



City of Hamilton

HAMILTON UTILITIES CORPORATION SHAREHOLDER ADDENDUM

Meeting #: 21-001
Date: June 10, 2021
Time: 11:15 a.m.
Location: Due to the COVID-19 and the Closure of City Hall (CC)

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

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Alectra Shareholder Meeting

Hamilton Utilities Corporation (HUC)

Q2 2021

Disclaimer

The information in these materials is provided for information purposes only and is based on information currently available to Alectra Inc. and its affiliates (collectively “Alectra”). Alectra does not warranty the accuracy, reliability, completeness or timeliness of the information and undertakes no obligation to revise or update these materials. Alectra (including its directors, officers, employees, agents, and subcontractors) hereby waives any and all liability for damages of whatever kind and nature which may occur or be suffered as a result of the use of these materials or reliance on the information therein.

This presentation contains, and oral answers to questions may contain, forward-looking information within the meaning of applicable Canadian securities laws (“forward-looking statements”). All statements other than statements of historical fact are forward-looking statements. Often, but not always, forward-looking statements can be identified by the use of the words such as “plans”, “expects”, “budget”, “scheduled”, “estimates”, “forecasts”, “intends”, “anticipates”, or “believes” or variations (including negative variations) of such words and phrases, or state that certain actions, events or results “may”, “could”, “would”, “might” or “will” be taken, occur or be achieved.

Forward-looking statements reflect the current expectations of Alectra’s management regarding future events and operating performance, but involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Alectra Inc. to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Actual events could differ materially from those projected herein and depend on a number of factors.

Although forward-looking statements contained herein are based upon what management believes are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements. Accordingly, prospective investors should not place undue reliance on forward-looking statements. The forward-looking statements contained herein speak only as of the date of this Investor Presentation. Except as required by applicable securities laws, Alectra does not undertake, and specifically disclaims, any obligation to update or revise any forward-looking statements, whether as a result of new information, future developments or otherwise, except as required by applicable law.

All references in this presentation are as of April, 2021 unless otherwise stated.

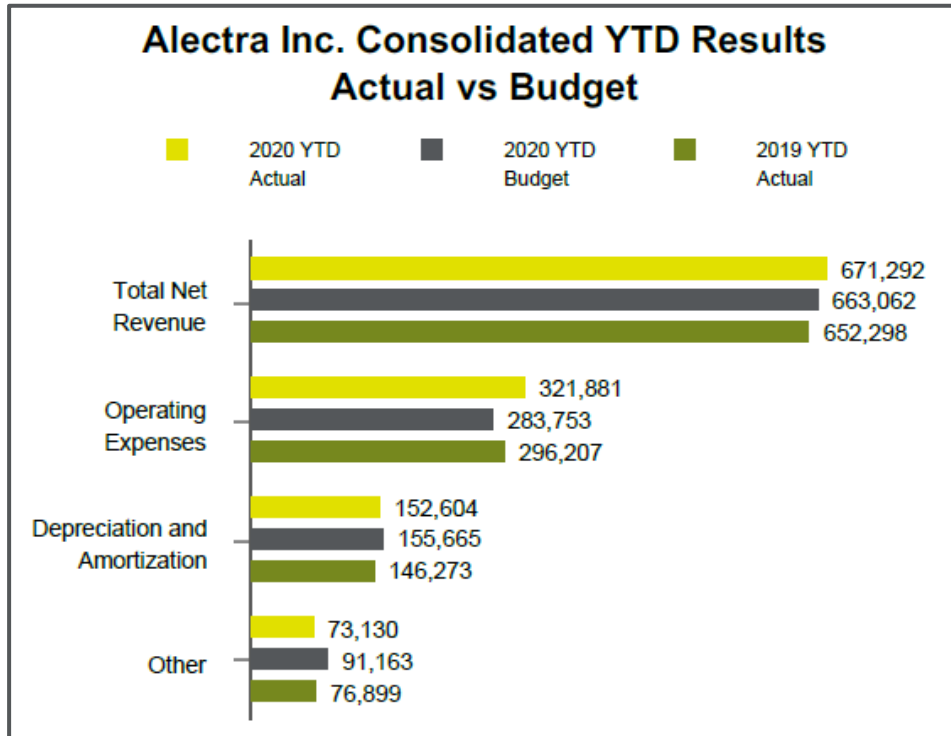
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Financial Performance

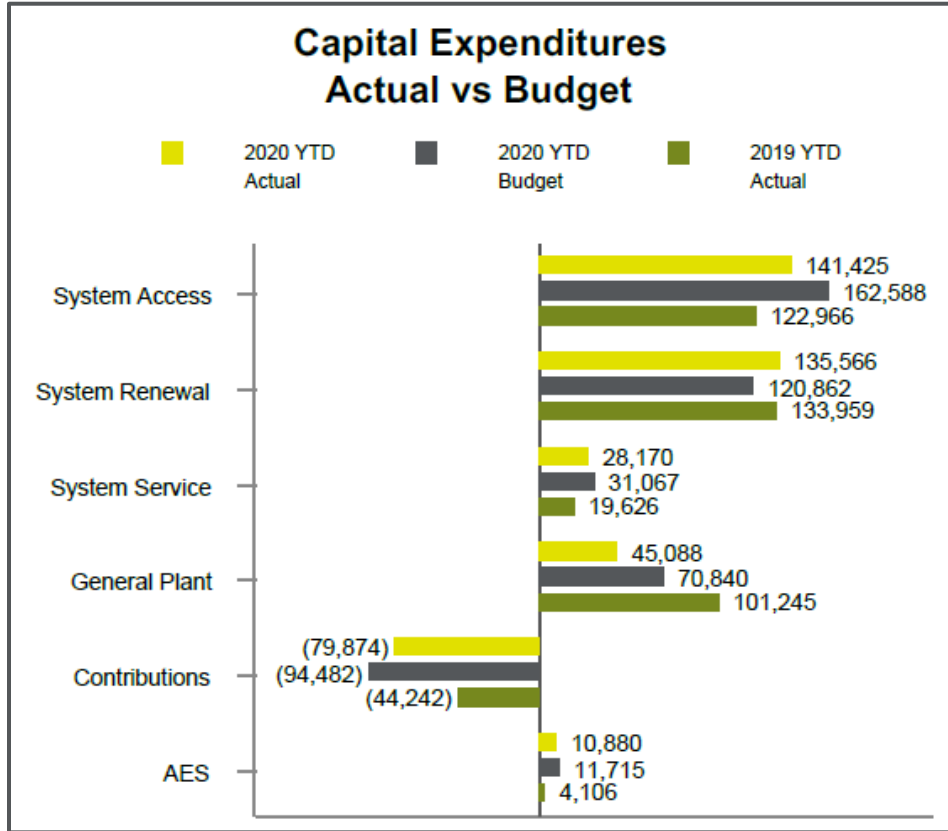
Financial Performance – Alectra Inc.



Despite the significant impacts of COVID-19 Pandemic on Alectra Inc.'s operations, the Modified IFRS **net income was \$123.7MM** on a consolidated basis for the year ended December 31, 2020, or **\$8.8MM lower than the budgeted** net income of \$132.5MM

- **Revenue**, net of cost of power for Alectra Inc. **was \$671.3MM** or **\$8.2MM favourable** to budget of \$663.1MM
 - Higher consulting revenue from U-A (\$7.8MM) and LED project revenue from Power Services (\$5.2MM); partially offset by
 - Lower distribution revenue due to lower demand in the GS>50kW customer class (\$4.6MM)
- **Expenses were \$474.5MM** or **\$35.1MM unfavourable** to the budget of \$439.4MM
 - higher provision for credit losses as a result of the Pandemic (\$23.0MM) and higher direct labour costs (\$13.3MM), partially offset by a FIT / MicroFit settlement (\$4.1MM)
- **Other expenses were \$18.0MM favourable** to budget
 - lower taxes due to lower net income before tax and higher capital cost allowance (\$9.3MM);
 - gain on derecognition of PP&E (\$6.8MM), primarily due to the sale of the Sandalwood operations centre;
 - favourable interest expense (\$2.0MM), due to lower borrowing costs, partially offset by higher fees on credit facilities.

Capital Expenditures- Alectra Inc.



Capital expenditures were \$281.3MM or \$21.3MM lower than the budget of \$302.6MM

Primary related to:

- lower **General Plant** costs due to the deferral of the Kennedy Road construction, Guelph transition projects and CCRA payments (\$25.8MM);
- lower **System Access** and **System Service** expenditures due to the cancellation and deferral of transit projects, delays in road authority and new connection projects, and the cancellation of Non-Wires Alternative project (\$24.1MM);

Partially offset by:

- higher **System Renewal** costs due to additional asset replacement work (\$14.7MM);
- lower customer contributions related to cancellation and deferral of transit projects (\$14.6MM)

Definitions:

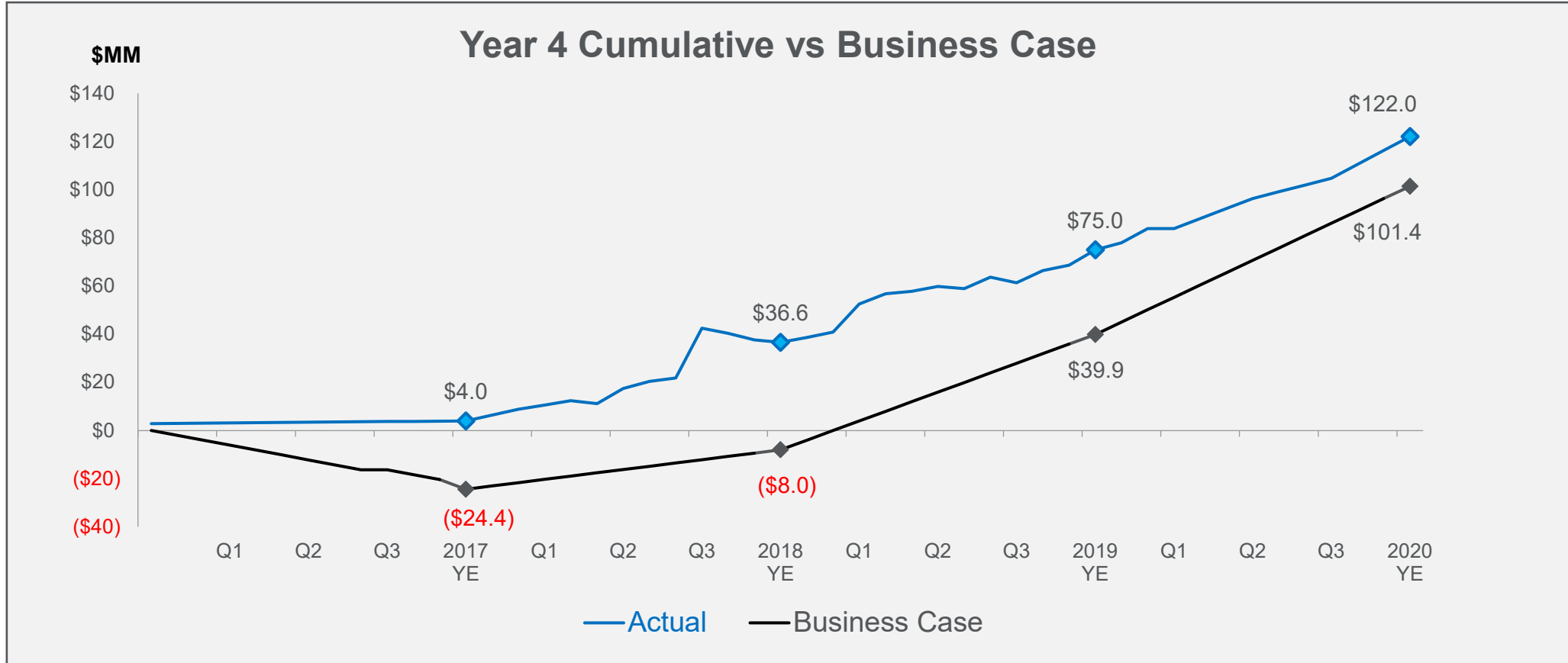
System access investments are modifications (including asset relocation) to a distributor’s distribution system a distributor is obligated to perform to provide a customer (including a generator customer) or group of customers with access to electricity services via the distribution system.

System renewal investments involve replacing and/or refurbishing system assets to extend the original service life of the assets and thereby maintain the ability of the distributor’s distribution system to provide customers with electricity services.

System service investments are modifications to a distributor’s distribution system to ensure the distribution system continues to meet distributor operational objectives while addressing anticipated future customer electricity service requirements.

General plant investments are modifications, replacements or additions to a distributor’s assets that are not part of its distribution system including land and buildings, tools and equipment, rolling stock and electronic devices and software used to support day to day business and operations activities.

Synergies - Alectra Inc.

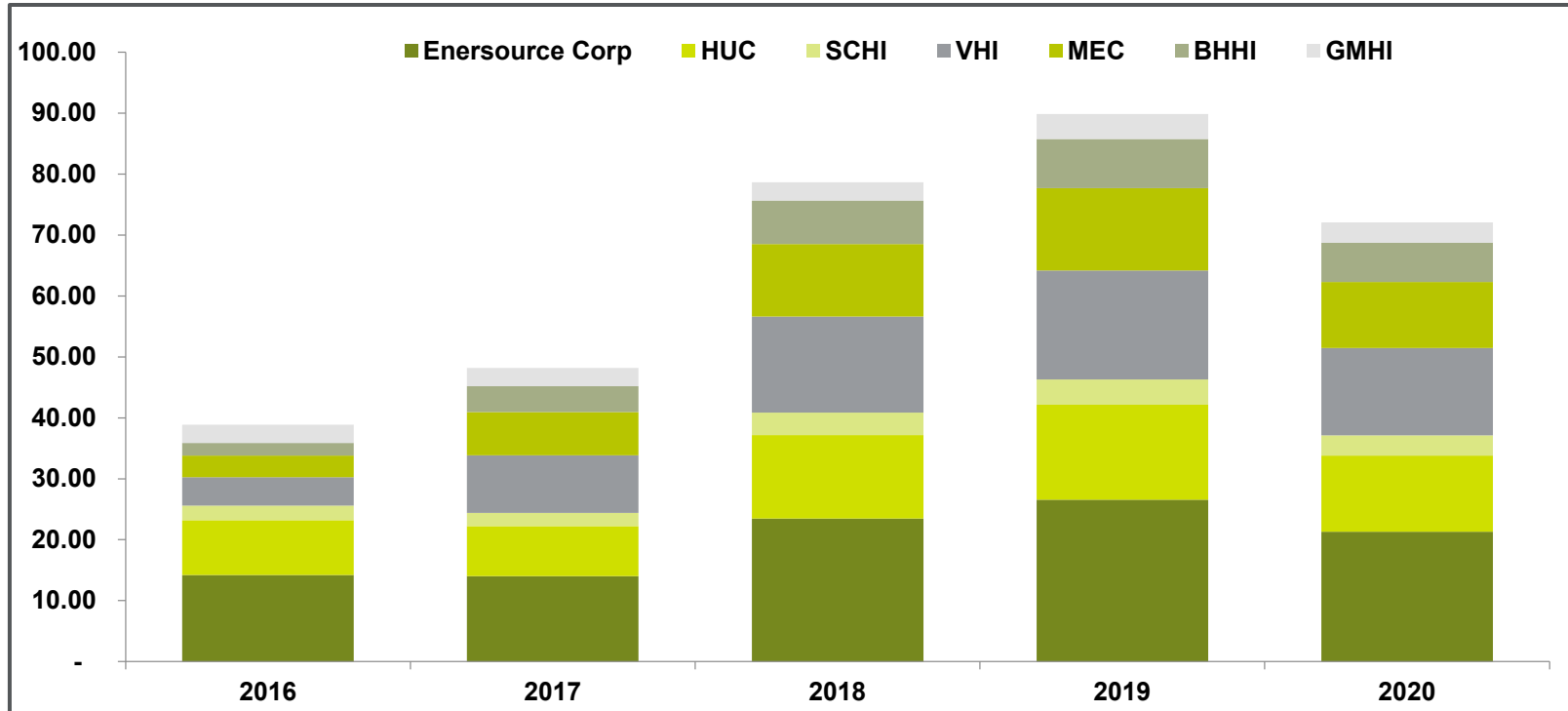


- **Net Synergies** are achieved to date are **\$20.6MM above** Alectra’s business case:
 - Operating Net Synergies \$55.1MM above business case
 - Capital Net Synergies \$34.5MM below business case

Dividends – Alectra Inc.

Shared and Predecessors

Dividends on Common Shares (2016 – 2020)



\$MM	2016	2017	2018	2019	2020	Total
Dividends on Common Shares	38.9	48.2	78.7	89.9	72.1	327.8

In the first four years following Alectra merger, Alectra paid \$275.5MM to the inaugural shareholders group, or \$10MM lower than estimated in Alectra original Business Case

Note: without the merger the inaugural shareholders would have seen \$204MM in standalone dividends

The merger has provided dividends \$71.5MM greater than the standalone course of action would have provided



Community Update

Community Update - Hamilton

- In 2021, Alectra plans to invest over \$250 million across our service territory, including Hamilton, in order to continue to deliver reliable electricity to your community
- Alectra continues to bring much needed infrastructure improvements to Hamilton through our annual capital plan
 - Expanding infrastructure to accommodate load growth in the area:
 - \$19 million over the next five years
 - Replacing deteriorating infrastructure to maintain and improve reliability and service quality:
 - \$30 million over the next five years; specifically to replace and rehabilitate poor condition underground cables

Community Support in 2021

- In 2021, Alectra has committed a total of **\$1 million** in sponsorship and donations.
- The alectraCARES Community Support Program is application-based, receiving over 100 applications from community groups across our service territory each year
- **2021 Program Focus:**
 - **Pandemic relief:** supporting front-line responses to the pandemic, food security issues, providing health resources, and relief for low-income vulnerable citizens
 - **Anti-racism:** Working in concert with municipalities, we have reached out to local community groups to partner in the fight against racism
 - Initiated a scholarship program with The Directors College, McMaster University DeGroote School of Business to offer support for BIPOC candidates seeking the designation of Chartered Director (“C.Dir”)
 - **Incorporating Employee Choice:** An employee survey was distributed in late 2020. The results helped inform our donations program and indicated that employees would like to see funding directed to mental health, poverty reduction and children & education

Supporting Hamilton

- Committed over **\$82,000** to community organizations supporting Hamilton.
- Donated **\$10,000 to Food4Kids Hamilton's Weekends Without Hunger**, ensuring at-risk, school-aged children have access to food over the weekends.
- Pledged **\$5,000 to YWCA Hamilton Walk a Mile In Her Shoes** to raise awareness and funds to end violence against women.
- Contributed **\$75,000** over the last four years to **Outward Bound**, providing outdoor education and experiences to underserved youth in Hamilton.
- Continue to support **Second Harvest's FoodRescue.ca in Hamilton**. Through our partnership, Second Harvest was able to expand its program into Hamilton, connecting businesses with surplus food to non-profit foodbanks and agencies.



CONNECTING WITH COURAGE

Community Update

Alectra is continuously working to connect with our customers and municipal partners through various communications channels, including:

Ally

- Municipal shareholder quarterly newsletter;
- Provides relevant customer-related information to councillors and city staff to share with constituents;

Customer Newsletter

Provides timely and helpful electricity news that matters to our customers;
Includes articles about Alectra services, new developments, support programs, electricity prices, energy conservation, safety tips, industry news, corporate social responsibility, and much more



Message from Brian

It's hard to believe that it has been over a year since the start of the pandemic. We have come a long way – together. With the welcome arrival of spring and vaccine supply ramping up, I am hopeful that we will soon start to see progress in working towards our “new normal.” As such, vaccines are now being made available to every adult in Ontario, and I am happy to know that our dedicated lines people, control room and support staff who work hard to ensure the lights stay on are now eligible to receive their vaccines as essential workers. Alectra is also part of a rapid-testing pilot project being run by the government of Ontario. The project allows Alectra to test for COVID-19 among a volunteer group of essential employees, helping to keep our employees and communities safe. While we still have a long road ahead, looking back on the past year I am extremely proud of the many ways Alectra has come together to help those in need, and how we have supported each other at the same time.

 Brian Bentz
President and CEO





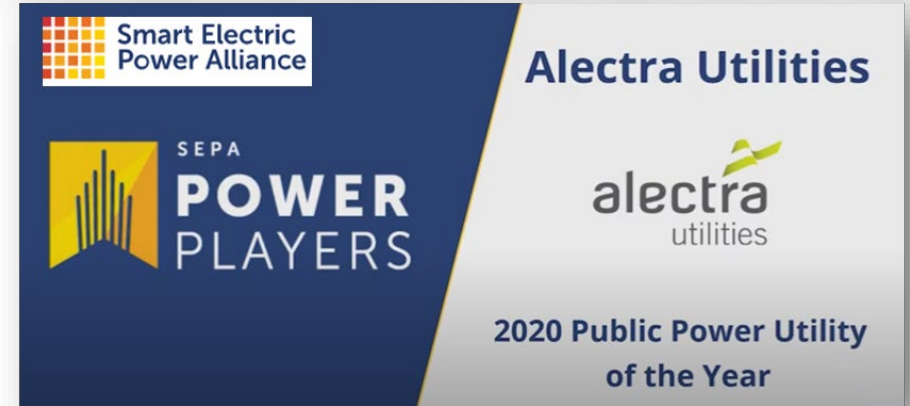
Recognition & Awards

Recognition & Awards (2020)

Corporate Knights ranks Alectra #3 in Canada on Best 50 Corporate Citizens list



Alectra Utilities named 2020 Public Power Utility of the Year by SEPA



Anastasia Boutziouvis, Green Energy and Technology Specialist at Alectra is recognized as a Corporate Knights 30 under 30 sustainability leader in Canada



Electricity Distributors Association Environmental Excellence Award



Recognition & Awards (2020)

Alectra becomes the first ever recipient of the Sustainability Leadership Award presented by Sustainable Hamilton Burlington



Sustainable Hamilton Burlington · 2d
The Winner of the "Overall Sustainability Leadership Award 2019" goes to @alectranews
Congratulations!!
#8thAnnualEOR
#SHBSustainabilityAwards2019



Alectra named top fundraiser for YWCA's Walk A Mile In Her Shoes



Alectra is honoured as Co-operative Education Employer of Distinction Award by Conestoga College



Canadian Electricity Association

Association canadienne de l'électricité

Alectra receives the 2020 Tom Mitchell EV Leadership Award for Utilities, presented by Plug 'N Drive and the CEA



Awards & Recognition (2021)

- ‘Best 50 Corporate Citizens’ list by Corporate Knights (public in June 2021)
- Electricity Distributors Association Communications Excellence Award (May 2021)
- ‘Canada’s Clean50’ – Caroline Karvonen, Manager, Sustainability (April 2021)
- ‘Hermes Creative Award’ – Alectra Utilities website (April 2021)
- ‘Inspiring Local Love’ Award - (United Way Halton & Hamilton) (March 2021)





Thank You

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Баярлалаа
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Hamilton Utilities Corporation Annual General Meeting

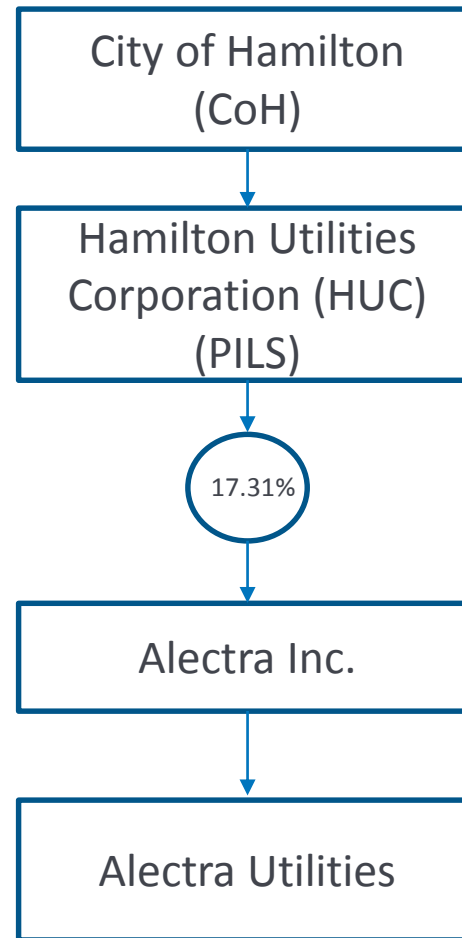
June 10, 2021



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- Introduction of Board Members, Management and Guests in attendance
- HUC Corporate Structure
- Resolutions to be heard

Current HUC Corporate Structure



HUC Resolutions

- Approval of the HUC Audited Consolidated Financial Statements – Year Ended December 31, 2020
- Appointment of the Auditor of the Corporation for 2021
- Continuation of the Directors of the Corporation

Hamilton Utilities Corporation

QUESTIONS



**Hamilton Utilities Corporation
Auditors' Report to the Shareholder
and Financial Statements
Year Ended December 31, 2020**



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Commerce Place
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INDEPENDENT AUDITORS' REPORT

To the Shareholder of Hamilton Utilities Corporation

Opinion

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

- the statement of financial position as at December 31, 2020
- 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, 2020, and its financial performance and its 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 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.



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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.



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- 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.

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 horizontal line that starts under the 'K' and ends under the 'P', with a small upward tick at the end.

Chartered Professional Accountants, Licensed Public Accountants

Hamilton, Canada

May 27, 2021



Statement of Financial Position

As at December 31, 2020, with comparative information for 2019
(stated in thousands of Canadian dollars)

	2020	2019
Assets		
Current assets		
Cash and cash equivalents <i>[note 4]</i>	\$ 48	\$ 42
Accounts receivable	24	22
Current portion of long-term receivables <i>[note 6]</i>	–	324
	72	388
Non-current assets		
Investment in Alectra Inc. <i>[note 5]</i>	350,198	351,550
Long-term receivables <i>[note 6]</i>	–	6,156
Due from related parties <i>[note 11]</i>	2,426	2,130
Notes receivable from corporations under common control <i>[note 11]</i>	13,786	51,772
Deferred payments in lieu of income taxes <i>[note 7]</i>	473	461
	366,883	412,069
Total assets	\$ 366,955	\$ 412,457
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 8	\$ –
Current portion of long-term borrowings <i>[note 6]</i>	–	324
	8	324
Non-current liabilities		
Long-term borrowings <i>[note 6]</i>	–	6,156
Due to related parties <i>[note 11]</i>	3,241	2,920
Deferred payments in lieu of income taxes <i>[note 7]</i>	64,685	65,024
	67,926	74,100
Total liabilities	67,934	74,424
Shareholder's equity		
Share capital <i>[note 8]</i>	129,897	129,897
Accumulated other comprehensive loss	(4,893)	(4,200)
Retained earnings	174,017	212,336
Total shareholder's equity	299,021	338,033
Total liabilities and shareholder's equity	\$ 366,955	\$ 412,457

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

On behalf of the Board:

Director

Director



Statement of Comprehensive Income

For the year ended December 31, 2020, with comparative information for 2019
(stated in thousands of Canadian dollars)

	2020	2019
Management fee income	\$ 156	\$ 353
Total revenue	156	353
Expenses:		
Operating expenses	188	816
	188	816
Loss from operating activities	(32)	(463)
Finance income <i>[note 9]</i>	12	248
Finance charges <i>[note 9]</i>	(5)	(248)
Gain on dilution of investment in Alectra Holdings Inc. <i>[note 5]</i>	–	979
Equity income in Alectra Holdings Inc. <i>[note 5]</i>	13,147	10,541
Income before payments in lieu of income taxes	13,122	11,057
Payments in lieu of income taxes (recovery) <i>[note 7]</i>	(351)	-(1,842)
Net income	13,473	12,899
Other comprehensive income (loss)		
Items that may be reclassified to income – loss on bond forward:		
Share of Alectra Holdings Inc.'s reclassification to net income	346	173
Dilution of investment in Alectra Holdings Inc. reclassification to net income	–	24
	346	197
Items that will not be subsequently reclassified to income:		
Remeasurement of Alectra Holdings Inc. defined benefit obligation	(1,212)	(3,636)
Tax impact on remeasurement of defined benefit obligation	173	867
Total other comprehensive loss	(693)	(2,572)
Total comprehensive income	\$ 12,780	\$ 10,327

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



Statement of Changes in Equity

For the year ended December 31, 2020, with comparative information for 2019
(stated in thousands of Canadian dollars)

	Share capital	Retained earnings	Accumulated other comprehensive loss	2020 Total	2019 Total
Balance at January 1	\$ 129,897	\$ 212,336	\$ (4,200)	\$ 338,033	\$ 341,675
Net income	–	13,473	–	13,473	12,899
Other comprehensive loss	–	–	(693)	(693)	(2,572)
Long-term debt forgiveness	–	6,156	–	6,156	–
Transfer of long-term receivable	–	(6,156)	–	(6,156)	–
Dividends	–	(51,792)	–	(51,792)	(13,969)
Balance at December 31	\$ 129,897	\$ 174,017	\$ (4,893)	\$ 299,021	\$ 338,033

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



Statement of Cash Flows

For the year ended December 31, 2020, with comparative information for 2019
(stated in thousands of Canadian dollars)

	2020	2019
OPERATING ACTIVITIES		
Net income	\$ 13,473	\$ 12,899
Adjustments for:		
Equity income in Alectra Holdings Inc.	(13,147)	(10,541)
Gain on dilution of investment in Alectra Holdings Inc.	–	(979)
Reclassification of OCI on dilution of Alectra Holdings Inc.	–	24
Management fee retained on dividends	(156)	(353)
Deferred payments in lieu of income taxes (recovery) [note 8]	(351)	(1,842)
Payments in lieu of income taxes expense [note 8]	–	–
Finance income	(12)	(248)
Finance charges	5	248
Finance charges paid	(5)	–
Finance income received	12	–
Payments in lieu of income taxes paid	–	(56)
Payments in lieu of income taxes received	–	–
Change employee future benefits	–	(91)
Change in other assets and liabilities [note 10]	31	(698)
Net cash from operating activities	(150)	(1,637)
INVESTING ACTIVITIES		
Repayment of long term receivables	–	324
Decrease in temporary investments	–	1,000
Dividends received	13,806	13,969
Net cash from investing activities	13,806	15,293
FINANCING ACTIVITIES		
Dividends paid in the year	(13,650)	(13,616)
Repayment of long-term borrowings	–	(324)
Net cash used in financing activities	(13,650)	(13,940)
Decrease in cash and cash equivalents	6	(284)
Cash and cash equivalents, beginning of year	42	326
Cash and cash equivalents, end of year	\$ 48	\$ 42

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



Notes to Financial Statements

For the year ended December 31, 2020
(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”) – 17.31%

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.

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

Notes to Financial Statements

For the year ended December 31, 2020
(stated in thousands of Canadian dollars)

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 Corporation owns a 17.31% interest in Alectra Inc., a local distribution company which distributes electricity to residents and businesses to customers in the Province of Ontario under a license issued by the Ontario Energy Board ("OEB"). 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 27, 2021.

(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.

Notes to Financial Statements

For the year ended December 31, 2020
(stated in thousands of Canadian dollars)

2. BASIS OF PREPARATION (CONTINUED):

(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 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) Notes 3(i) – recognition and measurement of provisions and contingencies

3. 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, 2020
(stated in thousands of Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Impairment

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.

The carrying amounts of the Corporation's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU"). The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to CGUs that are expected to benefit from the synergies of the combination.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro-rata basis, if applicable.

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

Notes to Financial Statements

For the year ended December 31, 2020
(stated in thousands of Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) 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.

Finance charges are calculated using the effective interest rate method and are recognized as an expense. Finance charges comprises interest expense on borrowings and interest and penalties on income tax payments and bank charges.

(e) 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.

Notes to Financial Statements

For the year ended December 31, 2020
(stated in thousands of Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Payments in lieu of income taxes (continued)

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.

(f) 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.

Management fee income is recognized in revenue at the amount agreed upon with the City of Hamilton upon distribution of annual dividends to the City.

(g) 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.

(h) 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.



Notes to Financial Statements

For the year ended December 31, 2020
(stated in thousands of Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) 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.

4. CASH AND CASH EQUIVALENTS

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

5. 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.



Notes to Financial Statements

For the year ended December 31, 2020
(stated in thousands of Canadian dollars)

5. 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.

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 17.31%, effective January 1, 2019.

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:

	2020	2019
Current assets	\$ 745,000	\$ 625,000
Non-current assets	4,605,000	4,431,000
Current liabilities	(1,060,000)	(750,000)
Non-current liabilities	(2,554,000)	(2,559,000)
Net assets (100%)	1,736,000	1,747,000
Ring Fenced Solar Portfolio Net Assets	(10,395)	(13,212)
Fair value bump	296,145	296,145
	2,021,750	2,029,933
Carrying value of investment in Alectra at 17.31% (2019 at 17.31%)	\$ 350,198	\$ 351,550

Investment in Alectra Inc.	2020	2019
Opening investment as at January 1	\$ 351,550	\$ 356,595
Share of income	13,147	10,541
Share of OCI	(693)	(2,596)
Dividends received	(13,806)	(13,969)
Gain on dilution	—	979
Ending investment as at December 31	\$ 350,198	\$ 351,550



Notes to Financial Statements

For the year ended December 31, 2020
(stated in thousands of Canadian dollars)

5. INVESTMENTS IN ALECTRA INC. (CONTINUED)

The following provides condensed supplementary financial information for the operations of Alectra Inc. for the year ended December 31, 2019.

	2020	2019
Revenue	\$ 4,162,000	\$ 3,779,000
Depreciation and amortization	(165,000)	(158,000)
Other expenses	(3,816,000)	(3,463,000)
Finance income	1,000	1,000
Finance expense	(75,000)	(75,000)
Income tax expense	(28,000)	(20,000)
Net income	79,000	64,000
Ring Fenced Solar Portfolio net income	3,513	3,102
Net income attributable to common shareholders	75,487	60,898
Share of income at 17.31%	\$ 13,147	\$ 10,541
Other comprehensive income attributable to common shareholders	(4,000)	(15,000)
Share of other comprehensive loss 17.31%	\$ (693)	\$ (2,596)

6. LONG-TERM RECEIVABLES AND BORROWINGS

Long-term receivables related 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 were 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).

Prior to year-end, the Corporation and the City, along with HCE formally entered into an assignment agreement to transfer both the remaining long-term receivable in the amount of \$6,156 and long-term borrowing in the amount of \$6,156 to the City and HCE respectively. As at December 31, 2020, the Corporation has no further contractual right to cash flows from long-term receivables and no obligation to settle long-term borrowings with the City.

The settlement transaction comprised of long-term debt forgiveness and the transfer of long-term receivable with related parties have been recognized directly in equity in the statement of changes in equity.

Interest expense for the long-term borrowings was \$nil (2018 - \$248). Interest revenue recognized was \$nil (2019 - \$248).



Notes to Financial Statements

For the year ended December 31, 2020
(stated in thousands of Canadian dollars)

7. PAYMENTS IN LIEU OF INCOME TAXES

Deferred and current payments in lieu of income taxes

	2020	2019
Deferred payments in lieu of income taxes (recovery):		
Origination and reversal of temporary differences	\$ (351)	\$ (1,842)
Payments in lieu of income taxes (recovery)	\$ (351)	\$ (1,842)
Reconciliation of effective tax rate		
	2020	2019
Income before taxes	\$ 13,122	\$ 11,057
Canada and Ontario statutory Income tax rates	26.5%	26.5%
Expected tax provision on income at statutory rates	3,477	2,930
Increase (decrease) in income taxes resulting from:		
Non-deductible expenses	(3,659)	(3,865)
Remeasurement of DBO, Alectra Inc.	(229)	(917)
Adjustment for prior years	38	(75)
Changes in tax rates	22	85
Income tax recovery	\$ (351)	\$ (1,842)

Deferred tax balances

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

	2020	2019
Deferred payments in lieu of income taxes:		
Other	\$ 156	\$ 157
Non-capital losses	317	280
Employee future benefits	—	24
Investment in Alectra Inc.	(64,685)	(65,024)
Deferred payments in lieu of income taxes	\$ (64,212)	\$ (64,563)



Notes to Financial Statements

For the year ended December 31, 2020
(stated in thousands of Canadian dollars)

8. SHARE CAPITAL

	2020	2019
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 \$13.806 per share (2019 - \$13.969) on the common shares during the year, amounting to a total dividend of \$13,806 (2019 - \$13,969).

As part of the restructuring that occurred in 2018 between the Corporation and the previous Corporation's subsidiaries, final restructuring steps were executed in 2020 which resulted in the formal assignment of notes receivable (see note 11) in exchange for a dividend issued in-kind to the Corporation's sole shareholder in the amount of \$37,986 (2019 - \$nil).

9. FINANCE INCOME AND CHARGES

	2020	2019
Interest income on bank deposits	\$ 12	\$ -
Interest income – Intercompany	-	248
Finance income	12	248
Interest expense – Intercompany	-	(248)
Other	(5)	-
Finance charges	(5)	(248)
Net finance income recognized in income	\$ 7	\$ -



Notes to Financial Statements

For the year ended December 31, 2020
(stated in thousands of Canadian dollars)

10. CASH FLOW INFORMATION

Net change in other assets and liabilities:

	2020	2019
Accounts receivable	\$ (2)	\$ (14)
Other current assets	–	56
Due from related parties	(296)	(2,130)
Due to related parties	321	2,920
Accounts payable and accrued liabilities	8	(1,530)
	<u>\$ 31</u>	<u>\$ (698)</u>

11. RELATED PARTY TRANSACTIONS

(a) Parent and ultimate controlling party

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

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

(b) Transactions with ultimate parent (the City)

The Corporation has received a formal assignment of the long-term borrowings previously held with the City, as described in note 6.



Notes to Financial Statements

For the year ended December 31, 2020
(stated in thousands of Canadian dollars)

11. RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Transactions with corporations under common control

Outstanding balances with related parties are as follows:

	2020	2019
Hamilton Enterprises Holding Corporation	\$ 1,477	\$ 3,524
Hamilton Enterprises Holding Corporation	–	19,987
New Energy Co. HCE Energy - 2017	–	788
Hamilton Infrastructure Projects Corporation	11,817	11,817
Hamilton Ventures Corporation	–	17,211
HIPCO CUP	2,400	–
HCE Energy Inc.	188	188
HCE Telecom	330	387
	16,212	53,902
HCE Energy Inc.	(1,750)	(1,750)
HCE Telecom	–	(56)
Hamilton Enterprises Holding Corporation	(1,491)	(1,114)
	(3,241)	(2,920)
TOTAL	\$ 12,971	\$ 50,982

As part of the Corporation's restructuring in 2018, certain notes receivable were recognized as a result of the sale of shares of the Corporation's previous subsidiaries. The Corporation executed the remaining restructuring steps approved by the Ministry of Finance with its sole shareholder, The Corporation of the City of Hamilton ("City"). As a result, and as described in note 8, notes receivable totalling \$37,986 were formally assigned to the City by way of a dividend in-kind. The amounts remaining from the initial notes receivable established on restructuring over and above the fair value for the shares agreed upon at the date of restructuring remain receivable as at December 31, 2020.

The Corporation paid management and administrative and billing fees to a corporation under common control in the amount of \$156 (2019 - \$353).

The Corporation has formally assigned their loan agreement with a related party as described in note 6.

Amounts owing to and from corporations under common control are non-interest bearing with no fixed terms of repayment.

Notes to Financial Statements

For the year ended December 31, 2020
(stated in thousands of Canadian dollars)

11. RELATED PARTY TRANSACTIONS (CONTINUED)

(d) Key management personnel

The key management personnel of the Corporation has been defined as members of its board of directors. No direct compensation has been paid to any key management personnel during the year or 2019.

12. Commitments and contingencies

The Corporation has guaranteed debt of a related party under common control in the amount of \$4,962,262 which is subject to a swap agreement. The swap contract as at December 31, 2020 is in an unfavorable position in the amount of \$509,381.

13. FINANCIAL INSTRUMENTS and risk management

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

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. The Corporation is not significantly exposed to increased financial risks as a result of COVID-19 given the current operational structure. 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. Accounts receivable consists primarily of amounts outstanding for HST as at year-end. The Corporation has determined that it is not subject to any significant credit risk and the carrying amount of accounts receivable have not been reduced for any loss allowance in 2020 or 2019.

(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, 2020
(stated in thousands of Canadian dollars)

13. 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 Corporation has minimal working capital requirements and does not believe there is significant exposure with respect to liquidity risk. The Corporation monitors liquidity risk through reviewing and determining dividends received and paid.

(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, 2020, shareholder's equity amounts to \$298,328 (2019 - \$338,033) and long-term borrowings amounts to \$nil (2019 - \$6,480).

14. COMPARATIVE INFORMATION

Certain comparative information has been reclassified to conform to the presentation adopted in the current year impact. There is no impact to retained earnings as a result of the reclassification.

March 8, 2021

By e-mail

Hamilton Utilities Corporation
21 King Street West, Suite 1400
Hamilton, ON L8P 4W7

Attention: Mr. Laurie Tugman, Chair of the Board

Dear Mr. Tugman,

RE: Alectra Inc. Annual Financial Statements Year Ended December 31, 2020

Please find attached the consolidated audited financial statements for Alectra Inc. for the year ended December 31, 2020 (“Annual Financial Statements”). This information is provided in compliance with Section 2.25 of the Unanimous Shareholders’ Agreement dated January 1, 2019 governing Alectra Inc.

In addition to the Annual Financial Statements, please find attached the following additional information:

1. Management’s Discussion and Analysis of the Annual Financial Statements;
2. Financial summary of consolidated operating results presented under Modified International Financial Reporting Standards;
3. Report with respect to information that is likely to be of material concern to the Shareholders (USA s2.26(b))

Section 2.25 of the USA requires that the Annual Financial Statements be provided within thirty days after their delivery to the Alectra Inc. Board of Directors (the “Board”). The Board received and approved the Annual Financial Statements at its meeting on March 5, 2021.

Alectra Inc. Shared Financial Results – Year Ended December 31, 2020

Net income on a consolidated shared basis for 2020, as reported under Modified International Financial Reporting Standards (“MIFRS”), was \$120.2MM or \$9.1MM below the budget of \$129.3MM. Although the results for the year are lower than budgeted, this is principally due to the impacts of the COVID-19 Pandemic (“Pandemic”), as further described in the attached report. The significant impacts of the Pandemic on Alectra were mitigated, in part, by actions of management and other income-producing activities. These actions resulted in improved performance compared to the third quarter forecast for MIFRS Shared net income of \$110.9MM reported to Shareholders in November, an increase of \$9.3MM.

More information regarding the 2020 financial results is included in the 2020 Annual Financial Statements and associated Management Discussion and Analysis.

Final Dividends on Voting Shares in respect of 2020 Fiscal Year

The Dividend Policy for Alectra Inc. provides for Regular Dividends on Voting Shares with a target of 60% of consolidated net income as reported under MIFRS but excluding the financial results relating to the former PowerStream Solar Business. The financial results relating to the former PowerStream Solar Business accrue to the benefit of the Solar Shareholders, which are presently represented by the former PowerStream shareholders: Barrie Hydro Holdings Inc.; Markham Enterprises Corporation; and Vaughan Holdings Inc.

Calculation of Final Dividend

The Board of Directors approved the final dividend in respect of 2020 on the above basis as follows (Net income reported on a MIFRS basis):

(\$MMs)	
Net Income for Dividends	120.164
Dividends @ 60%	72.098
Quarterly Dividends Paid	(36.510)
Final Dividend in respect of 2020	35.588
Comparison to 2020 Financial Plan	
Dividends @ 60%	72.098
Dividends per 2020 Financial Plan	77.617
Difference	(5.519)

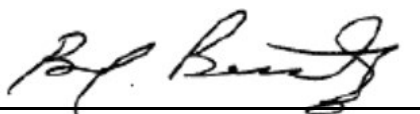
Note: The Final Dividend will effectively true-up prior quarterly dividend payments to the quarterly rate approved by the Board in March 2020.

The Final Dividend in respect of 2020 of \$35.59MM (rounded) will be paid to shareholders of record on December 31, 2020 holding Voting Shares on March 19, 2021 as follows:

	Voting Common Dividend
Vaughan Holdings Inc.	\$7,294,157.53
Markham Enterprises Corporation	\$5,339,092.50
Barrie Hydro Holdings Inc.	\$2,980,116.48
Enersource Corporation	\$10,522,051.34
Hamilton Utilities Corporation	\$6,160,491.35
St. Catharines Hydro Inc.	\$1,646,191.90
Guelph Municipal Holdings Inc.	\$1,646,191.90
Total	\$35,588,293.00

Please do not hesitate to contact Danielle Diaz at 905-798-2557 or danielle.diaz@alectrautilities.com if you require any further information in regard to this report.

Sincerely,



Brian J. Bentz
President and
Chief Executive Officer



John G. Basilio
Executive Vice President and
Chief Financial Officer

- cc. Norm Loberg – Chair of the Board of Directors
Dennis Nolan – EVP and General Counsel and Corporate Secretary
Robert Hull – Partner, Gowling WLG
Jeffrey Cowan, P.Eng - President & CEO
Adelaide Mendes-Goom, CPA - Sr. Accounting Manager
Lisa Weaver – EA, Hamilton Utilities Corporation

Management's Discussion and Analysis

Alectra Inc.

Year ended December 31, 2020

GLOSSARY

The following acronyms and abbreviations are used in this document.

AES	Alectra Energy Solutions Inc.
AESI	Alectra Energy Services Inc.
AFFO	Adjusted Funds from Operations
Alectra Utilities	Alectra Utilities Corporation
AMSP	Alectra Microgrid Services Project (Georgian) Limited Partnership
APSI	Alectra Power Services Inc.
CC	Customer Contributions
CEAP	COVID-19 Energy Assistance Program
COVID-19	Coronavirus Disease 2019
CP	Commercial Paper
DBRS	Dominion Bond Rating Service
DER	Distributed Energy Resource
DSP	Distribution System Plan
EBITDA	Earnings before interest, taxes, depreciation and amortization
ECL	Expected Credit Losses
ERM	Enterprise Risk Management
FFO	Funds from Operations
GA	Global Adjustment
GHG	Greenhouse Gas
GP	General Plant
GRE&T	Green Energy and Technology Centre
HPSI	Holland Power Services Inc.
IASB	International Accounting Standards Board
ICI	Industrial Conservation Initiative
ICM	Incremental Capital Module
IESO	Independent Electricity System Operator
IFRS	International Financial Reporting Standards
IR	Incentive Rate
kWh	Kilowatt-hour
LED	Light Emitting Diode
LDC	Local Distribution Company
MD&A	Management Discussion and Analysis
MIFRS	Modified International Financial Reporting Standards
OEB	Ontario Energy Board
OEBA	Ontario Energy Board Act
OEFC	Ontario Electricity Finance Corporation
PP&E	Property, Plant, and Equipment
RPP	Regulated Price Plan
RRF	Renewed Regulatory Framework for Electricity Distributors
SA	System Access
SAIDI	System Average Interruption Duration Index
SAIFI	System Average Interruption Frequency Index
SR	System Renewal
SS	System Service
TOU	Time-of-Use
UA	Util-Assist Inc.
WMS	Wholesale Market Service

ALECTRA INC.

Management's Discussion and Analysis

For year ended December 31, 2020

in millions of Canadian dollars



FORWARD LOOKING STATEMENTS AND INFORMATION

The oral and written public communications of Alectra Inc. ("the Corporation"), including this document, often contain forward-looking statements that are based on current expectations, estimates, forecasts and projections about the business and the industry in which the Corporation operates, and include beliefs and assumptions made by the management of the Corporation. Such statements include, but are not limited to:

- Statements about strategy, including strategic objectives;
- Statements related to economic conditions;
- Statements related to the impact of the Coronavirus Disease 2019 pandemic ("the COVID-19 pandemic");
- Statements regarding liquidity and capital resources and operational requirements;
- Statements regarding credit facilities and other sources of corporate liquidity;
- Statements regarding ongoing and planned projects and/or initiatives including the expected results of these projects and/or initiatives and their completion dates;
- Statements regarding expected future capital and development expenditures, the timing of these expenditures and investment plans;
- Statements regarding contractual obligations and other commercial commitments;
- Statements related to the Ontario Energy Board ("OEB");
- Statements regarding future post-retirement benefit contributions, and actuarial valuations;
- Statements related to the outlook and approach of the Corporation to distribution sector rationalization;
- The estimated impact of changes in the forecasted long-term Government of Canada bond yield (used in determining the regulated rate of return) on the results of operations;
- Expectations regarding financing activities; and
- Expectations regarding the recoverability of large capital expenditures.

Words such as "expect", "anticipate", "intend", "attempt", "may", "plan", "will", "believe", "seek", "estimate", "goal", "aim", "target", and variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve assumptions, risks and uncertainties that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed, implied or forecasted in such forward-looking statements. The Corporation does not intend, and disclaims any obligation, to update any forward-looking statements, except as required by law. These forward-looking statements are based on a variety of factors and assumptions including, but not limited to the following:

- Unforeseen changes in the legislative and operating framework for Ontario's electricity market;
- Decisions from the OEB and other regulatory bodies concerning outstanding rate and other applications;
- Delays in obtaining required approvals;
- Unforeseen changes in rate orders or rate structures;
- A stable regulatory environment;
- Impact of the evolving COVID-19 pandemic on the Corporation's business;
- The ability of the Corporation to successfully implement its business continuity with respect to the COVID-19 pandemic;
- Unexpected changes in environmental regulation; and
- Unforeseen significant events occurring outside the ordinary course of business.

ALECTRA INC.

Management's Discussion and Analysis

For year ended December 31, 2020

in millions of Canadian dollars

**FORWARD LOOKING STATEMENTS AND INFORMATION (continued)**

These assumptions are based on information currently available to the Corporation, including information obtained from third-party sources. Actual results may significantly differ from those predicted by such forward-looking statements.

Readers are cautioned that the above list of factors is not exhaustive. Some of these and other factors are discussed in more detail in the section "Risk Factors" in this Management Discussion and Analysis ("MD&A"). In addition, the Corporation cautions the reader that information provided in this MD&A regarding the Corporation's outlook on certain matters, including future expenditures, is provided in order to give context to the nature of some of the Corporation's future plans and may not be appropriate for other purposes.

ALECTRA INC.

Management's Discussion and Analysis

For year ended December 31, 2020

in millions of Canadian dollars



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ALECTRA INC.

Management's Discussion and Analysis

For year ended December 31, 2020

in millions of Canadian dollars



INTRODUCTION

The following discussion and analysis of the consolidated financial condition and results of operations of the Corporation should be read together with its Consolidated Financial Statements and accompanying notes for the year ended December 31, 2020 (the "Consolidated Financial Statements").

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and in effect at December 31, 2020. All dollar amounts in the tables are in millions of Canadian dollars, which are presented in whole numbers.

CORPORATE OVERVIEW

Alectra Inc. is indirectly owned through holding companies by eight shareholders: the City of Barrie; the City of Hamilton; the City of Markham; the City of Mississauga; the City of St. Catharines; the City of Vaughan; the City of Guelph; and BPC Energy Corporation. Alectra Inc. was created in 2017 by ("Merger Transaction"): i) the amalgamation of the former entities: PowerStream Holdings Inc.; Enersource Holdings Inc.; and Horizon Holdings Inc.; ii) the acquisition of Hydro One Brampton Networks Inc. and its subsequent amalgamation with Alectra Utilities Corporation ("Alectra Utilities"), a subsidiary of the Corporation. In 2019, Guelph Hydro Electric System Inc. was acquired and subsequently amalgamated with Alectra Utilities.

Alectra Inc. is an investment holding company that owns 100% of the common shares of each of: Alectra Utilities; Alectra Energy Solutions Inc. ("AES"); and Horizon Solar Corporation ("Horizon Solar"). The Corporation also indirectly wholly owns Alectra Energy Services Inc. ("AESI") and Alectra Power Services Inc. ("APSI"). AESI, in turn, has wholly owned subsidiaries Util-Assist Inc. ("UA") and Alectra Microgrid Services Project (Georgian) Limited Partnership ("AMSP").

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**Alectra Utilities Corporation**

Alectra Utilities provides electricity distribution to approximately one million customers and is the second largest municipally-owned local distribution company ("LDC") in North America by customers. In addition to its electricity distribution business, Alectra Utilities also has a competitive commercial rooftop solar photovoltaic generation business ("Solar PV Business") under which it develops, constructs, owns, finances and operates rooftop photovoltaic generation equipment ("Solar PV Property"). The electricity generated by the Solar PV Business is sold to the Independent Electricity System Operator ("IESO") under its Feed-In-Tariff long term power purchase agreements.

Alectra Energy Solutions Inc.

AES is an Ontario-based company that provides customers with competitive business energy solutions through the use of innovative technologies. AES owns 100% of the common equity of each of AESI and APSI.

AESI provides wholesale metering and sub-metering services for condominium and commercial properties. AESI owns 100% of the shares of UA. UA provides 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.

APSI provides street lighting services including design, construction, and maintenance.

AMSP provides energy management services partnership which installs, owns and operates an industrial energy storage battery with Georgian College.

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Credit Rating

The Corporation's credit ratings are as follows:

	DBRS Morningstar			S&P Global Ratings		
	Date Confirmed	Credit Rating	Trend	Date Confirmed	Credit Rating	Outlook
Issuer rating	June 29, 2020	A	Stable	April 30, 2020	A	Stable
Senior unsecured debentures	June 29, 2020	A	Stable	April 30, 2020	A	Stable
Short term (Commercial Paper)	June 29, 2020	R1(low)	Stable			

Vision and Strategic Intent

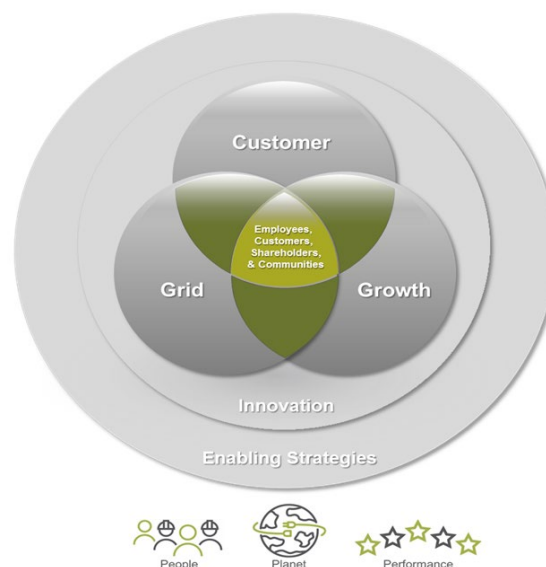
The Corporation's goal is to be Canada's leading distribution and integrated energy solutions provider, creating a future where people, businesses and communities will benefit from the full potential of energy.

The Corporation's initial Strategic Plan focused on the four key themes: (i) Managing the Transition; (ii) Optimizing operations and enhancing the Customer Experience; (iii) Growing the Business; and (iv) Building Corporate Resilience. In the first three-years following the Merger Transaction, the Corporation's efforts were heavily focused on managing the transition. This mainly consisted of systems, process and cultural integration in order to achieve the synergies identified in the merger business case and, ultimately, delivering the associated customer and shareholder benefits. The strategic objectives of the merger associated with the transition are substantially complete.

In 2020, the Corporation evolved its strategy to move beyond the merger transaction ("Strategy 2.0"), which is designed to be a natural evolution from the initial strategy focusing on three core strategic pillars:

- Customer (Experience);
- Grid (Modernization); and
- Growth (Regulated and Competitive).

Strategy 2.0 builds upon the Corporation's integration and synergy successes achieved to date. It ensures that the enterprise, as a whole, evolves into an integrated energy solutions corporation.



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Vision and Strategic Intent (continued)

The electricity sector is experiencing major change and transformation due, in part, to several global megatrends, such as: decarbonization; decentralization; democratization; and digitalization. The ability to prepare for and adapt to changing conditions as well as adapt to the transformation is essential to achieving the objectives of Strategy 2.0.

The strategy provides a roadmap for the Corporation's ongoing activities and sets its priorities in conjunction with foundational priorities of safety and sustainability. For further details on the values and the mission of the Corporation, please review the 2020 Annual Sustainability Report on the Corporation's website at: <https://www.alectra.com/annual-sustainability-report>

INDUSTRY 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.

The Ontario Energy Board Act, 1998 (Ontario) ("OEBA") 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 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 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 guided by its statutory objectives under the OEBA that include, among other matters, 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.

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**Rate Setting (continued)**

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* ("RRF"). The three rate-setting methods available to LDCs under the RRF are: Price Cap Incentive Rate-setting ("Price Cap IR"); Custom Incentive Rate-setting ("Custom IR"); or Annual Incentive Rate-setting Index ("Annual IR"). These methods are described in more detail in the Consolidated Financial Statements.

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.

Alectra Utilities is required to charge its customers for the following amounts (all of which, other than distribution rates, represent a pass-through of amounts payable to third parties):

- **Commodity Charge** - the commodity charge represents the market price of electricity consumed by customers and is passed through the IESO back to operators of generating stations. It includes the global adjustment ("GA"), which primarily represents the difference between the market price of electricity and the rates paid to regulated and contracted generators;
- **Retail Transmission Rate** - the retail transmission rate represents the costs incurred in respect of the transmission of electricity from generating stations to local distribution networks. Retail transmission rates are passed through to operators of transmission facilities;
- **Wholesale Market Service Charge ("WMS")** - the WMS charge represents various wholesale market support costs, such as the cost of the IESO to administer the wholesale electricity system, operate the electricity market, and maintain reliable operation of the provincial grid. Wholesale charges are passed through to the IESO; and
- **Distribution Rate** - the distribution rate is designed to recover the costs incurred by Alectra Utilities in delivering electricity to customers, including the OEB-allowed cost of capital. Distribution rates are regulated by the OEB and include fixed and variable (usage-based) components, based on a forecast of Alectra Utilities customers and electricity load.

ALECTRA INC.

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Rate Applications

2020 Rates Application

On May 28, 2019, Alectra Utilities filed an application for all four predecessor utilities (rate zones) for the approval of 2020 electricity distribution rates, effective January 1, 2020 to December 31, 2020. As part of the application, Alectra Utilities filed its first integrated five-year Distribution System Plan ("DSP") for its entire service area. Alectra Utilities requested approval for incremental capital funding for each of the five years related to the DSP, based on a rate-adjustment mechanism that reconciles the capital needs set out in the DSP with the capital-related revenue in rates. On December 12, 2019, the OEB issued its Partial Decision and Interim Rate Order on the Price Cap IR elements of the application, approving distribution rates on an interim basis effective January 1, 2020. On January 30, 2020, the OEB issued its Partial Decision and Order on Alectra Utilities' request for incremental capital funding. The OEB denied Alectra Utilities' multi-year incremental capital funding proposal but offered options for Alectra Utilities to refile under its ICM rate setting mechanism on a single or multi-year basis. On April 14, 2020, Alectra Utilities filed a letter with the OEB stating that it would not be seeking incremental funding for 2020 and requested that its 2020 rate order be made final. On April 23, 2020, the OEB issued its Final Rate Order on the 2020 application.

The following rate changes were effective as of the implementation dates:

- Horizon Rate Zone – Price Cap adjustment under the OEB's Price Cap IR. The resulting change to the distribution portion of the bill for a typical residential customer consuming 750 kWh per month in the Horizon Rate Zone is an increase of approximately 9 cents or 0.35%;
- Brampton Hydro Rate Zone – Price Cap adjustment under the OEB's Price Cap IR. 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 43 cents or 1.75%;
- PowerStream Rate Zone – Price Cap adjustment under the OEB's Price Cap IR. 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 35 cents or 1.21%;
- Enersource Rate Zone – Price Cap adjustment under the OEB's Price Cap IR. 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 46 cents or 1.80%; and
- Guelph Rate Zone – Price Cap adjustment under the OEB's Price Cap IR. 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 20 cents or 0.68%.

ALECTRA INC.

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Rate Applications (continued)

2021 Rates Application

On August 17, 2020, Alectra Utilities filed an application for all five predecessor utility rate zones for the approval of 2021 electricity distribution rates, effective January 1, 2021 to December 31, 2021. As part of the application, Alectra Utilities requested approval of 2021 incremental capital funding for the Brampton Hydro and PowerStream Rate Zones. On December 17, 2020, the OEB issued its Decision and Order, approving distribution rates and incremental capital funding, effective January 1, 2021, as follows:

- Horizon Rate Zone – Price Cap adjustment under the OEB's Price Cap IR. The resulting change to the distribution portion of the bill for a typical residential customer consuming 750 kWh per month in the Horizon Rate Zone will be an increase of approximately 75 cents or 2.77%;
- Brampton Hydro Rate Zone – Price Cap adjustment and incremental capital funding under the OEB's Price Cap IR. The resulting change to the distribution portion of the bill for a typical residential customer consuming 750 kWh per month will be an increase of approximately 61 cents or 2.44%;
- PowerStream Rate Zone – Price Cap adjustment and incremental capital funding under the OEB's Price Cap IR. The resulting change to the distribution portion of the bill for a typical residential customer consuming 750 kWh per month will be an increase of approximately 57 cents or 1.95%;
- Enersource Rate Zone – Price Cap adjustment under the OEB's Price Cap IR. The resulting change to the distribution portion of the bill for a typical residential customer consuming 750 kWh per month will be an increase of approximately 39 cents or 1.53%; and
- Guelph Rate Zone – Price Cap adjustment under the OEB's Price Cap IR. The resulting change to the distribution portion of the bill for a typical residential customer consuming 750 kWh per month will be an increase of approximately 71 cents or 2.40%.

Please refer to <https://www.alectrautilities.com/regulatory-affairs/> for the status of the Corporation's rate applications.

ALECTRA INC.

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Select Energy Policies and Regulation Affecting the Corporation

The COVID-19 Pandemic Response

On March 17, 2020, the Government of Ontario declared a province-wide state of emergency ("State of Emergency"), to protect the public and to help contain the spread of the COVID-19 pandemic. Both the provincial government and the OEB introduced certain measures throughout the year to assist electricity consumers in dealing with the financial impact of the COVID-19 pandemic. The measures include the following:

Government of Ontario Initiatives and Programs:

- Changes to Pricing for Time of Use ("TOU") Customers – At the time of the issuance of the State of Emergency the Ontario government suspended TOU rates and introduced a single rate of electricity fixed at 10.1 cents per kWh, from March 24, 2020 until May 31, 2020. Subsequently, the government announced the replacement of that rate with a new fixed COVID-19 Recovery Rate of 12.8 cents per kWh for residential and small business customers. This rate was applicable from June 1 until October 31, 2020. As of November 1, 2020, the Province suspended their fixed rate pricing and the OEB reinstated TOU billing rates of: 10.5 cents per kWh for off peak consumption; 15.0 cents per kWh for mid-peak consumption; and 21.7 cents per kWh for on peak consumption.

As of January 1, 2021, the government reintroduced a temporary rate of electricity fixed at 8.5 cents per kWh, 24 hours a day from January 1 to January 28, 2021. On January 27, 2021, the government announced the rate of 8.5 cents would be extended until February 9, 2021.

- Changes to the Industrial Conservation Initiative ("ICI") Program - On May 29, 2020, the government amended its GA Regulation to introduce flexibility for large commercial and industrial customers to qualify for the ICI Program. Consumers or market participants that did not qualify based on their average monthly peak demand during the May 1, 2019 to April 30, 2020 base period nevertheless qualified for Class A for the adjustment period commencing July 1, 2020 if they would have otherwise met the applicable threshold. Class A customers will also maintain their peak demand factor from the 2019-2020 period to determine their GA charges for the 2021-22 program.
- COVID-19 Energy Assistance Program ("CEAP") and CEAP for Small Business ("CEAP-SB") – The CEAP is an initiative by the Ontario government to make \$9 in funding available to support residential customers struggling to pay their energy bills as a result of the COVID-19 pandemic. On June 16, 2020, the OEB issued a Decision and Order to amend the licenses of distributors to implement the CEAP requirements. The allocation of funding was based on customer count for utilities across the province, resulting in approximately \$1 in funding available for Alectra Utilities' customers. A similar program targeted at small businesses allocated \$8 in funding to utilities in proportion to the number of small businesses within their service area, resulting in approximately \$1 allocated for Alectra's small business customers. The program targets GS<50 kW customers that use less than 150,000 kWh, annually. The programs are expected to continue until March 31, 2021.

ALECTRA INC.

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Select Energy Policies and Regulation Affecting the Corporation (continued)

Ontario Energy Board Initiatives and Consultation:

- **Disconnections Moratorium** – The OEB extended the disconnections moratorium for residential customers and expanded the moratorium to also include other low-volume consumers (defined as customers with annual consumption below 150,000 kWh) to include GS<50kW or small commercial customers. The disconnection ban, which generally commences on November 15 in each year and ends on April 30 in the following year, was extended until July 31, 2020.
- **Customer Assistance** – The OEB declared that distributors may waive or lower late payment or 'non-sufficient fund' charges and seek recovery for these items separately through future OEB rate applications. Alectra Utilities waived late payment charges for its residential and small commercial (GS<50kW) customers from April 15, 2020 to August 31, 2020.
- **Consultation on the Deferral Account – Impacts Arising from the COVID-19 Pandemic** – In March 2020, the OEB acknowledged that electricity distributors may incur incremental costs as a result of the ongoing COVID-19 pandemic. The OEB ordered the establishment of a deferral account for electricity distributors to use to track incremental costs and lost revenues. The OEB initiated a consultation to assist in developing guidance related to the deferral account including, where appropriate, the review and disposition of the accounts. The OEB did not release advance policy direction on potential for recovery of incremental costs. Consultants are supporting the OEB on the assessment of the COVID-19 pandemic impact. Following stakeholder consultations, the OEB anticipates finalizing COVID-19 pandemic recovery-related guidance in spring 2021.

Amendments to the Standard Supply Service Code

On June 1, 2020, the Government of Ontario announced it would introduce customer choice for Regulated Price Plan ("RPP") consumers that pay TOU prices. The Code amendments allow RPP customers to elect the pricing structure that best suits their needs. As such, these customers can now select whether their commodity charges will reflect TOU consumption and pricing or blocked tiered consumption and pricing. The OEB also approved the establishment of a generic deferral account for distributors to track the costs associated with implementing the customer choice initiative. The amendments were issued on October 13, 2020 with effect for customers as of November 1, 2020.

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**KEY BUSINESS STATISTICS**

	2020	2019	2019 OEB Benchmark ¹
System average interruption duration index ("SAIDI") ⁽²⁾	0.95	1.07	0.91
System average interruption frequency index ("SAIFI") ⁽³⁾	1.18	1.26	1.26

⁽¹⁾ The 2019 OEB benchmark is based on the average SAIDI and SAIFI index (excluding Hydro One Networks and rural distribution utilities) from the 2019 yearbook of Ontario electricity distributors.

⁽²⁾ SAIDI equals the average duration of a sustained interruption per customer during a predefined period. A sustained interruption has a duration greater than or equal to one minute, adjusted for loss of supply and major events. The lower the SAIDI, the better the reliability. SAIDI figures presented in the table above are in hours and have been adjusted to exclude loss of supply customer interruptions and major events.

⁽³⁾ SAIFI equals the average number of times a customer experiences a sustained interruption over a predefined period of time. A sustained interruption has a duration greater than or equal to one minute, adjusted for loss of supply and major events. The lower the SAIFI, the better the reliability. Alectra Utilities' SAIFI results have been adjusted to exclude loss of supply customer interruptions and major events.

Loss of Supply customer interruptions are due to problems associated with assets owned and/or operated by another party that supplies power to Alectra Utilities and as such are beyond Alectra's control.

A Major Event is defined as an event that is beyond the control of the distributor and is: a) unforeseeable; b) unpreventable; c) unavoidable and causes exceptional and/or extensive damage to assets, takes significantly longer to repair and affects a substantial number of customers.

In 2020, Alectra Utilities' SAIDI was 0.95 in 2020, compared to 1.07 in 2019 and SAIFI was 1.18, compared to 1.26 in 2019. This decrease is primarily attributed to: (i) fewer adverse weather-related events; (ii) fewer tree contact events; partially offset by (iii) a higher number of defective equipment failures. Underground cable and accessories related equipment failure continues to be a leading cause of outages, accounting for more than 40% of all defective equipment outages. Underground cable replacement and rehabilitation investment will continue to be a high priority for Alectra Utilities in 2021 and onward.

2020 Financial Results at a Glance:

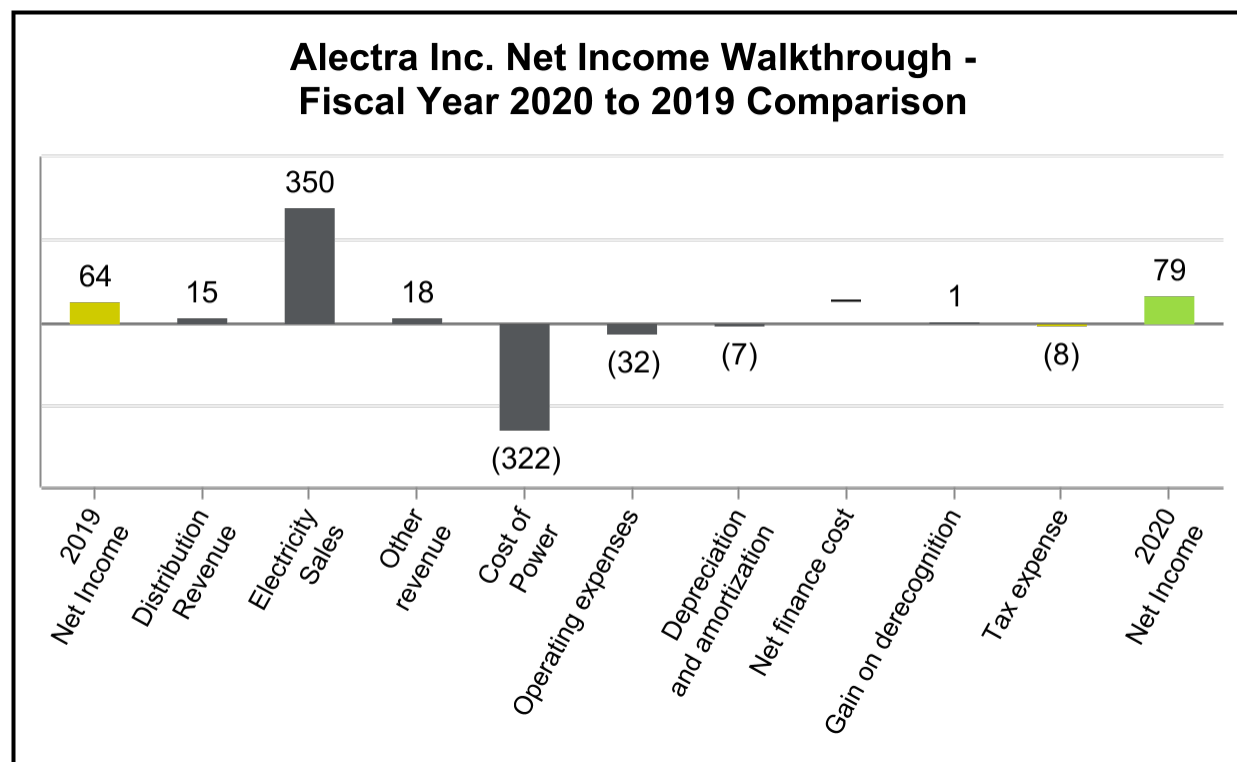


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**RESULTS OF OPERATIONS**

Net income for the year ended December 31, 2020 was \$79 which is \$15 higher than 2019 net income of \$64. The increase in net income is principally attributable to: (i) an increase in electricity sales driven by higher electricity prices (\$350); (ii) higher other revenue of (\$18) from LED projects and increased consulting revenue; and (iii) higher distribution revenue of (\$15) as a result of higher distribution rates; partially offset by (iv) an increase in cost of power of (\$322) as a result of higher wholesale electricity prices; (v) higher operating expenses (\$32) mainly due to increases in expected credit losses ("ECL") attributed to the COVID-19 pandemic; (vi) higher income taxes (\$8) due to higher net income in 2020; and (vii) higher depreciation and amortization costs (\$7) due to new in-service additions in 2020.

ALECTRA INC.

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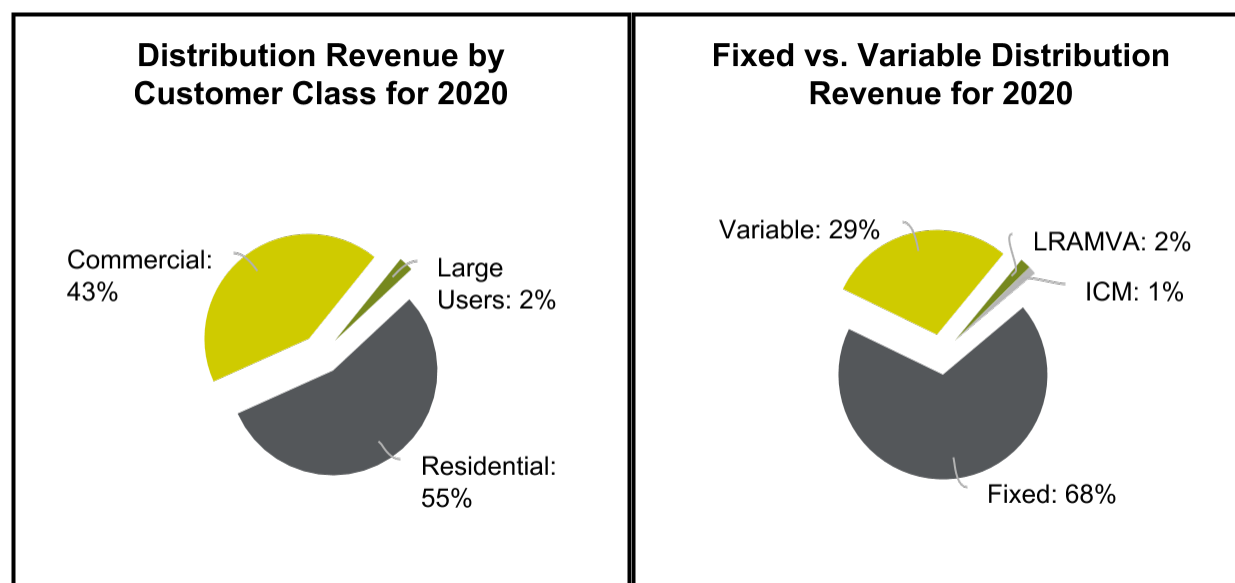
For year ended December 31, 2020

in millions of Canadian dollars

**RESULTS OF OPERATIONS (continued)**

	2020	2019	Change
Distribution Revenue	559	544	15

Distribution revenue is recorded based on OEB-approved distribution rates to recover the costs incurred by Alectra Utilities in delivering electricity to customers. The increase in distribution revenue is mainly attributable to: (i) higher distribution rates (\$9); (ii) lower refunds to customers through OEB approved rate riders (\$8); and (iii) an increase in customer growth in the residential and small commercial classes (\$3); partially offset by (iv) lower consumption and demand (\$5).



Alectra Utilities' customer classes are as follows:

- **Commercial** - the commercial class typically includes small businesses and bulk-metered multi-unit residential establishments that is provided to customers with a monthly peak demand of less than 5,000 kW averaged over a twelve-month period;
- **Residential** - the residential class includes single family or individually metered multi-family units and seasonal occupancy; and
- **Large users** - customers in the large users class have a monthly peak demand of 5,000 kW or greater averaged over a twelve-month period.

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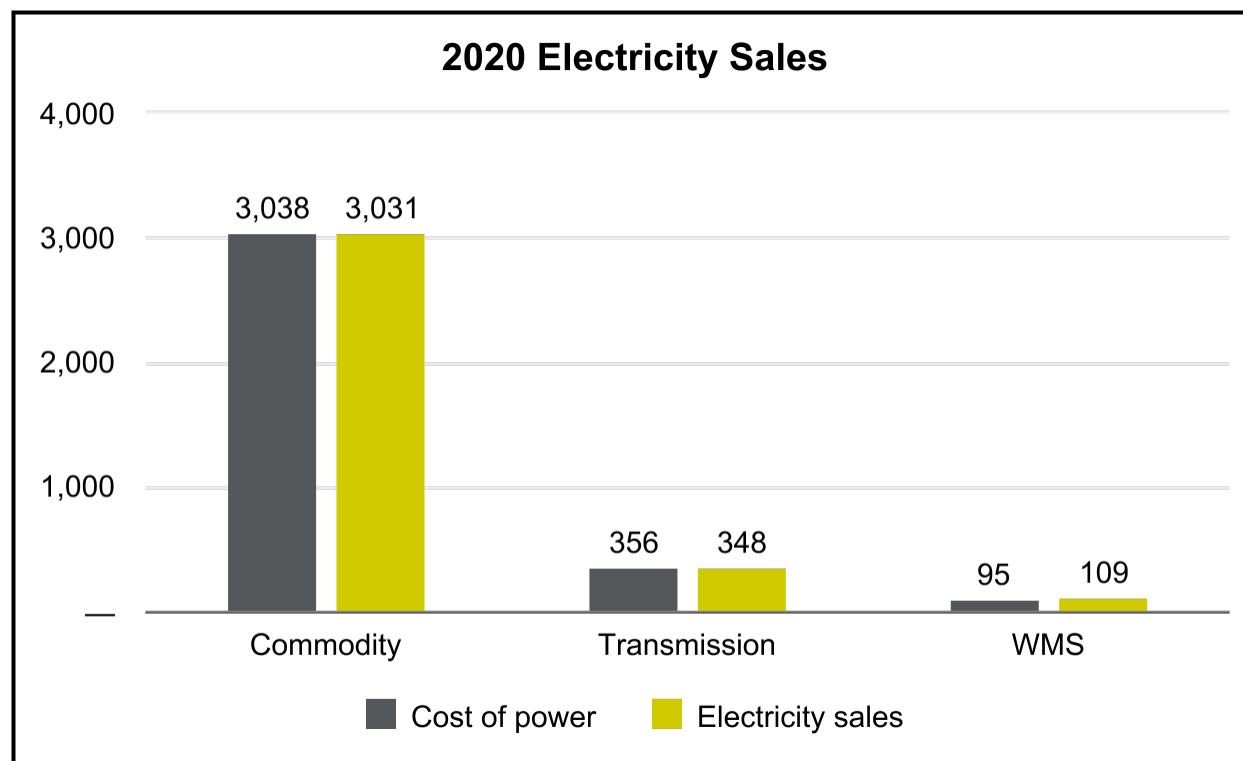
in millions of Canadian dollars

**RESULTS OF OPERATIONS (continued)**

	2020	2019	Change
Electricity Sales	3,488	3,138	350

Electricity sales arise from the responsibility of the Corporation for billing customers for electricity generated by third parties and the related costs of providing electricity service, as shown in the chart below. The amounts billed to the Corporation for electricity generation by the IESO and Hydro One Networks often differ from the amount that the Corporation recovers from its customers. The difference between sales of energy and the corresponding cost of power is a timing difference ultimately recoverable from or repayable to ratepayers prospectively through annual applications to the OEB to adjust the rates of the Corporation to settle such timing differences. Such differences as at the end of the prior fiscal year are generally settled over a twelve month period as of the effective date of such annual applications; or more generally, the thirteenth to twenty-fourth month following the end of the prior fiscal year.

The increase in electricity sales by \$350 is mainly driven by higher electricity prices in the current year results.



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**RESULTS OF OPERATIONS (continued)**

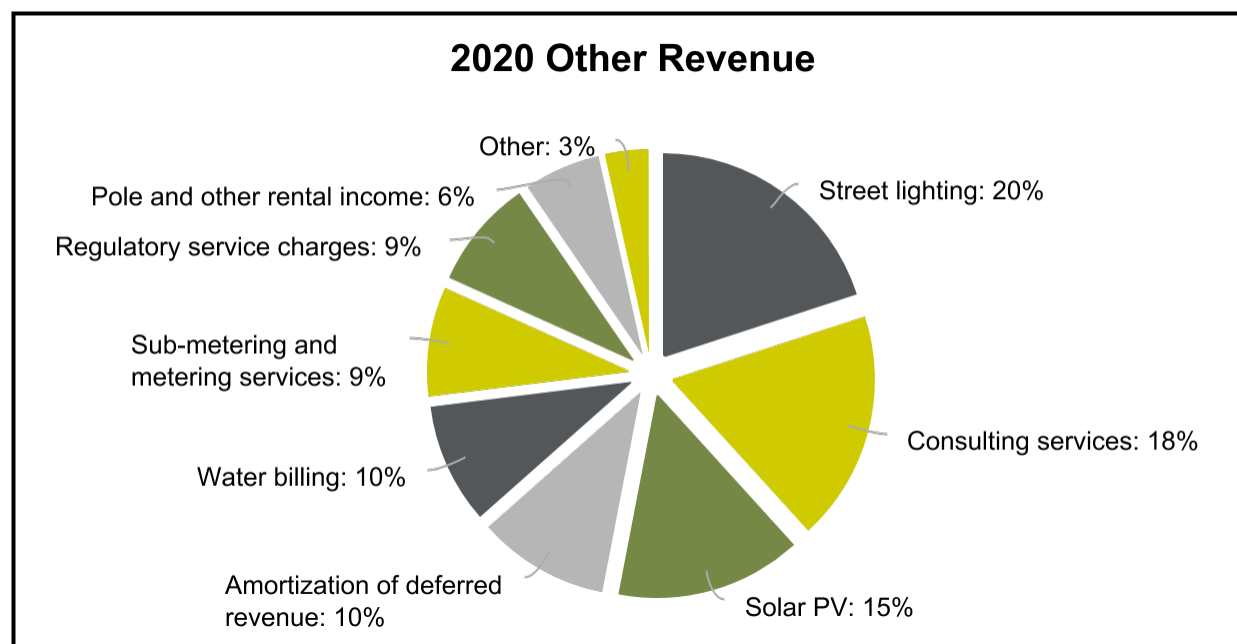
	2020	2019	Change
Other Revenue	115	97	18

Other revenue is earned from regulated electricity distribution activities as well as competitive activities. Other revenue from regulated activities includes:

- the amortization of deferred revenue related to capital contributions from developers;
- rates charged to customers for connections, reconnections, late payments, ancillary services, customer contributions;
- pole attachment charges to other utility service providers that attach equipment to poles owned by Alectra Utilities; and
- Conservation & Demand Management incentives and gains on sale of investments.

Competitive activities include: generation revenue from the Solar Photovoltaic projects; consulting services; water billing services; street lighting services; and sub-metering and metering services.

The increase in other revenue of \$18 primarily relates to: (i) higher streetlighting revenue from LED projects (\$14); and (ii) higher consulting revenue (\$7); partially offset by (iii) lower revenue from the IESO for an energy pilot project (\$4).



ALECTRA INC.

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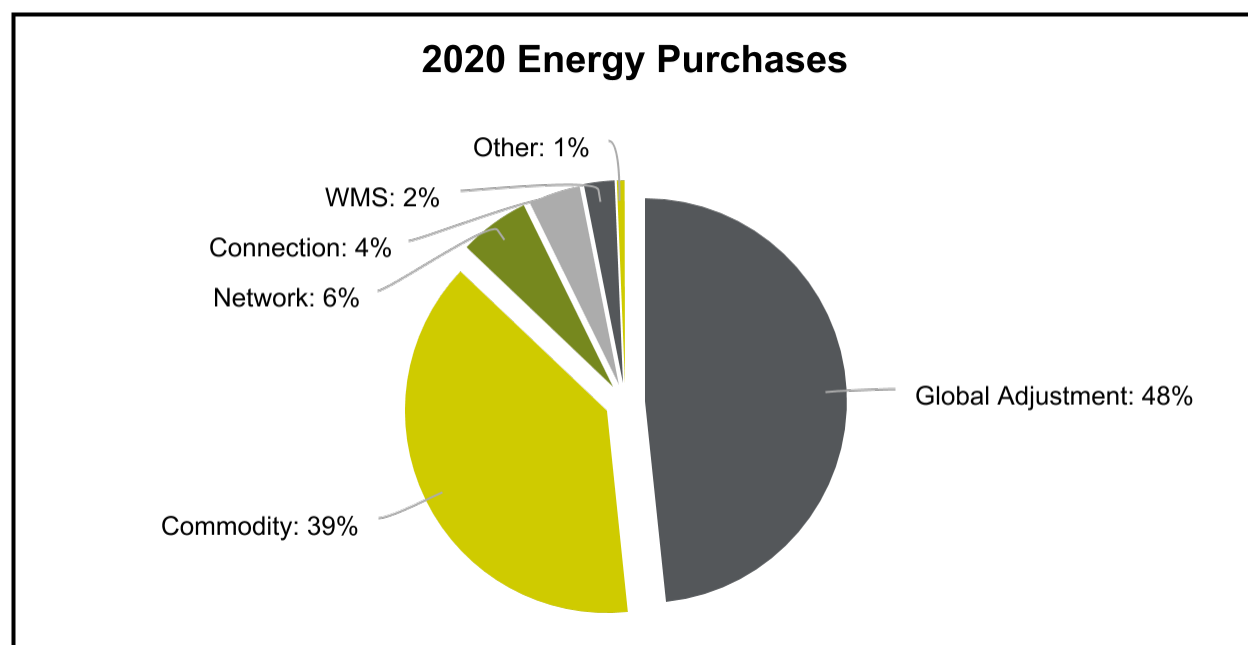
For year ended December 31, 2020

in millions of Canadian dollars

**RESULTS OF OPERATIONS (continued)**

	2020	2019	Change
Cost of Power	3,489	3,167	(322)

Cost of Power represents actual charges for electricity generated by third parties, which are delivered by Alectra Utilities and passed through to customers in the form of energy sales. The increase in cost of power by \$322 is primarily due to higher cost of power as a result of higher wholesale electricity prices.



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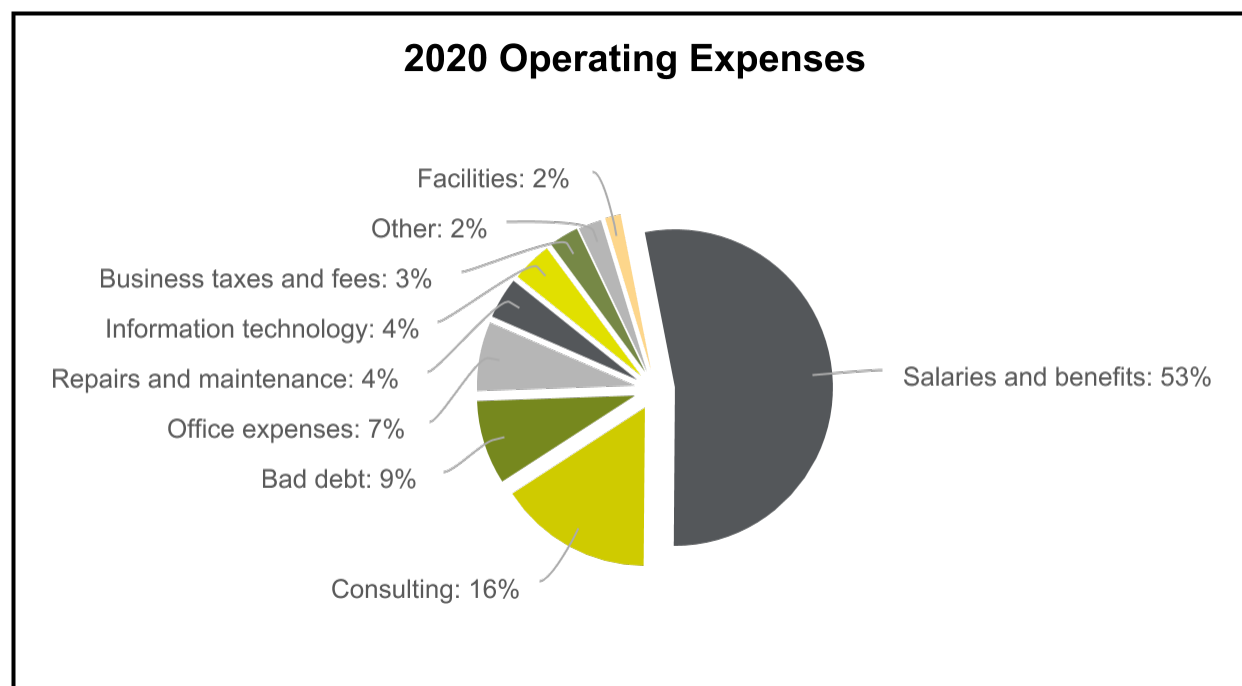
in millions of Canadian dollars

**RESULTS OF OPERATIONS (continued)**

	2020	2019	Change
Operating Expenses	328	296	(32)

Operating expenses primarily include salaries and benefits, materials, ECL and other third party service costs in support of the activities underlying the business of the Corporation including: (i) operation and maintenance of the distribution system; (ii) billing and collection; (iii) general administration costs; and (iv) costs in support of the competitive business activities.

The increase in operating expense of \$32 is principally due to: (i) higher net increase in ECLs largely due to the COVID-19 pandemic (\$19); (ii) higher material expenditures related to streetlighting LED projects (\$7); and (iii) higher repairs and maintenance expenditures due to extensive cleaning of offices and fleet vehicles due to the COVID-19 pandemic and roofing maintenance under solar panel installations (\$4).



	2020	2019	Change
Depreciation and Amortization	165	158	(7)

The increase in depreciation and amortization expense (\$7) is primarily due to new in-service asset additions in 2020.

ALECTRA INC.

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	2020	2019	Change
Derecognition of property, plant, and equipment	(1)	—	1

The increase in derecognition of PP&E of \$1 is primarily due to (i) gain on sale and lease back of an operation centre and sale of land (\$6); partially offset by (ii) loss on derecognitions and dispositions of distribution assets (\$5).

	2020	2019	Change
Income Taxes	28	20	(8)

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"). As a consequence of this exemption from income taxes under the Tax Acts, the Corporation is required to make payments in lieu of income taxes 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. AESI and UA are subject to the payment of tax under the Tax Acts.

The increase in income taxes by \$8 primarily relates to higher net income before tax in 2020 relative to 2019.

ALECTRA INC.

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**FINANCIAL POSITION**

Significant changes in the Corporation's Financial Condition:

	2020	2019	\$ Change	% Change	Explanation
Assets					
Restricted cash	80	1	79	7900%	The increase is primarily driven by funds held in an escrow account relating to the purchase of HPSI for settlement of the initial share consideration and the working capital adjustment. Refer to the subsequent events note on page 34.
Accounts receivable	579	535	44	8%	The increase is principally attributable to: (i) higher energy bills resulting from higher energy prices; and (ii) increase in total arrears due to lower customer payments resulting from the COVID-19 pandemic; partially offset by (iii) an increase in ECLs as a result of the COVID-19 pandemic.
Property, plant, and equipment	3,571	3,402	169	5%	The increase is primarily due to capital investments in distribution assets partially offset by higher accumulated depreciation.
Investment in associate	6	—	6	NA	The increase is due to a competitive subsidiary equity investment in a business providing predictive insights for energy providers.
Liabilities					
Short term debt	415	180	235	131%	The increase is due to higher short-term borrowings required to fund working capital and general corporate requirements.
Loans and borrowings	1,948	1,987	(39)	(2%)	The decrease is primarily driven by a senior unsecured debenture maturing in the current year.
Deferred revenue	494	421	73	17%	The increase in deferred revenue is primarily driven by higher customer contributions to fund current new connections and transit programs.

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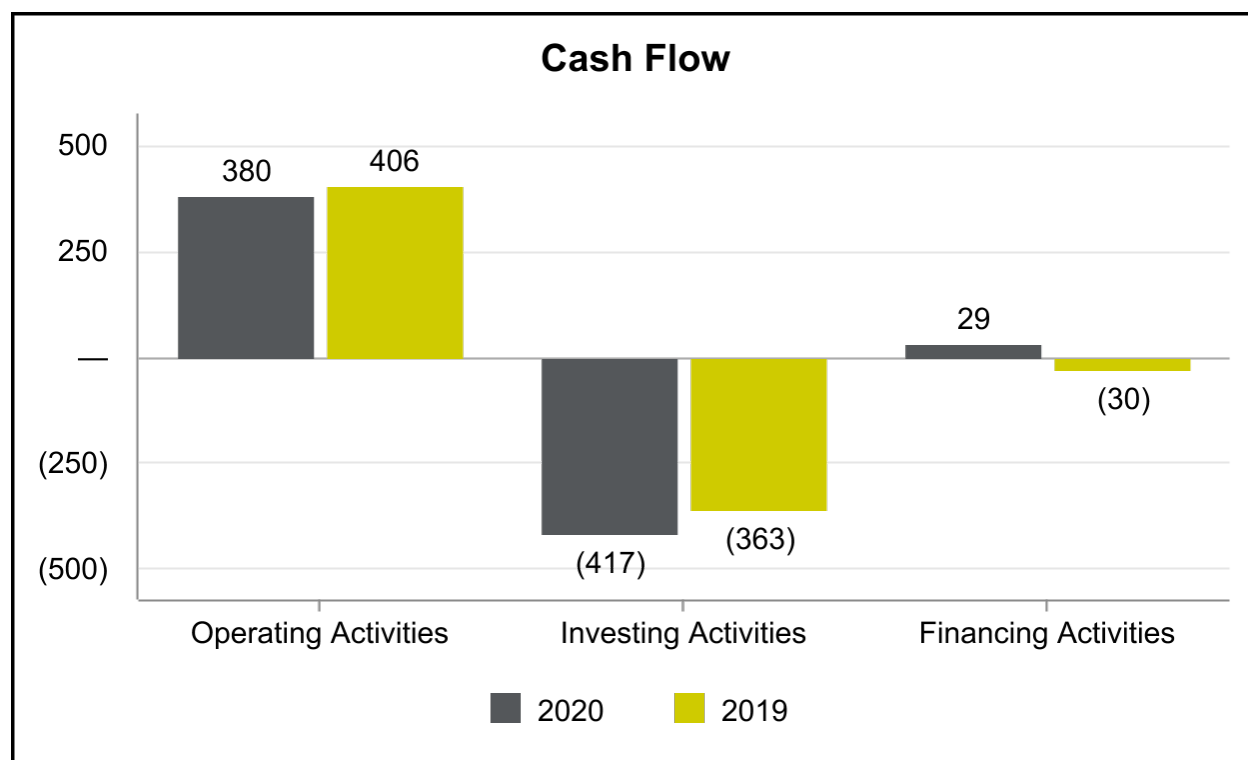
in millions of Canadian dollars



LIQUIDITY AND CAPITAL RESOURCES

Sources of Liquidity and Capital Resources

The principal sources of liquidity and capital resources comprise funds generated from operations and the financing and investing activities of the Corporation.



Operating Activities

The decrease in net cash provided in operating activities was principally due to (i) timing differences in relation to the settlement of receivables (refer to *Note 26* in the Consolidated Financial Statements); partially offset by (iii) higher customer contributions.

Investing Activities

The increase in cash used for investing activities was primarily due to: (i) an increase in restricted cash related to the purchase of HPSI; and (ii) due to a competitive subsidiary equity investment in a business; partially offset by (iii) higher proceeds from disposal of property, plant, and equipment due to the sale and leaseback of an operations centre and sale of land.

ALECTRA INC.

Management's Discussion and Analysis

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in millions of Canadian dollars



Financing Activities

The increase in cash from financing activities was primarily due to: (i) higher short-term borrowings required to fund working capital and general corporate requirements; partially offset by (ii) issuance of a new debenture in 2019; and (iii) repayment of a maturing debenture in 2020.

The Corporation has the following sources of liquidity under which it may access financial capital from time to time:

- \$800 in aggregate revolving unsecured credit facilities: (i) \$700 committed facility with four banks maturing October 5, 2022; and (ii) \$100 uncommitted facility with a bank which is callable by the bank. The committed facility is also used to support outstanding commitments under the commercial paper ("CP") program by way of same day prime rate advances; and
- Issuance of senior unsecured debentures with various maturity dates under established trust indentures.

In response to possible liquidity constraints resulting from the COVID-19 pandemic, the Corporation implemented the following measures: (i) increased the committed credit facilities from \$500 to \$700 with an option for an additional \$100 subject to mutual agreement; (ii) addition of two banks to the committed facility syndicate; (iii) extended the committed facility for a period of two years to October 2022; and (iv) increased the CP program from a maximum of \$300 to \$500. The Corporation believes that these measures result in sufficient liquidity and short-term debt at market-based rates.

Short-term loans at December 31, 2020 and 2019 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. CP issuance at December 31, 2020 aggregated \$415 (2019 - \$180).

Long-term liquidity is available through the Corporation's ability to issue senior unsecured debentures under an established trust indenture. The rates of interest on such debentures comprise: government of Canada bond yields with terms of maturity corresponding to the terms of issued debentures; market-based credit spreads determined with reference to comparably rated entities; and costs of issuance. Details of the Corporation's long-term borrowings are provided in the Consolidated Financial Statements (refer to *Note 16*).

ALECTRA INC.

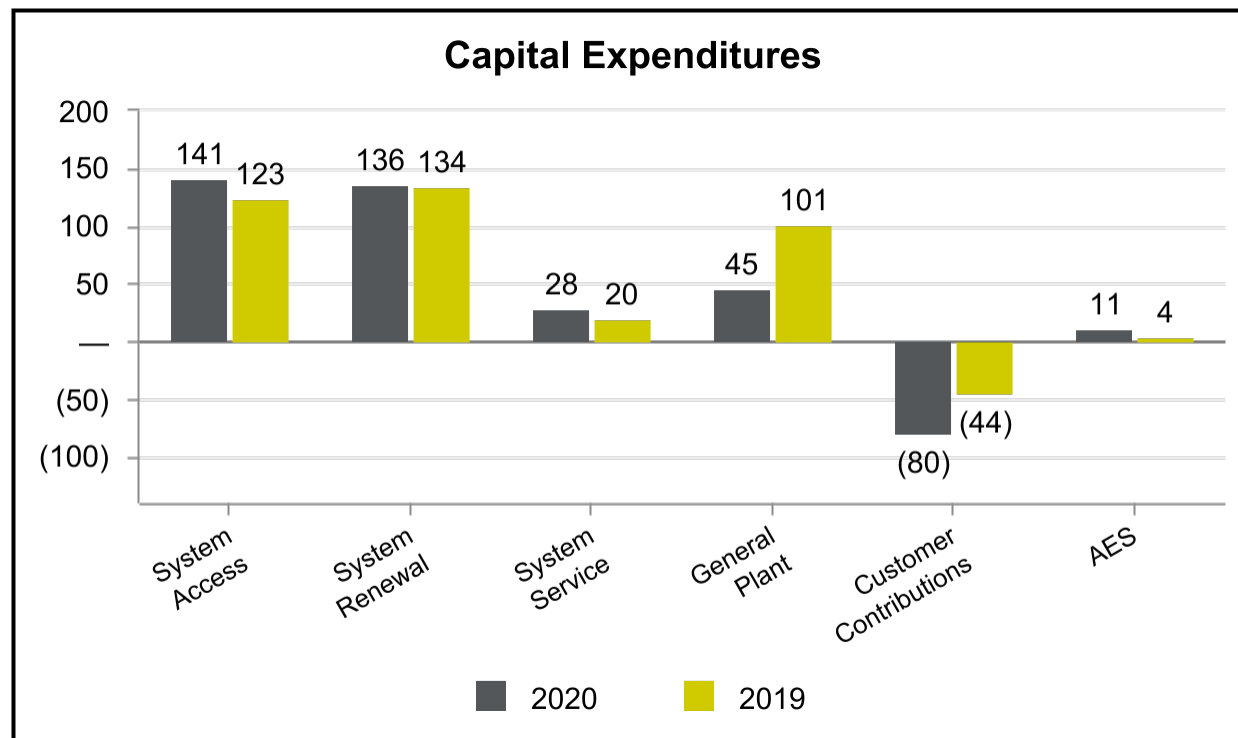
Management's Discussion and Analysis

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**Capital Expenditures**

The Corporation's gross capital investments are presented by activity in the table below:



System Access ("SA") expenditures relate to projects required to meet customer service obligations in accordance with the DSC of the OEB and corporate Conditions of Service. Projects in this category include: connecting new customers; building distribution infrastructure for new subdivisions; and relocating system plant for roadway reconstruction and major transit initiatives. Capital expenditures in this category have increased by \$18 relative to 2019, principally as a result of: (i) investments in distribution assets to support transit projects (\$25); (ii) increased metering expenditures (\$5); and (iii) increased new connections activity for subdivision development (\$4); partially offset by lower expenditures on (iv) distribution system expansion for new customers (\$10); and (v) municipal road widening projects (\$6).

System Renewal ("SR") expenditures relate to long-term plans to replace assets that are at the end or nearing the end of their useful lives. Replacement strategies are prioritized based on the condition and reliability of the assets. Capital expenditures in this category have increased by \$2 relative to 2019, principally as a result of: (i) increased investments in underground renewal projects to address aging assets and areas with reliability concerns (\$14); partially offset by (ii) lower overhead expenditures largely due to the completion of significant voltage conversion projects in 2019 (\$12).

System Service ("SS") expenditures relate to projects required to support the expansion, automation and reliability of the distribution system. SS expenditures have increased by \$8 relative to 2019, principally explained by investments in feeder projects to expand system capacity to support growth in residential, commercial and industrial customers.

ALECTRA INC.

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**Capital Expenditures (continued)**

General Plant ("GP") and transition expenditures relate to information systems projects, facilities, and fleet. Capital expenditures have decreased by \$56 relative to 2019, principally due to: (i) the 2019 purchase of land for a new operations centre that will result in the decommissioning, sale and consolidation of two existing operations centres (\$44); (ii) 2019 merger integration costs primarily related to the consolidation of major IT systems (\$20); partially offset by (iii) an increase in IT and facilities expenditures to enable safe work practices during the COVID-19 pandemic (\$4).

Customer Contributions ("CC") relate to deposits in aid of the capital cost of construction. CC have increased over the previous year by \$36 primarily due higher contributions for transit, new customer connections and road widening projects.

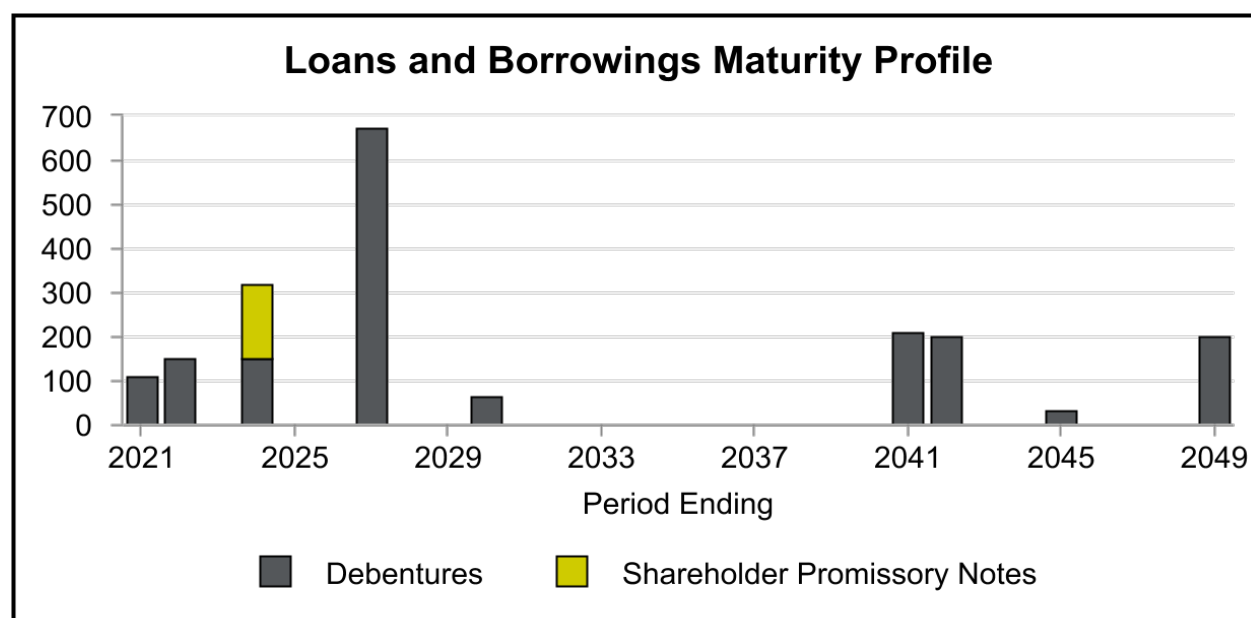
AES capital expenditures have increased mainly due to: (i) the construction and commissioning of a battery storage asset (\$4); and (ii) the purchase of sub-metering assets (\$3).

Requirements for liquidity and capital resources

The Corporation has sufficient liquidity to meet the needs of its ongoing commitment to maintain, improve and expand its distribution system and competitive businesses, and invest in other infrastructure assets on a sustainable basis.

Summary of loans and borrowings

The following table presents a summary of the Corporation's loans and borrowings:



ALECTRA INC.

Management's Discussion and Analysis

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in millions of Canadian dollars



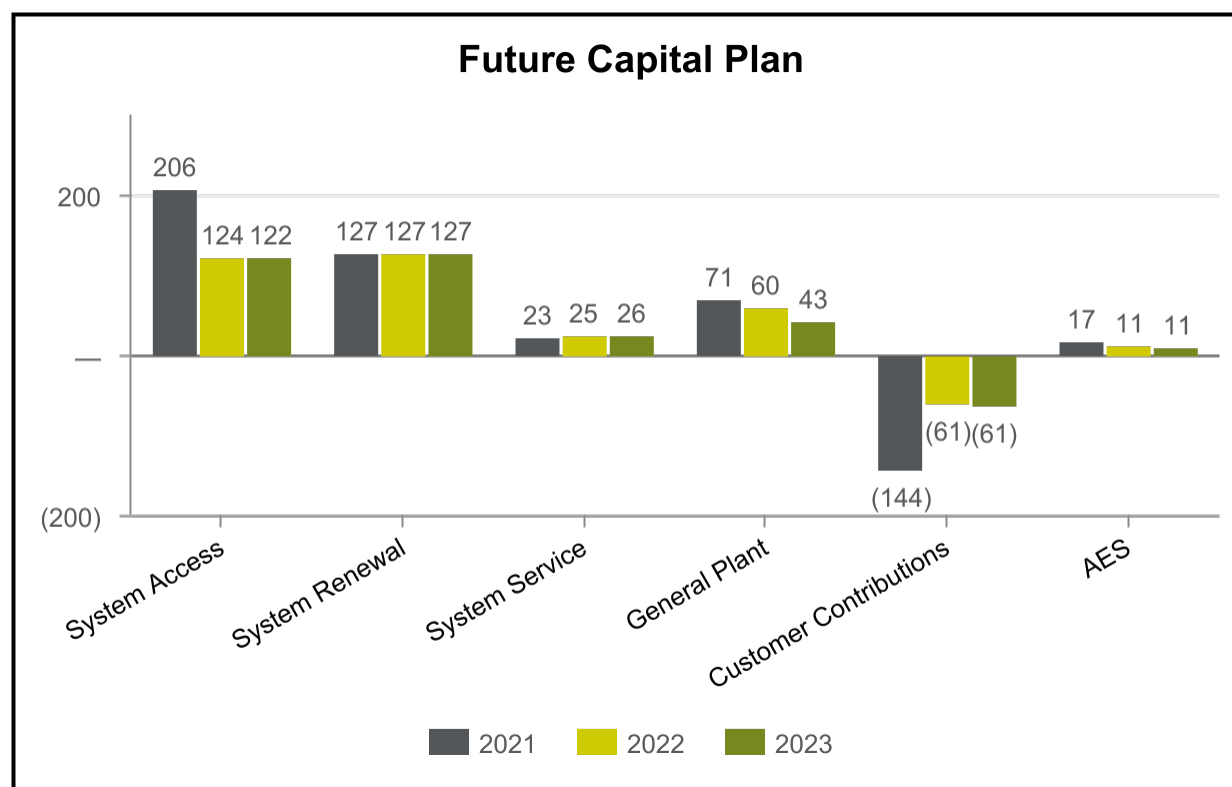
Summary of contractual obligations and other commitments

The following table presents a summary of the Corporation's debentures, major contractual obligations, and other commitments:

	2021	2022	2023	2024	After 2024	Total
Commercial Paper	415	—	—	—	—	415
Debentures - principal repayment	110	150	—	150	1,380	1,790
Debentures - interest payments	60	57	52	52	584	805
Promissory notes - principal repayment	—	—	—	166	—	166
Promissory notes - interest repayments	7	7	7	5	—	26
Leases	5	5	4	3	30	47
Total contractual obligations and other commitments	597	219	63	376	1,994	3,249

Future Capital Plan

The three-year capital expenditure plan structure corresponds to the OEB's Renewed Framework for Electricity Distributors. The total net capital expenditure plan is \$854 over the 2021-2023 period as outlined in the table below:



ALECTRA INC.

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**Future Capital Plan (continued)**

The three-year SA investment plan is primarily driven by the requirement to connect new residential and general service customers which account for approximately 44% of total SA expenditures. Alectra Utilities will also make significant investments in SA over the next three years to support road widening and transit infrastructure projects including the Hurontario Light Rail Transit and the GO Transit Electrification projects. Transit projects are predominantly funded by customer contributions from transit agencies such as Metrolinx.

Approximately one-third of the capital to be invested in SR projects is focused on underground asset renewal, which is the primary contributor to declining reliability performance on the distribution system. Another third of the SR capital program will be invested in the renewal of overhead assets to address the impact of weather outages which have increased in both duration and severity.

The three-year expenditure plan for SS is primarily driven by the need to expand system capacity to support residential growth and expansion in Alectra Utilities' service areas. Over the next three years, 43% of the investment in SS will be for system expansion to support growth of residential, commercial and industrial customers. In order to further increase utilization of its assets, Alectra Utilities plans to invest in automation equipment associated with controlling, monitoring and protecting core system assets. In aggregate, 44% of the investment over the three-year plan is in automation, system control and DER integration.

The three-year expenditure plan for GP is primarily driven by the need to enhance information systems to improve efficiency, implement innovative technology and renew aged and obsolete computing assets. This investment accounts for 40% of the total GP expenditures. In addition, 14% of total GP will be invested in updating transportation equipment to allow Alectra Utilities' crews to respond distribution system needs in an efficient and safe manner. Lastly, a significant portion of GP expenditures in 2021 and 2022 correspond to the construction of a new operations centre, consolidating two former operations centres to be decommissioned and sold, and transition expenditures in relation to prior merger activities.

The three-year expenditure plan for AES is primarily driven by competitive business capital investments required to support the growth and strategic goals of the business. These investments will support initiatives such as software development, acquisition of equipment, vehicles, and construction of infrastructure.

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**SHARE CAPITAL**

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

	2020		2019	
	Number of Shares	Amount	Number of Shares	Amount
Authorized				
Unlimited Class A through G common shares				
Issued and outstanding				
Total common shares	10,485,000	953	10,485,000	953
Authorized				
Unlimited Class S shares				
Issued and paid				
Class S shares	99,999	43	99,999	47
Total share capital	10,584,999	996	10,584,999	1,000

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

During the year ended December 31, 2020, the Corporation declared and paid dividends as follows:

- Common share dividends aggregating \$80 or \$7.60 per share (2019 - \$79 or \$7.55 per share); and
- Class S share dividends aggregating \$2 or \$25.32 per share (2019 - \$6 or \$56.59 per share).

In addition, a return of capital of \$4 (2019 - \$4) was declared and paid by the Corporation on Class S shares during the year.

The Class S dividends, other than return on 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.

Refer to *Note 18* in the Consolidated Financial Statements for details.

ALECTRA INC.

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RELATED PARTIES BALANCES AND TRANSACTIONS

Significant related party transactions and balances with related parties are as follows:

	2020	2019
<i>Transactions</i>		
Revenue	98	87
Expenses	7	5
Dividends declared and paid	82	85
<i>Balances</i>		
Due from related parties	15	16
Due to related parties	44	39
Loans and borrowings	166	166

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 (refer to *Note 13*).

The amount due to/from related parties is comprised of amounts payable to/receivable from: the City of Barrie; the City of Guelph; the City of Hamilton; the City of Markham; the City of Mississauga; the City of St. Catharines; the City of Vaughan; and wholly-owned subsidiaries of related parties (refer to *Note 13*).

Loans and borrowings comprise shareholder promissory notes owing to the City of Barrie, the City of Markham, and the City of Vaughan (refer to *Note 16*).

The annual compensation of key management personnel that is directly attributable to the Corporation was \$16 (2019 - \$16) (refer to *Note 13*).

ALECTRA INC.

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SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL JUDGMENTS AND ESTIMATES

The Corporation's critical accounting policies have been reviewed and approved by the Audit, Finance and Risk Management Committee and are outlined in *Note 5* of the Consolidated Financial Statements. Certain judgements, estimates and assumptions arising from these policies are inherently complex and subjective, changes to which could significantly impact the financial results especially considering the uncertainty surrounding the future impacts of the COVID-19 pandemic. The Corporation continues to monitor and assess the impacts of the COVID-19 pandemic and other potential impacts on critical accounting judgments, estimates, and assumptions.

Judgments and estimates are often interrelated. The areas which require management to make significant estimates and judgments in determining carrying values include: unbilled revenue; useful lives of depreciable assets; valuation of financial instruments; employee future benefits; ECL; provisions and contingencies and goodwill in cash generating units. Refer to the relevant section within the basis of preparation note (*Note 2(c)*) and the significant accounting policies note (*Note 5*) for details on estimates and judgments.

CHANGES IN ACCOUNTING POLICIES

The following accounting standard updates were issued by the IASB effective December 31, 2020. These updates do not have a significant impact on the Corporation's Consolidated Financial Statements.

- Amendments to IAS 1 - Presentation of Financial Statements and IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Material;
- Reference to Conceptual Framework (Amendments to IFRS 3 - Business Combinations); and
- Amendments to IFRS 3 - Business Combinations: Definition of Business.

Refer to *Note 4* of the Consolidated Financial Statements for further details.

ALECTRA INC.

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FUTURE ACCOUNTING CHANGES

Certain new accounting standards and interpretations that have been published but are not mandatory for implementation as at December 31, 2020 have not been early adopted in these financial statements. Management is currently assessing the impact of the following accounting standards updates on the future consolidated financial statements:

- COVID-19 related rent concessions (Amendment to IFRS 16, *Leases*);
- Proceeds before intended use (Amendments to IAS 16, *Property, Plant, & Equipment*);
- Onerous contracts, cost of fulfilling a contract (Amendments to IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*);
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10, IAS 28);
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1); and
- Fees in the '10 per cent' Test for Derecognition of Financial Liabilities (Amendments to IFRS 9).

SUBSEQUENT EVENTS

The following significant non- adjusting events occurred after the reporting period:

i. *Acquisition of Holland Power Services Inc.*

On January 4, 2021 (the "Closing Date"), the Corporation acquired 100% of the shares of Holland Power Services Inc. ("HPSI") through its subsidiary, a privately-held company specializing in providing storm restoration services in Eastern Canada and the United States. This acquisition supports the strategic growth objective of the Corporation through logical extensions and diversification of its utility services.

The total consideration for the acquired shares of HPSI comprises: i) an initial payment of \$52 to the vendor on the Closing Date ("Initial Share Consideration"); and ii) additional contingent share consideration, if any, payable based on the annual financial performance of HPSI in 2021 and 2022. The Corporation also paid \$28 to the vendor on the Closing Date in consideration of actual working capital as at that date in excess of an assumed level of working capital underlying the purchase price consideration for the shares ("Working Capital Adjustment").

As a result of the recency and complexity of the transaction, the accounting and valuation for the purchase is still being finalized. Consequently, the estimated fair value of assets acquired and liabilities assumed at the date of acquisition have not been disclosed.

ii. *Bond issuance*

On February 11, 2021, the Corporation issued \$300 of 1.751% 10-year senior unsecured debentures due in 2031. The net proceeds of this offering was used to repay the Corporation's outstanding commercial paper and for general corporate purposes.

ALECTRA INC.

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**NON-IFRS FINANCIAL MEASURES****EBITDA**

The Corporation uses earnings before interest, taxes, depreciation and amortization ("EBITDA"), comparable net earnings, and funds from operations ("FFO") as financial performance measures under Modified International Financial Reporting Standards ("MIFRS"). MIFRS adjusts IFRS results for the effect of rate regulation. These measures do not have any standard meaning prescribed by IFRS and may not be comparable to similar measures presented by other companies. The purpose of these financial measures and their reconciliation to IFRS financial measures are provided below. These non-IFRS measures are consistently applied in the previous period, except where otherwise noted.

	2020	2019
EBITDA (MIFRS)	349	356
Add adjustments to remove regulatory accounting:		
Revenue	2	(41)
Operating expenses	(5)	1
EBITDA (IFRS)	346	316

Management believes that a measure of operating performance is more meaningful when including regulatory accounting in the results of operations as this better reflects the Corporation's normal operations.

AFFO

Adjusted funds from Operations ("AFFO") is used as an additional metric of cash flow without regard to changes in the Corporation's non-cash working capital and adjusted for contributions in aid of construction. The table below summarizes the Corporation's AFFO as at December 31, 2020 and 2019.

	2020	2019
IFRS Net income	79	64
Adjustment for regulatory activities	44	69
MIFRS Net income	123	133
Depreciation	165	158
Gain on derecognition of property, plant, and equipment	(1)	—
Amortization of deferred revenue	(12)	(11)
Net change in non-cash operating working capital	(50)	52
Net change in non-current assets and liabilities	(48)	(50)
Net change in deferred revenue	126	46
Net change in taxes	—	3
Total changes	180	198
AFFO	303	331

The decrease in AFFO is mainly attributable to: (i) timing differences in relation to the settlement of receivables; partially offset by (ii) an increase in deferred revenue due to higher customer contributions.

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RISK MANAGEMENT AND RISK FACTORS

The Corporation has established ongoing activities and processes to identify, monitor and communicate changes in enterprise risks ("ERM Framework"). These activities and processes enable the Corporation to proactively assess risk and develop strategies to minimize risk exposure.

The Corporation's ERM Framework provides for an annual review of risks and opportunities. This review includes the assessment of risk, the identification of risk owners, and documenting appropriate mitigation strategies. The most significant risks identified are discussed below.



Climate and Change

The Corporation serves a large service territory in South Central and Western Ontario and its energy-related infrastructure and other facilities are exposed to a wide variety of climatic conditions. It is the Corporation's intention to design, operate and maintain its assets to be resilient to the climatic conditions within the service territories served by the Corporation.

The effects of climate change and the changes predicted by climate models will require the Corporation to adapt its affected infrastructure investments and operations. An increase in the frequency and severity of weather events as a result of climate change may increase costs or losses for the Corporation and impact the resiliency of its infrastructure resulting in increased frequency or duration of outages and other related customer disruptions.

Compliance

The Corporation, like all organizations, must comply with all applicable laws and regulations and other requirements to which it subscribes or is subject to. These requirements may be as a result of Federal, Provincial or municipal laws, regulations, by-laws or other instruments. Other requirements or obligations may also include IESO Market Rules, OEB license terms and conditions as well as other industry codes to which the corporations must abide.

It is the intention of the Corporation to be in compliance with all requirements and as such, it develops policies, programs and practices to ensure compliance with relevant requirements. Although this is the intent of the Corporation, there is no guarantee that these measures will ensure compliance and a noncompliance situation may result in a material impact on the organization.

Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

ALECTRA INC.

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**Credit Risk (continued)**

The principal source of credit risk for the Corporation corresponds to the realization of its customer receivables. The legislation governing the operation of Ontario's electricity industry exposes the Corporation, through its electricity distribution operations, to credit risk of several multiples of its means to generate revenue. Pursuant to Provincial regulation, electricity distribution companies in Ontario are required to act as the billing agent for all industry participants and must remit billed amounts accruing to these participants irrespective of whether such amounts are ultimately collected. Consequently, electricity distribution companies are exposed to losses for entire amounts billed to customers. Electricity distribution companies are not compensated for assuming this level of risk nor is there a clear and mechanistic regulatory means to recover losses for non-distribution charges.

Management has implemented credit and collection policies in compliance with OEB regulation to mitigate the exposure of the Corporation to credit risk, although such regulation is inadequate to effectively mitigate such risk. OEB regulation continues to impose certain restrictions on credit policy that exposes electricity distribution Corporations to unmitigated and uncompensated credit risk of several multiples of their means to generate revenue.

Management actively monitors and manages its exposure to credit risk, within regulatory constraints, and records credit losses in the period in which, in management's opinion, the collection of related receivables becomes doubtful.

Management has incorporated additional estimates and judgments in the preparation of the ECL on its accounts receivable balances, which are subject to a higher degree of estimation uncertainty than would have existed prior to the COVID-19 pandemic. This includes analyzing customers by class (residential, small commercial, large commercial, etc.) and applying provision rates based on recent and evolving trends for customer collections and current and forecasted economic and other conditions. The Corporation has further segmented customers that are at a higher risk of payment default and have applied higher provision rates to longer aged balances. The Corporation has recorded an incremental provision of \$28 to its allowance for ECLs which includes the impact of the COVID-19 pandemic. As at year end, approximately \$43 (2019 - \$39) of outstanding customer receivable balances are considered over 60 days past due.

ALECTRA INC.

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Culture and Organizational Change

The Corporation continues to develop and define a unified corporate culture to support the achievement of its strategies and organizational sustainability. Cultural initiatives are designed to support and align with the Corporation's values (Customer Service, Respect, Innovation, Excellence and Safety) and ensure that the resulting behaviors are consistent with these values. Potential risks associated with resistance to cultural change and conformance include impairment in employee engagement, productivity, and/or satisfaction. The Corporation has developed a culture transformation roadmap that identifies initiatives and actions towards the achievement of a unified corporate culture. These initiatives and actions include: building awareness and developing capabilities of leaders and employees to live and lead cultural and behavioral; enhancing employee engagement through increased internal communications; supporting wellness, equity, diversity and inclusion programs; and anchoring the cultural and behavioral commitments to the Corporation's values.

Cyber Security

All businesses are at risk of cyber-attacks and may be vulnerable to unauthorized access due to malicious causes such as: computer viruses; hacking; nation state attacks; or other criminal activity. A cyber-attack has the potential to cause: service organizational disruptions; system failures; or disclosure of confidential customer or business information. These outcomes may result in adverse financial, operational and/or reputational impact on Alectra. Due to rapid changes in technology and infrastructure security requirements of operating systems, the Corporation uses specialized internal resources and outside cybersecurity services to mitigate the potential for cybersecurity events and continuously improve its security posture. Policies, procedures, technologies and employee cybersecurity education programs are in place to reduce the risk of security breach.

Operational

As a result of the COVID-19 pandemic, the Corporation may have greater difficulty undertaking its planned and reactive work as well as responding to and recovering from a business interruption incident beyond normal operations. Additionally, the Corporation's operations are exposed to the effects of natural and other unexpected occurrences such as extreme storm and other weather conditions, natural disasters, terrorism, and pandemics.

Operational changes associated with COVID-19 may make the Corporation's responses to business interruption events less effective and more costly than under business-as-usual conditions. The Corporation has implemented various initiatives aimed at improving its operational resiliency through the pandemic. Since March, an executive led Emergency Response Committee has been implemented and currently meets weekly to manage the COVID-19 incident and minimize interruptions to the Corporation's enterprise critical functions. Physical and procedural controls have been put in place to manage and mitigate the impact of the COVID-19 pandemic in the workplace. The effectiveness of these controls are continually reviewed and improvements and corrections are being introduced as required.

ALECTRA INC.

Management's Discussion and Analysis

For year ended December 31, 2020

in millions of Canadian dollars



Operational (continued)

The Corporation has also undertaken significant health and safety actions including investing in support measures, supplies and critical inventory to address potential challenges to its operations arising from the COVID-19 pandemic.

Pandemic Risk

The Corporation proactively prepares for emergency situations such as a Pandemic through its emergency preparedness and business continuity programs. These programs enable the organization to quickly identify and respond to emergency situations to ensure the safety of staff, public, and assets, as well as to ensure the continuity of operations. The current COVID-19 pandemic is one such event. The Corporation began to plan in advance of the Provincially declared emergency and as such, was able to quickly adjust to maintain operational capability, protect the health, safety and wellness of employees, and support the communities served by the Corporation.

The key levers under Management's control to mitigate the impacts of the Pandemic on net income and cash flow include: (i) collections management processes to mitigate exposure to credit losses; (ii) labour and productivity management to reduce labour costs; (iii) reduction of discretionary costs due to work from home protocols and (iv) improve labour productivity and operating costs through the capital program.

Additionally, there is considerable discussion and advocacy with government, the OEB and through industry associations regarding supporting customer payment flexibility through the COVID-19 pandemic and providing electricity distributors with enabling financial mechanisms to do so, including direct government support and regulatory deferral accounts to recover costs associated with the COVID-19 pandemic. (Refer to the Operational Risk, Credit Risk and Risk Associated with Debt Financing sections for further details on measures taken by the Corporation to address the impact of the COVID-19 pandemic).

Regulatory/Political Risk

The electricity distribution business in Ontario is strictly regulated, which poses risks to the financial and operational aspects of the Corporation's rate regulated business. All requests for changes in electricity distribution charges require the approval of the OEB. The Province and/or the OEB could implement a regulatory framework or issue directives or decisions that restrict the electricity distribution business from achieving an allowable rate of return that permits the financial sustainability of its operations.

The Corporation files applications to the OEB on an ongoing basis for rate adjustments in support of the sustainment and growth of its electricity distribution system. OEB decisions on current and future applications could have a significant impact on the distribution revenue of the Corporation. The Corporation has an experienced management team dealing with these regulatory matters and continues to mitigate regulatory and political risk through participation in stakeholder groups, industry associations and other affiliations that are designed to inform the development of the legislative and regulatory environment.

ALECTRA INC.

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Risk Associated with Debt Financing

The Corporation relies on debt financing or the availability of credit facilities to repay existing indebtedness and to finance its ongoing business operations including capital expenditures. The Corporation's ability to arrange sufficient and cost-effective debt financing could be adversely affected by a number of factors, including: (i) financial market conditions; (ii) the regulatory environment in Ontario; (iii) the Corporation's results of operations and financial condition; (iv) the ratings assigned to the Corporation and its debt securities by credit rating agencies; (v) the current timing of debt maturities and (vi); the impact of the COVID-19 pandemic; and (vii) other general economic conditions. These factors may lead to changes in cash flows, working capital levels and/or debt balances, which may also have a direct negative impact on the Corporation's operating results and financial position in the future.

Management has taken proactive measures to ensure adequate access to financial liquidity through its credit facilities and ability to issue long-term debt under established trust indentures.

Safety and Wellness

The Corporation is engaged in the construction, operation and maintenance of high voltage electrical infrastructure throughout the communities it serves and, as such, is exposed to significant safety risks associated with this work. These risks include the potential for a major impact on the health and safety of the Corporation's staff or a member of the public. The failure to keep members of the public and employees safe could have a material adverse effect on the Corporation. The Corporation's safety program is based on a continuous improvement principal through on-going review and audit. The Corporation is focused on the continuous improvement its safety culture and program to support safety performance and minimize associated risks.

Consolidated Financial Statements
(In millions of Canadian dollars)

ALECTRA INC.

Year ended December 31, 2020



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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, 2020
- 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, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis of 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 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 audit opinion.



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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.

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 Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (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.



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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.



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- 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.
- 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.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Vaughan, Canada

March 5, 2021

ALECTRA INC.

Consolidated Statement of Financial Position

(in millions of Canadian dollars)

as at December 31, 2020 and 2019



	Notes	2020	2019
Assets			
Current assets			
Cash		21	29
Restricted cash	8	80	1
Accounts receivable	20	579	535
Inventories		31	29
Due from related parties	13	15	16
Other assets		19	15
Total current assets		745	625
Non-current assets			
Property, plant, and equipment	9	3,571	3,402
Right of use assets	10	29	28
Goodwill and other intangible assets	11	996	998
Investment in associate		6	—
Deferred tax asset	25	3	3
Total non-current assets		4,605	4,431
Total assets		5,350	5,056
Liabilities and Shareholders' Equity			
Current liabilities			
Accounts payable and accrued liabilities	12	384	374
Customer deposits liability		62	74
Short term debt	14	415	180
Current portion of loans and borrowings	16	110	40
Current portion of lease obligations	19	4	2
Due to related parties	13	44	39
Other liabilities	15	41	41
Total current liabilities		1,060	750
Non-current liabilities			
Loans and borrowings	16	1,838	1,947
Deferred revenue	24	494	421
Employee future benefits	17	105	95
Lease obligations	19	31	31
Deferred tax liabilities	25	68	48
Other long-term liabilities	15	18	17
Total non-current liabilities		2,554	2,559
Total liabilities		3,614	3,309
Shareholders' equity			
Share capital	18	996	1,000
Contributed surplus		599	599
Accumulated other comprehensive loss		(27)	(23)
Retained earnings		168	171
Total shareholders' equity		1,736	1,747
Total liabilities and shareholders' equity		5,350	5,056

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Chair of the Board

Director

ALECTRA INC.

Consolidated Statement of Income and Comprehensive Income

(in millions of Canadian dollars)

for the years ended December 31, 2020 and 2019

	Notes	2020	2019
Revenue			
Distribution revenue		559	544
Electricity sales		3,488	3,138
Other revenue	23	115	97
Total revenue		4,162	3,779
Expenses			
Cost of power		3,489	3,167
Operating expenses	22	328	296
Depreciation and amortization	9,10,11	165	158
Gain on derecognition of property, plant, and equipment		(1)	—
Total expenses		3,981	3,621
Income from operating activities		181	158
Finance income		1	1
Finance costs		75	75
Net finance costs		74	74
Income before income taxes		107	84
Income tax expense	25	28	20
Net income		79	64
Other comprehensive loss			
<i>Items that may be subsequently reclassified to income</i>			
Reclassification to net income, loss on bond forward		2	1
<i>Items that will not be subsequently reclassified to income</i>			
Remeasurement of defined benefit obligation	17	(7)	(21)
Tax impact on remeasurement of defined benefit obligation		1	5
Total other comprehensive loss		(4)	(15)
Total comprehensive income		75	49

See accompanying notes to consolidated financial statements.

ALECTRA INC.

Consolidated Statement of Changes in Equity

(in millions of Canadian dollars)

for the years ended December 31, 2020 and 2019

	Notes	Share capital	Contributed surplus	Accumulated other comprehensive loss	Retained earnings	Total
Balance, January 1, 2019		961	544	(8)	192	1,689
Net income		—	—	—	64	64
Other comprehensive loss		—	—	(15)	—	(15)
Return of capital	18	(4)	—	—	—	(4)
Issuance of shares related to the GHESI amalgamation	7, 18	43	55	—	—	98
Dividends paid	18	—	—	—	(85)	(85)
Balance, December 31, 2019		1,000	599	(23)	171	1,747
Net income		—	—	—	79	79
Other comprehensive loss		—	—	(4)	—	(4)
Return of capital	18	(4)	—	—	—	(4)
Dividends paid	18	—	—	—	(82)	(82)
Balance, December 31, 2020		996	599	(27)	168	1,736

See accompanying notes to consolidated financial statements.

ALECTRA INC.

Consolidated Statement of Cash Flows

(in millions of Canadian dollars)

for the years ended December 31, 2020 and 2019

	Notes	2020	2019
Cash provided by (used in)			
Operating activities			
Net income		79	64
Add (deduct) non-cash items:			
Depreciation of property, plant, and equipment	9	140	134
Depreciation of right of use assets	10	3	4
Amortization of intangible assets	11	22	20
Amortization of deferred revenue	24	(12)	(11)
Gain on derecognition of property, plant and equipment		(1)	—
Income tax expense	25	28	20
Net finance costs		74	74
Contributions received from customers	24	85	46
Net change in non-cash operating working capital	26	(45)	33
Net change in non-current assets and liabilities		7	5
Decrease in restricted cash	8	1	2
Cash generated from operating activities		381	391
Income taxes paid	25	(5)	(6)
Income taxes refunded	25	4	21
Cash provided by operating activities		380	406
Investing activities			
Increase in restricted cash	8	(80)	—
Net cash consideration for investment in associate		(7)	—
Purchase of intangible assets	26	(20)	(37)
Proceeds from disposal of property, plant, and equipment		33	17
Purchase of property, plant, and equipment	26	(343)	(343)
Cash used in investing activities		(417)	(363)
Financing activities			
Increase (decrease) in short-term debt	14	235	(70)
Repayment of long-term loans and borrowings	16	(40)	—
Increase in long-term loans and borrowings, net of debt issuance costs	16	—	199
Repayment of lease obligations	19	(2)	(2)
Other long-term liabilities		—	6
Interest received		1	—
Interest paid		(79)	(74)
Return of capital	18	(4)	(4)
Dividends paid	18	(82)	(85)
Cash provided by (used in) financing activities		29	(30)
Net cash (outflow) inflow		(8)	13
Cash, beginning of year		29	16
Cash, end of year		21	29

See accompanying notes to consolidated financial statements.

**ALECTRA INC.**

Notes to the Consolidated Financial Statements
(in millions of Canadian dollars)
for the years ended December 31, 2020 and 2019

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") of the former entities: PowerStream Holdings Inc. ("PowerStream"); Enersource Holdings Inc. ("Enersource"); and Horizon Holdings Inc. ("Horizon") (collectively, the "Amalgamating Entities"). On February 28, 2017, Alectra Utilities Corporation ("Alectra Utilities") acquired 100% of the shares of Hydro One Brampton Networks Inc. ("Brampton Hydro"). On January 1, 2019, 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 Guelph Hydro Electric Systems Inc. ("GHESI"). Refer to Note 7.

Alectra Inc. is owned as follows:

- 29.57% by Enersource Corporation, which is owned 90% by the Corporation 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");
- 20.50% by the Vaughan Holdings Inc., a wholly-owned subsidiary of the Corporation of the City of Vaughan (the "City of Vaughan");
- 17.31% by Hamilton Utilities Corporation, a wholly-owned subsidiary of the Corporation of the City of Hamilton (the "City of Hamilton");
- 15.00% by Markham Enterprises Corporation, a wholly-owned subsidiary of the Corporation of the City of Markham (the "City of Markham");
- 8.37% by Barrie Hydro Holdings Inc., which is wholly-owned by the Corporation of the City of Barrie (the "City of Barrie");
- 4.63% by St. Catharines Hydro Inc., a wholly-owned subsidiary of the Corporation of the City of St. Catharines (the "City of St. Catharines"); and
- 4.63% by the Guelph Municipal Holdings Inc., a wholly-owned subsidiary of the Corporation of the City of Guelph (the "City of Guelph").

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

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, 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).

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 two subsidiaries: Util-Assist Inc. ("UA"); and Alectra Microgrid Services Project (Georgian) Limited Partnership ("AMSP").

ALECTRA INC.

Notes to the Consolidated Financial Statements
(in millions of Canadian dollars)
for the years ended December 31, 2020 and 2019

1. Description of the Business (continued)

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 and commercial properties;
- APSI - street lighting services including design, construction, and maintenance;
- UA - consulting services with respect to: customer information systems implementation; sync operation services; conservation initiatives; an outage management call centre under the name PowerAssist; and other smart grid applications; and
- AMSP - energy management services partnership which installs, owns and operates an industrial energy storage battery with Georgian College.

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 5, 2021.

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

(b) Functional and presentation currency, and basis of measurement

These consolidated financial statements are presented in Canadian dollars ("CAD"), which is the functional currency of the Corporation. Consolidated financial statements have been prepared on a historical cost basis, except for the valuation of employee future benefits which are recorded at actuarial value.

(c) Use of estimates and judgments

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

Estimates are used predominately in determining the measurement of certain of the Corporation's assets and liabilities. 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 in the period of revision and 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.

ALECTRA INC.

Notes to the Consolidated Financial Statements
(in millions of Canadian dollars)
for the years ended December 31, 2020 and 2019

2. Basis of Preparation (continued)*(c) Use of estimates and judgments (continued)*

Judgments and estimates are often interrelated. The areas which require management to make significant estimates and judgments in determining carrying values include: unbilled revenue; useful lives of depreciable assets; valuation of financial instruments; employee future benefits; expected credit losses; provisions and contingencies and impairment of goodwill and cash generating units. Refer to the relevant section within the significant accounting policies note for details on estimates and judgments (Note 5).

The assessment of the duration and severity of the developments related to the COVID-19 pandemic is subject to significant uncertainty. Such uncertainty could generate, in future periods, a risk of adjustments to the carrying amounts of balances subject to estimates and judgments.

(d) Foreign currency translation

Foreign currency transactions are translated into the functional currency of the Corporation, using the exchange rates prevailing at the dates of the transactions (i.e., spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items denominated in foreign currency at year-end exchange rates are recognized in the Statement of Income and Comprehensive Income.

Accounts receivable and cash balances denominated in foreign currency are translated using year-end exchange rates. Gains or losses on Investment in associate is translated using the average rate for the year. Any gain or loss on translation is recognized in the Statement of Income and Comprehensive Income.

3. 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 (Note 28).

The Ontario Energy Board Act, 1998 (Ontario) ("OEBA") 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.

ALECTRA INC.

Notes to the Consolidated Financial Statements
(in millions of Canadian dollars)
for the years ended December 31, 2020 and 2019

3. Regulation (continued)*(a) 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 guided by its statutory objectives under the OEBA that include, among other matters, 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* ("RRF"). The three rate-setting methods available to LDCs under the RRF are: Price Cap Incentive Rate-setting ("Price Cap IR"); Custom Incentive Rate-setting ("Custom IR"); or Annual Incentive Rate-setting Index ("Annual IR").

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.

ALECTRA INC.

Notes to the Consolidated Financial Statements
(in millions of Canadian dollars)
for the years ended December 31, 2020 and 2019

3. Regulation (continued)*(b) Rate Applications**2020 Rate Application*

On May 28, 2019, Alectra Utilities filed an application for all four predecessor utilities (rate zones) for the approval of 2020 electricity distribution rates, effective January 1, 2020 to December 31, 2020. As part of the application, Alectra Utilities filed its first integrated five-year Distribution System Plan ("DSP") for its entire service area. Alectra Utilities requested approval for incremental capital funding for each of the five years related to the DSP, based on a rate-adjustment mechanism that reconciles the capital needs set out in the DSP with the capital-related revenue in rates. On December 12, 2019, the OEB issued its Partial Decision and Interim Rate Order on the Price Cap IR elements of the application, approving distribution rates on an interim basis effective January 1, 2020. On January 30, 2020, the OEB issued its Partial Decision and Order on Alectra Utilities' request for incremental capital funding. The OEB denied Alectra Utilities' multi-year incremental capital funding proposal but offered options for Alectra Utilities to refile under its ICM rate setting mechanism on a single or multi-year basis. On April 14, 2020, Alectra Utilities filed a letter with the OEB stating that it would not be seeking incremental funding for 2020 and requested that its 2020 rate order be made final. On April 23, 2020, the OEB issued its Final Rate Order on the 2020 application.

The following rate changes were effective as of the implementation dates:

- Horizon Rate Zone – Price Cap adjustment under the OEB's Price Cap IR. The resulting change to the distribution portion of the bill for a typical residential customer consuming 750 kWh per month in the Horizon Rate Zone is an increase of approximately 9 cents or 0.35%;
- Brampton Hydro Rate Zone – Price Cap adjustment under the OEB's Price Cap IR. 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 43 cents or 1.75%;
- PowerStream Rate Zone – Price Cap adjustment under the OEB's Price Cap IR. 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 35 cents or 1.21%;
- Enersource Rate Zone – Price Cap adjustment under the OEB's Price Cap IR. 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 46 cents or 1.80%; and
- Guelph Rate Zone – Price Cap adjustment under the OEB's Price Cap IR. 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 20 cents or 0.68%.

ALECTRA INC.

Notes to the Consolidated Financial Statements
(in millions of Canadian dollars)
for the years ended December 31, 2020 and 2019

3. Regulation (continued)*(c) Select Energy Policies and Regulation Affecting the Corporation**The COVID-19 Pandemic Response*

On March 17, 2020, the Government of Ontario declared a province-wide state of emergency ("State of Emergency"), to protect the public and to help contain the spread of the COVID-19 pandemic. Both the provincial government and the OEB introduced certain measures throughout the year to assist electricity consumers in dealing with the financial impact of the COVID-19 pandemic. The measures include the following:

Government of Ontario Initiatives and Programs:

- Changes to Pricing for Time of Use ("TOU") Customers – At the time of the issuance of the State of Emergency the Ontario government suspended TOU rates and introduced a single rate of electricity fixed at 10.1 cents per kWh, from March 24, 2020 until May 31, 2020. Subsequently, the government announced the replacement of that rate with a new fixed COVID-19 Recovery Rate of 12.8 cents per kWh for residential and small business customers. This rate was applicable from June 1 until October 31, 2020. As of November 1, 2020, the Province suspended their fixed rate pricing and the OEB reinstated TOU billing rates of: 10.5 cents per kWh for off peak consumption; 15.0 cents per kWh for mid-peak consumption; and 21.7 cents per kWh for on peak consumption.
- Changes to the Industrial Conservation Initiative ("ICI") Program Eligibility – On May 29, 2020, the Ontario government amended its Global Adjustment ("GA") Regulation to introduce flexibility for large commercial and industrial customers ("Class A" customers) to qualify for the ICI Program. Eligibility for Class A for a 12-month "adjustment period", that begins every July 1, is normally determined by assessing the customer's average monthly peak demand during the 12-month "base period" ending on the prior April 30th date. The amendments introduced flexibility for the adjustment period commencing on July 1, 2020 for eligible consumers or market participants. Consumers or market participants that did not qualify based on their average monthly peak demand during the May 1, 2019 to April 30, 2020 base period nevertheless qualified for Class A for the adjustment period commencing July 1, 2020 if they would have otherwise met the applicable threshold had the base period ended on February 29, 2020. Class A customers will also maintain their peak demand factor from the 2019-2020 period to determine their global adjustment charges for the 2021-22 program.
- COVID-19 Energy Assistance Program ("CEAP") and CEAP for Small Business ("CEAP-SB") – The CEAP is an initiative by the Ontario government to make \$9 in funding available to support residential customers struggling to pay their energy bills as a result of the COVID-19 pandemic. On June 16, 2020, the OEB issued a Decision and Order to amend the licenses of distributors to implement the CEAP requirements. The allocation of funding was based on customer count for utilities across the province, resulting in approximately \$1 in funding available for Alectra Utilities customers. A similar program targeted at small businesses allocated \$8 in funding to utilities in proportion to the number of small businesses within their service area, resulting in approximately \$1 allocated for Alectra's small business customers. The program targets GS<50 kW customers that use less than 150,000 kWh, annually.

ALECTRA INC.

Notes to the Consolidated Financial Statements
(in millions of Canadian dollars)
for the years ended December 31, 2020 and 2019

3. Regulation (continued)*(c) Select Energy Policies and Regulation Affecting the Corporation (continued)**Ontario Energy Board Initiatives and Consultation:*

- Disconnections Moratorium – The OEB extended the disconnections moratorium for residential customers and expanded the moratorium to also include other low-volume consumers (defined as customers with annual consumption below 150,000 kWh) to include GS<50kW or small commercial customers. The disconnection ban, which generally commences on November 15 in each year and ends on April 30 in the following year, was extended until July 31, 2020.
- Customer Assistance – The OEB declared that distributors may waive or lower late payment or ‘non-sufficient fund’ charges and seek recovery for these items separately through future OEB rate applications. Alectra Utilities waived late payment charges for its residential and small commercial (GS<50kW) customers from April 15, 2020 to August 31, 2020.
- Consultation on the Deferral Account – Impacts Arising from the COVID-19 Pandemic – In March 2020, the OEB acknowledged that electricity distributors may incur incremental costs as a result of the ongoing COVID-19 pandemic. The OEB ordered the establishment of a deferral account for electricity distributors to use to track incremental costs and lost revenues. The OEB initiated a consultation to assist in developing guidance related to the deferral account including, where appropriate, the review and disposition of the accounts. The OEB did not release advance policy direction on potential for recovery of incremental costs. Consultants are supporting the OEB on the assessment of the COVID-19 pandemic impact. Following stakeholder consultations, the OEB anticipates finalizing COVID-19 pandemic recovery-related guidance in spring 2021.

Amendments to the Standard Supply Service Code (“SSSC”)

On June 1, 2020, the Government of Ontario announced it would introduce customer choice for Regulated Price Plan (“RPP”) consumers that pay TOU prices. The Code amendments allow RPP customers to elect the pricing structure that best suits their needs. As such, these customers can now select whether their commodity charges will reflect TOU consumption and pricing or blocked tiered consumption and pricing. The OEB also approved the establishment of a generic deferral account for distributors to track the costs associated with implementing the customer choice initiative. The amendments were issued on October 13, 2020 with effect for customers as of November 1, 2020.

(d) Conservation and Demand Management

In July 2020, following the issuance of Ministerial directives pursuant to the Electricity Act (“EA”), 1998 (Ontario), the IESO provided Alectra Utilities and all LDCs across the province with a Notice to extend by six months the in-service date for certain projects under the Conservation First Framework (“CFF”) to help customers impacted by the COVID-19 pandemic. Alectra Utilities is now expected to have customer incentives paid upon project completion, which must be no later than June 30, 2021. Also, most customer incentive payments must be made by December 31, 2022.

ALECTRA INC.

Notes to the Consolidated Financial Statements
(in millions of Canadian dollars)
for the years ended December 31, 2020 and 2019

3. Regulation (continued)*(d) Conservation and Demand Management (continued)*

There are two funding models available under the CFF: Full Cost Recovery Program ("FCR") and Pay for Performance Program ("P4P").

FCR

Prefunding amounts were received for the FCR program at the beginning of the Conservation and Demand Management ("CDM") plan and included in accounts payable. Monthly settlements are made with the IESO for reimbursements of expenses incurred during the month with a reimbursement time lag of two months. These amounts are included as an offset to the prefunding amount in accounts payable. At December 31, 2020, the accounts payable, net of offset, were \$15 (2019 - \$15) and \$0 (2019 - \$5), respectively.

P4P

Under P4P, the IESO compensates Alectra Utilities based on a pre-specified amount for each verified kilowatt hour of electricity savings achieved. While there are no performance nor cost efficiency incentives for programs delivered under the P4P funding option, it does provide an opportunity to generate net revenue based on efficient program delivery (i.e., retaining a portion of the difference between program delivery costs and the 22 cents or 25 cents per kWh payment from the IESO). Under the P4P, and unlike FCR, the Corporation bears the risk of covering all of its costs and the eligible funding is capped at a prescribed Internal Rate of Return. At December 31, 2020, the accounts receivable was \$11 (2019 - \$5).

Alectra Utilities is also providing EPCOR, formerly Collus PowerStream, with fully integrated CDM wind-down services.

4. Changes in Accounting Policies*New Accounting Pronouncements*

The following are the accounting standard updates issued by the IASB that are effective from January 1, 2020 and do not have significant impact on the Corporation's consolidated financial statements:

(a) Amendments to IAS 1 - Presentation of Financial Statements and IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Material.

The IASB issued amendments to IAS 1 and IAS 8 to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that: *"Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."* The amendments clarify that materiality will depend on the nature and/or magnitude of the information.

Effective January 1, 2020 the Corporation has applied the definition of materiality, as amended, with no impact on the consolidated financial statements.

ALECTRA INC.

Notes to the Consolidated Financial Statements
(in millions of Canadian dollars)
for the years ended December 31, 2020 and 2019

4. Changes in Accounting Policies (continued)*New Accounting Pronouncements (continued)**(b) Reference to Conceptual Framework (Amendments to IFRS 3 - Business Combinations)*

The amendments add an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or IFRIC 21 *Levies*, if incurred separately.

(c) Amendments to IFRS 3 - Business Combinations: Definition of Business

The IASB issued amendments to IFRS 3, to clarify the definition of a business to make it easier for companies to determine whether acquisitions constitute the purchase of a business or the purchase of a group of assets.

5. 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.

(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 can affect those returns through its power over the subsidiary. All intercompany accounts and transactions have been eliminated on consolidation.

(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 fair value of the net 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.

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5. Significant Accounting Policies (continued)*(c) Revenue from contracts with customers*

Revenue is recognized at a point in time or over time, depending on when the Corporation 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, revenue is recognized 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 following provides a summary of the nature of the various performance obligations within contracts with customers and when performance is recognized on those obligations:

(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 has determined that it is acting as a principal for electricity distribution and therefore has presented the electricity sales on a gross basis. Revenue attributable to the delivery of electricity is based upon OEB-approved distribution tariff rates and includes the amounts billed to customers for electricity, including the cost of electricity supplied, distribution charges, and any other regulatory charges. Revenue is recognized as electricity is delivered and consumed by customers. Electricity sales are recorded on the basis of regular meter readings and estimates of customer usage since the last meter reading date to the end of the year. 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.

ALECTRA INC.

Notes to the Consolidated Financial Statements
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5. Significant Accounting Policies (continued)*(c) Revenue from contracts with customers (continued)**(ii) Other revenue (continued)*

- 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.
- 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 monthly 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.

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, Revenue from Contracts with Customers. The Corporation assesses the unbilled revenues for impairment in accordance with IFRS 9, Financial Instruments.

ALECTRA INC.

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5. Significant Accounting Policies (continued)*(d) Financial instruments*

All financial assets and liabilities, except accounts receivable, are initially recognized at fair value plus transaction costs. Accounts receivable balances are initially recognized at the transaction price. The financial assets and liabilities are subsequently measured at amortized cost using the effective interest rate method, less any applicable impairment. Interest income is calculated using the effective interest method and is recognized in the Statement of Income and Comprehensive Income.

(i) Financial instruments at fair value

The fair value of a financial instrument is the amount of agreed upon consideration in an arm's length transaction between willing parties. 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).

Fair value inputs are taken from observable markets where possible, but if they are unavailable, assumptions are required in establishing fair value. 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.

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.

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5. Significant Accounting Policies (continued)*(d) Financial instruments (continued)**(ii) Derivative Financial Instruments and Hedge Accounting (continued)*

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.

(iii) Impairment of financial assets

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. The Corporation assesses all information available in the measurement of the expected credit losses ("ECLs") associated with its assets carried at amortized cost.

The measurement of ECLs for accounts receivable is based on management's estimates and assumptions. Key assumptions used in determining the provision rate. ECL 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.

(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 and other benefit 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.

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.

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**5. Significant Accounting Policies (continued)***(g) Property, plant, and equipment ("PP&E") (continued)*

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

When items of PP&E are 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. The method of depreciation and estimated useful lives for each category of property, plant and equipment are as follows:

Land and buildings	Straight-line	10 to 52 years
Distribution assets	Straight-line	15 to 70 years
Other PP&E	Straight-line	3 to 20 years

(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. Land rights have 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.

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

Capital contributions represent contributions made to Hydro One Networks Inc. ("Hydro One"), 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.

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5. Significant Accounting Policies (continued)*(h) Goodwill and other intangible assets (continued)*

The Corporation capitalizes cloud arrangements as intangible assets where it has the contractual right to take possession of the software at any time during the hosting period without significant penalty, and it is feasible for the Corporation to either run the software on its own hardware or contract with another party unrelated to the vendor to host the software.

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.

Assessment of useful lives of its intangibles is based on management's judgment. Amortization methods and useful lives are reviewed at each financial year-end and adjusted prospectively.

The estimated useful lives and amortization methods are as follows:

Goodwill	Not amortized	Indefinite
Land rights	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 contributions	Straight-line	16 to 45 years

(i) Impairment of non-financial assets

For the purpose of impairment testing, the Corporation uses judgment to group its assets 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.

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, a suitable discount rate in order to calculate a present value as a basis for determining impairment and an estimated terminal value calculated by discounting the final year in perpetuity. Fair value less costs of disposal is determined based on observable market inputs and categorized as level 3 for fair value measurement. Property, plant and equipment and intangible assets with finite lives are tested for impairment when management determines indicators of impairment exist. Significant judgment is involved in determining the inputs used for determining the recoverable amount of CGUs.

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.

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5. Significant Accounting Policies (continued)*(i) Impairment of non-financial assets (continued)*

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.

(j) 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 measured as the best estimate of the consideration required to settle the present obligation at the reporting date. Significant judgement is required in determining whether a present obligation exists and its probability of realization. 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 recognized as an 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.

(k) 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 the majority of its full-time employees, 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.

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.

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5. Significant Accounting Policies (continued)*(k) Employee future benefits (continued)**(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. Amounts recorded in OCI are not reclassified to the Statement of Income and 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, 2019.

(l) Customer deposits liability

Customer deposits liability comprises of 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 liability in excess of unpaid account balances are refundable to individual customers upon termination of their electricity distribution service. These customer deposits liabilities 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 liabilities until the balance is refunded with the interest amount recognized as finance costs.

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5. Significant Accounting Policies (continued)*(m) Leases*

At the inception of a contract, an assessment is made to determine if the contract is, or contains, a lease based on the right to control the asset and the receipt of substantially all the benefits from the use of the identifiable asset.

Right of use assets ("RoU") are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments. The Corporation recognizes a RoU at the lease commencement date. The RoU is initially measured at cost which is the initial measurement of the lease liability plus any lease payments made at or before the commencement date. The RoU is depreciated using the straight-line method over the shorter of the lease term and the estimated remaining useful life of the asset. The RoU is subsequently measured at cost less accumulated depreciation and accumulated impairment losses and adjusted for certain remeasurements of the lease liability.

Lease liabilities are initially measured at the present value of the remaining lease payments, discounted using the interest rate implicit in the lease, or if that rate cannot be readily determined then by using the Corporation's incremental borrowing rate. The lease liability is subsequently measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments, or a lease modification. A corresponding adjustment is made to the carrying amount of the RoU or is recorded in the Statement of Income and Comprehensive Income if the carrying amount of the RoU has been reduced to zero.

The Corporation includes the following in the lease payments: fixed payments (including in-substance fixed payments); variable lease payments that depend on an index or a rate; amounts expected to be payable under residual value guarantees; the exercise price of a purchase option that the Corporation is likely to exercise; and penalties for lease termination if the Corporation plans to exercise the termination option. The Corporation assesses extension options based on available information at the lease commencement date. Subsequently, if there is a change in circumstances within its control, the Corporation will then reassess the extension option to determine whether there is an economic incentive to exercise the option. Such an assessment is subject to management's judgment. The Corporation allocates the consideration in the contract to each lease component based on their relative stand-alone prices, except equipment leases where the Corporation has elected to combine lease and non-lease components.

The Corporation has elected not to recognize RoU assets and lease liabilities with a lease term of 12 months or less and low value leases. The Corporation recognizes the lease payments associated with these leases as an expense on a straight line basis over the lease term.

A sale and leaseback transaction occurs where the Corporation sells an asset and immediately reacquires the use of the asset by entering into a lease with the buyer. If the transfer of the asset by the Corporation is considered a sale under IFRS 15, *Revenue from contracts with customers*, the Corporation measures the RoU asset arising from the leaseback at the proportion of the previous carrying amount of the asset that relates to the RoU retained. Any gain or loss that relates to the rights transferred to the purchaser/lessor is recognized in other income in the Consolidated Statement of Income. If the transfer of the asset is not considered a sale, the asset continues to be recognized and a financial liability equal to the transfer proceeds is recorded.

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5. Significant Accounting Policies (continued)*(n) 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 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 ("OEFEC"). 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 OEFEC.

PILs comprise current and deferred payments in lieu of income tax. PILs is recognized in the Consolidated Statement of Income and Comprehensive Income 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.

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.

ALECTRA INC.

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5. Significant Accounting Policies (continued)*(o) Finance income and costs*

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

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.

(p) Advance payments

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.

6. Future Accounting Changes

Certain new accounting standards and interpretations that have been published but are not mandatory for implementation as at December 31, 2020 have not been early adopted in these financial statements. Management is currently assessing the impact of the following accounting standards updates on the future consolidated financial statements:

- COVID-19 related rent concessions (Amendment to IFRS 16, *Leases*);
- Proceeds before intended use (Amendments to IAS 16, *Property Plant & Equipment*);
- Onerous contracts, cost of fulfilling a contract (Amendments to IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*);
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10, IAS 28);
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1); and
- Fees in the '10 per cent' Test for Derecognition of Financial Liabilities (Amendments to IFRS 9).

7. Business Combinations

On January 1, 2019, Alectra Utilities acquired 100% of the shares of GHESI. GHESI then amalgamated with Alectra Utilities. Under the Guelph Amalgamation, shares of the former GHESI were exchanged for 485,000 Class G voting common shares of the Corporation. The Guelph Amalgamation has been recognized as a business combination in accordance with IFRS 3, *Business Combinations* using the acquisition method with Alectra Utilities as the acquirer based on its relative size compared to that of the former GHESI. These consolidated financial statements include: the net fair value of the assets of former GHESI as at January 1, 2019; and the net assets of Alectra Utilities at its carrying amounts at January 1, 2019. GHESI contributed electricity sales of \$200 (2019 - \$237). The amalgamation was undertaken with the objective of achieving more efficient and enhanced service delivery through lower operating costs, while providing significant benefits for communities and shareholders.

The aggregate purchase price was \$101, resulting in goodwill of \$43, which is not deductible for income tax purposes. As a result of the Guelph Amalgamation, the contributed surplus increased by \$55. There is contingent consideration in relation to the tax losses carried forward by GMHI, whereby these losses are required to be shared 50/50 with GMHI and Alectra Utilities. As a result, an accrued liability was set up in the amount of \$1.

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**7. Business Combinations**

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

	GHESI
Cash	8
Accounts receivable and unbilled revenue	29
Inventories	2
Other assets	2
Amounts due from related parties	1
Property, plant, and equipment	172
Intangible assets	1
Deferred tax asset	6
Accounts payable and accrued liabilities	(21)
Income tax payable	(1)
Customer deposits	(9)
Deferred revenue	(27)
Other liabilities	(1)
Loans and borrowings	(94)
Employee future benefits	(11)
Fair value of identifiable net assets acquired	57
Contingent consideration	1
Goodwill	43
Total purchase price	101

The valuation technique used for the purchase of GHESI 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.

8. Restricted Cash

Restricted cash includes \$80 (2019 - \$nil) held in an escrow account related to the acquisition of Holland Power Services Inc for future settlement of the initial share consideration and final working capital adjustment. Refer to Note 29 for further details on the acquisition.

Restricted cash also includes \$0.285 (\$2019 - \$1) in 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 Ontario's Fair Hydro Plan to assist electricity customers who do not qualify for low-income conservation programs and for whom electricity bills represent a financial burden.

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9. Property, Plant, and Equipment

	Notes	Land and buildings	Distribution assets	Other assets	Work-in-progress	Total
Cost						
Balance at January 1, 2019		213	2,964	232	95	3,504
Additions through acquisition	7	16	138	13	5	172
Additions / transfers	26	2	328	13	(14)	329
Reclassifications to RoU assets	10	(12)	—	—	—	(12)
Disposals and transfers		(13)	(8)	(16)	—	(37)
Balance at December 31, 2019		206	3,422	242	86	3,956
Additions / transfers	26	8	263	28	42	341
Disposals		(29)	(7)	(12)	(1)	(49)
Balance at December 31, 2020		185	3,678	258	127	4,248
Accumulated depreciation						
Balance at January 1, 2019		22	354	76	—	452
Depreciation		5	110	19	—	134
Disposals and transfers		(11)	(5)	(16)	—	(32)
Balance at December 31, 2019		16	459	79	—	554
Depreciation		6	116	18	—	140
Disposals		(4)	(2)	(11)	—	(17)
Balance at December 31, 2020		18	573	86	—	677
Carrying amounts						
December 31, 2019		190	2,963	163	86	3,402
December 31, 2020		167	3,105	172	127	3,571

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

During the year, borrowing costs of \$5 (2019 - \$4) were capitalized as part of the cost of PP&E and intangible assets. An average capitalization rate of 3.04% (2019 - 3.28%) was used to determine the amount of borrowing costs to be capitalized with respect to Alectra Utilities. Borrowing costs \$3 (2019 - \$2) have been capitalized during the year at the bankers' acceptance rate plus 46 bps (2019 - 95 bps) with respect to AES.

During the year, the Corporation entered a sale and leaseback arrangement for one of its properties. Refer to Note 10 for further details.

During the year ended December 31, 2019, vacant land and property were sold for proceeds of \$10 and \$7 respectively, which resulted in Alectra Utilities recognizing gains of \$3 and \$5 respectively. The aggregate gains were offset by a loss of \$8 from disposal of other PP&E which were sold for no proceeds, for a net loss of \$nil in the Consolidated Statement of Income and Comprehensive Income.

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**10. Right of Use Assets**

	Note	Buildings	Rooftop	Total
Cost				
Reclassifications from property, plant, and equipment on initial application of IFRS 16	9	12	—	12
Recognition of RoU assets on initial application of IFRS 16		7	12	19
Additions		1	—	1
Balance at December 31, 2019		20	12	32
Additions		4	—	4
Balance at December 31, 2020		24	12	36
Accumulated depreciation				
Depreciation		3	1	4
Balance at December 31, 2019		3	1	4
Depreciation		2	1	3
Balance at December 31, 2020		5	2	7
Carrying amounts				
December 31, 2019		17	11	28
December 31, 2020		19	10	29

During the year, the Corporation sold one of its properties and leased it back for 30 months. The Corporation has an option to extend the lease term for an additional year. The Corporation is not expecting to exercise the option. A net gain of \$5 on the sale and lease back transaction is recognized in the Consolidated Statement of Income and Comprehensive Income.

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**11. Goodwill and Other Intangible Assets***(a) Intangible assets*

	Notes	Goodwill	Land rights	Computer software	Capital contributions	Work in progress	Other assets	Total
Cost or deemed costs								
Balance at January 1, 2019		720	2	128	87	28	31	996
Additions through acquisition	7	43	—	1	—	—	—	44
Additions	26	(2)	1	44	5	12	(15)	45
Disposals and transfers		—	—	(26)	—	(2)	—	(28)
Balance at December 31, 2019		761	3	147	92	38	16	1,057
Additions	26	—	—	27	—	(13)	6	20
Disposals		—	—	(2)	—	—	—	(2)
Balance at December 31, 2020		761	3	172	92	25	22	1,075
Accumulated amortization								
Balance at January 1, 2019		—	—	49	8	—	3	60
Amortization		—	—	16	3	—	1	20
Disposals and transfers		—	—	(21)	—	—	—	(21)
Balance at December 31, 2019		—	—	44	11	—	4	59
Amortization		—	—	18	3	—	1	22
Disposals		—	—	(2)	—	—	—	(2)
Balance at December 31, 2020		—	—	60	14	—	5	79
Carrying amounts								
December 31, 2019		761	3	103	81	38	12	998
December 31, 2020		761	3	112	78	25	17	996

Other assets include customer relationships and non-competition agreements.

Borrowing costs capitalized in intangible assets and PP&E during the period is included in Note 9.

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11. Goodwill and Other Intangible Assets (continued)*(a) Intangible assets (continued)*

For the year ended December 31, 2019, certain adjustments were made to goodwill, including additions of \$43 acquired through the Guelph Amalgamation (Note 7), net of an adjustment relating to deferred tax asset of \$2 from a previous transaction.

(b) Impairment testing of goodwill and other indefinite life intangible assets

Goodwill with a carrying amount of \$761 (2019 - \$761) and land rights with a carrying amount of \$3 (2019 - \$3) have been allocated to the Corporation's rate regulated and non-regulated CGUs. Carrying value of goodwill allocation is as follows:

	2020	2019
Regulated CGU	755	755
Non-Regulated CGU	6	6

The Corporation tested goodwill and land rights for impairment as at September 30, 2020 and September 30, 2019.

The recoverable amount is based on its value-in use. The value-in-use calculations use cash flow projections based on financial projections and extrapolated cash flows using estimated growth rates.

The key assumptions used in the value-in use calculations include forecast earnings before interest, taxes, depreciation, and amortization ("EBITDA"), weighted average cost of capital ("WACC") and a terminal growth rate. The terminal growth rate and WACC rate used for each CGU is as follows:

	Terminal growth rate	WACC rate
Regulated CGU	1.50 %	3.10 %
Non-Regulated CGU	1.50 %	8.90 %

Forecast EBITDA is based on expectations of future outcomes considering past experience, adjusted for anticipated revenue growth and cost savings. Revenue growth was projected based on the average growth rate, the estimated sales volume and expected price increases for the next five years;

WACC is based on market and equity risk factors for comparable companies.

The terminal growth rate reflects the rate at which cashflows are expected to grow after five years.

Management is not currently aware of any factors that may result in changes to the key assumptions noted that would cause a CGU's carrying amount to exceed its recoverable amount.

The impairment test was performed by considering the latest developments and economic conditions, including those related to the COVID-19 pandemic. The recoverable amount of goodwill and land rights determined in the analysis for both the years was greater than the carrying value and no impairment was recorded. Additionally, there were no impairment indicators identified as of December 31, 2020.

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**12. Accounts Payable and Accrued Liabilities**

	2020	2019
Accounts payable - energy purchases	237	223
Accrued liabilities	80	98
Customer receivables in credit balances	26	20
Accounts payable - other	25	17
Interest payable	15	14
Deferred conservation credit	1	1
Contingent consideration	—	1
	384	374

13. Related Party Balances and 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 Barrie; the City of Guelph; the City of Hamilton; the City of Markham; the City of Mississauga; the City of St. Catharines; the City of Vaughan; and wholly-owned subsidiaries of related parties.

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

	2020			
	Revenue	Expenses	Due from related parties	Due to related parties
City of Barrie	6	—	2	—
City of Guelph	11	1	—	—
City of Hamilton	29	2	4	21
City of Markham	9	1	2	11
City of Mississauga	16	2	2	—
City of St. Catharines	4	—	1	—
City of Vaughan	23	1	4	12
	98	7	15	44

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**13. Related Party Balances and Transactions (continued)***(a) Balances and transactions with related parties (continued)*

	2019			
	Revenue	Expenses	Due from related parties	Due to related parties
City of Barrie	7	—	2	—
City of Guelph	10	—	—	1
City of Hamilton	26	1	4	14
City of Markham	10	1	2	11
City of Mississauga	20	2	4	—
City of St. Catharines	4	—	1	—
City of Vaughan	10	1	3	13
	87	5	16	39

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 leases with the Cities of Barrie, Markham, and Vaughan. Refer to Note 19. Refer to Note 16 for related party loans and borrowings.

The Corporation paid dividends to its related parties during the year. Refer to Note 18.

(b) Key management personnel compensation

Key management personnel comprises the senior leadership team who are directly or indirectly responsible for planning, directing and controlling the activities of the Corporation. Annual compensation of key management personnel that is directly attributable to the Corporation is as follows:

	2020	2019
Salaries and current employment benefits	14	14
Employee future benefits	1	1
Termination benefits	1	1
	16	16

14. Short term Debt

	2020	2019
Commercial paper program	415	180

The corporation has following sources to meet short-term liquidity requirements:

- (i) Short-term liquidity requirements in part are met through the issuance of Commercial Paper ("CP"). The CP program had a maximum authorized amount of \$300 and was supported by the Corporation's \$500 committed credit facility. In May 2020, the Corporation increased the committed credit facility to \$700, with a \$100 expansion option subject to mutual agreement, and the maximum CP authorized limit to \$500; and

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14. Short term Debt (continued)

- (ii) The Corporation also has a \$100 uncommitted credit 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 debt at December 31, 2020 and 2019 consist of CP issued under the Corporation's CP program. This short-term debt is 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. CP issuance at December 31, 2020 was \$415 (2019 - \$180).

For the year ended December 31, 2020, the average annual outstanding borrowings under the Corporation's revolving credit facility, working capital facility, and CP was \$266 (2019 - \$132) with a weighted average interest rate of 0.70% (2019 - 1.94%). Refer to Note 20(b)(iii) for details on the facilities.

15. Other Liabilities

	2020	2019
Current		
Advance payments	31	31
Notes payable to province of Ontario	1	2
Current portion of transition cost liability	3	3
Other	6	5
	41	41
Other long-term liabilities		
Expansion deposit	16	13
Transition cost liability	2	4
	18	17

Advance payments represent amounts received from customers and developers for services that will be performed in the future and are recognized in revenue when the performance obligation is satisfied.

The expansion deposits represent security deposits received from customers, which are expected to be returned to the customer upon project completion.

The transition cost liability represents payments to be made in relation to the restructuring costs from the 2017 Amalgamation Transaction. Refer to Note 1 for details.

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16. Loans and Borrowings

	2020	2019
Debtures ¹		
4.770% Debtures due 2020	—	40
4.521% Debtures due 2021	110	110
3.033% Debtures due 2022	150	150
3.239% Debtures due 2024	150	150
2.488% Debtures due 2027	675	675
5.264% Debtures due 2030	65	65
5.297% Debtures due 2041	210	210
3.958% Debtures due 2042	200	200
4.121% Debtures due 2045	30	30
3.458% Debtures due 2049	200	200
Less: Unamortized debt issuance costs	(8)	(9)
	1,782	1,821
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
	166	166
Total loans and borrowings	1,948	1,987
Less: Current portion of loans and borrowings	(110)	(40)
Long-term loans and borrowings	1,838	1,947

¹Debtures issued are senior unsecured debtures.

The debtures rank pari passu with all of the Corporation's other senior unsubordinated and unsecured obligations. Interest expense on these debtures was \$63 (2019 - \$62).

The 4.770% debture was repaid during the year.

Two debtures were added on January 1, 2019 as a result of the GHESI amalgamation transaction (Note 3): a 20-year \$65 unsecured debture at 5.264% maturing in 2030 and a 30-year \$30 unsecured debture at 4.121% maturing in 2045.

On April 11, 2019, the Corporation issued 3.458% senior unsecured debture for \$200 maturing in 2049.

The debtures are subject to financial covenants. These covenants require that neither the Corporation nor any designated subsidiary may incur any funded obligation (other than non-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, 2020 and 2019.

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16. Loans and Borrowings (continued)

The three promissory notes to the City of Vaughan, the City of Markham and the City of Barrie 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 was \$7 (2019 - \$7).

17. 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, 2020, the Corporation made employer contributions of \$17 (2019 - \$18) to OMERS. These contributions have been recognized as an operational expenditure net of the amount capitalized in assets. The expected payment for 2021 is \$19.

As at December 31, 2019, and subject to the estimates, assumptions and valuations of OMERS, the plan obligations are 97% (2018 - 96%) 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, 2019. The group defined benefit plans as a whole provides benefits to eligible retirees of the Corporation.

Effective June 1, 2019, the Corporation has harmonized its health and dental benefits for its unionized employees, except for Guelph unionized employees that remain under their legacy Guelph plan. The harmonization of these benefits for non-union employees occurred on January 1, 2020. The five legacy retiree plans will remain in effect for employees hired prior to June 1, 2019. Any union and non-union employees hired after June 1, 2019 will be under the new Alectra retiree plan.

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**17. Employee Future Benefits (continued)***(b) Non-pension defined benefit plans (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:

	2020	2019
Defined benefit obligation, beginning of period	95	61
Defined benefit obligation, assumed through acquisition	—	11
Benefit cost recognized in net income:		
Current service costs	2	2
Interest expense	3	3
Benefit cost recognized in net income	5	5
Amounts recognized in other comprehensive income:		
Actuarial losses arising from changes in financial assumptions	7	18
Actuarial losses arising from changes in experience adjustments	—	1
Actuarial losses arising from corrections to benefits	—	2
Amounts recognized in other comprehensive income	7	21
Payments from the plans	(2)	(3)
Defined benefit obligation, end of year	105	95

The main actuarial assumptions underlying the valuation are as follows:

	2020	2019
Discount rate	2.70 %	3.10 %
Medical benefits costs escalation	4.22 %	5.96 %
Dental benefits costs escalation	4.50 %	4.50 %

(c) Sensitivity analysis

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

	2020	2019
Discount rate		
1% increase	(15)	(13)
1% decrease	18	17
Medical and dental benefits costs escalation		
1% increase	13	12
1% decrease	(11)	(9)

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18. Share Capital

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

	2020		2019	
	Number of Shares	Amount	Number of Shares	Amount
Authorized				
Unlimited Class A through G common shares				
Issued and outstanding				
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
Class G common shares	485,000	43	485,000	43
Total common shares	10,485,000	953	10,485,000	953
Authorized				
Unlimited Class S shares				
Issued and paid				
Class S shares	99,999	43	99,999	47
Total share capital	10,584,999	996	10,584,999	1,000

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

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

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

During 2020, the Board of Directors approved a return of capital to the Class S shareholders in the amount of \$4 (2019 - \$4) in accordance with the Alectra Dividend Policy incorporated as Schedule C to its Unanimous Shareholders' Agreement.

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

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18. Share Capital (continued)

During the year ended December 31, 2020, the Corporation declared and paid dividends as follows:

- Common share dividends aggregating \$80 or \$7.60 per share (2019 - \$79 or \$7.55 per share); and
- Class S share dividends aggregating \$2 or \$25.32 per share (2019 - \$6 or \$56.59 per share).

The Class S dividends 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 to the former PowerStream Shareholders.

19. Lease Obligations

The Corporation leases many assets including property, building rooftops for solar projects, vehicles, and equipment.

The Corporation has entered into property leases for its various offices and operations centre. The Corporation is committed to a 10-year building lease. The lease contains two renewal options of five years each. The Corporation is reasonably certain that it will exercise the first renewal option and has included the renewal option in the lease term.

The Corporation has a 25-year lease agreement for the use of an operations centre which includes both land and building elements, of which the land portion does not qualify as a lease. The lease has a purchase option and three extension options of 5 years each. The Corporation has assessed that it is not likely to exercise these options.

The Corporation is also committed to a 5-year building lease with no renewal or extension options. Most property leases include annual rent adjustment clauses with reference to an index or contractual rate.

The Corporation has entered into lease agreements with various landlords across the province for the leasing of building rooftops for the purpose of installing and operating solar panels. The leases typically run for a period of 20 years from the start of commercial operation. The leases include a termination option and a 5-year extension option, which have not been included in the lease term.

The Corporation leases vehicles for qualifying employees with a standard lease term of 3 years. The Corporation does not purchase or guarantee the value of leased vehicles.

The Corporation also leases office equipment with lease term of 1 year with the option to renew the lease for an additional period of the same duration at the end of the contract term. The Corporation considers these leases to be short-term in nature and therefore no RoU assets and lease liabilities are recognized for these leases.

Refer to Note 10 for details on RoU assets.

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**19. Lease Obligations (continued)**

The contractual undiscounted cash flows for lease obligations are as follows:

	2020	2019
Less than one year	5	4
Between one and five years	16	14
More than five years	26	29
Total undiscounted lease obligations	47	47

During the year, \$4 (2019 - \$1) was added to lease obligations including a sale and lease back transaction. Refer to Note 10 for details. The Corporation expenses the land portion of the operations centre lease, non-lease component of its property leases, and payments for any short-term and low value leases.

	2020	2019
Amounts recognized in the Statement of Income and Comprehensive Income		
Interest on lease obligations	2	2
Variable lease payments and non-lease components not included in the measurement of lease obligations	1	1

	2020	2019
Amounts recognized in the Statement of Cash Flows		
Payments for the principal portion included within financing activities	2	2
Payments for the interest portion included within financing activities	2	2
Variable lease payments included within operating activities	1	1
Total cash outflow for leases	4	5

20. Financial Instruments and Risk Management*(a) Fair value of financial instruments*

The carrying amount of cash (including restricted cash), accounts receivable, amounts due from related parties, customer deposits, accounts payable, amounts due to related parties, short term debt 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 is \$2,161 (2019 - \$2,140).

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20. Financial Instruments and Risk Management (continued)*(a) Fair value of financial instruments (continued)*

	Maturity Date	2020		2019	
		Carrying Value ¹	Fair Value ²	Carrying Value ¹	Fair Value ²
Loans and borrowings					
Notes issued in 2002	2024	166	188	166	181
Debentures issued in 2010	2030	65	87	65	82
Debentures issued in 2011 ³	2021	—	—	110	114
Debentures issued in 2011	2041	210	303	210	287
Debentures issued in 2012	2022	150	158	150	154
Debentures issued in 2012	2042	200	249	200	232
Debentures issued in 2014	2024	150	165	150	157
Debentures issued in 2015	2045	30	38	30	36
Debentures issued in 2017	2027	675	735	675	678
Debentures issued in 2019	2049	200	238	200	219
Total loans and borrowings - long-term portion		1,846	2,161	1,956	2,140
Less: issuance costs		(8)	—	(9)	—
		1,838	2,161	1,947	2,140

¹ The carrying value of long-term debt represents the par value of the promissory notes and debentures.

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.

³ In 2020, this debenture is classified as current portion of loans and borrowings.

(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 results from customers failing to discharge their payment obligations for electricity consumed and billed, as they come due.

The carrying amount of accounts receivable is reduced, to the extent deemed necessary by management's judgment, 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.

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**20. Financial Instruments and Risk Management (continued)***(b) Financial risks (continued)**(i) Credit risk (continued)*

The Corporation considers current economic and credit conditions to determine the ECL allowance of its accounts receivable balances. Given the high degree of uncertainty caused by the COVID-19 pandemic, management has revised the estimates and judgments used in the preparation of the ECL allowance on its accounts receivable balances, which are subject to a higher degree of estimation uncertainty than would have existed before the COVID-19 pandemic. This includes disaggregating the customer base into commercial and residential customers and applying provision rates based on recent and evolving trends for customer collections and current and forecasted economic and other conditions. The Corporation has further segmented customers that are at a higher risk of payment default and have applied higher provision rates to their aged balances. During the current year, the Corporation has recorded an incremental provision of \$28 to its allowance for ECLs which includes the impact of COVID-19 pandemic.

As at December 31, 2020 and 2019, there was no significant concentration of credit risk with respect to any financial assets.

Accounts receivable and respective aging is provided as follows:

	2020	2019
Trade receivable	328	266
Unbilled revenue	260	257
IESO receivable	33	31
Other	9	14
	630	568
Less: expected credit losses	(51)	(33)
Total accounts receivable, net	579	535
Less than 30 days	551	517
30 - 60 days	16	12
61 - 90 days	8	8
Greater than 90 days	55	31
	630	568
Less: expected credit losses	(51)	(33)
Total accounts receivable, net	579	535

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20. Financial Instruments and Risk Management (continued)*(b) Financial risks (continued)**(i) Credit risk (continued)*

	Expected credit losses
Balance, January 1, 2019	(9)
Additional provision	(28)
Write-offs	4
Balance, December 31, 2019	(33)
Additional provision	(28)
Write-offs	10
Balance, December 31, 2020	(51)

(ii) Interest rate risk

The Corporation is exposed to fluctuations in interest rates for the valuation of its post-employment benefit obligations (Note 17). The Corporation is also exposed to short-term interest rate risk on short-term debt under its credit facility and CP program (Note 14). 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, 2020, in addition to the valuation of its post-employment benefit obligations, the Corporation was exposed to interest rate risk predominately from short-term debt under its CP Program and customer deposits liability, 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 14 and 16).

The Corporation estimates that a 50 basis point increase in short-term interest rates, with all other variables held constant, would result in an increase of approximately \$2 to annual finance costs.

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**20. Financial Instruments and Risk Management (continued)***(b) Financial risks (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:

	2020			Total
	Due within 1 year	Due between 1 and 5 years	Due past 5 years	
Accounts payable and accrued liabilities	384	—	—	384
Commercial paper issuance	415	—	—	415
Customer deposit liability	62	—	—	62
Due to related parties	44	—	—	44
Other liabilities	41	18	—	59
4.521% Debentures due 2021	113	—	—	113
3.033% Debentures due 2022	5	154	—	159
4.410% Promissory note due 2024	3	87	—	90
4.410% Promissory note due 2024	3	76	—	79
4.410% Promissory note due 2024	1	22	—	23
3.239% Debentures due 2024	5	165	—	170
2.488% Debentures due 2027	17	67	700	784
5.264% Debentures due 2030	3	14	82	99
5.297% Debentures due 2041	11	44	383	438
3.958% Debentures due 2042	8	32	334	374
4.121% Debentures due 2045	1	5	54	60
3.458% Debentures due 2049	7	28	363	398
Lease obligations	5	16	26	47
	1,128	728	1,942	3,798

The balances for loans and borrowings include both principal and interest.

ALECTRA INC.

Notes to the Consolidated Financial Statements
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**20. Financial Instruments and Risk Management (continued)***(b) Financial risks (continued)**(iii) Liquidity risk (continued)*

	2019			Total
	Due within 1 year	Due between 1 and 5 years	Due past 5 years	
Accounts payable and accrued liabilities	374	—	—	374
Commercial paper issuance	180	—	—	180
Customer deposit liability	74	—	—	74
Due to related parties	39	—	—	39
Other liabilities	41	17	—	58
4.770% Debentures due 2020	42	—	—	42
4.521% Debentures due 2021	5	112	—	117
3.033% Debentures due 2022	5	159	—	164
4.410% Promissory note due 2024	3	91	—	94
4.410% Promissory note due 2024	3	79	—	82
4.410% Promissory note due 2024	1	23	—	24
3.239% Debentures due 2024	5	169	—	174
2.488% Debentures due 2027	17	67	717	801
5.264% Debentures due 2030	3	14	86	103
5.297% Debentures due 2041	11	44	394	449
3.958% Debentures due 2042	8	32	342	382
4.121% Debentures due 2045	1	5	56	62
3.458% Debentures due 2049	7	28	369	404
Lease obligations	4	14	29	47
	823	854	1,993	3,670

The balances for loans and borrowings include both principal and interest.

ALECTRA INC.

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20. Financial Instruments and Risk Management (continued)*(b) Financial risks (continued)**(iii) Liquidity risk (continued)*

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 obligations as they come due. The Corporation has the following sources of liquidity under which it may access financial capital from time to time:

- \$800 in aggregate revolving unsecured credit facilities: (i) \$700 committed facility with four banks maturing October 5, 2022; and (ii) \$100 uncommitted facility with a bank which is callable by the bank. The committed facility is also used to support outstanding commitments under the CP program by way of same day prime rate advances.
- Issuance of senior unsecured debentures with various maturity dates under established trust indentures.

In response to possible liquidity constraints resulting from the COVID-19 pandemic, the Corporation implemented the following measures: (i) increased the committed credit facilities from \$500 to \$700 with a \$100 extension option subject to mutual agreement; (ii) added two banks to the committed facility; (iii) extended the committed facility for a period of two years to October 2022; and (iv) increased the commercial paper program from a maximum of \$300 to \$500. These measures provided the Corporation with ample liquidity and short-term debt at favourable market rates.

21. 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, as it relates to 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; short-term debt; 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 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 (Note 16).

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**22. Operating Expenses**

	2020	2019
Labour	174	173
Contract and consulting	52	52
Allowance for ECLs	28	9
Office expenses	23	22
Repairs and maintenance	14	10
Information and technology	14	15
Business taxes and fees	10	10
Other	8	—
Facility expenses	5	5
	328	296

23. Other Revenue

	2020	2019
Street lighting	23	8
Consulting	21	14
Solar generation	17	16
Amortization of deferred revenue	12	11
Water and waste water billing and customer charges	11	11
Regulatory service charges	10	11
Sub-metering and metering services	10	8
Pole and other rental income	7	7
Other	4	11
	115	97

24. Deferred Revenue

Balance at January 1, 2019	361
Reclassifications to accounts payable	(2)
Contributions received through acquisitions	27
Contributions received from customers	46
Amortization	(11)
Balance at December 31, 2019	421
Contributions received from customers	85
Amortization	(12)
Balance at December 31, 2020	494

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**25. Income Taxes***(a) Income tax expense*

PILs recognized in net income comprise the following:

	2020	2019
Current tax expense	6	2
Deferred tax expense	22	18
Income tax expense	28	20

Income taxes paid and refunded during the year were \$5 (2019 - \$6) and \$4 (2019 - \$21) respectively.

(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:

	2020	2019
Income before taxes	107	84
Statutory Canadian federal and provincial income tax rates	26.5 %	26.5 %
Expected tax provision on income at statutory rates	28	22
Decrease in income taxes resulting from:		
Adjustments in respect of prior years	—	(2)
Total income tax expense	28	20
Effective income tax rate	25.9 %	24.3 %

The statutory income tax rate for the current year comprises a combined 15% (2019 - 15%) federal corporate tax rate and an 11.5% (2019 - 11.5%) Ontario corporate tax rate.

ALECTRA INC.

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**25. Income Taxes (continued)***(c) Deferred tax balances*

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

	2020	2019
Deferred tax assets		
PP&E and intangible assets	(3)	(3)
Non-capital loss carryforwards	7	7
Debt issuance costs	(2)	(1)
Non-deductible reserves	1	—
	3	3
Deferred tax liabilities		
Employee future benefits	(28)	(24)
PP&E and intangible assets	120	87
Non-capital loss carryforwards	(2)	(1)
Tax credit carryovers	(12)	(10)
Non-deductible reserves	(2)	(1)
Energy variances	(8)	(3)
	68	48

26. Net Change in Non-cash Operating Working Capital

	2020	2019
Accounts receivable	(44)	72
Inventories	(2)	(1)
Prepaid expenses	(4)	1
Due from related parties	1	(4)
Accounts payable and accrued liabilities	13	(17)
Due to related parties	6	—
Customer deposits liability	(12)	(2)
Other liabilities	(3)	(16)
	(45)	33

ALECTRA INC.

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26. Net Change in Non-cash Operating Working Capital (continued)

Reconciliation between the amounts presented on the statement of cash flows and total additions to PP&E and intangible assets:

	Notes	2020	2019
Purchase of PP&E, cash basis		343	343
Accruals		(2)	7
Reclassifications		—	(21)
Total additions to PP&E	9	341	329
Purchase of intangible assets, cash basis		20	37
Reclassifications		—	10
Changes to goodwill		—	(2)
Total additions to goodwill and other intangible assets	11	20	45

27. Commitments, Contingencies, and Guarantees*(a) Commitments**(i) Leases*

Lease commitments have been disclosed in Note 19.

(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 (2019 - \$33).

*(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, 2020 is less than \$1. 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.

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Notes to the Consolidated Financial Statements
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27. Commitments, Contingencies, and Guarantees (continued)*(b) Contingencies (continued)**(ii) 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, 2020, no assessments have been made.

(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 favour 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 certain 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 the Consolidated Financial Statements
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**28. Divisional and Regulatory 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; Eastview Landfill Gas Energy Plant; the Southgate Solar Photovoltaic Facility; Stone Road Mall Electric Vehicle Charging Station; 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, the OEB, as well as management.

	2020			
	Regulated	Adjustment for regulatory activities	Non- regulated	Total
Revenue				
Distribution revenue	570	(11)	—	559
Electricity sales	3,489	(1)	—	3,488
Other revenue	34	14	67	115
Total revenue	4,093	2	67	4,162
Expenses				
Cost of power	3,489	—	—	3,489
Operating expenses	278	5	45	328
Depreciation and amortization	142	12	11	165
Gain on derecognition of property, plant, and equipment	(1)	—	—	(1)
Total expenses	3,908	17	56	3,981
Income from operating activities	185	(15)	11	181
Finance income	2	(2)	1	1
Finance costs	74	(1)	2	75
Net finance costs	72	1	1	74
Income before payments in lieu of income	113	(16)	10	107
Income tax (recovery) expense	(3)	28	3	28
Net income	116	(44)	7	79
Other comprehensive loss				
Reclassification to net income, loss on bond forward	—	—	2	2
Remeasurement of defined benefit obligation	(5)	(2)	—	(7)
Tax impact on remeasurement of defined benefit obligation	—	2	(1)	1
Total other comprehensive loss	(5)	—	1	(4)
Total comprehensive income	111	(44)	8	75

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**28. Divisional and Regulatory Information (continued)**

	2019			
	Regulated	Adjustment for regulatory activities	Non- regulated	Total
Revenue				
Distribution revenue	568	(24)	—	544
Electricity sales	3,167	(29)	—	3,138
Other revenue	38	12	47	97
Total revenue	3,773	(41)	47	3,779
Expenses				
Cost of power	3,167	—	—	3,167
Operating expenses	270	(1)	27	296
Depreciation and amortization	136	12	10	158
Loss on derecognition of property, plant, and equipment	(2)	—	2	—
Total expenses	3,571	11	39	3,621
Income from operating activities	202	(52)	8	158
Finance income	3	(2)	—	1
Finance costs	74	(2)	3	75
Net finance costs	71	—	3	74
Income before payments in lieu of income	131	(52)	5	84
Income tax expense	2	17	1	20
Net income	129	(69)	4	64
Other comprehensive income				
Reclassification to net income, loss on bond forward	—	—	1	1
Remeasurement of defined benefit	(11)	(8)	(2)	(21)
Tax impact on remeasurement of defined benefit obligation	—	5	—	5
Total other comprehensive loss	(11)	(3)	(1)	(15)
Total comprehensive income	118	(72)	3	49

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Notes to the Consolidated Financial Statements
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**28. Divisional and Regulatory Information (continued)**

	2020			
	Regulated	Adjustment for regulatory activities	Non- regulated	Total
Assets				
Current assets				
Cash	12	—	9	21
Restricted cash	—	—	80	80
Accounts receivable	570	—	9	579
Inventory	30	—	1	31
Due from related parties	14	—	1	15
Other assets	17	—	2	19
Total current assets	643	—	102	745
Non-current assets				
Property, plant, and equipment	3,455	4	112	3,571
Right of use assets	15	—	14	29
Goodwill and other intangible assets	952	5	39	996
Investment in associate	—	—	6	6
Regulatory assets	231	(231)	—	—
Deferred tax asset	—	—	3	3
Other assets	4	—	(4)	—
Total non-current assets	4,657	(222)	170	4,605
Total assets	5,300	(222)	272	5,350
Liabilities and Shareholders' Equity				
Current liabilities				
Accounts payable and accrued liabilities	360	—	24	384
Customer deposits liability	62	—	—	62
Short term debt	318	—	97	415
Current portion of loans and borrowings	110	—	—	110
Current portion of lease obligations	3	—	1	4
Due to related parties	59	—	(15)	44
Other liabilities	38	—	3	41
Total current liabilities	950	—	110	1,060
Non-current liabilities				
Loans and borrowings	1,757	—	81	1,838
Deferred revenues	497	(3)	—	494
Employee future benefits	105	—	—	105
Lease obligations	16	—	15	31
Regulatory liabilities	56	(56)	—	—
Deferred tax liabilities	83	(32)	17	68
Other long-term liabilities	18	—	—	18
Total non-current liabilities	2,532	(91)	113	2,554
Total liabilities	3,482	(91)	223	3,614
Shareholders' equity				
Share capital	682	—	314	996
Contributed surplus	839	(13)	(227)	599
Accumulated other comprehensive loss	(18)	—	(9)	(27)
Retained earnings	315	(118)	(29)	168
Total shareholders' equity	1,818	(131)	49	1,736
Total liabilities and shareholders' equity	5,300	(222)	272	5,350

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**28. Divisional and Regulatory Information (continued)**

	2019			
	Regulated	Adjustment for regulatory activities	Non- regulated	Total
Assets				
Current assets				
Cash	20	—	9	29
Restricted cash	1	—	—	1
Accounts receivable	524	—	11	535
Inventory	26	—	3	29
Due from related parties	16	—	—	16
Other assets	14	—	1	15
Total current assets	601	—	24	625
Non-current assets				
Property, plant, and equipment	3,250	41	111	3,402
Right of use assets	12	—	16	28
Goodwill and other intangible assets	954	5	39	998
Regulatory assets	160	(160)	—	—
Deferred tax asset	—	—	3	3
Other assets	4	—	(4)	—
Total non-current assets	4,380	(114)	165	4,431
Total assets	4,981	(114)	189	5,056
Liabilities and Shareholders' Equity				
Current liabilities				
Accounts payable and accrued liabilities	350	(4)	28	374
Customer deposits liability	73	—	1	74
Short term debt	169	—	11	180
Current portion of loans and borrowings	40	—	—	40
Current portion of lease obligations	1	—	1	2
Due to related parties	56	—	(17)	39
Other liabilities	39	—	2	41
Total current liabilities	728	(4)	26	750
Non-current liabilities				
Loans and borrowings	1,865	—	82	1,947
Deferred revenues	385	36	—	421
Employee future benefits	95	—	—	95
Lease obligations	15	—	16	31
Regulatory liabilities	39	(39)	—	—
Deferred tax liabilities	51	(21)	18	48
Other long-term liabilities	18	—	(1)	17
Total non-current liabilities	2,468	(24)	115	2,559
Total liabilities	3,196	(28)	141	3,309
Shareholders' equity				
Share capital	682	—	318	1,000
Contributed surplus	839	(13)	(227)	599
Accumulated other comprehensive loss	(14)	1	(10)	(23)
Retained earnings	278	(74)	(33)	171
Total shareholders' equity	1,785	(86)	48	1,747
Total liabilities and shareholders' equity	4,981	(114)	189	5,056

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28. Divisional and Regulatory Information (continued)

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

	2020	2019
Regulatory Deferral Debit Balances		
Deferred income tax asset ^m	116	79
Retail settlement variance accounts (RSVA's) ^a	54	33
Lost revenues adjustment mechanism variance account (LRAMVA) ^b	25	23
Large commercial interval meter recovery ^d	10	7
OEB cost assessments deferral ^g	6	5
Re-measurements of post-employment benefits ^f	6	4
Renewable generation capital and operating cost deferral ^c	3	3
Collection of account lost revenue ^k	3	1
Other ^{a,e}	8	5
	231	160
Regulatory Deferral Credit Balances		
Retail settlement variance accounts (RSVA's) ^a	26	26
PILs and tax variance ^l	15	9
Pole rental variance account ^l	6	3
Net refund of regulatory balances	2	2
Other ^{h,i}	7	(1)
	56	39

- (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.
- (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.

ALECTRA INC.

Notes to the Consolidated Financial Statements
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28. Divisional and Regulatory Information (continued)

- (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 four variance accounts to record the cumulative difference between the property, plant and equipment ("PP&E") calculated using pre-merger capitalization policies and the PP&E 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.
- (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 January 1, 2020, of \$44.50. Under IFRS, Alectra Utilities recognizes the revenue based on the effective rate in the period the revenue was earned.
- (k) The OEB approved a deferral account to record the lost revenues related to the administration of the Collection of Account charge. The OEB recently mandated that collection of account charges are part of normal business activities where customers are not to be charged for activity. However, as the associated revenue was factored into the rate-setting process the established deferral account allows Alectra Utilities to record the lost revenues for recovery through future distribution rates.
- (l) The OEB requires utilities to record the impact of any differences that result from a legislative or regulatory change to the tax rates or rules that are not incorporated in the distributor's rates. On June 21, 2019, Bill C-97, the Budget Implementation Act, 2019, No. 1, was given Royal Assent, which introduced the Accelerated Investment Incentive ("AII") program. This program provides for a first-year increase in capital cost allowance (CCA) deductions on eligible capital assets acquired after November 20, 2018. Alectra Utilities has recorded the revenue related to the AII program to be refunded through future distribution rates.

ALECTRA INC.

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28. Divisional and Regulatory Information (continued)

- (m) 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.
- (n) The OEB approved a deferral account to track incremental costs and lost revenues arising from COVID-19 Pandemic. The nature, degree and mechanism of any recoverability has not been determined. Alectra Utilities has not deferred any incremental costs or lost revenues arising from the Pandemic due to the OEB's ongoing consultation on the COVID-19 deferral account and the uncertainty of recovery. This may change in future periods once the OEB issues guidance for recovery of Pandemic related costs and lost revenues.

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.

29. Subsequent Events

The following significant non- adjusting events occurred after the reporting period:

i. *Acquisition of Holland Power Services Inc.*

On January 4, 2021 (the "Closing Date"), the Corporation acquired 100% of the shares of Holland Power Services Inc. ("HPSI") through its subsidiary, a privately-held company specializing in providing storm restoration services in Eastern Canada and the United States. This acquisition supports the strategic growth objective of the Corporation through logical extensions and diversification of its utility services.

The total consideration for the acquired shares of HPSI comprises: i) an initial payment of \$52 to the vendor on the Closing Date ("Initial Share Consideration"); and ii) additional contingent share consideration, if any, payable based on the annual financial performance of HPSI in 2021 and 2022. The Corporation also paid \$28 to the vendor on the Closing Date in consideration of actual working capital as at that date in excess of an assumed level of working capital underlying the purchase price consideration for the shares ("Working Capital Adjustment").

As a result of the recency and complexity of the transaction, the accounting and valuation for the purchase is still being finalized. Consequently, the estimated fair value of assets acquired and liabilities assumed at the date of acquisition have not been disclosed.

ii. *Bond issuance*

On February 11, 2021, the Corporation issued \$300 of 1.751% 10-year senior unsecured debentures due in 2031. The net proceeds of this offering was used to repay the Corporation's outstanding commercial paper and for general corporate purposes.

Alectra Inc.
Management's Discussion and Analysis
Consolidated Financial Results
Year Ended
December 31, 2020

GLOSSARY of ACRONYMS and ABBREVIATIONS

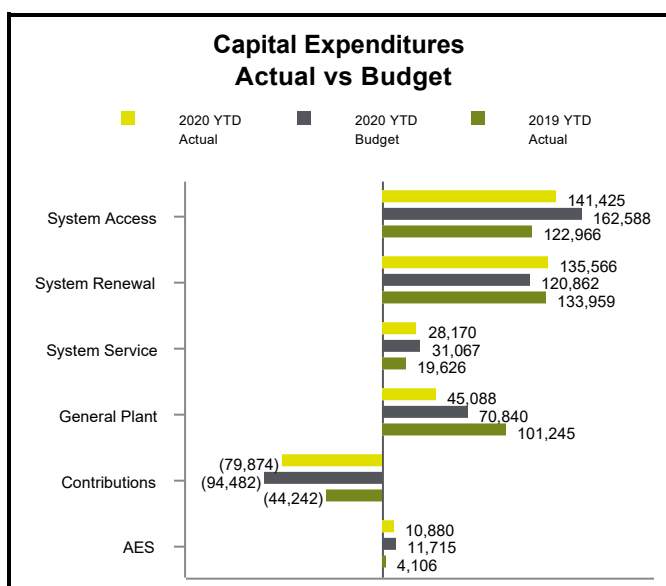
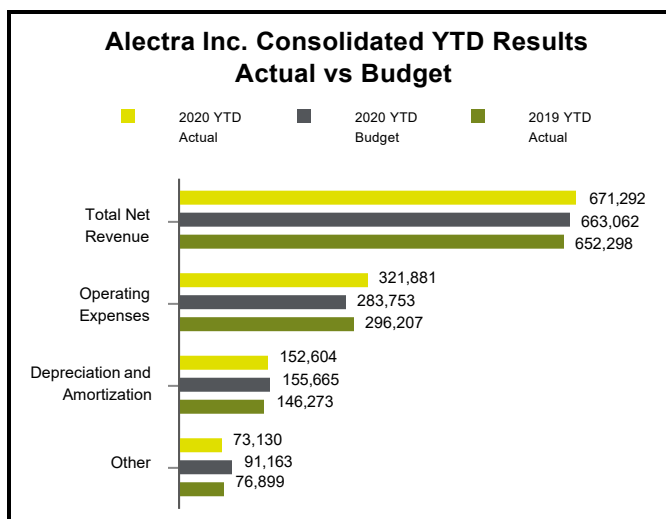
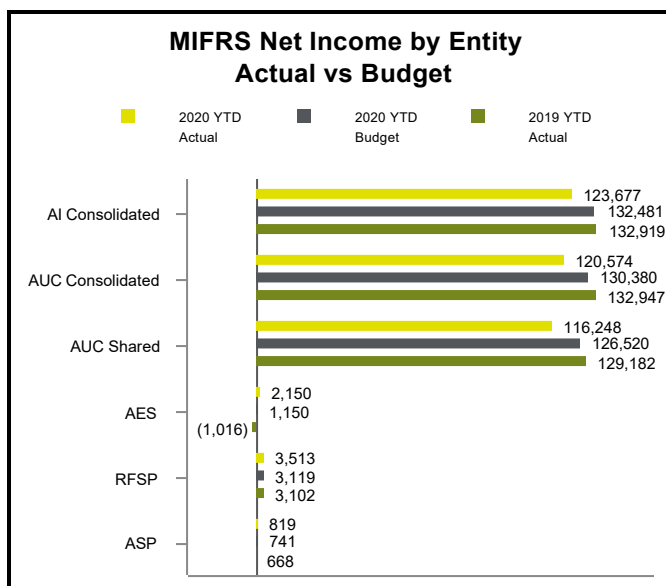
The following acronyms and abbreviations are used in this document.

AES Alectra Energy Solutions Inc.	kW Kilowatt
AESI Alectra Energy Services Inc.	kWh Kilowatt Hours
AFFO Adjusted Funds from Operations	LAN Local Area Network
All Accelerated Investment Incentive	LC Letters of Credit
AI Alectra Inc.	LDC Local Distribution Company
AMI Advanced Metering Infrastructure	LED Light-Emitting Diode
APS Alectra Power Services Inc.	LRAM Lost Revenue Adjustment Mechanism
ASP Alectra Solar Partnership	LRAMVA Lost Revenue Adjustment Mechanism Variance Account
AUC Alectra Utilities Corporation	M&A Mergers and Acquisitions
BA Banker's Acceptance	MD&A Management Discussion & Analysis
BU Business unit	MIFRS Modified International Financial Reporting Standards
CAGR Compound Annual Growth Rate	MIST Meter Inside the Settlement Timeframe
CCA Capital Cost Allowance	MS Municipal Station
CCRA Connection Cost Recovery Agreement	MSP Meter Service Provider
CC&B Customer Care and Billing	NRCAN Natural Resources Canada
CDM Conservation & Demand Management	OCI Other Comprehensive Income
CIA Customer Insights and Acquisitions	ODS Operational Data Store
CIS Customer Information System	OEA Ontario Energy Association
CP Commercial Paper	OEB Ontario Energy Board
COVID-19 Coronavirus Disease 2019	OM&A Operations, Maintenance and Administration
CX Customer Experience	OMS Outage Management Systems
DRC Debt Retirement Charge	OPG Ontario Power Generation
DSP Distribution System Plan	P4P Pay For Performance
DVA Deferral & Variance Accounts	P6 Oracle Primavera P6 Software
EDR Electricity Distribution Rate	P Permanent
ERP Enterprise Resource Planning	PACE Power Assist Call Engine
ESM Earnings Sharing Mechanism	PILC Paper Insulated Lead Conductor
ETR Express Toll Route	PILs Payments in Lieu
FCR Full Cost Recovery	PP&E Property, Plant, & Equipment
FDIR Fault Detection, Isolation and Restoration	RFP Request for Proposal
FIT Feed-In-Tariff	RFSP Ring-Fenced Solar Portfolio
FY Full Year	RPP Regulated Price Plan
GIS Geographic Information Systems	SCADA Supervisory Control and Data Acquisition
GP General Partnership	Shared Excludes RFSP
GRE&T Green Energy & Technology Center	SLA Service Level Agreement
GS General Service	SPA Share Purchase Agreement
GWh Gigawatt Hours	SPN Solar Power Network
HST Harmonized Sales Tax	SR&ED Scientific Research & Experimental Development
HaLRT Hamilton Light Rail Transit	T Temporary
HuLRT Hurontario Light Rail Transit	TOU Time of Use
ICI Industrial Commercial and Institutional customers	TS Transformer Station
ICM Incremental Capital Module	UA Util-Assist Inc.
IESO Independent Electricity System Operator	URD Underground Residential Development
IFRS International Financial Reporting Standards	UEBA User and Entity Behaviour Analytics
IR Incentive Rate	VDI Virtual Desktop Infrastructure
IST Information Systems & Technology	WA Weighted Average
IT Information Technology	WiMax Worldwide Interoperability for Microwave Access
IVR Interactive Voice Recognition	YRT York Region Transit
kV Kilovolts	

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Alectra Inc.
Management's Discussion and Analysis
For the Year Ended December 31, 2020
(in thousands of dollars)



Key Drivers - YTD results

ALECTRA INC. CONSOLIDATED RESULTS (MIFRS)

Alectra Inc. consolidated net income was \$123,677 or \$8,804 unfavourable to budget of \$132,481.

REVENUE

Revenue, net of cost of power, was \$671,292 or \$8,230 favourable to budget of \$663,062. The variance is principally explained by:

- higher other revenue (\$15,281) primarily due to: (i) higher consulting revenue in Util-Assist from new and existing customers (\$7,682), (ii) higher revenue in Power Services from LED projects (\$5,181); and higher revenue from third party damage claims and administrative charges on recoverable work (\$2,528); largely offset by
- lower distribution revenue (\$7,051) principally due to: (i) lower demand in the large commercial GS>50kW customer class (\$4,588), (ii) the OEB's decision denying the AUC 2020 application request for incremental capital funding (\$2,792), (iii) lower consumption in the small commercial GS<50kW customer class (\$2,476) and (iv) regulatory variance account adjustments (\$1,177); partially offset by (v) higher than budgeted rates (\$2,891), and (vi) higher LRAMVA revenue (\$1,622).

EXPENSES

Expenses were \$474,485 or \$35,067 unfavourable to the budget of \$439,418. The variance is primarily explained by:

- an increase in the provision for expected credit losses (\$23,013) as a result of the COVID-19 pandemic;
- higher direct labour costs (\$13,271), primarily as a result of (i) lower allocation of labour to capital programs, and (ii) higher overtime in Network Operations;
- higher direct material and outside service provider costs in AES due to LED projects (\$6,147); and
- higher consulting costs, direct labour costs and billable expenses in Util-Assist related to consulting projects (\$5,170); partially offset by
- recovery of the FIT/MicroFIT settlement variances (\$4,080);
- lower depreciation and amortization expenses (\$3,061) mainly due to: (i) lower energization of distribution asset expenditures, (ii) lower assets in service on merger transition projects, and (iii) lower assets in service for fleet assets than forecasted at the end of 2019;
- lower training costs as a result of the COVID-19 pandemic (\$1,878);
- lower consulting costs in AUC (\$1,673) mainly due to lower support for strategic initiatives and delays in engineering consulting work; and
- lower than anticipated severance costs (\$1,319).

OTHER

- favourable income tax recovery (\$9,297) principally due to: (i) lower net income before tax (\$4,798), (ii) an increase in capital cost allowance (\$1,629), (iii) timing differences related to non-energy deferral accounts (\$1,601), and (iv) the reversal of the FIT/MicroFIT provision (\$1,081);
- favourable derecognition of PP&E (\$6,759) mainly due to the sale of the Sandalwood operations centre; and
- favourable interest expense (\$2,027), principally attributable to: (i) lower net short-term borrowing costs (\$2,310), (ii) lower interest on customer deposits and regulatory interest (\$1,069), and (iii) interest income on tax refunds (\$323), partially offset by (iv) higher credit facility fees (\$1,902).

CAPITAL EXPENDITURES

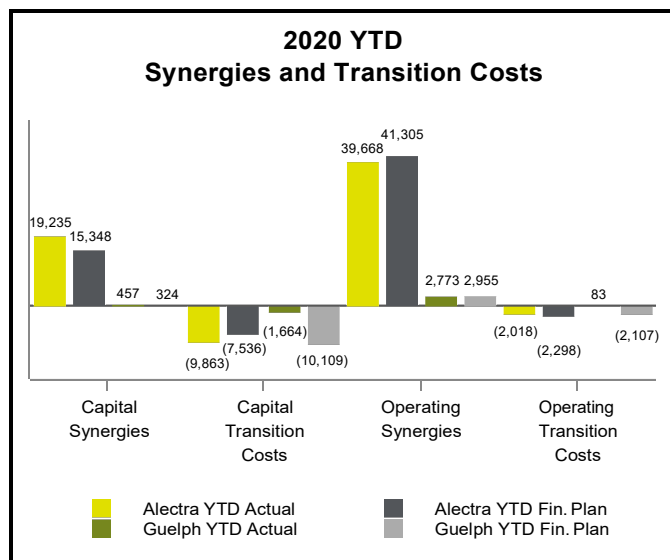
Capital expenditures are \$281,255 or \$21,335 lower than the budget of \$302,590 largely explained by:

- lower General Plant costs primarily due to the deferral of the Kennedy Road and Guelph transition projects and CCRA payments (\$25,752);
- lower System Access and System Service expenditures primarily due to the cancellation and deferral of transit projects, delays in the completion of road authority and new connections projects, and cancellation of the Non-Wires Alternative project (\$24,060); partially offset by
- higher System Renewal primarily due to additional work performed on overhead and underground asset replacement (\$14,704); and
- lower customer contributions primarily related to the cancellation and deferral of transit projects (\$14,608).



Alectra Inc.
Management's Discussion and Analysis
For the Year Ended December 31, 2020
 (in thousands of dollars)

Key Drivers – YTD results (cont'd)



SYNERGIES

Alectra capital synergies were \$19,235, or \$3,887 favourable to the budget of \$15,348. The synergies variance is principally attributable to: (i) higher reductions in contractor costs (\$1,937); (ii) higher volume discounts achieved as a result of expanding the cable injection program to all regions (\$1,198); and (iii) lower contractor pricing for vegetation management services (\$711).

Capital synergies for the Guelph Hydro merger were \$457, or \$133 favourable to the budget of \$324, principally due to IT capital budget reductions (\$133).

Alectra operating synergies were \$39,668, or \$1,637 unfavourable to the budget of \$41,305. The variance is principally attributable to: (i) higher outsourcing call centre costs due to a delay in implementing the Customer Service strategy (\$1,946); (ii) unachieved control room overtime synergies (\$697); (iii) unachieved fleet and facilities maintenance synergies due to the impact of the COVID-19 pandemic (\$640); (iv) lower labour synergies primarily due to collective bargaining impacts (\$561); and (v) lower IT managed services synergies due to a change in the operating business model (\$486); partially offset by (vi) higher financial synergies from lower negotiated loan rates achieved through the commercial paper program (\$2,605).

Operating synergies for the Guelph Hydro merger were \$2,773, or \$182 unfavourable to the budget of \$2,955. The variance is primarily due to: (i) lower labour synergies due to delays in IT integration projects (\$248); partially offset by (ii) one-time benefits harmonization synergies achieved as a result of price reductions and guarantees (\$100).

TRANSITION COSTS

Total capital transition costs were \$11,527, or \$6,118 favourable to the budget of \$17,645. The variance is principally attributable to: (i) delays in the Guelph merger IT integration projects (\$8,779); (ii) a delay in the data centre consolidation project due to the COVID-19 pandemic (\$1,198); and (iii) a delay in the Derry Road 2nd Floor renovation project due to the COVID-19 pandemic (\$1,000); partially offset by (iv) operations voice radio system project costs moving from 2021 to 2020 (\$2,867); (v) unplanned phone system consolidation project costs deferred from 2019 to 2020 (\$834); and (vi) higher GIS/OMS consolidation projects costs (\$507).

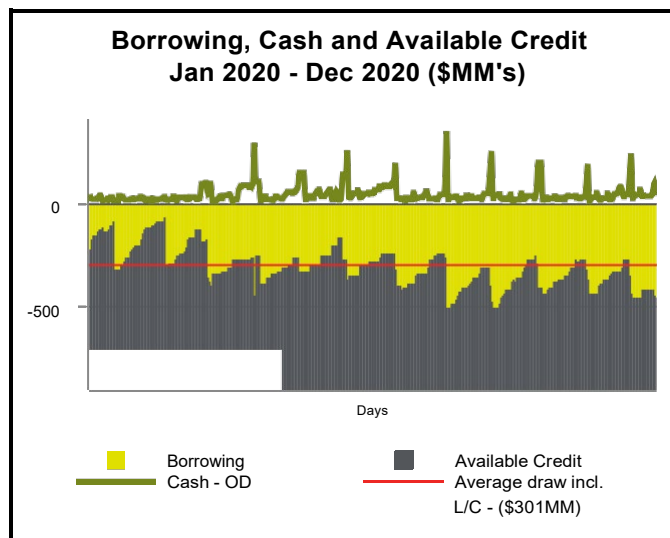
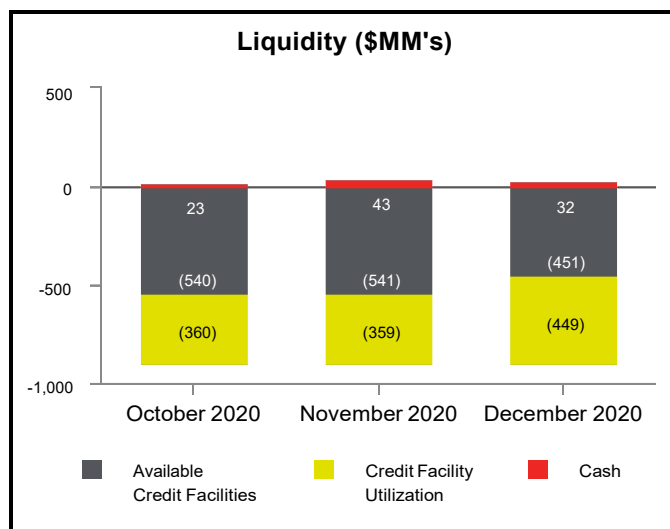
Total operating transition costs were \$1,935, or \$2,470 favourable to the budget of \$4,405. The variance is principally attributable to (i) lower severance costs (\$1,418), and (ii) delay of Guelph IT integration projects costs (\$606).

CREDIT FACILITIES

Alectra Inc. has access to short-term revolving liquidity through: \$700MM committed revolving facility that allows for an additional \$100MM subject to mutual agreement; and a \$100MM uncommitted revolving overdraft facility.

As at December 31, 2020, \$449MM of the \$700MM credit facility was utilized through \$415MM of CP issuance and \$34MM of LC issuance.

The \$100MM overdraft facility was unutilized as at December 31, 2020.



ALECTRA NET INCOME BY ENTITY

(\$000s)	Year Ended December 31 2020			Year Ended December 31 2019	
	Actual	Budget	Variance	Actual	YoY Variance
Alectra Inc. Consolidated					
Alectra Utilities Shared	116,248	126,520	(10,272)	129,182	(12,934)
Alectra Energy Solutions	2,150	1,150	1,000	(1,016)	3,166
Alectra Solar Partnership	819	741	78	668	151
Alectra Inc. Unconsolidated*	947	951	(4)	983	(36)
Alectra Inc. Shared Consolidated	120,164	129,362	(9,198)	129,817	(9,653)
Alectra RFSP	3,513	3,119	394	3,102	411
Alectra Inc. Consolidated MIFRS net income	123,677	132,481	(8,804)	132,919	(9,242)
IFRS adjustments	(44,213)	(35,171)	(9,042)	(69,290)	25,077
Alectra Inc. Consolidated IFRS net income	79,464	97,310	(17,846)	63,629	15,835

*Includes elimination entries

IFRS Adjustments

The IFRS adjustments amount to \$44,213. The adjustments relate to the following items:

- regulatory assets/liabilities representing differences between deferred taxes under MIFRS and IFRS (\$27,465);
- approved regulatory variance accounts dispositions that are being refunded through rate riders (\$14,866);
- higher energy costs compared with energy revenue principally attributed to timing differences with respect to billing global adjustment charges as customers are billed based on accrued estimates (\$1,018); and
- other variances ultimately settled in rate applications to the OEB (\$864).

Financial Metrics

	2020 Actual	2020 Budget
Current Ratio	0.7	0.7
Debt / Capitalization	57.0%	55.1%
Debt / Capitalization (excluding valuation adjustments)	64.3%	62.5%
AFFO / Debt (S&P Global)	11.1%	13.2%
AFFO / Debt (DBRS Morningstar)	12.1%	14.1%
AFFO / Interest	3.9	4.1
EBITDA / Interest	4.5	4.8
Return on closing equity (unadjusted)	6.6%	7.1%

IFRS EQUITY RECONCILIATION

Alectra Inc.

(\$000s)	Alectra Inc. Shared Consolidated	Alectra RFSP	Alectra Inc. Consolidated
Shareholders' equity as at January 1, 2020	1,733,303	13,212	1,746,515
Net income	75,951	3,513	79,464
Dividends paid / return of capital	(79,705)	(6,330)	(86,035)
OCI changes	(3,797)	—	(3,797)
Shareholders' equity as at December 31, 2020	1,725,752	10,395	1,736,147

CONFIDENTIAL

QUARTERLY REPORT TO SHAREHOLDERS

Date of Report	March 5, 2021
Subject	USA s2.26(b) - Information of Material Concern

COVID-19 Pandemic

The following report is intended to provide shareholders with an updated perspective on the implications of the COVID-19 Pandemic on Alectra's operations, financial results, and financial liquidity as further described below.

Impact on Operations

Since the last letter to shareholders dated November 27th, Alectra completed its first phase of returning employees to the workplace. The first phase consisted of a small select group of office staff that returned to the workplace, principally resulting from a need for such employees to interact with the physical work environment.

As a result of the escalating cases within Ontario, on January 12, 2021, the Government of Ontario declared a state of emergency for the second time since the pandemic began in March 2020. Alectra is considered an essential service. As such, these new measures have a minimal impact on how Alectra conducts its business. Alectra is continually monitoring this second phase of the pandemic and, as necessary, making adjustments to processes and protocols to ensure that the well-being and safety of its employees is not compromised.

As a consequence of the COVID-19 pandemic and related circumstances, during the period from April to December 2020, Alectra experienced a decrease in demand from commercial and industrial customers of approximately 4%, while demand in the residential sector increased. Approximately 30% of distribution revenue is derived from volumetric charges from customers, with the remainder being fixed which reduces volatility within distribution revenue. Overall, there was a modest reduction in end-market demand of approximately \$7.1MM or 1.2% in lower revenue as compared to budget.

Impact on Net Income

Alectra's consolidated shared MIFRS net income for the year ended was \$120.2MM, or \$9.2MM below budget. Despite the significant impacts of the COVID-19 Pandemic on Alectra Utilities and considering Management's mitigating and other actions/ income generating activities, the overall net adverse impact of the Pandemic is approximately an 8% reduction in Alectra Utilities' Shared net income as compared to budget. Management estimates that the Pandemic had an overall unfavourable impact of approximately \$30MM on consolidated shared MIFRS net income for the year through lower distribution revenue and higher operating costs including the provision for credit losses.

Please carefully review the accompanying Financial Review of Modified IFRS Consolidated Financial Results ("Financial Review") for the implications of the Pandemic on financial results.

OEB – Recovery of Related Costs

On March 25, 2020, the OEB issued an accounting order for the establishment of deferral accounts to record impacts arising from the COVID-19 Pandemic. Electricity distributors will be able to use these accounts to track any incremental costs to implement the changes to: i) Time of Use (“TOU”) pricing; ii) lost revenues; (iii) credit losses and iv) other incremental costs related to the COVID-19 Pandemic.

There is no certainty with respect to any recovery of the above-mentioned incremental costs and lost revenues at this time. Prior to seeking recovery of the costs, a review will be undertaken to determine if the amounts are truly incremental relative to existing rates and whether such are material. The review of the “incremental costs” account is expected to be extensive, but no further guidance is currently available.

OEB has launched a consultation which is expected to provide guidance on issues such as the nature of costs/revenues to record in the deferral accounts, the timing for any eligible recoveries, and the basis for assessing materiality.

Financing and Cash Flow Implications

The Pandemic continues to create an increasingly uncertain economic situation, thus impacting the general economy and the ability of customers to pay their energy bills. Alectra believes it has sufficient liquidity to support its operations and meet its financial obligations for the foreseeable future.

Customer Arrears

Residential arrears have been relatively stable since the commencement of the Pandemic (Feb/Mar) with some level of immaterial growth in the >90 day category representing approximately 0.4% of annual distribution revenue budget of \$577MM.

Commercial arrears have doubled in the same period with the growth spread across all durations of delinquency (31-60/ 61-90/ 91+) and represents approximately 1.2% of the annual distribution revenue budget. Commercial arrears continues to be an area of focus for Management considering the impact of the Pandemic on businesses that have or had been categorized as “non-essential” with limited or restricted activity. Considering a trend towards further or extended limitations on activity for certain commercial customers, Alectra Utilities expects payment arrears in this class to remain at these levels, or further deteriorate, for an extended period of time.

Considering the high degree of uncertainty caused by the COVID-19 Pandemic, Management has made additional estimates and judgments in the preparation of the provision for bad debts (credit losses) on its accounts receivable balances, which are subject to a higher degree of estimation uncertainty, than would have existed before the COVID-19 Pandemic. At year-end, Alectra Utilities had an allowance for doubtful accounts in respect of customer receivables of \$29MM, a 163% increase over 2019 and representing 5% of 2020 customer receivables.

At this time, Management believes that its credit loss provisions at year-end are consistent with emerging arrears and bankruptcy trends.

Subsequent Events

\$300MM Debenture Issuance

On February 9, 2021, Alectra Inc. priced and issued \$300MM of 1.751% 10-year Senior Unsecured Debentures. The rate environment for such issuance was very good in an undersupplied domestic debt capital market. The debenture issuance is consistent with Alectra Inc. approved financing plans for the year.

Acquisition of Holland Power Services Inc.

On January 4, 2021, Alectra Energy Services acquired 100% of the shares of Holland Power Services Inc. ("HPS"). HPS is based in Maugerville, New Brunswick and operates throughout eastern Canada and the United States to provide emergency power restoration services to regional utilities coping with electricity service interruptions caused by severe weather events. HPS has a roster of skilled tradespersons and fleet vehicles who are on-call to assist utilities dealing with wide-scale damage to their grids as a result of hurricanes, floods, wind, snow and ice storms. HPS also provides various electrical services to its utility and industrial customers, including specialized equipment testing, installation, maintenance and repairs to power infrastructure. (Refer to Note 29 in the Consolidated Audited Financial Statements for Alectra Inc.)