



City of Hamilton

HAMILTON UTILITIES CORPORATION SHAREHOLDER

Meeting #: 19-001
Date: June 5, 2019
Time: 3:00 p.m.
Location: Council Chambers, Hamilton City Hall
71 Main Street West

Stephanie Paparella, Legislative Coordinator (905) 546-2424 ext. 3993

	Pages
1. APPROVAL OF AGENDA	
(Added Items, if applicable, will be noted with *)	
2. DECLARATIONS OF INTEREST	
3. APPROVAL OF MINUTES OF PREVIOUS MEETING	
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7.1 Appointment of the Board of Directors of Hamilton Utilities Corporation	

7.2 Appointment of Board of Directors of Alectra Inc.

8. ADJOURNMENT



**HAMILTON UTILITIES CORPORATION
SHAREHOLDER ANNUAL GENERAL MEETING
MINUTES 18-002**

June 6, 2018, 2:45 p.m.

Council Chambers, Hamilton City Hall, 71 Main Street West

Present: Deputy Mayor B. Johnson (Chair)
Councillors T. Jackson, C. Collins, S. Merulla, M. Green, J. Farr,
A. Johnson, D. Conley, M. Pearson, L. Ferguson, A. VanderBeek

**Absent with
Regrets:** Mayor F. Eisenberger, T. Whitehead – Other City Business
Councillors D. Skelly, J. Partridge, R. Pasuta – Personal

THE FOLLOWING ITEMS WERE REFERRED TO COUNCIL FOR CONSIDERATION:

1. Local Representation on the Hamilton Utilities Corporation and Alectra Inc. Boards (Item 5.5)

(Conley/Farr)

WHEREAS, the former Hamilton Utilities Corporation (HUC) Boards were comprised with the majority of Directors being from leading Hamilton business and community organizations, with only a minority of the representatives being selected from outside of the city of Hamilton;

WHEREAS, currently, five of the seven HUC Board Directors are not from the city of Hamilton; and,

WHEREAS, Alectra Inc. has two Board seats for Hamilton and one representative resides outside of Hamilton;

THEREFORE, BE IT RESOLVED:

- (a) That, ***effective in 2019, with the appointment of the new Hamilton Utilities Corporation Board at the next Annual General Meeting, with the exception of the two the members currently holding a two-year term***, the majority of Directors of the Hamilton Utilities Corporation Board be residents of the city of Hamilton; and,

- (b) That, *effective in 2019 with the appointment of the new Alectra Inc. Board at the next Annual General Meeting*, both of the Hamilton representatives for the Alectra Inc. Board of Directors be residents of the city of Hamilton.

MAIN MOTION, AS AMENDED, CARRIED

2. Consolidated Financial Statements of the Hamilton Utilities Corporation and Alectra Inc. for the year ended December 31, 2017; Appointment of the Hamilton Utilities Corporation Board of Directors; Appointment of Alectra Inc. Board of Directors and Appointment KPMG LLP as the Auditor of the Hamilton Utilities Corporation and Alectra Inc. (Item 5.1)

- (a) **Audited Consolidated Financial Statements for the year ended December 31, 2017**

That the Audited Consolidated Financial Statements of Hamilton Utilities Corporation for the year ended December 31, 2017, as approved by the Board of Directors of Hamilton Utilities Corporation, be received by the Shareholder;

- (b) **Appointment of Directors to Hamilton Utilities Corporation**

That the Resolutions set forth below be presented to the City of Hamilton for passage as Resolutions of the Shareholder of the Corporation as representing the recommendations of the Directors of the Corporation:

Number of Directors

WHEREAS, the Articles of the Corporation and subsequent special resolutions provide that the Corporation shall have seven Directors; and,

WHEREAS, it is desirable for the Corporation to have six Directors;

THEREFORE, BE IT RESOLVED:

- (i) That, as a special resolution, henceforth the Corporation shall have six Directors;
- (ii) That, inasmuch as each of the following persons was heretofore elected as a Director of the Corporation for a three-year term, each such person is confirmed as elected and has consented to continue to serve as a Director of the Corporation, as one of the "Private Directors" of the Corporation, for the period set opposite below and thereafter until the next annual general meeting of the Corporation:

- | | | |
|-----|------------------|--|
| (1) | Joseph Rinaldo | one-year term commencing June 30, 2018 |
| (2) | Laurie Tugman | one-year term commencing June 30, 2018 |
| (3) | Daryl Wilson | one-year term commencing June 30, 2018 |
| (4) | Christa Wessel | two-year term commencing June 30, 2018 |
| (5) | Lesley Gallinger | two-year term commencing June 30, 2018 |

- (iii) That, inasmuch as the Shareholder of the Corporation has previously directed that the Mayor or the Mayor's designate is to be a Director of the Corporation and the Mayor is presently serving as a Director of the Alectra Utilities Corporation, the Mayor's Designate, Councillor Maria Pearson, having heretofore consented to serve as a Director of the Corporation, is confirmed as elected to continue as a Director of the Corporation except and provided that the term shall end upon the earlier of the end of the term of the Mayor as Mayor of the City or the end of the term as Councillor for the City; and,
- (iv) That these Directors comprise the Hamilton Utilities Corporation Board of Directors, effective June 30, 2018;

(c) Appointment of Directors to Alectra Inc.

WHEREAS, under the Unanimous Shareholder Agreement pertaining to Alectra Inc. ("Alectra"), Hamilton Utilities Corporation is entitled and required to nominate two Directors to the Alectra Board of Directors, of which one director must be independent.

THEREFORE, BE IT RESOLVED:

- (i) That, inasmuch the Council of the City of Hamilton has previously directed that the Mayor is to be a Director of Alectra Inc. and the Mayor is presently serving as the Non-Independent Director of Alectra Inc., the Mayor, Fred Eisenberger, is confirmed as elected to continue as a Director of Alectra Inc. throughout his term as Mayor; and,
- (ii) That Paul Benson, having heretofore consented to serve as a Director of Alectra Inc., shall be the nominee of Hamilton Utilities Corporation to serve as the Independent Director of Alectra Inc., for one-year term commencing June 30, 2018 and thereafter until the next annual general meeting of the Corporation;

(d) Appointment of the Auditor

That KPMG LLP, Chartered Accountants, the present Auditor of the Corporation, is appointed the Auditor of Hamilton Utilities Corporation for the 2018 fiscal year of the Corporation.

CARRIED

3. Shareholder Declarations – Hamilton Utilities Corporation (Item 5.2)**(Collins/Pearson)**

WHEREAS, the City of Hamilton (the “Shareholder”), as the sole shareholder of Hamilton Utilities Corporation (“HUC”), approved the amalgamation of Horizon, PowerStream, Enersource and Hydro One Brampton to create Alectra Inc. on October 30, 2015;

WHEREAS, in light of the Alectra Inc. amalgamation, HUC was restructured, among other reasons, to create improved corporate governance and to avoid negative tax implications;

WHEREAS, upon restructuring, the assets of Alectra Inc. remained with HUC, but all other assets were transferred to the newly formed Hamilton Enterprises Holding Corporation (“HEHCo”) or its subsidiaries;

WHEREAS, as prudent practice, new unanimous Shareholder declarations were required for both HUC and HEHCo, as a result of the HUC restructuring;

WHEREAS, the Board of Directors of HUC and staff for the Shareholder have been involved in the drafting of the new unanimous Shareholder declarations for HUC and HEHCo; and,

WHEREAS, the Board of Directors of HUC passed a resolution on May 24, 2018, in the form set out in Appendix “A” attached hereto, that recommends the adoption of the new unanimous Shareholder declarations by the Shareholder;

THEREFORE, BE IT RESOLVED:

- (a) That the City of Hamilton, acting in its capacity as sole shareholder of Hamilton Utilities Corporation, adopt the Unanimous Shareholder Declaration for Hamilton Utilities Corporation in the form attached hereto in Appendix “B”, **as amended**; and,
- (b) That the Mayor and Clerk of the City of Hamilton, acting in its capacity as Sole Shareholder of Hamilton Utilities Corporation, be authorized and directed to execute the Unanimous Shareholder Declaration for Hamilton Utilities Corporation in the form attached hereto in Appendix “B”, **as amended**.

MAIN MOTION, AS AMENDED, CARRIED

4. Dividend Policy – Hamilton Utilities Corporation (Item 5.3)**(Conley/Green)**

WHEREAS, the Board of Directors of the Hamilton Utilities Corporation (Corporation) passed a resolution on May 24, 2018, in the form set out in Appendix “A” attached hereto, that approved a Dividend Policy for the Corporation, as set out in Appendix “B” attached hereto;

THEREFORE, BE IT RESOLVED:

That the City of Hamilton, acting in its capacity as Sole Shareholder of the Hamilton Utilities Corporation (Corporation), hereby approves Dividend Policy for the Corporation, as set out in Appendix “B” attached hereto.

CARRIED

5. Amendment to the Alectra Inc. Unanimous Shareholder Agreement (Item 5.4)**(Farr/Merulla)**

WHEREAS, the Corporation and the City of Hamilton (the “Shareholder”), among others, are parties to the Unanimous Shareholders Agreement (the “USA”) for Alectra Inc. (“Alectra”) dated the 31st of January 2017;

WHEREAS, the Corporation has received notice on April 13, 2018 that the Board of Directors of Alectra has approved and is recommending to its shareholders minor amendments to the Alectra USA;

WHEREAS, pursuant to the letter dated April 30, 2018, the Corporation provided notice to the Shareholder, advising of the Corporation’s intention to make a recommendation to the Shareholder;

WHEREAS, the Audit and Risk Management Committee (the “ARM”) met on May 7, 2018 to review the amendments to the Alectra USA and has recommended approval to the Board of Directors of the Corporation (the “HUC Board”) and the Shareholder;

WHEREAS, the HUC Board has deliberated upon, and discussed, the ARM recommendation and the submission made by Alectra on April 13, 2018;

WHEREAS, on May 24, 2018, the HUC Board has recommended the amendments to the Alectra USA as prescribed in the resolution attached hereto as Appendix “A”; and,

WHEREAS the Shareholder is relying upon the recommendation of the HUC Board;

THEREFORE, BE IT RESOLVED:

- (a) That the Shareholder approve the amendments to the Alectra Inc. Unanimous Shareholder Agreement as prescribed in the resolution attached hereto as Appendix "A";
- (b) That the Mayor and Clerk of the Shareholder be authorized and directed to execute the amendments to the Alectra Inc. Unanimous Shareholder Agreement as prescribed in the resolution attached hereto as Appendix "A";
- (c) That the General Manager, Finance and Corporate Services, be authorized and directed to execute any ancillary documents in a form approved by the City Solicitor with content approved by the General Manager, Finance and Corporate Services; and,
- (c) That the Shareholder waive any approval rights it may have to allow the Hamilton Utilities Corporation Board to approve the amendments to the Alectra Inc. Unanimous Shareholder Agreement, as prescribed in the resolution attached hereto as Appendix "A".

CARRIED

FOR THE INFORMATION OF THE SHAREHOLDER:

(a) CHANGES TO THE AGENDA (Item 1)

The Committee Clerk advised of the following changes to the agenda:

1. SHAREHOLDERS RESOLUTIONS (Item 5)

Hamilton Enterprises Holding Corporation has been removed from the following items and will be dealt with at their Inaugural Annual General Meeting following this meeting:

- 5.1 Consolidated Audited Financial Statements of the Hamilton Utilities Corporation and Alectra Inc. for the year ended December 31, 2017; Appointment of the Hamilton Utilities Corporation Board of Directors; Appointment of Alectra Inc. Board of Directors and Appointment of KPMG LLP as the Auditor of the Hamilton Utilities Corporation and Alectra Inc.
- 5.2 Shareholder ***Direction and Unanimous Shareholder Declaration*** – Hamilton Utilities Corporation
- 5.5 Local Representation on the Hamilton Utilities Corporation and Alectra Inc. Boards (Added Item)

2. PRIVATE & CONFIDENTIAL (Item 7)

7.1 Closed Session Minutes – January 17, 2018

(Pearson/Merulla)

That the agenda for the June 6, 2018 Hamilton Utilities Corporation Shareholder Annual General Meeting be approved, as amended.

CARRIED**(b) DECLARATIONS OF INTEREST (Item 2)**

There were no declarations of interest.

(c) APPROVAL OF MINUTES OF PREVIOUS MEETING (Item 3)**(i) December 6, 2017 (Item 3.1)****(Pearson/Collins)**

That the Minutes of the November 22, 2017 Hamilton Utilities Corporation Shareholder meeting be approved, as presented.

CARRIED**(ii) January 17, 2018 (Item 3.2)****(VanderBeek/Jackson)**

That the Minutes of the January 17, 2018 Hamilton Utilities Corporation Shareholder meeting be approved, as presented.

CARRIED**(d) PRESENTATIONS (Item 4)****(i) Hamilton Utilities Corporation (including and update from Alectra Inc.) (Item 4.1)**

Joe Rinaldo, Chair of the Hamilton Utilities Corporation Board of Directors; Max Cananzi, President of Alectra Inc.; John Basilio, Chief Financial Officer of Alectra Inc.; and, Troy Hare, President of HCE Telecom, addressed Committee and provided a PowerPoint presentation respecting Hamilton Utilities Corporation, Alectra Inc. and HCE Telecom.

(VanderBeek/Pearson)

That the presentation respecting Hamilton Utilities Corporation, Alectra Inc. and HCE Telecom, be received.

CARRIED

(Green/Conley)

That Item 5.5, being a Resolution, respecting Local Representation on the Hamilton Utilities Corporation and Alectra Inc. Boards, be moved up on the agenda to be considered prior to Item 5.1.

CARRIED**(e) SHAREHOLDER RESOLUTIONS (Item 5)****(i) Shareholder Declarations – Hamilton Utilities Corporation (Item 5.2)****(Conley/Farr)**

That Section 3.02 – Alectra Directors, of Appendix “B” to the Hamilton Utilities Corporation Shareholder Declarations, be amended by adding the words “***All the Corporation's appointees to the Board of Directors of Alectra shall be residents of the city of Hamilton. Subject to the foregoing,***”, to read as follows:

3.02 Alectra Directors: *All the Corporation's appointees to the Board of Directors of Alectra shall be residents of the city of Hamilton. Subject to the foregoing,* the Corporation shall cause the Nominating Committee constituted for the purposes of this HUC Declaration to use the same criteria and follow the same procedure to make a Timely report and recommendation to the Shareholder of candidates qualified for the City to select as the Corporation's appointees to the board of directors of Alectra. The Corporation shall not, without the approval of the Shareholder, place forward or nominate any appointee or nominee of the Corporation to the board of directors of Alectra. Once selected by the Shareholder, the Corporation shall notify Alectra of the appointees to the board of directors of Alectra selected by the Shareholder.

CARRIED

Councillor M. Pearson wished to be recorded as OPPOSED to the Amending Motion above.

(Conley/Farr)

That Section 6.05 – Qualifications of Directors, of Appendix “B” to the Hamilton Utilities Corporation Shareholder Declarations, be amended by adding the words “***Notwithstanding the foregoing, the majority of Directors shall be residents of the city of Hamilton.***”, to read as follows:

6.05 Qualifications of Directors: When selecting persons to recommend to the Shareholder to be directors of the Corporation, the Nominating Committee of the Board and the Board will, generally, consider all of qualifications of candidates including sound judgment and personal integrity. In evaluating and nominating potential independent nominees for the Board, the Nominating Committee shall strive to achieve a Board composed of members that, as a group, have skills, experience

and expertise in, among other things corporate and/or public management including strategic planning, governance, finance, project development and operations, regulated energy services, environmental matters, municipally-owned corporations and government relations. Preference may be given to qualified candidates who are residents of the City of Hamilton, however non-residents of the City of Hamilton shall not be excluded from serving as directors of the Corporation. ***Notwithstanding the foregoing, the majority of Directors shall be residents of the city of Hamilton.*** Candidates for being a director of the Corporation must consent to the disclosure of his or her director's remuneration to Council for the City of Hamilton and placed on the public record each fiscal year in a form and with sufficient details as prescribed by the Shareholder from time to time.

CARRIED

Councillor M. Pearson wished to be recorded as OPPOSED to the Amending Motion above.

(iv) Local Representation on the Hamilton Utilities Corporation and Alectra Inc. Boards (Item 5.5)

(Farr/Conley)

That sub-sections (a) and (b) to the Motion, respecting Local Representation on the Hamilton Utilities Corporation and Alectra Inc. Boards, be amended by adding the words "***effective in 2019 with the appointment of the new Hamilton Utilities Corporation Board at the next Annual General Meeting, with the exception of the two members currently holding a two-year term,***" and the words "***effective in 2019 with the appointment of the new Alectra Inc. Board at the next Annual General Meeting,***" respectively, be added to read as follows:

- (a) That, ***effective in 2019 with the appointment of the new Hamilton Utilities Corporation Board at the next Annual General Meeting, with the exception of the two members currently holding a two-year term,*** the majority of Directors of the Hamilton Utilities Corporation Board be residents of the city of Hamilton; and,
- (b) That, ***effective in 2019 with the appointment of the new Alectra Inc. Board at the next Annual General Meeting,*** both of the Hamilton representatives for the Alectra Inc. Board of Directors be residents of the city of Hamilton.

AMENDMENT CARRIED

Councillor M. Pearson wished to be recorded as OPPOSED to the Amending Motion above.

The Main Motion, as amended, CARRIED on the following Standing Recorded Vote:

Yeas:	T. Jackson, C. Collins, S. Merulla, M. Green, J. Farr, A. Johnson, D. Conley
Total:	7
Nays:	M. Pearson, A. VanderBeek, B. Johnson
Total:	3
Absent:	F. Eisenberger, T. Whitehead, D. Skelly, L. Ferguson, R. Pasuta, J. Partridge
Total:	6

(f) PRIVATE & CONFIDENTIAL (Item 7)

(i) Closed Session Minutes – January 17, 2018

(Pearson/Conley)

- (a) That the Closed Session Minutes of the January 17, 2018 Hamilton Utilities Corporation Shareholder meeting be approved, as presented; and,
- (b) That the Closed Session Minutes of the January 17, 2018 Hamilton Utilities Corporation Shareholder meeting remain confidential.

CARRIED

(g) ADJOURNMENT (Item 8)

(VanderBeek/Green)

That, there being no further business, the Hamilton Utilities Corporation Shareholders Annual General Meeting, be adjourned at 4:20 p.m.

CARRIED

Respectfully submitted,

Deputy Mayor Brenda Johnson
Chair

Stephanie Paparella
Legislative Coordinator
Office of the City Clerk

Hamilton Utilities Corporation Annual General Meeting

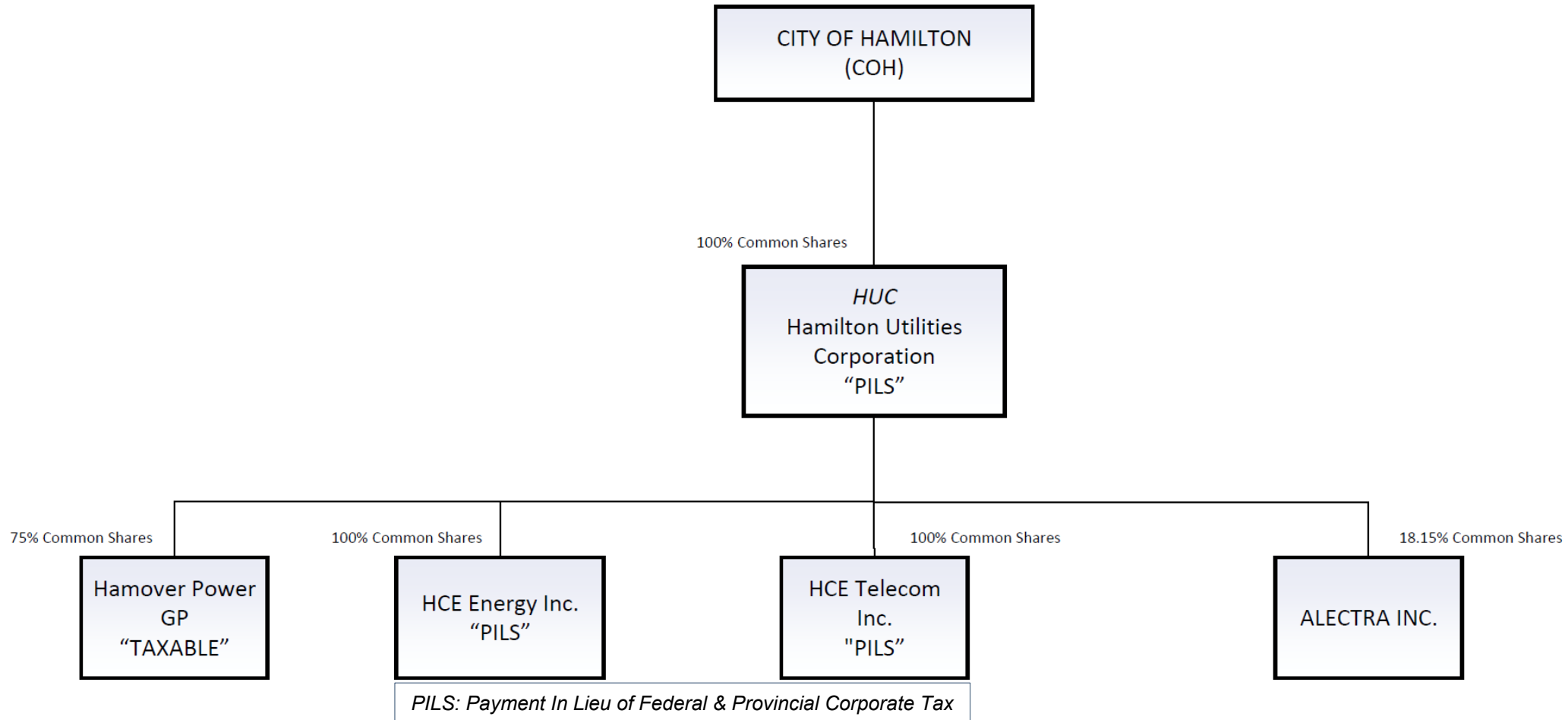
June 5, 2019



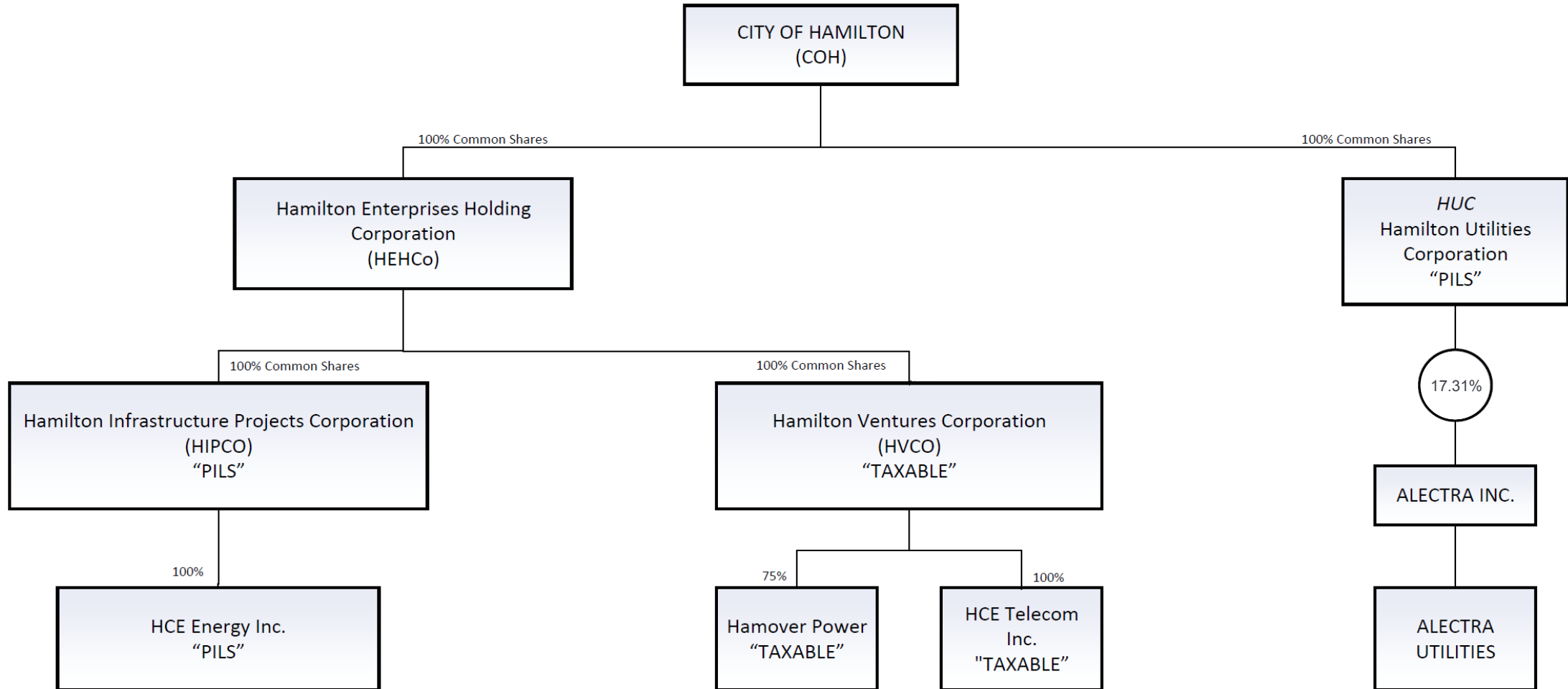
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- Update on the HUC/HEHCO restructuring
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- LDC Background, Shareholder Holdings, Board Composition
- Update on Alectra's second year of operation
- Electricity Rates in Hamilton including Hydro One customers
- Alectra merger integration & synergies
- Director Appointments (Private and confidential)

HUC Corporate Structure Until Dec 31/2018



Current HUC Corporate Structure



Change in Government Policies

- Hydro One Governance
- Cancelled Cap & Trade Program, Repealed the Green Energy Act, 2009
- IESO FIT 5 Program Cancelled
- Introduced Bill 87 – Fixing the Hydro Mess Act, 2019
 - Reduction in energy conservation programs
 - Restructured the Ontario Energy Board
 - Changes in Financial structure of the Fair Hydro Plan



2019 Hamilton Utilities Corporation Annual General Meeting Alectra Inc. Overview

June 5, 2019

LDC Background

- Hamilton Utilities Corporation was incorporated in 2000
 - Hamilton Hydro Services which assumed the Local Distribution Companies of Ancaster, Dundas, Flamborough, Hamilton and Stoney Creek
 - Rural Areas serviced by Hydro One
- Horizon Utilities Corporation was created when Hamilton Hydro and St. Catharines Hydro merged on March 1, 2005
- Alectra Inc. was created with the merger Horizon, Enersource, and Powerstream on February 1, 2017
- Merger included the acquisition Hydro One Brampton from the Province in March 2017
- Alectra and Guelph Hydro merged on January 1, 2019
- Alectra serves more than 1.3 MM customers in 17 communities:
Hamilton, Alliston, Aurora, Barrie, Beeton, Bradford, Brampton, Guelph, Markham, Mississauga, Penetanguishene, Richmond Hill, St. Catharines, Tottenham, Thorton and Vaughan

Alectra Shareholdings and Board Composition

SHAREHOLDER	2018			2019		
	SHARES	%	BOARD	SHARES	%	BOARD
Mississauga	2,790,000	27.90%	3	2,790,000	26.61%	3
OMERS	310,000	3.10%	1	310,000	2.96%	1
Vaughan	2,149,000	21.49%	3	2,149,000	20.50%	3
Hamilton	1,815,000	18.15%	2	1,815,000	17.31%	2
Markham	1,573,000	15.73%	2	1,573,000	15.00%	2
Barrie	878,000	8.78%	1	878,000	8.37%	1
St Catharines	485,000	4.85%	1	485,000	4.63%	1
Guelph	-			485,000	4.63%	1
	10,000,000	100%	13	10,485,000	100%	14

Board Composition

Independents

7

8

Dependents

6

6

13

14

Alectra Highlights

- Alectra/Guelph Merger
 - City Council approved merger January 17, 2018
 - OEB granted approval October 18, 2018
 - Transaction closed on January 1, 2019
 - Green Energy & Technology Centre in Guelph
- Alectra Utilities Corp. - Head Office located in Hamilton
 - Completed Renovations at 55 John Street
 - Will accommodate additional resources required for the LDC
 - Control Room Consolidation (Q4 2019)
- New Collective Agreement negotiated and ratified on May 10, 2019
- Synergies net of transitional costs are being achieved in accordance to the merger financial plan
- Major IT systems harmonization proceeding and are a high priority
- Shareholder & Stakeholder communication programs established through Ally newsletter and staff outreach
- Hydro One Customers - Hamilton

Alectra Financial Overview

(Modified IFRS)

(\$MMs)	2018		2019
	Bus. Plan	Results	Bus. Plan
Total Revenues	597.2	606.0	636.0
Expenditures & PILs	(485.7)	(468.5)	(517.7)
Net Income	111.5	137.5	118.3
One-Time Adjustment - VSP	8.6	(11.4)	11.4
Ajusted Net Income	120.1	126.1	129.7
Dividend at 60%	72.1	75.7	77.8
HUC's Dividend (rounded)	13.1	13.7	13.5
HUC's Shareholdings	18.15%	18.15%	17.31%

Increase in 2019 revenues due to Alectra/Guelph merger

Summary of 2018 Capital Program

- Alectra's total Capital Expenditures:
 - 2018 - \$282.4 MM
- Horizon Rate Zone - capital Expenditures for 2018:
 - Approved Capital Plan - \$48.0MM
 - Actual - \$47.5 MM
- Horizon Rate Zone - capital forecast:
 - 2019 - \$55.1MM
 - 2020 - \$55.6MM
 - 2021 - \$50.4MM
- Horizon Rate Zone Capital Plan is essentially on target to reach sustainability on or about 2025

Horizon Rate Zone includes Hamilton & St. Catharines

Synergies & Transitional Costs

Year 2 Cumulative Net Synergy vs. Original Financial Plan

(\$MMs)	Yr 2 Cumulative		Variance
	Actual	Financial Plan	
OPERATING			
Synergy	65.2	44.5	20.7
Transition cost	(25.4)	(36.5)	11.1
Net operating	39.8	8.0	31.8
CAPITAL			
Synergy	64.0	45.5	18.5
Transition cost	(67.2)	(63.6)	(3.6)
Net capital	(3.2)	(18.0)	14.9
Total net synergies	36.6	(10.0)	46.6

Alectra Net Income & Dividend Payments

\$MMs	Actual		Forecast				
	2017	2018	2019	2020	2021		
Alectra Net Income (MIFRS)							
Alectra Business Plan	84.0	137.5	118.3	133.0	124.8		
Merger Business Case	87.0	111.4	129.3	148.3	154.4		
Difference	(3.0)	26.1	(11.0)	(15.3)	(29.6)		
Alectra Dividends							
Alectra Business Plan	60%	45.2	75.7	77.8	79.8	74.9	
Merger Business Plan		52.1	66.8	77.6	89.0	92.6	
Difference		(6.9)	8.9	0.2	(9.2)	(17.7)	
HUC/City Dividends							
Alectra Business Plan	18.15%	8.2	13.7	17.31%	13.5	13.8	13.0
Merger Business Plan	18.15%	9.5	12.2		14.1	16.2	16.8
Difference		(1.3)	1.5		(0.6)	(2.4)	(3.8)
Closing Adjustment							
Final Payment		6.5					
Merger Business Plan		2.6					
Difference		3.9					

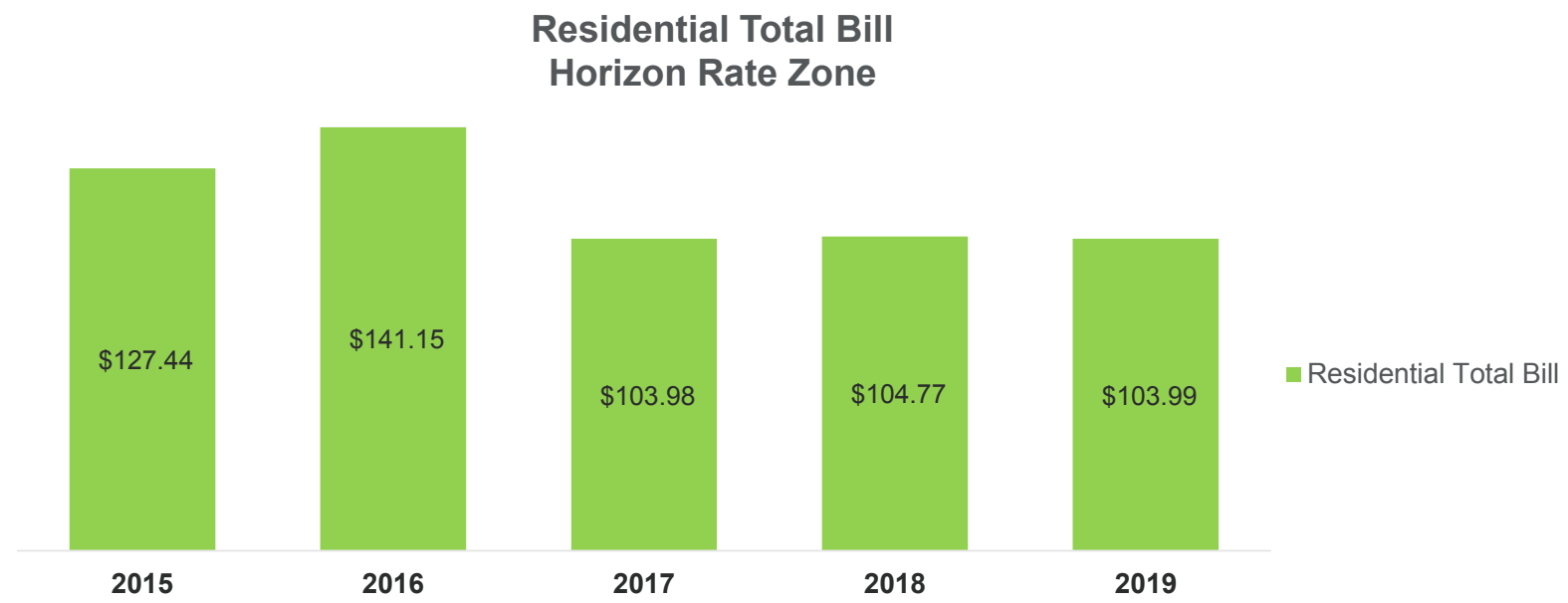
Lower forecasted revenues are principal driver of lower dividend expectations:

- Regulatory changes – lower ROE and ICM, Implementation of Monthly billing
- Resetting non-regulated revenues

Total Monthly Residential Electricity Bill in Hamilton

For the period 2015 to 2019

- Five-year trend of the average total monthly bill for residential customers in Hamilton
- based on the OEB average rate of consumption of 700kWh per month

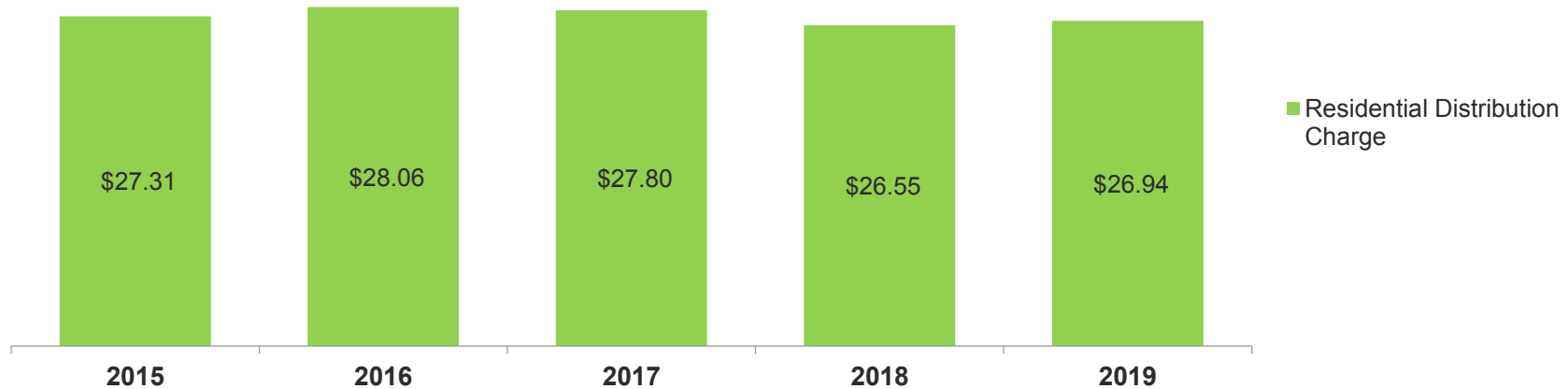


- The increase in 2016 was due to the elimination of the Ontario Clean Energy Benefit (10% rebate). This was subsequently replaced by the 8% provincial rebate on January 1, 2017.
- Annual Electricity bill ranged from a high of \$1,694 in 2016 to a low of \$1,248 in 2019

Five-year Comparison of Alectra/Horizon Monthly Distribution Rates Based on an average monthly consumption of 700 kWh

LDC distribution rates represents 26% of the total residential electricity bill in 2019

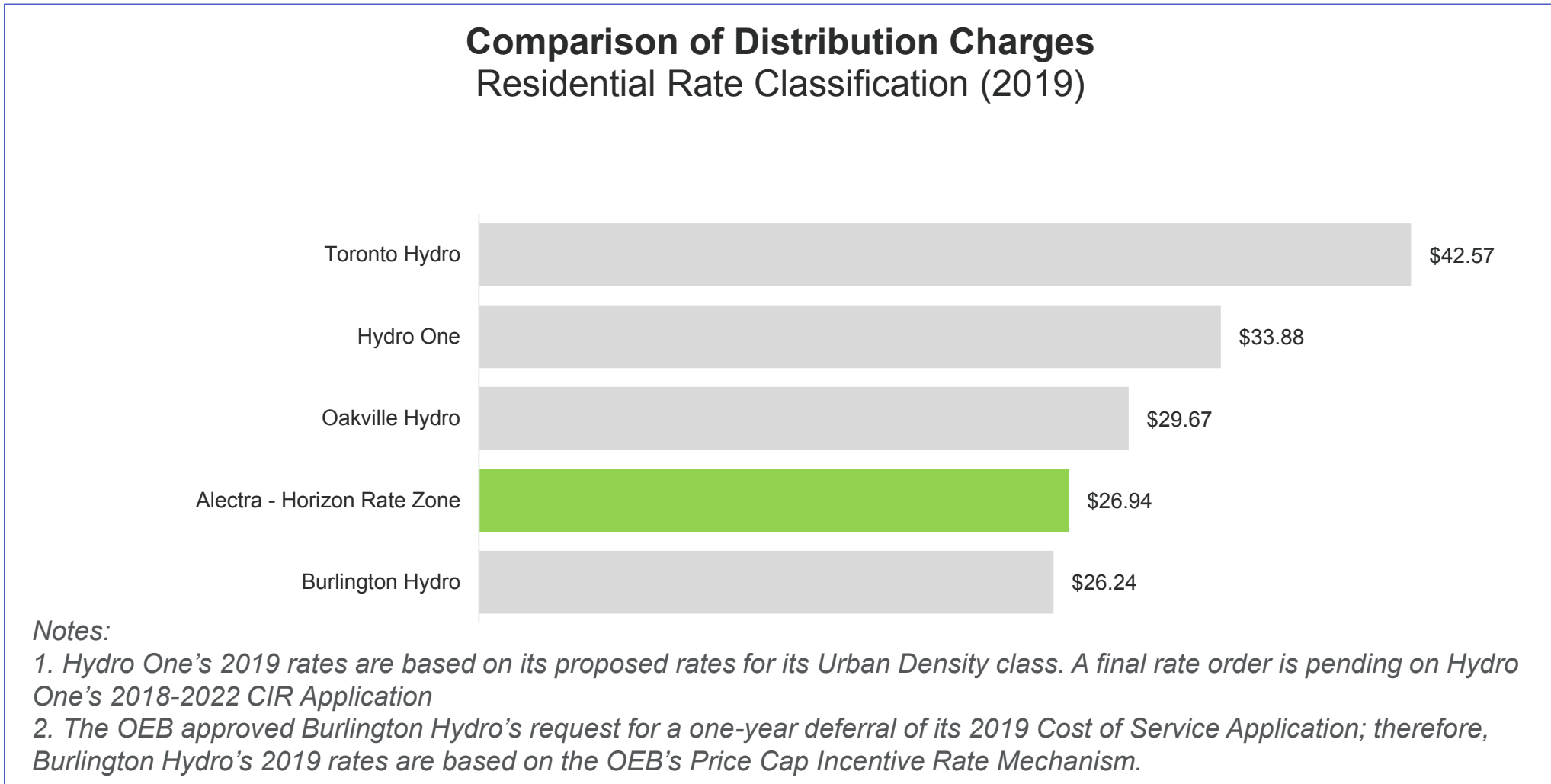
Residential Distribution Charges
Horizon Rate Zone



- Annual LDC rates ranged from a high \$337 in 2016 to a low of \$319 in 2017/18

Utility Distribution Rate Comparisons

- The chart below provide a comparison of 2019 monthly residential distribution charges by significant rate classes between Alectra Utilities and neighbouring utilities: Toronto Hydro, Hydro One, Oakville Hydro, and Burlington Hydro



Community Support

- 2019 AlectraCARES Community Support Program for Hamilton includes over \$87,000 in sponsorships and donations for the following organizations:

January 25, 2019	Mathstronauts STEM Hacks
March 7, 2019	YWCA Hamilton Women of Distinction Awards
March 8, 2019	McMaster Energy Week
March 28, 2019	Bay Area Science and Engineering Fair
April 6, 2019	Trees for Hamilton
May 23, 2019	Mohawk College President's Partnership Dinner / President's Golf Classic
May 31, 2019	YWCA Hamilton Walk a Mile in Her Shoes
June 8, 2019	JDRF Canada Sun Life Walk to Cure Diabetes
September 30, 2019	Hamilton Health Sciences Illuminight Walk
September 30, 2019	Wesley Urban Ministries Gala
October 10, 2019	Good Shepherd Centres Harvest Dinner
Ongoing	Scientists in School
Ongoing	Second Harvest Food Rescue
Ongoing	Living Rock – Rock Resources program
Ongoing	Hamilton General Regional Burn Unit

Customer Communication

Quarterly Customer Newsletter

- Q1 issue Sent out March 2019
- Next issue scheduled for June 2019

Alectra distributes important information via electronic and printed editions to all customers

Newsletter includes:

- important customer information
- conservation tips
- safety information
- community investments & more

Vol. 3 Issue 1

alectraNews

Welcome to the Alectra Utilities customer newsletter, your source for timely and helpful electricity news that matters to you. Stay informed with short articles about Alectra services, new developments, support programs, Time-of-Use prices, energy conservation and safety tips, and much more. Do you have a topic you'd like us to cover? Send us your suggestions and feedback at newsletter@alecrautilities.com.

In this issue

- Welcome to the Alectra family, Guelph and Rockwood!
- April is Dig Safe Month - Call before you dig!
- Look what's new on the Alectra Utilities website
- We're here to help
- There's a better way to manage your bills
- Let's stay connected
- We're working hard to be your energy ally

Welcome to the Alectra family, Guelph and Rockwood!

We're proud to announce that Alectra Utilities merged with Guelph Hydro on January 1, 2019. As Canada's largest municipally-owned electric utility, we now serve over one million homes and businesses in 17 communities within Ontario's Greater Golden Horseshoe area, including Guelph and Rockwood. Guelph will be home to Alectra's Southwest Ontario operations hub staffed with local powerline crews, as well as the new Green Energy & Technology Centre (GRE&T Centre) for research and development. Learn more about the merger and the GRE&T Centre at alecrautilities.com.

April is Dig Safe Month - Call before you dig!

The month of April is officially Dig Safe Month, right around the time when the ground begins to thaw. If you're planning any yard work that requires digging, have a FREE underground cable locate done by Ontario One Call. They will notify the utilities with underground facilities in your area. Any buried electrical cables, gas lines, Internet or telephone wires on your property will be clearly marked before you dig. To request a locate, call Ontario One Call 24/7 at 1-800-400-2255 or submit an e-ticket at on1call.com at least five business days prior to digging.

The Ontario Energy Board approved Alectra Utilities' 2019 distribution rates on January 24, which were implemented on February 1, 2019. Alectra (formerly Enersource) customers will see a reduction of \$0.16, or 0.15 per cent, on an average monthly residential bill (750 kWh of consumption). Visit alecrautilities.com/rates2 for more information.

Look what's new on the Alectra Utilities website

We've added a new Safety section to the Alectra Utilities website, which you can access directly from the top navigation bar. The Safety section highlights Alectra's commitment to safety, including:

- Valuable public safety information and tips for home and the workplace;
- Details on the "Call Before You Dig" service;
- Downloadable educational materials to promote electrical safety to children and teachers at the elementary school level.

For more information, visit us at alecrautilities.com/safety.

We're here to help

At Alectra Utilities, we're pleased to offer support programs and payment plans to help keep your account up to date. These programs include:

- The Ontario Electricity Support Program, which provides monthly credits directly on the bills of eligible low-income customers.
- The Low-income Energy Assistance Program, which offers one-time financial assistance to eligible low-income households.
- Ontario's AffordAbility Fund™, which provides eligible customers access to energy-saving upgrades.

To be connected with these support programs or determine a payment schedule that works for you, contact Customer Service at 905-273-7425 for assistance.

Reminder: Earth Hour is Saturday, March 30, 2019 from 8:30 p.m. to 9:30 p.m. Remember to switch off your lights for 60 minutes to show your support for reducing our environmental impact and creating a sustainable world (earthhour.org).

There's a better way to manage your bills

Are you still receiving paper bills by mail? If so, you're missing out on these benefits of e-billing:

- Instant statement notification by email
- Easy to access, track, and store
- Less environmental impact

To sign up for e-billing:

1. Go to alecrautilities.com/myaccount and select your community.
2. Log into your account, go to "My Profile" and click on the e-billing tab.
3. Say "Yes" to e-billing.

Not registered for My Account? Simply click the "Sign-up" tab on the login page and follow the steps to register for Alectra's online portal and e-billing.

Join the thousands of businesses that have received up to \$2,500 in FREE upgrades to their refrigeration systems with Business Refrigeration Incentives. The program provides a free assessment and benchmarking of your facility, and up to \$2,500 in FREE upgrades. Visit alecraconservation.com/theshavings.

Let's stay connected

Stay up to date by visiting the Alectra Blog at alecrautilities.com/blog. Our recently refreshed blog site provides timely stories about energy conservation, safety, innovation, community, environment, and more.

For more Alectra Utilities news at your fingertips, click the social media icons on our website to follow us:

- Check out our video library on **YouTube**.
- See what our crews are up to on **Instagram**.
- Follow us on **Twitter** to get outage updates.
- Like us on **Facebook** for energy conservation tips and more.
- Connect with us on **LinkedIn** for company news.

We're working hard to be your energy ally

At Alectra Utilities, we're continuously investing in electrical infrastructure improvements that support growth and provide safe, reliable and sustainable power for homes and businesses in the communities we serve. In 2019, we're planning to invest approximately \$260 million in the Alectra grid across our service territory, including the installation of over 750 new wood poles and the renewal of approximately 213 kilometres of electrical cable. We're committed to delivering value, service and reliability to you. Learn more about our investment in your community at alecrautilities.com.

Contact us at alecrautilities.com 905-273-7425

Alectra 2018 Recognition and Awards

- Canadian Society of Safety Engineering (Hamilton/Niagara Chapter) 'Outstanding Service to the Safety Professional Award' to Doug Matthew (October 2018)
- ClimateWise Sustainability Leadership Award (May 2018)
- Novinium 'Environmental Stewardship Award' (May 2018)
- EDA Communications Excellence Award (March 2018)
- Canadian Dealmakers 'Infrastructure and Utilities Deal of the Year Award' (March 2018)
- YWCA Hamilton 'Women of Distinction Award for Outstanding Workplace' (March 2018)
- YWCA Hamilton 'Women of Distinction Award in Science Technology Trades' to Kathy Lerette (March 2018)
- Edison Electric Institute 'Emergency Assistance Award' (January 2018)



HUC Resolutions

- Receipt of the HUC & Alectra 2018 Audited Financial Statements
- Appointment of KPMG as the auditor for 2019

Hamilton Utilities Corporation

QUESTIONS

5.1

HAMILTON UTILITIES CORPORATION
(“The Corporation”)
SHAREHOLDER’S RESOLUTIONS
MAY 23, 2019

BE RESOLVED THAT:

5.1(a) HUC Financial Statements - Year Ended December 31, 2018

The Audited Consolidated Financial Statements of Hamilton Utilities Corporation for the year ended December 31, 2018, as approved by the Board of Directors of the Corporation, be received by the Shareholder.

5.1(b) Alectra Financial Statements - Year Ended December 31, 2018

The Audited Consolidated Financial Statements of Alectra Inc. for the year ended December 31, 2018, as approved by the Board of Directors of Alectra Inc. and reviewed by the Corporation, be submitted to the City of Hamilton.



**Hamilton Utilities Corporation
Auditors' Report to the Shareholder
and Financial Statements
Year Ended December 31, 2018**



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KPMG LLP
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INDEPENDENT AUDITORS' REPORT

To the Directors of Hamilton Utilities Corporation

Opinion

We have audited the accompanying financial statements of Hamilton Utilities Corporation (the "Entity"), which comprise:

- the statement of financial position as at December 31, 2018
- the statement of comprehensive income for the year then ended
- the statement of changes in equity for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "**Auditors' Responsibilities for the Audit of the Financial Statements**" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled are other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Hamilton, Canada

May 23, 2019



Statement of Financial Position

As at December 31, 2018, with comparative information for 2017
(stated in thousands of Canadian dollars)

	2018	2017
Assets		
Current assets		
Cash and cash equivalents <i>[note 5]</i>	\$ 326	\$ 11,119
Temporary investments	1,000	1,000
Accounts receivable	8	734
Payments in lieu of income taxes receivable	-	323
Other current assets	56	49
Current portion of long-term receivables <i>[note 7]</i>	324	324
	1,714	13,549
Non-current assets		
Investments in Alectra Inc. <i>[note 6]</i>	356,595	347,238
Long-term receivables <i>[note 7]</i>	6,480	6,804
Notes receivable from corporations under common control <i>[notes 4, 14]</i>	51,772	45,184
Deferred payments in lieu of income taxes <i>[note 8]</i>	-	853
	414,847	400,079
Total assets	\$ 416,561	\$ 413,628
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 1,530	\$ 3,722
Payments in lieu of income taxes payable	56	-
Current portion of long-term borrowings <i>[note 7]</i>	324	324
	1,910	4,046
Non-current liabilities		
Long-term borrowings <i>[note 7]</i>	6,480	6,804
Employee future benefits <i>[note 9]</i>	91	102
Deferred payments in lieu of income taxes <i>[note 8]</i>	66,405	35,467
	72,976	42,373
Total liabilities	74,886	46,419
Shareholder's equity		
Share capital <i>[note 11]</i>	129,897	129,897
Accumulated other comprehensive income	(1,628)	(2,444)
Retained earnings	213,406	239,756
Total shareholder's equity	341,675	367,209
Total liabilities and shareholder's equity	\$ 416,561	\$ 413,628

The accompanying notes are an integral part of these financial statements. *On behalf of the Board:*

Director

Director



Statement of Income and Comprehensive Income

For the year ended December 31, 2018, with comparative information for 2017
(stated in thousands of Canadian dollars)

	2018	2017
Dividends received from subsidiaries	\$ -	\$ 5,330
Other income	386	439
Total revenue	386	5,769
Expenses:		
Operating expenses	3,150	2,531
	3,150	2,531
(Loss) income from operating activities	(2,764)	3,238
Finance income <i>[note 12]</i>	442	257,362
Finance charges <i>[note 12]</i>	(282)	(288)
Equity income in Alectra Holdings Inc. <i>[note 6]</i>	19,272	13,659
Income before payments in lieu of income taxes	16,668	273,971
Payments in lieu of income taxes (recovery) <i>[note 8]</i>	(8,849)	33,814
Net income	25,517	240,157
Other comprehensive income (loss)		
Items that may be reclassified to income:		
Share of Alectra Holdings Inc.'s other comprehensive income	363	(2,541)
Tax impact on Alectra Holdings Inc.'s other comprehensive income	(91)	337
	272	(2,204)
Items that will not be subsequently reclassified to income:		
Remeasurement of defined benefit obligation	-	84
Tax impact on remeasurement of defined benefit obligation	-	(22)
Share of Alectra Holdings Inc.'s other comprehensive income	726	(182)
Tax impact on Alectra Holdings Inc.'s other comprehensive income	(182)	25
Total other comprehensive income (loss)	816	(2,299)
Total comprehensive income	\$ 26,333	\$ 237,858

The accompanying notes are an integral part of these financial statements.



Statement of Changes in Equity

For the year ended December 31, 2018, with comparative information for 2017
(stated in thousands of Canadian dollars)

	Share capital	Retained earnings	Accumulated other comprehensive loss	2018 Total	2017 Total
Balance at January 1	\$ 129,897	\$ 239,756	\$ (2,444)	\$ 367,209	\$ 132,580
Net income	-	25,517	-	25,517	240,157
Refundable tax	-	(40,506)	-	(40,506)	-
Other comprehensive loss	-	-	816	816	(2,299)
Dividends	-	(11,361)	-	(11,361)	(13,252)
Fair market value on disposal of shares	-	-	-	-	10,023
Balance at December 31	\$ 129,897	\$ 213,406	\$ (1,628)	\$ 341,675	\$ 367,209

The accompanying notes are an integral part of these financial statements.



Statement of Cash Flows

For the year ended December 31, 2018, with comparative information for 2017
(stated in thousands of Canadian dollars)

	2018	2017
OPERATING ACTIVITIES		
Net income	\$ 25,517	\$ 240,157
Adjustments for:		
Equity income in Alectra Holdings Inc.	(19,272)	(13,659)
Deferred payments in lieu of income taxes [note 8]	(8,988)	33,701
Payments in lieu of income taxes expense [note 8]	139	113
Finance income	(442)	(257,362)
Finance charges	282	288
Finance charges paid	(282)	(288)
Finance income received	442	592
Payments in lieu of income taxes paid	-	-
Payments in lieu of income taxes received	240	1
Change employee future benefits	(11)	2
Change in other assets and liabilities [note 13]	(1,473)	2,253
Net cash from operating activities	(3,848)	5,798
INVESTING ACTIVITIES		
Repayment of long term receivables	324	324
Cancellation of long-term receivable	-	2,400
Note receivable from corporation under common control	(6,588)	(8,799)
Dividends received	11,004	11,602
Net cash from (used) in investing activities	4,740	5,527
FINANCING ACTIVITIES		
Dividends paid in the year	(11,361)	(13,252)
Repayment of long-term borrowings	(324)	(324)
Net cash used in financing activities	(11,685)	(13,576)
Decrease in cash and cash equivalents	(10,793)	(2,251)
Cash and cash equivalents, beginning of year	11,119	13,370
Cash and cash equivalents, end of year	\$ 326	\$ 11,119

The accompanying notes are an integral part of these financial statements.



Notes to Financial Statements

For the year ended December 31, 2018
(stated in thousands of Canadian dollars)

1. REPORTING ENTITY

On June 1, 2000, Hamilton Utilities Corporation (the “Corporation”) was incorporated under the Business Corporations Act (Ontario). The Corporation is an investment holding company with investments as follows:

Investments where the Corporation exercises significant influence:

Alectra Holdings Inc. (“Alectra”) – 18.15%

Alectra Inc.

Alectra Energy Solutions Inc.

Solar Sunbelt General Partnership

Horizon Solar Corporation

Alectra is an investment holding company that has wholly-owned investment interests in a regulated electricity distribution company, Alectra Inc., a non-regulated energy services company, Alectra Energy Solutions Inc., and a solar generation business, Solar Sunbelt General Partnership and Horizon Solar Corporation.



Notes to Financial Statements

For the year ended December 31, 2018
(stated in thousands of Canadian dollars)

1. REPORTING ENTITY (CONTINUED)

During the year, the Corporation underwent a corporate restructuring whereby it transferred its subsidiaries controlled by it to other entities in the corporate group. The investments transferred were HCE Energy Inc., HCE Telecom, Net6 Communications, Hamover Power General Partnership and Hamover Power Limited Partnership and 2291506 Ontario Inc. See notes 3 (h) and 4 for details.

The address of the Corporation's registered office is 79 Bay Street North, Hamilton, Ontario, Canada.

2. BASIS OF PREPARATION

(a) Statement of compliance

The Corporation's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The financial statements are prepared by the Corporation for income tax purposes and are intended solely for the use of the Corporation and for the federal and provincial income tax authorities and should not be used by parties other than the Corporation or the federal and provincial income tax authorities.

The Corporation's investment in Alectra Inc. is accounted for using the equity method.

(b) Approval of the financial statements

The financial statements were approved by the Board of Directors on May 23, 2019.



Notes to Financial Statements

For the year ended December 31, 2018
(stated in thousands of Canadian dollars)

2. BASIS OF PREPARATION (CONTINUED)

(c) Basis of measurement

The financial statements have been prepared on the historical cost basis unless otherwise stated.

(d) Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the Corporation's functional currency. All financial information presented in Canadian dollars has been rounded to the nearest thousand.

(e) Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and liabilities. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future periods affected.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in material adjustment is included in the following notes:

- (i) Note 3(d), 9 – Employee future benefits: measurements of the defined benefit obligation and key actuarial assumptions

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognized in the financial statements is included in the following notes:

- (i) Note 3(j), 16 – Contingencies: whether a contingency is a liability



Notes to Financial Statements

For the year ended December 31, 2018
(stated in thousands of Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all years presented in these financial statements.

(a) Financial instruments

All financial assets and all financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequently, they are measured at amortized cost using the effective interest method less any impairment for the financial assets as described in note 3(c).

The Corporation does not enter into derivative instruments. Hedge accounting has not been used in the preparation of these financial statements.

(b) Investment in Alectra Inc.

The Corporation has significant influence, but not control over the financial and operating policies of Alectra. Accordingly, the Corporation's investment in Alectra is accounted for using the equity method and is initially recognized at cost. The financial statements include the Corporation's share of the income and expenses and equity movements of Alectra after adjustments to align the accounting policies with those of the Corporation from the date that significant influence commences until the date that significant influence ceases.

Notes to Financial Statements

For the year ended December 31, 2018
(stated in thousands of Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Impairment

(i) Financial assets

A loss allowance for expected credit losses on financial assets measured at amortized cost is recognized at the reporting date. The loss allowance is measured at an amount equal to the lifetime expected credit losses for that asset.

(d) Employee future benefits

(i) Pension plan

The Corporation provides a pension plan for all its full-time employees through the Ontario Municipal Employees Retirement System (OMERS). OMERS is a multi-employer pension plan which operates as the Ontario Municipal Employees Retirement Fund (“the Fund”), and provides pensions for employees of Ontario municipalities, local boards, public utilities and school boards. The Fund is a contributory defined benefit pension plan, which is financed by equal contributions from participating employers and employees, and by the investment earnings of the Fund.

OMERS is a defined benefit plan. However, as OMERS does not track information for individual employers, sufficient information is not available to enable the Corporation to account for the plan as a defined benefit plan, the plan has been accounted for as a defined contribution plan. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in income or loss when they are due.

Notes to Financial Statements

For the year ended December 31, 2018
(stated in thousands of Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Employee future benefits (Continued)

(ii) Other than pension

The Corporation provides its retired employees with life insurance and medical benefits beyond those provided by government sponsored plans. These benefits are provided through a group defined benefit plan. The Corporation has reflected the defined benefit costs and related liabilities, as calculated by the actuary, in these financial statements.

The Corporation's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognised past service costs are deducted. The discount rate is the yield at the reporting date on high quality debt instruments with duration similar to the duration of the plan.

The cost of these benefits is expensed as earned by employees through employment service. The accrued benefit obligations and the current service costs are actuarially determined by applying the projected unit credit method and reflect management's best estimate of certain underlying assumptions. Remeasurements arising from defined benefit plans are recognised immediately in other comprehensive income and reported in retained earnings. When the benefits of a plan are improved the increases are recognized immediately in net income.

(e) Finance income and finance charges

Finance income is recognized in income or loss as it accrues, using the effective interest method. Finance income comprises interest earned on cash and cash equivalents and long-term receivables and gains on disposal of investments.

Finance charges are calculated using the effective interest rate method and are recognized as an expense unless they are capitalized as part of the cost of qualifying assets. Finance charges comprises interest expense on borrowings and interest and penalties on income tax payments and foreign exchange losses.

Notes to Financial Statements

For the year ended December 31, 2018
(stated in thousands of Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Payments in lieu of income taxes

The Corporation is currently exempt from taxes under the Income Tax Act (Canada) (“ITA”) and the Ontario Corporations Tax Act (“OCTA”) (collectively the “Tax Acts”).

Pursuant to the *Electricity Act, 1998 (Ontario)* (“EA”), and as a consequence of its exemption from income taxes under the Tax Acts, the Corporation is required to make payments in lieu of corporate income taxes (“PILs”) to the Ontario Electricity Financial Corporation (“OEFC”). These payments are calculated in accordance with the Tax Acts.

PILs comprises current and deferred tax. Payments in lieu of income taxes is recognized in net income except to the extent that it relates to items recognized either in comprehensive income or directly in equity, in which case, it is recognized in comprehensive income or equity.

Current PILs is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred PILS comprise the net tax effects of temporary differences between the tax basis of assets and liabilities and their respective carrying amounts for accounting purposes, as well as for tax losses available to be carried forward to future years that are likely to be realized.

Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates, at the reporting date, expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the year that includes the date of enactment or substantive enactment.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Notes to Financial Statements

For the year ended December 31, 2018
(stated in thousands of Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Revenue recognition

Other revenue

The performance obligations for the provision of services is recognized over time using an input method based on labour hours and resources consumed to measure the satisfaction of the performance obligation. The value of services transferred to the customer is determined based on the agree-upon price with the customer and represents the amount that the customer has the right to bill for services completed to date.

Dividends received from subsidiaries

Dividend income is recognized in the year declared and collection is reasonably assured.

(h) Business reorganizations between entities under common control

Business reorganizations between entities under common control are accounted for at book value on a retrospective basis with comparative information restated to present financial information as if the restructuring had occurred prior to January 1, 2017.

(i) Set-off and reporting on a net basis

Assets and liabilities and income and expenses are not offset and reported on a net basis unless required or permitted by IFRS. Offsetting is permitted for financial assets and financial liabilities when, and only when, the Corporation has a legally enforceable right to set-off and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

(j) Provisions

A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.



Notes to Financial Statements

For the year ended December 31, 2018
(stated in thousands of Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) New standards and interpretations not yet adopted

The Corporation is still evaluating the adoption of the following new standards

Leases

In January 2016, IASB issued IFRS 16, *Leases* to establish principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions. IFRS 16 replaces IAS 17 and it is effective for annual periods beginning on or after January 1, 2019. The Corporation has determined that IFRS 16 will not have a significant impact on its results of operations, financial position and disclosures.



Notes to Financial Statements

For the year ended December 31, 2018
(stated in thousands of Canadian dollars)

4. BUSINESS REORGANIZATIONS WITH CORPORATIONS UNDER COMMON CONTROL

On December 31, 2018, the Corporation underwent a corporate restructuring whereby it transferred its investment in subsidiaries and partnership to newly formed entities owned by the Corporation's parent. The transfer was made in return for notes receivable which were valued at the fair value of the underlying shares and units of the companies and partnerships transferred. As a result, the Corporation recognized notes receivable having a value of \$20,775. The difference between the book value of the investments and the value of the notes receivable was recognized directly in equity. Other intercompany balances held by the Corporation have been transferred at book value to the new entities. The comparative information has been restated to reflect the restructuring as of January 1, 2017.

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of overnight deposits in Canadian chartered banks.

6. INVESTMENTS IN ALECTRA INC.

On January 31, 2017, the Corporation disposed of its wholly-owned subsidiary, Horizon Holdings Inc. ("Horizon"). Horizon amalgamated with PowerStream Holdings Inc. ("PowerStream") and Enersource Holdings Inc. ("Enersource") to form Alectra Inc. ("Alectra"). Alectra's primary business is to distribute electricity to customers in municipalities in the greater golden horseshoe area as well as provide non-regulated energy services. In consideration for its disposition of Horizon, the Corporation received a 18.15% ownership interest in Alectra's issued and outstanding common shares. The Corporation has determined it has significant influence over Alectra's financial reporting and operating policies and has accounted for its investment in Alectra under the equity method.



Notes to Financial Statements

For the year ended December 31, 2018
(stated in thousands of Canadian dollars)

6. INVESTMENTS IN ALECTRA INC. (CONTINUED)

Alectra has also issued Class S Shares to the former PowerStream shareholders relating to Ring Fenced Solar Portfolio, a division of Alectra. In accordance with the Solar Services and Indemnity Agreement between the former PowerStream shareholders and Alectra, the solar division within Alectra is beneficially owned indirectly by the former PowerStream shareholders through Alectra's Class S shares. As such, the Corporation does not hold Class S shares of Alectra.

As a result of the Alectra formation on January 31, 2017, the Corporation derecognized its investment in Horizon. The Corporation recognized its initial 18.15% equity interest in Alectra at fair value of Alectra Inc. in the amount of \$341,354 resulting in a gain on disposition of \$256,770 after taking into account final purchase price adjustments of \$6,549.

The following tables summarizes the financial information of Alectra as included in its own financial statements, adjusted for fair value adjustments at acquisition as well as the removal of Ring Fenced Solar Portfolio's net assets and operating results. The table also reconciles the summarized financial information to the carrying amount of the Corporation's interest in Alectra:

	2018	2017
Current assets	\$ 663,000	\$ 702,000
Non-current assets	3,992,000	3,779,000
Current liabilities	(788,000)	(739,000)
Non-current liabilities	(2,178,000)	(2,094,000)
Net assets (100%)	1,689,000	1,648,000
Ring Fenced Solar Portfolio Net Assets	(20,209)	(30,974)
Fair value bump	296,145	296,145
	1,964,936	1,913,171
Carrying value of investment in Alectra at 18.15%	\$ 356,595	\$ 347,238

Investment in Alectra Inc.	2018	2017
Opening investment as at January 1	\$ 347,238	\$ -
Initial investment	-	341,354
Share of income	19,272	13,659
Share of OCI	1,089	(2,722)
Dividends received	(11,004)	(5,053)
Ending investment as at December 31	\$ 356,595	\$ 347,238

The following provides condensed supplementary financial information for the operations of Alectra Inc. for the year ended December 31, 2017.



Notes to Financial Statements

For the year ended December 31, 2018
(stated in thousands of Canadian dollars)

6. INVESTMENTS IN ALECTRA INC. (CONTINUED)

	2018	2017
Revenue	\$ 3,452,000	\$ 3,125,000
Depreciation and amortization	(140,000)	(124,000)
Other expenses	(3,101,000)	(2,844,000)
Finance income	1,000	2,000
Finance expense	(64,000)	(55,000)
Income tax expense	(39,000)	(30,000)
Net income	109,000	74,000
Ring Fenced Solar Portfolio net income (loss)	2,816	(1,257)
Net income attributable to common shareholders	106,184	75,257
Share of income at 18.15%	\$ 19,272	\$ 13,659
Other comprehensive income (loss)	6,000	(15,000)
Ring Fenced Solar Portfolio other comprehensive income	-	1
Other comprehensive income attributable to common shareholders	6,000	(14,999)
Share of other comprehensive income (loss) at 18.15%	\$ 1,089	\$ (2,722)

7. LONG-TERM RECEIVABLES AND BORROWINGS

Long-term receivables relate to a loan between the Corporation and HCE Energy ("HCE"), a corporation under common control relating to HCE's acquisition of the City of Hamilton's Central Utilities Plant (CUP).

The long-term borrowings are a loan between the City of Hamilton (the "City") and the Corporation relating to HCE's acquisition of the City's Central Utilities Plant (CUP).

The receivable and borrowings bear interest at 4.06% per annum and are repayable \$324 annually principal plus interest and are due January 1, 2019 with four 5 year renewal terms. At December 31, 2018, the Corporation has not received any notice that the City will elect not to renew the loan agreement and as such, the loan remains in long-term borrowings.

The borrowings are secured by way of a cross-company guarantee for the assets of the CUP held by HCE with a net book value of \$10,154 (2017 - \$10,509).

Interest expense for the long-term borrowings was \$268 (2017 - \$288). Interest revenue received was \$268 (2017 - \$288).



Notes to Financial Statements

For the year ended December 31, 2018
(stated in thousands of Canadian dollars)

7. LONG-TERM RECEIVABLES AND BORROWINGS (CONTINUED)

Principal payments on the long-term borrowings and receivables are due as follows:

	Receivables	Borrowings
2019	\$ 324	\$ 324
2020	324	324
2021	324	324
2022	324	324
2023	324	324
Thereafter	5,184	5,184
	\$ 6,804	6,804



Notes to Financial Statements

For the year ended December 31, 2018
(stated in thousands of Canadian dollars)

8. PAYMENTS IN LIEU OF INCOME TAXES

Deferred and current payments in lieu of income taxes

	2018	2017
Current payments in lieu of income taxes:		
Current year	\$ 139	\$ 113
Deferred payments in lieu of income taxes:		
Origination and reversal of temporary differences	(8,988)	33,701
Payments in lieu of income taxes	\$ (8,849)	\$ 33,814

Reconciliation of effective tax rate

The PILs varies from amounts which would be computed by applying the Corporation's combined statutory income tax rate as follows:

	2018	2017
Basic rate applied to net income before payments in lieu of income taxes	26.50%	26.50%
Increase (decrease) in payments in lieu of income taxes resulting from:		
Non-taxable dividend received	(24.07)	26.50
Items not deductible for tax purposes and other	(55.53)	(12.50)
Effective rate applied to income before payment in lieu of income taxes	(53.10)%	12.35%

Deferred tax balances

Significant components of the Corporation's deferred tax balances are as follows:

	2018	2017
Deferred payments in lieu of income taxes:		
Capital assets	\$ 74	\$ -
Non-capital losses	-	826
Employee future benefits	24	27
Investment in Alectra Inc.	(66,503)	(36,320)
Deferred payments in lieu of income taxes	\$ (66,405)	\$ (35,467)



Notes to Financial Statements

For the year ended December 31, 2018
(stated in thousands of Canadian dollars)

9. EMPLOYEE FUTURE BENEFITS

The Corporation provides certain unfunded health, dental and life insurance benefits on behalf of its retired employees. These benefits are provided through a defined benefit plan. The Corporation has reflected the defined benefit costs and related liabilities, as calculated by the actuary, in these financial statements. The defined benefit liability and the expense for the year ended December 31, 2017 was based on results and assumptions determined by an actuarial valuation as at December 31, 2017.

Information about the Corporation's unfunded defined benefit plan as a whole and changes in the present value of the defined benefit unfunded obligation and the defined benefit liability are as follows:

	2018	2017
Defined benefit obligation, beginning of year	\$ 102	\$ 184
Current service cost	1	5
Interest cost	4	7
Benefits paid during the year	(16)	(10)
Actuarial (gain) loss recognized in other comprehensive income	-	(84)
Defined benefit obligation, end of year	\$ 91	\$ 102

The main actuarial assumptions underlying the valuation are as follows:

a) General inflation

The health care cost trend for prescription drugs is estimated to increase at a declining rate from 6.2% to 4.5% over 8 years from the date of valuation. Other medical and dental expenses are assumed to increase at 4.5% per year.

The approximate effect on the accrued benefit obligation ("ABO") and the estimated net benefit expense if the health care trend rate assumption was increased or decreased by 1% is as follows:

	Period Benefit Cost	ABO
1% increase in health care trend rate	1	8
1% decrease in health care trend rate	(1)	(7)



Notes to Financial Statements

For the year ended December 31, 2018
(stated in thousands of Canadian dollars)

9. EMPLOYEE FUTURE BENEFITS (CONTINUED)

b) Interest (discount) rate

The obligation at the period end and the present value of future liabilities were determined using a discount rate of 4.0% (2017 – 3.4%) representing an estimate of the yield on high quality corporate bonds as at the valuation date.

c) Salary levels

Future general salary and wage levels were assumed to increase at 3.3% (2017 – 3.3%) per year.

10. PENSION

The Corporation provides a pension plan for its employees through OMERS. The plan is a multi-employer, contributory defined benefit pension plan with equal contributions by the employer and its employees. In 2018 the Corporation made employer contributions of \$176 to OMERS (2017 - \$144).

The Corporation expects to make a contribution of \$176 to OMERS during the next fiscal year.

11. SHARE CAPITAL

	2018	2017
Unlimited number of common shares (1,000 issued and outstanding)	\$ 129,897	\$ 129,897

Any invitation to the public to subscribe for shares of the Corporation is prohibited.

Dividends

The holders of the common shares are entitled to receive dividends as declared from time to time.

The Corporation paid a dividend of \$11.361 per share (2017 - \$13.252) on the common shares during the year, amounting to a total dividend of \$11,361 (2017 - \$13,252).



Notes to Financial Statements

For the year ended December 31, 2018
(stated in thousands of Canadian dollars)

12. FINANCE INCOME AND CHARGES

	2018	2017
Interest income on bank deposits	\$ 115	\$ 381
Interest income – Intercompany	327	211
Gain on disposal of investment	-	256,770
Finance income	442	257,362
Interest expense – Intercompany	(268)	(288)
Loss on foreign currency exchange	(14)	-
Finance charges	(282)	(288)
Net finance income recognized in income	\$ 160	\$ 257,074

13. CASH FLOW INFORMATION

Net change in other assets and liabilities:

	2018	2017
Accounts receivable	\$ 726	\$ (626)
Other current assets	(7)	(18)
Accounts payable and accrued liabilities	(2,192)	2,897
	\$ (1,473)	\$ 2,253

14. RELATED PARTY TRANSACTIONS

(a) Parent and ultimate controlling party

The parent company and ultimate controlling party is the City of Hamilton. The City of Hamilton produces financial statements that are available for public use.

The Corporation earns its revenue primarily from its investment in Alectra.



Notes to Financial Statements

For the year ended December 31, 2018
(stated in thousands of Canadian dollars)

14. RELATED PARTY TRANSACTIONS (Continued)

(b) Transactions with ultimate parent (the City)

The Corporation entered into a borrowing agreement with its ultimate parent, a government entity as described in note 7.

(c) Transactions with corporations under common control

Outstanding balances with related parties are as follows:

	2018	2017
Hamilton Enterprises Holding Corporation	\$ 13,512	\$ 7,942
Hamilton Ventures Corporation	17,484	14,207
New Energy Co. HCE Energy – 2017	-	2,260
Notes receivable in exchange for shares (note 4)		
Hamilton Enterprises Holding Corporation	19,987	19,987
New Energy Co. HCE Energy - 2017	788	788
Hamilton Ventures Corporation	-	-
	\$ 51,771	\$ 45,184

The Corporation has entered into a loan agreement with a subsidiary as described in note 7. The Corporation paid management and administrative and billing fees to a subsidiary in the amount of \$71 (2017 - \$75).

The Corporation incurs certain overhead costs for the benefit of the whole group and allocates these costs to its subsidiaries. The Corporation received \$nil (2017 - \$364) in management fees from subsidiaries. Allocated expenses in 2018 total \$nil (2017 - \$770).

The Corporation provides routine advances to corporations under common control for various projects and cash flow requirements. Amounts owing to and from corporations under common control are non-interest bearing with no fixed terms of repayment.

(d) Key management personnel

The key management personnel of the Corporation has been defined as members of its board of directors and executive management team members. Total key management compensation for the Corporation in 2018 consisted of salaries and other short-term benefits as well as bonuses and amounted to \$1,186 (2017 - \$1,128).

Notes to Financial Statements

For the year ended December 31, 2018
(stated in thousands of Canadian dollars)

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair value disclosure

The carrying values of cash and cash equivalents, temporary investments, accounts receivable and accounts payable and accrued liabilities approximate fair value because of the short maturity of these instruments.

The fair value of the long-term borrowings and long-term receivables is \$7,124.

Financial risks

The Corporation understands the risks inherent in its business and defines them broadly as anything that could impact its ability to achieve its strategic objectives. The Corporation's exposure to a variety of risks such as credit risk, interest rate risk and liquidity risk as well as related mitigation strategies are discussed below. However, the risks described below are not exhaustive of all the risks nor will the mitigation strategies eliminate the Corporation's exposure to all risks listed.

(i) Credit risk

Financial assets carry credit risk that a counterparty will fail to discharge an obligation which could result in a financial loss. Financial assets held by the Corporation, such as accounts receivable and notes receivable, expose it to credit risk. The majority of accounts receivable was collected subsequent to year end. The notes receivable are receivable from corporations under common control.

The carrying amount of accounts receivable is reduced through an allowance for estimated credit losses and the amount of the related impairment loss is recognized in profit or loss. Subsequent recoveries of receivables previously provisioned are credited to profit or loss. The balance of the allowance for impairment at December 31, 2018 is \$nil (2017 - \$3).

(ii) Market risk

Market risks primarily refer to the risk of loss resulting from changes in commodity prices, foreign exchange rates, and interest rates. The Corporation currently does not have any material commodity, foreign exchange or interest rate risk.

Notes to Financial Statements

For the year ended December 31, 2018
(stated in thousands of Canadian dollars)

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(iii) Liquidity risk

The Corporation monitors its liquidity risk to ensure access to sufficient funds to meet operational and investing requirements. The Corporation's objective is to ensure that sufficient liquidity is on hand to meet obligations as they fall due while minimizing interest exposure.

The majority of accounts payable, as reported on the balance sheet, are due within 30 days.

(iv) Capital disclosures

The main objectives of the Corporation, when managing capital, are to ensure on-going access to dividends from its investment in Alectra to deliver appropriate financial returns. The Corporation's definition of capital includes shareholder's equity and long-term borrowings. As at December 31, 2018, shareholder's equity amounts to \$375,165 (2017 - \$369,769) and long-term borrowings amounts to \$6,804 (2017 - \$7,128).

16. CONTINGENCIES

From time to time, the Corporation is involved in various litigation matters arising in the ordinary course of its business. The Corporation has no reason to believe that the disposition of any such current matter could reasonably be expected to have a materially adverse impact on the Corporation's financial position, results of operations or its ability to carry on any of its business activities.

17. ADOPTION OF NEW ACCOUNTING STANDARDS

During the year, the Corporation adopted IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* from January 1, 2018 on a retrospective basis. There is no transitional adjustments as a result of adoption of these new standards.



Notes to Financial Statements

For the year ended December 31, 2018
(stated in thousands of Canadian dollars)

18. SUBSEQUENT EVENT

On January 1, 2019, Alectra Inc. amalgamated with Guelph Hydro Electric Systems Inc. ("GHESI"). Alectra Inc. issued 485,000 Class G Common Shares to Guelph Municipal Holdings Inc. ("GMHI") in consideration for all the issued and outstanding shares of GHESI. The common shares issuance by Alectra Inc. represents an effective 4.6% interest in its aggregate issued and outstanding classes of common shares. The new shareholder ownership structure has resulted in a decrease to the Corporation's investment from 18.15% to 17.3%, effective January 1, 2019.



Consolidated Financial Statements
(In millions of Canadian dollars)

ALECTRA INC.

Year ended December 31, 2018



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 Canada
 Tel 416-777-8500
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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Alectra Inc.

Opinion

We have audited the consolidated financial statements of Alectra Inc. (the Entity), which comprise:

- the consolidated statement of financial position as at December 31, 2018
- the consolidated statement of income and comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies (Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "**Auditors' Responsibilities for the Audit of the Financial Statements**" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. Other information comprises:

- the information, other than the financial statements and the auditors' report thereon, included in Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.



Alectra Inc.
March 1, 2019

We obtained the information, other than the financial statements and the auditors' report thereon, included in Management's Discussion and Analysis as at the date of this auditors' report.

If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.



Alectra Inc.
March 1, 2019

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represents the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style. Below the signature is a long, horizontal, slightly wavy line that underlines the text.

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Canada
March 1, 2019

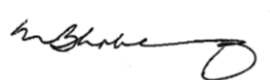
ALECTRA INC.

Consolidated Statement of Financial Position
(In millions of Canadian dollars)
As at December 31, 2018

	Notes	2018	2017
Assets			
Current assets			
Cash		16	122
Restricted cash	9	3	–
Accounts receivable and unbilled revenue	21	596	523
Inventory		21	21
Prepaid expenses		14	12
Due from related parties	14	13	8
Assets held for sale	10,11	–	16
Total current assets		663	702
Non-current assets			
Property, plant, and equipment	11	3,052	2,892
Goodwill and intangible assets	12	936	879
Promissory note receivable	28	1	1
Advance payments		–	3
Deferred tax asset	26	3	4
Total non-current assets		3,992	3,779
Total assets		4,655	4,481
Liabilities and Shareholders' Equity			
Current liabilities			
Accounts payable and accrued liabilities	13	368	414
Due to related parties	14	37	34
Customer deposits liability		95	92
Short-term debt	15	250	176
Other liabilities	16	38	23
Total current liabilities		788	739
Non-current liabilities			
Deferred revenue	25	361	300
Loans and borrowings	17	1,694	1,693
Employee future benefits	18	61	65
Finance lease obligation	20	15	16
Deferred tax liabilities	26	45	15
Other long-term liabilities	16	2	5
Total non-current liabilities		2,178	2,094
Total liabilities		2,966	2,833
Shareholders' equity			
Share capital	19	961	970
Contributed surplus	3	544	544
Accumulated other comprehensive loss		(8)	(14)
Retained earnings		192	148
Total shareholders' equity		1,689	1,648
Total liabilities and shareholders' equity		4,655	4,481

See accompanying notes to consolidated financial statements.

On behalf of the Board:



Chair of Board



Director

ALECTRA INC.

Consolidated Statement of Income and Comprehensive Income

(In millions of Canadian dollars)

Year ended December 31, 2018 and eleven months ended December 31, 2017

	Notes	2018	2017
Revenue			
Distribution revenue		505	458
Electricity sales		2,850	2,591
Other revenue	24	97	76
Total revenue		3,452	3,125
Expenses			
Cost of power		2,833	2,567
Operating expenses	23	261	271
Depreciation and amortization	11, 12	140	124
Loss on derecognition of property, plant, and equipment		7	6
Total expenses		3,241	2,968
Income from operating activities		211	157
Finance income		1	2
Finance costs		64	55
Net finance costs		63	53
Income before income taxes		148	104
Income tax expense	26	39	30
Net income		109	74
Other comprehensive income (loss)			
<i>Items that may be subsequently reclassified to income:</i>			
Realized gains (loss) in fair value of bond forward	17	–	(19)
Reclassification to net income, loss of bond forward	17	2	1
Tax impact on net change in value of loss on bond forward		–	4
<i>Items that will not be subsequently reclassified to income:</i>			
Remeasurement of defined benefit obligation	18	6	(2)
Tax impact on remeasurement of defined benefit obligation		(2)	1
Total other comprehensive income (loss)		6	(15)
Total comprehensive income		115	59

See accompanying notes to consolidated financial statements.

ALECTRA INC.

Consolidated Statement of Changes in Equity

(In millions of Canadian dollars)

Year ended December 31, 2018 and eleven months ended December 31, 2017

	Notes	Share capital	Contributed surplus	Accumulated other comprehensive income (loss)	Retained earnings	Total equity
Balance, January 31, 2017		479	–	1	110	590
Net income		–	–	–	74	74
Other comprehensive loss		–	–	(15)	–	(15)
Issuance of shares related to amalgamation	3	485	544	–	–	1,029
Special share redemption	19	6	–	–	–	6
Dividends paid	19	–	–	–	(36)	(36)
Balance, December 31, 2017		970	544	(14)	148	1,648
Net income		–	–	–	109	109
Other comprehensive income		–	–	6	–	6
Return of capital	19	(9)	–	–	4	(5)
Dividends paid	19	–	–	–	(69)	(69)
Balance, December 31, 2018		961	544	(8)	192	1,689

See accompanying notes to consolidated financial statements.

ALECTRA INC.

Consolidated Statement of Cash Flows

(In millions of Canadian dollars)

Year ended December 31, 2018 and eleven months ended December 31, 2017

	Notes	2018	2017
Cash provided by (used in)			
Operating activities			
Net income		109	74
Add (deduct) non-cash items:			
Depreciation of property, plant, and equipment	11	121	108
Amortization of intangible assets	12	19	16
Amortization of deferred revenue	25	(9)	(6)
Gain on disposal of Collus PowerStream		(6)	–
Loss on derecognition of plant, property and equipment		7	6
Employee future benefits		5	2
Income tax expense	26	39	30
Net finance costs		63	53
Contributions received from customers	25	70	62
Net change in non-cash operating working capital	27	(112)	193
Restricted cash		(3)	–
Operating cash flows before interest and taxes		303	538
Income taxes paid		(7)	(7)
Income taxes recovered		6	15
Cash provided by operating activities		302	546
Investing activities			
Acquisition of Brampton Hydro	8	–	(615)
Contributions from shareholders	3	–	50
Special share issuance	19	–	6
Special share redemption	19	–	(10)
Proceeds on sale of Collus PowerStream	10	14	–
Purchase of intangible assets		(57)	(5)
Proceeds from disposal of property, plant, and equipment		3	–
Purchase of property, plant, and equipment		(302)	(291)
Cash used in investing activities		(342)	(865)
Financing activities			
Repayment of loans and borrowings		(176)	(289)
Repayment of finance lease obligation		(1)	(1)
Other long-term liabilities		(1)	–
Proceeds of issuance of debt, net of debt issuance costs		250	675
Return of capital		(5)	–
Interest paid		(64)	(63)
Dividends paid	19	(69)	(36)
Cash (used in) provided by financing activities		(66)	286
Decrease in cash		(106)	(33)
Cash, beginning of year		122	155
Cash, end of year		16	122

See accompanying notes to consolidated financial statements.

ALECTRA INC.

Notes to Consolidated Financial Statements

(In millions of Canadian dollars)

For the year ended December 31, 2018 and eleven months ended December 31, 2017

1. Description of the business

On January 31, 2017, Alectra Inc. (the "Corporation") was incorporated under the *Business Corporations Act (Ontario)* by amalgamation (the "Amalgamation Transaction") (Note 3) of the former entities: PowerStream Holdings Inc. ("PowerStream"); Enersource Holdings Inc. ("Enersource"); and Horizon Holdings Inc. ("Horizon") (collectively, the "Amalgamating Entities"). Alectra Inc. is owned as follows:

- 8.78% by Barrie Hydro Holdings Inc., which is wholly-owned by the Corporation of the City of Barrie (the "City of Barrie");
- 31.00% by Enersource Corporation, which is owned 90% by the Corporations of the City of Mississauga (the "City of Mississauga") and 10% by BPC Energy Corporation, which is a wholly owned subsidiary of the Ontario Municipal Employees Retirement System ("OMERS");
- 18.15% by Hamilton Utilities Corporation, a wholly-owned subsidiary of the Corporation of the City of Hamilton (the "City of Hamilton");
- 15.73% by Markham Enterprises Corporation, a wholly-owned subsidiary of the Corporation of the City of Markham (the "City of Markham");
- 4.85% by St. Catharines Hydro Inc., a wholly-owned subsidiary of the Corporation of the City of St. Catharines (the "City of St. Catharines"); and
- 21.49% by the Vaughan Holdings Inc., a wholly-owned subsidiary of the Corporation of the City of Vaughan (the "City of Vaughan").

The Corporation's registered head office is 2185 Derry Road, Mississauga, Ontario, Canada.

The former PowerStream was deemed the acquirer under the Amalgamation Transaction for accounting purposes. Consequently, the comparative year consolidated opening balances are from the former PowerStream as at January 31, 2017.

The accompanying consolidated financial statements of the Corporation include the accounts of Alectra Inc. and its subsidiaries. The principal subsidiaries of the Corporation are: Alectra Utilities Corporation ("Alectra Utilities"), a regulated electricity distribution company under license issued by the Ontario Energy Board ("OEB") which also includes a commercial rooftop solar generation business ("Ring Fenced Solar"); and Alectra Energy Solutions Inc. ("AES"), a non-regulated energy services company. The Corporation also indirectly owns a 100% ownership interest in Solar Sunbelt General Partnership ("Solar Sunbelt GP"), which is held through Alectra Utilities (99.9975% interest) and Horizon Solar Corporation (0.0025% interest).

ALECTRA INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018 and eleven months ended December 31, 2017

(In millions of Canadian dollars)

1. Description of the business (continued)

On February 28, 2017, Alectra Utilities acquired 100% of the shares of Hydro One Brampton Networks Inc. ("Brampton Hydro") for proceeds of \$615 (Note 8).

AES was incorporated on January 31, 2017 by articles of amalgamation involving subsidiaries of the Amalgamating Entities. AES has two subsidiaries: Alectra Energy Services Inc. ("AESI") and Alectra Power Services Inc. ("APSI"). AESI has one subsidiary: Util-Assist Inc. ("UA").

AES is an Ontario-based company that provides customers with energy solutions through the use of innovative technologies. The principal activities of AES and its wholly-owned subsidiaries include:

- AESI - wholesale metering and sub-metering services for condominium properties and commercial properties;
- APSI - street lighting services including design, construction, and maintenance; and
- UA - consulting services with respect to: advanced metering infrastructure integration; customer information systems implementation; sync operation services; conservation initiatives; an outage management call centre under the name PowerAssist; and other smart grid applications.

2. Basis of preparation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). These consolidated financial statements were approved by the Board of Directors on March 1, 2019.

The prior year comparative information presented in these consolidated financial statements comprises only eleven months due to the Amalgamation Transaction (Note 3). As a result, the comparative amounts presented in certain consolidated financial statements, such as the Statement of Income and Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows, and related notes, are not entirely comparable with respect to the duration of fiscal year.

Certain prior year figures have been reclassified to conform to the presentation of the current year.

ALECTRA INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018 and eleven months ended December 31, 2017

(In millions of Canadian dollars)

2. Basis of preparation (continued)*(b) Functional and presentation currency*

These consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Corporation, and have been prepared on a historical cost basis, except for the valuation of employee future benefits.

(c) Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the amounts reported and disclosed in these consolidated financial statements.

Estimates and underlying assumptions are continually reviewed and are based on factors that are considered to be relevant such as historical experience and forecast trends. Actual results may differ from these estimates. Revisions of estimates are recognized prospectively.

Judgments included in these consolidated financial statements are decisions made by management, based on analysis of relevant information available at the time of each decision. Judgments relate to the application of accounting policies and decisions related to the measurement, recognition and disclosure of financial amounts.

The areas which require management to make significant estimates and assumptions in determining carrying values include, but are not limited to: unbilled revenue; useful lives of depreciable assets; valuation of financial instruments; employee future benefits; expected credit losses; provisions and contingencies; goodwill; and cash generating units.

Refer to the relevant section within the significant accounting policies note for details on estimates and judgments (Note 6).

ALECTRA INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018 and eleven months ended December 31, 2017

(In millions of Canadian dollars)

3. Business combination

On January 31, 2017, PowerStream amalgamated with Enersource and Horizon to form the Corporation. Under the Amalgamation Transaction, shares of the former PowerStream, Enersource and Horizon were exchanged for the voting common shares of the Corporation. The Amalgamation Transaction has been recognized as a business combination in accordance with IFRS 3, *Business Combinations* using the acquisition method with the former PowerStream deemed as the acquirer based on its relative size compared to that of the former Enersource and Horizon. These consolidated financial statements include: the net fair value of the assets of former Enersource and Horizon as at January 31, 2017; and the net assets of PowerStream at its carrying amounts at January 31, 2017. As at December 31, 2017, Enersource and Horizon contributed revenue including electricity sales of \$900 and \$612 since the amalgamation date. The amalgamation is expected to result in more efficient and enhanced service delivery through lower operating costs, while providing significant benefits for communities and shareholders.

The aggregate purchase price was \$1,015 for 10,000,000 common shares, resulting in goodwill of \$436, which is not deductible for income tax purposes. Certain post-closing adjustments provided under the agreements to the Amalgamation Transaction were made through redemption of special shares (Note 19). As a result of the Amalgamation Transaction the contributed surplus increased by \$436 as a result of goodwill and \$108 as a result of amalgamation adjustments.

The following table summarizes the estimated fair value of assets acquired and liabilities assumed at the date of amalgamation:

	Enersource	Horizon	Total
Accounts receivable and unbilled revenue	175	118	293
Income taxes receivable	2	9	11
Inventories	5	10	15
Other assets	29	9	38
Amounts due from related parties	50	–	50
Property, plant, and equipment	646	466	1,112
Intangible assets	54	20	74
Deferred tax asset	7	6	13
Bank overdraft	(46)	(30)	(76)
Accounts payable and accrued liabilities	(118)	(80)	(198)
Customer deposits	(24)	(23)	(47)
Deferred revenue	(25)	(39)	(64)
Other liabilities	(18)	(19)	(37)
Loans and borrowings	(378)	(190)	(568)
Employee future benefits	(7)	(30)	(37)
Fair value of identifiable net assets acquired	352	227	579
Goodwill			436
Total purchase price			1,015

ALECTRA INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018 and eleven months ended December 31, 2017

(In millions of Canadian dollars)

3. Business combination (continued)

The valuation technique used for the purchase of Enersource and Horizon was the discounted cash flow ("DCF") approach. Under the DCF approach, the expected future cash flows are discounted to their present value equivalent using appropriate market-based risk-adjusted rates of return.

4. Regulation

The Corporation, through Alectra Utilities, is regulated by the Ontario Energy Board ("OEB"). In its capacity to approve or set rates, the OEB has the authority to specify regulatory accounting treatments that differ from IFRS. The regulatory accounting treatments of the OEB require the recognition of regulatory assets and liabilities which do not meet the definition of an asset or liability under IFRS and, as a result, these regulatory assets and liabilities have not been recorded in these IFRS consolidated financial statements (Note 30).

The *Ontario Energy Board Act, 1998 (Ontario)* conferred on the OEB powers and responsibilities to regulate the electricity industry in Ontario. These powers and responsibilities include: approving or fixing rates for the transmission and distribution of electricity; providing continued rate protection for rural and remote residential electricity consumers; and ensuring that distribution companies fulfill obligations to connect and service customers. The OEB may also prescribe license requirements and conditions of service to local distribution companies ("LDCs"), such as Alectra Utilities, which may include, among other things: record keeping; regulatory accounting principles; separation of accounts for distinct business; and filing and process requirements for rate setting purposes.

Rate Setting

The electricity distribution rates and other regulated charges of the Corporation are determined in a manner that provides shareholders of the Corporation with opportunity to earn a regulated Maximum Allowable Return on Equity ("MARE") on the amount of shareholders' equity supporting the business of electricity distribution, which is also determined by regulation.

The rate-making policies of the OEB are designed to support the cost-effective planning and operation of the electricity distribution network and to provide an appropriate alignment between a sustainable, financially viable electricity sector and the expectations of customers for reliable service at a reasonable price.

The OEB regulates the electricity distribution rates charged by LDCs, such as Alectra Utilities, through periodic rate applications to the OEB and its ongoing monitoring and reporting requirements. At present, LDCs may apply to the OEB for electricity distribution rates under options specified in its Report of the Board - *A Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach* ("RRFE"). The three rate-setting methods available to LDCs under the RRFE are: Price Cap Incentive Rate-setting ("Price Cap IR"); Custom Incentive Rate-setting ("Custom IR"); or Annual Incentive Rate-setting Index ("Annual IR").

ALECTRA INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018 and eleven months ended December 31, 2017

(In millions of Canadian dollars)

4. Regulation (continued)

Price Cap IR

The Price Cap IR method establishes rates on a single forward test-year cost of service basis, indexed for four subsequent years through a formulaic adjustment.

The Incremental Capital Module ("ICM") is available to distributors under the Price Cap IR method. It is intended to address capital investment needs that arise during the rate-setting plan that are incremental to an OEB prescribed materiality threshold. The requested amount for an ICM claim must be: incremental to a distributor's capital requirements within the context of its financial capacities underpinned by existing rates; and satisfy the eligibility criteria of materiality, need, and prudence. The OEB requires that a distributor requesting relief for incremental capital during the Price Cap IR plan term include comprehensive evidence to support the need. This includes the calculation of a rate rider to recover the incremental revenue from each applicable customer class. The incremental revenue is recognized in the year when the actual ICM related expenditures are expected to be in-service. This approach is consistent with the timing of the actual capital investment benefit to customers, which aligns with the expected timing of the OEB approval of ICM rate adjustments.

Custom IR

The Custom IR method establishes rates based on a forecast of an LDC's revenue requirement and sales volumes. This rate-setting method is customized to fit the specific applicant's circumstances. The annual rate adjustment over the Custom IR term is determined by the OEB on a case-by-case basis.

Annual IR

The Annual IR method sets a distributor's rates through an annual adjustment mechanism.

Rate Applications

MAADs Application

In April 2016, Enersource, Horizon, and PowerStream filed a Mergers, Acquisitions, Amalgamations and Divestitures ("MAADs") application (the "MAADs Application") with the OEB pursuant to the *Handbook to Electricity Distributor and Transmitter Consolidation* (the "MAADs Handbook") seeking approval for the Amalgamation Transaction and for the Corporation to purchase and subsequently amalgamate with Brampton Hydro. The MAADs Application included a request for OEB approval for the continuation of regulated rates and charges of the predecessor LDC's of the Corporation.

ALECTRA INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018 and eleven months ended December 31, 2017

(In millions of Canadian dollars)

4. Regulation (continued)

On December 8, 2016, the OEB issued its Decision and Order in respect of the MAADs Application. The OEB granted the requested approvals and also approved a rebasing deferral period of 10 years, under which, the Corporation will operate individual "rate zones" (based on the continuing rates and underlying regulated cost structures of the predecessor LDCs).

As provided within the OEB *Report of the Board Rate-Making Associated with Distributor Consolidation*, the rate zones of Alectra Utilities will continue on current respective rate plan terms until such respective terms expire. Upon expiry of such, all rate zones will migrate to the Price Cap IR method. At its option, Alectra Utilities is permitted to apply for: (a) inflationary increases to rates, adjusted for an efficiency factor; and (b) ICM rate adjustments that provide financing and recovery of incremental discrete capital projects.

2018 Rates Application

On July 7, 2017, Alectra Utilities filed an application for all four predecessor utilities (rate zones) for the approval of 2018 electricity distribution rates, effective January 1, 2018 to December 31, 2018. On April 5, 2018, the OEB issued its Decision and Order on this application, approving distribution rates effective January 1, 2018, with an implementation date of May 1, 2018. Both the effective and implementation date of the ICM rate riders was May 1, 2018. The following rate changes were effective as of the implementation dates:

- Horizon Rate Zone – Third annual update to the Custom Incentive rate plan. Based on the Decision and Order of the OEB, the resulting change to the distribution portion of the bill for a typical residential customer consuming 750 kWh per month is a decrease of approximately \$1.41 or 4.99%;
- Brampton Hydro Rate Zone – Price Cap adjustment and ICM rate rider under the OEB's Price Cap IR. Based on the Decision and Order of the OEB, the resulting change to the distribution portion of the bill for a typical residential customer consuming 750 kWh per month is an increase of approximately \$0.33 or 1.37%;
- PowerStream Rate Zone – Price Cap adjustment and ICM rate rider under the OEB's Price Cap IR. Based on the Decision and Order of the OEB, the resulting change to the distribution portion of the bill for a typical residential customer consuming 750 kWh per month is an increase of approximately \$0.22 or 0.78%; and
- Enersource Rate Zone – Price Cap adjustment and ICM rate rider under the OEB's Price Cap IR. Based on the Decision and Order of the OEB, the resulting change to the distribution portion of the bill for a typical residential customer consuming 750 kWh per month is an increase of approximately \$0.13 or 0.52%.

ALECTRA INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018 and eleven months ended December 31, 2017

(In millions of Canadian dollars)

4. Regulation (continued)

Select Energy Policies and Regulation Affecting the Corporation

Ontario's Fair Hydro Plan ("OFHP")

The *Ontario Fair Hydro Plan Act, 2017* came into effect on June 1, 2017. The OFHP established a framework for initiatives to reduce certain residential and some small business electricity bills in Ontario by an average of 25%, and limit future increases to the rate of inflation for four years.

The planned rate reductions were comprised of two phases. The first phase was implemented on May 1, 2017 representing a reduction in Regulated Price Plan ("RPP") rates and the removal of the Ontario Energy Support Payment ("OESP") charge of \$0.0011/kWh. The second phase was implemented on July 1, 2017 representing a further reduction in RPP prices and a reduction of the Rural and Remote Rate Protection ("RRRP") charge from \$0.0021/kWh to \$0.0003/kWh.

The OFHP also included the Global Adjustment ("GA") Modifier credit, effective July 1, 2017, that provides a reduction of GA charges for eligible RPP customers that have a contract with a retailer or have opted out of the RPP. The GA Modifier credit was designed to provide a benefit that was equivalent to the reduction in the RPP prices. During the year, the OFHP reduces the total electricity bill for eligible customers and, accordingly, reduces current accounts receivable and unbilled revenue and accounts payable and accrued liabilities for LDC. No effect on distribution revenue or expense is recognized by LDC in respect of the OFHP.

Monthly Billing Requirement for Electricity Distributors in Ontario

On April 15, 2015, the OEB announced that, by the end of 2016, all electricity distributors in Ontario would be required to bill their customers on a monthly basis. This policy change incorporates an expectation that distributors will issue bills based on actual meter reads rather than estimates at least 98% of the time. The amendments regarding estimated billing and billing accuracy came into force on April 15, 2015. The amendment regarding monthly billing came into force on December 31, 2016. The OEB allowed an exemption for the implementation of monthly billing for the Horizon Rate Zone to June 30, 2017, and for the Enersource Rate Zone to December 31, 2018 in its Decision and Order for the MAADs application. Alectra Utilities has implemented monthly billing in all rate zones as of the date of these consolidated financial statements.

ALECTRA INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018 and eleven months ended December 31, 2017

(In millions of Canadian dollars)

4. Regulation (continued)

Customer Service Rules

On November 2, 2017, the OEB issued its Decision and Order amending the licenses of all Ontario electricity distributors to prohibit the disconnection of residential customers for reason of non-payment from November 15 of one year to April 30 of the next calendar year (the "Disconnection Ban Period"). The conditions also require distributors to remove load control devices installed on residential premises, and a ban regarding the installation of new load control devices during the Disconnection Ban Period. During the year, this policy change increased credit losses and reduced disconnection/reconnection revenues.

On September 6, 2018, the OEB issued a Report entitled, *Review of Customer Service Rules for Utilities Phase One*, which proposes to amend various aspects of the rules related to customer service as well as to remove certain charges the utility currently collects from customers. These proposals have not been finalized as at the date of these consolidated financial statements. Any financial impact resulting from any enacted proposals is expected to be prospective in nature.

Regulatory assets and liabilities

On January 30, 2014, the IASB issued interim standard IFRS 14, *Regulatory Deferral Accounts*. This standard allows first-time adopters of IFRS to apply previous Generally Accepted Accounting Principles to account for rate-regulated assets and liabilities. As PowerStream Inc., the deemed acquirer under the Amalgamation Transaction, adopted IFRS prior to the issuance of the interim standard, it does not apply regulatory accounting treatment to certain balances and transactions arising from rate-regulated activities. Under rate-regulated accounting, the timing and recognition of certain expenses and revenue may differ from those otherwise expected under IFRS in order to appropriately reflect the economic impact of regulatory decisions regarding the Corporation's regulated revenue and expenditures.

New 2015-2020 Conservation and Demand Management ("CDM") Framework

As a condition of its distribution license, Alectra Utilities is required to meet specified CDM targets for reductions in electricity consumption and peak electricity demand through the delivery of programs funded by the Independent Electricity System Operator ("IESO").

On March 26, 2014, the Minister of Energy (Ontario) issued a directive to the OEB to amend the licenses of electricity distributors with new requirements to deliver CDM programs available to customers that are designed to: achieve energy reductions; meet regulated CDM requirements through either IESO programs, LDC programs, or a combination of the two; and make the results of local programs available to other distributors on request. The coordination and integration of CDM and Demand Side Management ("DSM") activities is intended to achieve energy efficiencies and deliver convenient integrated programs for electricity and natural gas customers. The OEB issued the amendments to LDC licenses on December 18, 2014.

ALECTRA INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018 and eleven months ended December 31, 2017

(In millions of Canadian dollars)

4. Regulation (continued)

On March 31, 2014, the Minister of Energy (Ontario) issued a directive to the IESO through the Conservation First Framework ("CFF") to coordinate, support and finance the delivery of CDM programs through LDCs to achieve a total of 7 Terawatt Hours of province-wide reductions in electricity consumption between January 1, 2015 and December 31, 2020. There are two funding models available under the CFF: Full Cost Recovery Program ("FCR") and Pay for Performance Program ("P4P").

FCR

Each of the predecessor utilities entered into an Energy Conservation Agreement ("ECA") with the IESO to deliver energy savings based on their respective IESO-determined target. The ECA became binding upon approval of each respective predecessor utility's CDM Plan. On June 28, 2017, Alectra Utilities submitted a joint CDM plan to the IESO to amalgamate the legacy LDC CDM plans together with Collus PowerStream and Erie Thames Powerlines. The plan was approved on October 1, 2017 bringing the aggregate allocated target to 1,649,040 MWh energy savings over the years 2015-2020. The Collus PowerStream CDM plan will continue even though the investment in Collus PowerStream is sold (Note 10). Prefunding amounts are received at the beginning of the CDM plan and included in accounts payable. Monthly settlements are made with the IESO for reimbursements of expenses incurred. These amounts are included as an offset to the prefunding amount in accounts payable. In the November Settlement with the IESO, Alectra Utilities received a mid-term incentive in the amount of \$14 in relation to achieving the mid-term incentive targets specified by the IESO. This incentive was recognized in other revenue. At December 31, 2018, the accounts payable and the offset to accounts payable were \$15 (2017 - \$15) and \$7 (2017 - \$4), respectively.

P4P

As part of its joint CDM plan, Alectra Utilities will deliver a "Retrofit" program (a program that upgrades energy inefficient equipment in commercial businesses) via the P4P funding model. Under the P4P, the IESO will pay Alectra Utilities a fixed rate per kWh of verified energy savings. Under the P4P, and unlike FCR, Alectra Utilities bears the risk of covering all of its costs and the eligible funding is capped at a negotiated Internal Rate of Return. Alectra Utilities recognizes an account receivable from the IESO which is equal to the revenue calculated per the internal rate of return model. There is an amount payable of which represents the difference between the funds received from the IESO and account receivable in relation to the verified and paid savings determined. At December 31, 2018, the accounts receivable and amount payable were \$19 (2017 - \$15) and \$1 (2017 - \$3), respectively.

ALECTRA INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018 and eleven months ended December 31, 2017

(In millions of Canadian dollars)

5. Changes in accounting policies*(a) IFRS 15 Revenue from Contracts with Customers ("IFRS 15")*

The Corporation adopted IFRS 15 with a date of initial application on January 1, 2018. IFRS 15 replaces pre-existing revenue recognition guidance, including IAS 18 *Revenue* and IFRIC 18 *Transfers of Assets from Customers*. The scope of IFRS 15 excludes lease contracts and financial instruments.

IFRS 15 provides a five-step model that applies to contracts with customers and specifies that revenue is recognized at a point in time or over time, depending on when the entity has satisfied its performance obligation(s) to its customers. Where the Corporation has a right to consideration from a customer in an amount that corresponds directly with the value to the customer of the performance to date, the Corporation has elected to adopt the B16 practical expedient under IFRS 15. This practical expedient permits the recognition of revenue in an amount to which the Corporation has a "right to invoice". The right to invoice represents the fair value of the consideration received or receivable.

The Corporation is also required to determine the transaction price of each of its contracts with its customers. In making such determination, the Corporation assesses the impact of any variable consideration in the contract, due to factors such as, but not limited to: discounts or penalties; the existence of any significant financing component; and any non-cash consideration in the contract. The Corporation has determined that there are no variable considerations that will have a significant impact on the transaction price of the services provided.

Prior to the implementation of IFRS 15, contributions from customers and developers were initially recorded as deferred revenue when received and recognized as revenue on a straight line basis over the useful life of the asset. The Corporation has assessed the impact of contributions from customers under IFRS 15 and has determined that there is no change to the existing accounting treatment. However, contributions from developers are not within the scope of IFRS 15, as they do not give rise to a contract with the customer. As such, the Corporation has developed an accounting policy for the recognition of cash contributions from developers as currently, there is no specific guidance on accounting for these contributions. Refer to Note 6(c) for a description of such accounting policy.

The Corporation adopted IFRS 15 using the modified retrospective approach. The adoption of IFRS 15 resulted in no quantitative impact to the Consolidated Statement of Financial Position and Consolidated Statement of Income and Comprehensive Income. Refer to Note 6(c) for details on the Corporation's accounting policies for revenue recognition.

ALECTRA INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018 and eleven months ended December 31, 2017

(In millions of Canadian dollars)

5. Changes in accounting policies (continued)*(b) IFRS 9 Financial instruments ("IFRS 9")*

The Corporation adopted IFRS 9 with a date of initial application on January 1, 2018. IFRS 9 replaced IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39"). The Corporation adopted IFRS 9 retrospectively. Despite the retrospective adoption of IFRS 9, the Corporation is not required, upon initial application, to restate comparative figures.

IFRS 9 covers three broad topics: Classification and Measurement; Impairment; and Hedging. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 *Financial Instruments: Disclosures*.

(i) Classification and measurement

At initial recognition, the financial assets of the Corporation are measured at fair value including transaction costs except for accounts receivable which are initially recognized at the transaction price. Financial assets are subsequently measured at either amortized cost; fair value through Other Comprehensive Income ("OCI"); or fair value through profit or loss based on the cash flow characteristics of the assets and the business models under which they are managed.

The Corporation's assets are held for collection of contractual cash flows that represent payments of principal and interest and, accordingly, are subsequently measured at amortized cost. A gain or loss is recognized in the Consolidated Statement of Income and Comprehensive Income when the asset is derecognized or impaired.

ALECTRA INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018 and eleven months ended December 31, 2017

(In millions of Canadian dollars)

5. Changes in accounting policies (continued)

The impact of IFRS 9 on the classification and measurement of the Corporation's financial instruments is set out below.

Financial instrument	IAS 39 Measurement Basis	IFRS 9 Measurement Basis
Cash (including restricted cash)	Loans and receivables	Amortized cost
Accounts receivable and unbilled revenue	Loans and receivables	Amortized cost
Due from related parties	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Financial liability – amortized cost	Financial liability – amortized cost
Customer deposits liability	Financial liability – amortized cost	Financial liability – amortized cost
Due to related parties	Financial liability – amortized cost	Financial liability – amortized cost
Other liabilities	Financial liability – amortized cost	Financial liability – amortized cost
Short term debt	Financial liability – amortized cost	Financial liability – amortized cost
Loans and borrowings	Financial liability – amortized cost	Financial liability – amortized cost
Other long term liabilities	Financial liability – amortized cost	Financial liability – amortized cost

(ii) Impairment

The standard introduces a new single model for the measurement of impairment losses on all financial assets. The IFRS 9 expected credit loss ("ECL") model replaces the current "incurred loss" model of IAS 39. The incurred loss model under IAS 39 recognizes impairment when there is objective evidence of deterioration in the credit quality of the asset. Under IFRS 9, ECL will be recognized in the profit or loss before a loss event has occurred, which could result in earlier recognition of credit losses compared to IAS 39.

Impairment of the Corporation's financial assets is assessed on a forward-looking basis. The Corporation applies the simplified approach to its accounts receivable which requires expected lifetime losses to be recognized from initial recognition of the receivables and on an ongoing basis.

ALECTRA INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018 and eleven months ended December 31, 2017

(In millions of Canadian dollars)

5. Changes in accounting policies (continued)

The Corporation assesses all information available in the measurement of the ECLs associated with its assets carried at amortized cost.

The measurement of ECLs for accounts receivable is based on management's judgment. This is determined using a provision matrix based on historical observed default rates and incorporated macroeconomic factors such as GDP growth forecast, inflation rates, unemployment rates, and customer-specific assessments. As the Corporation is not required to restate comparatives, ECLs are not included in unbilled revenue for prior year comparative amounts. The adoption of IFRS 9 did not have an impact on the financial statements.

(iii) Hedging

IFRS 9 includes an accounting policy choice to defer the adoption of IFRS 9 hedge accounting and to continue with IAS 39 hedge accounting. The Corporation has elected to adopt the hedge accounting requirements of IFRS 9 for its financial instruments.

In addition to the existing documentation requirements under IAS 39 (refer to Note 6(d)), the Corporation will be required under IFRS 9, to incorporate a hedge ratio which is consistent with the Corporation's risk management strategy and document the determination of the hedge ratio and the expected sources of ineffectiveness that may affect the hedging relationship. Certain retrospective effectiveness testing will no longer be required.

Under IFRS 9, the Corporation is not permitted to voluntarily de-designate and discontinue a hedging relationship that meets the Corporation's risk management objective and continues to meet all other qualifying criteria.

All hedging relationships will be applied prospectively except in limited circumstances.

ALECTRA INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018 and eleven months ended December 31, 2017

(In millions of Canadian dollars)

6. Significant accounting policies

The significant accounting policies used in the preparation of these consolidated financial statements have been applied consistently to all periods presented herein, except for the new standards IFRS 15 and IFRS 9, which were adopted effective January 1, 2018. There was no impact to the Consolidated Statement of Financial Position or to the Consolidated Statement of Income and Comprehensive Income resulting from the adoption of the new standards (Note 5).

(a) Basis of consolidation

These consolidated financial statements include the accounts of the Corporation and its subsidiaries from the date that control commences until the date that control ceases. The Corporation controls a subsidiary if it is exposed, or has rights, to variable returns from its investment in the subsidiary and has the ability to affect those returns through its power over the subsidiary. All intercompany accounts and transactions have been eliminated on consolidation.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. The Corporation owned 50% of Collingwood PowerStream Utility Services Corp. ("Collus PowerStream") until it was sold on October 1, 2018 (Note 10). In 2017, this investment was accounted for using the equity method and was recognized initially at cost.

(b) Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair value of: assets conveyed; liabilities incurred or assumed; and the equity instruments issued by the Corporation in exchange for control of the acquired business. Where the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, it is measured at fair value at the acquisition date. The Corporation records all identifiable intangible assets including identifiable assets that had not been recognized by the acquiree before the business combination. Any excess of the cost of acquisition over the Corporation's share of the net fair value of the identifiable assets acquired and liabilities assumed is recorded as goodwill.

During the measurement period (which is within one year from the acquisition date), the Corporation may, on a retrospective basis, adjust the amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date. No such adjustments were made during the year.

The Corporation accounts for acquisition-related costs as expenses in the periods in which the costs are incurred and the services are received.

ALECTRA INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018 and eleven months ended December 31, 2017

(In millions of Canadian dollars)

6. Significant accounting policies (continued)*(c) Revenue from contracts with customers**(i) Distribution revenue and electricity sales*

The Corporation has identified that its material performance obligation is the distribution and provision of electricity to customers. Alectra Utilities is licensed by the OEB to distribute electricity. Distribution revenue is recognized based on OEB-approved distribution rates, set at a level intended to recover the costs incurred by Alectra Utilities in delivering electricity to customers and a regulated return on invested capital, and includes revenue collected through OEB-approved rate riders. As a licensed distributor, Alectra Utilities is responsible for billing customers for electricity generated by third parties and the related costs of providing electricity service, such as transmission services and other services provided by third parties. Alectra Utilities is required, pursuant to regulation, to remit such amounts to these third parties, irrespective of whether Alectra Utilities ultimately collects these amounts from customers. The Corporation satisfies its performance obligation to the customer over time, which is to use reasonable diligence in providing a regular and uninterrupted supply of electricity over the contract term.

(ii) Other revenue

Other revenue includes revenue from renewable generation and government grants under CDM programs, contributions from customers, sub-metering, consulting and other general revenue. The methods of recognition for other revenue are as follows:

- Revenue from renewable generation sources are recognized in the period in which electricity is generated and delivered, based on regular meter readings, and is measured at the fair value of the consideration received or receivable, net of sales tax.
- IESO funding from CDM programs is recognized on a net basis when there is reasonable assurance that the funding will be received and the related conditions are met. "Net Basis" is used when the funding relates to an expense item, and, as such, the operating expenses are netted against other income. Alectra Utilities records its CDM revenues and expenses in accordance with IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*.

ALECTRA INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018 and eleven months ended December 31, 2017

(In millions of Canadian dollars)

6. Significant accounting policies (continued)

- Capital contributions received from electricity customers and developers to construct or acquire property, plant, and equipment for the purpose of connecting a customer to a network are recorded as deferred revenue. The deferred revenue is initially recorded at fair value of the capital contribution, and is recognized as revenue on a straight-line basis over the estimated lives of the contracts with customers. Non-refundable cash contributions from developers result in the Corporation having an obligation to provide goods and services with respect to the assets constructed or acquired, these contributions are considered deferred revenue and recognized on a straight-line basis over the estimated economic lives of the assets to which the contribution relates.
- Sub-metering revenue is primarily comprised of management fees billed for sub-metering services related to the consumption of electricity and water in individual units within multi-residential and commercial buildings. Revenue is recognized on a monthly basis over the term of corresponding service agreements as the services are provided to the customer. AESI has determined that it is acting as an agent for its meter billing service and, as such, the revenue is recognized on a net basis.
- Revenue from consulting services is recognized using a time and materials basis which is measured monthly based on input measures, such as hours incurred to date, with consideration given to output measures, such as contract milestones when applicable. Certain service revenues, such as upfront conversion revenue, are recognized at a point in time.
- Revenue is recognized as services are rendered where ancillary to: the electricity distribution; delivery of street lighting services; water billing; and pole and duct rentals.

(iii) Unbilled revenue

The measurement of unbilled revenue is based on an estimate of the amount of electricity and water delivered to customers but not yet billed. These accrual amounts are presented as unbilled revenues under IFRS 15. The Corporation assesses the unbilled revenues for impairment in accordance with IFRS 9.

ALECTRA INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018 and eleven months ended December 31, 2017

(In millions of Canadian dollars)

6. Significant accounting policies (continued)*(d) Financial instruments*

Financial assets and financial liabilities are initially recognized at fair value plus directly attributable transaction costs, and are subsequently measured at amortized cost under IFRS 9.

(i) Financial instruments at fair value

Financial instruments, which are disclosed at fair value, are classified using a three level hierarchy. Each level reflects the inputs used to measure the fair values of the disclosed financial liabilities, and are as follows:

- Level 1 - inputs are unadjusted quoted prices of identical instruments in active markets;
- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 - inputs for the liabilities that are not based on observable market data (unobservable inputs).

The Corporation's fair value hierarchy is classified as Level 2 for loans and borrowings and short term debt. The classification for disclosure purposes has been determined in accordance with generally accepted pricing models, based on discounted cash flow analysis, with the most significant inputs being the contractual terms of the instrument and the market discount rates that reflect the credit risk of counterparties.

(ii) Derivative financial instruments and hedge accounting

The Corporation measures derivatives initially at fair value. Any directly attributable transaction costs are recognized in profit or loss as incurred.

At the inception of a hedging relationship, the Corporation designates and formally documents the relationship between the hedging instrument and the hedged item, the risk management objective, and its strategy for undertaking the hedge.

The Corporation also assesses on an on-going basis whether the hedge continues to meet the hedge effectiveness criteria, including that the hedge ratio remains appropriate.

ALECTRA INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018 and eleven months ended December 31, 2017

(In millions of Canadian dollars)

6. Significant accounting policies (continued)

When hedge accounting is appropriate, the hedging relationship is designated as a cash flow hedge, a fair value hedge, or a hedge of foreign currency exposure of a net investment in a self-sustaining foreign operation. Hedge ineffectiveness is measured and recorded in current period earnings in the Consolidated Statement of Income and Comprehensive Income. When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in its fair value is recognized in OCI. Any ineffective portion is recognized in profit and loss.

The amount accumulated in OCI is reclassified to profit and loss over the period of the hedged item.

Hedge accounting is discontinued on a prospective basis if any of the following conditions are met: the forecast transaction is no longer expected to occur; the hedge no longer meets the criteria for hedge accounting; the hedging instrument expires or is sold, terminated, or exercised.

Refer to Note 5(b) for details on the impact of adoption of IFRS 9 on financial instruments.

(e) Restricted cash

Cash that is restricted as to withdrawal or use under the terms of certain contractual agreements is classified as restricted cash.

(f) Inventories

Inventories, which consist of parts and supplies acquired for internal construction or consumption, are valued at the lower of cost and net realizable value. Cost is determined on a weighted-moving average basis and includes expenditures incurred in acquiring the inventories and other costs to bring the inventories to their existing location and condition.

(g) Property, plant, and equipment ("PP&E")

Land is carried at cost. PP&E (other than land) is measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset and includes contracted services, cost of materials, directly attributable overhead, direct labour, pension costs and borrowing costs incurred in respect of qualifying assets constructed. When components of an item of PP&E have different useful lives, each component is recorded separately within PP&E. These assets are classified to the appropriate categories of PP&E when completed and ready for intended use. Depreciation on these assets commences when such assets are ready for their intended use.

ALECTRA INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018 and eleven months ended December 31, 2017

(In millions of Canadian dollars)

6. Significant accounting policies (continued)

Work in progress assets are generally assets that are undergoing active construction or development and are not currently available for use. Such assets are therefore not depreciated.

Major spare parts and standby equipment are recognized as items of PP&E.

When items of PP&E are retired or otherwise disposed of, a gain or loss on asset derecognition, if any, is determined by comparing the proceeds from disposal with the carrying amount of the item. Any gain or loss on asset derecognition is included in the Consolidated Statement of Income and Comprehensive Income.

Leasehold improvements are investments made to customize buildings and offices occupied under lease contracts and are presented as part of PP&E.

Depreciation of PP&E is recognized on a straight-line basis over the estimated useful life of each component of PP&E.

The Corporation estimates the useful lives of its property, plant, and equipment based on management's judgment. Depreciation methods and useful lives are reviewed at each financial year-end and any changes are adjusted prospectively. The method of depreciation and estimated useful lives for each category of property, plant, and equipment are as follows:

Buildings and fixtures	Straight-line	10 to 60 years
Distribution assets	Straight-line	15 to 40 years
Transformer stations	Straight-line	20 to 40 years
Other PP&E	Straight-line	3 to 20 years

ALECTRA INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018 and eleven months ended December 31, 2017

(In millions of Canadian dollars)

6. Significant accounting policies (continued)*(h) Goodwill and other intangible assets*

Intangible assets include: goodwill; land rights; computer software; capital contributions; customer relationships; non-competition agreements; purchased software; internally generated software; and other intangibles.

Goodwill arising on the acquisition of subsidiaries or on amalgamation represents the excess of the purchase price over the fair value assigned to the Corporation's interest of the net identifiable assets acquired. Goodwill is measured at cost less accumulated impairment losses.

Land rights are measured at cost. Land rights held by the Corporation are effective in perpetuity and there is no foreseeable limit to the period over which the rights are expected to provide benefit to the Corporation. Consequently, no removal date can be determined and no reasonable estimate of the fair value of such asset retirement obligations can be determined. If, at some future date, it becomes possible to estimate the fair value cost of removing these assets and the Corporation is legally or constructively required to remove such assets, a related asset retirement obligation will be recognized at that time. The discounted amount is not material. Land rights have therefore been assessed as having an indefinite useful life.

Finite life intangible assets are measured at cost less accumulated amortization and any applicable impairment losses. Amortization begins when the asset is available for use and is measured on a straight line basis.

Capital contributions represent contributions made to Hydro One Networks Inc., an electricity distributor and transmitter in the Province of Ontario, for building dedicated infrastructure to accommodate the Corporation's distribution system requirements. The contributions are measured at cost less accumulated amortization.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in the Statement of Income and Comprehensive Income when the asset is derecognized.

The Corporation estimates the useful lives of its intangible assets based on management's judgment. Amortization methods and useful lives are reviewed at each financial year-end and adjusted prospectively.

ALECTRA INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018 and eleven months ended December 31, 2017

(In millions of Canadian dollars)

6. Significant accounting policies (continued)

The estimated useful lives and amortization methods are as follows:

Goodwill	Not amortized	Indefinite
Land rights	Not amortized	Indefinite
Brand	Not amortized	Indefinite
Computer software	Straight-line	3 to 10 years
Non-competition agreements	Straight-line	4 to 10 years
Customer relationships	Straight-line	10 to 21 years
Capital contribution	Straight-line	16 to 45 years
Customer contracts	Straight-line	35 years

(i) Assets held for sale

Non-financial assets classified as held-for-sale are measured at the lower of their carrying amount and fair value, less costs of disposal, and are presented within other assets in the Consolidated Statement of Financial Position. Assets classified as Held for Sale are not amortized.

(j) Impairment of non-financial assets

Goodwill and intangible assets with indefinite lives are tested for impairment annually and when circumstances indicate that the recoverable amount of an asset or cash generating unit ("CGU") may be below their carrying value. The recoverable amount of an asset or CGU is the greater of its value in use and fair value less costs of disposal. The value in use calculation requires an estimate of the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate a present value as a basis for determining impairment. Property, plant, and equipment and intangible assets with finite lives are tested for impairment when management determines indicators of impairment exist. Significant judgment is applied in determining the non-financial assets recoverable amount and assessing whether certain indicators constitute objective evidence of impairment.

For the purpose of impairment testing, assets are grouped together into the smallest group that generates cash inflows that are largely independent of those from other assets or CGUs. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

ALECTRA INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018 and eleven months ended December 31, 2017

(In millions of Canadian dollars)

6. Significant accounting policies (continued)

Impairment losses are recognized in net income. Impairment losses relating to CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGUs and then to reduce the carrying amounts of the other assets in the CGUs on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, an impairment loss is reversed only to the extent that the carrying amount of the asset does not exceed the carrying amount that would have been determined, net of depreciation or amortization, as if no impairment loss had been previously recognized.

(k) Provisions and contingencies

A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be determined reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are subject to significant uncertainty and are determined by discounting the expected future cash flows at a rate, net of tax, that corresponds to current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recorded as interest expense.

An assessment of the likelihood of a contingent event, such as events arising from legal proceedings and other losses, requires management's judgment as to the probability of a loss occurring. Actual results may differ from those estimates.

(l) Employee future benefits

The Corporation provides pension and other benefit plans for its employees. Details on these plans are as follows:

(i) Multi-employer defined benefit pension plan

The Corporation provides a pension plan for all of its full-time employees, except UA, through Ontario Municipal Employees Retirement System ("OMERS"). OMERS is a multi-employer pension plan which operates as the Ontario Municipal Employees Retirement Fund ("the Fund") and provides pensions for employees of Ontario municipalities, local boards, public utilities, and school boards. The Fund is a contributory defined benefit pension plan, which is financed by equal contributions from participating employers and employees, and by the investment earnings of the Fund.

ALECTRA INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018 and eleven months ended December 31, 2017

(In millions of Canadian dollars)

6. Significant accounting policies (continued)

As OMERS does not segregate its pension asset and liability information by individual employers, there is insufficient information available to enable the Corporation to directly account for the plan as a defined benefit plan. Consequently, the plan has been accounted for as a defined contribution plan. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in net income when they are due.

(ii) Non-pension defined benefit plans

The Corporation provides some of its retired employees with life insurance and medical benefits beyond those provided by government sponsored plans. These benefits are provided through group defined benefit plans shared between entities under common control of Alectra Inc. Alectra Utilities, which is controlled by Alectra Inc., is the legal sponsor of the plans. There is a stated policy in place to allocate the net defined benefit cost to the participating entities under the common control of Alectra Inc. based on the obligation attributable to the plan participants employed by each participating entity.

The Corporation has incorporated its share of the defined benefit costs and related liabilities, as calculated by the actuary, in these consolidated financial statements.

The Corporation's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods and discounting such to determine its present value. Any unrecognized past service costs are deducted. The discount rate is the interest yield, at the reporting date, on high quality debt instruments with duration similar to the duration of the plan. Due to the long term nature of these plans, estimates used in the valuation such as discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases, are subject to significant uncertainty.

The cost of these benefits is expensed as earned by employees through employment service. The accrued benefit obligation and the current service costs are actuarially determined by applying the projected unit credit method and incorporate management's best estimate of certain underlying assumptions. Remeasurements arising from defined benefit plans are recognized immediately in other comprehensive income and reported in accumulated other comprehensive income.

The measurement date used to determine the present value of the benefit obligation is December 31 of the applicable year. The latest full actuarial valuation was performed as at December 31, 2017.

ALECTRA INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018 and eleven months ended December 31, 2017

(In millions of Canadian dollars)

6. Significant accounting policies (continued)*(m) Customer deposits*

Customer deposits comprise:

(i) Deposits in aid of securing energy bills

This form of deposit represents cash collections from customers as security for the payment of energy bills and water bills. Deposits held in respect of commercial customers are applied against any unpaid portion of individual customer accounts. Customer deposits in excess of unpaid account balances are refundable to individual customers upon termination of their electricity distribution service. These customer deposits are classified as a current liability as they are refundable on demand once a customer establishes a good payment history in accordance with the policies of the Corporation. Interest is accrued on customer deposits until the balance is refunded with the interest amount recognized as finance costs.

(ii) Deposits in aid of the capital cost of construction

Certain customers and developers are required to contribute towards the capital cost of construction in order to provide them with ongoing service. Cash contributions are initially recorded as customer deposits, a current liability. Once the distribution system asset is completed or modified as outlined in the terms of the contract, the contribution amount is transferred to deferred revenue.

(n) Leases

Leases in which the Corporation assumes substantially all of the risks and rewards of ownership are classified as finance leases. On initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Payments under finance leases are apportioned between interest expense and a reduction of the outstanding liability using the effective interest method.

Other leases are operating leases and are not recognized in the Corporation's Consolidated Statement of Financial Position. Payments made under operating leases are recognized as an expense on a straight-line basis over the term of the lease.

ALECTRA INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018 and eleven months ended December 31, 2017

(In millions of Canadian dollars)

6. Significant accounting policies (continued)

(o) Income taxes

The Corporation and its subsidiaries, other than AESI and UA, are currently exempt from taxes under the *Income Tax Act (Canada)* and the *Ontario Corporations Tax Act* (collectively the "Tax Acts").

AESI and UA are subject to the payment of tax under the Tax Acts. Other than AESI and UA, pursuant to the *Electricity Act, 1998 (Ontario)* ("EA"), and as a consequence of its exemption from income taxes under the Tax Acts, the Corporation is required to make payments in lieu of income taxes ("PILs") to the Ontario Electricity Finance Corporation ("OEFC"). These payments are calculated in accordance with the Tax Acts. These amounts are applied to reduce certain debt obligations of the former Ontario Hydro continuing in OEFC.

PILs comprise current and deferred payments in lieu of income tax. PILs is recognized in income and loss except to the extent that it relates to items recognized directly in either comprehensive income or in equity, in which case, it is recognized in comprehensive income or in equity.

Current PILs is the expected amount of cash taxes payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred PILs comprise the net tax effects of temporary differences between the tax basis of assets and liabilities and their respective carrying amounts for accounting purposes, as well as for tax losses available to be carried forward to future years that are likely to be realized. Deferred PILs assets and liabilities are measured using enacted or substantively enacted tax rates, at the reporting date, expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred PILs assets and liabilities of a change in tax rates is recognized in income in the year that includes the date of enactment or substantive enactment.

A deferred PILs asset is recognized to the extent that it is probable that future taxable income will be available against which the temporary difference can be utilized. Deferred PILs assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

AESI and UA are taxable under the Tax Acts with income tax expense that comprises current and deferred tax.

ALECTRA INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018 and eleven months ended December 31, 2017

(In millions of Canadian dollars)

6. Significant accounting policies (continued)

Current tax expense comprises the expected tax payable or receivable on taxable income or loss for the period, using tax rates enacted or substantively enacted at the reporting date and any adjustment to tax payable in respect of previous years.

Deferred tax expense is recognized in respect of temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes. Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, using tax rates enacted or substantively enacted at the anticipated reversal date.

(p) Financing income and costs

Finance costs comprise interest expense on borrowings and are recognized as an expense in the Consolidated Statement of Income and Comprehensive Income except for those amounts capitalized as part of the cost of qualifying property, plant, and equipment.

Finance income is recognized as it accrues in net income and is comprised of interest earned on cash.

(q) Advance payment

Advance payments are long-term prepayments on capital projects that have been purchased and will remain a long-term advance until the project is in service and billable under the terms of the corresponding service agreements.

7. Future accounting changes*(a) IFRS 16 Leases ("IFRS 16")*

IFRS 16 is effective for periods beginning on or after January 1, 2019, although early application is permitted if IFRS 15 has also been applied. In January 2016, the IASB issued IFRS 16, which replaces the IAS 17 *Leases* and related interpretations ("IAS 17"). IFRS 16 establishes the principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that represents those transactions. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between the operating and finance leases. Short-term leases, which are defined as those that have a lease term of 12 months or less and leases of low-value assets are exempt. Under the new standard, a lessee recognizes a right of use asset and a lease liability. The right of use asset is depreciated, similar to other non-financial assets and the liability accrues interest. The lease liability is initially measured as the present value of the lease payments over the lease term, discounted at the rate implicit in the lease.

ALECTRA INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018 and eleven months ended December 31, 2017

(In millions of Canadian dollars)

7. Future accounting changes (continued)

The Corporation will adopt IFRS 16 on January 1, 2019 using the modified retrospective approach. The Corporation has assessed the quantitative impact of adopting IFRS 16 at January 1, 2019 to be an increase of \$22 in total assets and total liabilities for the right-of-use assets and the lease liabilities.

(b) Other standards

The following amended standards and interpretations are not expected to have a significant impact on the Corporation's consolidated financial statements:

- IFRIC 23 - *Uncertainty over Tax Treatments*;
- *Prepayment Features with Negative Compensation (Amendments to IFRS 9)*;
- *Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)*;
- *Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)*;
- *Annual Improvements to IFRS Standards 2015–2017 Cycle – various standards*; and
- *Amendments to References to Conceptual Framework in IFRS Standards*.

8. Business acquisition

Purchase of Brampton Hydro

On February 28, 2017, the Corporation acquired 100% of the shares of Brampton Hydro for a total purchase price of \$615, which was accounted for in accordance with IFRS 3, *Business Combinations* using the acquisition method. This acquisition is expected to provide synergistic opportunities and efficiencies within the Corporation which will benefit both customers and shareholders.

For the ten months ended December 31, 2017, Brampton Hydro contributed revenue of \$462 and net income of \$28 to the Corporation's results. If the acquisition had occurred on January 31, 2017, management estimates that the revenue for the eleven months ended would have been \$504 and net income would have been \$28.

ALECTRA INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018 and eleven months ended December 31, 2017

(In millions of Canadian dollars)

8. Business acquisition (continued)

The following table summarizes the fair value consideration transferred as of the acquisition date.

	2017
Cash	515
Tax payable	69
Promissory note	31
Total consideration transferred	615

The promissory note and tax payable were settled with a cash payment of \$100 in April 2017. The tax payable relates to amounts owing by Brampton Hydro as of the acquisition date.

The following table summarizes the fair value of assets acquired and liabilities assumed at the date of acquisition:

	2017
Cash	1
Accounts receivable, net	85
Income taxes receivable	6
Inventory	1
PP&E	376
Intangible assets	22
Goodwill	248
Accounts payable and accrued liabilities	(64)
Deferred tax liabilities	(9)
Deferred revenue	(41)
Employee future benefits	(4)
Income taxes payable	(6)
Total identifiable net assets acquired	615

Income taxes receivable of \$24 (2017 - \$6) are payable to the Province of Ontario, as the former shareholders of Brampton Hydro pursuant to the terms of the acquisition and, as such, the Corporation has recorded a corresponding Notes Payable to the Province of Ontario (Note 16).

Goodwill of \$248 is the result of expected synergies from the acquisition, of which \$126 is deductible for income tax purposes.

The fair value of Brampton Hydro was determined in accordance with the negotiated transaction price as per the Share Purchase Agreement dated March 24, 2016.

ALECTRA INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018 and eleven months ended December 31, 2017

(In millions of Canadian dollars)

9. Restricted cash

Restricted cash includes cash where the availability of funds is restricted by government assistance or held in escrow as part of the Affordability Fund. The Affordability Fund was established by the Government of Ontario as part of the OFHP to assist electricity customers who do not qualify for low-income conservation programs and for whom electricity bills represent a burden.

10. Assets held for sale

In 2012, the former PowerStream acquired a 50% interest in Collus PowerStream which was determined to be a joint venture and accounted for using the equity method. As at December 31, 2017, the Corporation classified the investment in Collus PowerStream as held for sale. The sale closed on October 1, 2018 for proceeds of \$14, which resulted in the Corporation recognizing a gain of \$6 which is included in other revenue.

ALECTRA INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018 and eleven months ended December 31, 2017

(In millions of Canadian dollars)

11. Property, plant, and equipment

	Land and buildings	Distribution assets	Other assets	Work-in- progress	Total
Cost					
Balance, January 31, 2017	78	1,133	180	60	1,451
Additions	4	289	8	20	321
Additions through acquisition	103	1,321	40	24	1,488
Disposals and transfer to assets held for sale	(8)	(10)	(8)	(6)	(32)
Balance, December 31, 2017	177	2,733	220	98	3,228
Reclassifications	18	(16)	2	(20)	(16)
Additions/transfers	20	260	12	17	309
Disposals	(2)	(13)	(2)	–	(17)
Balance, December 31, 2018	213	2,964	232	95	3,504
Accumulated depreciation					
Balance, January 31, 2017	12	183	47	–	242
Depreciation	5	85	18	–	108
Disposals	(1)	(6)	(7)	–	(14)
Balance, December 31, 2017	16	262	58	–	336
Reclassifications	–	1	2	–	3
Depreciation	6	97	18	–	121
Disposals and transfer to assets held for sale	–	(6)	(2)	–	(8)
Balance, December 31, 2018	22	354	76	–	452
Carrying amounts					
December 31, 2017	161	2,471	162	98	2,892
December 31, 2018	191	2,610	156	95	3,052

Other assets include solar panels, meters, vehicles, furniture and equipment, computer equipment, and leasehold improvements.

During the year ended December 31, 2018, borrowing costs of \$4 (2017 - \$3) were capitalized as part of the cost of PP&E and intangible assets. An average capitalization rate of 3.89% (2017 - 3.73%) was used to determine the amount of borrowing costs to be capitalized with

ALECTRA INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018 and eleven months ended December 31, 2017

(In millions of Canadian dollars)

respect to Alectra Utilities. Borrowing costs have been capitalized at the Bankers' Acceptance Rate plus 95 bps (2017 - 95 bps) with respect to AES.

ALECTRA INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018 and eleven months ended December 31, 2017

(In millions of Canadian dollars)

11. Property, plant, and equipment (continued)

Included in work in progress as at December 31, 2018 is a reclassification of \$19 with a corresponding impact to intangible assets work in progress. The immaterial adjustment arose in 2017 but was reflected prospectively in 2018.

Work in progress assets relating to cancelled Feed-in-Tariff ("FIT") 4.0 projects totaling \$1 (2017 - \$nil) were charged to net income during the year.

Vacant land in the amount of \$7 was transferred to assets held for sale during 2017. The sale was expected to close in 2018. However, Alectra Utilities and the buyer were not able to reach a final agreement and the land was subsequently transferred back to PP&E.

12. Goodwill and intangible assets*(a) Intangible assets*

	Goodwill	Land rights	Computer software	Capital contribution	Work-in-progress	Other assets	Total
Cost or deemed cost							
Balance, January 31, 2017	45	1	69	6	3	19	143
Additions	–	–	5	–	1	3	9
Additions through acquisition	675	1	18	74	1	–	769
Disposals and transfers	–	–	(1)	–	–	–	(1)
Balance, December 31, 2017	720	2	91	80	5	22	920
Reclassifications	–	–	–	–	19	–	19
Additions	–	–	37	7	4	9	57
Balance, December 31, 2018	720	2	128	87	28	31	996
Accumulated amortization							
Balance at January 31, 2017	–	–	23	1	–	1	25
Amortization	–	–	12	3	–	1	16
Balance, December 31, 2017	–	–	35	4	–	2	41
Amortization	–	–	14	4	–	1	19
Balance, December 31, 2018	–	–	49	8	–	3	60
Carrying amounts							
December 31, 2017	720	2	56	76	5	20	879
December 31, 2018	720	2	79	79	28	28	936

ALECTRA INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018 and eleven months ended December 31, 2017

(In millions of Canadian dollars)

Other assets include customer relationships and non-competition agreements. Interest capitalized in intangible assets and PP&E during the period is included in Note 11.

ALECTRA INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018 and eleven months ended December 31, 2017

(In millions of Canadian dollars)

12. Goodwill and intangible assets*(b) Impairment testing of goodwill and other indefinite life intangible assets*

Goodwill with a carrying amount of \$720 (2017 - \$720) and land rights with a carrying amount of \$2 (2017 - \$2) have been allocated to the Corporation's rate regulated and non-regulated CGUs. The Corporation tested goodwill and land rights for impairment as at September 30, 2018.

Fair values less costs of disposal were determined using a multiple of regulated rate base approach for the rate regulated CGU. Fair values from the most recent internal enterprise valuation were used for the entities and businesses comprising the non-regulated CGUs. Key assumptions underlying these valuations are as follows:

- The multiple of rate base approach is a valuation technique used in the industry for purchase and sale transactions involving rate-regulated LDCs. A multiple is applied to the value of regulated assets to determine the value of the utility;
- The multiple of rate base is a key assumption in the determination of fair value less costs of disposal for the rate-regulated CGU. Management utilized a range of multiples in the analysis to determine the recoverable amount of goodwill for the rate-regulated CGU;
- The multiple of rate base used with respect to the rate-regulated CGU ranged from 1.4 to 2.1;
- Management obtained information regarding multiples used for recent purchase and sale transactions within the industry; and
- The fair value estimate is categorized as a Level 2 input.

Certain changes in key assumptions would not cause the recoverable amount of goodwill to fall below the carrying value.

The recoverable amount of goodwill and land rights determined in the analysis was greater than the carrying value and no impairment was recorded.

ALECTRA INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018 and eleven months ended December 31, 2017

(In millions of Canadian dollars)

13. Accounts payable and accrued liabilities

	2018	2017
Accounts payable - energy purchases	207	242
Accounts payable and accrued liabilities	112	128
Customer receivables in credit balances	21	14
Deferred conservation credit	15	15
Interest payable	12	12
Contingent consideration	1	–
Debt retirement charge payable	–	3
	368	414

Contingent consideration represents the discounted additional consideration for the purchase of UA that is subject to the satisfaction of certain terms within the purchase agreement related to the UA Community Conservation Program. The Corporation is obligated to pay an additional amount for each customer enrolled and participating in this program for the period from January 1, 2017 until December 31, 2020, up to a maximum consideration of \$2. The current balance of this contingent consideration is \$1 (2017 - \$1). The balance is expected to be due on December 31, 2019 and has been classified as a current liability.

14. Related party transactions*(a) Balances and transactions with related parties*

The amount due to/from related parties is comprised of amounts payable to/(receivable from): the City of Vaughan; the City of Markham; the City of Barrie; the City of Mississauga; the City of Hamilton; the City of St. Catharines; and wholly-owned subsidiaries of related parties.

ALECTRA INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018 and eleven months ended December 31, 2017

(In millions of Canadian dollars)

14. Related party transactions (continued)

Significant related party transactions, with the related parties not otherwise disclosed separately in the consolidated financial statements, are summarized below:

2018	Revenue	Expenses	Due from related parties	Due to related parties
City of Vaughan	9	1	1	11
City of Markham	9	1	2	11
City of Barrie	6	–	2	–
City of Mississauga	17	2	5	–
City of Hamilton	28	1	2	15
City of St. Catharines	4	–	1	–
	73	5	13	37

2017	Revenue	Expenses	Due from related parties	Due to related parties
City of Vaughan	9	10	1	11
City of Markham	8	9	1	9
City of Barrie	6	–	1	–
City of Mississauga	18	1	3	–
City of Hamilton	27	1	1	14
City of St. Catharines	7	–	1	–
	75	21	8	34

Services provided to related parties include electricity distribution, street lighting, road projects, payroll, and water and sewage billing. Expenses incurred include municipal taxes, and facilities rental. There are also operating leases with the Cities of Vaughan, Markham, and Barrie (Note 20(b)). Refer to Note 17 for related party loans and borrowings.

ALECTRA INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018 and eleven months ended December 31, 2017

(In millions of Canadian dollars)

14. Related party transactions (continued)*(b) Key management personnel compensation*

Key management personnel are comprised of the Corporation's senior leadership team. The compensation paid or payable to key management personnel is as follows:

	2018	2017
Salaries and current employment benefits	11	9
Employee future benefits	1	1
	12	10

15. Short-term debt

	2018	2017
Short-term loans	–	160
Commercial paper program	250	–
Deferred interest on promissory note issued to the City of Vaughan	–	9
Deferred interest on promissory note issued to the City of Markham	–	7
	250	176

In October 2018, the Corporation entered into a Commercial Paper ("CP") program. The program has a maximum authorized amount of \$300 and is supported by the Corporation's \$500 committed credit facility. The Corporation also has a \$100 uncommitted credit facility and a \$1 secured demand facility. The Corporation may draw on the credit facilities for working capital and general corporate purposes. Interest on drawn amounts under the credit facilities would apply based on Canadian benchmark rates.

Short-term loans at December 31, 2018 consist of CP issued under the Corporation's CP program. These short-term loans are denominated in Canadian dollars and are issued with varying maturities of no more than one year. CP issuances bear interest based on the prevailing market conditions at the time of issuance.

Short-term loans at December 31, 2017 consist of Bankers Acceptances ("BA") issued under the committed credit facility. These borrowings bear interest at short-term floating rates plus a negotiated spread. Negotiated standby fees are applied to undrawn amounts of the committed credit facility, in accordance with the credit agreement.

ALECTRA INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018 and eleven months ended December 31, 2017

(In millions of Canadian dollars)

15. Short-term debt (continued)

For the year ended December 31, 2018, the average annual outstanding borrowings under the Corporation's Revolving Credit Facility, Working Capital Facility, and Commercial Paper Program were \$130 (2017 - \$111) with an average interest rate of 2.19% (2017 - 1.51%).

Based on promissory notes between the Corporation and the City of Vaughan and the City of Markham, respectively, eight quarters of interest were deferred commencing October 1, 2006, and initially payable October 31, 2013, and further deferred until October 31, 2018. This deferred interest was repaid in full on October 31, 2018.

16. Other liabilities

	2018	2017
Current:		
Notes payable to province of Ontario	24	6
Current portion of transition cost liability	3	6
Holdback payable	1	1
Current portion of finance lease obligation	1	1
Other	9	9
Total other liabilities	38	23
Other long-term liabilities:		
Transition cost liability	2	4
Contingent consideration	-	1
Total other long term liabilities	2	5

The transition cost liability represents payments to be made in relation to the restructuring costs from the Amalgamation Transaction.

Holdback payable represents amounts owing in respect of the purchase of sub-metering contracts.

ALECTRA INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018 and eleven months ended December 31, 2017

(In millions of Canadian dollars)

17. Loans and borrowings

	2018	2017
Debtentures		
4.770% Senior Unsecured Debtentures due 2020	40	40
4.521% Senior Unsecured Debtentures due 2021	110	110
3.033% Senior Unsecured Debtentures due, 2022	150	150
3.239% Senior Unsecured Debtentures due 2024	150	150
2.488% Senior Unsecured Debtentures due 2027	675	675
5.297% Senior Unsecured Debtentures due 2041	210	210
3.958% Senior Unsecured Debtentures due 2042	200	200
Less: Unamortized debt issuance costs	(7)	(8)
Total debtentures	1,528	1,527
Promissory notes from related parties		
4.410% Promissory note issued to the City of Vaughan	78	78
4.410% Promissory note issued to the City of Markham	68	68
4.410% Promissory note issued to the City of Barrie	20	20
Total promissory notes from related parties	166	166
Loans and borrowings	1,694	1,693

The debtentures rank pari passu with all of the Corporation's other senior unsubordinated and unsecured obligations. Interest expense on these debtentures was \$52 (2017 - \$43) for the period.

On October 15, 2010, the former solar division of PowerStream secured financing with Infrastructure Ontario in the form of short-term advances and debtentures with availability up to \$90. The financing was available for up to 5 years from the date of the agreement and subject to an extension to June 30, 2017. As at January 31, 2017, the Corporation had utilized \$74 of the facility. On May 19, 2017, the Corporation fully repaid the outstanding balance of the Infrastructure Ontario on the credit facility through proceeds received from the issuance of 2.488% senior unsecured debtenture for \$675.

Prior to the issuance of the 2.488% Senior unsecured debtenture, the Corporation entered into a bond forward for a notional principal value of \$650 at an average yield of 1.92% to hedge the risk in the movement of the corresponding Government of Canada bond benchmark interest rate. The forward was terminated coterminous with the issuance of the debtenture and a loss of \$19 was recognized in other comprehensive income. There was no ineffective portion recognized. Interest of \$2 (2017 - \$1) during the period was recognized in the Statement of Income and Comprehensive Income.

ALECTRA INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018 and eleven months ended December 31, 2017

(In millions of Canadian dollars)

17. Loans and borrowings (continued)

The debentures are subject to financial covenants. These covenants require that neither the Corporation nor any designated subsidiary may incur any funded obligation (other than no-recourse debt and intercompany indebtedness) unless the aggregate principal amount of the consolidated funded obligations does not exceed 75% of the total consolidated capitalization. The Corporation was in compliance with this covenant at December 31, 2017 and 2018.

The three promissory notes are repayable 365 days following demand by the City of Vaughan, the City of Markham, and the City of Barrie. The notes mature on May 31, 2024 and may be renewed for a twelve year term followed by two optional ten year extensions. The notes are subordinate to all unsecured debts, liabilities and obligations of the Corporation. Interest expense on these promissory notes payable was \$8 (2017 -\$7) for the period.

18. Employee future benefits*(a) Multi-employer defined benefit pension plan*

The Corporation provides a pension plan for its employees, except those in UA, through OMERS. The plan is a multi-employer, contributory defined benefit pension plan with equal contributions by the Corporation and its employees. During the year ended December 31, 2018, the Corporation made employer contributions of \$16 (2017 - \$14) to OMERS. These contributions have been recognized as salaries and benefits in the Consolidated Statement of Income and Comprehensive Income. The expected payment for 2019 is \$17.

As at December 31, 2017, and subject to the estimates, assumptions and valuations of OMERS, the plan obligations are 94.0% (2016 - 93.4%) funded by its assets. OMERS has a strategy to return the plan to a fully funded position. The Corporation is not able to assess the implications, if any, of this strategy or of the withdrawal of other participating entities from the OMERS plan on its future contributions.

(b) Non-pension defined benefit plans

The Corporation provides certain unfunded health, dental and life insurance benefits on behalf of its retired employees. These benefits are provided through group defined benefit plans. There are four defined benefit plans. Independent actuarial valuations of the plans were performed as at December 31, 2017. The group defined benefit plans as a whole provides benefits to eligible retirees of the Corporation.

ALECTRA INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018 and eleven months ended December 31, 2017

(In millions of Canadian dollars)

18. Employee future benefits (continued)

Information about the group unfunded defined benefit plan and changes in the present value of the aggregate unfunded defined benefit obligation and the aggregate accrued benefit liability are as follows:

	2018	2017
Defined benefit obligation, beginning of year	65	21
Defined benefit obligation, assumed through acquisition	–	41
Benefit cost recognized in net income:		
Current service costs	3	2
Interest expense	2	1
Benefit cost recognized in net income	5	3
Amounts recognized in other comprehensive income		
Actuarial (gains) losses arising from changes in financial assumptions	(6)	6
Actuarial gains arising from changes in experience adjustments	–	(4)
Amounts recognized in other comprehensive income	(6)	2
Payments from the plans	(3)	(2)
Defined benefit obligation, end of year	61	65

The main actuarial assumptions underlying the valuation are as follows:

	2018	2017
Discount rate	4.00%	3.40%
Rate of compensation increase	3.30%	3.30%
Medical benefits costs escalation	5.96%	6.20%
Dental benefits costs escalation	4.50%	4.50%

ALECTRA INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018 and eleven months ended December 31, 2017

(In millions of Canadian dollars)

18. Employee future benefits (continued)*(c) Sensitivity analysis*

The approximate effect on the defined benefit obligation if the main actuarial assumptions underlying the valuation increased or decreased by:

	2018	2017
Discount rate:		
1% increase	(8)	(9)
1% decrease	10	11
Medical and dental benefits costs escalation:		
1% increase	7	7
1% decrease	(6)	(6)

19. Share capital

The Corporation's authorized share capital is comprised of an unlimited number of Class A through F voting common shares, and an unlimited number of Class S non-voting shares, all of which are without nominal or par value as follows:

	2018		2017	
	Number of shares	Amount	Number of shares	Amount
Authorized				
Unlimited Class A through F common shares				
Issued				
Class A common shares	2,149,000	206	2,149,000	206
Class B common shares	1,573,000	146	1,573,000	146
Class C common shares	878,000	74	878,000	74
Class D common shares	3,100,000	361	3,100,000	361
Class E common shares	1,815,000	91	1,815,000	91
Class F common shares	485,000	32	485,000	32
Total common shares	10,000,000	910	10,000,000	910
Authorized				
Unlimited Class S shares				
Issued and paid				
Class S shares	99,999	51	99,999	60
Total Class S shares	99,999	51	99,999	60
Total share capital	10,099,999	961	10,099,999	970

An unlimited number of Class A through C special shares have been authorized but not issued.

ALECTRA INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018 and eleven months ended December 31, 2017

(In millions of Canadian dollars)

19. Share capital (continued)

Each class of shares relates to the common shares issued to each shareholder as follows:

- Class A common shares are issued to Vaughan Holdings Inc.
- Class B common shares are issued to Markham Enterprise Corporation
- Class C common shares are issued to Barrie Hydro Holdings Inc.
- Class D common shares are issued to Enersource Corporation
- Class E common shares are issued to Hamilton Utilities Corporation
- Class F common shares are issued to St Catharines Hydro Inc.
- Class S non-voting common shares are issued to Vaughan Holdings Inc., Markham Enterprise Corporation, and Barrie Hydro Holdings Inc.

Subsequent to December 31, 2018 there was a Class G share issuance. Please refer to the subsequent event for more details (Note 31).

Special shares were issued as part of the Amalgamation Transaction to effect closing adjustments provided for in corresponding agreements. These shares were redeemed on September 30, 2017 coterminous with closing adjustments for aggregate proceeds of \$10, which resulted in goodwill from the change in the purchase price calculation. Additionally, aggregate contributions of capital in respect of issued classes of common shares of \$6 were received on September 30, 2017.

During 2018, the Board of Directors approved a return of capital to the Class S shareholders in the amount of \$9, in accordance with the Alectra Dividend Policy incorporated as Schedule C to its Unanimous Shareholders' Agreement. As at December 31, 2018, \$4 was reclassified from dividends paid to share capital.

Dividends on the common shares and Class S shares of the Corporation may be declared by the Board of Directors through a resolution.

During the year ended December 31, 2018, the Corporation declared and paid dividends as follows:

- Common share dividends aggregating \$60 or \$6.06 per share (2017 - \$28 or \$2.78 per share); and
- Class S share dividends aggregating \$9 or \$87.02 per share (2017 - \$8 or \$81.00 per share).

The Class S dividends, other than return of capital, are subject to Part VI.1 tax under the Income Tax Act (Canada) at a rate of 25% based on the amount of dividend paid. The Corporation is also eligible for a corresponding deduction equal to a specified multiple of the dividend. The deduction does not fully offset the Part VI.1 tax, resulting in a net effective tax rate of 1.8% on the Class S share dividends.

ALECTRA INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018 and eleven months ended December 31, 2017

(In millions of Canadian dollars)

20. Leases*(a) Finance lease*

The Corporation has a 25 year lease agreement for the use of an operations centre which includes both land and building elements. Upon entering into this lease agreement, the Corporation classified the building element of the lease as a finance lease since it was determined that substantially all of the benefits and risks incidental to the ownership of the operation centre were transferred to the Corporation. The component of the annual basic rent related to the land is classified and recorded as an operating lease.

2018	Future minimum lease payments	Interest accretion	Present value of minimum lease payments
Less than one year	2	1	1
Between one and five years	6	4	2
More than five years	18	5	13
	26	10	16

2017	Future minimum lease payments	Interest accretion	Present value of minimum lease payments
Less than one year	2	1	1
Between one and five years	6	4	2
More than five years	19	5	14
	27	10	17

ALECTRA INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018 and eleven months ended December 31, 2017

(In millions of Canadian dollars)

20. Leases (continued)*(b) Operating leases*

The Corporation is also committed to certain lease agreements for: vehicles; property; equipment; rooftops for solar projects; and the land portion of an operations centre lease. All corresponding leases have been classified as operating leases. The leases have terms of 3 to 20 years. As at December 31, 2018 the future minimum, non-cancellable lease payments (including the land portion of the operating centre lease referred to in (a) above) are as follows:

	2018	2017
Less than one year	4	3
Between one and five years	13	12
More than five years	22	23
	39	38

In 2018, operating lease expense of \$4 (2017 - \$3) was recognized in net income.

21. Financial instruments and risk management*(a) Fair value of financial instruments*

The Corporation's accounting policies relating to the recognition and measurement of financial instruments are disclosed in Note 6(d).

The carrying amount of cash (including restricted cash), accounts receivable (including unbilled revenue), amounts due from related parties, customer deposits, accounts payable and accrued liabilities, amounts due to related parties and current portion of loans and borrowings approximates fair value because of the short maturity of these instruments. The fair value of the Corporation's long term borrowings are \$1,748 (2017 - \$1,796).

ALECTRA INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018 and eleven months ended December 31, 2017

(In millions of Canadian dollars)

21. Financial instruments and risk management (continued)

	Maturity date	2018		2017	
		Carrying value ⁽¹⁾	Fair value ⁽²⁾	Carrying value ⁽¹⁾	Fair value ⁽²⁾
Loans and borrowings					
Notes issued in 2002	2024	166	179	166	184
Debentures issued in 2010	2020	40	42	40	43
Debentures issued in 2011	2021	110	115	110	118
Debentures issued in 2011	2041	210	257	210	271
Debentures issued in 2012	2022	150	152	150	154
Debentures issued in 2012	2042	200	205	200	216
Debentures issued in 2014	2024	150	153	150	156
Debentures issued in 2017	2027	675	645	675	654
Total loans and borrowings - long-term portion					
		1,701	1,748	1,701	1,796
Less: issuance costs					
		(7)	-	(8)	-
		1,694	1,748	1,693	1,796

(1) The carrying value of long-term debt represents the par value of the promissory notes.

(2) The fair value of long-term debt is based on unadjusted year-end market prices for the same or similar debt of the same remaining maturities. The fair value measurement of long-term debt is categorized as Level 2.

(b) Financial risks

The risks associated with the Corporation's financial instruments and policies for managing these risks are described below.

(i) Credit risk

The Corporation's primary source of credit risk to its accounts receivable and unbilled revenue results from customers failing to discharge their payment obligations for electricity consumed and billed, as they come due.

The carrying amount of accounts receivable, to the extent deemed necessary by management's judgment, is reduced through the use of ECLs with the amount of such during the year recognized in net income. Subsequent recoveries of accounts receivable previously recorded as impaired are credited to net income. The ECLs as at December 31, 2018 are \$9 (2017 - \$9). An impairment loss of \$4 (2017 - \$4) was recognized during the period.

ALECTRA INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018 and eleven months ended December 31, 2017

(In millions of Canadian dollars)

21. Financial instruments and risk management (continued)

The Corporation's credit risk associated with accounts receivable primarily corresponds to payments from distribution customers. At December 31, 2018, approximately \$23 (2017 - \$20) is considered over 60 days past due. Credit risk is managed, in part, through the collection of security deposits from regulated electricity distribution customers in accordance with regulations prescribed by the OEB. As at December 31, 2018, the Corporation holds security deposits from sub-metering customers in the amount of \$1 (2017 - \$2). The OEB restricts the ability of the Corporation to adequately and proactively manage credit risk with respect to its regulated electricity distribution customers.

Accounts receivable and respective aging is provided as follows:

	2018	2017
Accounts receivable	265	218
Unbilled revenue	273	251
IESO receivable	26	28
Other	41	35
	605	532
Less: expected credit losses	(9)	(9)
Total accounts receivables, net	596	523
Less than 30 days	563	500
30 - 60 days	19	12
61 - 90 days	7	7
Greater than 91 days	16	13
	605	532
Less: expected credit losses	(9)	(9)
Total accounts receivables, net	596	523

ALECTRA INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018 and eleven months ended December 31, 2017

(In millions of Canadian dollars)

21. Financial instruments and risk management (continued)

	Expected credit losses
Balance, January 31, 2017	(3)
Allowance acquired through acquisition	(4)
Additional allowances	(6)
Write-offs	4
Balance, December 31, 2017	(9)
Additional allowances	(4)
Write-offs	4
Balance, December 31, 2018	(9)

The Corporation determines the concentrations of its accounts receivable by type of customer. As at December 31, 2018, there was no significant concentration of credit risk with respect to any financial assets.

(ii) Interest rate risk

The Corporation is exposed to fluctuations in interest rates for the valuation of its post-employment benefit obligations (Note 18). The Corporation is also exposed to short-term interest rate risk on the net of cash, short-term borrowings under its Credit Facility, Commercial Paper Program (Note 15). The Corporation manages interest rate risk by monitoring its mix of fixed and floating rate instruments, and taking action as necessary to maintain an appropriate balance.

As at December 31, 2018, in addition to the valuation of its post-employment benefit obligations, the Corporation was exposed to interest rate risk predominately from short-term borrowings under its CP Program and customer deposits, while most of its remaining obligations were either non-interest bearing or bearing fixed interest rates, and its financial assets were predominately short-term in nature and primarily non-interest bearing (Notes 15 and 17).

The Corporation estimates that a 100 basis point increase (decrease) in short-term interest rates, with all other variables held constant, would result in an increase (decrease) of approximately \$3 to annual finance costs.

ALECTRA INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018 and eleven months ended December 31, 2017

(In millions of Canadian dollars)

21. Financial instruments and risk management (continued)*(iii) Liquidity risk*

Liquidity risks are those risks associated with the Corporation's inability to meet its financial obligations as they fall due. Liquidity risks associated with financial liabilities are as follows:

2018	Due within 1 year	Due between 1 and 5 years	Due past 5 years	Total
Accounts payable and accrued liabilities	368	–	–	368
Commercial paper issuance	250	–	–	250
Customer deposit liability	95	–	–	95
Due to related parties	37	–	–	37
Other liabilities	37	2	–	39
4.770% Senior Unsecured Debentures due 2020	2	42	–	44
4.521% Senior Unsecured Debentures due 2021	5	117	–	122
3.033% Senior Unsecured Debentures due 2022	5	164	–	169
4.410% Promissory note issued to the City of Vaughan due 2024	3	14	81	98
4.410% Promissory note issued to the City of Markham due 2024	3	12	70	85
4.410% Promissory note issued to the City of Barrie due 2024	1	4	21	26
3.239% Senior Unsecured Debentures due 2024	5	19	155	179
2.488% Senior Unsecured Debentures due 2027	17	67	734	818
5.297% Senior Unsecured Debentures due 2041	11	44	405	460
3.958% Senior Unsecured Debentures due 2042	8	32	350	390
Obligations under operating leases	4	13	22	39
Obligations under finance leases	1	2	13	16
Total financial liabilities	852	532	1,851	3,235

ALECTRA INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018 and eleven months ended December 31, 2017

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21. Financial instruments and risk management (continued)

2017	Due within 1 year	Due between 1 and 5 years	Due past 5 years	Total
Accounts payable and accrued liabilities	414	–	–	414
Bankers' acceptance issuance	160	–	–	160
Deferred interest - City of Vaughan	9	–	–	9
Deferred interest - City of Markham	7	–	–	7
Customer deposit liability	92	–	–	92
Due to related parties	34	–	–	34
Other liabilities	22	4	1	27
4.770% Senior Unsecured Debentures due 2020	2	44	–	46
4.521% Senior Unsecured Debentures due 2021	5	122	–	127
3.033% Senior Unsecured Debentures due 2022	5	168	–	173
4.410% Promissory note issued to the City of Vaughan due 2024	13	14	84	111
4.410% Promissory note issued to the City of Markham due 2024	11	12	73	96
4.410% Promissory note issued to the City of Barrie due 2024	1	4	21	26
3.239% Senior Unsecured Debentures due 2024	5	19	160	184
2.488% Senior Unsecured Debentures due 2027	17	67	751	835
5.297% Senior Unsecured Debentures due 2041	11	44	416	471
3.958% Senior Unsecured Debentures due 2042	8	32	358	398
Obligations under operating leases	3	12	23	38
Obligations under finance leases	1	2	14	17
Financial liabilities	820	544	1,901	3,265

The Corporation monitors its liquidity risk to ensure access to sufficient funds to meet its operational and investment requirements. The Corporation's objective is to ensure that sufficient liquidity is on hand to meet obligations as they fall due while minimizing interest rate exposure and cost. The Corporation monitors cash balances to ensure that sufficient levels of liquidity are on hand to meet financial commitments as they come due. The Corporation has the following sources of liquidity under which it may access financial capital from time to time:

- \$601 in aggregate revolving unsecured credit facilities: (i) \$500 committed facility with two Schedule A banks maturing October 5, 2020; (ii) \$100 uncommitted facility with a Schedule A bank which is callable by the bank; and (iii) \$1 secured revolving demand facility available to Util-Assist. Funds are available under the facilities in the form of: overdraft protection; letters of credit; prime rate

ALECTRA INC.

Notes to Consolidated Financial Statements (continued)

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(In millions of Canadian dollars)

advances; and BAs. The committed facility is also used to support outstanding commitments under the CP program by way of same day prime rate advances.

ALECTRA INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018 and eleven months ended December 31, 2017

(In millions of Canadian dollars)

21. Financial instruments and risk management (continued)

- Issuance of senior unsecured debentures with various maturity dates under an established trust indentures.

22. Capital structure

The main objectives of the Corporation when managing financial capital are to:

- ensure ongoing cost effective access to such to provide adequate investment in support of its regulated electricity distribution and other businesses;
- comply with covenants within its financial instruments;
- prudently manage its capital structure, with regard for maintaining a high level of creditworthiness;
- recover financing charges permitted by the OEB on its regulated electricity distribution business; and
- deliver reasonable returns on the investments of its shareholders.

The Corporation's definition of capital includes: shareholders' equity; indebtedness under existing credit facilities; and long-term loans and borrowings, which includes the current portion of long-term loans and borrowings.

The OEB regulates the amount of interest on debt and MARE that may be recovered by the Corporation, through its electricity distribution rates, in respect of its regulated electricity distribution business. The OEB permits such recoveries on the basis of a deemed capital structure represented by 60% debt and 40% equity. The actual capital structure for the Corporation may differ from the OEB deemed structure.

The Corporation has customary covenants typically associated with long-term loans and borrowings. The Corporation is in compliance with all credit agreement covenants and limitations associated with its long-term loans and borrowings.

ALECTRA INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018 and eleven months ended December 31, 2017

(In millions of Canadian dollars)

23. Operating expenses

	2018	2017
Labour	150	147
Contract/consulting	42	40
Office expenses	21	18
Information and technology	12	13
Repairs and maintenance	12	15
Business taxes and fees	9	8
Facility expenses	7	6
Bad debt	5	4
Other	3	20
	261	271

24. Other revenue

	2018	2017
Solar generation revenue	16	16
Water and waste water billing and customer charges	15	13
CDM performance incentive revenue	14	1
Consulting	6	5
Street lighting	8	13
Regulatory service charges	8	8
Amortization of deferred revenue	9	6
Gain on sale of Collus PowerStream	6	–
Pole and other rental income	5	6
Scrap sales	1	1
Management and other support services	1	–
Other	8	7
	97	76

ALECTRA INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018 and eleven months ended December 31, 2017

(In millions of Canadian dollars)

25. Deferred revenue

Balance, January 31, 2017	144
Contributions received through acquisitions	100
Contributions received from customers and developers	62
Amortization	(6)
Balance, December 31, 2017	300
Contributions received from customers and developers	70
Amortization	(9)
Balance at December 31, 2018	361

26. Income taxes*(a) Income tax expense*

PILs recognized in net income comprise the following:

	2018	2017
Current tax expense	8	1
Deferred tax expense	31	29
Income tax expense	39	30

ALECTRA INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018 and eleven months ended December 31, 2017

(In millions of Canadian dollars)

26. Income taxes (continued)*(b) Reconciliation of effective tax rate*

PILs income tax expense differs from the amount that would have been recorded using the combined Canadian federal and provincial statutory income tax rates. The reconciliation between the statutory and effective tax rates is as follows:

	2018	2017
Income before taxes	148	104
Statutory Canadian federal and provincial income tax rates	26.5%	26.5%
Expected tax provision on income at statutory rates	39	28
Increase in income taxes resulting from:		
Permanent differences	(1)	–
Adjustments in respect of prior years	1	1
Other	–	1
Total income tax expense	39	30
Effective income tax rate	26.5%	28.8%

The statutory income tax rate for the current year comprises a combined 15% (2017 - 15%) federal corporate tax rate and an 11.5% (2017 - 11.5%) Ontario corporate tax rate.

ALECTRA INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018 and eleven months ended December 31, 2017

(In millions of Canadian dollars)

26. Income taxes (continued)*(c) Deferred tax balances*

The net deferred tax assets and liabilities consist of the following:

	2018	2017
Deferred tax assets:		
PP&E and intangibles	(2)	(2)
Non-capital loss carry forwards	6	7
Debt issuance costs	(1)	(1)
Total deferred tax assets	3	4
Deferred tax liabilities:		
Employee future benefits	16	17
PP&E and intangibles	(57)	(34)
Non-capital losses	–	5
Tax credit carryovers	9	9
Non-deductible reserves	2	4
Energy variances	(15)	(16)
Total deferred tax liabilities	(45)	(15)

27. Net change in non-cash operating working capital

	2018	2017
Accounts receivable and unbilled revenue	(64)	88
Inventory	–	(1)
Prepaid expenses	(2)	2
Due from related parties	(5)	45
Accounts payable and accrued liabilities	(45)	17
Due to related parties	3	1
Customer deposits liability	3	23
Other liabilities	(2)	18
	(112)	193

ALECTRA INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018 and eleven months ended December 31, 2017

(In millions of Canadian dollars)

28. Promissory note receivable

The Corporation has a promissory note receivable of \$1 (2017 - \$1) from Trans Power Holding Inc. relating to the sale of its investment in Enerpower Utility Inc. The promissory note, which matures on February 15, 2020, bears a fixed annual interest rate of 6.25%, with payments due annually. The promissory note is repayable at the option of the obligor.

29. Commitments, contingencies and guarantees*(a) Commitments**(i) Leases*

Lease commitments have been disclosed in Note 20.

(ii) Security with IESO

Entities that purchase electricity in Ontario through the IESO are required to post security to mitigate its risk of their default on their expected activity in the market. The IESO could draw on this security if the Corporation fails to make the payment required on a default notice issued by the IESO. The Corporation has posted a letter of credit as security in the amount of \$33 (2017 - \$38).

*(b) Contingencies**(i) Legal claims*

The Corporation is subject to legal actions and claims in the normal course of business from customers, former employees, and other parties. On an ongoing basis, the Corporation assesses the likelihood of any adverse judgments or outcomes as well as potential ranges of probable costs and losses. A determination of the provision required, if any, for these contingencies is made after an analysis of each individual claim. The value of provisions for legal claims at December 31, 2018 is less than \$1, other than the provision noted below. Such provisions are subject to change based on ongoing assessments or settlements of individual claims, including potential mitigation under the Corporation's insurance policies or otherwise

ALECTRA INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018 and eleven months ended December 31, 2017

(In millions of Canadian dollars)

29. Commitments, contingencies and guarantees (continued)*(ii) Arbitration judgment against the Corporation ("Arbitration Judgment")*

The dispute in this arbitration arose from an agreement ("Project Agreement") between PowerStream, continuing in Alectra Utilities, and another unrelated party ("Other Party") in connection with the development of renewable generation projects that would deliver electricity under the IESO FIT program. Based on the status of such projects and its interpretation of the Project Agreement, PowerStream delivered notice to terminate all projects under the Project Agreement in September of 2016. The principal issue in the arbitration is whether PowerStream was entitled under the Project Agreement to deliver such notice and if not, the consequences that might ensue. The Other Party to the Project Agreement took the position that PowerStream did not have such entitlement.

On February 23, 2018, the arbitrator ruled against PowerStream and awarded the Other Party damages of \$12 together with pre-judgment and post-judgment interest and costs of the arbitration. The ruling of the arbitrator further provided that such costs are to be paid by the Corporation to the Other Party.

Based on the award of damages and an estimate of pre-judgment and post-judgment interest and costs, at December 31, 2017, the Corporation recorded a liability of \$13 with a corresponding charge to operating expenses. During 2018, the Corporation appealed the arbitration decision to the Superior Court of Ontario. The Corporation was successful in its appeal and the Superior Court of Ontario overturned the arbitration decision. The other party has been granted leave by the Ontario Court of Appeal on February 22, 2019. For the year ended December 31, 2018, the liability remains probable and has not been reversed.

(iii) Insurance

The Corporation is a member of the Municipal Electric Association Reciprocal Insurance Exchange ("MEARIE"). MEARIE is a pooling of electricity industry liability insurance risks of many of the sector participants in Ontario. All members of the pool are subject to assessment for losses experienced by the pool, for the years in which they were members, on a pro-rata basis based on the total of their respective service revenues. It is anticipated that should such an assessment occur it would be funded over a period of up to five years. As at December 31, 2018, no assessments have been made.

ALECTRA INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018 and eleven months ended December 31, 2017

(In millions of Canadian dollars)

29. Commitments, contingencies and guarantees (continued)*(c) Guarantees*

In the normal course of operations, the Corporation enters into agreements that meet the definition of a guarantee as follows:

- (i) The Corporation has provided indemnities under lease agreements for the use of certain operating facilities. Under the terms of these agreements the Corporation agrees to indemnify the counterparties for various matters including, but not limited to, all liabilities, loss, suits, and damages arising during, on or after the term of the agreement. The maximum amount of any potential future payment cannot be reasonably estimated.
- (ii) The Corporation has agreed to indemnify the directors and/or officers of the Corporation for various matters including, but not limited to, all costs to settle suits or actions due to association with the Corporation, subject to certain restrictions. The Corporation has purchased directors' and officers' liability insurance to mitigate the cost of any potential future suits or actions. The indemnified period is not explicitly defined, but it is limited to the period over which the indemnified party served as a director or officer of the Corporation. The maximum amount of any potential future payment cannot be reasonably estimated.
- (iii) In the normal course of business, the Corporation has entered into agreements that include indemnities in favor of counterparties, such as purchase and sale agreements, confidentiality agreements, engagement letters with advisor's and consultants, outsourcing agreements, leasing contracts, information technology agreements and service agreements. These indemnification agreements may require the Corporation to compensate counterparties for losses incurred by the counterparties as a result of breaches of agreements such as breaches of representation or regulations or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnities are not explicitly defined and the maximum amount of any potential reimbursement cannot be reasonably estimated.

The nature of these indemnification agreements prevents the Corporation from making a reasonable estimate of the maximum exposure due to the difficulties in assessing the amount of liability, which results from the unpredictability of future events. Historically, the Corporation has not made any significant payments under such or similar indemnification agreements and therefore no amount has been accrued in the balance sheet with respect to these agreements. The Corporation is unaware of any breaches that would result in an indemnity claim against it.

ALECTRA INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018 and eleven months ended December 31, 2017

(In millions of Canadian dollars)

30. Divisional information

Alectra Inc. through its subsidiaries, consists primarily of two operating divisions: regulated operations and non-regulated operations. Regulated operations are comprised of Alectra Utilities. Non-regulated operations are comprised of: RFSP; Solar Sunbelt; and AES including its subsidiaries.

The designation of activities to the two operating divisions is based on a combination of regulatory status and the nature of the products and services provided. The accounting policies followed by the divisions are consistent with those described in the summary of significant accounting policies.

Financial information that adjusts IFRS results to show the effect of rate regulation is used by the Corporation's Board of Directors, shareholders, OEB, as well as management.

ALECTRA INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018 and eleven months ended December 31, 2017

(In millions of Canadian dollars)

30. Divisional information (continued)

2018	Alectra Utilities regulated	Adjustment for regulatory activities	Non-regulated	Total
Revenue				
Distribution revenue	536	(31)	–	505
Electricity sales	2,833	17	–	2,850
Other income	48	11	38	97
Total revenue	3,417	(3)	38	3,452
Expenses				
Cost of power	2,833	–	–	2,833
Operating expenses	237	1	23	261
Depreciation	122	9	9	140
Total expenses	3,192	10	32	3,234
Income from operating activities	225	(13)	6	218
Loss on derecognition of property, plant, and equipment	(6)	(1)	–	(7)
Finance income	2	(1)	–	1
Finance costs	(64)	2	(2)	(64)
Income before payments in lieu of income taxes	157	(13)	4	148
Income tax expense	(20)	(18)	(1)	(39)
Net income	137	(31)	3	109
Other comprehensive income (loss):				
Bond forward	–	–	2	2
Remeasurement of defined benefit obligation	3	3	–	6
Less future income tax recovery	(2)	–	–	(2)
Total comprehensive income (loss)	138	(28)	5	115

ALECTRA INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018 and eleven months ended December 31, 2017

(In millions of Canadian dollars)

30. Divisional information (continued)

2017	Alectra Utilities regulated	Adjustment for regulatory activities	Non-regulated	Total
Revenue				
Distribution revenue	474	(15)	(1)	458
Electricity sales	2,567	25	(1)	2,591
Other income	37	2	37	76
Total revenue	3,078	12	35	3,125
Expenses				
Cost of power	2,567	–	–	2,567
Operating expenses	251	(1)	21	271
Depreciation	113	4	7	124
Total expenses	2,931	3	28	2,962
Income from operating activities	147	9	7	163
Loss on derecognition of property, plant, and equipment	(5)	–	(1)	(6)
Share of net income from joint venture	1	(1)	–	–
Finance income	3	(1)	–	2
Finance costs	(54)	1	(2)	(55)
Income before payments in lieu of income taxes	92	8	4	104
Income tax expense	(11)	(17)	(2)	(30)
Net income	81	(9)	2	74
Other comprehensive income (loss)				
Bond forward	–	–	(18)	(18)
Remeasurement of defined benefit obligation	(2)	–	–	(2)
Less future income tax recovery	1	–	4	5
Total comprehensive income (loss)	80	(9)	(12)	59

ALECTRA INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018 and eleven months ended December 31, 2017

(In millions of Canadian dollars)

30. Divisional information (continued)

2018	Alectra Utilities regulated	Adjustment for regulatory activities	Non-regulated	Total
Assets				
Current assets				
Cash	7	–	12	19
Accounts receivable and unbilled revenue	586	–	10	596
Inventory	21	–	–	21
Prepaid expenses	13	–	1	14
Due from related parties	11	–	2	13
Total current assets	638	–	25	663
Non-current assets				
Property, plant, and equipment	2,898	41	113	3,052
Intangible assets and goodwill	889	10	37	936
Promissory notes receivable	–	–	1	1
Investment in subsidiary	4	–	(4)	–
Deferred tax asset	–	–	3	3
Regulatory assets	111	(111)	–	–
Total non-current assets	3,902	(60)	150	3,992
Total assets	4,540	(60)	175	4,655
Liabilities and Shareholders' Equity				
Current liabilities				
Accounts payable and accrued liabilities	348	(2)	22	368
Due to related parties	50	–	(13)	37
Customer deposits liability	94	–	1	95
Short term debt	241	–	9	250
Other liabilities	35	–	3	38
Total current liabilities	768	(2)	22	788
Non-current liabilities				
Deferred revenues	324	37	–	361
Long-term borrowings	1,610	–	84	1,694
Regulatory liabilities	84	(84)	–	–
Employee future benefits	61	–	–	61
Capital lease	15	–	–	15
Deferred tax liability	25	1	19	45
Other long-term liabilities	3	–	(1)	2
Total non-current liabilities	2,122	(46)	102	2,178
Total liabilities	2,890	(48)	124	2,966
Shareholders' equity				
Share capital	682	–	279	961
Contributed surplus	739	(11)	(184)	544
Accumulated other comprehensive income (loss)	–	4	(12)	(8)
Retained earnings	229	(5)	(32)	192
Total shareholders' equity	1,650	(12)	51	1,689
Total liabilities and shareholders' equity (deficit)	4,540	(60)	175	4,655

ALECTRA INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018 and eleven months ended December 31, 2017

(In millions of Canadian dollars)

30. Divisional information (continued)

2017	Alectra Utilities regulated	Adjustment for regulatory activities	Non-regulated	Total
Assets				
Current assets				
Cash	105	–	17	122
Accounts receivable and unbilled revenue	517	–	6	523
Inventory	20	–	1	21
Prepaid expenses	7	–	5	12
Due from related parties	5	–	3	8
Assets held for sale	16	(1)	1	16
Total current assets	670	(1)	33	702
Non-current assets				
Property, plant, and equipment	2,735	39	118	2,892
Intangible assets and goodwill	841	9	29	879
Promissory notes receivable	–	–	1	1
Investment in subsidiary	4	–	(4)	–
Advance payments	–	–	3	3
Deferred tax asset	12	(13)	5	4
Regulatory assets	71	(71)	–	–
Total non-current assets	3,663	(36)	152	3,779
Total assets	4,333	(37)	185	4,481
Liabilities and Shareholders' Equity				
Current liabilities				
Accounts payable and accrued liabilities	405	(2)	11	414
Due to related parties	34	–	–	34
Customer deposits liability	68	17	7	92
Short-term debt	180	–	(4)	176
Other liabilities	37	(17)	3	23
Total current liabilities	724	(2)	17	739
Non-current liabilities				
Deferred revenues	263	37	–	300
Long-term borrowings	–	–	1,693	1,693
Long-term loans from parent	1,608	–	(1,608)	–
Regulatory liabilities	86	(86)	–	–
Employee future benefits	65	–	–	65
Capital lease	15	–	1	16
Deferred tax liability	–	(3)	18	15
Other long-term liabilities	4	–	1	5
Total non-current liabilities	2,041	(52)	105	2,094
Total liabilities	2,765	(54)	122	2,833
Shareholders' equity				
Share capital	682	–	288	970
Contributed surplus	739	(11)	(184)	544
Accumulated other comprehensive income (loss)	(2)	1	(13)	(14)
Retained earnings	149	27	(28)	148
Total shareholders' equity	1,568	17	63	1,648
Total liabilities and shareholders' equity (deficit)	4,333	(37)	185	4,481

ALECTRA INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018 and eleven months ended December 31, 2017

(In millions of Canadian dollars)

30. Divisional information (continued)

Alectra Utilities derecognizes all rate-regulated assets and liabilities that do not qualify for recognition under IFRS. Certain items that are presented as rate-regulated assets as prescribed by the OEB qualify for recognition as other types of assets under IFRS.

	2018	2017
Regulatory assets		
Deferred income tax asset	50	22
Retail settlement variance accounts ("RSVA's")	22	18
Lost revenues adjustment mechanism variance account ("LRAMVA")	22	16
Large commercial interval meter recovery	7	4
Renewable generation capital and operating cost deferral	3	3
OEB cost assessments deferral	3	2
Deferred revenue (adjustment to capitalization policy)	3	–
Smart meter capital recovery	1	1
Net recovery of regulatory balances	–	4
Other	–	1
Total Regulatory Assets	111	71
Regulatory liabilities		
Retail settlement variance accounts (RSVA's)	61	83
Net refund of regulatory balances	12	–
Deferred revenue (adjustment to capitalization policy)	5	–
Re-measurements of post-employment benefits	4	2
Other	2	1
Total Regulatory Liabilities	84	86

- (a) The most significant regulatory activities included in the regulatory adjustments are: retail settlement variances; the difference between the cost of the electricity commodity and the sales revenue at the OEB allowed rates. Specifically, these amounts include variances between the amounts charged by Hydro One and the IESO for the operation of the electricity markets and grid, as well as various wholesale market settlement charges and transmission charges as compared to the amount billed to consumers based on the OEB-approved rates. Under regulatory accounting, Alectra Utilities would have adjusted energy sales or purchases for these variances with corresponding assets or liabilities. Under IFRS, the Corporation recognizes these differences in future periods as an increase or decrease to distribution revenue, when these differences are settled with customers.

ALECTRA INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018 and eleven months ended December 31, 2017

(In millions of Canadian dollars)

30. Divisional information (continued)

- (b) The OEB approved a variance account to record revenues associated with the delivery of CDM programs. The variance account tracks the difference between the results of actual, verified impacts of CDM activities and the level of CDM program activities included in a distributor's load forecast. Alectra Utilities may recover or refund this revenue through future distribution rates.
- (c) The OEB approved four deferral accounts to record qualifying incremental capital investments, operating, maintenance and administration expenses and funding adders approved by the OEB related to the connection of renewable generation or the development of smart grid. Under IFRS, Alectra Utilities capitalizes or expenses these items as incurred and recognizes revenue when funding is received.
- (d) The OEB approved a deferral account to record costs associated with replacing interval meters for its large commercial customers in order to meet amendments made to its Distribution System Code. Under IFRS, Alectra Utilities capitalizes or expenses the amounts in the period they were incurred.
- (e) The OEB requires Alectra Utilities to accrue interest on regulatory assets and liabilities balances. Under IFRS, Alectra Utilities recognizes the net interest on these balances in future periods as an increase or decrease to distribution revenue once approved for recovery or refund by the OEB.
- (f) The OEB approved a deferral account to record any re-measurements of the post-employment net defined liability including actuarial gains or losses. Under IFRS, Alectra Utilities recognizes any re-measurements of the post-employment net defined liability in other comprehensive income.
- (g) The OEB established a variance account for electricity distributors to record any material differences between OEB cost assessments currently built into rates and cost assessments that will result from the application of a new cost assessment model effective April 1, 2016. Under IFRS, Alectra Utilities recognizes these costs under operating expenses in the period they were incurred.
- (h) The OEB approved three variance accounts to record the difference between the revenue requirement calculated using pre-merger capitalization policies and the revenue requirement calculated using Alectra Utilities' capitalization policy. Under IFRS, the Corporation recognizes these differences as an increase or decrease to distribution revenue, and will recover or refund these differences through future distribution rates.
- (i) The OEB requires Alectra Utilities to record eligible incremental capital investments subject to the assets being used and useful, accumulated amortization and revenues collected through rate riders related to incremental capital projects approved by the OEB. Under IFRS, Alectra Utilities capitalizes or expenses these items as incurred and recognizes revenue in the period it was earned.

ALECTRA INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018 and eleven months ended December 31, 2017

(In millions of Canadian dollars)

30. Divisional information (continued)

- (j) The OEB approved a new pole attachment revenue variance account to record the difference between pole attachment revenue at the prior rate of \$22.35 per pole, and pole attachment revenue based on the new pole attachment charge effective September 1, 2018, of \$28.09. Under IFRS, Alectra Utilities recognizes the revenue based on the effective rate in the period the revenue was earned.
- (k) Deferred income taxes are presented as regulatory liabilities or assets and are not expensed through the Consolidated Statement of Income and Comprehensive Income as is the case under IFRS.

Future regulatory accounting treatments prescribed by the OEB and government policy changes may affect the electricity distribution rates charged and recoverable costs permitted by the OEB. Therefore, there is a risk that the timing and amount of recovery or settlement of amounts included in the adjustment for regulatory activities could be significantly different from the amounts that are eventually recovered or settled through distribution rates in the future.

31. Subsequent event*Merger*

On January 1, 2019, the Corporation amalgamated with Guelph Hydro Electric Systems Inc. ("GHESI"). The Corporation issued 485,000 Class G Common Shares to Guelph Municipal Holdings Inc. ("GMHI") in consideration for all the issued and outstanding shares of GHESI. This common share issuance by the Corporation represents an effective 4.6% interest in its aggregate issued and outstanding classes of common shares. The amalgamation is expected to result in more efficient and enhanced service delivery through lower operating costs, while providing significant benefits for communities and shareholders.

The new shareholder ownership structure as a result of this merger is as follows: Barrie Hydro Holdings - 8.4%; Enersource Corporation - 29.6%; Hamilton Utilities Corporation - 17.3%; Markham Enterprises Corporation - 15.0%; St. Catharines Hydro Inc. - 4.6%; Vaughan Holdings Inc. - 20.5%; and GMHI - 4.6%.

The accounting and valuation for the amalgamation is still being finalized. Consequently, disclosures regarding the amount of the purchased assets and liabilities cannot be determined.

5.2

HAMILTON UTILITIES CORPORATION
(“The Corporation”)
SHAREHOLDER’S RESOLUTIONS
MAY 23, 2019

BE RESOLVED THAT:

5.2 Appointment of the Auditor

The Board of Directors of Hamilton Utilities Corporation recommends to the City of Hamilton, the Shareholder, that the present auditor, KPMG LLP be appointed as the auditors of the Corporation for the fiscal year 2019 and/or until the next Annual General Meeting.