective January 1, 2012.
(c) Based on FortisBC Energy Rate Schedule 3, effective January 1, 2012.
(d) Based on FortisBC Energy Rate Schedule 5, effective January 1, 2012.

Electricity - BC Hydro
(a) Based on BC Hydro interim rates, effective May 1, 2011 (BC Hydro Schedule 1101), inclusive of a 2.5% rate rider.
(b) Based on BC Hydro interim rates, effective May 1, 2011 (BC Hydro Schedule 1300), inclusive of a 2.5% rate rider.
(c) Based on the Average Medium Commercial rate as per the Hydro Québec 2011 Comparison of Electricity Prices in Major North American Cities, as at April 2011.
(d) Based on the Average Medium Commercial rate as per the Hydro Québec 2011 Comparison of Electricity Prices in Major North American Cities, as at April 2011.

Electricity – FortisBC Inc.
(a) Based on Schedule 1, effective January 1, 2012.
(b) Based on Schedule 20, effective January 1, 2012.
(c) Based on Schedule 21, effective January 1, 2012.
(d) Based on Schedule 30, effective January 1, 2012.

FORTISBC ENERGY INC.
VOLUMES AND COMPANY USE (TJ)

Line No.	Description	Reference	2011 Decision	Year Ended 12/31/2011 Actual	Normalization	Normal	Difference	Reasons for Difference
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1	**Sales**							
2	Schedule 1 - Residential (TJ)	#18	68,579	73,504	(4,571)	68,933	354	
3	Schedule 2 - Small Commercial (TJ)	#18	24,603	25,538	(1,655)	23,883	(720)	
4	Schedule 3 - Large Commercial (TJ)	#18	17,168	17,815	(937)	16,878	(290)	
5	**Total Residential/Commercial**		110,350	116,857	(7,163)	109,694	(656)	
6								
7	Schedule 4 - Seasonal Service (TJ)		185	228	(4)	224	39	
8	Schedule 5 - General Firm Service (TJ)		3,184	2,563	(29)	2,534	(650)	
9	**Total Small Industrial**	#18	3,369	2,791	(33)	2,758	(611)	
10								
11	Schedule 7 - Interruptible		23	136	(24)	112	89	
12	Schedule 10 - Interruptible		-	-	-	-	-	
13	Burrard Thermal		-	-	-	-	-	
14	**Total Large Industrial**	#18	23	136	(24)	112	89	
15								
16	Schedule 6 - NGV Fuel	#18	104	64	5	69	(35)	
17								
18	**Total Sales**	#18	113,846	119,848	(7,215)	112,633	(1,213)	
19								
20	**Transportation Service**							
21	Lower Mainland - Transportation		29,876	31,832	(188)	31,644	1,768	
22	Burrard Thermal Transportation		1,719	409	29	438	(1,281)	
23	Terasen Gas (Vancouver Island)		36,596	23,244	2	23,246	(13,350)	
24	Inland - Transportation		19,403	23,494	16	23,510	4,107	
25	Columbia - Transportation		3,282	6,066	200	6,266	2,984	
26	- Byron Creek		138	770	(10)	760	622	
27	**Total Transportation Service**	#18	91,014	85,815	49	85,864	(5,151)	
28								
29	**Total Sales and Transportation Service**	#18	204,860	205,663	(7,166)	198,497	(6,364)	
30								
31	Company Use - Compressor Fuel			115	(51)	64		
32	- Station Heater Fuel			158	1	159		
33	- Branch Use			28	-	28		
34	Line Pack Changes			2	-	2		
35	Known Lost Gas / Main Extension Use			-	-	-		
36	Gas Unaccounted For			3,042	-	3,042		
37	**Total System Requirements**			209,008	(7,216)	201,792		

FORTISBC ENERGY INC.
LARGE INDUSTRIAL VOLUMES - FIVE YEAR HISTORY
(TJ)

	2007	2008	2009	2010	2011
Recorded					
Sales	--	--	--	--	--
Transportation	35,728	31,713	27,812	30,075	34,303
Burrard Thermal	1,358	2,706	3,510	824	409
Total Large Industrials	37,086	34,419	31,322	30,899	34,712
Normalized					
Sales	--	--	--	--	--
Transportation	35,449	31,978	26,324	30,050	34,943
Burrard Thermal	1,347	3,304	2,907	883	438
Total Large Industrials	36,796	35,282	29,231	30,933	35,381

FORTISBC ENERGY INC.
GAS SALES TO COLUMBIA SERVICE AREA

Not applicable.

FORTISBC ENERGY INC.
COST OF GAS SOLD VS CCRA / MCRA COST RECOVERY
FOR THE YEAR ENDED DECEMBER 31, 2011
($000)

Line No.	Particulars	Lower Mainland Deferred	Lower Mainland Other	Lower Mainland Balance	Inland Deferred	Inland Other	Inland Balance	Columbia Deferred	Columbia Other	Columbia Balance	Total Balance
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
1	**Total Cost of Gas Sold**			$ 577,011			$ 167,905			$ 17,804	$ 762,720
2											
3	**CCRA/MCRA RECOVERED COST NOT IN COST OF GAS SOLD**										
4	Off-System Sales	$ 277,351			$ -			$ -			
5	Squamish	-			-			-			
6	Balancing Gas	1,074			296			3			
7	Marketer Balancing & Backstopping	39			-			-			
8	Rate 14A	2,967			194			40			
9	Other Adjustments	-			-			-			
10	Revelstoke Propane					$ (3,473)					
11											
12	**Total**	281,431	-	281,431	490	(3,473)	(2,983)	43	-	43	278,491
13											
14	**Subtotal**			858,442			164,922			17,847	1,041,211
15											
16	Difference			-			-			-	-
17											
18											
19	**Total Gas Cost Recovery**			$ 858,442			$ 164,922			$ 17,847	$ 1,041,211

FORTISBC ENERGY INC.
COST OF GAS
FOR THE YEAR ENDED DECEMBER 31, 2011
($000)

1. Normalizing Adjustment

	Year Ended 12/31/11		
	Recorded	Normalization	Normal
Cost of Gas Sold	$762,720	($122,831)	$639,890
References:	Pages 16 & 24	Page 25.1	Page 25.2

Normalizing adjustments for the cost of gas were determined by multiplying the volume adjustments (Pages 19 to 19.6) by the approved unit gas costs in the respective rate classes. Most customer classes experienced rate changes, effective January 1, 2011(BCUC Order No. G-187-10), and October 1, 2011 (BCUC Order No. G-156-11), due to decreasing gas costs. As a result of increases in customer volumes; partially offset by the aforementioned changes in customer rates, a $122.8 million normalizing adjustment is required to adjust the recorded cost of gas sold at $762.7 million to the normalized cost of gas sold at $639.9 million.

The unit costs were different from those in the 2011 Decision due to approved 2011 gas cost changes not included in the Test Year.

Revelstoke propane customers experienced a rate increase, effective January 1, 2011 (BCUC G-189-10), and a rate increase, effective July 1, 2011 (BCUC Order No. G-105-11).

2. Difference Analysis

	Year Ended 12/31/11			
	Approved	Normal	Difference	Reference
Cost of Gas Sold	$989,627	$639,890	$(349,737)	Page 25.2

FORTISBC ENERGY INC.
GAS COST NORMALIZING ADJUSTMENT
FOR THE YEAR ENDED DECEMBER 31, 2011

		TJ					Unit $/TJ				Cost of Gas					
Line No.	Particulars	Jan - Mar TJ	Apr - Jun TJ	Jul - Sep TJ	Oct - Dec TJ	Total TJ	Jan - Mar $/TJ	Apr - Jun $/TJ	Jul - Sep $/TJ	Oct - Dec $/TJ	Jan - Mar ($000)	Apr - Jun ($000)	Jul - Sep ($000)	Oct - Dec ($000)	Timing Adj. ($000)	Total ($000)
	(1)	(2)	(3)	(4)	(3)	(4)	(5)	(6)	(7)	(6)	(7)	(8)	(9)	(8)	(9)	(10)
1	**Lower Mainland Service Area**															
2	Residential - Rate 1	(940.9)	(2,665.9)	860.7	(1,082.0)	(3,828.0)	$ 5.908	$ 5.908	$ 5.908	$ 5.345	$ (5,559)	$ (15,750)	$ 5,085	$ (5,783)	$ (31,127)	$ (53,134)
3	Small Commercial - Rate 2	(224.6)	(923.4)	165.2	(335.6)	(1,318.4)	$ 5.895	$ 5.895	$ 5.895	$ 5.332	(1,324)	(5,443)	974	(1,789)	(16,356)	(23,938)
4	Large Commercial - Rate 3	(56.1)	(230.6)	(282.4)	(176.3)	(745.3)	$ 5.586	$ 5.586	$ 5.586	$ 5.023	(313)	(1,288)	(1,577)	(886)	(11,577)	(15,641)
5	All Other	(323.9)	(629.1)	619.2	151.0	(182.7)										(249)
6	Total	(1,545.4)	(4,448.9)	1,362.8	(1,442.9)	(6,074.4)					$ (7,196)	$ (22,481)	$ 4,482	$ (8,458)	$ (59,060)	$ (92,963)
7																
8																
9	**Inland Service Area**															
10	Residential - Rate 1	(458.0)	(310.7)	(76.4)	140.5	(704.5)	$ 5.927	$ 5.917	$ 5.925	$ 5.388	$ (2,715)	$ (1,838)	$ (453)	$ 757	$ (11,226)	$ (15,475)
11	Small Commercial - Rate 2	(162.7)	(299.8)	83.6	63.3	(315.7)	$ 5.965	$ 5.991	$ 6.030	$ 5.478	(971)	(1,796)	504	347	(5,868)	(7,784)
12	Large Commercial - Rate 3	(179.1)	(88.2)	67.9	11.3	(188.1)	$ 5.798	$ 5.848	$ 5.927	$ 5.346	(1,039)	(516)	402	60	(2,340)	(3,432)
13	All Other	(85.3)	(379.0)	456.8	(2.0)	(9.5)										(684)
14	Total	(885.1)	(1,077.7)	531.8	213.1	(1,217.9)					$ (4,724)	$ (4,150)	$ 453	$ 1,164	$ (19,434)	$ (27,375)
15																
16																
17	**Columbia Service Area**															
18	Residential - Rate 1	(7.2)	(80.0)	21.8	25.9	(39.5)	$ 5.923	$ 5.923	$ 5.923	$ 5.360	$ (43)	$ (474)	$ 129	$ 139	$ (1,182)	$ (1,431)
19	Small Commercial - Rate 2	0.7	(37.3)	5.3	10.7	(20.7)	$ 5.910	$ 5.910	$ 5.910	$ 5.347	4	(221)	31	57	(726)	(854)
20	Large Commercial - Rate 3	5.0	(13.0)	0.5	3.7	(3.8)	$ 5.604	$ 5.604	$ 5.604	$ 5.041	28	(73)	3	19	(262)	(286)
21	All Other	(127.9)	(112.5)	297.4	132.7	189.7										77
22	Total	(129.4)	(242.8)	325.0	173.0	125.7					$ (10)	$ (767)	$ 163	$ 215	$ (2,170)	$ (2,494)
23																
24	**Grand Total**	(2,560.0)	(5,769.4)	2,219.6	(1,056.8)	(7,166.6)										$ (122,831)

FORTISBC ENERGY INC.
GAS COSTS - FORECAST AND NORMALIZED DIFFERENCE
FOR THE YEAR ENDED DECEMBER 31, 2011

		2011 Approved			2011 Normalized			Difference				
								Volume Variance		Price Variance		Total
Line No.	Particulars	Volume TJ	Price $/TJ	Cost ($000)	Volume TJ	Price $/TJ	Cost ($000)	TJ	($000)	$/TJ	($000)	($000)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8) (5)-(2)	(9) (8)x(3)	(10) (6)-(3)	(11) (12)-(9)	(12) (7)-(4)
1	**LOWER MAINLAND SERVICE AREA**											
2	Residential	51,350.2	$ 8.846	$ 454,251	51,521.2	$ 5.713	$ 294,335	171.0	$ 1,513	$ (3.133)	$ (161,429)	$ (159,916)
3	Small Commercial	18,027.1	$ 8.990	162,072	17,529.4	$ 5.710	100,085	(497.7)	(4,475)	$ (3.281)	(57,512)	(61,987)
4	Large Commercial	14,042.4	$ 8.770	123,157	14,093.6	$ 5.418	76,364	51.2	449	$ (3.352)	(47,242)	(46,793)
5	Rate 5 - General Firm Service	2,728.9	$ 6.632	18,098	2,243.5	$ 5.161	11,578	(485.4)	(3,219)	$ (1.471)	(3,301)	(6,520)
6	NGV	92.0	$ 6.446	593	65.1	$ 4.767	310	(26.9)	(173)	$ (1.678)	(110)	(283)
7	Rate 7 - Industrial	0.0		-	0.0		-	-	-	$ -	-	-
8	Rate 22, 23, 25 & 27 - T-Service	68,192.0	$ 0.015	1,010	55,327.8	$ 0.013	729	(12,864.2)	(191)	$ (0.002)	(90)	(281)
9	All Other	87.8	$ 6.697	588	126.7	$ 5.109	647	38.9	260	$ (1.589)	(201)	59
10												
11	Total	154,520.4	$ 4.917	$ 759,769	140,907.3	$ 3.435	$ 484,049	(13,613.1)	$ (5,836)	$ (1.915)	$ (269,884)	$ (275,720)
12												
13	**INLAND SERVICE AREA**											
14	Residential	15,488.8	$ 8.337	$ 129,137	15,695.7	$ 5.682	$ 89,176	206.9	$ 1,725	$ (2.656)	$ (41,686)	$ (39,961)
15	Small Commercial	5,774.5	$ 8.472	48,923	5,619.3	$ 5.670	31,863	(155.2)	(1,315)	$ (2.802)	(15,745)	(17,060)
16	Large Commercial	2,739.9	$ 8.256	22,620	2,436.1	$ 5.381	13,108	(303.8)	(2,508)	$ (2.875)	(7,004)	(9,512)
17	Rate 5 - General Firm Service	415.5	$ 6.607	2,745	279.6	$ 5.135	1,436	(135.9)	(898)	$ (1.472)	(411)	(1,309)
18	NGV	11.8	$ 6.356	75	4.3	$ 4.677	20	(7.5)	(47)	$ (1.679)	(8)	(55)
19	Rates 22A, 25 & 27 - T-Service	19,403.0	$ 0.016	311	23,510.1	$ 0.016	378	4,107.1	66	$ 0.000	1	67
20	Revelstoke	204.2	$ 8.756	1,788	214.6	$ 16.173	3,471	10.4	91	$ 7.417	1,592	1,683
21	All Other	119.5	$ 6.619	791	209.0	$ 5.165	1,080	89.5	593	$ (1.454)	(304)	289
22												
23	Total	44,157.2	$ 4.674	$ 206,390	47,968.8	$ 2.930	$ 140,531	3,811.6	$ (2,293)	$ (1.325)	$ (63,566)	$ (65,859)
24												
25	**COLUMBIA SERVICE AREA**											
26	Residential	1,673.7	$ 8.410	$ 14,076	1,644.2	$ 5.718	$ 9,402	(29.5)	$ (248)	$ (2.692)	$ (4,426)	$ (4,674)
27	Small Commercial	725.0	$ 8.581	6,221	661.1	$ 5.716	3,779	(63.9)	(548)	$ (2.865)	(1,894)	(2,442)
28	Large Commercial	324.7	$ 8.149	2,646	277.7	$ 5.424	1,506	(47.0)	(383)	$ (2.725)	(757)	(1,140)
29	Rate 5 - General Firm Service	39.9	$ 6.667	266	11.3	$ 5.193	59	(28.6)	(190)	$ (1.473)	(17)	(207)
30	Rates 22B, 22 & 25 - T-Service	3,419.4	$ 0.076	259	7,026.1	$ 0.080	564	3,606.7	273	$ 0.005	32	305
31	All Other	0.0		-	0.0		-	-	-	$ -	-	-
32												
33	Total	6,182.7	$ 3.796	$ 23,468	9,620.5	$ 1.591	15,310	3,437.8	$ (1,096)	$ (0.734)	$ (7,062)	$ (8,158)
34												
35	**Grand Total**	204,860.3	$ 4.831	$ 989,627	198,496.6	$ 3.224	$ 639,890	(6,363.7)	$ (9,225)	$ (1.607)	$ (340,512)	$ (349,737)

FORTISBC ENERGY INC
OPERATION & MAINTENANCE EXPENSES
SCHEDULE IB - ($000)

Line No.	Particulars	Page Ref.	2011 Approved	Year Ended 12/31/2011 Actual	Normalization	Normal	Difference	Reason for Difference
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1	Gross O & M	#28	$ 215,492	$ 214,459	$ -	$ 214,459	$ (1,033)	
2								
3	Less O&M Charged to Construction	#28	(30,169)	(30,169)	-	(30,169)	-	
4								
5	Less Fort Nelson Allocation	#28	(698)	(739)	-	(739)	(41)	
6								
7	Total O & M	#28 / #16	$ 184,625	$ 183,551	$ -	$ 183,551	$ (1,074)	See Page 27

FORTISBC ENERGY INC.
DIFFERENCE ANALYSIS
OPERATION AND MAINTENANCE EXPENSE

The favorable variance is due to lower labor costs caused by delayed hiring and vacancies, deferral of IT costs caused by resourcing priorities, lower bad debt expense, and higher 3rd party recoveries. This is partially offset by the unbudgeted renaming costs and higher sponsorships and other expenses.

FORTSBC ENERGY INC
OPERATION & MAINTENANCE EXPENSES - RESOURCE VIEW
($000)

Line No.	Particulars	2011 Total O&M	2011 Less Ft Nelson	2011 Utility O&M (excl FN)	2010	Increase (Decrease)
	(1)	(2)	(3)	(4)	(5)	(6)
1	M&E Costs	$ 41,552	$ 129	$ 41,423	$ 43,296	$ (1,873)
2	COPE Costs	31,271	63	31,208	28,413	2,795
3	COPE Customer Services Costs	-	-	-	-	-
4	IBEW Costs	26,301	288	26,013	22,625	3,388
5						
6	**Labour Costs**	**99,124**	**480**	**98,644**	**94,334**	**4,310**
7						
8	Vehicle Costs	4,050	49	4,001	3,625	376
9	Employee Expenses	5,884	25	5,859	5,805	54
10	Materials and Supplies	7,517	17	7,500	6,738	762
11	Computer Costs	10,346	29	10,317	10,214	103
12	Fees and Administration Costs	30,529	91	30,438	29,309	1,129
13	Contractor Costs	62,383	172	62,211	62,151	60
14	Facilities	12,843	38	12,805	13,023	(218)
15	Recoveries & Revenue	(18,217)	(48)	(18,169)	(18,680)	511
16						
17	**Non-Labour Costs**	**115,335**	**373**	**114,962**	**112,185**	**2,777**
18						
19						
20	**Total Gross O&M Expenses**	**214,459**	**853**	**213,606**	**206,519**	**7,087**
21						
22	Less: Capitalized Overhead	(30,169)	(114)	(30,055)	(28,905)	(1,150)
23						
24	**Total O&M Expenses**	**$ 184,290**	**$ 739**	**$ 183,551**	**$ 177,614**	**$ 5,937**

FORTISBC ENERGY INC
OPERATION & MAINTENANCE EXPENSES - ACTIVITY VIEW
($000)

No.	Particulars	Reference	2011	2010	(Decrease)
	(1)	(2)	(3)	(4)	(5)
1	Distribution Supervision	100-11	$ 9,895	$ 9,763	$ 132
2	Distribution Supervision Total	100-10	9,895	9,763	132
3	Operation Centre - Distribution	100-21	10,277	10,552	(275)
4	Asset Management - Distribution	100-22	2,060	1,747	313
5	Preventative Maintenance - Distribution	100-23	2,312	2,105	207
6	Distribution Operations - General	100-24	5,675	5,609	66
7	Emergency Management	100-25	4,667	4,528	139
8	Distribution Operations Total	100-20	24,991	24,541	450
9	Distribution Corrective - Meters	100-31	1,307	1,763	(456)
10	Distribution Corrective - Propane	100-32	-	-	-
11	Distribution Corrective - Leak Repair	100-33	1,489	1,331	158
12	Distribution Corrective - Stations	100-34	684	622	62
13	Distribution Corrective - General	100-35	446	393	53
14	Distribution Maintenance Total	100-30	3,926	4,109	(183)
15	**Distribution Total**	**100**	**$ 38,812**	**$ 38,413**	**$ 399**
16					
17	Transmission Supervision	200-11	$ 4,412	$ 3,205	$ 1,207
18	Transmission Supervision Total	200-10	4,412	3,205	1,207
19	Pipeline Operation	200-21	1,912	2,135	(223)
20	Right of Way	200-22	1,642	1,592	50
21	Compression	200-23	2,341	1,981	360
22	Gas Control	200-24	1,539	2,611	(1,072)
23	Transmission Pipeline Integrity Project (TPIP)	200-25	2,575	2,722	(147)
24	Transmission Operations Total	200-20	10,009	11,041	(1,032)
25	Pipeline - Maintenance	200-31	521	220	301
26	Compression - Maintenance	200-32	581	242	339
27	TPIP - Maintenance	200-33	1,538	869	669
28	Transmission Maintenance Total	200-30	2,640	1,331	1,309
29	**Transmission Total**	**200**	**$ 17,061**	**$ 15,577**	**$ 1,484**
30					
31	LNG Plant Operations	300-11	$ 1,453	$ 930	$ 523
32	LNG Plant Operations Total	300-10	1,453	930	523
33	LNG Plant Maintenance	300-21	211	431	(220)
34	LNG Plant Maintenance Total	300-20	211	431	(220)
35	**LNG Plant Total**	**300**	**$ 1,664**	**$ 1,361**	**$ 303**
36					
37	Measurement Operations	400-11	$ 3,810	$ 4,125	$ (315)
38	Measurement Operations Total	400-10	3,810	4,125	(315)
39	Measurement Maintenance	400-21	2,251	1,740	511
40	Measurement Maintenance Total	400-20	2,251	1,740	511
41	**Measurement Total**	**400**	**$ 6,061**	**$ 5,865**	**$ 196**
42					
43	Facilities Management	500-10	$ 6,160	$ 6,506	$ (346)
44	Shops & Stores	500-20	4,255	4,016	239
45	Operations Engineering	500-30	8,910	8,317	593
46	Property Services	500-40	1,272	1,204	68
47	System Integrity	500-50	2,432	2,330	102
48	Environmental Health & Safety	500-60	2,393	2,365	28
49	Operations Governance	500-70	1,745	1,660	85
50	**General Operations Total**	**500**	**$ 27,167**	**$ 26,398**	**$ 769**

FORTISBC ENERGY INC
OPERATION & MAINTENANCE EXPENSES - ACTIVITY VIEW (CONT'D)
($000)

Line No.	Particulars	Reference	2011	2010	Increase (Decrease)
	(1)	(2)	(3)	(4)	(5)
1	Energy Efficiency	600-10	$ (1)	$ (7)	$ 6
2	Marketing - Supervision	600-20	818	780	38
3	Corporate & Marketing Communications	600-30	2,945	3,133	(188)
4	Marketing Planning & Development	600-40	556	626	(70)
5	**Marketing Total**	**600**	**$ 4,318**	**$ 4,532**	**$ (214)**
6					
7	Customer Care - Supervision	700-10	$ 2,097	$ 1,504	$ 593
8	Customer Contact - ABSU contract	700-20	48,876	47,961	915
9	Bad Debt Management and Administration	700-30	5,276	3,384	1,892
10	Customer Management & Sales	700-40	6,570	5,645	925
11	**Customer Care Total**	**700**	**$ 62,819**	**$ 58,494**	**$ 4,325**
12					
13	Business & IT Services - Supervision	800-10	$ 138	$ 999	$ (861)
14	Application Management	800-20	12,106	10,942	1,164
15	Infrastructure Management	800-30	6,228	6,026	202
16	Procurement Services	800-40	1,160	821	339
17	**Business & IT Services Total**	**800**	**$ 19,632**	**$ 18,788**	**$ 844**
18					
19	Administration & General	900-11	$ 4,606	$ 5,608	$ (1,002)
20	Insurance	900-12	4,631	4,410	221
21	Finance and Regulatory Affairs	900-13	9,194	9,110	84
22	Shared Services Agreement	900-14	802	742	60
23	Corporate Administration Total	900-10	19,233	19,870	(637)
24	Forecasting	900-20	1,585	1,721	(136)
25	Public Affairs	900-30	1,842	1,616	226
26	Business Development	900-40	2,573	2,013	560
27	Human Resources	900-50	6,729	6,551	178
28	Other Post Employment Benefits (OPEB)	900-60	4,111	5,320	(1,209)
29	**Administration & General Total**	**900**	**$ 36,073**	**$ 37,091**	**$ (1,018)**
30					
31	**Total Gross O&M Expenses**		**213,607**	**206,519**	**7,088**
32					
33	Less: Capitalized Overhead		(30,055)	(28,905)	(1,150)
34					
35	**Total O&M Expenses**		**$ 183,551**	**$ 177,614**	**$ 5,937**

FORTISBC ENERGY INC
OVERHEAD CHARGED TO CONSTRUCTION
($000)

Line No.	Particulars	Reference	Total Expenses	Cross Charges XXX.199	Subtotal	2011 O&M Charged to Const. XXX.198	Percent Capitalized	Operation & Maintenance
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1	Total O&M Charged to Construction					$ (30,169)		
2								
3	Less Fort Nelson Service Area					114		
4								
5	Total Overhead Charged to Contruction (Total Applied to TGI)					$ (30,055)		

FORTISBC ENERGY INC
OVERHEAD CHARGED TO CONSTRUCTION
($000)

Line No.	Particulars	Reference	2001 Normal	2002 Normal	2003 Normal	2004 Normal	2005 Normal	2006 Normal	2007 Normal	2008 Normal	2009 Normal	2010 Normal	Year Ended 12/31/2011 Actual	Year Ended 12/31/2011 Normalization	Year Ended 12/31/2011 Normal	Year Ended 12/31/2011 Difference
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
1	Total capital additions, including changes in work in progress		$ 159,567	$ 157,419	$ 133,960	$ 114,027	$ 103,917	$ 119,131	$ 115,597	$ 129,832	$ 139,977	$ 168,841	$ 194,341	$ -	$ 194,341	$ 25,500
2																
3	Total overhead charged to construction (Total Applied to TGI)	#26.1	$ 23,794	$ 25,200	$ 25,104	$ 26,009	$ 26,212	$ 27,111	$ 27,401	$ 27,543	$ 28,115	$ 28,905	$ 30,055	$ -	$ 30,055	$ 1,150
4																
5	Overhead capitalized as a % of capital additions		14.9%	16.0%	18.7%	22.8%	25.2%	22.8%	23.7%	21.2%	20.1%	17.1%	15.5%	0.0%	15.5%	-1.6%
6																
7	Total O&M expenses before overhead allocation	#26	$ 156,202	$ 167,310	$ 166,067	$ 179,506	$ 168,922	$ 177,334	$ 176,965	$ 183,751	$ 190,141	$ 206,519	$ 213,606	$ -	$ 213,606	$ 7,087
8																
9	Percent change from previous year in Line 7		6.5%	7.1%	-0.7%	8.1%	-5.9%	5.0%	-0.2%	3.6%	3.5%	8.6%	3.4%	n/a	3.4%	
10																
11	Total O&M expenses after overhead allocation		$ 132,408	$ 142,110	$ 140,963	$ 153,497	$ 142,710	$ 150,223	$ 149,564	$ 156,208	$ 162,026	$ 177,614	$ 183,551	$ -	$ 183,551	$ 5,937
12																
13	Percent change from previous year in Line 11		7.4%	7.3%	-0.8%	8.9%	-7.0%	5.3%	-0.4%	4.0%	3.7%	9.6%	3.3%	n/a	3.3%	

FORTISBC ENERGY INC.
SUMMARY OF NGV FUEL EXPENSES
($000)

Line No.	Particulars	Reference	2011 Decision	Year Ended 12/31/2011 Actual	Normalization	Normal	Difference	Reason for Difference
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1	NGV FUEL							
2								
3	Operations and Maintenance		$ -	$ -	$ -	$ -	$ -	
4	Capitalized Overhead		-	-	-	-	-	
5								
6	Total		$ -	$ -	$ -	$ -	$ -	

FORTISBC ENERGY INC.
COMPENSATION DATA SUMMARY
($000)

Line No.	Particulars	Reference	2010 Normal	Year Ended 12/31/2011 Actual	Normalization	Normal	Difference	Reasons for Difference
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1	Number of Employees							
2	Executive Officers		7	6	-	6	(1)	
3	Other Management & Exempt Employees		358	427	-	427	69	Please refer to Page 33 - Difference Analysis
4	COPE		464	560	-	560	96	Please refer to Page 33 - Difference Analysis
5	IBEW		422	437	-	437	15	Please refer to Page 33 - Difference Analysis
6								
7	Total		1,251	1,430	-	1,430	179	
8								
9								
10	Total Compensation							
11	Executive Officers		$ 2,402	$ 2,135	$ -	$ 2,135	$ (267)	Please refer to Page 33 - Difference Analysis
12	Other Management & Exempt Employees		34,906	44,661	-	44,661	9,755	Please refer to Page 33 - Difference Analysis
13	COPE		29,929	34,950	-	34,950	5,021	Please refer to Page 33 - Difference Analysis
14	IBEW		35,685	37,175	-	37,175	1,490	Please refer to Page 33 - Difference Analysis
15								
16	Total		$ 102,922	$ 118,921	$ -	$ 118,921	$ 15,999	
17								
18								
19	Average Per Employee							
20	Executive Officers		$ 343.1	$ 355.8	$ -	$ 355.8	$ 12.7	
21	Other Management & Exempt Employees		97.5	104.6	-	104.6	7.1	
22	COPE		64.5	62.4	-	62.4	(2.1)	
23	IBEW		84.6	85.1	-	85.1	0.5	
24								
25	Average		$ 82.3	$ 83.2	$ -	$ 83.2	$ 0.9	
26								
27								
28	Total Compensation includes the following for Fort Nelson							
29	Management & Exempt Employees		$ 126	$ 129	$ -	$ 129	$ 3	
30	COPE		55	63	-	63	8	
31	IBEW		267	288	-	288	21	
32								
33	Total		$ 448	$ 479	$ -	$ 479	$ 31	

Note that all amounts reported are on an accrual basis to be consistent with utility income presentation

FORTISBC ENERGY INC.

DIFFERENCE ANALYSIS

Explanation of Variances
Number of employees is derived from the average number of full time workers plus the employee-equivalent number of temporary workers (FTE). As such it is an indicator of labour hours required to perform the required tasks.

Compensation varies depending on many factors, including general increases, increase in salary levels, increase in number of employees, promotions, reclassifications, individual performance, and variation in the actual mix of employees at different job levels.

In 2011 there was a substantial increase in headcount as a result of the new Customer Services group which included hiring of both COPE and M&E employees.
Some of this was offset by a slightly larger than normal retirement attrition of COPE employees in 2011.

Number of Employees
The number of IBEW employees increased 3.55% or from 422 employees in 2010 to 437 employees in 2011.

The number of COPE employees increased by approximately 20.68% from 464 to 560 in 2011. This is largely due to the hiring of additional COPE employees for the Customer Service organization.

M&E employees increased by approximately 19.27% from 358 employees in 2010 to 427 employees in 2011. There were additional hires for the Customer Service organization leading the COPE team and organization expansion.

Total Compensation and Average per Employee
Compensation to Executive Officers decreased by $267,000 or 11.12% in 2011 relative to that in 2010, reflecting changes to the members of the leadership team.

Compensation for Other Management and Exempt employees increased overall by 27.94%. The increase in compensation can be explained by the increase in headcount of the management group. Total increase in salary for M&E from 2010 to 2011 was 3.65% but this also includes the increase in headcount for M&E from 2010 to 2011.

There was an increase in total compensation for COPE employees by $5.02 million or 16.78% in 2011 which is reflective of the 2.5 percentage increase in salaries, the additional premium payments for pay in lieu etc. as a result of the collective agreement general increase as well as the substantial increase in head count for the Customer Services group.

IBEW saw an increase of $1.49 million or a 4.18% increase. The variance is as a result of increase in headcount and overtime and premium payments. There was no general increase for IBEW in 2011.

FORTISBC ENERGY INC.
DEPRECIATION AND AMORTIZATION EXPENSES
($000)

Line No.	Particulars	Reference	Year Ended 12/31/2011 Decision	Actual	Difference
	(1)	(2)	(3)	(4)	(5)
1	Depreciation Expense				
2	Manufactured Gas Production Plant		$ 1,519	$ 1,460	$ (59)
3	Transmission Plant		20,306	19,625	(681)
4	Distribution Plant		57,621	57,818	197
5	General Plant		13,521	12,930	(591)
6	Unclassified Plant		-	27	27
7	Intangible Plant		8,569	7,593	(976)
8	Bio Gas		-	3	3
9	Capital Lease Vehicles		(1,002)	(695)	307
10					
11		#9	100,534	98,760	(1,774)
12	Less - Amortization of Contributions in Aid	#10	(6,677)	(6,361)	316
13	- Depreciation Charged to Construction		-	-	-
14	- Amortization of Deferral Accounts	#13	(5,269)	(5,269)	0
15					
16		#16	88,588	87,130	(1,458)
17					
18	Add - Removal Cost Provision	#16	11,290	11,290	-
19					
20	Total Depreciation and Amortization		$ 99,878	$ 98,420	$ (1,458)

FORTISBC ENERGY INC.
OTHER REVENUE
($000)

Line No.	Particulars	Reference	2011 Decision	Year Ended 12/31/2011 Actual	Normalization	Normal	Difference	Reasons for Difference
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1	Other Utility Revenue							
2								
3	Late Payment Charge	(560)	$ 3,020	$ 2,978	$ -	$ 2,978	$ (42)	
4	Connection Charge	(561)	2,907	2,548	-	2,548	(359)	
5	NSF Returned Cheque Charges		82	72	-	72	(10)	
6								
7			6,009	5,598	-	5,598	(411)	
8								
9								
10	FortisBC Energy (Vancouver Island) Wheeling Charge		3,455	3,348	-	3,348	(107)	
11	SCP Third Party Revenue		14,798	14,811	-	14,811	13	
12	FortisBC Energy (Vancouver Island) SAP Lease Income		56	56	-	56	-	
13	Biomethane Other Revenue		-	90	-	90	90	
14	Other	(579)	76	567	-	567	491	
15								
16	Total Other Utility Revenue	#16	$ 24,394	$ 24,470	$ -	$ 24,470	$ 76	

FORTISBC ENERGY INC.
UNIT COSTS PER GJ AND PER CUSTOMER
SCHEDULE ID

Line No.	Particulars	Reference	2011 Approved	Year Ended 12/31/2011 Actual	Normalization	Normal	Difference	Reasons for Difference
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1	**COST PER GJ - Sales and Transportation**							
2	Total Revenue (including RSAM)		$7.53	$6.39	($0.39)	$6.00	($1.53)	- See Page 37
3	Less cost of gas sold including gas lost		$4.83	$3.71	($0.48)	$3.22	($1.61)	- See Page 37
4								
5	Gross Margin (including RSAM)		$2.70	$2.68	$0.10	$2.77	$0.08	- See Page 37
6								
7	Operation & Maintenance		$0.90	$0.89	$0.03	$0.92	$0.02	
8	Depreciation & Amortization		$0.43	$0.42	$0.02	$0.44	$0.01	
9	Taxes - Franchise Fees & Property Taxes		$0.25	$0.24	$0.01	$0.25	$0.01	
10	Interest		$0.53	$0.52	$0.02	$0.54	$0.01	
11	Other Revenue		($0.12)	($0.12)	($0.00)	($0.12)	($0.00)	
12	Other Expenses		$0.06	$0.06	$0.00	$0.06	$0.00	
13	Income Taxes		$0.16	$0.15	$0.01	$0.16	($0.00)	
14	ROE		$0.49	$0.51	$0.02	$0.52	$0.04	
15								
16	**COST PER CUSTOMER**							
17	Total Revenue (including RSAM)		$ 1,827	$ 1,554	$ (145)	$ 1,408	$ (419)	
18	Less cost of gas sold including gas lost		1,173	902	(145)	757	(416)	
19								
20	Gross Margin (including RSAM)		654	651	(0)	651	(3)	
21								
22	Operation & Maintenance		219	217	-	217	(2)	
23	Depreciation & Amortization		105	103	-	103	(2)	
24	Taxes - Franchise Fees & Property Taxes		59	59	-	59	(0)	
25	Interest		129	126	(0)	126	(2)	
26	Other Revenue		(29)	(29)	-	(29)	(0)	
27	Other Expenses		15	14	-	14	(0)	
28	Income Taxes		39	37	(0)	37	(1)	
29	ROE		118	123	(0)	123	5	

FORTISBC ENERGY INC.

DIFFERENCE ANALYSIS

1. Revenue, Cost of Gas and Gross Margin

Revenue differences result from customer class/usage mix variances offset by midstream-related rate increase compared with the 2011 Decision.

Cost of gas negative variance is a result of the lower consumption by 1.4% and by lower commodity rates resulting in a 53.2% lower cost of gas per GJ.

Gross Margin per gigajoule – lower number of customers and revenue mix variances impact the Margin per GJ.

FORTISBC ENERGY INC.
NGV - EARNED RETURN
SCHEDULE IE
($000)

Line No.	Particulars	Reference	2011 Decision	Year Ended 12/31/2011 Actual	Normalization	Normal	Difference	Reasons For Difference
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1	TOTAL SALES VOLUME - TJ		104	64	5	69	(35)	
2								
3	AVERAGE PRICE PER GJ		$10.288	$8.578	$10.000	$8.681	($1.607)	
4								
5	REVENUE							
6	Gas Sales		$ 1,070	$ 549	$ 50	$ 599	$ (471)	
7	Interest Revenue / Other Revenue		-	-	-	-	-	
8	Total Revenue		1,070	549	50	599	(471)	
9	Cost of Gas Sold (including Gas Lost)		668	300	31	331	(337)	
10								
11	GROSS MARGIN		402	249	19	268	(134)	
12								
13	Operating & Maintenance		-	-	-	-	-	
14	Depreciation & Amortization		196	384	-	384	188	
15	Loans Written Off		-	-	-	-	-	
16	Corporate Capital Tax		-	-	-	-	-	
17	Income Tax Expenses		36	(21)	5	(16)	(52)	
18								
19	EARNED RETURN		$ 170	$ (114)	$ 14	$ (100)	$ (269)	- See Page 39
20								
21	INVESTMENT TO DATE (MID-YEAR)							
22	Gas Plant in Service (Mid-Year)		$ (32)	$ 1,634	$ -	$ 1,634	$ 1,666	
23								
24	Cash Working Capital		-	(3)	-	(3)	(3)	
25	Deferred Charges (Mid-Year)		217	66	-	66	(151)	
26								
27	NET INVESTMENT (MID-YEAR)		$ 185	$ 1,697	$ -	$ 1,697	$ 1,512	
28								
29	RATE OF RETURN ON INVESTMENT		91.68%	-6.72%	0.00%	-5.88%	-97.56%	

FORTISBC ENERGY INC.

DIFFERENCE ANALYSIS

Revenues, sales volumes, gross margin, and earned return are lower than that per the 2011 Decision due to lower NGV sales and activity in the company's service areas relative to the forecast. Also, depreciation & amortization expenses are higher than that per the 2011 Decision due to addition of new assets during the year.

FORTISBC ENERGY INC.
INCOME TAXES
SCHEDULE III
($000)

Line No.	Particulars	Reference	Approved 2011	Year Ended 12/31/2011 Actual	Normalization	Normal	Difference	Reasons for Difference
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1	CALCULATION OF INCOME TAXES							
2	Utility Income before Taxes	#16	$ 240,929	$ 242,185	$ (140)	$ 242,045	$ 1,116	
3	Deduct - Interest on Debt	#40.1	(108,504)	(106,729)	5	(106,724)	1,780	
4	Add - Non-Tax Deductible Expense (Net)	#42	(4,769)	(4,553)	-	(4,553)	216	
5								
6	Accounting Income before Tax		127,656	130,903	(135)	130,768	3,112	
7	Deduct: Timing Differences	#42	(4,953)	(12,516)	-	(12,516)	(7,563)	
8								
9	Taxable Income before Tax		$ 122,703	$ 118,386	$ (135)	$ 118,251	$ (4,452)	
10								
11	Income Tax Rate (Current Tax)		26.500%	26.500%		26.500%	0.000%	
12	1 - Current Income Tax Rate		73.500%	73.500%		73.500%	0.000%	
13								
14								
15	Income Tax							
16	Current		$ 32,517	$ 31,372	$ (35)	$ 31,337	$ (1,180)	
17	Large Corporation Tax		-	-	-	-	-	
18								
19	Total Income Tax	#16	$ 32,517	$ 31,372	$ (35)	$ 31,337	$ (1,180)	

FORTISBC ENERGY INC.
INTEREST EXPENSE FOR UTILITY PURPOSES
($000)

Line No.	Particulars	Reference	Approved 2011	Year Ended 12/31/2011 Actual	Normalization	Normal	Difference	Reasons for Difference
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1	Utility Rate Base	#4	$ 2,629,185	$ 2,563,141	$ 499	$ 2,563,640	$ (65,545)	
2								
3	Weighted average embedded cost of debt							
4	in the capital structure							
5	Long-term debt	#45	4.05%	4.16%	0.00%	4.16%	0.10%	
6	Unfunded debt	#45	0.07%	0.01%	0.00%	0.01%	-0.07%	
7								
8								
9			4.13%	4.16%	0.00%	4.16%	0.04%	
10								
11								
12	Interest expense for income taxes							
13	related to utility operations							
14	(rate base x weighted average							
15	embedded cost of debt)		$ 108,504	$ 106,729	$ (5)	$ 106,724	$ (1,780)	

FORTISBC ENERGY INC.
FUTURE INCOME TAXES (FIT)
($000)

Line No.	Description	Approved 2011	Actual 2011
	(1)	(2)	(3)
1	Property, Plant & Equipment		
2	Net Book Value	$ (2,625,708)	$ (2,587,385)
3	Less: Undepreciated Capital Cost	(1,853,515)	(1,766,565)
4		(772,193)	(820,819)
5	Weighted Average Future Tax Rate	25%	25%
6		(193,048)	(205,205)
7			
8	Total FIT Liability - After tax (PP&E)	(193,048)	(205,205)
9	Total FIT Liability - After tax (Non-PP&E)	(27,038)	(10,019)
10	Total FIT Liability - After tax	(220,086)	(215,224)
11			
12	Tax Gross Up	(73,362)	(71,741)
13			
14	FIT Liability/Asset - End of Year	(293,448)	(286,965)
15			
16	FIT Liability/Asset - Opening Balance	(290,862)	(256,754)
17			
18	FIT Liability/Asset - Mid Year	$ (292,155)	$ (271,859)

FORTISBC ENERGY INC.

DIFFERENCE ANALYSIS

Differences on Pages 40 to 40.1 arise from various variances throughout the Annual Report, primarily in revenues, O&M expenses, depreciation & amortization and rate base as well as timing differences in calculating taxable income, which result in income tax being $1.2 million lower than approved on a normalized basis.

FORTISBC ENERGY INC.
NON-TAX DEDUCTIBLE EXPENSES (NET) AND TIMING DIFFERENCE ADJUSTMENTS
SCHEDULE III
($000)

Line No.	Particulars	Reference	Approved 2011	Year Ended 12/31/2011 Actual	Normalization	Normal	Difference
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1	ITEMS OF A PERMANENT NATURE INCREASING TAXABLE INCOME						
2	Amortization of Deferred Charges		$ (5,269)	$ (5,269)	$ -	$ (5,269)	$ 0
3							
4	Less: Deferred Interest Amortization		-	-	-	-	-
5							
6	Non-tax deductible expenses		500	715	-	715	215
7							
8	Items of a Permanent Nature Decreasing Taxable Income						
9	Plant removal costs		-	-	-	-	-
10							
11	Total Permanent Differences	#40	$ (4,769)	$ (4,553)	$ -	$ (4,553)	$ 216
12							
13							
14	TIMING DIFFERENCE ADJUSTMENTS						
15	Depreciation & Removal Cost Provision		$ 105,147	$ 103,689	$ -	$ 103,689	$ (1,458)
16	Less: Depreciation Charged to Construction		-	-	-	-	-
17							
18	Amortization of debt issue expenses for accounting		621	481	-	481	.
19	Debt issue costs for tax purposes		(803)	(979)	-	(979)	(176)
20	Capital cost allowance		(97,259)	(96,410)	-	(96,410)	849
21	Cumulative eligible capital allowance		(937)	(968)	-	(968)	(31)
22	Unfunded pension & OPEB		3,176	(3,299)	-	(3,299)	(6,475)
23	Overheads Capitalized for Tax Purposes		(12,881)	(12,881)	-	(12,881)	-
24	Vehicle lease		(1,707)	(2,148)	-	(2,148)	(441)
25	Major inspection costs		(310)	-	-	-	310
26	Other Timing Differences		-	-	-	-	-
27							
28	Total Timing Differences	#40	$ (4,953)	$ (12,516)	$ -	$ (12,516)	$ (7,423)

FORTISBC ENERGY INC.
CAPITAL COST ALLOWANCE
($000)

Line No.	Class	CCA Rate %	UCC 1/1/2011	Opening Adjustments	Net Additions	UCC before Allowance	CCA	UCC 12/31/2011
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1	1	4%	$ 1,128,841	$ -	$ 326	$ 1,129,167	$ 45,160	$ 1,084,007
2	1.3	6%	12,643	(35)	6,412	19,020	949	18,071
3	2	(Manual)	154,315	-		154,315	9,259	145,056
4	3	(Manual)	2,685	-		2,685	134	2,551
5	6	10%	185	-		185	19	166
6	7	15%	4,025	17	2,922	6,964	825	6,139
7	8	20%	19,113	21	6,083	25,217	4,435	20,782
8	9	25%	-	-		-	-	-
9	10	30%	1,816	(13)	512	2,315	618	1,697
10	12	100%	2,836	237	10,543	13,616	8,344	5,272
11	13	(Manual)	1,793	-	7	1,800	1,065	735
12	14	(Manual)	-	-		-	-	-
13	17	8%	206	-		206	16	190
14	38	30%	429	-	225	654	161	493
15	39	25%	-	-		-	-	-
16	45	45%	666	-		666	300	366
17	47	8%	5,948	(117)	49	5,880	468	5,412
18	49	8%	40,535	898	40,956	82,389	4,953	77,436
19	50	55%	656	-	5,199	5,855	1,791	4,064
20	51	6%	226,246	(2,500)	68,659	292,405	15,485	276,920
21	52	100%	-	-	2,428	2,428	2,428	-
22								
23		Total	$ 1,602,938	$ (1,492)	$ 144,321	$ 1,745,767	$ 96,410	$ 1,649,357

FORTISBC ENERGY INC.

COMMON EQUITY

($000)

	2011 Approved	2011 Normal	Difference
Common Equity at 40.00% of Rate Base	$1,051,674	$1,025,456	($26,218)

FORTISBC ENERGY INC.

DIFFERENCE ANALYSIS

Recorded common equity is lower due to a lower rate base. See also Page 45 – Return on Capital and Page 47 to 47.1 – Reconciliation of Average Non-Consolidated Capital Structure per Financial Statements to Average Utility Capital Structure.

FORTISBC ENERGY INC.
RETURN ON CAPITAL
SCHEDULE IV
($000)

Line			Approved	Year Ended 12/31/2011				
No.	Particulars	Reference	2011	Actual	Normalization	Normal	Difference	Reasons for Difference
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1	Unfunded debt		$ 42,825	$ 3,199	$ 299	$ 3,498	$ (39,327)	
2	proportion		1.63%	0.12%	0.02%	0.14%	-1.49%	
3	rate of return		4.50%	4.50%	0.00%	4.50%	0.00%	
4	return component		0.07%	0.01%	0.00%	0.01%	-0.07%	
5								
6	Long term debt	#48	$ 1,534,686	$ 1,534,686	$ -	$ 1,534,686	$ -	
7	proportion		58.37%	59.88%	-0.02%	59.86%	1.49%	
8	rate of return	#48	6.95%	6.95%	0.00%	6.95%	0.00%	
9	return component		4.05%	4.16%	0.00%	4.16%	0.10%	
10								
11	Preference shares		$ -	$ -	$ -	$ -	$ -	
12	proportion		0.00%	0.00%	0.00%	0.00%	0.00%	
13	rate of return		0.00%	0.00%	0.00%	0.00%	0.00%	
14	return component		0.00%	0.00%	0.00%	0.00%	0.00%	
15								
16	Common equity	#43	$ 1,051,674	$ 1,025,256	$ 200	$ 1,025,456	$ (26,218)	
17	proportion		40.00%	40.00%	0.00%	40.00%	0.00%	
18	rate of return		9.50%	10.15%	-0.01%	10.14%	0.64%	
19	return component		3.80%	4.06%	0.00%	4.06%	0.26%	
20								
21								
22			$ 2,629,185	$ 2,563,141	$ 499	$ 2,563,640	$ (65,545)	
23								
24								
25	Return on rate base	#16	7.93%	8.22%	-0.01%	8.22%	0.29%	
26								
27								
28	Utility rate base	#4	$ 2,629,185	$ 2,563,141	$ 499	$ 2,563,640	$ (65,545)	

FORTISBC ENERGY INC.

DIFFERENCE ANALYSIS

Differences reflect overall variances from forecast explained in the various sections of the Annual Report.

FORTISBC ENERGY INC.
RECONCILIATION OF AVERAGE NON-CONSOLIDATED CAPITAL STRUCTURE
TO AVERAGE UTILITY CAPITAL STRUCTURE
FOR THE YEAR ENDED DECEMBER 31, 2011
($000)

Line No.	Particulars	Financial Statement Average	Premium	Franchise Obligation	Assets Attracting AFUDC	Other Assets	Adjusted Financial Statements	Average Capital Structure Per BCUC Annual Report	Fort Nelson Service Area Capital Structure	Lower Mainland, Inland & Columbia Service Areas Capital Structure
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1	Unfunded Debt	$ 93,825	$ (7,557)	$ -	$ (41,245)	$ 1,498	$ 46,522	$ 3,950	$ 751	$ 3,199
2										
3	Long-Term Debt	1,452,133	(47,795)	76,673	-	13,638	1,494,649	1,537,699	3,013	1,534,686
4										
5	Preference Shares	-	-	-	-	-	-	-	-	-
6										
7	Common Equity	1,042,671	(27,263)	51,115	(27,496)	(10,782)	1,028,244	1,027,766	2,510	1,025,256
8										
9										
10	Total Capital	$ 2,588,629	$ (82,615)	$ 127,788	$ (68,741)	$ 4,354	$ 2,569,415	$ 2,569,415	$ 6,274	$ 2,563,141
11										
12										
13										
14										
15	Unfunded Debt %	3.61%	9.15%	0.00%	60.00%	34.41%	1.81%	0.15%	11.98%	0.12%
16										
17	Long-Term Debt %	56.10%	57.85%	60.00%	0.00%	313.22%	58.17%	59.85%	48.02%	59.88%
18										
19	Preference Shares %	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
20										
21	Common Equity %	40.28%	33.00%	40.00%	40.00%	-247.63%	40.02%	40.00%	40.00%	40.00%
22										
23										
24	Total Capital %	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

FORTISBC ENERGY INC.
RECONCILIATION OF NON-CONSOLIDATED LONG-TERM DEBT TO UTILITY LONG-TERM DEBT
FOR THE YEAR ENDED DECEMBER 31, 2011
($000)

Line No.	Particulars	12/31/2010	New Issues/ Sinking Fund Payments	12/31/2011	Adjustment to Weighted Average	2011 Average
	(1)	(2)	(3)	(4)	(5)	(6)
1	Long Term Portion Of Long-Term Debt at Year End	$ 1,592,133		$ 1,692,454		
2	Current Portion of Long-Term Debt at Year End	2,594		2,903		
3						
4	Total Year End Long-Term Debt per Financial Statements	$ 1,594,727		$ 1,695,357		
5						
6	Vehicle Lease Obligation	$ 12,936	$ 1,579	$ 14,515	$ -	$ 14,515
7	BC Hydro Premium	8,326	2,617	10,943	-	10,943
8	New Issues of Medium Term Note Series 25	-	100,000	100,000	(93,699)	6,301
9	All Other Debt Issues and Capital Leases	1,573,465	(3,566)	1,569,899	475	1,570,374
10						
11	Total Year End Long-Term Debt per Financial Statements	1,594,727	100,630	1,695,357	(93,224)	1,602,133
12						
13	Less: Inland Energy Corp. Debentures	(150,000)	-	(150,000)		(150,000)
14		1,444,727	100,630	1,545,357	(93,224)	1,452,133
15	Less: Non-Utility Portion of Debt Issues					
16	Series A PMM ($74,955-$69,886)	(7,686)	2,617	(5,069)	-	(5,069)
17	Series B PMM ($200,000-$157,274)	(42,726)	-	(42,726)	-	(42,726)
18						
19	Long-term debt issue costs	13,164	949	14,113	(475)	13,638
20	Capital Leases	-	-	-	-	-
21		(37,248)	3,566	(33,682)	(475)	(34,157)
22						
23	Add: Franchise Obligation	79,507	(2,834)	76,673		76,673
24						
25	Sub-total	1,486,986	101,362	1,588,348	(93,699)	1,494,649
26						
27						
28	To adjust the average of new issues from actual average issue					
29	dates and principal to forecast average issue dates.				43,050	43,050
30						
31	Less: Fort Nelson Portion of Long-Term Debt	(2,942)	(71)	(3,013)	-	(3,013)
32						
33	Average Utility Long-Term Debt	$ 1,484,044	$ 101,291	$ 1,585,335	$ (50,649)	$ 1,534,686

FORTISBC ENERGY INC.
RECONCILIATION OF AVERAGE NON-CONSOLIDATED CAPITAL STRUCTURE
PER FINANCIAL STATEMENT TO AVERAGE UTILITY CAPITAL STRUCTURE
FOR THE YEAR ENDED DECEMBER 31, 2011

Page 47, Col. (2) - Financial Statement Average ($000)

Line 1 - Unfunded Debt - $93,825

13-Month average of unfunded debt balances.

Line 3 - Long-Term Debt - $1,452,133

See Page 47.1

Line 5 - Preference Shares - $0

Line 7 - Common Equity

	2011 Recorded	2011 Average
Balance FOY, restated	1,021,469	1,021,469
Common equity & contributed surplus issued	10,131	1,405
Net Income	101,160	61,336
Common dividends	(85,000)	(41,538)
Other Adj	-	-
Balance EOY	1,047,760	1,042,671

FORTISBC ENERGY INC
EMBEDDED COST OF LONG-TERM DEBT
FOR THE YEAR ENDED DECEMBER 31, 2011
($000)

Line No.	Particulars	Issue Date	Maturity Date	Coupon Rate	Principal Amount of Issue	Issue Expense	Net Proceeds of Issue	Effective Interest Cost	Average Principal Outstanding	Annual Cost	Average Embedded Cost
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
1	Series A Purchase Money Mortgage	3-Dec-1990	30-Sep-2015	11.800%	$ 58,943	$ 855 *	$ 69,031	12.054%	$ 69,886	$ 8,424	$ 1,403,461
2	Series B Purchase Money Mortgage	30-Nov-1991	30-Sep-2016	10.300%	157,274	2,228	155,046	10.461%	157,274	16,452	
3											
4	2004 Medium Term Note -Series 18	29-Apr-2004	1-May-2034	6.500%	150,000	1,915	148,085	6.598%	150,000	9,897	
5	2005 Medium Term Note -Series 19	25-Feb-2005	26-Feb-2035	5.900%	150,000	1,663	148,337	5.980%	150,000	8,970	
6	2006 Medium Term Note - Series 21	25-Sep-2006	25-Sep-2036	5.550%	120,000	784	119,216	5.595%	120,000	6,714	
7	2007 Medium Term Note - Series 22	2-Oct-2007	2-Oct-2037	6.000%	250,000	2,303	247,697	6.067%	250,000	15,168	
8	2008 Medium Term Note - Series 23	13-May-2008	13-May-2038	5.800%	250,000	2,412	247,588	5.869%	250,000	14,673	
9	2009 Medium Term Note - Series 24	24-Feb-2009	24-Feb-2039	6.550%	100,000	1,234	98,766	6.645%	100,000	6,645	
10	2011 Medium Term Note - Series 25	9-Dec-2011	9-Dec-2041	4.250%	100,000	1,355	98,645	4.331%	6,301	273	
11											
12	Medium Term Note - Series 11	21-Sep-1999	21-Sep-2029	6.950%	150,000	2,290	147,710	7.073%	150,000	10,610	
13											
14	LILO Obligations - Kelowna							5.919%	25,729	1,523	
15	LILO Obligations - Nelson							7.093%	4,110	292	
16	LILO Obligations - Vernon							8.242%	12,267	1,011	
17	LILO Obligations - Prince George							7.256%	31,571	2,291	
18	LILO Obligations - Creston							6.496%	2,996	195	
19											
20	Vehicle Lease Obligation							7.631%	14,515	1,108	
21									1,494,649	104,246	
22											
23	2011 Adjustment to Forecast								43,050	2,540	
24											
25	Sub-Total								1,537,699	106,786	
26	Less - Fort Nelson Division Portion of Long Term Debt								(3,013)	(209)	
27	**MID-YEAR LONG-TERM DEBT**								$ 1,534,686	$ 106,577	6.945%
28											
29	* Includes adjustment of $10,943 for BC Hydro Premium										

FORTISBC ENERGY INC.
LILO FRANCHISE OBLIGATION SUMMARY
FOR THE YEAR ENDED DECEMBER 31, 2011
($000)

Line No.	Particulars	Balance 12/31/2010	Additions	Balance 12/31/2011	Adjustment to Weighted Average	2011 Average
	(1)	(2)	(3)	(4)	(5)	(6)
1	Kelowna Franchise Obligation					
2	Gross	$ 36,299	$ -	$ 36,299	$ -	$ 36,299
3	Amortization	(9,564)	(3,450)	(13,014)	2,444	(10,570)
4	Net Book Value	26,735	(3,450)	23,285	2,444	25,729
5						
6	Vernon Franchise Obligation					
7	Gross	16,750	-	16,750	-	16,750
8	Amortization	(4,019)	(1,622)	(5,641)	1,158	(4,483)
9	Net Book Value	12,731	(1,622)	11,109	1,158	12,267
10						
11	Nelson Franchise Obligation					
12	Gross	5,360	-	5,360	-	5,360
13	Amortization	(1,102)	(533)	(1,635)	385	(1,250)
14	Net Book Value	4,258	(533)	3,725	385	4,110
15						
16	Prince George Franchise Obligation					
17	Gross	40,200	-	40,200	-	40,200
18	Amortization	(7,515)	(4,057)	(11,572)	2,943	(8,629)
19	Net Book Value	32,685	(4,057)	28,628	2,943	31,571
20						
21	Creston Franchise Obligation					
22	Gross	3,685	-	3,685	-	3,685
23	Amortization	(587)	(379)	(966)	277	(689)
24	Net Book Value	3,098	(379)	2,719	277	2,996
25						
26	Total Franchise Obligation					
27	Gross	102,294	-	102,294	-	102,294
28	Amortization	(22,787)	(10,041)	(32,828)	7,207	(25,621)
29	Net Book Value	$ 79,507	$ (10,041)	$ 69,466	$ 7,207	$ 76,673

FORTISBC ENERGY INC.

DIRECTORS AND OFFICERS

Report below the name, title and business address of each director and general officer.

AS OF DECEMBER 31, 2011

NAME	BUSINESS ADDRESS	OFFICE HELD
DIRECTORS		
H. Stanley Marshall	Suite 1201 Fortis Building 139 Water Street St. John's, NL A1B 3T2	Director and Chairman
Harold G. Calla	Suite 905, 100 Park Royal West Vancouver, B.C. V7V 1A2	Director
Brenda Eaton	310 – 1675 Douglas Street Victoria, BC V8W 2G5	Director
Ida J. Goodreau	1239 Miller Road P.P. G-53 Bowen Island, BC V0N 1G0	Director
Roger M. Mayer	2794 River Road Keremeos, BC V0X 1N1	Director
Harry McWatters	#3 – 7519 Prairie Valley Road Summerland, BC V0H 1Z4	Director
Barry V. Perry	Suite 1201 Fortis Building 139 Water Street St. John's, NL A1B 3T2	Director
Linda S. Petch	3050 Baynes Road Victoria, B.C. V8N 1Y7	Director
David R. Podmore	9th Floor, 1190 Hornby Street Vancouver, B.C. V6Z 2K5	Director
John C. Walker	10th Floor, 1111 West Georgia Street Vancouver, BC V6E 4M3	Director and President and CEO
Beth D. Campbell	3180 Skaha Lake Road Penticton, BC V2A 6G4	Director
Karl W. Smith	320 17th Ave S.W. Calgary, AB T2S 2V1	Director

FORTISBC ENERGY INC.

DIRECTORS AND OFFICERS

Report below the name, title and business address of each director and general officer.

AS OF DECEMBER 31, 2011

NAME	BUSINESS ADDRESS	OFFICE HELD
<u>OFFICERS</u>		
John C. Walker	10th Floor - 1111 West Georgia St., Vancouver, BC, V6E 4M3	President & CEO
Michael A. Mulcahy	10th Floor - 1111 West Georgia St., Vancouver, BC, V6E 4M3	Executive Vice-President, Human Resources, Customer & Corporate Services
Robert M. Samels	10th Floor - 1111 West Georgia St., Vancouver, BC, V6E 4M3	Vice President, Business Planning
Douglas L. Stout	10th Floor - 1111 West Georgia St., Vancouver, BC, V6E 4M3	Vice President, Energy Solutions & External Relations
Scott A. Thomson	10th Floor - 1111 West Georgia St., Vancouver, BC, V6E 4M3	Executive Vice President, Finance, Regulatory & Energy Supply
Dwain A. Bell	10th Floor - 1111 West Georgia St., Vancouver, BC, V6E 4M3	Vice President, Operations
Cynthia Des Brisay	10th Floor - 1111 West Georgia St., Vancouver, BC, V6E 4M3	Vice President, Energy Supply & Resource Development
Roger Dall'Antonia	10th Floor - 1111 West Georgia St., Vancouver, BC, V6E 4M3	Vice President, Finance and CFO; Treasurer
David C. Bennett	10th Floor - 1111 West Georgia St., Vancouver, BC, V6E 4M3	Vice President, General Counsel and Corporate Secretary
Thomas A. Loski	10th Floor - 1111 West Georgia St., Vancouver, BC, V6E 4M3	Vice-President, Customer Service
Doyle Sam	10th Floor - 1111 West Georgia St., Vancouver, BC, V6E 4M3	Vice-President, Engineering & Generation
Debra G. Nelson	10th Floor - 1111 West Georgia St., Vancouver, BC, V6E 4M3	Assistant Corporate Secretary

FORTISBC ENERGY INC.

SECURITY HOLDERS AND VOTING POWERS

1. Give the names and addresses of the 10 security holders of the utility who, at the date of the latest closing of transfer books or compilation of lists of stocks or shareholders of the utility, prior to the end of the year, had the highest voting powers in the utility, and state the number of votes which each would have had the right to cast of that date if a meeting were then in order. If any such holder held in trust, give in a footnote the known particulars of the trust (whether voting trust, etc.), duration of trust and principal holders of beneficiary interest in the trust. Arrange the names of the security holders in the order of voting power, commencing with the highest. Show in column (a) the titles of officers and directors included in such list of 10 security holders.

2. Give also the voting powers resulting from ownership of securities of the utility of each officer and director not included in the list of 10 largest security holders.

3. If any security other than common/ordinary shares/stock carries voting rights, explain the circumstances whereby such security became vested with voting rights.

4. Furnish particulars concerning any options, warrants, or rights outstanding at the end of the year for others to purchase securities of the utility or any securities or other assets owned by the utility including prices, expiration dates and other material information relating to the exercise of the options, warrants or rights. Specify the amount of such securities or assets so entitled to be purchased by any officer, director, associated company, or any of the ten largest security holders. This instruction is inapplicable to convertible securities or to any securities substantially all of which are outstanding in the hands of the general public where the options, warrants or rights were issued on a pro rata basis.

	VOTING SECURITIES			
NAME AND ADDRESS	NUMBER OF VOTES AS AT December 31, 2011			
OF SECURITY HOLDER (a)	Total Votes(b)	Common (c)	Preferred (d)	Other (e)

See attached schedules

FORTISBC ENERGY INC.
TEN LARGEST COMMON SHAREHOLDERS
as at December 31, 2011

Name and Address of Security Holder	Shares Held

All the common shares of FortisBC Energy Inc. are held directly or indirectly by FortisBC Holdings Inc. (a subsidiary of Fortis Inc.), 10th Floor – 1111 West Georgia St., Vancouver, B.C., V6E 4M3.

CONTROL OVER UTILITY

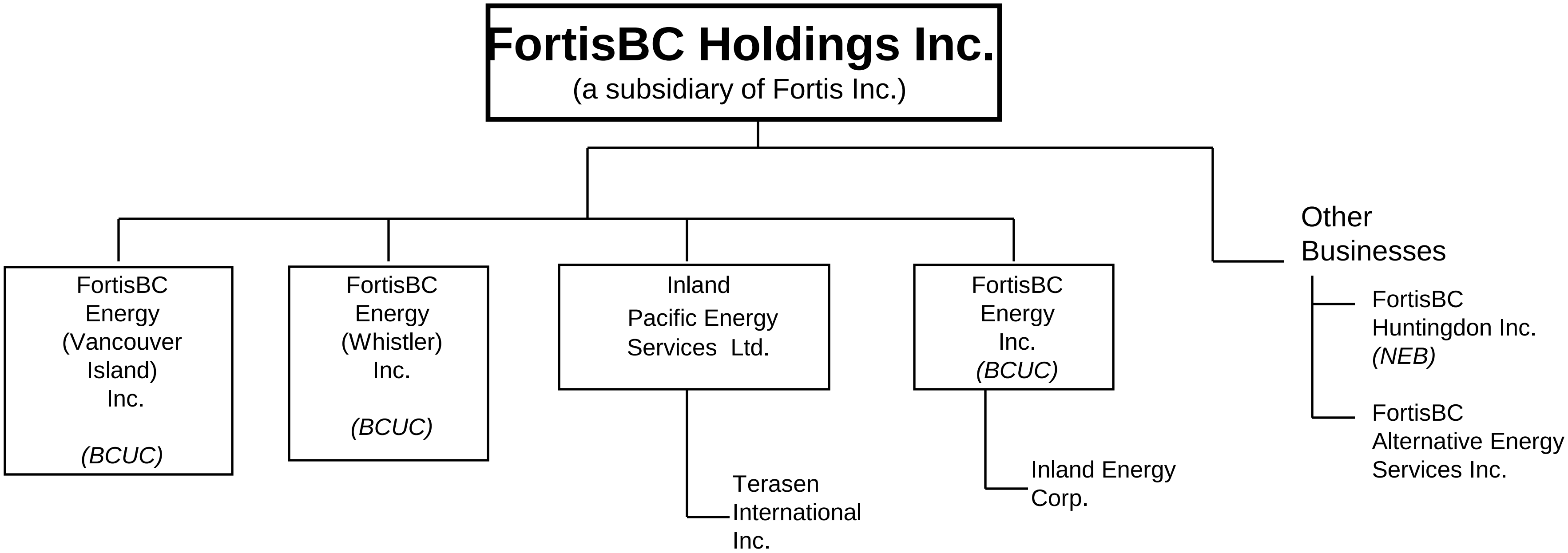
If any corporation, business trust, or similar organization or combination of such organizations jointly held control over the utility at end of year, state name of controlling corporation or organization, manner in which control was held and extent of control. If control was in a holding company organization, show the chain of ownership or control to the main parent company or organization. If control was held by a trustee(s), state name of trustee(s), name of beneficiary or beneficiaries for whom trust was maintained, and purpose of the trust.

The chart of Page 51.1 depicts the corporate relationships between FortisBC Energy Inc. ("FEI") and its parent, FortisBC Holdings Inc., as well as FEI's subsidiaries and affiliates. The chart shows FortisBC Energy's corporate structure as at December 31, 2011. Additional details are included as part of the Company's 2011 Annual Non-Regulated Business ("NRB") Information Report (included under Tab 18).

FortisBC Holdings Inc.

Chart #1

Canadian NRB Affiliates
December 31, 2011



CORPORATIONS CONTROLLED BY FORTISBC ENERGY INC.

1. Report below the names of all corporations, business trusts and similar organizations, controlled directly or indirectly by FEI at any time during the year. If control ceased prior to end of year, give particulars in a footnote.

2. If control was by other means than a direct holding of voting rights, state in a footnote the manner in which control was held, naming any intermediaries involved.

3. If control was held jointly with one or more other interests, state the fact in a footnote and name other interests.

Name of Company Controlled	Kind of Business	Percent Voting Stock Owned	Footnote Reference
Inland Energy Corp	Non-operating subsidiary holds Land Title for Rights-of-Way	100%	Direct Control

DEFINITIONS

1. Direct control is that which is exercised without interposition of an intermediary.

2. Indirect control is that which is exercised by the interposition of an intermediary which exercises direct control.

3. Joint control is that in which neither interest can effectively control or direct action without the consent of the other, as where the voting control is equally divided between two holders, or each party holds a vetopower over the other.

FORTISBC ENERGY INC.

IMPORTANT CHANGES DURING THE YEAR - 2011

Furnish particulars, including effective dates, concerning the matters indicated below:

1. Changes or additions to franchise rights.

2. Acquisition or disposal of ownership in other companies; consolidation, merger or reorganization with other companies.

3. Acquisition or disposal of an operating unit or system.

4. Important leaseholds.

5. Important extension or reduction in transmission or distribution system.

6. Estimated annual effect and nature of important wage scale changes during the year.

7. Important legal proceedings pending, in progress, or concluded during the year.

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1. Village of Clinton has extended the term of the agreement dated March 13, 1990 to March 31, 2012.

   District of Peachland entered into a new UBCM form of Operating Agreement effective April 12, 2011 for a term of 20 years. The previous agreement expired on October 8, 2010.

   City of Greenwood entered into a new UBCM form of Operating Agreement effective January 1, 2012 for a term of 20 years. The previous agreement expired December 31, 2011.

   Municipality of Coldstream has further extended the term of the agreement dated January 28, 1991 until June 30, 2012.

   District of MacKenzie has extended the term of the agreement dated October 28, 1991 to June 15, 2012.

   District of Sparwood entered into a new UBCM form of Operating Agreement effective September 9, 2011 for a term of 21 years. The previous agreement expired September 9, 2011.

   Village of Lumby entered into a new UBCM form of Operating Agreement effective August 24, 2011 for a term of 20 years. The previous agreement expired August 10, 2011

2. None.

3. None.

4. None.

5. Transmission extensions:
- There were no important extensions or reductions in the transmission system.

Distribution extensions:
- There were no important extensions or reductions in the distribution system.

6. In 2011, the M&E salary scale was increased by approximately 3.65% effective January 1, 2011. The salary scales for the COPE increased by 2.5%, effective April 1, 2011. The IBEW did not change from 2010.

7. **(a) Southern Crossing Landowner Compensation Claims**

The Utility has two claims against it relating to the construction of the Southern Crossing Project that have not changed. They are:

(i) The single claim before the Expropriation Compensation Board by H.Y. Mann and Elizabeth Mann is for compensation for expropriated land. The claim has been dormant for some time and even if successful, would likely not exceed $20,000.

(ii) Another claim is by an individual named Douglas Greff for damages relating to a small slide on his land arising out of the construction of the Southern Crossing Pipeline Project. This claim has been dormant for some time and even if successful, would likely not exceed $45,000.

(b) Borgnetta v. FortisBC Energy Inc.

No changes in this litigation.

This is a claim in the Supreme Court of British Columbia brought against FEI by an individual named Borgnetta. This is a counterclaim to an injunction lawsuit brought by FEI when Mr. Borgnetta tried to interfere with pipeline construction. The matter is inactive.

(c) Gable Construction Ltd. v. FortisBC Energy Inc. and Marwest Contracting Co. Ltd.

No change to this litigation.

Nature of Action: The Plaintiff installed an underground water main on Fort Nelson First Nations lands located near the town of Fort Nelson. In or about November, 2005, the water main was damaged by heavy construction equipment operated by Marwest Contracting, a contractor for FEI.

Monetary Value: Plaintiff's claim is for negligence, loss and damages and specifically, the cost of remediating the damaged water main.

Disposition: The Plaintiff has filed a writ. No statement of claim has been filed yet. FEI has filed an appearance. Plaintiff formally discontinued action against FEI as of February, 2011.

(d) City of Surrey v. FortisBC Energy Inc.; FortisBC Energy Inc. v. City of Surrey, Angus Properties Ltd. and R.R.G. Land Holdings Inc.

Nature of Action: Surrey brought a judicial review application against FEI concerning a decision rendered by the Oil and Gas Commission in respect of a proposed road widening by Surrey. Surrey had rejected FEI's initial offer to pay ½ of the relocation and pipeline upgrade costs associated with the proposed road widening on the condition that it would retain its current right of way or a utility lot in lieu thereof. Surrey had applied to the Oil and Gas Commission to force relocation of the pipe at FEI's cost (estimated at $917,649). The Oil and Gas Commission ordered that FEI proceed with the work but declined to deal with the issue of cost allocation as amongst FEI and Surrey for the pipeline work.

FORTISBC ENERGY INC.

IMPORTANT CHANGES DURING THE YEAR

Disposition: Surrey's application for judicial review was denied by the B.C. Supreme Court. On a subsequent application for an interlocutory injunction brought by FEI on June 30, 2008, the parties agreed to an injunction restraining Surrey from doing any preloading work on the site until July 16, 2008 so as to enable FEI to complete Phase 1 of the required pipeline work associated with the highway widening in exchange for an undertaking as to damages granted by FEI in favour of Surrey. FEI has now completed Phase 1 of the pipeline work as of July 14, 2008 and Surrey is proceeding with the highway widening. To determine the issue of the appropriate cost allocation for the pipeline work undertaken by FEI, FEI on March 12, 2009 filed a Notice of Claim against Surrey challenging the validity of the Pipeline Regulation and seeking a declaration with respect to the validity of a trunk line agreement entered into by the parties providing for arbitration in the event of failure to agree on cost allocation. Surrey has filed a Statement of Defence and Counterclaim against FEI alleging among other things, that FEI's nuisance or negligence has resulted in unquantified damages from delays in Surrey's road construction. As part of this matter, FEI also claimed against Angus Properties Ltd, the owner of the land over which Surrey is widening its highway, for allowing Surrey to proceed with the widening. Angus Properties Ltd. applied to have the claim against it dismissed and this application was allowed by the court. The parties agreed to postpone a determination of the quantum of damages until after a trial on liability. The trial on liability is now completed and we are awaiting a decision. Counsel for FEI is Steele Urquhart.

Claims by FortisBC Against 3rd Parties

(a) Claims by FortisBC Energy against City of Vancouver – Line Hit Files

No changes in this litigation.

FEI has filed five Supreme Court Actions against City of Vancouver for damage to FEI's pipeline as a result of the City's construction activities. FEI and the City of Vancouver are in settlement discussions.

FORTISBC ENERGY INC.

IMPORTANT CHANGES DURING THE YEAR

(b) **BC Gas Utility Ltd. v. Alpha Manufacturing Inc., Burns Development Inc., Utzig Holdings (B.C.) Ltd., Burns Developments (1993) Ltd.** (BCSC Action No. C952794, Vancouver)

Nature of Action: FortisBC Energy Inc. has alleged negligence and nuisance in that the Defendants caused damage to its property by depositing masses of landfill adjacent to pipelines, thereby creating risk of displacement/rupture of Plaintiff's pipelines. The B.C. Supreme Court initially rendered a decision in favour of FortisBC Energy. The Land owner and the operator of the landfill were found to be liable for breach of right-of-way covenants. The Land owner appealed the ruling to the B.C. Court of Appeal. The Court of Appeal set aside the judgment against one of the Defendants, Utzig Holdings B.C. Ltd. and remitted the action against it to a new trial.

Disposition: A new trial of this matter began on June 22, 2009 . In a judgment dated January 25, 2010, FortisBC Energy Inc. was found to be successful in its claim, and the British Columbia Supreme Court found that Utzig Holdings (B.C.) Ltd. had breached its covenants in the statutory right of way agreements with FortisBC Energy Inc., and that in the alternative Utzig Holdings (B.C.) Ltd. had committed the tort of nuisance. In a second judgment dated August 31, 2010, the British Columbia Supreme Court found that the defendant, Utzig Holdings (B.C.) Ltd., was not successful in proving that FortisBC Energy Inc. had waived the nuisance or was in any way estopped from enforcing the covenants in its right of way agreement.

Monetary Value: $7 - $8 million.

Disposition: The defendant Utzig Holdings (B.C). Ltd. is appealing the British Columbia Supreme Court's decision dated August 31, 2010T

A decision with regard to the amount of damages to be awarded and costs will be determined at a later date.

FORTISBC ENERGY INC.

SERVICE INTERRUPTIONS AND PROPERTY DAMAGE

1. Report below any important interruptions of service due to failure of utility's transmission facilities or failure of utility's gas supply. State for each case the actions taken to maintain service, the duration of interruption, the restrictions imposed, and the number and classes of customers affected.

2. State particulars of any important property damage sustained during the year, including information as to cause, personal injuries, loss of life to employees or others, approximate cost of repairs, and length of time damaged facilities were out of service.

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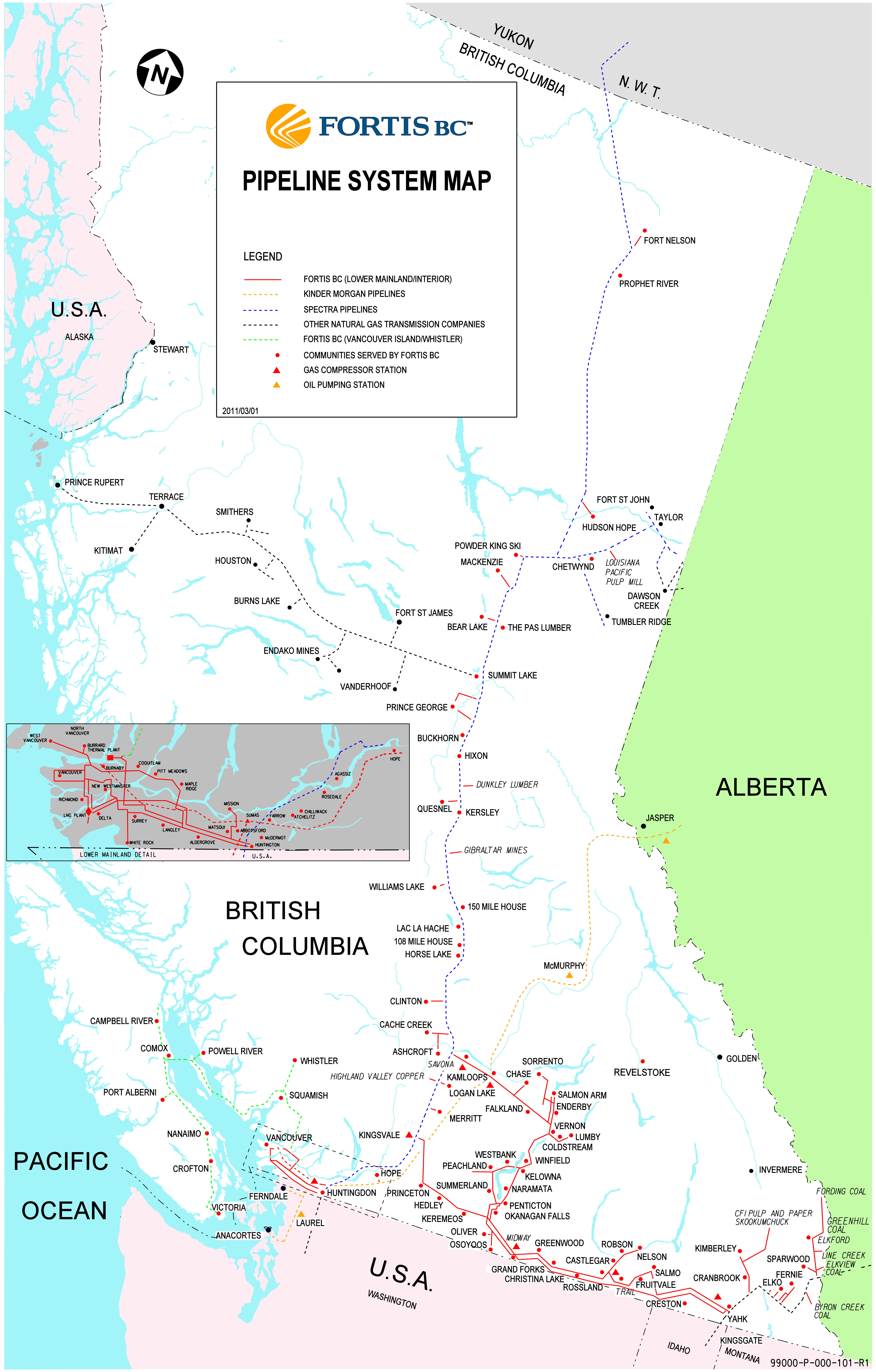
1. None.

2. None.

FORTISBC ENERGY INC.

SYSTEMS MAP


FORTIS BC
PIPELINE SYSTEM MAP
LEGEND
FORTIS BC (LOWER MAINLAND/INTERIOR)
KINDER MORGAN PIPELINES
SPECTRA PIPELINES
OTHER NATURAL GAS TRANSMISSION COMPANIES
FORTIS BC (VANCOUVER ISLAND/WHISTLER)
COMMUNITIES SERVED BY FORTIS BC
GAS COMPRESSOR STATION
OIL PUMPING STATION
2011/03/01
YUKON
BRITISH COLUMBIA
N. W. T.
U.S.A.
ALASKA
STEWART
FORT NELSON
PROPHET RIVER
PRINCE RUPERT
TERRACE
SMITHERS
KITIMAT
HOUSTON
BURNS LAKE
FORT ST JAMES
ENDAKO MINES
VANDERHOOF
FORT ST JOHN
TAYLOR
HUDSON HOPE
POWDER KING SKI
MACKENZIE
CHETWYND
LOUISIANA PACIFIC PULP MILL
DAWSON CREEK
TUMBLER RIDGE
BEAR LAKE
THE PAS LUMBER
SUMMIT LAKE
PRINCE GEORGE
BUCKHORN
HIXON
DUNKLEY LUMBER
QUESNEL
KERSLEY
ALBERTA
JASPER
GIBRALTAR MINES
WILLIAMS LAKE
150 MILE HOUSE
BRITISH COLUMBIA
LAC LA HACHE
108 MILE HOUSE
HORSE LAKE
McMURPHY
CLINTON
CACHE CREEK
CAMPBELL RIVER
COMOX
POWELL RIVER
WHISTLER
ASHCROFT
SAVONA
SORRENTO
REVELSTOKE
GOLDEN
HIGHLAND VALLEY COPPER
KAMLOOPS
CHASE
LOGAN LAKE
SALMON ARM
PORT ALBERNI
SQUAMISH
ENDERBY
FALKLAND
MERRITT
NANAIMO
VANCOUVER
KINGSVALE
VERNON
LUMBY
COLDSTREAM
WESTBANK
WINFIELD
PEACHLAND
KELOWNA
PACIFIC OCEAN
CROFTON
HOPE
INVERMERE
SUMMERLAND
NARAMATA
FERNDALE
HUNTINGDON
PRINCETON
FORDING COAL
VICTORIA
HEDLEY
PENTICTON
OKANAGAN FALLS
CFI PULP AND PAPER SKOOKUMCHUCK
GREENHILL COAL
ELKFORD
LAUREL
KEREMEOS
ANACORTES
OLIVER
MIDWAY
GREENWOOD
ROBSON
KIMBERLEY
LINE CREEK
ELKVIEW COAL
OSOYOOS
NELSON
SPARWOOD
CASTLEGAR
GRAND FORKS
SALMO
FERNIE
CHRISTINA LAKE
FRUITVALE
CRANBROOK
ELKO
ROSSLAND
TRAIL
CRESTON
BYRON CREEK COAL
U.S.A.
WASHINGTON
YAHK
IDAHO
KINGSGATE
MONTANA
99000-P-000-101-R1
NORTH VANCOUVER
WEST VANCOUVER
BURRARD THERMAL PLANT
BURNABY
COQUITLAM
PITT MEADOWS
VANCOUVER
NEW WESTMINSTER
MAPLE RIDGE
AGASSIZ
RICHMOND
ROSEDALE
MISSION
LNG PLANT
DELTA
SURREY
SUMAS
ARROW
CHILLIWACK
ATCHELITZ
LANGLEY
MATSQUI
ABBOTSFORD
McDERMOT
WHITE ROCK
ALDERGROVE
HUNTINGTON
LOWER MAINLAND DETAIL
U.S.A.

FORTISBC ENERGY INC.
INCOME AND EARNED RETURN
FOR THE YEAR ENDED DECEMBER 31, 2011

Line No.	Particulars	Approved	Normal	Difference	% Change
	(1)	(2)	(3)	(4)	(5)
1	VOLUMES (TJ)				
2	Sales				
3	Residential	68,579	68,933	354	0.52%
4	Commercial	41,771	40,761	(1,010)	-2.42%
5	Industrial	3,392	2,870	(522)	-15.39%
6	Burrard Thermal	-	-	-	0.00%
7	Intercompany Sales	-	-	-	0.00%
8	NGV	104	69	(35)	-33.65%
9					
10	Total Sales Volumes	113,846	112,633	(1,213)	-1.07%
11					
12	T-Service	91,014	85,864	(5,150)	-5.66%
13					
14	Total Volumes	204,860	198,497	(6,363)	-3.11%
15					
16	REVENUE ($000)				
17	Sales				
18	Residential	$ 929,275	$ 726,834	$ (202,441)	-21.78%
19	Commercial	503,438	362,122	(141,316)	-28.07%
20	Industrial	30,180	21,002	(9,178)	-30.41%
21	Burrard Thermal	-	-	-	0.00%
22	Intercompany Sales	-	-	-	0.00%
23	NGV	1,070	599	(471)	-44.02%
24	RSAM Revenue	-	(4,490)	(4,490)	0.00%
25					
26	Sales - Total Revenue	1,463,963	1,106,067	(357,896)	-24.45%
27	- $/GJ	$ 12.86	$ 9.82	$ (3.04)	-23.63%
28					
29	T-Service - Total Revenue	77,938	84,380	6,442	8.27%
30	- $/GJ	$ 0.86	$ 0.98	$ 0.13	14.76%
31					
32	COST OF GAS - Total	989,627	639,890	(349,737)	-35.34%
33	- $/GJ	$ 8.69	$ 5.68	$ (3.01)	-34.64%
34					
35	GROSS MARGIN - Total	$ 552,274	$ 550,557	$ (1,717)	-0.31%
36	- $/GJ	$ 2.70	$ 2.77	$ 0.08	2.88%

FORTISBC ENERGY INC.
INCOME AND EARNED RETURN
FOR THE YEAR ENDED DECEMBER 31, 2011

Line No.	Particulars	Approved	Normal	Difference	% Change
	(1)	(2)	(3)	(4)	(5)
1	Operation and Maintenance	$ 184,625	$ 183,551	$ (1,074)	-0.58%
2	Property and Sundry Taxes	50,211	50,211	-	0.00%
3	Depreciation and Amortization	88,588	87,130	(1,458)	-1.65%
4	Removal Cost Provision	11,290	11,290	-	0.00%
5	Capitalized Depreciation	-	-	-	0.00%
6	NSP Provision	1,025	800	(225)	-21.95%
7	Other Operating Revenue	(24,394)	(24,470)	(76)	0.31%
8	Income Tax	32,517	31,337	(1,180)	-3.63%
9					
10	Total Expenses	343,862	339,849	(4,013)	-1.17%
11					
12	Earned Return	$ 208,412	$ 210,708	$ 2,296	1.10%
13					
14	Interest	$ 108,504	$ 106,724	$ (1,780)	-1.64%
15	Preferred dividends	-	-	-	0.00%
16	Return on equity	99,908	103,984	4,076	4.08%
17					
18	Total	$ 208,412	$ 210,708	$ 2,296	1.10%
19					
20	RATE BASE	$ 2,629,185	$ 2,563,640	$ (65,545)	-2.49%
21					
22	Capital Structure				
23	Debt	$ 1,577,511	$ 1,538,184	$ (39,327)	-2.49%
24	Preferred	-	-	-	0.00%
25	Equity	1,051,674	1,025,456	(26,218)	-2.49%
26					
27	Total	$ 2,629,185	$ 2,563,640	$ (65,545)	-2.49%

FORTISBC ENERGY INC.
RATE BASE AND GJ MEASUREMENTS
FOR THE YEARS ENDED

Line No.	Particulars	2001 Normal	2002 Normal	2003 Normal	2004 Normal	2005 Normal	2006 Normal	2007 Normal	2008 Normal	2009 Normal	2010 Normal	2011 Approved	2011 Normal	2011 Difference	2011 % Change
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
1	DOLLARS PER GIGAJOULE														
2	O&M Cost per GJ	$0.53	$0.64	$0.64	$0.70	$0.67	$0.72	$0.70	$0.74	$0.81	$0.88	$ 0.90	$ 0.92	$0.02	2.61%
3															
4	Average Net Plant in Service per GJ	$8.06	$9.44	$9.82	$9.91	$10.65	$10.93	$10.78	$11.20	$11.90	$12.08	$ 12.25	$ 12.41	$0.15	1.25%
5															
6	DOLLARS PER CUSTOMER														
7	O&M Cost per average number of customers														
8	- Current Dollars	$174.17	$185.30	$182.92	$196.93	$180.28	$187.13	$183.19	$189.18	$194.57	$211.69	$218.75	$217.15	($1.60)	-0.73%
9															
10	Average Net Plant in Service														
11	per average number of customers	$ 2,672	$ 2,722	$ 2,788	$ 2,798	$ 2,856	$ 2,848	$ 2,836	$ 2,849	$ 2,870	$ 2,897	$ 2,974	$ 2,913	$ (61)	-2.05%
12															
13	CUSTOMERS / VOLUMES														
14															
15	12-Month average														
16	number of customers	760,236	766,929	770,624	779,461	791,593	802,778	816,421	825,693	832,751	839,017	844,015	845,282	1,267	0.15%
17															
18															
19	Normal Volumes (TJ)	251,976	221,081	218,854	219,991	212,280	209,077	214,819	210,091	200,822	201,111	204,860	198,497	(6,363)	-3.11%
20															
21	Average Net Plant in Service														
22	(Page 4 Lines 17, 18 and 19)	$ 2,031,431	$ 2,087,633	$ 2,148,333	$ 2,180,704	$ 2,260,463	$ 2,286,157	$ 2,315,190	$ 2,352,191	$ 2,390,328	$ 2,430,235	$ 2,510,340	$ 2,462,678	$ (47,662)	-1.9%
23															
24	Operation and Maintenance Expense	$ 132,408	$ 142,110	$ 140,963	$ 153,497	$ 142,710	$ 150,223	$ 149,564	$ 156,208	$ 162,026	$ 177,614	$ 184,625	$ 183,551	$ (1,074)	-0.58%

FORTISBC ENERGY INC.
COMMON EQUITY RETURNS AND OTHER COMPARISONS
FOR THE YEARS ENDED

Line No.	Years	ROE Allowed	ROE Achieved Pre-Earnings Sharing	ROE Achieved Post-Earnings Sharing	ROE Normal	Normalized % of Common Equity to Total Capitalization	Yield L-T Canada's	NORMALIZED Common Equity $000's	NORMALIZED Rate Base $000's	NORMALIZED Volumes (TJ)	NORMALIZED Labour Force	NORMALIZED Average Customers
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
1	12/31/2001	9.25%	9.375%	9.313%	9.238%	33.00%	5.28% - 6.12%	$ 729,095	$ 2,209,380	251,976	1,447	760,236
2												
3	12/31/2002	9.13%	9.729%	-	9.920%	33.00%	5.349% - 5.996%	$ 730,442	$ 2,213,460	221,081	1,271	766,929
4												
5	12/31/2003	9.42%	10.226%	-	10.405%	33.00%	4.74% - 5.66%	$ 742,118	$ 2,248,843	218,854	1,216	770,624
6												
7	12/31/2004	9.15%	9.344%	9.247%	9.460%	33.00%	4.72% - 5.62%	$ 760,845	$ 2,305,591	219,991	1,115	779,461
8												
9	12/31/2005	9.03%	10.784%	9.907%	10.966%	33.00%	4.02% - 4.88%	$ 794,678	$ 2,408,116	212,280	1,122	791,593
10												
11	12/31/2006	8.80%	10.472%	9.636%	10.653%	35.00%	3.95% - 4.66%	$ 854,823	$ 2,442,352	209,077	1,062	802,778
12												
13	12/31/2007	8.37%	10.729%	9.550%	9.963%	35.01%	4.08% - 4.63%	$ 849,406	$ 2,426,180	214,819	1,094	816,421
14												
15	12/31/2008	8.62%	10.637%	9.628%	10.825%	35.01%	3.46% - 4.28%	$ 866,304	$ 2,474,447	210,091	1,128	825,693
16												
17	12/31/2009	8.99%	11.888%	10.439%	12.054%	35.01%	3.55% - 4.09%	$ 861,996	$ 2,462,143	200,822	1,168	832,751
18												
19	12/31/2010	9.50%	9.416%	-	9.364%	40.00%	3.39% - 4.12%	$ 1,010,087	$ 2,525,219	201,111	1,251	839,017
20												
21	12/31/2011	9.50%	10.152%	-	10.140%	40.00%	2.41% -3.87%	$ 1,025,456	$ 2,563,640	198,497	1,430	845,282
22												

23 Notes:

24 L-T Canada Yields in 2001 to 2011 actuals are the range of yields on the benchmark Government of Canada bond in the respective year.

FORTISBC ENERGY INC.
SCHEDULE OF MATERIAL AGREEMENTS

Gas Supply Agreements	Various Suppliers	Various Expiry Dates - (On file at the BCUC)
Head Office Lease dated March 22, 1990	TA Properties (Canada) Ltd.(1)	Expiry February 28, 2013
Head Office Lease dated March 1, 2011	TA Properties (Canada) Ltd (2)	Expiry February 28, 2021
Municipal Franchise and Operating Agreements	Various B.C. Municipalities	Various Expiry Dates
Collective Agreements	International Brotherhood of Electrical Workers, Local 213	Expires March 31, 2011
	Canadian Office & Professional Employees Union, Local 378	Expires March 31, 2012
Right of Ways/Easements/Permits	Various Property Holders	
Industrial Gas Contracts	Various Parties	Various Expiry Dates
Corporate Insurance Policies	Various Underwriters w/AON as our insurance broker	Expires July 1, 2012
Coastal and Interior Vehicle Lease	PHH Vehicle Management Services, Inc.	Various Expiry Dates
Debentures		
11.8% Series A Purchase Money Mortgages	CIBC Mellon Trust Company	Due September 30, 2015
10.3% Series B Purchase Money Mortgages	CIBC Mellon Trust Company	Due September 30, 2016
Various Medium Term Notes	CIBC Mellon Trust Company	Various Maturities

(1) FortisBC Energy Inc. has floors11, 12 and 24 in its lease dated March 22, 1990 with TA properties (Canada) Ltd. that it has subleased to Microsoft, London Life and Kiewet/Flatiron General Partnership respectively through February 27, 2013.

(2) FortisBC Energy Inc. has entered into a new lease dated March 1, 2011 with TA properties (Canada) Ltd. for the 10th Floor that has as expiry date of February 28, 2021.

FORTISBC ENERGY INC.
NOMINATION SCHEDULE (10^3M^3 per Day)
FOR THE YEAR ENDED DECEMBER 31, 2011

Line No.	Particulars	1/11-10/11	11/11-12/11
	(1)	(2)	(3)
1	**Customer Requirements**		
2	**Lower Mainland, Inland and Columbia Service Areas**		
3	Rate 1 - Residential	17,920.2	18,201.3
4	Rate 2 - Small Commercial	6,353.9	6,031.2
5	Rate 3 - Large Commercial	3,444.3	3,289.4
6	Rate 4 - Seasonal	-	-
7	Rate 5 - General Firm Service	489.7	368.9
8	Rate 6 - NGV & VRA	8.0	4.3
9	Whistler	143.6	134.4
10	Subtotal	28,359.6	28,029.6
11	Other	-	-
12	T-Service (Not Available)		
13	Total Requirements	28,359.6	28,029.6
14			
15	**Supply MDQ**		
16	Basegas Supply - Canadian	2,457.5	2,222.2
17	- US	-	-
18	Total Basegas	2,457.5	2,222.2
19			
20	Seasonal and Peaking Supply	11,704.5	8,747.8
21			
22	Storage Supply - Aitken Creek	3,288.8	3,288.8
23	- Carbon (Alberta)	738.8	897.1
24	- JPS	3,137.3	2,597.6
25	- LNG	4,339.9	8,000.0
26	- Mist	2,692.8	2,276.1
27	- SoCal	-	-
28	- Total	14,197.6	17,059.6
29			
30	Total Supply	28,359.6	28,029.6
31			
32			
33			
34			
35	Note: Effective January 1, 2010, FEW's gas supply requirements were amalgamated with the FEI portfolio.		
36	Slight differences in totals due to rounding.		

FORTISBC ENERGY INC.
LOWER MAINLAND, INLAND AND COLUMBIA SERVICE AREAS

RECONCILIATION WITH FINANCIAL STATEMENTS
- NET EARNINGS/RATE BASE
FOR THE YEAR ENDED DECEMBER 31, 2011

FORTISBC ENERGY INC.
RECONCILIATION OF NON-CONSOLIDATED STATEMENT OF EARNINGS
TO UTILITY INCOME BEFORE INCOME TAXES
FOR THE YEAR ENDED DECEMBER 31, 2011
($000)

Line No.	Particulars	Account	Amount ($000)	Reference
1	NON-CONSOLIDATED STATEMENT OF EARNINGS (NCFS)			
2	Net Earnings - Per NCFS		$ 101,160	NCFS, Page 1 and
3				Trial Balance, 5 of 6
4				
5	ADD BACK:			
6	Financing Costs - Interest	320-325	104,260	Trial Balance, 5 of 6
7				
8	Income Taxes	306	27,954	Trial Balance, 5 of 6
9				
10	Earnings Before Interest and Taxes - Operating Income per NCFS		233,374	
11				
12				
13	LESS:			
14	LILO Deferred Gain		(3,960)	
15	GSMIP		(1,107)	
16	SCP CIAOC Amortization Expense		(320)	- Page 61.2, Line 22
17	Kelowna, Vernon, Nelson, & Prince George LILO Depreciation Expense		(2,444)	- Page 61.2, Line 23
18				
19			(7,831)	
20	ADD BACK:			
21	Long-term compensation		657	- Page 61.3, Line 5 & Line 6
22	Non-Utility Other Revenue		(6,339)	- Page 61.2, Line 7
23	Non-Utility Portion of Depreciation Provision		4,236	- Page 61.2, Line 15
24	O & M Non-Utility Expense - Non-Utility		3,849	- Page 61.3, Line 7
25	SCP Financing Costs (BCUC Order G-95-00)		968	- Page 61.3, Line 8
26	LILO Expenses		13,873	- Page 61.3, Line 9
27	Depreciation and Amortization Adjustment		66	- Page 61.2, Line 28
28				
29			17,310	
30				
31	Total Utility Income Before Income Taxes		242,853	
32				
33	Fort Nelson Service Area - Utility Income Before Income Taxes		(668)	- See Fort Nelson Utility
34				Report, Page 16 Line 31
35				
36	Total FortisBC Energy Utility Income Before Income Taxes		$ 242,185	- Page 16, Line 31

FORTISBC ENERGY INC.
RECONCILIATION OF NON-CONSOLIDATED STATEMENT OF EARNINGS
TO UTILITY INCOME BEFORE INCOME TAXES
FOR THE YEAR ENDED DECEMBER 31, 2011
($000)

Line No.	Particulars	Account	Amount ($000)	Reference
1	ITEM 1 - Details of Non-Utility Operating Revenues			
2				
3	Earnings Sharing & Capital Incentive Mechanism		$ (1,637)	Trial Balance, 4 of 6
4	AFUDC - Equity Cost	324	(4,056)	Trial Balance, 4 of 6
5	SCP Wind-up costs		(473)	
6	Other		(173)	
7				
8	Total Non-Utility Other Operating Revenues		$ (6,339)	
9				
10	ITEM 2: Reconciliation of Depreciation and Amortization Expense			
11				
12	Depreciation and Amortization Expense per			
13	Non-Consolidated Financial Statements		$ 88,956	Trial Balance, 5 of 6
14				
15	Non-Utility Portion of Depreciation Provision			
16	Lower Mainland Acquisition Premium	490	(4,236)	
17	Gas Plant Held for Future Use	492	-	
18	Total Non-Utility Portion of Depreciation Expense		(4,236)	- Page 61.1, Line 25
19				
20		Subtotal	84,720	
21				
22	ADD / LESS:			
23	SCP CIAOC Amortization Expense		320	- Page 61.1, Line 17
24	Vernon/Kelowna/Nelson/Prince George LILO		2,444	- Page 61.1, Line 18
25	Depreciation & Amortization Adjustment		(66)	- Page 61.1, Line 28
26	Fort Nelson Service Area Depreciation and Amortization Expense		(288)	- See Fort Nelson Utility
27				Report, Page 34 Line 20
28				
29	Total LM/Inland/Columbia Depreciation & Amortization Expense		$ 87,130	- Page 16, Line 25

FORTISBC ENERGY INC.
RECONCILIATION OF NON-CONSOLIDATED STATEMENT OF EARNINGS
TO UTILITY INCOME BEFORE INCOME TAXES
FOR THE YEAR ENDED DECEMBER 31, 2011
($000)

Line No.	Particulars	Account	Amount ($000)	Reference
1	ITEM 3 - Reconciliation of O&M Expenses			
2				
3	Non-Consolidated Financial Statements O&M Expense		$ 228,369	Trial Balance, 5 of 6
4				
5	Long-term compensation		(657)	- Page 61.1, Line 22
6	Rent Recoveries and Reactivation Fees		(4,332)	
7	O & M Non-Utility Expense - Non-Utility		(3,849)	- Page 61.1, Line 26
8	SCP Financing Lease Costs		(968)	- Page 61.1, Line 27
9	LILO Costs		(13,873)	- Page 61.1, Line 28
10	Fort Nelson Service Area		(739)	- See Fort Nelson Utility Page 16, Line 22
11	Removal Costs		(11,290)	
12	Management Fees reclass from affiliated companies		(9,110)	- Note 16(d) per FEI Non-Cons F/S
13	Subtotal of Above (Line 5 to Line 11)		(44,818)	
14				
15	Total LM/Inland/Columbia O & M Expense		183,551	- Page 16, Line 23
16				
17				
18	Capital Lease treated as Utility Operating Leases			
19				
20	Vehicle Lease		-	
21				
22	Vehicle Lease Included as Utility Expense		$ -	- Page 16, Line 24 / Page 61.4
23				
24				
25				
26	ITEM 4 - Reconciliation of Municipal and Other Taxes			
27				
28	Non-Consolidated Financial Statements -			
29	Municipal and Other Taxes		$ 50,376	Trial Balance, 5 of 6
30				
31	Fort Nelson Service Area Property Taxes		(165)	- See Fort Nelson Utility Page 16, Line 24
32				
33				
34				
35	Total LM/Inland/Columbia Municipal and Other Taxes		$ 50,211	Page 16, Line 24

FORTISBC ENERGY INC.
RECONCILIATION OF FINANCIAL STATEMENT PRESENTATION
TO UTILITY INCOME BEFORE INCOME TAXES
FOR THE YEAR ENDED DECEMBER 31, 2011
($000)

FORTISBC ENERGY INC.
RECONCILIATION OF NON-CONSOLIDATED BALANCE SHEET
TO UTILITY NET PLANT IN SERVICE, ENDING
FOR THE YEAR ENDED DECEMBER 31, 2011
($000)

Line No.	Particulars	Account	Amount ($000)	Reference
1	NON-CONSOLIDATED BALANCE SHEET			
2				
3	Property Plant and Equipment		$ 3,567,986	Notes 3 & 4 of the Financial Statements
4	Less: Accumulated Depreciation		(938,290)	Trial Balance, 1 of 6 / Page 61.7, Line 3
5				
6	Net Property Plant and Equipment per Non-consolidated Financial Statements		2,629,695	Trial Balance, 1 of 6
7				
8	LESS:			
9	Lower Mainland Acquisition Premium - Historical Cost		(176,516)	- Page 61.6, Line 30
10	BCUC Disallowances - Historical Cost		(224)	- Page 61.6, Line 31
11	Gas Plant Held for Future Use - Historical Cost		-	- Page 61.6, Line 32
12	Work-in-Progress Adjustment		(34,629)	- Page 61.6, Line 37
13	Other Unclassified Plant & Post Closing Adjustments to Plant		(74,277)	- Page 61.6, Line 41 & 44
14	SCP CIAOC Accumulated Depreciation		-	- Page 61.7, Line 20
15	Reclass costs to Accumulated Depreciation - LILO		(49,666)	- Page 61.7, Line 21
16	Future Income Tax related to CIAC		(19,358)	- Page 61.6, Line 47
17	Subtotal (Lines 9 to 18 above)		(354,670)	
18				
19	ADD BACK:			
20	Accumulated Depreciation Adjustment for WIP and Consolidation		17,540	- Page 61.7, Line 5
21	Lower Mainland Acquisition Premium - Accumulated Depreciation		96,019	- Page 61.7, Line 9
22	BCUC Disallowances - Accumulated Depreciation		-	- Page 61.7, Line 10
23	Gas Plant Held for Future Use - Accumulated Depreciation		-	- Page 61.7, Line 11
24	Non-Utility CIAOC Amount related to SCP - Historical Cost		-	- Page 61.6, Line 45
25	LILO per Financial Statements		109,811	- Page 61.6, Line 46
26	Asset Clearing & Post Closing Adjustments to Plant (Accumulated depreciation)		100	- Page 61.7, Lines 22 & 23
27	Subtotal (Lines 22 to 29 above)		223,470	
28				
29	Total Utility Net Plant In Service, Ending		2,498,495	
30				
31	Fort Nelson Service Area - Net Plant in Service, Ending		(5,894)	- See Ft Nelson Utility Report, Pg 4, Lines 7, 10, 13 & 16
32				
33	Net Utility Plant per Page 4, Line 6		$ 2,492,601	Actual per Pg 4, Lines 6, 9 ,12 & 15

FORTISBC ENERGY INC.
RECONCILIATION OF NON-CONSOLIDATED BALANCE SHEET
TO UTILITY NET PLANT IN SERVICE, ENDING
FOR THE YEAR ENDED DECEMBER 31, 2011
($000)

Line No.	Particulars	Account	Amount ($000)	Reference
1	ITEM 1 - Reconciliation of Deferred Charges,			
2	Long Term Investments & Receivables			
3	Total Other Assets and Deferred Charges		$ 585,347	Trial Balance, 2 of 6
4				
5	Other Assets: Long Term Investments & Receivables	120-125/142	(158,821)	Trial Balance, 2 of 6
6				
7	Rate Stabilization - Long Term		-	Trial Balance, 2 of 6
8				
9	Unamortized Debt Discount and Expense - Non-Utility	170	-	Trial Balance, 2 of 6
10				
11	Non-Utility Portion of Preliminary Surveys	172	(7)	Trial Balance, 2 of 6
12				
13	2010 Year End Balance of Unamortized Deferred Charges	179/271/279	(426,520)	Trial Balance, 2 of 6
14				
15				
16	Capital Stock Expense	177	-	Trial Balance, 2 of 6
17				
18	Preliminary Survey and Investigation Charges			
19	Included in Gas Plant in Service		$ (0)	- Page 8.2, Line 4
20				
21	ITEM 2 - Reconciliation of Property Plant & Equipment			
22	to Gas Plant in Service			
23	Property, Plant & Equipment		$ 3,567,986	Trial Balance, 1 of 6
24				
25	Contributions in Aid of Construction (CIAOC)		181,334	Trial Balance, 1 of 6
26				
27	Utility Portion of Preliminary Survey & Investigation		(0)	- Page 8.2, Line 4
28			3,749,319	
29	Less: Non-Utility Gas Plant in Service			
30	Lower Mainland Acquisition Premium	490	(176,516)	- Page 61.5, Line 9
31	BCUC Disallowances	490	(224)	- Page 61.5, Line 10
32	Gas Plant Held for Future Use	492	-	- Page 61.5, Line 11
33				
34	Non-Utility Plant		(176,740)	
35	Subtotal		3,572,579	
36				
37	Work-in-progress Adjustment		(34,629)	- Page 61.5, Line 12
38				
39	Subtotal (Line 35 to Line 37)		3,537,950	
40				
41	Other Un-classified Plant		-	- Page 61.5, Line 13
42	Post Closing Adjustments to Plant		(74,275)	- Page 61.5, Line 13
43	Non-Utility CIAOC Amount related to SCP		-	- Page 61.5, Line 27
44	Kelowna/Vernon/Nelson/Prince George/Creston Assets - LILO per Financial Stmt		109,811	- Page 61.5, Line 28
45	Future Income Tax related to CIAC		(19,358)	- Page 61.5, Line 18
46	Less: Fort Nelson Service Area Gas Plant in Service		(9,098)	- See Fort Nelson Annual
47				Report , Pg 4, Line 7
48				
49	Total Utility Gas Plant in Service per Pg 4, Line 6		$ 3,545,030	

FORTISBC ENERGY INC.
RECONCILIATION OF NON-CONSOLIDATED BALANCE SHEET
TO UTILITY NET PLANT IN SERVICE, ENDING
FOR THE YEAR ENDED DECEMBER 31, 2011
($000)

Line No.	Particulars	Account	Amount ($000)	Reference
1	ITEM 3 - Reconciliation of Accumulated Depreciation			
2				
3	Non-Consolidated Accumulated Depreciation		$ (938,290)	Trial Balance, 1 of 6
4	Accumulated Depreciation - Vehicle Lease		-	- Page 61.5, Line 22
5	Accumulated Depreciation Adjustment for WIP and Consolidation		17,540	- Page 61.5, Line 23
6				
7			(920,750)	
8	Less: Non-Utility Portion of Accumulated Depreciation			
9	Lower Mainland Acquisition Premium	490	96,019	- Page 61.5, Line 24
10	BCUC Disallowances	490	-	- Page 61.5, Line 25
11	Gas Plant Held for Future Use	492	-	- Page 61.5, Line 26
12				
13	Total Non-Utility Portion of Accumulated Depreciation		96,019	
14				
15	Total Utility Accumulated Depreciation		(824,731)	
16				
17	Less: Fort Nelson Service Area Accumulated Depreciation		1,908	- See Ft Nelson Annual Report,
18				Pg 4 Lines 10 & 16
19	Add / Less:			
20	SCP CIAOC Accumulated Depreciation		-	- Page 61.5, Line 16
21	Reclass costs to Accumulated Depreciation: LILO		(49,666)	- Page 61.5, Line 17
22	Asset Clearing Account adjustments		100	- Page 61.5, Line 29
23	Post Closing Adjustments		-	- Page 61.5, Line 29
24				
25				
26	Total LM/Inland/Columbia Accumulated Depreciation		$ (872,391)	- Page 4, Lines 9 & 15

FORTISBC ENERGY INC.
RECONCILIATION OF UTILITY DEFERRED CHARGES
TO NON-CONSOLIDATED DEFERRALS IN THE BALANCE SHEET
FOR THE YEAR ENDED DECEMBER 31, 2011
($000)

Line No.	Particulars	Account	Amount ($000)	Reference
1	Ending Deferred Charges Balance per Non-Consolidated Balance Sheet		$ 143,903	Note 7 of the Financial Statements (119.0+24.9)
2				
3	Add: Other Deferrals in Financial Statements			
4	Deferred Credits - all items except deferred leases		(120,890)	Note 9 of the Financial Statements (155.0-34.1)
5	Rate Stabilization - Current		49,801	Note 5 of the Financial Statements (68.5-18.7)
6	Rate Stabilization - Long Term		(22,377)	Note 5 of the Financial Statements
7				
8	Total Deferrals (pre-tax)		50,437	
9				
10	Tax adjustment to recognize deferrals after-tax		7,002	
11				
12	Total Deferrals (after-tax)		57,439	
13				
14				
15	Non-Rate Base Deferrals:			
16	Preliminary Surveys		(7)	
17	Unbundling		129	
18	Goodwill		(531)	
19	Tilbury Land		(751)	
20	Customer Care Project O&M costs		(11,203)	
21	Other Non-reg Credits		(5,000)	
22			(17,363)	
23				
24				
25	Adjustments to BCUC Report			
26	CCRA / MCRA - Actual vs. Test Year Variance		(67,392)	
27	RSAM - Actual vs. Test Year Variance		20,747	
28	Customer Care project tax savings		4,449	
29	Other		(4)	
30			(42,200)	
31				
32	Less: Fort Nelson Service Area Ending Deferral Balance		(103)	Fort Nelson Annual Report, Pg 13,
33				Line 30, Column 10
34				
35	LM, ING and CNG Service Areas Ending Deferral Balance		$ (2,227)	FEI Annual Report, Pg 13, Line 48, Column 10

FORTISBC ENERGY INC.

GENERAL INSTRUCTIONS

1. One copy of this report must be filed with the British Columbia Utilities Commission, Sixth Floor, 900 Howe Street, Vancouver, B.C., V6Z 2N3, not later than the last day of the fourth month following the end of the company's financial year.

2. In addition to filing this form, the utility shall also file with the Commission:

   (a) A copy of its Corporate Income Tax filing when available;

   (b) Immediately upon publication, copies of its latest Annual Report prepared for distribution to stockholders, bondholders, or other security holders.

3. Where differences exist between balances in accounts shown herein as compared with the aforementioned report, a statement of reconciliation is to be completed per page 61.

4. A Comparative Trial Balance in Statement Format of actual results according to the Uniform Code of Accounts.

5. The "Difference Analysis" should identify reasons for variance with the Decision Test Year Forecast and actual results. If more than one year of actual results have occurred since the Decision Test Year, the "Difference Analysis" should elaborate upon changes between the two years' actual results.

6. Major normalization adjustments only should be applied.

FORTISBC ENERGY INC.

DECLARATION

I, Roger Dall'Antonia, of Surrey, British Columbia, do hereby certify:

1. That I am Vice President, Strategic Planning, Corporate Development & Regulatory Affairs of FortisBC Energy Inc. with its Operations Centre at 16705 Fraser Highway, Surrey, B.C. V4N 0E8.

2. That I have examined the content of this report and the information set out herein is complete and accurate, to the best of my knowledge, information and belief. I have read and understand Section 106 of the *Utilities Commission Act.*

3. That I confirm the Utility's compliance with the Commission's financial directions contained in Decisions and Orders.

Original signed:

Roger Dall'Antonia,
Vice President, Strategic Planning, Corporate
Development & Regulatory Affairs

Name, title and address of officer or other person to whom any questions concerning this report should be addressed:

Diane Roy,
Director, Regulatory Affairs (Gas)

FortisBC Energy Inc.
16705 Fraser Highway
Surrey, BC
V4N 0E8

FORTISBC ENERGY INC.

ANNUAL REPORT – 2011
FINANCIAL STATEMENTS

1. Audited Non-Consolidated Financial Statements of FortisBC Energy Inc. for the year ended December 31, 2011.

2. 2011 Trial Balance.

FORTISBC ENERGY INC. (FORMERLY TERASEN GAS INC.)

An indirect subsidiary of Fortis Inc.

Non-Consolidated Financial Statements
For the years ended December 31, 2011 and 2010

INDEPENDENT AUDITORS' REPORT

To the Directors of
FortisBC Energy Inc.

We have audited the accompanying non-consolidated financial statements of **FortisBC Energy Inc.** [formerly Terasen Gas Inc.], which comprise the non-consolidated balance sheets as at December 31, 2011 and 2010, and the non-consolidated statements of earnings and comprehensive earnings, retained earnings and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information. The non-consolidated financial statements have been prepared by management of **FortisBC Energy Inc.** using the basis of accounting described in note 1.

Management's responsibility for the non-consolidated financial statements

Management is responsible for the preparation and fair presentation of these non-consolidated financial statements in accordance with the basis of accounting described in note 1; this includes determining that the non-consolidated basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances, and for such internal control as management determines is necessary to enable the preparation of non-consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these non-consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the non-consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the non-consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the non-consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the non-consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the non-consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the non-consolidated financial statements present fairly, in all material respects, the financial position of **FortisBC Energy Inc.** as at December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in accordance with the basis of accounting described in note 1.

Basis of accounting

Without modifying our opinion, we draw attention to note 1 to the non-consolidated financial statements, which describes the basis of accounting. The non-consolidated financial statements are prepared to assist **FortisBC Energy Inc.** in preparing its corporate income tax returns and for the British Columbia Utilities Commission ["BCUC"] for regulatory filing purposes. As a result, the non-consolidated financial statements may not be suitable for another purpose. Our report is intended solely for **FortisBC Energy Inc.**, the income tax authorities and the BCUC and should not be used by parties other than **FortisBC Energy Inc.**, the income tax authorities and the BCUC.

Ernst & Young LLP

Vancouver, Canada,
April 30, 2012.

Chartered Accountants

FortisBC Energy Inc.
Non-Consolidated Balance Sheets
As at December 31
(in millions of Canadian dollars)

ASSETS	2011	2010
Current assets		
Cash and cash equivalents	**$ 17.2**	$ 14.9
Accounts receivable, net	**238.3**	295.0
Inventories of gas in storage and supplies (note 2)	**101.3**	136.3
Prepaid expenses	**3.1**	2.7
Future income taxes (note 14)	**10.1**	8.6
Current portion of rate stabilization accounts (note 5)	**68.5**	96.3
	438.5	553.8
Property, plant and equipment, net (note 3)	**2,513.1**	2,416.3
Intangible assets, net (note 4)	**116.6**	94.5
Investments in and advances to subsidiary companies (note 6)	**150.0**	201.7
Other assets (note 7)	**435.4**	367.6
	$ 3,653.6	$ 3,633.9
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Short-term notes	**$ 65.0**	$ 178.0
Accounts payable and accrued liabilities	**304.0**	361.1
Income and other taxes payable	**41.5**	36.0
Current portion of rate stabilization accounts (note 5)	**18.7**	3.6
Future income taxes (note 14)	**-**	1.3
Current portion of long-term debt (note 8)	**2.9**	2.6
Other current liabilities and deferred credits (note 9)	**-**	11.7
	432.1	594.3
Long-term debt (note 8)	**1,692.5**	1,592.1
Rate stabilization accounts (note 5)	**22.4**	7.1
Other long-term liabilities and deferred credits (note 9)	**155.0**	140.2
Future income taxes (note 14)	**303.8**	278.6
	2,605.8	2,612.3
Shareholders' equity		
Share capital (note 10)	**719.0**	719.0
Contributed surplus (note 10)	**264.3**	254.2
Retained earnings	**64.5**	48.4
	1,047.8	1,021.6
	$3,653.6	$ 3,633.9

The accompanying notes are an integral part of these Non-Consolidated Financial Statements.

FortisBC Energy Inc.
Non-Consolidated Statements of Earnings and Comprehensive Earnings
For the years ended December 31
(in millions of Canadian dollars)

	2011	2010
Revenues		
Natural gas transmission and distribution	**$ 1,355.3**	$ 1,362.1
Management fees (note 16)	**9.4**	9.6
	1,364.7	1,371.7
Expenses		
Cost of natural gas	**763.3**	790.0
Operation and maintenance (note 16)	**228.7**	221.9
Depreciation and amortization	**80.9**	81.6
Amortization of intangible assets	**8.1**	8.3
Property and other taxes	**50.4**	49.3
	1,131.4	1,151.1
Operating income	**233.3**	220.6
Financing costs (note 12)	**104.3**	102.5
Earnings before income taxes	**129.0**	118.1
Income tax expense (note 14)	**27.9**	26.9
Net earnings and comprehensive earnings	**$ 101.1**	$ 91.2

The accompanying notes are an integral part of these Non-Consolidated Financial Statements.

FortisBC Energy Inc.
Non-Consolidated Statements of Retained Earnings
For the years ended December 31
(in millions of Canadian dollars)

	2011	2010
Retained earnings, beginning of year	**$ 48.4**	$ 41.2
Net earnings	**101.1**	91.2
	149.5	132.4
Dividend on common shares	**(85.0)**	(84.0)
Retained earnings, end of year	**$ 64.5**	$ 48.4

The accompanying notes are an integral part of these Non-Consolidated Financial Statements.

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FortisBC Energy Inc.
Non-Consolidated Statements of Cash Flows
For the years ended December 31
(in millions of Canadian dollars)

	2011	2010
Cash flows provided by (used for)		
Operating activities		
Net earnings	**$ 101.1**	$ 91.2
Adjustments for non-cash items		
Depreciation and amortization	**89.0**	89.9
Other	**(1.6)**	(7.4)
	188.5	173.7
Changes in non-cash working capital	**96.1**	(11.0)
	284.6	162.7
Investing activities		
Property, plant and equipment	**(145.5)**	(134.3)
Intangible assets	**(30.3)**	(20.5)
Amalgamation of subsidiary (note 6)	**6.1**	-
Other assets	**(15.2)**	(15.9)
	(184.9)	(170.7)
Financing activities		
Decrease in short-term notes	**(113.0)**	(26.0)
Increase in long-term debt	**100.6**	2.2
Issuance of common shares	**-**	125.0
Dividend on common shares	**(85.0)**	(84.0)
	(97.4)	17.2
Net increase in cash	**2.3**	9.2
Cash and cash equivalents at beginning of year	**14.9**	5.7
Cash and cash equivalents at end of year	**$ 17.2**	$ 14.9

The accompanying notes are an integral part of these Non-Consolidated Financial Statements.
Supplementary Information to Non-Consolidated Statements of Cash Flows (note 13)

FORTISBC ENERGY INC.
NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2011 and 2010
(Tabular amounts in millions of Canadian dollars, unless otherwise noted)

1. SIGNIFICANT ACCOUNTING POLICIES

The preparation of these non-consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses in the financial statements, as well as the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

These non-consolidated financial statements reflect the following summary of significant accounting policies.

BASIS OF ACCOUNTING

The non-consolidated financial statements of FortisBC Energy Inc. (Corporation or FEI) have been prepared by management in accordance with the significant accounting policies set out below. These financial statements materially differ from Canadian generally accepted accounting principles (GAAP) because they are prepared on a non-consolidated basis with the investments in the Corporation's wholly-owned subsidiary companies accounted for by the cost method. These financial statements are prepared for presentation to regulatory authorities and for tax return filing purposes and are not for issuance to shareholders. The Corporation has distributed to its shareholders consolidated financial statements prepared for the same period in accordance with GAAP.

Under the cost method of accounting for wholly-owned subsidiary companies, investments are initially recorded at cost and earnings from such investments are recognized only to the extent received or receivable. Dividends received in excess of post-acquisition income of the subsidiaries is recorded as a reduction in the amount of the investment.

Certain of the prior year comparative figures have been reclassified to conform with the current year's presentation.

REGULATION

The Corporation is subject to the regulation of the British Columbia Utilities Commission (BCUC or regulator), an independent regulatory authority. The BCUC exercises statutory authority over such matters as rates of return, construction and operation of facilities, accounting practices, rates, and contractual agreements with customers. Rates are bundled to include transmission and distribution services, where applicable.

In 2009, the Corporation reached a negotiated settlement agreement (2010/2011 NSA) that was a cost-of-service based agreement and covered the years 2010 and 2011. FEI earns an allowed rate of return that is based on a deemed debt-equity ratio of 60.0 per cent debt and 40.0 per cent equity. During 2009, FEI applied to the BCUC for and received an increase in the common equity component in capital structure allowed for ratemaking purposes to 40.0 per cent from 35.01 per cent effective January 1, 2010. During 2009, the Corporation applied to the BCUC for an increase to the Return on Equity (ROE) and to discontinue the use of the automatic adjustment mechanism. Late in 2009, the BCUC directed the ROE to be set at 9.5 per cent for FEI effective July 1, 2009 and directed the Corporation to discontinue the use of the automatic adjustment mechanism.

In order to recognize the economic effects of regulation, the timing of recognition of certain revenues and expenses in these operations may differ from that otherwise expected under Canadian GAAP for non-regulated businesses.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

REGULATION (continued)

Regulatory assets represent amounts that are expected to be recovered from customers in future rates. Regulatory liabilities represent amounts that are expected to be refunded to customers in future rates. Long-term regulatory assets are recorded in other assets whereas rate stabilization accounts are recorded as current portion of rate stabilization accounts. Long-term regulatory liabilities are recorded in other long-term liabilities and deferred credits, whereas rate stabilization accounts are recorded as current and long-term rate stabilization accounts.

The impacts of rate regulation on the Corporation's operations for the years ending December 31, 2011 and 2010 and as at December 31, 2011 and 2010 are described in these Significant Accounting Policies, and in note 3 "Property, Plant and Equipment", note 5 "Rate Stabilization Accounts", note 7 "Other Assets", note 9 "Other Long-Term Liabilities and Deferred Credits", note 11 "Employee Benefit Plans", note 12 "Financing Costs", and note 14 "Income Taxes".

RATE STABILIZATION ACCOUNTS

FEI is authorized by the BCUC to maintain rate stabilization accounts that mitigate the effect on its earnings of certain unpredictable and uncontrollable factors, such as volume volatility caused principally by weather and natural gas cost volatility. The Revenue Stabilization Adjustment Mechanism (RSAM) accumulates the margin impact of variations in the actual versus forecast volume use for residential and commercial customers.

The Commodity Cost Reconciliation Account (CCRA) and the Midstream Cost Reconciliation Account (MCRA) accumulate differences between actual natural gas costs and forecast natural gas costs as recovered in rates. The two accounts segregate costs that are allocable to all sales customers (MCRA) and all residential customers and certain commercial and industrial customers for whom FEI acquires gas supply (CCRA). All rate stabilization account balances are amortized and recovered through rates as approved by the BCUC.

CASH and CASH EQUIVALENTS

Cash and cash equivalents include cash and short-term deposits with maturities of three months or less from the date of acquisition.

INVENTORIES

Inventories of gas in storage are valued at weighted-average cost. The cost of gas in storage is recovered from customers in future rates.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at cost less accumulated depreciation and unamortized contributions in aid of construction. Cost includes all direct expenditures for system expansions, betterments and replacements, an allocation of overhead costs as prescribed by the regulator and an allowance for funds used during construction as prescribed by the regulator. When allowed by the regulator, regulated operations capitalize an allowance for equity funds used during construction at approved rates.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PROPERTY, PLANT AND EQUIPMENT (continued)

Depreciation of regulated assets is recorded on a straight-line basis over their useful lives. Depreciation rates for regulated assets are approved by the BCUC. Effective January 1, 2010 as approved in the 2010/2011 NSA, asset removal costs are recorded in operation and maintenance expense on the non-consolidated statement of earnings and comprehensive earnings and gains and losses on the sale or removal of utility capital assets are recorded in a regulatory deferral account on the non-consolidated balance sheet for recovery from, or refund to, customers in future rates, subject to regulatory approval.

INTANGIBLE ASSETS

Intangible assets are recorded at cost less accumulated depreciation and unamortized contributions in aid of construction. Cost includes all direct expenditures, betterments and replacements, an allocation of overhead costs and an allowance for funds used during construction. When allowed by the regulator, regulated operations capitalize an allowance for equity funds used during construction at approved rates.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over their useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization rates for regulated intangible assets are approved by the regulator, and for non-regulated intangible assets require the use of management estimates of the useful lives of assets.

Intangible assets are derecognized on disposal, or when no future economic benefits are expected from their use. Effective January 1, 2010 as approved in the 2010/2011 NSA, asset removal costs are recorded in operation and maintenance expense on the non-consolidated statement of earnings and comprehensive earnings and gains and losses on the sale or removal of utility intangible assets are recorded in a regulatory deferral account on the non-consolidated balance sheet for recovery from, or refund to, customers in future rates, subject to regulatory approval.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or, where there are indicators that two or more indefinite useful life intangible assets should be combined, as a single unit of accounting. Such intangibles are not amortized. The useful life of an intangible asset with an indefinite useful life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

IMPAIRMENT OF LONG-LIVED ASSETS

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset and eventual disposition. If the carrying amount of an asset exceeds its estimated future cash flows and eventual disposition, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. There was no impairment of long-lived assets for the years ended December 31, 2011 and 2010.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

DEFERRED CHARGES

The Corporation defers certain costs the BCUC or contractual arrangements require or permit to be recovered through future rates. Deferred charges are amortized over various periods as approved by the BCUC and depending on the nature of the costs.

Deferred charges not subject to regulation relate to projects that will benefit future periods and will be capitalized on completion, expensed on project abandonment, or amortized over their useful lives.

ASSET RETIREMENT OBLIGATIONS

The Corporation will recognize the fair value of a future asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that results from the acquisition, construction, development, and/or normal use of the assets. The Corporation will concurrently recognize a corresponding increase in the carrying amount of the related long-lived asset that is depreciated over the remaining life of the asset. The fair value of the asset retirement obligation is to be estimated using the expected cash flow approach that reflects a range of possible outcomes discounted at a credit-adjusted, risk-free interest rate. Subsequent to the initial measurement, the asset retirement obligation will be adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation.

Changes in the obligation due to the passage of time are to be recognized in income as an operating expense using the effective interest method. Changes in the obligation due to changes in estimated cash flows are to be recognized as an adjustment of the carrying amount of the related long-lived asset that is depreciated over the remaining life of the asset.

As the fair value of future removal and site restoration costs for the Corporation's natural gas transmission and distribution systems are not currently determinable as they will be used in perpetuity, the Corporation has not recognized an asset retirement obligation at December 31, 2011 and 2010. For regulated operations there is a reasonable expectation that asset retirement costs will be recoverable through future rates.

REVENUE RECOGNITION

The Corporation recognizes revenues when products have been delivered or services have been performed.

Revenues from natural gas sales are recorded on the basis of regular meter readings and estimates of customer usage since the last meter reading date to the end of the year and are adjusted for the RSAM and other BCUC approved orders.

POST-EMPLOYMENT BENEFIT PLANS

The Corporation sponsors a number of employee benefit plans. These plans include both defined benefit and defined contribution pension plans, and various other post-retirement benefit plans.

The cost of pensions and other post-retirement benefits earned by employees are actuarially determined as the employee provides service. The Corporation uses the projected benefit pro-rate method based on years of service, management's best estimates of expected returns on plan assets, salary escalation, retirement age, mortality and expected future health-care costs. The discount rate used to value liabilities is based on Corporate AA bond yields with cash flows that match the timing and amount of the expected benefit payments under the plans. The Corporation uses a measurement date of December 31 for all plans.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

POST-EMPLOYMENT BENEFIT PLANS (continued)

The expected return on plan assets is based on management's estimate of the long-term expected rate of return on plan assets and a market-related value of plan assets. The market-related value of assets is determined using a smoothed value that recognizes investment gains and losses gradually over a three year period.

Adjustments, in excess of 10 per cent of the greater of the accrued benefit obligation and the fair value of plan assets that result from changes in assumptions and experience gains and losses, are amortized over the expected average remaining service life of the employee group covered by the plan. Experience will often deviate from the actuarial assumptions resulting in actuarial gains and losses.

Defined contribution plan costs are expensed by the Corporation as contributions are payable.

FINANCIAL INSTRUMENTS

a) Section 3855, *Financial Instruments – Recognition and Measurement*, prescribes the criteria for recognition and presentation of financial instruments on the balance sheet and the measurement of financial instruments according to prescribed classifications. This section also addresses 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: held for trading; available for sale; held to maturity; loans and receivables; and 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 are recorded on the balance sheet at fair value. The Corporation utilizes derivatives only to manage its exposure to changes in foreign currency exchange and energy commodity prices in its rate-regulated operations. The Corporation does not enter into derivative contracts for speculative purposes.

   Mark-to-market adjustments on these instruments is subject to regulatory deferral treatment to be recovered from or refunded to customers in future rates. In non-regulated entities the mark-to-market adjustment would either be recorded to earnings or other comprehensive income or a combination of both depending on whether hedge accounting is applied, the nature of the hedging relationship and whether there is ineffectiveness in the hedging relationship.

   In accordance with the standard's transitional provisions, the Corporation recognizes as separate assets and liabilities only embedded derivatives acquired or substantively modified on or after January 1, 2003.

   The Corporation has designated its financial instruments as follows:

   - Cash and cash equivalents are classified as "*Held for Trading*" and are recorded at fair value. Due to the relatively short period to maturity of these financial instruments the carrying values approximate their fair values.

   - Accounts receivable and long-term receivables are classified as "Loans and Receivables." These financial assets are recorded at values that approximate their amortized cost using the effective interest method.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FINANCIAL INSTRUMENTS (continued)

- Short-term notes, accounts payable and accrued liabilities, long-term debt, and related issue costs are classified as "Other Financial Liabilities." These financial liabilities are recorded at values that approximate their amortized cost using the effective interest method.

- Natural gas contracts are classified as "*Held for Trading*" and are recorded at fair value.

The Corporation recognizes 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) Section 3862, *Financial Instruments – Disclosures,* establishes a hierarchal disclosure framework associated with the level of pricing observability utilized in measuring fair value. This framework defines three levels of inputs to the fair value measurement process, and requires that each fair value measurement be assigned to a level corresponding to the lowest level input that is significant to the fair value measurement in its entirety. The three broad levels of inputs defined by the Section 3862 hierarchy are as follows:

I. Level 1 Inputs - quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date;

II. Level 2 Inputs - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

III. Level 3 Inputs - inputs for the asset or liability that are not based on observable market data (unobservable inputs). These unobservable inputs reflect the entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability, and are developed based on the best information available in the circumstances (which might include the reporting entity's own data).

The disclosures required by the hierarchal disclosure framework are disclosed in note 15.

c) Emerging Issues Committee (EIC) – 173, *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*, requires that the Corporation's own credit risk and the credit risk of its counterparties be taken into account in determining the fair value of a financial instrument. The Corporation's non-consolidated financial statements are not materially impacted from applying this standard.

COMPREHENSIVE INCOME

Section 1530, *Comprehensive Income*, requires the presentation of a statement of comprehensive income and provides guidance for the reporting and display of other comprehensive income. Comprehensive income represents the change in equity of an enterprise during a period from transactions and other events arising from non-owner sources including gains and losses arising on translation of self-sustaining foreign operations, gains and losses from changes in fair value of available for sale financial assets and changes in fair value of the effective portion of cash flow hedging instruments. The Corporation has not recognized any adjustments through other comprehensive income for the years ended December 31, 2011 and 2010.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INCOME TAXES

The Corporation follows the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are recognized for temporary differences between the tax and accounting basis of assets and liabilities, as well as for the benefit of losses available to be carried forward to future years for tax purposes that are likely to be realized. The future income tax assets and liabilities are measured using the enacted or substantively enacted income tax rates and laws that will be in effect when the differences are expected to be recovered or settled. The effect of a change in income tax rates on future income tax assets and liabilities is recognized in earnings in the period that the change occurs. Current income tax expense (recovery) is recognized for the estimated income taxes payable (receivable) in the current year.

As approved by the BCUC, the Corporation recovers income tax expense in customer rates based only on income taxes that are currently payable for regulatory purposes, except for certain deferral accounts specifically prescribed by the BCUC. Therefore, current customer rates do not include the recovery of future income taxes related to temporary differences between the tax basis of assets and liabilities and their carrying amounts for regulatory purposes, as these taxes are expected to be collected in rates when they become payable. An offsetting regulatory asset or liability is recognized for the amount of income taxes that are expected to be collected in rates once they become payable.

Any difference between the expense recognized under Canadian GAAP and that recovered from customers in current rates for income tax expense that is expected to be recovered, or refunded, in future customer rates is subject to deferral treatment (notes 5, 7 and 9).

VARIABLE INTEREST ENTITIES

The Corporation has performed a review of the entities with which it conducts business and has concluded that there are no entities that are required to be consolidated or variable interests that are required to be disclosed under the requirements of Accounting Guideline 15, *Consolidation of Variable Interest Entities*.

FUTURE ACCOUNTING PRONOUNCEMENTS

Adoption of New Accounting Standards

Effective January 1, 2012, the Corporation will be required to adopt a new set of accounting standards. Publicly accountable enterprises in Canada were required to adopt International Financial Reporting Standards (IFRS) effective January 1, 2011, however, qualifying entities with rate-regulated activities were granted an optional one-year deferral for the adoption of IFRS, due to continued uncertainty around the timing and adoption of a rate-regulated accounting standard by the International Accounting Standards Board (IASB).

Due to continued uncertainty around the timing and adoption of a rate-regulated accounting standard by the IASB, the Corporation evaluated the option of adopting United States generally accepted accounting principles (US GAAP), as opposed to IFRS, and has decided to adopt US GAAP effective January 1, 2012. Canadian securities rules allow a reporting issuer to prepare and file its financial statements in accordance with US GAAP by qualifying as a US Securities and Exchange Commission (SEC) Issuer. A SEC Issuer is defined under the Canadian securities rules as an issuer that: (i) has a class of securities registered with the SEC under Section 12 of the *US Securities Exchange Act of 1934,* as amended (the Exchange Act), or (ii) is required to file reports under Section 15(d) of the Exchange Act. The Corporation is currently not an SEC Issuer.

(Tabular amounts in millions of Canadian dollars, unless otherwise noted)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FUTURE ACCOUNTING PRONOUNCEMENTS (continued)

Therefore, on June 6, 2011, the Corporation, along with its ultimate parent company, Fortis, filed an application with the Ontario Securities Commission (the OSC) seeking relief, pursuant to National Policy 11-203 – *Process for Exemptive Relief Applications in Multiple Jurisdictions,* to permit the Corporation to prepare their financial statements in accordance with US GAAP without qualifying as an SEC Issuer (the Exemption). On June 9, 2011 the OSC issued its decision and granted the Exemption for financial years commencing on or after January 1, 2012 but before January 1, 2015, and interim periods therein. The Exemption will terminate in respect of financial statements for annual and interim periods commencing on or after the earlier of: (a) January 1, 2015; or (b) the date on which the Corporation ceases to have activities subject to rate regulation.

The Corporation's application of Canadian GAAP currently relies primarily on US GAAP for guidance on accounting for rate-regulated activities. The adoption of US GAAP in 2012 is, therefore, expected to result in fewer significant changes to the Corporation's accounting policies as compared to accounting policy changes that may have resulted from the adoption of IFRS. US GAAP guidance on accounting for rate-regulated activities which allows the economic impact of rate-regulated activities to be recognized in the non-consolidated financial statements in a manner consistent with the timing by which amounts are reflected in customer rates. The Corporation believes that the continued application of rate-regulated accounting, and the associated recognition of regulatory assets and liabilities under US GAAP, accurately reflects the impact that rate-regulation has on the Corporation's non-consolidated financial position and results of operations.

2. INVENTORIES

During the year ended December 31, 2011, gas in storage inventories of $763.3 million (2010 - $790.0 million) were expensed and reported in cost of natural gas on the non-consolidated statement of earnings and comprehensive earnings.

3. PROPERTY, PLANT AND EQUIPMENT

2011	**Weighted average depreciation rate**	**Cost**	**Accumulated depreciation**	**Net book value**
Natural gas transmission and distribution systems	**2.56%**	**$ 3,100.9**	**$ (829.8)**	**$ 2,271.1**
Plant, buildings and equipment	**5.04%**	**238.7**	**(84.3)**	**154.4**
Land	**-**	**55.1**	**-**	**55.1**
Assets under construction	**-**	**32.5**	**-**	**32.5**
		$ 3,427.2	**$ (914.1)**	**$ 2,513.1**

2010	Weighted average depreciation rate	Cost	Accumulated depreciation	Net book value
Natural gas transmission and distribution systems	2.57%	$ 2,892.3	$ (739.4)	$ 2,152.9
Plant, buildings and equipment	5.12%	223.8	(77.8)	146.0
Land	-	52.1	-	52.1
Assets under construction	-	65.3	-	65.3
		$ 3,233.5	$ (817.2)	$ 2,416.3

(Tabular amounts in millions of Canadian dollars, unless otherwise noted)

3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

As allowed by the regulator, during the year ended December 31, 2011, the Corporation capitalized an allowance for debt and equity funds during construction at approved rates of $3.3 million (2010 - $1.6 million) and $4.1 million (2010 - $2.1 million), respectively and approved capitalized overhead of $30.2 million (2010 - $29.0 million), with offsetting inclusions in earnings.

Depreciation of property, plant and equipment for the year ended December 31, 2011 totalled $86.1 million (2010 - $84.2 million).

4. INTANGIBLE ASSETS

2011	**Cost**	**Accumulated depreciation**	**Net book value**
Software	**$ 91.0**	**$ (22.1)**	**$ 68.9**
Land rights	**45.7**	**(0.7)**	**45.0**
Other	**2.5**	**(1.3)**	**1.2**
Assets under construction	**1.5**	**-**	**1.5**
	$ 140.7	**$ (24.1)**	**$ 116.6**

2010	Cost	Accumulated depreciation	Net book value
Software	$ 55.7	$ (25.8)	$ 29.9
Land rights	45.3	(0.7)	44.6
Other	2.5	(1.2)	1.3
Assets under construction	18.7	-	18.7
	$ 122.2	$ (27.7)	$ 94.5

There was no impairment of intangible assets for the years ended December 31, 2011 and 2010.

The land rights are not subject to amortization but were amortized historically until it was determined that the useful life of the land rights was indefinite at which time amortization ceased and the land rights are tested for impairment annually.

During the year ended December 31, 2011, $28.6 million (2010 - $5.3 million) of intangible assets subject to amortization were acquired and $0.8 million (2010 - $0.7 million) were developed.

During the year ended December 31, 2011, $0.5 million (2010 - $14.5 million) of intangible assets not subject to amortization were acquired and nil (2010 – nil) were developed.

During the year ended December 31, 2011, $13.0 million (2010 - $9.3 million) of fully amortized software assets were retired.

Amortization of intangible assets for the year ended December 31, 2011 totalled $8.1 million (2010 - $8.3 million).

(Tabular amounts in millions of Canadian dollars, unless otherwise noted)

4. INTANGIBLE ASSETS (CONTINUED)

Amortization of software is recorded on a straight-line basis using an average amortization rate of 8.8 per cent. Amortization of other intangible assets is recorded on a straight-line basis using an amortization rate of 2.9 per cent. Amortization rates for regulated intangible assets are approved by the BCUC, and for non-regulated intangible assets require the use of management estimates of the useful lives of assets.

5. RATE STABILIZATION ACCOUNTS

	2011	2010
Current Assets		
CCRA	**$ 73.1**	$ 99.2
MCRA	**-**	3.5
Gross up of current rate stabilization accounts for future income taxes	**(4.6)**	(6.4)
	68.5	96.3
Current Liabilities		
RSAM	**(8.4)**	(2.6)
MCRA	**(5.6)**	-
Gross up of current rate stabilization accounts for future income taxes	**(4.7)**	(1.0)
	(18.7)	(3.6)
Long-Term Liabilities		
RSAM	**(16.8)**	(5.3)
Gross up of long-term rate stabilization accounts for future income taxes	**(5.6)**	(1.8)
	(22.4)	(7.1)
Net rate stabilization accounts	**$ 27.4**	$ 85.6

The current portion of the rate stabilization accounts represents the amounts expected to be recovered or refunded in rates over the next year. Actual recoveries (refunds) will vary depending on actual natural gas consumption and recovery amounts approved by the BCUC.

The RSAM account is anticipated to be refunded in rates over three years. Refund of the RSAM balance is dependent upon annually approved rates and actual gas consumption volumes. The MCRA and CCRA accounts are anticipated to be fully recovered or paid within the next fiscal year.

The mark-to-market on the natural gas derivatives included in the CCRA account was $86.8 million (2010 - $120.4 million).

The future income taxes on rate stabilization accounts resulted from the Canadian Accounting Standards Board (AcSB) amendment to Section 3465, *Income Taxes* requiring the recognition of future income tax liabilities and assets as well as offsetting amounts included in the rate stabilization accounts. The mark-to-market on the natural gas derivatives offsets the CCRA account resulting in a net receivable position. There are no timing differences for tax purposes on the mark-to-market on the natural gas derivatives.

(Tabular amounts in millions of Canadian dollars, unless otherwise noted)

5. RATE STABILIZATION ACCOUNTS (CONTINUED)

In the absence of rate regulation, the costs in the rate stabilization accounts above would have been expensed as incurred. The impact on the non-consolidated statements of earnings and comprehensive earnings would have been as follows:

	2011	2010
Increase in natural gas transmission and distribution revenue	**$ 305.0**	$ 317.8
Increase in cost of natural gas	**(279.6)**	(350.2)
Decrease (increase) in income tax expense	**1.1**	(0.2)
Increase (decrease) in other comprehensive income related to gas derivatives	**33.5**	(19.3)

6. INVESTMENTS IN AND ADVANCES TO SUBSIDIARY COMPANIES

	2011	2010
Investments in shares of subsidiary companies	**$ -**	$ 47.2
Advances and promissory notes		
Inland Energy Corp. promissory notes	**150.0**	150.0
Advances due from 0849217 BC ULC	**-**	4.5
	$ 150.0	$ 201.7

The $150 million promissory notes receivable from Inland Energy Corp., a subsidiary of the Corporation, consist of a 9.75 per cent $75 million promissory note due on the earlier of demand or September 30, 2037 and a 10.52 per cent $75 million promissory note due on the earlier of demand or September 30, 2038. These promissory notes, and the $150 million Series C and Series D Debentures payable to Inland Energy Corp. (see note 8(a)), have been classified as long-term assets and liabilities for 2011 and 2010.

During each of 2011 and 2010, interest of $15.2 million was paid to Inland Energy Corp. on the Series C and D Debentures and was received from Inland Energy Corp. on the funds advanced to it to purchase the Series C and D Debentures.

On March 4, 2011, FEI wound up its subsidiary 0849217 BC ULC. As a result of this transaction, FEI acquired assets and liabilities which resulted in adjustments to the non-consolidated financial statements for FEI as of the date of the transaction and are summarized as follows:

Increase (Decrease)	
Cash and cash equivalents	**$ 6.1**
Investments in and advances to subsidiaries	**(47.2)**
Property, plant and equipment	**46.4**
Accounts payable and accrued liabilities	**0.1**
Income and other taxes payable	**0.3**

(Tabular amounts in millions of Canadian dollars, unless otherwise noted)

7. OTHER ASSETS

	2011	2010
Deferred charges		
Subject to rate regulation and approved for recovery in rates		
Deferred losses on disposal of utility capital assets	**$ 21.0**	$ 14.8
Energy Efficiency and Conservation Program	**20.7**	10.6
Income taxes recoverable on post-employment benefits	**18.3**	18.3
Gross up of regulated other assets for future income taxes	**16.4**	6.8
Customer care enhancement	**11.2**	1.5
Pension cost variance	**9.6**	1.6
Alternative energy projects	**8.5**	4.0
Deferred removal costs	**4.7**	1.4
Tilbury land purchase	**0.6**	3.3
Olympic security costs	**0.4**	1.2
Other items approved for recovery in rates	**7.6**	6.7
	119.0	70.2
Regulated asset for future income taxes	**282.6**	262.6
Pension assets (note 11)	**24.9**	25.9
Long-term receivables	**8.9**	8.9
	$ 435.4	$ 367.6

Amortization of these deferred charges in rates for the year ended December 31, 2011 totalled $4.0 million (2010 - $1.8 million).

The deferred losses on disposal of utility capital assets is a regulatory deferral account that was approved by the BCUC in the 2010/2011 NSA and accumulates gains and losses on the sale or removal of utility capital assets. The Corporation has applied for recovery of this account over 20 years.

The deferral account for the Energy Efficiency and Conservation program (EEC) relates to costs incurred in relation to a program approved by the BCUC that provides energy efficient incentives to residential and commercial customers. The BCUC has approved the recovery of these costs in rates over a 10 year period.

The deferral account for income taxes on post-employment benefits relates to income tax amounts on post-employment benefit expense. The BCUC allows post-employment benefits to be collected from customers through rates calculated on the accrual basis, rather than a cash paid basis, which produces timing differences for income tax purposes similar to a future income tax asset. However, due to prior regulatory decisions this is presented as a regulatory other asset. In years prior to 2009, FEI accounted for income taxes using the taxes payable basis of accounting, thus the tax effect of this timing difference is included in other assets, and will be reduced as cash payments for post-employment benefits exceed required accruals and amounts collected from customers in rates.

The deferral account for future income taxes on regulated other assets and the regulated asset for future income taxes resulted from the AcSB's amendment to Section 3465, *Income Taxes,* requiring the recognition of future income tax liabilities and assets as well as offsetting regulated assets or liabilities.

The Customer Care Enhancement (CCE) deferral captures all incremental costs associated with the project that were incurred prior to the project implementation date of January 1, 2012, for the purpose of permitting cost recovery, as well as any amounts related to the timing of when the CCE project is available for use and when it is actually added into rate base. These costs will be transferred to rate base and amortized through customer rates commencing January 1, 2012 over a three year period.

(Tabular amounts in millions of Canadian dollars, unless otherwise noted)

7. OTHER ASSETS (CONTINUED)

The pension cost variance account accumulates differences between pension expense and other post-employment benefit (OPEB) expense that is approved for recovery in rates and actuarial pension and OPEB expense. Amounts are recovered in rates over a three year period.

The alternative energy projects deferral account captures the costs and revenue associated with the investment in alternative energy solutions. The recovery of this account will be determined at a future period.

The deferred removal costs account is a regulatory deferral account that was approved by the BCUC in the 2010/2011 NSA and accumulates actual removal costs incurred in excess of or below the approved amount. These costs will be recovered from, or refunded to, customers in future rates beginning in 2012.

The Tilbury land purchase deferral account captures the cost of the land that FEI will be seeking to subdivide and sell. A portion of the land was sold in the fourth quarter of 2011 and the proceeds were credited against this deferral account. If the remaining parcel of land is not sold by January 1, 2014, the amount will be reclassed to property, plant and equipment and will be included in rate base.

The Olympic security costs deferral account captures the security costs incurred related to the 2010 Olympic and Paralympics games. These costs will be recovered in rates over a three year period, which began in 2011.

Deferred charges for rate-regulated entities that have been aggregated in the table above and in the table in "Other Long-term Liabilities and Deferred Credits" in note 9 as other items approved for recovery (refund) in rates relate to more than 36 deferral accounts, none of which exceed $1.5 million individually. All of these accounts have been approved by regulators in prior annual rate approvals or orders and are being amortized over various periods depending on the nature of the costs.

In the absence of rate regulation, the deferred charges in the above table that were incurred in the period would have been recorded in income, except for the costs related to the pension asset, Tilbury land purchase, deferred capital costs associated with the alternative energy projects and long-term receivables. The impact on the non-consolidated statements of earnings and comprehensive earnings would have been as follows:

	2011	2010
Increase (decrease) in natural gas transmission and distribution revenue	**$ 8.0**	$ (3.9)
Increase in cost of natural gas	**(0.5)**	(0.1)
Increase in operation and maintenance costs	**(63.7)**	(19.0)
Decrease in depreciation and amortization	**4.0**	1.8
Increase in financing costs	**(2.3)**	(0.6)
Increase in income tax expense	**(16.6)**	(6.1)
Net decrease in earnings	**$ (71.1)**	$ (27.9)

(Tabular amounts in millions of Canadian dollars, unless otherwise noted)

8. LONG-TERM DEBT

	2011	2010
(a) Series C and Series D Debentures	**$ 150.0**	$ 150.0
(b) Purchase Money Mortgages:		
11.80% Series A, due September 30, 2015	**74.9**	74.9
10.30% Series B, due September 30, 2016	**200.0**	200.0
(c) Debentures and Medium-Term Note Debentures:		
6.95% Series 11, due September 21, 2029	**150.0**	150.0
6.50% Series 18, due May 1, 2034	**150.0**	150.0
5.90% Series 19, due February 26, 2035	**150.0**	150.0
5.55% Series 21, due September 25, 2036	**120.0**	120.0
6.00% Series 22, due October 2, 2037	**250.0**	250.0
5.80% Series 23, due May 13, 2038	**250.0**	250.0
6.55% Series 24, due February 24, 2039	**100.0**	100.0
4.25% Series 25, due December 9, 2041	**100.0**	-
Obligations under capital leases, at 3.98% (2010 – 2.85%)	**14.5**	13.0
Total long-term debt	**1,709.4**	1,607.9
Less: current portion of long-term debt	**2.9**	2.6
Less: long-term debt issue costs	**14.0**	13.2
	$ 1,692.5	$ 1,592.1

a) Series C and Series D Debentures:

Inland Energy Corp., a subsidiary of the Corporation, holds the $75.0 million Series C Debenture, which bears interest at 9.75 per cent and is due September 30, 2037, and the $75.0 million Series D Debenture, which bears interest at 10.52 per cent and is due September 30, 2038. The Series C and D Debentures are not redeemable by the Corporation. The Series C and Series D Debentures are secured by a first fixed mortgage on the Corporation's Coastal Division assets ranked pari passu with the Series A and Series B Purchase Money Mortgages (see note 8(b)).

b) Purchase Money Mortgages:

The Series A and Series B Purchase Money Mortgages are secured equally and rateably by a first fixed and specific mortgage and charge on the Corporation's Coastal Division assets, and are subject to the restrictions of the Trust Indenture dated December 3, 1990. The aggregate principal amount of Purchase Money Mortgages that may be issued under the Trust Indenture is limited to $425.0 million.

c) Debentures and Medium-Term Note Debentures:

The Corporation's debentures are unsecured obligations but are subject to the restrictions of the Trust Indenture dated November 1, 1977, as amended and supplemented.

On December 9, 2011, FEI issued $100.0 million of Medium-Term Note Debentures at a coupon interest rate of 4.25 per cent. The debentures mature on December 9, 2041 and are unsecured and subject to the restrictions of the Trust Indenture. The net proceeds were used to repay credit-facility borrowings incurred in support of working capital requirements and capital expenditures.

Long-term debt issue costs are amortized using the effective interest rate method.

(Tabular amounts in millions of Canadian dollars, unless otherwise noted)

8. LONG-TERM DEBT (CONTINUED)

c) Debentures and Medium-Term Note Debentures (continued):

The Corporation's Series B Purchase Money Mortgages, and Series 11, Series 18, Series 19, Series 21, Series 22, Series 23, Series 24 and Series 25 Medium-Term Note Debentures are redeemable in whole or in part at the option of the Corporation at a price equal to the greater of the Canada Yield Price, as defined in the applicable Trust Indenture, and the principal amount of the debt to be redeemed, plus accrued and unpaid interest to the date specified for redemption. The Canada Yield Price is calculated as an amount that provides a yield slightly above the yield on an equivalent maturity Government of Canada bond. The Corporation's Series A Purchase Money Mortgages are not redeemable.

Required principal repayments over the next five years and thereafter are as follows:

	2011
2012	**$ 2.9**
2013	**2.9**
2014	**2.9**
2015	**77.8**
2016	**202.9**
Thereafter	**1,420.0**
	$ 1,709.4

9. OTHER LONG-TERM LIABILITIES AND DEFERRED CREDITS

	2011	2010
Pension and OPEB liabilities (note 11)	**$ 65.4**	$ 60.7
Deferred gains on sale of natural gas transmission and distribution assets	**34.1**	38.1
Deferred credits		
Subject to rate regulation and approved for recovery in rates		
Income tax variance	**11.9**	3.2
Gross up of regulated deferred credits for future income taxes	**8.6**	10.0
Southern Crossing Pipeline mitigation revenues	**8.5**	5.4
Deferred interest mechanism	**7.6**	5.1
IFRS transitional adjustments	**6.3**	6.5
Property tax variance	**2.5**	1.1
Deferred interest on MCRA	**2.2**	2.1
Insurance cost variance	**1.1**	0.7
2010 revenue surplus	**-**	6.5
Earnings sharing and capital incentive mechanism	**-**	5.2
Other items approved for refund in rates	**2.5**	2.1
Other deferred credits		
Ministry of Energy, Mines and Petroleum Resources funds	**4.2**	4.2
Other	**0.1**	1.0
	155.0	151.9
Less: current portion of other long-term liabilities and deferred credits	**-**	11.7
	$ 155.0	$ 140.2

9. OTHER LONG-TERM LIABILITIES AND DEFERRED CREDITS (CONTINUED)

The deferred gains on sale of natural gas transmission and distribution assets occurred upon the sale and leaseback of FEI's pipeline assets to certain municipalities in 2001, 2002, 2004 and 2005. The pre-tax gains of $70.5 million on combined cash proceeds of $141.1 million are being amortized over the 17-year terms of the operating leases that commenced at the time of the sale transactions. These operating lease commitments are included in the table in note 17.

The income tax variance account captures the impact on tax expense due to changes in tax laws or accepted accessing practices, audit reassessments, accounting policy changes and tax rate changes. Amounts are recovered in rates over three years.

The future income taxes on regulated deferred credits resulted from the AcSB's amendment to Section 3465, *Income Taxes* requiring the recognition of future income tax liabilities and assets as well as offsetting regulated assets or liabilities.

The Southern Crossing Pipeline (SCP) mitigation revenues deferral account relates to revenue received from third parties for the use of the SCP transportation capacity that has not been utilized by the firm transportation agreement customers and revenue received from third parties for the use of the SCP west to east transmission system. This account is used to record differences between actual revenues from SCP mitigation and what has been approved in the current revenue requirement. Amounts are being amortized over three years.

FEI has a deferred interest mechanism which has been approved by the BCUC that requires that variances due to differences in long-term borrowings and long-term and short-term interest rates from those that have been approved in rates be returned to customers in future rates. The impact of this mechanism was to increase financing costs for the year ended December 31, 2011 by $4.3 million (2010 – $0.9 million) from what otherwise would be reported. The balance of the deferred interest account is being amortized on a straight-line basis over three years.

The IFRS transitional adjustments deferral account contains the one-time transfer of the existing gain from the general plant accumulated amortization balance as part of the conversion to IFRS. As approved by the BCUC, the balance will be transferred to the gains and losses on disposal of utility capital assets deferral account in 2012. See description of gains and losses on disposal of utility capital assets deferral account in note 7.

The property tax variance account accumulates differences between property tax that is approved for recovery in rates and actual property tax. Amounts are returned to customers in rates over three years.

The deferred interest on MCRA is the interest calculated on the difference between the actual and forecasted average balance of the MCRA account multiplied by the composite interest rate. Amounts are returned to customers in rates in the following year.

The insurance cost variance account accumulates differences between insurance expense that is approved for recovery in rates and actual insurance expense. Amounts are returned to customers in rates in the following year.

The 2010 revenue surplus deferral account captures the FEI forecast 2010 revenue surplus resulting from the BCUC approved rate freeze for FEI for 2010. The surplus was fully applied to reduce rates in 2011.

(Tabular amounts in millions of Canadian dollars, unless otherwise noted)

9. OTHER LONG-TERM LIABILITIES AND DEFERRED CREDITS (CONTINUED)

The earnings sharing and capital incentive mechanism includes the earnings sharing which is a mechanism agreed to in FEI's multi-year agreement that expired at the end of 2009 to share, on a 50/50 basis, amounts earned by FEI on its regulated activities that exceeded or were less than amounts allowed by the BCUC in the cost-of-service allowed return calculations. Also, included in this deferral account is the capital incentive mechanism which allowed sharing on a 50/50 basis of capital spend that was less than the formula capital calculated for the 2003-2009 performance-based rate setting period. These amounts are shared on an after-tax basis, and were returned to customers over a two year period which began in 2010.

The British Columbia Ministry of Energy, Mines and Petroleum Resources (MEMPR) funds are funds the Corporation received from the MEMPR in advance of expenditures. The funds received are in support of LiveSmart BC's energy conservation and efficiency goals and are focused on the Efficiency Incentive Program for low-income households. The Corporation will use the funds to reduce the consumption of natural gas by low-income residences served by FEI.

Other deferred credits include an unfunded defined contribution pension liability. The unfunded defined contribution pension liability relates to a supplementary employee retirement plan for which benefits are based upon employee earnings.

Amortization of deferred credits for the year ended December 31, 2011 totalled $9.1 million (2010 - $4.3 million).

In the absence of rate regulation, the current period impact of other long-term liabilities and deferred credits in the above table would have been recorded in income, aside for the pension and other post-employment benefit liabilities, the deferred gains on sale of natural gas transmission and distribution assets and the other deferred credits.

The impact on the non-consolidated statements of earnings and comprehensive earnings would have been as follows:

	2011	2010
(Decrease) increase in natural gas transmission and distribution revenue	**$ (15.7)**	$ 0.6
Increase in cost of natural gas	**-**	(0.4)
Decrease in operation and maintenance costs	**14.7**	0.1
Decrease in property and other taxes	**2.2**	0.6
Increase in depreciation and amortization	**(9.1)**	(4.3)
Decrease in financing costs	**6.4**	1.0
Decrease (increase) in income tax expense	**3.0**	(1.5)
Net decrease (increase) in earnings	**$ 1.5**	$ (3.9)

(Tabular amounts in millions of Canadian dollars, unless otherwise noted)

10. SHARE CAPITAL AND CONTRIBUTED SURPLUS

AUTHORIZED SHARE CAPITAL

The Corporation is authorized to issue 500,000,000 common shares, 100,000,000 first preference shares and 100,000,000 second preference shares, all without par value. Changes in the issued and outstanding common shares are as follows:

	2011		2010	
	Number	**Amount**	Number	Amount
Outstanding, beginning of year	**63,010,782**	**$ 719.0**	59,591,732	$ 594.0
Issued	**-**	**-**	3,419,050	125.0
Outstanding, end of year	**63,010,782**	**$ 719.0**	63,010,782	$ 719.0

In January 2010, the Corporation issued 3,419,050 common shares for total proceeds of $125.0 million. The issuance was a result of the BCUC increasing the Corporation's common equity component in capital structure allowed for rate making purposes from 35.01 per cent to 40.0 per cent.

CONTRIBUTED SURPLUS

Income tax benefits in the amount of $10.1 million (2010 – $7.7 million) relating to transactions with entities under common control were recorded as a credit to contributed surplus in 2011.

DIVIDEND POLICY

As part of its approval of the acquisition of FortisBC Holdings Inc. (the Corporation's parent) by Fortis Inc., the BCUC imposed a number of conditions intended to ring-fence FEI from FortisBC Holdings Inc. These restrictions included a prohibition on the payment of dividends unless the Corporation has in place at least as much common equity as that deemed by the BCUC for rate-making purposes. The Corporation must maintain a percentage of common equity to total capital that is at least as much as that determined by the BCUC from time to time for rate-making purposes. Dividends from the Corporation will not be allowed by the regulator if the requisite equity is not in place. The Corporation's dividend policy is intended to ensure that it maintains at least as much common equity as that deemed by the BCUC for rate-making purposes.

11. EMPLOYEE BENEFIT PLANS

The Corporation is a sponsor of pension plans for eligible employees. The plans include registered defined benefit pension plans, supplemental unfunded arrangements, which provide pension benefits in excess of statutory limits, and defined contributory plans. The Corporation also provides post-employment benefits other than pensions for retired employees. The following is a summary of each type of plan:

11. EMPLOYEE BENEFIT PLANS (CONTINUED)

DEFINED BENEFIT PLANS

Retirement benefits for unionized employees under the defined benefit plans are based on employees' years of credited service and remuneration. Corporation contributions to the plan are based upon independent actuarial valuations. The most recent actuarial valuation of the defined benefit pension plans for funding purposes was at December 31, 2010 and the next required valuation is as of December 31, 2013. The expected weighted average remaining service life of employees covered by the defined benefit pension plans is 9.7 years (2010 – 9.2 years).

Effective in 2007, all employees became participants in a defined benefit pension plan in which costs are split evenly between the employees and employer. The current employees were grandfathered in their respective defined contribution and defined benefit plans and those plans were closed to all new members. The most recent actuarial valuation of this defined benefit pension plan for funding purposes was December 31, 2009 and the date of the next required valuation is December 31, 2012. The expected weighted average remaining service life of employees covered by this defined benefit pension plan is 10.9 years (2010 – 10.9 years).

DEFINED CONTRIBUTION PLAN

Effective in 2000, all new non-union employees became members of defined contribution pension plans. Corporation contributions to the plan are based upon employee age and pensionable earnings for employees. Effective in 2007, all new employees of the Corporation became members of the defined benefit plan described above.

SUPPLEMENTAL PLANS

Certain employees are eligible to receive supplemental benefits under both the defined benefit and defined contribution plans. The supplemental plans provide pension benefits in excess of statutory limits. The supplemental plans are unfunded and certain plans are secured by letters of credit.

OTHER POST-EMPLOYMENT BENEFITS

The Corporation provides certain retired employees with OPEBs that include, depending on circumstances, supplemental health, dental and life insurance coverage. Post-employment benefits are unfunded and the annual expense is recorded on an accrual basis based on independent actuarial determinations, considering among other factors, health care cost escalation. The most recent actuarial valuation was completed as at December 31, 2010 and the next required valuation is as of December 31, 2013. The expected weighted average remaining service life of employees covered by these benefit plans is 12.9 years (2010 – 12.9 years).

The Corporation measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 each year. The financial positions of the employee defined benefit pension plans and other benefit plans are presented in aggregate in the tables below:

(Tabular amounts in millions of Canadian dollars, unless otherwise noted)

11. EMPLOYEE BENEFIT PLANS (CONTINUED)

	Defined benefit pension plans		OPEB plans	
	2011	2010	**2011**	2010
Plan assets				
Fair value, beginning of year	**$ 261.9**	$ 236.9	**$ -**	$ -
Actual return on plan assets	**20.1**	21.6	**-**	-
Corporation contributions	**11.6**	8.4	**1.5**	1.4
Contributions by members	**8.6**	6.9	**-**	-
Benefit payments	**(13.2)**	(11.6)	**(1.5)**	(1.4)
Other	**(0.1)**	(0.3)	**-**	-
Fair value, end of year	**288.9**	261.9	**-**	-
Accrued benefit obligation				
Obligation, beginning of year	**314.9**	264.4	**69.2**	57.8
Current service cost	**8.9**	6.7	**1.5**	1.4
Interest cost	**16.7**	15.9	**3.6**	3.5
Contributions by members	**8.6**	6.9	**-**	-
Benefit payments	**(13.2)**	(11.6)	**(1.5)**	(1.4)
Plan amendments	**-**	(4.8)	**-**	-
Actuarial loss	**38.2**	37.4	**20.5**	7.9
Balance, end of year	**374.1**	314.9	**93.3**	69.2
Plan deficiency	**(85.2)**	(53.0)	**(93.3)**	(69.2)
Unamortized transitional benefit	**(1.9)**	(3.4)	**-**	-
Unamortized actuarial loss	**110.8**	82.9	**44.4**	25.4
Unamortized past service costs	**(3.3)**	(3.5)	**(12.0)**	(14.1)
Accrued benefit asset (liability)	**$ 20.4**	$ 23.0	**$ (60.9)**	$ (57.9)
Represented by				
Pension assets	**$ 24.9**	$ 25.9	**$ -**	$ -
Accrued benefit liability	**(4.5)**	(2.9)	**(60.9)**	(57.9)
	$ 20.4	$ 23.0	**$ (60.9)**	$ (57.9)

The net accrued benefit liability is included in other long-term liabilities and deferred credits (note 9) and the pension asset is included in other assets (note 7).

Included in the accrued benefit obligation and fair value of the plan assets at year-end are the following amounts in respect of plans with accrued benefit obligations in excess of fair value of assets:

	Defined benefit pension plans		OPEB plans	
	2011	2010	**2011**	2010
Accrued benefit obligations:				
Unfunded plans	**$ 11.6**	$ 9.9	**$ 93.3**	$ 69.2
Funded plans	**362.5**	305.0	**-**	-
	374.1	314.9	**93.3**	69.2
Fair value of plan assets	**288.9**	261.9	**-**	-
Funded status deficit	**$ 85.2**	$ 53.0	**$ 93.3**	$ 69.2

The accrued benefit obligations for certain unfunded pension benefit plans are secured by letters of credit.

(Tabular amounts in millions of Canadian dollars, unless otherwise noted)

11. EMPLOYEE BENEFIT PLANS (CONTINUED)

The net benefit plan expense is as follows:

	Defined benefit pension plans		OPEB plans	
	2011	2010	**2011**	2010
Current service cost	**$ 8.9**	$ 6.7	**$ 1.5**	$ 1.4
Interest costs	**16.7**	15.9	**3.6**	3.5
Expected return on plan assets	**(20.1)**	(21.6)	**-**	-
Amortization of actuarial losses	**38.2**	37.4	**20.5**	7.9
Amortization of past service costs/plan amendments	**-**	(4.8)	**-**	
Other	**0.1**	0.3	**-**	-
Net benefit cost	**43.8**	33.9	**25.6**	12.8
Adjustments to recognize the long-term nature of employee future benefit costs:				
Difference between actual and expected loss on plan assets	**3.2**	4.5	**-**	-
Difference between actual and recognized actuarial gains in year	**(31.1)**	(34.3)	**(19.0)**	(7.0)
Difference between actual and recognized past service costs in year	**(0.2)**	5.3	**(2.1)**	(2.2)
Amortization of transitional benefit	**(1.5)**	(1.8)	**-**	-
Net benefit plan expense	**$ 14.2**	$ 7.6	**$ 4.5**	$ 3.6

BENEFIT PLAN ASSETS

The weighted-average asset allocation by asset category of the Corporation's defined benefit pension plans and other funded benefit plans is as follows:

	Defined benefit pension plans	
	2011	2010
Equity	**47%**	47%
Fixed income	**42%**	42%
Real Estate, private equity and other assets	**11%**	11%
Total assets	**100%**	100%

The pension plans do not directly hold any shares of the Corporation's parent or affiliated companies.

SIGNIFICANT ASSUMPTIONS

The discount rate assumption used in determining pension and post-retirement benefit obligations and net benefit expense reflects the market yields, as of the measurement date, on Corporate AA bonds. The expected rate of return on plan assets assumption is reviewed annually by management, in conjunction with actuaries. The assumption is based on the expected returns for the various asset classes, weighted by the portfolio allocation.

(Tabular amounts in millions of Canadian dollars, unless otherwise noted)

11. EMPLOYEE BENEFIT PLANS (CONTINUED)

SIGNIFICANT ASSUMPTIONS (continued)

The weighted average significant actuarial assumptions used to determine the accrued benefit obligation and the benefit plan expense are as follows:

	Defined benefit pension plans		OPEB plans	
	2011	2010	**2011**	2010
Accrued benefit obligation				
Discount rate at December 31, based on Corporate AA bonds	**4.25%**	5.25%	**4.25%**	5.25%
Rate of compensation increase	**2.89%**	3.35%	**-**	-
Net benefit plan expense				
Discount rate at January 1, based on Corporate AA bonds	**5.25%**	6.00%	**5.25%**	6.00%
Expected rate of return on plan assets	**6.75%**	7.00%	**-**	-

The assumed health-care cost trend rates for OPEB plans are as follows:

	2011	2010
Extended health benefits		
Initial health-care cost trend rate	**8.0%**	8.0%
Annual rate of decline in trend rate	**0.5%**	0.5%
Ultimate health-care cost trend rate	**5.0%**	5.0%
Year the rate reaches the ultimate trend rate	**2017**	2017
Medical Services Plan Benefits Premium trend rate	**6.0%**	6.0%

A one percentage-point change in assumed health-care cost trend rates would have the following effects:

2011	**One percentage-point increase**	**One percentage-point decrease**
Effect on the total of the service cost and interest cost components of the benefit plan expense	**$ 0.5**	**$ 0.4**
Effect on accrued benefit obligation	**7.8**	**7.2**

CASH FLOWS

Total cash contributions for employee benefit plans consist of:

	Employee benefit plans	
	2011	2010
Funded plans	**$ 10.9**	$ 7.7
Beneficiaries of unfunded plans	**2.2**	2.1
Total	**$ 13.1**	$ 9.8

See note 17 for the 2012 contributions for the defined pension benefit plans and other benefit plans.

(Tabular amounts in millions of Canadian dollars, unless otherwise noted)

11. EMPLOYEE BENEFIT PLANS (CONTINUED)

IMPACT OF RATE REGULATION

As required by the regulator, the Corporation is required under its approved cost of service model to defer the amounts of pension benefit expense that exceed or are less than the amounts approved by the regulator to be recovered in rates each year. During the year ended December 31, 2011, the Corporation has deferred pension expense of $8.0 million that was greater than (2010 – $1.6 million greater than) the amount approved by the regulator to be recovered in rates in 2011.

12. FINANCING COSTS

	2011	2010
Interest and expense on long-term debt, capital leases and lease in lease out arrangements	**$ 105.1**	$ 102.9
Interest on short-term debt	**2.5**	1.2
Interest capitalized	**(3.3)**	(1.6)
	$ 104.3	$ 102.5

As allowed by the regulator, during the year ended December 31, 2011, the Corporation capitalized interest for borrowing requirements for construction of assets that have not been included in rate base of $3.3 million (2010 - $1.6 million).

13. SUPPLEMENTARY INFORMATION TO NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

	2011	2010
Supplemental cash flow information		
Interest paid in the period, net of capitalized interest	**$ 103.8**	$ 102.5
Income taxes paid in the period	**2.9**	20.6

14. INCOME TAXES

PROVISION FOR INCOME TAXES

	2011	2010
Current income tax expense	**$ 29.1**	$ 27.5
Future income tax expense	**17.9**	6.7
Regulatory adjustment	**(19.1)**	(7.3)
	(1.2)	(0.6)
Income tax expense	**$ 27.9**	$ 26.9

(Tabular amounts in millions of Canadian dollars, unless otherwise noted)

14. INCOME TAXES (CONTINUED)

VARIATION IN EFFECTIVE INCOME TAX RATE

Non-consolidated income taxes vary from the amount that would be computed by applying the Canadian Federal and British Columbia combined statutory income tax rate of 26.5 per cent (2010 – 28.5 per cent) to earnings before income taxes as shown in the following table:

	2011	2010
Earnings before income taxes	**$ 129.0**	$ 118.1
Combined statutory income tax rate	**26.5%**	28.5%
Combined income taxes at statutory rate	**34.2**	33.6
Items capitalized for accounting purposes but expensed for income tax purposes	**(5.4)**	(4.6)
Difference between capital cost allowance and amounts claimed for accounting purposes	**(1.7)**	(0.7)
Pension costs	**(0.9)**	(0.2)
Other regulated temporary differences	**(0.7)**	(0.7)
Non deductible expenses and non taxable income	**(1.0)**	(0.5)
Other	**3.4**	-
Actual non-consolidated income taxes	**$ 27.9**	$ 26.9
Effective income tax rate	**21.63%**	22.78%

FUTURE INCOME TAXES

Future income taxes are provided for temporary differences. Future income tax assets and liabilities are comprised of the following:

	2011	2010
Future income tax liability (asset)		
Property, plant and equipment	**$ 271.0**	$ 267.7
Intangible assets	**17.7**	7.7
Other assets	**26.9**	14.0
Other long-term liabilities and deferred credits	**(28.3)**	(25.9)
Employee future benefits	**4.3**	5.9
Share issue and debt financing costs	**2.1**	1.9
Net future income tax liability	**293.7**	271.3
Current future income tax asset	**$ (10.1)**	$ (8.6)
Current future income tax liability	**-**	1.3
Long-term future income tax liability	**303.8**	278.6
Net future income tax liability	**$ 293.7**	$ 271.3

(Tabular amounts in millions of Canadian dollars, unless otherwise noted)

15. FINANCIAL INSTRUMENTS

FAIR VALUE ESTIMATES

	December 31, 2011		December 31, 2010	
	Carrying value	**Estimated fair value**	Carrying value	Estimated fair value
Held for trading				
Cash and cash equivalents [1]	**$ 17.2**	**$ 17.2**	$ 14.9	$ 14.9
Loans and receivables				
Accounts receivable [1,2]	**238.3**	**238.3**	295.0	295.0
Long-term receivables [1,2]	**8.9**	**8.9**	8.9	8.9
Other financial liabilities				
Short-term notes [1,2]	**65.0**	**65.0**	178.0	178.0
Accounts payable and accrued liabilities [1,2]	**304.0**	**304.0**	361.1	361.1
Long-term debt, including current portion [3,4,5]	**1,695.4**	**2,176.1**	1,594.7	1,885.8

[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] Carrying value is measured at amortized cost using the effective interest rate method.

[4] Carrying value at December 31, 2011 is net of unamortized deferred financing costs of $14.0 million (2010 - $13.2 million). The majority of the Corporation's long-term debt relates to regulated operations which enables the Corporation to recover the existing financing charges through rates or tolls.

[5] Fair value is calculated by discounting the future cash flow of each debt issue at the estimated yield to maturity for the same or similar issues at December 31, 2011 and 2010, or by using available quoted market prices.

The fair value of advances to subsidiary companies have not been determined because it is not practicable to do so, given their related party nature.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates cannot be determined with precision as they are subjective in nature and involve uncertainties and matters of judgment.

Interest expense associated with the Corporation's short-term borrowings and long-term debt is disclosed in note 12 to these non-consolidated financial statements.

DERIVATIVE INSTRUMENTS

The Corporation hedges its exposure to fluctuations in natural gas prices and foreign exchange rates through the use of derivative instruments. FEI's price risk management strategy aims to (i) improve the likelihood that natural gas prices remain competitive with electricity rates, (ii) dampen price volatility on customer rates and (iii) reduce the risk of regional price disconnects. In July 2010, the BCUC ordered the suspension of all commodity hedging activity and directed FEI to undertake a review of the primary objectives of the Price Risk Management Plan (PRMP). In January 2011, FEI filed a review report and submitted a revised 2011-2014 PRMP, based on recommendations arising from the review report. On July 12, 2011, the BCUC issued its decision on the review report and determined that commodity hedging in the current environment was not a cost effective means to meet the objectives of competitiveness and rate stability. The BCUC concurrently denied FEI's 2011-2014 PRMP with the exception of certain elements to address the risk of regional price disconnects. As a result, FEI has suspended all commodity hedging activity with the exception of basis swaps for to reduce the risk of Sumas market price disconnects.

(Tabular amounts in millions of Canadian dollars, unless otherwise noted)

15. FINANCIAL INSTRUMENTS (CONTINUED)

DERIVATIVE INSTRUMENTS (continued)

The existing hedging contracts continue in effect through to their maturity and FEI's ability to fully recover the commodity cost of gas in customer rates remains unchanged. The table below indicates the valuation of the derivative instruments as at December 31, 2011 and 2010.

(Liability)			**December 31, 2011**		December 31, 2010	
	Number of contracts	**Term to maturity (years)**	**Carrying value**	**Fair value**	Carrying value	Fair value
Foreign exchange forward	**1**	**0.3**	**$ (0.1)**	**$ (0.1)**	$ (0.2)	$ (0.2)
Natural gas commodity swaps and options and gas purchase contract premiums	**168**	**Up to 2.8**	**(86.8)**	**(86.8)**	(120.4)	(120.4)

The following tables summarize the fair value measurements of natural gas derivative contracts and foreign exchange forward contracts as of December 31, 2011 and 2010, based on the three levels that distinguish the level of pricing observability utilized in measuring fair value.

(Liability)	**December 31, 2011**			
	Total fair value	**Level 1 – Quoted prices in active markets for identical assets**	**Level 2 – Significant other observable inputs**	**Level 3 – Significant unobservable inputs**
Foreign exchange forward	**$ (0.1)**	**$ -**	**$ (0.1)**	**$ -**
Natural gas commodity swaps and options and gas purchase contract premiums	**(86.8)**	**-**	**(86.8)**	**-**

(Liability)	December 31, 2010			
	Total fair value	Level 1 – Quoted prices in active markets for identical assets	Level 2 – Significant other observable inputs	Level 3 – Significant unobservable inputs
Foreign exchange forward	$ (0.2)	$ -	$ (0.2)	$ -
Natural gas commodity swaps and options and gas purchase contract premiums	(120.4)	-	(120.4)	-

The natural gas derivatives' fair value reflects only the value of the natural gas derivatives and not the offsetting change in value of the underlying future purchases of natural gas. These fair values reflect the estimated amounts the Corporation would receive or (pay) to terminate the contracts at the stated dates. The natural gas derivatives' fair values have been determined using published market prices for natural gas commodities while the foreign exchange forward contract uses the market foreign exchange rate in effect at the period end.

(Tabular amounts in millions of Canadian dollars, unless otherwise noted)

15. FINANCIAL INSTRUMENTS (CONTINUED)

DERIVATIVE INSTRUMENTS (continued)

The derivatives entered into by the Corporation relate to regulated operations and any resulting gains or losses are recorded in rate stabilization accounts or deferral accounts included in other assets and are passed through to customers in future rates.

RISK MANAGEMENT

Exposure to credit risk, liquidity risk, market risk, and natural gas commodity price risk arises in the normal course of the Corporation's business.

CREDIT RISK

Credit risk is the risk that a third party to a financial instrument might fail to meet its obligations under the terms of the financial instrument. For cash and cash equivalents, derivative assets, accounts receivable, and other receivables due from customers, the Corporation's credit risk is limited to the carrying value on the balance sheet. The Corporation generally has a large and diversified customer base, which minimizes the concentration of credit risk.

The Corporation is exposed to credit risk in the event of non-performance by counterparties to derivative financial instruments, including natural gas commodity swaps and options. Because the Corporation deals with high credit-quality institutions, in accordance with established credit-approval practices, the Corporation does not expect any counterparties to fail to meet their obligations. Counterparty credit exposures are monitored by individual counterparty and by category of credit rating, and are subject to approved limits. The counterparties with which the Corporation has significant transactions are A-rated entities or better. The Corporation uses netting arrangements to reduce credit risk and net settles payments with counterparties where net settlement provisions exist.

In the case of commercial and industrial customers credit risk is managed by checking a corporation's creditworthiness and financial strength both before commencing and during the business relationship. For residential customers, creditworthiness is normally ascertained before commencing commodity delivery by an appropriate mix of internal and external information to determine the payment mechanism required to reduce credit risk to an acceptable level. Certain customers will only be accepted on a prepayment basis. The Corporation manages its exposure to credit risk associated with all customers by monitoring an aging of receivables and by monitoring groupings of customers according to method of payment or profile.

Receivables from customers are generally considered to be fully performing until such time as the payment that is due remains outstanding past the contractual due date. The aging analysis of the Corporation's non-consolidated accounts receivable, net of an allowance for doubtful accounts of $5.4 million as at December 31, 2011 (2010 - $4.8 million), is as follows:

	December 31, 2011	December 31, 2010
Not past due	**$ 227.3**	$ 278.8
Past due 0-30 days	**10.4**	15.1
Past due 31-60 days	**0.6**	1.0
Past due 61-90 days	**-**	-
Past due over 91 days	**-**	0.1
	$ 238.3	$ 295.0

(Tabular amounts in millions of Canadian dollars, unless otherwise noted)

15. FINANCIAL INSTRUMENTS (CONTINUED)

LIQUIDITY RISK

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Corporation's financial position could be adversely affected if it fails to arrange sufficient and cost-effective financing to fund, among other things, capital expenditures and the repayment of maturing debt. The ability to arrange sufficient and cost-effective financing is subject to numerous factors, including the results of operations and financial position of the Corporation, conditions in the capital and bank credit markets, ratings assigned by rating agencies and general economic conditions.

To mitigate this risk, the Corporation has a $500.0 million (2010 - $500.0 million) syndicated credit facility available which expires in August 2013, of which $386.8 million (2010 - $277.3 million) was unused at December 31, 2011. The facility is unsecured and is used for general corporate purposes.

The Corporation targets to have, on average, sufficient liquidity to allow it not to access the capital markets for a period of twelve months.

The following summary outlines the Corporation's credit facility.

	December 31, 2011	December 31, 2010
Total credit facility	**$ 500.0**	$ 500.0
Short-term borrowings	**(65.0)**	(178.0)
Letters of credit outstanding	**(48.2)**	(44.7)
Credit facility available	**$ 386.8**	$ 277.3

The Corporation targets a strong investment-grade credit rating to maintain capital market access at reasonable interest rates. As at December 31, 2010, the Corporation's credit ratings were as follows:

Credit Ratings	**DBRS**	**Moody's**
Commercial paper	**R-1 (Low)**	**-**
Secured long-term debt	**A**	**A1**
Unsecured long-term debt	**A**	**A3**

A downward change in the credit ratings of the Corporation by one notch on January 1, 2011 would decrease earnings for the year ended December 31, 2011 by $0.2 million (2010 - $0.2 million). The Corporation has existing regulatory deferrals that would absorb the impact of interest rate change as a result of a change in the Corporation's credit ratings.

(Tabular amounts in millions of Canadian dollars, unless otherwise noted)

15. FINANCIAL INSTRUMENTS (CONTINUED)

LIQUIDITY RISK (continued)

The following is an analysis of the contractual maturities of the Corporation's financial liabilities as at December 31, 2011.

Financial Liabilities	≤ 1 year	>1-3 years	4-5 years	>5 years	Total
Short-term notes	$ 65.0	$ -	$ -	$ -	$ 65.0
Accounts payable and accrued liabilities	304.0	-	-	-	304.0
Long-term debt, including current portion[1]	2.9	5.8	280.7	1,420.0	1,709.4
Interest obligations on long-term debt	120.6	241.3	232.4	1,806.8	2,401.1
	$ 492.5	$ 247.1	$ 513.1	$ 3,226.8	$4,479.5
Derivatives Financial Assets (Liabilities)					
Commodity Contracts	$ (69.5)	$ (12.6)	$ -	$ -	$ (82.1)
Foreign exchange forwards	(4.4)	-	-	-	(4.4)

[1] Excluding deferred financing costs of $14.0 million.

MARKET RISK

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates or market interest rates.

The Corporation's earnings are not exposed to changes in the US dollar-to-Canadian dollar exchange rate.

FEI's US dollar payments under a contract for the construction of a Customer Information System are exposed to fluctuations in the US dollar-to-Canadian dollar exchange rate. FEI has entered into a foreign exchange forward contract to hedge this exposure. As at December 31, 2011, a five percent appreciation of the US dollar-to-Canadian dollar exchange rate, as it impacts the measurement of the fair value of the foreign exchange forward contract, in the absence of rate regulation and with all other variables constant, would have increased earnings by $0.2 million for the year ended December 31, 2011 and a five percent depreciation of the US dollar-to-Canadian dollar exchange rate would have decreased earnings by $0.2 million for the year ended December 31, 2011.

FEI has regulatory approval to defer any increase or decrease in the fair value of the foreign exchange forward contract for recovery from, or refund to, customers in future rates. Therefore, any change in fair value would have impacted regulatory assets or liabilities rather than earnings.

The Corporation's natural gas derivatives are exposed to fluctuations in the US dollar-to-Canadian dollar exchange rate. The following sensitivity analysis estimates the impact on the fair value of natural gas commodity swaps and options of a five per cent appreciation and depreciation of the US dollar-to-Canadian dollar exchange rate, with all other variables remaining constant, for the year ended December 31, 2011. A five per cent appreciation of the US dollar-to-Canadian dollar exchange rate would change the fair value of natural gas commodity swaps and options by moving the fair value further out of the money by $0.1 million (2010 - $0.1 million) for the year ended December 31, 2011. This would result in an increase in "Accounts payable and accrued liabilities" and "Current Assets:

15. FINANCIAL INSTRUMENTS (CONTINUED)

MARKET RISK (continued)

Current portion of rate stabilization accounts." A five per cent depreciation of the US dollar-to-Canadian dollar exchange rate would change the fair value of natural gas commodity swaps and options by reducing the Corporation's out of the money position by $0.1 million (2010 - $0.1 million) for the year ended December 31, 2011. This would result in a decrease in "Accounts payable and accrued liabilities" and "Current Assets: Current portion of rate stabilization accounts."

The Corporation is exposed to interest rate risk associated with short-term borrowings and floating rate debt. The Corporation may enter into interest rate swaps to help reduce this risk. Approximately 100 per cent of the Corporation's operating facility is subject to interest rate risk while none of its long-term debt is subject to interest rate risk. A 100 basis point increase in interest rates would decrease earnings for the year ended December 31, 2011 by $1.0 million (2010 - $1.0 million) if not for the fact that the Corporation has existing regulatory deferrals that would absorb the impact of such interest rate changes.

NATURAL GAS COMMODITY PRICE RISK

The Corporation is exposed to risks associated with changes in the market price of natural gas as a result of the natural gas derivatives. The Corporation's price risk management strategy covers a term of 36 months and aims to (i) improve the likelihood that natural gas prices remain competitive with electricity rates, (ii) dampen price volatility on customer rates and (iii) reduce the risk of regional price disconnects.

In the accompanying non-consolidated balance sheet at December 31, 2011, the balance of $68.5 million (2010 - $96.3 million) captioned as "Current Assets: Current portion of rate stabilization accounts" includes a $86.8 million (2010 - $120.4 million) mark-to-market adjustment representing unrealized losses on hedges that are recoverable from customers through rates.

The Corporation's exposure to market risk includes forward-looking statements and represents an estimate of possible changes in fair value that would occur assuming hypothetical future movements in commodity prices. The Corporation's views on market risk are not necessarily indicative of actual results that may occur and do not represent the maximum possible gains and losses that may occur, since actual gains and losses will differ from those estimated, based on actual fluctuations in interest rates or commodity prices and the timing of transactions.

The following sensitivity analysis estimates the impact on the fair value of natural gas commodity swaps and options of a one dollar change in the value of the underlying price of natural gas, with all other variables remaining constant, for the year ended December 31, 2011. This analysis is for illustrative purposes only, as in practice market rates rarely change in isolation. If the price of natural gas decreased by one dollar per GJ, the change in the fair value of natural gas commodity swaps and options would be to move further out of the money by $45.6 million (2010 - $44.0 million) for the year ended December 31, 2011. This would result in an increase in "Accounts payable and accrued liabilities" and "Current Assets: Current portion of rate stabilization accounts." If the price of natural gas increased by one dollar per GJ, the change in the fair value of natural gas commodity swaps and options would be to reduce the Corporation's out of the money position by $45.6 million (2010 - $45.2 million) for the year ended December 31, 2011. This would result in a decrease in "Accounts payable and accrued liabilities" and "Current Assets: Current portion of rate stabilization accounts."

(Tabular amounts in millions of Canadian dollars, unless otherwise noted)

15. FINANCIAL INSTRUMENTS (CONTINUED)

CAPITAL MANAGEMENT

The Corporation's principal business of regulated gas distribution utilities requires ongoing access to capital in order to allow it to fund the maintenance and expansion of infrastructure. The Corporation has secured a multi-year committed credit facility to support short-term financing of capital expenditures and seasonal working capital requirements. The committed credit facility is available for general corporate purposes.

The Corporation maintains a capital structure in line with the deemed capital structure approved by the BCUC which up to December 31, 2009 was 35.01 per cent equity financing of rate base. Effective January 1, 2010, the deemed capital structure approved by the BCUC is 40.0 per cent equity financing of rate base for the Corporation.

The non-consolidated capital structure of the Corporation is presented in the following table.

	December 31, 2011		December 31, 2010	
		(%)		(%)
Total debt and capital lease obligations [1]	**$ 1,743.2**	**62.5**	$ 1,757.8	63.3
Shareholders' equity	**1,047.8**	**37.5**	1,021.6	36.7
Total	**$ 2,791.0**	**100.0**	$ 2,779.4	100.0

[1] Includes long-term debt, including current portion, and short-term borrowings, net of cash and cash equivalents

Certain of the Corporation's long-term debt obligations have issuance tests that prevent the Corporation from incurring additional long term debt unless the interest coverage is at least two times available net earnings. In addition, the Corporation's credit agreement requires maintenance of certain financial covenants such as a maximum percentage of debt to equity. As at December 31, 2011 and 2010, the Corporation was in compliance with these covenants.

The Corporation's credit ratings and credit facilities are disclosed under "Liquidity Risk".

16. RELATED PARTY TRANSACTIONS

a) The Corporation received $3.5 million in 2011 (2010 – $3.5 million) from FortisBC Energy (Vancouver Island) Inc. (FEVI), a subsidiary of FortisBC Holdings Inc. (FortisBC Holdings), for transporting gas through the Corporation's pipeline system. This revenue was included in natural gas transmission and distribution revenues on the non-consolidated statements of earnings and comprehensive earnings.

b) The Corporation paid approximately $49.4 million (2010 - $48.1 million) during the year ended December 31, 2011 for customer care and billing services to a limited partnership in which FortisBC Holdings owns a 30 per cent interest. These costs were included in operation and maintenance expenses on the non-consolidated statements of earnings and comprehensive earnings.

c) The Corporation reimbursed its parent, FortisBC Holdings, for management services under a shared-services agreement totalling $9.6 million (2010 – $9.6 million) for the year ended December 31, 2011. The management services fee was included in operation and maintenance expenses on the non-consolidated statements of earnings and comprehensive earnings.

d) The Corporation charged $9.4 million (2010 – $9.6 million) to affiliated companies for management services during the year ended December 31, 2011. The management services fee was included in management fees on the non-consolidated statements of earnings and comprehensive earnings.

(Tabular amounts in millions of Canadian dollars, unless otherwise noted)

16. RELATED PARTY TRANSACTIONS (CONTINUED)

e) The Corporation's indirect parent, Fortis Inc., grants stock options to certain employees of the Corporation under its stock option plans. For the year ended December 31, 2011, the Corporation was charged, and recorded an expense of $0.7 million (2010 - $0.7 million) for the fair value of the stock compensation granted by Fortis Inc. The stock option expense was included in operation and maintenance expenses on the non-consolidated statements of earnings and comprehensive earnings.

f) Included in accounts receivable at December 31, 2011, was $1.4 million (2010 - $3.0 million) owed to the Corporation by affiliated companies. The amounts were unsecured and non-interest bearing.

g) The Corporation was charged $12.0 million for the year ended December 31, 2011 by FEVI for storing gas at the Mt. Hayes LNG storage facility which became operational in April 2011. This cost was included in Current Liabilities: Current portion of rate stabilization accounts on the non-consolidated balance sheet.

h) For the year ended December 31, 2011 the Corporation was charged $1.9 million (2010 - $1.2 million) by FortisBC Inc. (an indirect subsidiary of Fortis Inc.) for electricity purchases and corporate management services. For the year ended December 31, 2011 the Corporation charged $1.2 million (2010 - $0.5 million) to FortisBC Inc. for rent and labour charges. These charges were included in operation and maintenance expenses on the non-consolidated statements of earnings and comprehensive earnings.

i) During the year, the Corporation paid $1.0 million (2010 - $5.8 million) to an affiliated company for the lease of certain equipment. The amount was included in operation and maintenance expenses on the non-consolidated statements of earnings and comprehensive earnings.

Related party transactions were recorded at the exchange amount.

17. COMMITMENTS AND CONTINGENCIES

The Corporation has entered into operating leases for certain building space and natural gas transmission and distribution assets. In addition, the Corporation enters into gas purchase contracts that represent future purchase obligations.

The following table sets forth the Corporation's operating leases, gas purchase obligations and employee benefit plan contributions due in the years indicated:

	Operating leases	Purchase obligations	Employee benefit plans	Total
2012	$ 16.4	$ 157.8	$ 11.8	$ 186.0
2013	16.0	73.9	9.2	99.1
2014	15.6	45.5	-	61.1
2015	15.3	-	-	15.3
2016	15.1	-	-	15.1
Thereafter	59.5	-	-	59.5
	$ 137.9	$ 277.2	$ 21.0	$ 436.1

17. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Gas purchase contract commitments are based on gas commodity indices that vary with market prices. The amounts disclosed reflect index prices that were in effect at December 31, 2011. The employee benefit plan contributions have been estimated up to the date of the next actuarial valuation for each plan unless the valuation falls in the next 12 months then the Corporation has provided for an estimate of the contributions. Employee benefit plan contributions beyond the date of the next actuarial valuation cannot be accurately estimated.

In addition to the items in the table above, the Corporation has issued commitment letters to customers to provide EEC funding under the EEC Program approved by the BCUC. As at December 31, 2011, the Corporation had issued $3.8 million of commitment letters to customers.

18. SUBSEQUENT EVENT

On April 12, 2012, the BCUC issued its decision on the Corporation's 2012/2013 Revenue Requirement Application. The existing interim rates reflect the applied for rate increases effective January 1, 2012 of 5.6 per cent for FEI. The decision is expected to result in a delivery rate decrease as compared to FEI's existing interim rates in the range of one to two per cent. The approved rates reflect allowed ROE's and capital structure unchanged from 2011. The final rate increases were driven by ongoing investment in energy infrastructure focused on system integrity and reliability, and forecast increased operating expenses associated with inflation, a heightened focus on safety and security of the natural gas system, and increasing compliance with codes and regulations. The difference between interim and final rates will be refunded to customers over the remainder of 2012.

On April 30, 2012, the Corporation issued 1,900,000 common shares for a total proceeds of $65 million. The issuance is a result of higher rate base in 2012 compared to 2011 due to capital projects going into service in early 2012.

FORTISBC ENERGY INC.
TRIAL BALANCE IN STATEMENT FORMAT
FOR THE YEAR ENDED DECEMBER 31, 2011
($000)

	Assets and Other Debits Account	Trial Balance 2011	Reclasses	Year End Adj.	FortisBC Energy Inc. Non-Consolidated Financial Statements
	Current and Accrued Assets				
130	Cash	$ 17,185			$ 17,185
131	Special Deposits				
132	Temporary Cash Investments				
140	Accounts Receivable - Trade	254,588		4,044	258,632
141	Accounts Receivable - Other	(15,545)			(15,545)
143	GST Receivable				-
145	Allowance for Doubtful Accounts	(5,368)			(5,368)
148	Work in Progress Accounts Receivable	537			537
150	Materials and Supplies - Gas	1,498			1,498
151	Materials and Supplies - Other	567			567
152	Gas Stored Underground	95,932			95,932
153	Transmission Line Pack	3,328			3,328
154	Work in Progress Manufacturing				-
160	Prepayments	3,054			3,054
	Future Income Taxes		875	9,261	10,136
	Rate Stabilization Receivable	-	(13,786)	82,249	68,463
	Total Current and Accrued Assets	$ 355,776	$ (12,911)	$ 95,554	$ 438,419
	Property, Plant and Equipment				
100	Gas Plant in Service	$ 3,580,644	34,629	37,082	$ 3,652,355
101	Gas Plant Leased to Others	(109,811)			(109,811)
103	Retirement Work in Progress	-	-		-
109	Current Year Retirements				-
110	Other Plant	205,161			205,161
115	Gas Plant Under Construction	12,834	(12,834)		-
116	Other Plant Under Construction	21,795	(21,795)		-
117	Utility Plant Acquisition Adjustment				-
175	Unamortized Conversion Expense	886			886
178	Organization Expense	728			728
211	Contributions and Grants	(181,334)			(181,334)
	Total Property, Plant and Equipment	$ 3,530,904	$ -	$ 37,082	$ 3,567,986
	Accumulated Depreciation				
105	Accumulated Depreciation - Gas Plant	$ (946,754)		(17,540)	$ (964,294)
103	Retirement Work in Progress				-
111	Accumulated Depreciation - Intangibles	(23,214)			(23,214)
113	Current Year Dismantling				-
114	Current Year Salvage Credits				-
118	Current Year Depreciation				-
119	Current Year Retirements (Acc. Deprc.)				-
126	Allowance for Loss in Value of Investments				-
175	Unamortized Conversion Expense	(540)			(540)
178	Organization Expense	(385)			(385)
211	Contributions and Grants	50,142			50,142
	Total Reserves	$ (920,751)	$ -	$ (17,540)	$ (938,290)
	Net Plant and Equipment	$ 2,610,153	$ -	$ 19,542	$ 2,629,695

FORTISBC ENERGY INC.
TRIAL BALANCE IN STATEMENT FORMAT
FOR THE YEAR ENDED DECEMBER 31, 2011
($000)

BALANCE SHEET (Cont'd)

	Account	Trial Balance 2011	Reclasses	Year End Adj.	FortisBC Energy Inc. Non-Consolidated Financial Statements
	Other Assets				
120	Investments in Affiliated Companies	$ 5			$ 5
121	Other Long Term Investments	1,693	(1,693)		-
122	Sinking Funds				-
123	Miscellaneous Special Funds	(47)	47		-
124	Company Long-Term Debt Owned				-
125	Second Mortgage Receivable	7,176	1,646	46	8,868
142	Accounts Receivable - Affiliated Companies	151,382	(5)	(1,430)	149,947
	Rate Stabilization - Long-Term				-
	Total Other Assets	$ 160,210	$ (5)	$ (1,384)	$ 158,821
	Deferred Charges				
170	Unamortized Debt Discount and Expense				$ -
171	Extraordinary Plant Losses				-
172	Preliminary Surveys	5,416		(5,409)	7
173	Other Work in Progress	39,858			39,858
176	Public Improvements				-
177	Capital Stock Expense				-
	Future Income Taxes	262,613		20,011	282,624
179	Regulated Deferrals - net of tax	79,656	21,913	2,469	104,038
271	Unearned Finance Charges on Customers Accts. Rec. (Cr.)				-
279	Other Deferred Credits	-			-
	Subtotal Deferred 179 to 279	79,656	21,913	2,469	104,038
	Total Deferred Charges	$ 387,543	$ 21,913	$ 17,071	$ 426,527
	Total Other Assets and Deferred Charges	547,752	21,908	15,687	585,347
	Total Assets	$ 3,513,681	$ 8,997	$ 130,783	$ 3,653,461

FORTISBC ENERGY INC.
TRIAL BALANCE IN STATEMENT FORMAT
FOR THE YEAR ENDED DECEMBER 31, 2011
($000)

Liabilities and Other Credits

	Account	Trial Balance 2011	Reclasses	Year End Adj.	FortisBC Energy Inc. Non-Consolidated Financial Statements
	Current and Accrued Liabilities				
250	Bank Indebtedness	$ -			$ -
250	Loans and Notes Payable	65,000			65,000
251	Accounts Payable and Accrued	171,432	(15)	88,070	259,487
252	Accounts Payable-Affiliated Companies				-
253	Dividends Payable				-
254	Customers' Security Deposits	19,295			19,295
255	Customers' Advances for Construction				-
256	Taxes Accrued	41,787		(289)	41,498
257	Interest Payable and Accrued	25,284			25,284
258	Long Term Debt Due Within One Year	7		2,896	2,903
259	Other Current and Accrued Liabilities				-
	Deferred Credits	44,565	(38,961)	13,058	18,662
	Future Income Taxes		875	(875)	-
248	Advances from Affiliated Companies - Parent		(131)		(131)
	Total Current and Accrued Liabilities	$ 367,371	$ (38,232)	$ 102,860	$ 431,999
	Long Term Debt				
220	Long Term Debt	$ 1,680,842			$ 1,680,842
249	Other Long Term Debt	14,515	131	(3,034)	11,612
	Total Long Term Debt	$ 1,695,358	$ 131	$ (3,034)	$ 1,692,455
	Rate Stabilization Accounts - Long Term Portion		25,175	(2,798)	22,377
	Deferred Credits				
271	Unearned Finance Charges on Customers Accts. R	$ 34,122			$ 34,122
276	Deferred Income Taxes	274,385		29,474	303,859
279	Other Long Term Liabilities	90,416	21,913	8,561	120,890
	Total Deferred Credits	$ 398,922	$ 47,088	$ 35,237	$ 481,247
	Capital Stock and Surplus				
200	Preferred Stock				
205	Common Stock	$ 718,959			$ 718,959
210	Contributed Surplus	328,161		(63,850)	264,311
212	Retained Earnings	89,911	(84,991)	59,570	64,490
215	Appropriated Retained Earnings	(85,000)	85,000		-
	Adjustments to Retained Earnings-Share Issue Costs				-
350	Balance Transferred from Net Income				-
357	Preference Shares Dividends/Taxes				-
	Total Capital Stock & Surplus	$ 1,052,030	$ 9	$ (4,280)	$ 1,047,759
	Total Liabilities and Other Credits	$ 3,513,681	$ 8,996	$ 130,783	$ 3,653,460

FORTISBC ENERGY INC.
TRIAL BALANCE IN STATEMENT FORMAT
FOR THE YEAR ENDED DECEMBER 31, 2011
($000)

STATEMENT OF NET INCOME AND RETAINED EARNINGS

	Account	Trial Balance 2011	Reclasses	Year End Adj.	FortisBC Energy Inc. Non-Consolidated Financial Statements
	Utility Income				
	Operating Revenue				
520, 521	-Residential/Commercial	$ 974,671			$ 974,671
522, 524	-Industrial	21,635			21,635
522	- Burrard Thermal (Firm and Interruptible)				-
524	- Sales to Columbia				-
590	-NGV	549			549
329	Other Income Deductions - RSAM Margin Stabilizatior	239,794			239,794
	Deferred Margin Recovery (Riders 4 and 5) -				-
	Reclassification to Amortization Expense (Acct. 304)				-
	Management Fees		(300)	9,410	9,110
623 to 629	Purchase of Gas	(763,308)			(763,308)
	Gross Margin - Gas Sales	473,341	(300)	9,410	482,451
570	Transportation of Gas	79,187			79,187
	Other Operating Revenues				
560	Late Payment Charge	2,994			2,994
561	Revenue From Service Work	2,631			2,631
575	Company Housing Rent				-
579	Other Operating Revenue	18,916		8,795	27,711
580	Revenue From Business Opportunities				-
590	NGV Leased Tank Revenue				-
319	Other Income	410			410
	Subtotal Other Revenues	24,952	-	8,795	33,747
307	Revenue from Gas Plant Leased to Others				-
310	Revenue from Other Plant				-
312	Earnings Sharing & Capital Incentive Mechanism	1,637			1,637
312	2010 Revenue Surplus	-			-
314	Income from Investments				-
315	Income from Investment in Affiliated Companies	-			-
317	Gain on Foreign Exchange	-			-
324	AFUDC - Equity Cost	4,056			4,056
	Total Other Operating Revenues	30,645	-	8,795	39,440
	Total Net Revenue	$ 583,173	$ (300)	$ 18,205	601,078

FORTISBC ENERGY INC.
TRIAL BALANCE IN STATEMENT FORMAT
FOR THE YEAR ENDED DECEMBER 31, 2011
($000)

STATEMENT OF NET INCOME AND RETAINED EARNINGS

	Account	Trial Balance 2011	Reclasses	Year End Adj.	FortisBC Energy Inc. Non-Consolidated Financial Statements
	Operating Expenses:				
301	Operation & Maintenance Expense	$ 211,171	$ (300)	$ 17,498	$ 228,369
303/304	Depreciation & Amortization	88,956			88,956
305	Municipal and Other Taxes	50,379			50,379
308	Rent for Gas Plant Leased From Others				-
	Total Operating Expenses	$ 350,505	$ (300)	$ 17,498	$ 367,703
316/317	Income from Sinking and Other Funds/Subsidiaries	-			-
	Earnings from Continuing Operations Before Interest and Taxes	$ 232,667	$ -	$ 707	$ 233,374
	Interest				
311	Expense of Other Plant	$ -			$ -
313	Non-Operating Expense	-			-
320	Interest on Long Term Debt	104,619			104,619
321	Amortization of Debt Issue Costs,	483			483
	Premium and Expense & Gain on Purchase	-			-
322	Interest Due Affiliated Companies	-			-
323	Other Interest Expense	2,500			2,500
325	AFUDC - Interest	(3,342)			(3,342)
	Total Interest	$ 104,260	$ -	$ -	$ 104,260
306	INCOME TAXES	28,889		(935)	27,954
	Earnings Before Extraordinary Items	$ 99,518	$ -	$ 1,642	$ 101,160
	Extraordinary Items				
		$ -			$ -
331	Extraordinary Income	-			-
332	Extraordinary Deductions	-			-
	Net Extraordinary Items	$ -		$ -	$ -
	Net Earnings	$ 99,518	$ -	$ 1,642	$ 101,160

FORTISBC ENERGY INC.
TRIAL BALANCE IN STATEMENT FORMAT
FOR THE YEAR ENDED DECEMBER 31, 2011
($000)

STATEMENT OF NET INCOME AND RETAINED EARNINGS

		Trial Balance 2011	Reclasses	Year End Adj.	FortisBC Energy Inc. Non-Consolidated Financial Statements
	Retained Earnings				
212	Balance Beginning of Year	$ (9,607)	$ 9	57,928	$ 48,330
350	Balance Transferred from Net Income	99,518	-	1,642	101,160
357	Appropriations of Retained Earnings - Preferred Dividends				-
357	Part VI.1 Tax Recovery				-
357	Dividends on Common/Preference	(85,000)			(85,000)
359	Adjustments to Retained Earnings-Share Issue Costs				-
	-CIS Disallowance				-
212	Retained Earnings End of Year	$ 4,911	$ 9	$ 59,570	$ 64,490

FORTISBC ENERGY INC.

INCOME TAX RETURN

The income tax calculations of this report are based on the preliminary working papers used in the calculations in support of the Non-Consolidated Financial Statements for the year ended December 31, 2011. The 2011 FortisBC Energy Inc. income tax return will be filed when completed.

FORTISBC ENERGY INC.
BRITISH COLUMBIA UTILITIES COMMISSION
LETTER NO. L-36-94, DIRECTION NO. 2

Direction No. 2

A detailed comparison between forecast and actual results for all completed or in progress capital projects above the utility's materiality limit. For capital projects with ongoing reporting, the explanation may refer to those reports. For capital projects below the utility's materiality limit, a summary report showing forecast and actual is required.

Response

An analysis of significant projects completed during 2011 and of significant projects in work in progress as at December 31, 2011 is included under Tab 1, Page 7 of this report.

FORTISBC ENERGY INC.
BRITISH COLUMBIA UTILITIES COMMISSION
LETTER NO. L-36-94, DIRECTION NO. 3

Direction No. 3

Copies of income tax assessment and reassessment notices pertaining to utility business.

Response

Please see attached pages.

Canada Revenue Agency | Agence du revenu du Canada

Surrey BC V3T 5E1

Date of mailing	October 17, 2011
Business Number	10043 1592 RC0002
Tax year-end	December 31, 2010

FORTISBC ENERGY INC.
10FL-1111 GEORGIA ST W
VANCOUVER BC V6E 4M3

0002683

CORPORATION NOTICE OF ASSESSMENT

RESULTS

Thank you for choosing to use our Corporation Internet Filing service.

This notice explains the results of our assessment of the "T2 Corporation Income Tax Return" for the tax year indicated above. It also explains any changes we may have made to the return.

Result of this Assessment :	$	0.10	Cr
Administrative adjustment:	$	0.10	
Prior balance:	$	111,223.17	Cr
		================	
Total balance:	$	0.00	

We do not charge or refund an amount of $2.00 or less.

The total balance does not include unapplied credits, which are currently being held while under review.

Please refer to the Summary and Explanation for additional information.

Canada Revenue Agency | Agence du revenu du Canada

FORTISBC ENERGY INC.

Date of mailing	October 17, 2011
Business Number	10043 1592 RC0002
Tax year-end	December 31, 2010

CORPORATION NOTICE OF ASSESSMENT

SUMMARY OF ASSESSMENT

	$ Reported	$ Assessed
Federal Tax:		
Part I	6,020,141.00	6,020,141.00
Part I.3	0.00	0.00
Part II	0.00	0.00
Part III.1	0.00	0.00
Part IV	0.00	0.00
Part IV.1	0.00	0.00
Part VI	0.00	0.00
Part VI.1	0.00	0.00
Part XIII.1	0.00	0.00
Part XIV	0.00	0.00
Total Federal Tax:		$ 6,020,141.00
Net Provincial and Territorial Tax/Credit:		
British Columbia	3,511,249.00	3,511,249.00
Total Net Provincial and Territorial Tax/Credit:		$ 3,511,249.00
Instalment(s) applied		9,531,390.10 Cr
Net balance:		$ 0.10 Cr
Result of this assessment:		$ 0.10 Cr
Administrative adjustment:		$ 0.10
Prior balance:		$ 111,223.17 Cr
Total balance:		$ 0.00

Linda Lizotte-MacPherson
Commissioner of Revenue

EXPLANATION

We have provided a breakdown of the provincial and territorial tax and credit amounts.

Net British Columbia tax/credit consists of the following:

British Columbia tax	$ 3,511,749.00
British Columbia political contribution tax credit	$ 500.00

For general information regarding filing an objection, determining a corporation's losses, or reassessment periods, please refer to the "T2 Corporation Income Tax Guide" or visit our Web site at www.cra.gc.ca.

Please visit www.cra.gc.ca/mybusinessaccount to access your business information online.

For information about online requests available to business clients, visit www.cra.gc.ca/requests-business. This service allows clients to electronically request certain financial actions, additional remittance vouchers and other communication products, as well as reproductions of previously issued correspondence.

The Canada Revenue Agency also offers the convenience of Direct Deposit. For information about this service, please visit our Web site at www.cra.gc.ca or contact the number provided below.

Canada Revenue Agency | Agence du revenu du Canada

FORTISBC ENERGY INC.

Date of mailing	October 17, 2011
Business Number	10043 1592 RC0002
Tax year-end	December 31, 2010

0002684

CORPORATION NOTICE OF ASSESSMENT

For information visit www.cra.gc.ca or contact:

Business Enquiries: 1-800-959-5525
Surrey Tax Centre
9755 King George Boulevard
Surrey BC V3T 5E1
Fax 604-585-5772

Vancouver Tax Services Office

FORTISBC ENERGY INC.
BRITISH COLUMBIA UTILITIES COMMISSION
LETTER NO. L-36-94, DIRECTION NO. 4

Direction No. 4

A list of topics covered in the management letters.

Response

No management letter was issued regarding the 2011 year.

FORTISBC ENERGY INC.
BRITISH COLUMBIA UTILITIES COMMISSION
LETTER NO. L-36-94, DIRECTION NO. 5

Direction No. 5

A list of topics covered in the internal audit reports together with a brief description of each topic.

Response

See attached letter dated February 13, 2012 by Mr. T.D. McMillan, Director, Internal Audit.

T. D. McMillan, CMA
Director, Internal Audit
FortisBC Holdings Inc.
1111 West Georgia Street
Vancouver, B.C.
V6E 4M3

Tel: 250-469-8087

February 13, 2012

British Columbia Utilities Commission
6th Floor, 900 Howe Street
Vancouver, B.C. V6Z 2N3

Attention: Ms. Alanna Gillis, Acting Commission Secretary

Dear Ms. Gillis:

Re: 2011 Internal Audit Reports

As requested by the British Columbia Utilities Commission in letter No. L-36-94, we provide the following summary of 2011 Internal Audit reports. (See Appendix A)

Audit Process

Internal Audit prepares an annual Audit Plan that is risk-based, reviewed with management and approved by the Audit Committee. The Audit Plan consists of a variety of projects that evaluate the design and effective operation of internal controls, compliance with corporate policy and practice, and fairness of management representations. Internal Audit projects normally produce an Internal Audit report. These are subject to an audit protocol that is meant to ensure factual accuracy of all observations and to provide management with an opportunity to review and prepare responses to recommendations. As part of the audit process Internal Audit periodically follows-up on the status of the management action plans developed in response to recommendations.

Observations and recommendations contained in Internal Audit reports represent opportunities to improve internal controls and business processes for the benefit of both shareholders and customers. However, their existence, either singularly or in combination, does not necessarily constitute material weaknesses in internal controls.

If the Commission requires additional information related to the contents of this report, please contact me at 250-469-8087.

Yours Truly,

Original Signed by:

T. D. McMillan, CMA
Director, Internal Audit

Appendix A- Summary of 2011 IA Work

1. **Financial Directions and Orders**

   Review compliance with the Financial Directions contained in Decisions, Orders and Letters issued by the Commission.

2. **Compliance with Code of Conduct and Transfer Pricing Policy**

   Review compliance with Code of Conduct and Transfer Pricing Policy.

3. **BCUC - GSMIP Balance Review**

   Independent assurance regarding FortisBC Energy Inc.'s compliance with the Gas Supply Mitigation Incentive Program and the accuracy of the Corporation's incentive calculations.

4. **Customer Care Controls Review**

   Provide assurance that processes and controls are in place at cutover from out-sourced Customer Contact and Billing system to in-house system.

5. **Telus Service Agreement Compliance**

   Review the Telus Agreement for Compliance.

6. **Operations Maintenance**

   Review of compliance with Infrastructure Maintenance Management program and Regulations.

7. **Employee Expense Report/Procurement Card Review**

   Review compliance with corporate policies.

8. **Executive Expense Review**

   Review discretionary expenses incurred by the executive management of the Corporation throughout 2011.

9. **Closing Group Review**

   Review processes and internal controls in Closing Group.

10. <u>Green House Gas</u>

Review processes and controls around Greenhouse Gas Monitoring and Reporting.

11. <u>Directors' Liabilities</u>

Annual review to ensure all payroll tax withholdings, sales taxes, corporate tax installments, WCB payments and D&O Liability Insurance premiums have been remitted in a timely manner

12. <u>NI 52-109 Compliance</u>

Annual review of compliance requirements pursuant to NI 52-109 Internal Controls Over Financial Reporting.

FORTISBC ENERGY INC.
BRITISH COLUMBIA UTILITIES COMMISSION
LETTER NO. L-36-94, DIRECTION NO. 6

Direction No. 6

A reconciliation, prepared by the utility and attested to by a Company officer, of the utility's year-end financial statements to the shareholders compared to the Annual Report to the Commission.

Response

DECLARATION

I, Roger Dall'Antonia, of Surrey, British Columbia, do hereby certify:

1. That I am Vice President, Strategic Planning, Corporate Development & Regulatory Affairs of FortisBC Energy Inc. with its Operations Centre at 16705 Fraser Highway, Surrey, B.C. V4N 0E8.

2. That I have examined the reconciliations on Pages 47 and 61. The information on those pages is complete and accurate, to the best of my knowledge, information and belief.

Original signed:

Roger Dall'Antonia,
Vice President, Strategic Planning, Corporate Development & Regulatory Affairs

FORTISBC ENERGY INC.
BRITISH COLUMBIA UTILITIES COMMISSION
LETTER NO. L-36-94, DIRECTION NO. 7

Direction No. 7

A report, prepared by the internal auditor or equivalent and attested to by a Company officer, which examines the utility's classification of certain expenditures, as specified by the Commission, according to the Uniform System of Accounts. (The Commission may request a subsequent review by the utility's external auditor.)

Response

The requested examination will be undertaken upon receipt of the Commission's specifications of the accounts to be reviewed.

FORTISBC ENERGY INC.
BRITISH COLUMBIA UTILITIES COMMISSION
LETTER NO. L-36-94, DIRECTION NO. 8

Direction No. 8

A report, prepared by the internal auditor or equivalent and attested to by a Company officer, which confirms the utility's compliance with the Commission's financial directions contained in Decisions and Orders.

Response

See attached letter dated February 15, 2012 by Mr. T.D. McMillan, Director, Internal Audit.

FORTIS BC™

T. D. McMillan, CMA
Director, Internal Audit
FortisBC Holdings Inc.
1111 West Georgia Street
Vancouver, B.C.
V6E 4M3

Tel: 250-469-8087

February 15, 2012

British Columbia Utilities Commission
Sixth Floor
900 Howe Street
Vancouver, B.C. V6Z 2N3

Attention: Ms Alanna Gillis, Acting Commission Secretary

Dear Ms. Gillis:

Re: FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc., FortisBC Energy (Whistler) Inc. (collectively "FortisBC" or "the Companies") Compliance with the British Columbia Utilities Commission's Financial Directions Contained in Decisions, Orders and Letters

As requested by the British Columbia Utilities Commission in letter No. L-36-94, Internal Audit has performed procedures in connection with FortisBC's compliance with the Financial Directions contained in Decisions, Orders and Letters issued by the Commission.

We have independently identified the Financial Directions for examination using Decisions, Orders and Letters issued during 2011 as well as certain Decisions, Orders and Letters issued in previous years that relate to the 2011 year. For the purposes of this letter and the attached report, "Financial Directions" include specific directions, instructions and orders issued by the Commission relating to accounting practices and methodologies, and the filing of specific reports, studies and agreements.

Based on our review, nothing has come to our attention that indicates that FortisBC and its' subsidiaries are not, in all material respects, in compliance with the Financial Directions contained within Decisions, Orders and Letters issued by the Commission.

If any further information related to the contents of this report is required, please contact me at 250-469-8087.

Yours truly,

Original signed by:

T. D. McMillan, CMA
Director, Internal Audit

FORTISBC ENERGY INC.
BRITISH COLUMBIA UTILITIES COMMISSION
ORDER NO. G-117-11

Order No. G-117-11

A reconciliation of amounts reported for regulatory accounting to those amounts that would be reported under 2011 Canadian GAAP

Response

See attached reconciliation.

FORTISBC ENERGY INC. & FORTISBC ENERGY INC. - FT. NELSON AREA
RECONCILIATION OF REGULATED ACCOUNTS TO CANADIAN GAAP FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

BALANCE SHEET	Financial	Reclasses	Reg Differences	Timing Differences	Annual Report	FEI Annual Report Rate Base	FNG Annual Report Rate Base	Non Rate Base /Non Reg	Description
ASSETS									
Current Assets									
Cash & Cash Equivalents	$ 17,185				$ 17,185	$ 5,482	$ 47	$ 11,656	Portion not included in working capital calculation
Accounts Receivable	$ 238,255	$ 5,368 [19]			$ 243,623	$ -	$ -	$ 243,623	Not included in working capital calculation
Inventories of Gas in storage and supplies	$ 101,326				$ 101,326	$ 101,311	$ 15	$ -	
Prepaid Expenses	$ 3,054				$ 3,054	$ -	$ -	$ 3,054	Not included in working capital calculation
Future Income Taxes	$ 10,136				$ 10,136	$ -	$ -	$ 10,136	FIT for financial purposes only
Current portion of Rate Stabilization accounts	$ 68,463	$ (68,463) [18]			$ -	$ -	$ -	$ -	
Property, Plant & Equipment	$ 2,513,049	$ 1,091,648 [20,25,22,34,29]	$ (134,801) [23,27,28,26,31,30,38]	$ (56,551) [32]	$ 3,413,345	$ 3,404,247	$ 9,098	$ -	
Plant Under Construction			$ 17,596 [28,35]	$ 56,551 [32]	$ 74,147	$ -	$ -	$ 74,147	Not included in rate base
Lower Mainland Acquisition Premium			$ 176,516 [23]		$ 176,516	$ -	$ -	$ 176,516	Not included in rate base
BCUC Disallowances			$ 224 [27]		$ 224	$ -	$ -	$ 224	Not included in rate base
LILO Assets			$ (109,811) [30]		$ (109,811)	$ -	$ -	$ (109,811)	Not included in rate base
Regulated CIAC		$ (181,334) [25]			$ (181,334)	$ (180,039)	$ (1,295)	$ -	
Intangible Assets	$ 116,646	$ 24,138 [20]			$ 140,784	$ 140,784	$ -	$ -	
Work In Progress - No AFUDC			$ 16,477 [35]		$ 16,477	$ 15,964	$ 513	$ -	
Investments in and advances to subs	$ 150,084				$ 150,084	$ -	$ -	$ 150,084	Investments in subs is not regulated
Other Assets	$ 435,395	$ (51,998) [29]			$ 383,397	$ -	$ -	$ 383,397	Not included in working capital calculation
Deferred Charges - (Rate Base)		$ 120,461 [18,29]	$ (17,363) [38]	$ (42,200) [1]	$ 60,898	$ 60,725	$ 173	$ -	
Deferred Charges - (Non-Rate Base)			$ 31,632 [38]	$ 42,200 [1]	$ 73,832	$ -	$ -	$ 73,832	Not included in rate base
TOTAL ASSETS	$ 3,653,593	$ 939,820	$ (19,530)	$ -	$ 4,573,883	$ 3,548,474	$ 8,551	$ 1,016,858	
LIABILITIES									
Current Liabilities									
Short term notes	$ 65,000				$ 65,000	$ -	$ -	$ (65,000)	Debt for financial purposes only
Accounts Payable and Accrued	$ 304,066				$ 304,066	$ -	$ -	$ (304,066)	Not included in working capital calculation
Income and other taxes	$ 41,498				$ 41,498	$ -	$ -	$ (41,498)	Tax payable for financial purposes only
Current Portion of Rate Stabilization accounts	$ 18,662	$ (18,662) [18]			$ -	$ -	$ -	$ -	
Future Income Taxes					$ -	$ -	$ -	$ -	
Current Portion of Long Term Debt	$ 2,903				$ 2,903	$ -	$ -	$ (2,903)	Debt for financial purposes only
Allowance for Doubtful Accounts		$ 5,368 [19]			$ 5,368	$ -	$ -	$ (5,368)	Not included in working capital calculation
Long Term Debt	$ 1,692,455				$ 1,692,455	$ -	$ -	$ (1,692,455)	Debt for financial purposes only
Accumulated Depreciation - Gas Plant		$ 959,770 [20,21,22,34]	$ (59,468) [31,23,24]		$ 900,302	$ (897,872)	$ (2,430)	$ -	
Accumulated Depreciation - Lower Mainland Acquisition Premium			$ 96,019 [23]		$ 96,019	$ -	$ -	$ (96,019)	Not included in rate base
Accumulated Depreciation - LILO Assets			$ (49,566) [24]		$ (49,566)	$ -	$ -	$ 49,566	Not included in rate base
Accumulated Depreciation - Regulated CIAC		$ (50,142) [21]			$ (50,142)	$ 49,620	$ 522	$ -	
Accumulated Depreciation - Intangibles		$ 24,138 [20]			$ 24,138	$ (24,138)	$ -	$ -	
Rate Stabilization accounts	$ 22,377	$ (22,377) [18]			$ -				
Other long-term liabilities and deferred credits	$ 155,012	$ (24,090) [36,37,29]			$ 130,922				
Deferred Credits (Rate Base)		$ 63,023 [18,29]			$ 63,023	$ (62,952)	$ (71)	$ -	
LILO Deferred Gains		$ 1,482 [37]			$ 1,482	$ (1,482)	$ -	$ -	
Construction Advances		$ 624 [36]			$ 624	$ (624)	$ -	$ -	
Future Income Taxes (Non-Regulated)	$ 303,859		$ (6,515) [31,26]		$ 297,344	$ -	$ -	$ (297,344)	FIT for financial purposes only
Future Income Taxes (Regulated)					$ -				
EQUITY									
Common Stock	$ 718,959				$ 718,959				
Contributed Surplus	$ 264,311				$ 264,311				
Retained Earnings, opening difference					$ -				
Retained Earnings, current year-regulated	$ 64,491		$ 9,478		$ 73,969				
Retained Earnings, current year-other		$ 686 [22]	$ (9,478) [5,6,7,8,9,10,11,12,13,14,33,16,17]		$ (8,792)				
TOTAL LIABILITIES AND EQUITY	$ 3,653,593	$ 939,820	$ (19,530)	$ -	$ 4,573,883	$ 6,159,501	$ 15,122		
	$ -								

FORTISBC ENERGY INC. & FORTISBC ENERGY INC. - FT. NELSON AREA
RECONCILIATION OF REGULATED ACCOUNTS TO CANADIAN GAAP FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011 - CONT'D

INCOME STATEMENT	Financial	Reclasses	Reg Differences	Timing Differences	Annual Report	FEI Annual Report Earned Return	FNG Annual Report Earned Return
REVENUE							
Natural Gas Transmission & Distribution	$ 1,355,276	$ (39,434) [15]			$ 1,315,842	$ 1,311,336	$ 4,506
			[12,13,14,33,1]				
Other Operating Revenue	$ -	$ 35,102 [2,15]	$ (11,406) [6,17]		$ 23,696	$ 23,670	$ 26
Management Fees	$ 9,410	$ (9,110) [3]	$ (300) [6]		$ -		
TOTAL REVENUE	$ 1,364,686	$ (13,442)	$ (11,706)	$ -	$ 1,339,538		
EXPENSES							
Cost of natural gas	$ 763,308				$ 763,308	$ (760,636)	$ (2,672)
Operation and Maintenance	$ 228,669	$ (24,731) [2,3,4]	$ (19,647) [5,6,7,8]		$ 184,291	$ (183,552)	$ (739)
Vehicle Lease costs					$ -	$ -	
Depreciation & Amortization	$ 80,871	$ 11,289 [4]	$ (1,537) [9,10,11]		$ 90,623	$ (90,335)	$ (288)
Amortization of intangible assets	$ 8,084				$ 8,084	$ (8,084)	
Property and other taxes	$ 50,379				$ 50,379	$ (50,214)	$ (165)
TOTAL EXPENSES	$ 1,131,311	$ (13,442)	$ (21,184)	$ -	$ 1,096,685		
OPERATING INCOME (LOSS)	$ 233,375	$ -	$ 9,478	$ -	$ 242,853		
Financing costs	$ 104,260				$ 104,260		
EARNINGS (LOSS) BEFORE INCOME TAXES	$ 129,115	$ -	$ 9,478	$ -	$ 138,593		
Income tax expense (recovery)	$ 27,954				$ 27,954		
NET INCOME (LOSS)	$ 101,161	$ -	$ 9,478	$ -	$ 110,639	$ 242,185	$ 668

RETAINED EARNINGS

	Financial	Reclasses	Reg Differences	Timing Differences	Annual Report
Balance Beginning of Year	$ 48,330				$ 48,330
Add: Net Income	$ 101,161	$ -	$ 9,478	$ -	$ 110,639
Less: Dividends	$ (85,000)				$ (85,000)
Balance End of Year	$ 64,491				$ 73,969

FEI & FT NELSON Entries

[1] To recognize timing variances in regulated deferrals per Page 61.8 of annual report
[2] Rent recoveries reclass done for financial purposes only
[3] Management fees reclass done for financial purposes only
[4] Removal Costs reclass done for financial purposes only
[5] To recognize Stock options are non-regulated
[6] To recognize other non-reg O&M provisions
[7] To recognize SCP Financing Lease costs are non-regulated
[8] To recognize LILO rent is non-regulated
[9] To recognize depreciation on Lower Mainland Acquisition Premium is non-regulated
[10] To recognize depreciation on SCP CIAC is non-regulated
[11] To recognize depreciation on LILO assets are non-regulated
[12] To remove Capital Incentive Mechanism from utility earnings
[13] To remove equity AFUDC from utility earnings
[14] To remove SCP wind-up cost from utility earnings
[15] To separate out other operating revenues per annual report
[16] To remove LILO gain from utility earnings
[17] To remove GSMIP from utility earnings
[18] Reclass Rate Stabilization Assets and Liabilities to Rate Base deferred charges and credits respectively
[19] Reclass allowance for doubtful account classified as liability for reg purposes and asset for financial purposes
[20] Reclass accumulated depreciation classified as liability for reg purposes and asset for financial purposes
[21] To separate out Acc Dec - SCP CIAC from Acc Dec - Gas Plant
[22] Opening balance adjustment for BC Gas assets in financial statements not recognized for reg purposes
[23] To recognize Lower Mainland Acquisition Premium is non-regulated
[24] To recognize LILO assets are non-regulated
[25] To separate out Regulated CIAC embedded in Property, Plant & Equipment
[26] To record Future Income Tax on opening balance adjustment for BC Gas assets (see #22 above)
[27] To recognize BCUC Disallowances are non-regulated
[28] To recognize Gas Plant under Construction is non-rate base
[29] Reclass rate base deferrals for presentation purposes
[30] To recognize non-reg LILO assets
[31] To recognize Future Income Tax on CIAC is non-regulated
[32] Customer Service project in-service date timing difference - Dec 2011 per Finance books but Jan 2012 per Reg books
[33] To remove non-reg other revenues
[34] Opening balance adjustment for BC Gas WIP in financial statements not recognized for reg purposes
[35] To separate out reg portion of WIP - no AFUDC from Gas Plant under Construction
[36] To separate out Construction Advances for reg purposes
[37] To recognize non-reg LILO liabilities
[38] To reclassify non-rate base deferrals

FORTISBC ENERGY INC.

2011 ANNUAL

NON-REGULATED BUSINESS

INFORMATION REPORT

DECEMBER 31, 2011

FORTISBC ENERGY INC.
2011 ANNUAL NON-REGULATED BUSINESS (“NRB”)
INFORMATION REPORT

TABLE OF CONTENTS

OVERVIEW

In December 1991, Stone & Webster Management Consultants Inc. completed their NRB[1]/Utility Separation Study on behalf of FortisBC Energy Inc., formerly known as BC Gas Utility Ltd., which included a recommendation of filing an annual Non-Regulated Business ("NRB") information package with the British Columbia Utilities Commission ("Commission" or "BCUC"). This is the twentieth such report.

This report reflects the major corporate reorganization that occurred on July 1, 1993 which separated the NRB assets from the utility operations of FortisBC Holdings Inc., now a subsidiary of Fortis Inc., the parent company of FortisBC Energy Inc. This reorganization was the subject of a Commission hearing in June 1993. Commission approval was received to proceed with the reorganization under Order No. G-45-93. This report also reflects subsequent organizational changes to the non-regulated business area up to December 31, 2011.

This document is intended to provide clarification on the role and scope of the various Terasen Inc. non-regulated affiliated companies. In particular, it documents the interaction that occurs between the utility and the NRBs. Financial statistics are limited by the need to keep certain business information confidential as these NRBs operate in markets where competitors may benefit from such disclosure. These competitors are not typically subject to review by a regulatory body, as is Terasen Gas Inc., and hence are not required to disclose similar information.

FortisBC Holdings Inc. reserves the right to keep all or any NRB/Non-Utility information confidential if, in its opinion, revealing this information may undermine the competitive position of its NRB subsidiaries or affiliates. In some cases, FortisBC Holdings Inc. may not be able to disclose certain financial and commercial information by virtue of agreements signed between NRBs and third parties.

This report specifically does not include details of the following FortisBC Holdings Inc. subsidiaries or affiliate companies:

(a) Other utility companies regulated by BCUC, Alberta Energy Utilities Board ("AEUB"), National Energy Board ("NEB"), or Federal Energy Regulatory Commission ("FERC"), as detailed reports are filed with the respective regulatory agencies:

- FortisBC Energy Inc. (BCUC)
- FortisBC Energy (Vancouver Island) Inc. (BCUC)
- FortisBC Energy (Whistler) Inc. (BCUC)
- FortisBC Huntingdon Inc. (NEB)

(b) Various inactive, offshore, and holding/tax companies.

(c) Companies that do not have interaction with the utility:

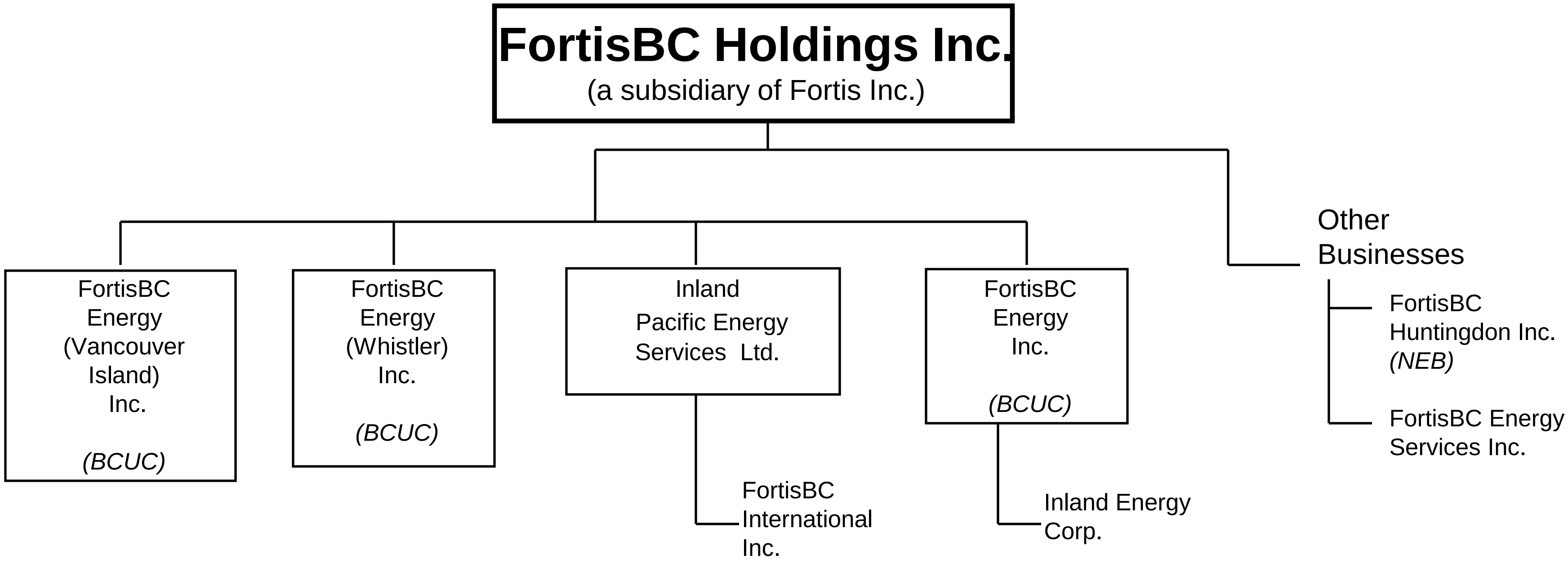
- Inland Pacific Energy Services Ltd.

[1] Non-Regulated Business

FortisBC Holdings Inc.

Chart #1

Canadian NRB Affiliates
December 31, 2011



TAB A

RELATED COMPANIES - DIRECTORS AND OFFICERS

(1) FortisBC Holdings Inc. (a subsidiary of Fortis Inc.)

Directors:
H. Stanley Marshall – Chair
Harold G. Calla
Beth D. Campbell
Brenda Eaton
Ida J. Goodreau
Harry McWatters
Roger M. Mayer
Barry V. Perry
Linda S. Petch
David R. Podmore
John C. Walker

Officers:
John C. Walker, *President & CEO*
David C. Bennett, *Vice President, General Counsel and Corporate Secretary*
Roger A. Dall'Antonia, *Vice President, Finance and Treasurer*
Scott A. Thomson, *Executive Vice President, Finance, Regulatory & Energy Supply and CFO*
Debra G. Nelson, *Assistant Corporate Secretary*

(2) FortisBC Energy Inc.
[Amalgamated January 1, 2007 with Terasen Gas (Squamish) Inc.]

Directors:
H. Stanley Marshall – Chair
Harold G. Calla
Beth D. Campbell
Brenda Eaton
Ida J. Goodreau
Harry McWatters
Roger M. Mayer
Barry V. Perry
Linda S. Petch
David R. Podmore
John C. Walker

Officers:
John C. Walker, *President & CEO*
Scott A. Thomson, *Executive Vice President, Finance, Regulatory& Energy Supply*
Michael A. Mulcahy, *Executive Vice President, Customer & Corporate Services*
Robert M. Samels, *Vice President, Business Planning*
Douglas L. Stout, *Vice President, Energy Solutions & External Relations*
Dwain Bell, *Vice President, Distribution*
Cynthia Des Brisay, *Vice President, Energy Supply & Gas Transmission*
Roger A. Dall'Antonia, *Vice President, Finance and CFO; Treasurer*
David C. Bennett, *Vice President , General Counsel and Corporate Secretary*
Thomas A. Loski, *Vice President , Customer Service*
Debra G. Nelson, *Assistant Corporate Secretary*

(3) FortisBC Energy (Vancouver Island) Inc.

<u>Directors</u>
John C. Walker - Chair
Michael A. Mulcahy
Douglas L. Stout
Scott A. Thomson

<u>Officers</u>:
John C. Walker, *President & CEO*
Michael A. Mulcahy, *Executive Vice President, Customer & Corporate Services*
Scott A. Thomson, *Executive Vice President, Finance, Regulatory & Energy Supply*
Dwain A. Bell, *Vice President, Distribution*
David C. Bennett, *Vice President and General Counsel*
Roger A. Dall'Antonia, *Vice President, Finance and CFO; Treasurer*
Cynthia Des Brisay, *Vice President, Energy Supply & Gas Transmission*
Thomas A. Loski, *Vice President, Customer Service*
Robert M. Samels, *Vice President, Business Planning*
Douglas L. Stout, *Vice President, Energy Solutions & External Relations*
Debra G. Nelson, *Corporate Secretary*

(4) FortisBC Energy (Whistler) Inc.

<u>Directors</u>
John C. Walker - Chair
Michael A. Mulcahy
Douglas L. Stout
Scott A. Thomson

<u>Officers</u>:
John C. Walker, *President & CEO*
Michael A. Mulcahy, *Executive Vice President, Customer & Corporate Services*
Scott A. Thomson, *Executive Vice President, Finance, Regulatory & Energy Supply*
Dwain A. Bell, *Vice President, Distribution*
David C. Bennett, *Vice President and General Counsel*
Roger A. Dall'Antonia, *Vice President, Finance and CFO; Treasurer*
Cynthia Des Brisay, *Vice President, Energy Supply & Gas Transmission*
Thomas A. Loski, *Vice President, Customer Service*
Robert M. Samels, *Vice President, Business Planning*
Douglas L. Stout, *Vice President, Energy Solutions & External Relations*
Debra G. Nelson, *Corporate Secretary*

(5) FortisBC Huntingdon Inc.

Directors: John C. Walker - Chair
Cynthia Des Brisay
David C. Bennett

Officers: Cynthia Des Brisay, *President*
David C. Bennett, *Vice President and General Counsel*
Debra G. Nelson, *Corporate Secretary*
Gurpreet Biln, *Assistant Secretary*

(6) Inland Energy Corp.

Directors: John C. Walker - Chair
Scott A. Thomson
David C. Bennett

Officers: Scott A. Thomson, *President*
Robert M. Samels, *Vice President*
Debra G. Nelson, *Corporate Secretary*
Gurpreet Biln, *Assistant Secretary*

(7) FortisBC Alternative Energy Services

Directors: John C. Walker - Chair
Douglas L. Stout
David C. Bennett

Officers: Roger A. Dall'Antonia, *President*
Gareth Jones, *Vice President & GM*
Debra G. Nelson, *Corporate Secretary*

TAB B

FORTISBC INTERNATIONAL INC.

Ownership: 100% by Inland Pacific Energy Services Ltd.

Mission: To participate in international and domestic consulting markets to capitalize on FortisBC Energy Inc's natural gas distribution, NGV and privatization skills.

Objective: FortisBC International Inc. ("the Company") is the legal entity holding contracts for the FortisBC International Division of Inland Pacific Energy Services Ltd.

Background:

In operation since 1989 the Company has successfully completed more than 70 projects in over 20 countries worldwide. While the company is currently dormant, it did provide a full range of consulting services, engineering, procurement and construction services, as well as operatorship of natural gas transmission and distribution systems for clients which include local municipal utilities, private and state-owned energy companies, foreign governments and international financial institutions.

Directors: Peter Orr

Officers: Peter Orr – General Manager
Debra G. Nelson – Corporate Secretary
Gurpreet Biln – Assistant Secretary

Full Time Employees: 0

Continuing Services from FortisBC Energy Inc.: Operations Engineering, Distribution Operations, Measurement Services, Labour Relations, Gas Supply & Transmission, Infrastructure Management, Regulatory

Address: 10th Floor – 1111 West Georgia Street,
Vancouver, BC
V6E 4M4

Telephone: (604) 443-6525
Fax: (604) 443-6540

FORTISBC ALTERNATIVE ENERGY SERVICES INC.

Ownership: 100% by FortisBC Holdings Inc., a subsidiary of Fortis Inc.

Mission: The principal business of FortisBC Alternative Energy Services Inc. ("FAES") is developing, owning and operating geo-exchange and district energy systems for customers. Clients include municipalities, resort properties, multifamily housing developments and institutions.

Objective: To operate and grow the business profitably throughout British Columbia.

Background:

FAES was created in 2006 when FortisBC Holdings Inc. sold the water and water products business of Terasen Utility Services Inc. and retained the energy service business as FAES.

Directors: John C. Walker - Chair
Douglas L. Stout
David C. Bennett

Officers: Roger A. Dall'Antonia, *President*
Gareth Jones, *Vice President & GM*
Debra G. Nelson, *Corporate Secretary*

Full Time Employees: ______

Continuing Services from Terasen Gas Inc. : Administrative support and Distribution Operations

Address: 3700 2nd Avenue,
Burnaby, BC
V5C 6S4

Telephone: 1-866-792-7969
Fax: (604) 293-8640

TAB C

FORTISBC ENERGY INC.
CHARGES TO NON-REGULATED BUSINESS (BY SUBSIDIARY)
FOR THE YEAR ENDED DECEMBER 31, 2011

Line No.	Subsidiary	Actual Billed	Straight Labour Dollars	Loaded Labour Dollars
1	FortisBC Alternative Energy Services Inc.	$284,899	$199,367	$248,807
2	FortisBC Holdings Inc.	127,813	91,013	114,458
3	Inland Energy Corp.	1,289	668	902
4	FortisBC Huntingdon Inc.	99,062	78,371	99,062
5	Total Services provided to NRB	$513,063	$369,419	$463,228

FORTISBC ENERGY INC.
CHARGES TO NON-REGULATED BUSINESS (BY DEPARTMENT)
FOR THE YEAR ENDED DECEMBER 31, 2011

Line No.	Department	Actual Billed	Straight Labour Dollars	Loaded Labour Dollars
1	Distribution	34,881	19,129	22,568
2	Marketing	200,556	147,430	182,960
3	Business Services	41,002	32,433	37,973
4	Gas Supply & Transmission	101,247	80,381	101,247
5	Finance & Regulatory Affairs	109,710	67,378	89,482
6	Operations Governance	25,668	22,668	28,998
7	Total Services provided to NRB	$513,063	$369,419	$463,228

Terms of Reference:
Actual Billed - actual amount invoiced to subsidiary for labour, materials, vehicles, including overhead and facilities
Straight Labour Dollars - amounts equal to labour rates multiplied by actual hours spent.
Loaded Labour Dollars - amounts equal to labour rates multiplied by actual hours spent plus overhead and facilities.

FORTISBC ENERGY INC.
CHARGES TO NON-REGULATED BUSINESS (BY EXECUTIVE)
FOR THE YEAR ENDED DECEMBER 31, 2011

Line No.	Subsidiary	S. Thomson	R. Samels	C. Des Brisay	Total Actual Billing
1	FortisBC Alternative Energy Services Inc.				$0
2	FortisBC Holdings Inc.	$6,813	$28,002		$34,815
3	Inland Energy Corp.				$0
4	FortisBC Huntingdon Inc.			$6,206	$6,206
5	Total Charges to NRB by Executives	$6,813	$28,002	$6,206	$41,021

8. **Historical (2002-2011) regulatory financial information by year:**
   a. Capital Structure Components: common equity, preferred equity, long and short-term debt:
      i. Rate Base: opening, closing and mid-year,
      ii. Gross rate base if different from rate base that is subject to debt and equity return,
      iii. Income statement
      iv. Summary and full detailed description of all deferral and reserve accounts:
   b. Summary and full detailed description of all deferral and reserve accounts:
      i. Average percentage of delivery revenue covered by each account,
      ii. Average percentage of total revenue (including commodity/energy cost) covered by each amount

- See attached **electronic** documents for FEI's financial information

9. Price to Book Value Ratios (including supporting calculations) since 2000 when the utility or its corporate parent has been acquired by another firm:

- See the enclosed document for supporting calculations of Price to Book Value for the following transactions:
  - FHI acquisition of FEVI and FEW (both formerly Centra Gas British Columbia Inc.)
  - Fortis Inc. acquisition of FBC (formerly Aquila Networks Canada (British Columbia))
  - Kinder Morgan Inc. acquisition of FHI (formerly Terasen Inc.)
  - Fortis Inc. acquisition of FHI (formerly Terasen Inc.)

The Price to Book Value Ratios were calculated based on a comparison of a) the Fair Value of the Assets acquired as reported for financial reporting purposes in determination of the Purchase Price Allocation of the Acquirer to b) the Book Value of the Assets of the Target at the time of the transaction. This method was chosen for consistency given there was limited data available and no consistent approach adopted in prior submissions.

For utilities, the Price to Book Value Ratios can be calculated different ways, including on Rate Base, Book Value of Assets or on Book Value of Equity. For example, in the Terasen Utilities 2009 ROE and Capital Structure proceeding, there were two pieces of evidence submitted with respect to Price to Book Value ratios. With respect to the Kinder Morgan Inc.'s acquisition of Terasen Inc., response to BCUC IR 1.85.1 outlined the calculation as follows:

> "Kinder Morgan ("KMI") acquired Terasen on November 30, 2005 for a pro-rated value of $35.91 per Terasen share based on KMI's share price and C$/US$ exchange rates as of July 29, representing a premium of approximately 20% over the 20 day average closing price and a premium of 14% to the prior day's close at the time the acquisition was announced on August 1, 2005. At the time of the acquisition, the reported BV/share was $13.57. The total Price to Book Value per share of the transaction was 2.6 times."

FBCU also submitted the following response to BCUC IR 1.85.1:

> "Fortis Inc. acquired Terasen Inc., which consisted primarily of the gas utilities TGI, TGVI and TGW, while Kinder Morgan retained the pipeline business, which was comprised mainly of Trans Mountain Pipeline,

> Express Pipeline and Corridor Pipeline. Prior to the transaction, Kinder Morgan had disposed of the Terasen's water utility and utility services businesses. The total book values of assets acquired by Fortis Inc. were approximately $3.25 billion. The price paid for the assets was $4.15 billion, reflecting a goodwill premium of $900 million and a Price to Book Value per share of 1.28 times."

The methodology of BCUC IR 1.85.1 is consistent with the calculations in the enclosed document.

In the 2005 Terasen Gas Inc. (TGI) and Terasen Gas (Vancouver Island) Inc. (TGVI) ROE and Capital Structure proceeding, FBCU provided this response to BCUC IR 1.4.8.1:

> "TGVI's common shares and Class A preferred shares had a book value of $252 million, for which Terasen paid a purchase price of approximately $260 million. The resulting price to book ratio was 1.03 times. The purchase price and book value for the TGVI common shares and Class A preferred shares were as follows:"

	Purchase Price	Book Value	Price/Book Ratio
Class A Preferred Shares	$60 million	$84 million	0.71x
Common Shares	$200 million	$168 million	1.19x
Total Equity	$260 million	$252 million	1.03x

FBCU also commented on KMI acquisition in 2005 in BCUC IR 1.5.2 as follows:

> "Kinder Morgan's offer price of $35.75 per Terasen share represents a premium of 164% over Terasen's June 30, 2005 book value per share of $13.53."

a. Interpretation of Price to Book Values Ratios

- The FBCU interpret the above Price to Book Value ratios as representative of transactions that occurred at a point in time and that there are factors other than the Price to Book Value ratios that are more relevant in determining a fair return.

- For discussion on the general relevance of Price to Book Value with respect to the Generic Cost of Capital proceeding, please see the Price to Book Value section in the expert testimony of Aaron Engen as part of FBCU's Other Filing Requirements submission.

section in the expert testimony of Aaron Engen as part of FBCU's Other Filing Requirements submission.

Price to Book Value ratios
(in $CAD millions of dollars, unless otherwise noted)

Date	**1-Jan-02**	**31-May-04**	**30-Nov-05**	**17-May-07**
Current Utility or Corporate Parent	**FortisBC Energy Vancouver Island Inc. (FEVI) / FortisBC Energy (Whistler) Inc. (FEW)[3]**	**FortisBC Inc. (FBC)[3]**	**FortisBC Holdings Inc. (Parent of FEI, FEVI, FEW)[1, 2, 4]**	**FortisBC Holdings Inc. (Parent of FEI, FEVI, FEW)[3]**
Target	**(formerly Centra Gas British Columbia Inc. and Centra Gas**	**(formerly Aquila Networks Canada (British Columbia) Ltd.)**	**(formerly Terasen Inc.)**	**(formerly Terasen Inc.)**
Acquirer	**Terasen Inc./FortisBC Holdings Inc.**	**Fortis Inc.**	**Kinder Morgan Inc.**	**Fortis Inc.**
Fair Value of Assets	616	770	6,603	4,150
Book Value of Assets	540	550	4,613	3,250
Price to Book Value	1.14x	1.40x	1.43x	1.28x

Notes:

[1] *In the 2009 ROE and Cost of Captial proceeding this transaction was referred to on a Price to Book Value of equity basis, not as presented above.*

[2] *Source: Kinder Morgan Kansas Inc. 2007 Year-end Financial Statements*

[3] *Source: Various Fortis Group of Companies Financial Statements*

[4] *Amounts are denominated in $ US Dollars, assumed no fair value adjustment to book value of assets other than goodwill.*

10. Full explanation of any significant changes in accounting policy in the last 10 years.

- See the attachment for discussion on FEI's accounting policy changes in the last 10 years

FortisBC Energy Inc. (including Fort Nelson service area where applicable)
10 Year Summary of Significant Changes in Accounting Policy included in Regulatory Applications (2002-2011)

2002 Revenue Requirements Application

Terasen Gas Inc. withdrew its 2002 Revenue Requirements Application. As a result, there were no approved accounting policy changes for 2002.

2003 Revenue Requirements Application

No significant changes in accounting policies included in the Application.

2004 – 2007 Multi-Year PBR Plan Application

This Application proposed a five-year PBR Plan; four years were approved. This Application included one accounting policy change:

Tab C	Section 5k - Pipeline Integrity Costs	Page C-19

Effective 2004, Transmission Pipeline Integrity Program expenditures are treated as O&M rather than capital ($5.5 million).

2004 Annual Review of 2005 Revenue Requirements Application

This application included one accounting policy change:

Tab B-7	Item 1 Coastal Facilities Project – Variable Interest Entity	Pages 1 - 6

Accounting Guideline (AcG-15) - Consolidation of Variable Interest Entities requires the balance of the coastal facilities assets of $50.3 million to be transferred into rate base at a depreciation rate of 1.5 percent effective January 1, 2005, financed by 67 percent debt and 33 percent equity. The coastal facilities lease had previously been included as an operating lease in O&M.

2005 Annual Review of 2006 Revenue Requirements Application

No significant changes in accounting policies included in the Application.

2006 Annual Review of 2007 Revenue Requirements Application

No significant changes in accounting policies included in the Application.

2007 Application for the Approval of a Two-Year Extension of the 2004-2007 Multi-Year Performance-Based Rate Plan for 2008-2009

The 2004-2007 PBR Plan was extended for two more years with no significant changes in accounting policies.

2007 Annual Review of 2008 Revenue Requirements Application

This application included one accounting policy change:

Tab B-6	Item 2 - Changes to CICA Handbook Section 3061 Property, Plant & Equipment, Effective January 1, 2008	Page 2

Section 3061.04 of the CICA Handbook includes the following wording, to be effective January 1, 2008:

> "Spare parts and servicing equipment are usually carried as inventory and recognized in net income as consumed. However, major spare parts and standby equipment qualify as property, plant and equipment when an entity expects to use them during more than one period. Similarly, if the spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment."

This CICA Handbook revision will result in a reclassification in TGI's financial statements between inventory and property, plant and equipment for pipe, valves, fittings and other items that would ultimately be used for gas plant in service. These costs will be transferred to Plant Work in Process (WIP) in the financial statements.

A reclassification from inventory to WIP has no effect on the utility's Rate Base since both Inventory and WIP (not attracting AFUDC) are calculated based on a 13 month average balance.

2008 Annual Review of 2009 Revenue Requirements Application

This application included one accounting policy change:

Tab B-7	Item 2 – Rate Regulated Operations	Pages 5 - 7

Effective January 1, 2009, Section 3465, Income Taxes, requires the recognition of future income tax assets and liabilities and related regulatory liabilities and assets for the amount of future income taxes expected to be refunded to or recovered from customers in future gas rates. As proposed in the Company's submission "Report on Estimate of Rate Impact for Changes in Canadian Generally Accepted Accounting Principles ("GAAP") effective January 1, 2009 – Future Income Tax Liability Report", the recovery of income taxes for regulatory purposes remains on the taxes payable method in this Annual Review submission. Future income tax liabilities reflect the differences between the tax and book values of the regulated assets and liabilities, and are offset by a regulatory future income tax asset, for no income statement or rate impact. Rate base is not impacted as increases or decreases in future income tax liabilities are exactly offset by increases or decreases in regulated future income tax assets, both are included in rate base, and there is no impact on rates or rate base. As requested in that submission, TGI asks for confirmation from the BCUC that TGI and the other Terasen companies can expect to recover taxes in the future as they become due.

2010-2011 Revenue Requirements Application

This Application included the following accounting policy changes:

Section 11	Accounting and Other Policies – Sections a and b	Pages 474 - 484

As a result of the Negotiated Settlement Agreement (NSA), the Company adopted the following new accounting policies on a prospective basis.

i. Training and Feasibility Study Costs to be treated as O&M expense, rather than capital.

ii. Capitalization of Major Inspection Costs, including the creation of a new Asset Class.

iii. Capitalization of the Current Service portion of Pensions and OPEBs expense that is applicable to capital projects.

iv. Capitalization of Deprecation on Assets used in Construction.

v. All capital expenditures, including CPCNs, to be included in plant in service (and rate base) in the month following the available-for-use date, with depreciation starting at that time.

vi. Treatment of Vehicle Lease as a capital lease and inclusion of the NBV of vehicles in rate base.

vii. Discontinuation the Software Tax Credit as part of the CIAC additions.

viii. Asset removal costs are recorded in operating and maintenance expense on the consolidated statement of earnings and comprehensive earnings. The annual amount of such costs approved for recovery in customer rates in 2010 is $8.0 million. Actual costs incurred in excess of or below the approved amount are to be recorded in a regulatory deferral account for recovery from, or refund to, customers in future rates starting in 2012. For the year ended December 31, 2010, the Company incurred $9.9 million of actual removal costs, with $1.9 million being recorded in the deferral account. Prior to January 1, 2010, actual asset removal costs were recorded against accumulated amortization on the consolidated balance sheet.

ix. ii. Gains and losses on the sale or removal of utility capital assets are recorded in a regulatory deferral account on the consolidated balance sheet for recovery from, or refund to, customers in future rates, subject to regulatory approval. For the year ended December 31, 2010, $14.8 million of losses were deferred and recorded in the related long-term regulatory asset on the consolidated balance sheet. Prior to January 1, 2010, gains and losses on the sale or disposal of utility capital assets were recorded against accumulated amortization.

FortisBC Energy Inc. (Including Fort Nelson service area)
10 Year Summary of Significant Changes in Accounting Policy included in Financial Statements (2002-2011)

<u>December 31, 2002 Terasen Gas Inc. External Financial Statements</u>
No changes to accounting policy.

<u>December 31, 2003 Terasen Gas Inc. External Financial Statements</u>
No changes to accounting policy.

<u>December 31, 2004 Terasen Gas Inc. External Financial Statements</u>

CHANGES TO ACCOUNTING POLICIES

Asset Retirement Obligations

On January 1, 2004, the Company adopted the new Canadian Institute of Chartered Accounts (""CICA"") standard for the recognition, measurement and disclosure of liabilities for asset retirement obligations and the associated asset retirement costs. Under the new standard the fair value of a liability for an asset retirement obligation must be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The fair value is added to the carrying amount of the associated asset, which is then expensed over the asset's estimated useful life. The liability is accreted over the useful life of the asset through charges to expenses.

As the fair value of future removal and site restoration costs are not determinable, the adoption of the policy does not result in the recording of an asset retirement liability and therefore the financial statements have not been impacted by the new standard. In addition, for regulated operations there is a reasonable expectation that asset retirement costs would be recoverable through future rates.

Impairment of Long-Lived Assets

On January 1, 2004, the Company adopted the CICA standard for recognizing, measuring and disclosing impairment of long-lived assets held for use. A long-lived asset is tested for recoverability when events or circumstances indicate that its carrying amount may not be recoverable. The new standard has had no impact on the Company's financial results.

<u>December 31, 2005 Terasen Gas Inc. External Financial Statements</u>

CHANGES TO ACCOUNTING POLICIES

Variable Interest Entities

Effective January 1, 2005, the Company adopted the CICA Handbook Accounting Guideline 15 "Consolidation of Variable Interest Entities". The Company has performed a review of the entities with whom it conducts business and has concluded that there are no entities that are required to be consolidated or variable interests that are required to be disclosed under the requirements of the Guideline.

Financial Instruments – Recognition and Measurement

Financial Instruments – Recognition and Measurement, prescribes the criteria for recognition and presentation of financial instruments on the balance sheet and the measurement of financial instruments according to prescribed classifications. This section also addresses how financial instruments are measured subsequent to initial recognition and how the gains and losses are recognized.

The Company is required to designate its financial instruments into one of the following five categories: held for trading; available for sale; held to maturity; loans and receivables; and 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 are recorded on the balance sheet at fair value. Mark-to-market adjustments on these instruments are included in net earnings, unless the instruments are designated as part of a cash flow hedge relationship, and then the effective portion of changes in fair value are recorded in other comprehensive income. Any change in fair value relating to the ineffective portion is recorded immediately in net earnings. For regulated financial instruments, 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.

In accordance with the standard's transitional provisions, the Company recognizes as separate assets and liabilities only embedded derivatives acquired or substantively modified on or after January 1, 2003.

December 31, 2006 Terasen Gas Inc. External Financial Statements

No changes to accounting policy.

December 31, 2007 Terasen Gas Inc. External Financial Statements

CHANGES TO ACCOUNTING POLICIES

Comprehensive Income

Section 1530, Comprehensive Income, requires the presentation of a statement of comprehensive income and provides guidance for the reporting and display of other comprehensive income. Comprehensive income represents the change in equity of an enterprise during a period from transactions and other events arising from non-owner sources including gains and losses arising on translation of self-sustaining foreign operations, gains and losses from changes in fair value of available for sale financial assets and changes in fair value of the effective portion of cash flow hedging instruments. The Company has not recognized any adjustments through other comprehensive income for the year ended December 31, 2007 and did not identify any components of comprehensive income on adoption of this standard.

Hedges

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. The majority of the Company's cash flow hedges are for the purchase of natural gas. Given that the Company is subject to rate regulation, the ineffective portion of changes in the fair value of these hedges is deferred as an asset or liability until it is settled, offset by an asset or liability on behalf of customers. Upon settlement, the recognized gain or loss is recorded as a regulatory asset or liability and is collected from or refunded to ratepayers in subsequent periods. The Company recognized an additional liability of $1.1 million to counterparties for unrealized losses related to gas purchase hedges at January 1, 2007 and an amount recoverable from ratepayers of $1.1 million. Amounts recoverable from ratepayers are recorded in rate stabilization accounts.

December 31, 2008 Terasen Gas Inc. External Financial Statements

CHANGES TO ACCOUNTING POLICIES

Capital Disclosures

Section 1535, Capital Disclosures, requires the Company to disclose additional information about its capital and the manner in which it is managed. This additional disclosure includes quantitative and qualitative information regarding the Company's objectives, policies and processes for managing capital. The new disclosures are in Note 11.

Inventories

Section 3031, Inventories, 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 standard is to be applied retrospectively. As at January 1, 2008, supplies and other inventories of $6.6 million ($5.8 million as at January 1, 2007) were reclassified to property, plant and equipment from inventory on the balance sheet as they are held for the development, construction, maintenance and repair of other property, plant and equipment. During the year ended December 31, 2008, gas in storage inventories of $1,152.1 million (2007 - $1,017.3 million) were expensed and reported in cost of natural gas on the consolidated statement of earnings and comprehensive earnings.

December 31, 2009 Terasen Gas Inc. External Financial Statements

CHANGES TO ACCOUNTING POLICIES

Goodwill and Intangible Assets

Section 3064, Goodwill and Intangible Assets, which replaces Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Development Costs, establishes standards for the recognition, measurement and disclosure of goodwill and other intangible assets. The standard requires that this section be applied on a retrospective basis. As a result, the Company has reclassified the net book value of land rights and transmission rights, certain computer software costs and franchise costs. As at December, 31, 2008, the net book value of intangible assets was increased by $75.7 million and the net book value of property, plant and equipment was reduced by $75.7 million.

EIC 173

Emerging Issues Committee (EIC) – 173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities, requires that the Company's own credit risk and the credit risk of its counterparties be taken into account in determining the fair value of a financial instrument. EIC-173 is to be applied retrospectively without restatement of prior periods to periods ending on or after January 20, 2009. The Company's financial statements are not materially impacted from applying this new standard.

Financial Instruments

"Section 3862, Financial Instruments – Disclosures, establishes a hierarchal disclosure framework associated with the level of pricing observability utilized in measuring fair value. This framework defines three levels of inputs to the fair value measurement process, and requires that each fair value measurement be assigned to a level corresponding to the lowest level input that is significant to the fair value measurement in its entirety. The three broad levels of inputs defined by the CICA 3862 hierarchy are as follows:

I. Level 1 Inputs - quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date;

II. Level 2 Inputs - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

III. Level 3 Inputs - inputs for the asset or liability that are not based on observable market data (unobservable inputs). These unobservable inputs reflect the entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability, and are developed based on the best information available in the circumstances (which might include the reporting entity's own data).

Comprehensive Income

Section 1530, Comprehensive Income, requires the presentation of a statement of comprehensive income and provides guidance for the reporting and display of other comprehensive income. Comprehensive income represents the change in equity of an enterprise during a period from transactions and other events arising from non-owner sources including gains and losses arising on translation of self-sustaining foreign operations, gains and losses from changes in fair value of available for sale financial assets and changes in fair value of the effective portion of cash flow hedging instruments. The Company has not recognized any adjustments through other comprehensive income for the years ended December 31, 2009 and 2008.

Income Taxes

As a result of the amendments to Section 3465, Income Taxes, the Company now follows the asset and liability method of accounting for income taxes effective January 1, 2009. Future income tax assets and liabilities are determined based on temporary differences between the tax bases of assets and liabilities and their carrying values for accounting purposes. Future income tax assets and liabilities are measured at the tax rate that is expected to apply when the temporary differences reverse.

Prior to January 1, 2009, the Company accounted for and recovered income tax expense in rates as prescribed by the BCUC for ratemaking purposes. This included accounting for income taxes by the taxes payable method and accounting for certain deferral and rate stabilization accounts on a net of realized tax basis, as approved by the BCUC. Therefore, future income taxes related to temporary differences were not recorded. The taxes payable method was followed as there was a reasonable expectation that all future income taxes would be recovered in rates when they became payable.

<u>December 31, 2009 Terasen Gas Inc. External Financial Statements</u>

CHANGES TO ACCOUNTING POLICIES

Business Combinations

Business Combinations: The Company early adopted the new CICA Handbook Section 1582, Business Combinations, together with Section 1601, Consolidated Financial Statements and Section 1602, Non-controlling Interests. These new standards were issued by the AcSB in January 2009 to be effective for fiscal years beginning on or after January 1, 2011 with early adoption permitted. As a result of adopting Section 1582, changes in the determination of the fair value of the assets and liabilities of the acquiree will result in a different calculation of goodwill. Such changes include the expensing of acquisition-related costs incurred during a business acquisition, rather than recording them as a capital transaction, and the disallowance of recording restructuring accruals. The adoption of these standards did not impact the Company's financial statements.

Consolidated Financial Statements

Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The adoption of Section 1601 and 1602 will result in non-controlling interests being presented as a component of equity, rather than as a liability on the consolidated balance sheet. Also, net income and components of other comprehensive income attributable to the owners of the parent and to the non-controlling interests are required to be separately disclosed on the income statement. The adoption of Section 1601 and 1602 did not impact the Company's financial statements.

2010-2011 Negotiated Settlement Agreement

Effective January 1, 2010, as approved in the Negotiated Settlement Agreement (NSA), the Company adopted the following new accounting policies on a prospective basis.

i. Asset removal costs are recorded in operating and maintenance expense on the consolidated statement of earnings and comprehensive earnings. The annual amount of such costs approved for recovery in customer rates in 2010 is $8.0 million. Actual costs incurred in excess of or below the approved amount are to be recorded in a regulatory deferral account for recovery from, or refund to, customers in future rates starting in 2012. For the year ended December 31, 2010, the Company incurred $9.9 million of actual removal costs, with $1.9 million being recorded in the deferral account. Prior to January 1, 2010, actual asset removal costs were recorded against accumulated amortization on the consolidated balance sheet.

ii. Gains and losses on the sale or removal of utility capital assets are recorded in a regulatory deferral account on the consolidated balance sheet for recovery from, or refund to, customers in future rates, subject to regulatory approval. For the year ended December 31, 2010, $14.8 million of losses were deferred and recorded in the related long-term regulatory asset on the consolidated balance sheet. Prior to January 1, 2010, gains and losses on the sale or disposal of utility capital assets were recorded against accumulated amortization.

iii. Depreciation of utility capital and intangible assets commences the month after the asset is available for use. Prior to January 1, 2010, depreciation commenced in the year after the asset was available for use. As a result, annual 2010 depreciation expense will be $1.5 million higher due the change in commencement of depreciation.

<u>December 31, 2011 FortisBC Energy Inc. External Financial Statements</u>
No changes to accounting policy.

11. OTHER FILING REQUIREMENTS - Professional pension and investment managers' and economists' estimates of the prospective equity returns available to investors buying equities at market prices

- Only because of FEI's special relationship with those pension managers, it was able to obtain the attached documents.
- The Capital Market reports by Aon Hewitt Limited and Mercer Limited are filed **confidentially** as these reports are proprietary information.

Appendix A-11-1

TOWERS WATSON CAPITAL MARKET REPORTS

2012 Economic Expectations

The Road to Recovery is Filled With Potholes

January 2012

TOWERS WATSON

Agenda

- Welcome
- 31st Annual Survey of Economic Expectations Results
- Pension Costs
- Investment Issues
- Q&A

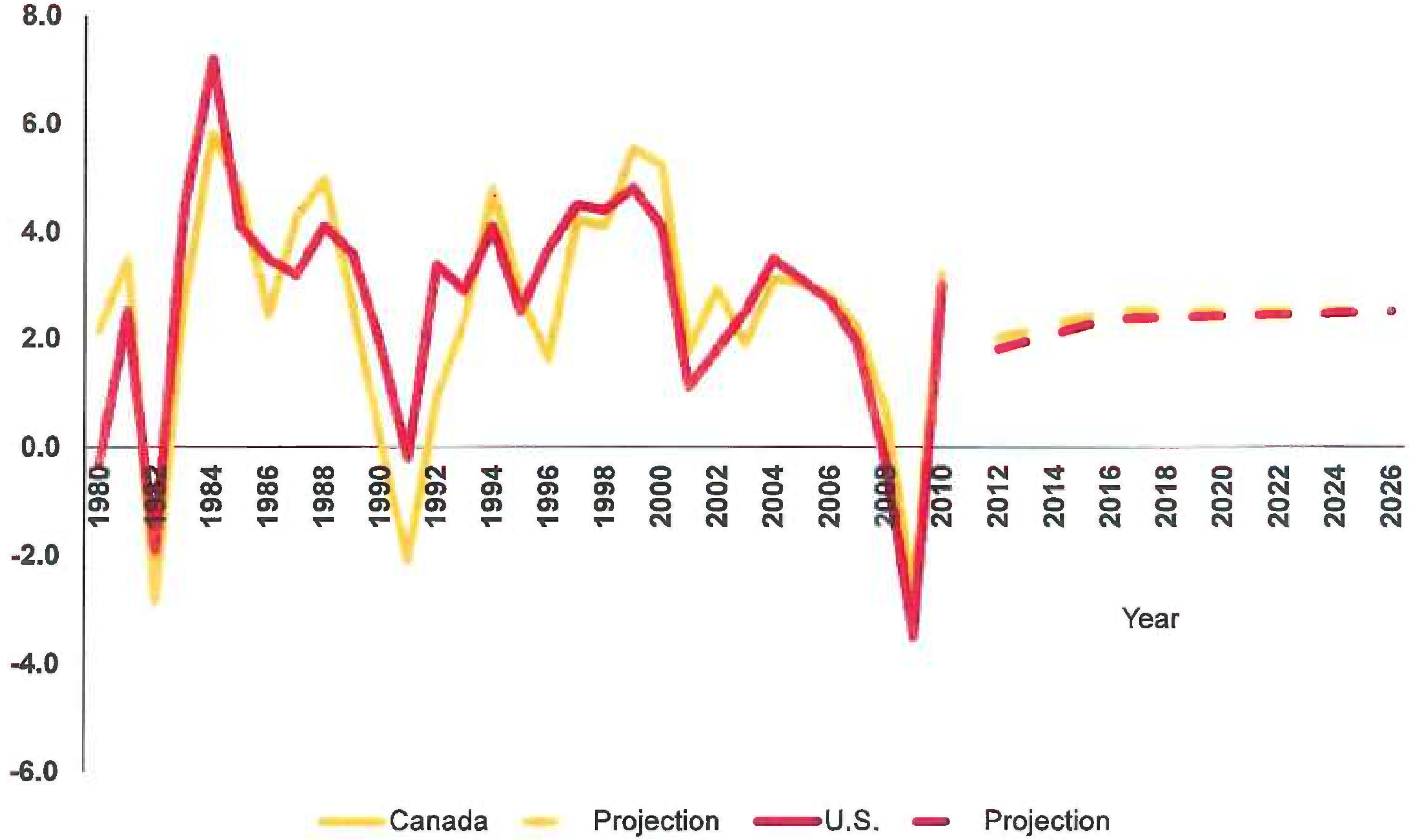
Macroeconomic Outlook 2012 and Beyond

31st Annual Survey of Economic Expectations

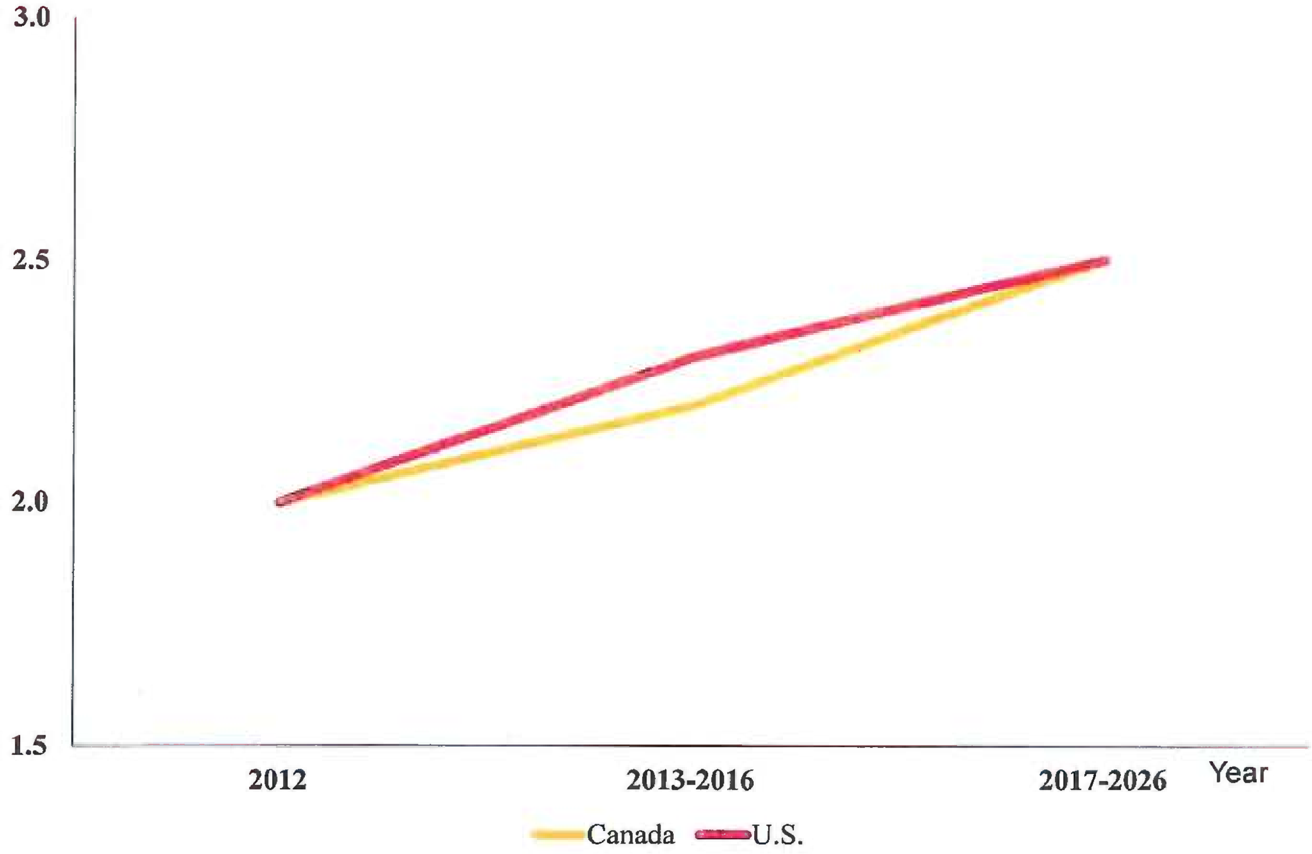
About the 2012 Survey

- 31st annual survey
- Over 45 leading Canadian organizations
  - economists, strategists, market analysts, investment managers
- Sample data collected from mid-November to early December 2011

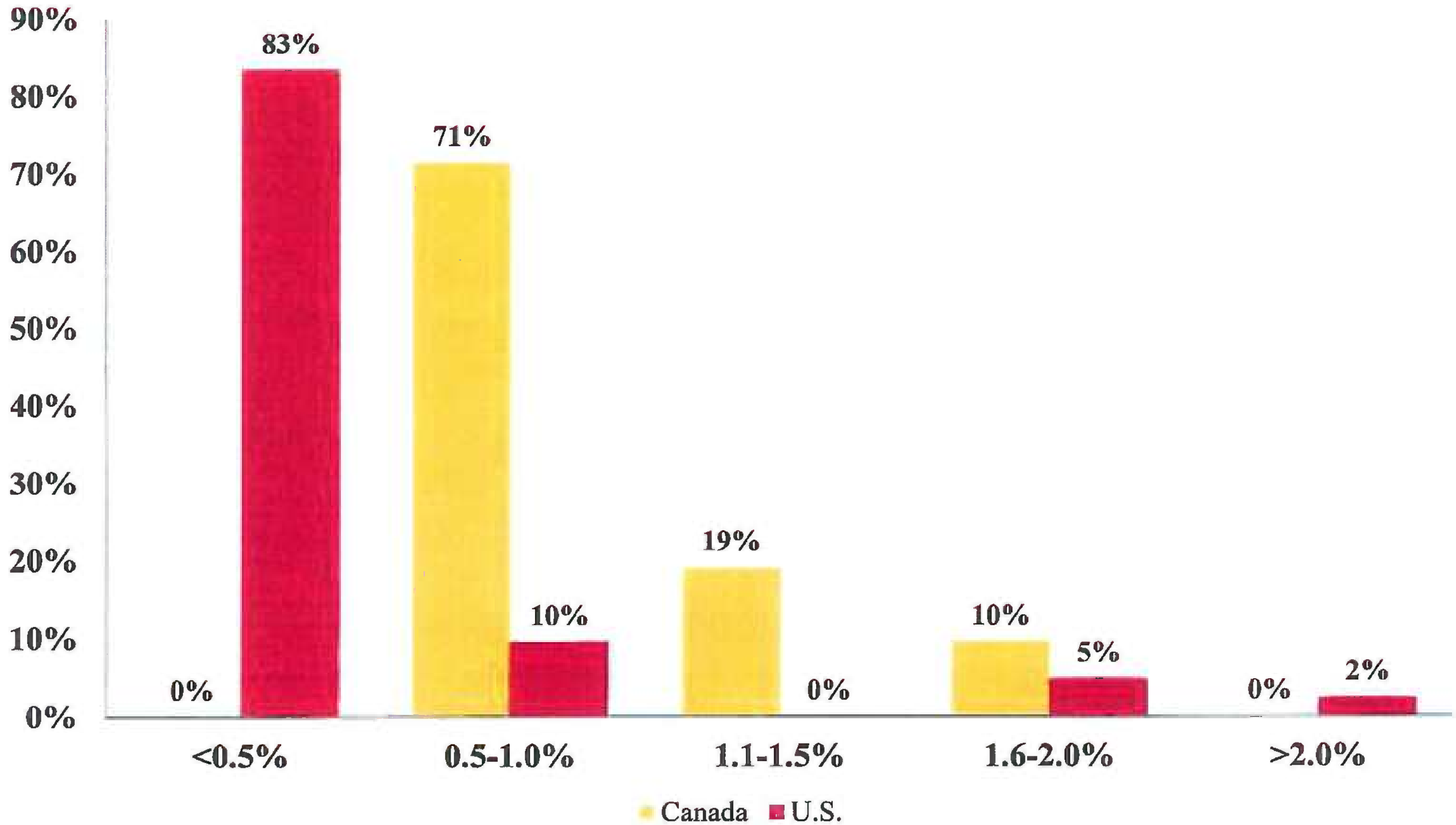
Real GDP Growth (%)



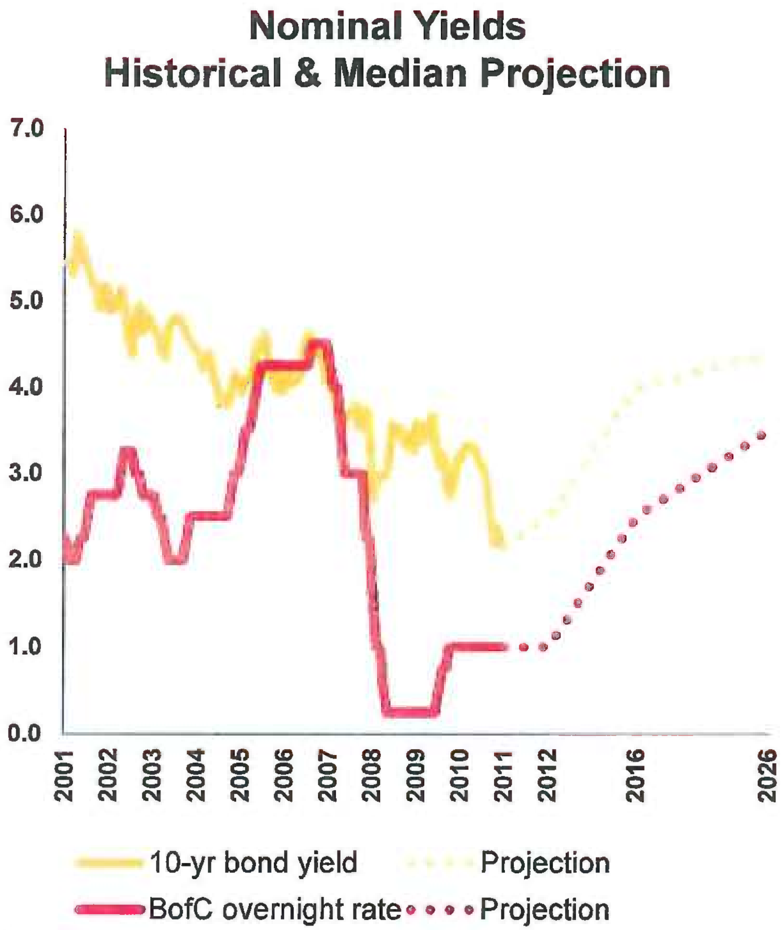
Average Annual CPI Inflation (%, median projections)

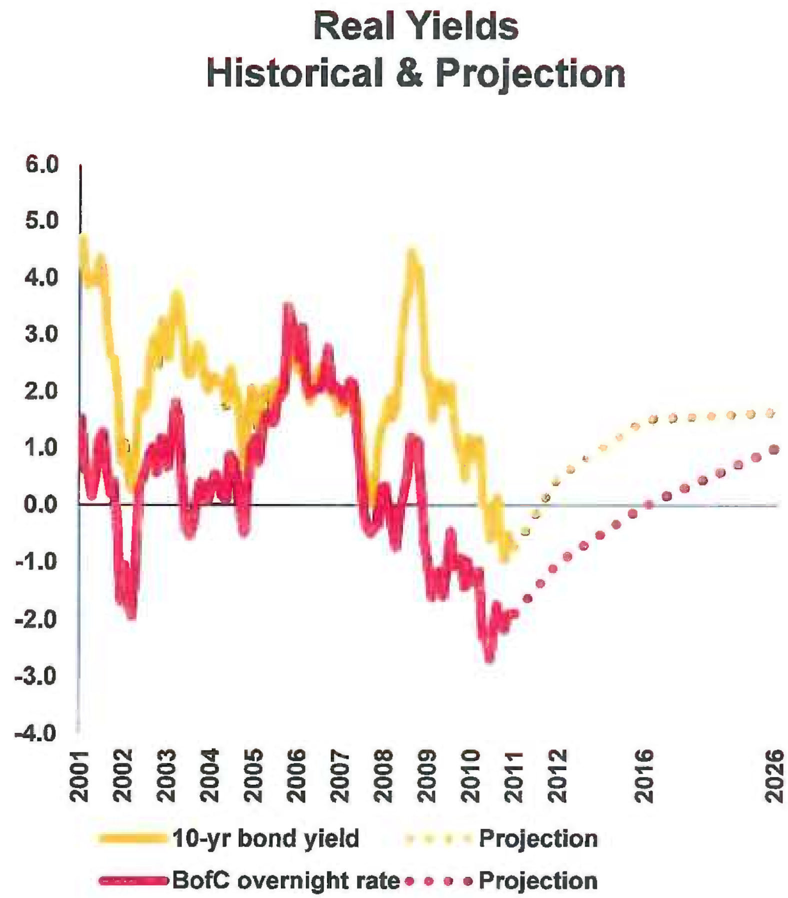


Policy Interest Rate by the End of 2012 (%)

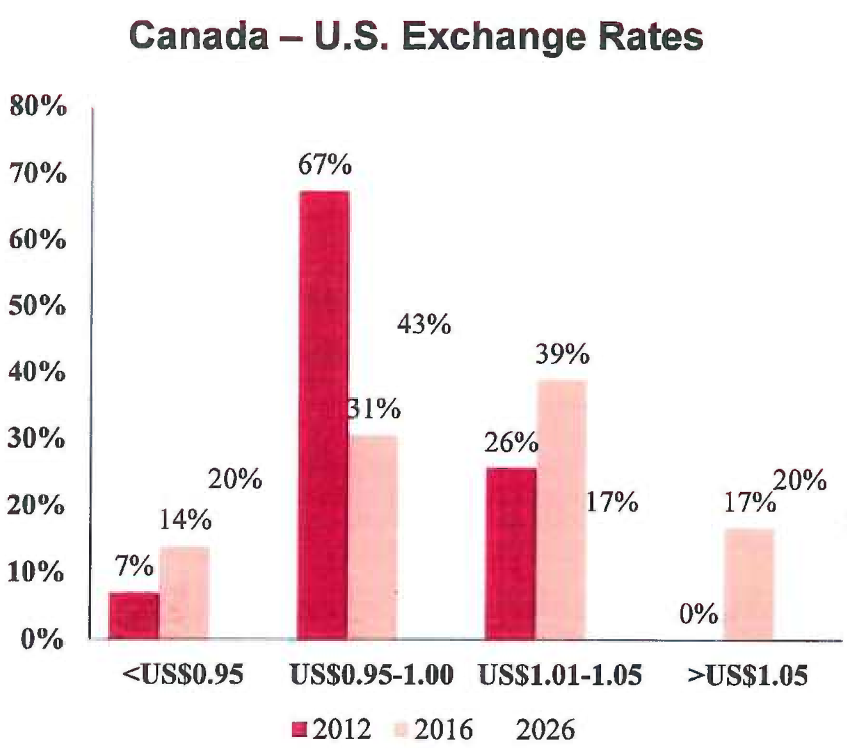


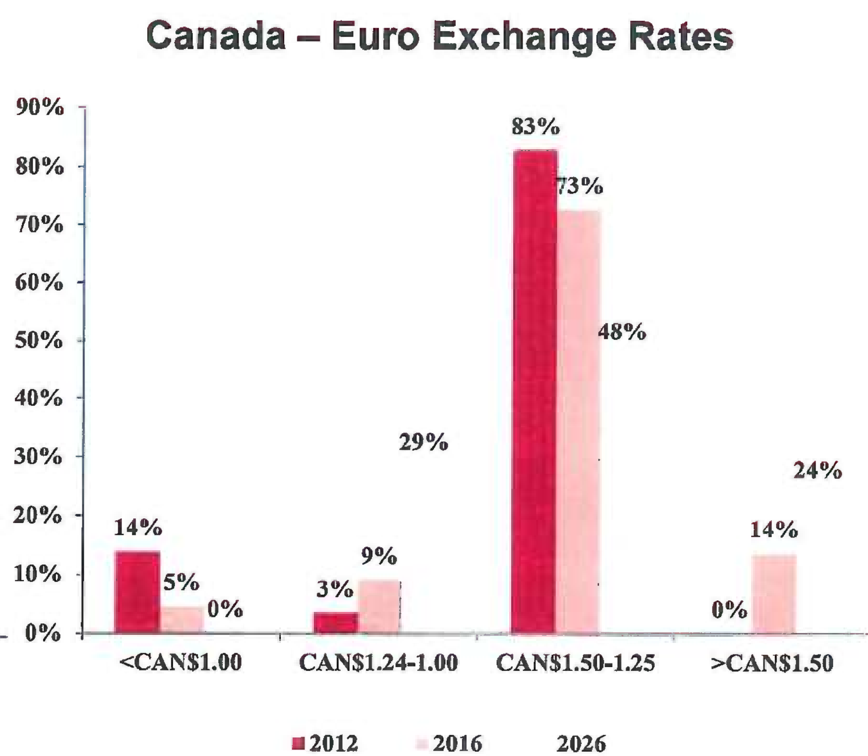
Interest Rate Trends



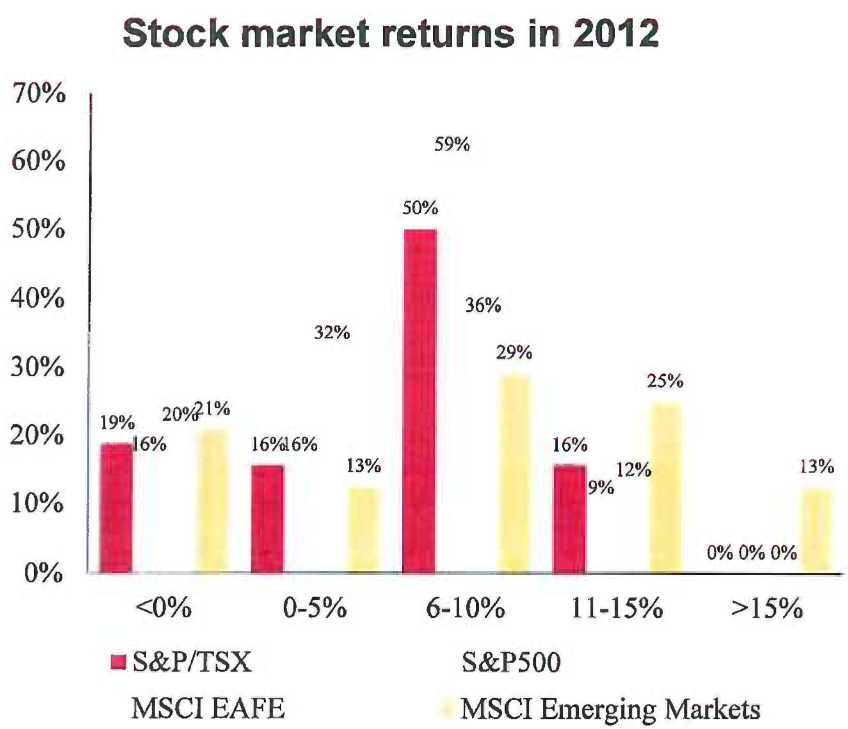


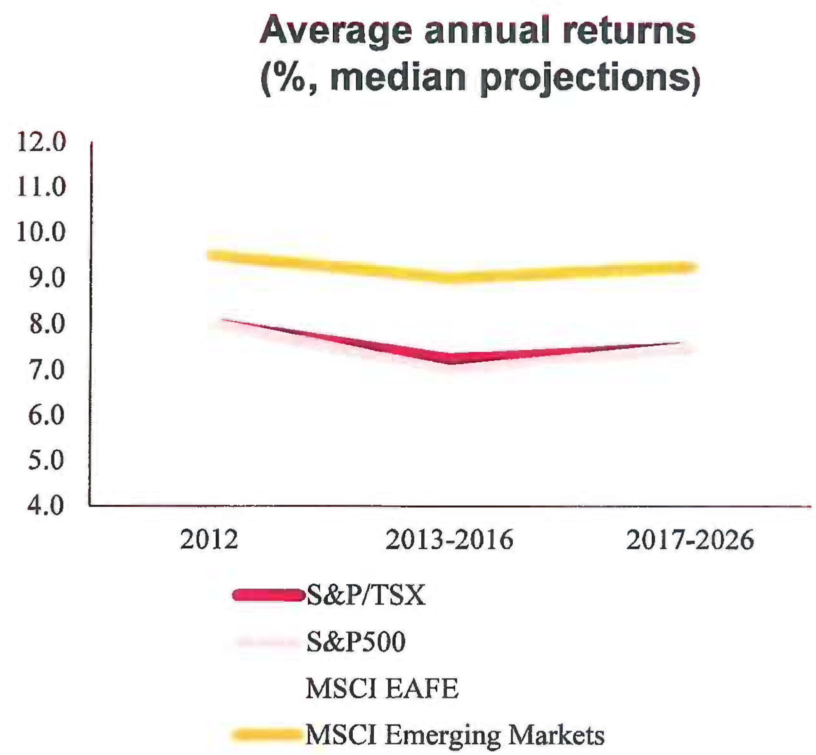
Exchange Rates vs. U.S. Dollar and Euro



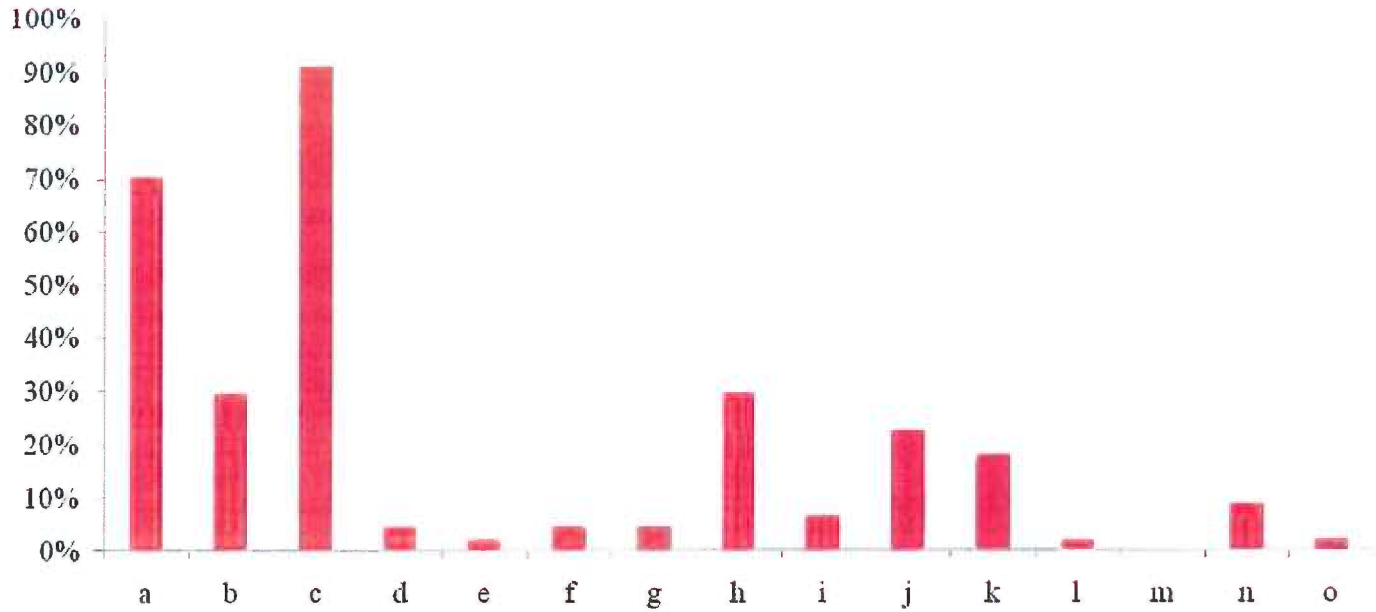


Stock Market Returns



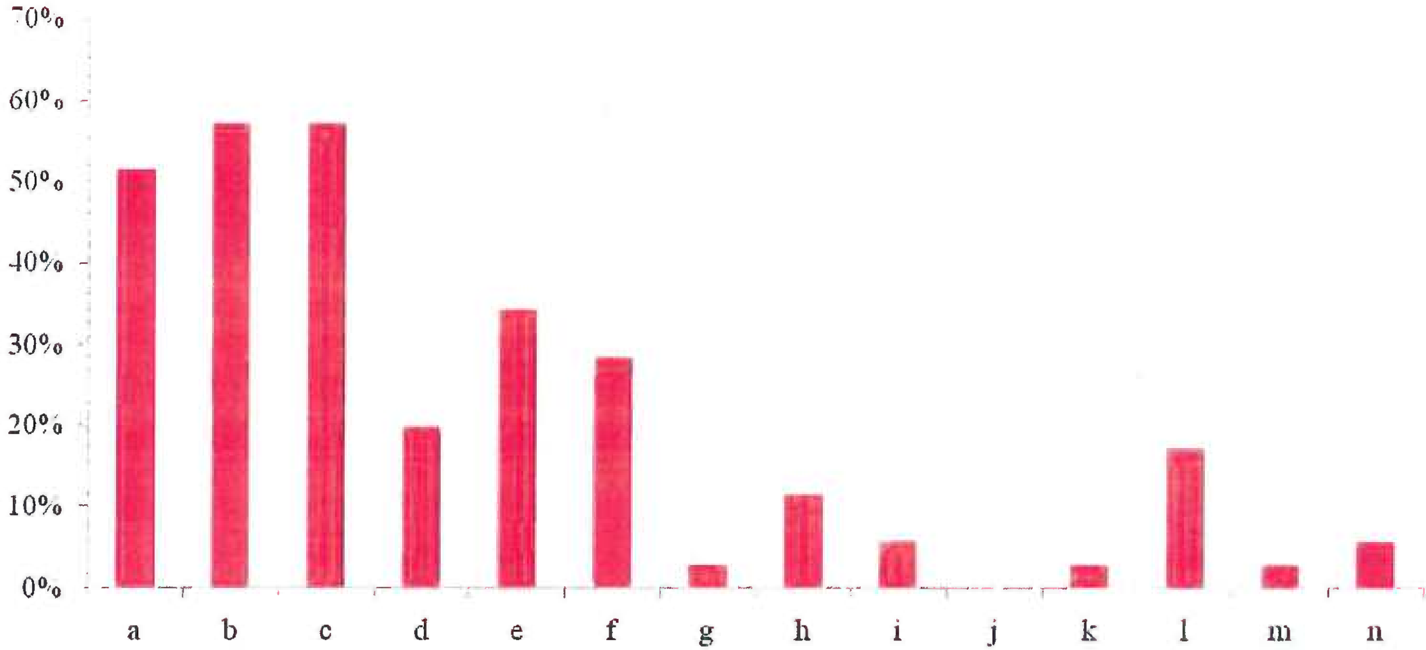


Top issues likely to affect Canadian capital market in 2012



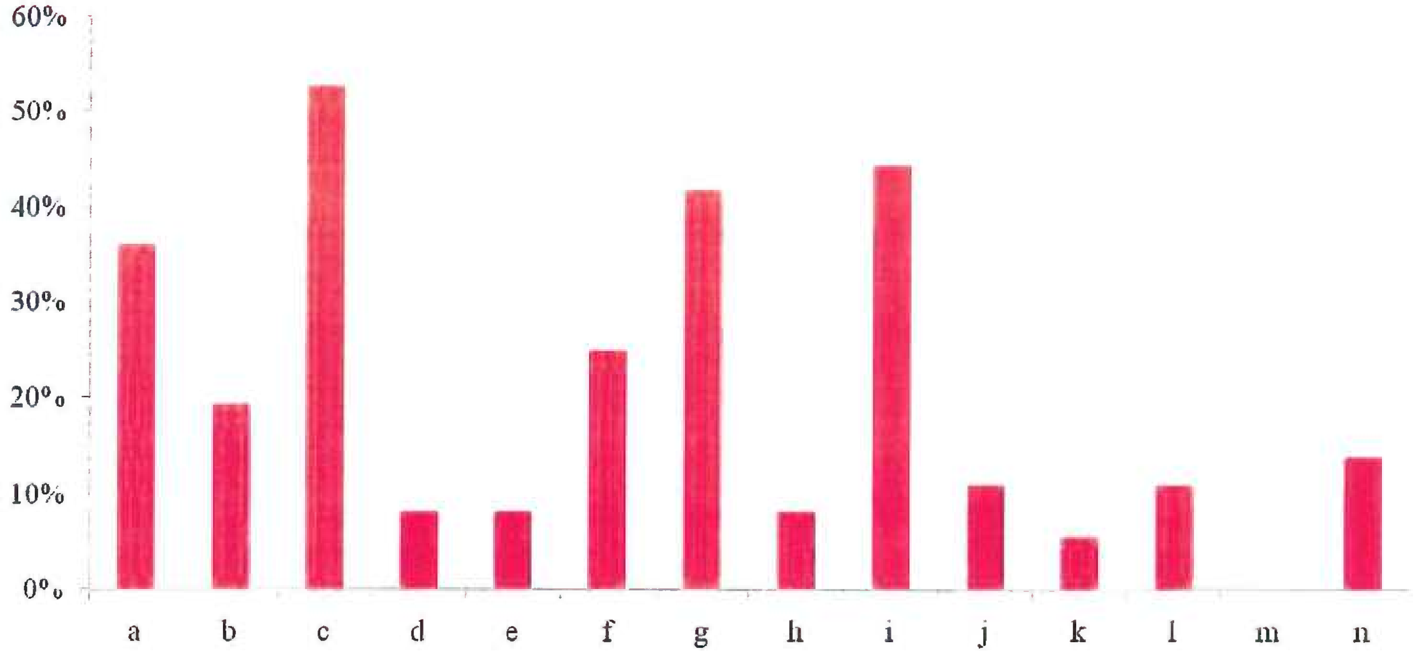
a. Canada/U.S. economic growth b. Emerging Asia economic growth c. EU sovereign debt crisis d. Interest rates e. Inflation f. Deflation g. Canadian dollar/Exchange rates h. Oil price i. Gold price j. Government/monetary stimulus k. Financial stability l. Corporate profits m. Corporate governance n. Politics o. Other

Top issues likely to be raised by clients about pension investment



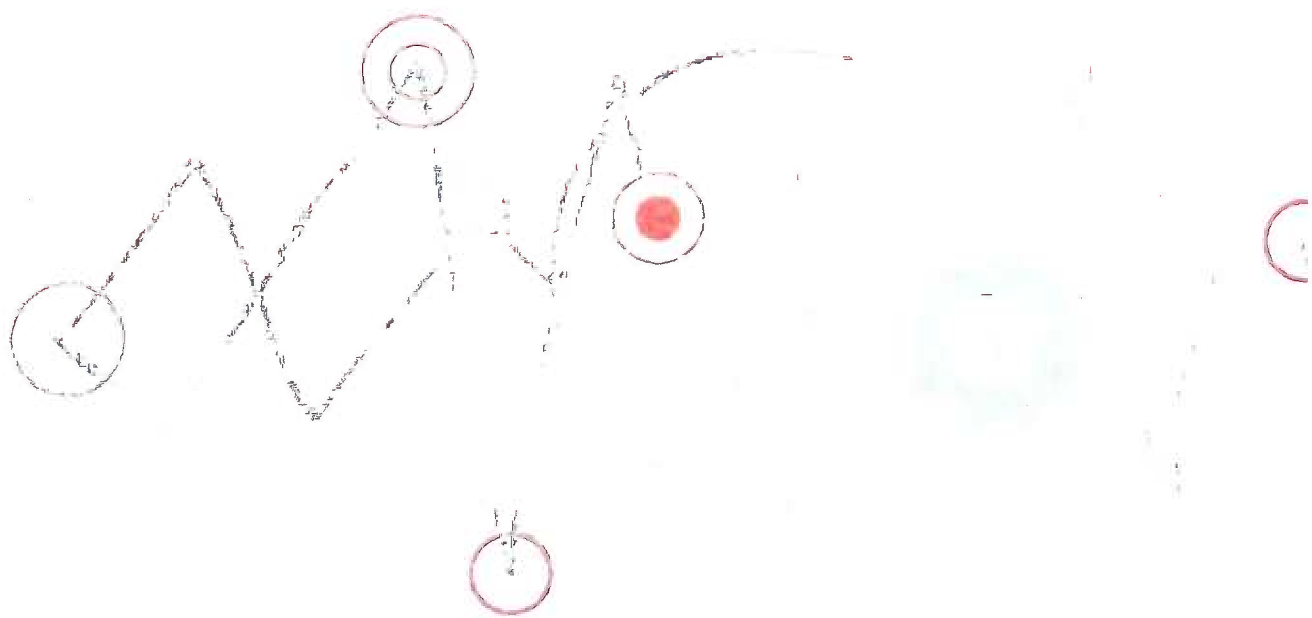
a. Underperformance b. Asset (re)allocation c. Asset-liability matching d. New bond strategies e. Alternative investments f. Absolute return strategies g. Derivatives use h. Credit quality i. Level of Canadian dollar j. Fiduciary duty k. Management fees l. Demographics m. Governance issues n. Other

Areas of Canadian pension investment likely to experience significant growth over the next 3 years



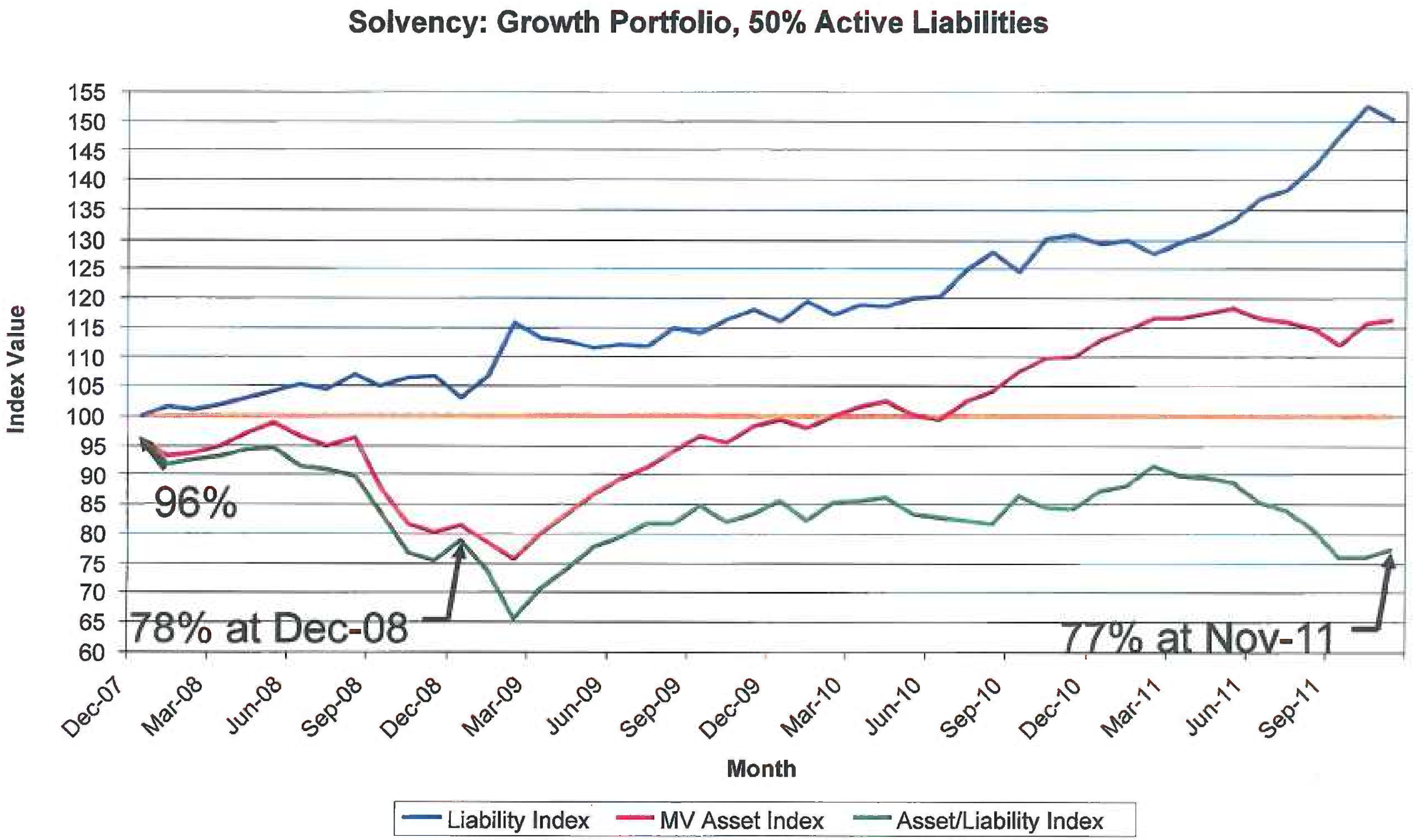
a. Core-plus (fixed-income) strategies b. Global fixed income c. Liability-driven investing d. Inflation-indexed bonds e. Annuities f. Foreign equity g. Infrastructure h. Private equity i. Absolute-return strategies j. 130/30 strategies k. Portable alpha l. Currency overlay m. Derivatives n. Other

Pension Plan and Labour Implications



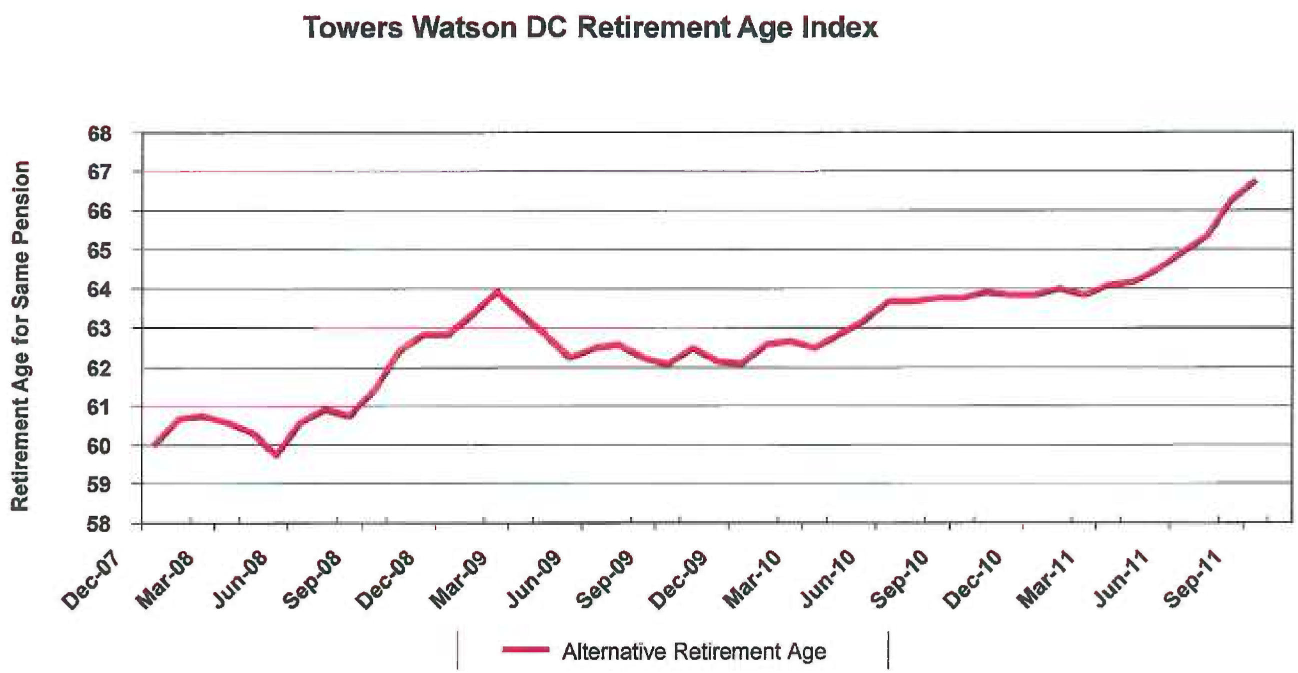
Solvency trends for DB plans

Final Average Earnings Plan, Non-Indexed



36% Canadian equities, 24% foreign equities, 40% bonds

DC members face deficits too



- Members contribute from age 40 to 60 in balanced portfolio, and buy annuity when they retire
- Benchmark member buys annuity at age 60 in Dec. 2007
- Later contributors buy annuity when its amount first equals that of benchmark member

Key Pension Financial Numbers

- Survey participants project over long term:
  - Yield curve to increase by 150-200 bps
  - CPI to increase from 2.0% to 2.5% (Canada and US)
  - Real bond yields to increase by over 100 bps
  - Stable or higher returns on equities
  - Weekly earnings growth to increase from 2% to 3%

Financial Implications for DB plans

- Financial implications for typical plans
  - Solvency and financial statement liabilities decreasing over time
  - Asset values holding their own
  - "Trapped capital" syndrome re-appearing as deficits disappear
- Letters of credit increasingly popular for funding, if permitted
- Pace of de-risking accelerating

Impact on Attraction and Retention

- Some reversal of retirement age postponement for employees relying on capital accumulation funds
  - But typical DC plans produce far lower income replacement rates than median DB plans
- Survey participants project unemployment to drop over medium-long term (7.3% short-term to 6.5% long-term), so labour shortages will accompany higher labour costs
- Workers of all age groups are placing high value on their pension plans today – while employers mitigate their own financial risks, they must also manage workers' expectations

Look for the warning signs

- Demotivated workforce
  - Hidden pensioners
  - Mid-career disengagement
  - Youth unemployment
- Employers not focused on retirement income adequacy
- Failings in financial literacy
- Lawsuits

Investment Issues

Equity Markets: Bull or Bear?

There is no such thing as bad weather, just different kinds of good weather.

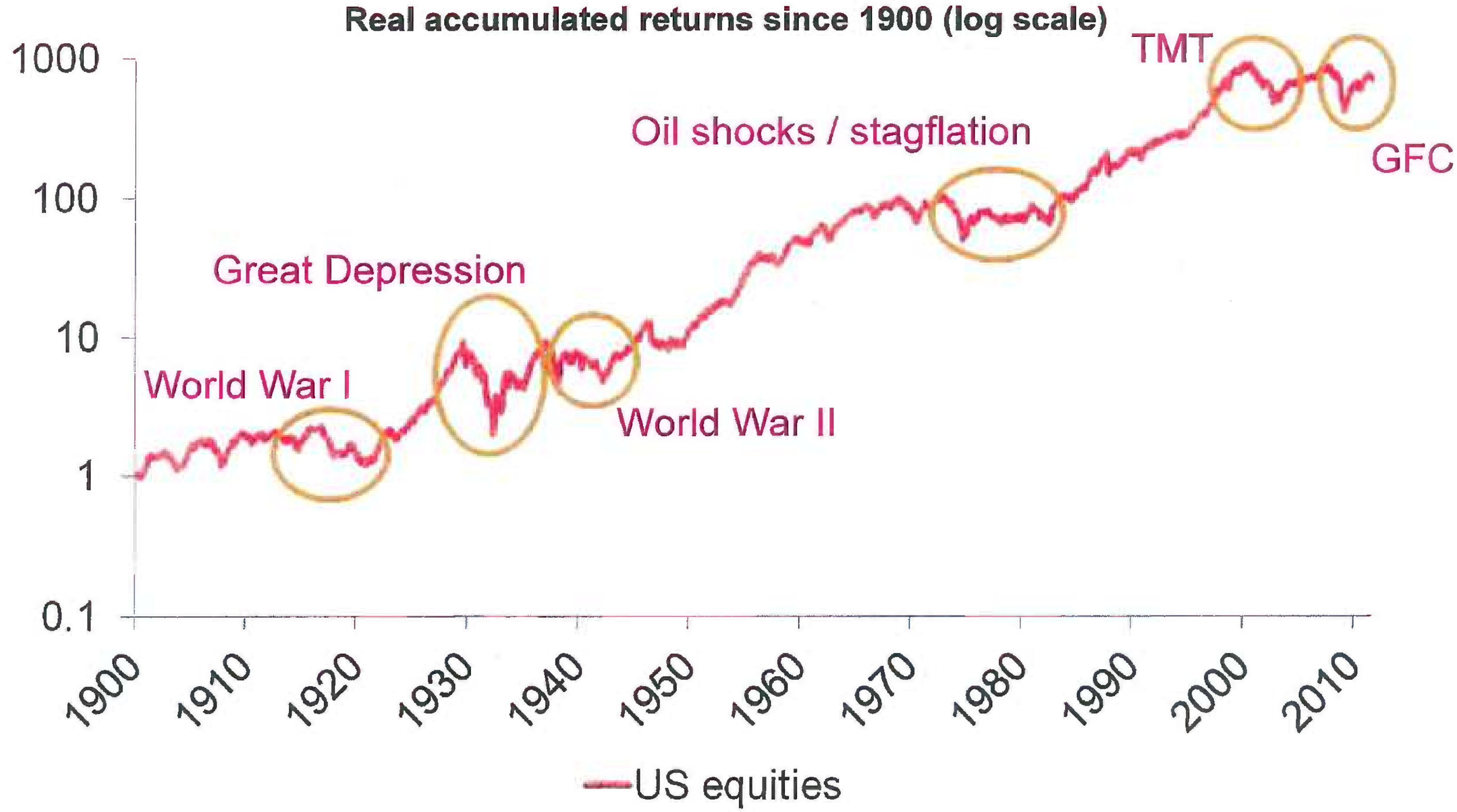
John Ruskin

Bull: Equities are for the long run

- They *are* risky
- You get paid from the residual
- Geared play on growth
- World has been really good at growth
- It only makes sense to be bearish if you believe the world has gone ex-growth

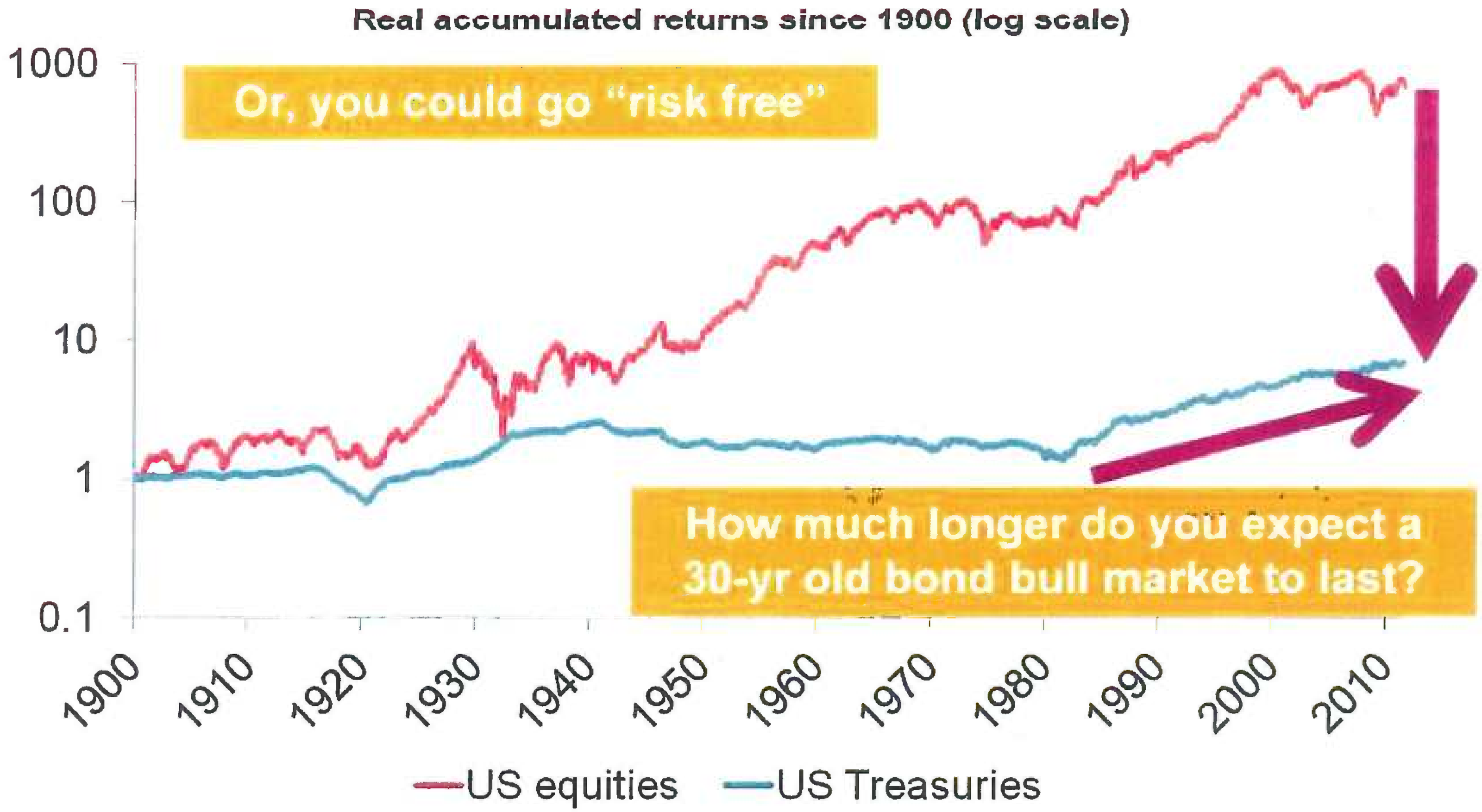
It is time to be bullish

Bull: History shows equities are resilient



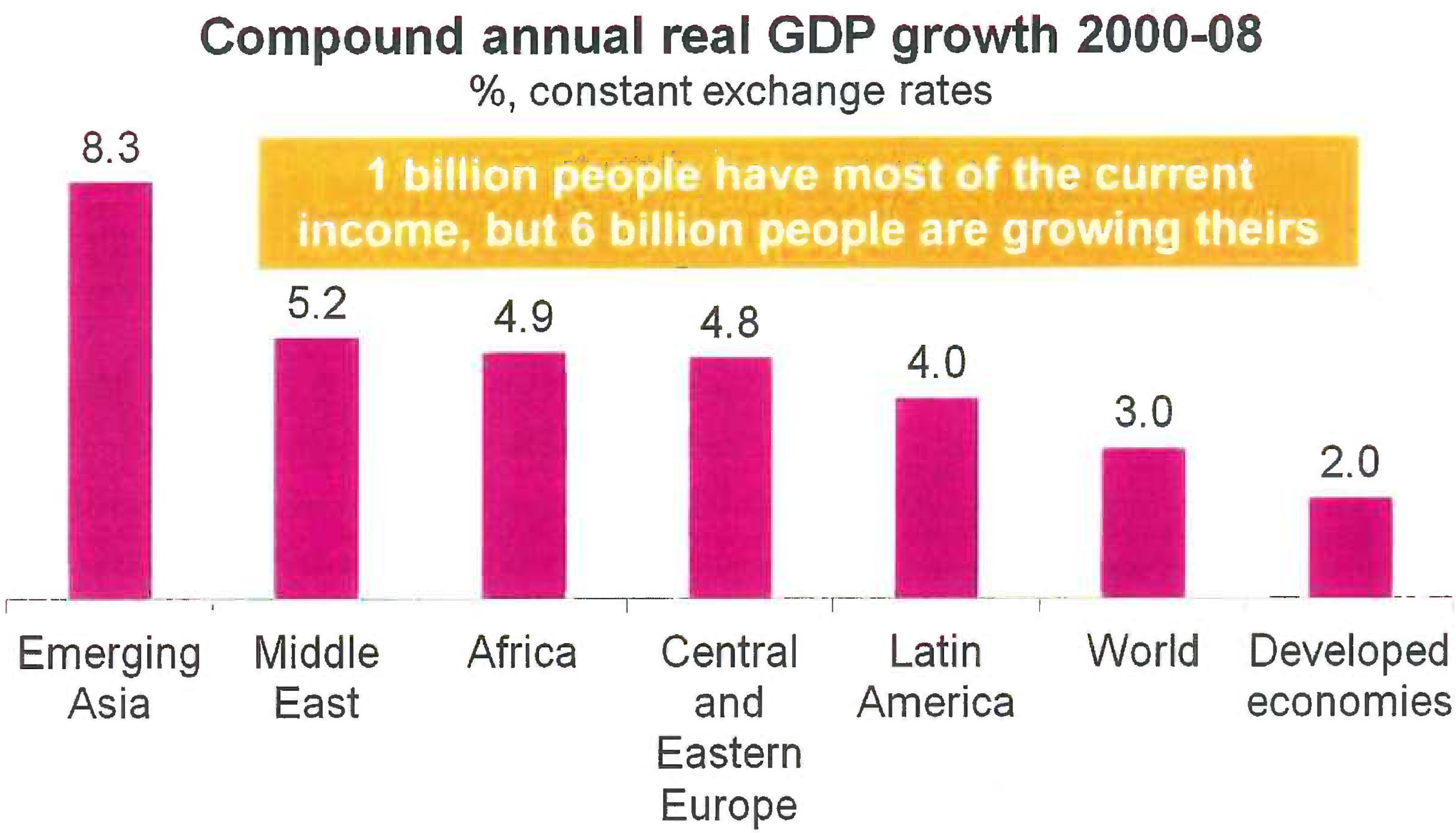
Source: Bloomberg, DataStream, Barclays, Towers Watson

Bull: History shows equities are resilient



Source: Bloomberg, DataStream, Barclays, Towers Watson

Bull: Where will growth come from?



Source: McKinsey Global Institute

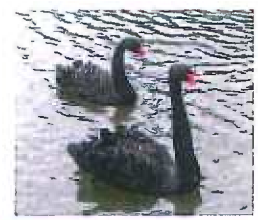
Bull: Where will growth come from?

Income = Labour Capital

Technology

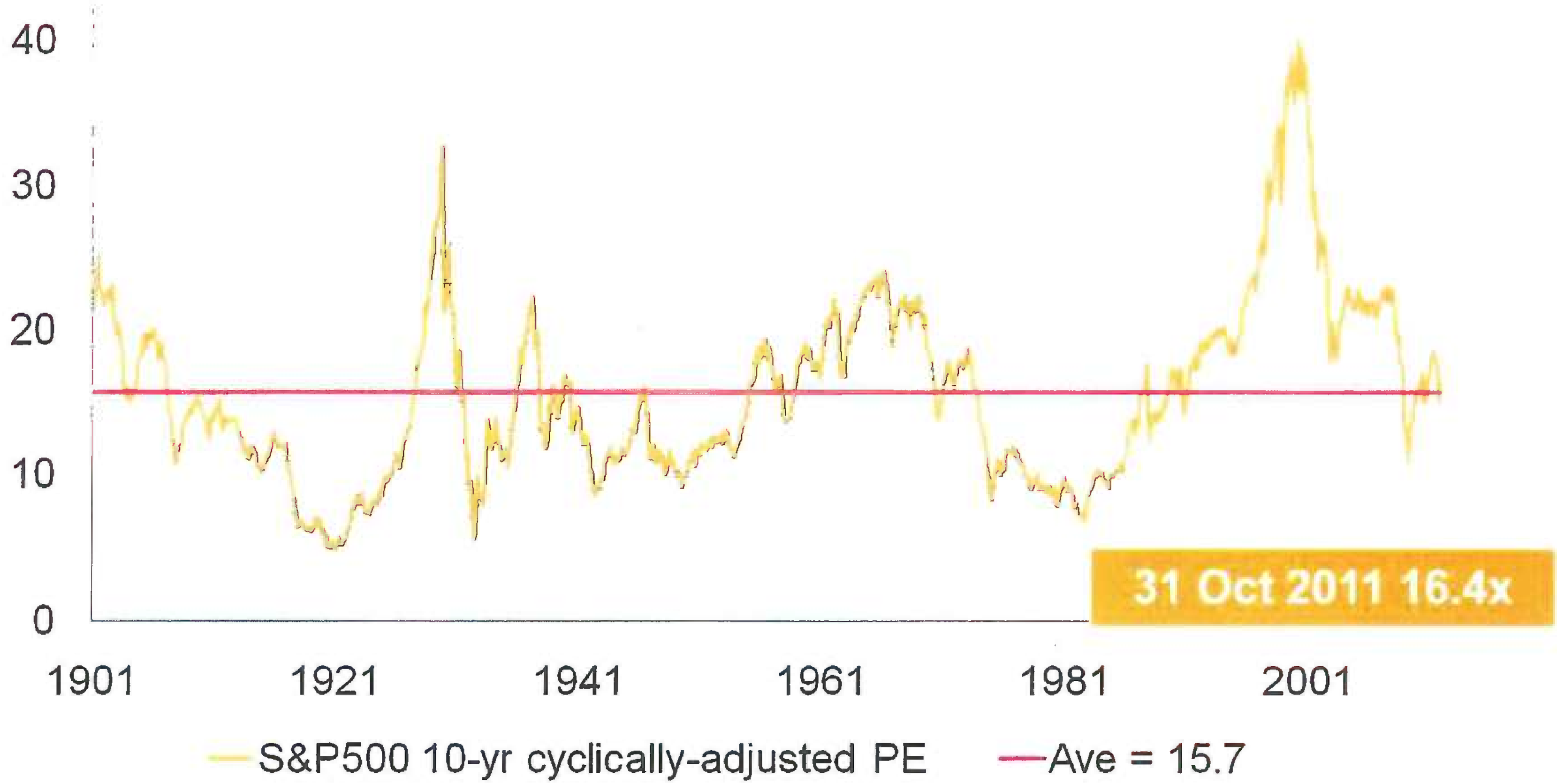
Incremental
('white swans')

Fundamental
('black swans')



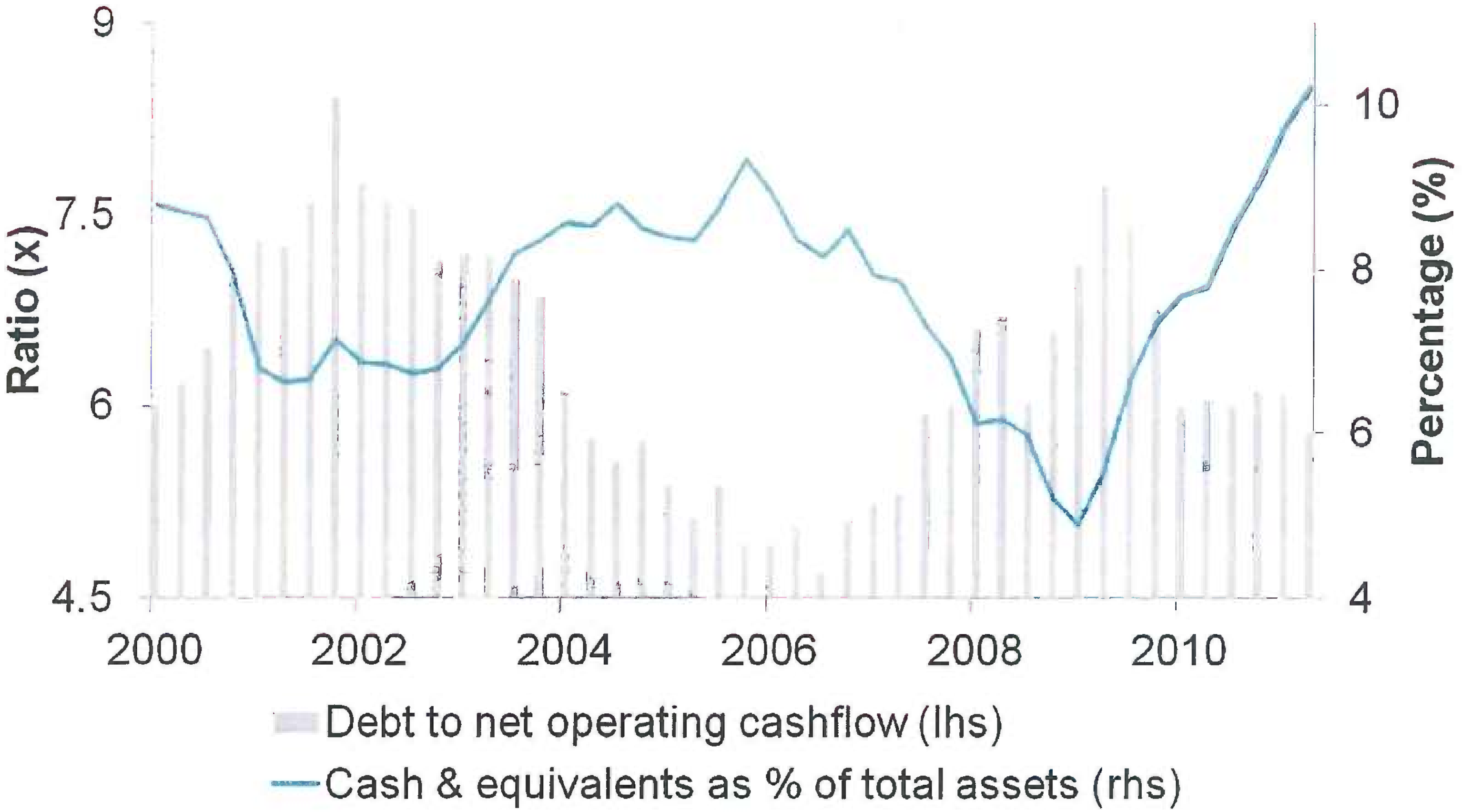
"Any sufficiently advanced technology is indistinguishable from magic." Arthur C Clarke

Bull: Valuations are not stretched



Source: Robert Shiller, DataStream, Standard & Poor's, Global Financial Database

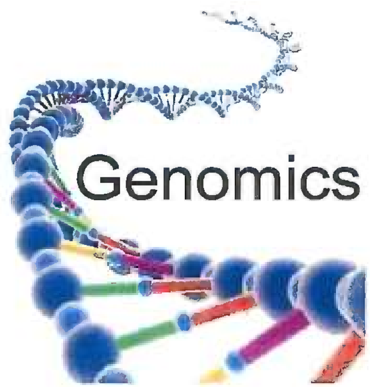
Bull: Corporate balance sheets are healthy

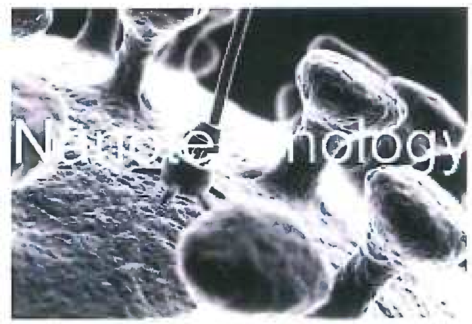


Source: Federal Reserve, DataStream, Econstat

Is now the time to be bullish?

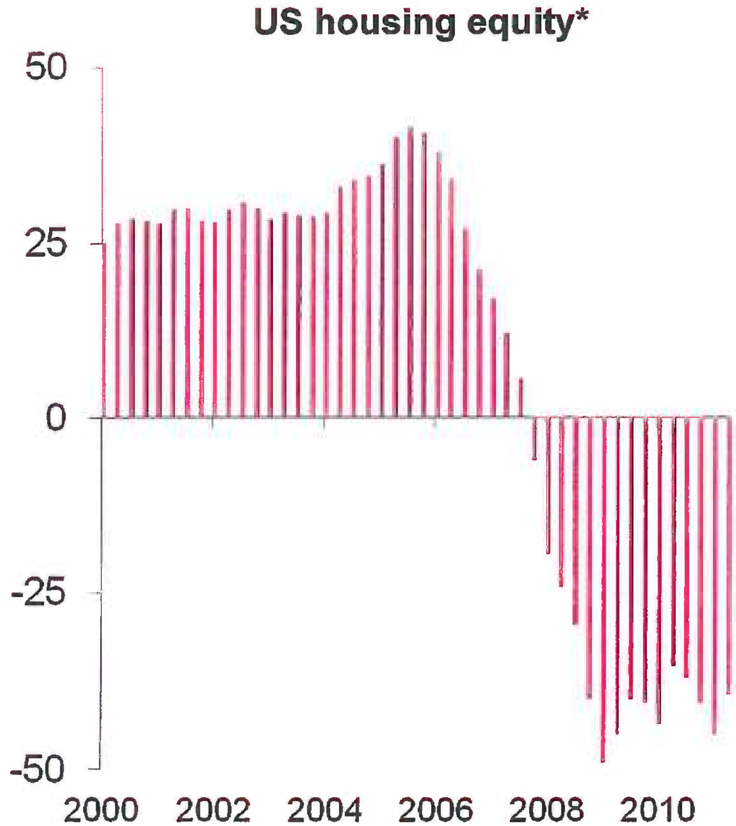
- The world has not gone ex-growth
- White swans are everywhere – we don't need a magic wand

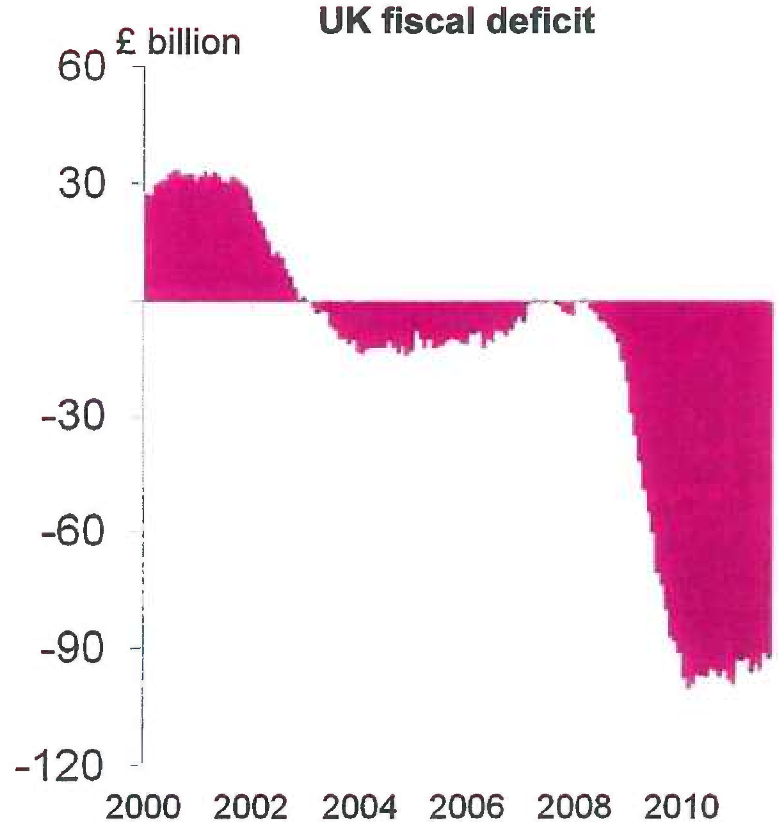




- Equities are sensibly priced

Bear: There are imbalances everywhere





* Derived from S&P/Case-Shiller house price index and index of mortgage debt

Source: Thomson, Towers Watson

Bear: Suppose a negative shock happens

- To combat recessions, central banks typically reduce interest rates by around 5%
- Governments typically engage in some form of fiscal stimulus
  - Automatic stabilizers
  - Additional stimulation

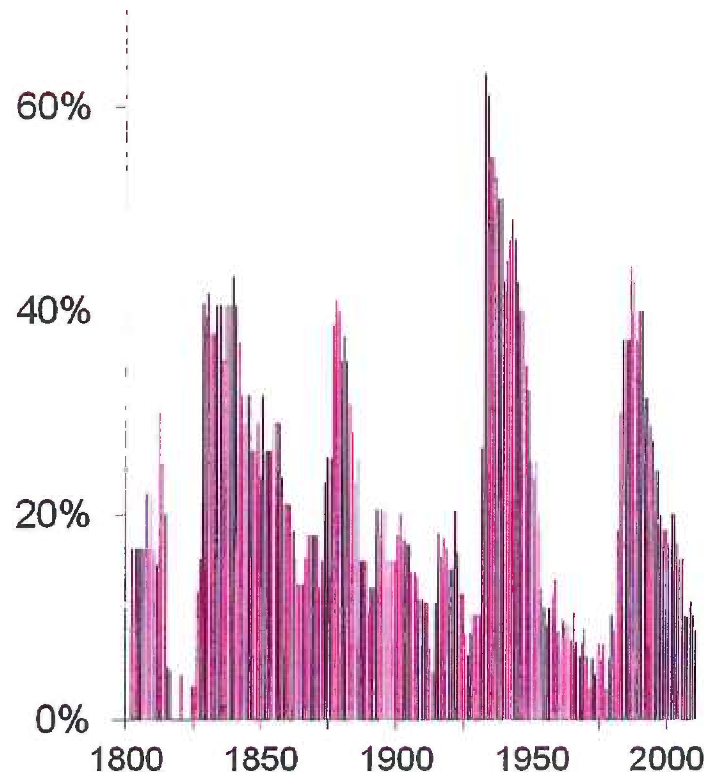
The (western) authorities are out of ammunition – no new supplies are expected in next 2-3 years

Bear: It would not be a surprise

- Integration is expensive
  - ECB money printing
  - Euro bonds
- Disintegration is more expensive?
  - UBS estimate cost of leaving Euro to be 20-25% of GDP (Germany) to 40-50% of GDP (others)
  - Short-term pain, long term gain?
  - What about those EMU members who do not use the Euro?

But what price sovereignty and fairness?

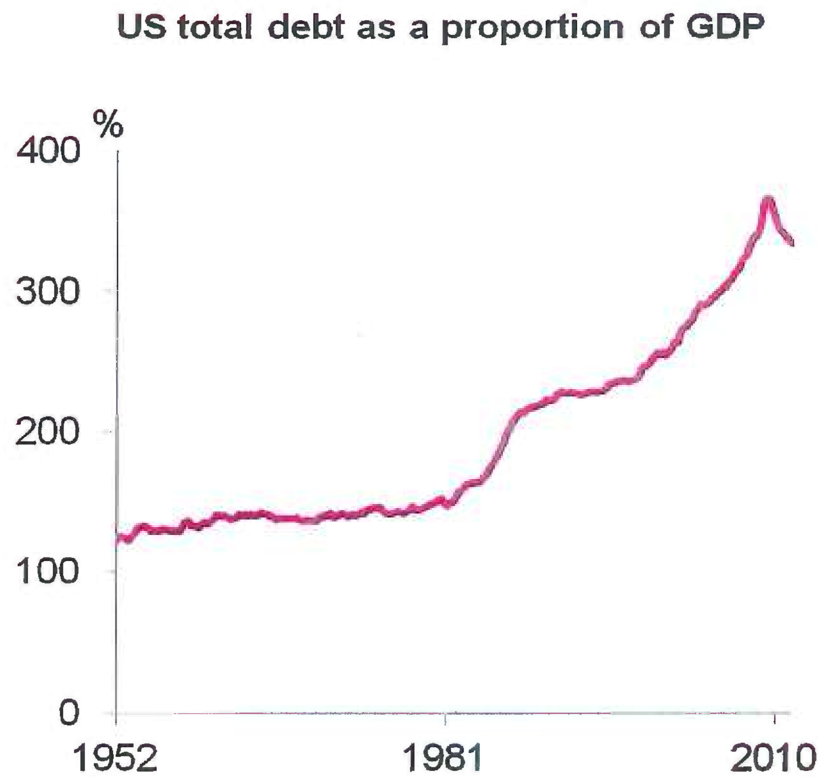
Proportion of countries in default



Source: Reinhart/Rogoff, Towers Watson

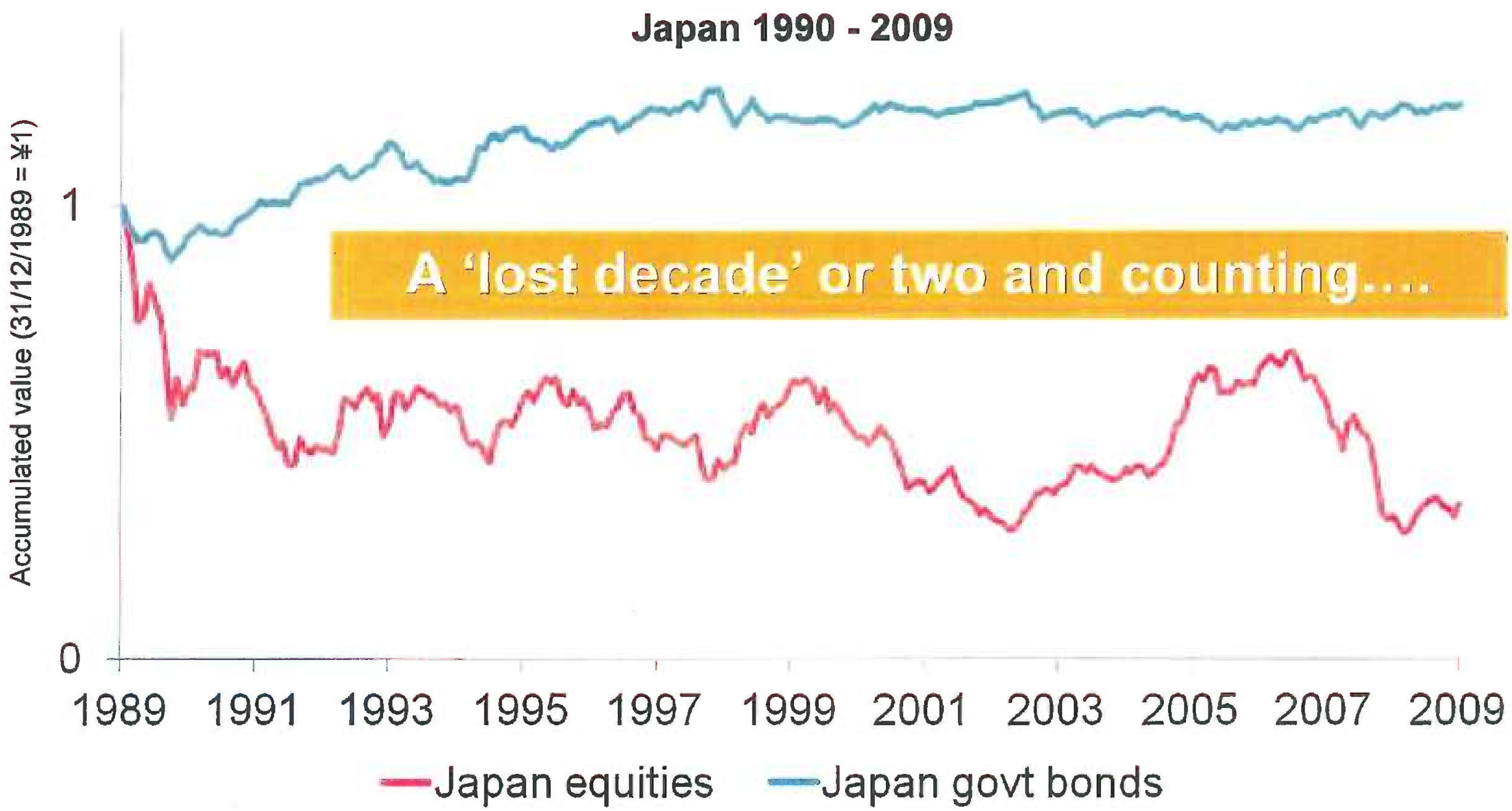
Bear: The long sweep of history (US)

- We had a tailwind
  - EM to DM status
  - Debt "super cycle"
- We now have a headwind
  - Demographics
  - Loss of reserve currency status
- And by the way, we got lucky!



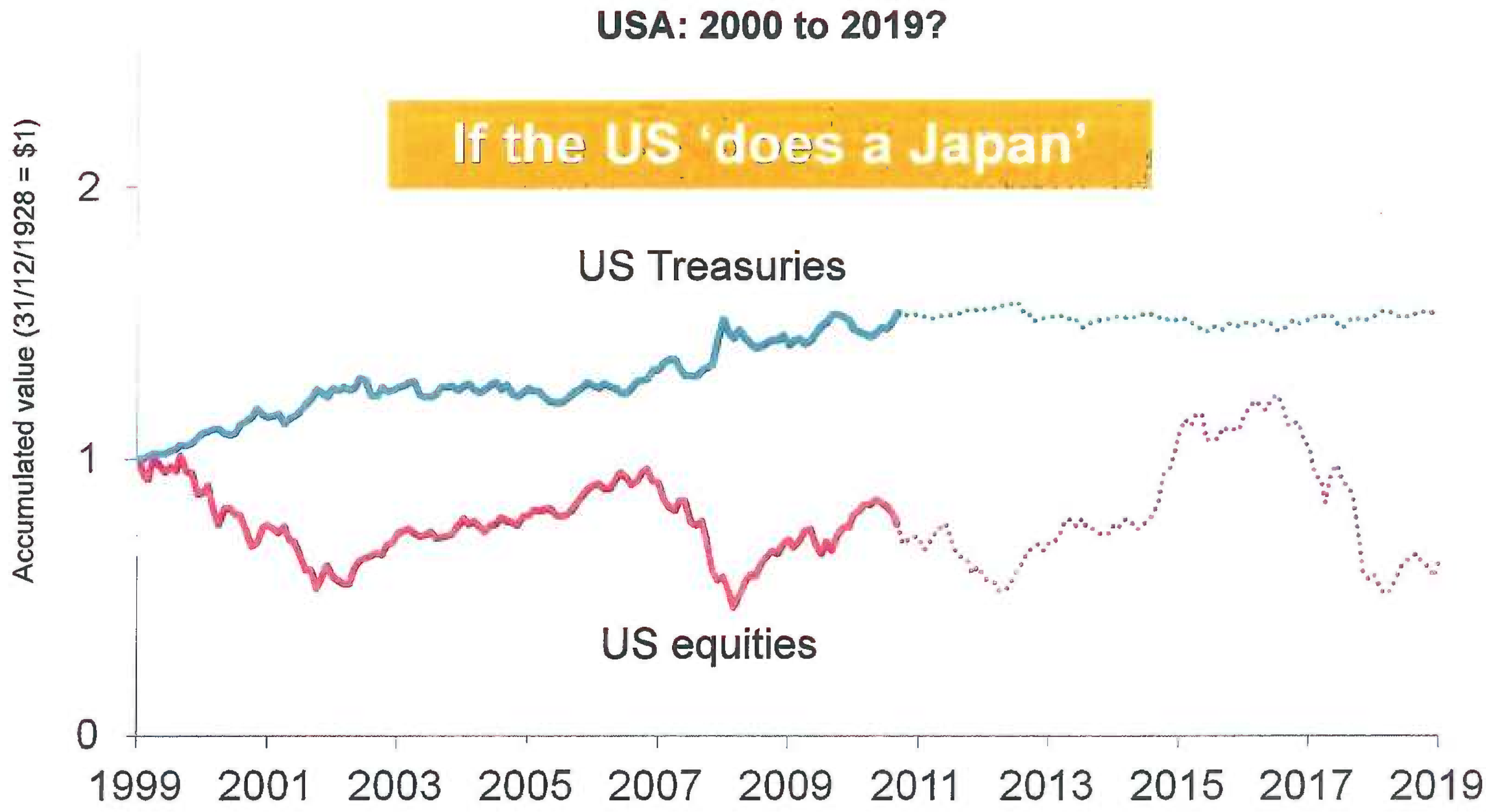
Scientific progress and financial progress are different!

Bear: History never repeats itself, but.....



Source: Bloomberg, JP Morgan

Bear: And where is the US now?



Source: Bloomberg, DataStream, Barclays, Towers Watson

Is now the time to be bearish?

- The global economy is particularly unstable
  - Imbalances are bigger than ever
  - No ammunition to fight the next shock
- Shocks happen
- Valuations, while not expensive, are not cheap enough

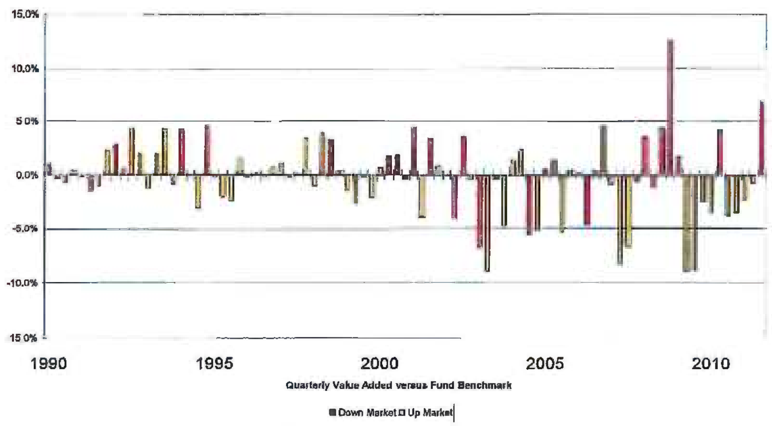
Currency Hedging for Canadian Investors

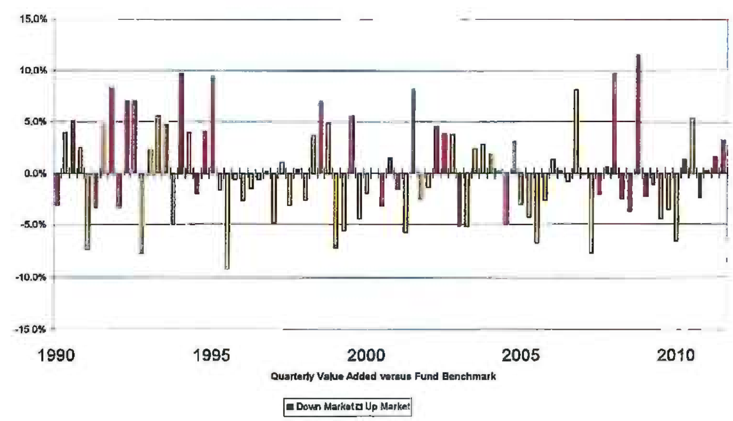
Recent Changes in Thinking

- Evidence of increasing correlation between CAD and global equity returns (past five years)
  - Have been paying money to settle hedges when markets were down
  - Have been receiving money when hedges settled during good equity periods
  - Particularly true with USD
- CAD has been highly correlated with oil and base metal prices over past five years – those commodities are highly correlated with the strength of the global economy
- Means that hedging is actually increasing the volatility of foreign equity returns for the CAD investor
- Observable in daily, monthly and quarterly data series

Correlation between CAD and global returns

- Two charts below show correlation for USD (left) and EAFE basket (right) with equity returns from 1990 to now
  - Bars show the difference between CAD return and local currency return
  - Red bar means local currency return was negative
  - Yellow bar means local currency return was positive





- Over past 4 to 5 years, hedging has generally improved positive returns and worsened negative returns (especially against USD)

Standard Deviation of Returns

- Investment theory suggests that currency hedging should reduce the volatility of foreign equity returns
- Charts show standard deviation of returns (hedged vs. unhedged) for the CAD investor in U.S. (left) and international equities (right) over the 1990 to now period

- Charts suggest that hedging has increased return volatility recently

Questions?

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Appendix A-11-2

AON HEWITT LTD CAPITAL MARKET REPORT

FILED CONFIDENTIALLY

Appendix A-11-3

MERCER LTD CAPITAL MARKET REPORT

FILED CONFIDENTIALLY