

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](http://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

## SHORT FORM PROSPECTUS

January 18, 2010



**\$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”.**

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**Price: \$25.00 per share to yield initially 4.25% per annum**

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	<u>Price to the Public</u>	<u>Underwriters’ Fee<sup>(1)</sup></u>	<u>Net Proceeds to Fortis<sup>(2)</sup></u>
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](http://www.fortisinc.com) or on the Canadian System for Electronic Document Analysis and Retrieval ("SEDAR") which can be accessed at [www.sedar.com](http://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

<b>Issue:</b>	10,000,000 Cumulative Redeemable Five-Year Fixed Rate Reset First Preference Shares, Series H (the "Series H First Preference Shares").
<b>Amount:</b>	\$250,000,000.
<b>Price:</b>	\$25.00 per Series H First Preference Share (the "Offering Price").
<b>Use of Proceeds:</b>	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:

<b>Dividends:</b>	<p>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.</p> <p>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%.</p>
<b>Redemption:</b>	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.

	<u>Outstanding at September 30, 2009</u>	<u>Pro forma Outstanding at September 30, 2009</u>
	(unaudited)	(unaudited)
	(in millions of dollars)	
Total debt (net of cash) . . . . .	5,604	5,494 <sup>(1)</sup>
Preference shares <sup>(2)</sup> . . . . .	320	320
Shareholders’ equity		
Securities offered hereby <sup>(3)</sup> . . . . .	Nil	244
Common shares . . . . .	2,482	2,498 <sup>(1)</sup>
Preference shares <sup>(4)</sup> . . . . .	347	347
Contributed surplus . . . . .	10	10
Equity portion of convertible debentures . . . . .	5	5
Accumulated other comprehensive loss . . . . .	(79)	(79)
Retained earnings . . . . .	<u>682</u>	<u>682</u>
Total capitalization . . . . .	<u>9,371</u>	<u>9,521</u>

- (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
	(\$)	(\$)	(#)	(\$)	(\$)	(#)
<b>2009</b>						
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
<b>2010</b>						
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
	(\$)	(\$)	(#)	(\$)	(\$)	(#)
<b>2009</b>						
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
<b>2010</b>						
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
	(\$)	(\$)	(#)
<b>2009</b>			
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
<b>2010</b>			
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 ratably 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 33⅓% 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 6<sup>2</sup>/<sub>3</sub>% 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  
January 18, 2010

(Signed) ERNST & YOUNG LLP  
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

**F****ORTIS**