City of Hamilton

HAMILTON UTILITIES CORPORATION SHAREHOLDERREVISED

Meeting #:	22-002
Date:	June 17, 2022
Time:	11:00 a.m.
Location:	Council Chambers Council Chambers, Hamilton City Hall 71 Main Street West

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

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7. PRIVATE AND CONFIDENTIAL

*7.1. Closed Session Minutes - March 2, 2022

Pursuant to Section 9.1, Sub-sections (f), (i) and (k) of the City's Procedural By-law 21-021, as amended, and Section 239(2), Sub-sections (f), (i) and (k) of the *Ontario Municipal Act*, 2001, as amended, as the subject matter pertains to advice that is subject to solicitor-client privilege, including communications necessary for that purpose; a trade secret or scientific, technical, commercial, financial or labour relations information, supplied in confidence to the municipality or local board, which, if disclosed, could reasonably be expected to prejudice significantly the competitive position or interfere significantly with the contractual or other negotiations of a person, group of persons, or organization; and, a position, plan, procedure, criteria or instruction to be applied to any negotiations carried on or to be carried on by or on behalf of the municipality or local board.

*7.2. Number of and Appointment of Board of Directors of Hamilton Utilities Corporation

Pursuant to Section 9.1, Sub-section (b) of the City's Procedural By-law 21-021, as amended, and Section 239(2), Sub-section (b) of the *Ontario Municipal Act*, 2001, as amended, as the subject matter pertains to personal matters about an identifiable individual, including municipal or local board employees.

*7.3. Confirmation of Directors of Alectra Inc. Corporation

Pursuant to Section 9.1, Sub-section (b) of the City's Procedural By-law 21-021, as amended, and Section 239(2), Sub-section (b) of the *Ontario Municipal Act*, 2001, as amended, as the subject matter pertains to personal matters about an identifiable individual, including municipal or local board employees.

8. ADJOURNMENT

HAMILTON UTILITIES CORPORATION SHAREHOLDER MINUTES 22-001

1:00 p.m.
March 2, 2022
Due to COVID-19 and the closure of City Hall, this meeting was held virtually.

Present: Mayor F. Eisenberger (Chair)
Councillors M. Wilson, N. Nann, J. Farr, S. Merulla, R. Powers, T. Jackson, E. Pauls, B. Clark, M. Pearson, A. VanderBeek

Absent: Councillors T. Whitehead, B. Johnson, J.P. Danko, L. Ferguson – Personal
Councillor J. Partridge – Other City Business

THE FOLLOWING ITEMS WERE REFERRED TO COUNCIL FOR INFORMATION:

(a) CHANGES TO THE AGENDA (Item 1)

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

5. PRESENTATIONS

5.1. Alectra Inc. Corporation

5.2. Hamilton Utilities Corporation

6. RESOLUTIONS OF THE SHAREHOLDER

6.2. Hamilton Utilities Corporation Audited Consolidated Financial Statements - Year Ended December 31, 2020

6.3. Alectra Inc. Audited Consolidated Financial Statements - Year Ended December 31, 2020 and Shareholder Report

(Merulla/Pauls)
That the agenda for the March 2, 2022 Hamilton Utilities Corporation Shareholder meeting, be approved, as amended.

Result: Motion CARRIED by a vote of 10 to 0, as follows:

Yes	-	Mayor Fred Eisenberger	
Yes	-	Ward 1	Councillor Maureen Wilson
Yes	-	Ward 2	Councillor Jason Farr
Yes	-	Ward 3	Councillor Nrinder Nann
Yes	-	Ward 4	Councillor Sam Merulla
Yes	-	Ward 5	Councillor Russ Powers
Yes	-	Ward 6	Councillor Tom Jackson
Yes	-	Ward 7	Councillor Esther Pauls
Absent	-	Ward 8	Councillor J. P. Danko
Yes	-	Ward 9	Councillor Brad Clark
Yes	-	Ward 10	Councillor Maria Pearson
Absent	-	Ward 11	Councillor Brenda Johnson
Absent	-	Ward 12	Councillor Lloyd Ferguson
Absent	-	Ward 13	Councillor Arlene VanderBeek
Absent	-	Ward 14	Councillor Terry Whitehead
Absent	-	Ward 15	Councillor Judi Partridge

(b) DECLARATIONS OF INTEREST (Item 2)

There were no declarations of interest.

(c) APPROVAL OF MINUTES OF PREVIOUS MEETING (Item 3)

(i) June 10, 2021 (Item 3.1)

(Merulla/Farr)
That the Minutes of the June 10, 2021 Hamilton Utilities Corporation Shareholder meeting, be approved, as presented.

Result: Motion CARRIED by a vote of 10 to 0, as follows:

Yes	-	Mayor Fred Eisenberger	
Yes	-	Ward 1	Councillor Maureen Wilson
Yes	-	Ward 2	Councillor Jason Farr
Yes	-	Ward 3	Councillor Nrinder Nann
Yes	-	Ward 4	Councillor Sam Merulla
Yes	-	Ward 5	Councillor Russ Powers
Yes	-	Ward 6	Councillor Tom Jackson
Yes	-	Ward 7	Councillor Esther Pauls
Absent	-	Ward 8	Councillor J. P. Danko
Yes	-	Ward 9	Councillor Brad Clark
Yes	-	Ward 10	Councillor Maria Pearson
Absent	-	Ward 11	Councillor Brenda Johnson
Absent	-	Ward 12	Councillor Lloyd Ferguson

Absent	-	Ward 13	Councillor Arlene VanderBeek
Absent	-	Ward 14	Councillor Terry Whitehead
Absent	-	Ward 15	Councillor Judi Partridge

(d) SHAREHOLDER RESOLUTIONS (Item 6)

(i) Alectra Letter Agreement (Item 6.1)

(Merulla/Clark)
That discussion of the Alectra Letter Agreement be DEFERRED until the Shareholder reconvenes in Open Session.

Result: Motion CARRIED by a vote of 10 to 0, as follows:

Yes	-	Mayor Fred Eisenberger	
Yes	-	Ward 1	Councillor Maureen Wilson
Yes	-	Ward 2	Councillor Jason Farr
Yes	-	Ward 3	Councillor Nrinder Nann
Yes	-	Ward 4	Councillor Sam Merulla
Yes	-	Ward 5	Councillor Russ Powers
Yes	-	Ward 6	Councillor Tom Jackson
Yes	-	Ward 7	Councillor Esther Pauls
Absent	-	Ward 8	Councillor J. P. Danko
Yes	-	Ward 9	Councillor Brad Clark
Yes	-	Ward 10	Councillor Maria Pearson
Absent	-	Ward 11	Councillor Brenda Johnson
Absent	-	Ward 12	Councillor Lloyd Ferguson
Absent	-	Ward 13	Councillor Arlene VanderBeek
Absent	-	Ward 14	Councillor Terry Whitehead
Absent	-	Ward 15	Councillor Judi Partridge

The following resolution was considered by Council at its special meeting of March 2, 2022:

1. Hamilton Utilities Corporation Shareholder Resolution (Item 6.1)

(Merulla/Clark)
WHEREAS, the Corporation has received from Alectra a form of letter agreement relating to the Alectra Shareholders' Agreement (the "Alectra Letter Agreement"), a copy of which is appended as Appendix 1 to these Resolutions;

WHEREAS, Alectra has requested the Corporation execute the Alectra Letter Agreement;

WHEREAS, the Board of Directors of the Corporation has provided to the Shareholder of the Corporation a written report in relation to Alectra' s request, appended as Appendix 2 to these Resolutions (the "HUC Report");

WHEREAS, the Board of Directors of the Corporation has provided to the Shareholder of the Corporation a recommendation in response to the Alectra Letter Agreement, appended as Appendix 3 to these Resolutions (the "HUC Recommendation");

WHEREAS, the Shareholder Direction and Unanimous Shareholder Declaration (the "Shareholder Direction") from the Shareholder of the Corporation to the Corporation currently in effect, provides in section 3.03 thereof, that the Shareholder shall endeavor to provide the Corporation in a timely manner with a decision with respect to any actions advised by the Corporation to the Shareholder for which the Shareholder may or may not grant approval; and,

WHEREAS, the Shareholder Direction provides, in section 3.06 thereof, that the Corporation shall provide to Alectra any response to a notice received by the Shareholder from the Corporation pursuant to Section 3.05 of the Shareholder Direction of which the Shareholder gives the Corporation written notice and the Corporation shall only act in a manner that it is authorized by such notice and at all times in furtherance of and consistent with such notice.

THEREFORE, BE IT RESOLVED THAT:

(a) Receive The Hamilton Utilities Corporation Report

That the Hamilton Utilities Corporation Report, be received by the Shareholder.

(b) Approve the Hamilton Utilities Corporation Recommendation

That the Hamilton Utilities Corporation Recommendation, be approved by the Shareholder.

(c) Shareholder Authorization to Execute the Alectra Letter Agreement

That the Hamilton Utilities Corporation, be hereby authorized by the Shareholder to execute the Alectra Letter Agreement and deliver a copy of same to Alectra forthwith.

Result: Motion CARRIED by a vote of 11 to 0, as follows:

Yes - Mayor Fred Eisenberger

Yes	-	Ward 1	Councillor Maureen Wilson
Yes	-	Ward 2	Councillor Jason Farr
Yes	-	Ward 3	Councillor Nrinder Nann
Yes	-	Ward 4	Councillor Sam Merulla
Yes	-	Ward 5	Councillor Russ Powers
Yes	-	Ward 6	Councillor Tom Jackson
Yes	-	Ward 7	Councillor Esther Pauls
Absent	-	Ward 8	Councillor J. P. Danko
Yes	-	Ward 9	Councillor Brad Clark
Yes	-	Ward 10	Councillor Maria Pearson
Absent	-	Ward 11	Councillor Brenda Johnson
Absent	-	Ward 12	Councillor Lloyd Ferguson
Yes	-	Ward 13	Councillor Arlene VanderBeek
Absent	-	Ward 14	Councillor Terry Whitehead
Absent	-	Ward 15	Councillor Judi Partridge

(e) PRIVATE & CONFIDENTIAL (Item 9)

(i) Alectra Letter Agreement – Background Information (Item 9.1)

(Powers/Clark)
That the Shareholder move into Closed Session to discuss Item 9.1, pursuant to Section 9.1, Sub-sections (f), (i) and (k) of the City's Procedural By-law 21-021, as amended, and Section 239(2), Sub-sections (f), (i) and (k) of the *Ontario Municipal Act*, 2001, as amended, as the subject matter pertains to advice that is subject to solicitor-client privilege, including communications necessary for that purpose; a trade secret or scientific, technical, commercial, financial or labour relations information, supplied in confidence to the municipality or local board, which, if disclosed, could reasonably be expected to prejudice significantly the competitive position or interfere significantly with the contractual or other negotiations of a person, group of persons, or organization; and, a position, plan, procedure, criteria or instruction to be applied to any negotiations carried on or to be carried on by or on behalf of the municipality or local board.

Result: Motion CARRIED by a vote of 9 to 0, as follows:

Yes	-	Mayor Fred Eisenberger	
Yes	-	Ward 1	Councillor Maureen Wilson
Yes	-	Ward 2	Councillor Jason Farr
Yes	-	Ward 3	Councillor Nrinder Nann
Absent	-	Ward 4	Councillor Sam Merulla
Yes	-	Ward 5	Councillor Russ Powers
Yes	-	Ward 6	Councillor Tom Jackson
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Absent	-	Ward 8	Councillor J. P. Danko
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Absent	-	Ward 11	Councillor Brenda Johnson
Absent	-	Ward 12	Councillor Lloyd Ferguson
Absent	-	Ward 13	Councillor Arlene VanderBeek
Absent	-	Ward 14	Councillor Terry Whitehead
Absent	-	Ward 15	Councillor Judi Partridge

For disposition of this matter, please refer to Item 1.

(f) ADJOURNMENT (Item 11)

(Powers/Pearson)
That, there being no further business, the Hamilton Utilities Corporation Shareholder meeting, be adjourned at 2:40 p.m.

Result: Motion CARRIED by a vote of 11 to 0, as follows:

Yes	-	Mayor Fred Eisenberger	
Yes	-	Ward 1	Councillor Maureen Wilson
Yes	-	Ward 2	Councillor Jason Farr
Yes	-	Ward 3	Councillor Nrinder Nann
Yes	-	Ward 4	Councillor Sam Merulla
Yes	-	Ward 5	Councillor Russ Powers
Yes	-	Ward 6	Councillor Tom Jackson
Yes	-	Ward 7	Councillor Esther Pauls
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Absent	-	Ward 12	Councillor Lloyd Ferguson
Yes	-	Ward 13	Councillor Arlene VanderBeek
Absent	-	Ward 14	Councillor Terry Whitehead
Absent	-	Ward 15	Councillor Judi Partridge

Respectfully submitted,

Mayor Fred Eisenberger, Chair
Hamilton Utilities Corporation
Shareholder

Stephanie Paparella
Legislative Coordinator
Office of the City Clerk

Hamilton Utilities Corporation

Directors Profiles

Chair, Board of Directors

Laurie Tugman - In addition to being a Director of Hamilton Utilities Corporaion, Mr. Tugman is currently President, CEO, and majority owner of TDL Canada Inc. a distributor of internet infrastructure equipment and other residential and commercial technology products. Mr. Tugman is also Chair of the Advisory Board for Sustainable Business, CPA Canada, and Audit Committee Chair for Solar Manufacturer Silfab Inc.

Mr. Tugman was the former President and CEO of Marsulex Inc., from 2004 until its sale in June 2011. He is a former Director of several Corporations. Mr. Tugman was elected a Fellow Chartered Accountant in 2011. He obtained his ICD.D in 2015. A member of Financial Executives International Canada (FEIC), he served on FEIC's Board from 2004 to 2007, and was a founding Chairman of one of the national committees. He has also served on the Chemistry Industry Assn. of Canada's (CIAC) Board from 2007 to 2011 and was Chairman from 2010 to 2011.

Director

Christa C. Wessel – Christa Wessel is the Chief Operating Officer and General Counsel of ClearView Strategic Partners Inc. where she is responsible for operations including technology, finance and advisory services. Prior to joining ClearView, an ethics reporting system provider, Christa was Senior Advisor at The Change Alliance where she provided leading-edge advice and support to Boards of Directors and senior leaders in the areas of strategic planning, culture, reputation and ethics.

Ms Wessel leverages her experience as a C-suite executive for global giants McCain and Siemens, where she held chief accountability for the human resources, compliance, legal and stakeholder engagement portfolios. As the Executive Vice-President, Global Business Practices at McCain, she was responsible for ensuring the business was aligned with organizational values and objectives, and that business strategies and social mission met stakeholder’s expectations. As a senior partner with two major Canadian law firms, she has also provided strategic counsel to numerous corporations in the areas of international business transactions, mergers and acquisitions and governance. She was called to the Bar in the Province of Ontario, holds an LL.B., University of Ottawa, B.A. Econ., York University C. Dir., Directors College at McMaster University and a Certificate in Enterprise Risk Management from University of Toronto.

Director

Greg McCamus - Greg McCamus is a retired executive with senior operational leadership experience in the telecommunications and energy industries. Most recently he was President of Superior Plus Energy Distribution, a division of Superior Plus (TSX SPB.TO) and led the strategic transformation of Superior Propane in Canada and the entry of Superior into the US market where the company is now one of the largest propane distributors in North America. Prior to joining Superior in 2005 he held a number of senior executive roles in the competitive telecommunications industry with Call-Net Enterprises (Sprint Canada), AT&T Canada, and Unitel Communications.

Mr. McCamus holds an HBA from Huron University College (University of Western Ontario), an MBA from York University's Schulich School of Business, and the ICD.D designation from the Institute of Corporate Directors. He is a past member of the board of directors of the National Propane Gas Association and of The Learning Partnership.

Director

Julia Kamula - Julia Kamula is a former Senior Media Executive with over 30 years' experience in Canada's leading print and digital publishing, distribution and print manufacturing organizations. In her most recent role, Ms. Kamula was Senior Vice President of TC Media – Transcontinental Inc. Previous to joining Transcontinental, she was Executive Vice President of Operations for Sun Media – Quebecor Inc., joining Sun Media through the acquisition of Osprey Media in 2007 where she was Senior Vice President of Operations.

Ms Kamula is a certified Director (ICD.D) with extensive experience on large complex boards in the education, healthcare and news media sectors. In addition to serving on the Boards of Hamilton Enterprises Corporation and Hamilton Utilities Corporation, she is currently a Director on the Board of Hamilton Health Sciences Research Institute.

Ms Kamula's previous board experience includes a nine-year term with Hamilton Health Sciences, most recently as Board Chair. She has also served as a Director on the Boards of News Media Canada, the Atlantic Free Daily Newspaper Group, Brock University and Niagara College Canada.

Ms Kamula is a resident of downtown Hamilton and a proud supporter of the city.

Director

Sam Merulla City of Hamilton Councillor - Ward 4 - Sam Merulla was first elected in November of 2000 as City Councillor for Ward 4 in the newly amalgamated City of Hamilton. Strongly committed to the citizens of East Hamilton, he actively serves as a member of the General Issues Committee (GIC), Board of Health Committee, Healthy & Safe Communities Committee and the Public Works Committee.

Councillor Merulla is an active participant on several Committees dedicated to people with disabilities such as the Hamilton-Wentworth Training Board for the Labour Partner Group for Persons with Disabilities, the HRDC Employment Expo Committee and the Hamilton-Wentworth Service Providers Committee. In addition, he sat on D.A.R.T.S. (Disabled and Aged Regional Transit System) Board of Directors as Vice Chairman from 1999-2003 and is the Services Coordinator for PATH Employment Services/Human Resource Development Canada.

Councillor Merulla has held such positions as Advisor to the Official Opposition Whip and Management Board Critic of the Legislative Assembly of Ontario, Executive Senior Advisor to Hamilton East MPP, Environment Critic and Community and Social Services Critic, (Ontario Government, Legislative Assembly of Ontario Queen's Park office. Councillor Merulla resides in Hamilton with his wife Corinne and their two daughters, Alexa and Sabrina.

Director (NOMINEE)

Elizabeth DiDonato - Elizabeth DiDonato is a senior executive who for the past few years has been assisting enterprises achieve significant strategic objectives through assignments in corporate branding, process re-engineering, governance realignment, corporate reorganization including acquisitions and divestitures, record keeping and data analytics. Ms DiDonato has held executive positions in the global enterprises of McCain Foods, Siemens and International Wallcoverings, and has served as the Executive Director of the Research Oversight and Compliance Office at the University of Toronto.

Ms DiDonato graduated from the University of Ottawa with a degree in Business Administration and went on to become a C.P.A. Chartered Accountant. Ms DiDonato honed her management and governance skills during her tenure at Price Waterhouse and Pricewaterhouse Coopers where she led numerous special and assurance engagements at the regional office level as well as advising other professionals from the Canadian National Office. Ms DiDonato also obtained the Chartered Director designation from McMaster University and is a life-time resident of the City of Hamilton.

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Alectra Shareholder Meeting

Hamilton Utilities Corporation (HUC)

June 17, 2022

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 29, 2022 unless otherwise stated.

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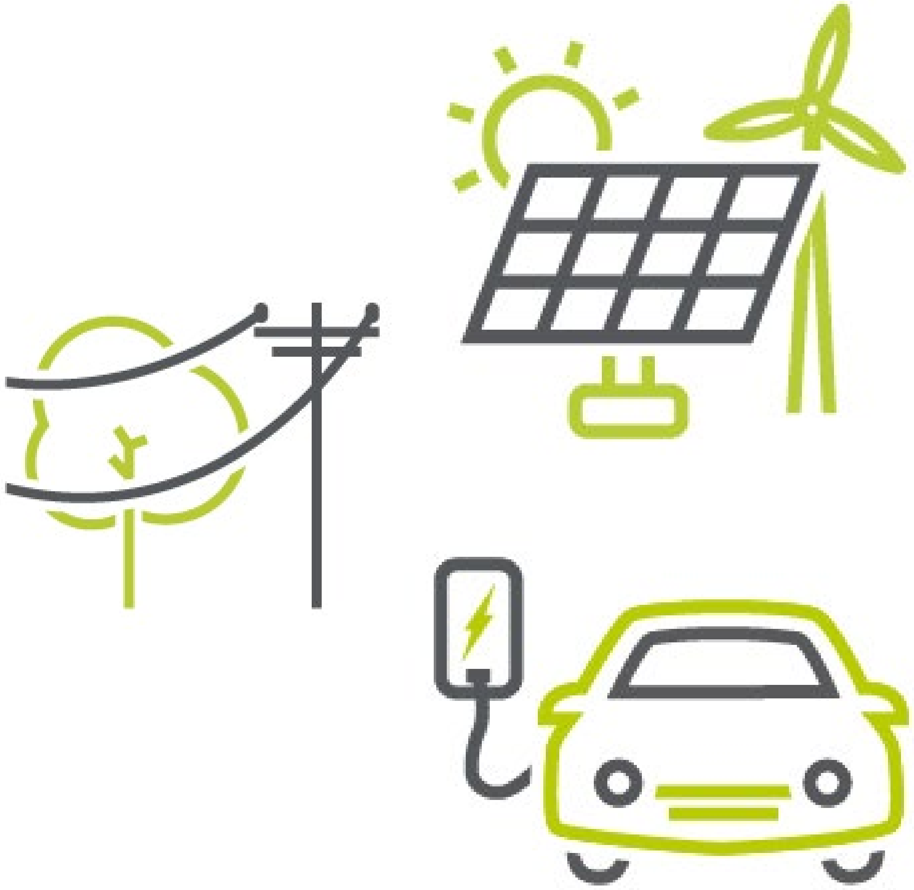
Industry Trends

- Climate Change Impacts
- Distributed Energy Resources
- Transportation Electrification



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Strategy

Strategy 2.0 is Alectra's plan to rise to the challenge and discover the possibilities. It focuses on three pillars:

- Customer Experience
- Grid Modernization
- Enterprise Growth

Customer Service

Ontario Energy Board standards met or exceeded on:

- Residential and Small Businesses Connected on Time
- Scheduled Appointments Met on Time
- Telephone Calls Answered on Time
- Billing Accuracy
- First Contact Resolutions
- Reliability SAIDI on Target – 40.3 Minutes
- Customer Satisfaction Survey Results

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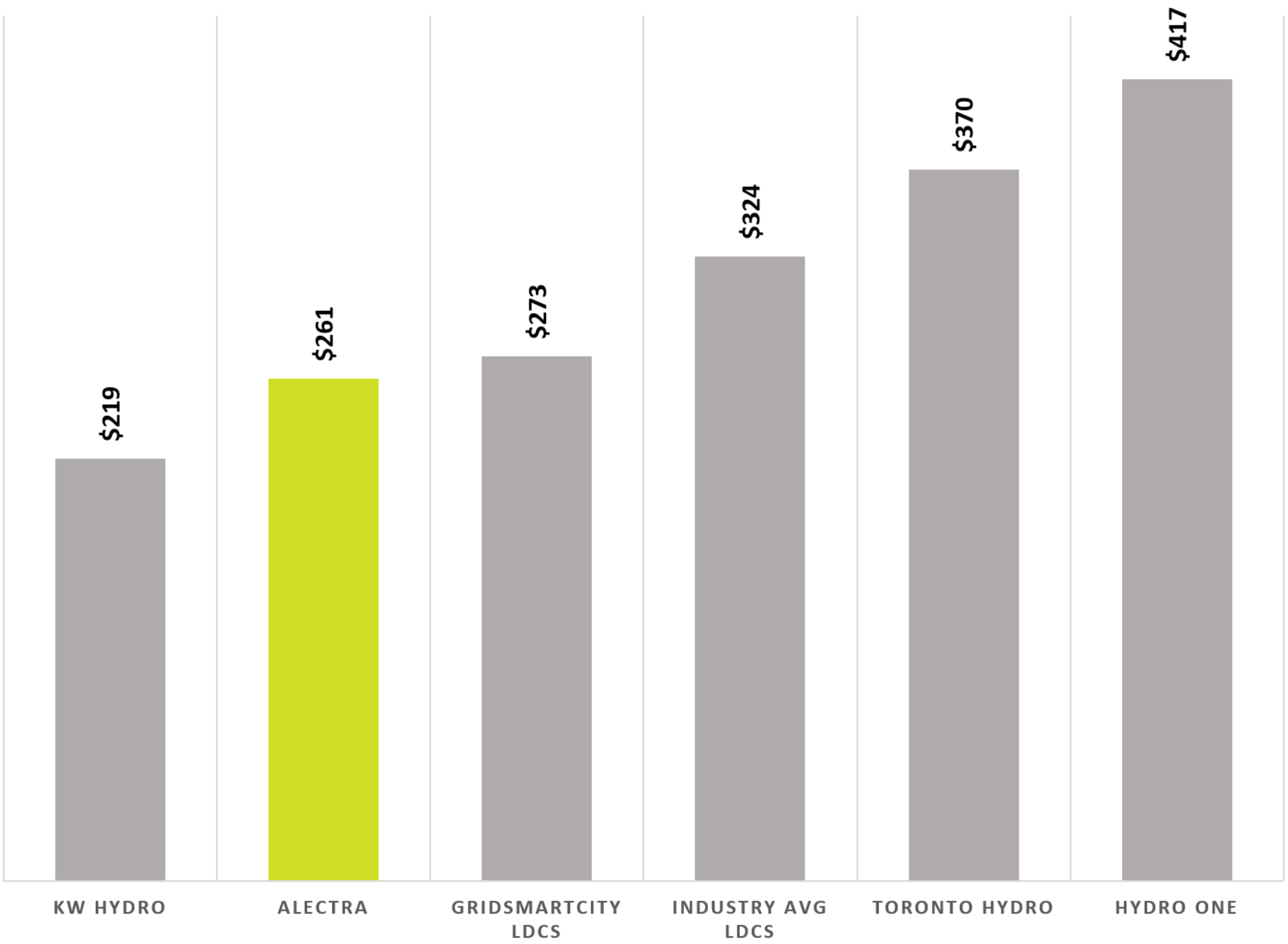
Year in Review

$OM&A per Customer [2020]

KW	$219	-$42
Alectra	**$261**	
GSC	$273	+$12
Industry	$324	+$63
THES	$370	+$109
Hydro One	$417	+$156



References

All numbers shown are $OM&A per Customer

GSC = Grid Smart City utilities

Industry = All Ontario utilities except Alectra

OEB Yearbook - data from 2020
[latest OEB data available]

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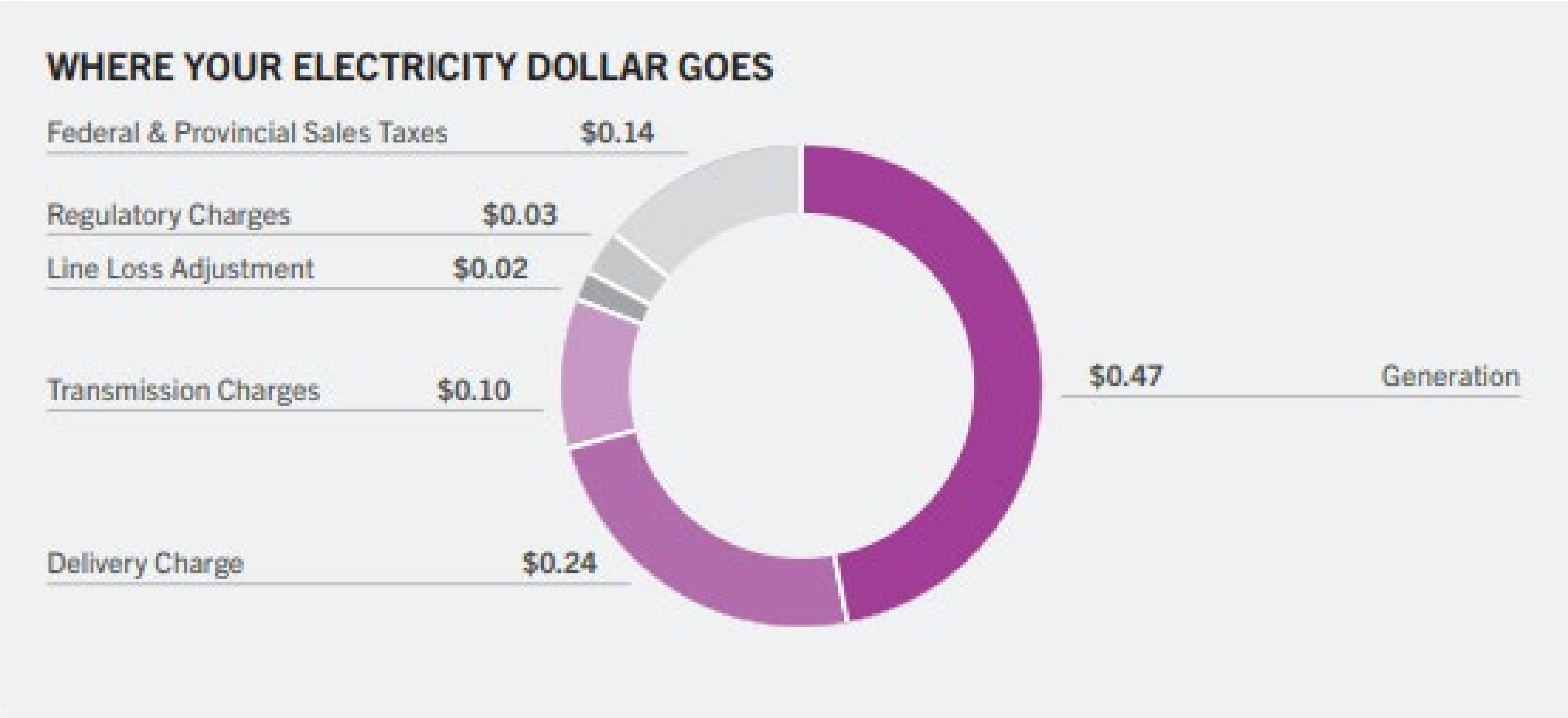
Affordability



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How does Alectra Compare?

Monthly Residential Bill [March 2022]

Large Urban Utility

SAMPLE MONTHLY BILL

Time-of-Use Pricing

Account Number: 000 000 000 0000
Meter Number: 0000000

Your Electricity Charges

Electricity	
On-peak @ 17 ¢/kWh	$22.95
Mid-peak @ 11.3 ¢/kWh	$15.26
Off-peak @ 8.2 ¢/kWh	$39.36
Delivery	$55.49
Regulatory Charges	$3.26
Total Electricity Charges	**$136.32**
HST	$17.72
Ontario Electricity Rebate	**(-$23.17)**
Total Amount	**$130.87**

Alectra (PRZ)

SAMPLE MONTHLY BILL

Time-of-Use Pricing

Account Number: 000 000 000 0000
Meter Number: 0000000

Your Electricity Charges

Electricity	
On-peak @ 17 ¢/kWh	$22.95
Mid-peak @ 11.3 ¢/kWh	$15.26
Off-peak @ 8.2 ¢/kWh	$39.36
Delivery	$44.68
Regulatory Charges	$3.28
Total Electricity Charges	**$125.53**
HST	$16.32
Ontario Electricity Rebate	**(-$21.34)**
Total Amount	**$120.51**

Delivery Charge for Alectra Average Residential Customer using 750 kwh per month is: **$44.68**

Delivery Charge for a large urban LDC Average Residential Customer using 750 kwh per month is: **$55.49**

An annual savings of: **$129.72**

Note: the total bill will include other charges and will vary due to the amount of electricity an individual customer will use

Graphic: OEB Bill Calculator – March 2022

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Overview of 2021 Financial Results

John Basilio – Executive Vice-President and Chief Financial Officer, Alectra Inc.

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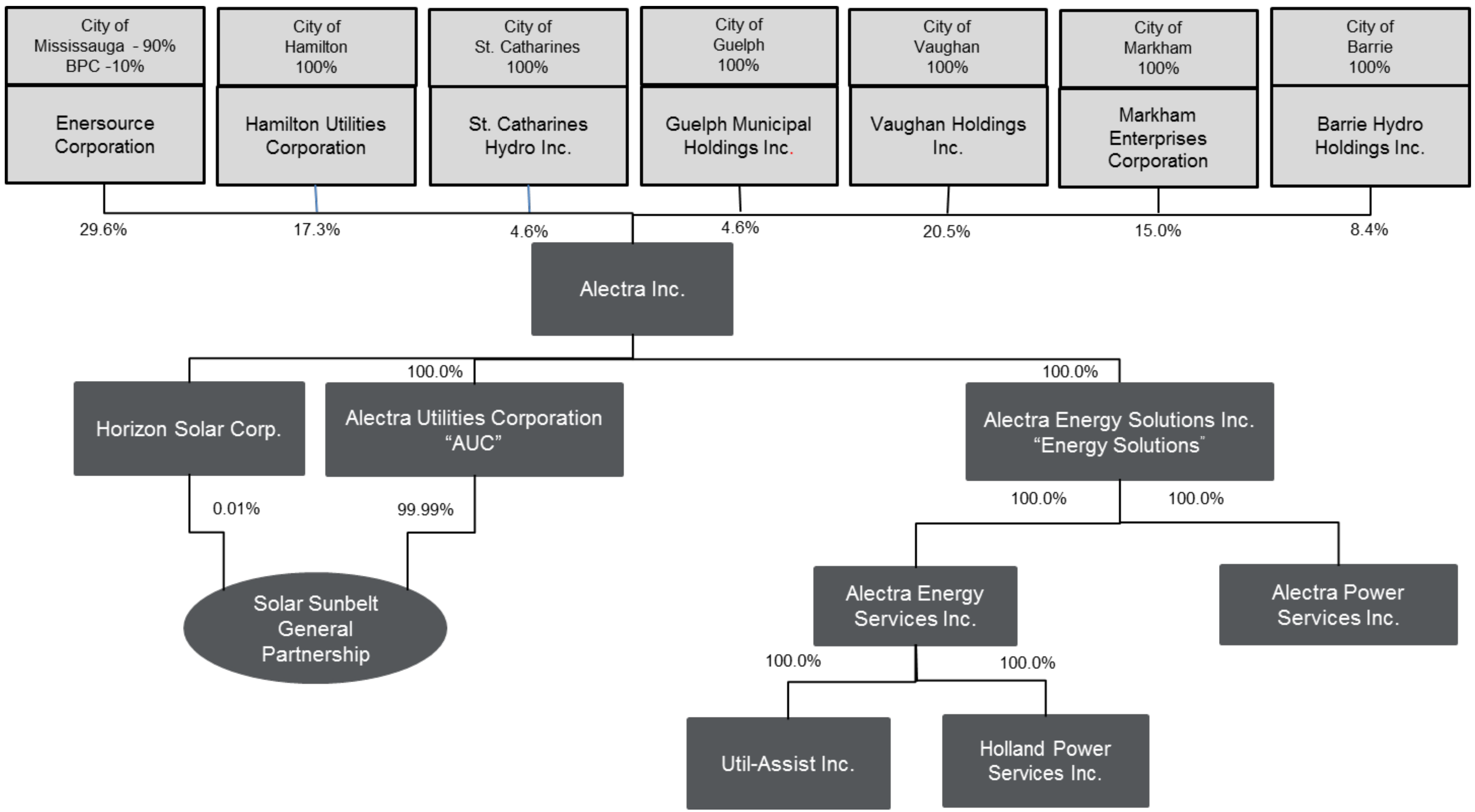
Principal Corporate Structure

Alectra Inc. (as of **Jan. 4, 2022)**



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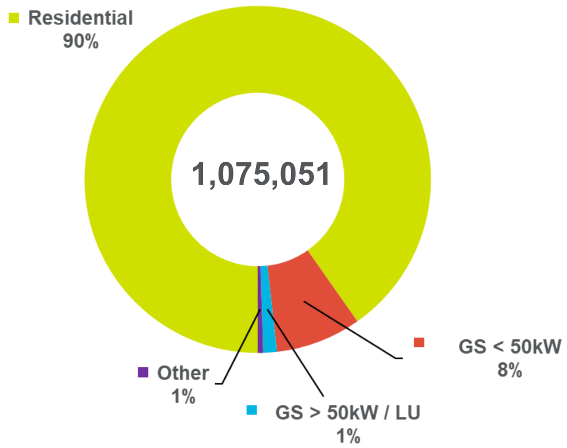
2021 Financial Highlights

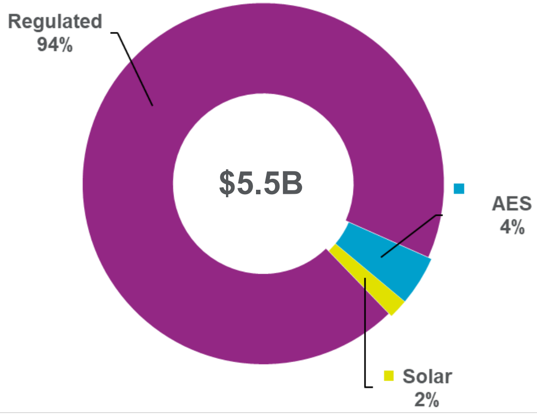
AUC is the largest municipally-owned Local Distribution Company ("LDC") in Canada providing service to over 1 million residential, commercial, industrial and institutional customers around the Greater Golden Horseshoe Area

- *Regulated business comprises* approximately 94% of total assets and approximately 92% of consolidated EBITDA
- *Non-regulated business* consists principally of solar generation assets under long term FIT contracts with the IESO, sub-metering and power restoration businesses

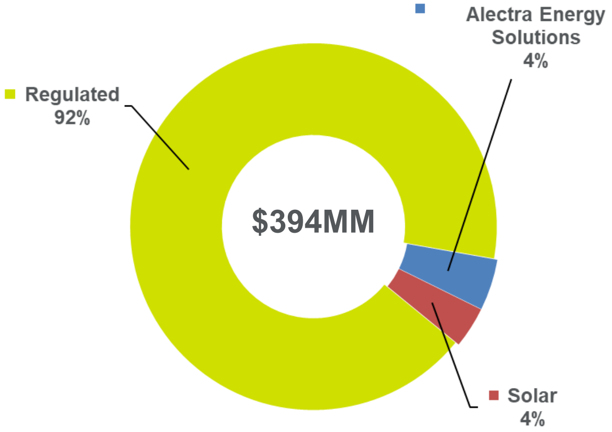
Total Customers [1]



Total Assets [2]



EBITDA [2]



1 - Number of customers is as of Dec.31, 2021
2 - Total Assets and EBITDA are based on 2021 IFRS Audited Financial Statements

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Alectra Utilities Corporation

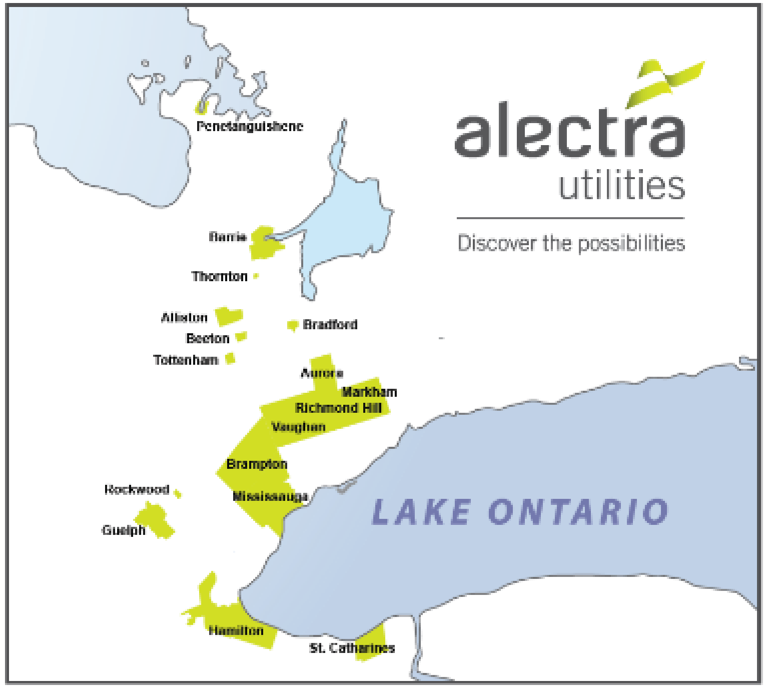
More than **1,000,000** customers

2nd largest municipally owned utility in North America [2]

17 communities served

1,924 square-km service territory

605 fleet vehicles



21,581 overhead and underground lines

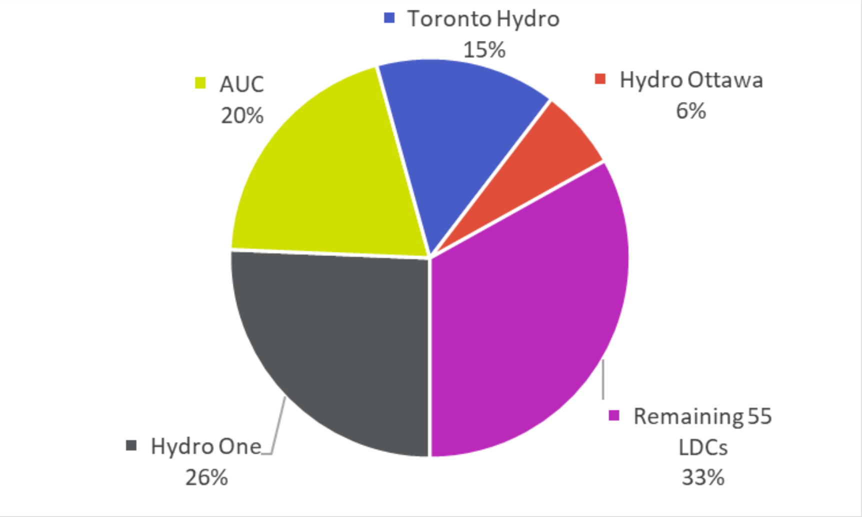
14 transformer stations

149 municipal substations

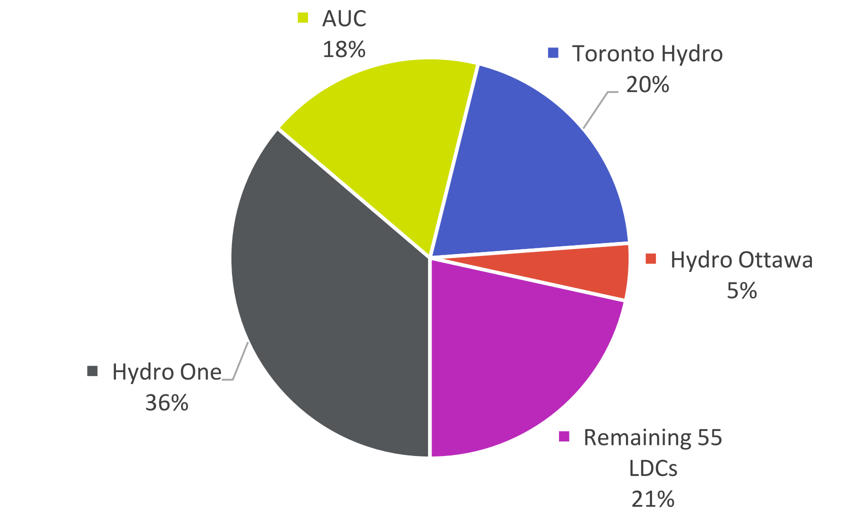
Peer Comparison

Ontario Electricity Sector

Customer Share [1]
(Total Ontario: 5.3MM)



Asset Share [1]
(Total Ontario: $29.8B)



Comparison of 2020 Operating Statistics[1]

	LDC Average	AUC
Number of Customers[2]	89,874	1,062,040
Total GWh Delivered	2,172	26,211
Distribution Losses[3] (% of GWh Delivered)	4.00%	3.24%
OM&A per Customer	$324	$261
Distribution revenue per Customer	$735	$534

1 - Source - OEB, Yearbook of Electricity Distributors 2020
2 - Number of customers excludes Sentinel and USL customers
3 - Distribution Losses refer to the loss of energy due to electrical resistance in the transmission process
4 – Averages include Alectra

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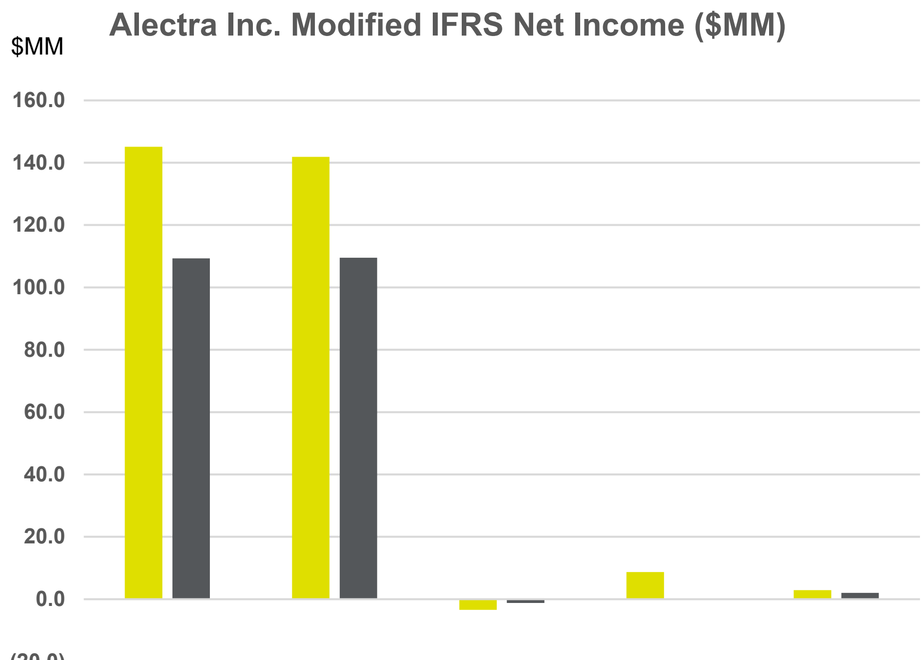
2021 Consolidated Results

- ✓ Despite the significant impacts of COVID-19 Pandemic, 2021 net income of $145.1MM (MIFRS) exceed budget by $35.8MM:
  - –Derecognition of PP&E $18MM;
  - –Payment of CDM performance incentive $12MM;
  - –Higher Dx revenue $11.3MM;
  - –Unbudgeted earnings from acquisition of HPS $8.7MM, offset by;
  - –COVID-19 impact, mainly due to higher provision for credit losses $9.3MM and cleaning $3.9MM
- ✓ Net capital expenditures of $310MM, $8MM higher than budget:
  - –Higher AES expenditure on natural gas generator, partially offset by;
  - –Deferral of the Kennedy Road construction;
  - –Deferral of transit projects;
- ✓HPS capital of $2.5MM relate to purchase of trailers and fleet



	Consolidated Shared	Alectra Utilities Shared	Energy Solutions	Holland Power Services	Ring-Fenced Solar
Actual	145.1	141.9	(3.4)	8.7	2.9
Budget	109.3	109.5	(1.2)	-	2.0

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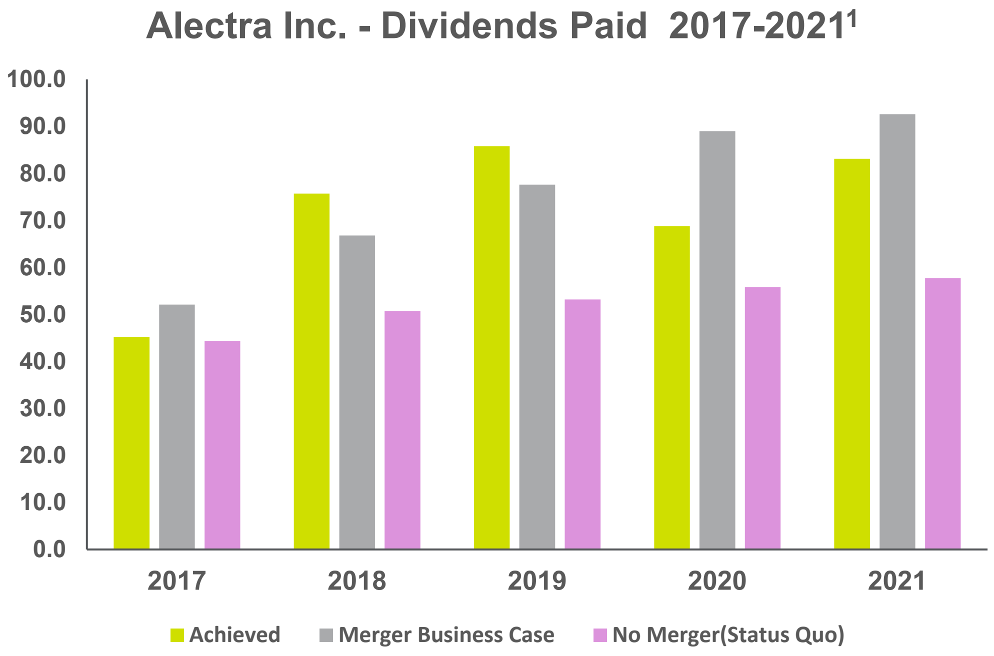
Dividends on Common Shares

In the first five years following Alectra merger, Alectra declared $358.6MM to the inaugural shareholders group, or 5.2% lower than estimated in Alectra original Business Case.[1]

Without the merger the inaugural shareholders would have seen $261.7MM in standalone dividends

The merger has provided dividends $96.9MM (37%) greater than the standalone course of action would have provided



[1] *Accruing to initial Alectra Inc. Voting Common Shareholders (i.e., excluding GMHI) for comparative purposes to Alectra Merger Business Case.*

Common Shares Dividend Forecast

2022-2024 Dividend Forecast

($MMs)	2022B	2023F	2024F	Total
PERFORMANCE vs MERGER BUSINESS CASE				
Forecast	78.7	81.1	78.7	238.4
Merger Business Case	95.7	97.8	97.2	290.6
Difference	(17.0)	(16.7)	(18.5)	(52.2)
PERFORMANCE vs NO MERGER				
Forecast	78.7	81.1	78.7	238.4
No Merger(Status Quo)	63.8	66.9	69.8	200.5
Difference	14.8	14.2	8.9	38.0

*For comparative purpose only, the amounts from the original Merger business case and the Guelph business case are combined.

- These results are based on the Financial Plan communicated to Shareholders in November 2021, with 2022 Budget updated in 2022 to include the impact of an earlier than planned sale of the Mavis Operating Centre;
- Irrespective of the potential to mitigate costs through Management actions or government/ OEB mechanisms, the Pandemic is still expected to have an adverse impact on the Corporation's financial results this year relative to the 2022 Budget;
- As previously reported to Shareholders, other principal drivers of the unfavourable forecast dividend trends compared to Merger Business Case are a result of (i) unexpected adverse OEB decision on Alectra Utilities ICM/IR rate applications; (ii) changes in customer service rules adversely impacting revenue forecasts; (iii) elimination of the Conservation First Framework and (iv) a reset of revenue growth expectations from non-regulated Energy Solutions businesses.

Financial Perspective

Investor Considerations

- ✓ Largest municipally-owned LDC in Canada by number of customers
- ✓ Low-risk monopoly electricity distribution business
- ✓ Efficient, low cost operations
- ✓ Favourable customer mix in a strong service territory
- ✓ Stable and consistent financial performance through predecessor entities
- ✓ Strong reputation & experienced management team
- ✓ Supportive shareholders
- ✓ Excellent relationship with regulator

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Community Update

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Capital Investment 2021 – Hamilton

- In 2021, Alectra completed several major projects in Hamilton to address efficiency and increase capacity in key areas:
  - Central Municipal Substation voltage conversion = $3,513,159
  - Hamilton West Mountain cable and transformer replacement project = $2,159,684
  - Dewitt Municipal Substation voltage conversion = $1,216,924
  - Aberdeen Municipal Substation voltage conversion = $763,764

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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, Alectra's environmental and social governance commitments, and much more

Message from Brian

It's hard to believe that we are now two years into the pandemic. While the course of the pandemic is not where we had hoped it would be, we have come a long way together. At Alectra, safety and well-being of each of our employees continues to be our top priority, and I look forward to welcoming staff back into the office when it is safe to do so. Alectra crews are working hard as always to ensure that the services our customers rely on remains secure and reliable.

Alectra has much to celebrate this month, as we recognize our fifth birthday! I am truly proud of the incredible achievements we have accomplished over these past five years in the communities we serve. We are proud to say that over the last five years we have kept our promise to keep electricity rates as low as possible, invest in grid infrastructure, improve customer service, and deliver consistent dividends to our municipal shareholders. There are many exciting opportunities that lie ahead of us. I am very much looking forward to this new year and discovering the possibilities that we can achieve together.

Brian Bentz
President and CEO

Supporting Hamilton

- Committed over **$99,500** to community organizations and events supporting Hamilton.
- Donated **$20,000** to Food4Kids Hamilton's High-School Expansion Program.
- Provided **$10,000** to Mission Services Hamilton's Good Food Centre.
- Contributed **$10,000** to Habitat for Humanity Hamilton.
- Provided **$5,000** for Nanny Angel Network's Hamilton expansion.
- A Gold Sponsor of the **Canada Innovative Corridor Summit** taking place in Hamilton this year. The theme of this year's conference is the transition to net-zero.
- Sponsored the first Alectra Equity, Diversity and Inclusion (ED&I) Scholarship at the **Director's College** in **McMaster's Degroote School of Business** to support more equality and accessible leadership opportunities to individuals from diverse backgrounds.

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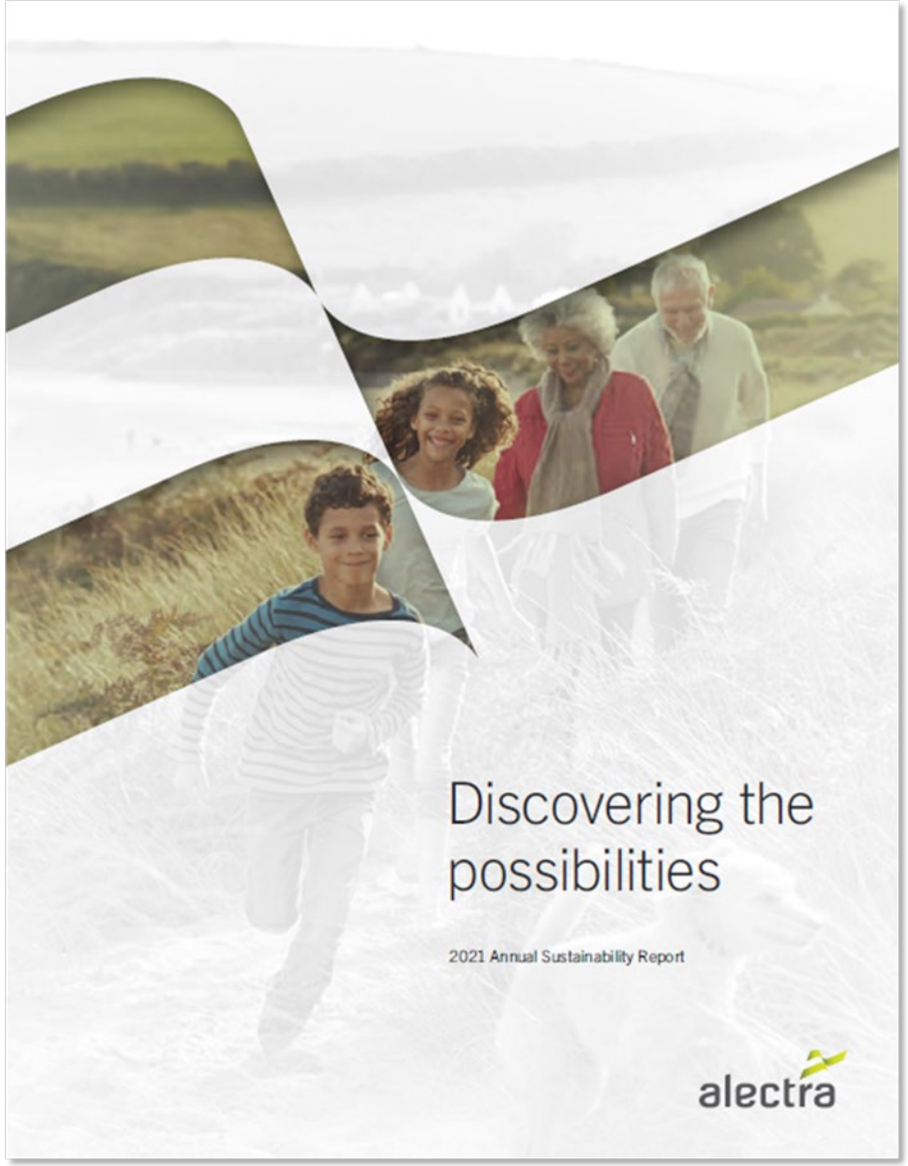
In Summary

2021

- Strong financial performance in 2021, considering impacts of COVID-19
- Evolving business environment is creating risks as well as opportunities
- Strategy 2.0 is accelerating Alectra's progress towards becoming a customer-centric, innovative, integrated energy services company focused on Customer, Grid and Growth
- Growth and re-balancing investment will be key to addressing short-term risks and longer-term opportunities



Thank You

Hamilton Utilities Corporation Annual General Meeting

June 17, 2022

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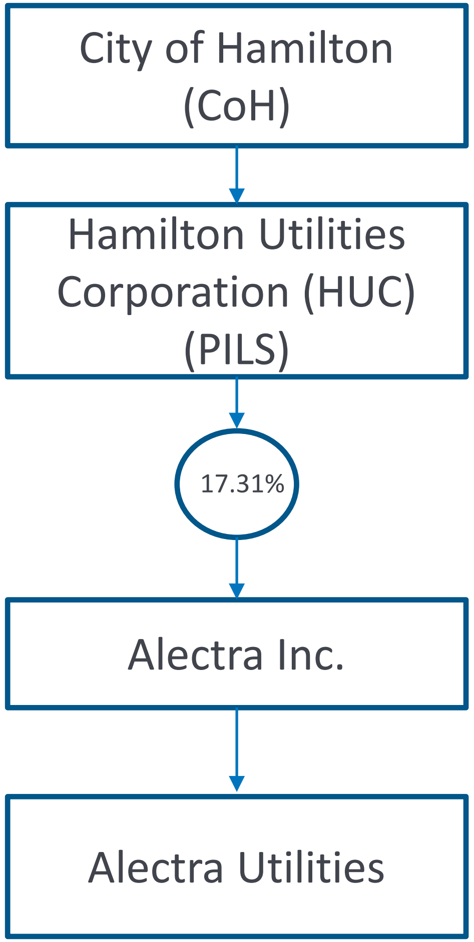
Opening Remarks
From HUC Board Chair

Current HUC Corporate Structure



HUC Resolutions

- Receipt and Approval of the HUC Audited Consolidated Financial Statements – Year Ended December 31, 2021
- Appointment & Remuneration of the Auditor of the Corporation for 2022
- Continuation of the Directors of the Corporation and appointment of new Director

Alectra Resolutions

- Receipt of the Alectra Inc. Financial Statements – Year Ended December 31, 2021

Hamilton Utilities Corporation

QUESTIONS

HAMILTON UTILITIES CORPORATION
(the "Corporation")

RESOLUTIONS OF THE SOLE SHAREHOLDER OF THE CORPORATION

1. Audited Consolidated Financial Statements - Year Ended December 31, 2021

BE IT RESOLVED that the Audited Consolidated Financial Statements of the Corporation for the year ended December 31, 2021 (attached hereto as Appendix "A"), as approved by the Board of Directors of the Corporation, be received and approved by the Shareholder.

2. Alectra Inc. Audited Consolidated Financial Statements and Shareholder Report – Year Ended December 31, 2021

BE IT RESOLVED that the Audited Consolidated Financial Statements of Alectra Inc. and Shareholder Report for the year ended December 31, 2021, as approved by the Board of Directors of Alectra Inc. (attached hereto as Appendix "B"), be received by the Shareholder.

3. Appointment and Remuneration of Auditor

BE IT RESOLVED that the present auditor of the Corporation, KPMG LLP, be appointed as the auditor of the Corporation for the 2022 fiscal year of the Corporation at a remuneration to be fixed by the Directors of the Corporation, the Directors of the Corporation being hereby authorized to fix such remuneration.

Hamilton Utilities Corporation®

Hamilton Utilities Corporation
Auditors' Report to the Shareholder
and Financial Statements
Year Ended December 31, 2021

Hamilton Utilities Corporation®

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KPMG LLP
Commerce Place
21 King Street West, Suite 700
Hamilton Ontario L8P 4W7
Canada
Telephone (905) 523-8200
Fax (905) 523-2222

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, 2021
- 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, 2021, 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.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

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

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

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Hamilton, Canada

March 28, 2022

Hamilton Utilities Corporation®

Statement of Financial Position

As at December 31, 2021, with comparative information for 2020
(stated in thousands of Canadian dollars)

		2021		2020
Assets				
Current assets				
Cash and cash equivalents *[note 4]*	$	43	$	48
Accounts receivable		6		24
		49		72
Non-current assets				
Investment in Alectra Inc. *[note 5]*		356,107		350,198
Due from related parties *[note 10]*		–		2,426
Notes receivable from corporations under common control *[note 10]*		16,212		13,786
Deferred payments in lieu of income taxes *[note 6]*		448		473
		372,767		366,883
Total assets	$	372,816	$	366,955
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	$	14	$	8
		14		8
Non-current liabilities				
Due to related parties *[note 10]*		3,241		3,241
Deferred payments in lieu of income taxes *[note 6]*		66,167		64,685
		69,408		67,926
Total liabilities		69,422		67,934
Shareholder's equity				
Share capital *[note 7]*		129,897		129,897
Accumulated other comprehensive loss		(3,681)		(4,893)
Retained earnings		177,178		174,017
Total shareholder’s equity		303,394		299,021
Total liabilities and shareholder’s equity	$	372,816	$	366,955

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

On behalf of the Board:

Director

Director

Hamilton Utilities Corporation®

Statement of Comprehensive Income

For the year ended December 31, 2021, with comparative information for 2020
(stated in thousands of Canadian dollars)

	2021	2020
Management fee income *[note 10]*	$ 156	$ 156
Total revenue	156	156
Expenses:		
Operating expenses	184	188
	184	188
Loss from operating activities	(28)	(32)
Finance income *[note 8]*	7	12
Finance charges *[note 8]*	(6)	(5)
Equity income in Alectra Holdings Inc. *[note 5]*	17,668	13,147
Income before payments in lieu of income taxes	17,641	13,122
Payments in lieu of income taxes (recovery) *[note 6]*	1,509	(351)
Net income	16,132	13,473
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	346
	346	346
Items that will not be subsequently reclassified to income:		
Remeasurement of Alectra Holdings Inc. defined benefit obligation	1,212	(1,212)
Tax impact on remeasurement of defined benefit obligation	(346)	173
Total other comprehensive income (loss)	1,212	(693)
Total comprehensive income	$ 17,344	$ 12,780

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

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Statement of Changes in Equity

For the year ended December 31, 2021, with comparative information for 2020
(stated in thousands of Canadian dollars)

	Share capital	Retained earnings	Accumulated other comprehensive loss	2021 Total	2020 Total
Balance at January 1	$ 129,897	$ 174,017	$ (4,893)	$ 299,021	$ 338,033
Net income		16,132	–	16,132	13,473
Other comprehensive income (loss)	–	–	1,212	1,212	(693)
Long-term debt forgiveness	–	–	–	–	6,156
Transfer of long-term receivable	–	–	–	–	(6,156)
Dividends	–	(12,971)	–	(12,971)	(51,792)
Balance at December 31	$ 129,897	$ 177,178	$ (3,681)	$ 303,394	$ 299,021

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

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Statement of Cash Flows

For the year ended December 31, 2021, with comparative information for 2020
(stated in thousands of Canadian dollars)

	2021	2020
OPERATING ACTIVITIES		
Net income	$ 16,132	$ 13,473
Adjustments for:		
Equity income in Alectra Holdings Inc.	(17,668)	(13,147)
Management fee retained on dividends	(156)	(156)
Deferred payments in lieu of income taxes (recovery) *[note 6]*	1,509	(351)
Finance income	(7)	(12)
Finance charges	6	5
Finance charges paid	(6)	(5)
Finance income received	7	12
Change in other assets and liabilities *[note 9]*	24	31
Net cash used in operating activities	(159)	(150)
INVESTING ACTIVITIES		
Dividends received	12,971	13,806
Net cash from investing activities	12,971	13,806
FINANCING ACTIVITIES		
Dividends paid in the year	(12,817)	(13,650)
Net cash used in financing activities	(12,817)	(13,650)
Increase (decrease) in cash and cash equivalents	(5)	6
Cash and cash equivalents, beginning of year	48	42
Cash and cash equivalents, end of year	$ 43	$ 48

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

Hamilton Utilities Corporation®

Notes to Financial Statements

For the year ended December 31, 2021
(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, 2021
(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 March 28, 2022.

(c) Basis of measurement

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

(d) Functional and presentation currency

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

(e) Use of estimates and judgements

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

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

Information about 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

Notes to Financial Statements

For the year ended December 31, 2021
(stated in thousands of Canadian dollars)

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.

(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.

Hamilton Utilities Corporation®

Notes to Financial Statements

For the year ended December 31, 2021
(stated in thousands of Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Impairment (continued)

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.

(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.

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Notes to Financial Statements

For the year ended December 31, 2021
(stated in thousands of Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Current PILs is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Deferred PILS comprise the net tax effects of temporary differences between the tax basis of assets and liabilities and their respective carrying amounts for accounting purposes, as well as for tax losses available to be carried forward to future years that are likely to be realized.

Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates, at the reporting date, expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the year that includes the date of enactment or substantive enactment. A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(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.

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Notes to Financial Statements

For the year ended December 31, 2021
(stated in thousands of Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

(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.

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.

Hamilton Utilities Corporation®

Notes to Financial Statements

For the year ended December 31, 2021
(stated in thousands of Canadian dollars)

5. INVESTMENTS IN ALECTRA INC. (continued)

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:

	2021	2020
Current assets	$ 657,000	$ 745,000
Non-current assets	4,851,000	4,605,000
Current liabilities	(962,000)	(1,060,000)
Non-current liabilities	(2,777,000)	(2,554,000)
Net assets (100%)	1,769,000	1,736,000
Ring Fenced Solar Portfolio Net Assets	(9,255)	(10,395)
Fair value bump	296,145	296,145
	2,055,890	2,021,750
Carrying value of investment in Alectra at 17.31% (2020 at 17.31%)	$ 356,107	$ 350,198

Investment in Alectra Inc.	2021	2020
Opening investment as at January 1	$ 350,198	$ 351,550
Share of income	17,668	13,147
Share of OCI	1,212	(693)
Dividends received	(12,971)	(13,806)
Ending investment as at December 31	$ 356,107	$ 350,198

On March 8, 2022, Alectra declared a final dividend with respect to 2021 to which the Corporation's share is $8,263,057 and this will be recognized by the Corporation in the year of declaration being the year ended December 31, 2022.

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Hamilton Utilities Corporation®

Notes to Financial Statements

For the year ended December 31, 2021
(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, 2021 and 2020.

	2021	2020
Revenue	$ 3,834,000	$ 4,162,000
Depreciation and amortization	(182,000)	(165,000)
Other expenses	(3,451,000)	(3,816,000)
Finance income	–	1,000
Finance expense	(74,000)	(75,000)
Income tax expense	(36,000)	(28,000)
Net income	91,000	79,000
Ring Fenced Solar Portfolio net income	2,920	3,513
Net income attributable to common shareholders	88,080	75,487
Share of income at 17.31%	$ 17,668	$ 13,147
Other comprehensive income (loss) attributable to common shareholders	7,000	(4,000)
Share of other comprehensive loss 17.31%	$ 1,212	$ (693)

Hamilton Utilities Corporation®

Notes to Financial Statements

For the year ended December 31, 2021
(stated in thousands of Canadian dollars)

6. PAYMENTS IN LIEU OF INCOME TAXES

Deferred and current payments in lieu of income taxes

	2021	2020
Deferred payments in lieu of income taxes (recovery):		
Origination and reversal of temporary differences	$ 1,509	$ (351)
Payments in lieu of income taxes (recovery)	$ 1,509	$ (351)

Reconciliation of effective tax rate

	2021	2020
Income before taxes	$ 17,641	$ 13,122
Canada and Ontario statutory income tax rates	26.5%	26.5%
Expected tax provision on income at statutory rates	4,675	3,477
Increase (decrease) in income taxes resulting from:		
Non-deductible expenses	(3,436)	(3,659)
Remeasurement of DBO, Alectra Inc.	304	(229)
Adjustment for prior years	33	38
Changes in tax rates	(67)	22
Income tax expense (recovery)	$ 1,509	$ (351)

Deferred tax balances

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

	2021	2020
Deferred payments in lieu of income taxes:		
Other	$ 125	$ 156
Non-capital losses	323	317
Investment in Alectra Inc.	(66,167)	(64,685)
Deferred payments in lieu of income taxes	$ (65,719)	$ (64,212)

Hamilton Utilities Corporation®

Notes to Financial Statements

For the year ended December 31, 2021
(stated in thousands of Canadian dollars)

7. SHARE CAPITAL

	2021	2020
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 $12.971 per share (2020 - $13.806) on the common shares during the year, amounting to a total dividend of $12,971 (2020 - $13,806).

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 in 2020.

8. FINANCE INCOME AND CHARGES

	2021	2020
Interest income on bank deposits	$ 7	$ 12
Interest income – Intercompany	–	–
Finance income	7	12
Interest expense – Intercompany	–	–
Other	(6)	(5)
Finance charges	(6)	(5)
Net finance income recognized in income	$ 1	$ 7

Hamilton Utilities Corporation®

Notes to Financial Statements

For the year ended December 31, 2021
(stated in thousands of Canadian dollars)

9. Cash flow information

Net change in other assets and liabilities:

		2021		2020
Accounts receivable	$	18	$	(2)
Due from related parties		–		(296)
Due to related parties		–		321
Accounts payable and accrued liabilities		6		8
	$	24	$	31

10. 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 corporations under common control

Outstanding balances with related parties are as follows:

		2021		2020
Hamilton Enterprises Holding Corporation	$	1,477	$	1,477
Hamilton Infrastructure Projects Corporation		11,817		11,817
HIPCO CUP		2,400		2,400
HCE Energy Inc.		188		188
HCE Telecom		330		330
		16,212		16,212
HCE Energy Inc.		(1,750)		(1,750)
Hamilton Enterprises Holding Corporation		(1,491)		(1,491)
		(3,241)		(3,241)
TOTAL	$	12,971	$	12,971

Notes to Financial Statements

For the year ended December 31, 2021
(stated in thousands of Canadian dollars)

10. RELATED PARTY TRANSACTIONS (continued)

(b) Transactions with corporations under common control (continued)

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. During 2020, 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 and 2021.

During the year ended December 31, 2020, 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 December 31, 2020, 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.

The Corporation paid management and administrative and billing fees to a corporation under common control in the amount of $156 (2020 - $156).

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

(c) 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 2020.

Notes to Financial Statements

For the year ended December 31, 2021
(stated in thousands of Canadian dollars)

11. COMMITMENTS AND CONTINGENCIES

The Corporation has guaranteed debt of a related party under common control in the amount of $4,737,756 which is subject to a swap agreement. The swap contract as at December 31, 2021 is in a favorable position in the amount of $310,448.

12. 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 2021 or 2020.

(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.

(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.

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Hamilton Utilities Corporation®

Notes to Financial Statements

For the year ended December 31, 2021
(stated in thousands of Canadian dollars)

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(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, 2021, shareholder's equity amounts to $303,394 (2020 - $299,021).

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March 8, 2022

By e-mail

Mr. Laurie Tugman, Chair of the Board
Hamilton Utilities Corporation
21 King Street West, Suite 1400
Hamilton, ON L8P 4W7

Dear Mr. Tugman,

RE: Alectra Inc. Annual Financial Statements Year Ended December 31, 2021

Please find attached the consolidated audited financial statements for Alectra Inc. for the year ended December 31, 2021 ("Annual Financial Statements"). This information is provided in compliance with Section 2.25 of the Unanimous Shareholders' Agreementdated 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 4, 2022.

Alectra Inc. Shared Financial Results – Year Ended December 31, 2021

Net income on a consolidated shared basis for 2021, as reported under Modified International Financial Reporting Standards ("MIFRS"), was $145.1MM or $35.8MM above the budget of $109.3MM. The significant impacts of the Pandemic on Alectra were alleviated by Management's mitigating actions and other income-producing activities, as further described in the attached report. These actions resulted in improved performance compared to the third quarter forecast net income of $126.5MM, an increase of $18.6MM.

More information regarding the 2021 financial results is included in the 2021 Annual Financial Statements and associated Management Discussion and Analysis.

Final Dividends on Voting Shares in respect of 2021 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 2021 on the above basis as follows (Net income reported on a MIFRS basis):

Consolidated Shared - All Shareholders ($MMs)	
Net Income for Dividends	145.126
Dividends @ 60%	87.076
Quarterly Dividends Paid	(39.341)
Final Dividend in respect of 2021	47.735
Comparison to 2021 Financial Plan	
Dividends @ 60%	87.076
Dividends per 2021 Financial Plan	65.568
Difference	21.509

The Final Dividend in respect of 2021 of $47.74MM (rounded) will be paid to shareholders of record on December 31, 2021 holding Voting Shares on March 18, 2022 as follows:

	Final Dividend
Barrie Hydro Holdings Inc.	$3,997,225.76
Enersource Corporation	$14,113,211.67
Guelph Municipal Holdings Inc.	$2,208,034.73
Hamilton Utilities Corporation	$8,263,057.80
Markham Enterprises Corporation	$7,161,316.76
St. Catharines Hydro Inc.	$2,208,034.73
Vaughan Holdings Inc.	$9,783,642.55
	$47,734,524.00

Dividends on Common Shares in respect of 2022 Fiscal Year

In November 2021, the Board of Directors approved a 2022 budget providing for an annual dividend of $86.678MM on Voting Common Shares, based on the 2022-2024 Financial Plan.

As communicated in the November 26, 2021 letter to Shareholders, the 2022 Budget assumed the closing of the sale of Mavis operations centre in 2022, at an estimated gain of approximately $14.0MM. It was also communicated that, in the event that such sale closed in 2021, the associated income would be recognized in fiscal 2021 and a corresponding adjustment would be required to reduce the 2022 Budget by the same amount of income. The sale of the Mavis operations centre closed in December 2021, with a resulting after-tax gain of $13.3MM. Consequently, the 2022 Alectra Shared Net Income Budget has been revised from $144.4MM to $131.1MM. The revised aggregate dividends on Voting Common Shares are $78.7MM (rounded).

At the time of approval of the 2022 budget, the Omicron variant was becoming a new dominant strain of COVID-19 resulting in further restrictive actions on businesses and the economy by governments. Alectra expects that these further restrictions may have some significant measure of impact on its 2022 financial and operating results corresponding to higher customers arrears balances and credit losses, higher operating costs, and general economic impacts including rising inflation. However, the 2022 budget does not include any provision for these potential impacts. Alectra will provide further information on the ongoing impacts of COVID-19 on its financial and operating results in interim quarterly reports to Shareholders.

The Dividend Policy for Alectra provides for:

- Annual Voting Common Dividends up to 60% of the annual consolidated net income of Alectra excluding the results from the former PowerStream Solar Business that accrue to the Solar Shareholders.
- Quarterly dividend instalments in respect of the annual dividend on Voting Shares set at up to 20% of the annual forecast dividend for that year.

Quarterly dividends are to be paid in March, June, September and December in arrears for the prior quarter. The March dividends includes the quarterly dividends in respect of the fourth quarter of the preceding year and any further adjustment to bring the total annual dividends for the preceding year to up to, in each case, the full amount of dividends in respect of the net income for the preceding year. Dividends will be paid within 10 business days of the date of declaration by the Board of Directors.

As indicated above, the 2022 revised forecast annual dividend per the 2022 Financial Plan is $78.7MM (rounded). Subject to the approval of the Board of Directors in each instance and based on scheduled Board of Directors meetings, Alectra Inc. forecasts dividend payments in respect of the 2022 fiscal year as follows:

(Amounts in $)	% Ownership	Quarterly Dividend	Aggregate Annual
Vaughan Holdings Inc.	20.50%	3,225,479.90	16,127,399.50
Markham Enterprises Corporation	15.00%	2,360,949.23	11,804,746.15
Barrie Hydro Holdings Inc.	8.37%	1,317,808.92	6,589,044.60
Enersource Corporation	29.57%	4,652,856.08	23,264,280.40
Hamilton Utilities Corporation	17.31%	2,724,172.19	13,620,860.95
St. Catharines Hydro Inc.	4.63%	727,946.84	3,639,734.20
Guelph Municipal Holdings Inc.	4.63%	727,946.84	3,639,734.20
Total	**100.00%**	**$ 15,737,160.00**	**$ 78,685,800.00**

Aggregate quarterly dividends are expected to be paid on the following dates:

- Q1 2022 – June 6th $15.7MM;
- Q2 2022 – September 2nd $15.7MM;
- Q3 2022 – December 8th $15.7MM;
- Q4 2022 – March 2023 $31.6MM[1]

1The March 2023 forecast payment comprises the quarterly dividend of $15.7MM and a further adjustment of $15.9MM to bring the total annual dividend to the forecast amount of $78.7MM (rounded).

Additions to Future Quarterly Shareholder Reporting

Commencing with its report to Shareholders regarding first quarter results for the period ending March 31, 2022, Alectra Inc. will provide selected notes to its unaudited consolidated financial statements prepared in accordance with International Financial Reporting Standards.

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
Wendy Samuels, Executive Assistant

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Management's Discussion and Analysis
(In millions of Canadian dollars)

ALECTRA Inc.

Year ended December 31, 2021

GLOSSARY

The following acronyms and abbreviations are used in this document.

AES	Alectra Energy Solutions Inc.	**ICI**	Industrial Conservation Initiative
AESI	Alectra Energy Services Inc.	**ICM**	Incremental Capital Module
AFFO	Adjusted Funds from Operations	**IESO**	Independent Electricity System Operator
Alectra Utilities	Alectra Utilities Corporation	**IFRS**	International Financial Reporting Standards
AMSP	Alectra Microgrid Master Limited Partnership	**IR**	Incentive Rate
APSI	Alectra Power Services Inc.	**kWh**	Kilowatt-hour
CC	Customer Contributions	**LED**	Light Emitting Diode
CDM	Conservation and Demand Management	**LDC**	Local Distribution Company
CEAP	COVID-19 Energy Assistance Program	**LPC**	Late Payment Charge
CHI	Customer Hours of Interruption	**LRAMVA**	Lost Revenue Adjustment Mechanism Variance Account
CMC	California Mobility Centre	**MD&A**	Management Discussion and Analysis
COVID-19	Coronavirus Disease 2019	**MIFRS**	Modified International Financial Reporting Standards
CP	Commercial Paper	**OEB**	Ontario Energy Board
DBRS	Dominion Bond Rating Service	**OEBA**	Ontario Energy Board Act
DER	Distributed Energy Resource	**OEFC**	Ontario Electricity Finance Corporation
DSC	Distribution System Code	**PP&E**	Property, Plant and Equipment
DSP	Distribution System Plan	**ROE**	Return on Equity
EBITDA	Earnings before interest, taxes, depreciation, and amortization	**RPP**	Regulated Price Plan
ECL	Expected Credit Losses	**RRF**	Renewed Regulatory Framework for Electricity Distributors
ERM	Enterprise Risk Management	**SA**	System Access
FFO	Funds from Operations	**SAIDI**	System Average Interruption Duration Index
GA	Global Adjustment	**SAIFI**	System Average Interruption Frequency Index
GHG	Greenhouse Gas	**SCADA**	Supervisory Control and Data Acquisition
GP	General Plant	**SR**	System Renewal
HNE	Holland New England	**SS**	System Service
HPSI	Holland Power Services Inc.	**TOU**	Time-of-Use
HPS	HPS Holdings Inc.	**UA**	Util-Assist Inc.
IAS	International Accounting Standards	**WMS**	Wholesale Market Service
IASB	International Accounting Standards Board	**YoY**	Year over Year

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.

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.

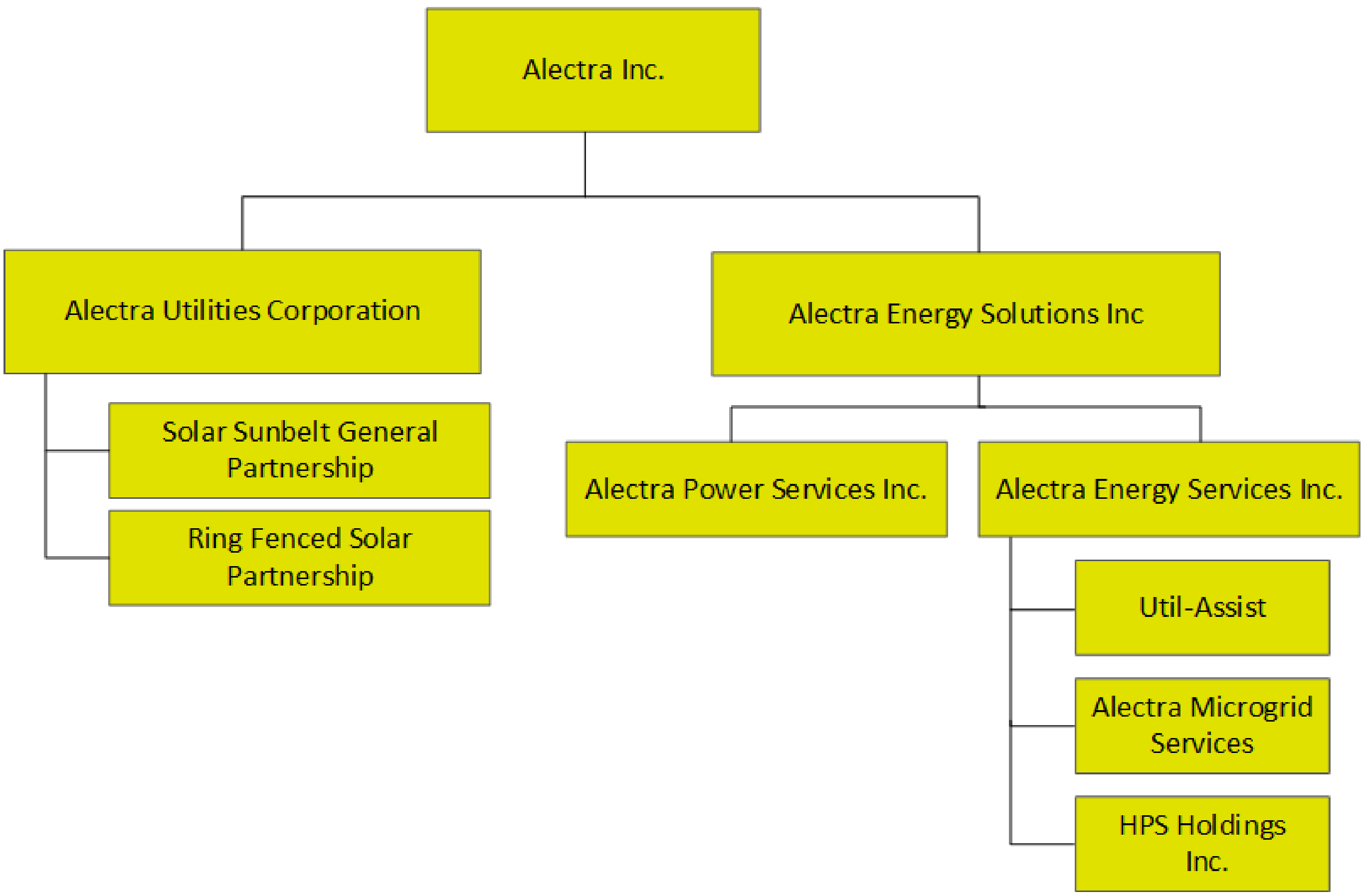
TABLE OF CONTENTS

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, 2021 (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, 2021. 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.

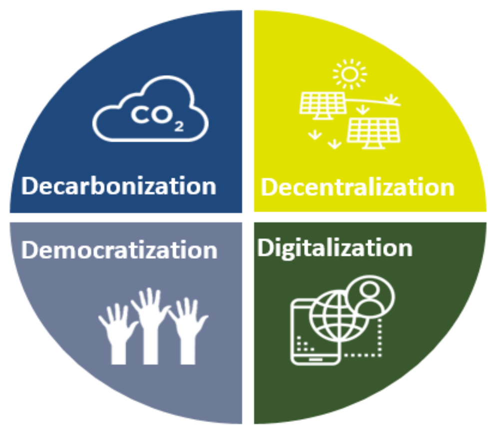
CORPORATE OVERVIEW (continued)

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"), Alectra Microgrid Services Master Limited Partnership ("AMSP") and Alectra Microgrid Services Master General Partnership; and HPS Holdings Inc. ("HPS"). UA has one subsidiary: Util-Assist Corp. HPS has two subsidiaries: Holland Power Services Inc. ("HPSI") and Holland New England ("HNE").

Vision and Strategic Intent

Alectra Inc.'s goal is to be a leading distribution and integrated energy solutions provider, creating a future where people, businesses and communities will benefit from the full potential of energy. The electricity sector is experiencing major change and transformation due, in part, to several global megatrends, such as: decarbonization; decentralization; democratization; and digitalization.

The global pressure of decarbonization has resulted in past government actions and increased focus by all electricity market participants to transition to a low carbon economy through fuel switching and energy efficiency. Reducing the amount of GHG ("Greenhouse Gas") emissions that occur in our environment is imperative to meeting the Paris Agreement commitment to limit the global average temperature rise to 1.5°C. Locally, Ontario's electricity supply mix is relatively green due to coal having been phased out in 2014.



In addition, several major municipalities in Ontario have declared climate change emergencies. Alectra Inc. has approved GHG reduction emissions targets through its corporate operations of 38 percent by 2025 compared to a 2016 baselines and Net-Zero targets by 2050. Alectra Utilities focusses on supporting its customers in their cost reduction and GHG reduction goals.

Decentralization has been accelerated by some of the same economic factors favouring decarbonization. The growth of more distributed assets featuring smaller-scale energy solutions located on the premises of industrial, commercial and residential customers is occurring. While this gives customers greater control over their power usage (democratization), it also opens new revenue streams for the Corporation as customer seek expanded solutions to their energy challenges.

As new entrants create greater competition for the Corporation than in the past, it will face increased pressure to be that integrated energy solutions provider in this changing market and to engage with its customers in a more complex and data-driven environment.

CORPORATE OVERVIEW (continued)

Vision and Strategic Intent (continued)

Electricity grids are becoming more digital – a trend known as digitalization – with more advanced meters, real time sensors and monitoring devices, instantaneous feedback on grid issues, self-healing systems and intelligence to take advantage of local storage devices or local generation, all in order to maintain the supply to customers considering their price and GHG emission preferences. A digital grid will see operations crews being dispatched to an area of concern – with superior knowledge of the cause of the electricity outage and remedial action for optimal repairs.

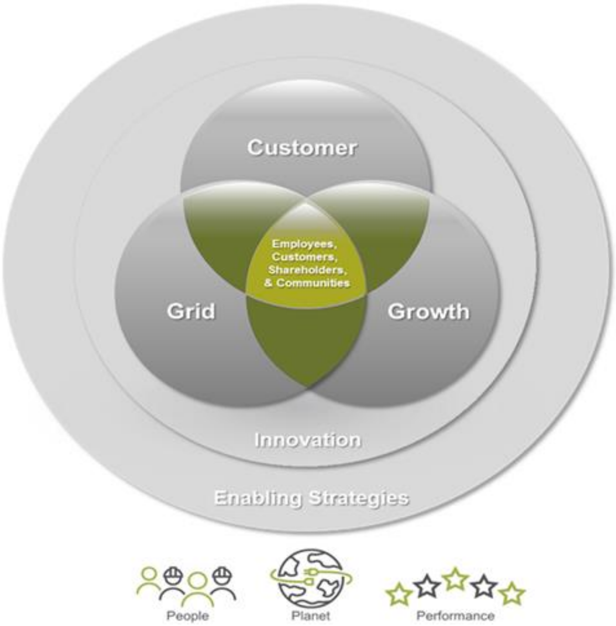
Digitalization is enabled through the development of Smart Communities. Communities interconnected to optimize the use of energy, water and information for consumers gain the value they demand. This new digital world now engages customers to have access to energy management systems for home or office automation and connect to their electric vehicles or autonomous devices.

Customers are demanding more than electricity from their utility including integrated value-added services in relation to heat, light, security and even entertainment through their devices.

Responding in part to these megatrends, and the risks they create, in 2020, the Corporation evolved its strategy beyond the initial merger transaction and integration. "Strategy 2.0" was designed to be a natural evolution from the initial strategy focusing on three core strategic pillars:

- Customer (Experience);
- Grid (Modernization); and
- Growth (Enterprise).

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.



The ability to prepare for and adapt to changing conditions as well as adapt to 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. The three core strategies, Customer (Experience), Grid (Modernization), and Growth (Enterprise) ensure it has a firm foundation. In addition, the four enabling strategies of culture and talent management, technology and innovation, advocacy, and financing will provide Strategy 2.0 with greater reliability and resiliency.

CORPORATE OVERVIEW (continued)

Sustainability

Alectra has approved a sustainability commitment statement: "As a sustainable company, the Corporation is committed to meeting the needs of current and future generations by empowering our customers, communities, and employees, protecting the environment, and embracing innovation".

AlectraCARES is the umbrella framework that embeds sustainability principles into Alectra's core business strategy and operations helping to create enduring value and connects us to the three pillars of sustainability – people, planet, and performance.

For further details on the values and the mission of the Corporation, please review Alectra’s Annual Sustainability Reports on the Corporation's website at:
https://www.alectra.com/annual-sustainability-report

REGULATED BUSINESS

Alectra Utilities Corporation

Alectra Utilities provides electricity distribution to over one million customers and is the second largest municipally-owned LDC in North America by number of 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 IESO under its Feed-In-Tariff long term power purchase agreements.

Industry Regulation

The Corporation, through Alectra Utilities, is regulated by the 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.

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.

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.

REGULATED BUSINESS (continued)

Rate Setting (continued)

The 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.

REGULATED BUSINESS (continued)

Rate Applications

2021 Rate Application

On August 17, 2020, Alectra Utilities filed an application for all five predecessor utilities 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 is 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 is 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 is 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 is 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 is an increase of approximately 71 cents or 2.40%.

REGULATED BUSINESS (continued)

Rate Applications (continued)

2022 Rates Application

On August 18, 2021, Alectra Utilities filed an application for all five predecessor utility rate zones for the approval of 2022 electricity distribution rates, effective January 1, 2022 to December 31, 2022. On December 9, 2021, the OEB issued its Decision and Order, approving distribution rates effective January 1, 2022, 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 68 cents or 2.44%;
- 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 will be an increase of approximately 54 cents or 2.07%;
- 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 will be an increase of approximately 57 cents or 1.91%;
- 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 60 cents or 2.29%; 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 76 cents or 2.51%.

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

REGULATED BUSINESS (continued)

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 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:

- Resetting of Pricing for TOU Customers – The OEB reset RPP prices for the period from January 1, 2021 until February 22, 2021. During this period, all RPP consumers paid a fixed price of 8.5 cents per kWh. As of February 23, 2021, RPP consumers reverted to paying the prices set by the OEB that reflects the forecast cost to supply RPP customers.
- CEAP including that for Small Business ("CEAP-SB") – The CEAP was an initiative by the Ontario government to support residential customers, small businesses and charities struggling to pay their energy bills, as a result of the COVID-19 pandemic. During 2020 and 2021, the OEB amended the licenses of distributors to implement the CEAP requirements. The allocation of funding was based on customer count for utilities across the province.

  On June 17, 2021, the Ministry of Energy, Northern Development and Mines confirmed that no additional funding would be provided for the CEAP. Alectra Utilities exhausted its funding allotment on July 12, 2021, wherein Alectra ceased accepting applications. In total, Alectra Utilities disbursed $6 in CEAP support to its residential and small business customers over the period 2020-2021.

Ontario Energy Board Initiatives and Consultation:

- Disconnections Moratorium – The disconnection ban, which generally commences on November 15 in each year and ends on April 30 in the following year, was extended by the OEB until June 2, 2021, to align with the province-wide stay-at-home measures. Alectra Utilities did not resume disconnections for residential customers in 2021.

REGULATED BUSINESS (continued)

Select Energy Policies and Regulation Affecting the Corporation (continued)

Ontario Energy Board Initiatives and Consultation (continued):

- 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 track incremental costs and lost revenues. On June 17, 2021, the OEB issued the Report of the Ontario Energy Board: *Regulatory Treatment of Impacts Arising from the COVID-19 Emergency* (the "Report"). The OEB determined that recovery of any balances recorded in the deferral account should be subject to evidence that any costs arising from the COVID-19 pandemic are reasonable and necessary for the utility to maintain its opportunity to earn a fair return over the long run.

  In the Report, the OEB outlines two categories of costs eligible for recovery: an "Exceptional Pool", at a 100% recovery rate; and a "Discretionary Pool", at a 50% recovery rate. The Exceptional Pool of costs are defined as any prudently incurred and material costs necessary to comply with government or OEB actions or orders. This relief may be sought if utilities have not earned greater than 300 basis points ("bps") over the regulated ROE. For all other costs (i.e., the Discretionary Pool), a 'means' test based on a utility's achieved ROE compared to the OEB-approved ROE less 300 bps will be used to measure the need for cost recovery.

  The Corporation may file for the recovery of any COVID-19 pandemic related impacts in a future rate application.

- Updated CDM Guidelines for Electricity Distributors - On December 20, 2021, the OEB implemented updated CDM guidelines for electricity distributors. As part of the updated guidelines, distributors are required to incorporate consideration of CDM activities into their distribution system planning process and consider the role of CDM in meeting system needs. Further, the updated guidelines clarify that distributors should not request funding through distribution rates for dedicated CDM staff to support IESO programs funded under the 2021-2024 CDM Framework, except for costs related to the Local Initiatives Program. The updated CDM guidelines also clarify how CDM is addressed in load forecasts and the treatment of lost revenue due to CDM activities. Under the updated CDM Guidelines, Alectra Utilities can continue to recover lost revenue due to CDM activities under the Conservation First Framework until its rebasing application.

(in millions of Canadian dollars)

KEY BUSINESS STATISTICS

	2021	2020	2020 Average Urban Distributor Benchmark [1]
SAIDI [2]	0.98	0.95	0.93
SAIFI [3]	1.15	1.18	1.21

[1] The Average Urban Distributor is based on the average 2020 SAIDI and SAIFI performance results for Urban Ontario Distributors with at least 50k customers from the 2020 yearbook of the OEB.

[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.

Alectra Utilities' SAIDI and SAIFI were 0.98 and 1.15, respectively, in 2021, compared to SAIDI and SAIFI of 0.95 and 1.18, respectively, in 2020.

Overall, Alectra Utilities' SAIDI performance deteriorated modestly relative to 2020 mainly due to: (i) defective equipment events, of which the leading contributor was the failure of underground cables and accessories; (ii) foreign interference events, such as animal contacts and vehicle collisions with equipment; and (iii) outage events including tree contacts and adverse weather impact caused by storms and high winds.

Alectra Utilities' SAIFI performance improved in 2021 mainly due to: (i) fewer customer interruptions from storms, adverse weather and lightning events; partially offset by (ii) an increase in scheduled outages and tree contact events. Alectra Utilities has established plans to proactively identify cable sections for remediation to mitigate underground cable outage events to address the increasing number of cable failures.

COMPETITIVE BUSINESS

Overview of AES

Alectra Energy Solutions Inc. is a competitive energy services company that provides innovative energy solutions including power services, street lighting, distributed energy solutions, energy storage, metering, emergency power restoration and sub-metering services to institutional, commercial and industrial customers.

AES provides effective solutions to its customers through the use of current and emerging technologies, and empowers homeowners, businesses and communities with efficient energy solutions that offer more choices and deliver sustainable value.

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

AESI provides wholesale metering and sub-metering services for condominium and commercial properties.

UA provides consulting services with respect to advanced metering systems procurement and implementation; customer information systems procurement and implementation; billing and meter data exception management services; an outage management call centre (PowerAssist); and other smart grid applications and services.

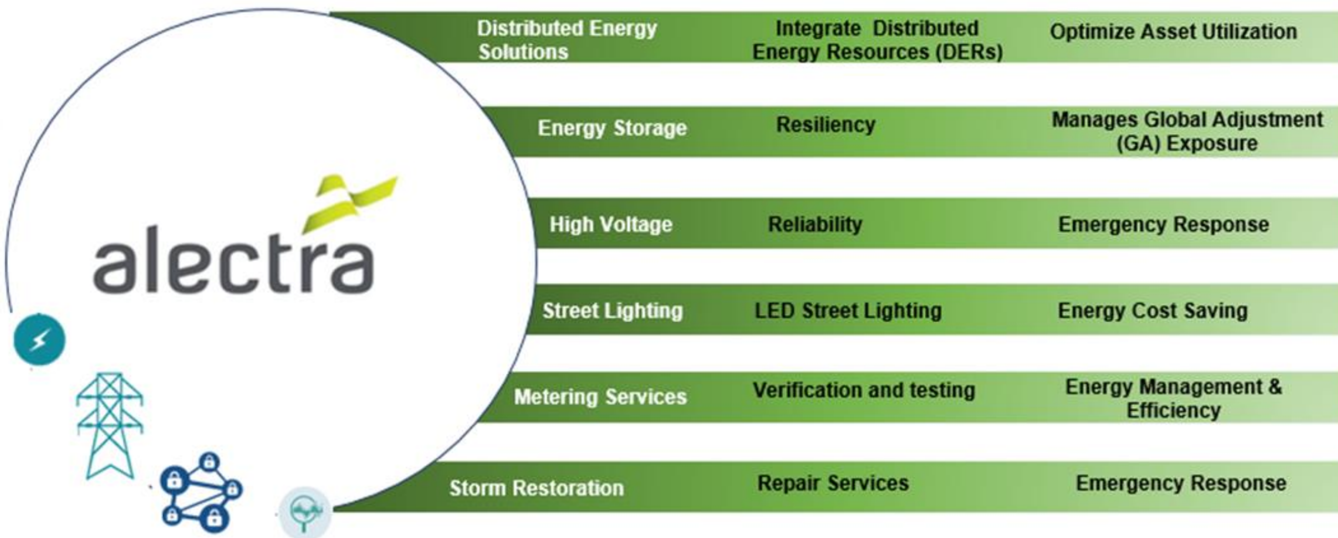
AMSP provides energy management services partnership which includes installing, owning and operating an industrial energy storage battery and gas system with a third party.

HPSI and HNE provide emergency restoration services to utilities primarily located along the eastern seaboard of the United States and Canada; and industrial electrical services to utilities and industrial clients.

COMPETITIVE BUSINESS (continued)

Key Business Updates

The competitive business provides opportunities for customers to find energy solutions that fit their needs through services offered in each of its key divisions.



Latest Investments

On January 4, 2021 AESI completed the acquisition of HPSI, a private company specializing in providing storm restoration services in Eastern Canada and the United States. Refer to *Note* 6 in the Consolidated Financial Statements for details.

On September 29, 2021 AESI purchased a behind-the-meter generation portfolio of 14MW of natural gas fueled generation assets. The generation portfolio is situated across seven facilities in Ontario and will provide GA mitigation and will also assist in saving significant energy costs by participating in the Ontario Industrial Conservation Initiative.

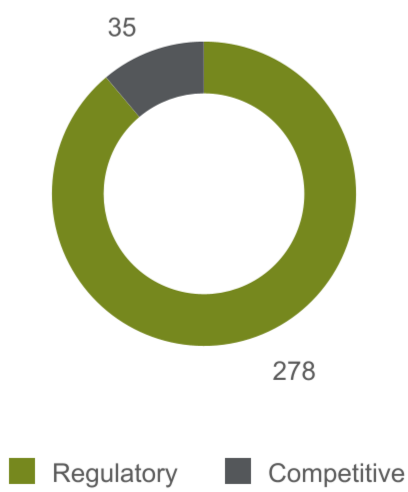
On October 27, 2021 AESI was announced as a Canadian member of the California Mobility Center ("CMC"). The CMC is a nonprofit, public-private entity that provides future mobility innovators and industry incumbents with access to programs and resources to accelerate the pace of commercialization in California and worldwide.

2021 FINANCIAL RESULTS AT A GLANCE

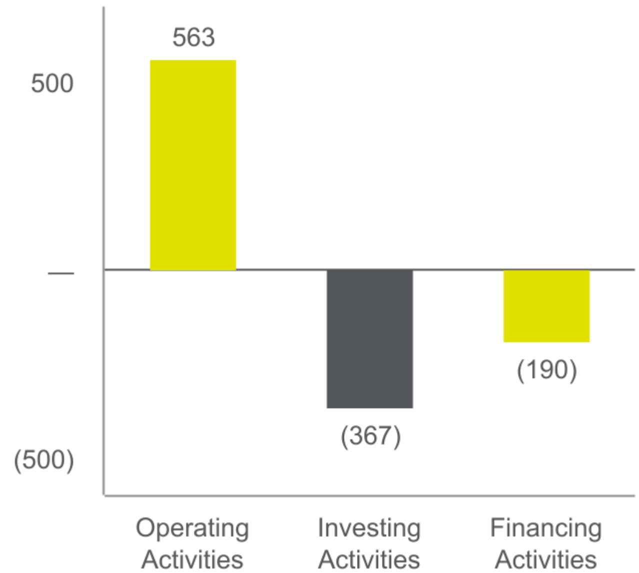
Annual Results and Performance

- Total Assets $5,508
- Loans and borrowings $2,137
- Revenue $3,834
- Expenses $3,633
- Net Income $105
- Net Income Adjusted for Regulatory Activities $148
- Dividends Paid $77

Capital Investments, Net of Contributions

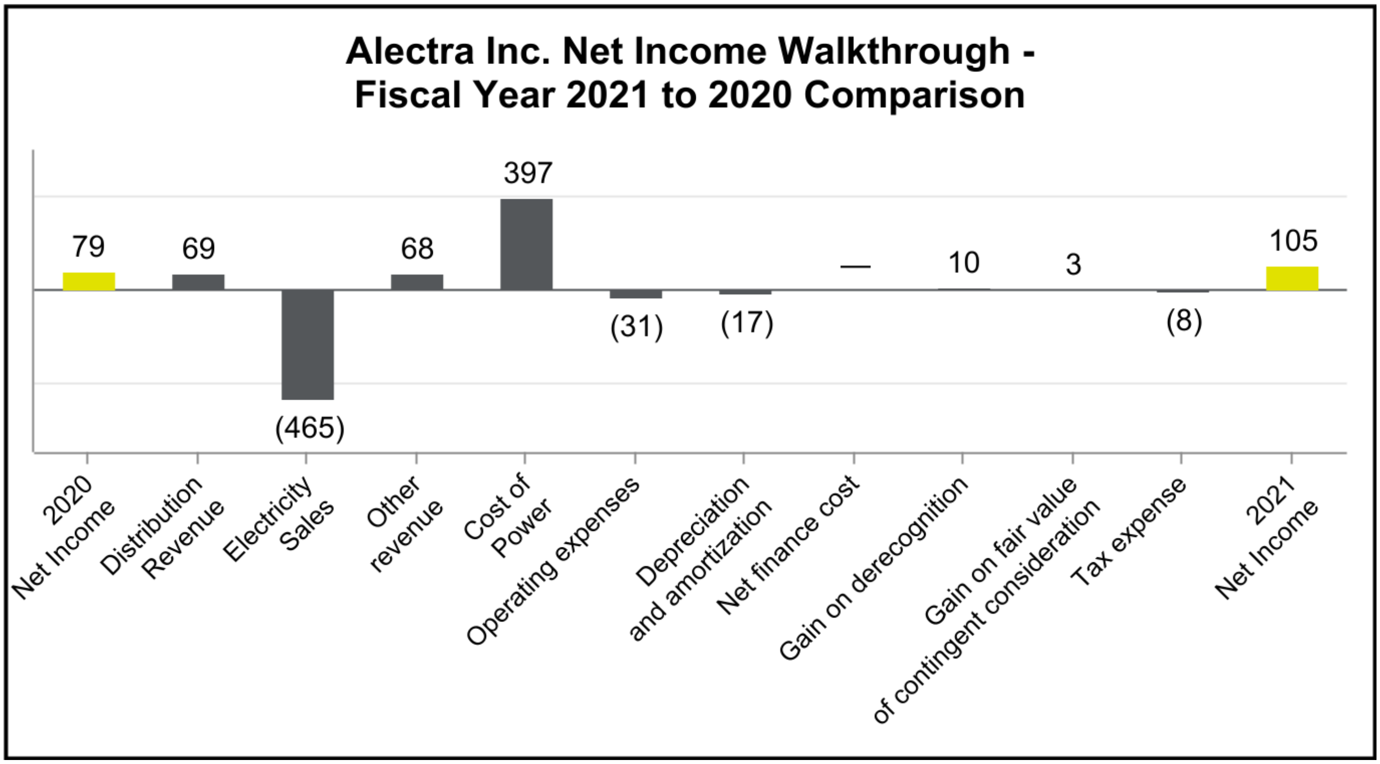


Cashflow Overview



(1) Net Income Adjusted for Regulatory Activities represents the net income for the year, adjusted for the effect of rate regulation. Refer to Note 27 in the Consolidated Financial Statements for further details.

RESULTS OF OPERATIONS

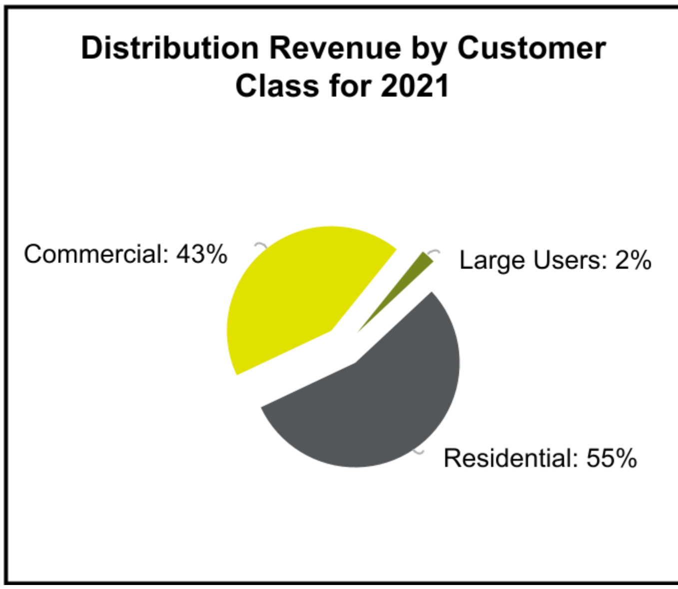


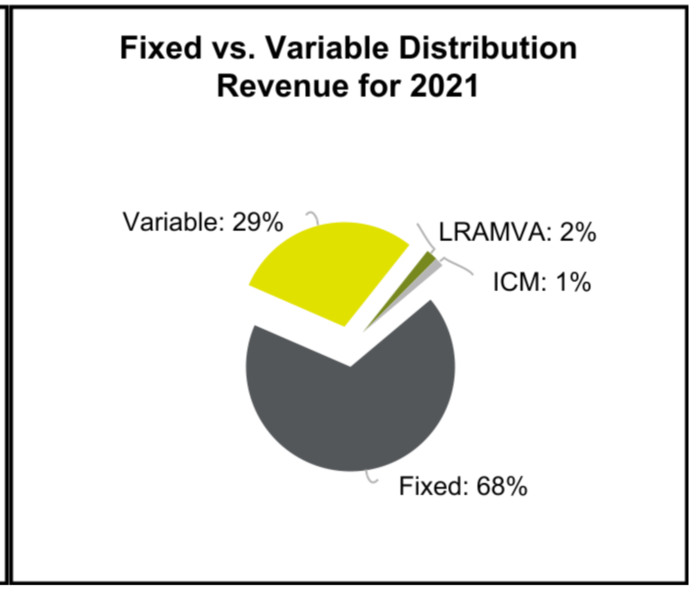
Net income for the year ended December 31, 2021 was $105 which is $26 higher than 2020 net income of $79. The increase in net income is principally attributable to: (i) a decrease in cost of power of ($397) as a result of lower wholesale electricity prices; (ii) higher distribution revenue of ($69) as a result of higher recoveries from customers through OEB approved rate riders; (iii) higher other revenue of ($68) as a result of revenue from power restoration and industrial services corresponding to the acquisition of HPS in 2021; (iv) higher gain on derecognition of property, plant and equipment ("PP&E") of ($10) due to the gain on sale of an operation centre; and (v) higher gain on fair value of contingent consideration of ($3); partially offset by (vi) a decrease in electricity sales of ($465) driven by lower electricity prices; (vii) higher operating expenses of ($31) mainly due to an increase in labour costs corresponding to the acquisition of HPS in 2021; (viii) higher depreciation and amortization costs of ($17) due to new in-service additions in 2021; and (ix) higher income taxes of ($8) due to higher net income in 2021.

RESULTS OF OPERATIONS (continued)

	2021	2020	Change
Distribution Revenue	628	559	69

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 recovery from customers through OEB approved rate riders ($55); (ii) higher distribution rates ($11); and (iii) an increase in customer growth in the residential and small commercial classes ($3).





Alectra Utilities' customer classes are as follows:

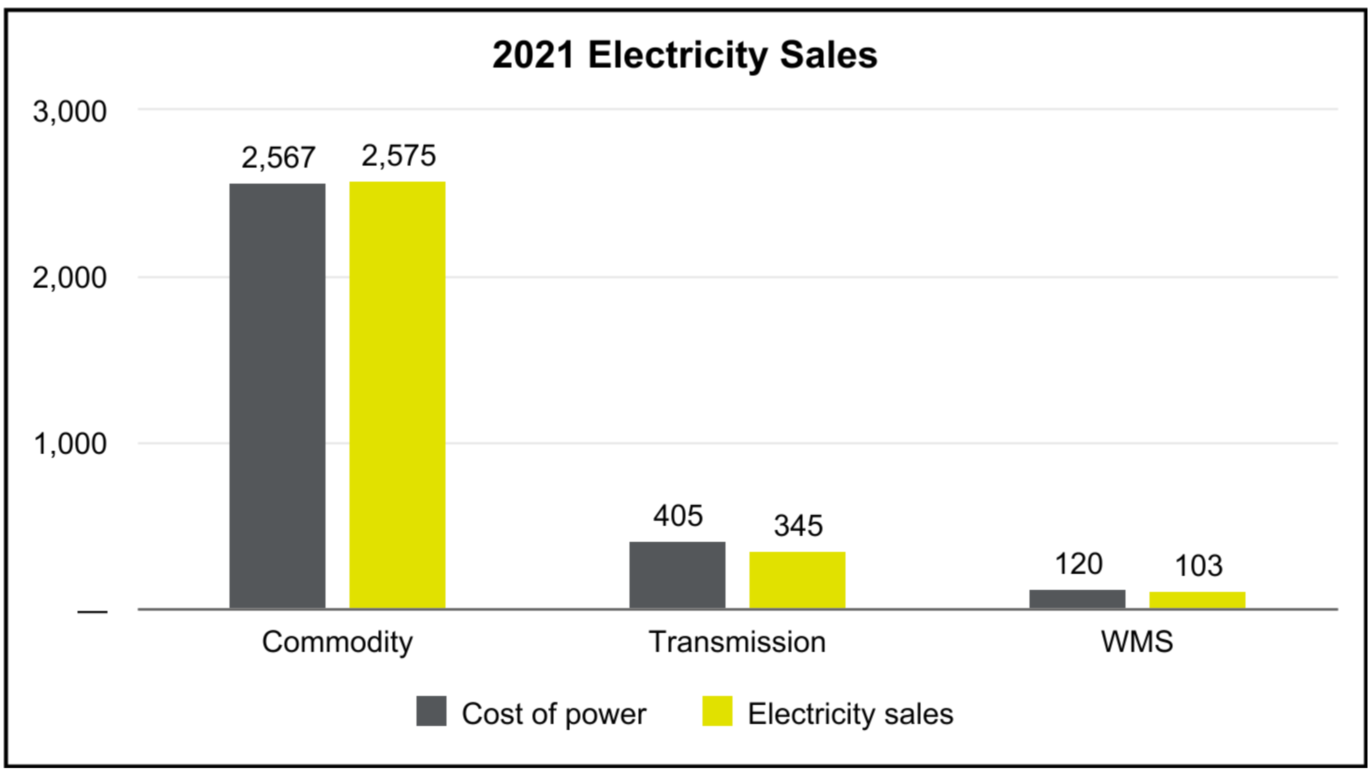
- Residential - the residential class includes single family or individually metered multi-family units and seasonal occupancy
- Commercial - the commercial class typically includes small businesses and bulk-metered multi-unit residential establishments that is provided to customers with a monthly peak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

RESULTS OF OPERATIONS (continued)

	2021	2020	Change
Electricity Sales	3,023	3,488	(465)

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 decrease in electricity sales by $465 is mainly driven by lower electricity prices in the current year results.



(in millions of Canadian dollars)

RESULTS OF OPERATIONS (continued)

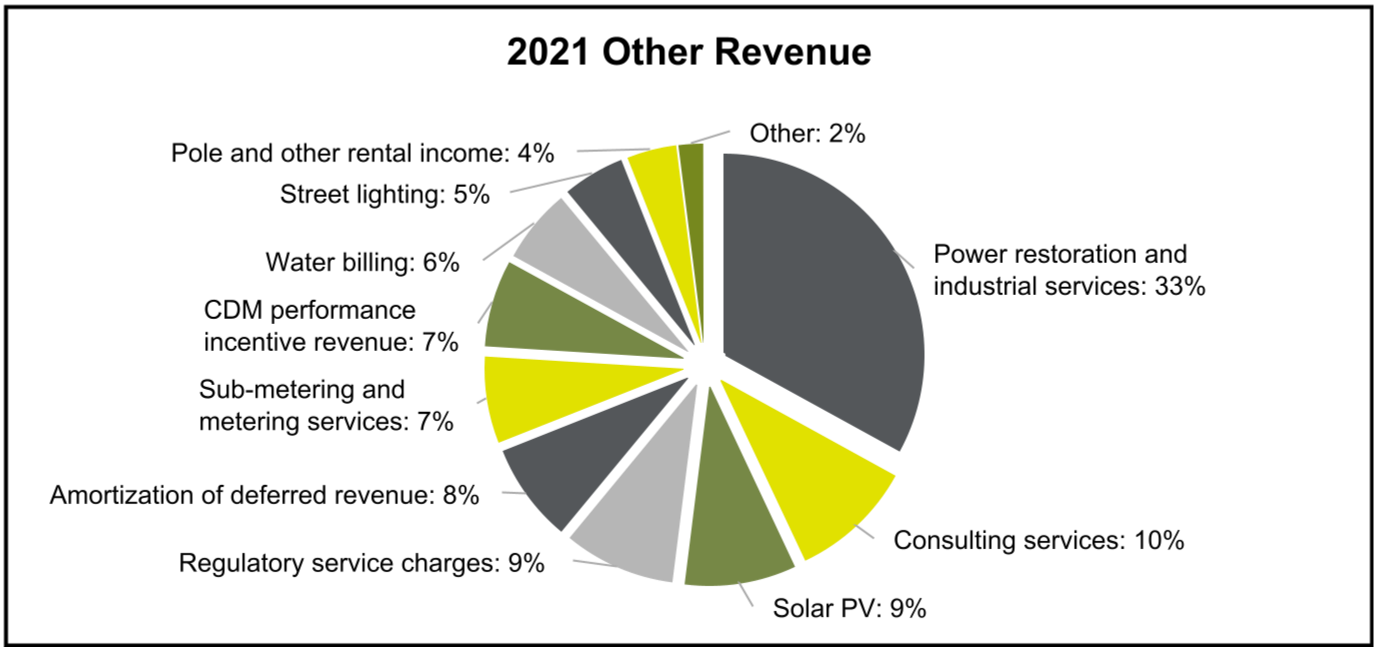
	2021	2020	Change
Other Revenue	183	115	68

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, LPCs, ancillary services, and customer contributions;
- pole attachment charges to other utility service providers that attach equipment to poles owned by Alectra Utilities; and
- CDM incentives.

Revenue from competitive activities include: power restoration services; industrial services; revenue generated from the Solar Photovoltaic projects; consulting services; water billing services; street lighting services; distributed energy services and metering and sub-metering services.

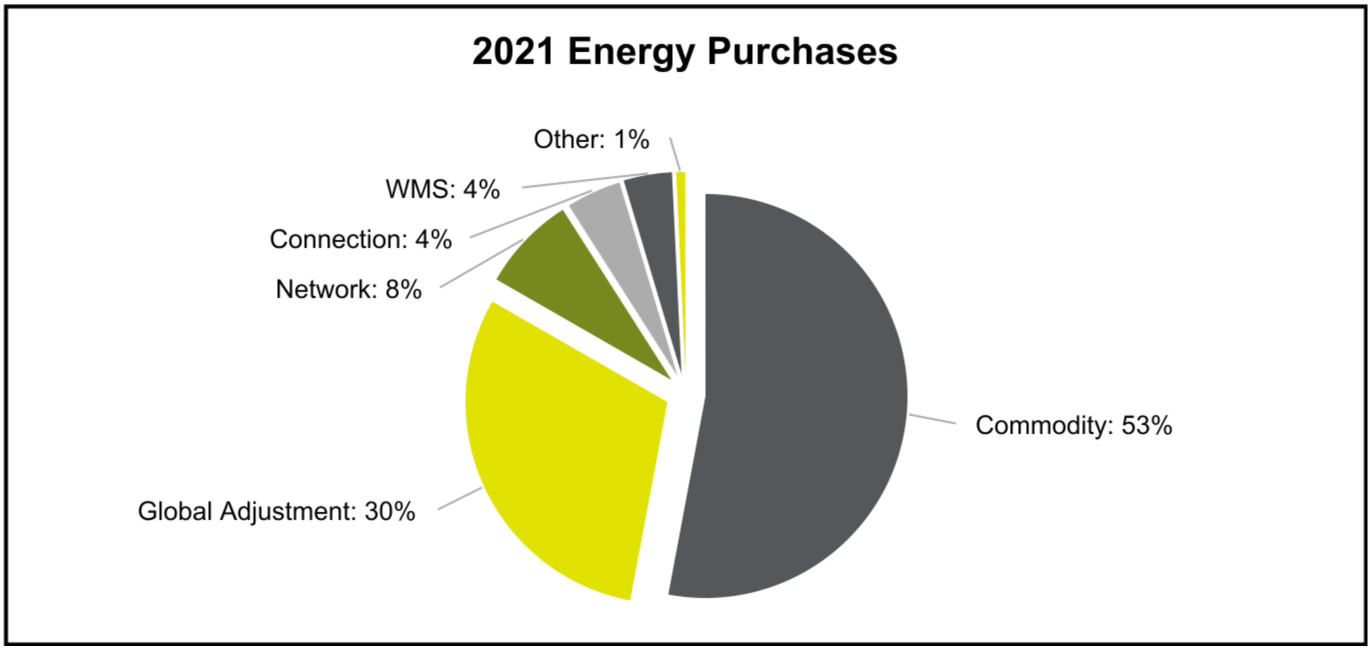
The increase in other revenue of $68 primarily relates to: (i) higher power restoration and industrial services revenue corresponding to the acquisition of HPS in 2021 ($61); (ii) higher CDM revenue ($12) as a result of performance incentives under Energy Conservation agreements with the IESO; (iii) higher LPC charges ($5) due to higher customer arrears as a result of the COVID-19 pandemic; (iv) higher sub-metering and metering services revenue ($2) due to an increase customer growth; partially offset by (v) lower streetlighting revenue ($14) due to the winding down of the LED projects.



RESULTS OF OPERATIONS (continued)

	2021	2020	Change
Cost of Power	3,092	3,489	397

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 decrease in cost of power by ($397) is primarily as a result of lower wholesale electricity prices.



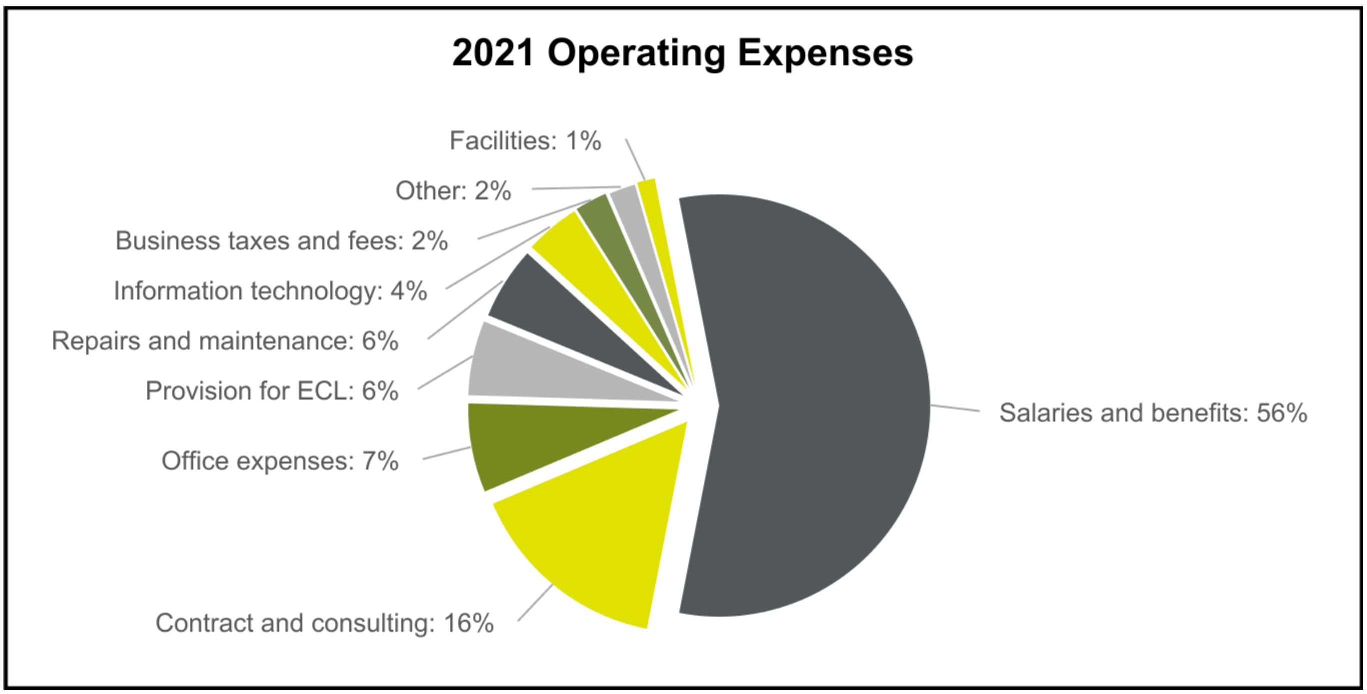
(in millions of Canadian dollars)

RESULTS OF OPERATIONS (continued)

	2021	2020	Change
Operating Expenses	359	328	(31)

Operating expenses primarily include salaries and benefits, materials, ECLs 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 $31 is principally due to: (i) higher labour costs ($27) corresponding to the acquisition of HPS in 2021; (ii) higher repairs and maintenance expenditures ($6) mainly due to the acquisition of HPS in 2021 and extensive cleaning protocols due to the COVID-19 pandemic; and (iii) higher contract and consulting costs ($4) mainly due to the acquisition of HPS in 2021 net of lower costs related to the wind down of LED streetlighting projects; partially offset by (iv) lower provision for ECLs ($7) due to slower growth of energy arrears.



(in millions of Canadian dollars)

RESULTS OF OPERATIONS (continued)

	2021	2020	Change
Depreciation and Amortization	182	165	(17)

The increase in depreciation and amortization expense of $17 is primarily due to: (i) new in-service additions for distribution assets ($8); (ii) new HPS depreciation and that related to the purchase of a portfolio of DERs ($6); and (iii) new in-service additions for computer hardware ($3).

	2021	2020	Change
Derecognition of property, plant, and equipment	11	1	10

The increase in derecognition of PP&E of $10 is primarily due to: (i) gain on sale and lease back of an operation centre and sale of land ($13); partially offset by (ii) loss on derecognition and dispositions of distribution, computer software, and fleet assets ($2).

	2021	2020	Change
Gain on fair value of contingent consideration	3	—	3

The Corporation is required to make earnout payments with respect to its acquisition of HPSI. The contingent consideration is dependent on exceeding an agreed upon target earning level for the year ending December 31, 2022. The gain on the fair value of the contingent consideration of $3 is due to the fair value remeasurement of the consideration as of December 31, 2021.

	2021	2020	Change
Income Taxes	36	28	(8)

The Corporation and its subsidiaries, other than AESI, HPS 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, HPS 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 2021 relative to 2020.

Competitive Operations Variance Analysis

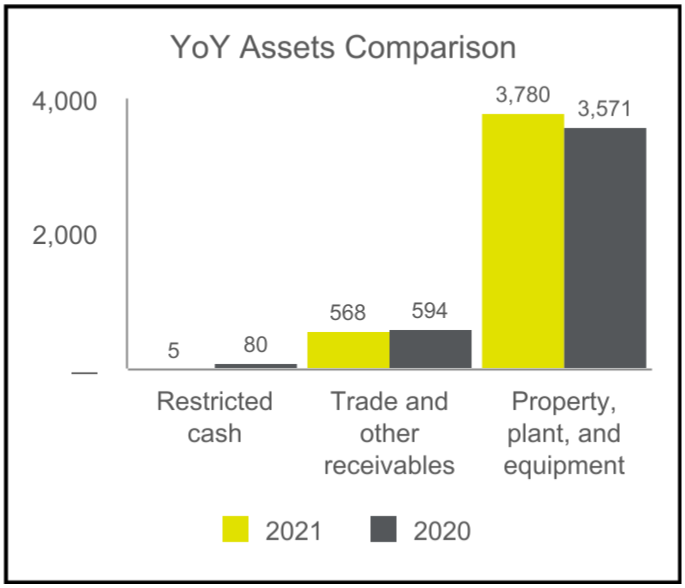
	2021	2020	Change
AES Net Income	5	2	3

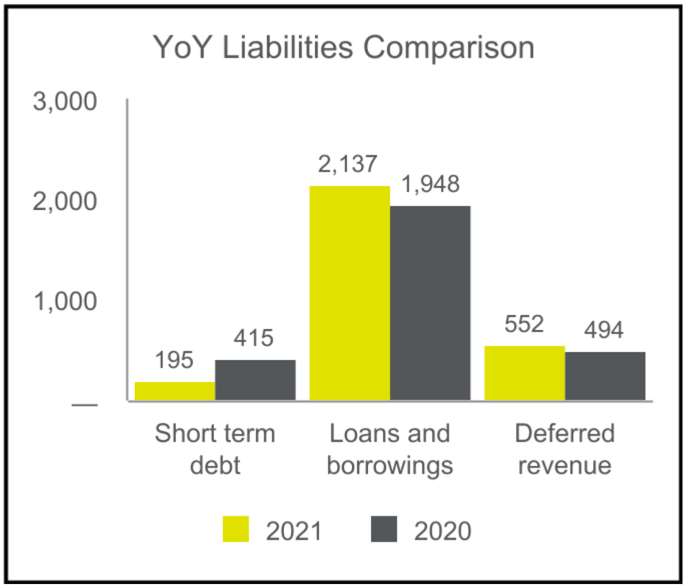
Net income for the year ended December 31, 2021 was $5 which is $3 higher than 2020 net income of $2. The increase in net income is due to the acquisition of HPS that occurred in 2021.

(In millions of Canadian dollars)

FINANCIAL POSITION

Significant changes selected from the Company's financial assets and liabilities, as at December 31, 2021 and the year over year ("YoY") change versus December 31, 2020, are provided below:





Assets	$ Change	% Change	Trend	Explanation
Restricted cash	(75)	(94)%	↓	The decrease is primarily driven by the current year utilization of funds held in an escrow account in 2020 relating to the purchase of HPS.
Trade and other receivables	(26)	(4)%	↓	The decrease is primarily due to (i) receipt of the IESO payment received for CDM performance incentives; (ii) lower energy bills resulting from lower average energy prices; partially offset by (iii) higher storm restoration activities due to the acquisition of HPS.
Property, plant, and equipment	209	6 %	↑	The increase is primarily due to (i) new in-service additions for distribution assets and competitive business assets; partially offset by (ii) higher accumulated depreciation.

Liabilities	$ Change	% Change	Trend	Explanation
Short term debt	(220)	(53)%	↓	The decrease is primarily due to: (i) repayment of short term debt; partially offset by (ii) a debenture repayment.
Loans and borrowings	189	10 %	↑	The increase is primarily due to: (i) issuance of a new debenture in 2021; partially offset by (ii) repayment of a maturing debenture in 2021.
Deferred revenue	58	12 %	↑	The increase is driven by additional customer contributions primarily for transit programs and road widening projects.

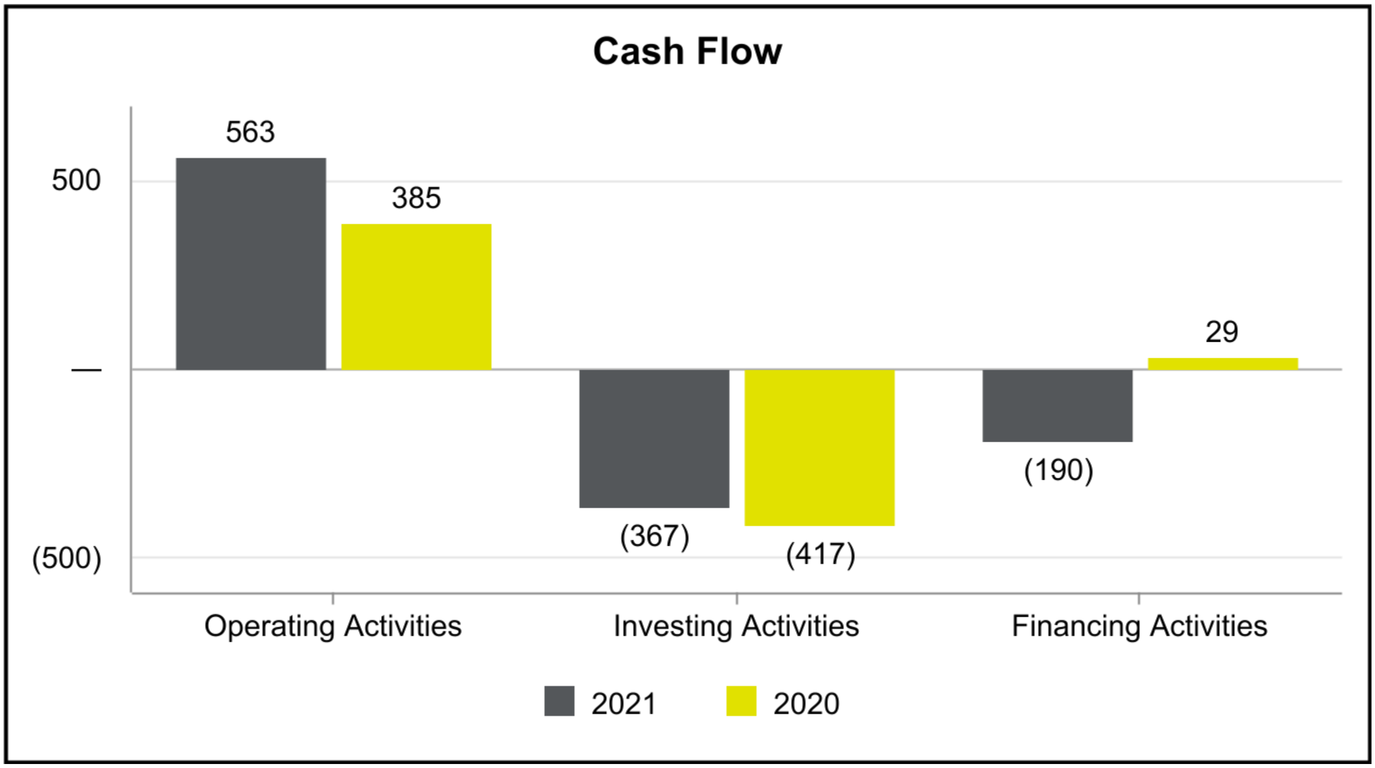
Total Assets	↑	$153

Total Liabilities	↑	$120

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 increase in net cash provided in operating activities of $178 from 2020 to 2021 was principally due to: (i) timing differences in relation to the settlement of receivables ($164) (refer to *Note 25* in the Consolidated Financial Statements) and (ii) higher net income in 2021 relative to 2020 ($26).

Investing Activities

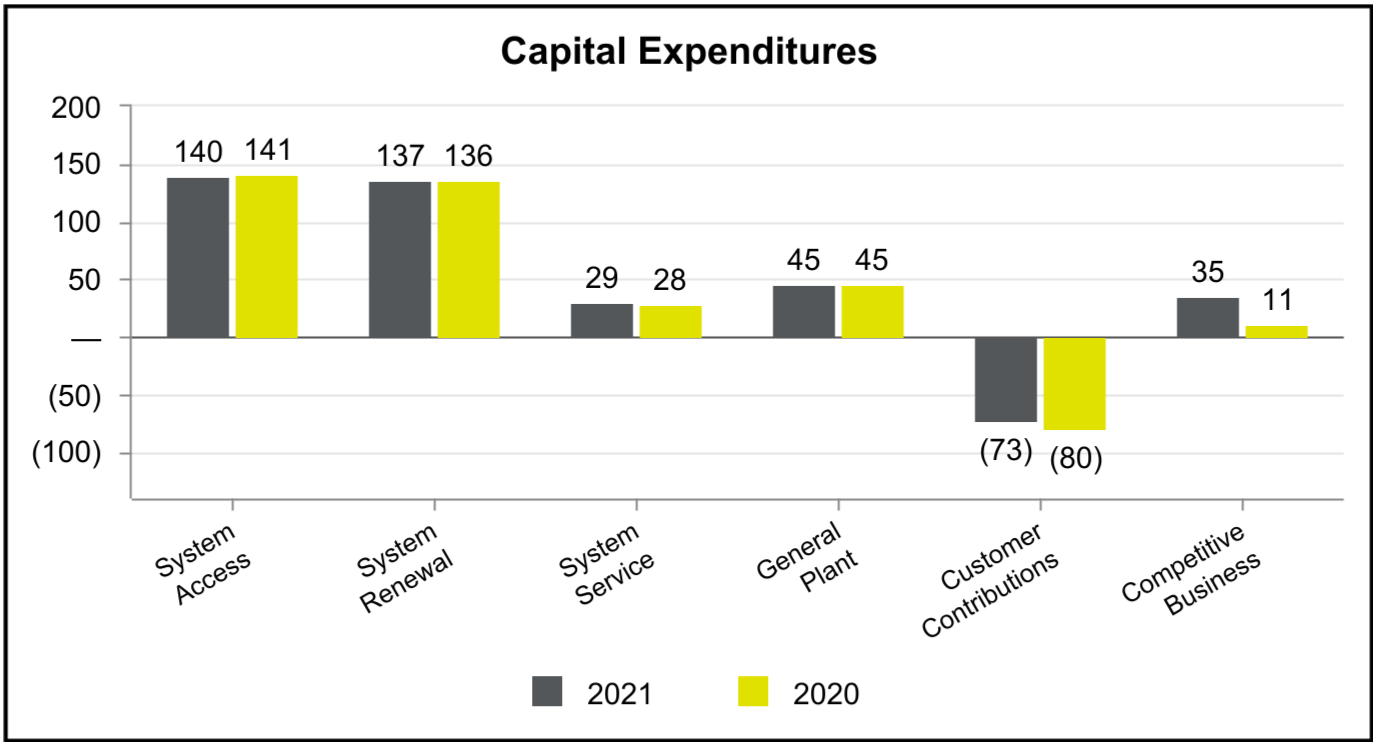
The decrease in cash used for investing activities by $50 from 2020 to 2021 was primarily due to: (i) the acquisition of HPS and a change in restricted cash ($88); partially offset by (ii) an increase in purchases of PP&E primarily related to distribution assets ($35).

LIQUIDITY AND CAPITAL RESOURCES (continued)

Sources of Liquidity and Capital Resources (continued)

Investing Activities (continued)

The Corporation's gross capital investments and customer contributions are presented 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 decreased by $1 relative to 2020, principally as a result of: (i) lower investments in distribution assets to support transit projects ($16); and (ii) lower expenditures for municipal road widening projects ($3); partially offset by (i) increased distribution system expansion for new customers ($13); and (v) increased new connections activity for subdivision development ($5).

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 have increased by $1 relative to 2020, principally as a result of: (i) increased investments in overhead asset renewal projects ($7); and (ii) increased reactive expenditures to replaced failed equipment ($4); partially offset by lower investments in (iii) underground asset renewal projects ($6); and (iv) substation renewal ($3).

(In millions of Canadian dollars)

LIQUIDITY AND CAPITAL RESOURCES (continued)

Sources of Liquidity and Capital Resources (continued)

Investing Activities (continued)

System Service ("SS") expenditures relate to projects required to support the expansion, automation, and reliability of the distribution system. SS expenditures have increased by $1 relative to 2020, principally due to: (i) higher expenditures on SCADA and automation ($6); (ii) the purchase of land for a new substation ($5); partially offset by lower expenditures on (iii) on capacity expansion projects ($5); and (iv) station security and undersized conductor replacement projects ($5).

General Plant ("GP") and transition expenditures relate to information systems projects, facilities, and fleet. Capital expenditures have remained consistent with 2020.

Customer Contributions ("CC") relate to deposits in aid of the capital cost of construction. CC have decreased by $7 over the previous year primarily due lower contributions for: (i) transit projects ($15); and (ii) road widening projects ($6); partially offset by higher contributions for (iii) distribution system expansion for new customers projects ($10); and (iv) new customer connections projects ($4).

Capital expenditures in the competitive business have increased by $24 relative to 2020, principally as a result of: the acquisition of (i) a portfolio of DER infrastructure assets ($24); and (ii) vehicles ($4); partially offset by (iii) lower expenditures due to the construction of a battery storage asset in 2020 ($3).

Financing Activities

The decrease in cash from financing activities by $219 was primarily due to: (i) net repayment of short-term debt ($220) in 2021 and higher short-term borrowings required to fund working capital and general corporate requirements ($235) in 2020; (ii) higher repayment of long-term loans and borrowings ($70); partially offset by (iii) issuance of a new debenture in 2021 net of debt issuance costs ($298).

Credit Ratings

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 22, 2021	A	Stable	June 9, 2021	A	Negative
Senior unsecured debentures	June 22, 2021	A	Stable	June 9, 2021	A	Negative
Short term (Commercial Paper)	June 22, 2021	R1(low)	Stable			

Credit ratings are forward looking opinions about an issuer’s relative creditworthiness for investors to consider as part of their decision-making processes while assessing the relative likelihood of whether an issuer may repay its debts on time and in full.

LIQUIDITY AND CAPITAL RESOURCES (continued)

Credit Ratings (continued)

S&P rates issuers and long term debt instruments by rating categories ranging from a high of “AAA” to a low of “D”. Ratings may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories. An “A” rating is the third highest of the ten rating categories. Long-term debt instruments which are rated in the “A” category by S&P Global Ratings are considered slightly more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories; however, the obligor’s capacity to meet its financial commitment on the obligation is still strong.

A S&P Global Ratings outlook assesses the potential direction of a long-term credit rating over the intermediate term (typically 6 months to 2 years). In determining a rating outlook, consideration is given to any changes in the economic and/or fundamental business conditions. An outlook is not necessary a precursor of a rating change. Positive outlook means that a rating may be raised; negative means that a rating may be lowered; and stable means that a rating is not likely to change.

DBRS Morningstar rates long-term debt instruments by rating categories ranging from a high of “AAA” to a low of “D”. An “A” rating is the third highest of the ten rating categories. Long-term debt instruments which are rated in the “A” category by DBRS Morningstar are considered to be of good credit quality, with substantial capacity for the payment of financial obligations.

DBRS Morningstar rates short-term debt instruments by rating categories ranging from a high of “R-1 (high)” to a low of “D”. An "R-1 (low)" rating is the third highest of the ten rating categories. Short-term debt instruments rated in the “R-1 (low)” category are considered to be of good credit quality, with substantial capacity for the payment of financial obligations.

On June 9, 2021, S&P Global Ratings changed Alectra’s outlook to “negative” from “stable”, reflecting its view of the weakening business risk profile due to the higher contribution from the unregulated operations, as well as expected weaker financial measures for 2021 and 2022 from the negative cash flow impact of the COVID-19 pandemic.

On June 29, 2021, S&P Global Ratings issued an updated view on North American Utility Regulatory Jurisdictions, mentioning that despite their assessment of Ontario, jurisdiction stays as “most supportive”, the agency believes that Ontario has weakened within this category, based on OEB’s approach to rate recovery of COVID-19 related costs.

Credit ratings are intended to provide investors with an independent measure of the credit quality of an issue of securities. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the rating agency.

LIQUIDITY AND CAPITAL RESOURCES (continued)

Requirements for liquidity resources

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

- $900 in aggregate revolving unsecured credit facilities comprising: (i) $700 committed revolving facility with four banks maturing August 31, 2026 ("Revolving Facility"); (ii) $100 uncommitted facility with a bank which is callable by the bank; and (iii) an additional credit facility to support Letters of Credit of up to $100.
- The committed facility is also used to support outstanding commitments under the CP program by way of same day market rate advances. Credit facility support for the CP program is carved out of the existing Revolving Facility leaving the balance of such credit facility for BA, Letters of Credit, and overdraft financing with an additional $100 expansion option on the Revolving Facility; and
- Issuance of senior unsecured debentures with various maturity dates under established Trust Indentures.

The Revolving Facility contains certain covenants, including a requirement that the Corporation's debt to capitalization ratio not exceed 75%. As at December 31, 2021, the Corporation was in compliance with all covenants included in its Revolving Facility agreement.

As at December 31, 2021, the Corporation was in compliance with all covenants included in its Trust Indentures.

The Corporation believes it has sufficient access to short- and long-term debt to meet liquidity requirements.

Short-term loans at December 31, 2021 and 2020 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, 2021 aggregated $195 (2020 - $415).

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.

Refer to *Note 15* in the Consolidated Financial Statements for details of the Corporation's long-term borrowings.

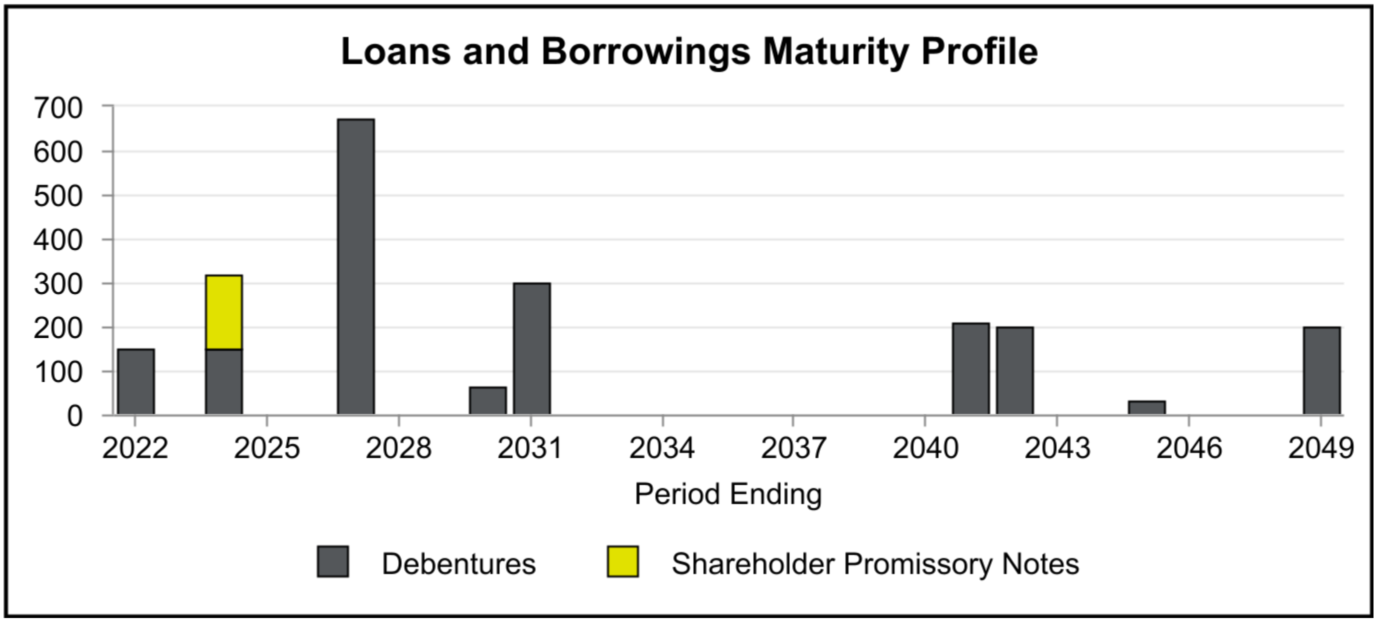
The Corporation has sufficient liquidity to meet the needs of its ongoing commitment to maintain, improve and expand its distribution system and competitive businesses, and invest in other infrastructure assets on a sustainable basis.

(In millions of Canadian dollars)

LIQUIDITY AND CAPITAL RESOURCES (continued)

Loans and borrowings maturities

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



Summary of contractual obligations and other commitments

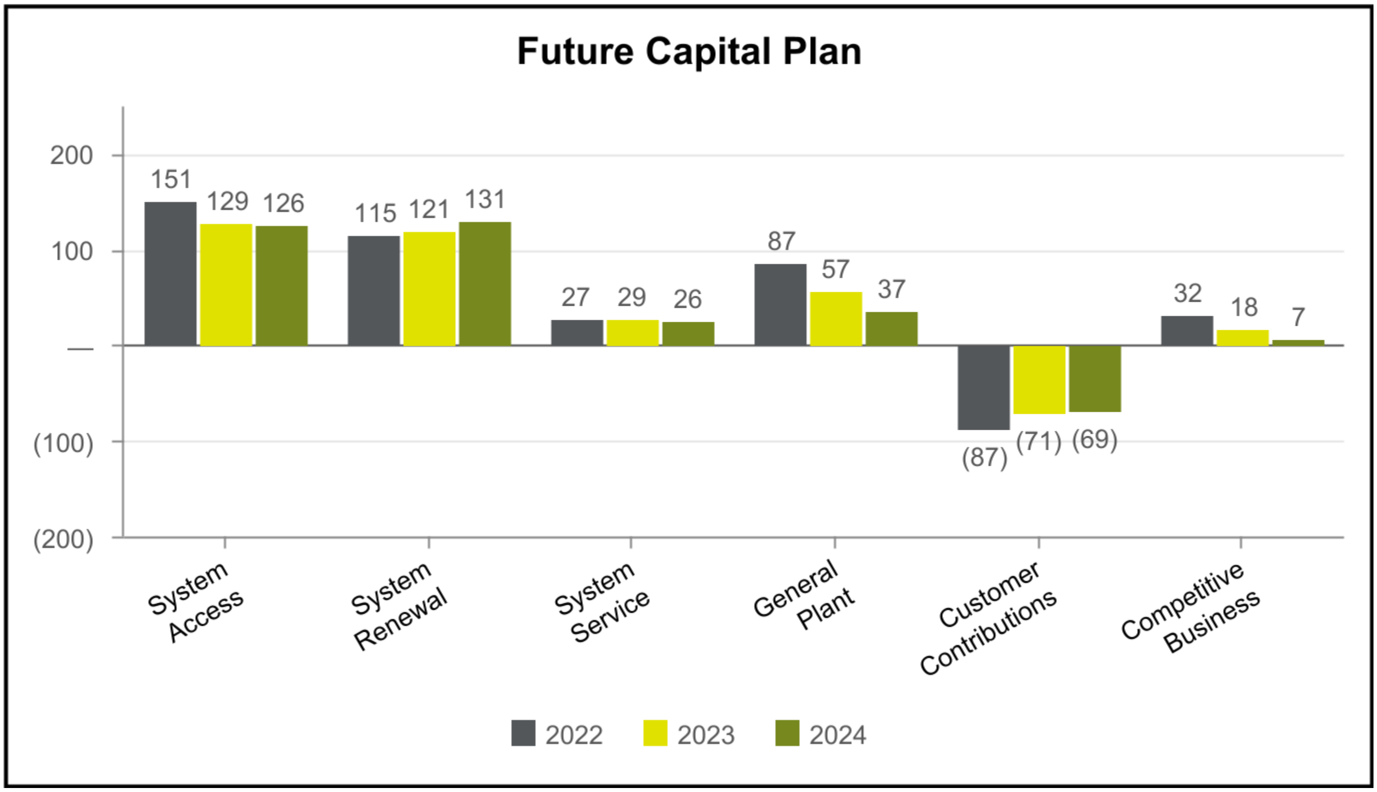
The following table presents a summary of the Corporation's debentures, major contractual obligations, and other commitments:

	2022	2023	2024	2025	2026	After 2026	Total
Commercial Paper	195	—	—	—	—	—	195
Debentures - principal repayment	150	—	150	—	—	1,680	1,980
Debentures - interest payments	62	58	58	53	53	513	797
Promissory notes - principal repayment	—	—	166	—	—	—	166
Promissory notes - interest repayments	7	7	5	—	—	—	19
Leases	7	6	4	3	3	23	46
Total contractual obligations and other commitments	421	71	383	56	56	2,216	3,203

LIQUIDITY AND CAPITAL RESOURCES (continued)

Future Capital Plan

The three-year capital expenditure plan structure corresponds to the OEB's Renewed Framework for Electricity Distributors along with Competitive Business Plans. The total net capital expenditure plan is $866 over the 2022-2024 period as outlined in the table below:



The three-year SA investment plan is primarily driven by the requirement to connect new residential and general service customers, accounting for approximately 51% 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. Major transit projects include the Hurontario Light Rail Transit initiative in Peel Region and GO Transit Electrification projects across the Peel and York Regions and Simcoe County. Transit projects are predominantly funded by customer contributions from Metrolinx.

Approximately 41% of the capital to be invested in SR projects is focused on underground asset renewal, which is the primary contributor to declining reliability performance in 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.

LIQUIDITY AND CAPITAL RESOURCES (continued)

Future Capital Plan (continued)

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, 42% 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, 49% of the investment over the three-year plan is in automation, system control, and DER integration.

The three-year expenditure plan for GP addresses the need to upgrade corporate information systems such as the Customer Care & Billing system, implement innovative technology including the Customer Experience platform and renew aged and obsolete computing assets. This investment accounts for 50% of the total GP expenditures. In addition, 20% of total GP capital plan will be invested in updating transportation equipment to allow Alectra Utilities' crews to respond to distribution system needs efficiently and safely. Lastly, 43% of GP expenditures in 2022 and 19% of GP expenditures in 2023 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 capital expenditure plan for the competitive business is primarily driven by investments required to support the growth and strategic goals of the business. These investments will support initiatives such as software development, acquisition of metering equipment, the purchase of sub-metering projects/customer contracts, vehicles, and the construction of DER infrastructure.

(In millions of Canadian dollars)

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:

	2021		2020	
	Number of Shares	Amount	Number of Shares	Amount
Authorized				
Unlimited Class A through G common shares				
Issued and outstanding	10,485,000	953	10,485,000	953
Authorized				
Unlimited Class S shares				
Issued and paid				
Class S shares	99,999	41	99,999	43
Total share capital	10,584,999	994	10,584,999	996

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

The Alectra Inc. Dividend Policy was approved by its shareholders and is incorporated into the Unanimous Shareholders' Agreement, dated as of January 1, 2019, as Schedule C.

The annual Voting Common Dividend is set as a target up to 60% of the Corporation's annual consolidated net income adjusted for regulatory activities excluding the results from the former PowerStream Solar Business that accrue to the Solar Shareholders on Class S shares. The annual Class S Shares Dividend is set with respect to "forecast annual net free cash flow" generated exclusively by the former PowerStream Solar Business, with the criteria for determining the dividend amount including provisions with respect to ensuring that the Solar business is able to maintain adequate cash and adequate credit metrics.

During the year ended December 31, 2021, the Corporation declared and paid dividends as follows:

- Common share dividends aggregating $75 or $7.15 per share (2020 - $80 or $7.60 per share); and
- Class S share dividends aggregating $2 or $16.24 per share (2020 - $2 or $25.32 per share).

In addition, a return of capital of $2 (2020 - $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 17* in the Consolidated Financial Statements for details.

(In millions of Canadian dollars)

RELATED PARTIES BALANCES AND TRANSACTIONS

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

	2021	2020
Transactions		
Revenue	81	98
Expenses	6	7
Dividends declared and paid	77	82
Balances		
Due from related parties	9	15
Due to related parties	46	49
Loans and borrowings	166	166

Services provided to related parties include electricity distribution, street lighting, road projects, and water and sewage billing. Expenses incurred include municipal taxes and facilities rental (refer to *Note 12 (a)*).

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 12)*.

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 15*).

The annual compensation of key management personnel that is directly attributable to the Corporation was $15 (2020 - $16) (refer to *Note 12 (b)*).

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 4* of the Consolidated Financial Statements. Certain judgments, 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: valuation of identifiable net assets acquired in a business combination; unbilled revenue; useful lives of depreciable assets; valuation of financial instruments; employee future benefits; ECLs; lease term; deferred tax assets and liabilities; 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 4*) for details on estimates and judgments.

FUTURE ACCOUNTING CHANGES

Certain new accounting standards and interpretations that have been published but are not effective as at December 31, 2021, have not been early adopted in these financial statements.

(a) *Effective January 1, 2022*

Management has assessed the financial statement impact of adopting the following amendments to existing accounting standards and have determined that the impact is insignificant.

- Proceeds before intended use (Amendments to IAS 16, *Property Plant & Equipment*);
- Fee in the "10 per cent" test for derecognition of financial liabilities (Amendments to IFRS 9, *Financial Instruments*);
- Onerous contracts, cost of fulfilling a contract (Amendments to IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*); and
- Reference to conceptual framework (Amendments to IFRS 3, *Business combinations*).

(b) *Effective January 1, 2023*

Management is currently assessing the financial statement impact of adopting the following amendments to existing accounting standards:

- Disclosure of Accounting Policy (Amendments to IAS 1 and IFRS Practice Statement 2);
- Definition of Accounting Estimate (Amendments to IAS 8); and
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1).

(In millions of Canadian dollars)

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.

	2021	2020
EBITDA (MIFRS)	407	349
Add adjustments to remove regulatory accounting:		
Revenue	(12)	2
Operating expenses	—	(5)
Loss on derecognition of property, plant, and equipment	(1)	—
EBITDA (IFRS)	394	346

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, 2021 and 2020.

	2021	2020
IFRS Net income	105	79
Adjustment for regulatory activities (1)	43	44
MIFRS Net income	148	123
Depreciation	167	153
Gain on derecognition of property, plant, and equipment	(12)	(1)
Gain on fair value of contingent consideration	(3)	—
Net change in non-cash operating working capital	112	(44)
Net change in non-current assets and liabilities	(30)	(48)
Net change in taxes	14	(1)
Total changes	248	59
AFFO	396	182

(1) Refer to Note 27 in the Consolidated Financial Statements for details of the adjustments for regulatory activities.

The increase in AFFO is mainly attributable to: (i) timing differences in relation to the settlement of receivables; and (ii) higher net income in 2021 relative to 2020.

RISK MANAGEMENT AND RISK FACTORS

This section provides an overview of the Corporation's overall risk management approach, which is followed by a discussion of the specific risks that could adversely affect its business.

The Corporation is subject to various hazards that could impact the achievement of its strategic objectives. As a result, it has adopted an enterprise-wide approach to risk management, which is governed by its Enterprise Risk Management ("ERM") Framework. This Framework utilizes industry best practices tailored to meet the Corporation's circumstances and is operationalized by a consistent and disciplined methodology that clearly defines the risk management process.

At the Corporation, risk management is the responsibility of all business units. There are strong governance practices in place to ensure consistent consideration of risks in all decision-making.

The risk management governance structure is comprised of three key levels:

- The Board of Directors – maintains a general understanding of the Corporation's risk profile and philosophy, and oversees the management of the Corporation's significant exposures, including review of risk assessment and risk management practices.

- The Executive Committee – ensures systems are in place to identify, manage and monitor risks and trends. The Executive Committee also ensures that key risks are escalated to the attention of the Board for discussion and action, as required.

- The Senior Leadership Team – supports the overall risk management program and actively engages in the day-to-day management of risks. Members of the Senior Leadership Team have been assigned as designated "risk owners" for managing and reporting on enterprise risks.

The Corporation's ERM Framework provides for an annual review of enterprise risks. This review includes risk assessment, the identification of risk owners, and documenting appropriate risk mitigation strategies.

The section below discusses certain specific risks that could have a material adverse impact to the Corporation's business and is not a comprehensive list of all the risks to the Corporation.

RISK MANAGEMENT AND RISK FACTORS (continued)

Regulatory/Political Risk

The electricity distribution business in Ontario is 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 Provincial Government 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.

Safety and Wellness Risk

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 hazards associated with this work. 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 principle through on-going review and audit. The Corporation is focused on continually enhancing its safety culture and strengthening its program to support safety performance and minimize associated threats.

As a result of the COVID-19 pandemic, the Corporation has also undertaken significant actions including investing in support measures, supplies and critical inventory to address potential challenges to its employees' physical and mental safety and wellness.

Cultural and Organizational Change Risk

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 behaviours (Prioritizes Well-Being, Is One Team, Ensures Clarity and Focus, Delivers What We Promise, and Is Customer Centric) 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 behavioural commitments; enhancing employee engagement through increased internal communications; supporting wellness, equity, diversity, and inclusion programs; and anchoring to the Corporation's values.

RISK MANAGEMENT AND RISK FACTORS (continued)

Cybersecurity Risk

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 the Corporation. 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 minimize damage in the event of a cyber-attack, breach, or other compromise.

Pandemic Risk

The Corporation's operations are exposed to the effects of emergencies, both natural and other unexpected occurrences such as extreme storm and other weather conditions, natural disasters, terrorism, and pandemics. 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.

Operational changes associated with the COVID-19 pandemic 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 physical and procedural controls aimed at improving its operational resiliency through the pandemic. The effectiveness of these controls are continually reviewed and improvements and corrections are being introduced as required.

The Corporation proactively prepares for emergency situations such as the COVID-19 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 employees, public, and assets, as well as to ensure the continuity of operations.

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. 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. This regulation exposes the Corporation, through its electricity distribution operations, to credit risk, principally through the realization of our customer receivables.

The Corporation's management has implemented credit and collection policies in compliance with OEB regulation to mitigate the exposure to credit risk, and records credit losses in the period in which, in management's opinion, the collection of related receivables becomes doubtful.

RISK MANAGEMENT AND RISK FACTORS (continued)

Credit Risk (continued)

Management has incorporated additional estimates and judgments in the preparation of the ECLs 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 (i.e., 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.

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; (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.

Climate Change Risk

The Corporation serves a large service territory in Southern 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 territory it serves.

The Corporation continues to adapt and increase the resilience of its infrastructure investments and operations to address the effects of climate change and the changes predicted by climate models. 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 Risk

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. Failure to comply with applicable laws and regulations could have a material adverse effect on the Corporation.

The Corporation is committed to complying with applicable laws and regulations and other requirements and has developed policies, programs, and practices to ensure compliance with the applicable requirements.

alectra
Discover the possibilities

Consolidated Financial Statements
(In millions of Canadian dollars)

ALECTRA INC.

Year ended December 31, 2021

KPMG LLP
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Fax 905-265-6390

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, 2021
- 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, 2021, 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.

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 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.

KPMG

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.

KPMG

- 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 4, 2022

ALECTRA INC.
Consolidated Statement of Financial Position
(in millions of Canadian dollars)
as at December 31, 2021 and 2020

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	Notes	2021	2020
Assets			
Current assets			
Cash		32	26
Restricted cash	7	5	80
Trade and other receivables	19	568	594
Inventories		34	31
Other assets		18	19
Total current assets		**657**	**750**
Non-current assets			
Property, plant, and equipment	8	3,780	3,571
Right of use assets	9	27	29
Goodwill and other intangible assets	10	1,036	996
Investment in associate		6	6
Deferred tax asset	24	2	3
Total non-current assets		**4,851**	**4,605**
Total assets		**5,508**	**5,355**
Liabilities and Shareholders' Equity			
Current liabilities			
Trade and other payables	11	466	433
Customer deposits liability		56	57
Short term debt	13	195	415
Loans and borrowings	15	150	110
Deferred revenue	23	17	15
Lease obligations	18	6	4
Other liabilities	14	72	45
Total current liabilities		**962**	**1,079**
Non-current liabilities			
Loans and borrowings	15	1,987	1,838
Deferred revenue	23	535	479
Employee future benefits	16	100	105
Lease obligations	18	29	31
Deferred tax liabilities	24	97	68
Other liabilities	14	29	19
Total non-current liabilities		**2,777**	**2,540**
Total liabilities		**3,739**	**3,619**
Shareholders' equity			
Share capital	17	994	996
Contributed surplus		599	599
Accumulated other comprehensive loss		(20)	(27)
Retained earnings		196	168
Total shareholders' equity		**1,769**	**1,736**
Total liabilities and shareholders' equity		**5,508**	**5,355**

See accompanying notes to the 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, 2021 and 2020

	Notes	2021	2020
Revenue			
Distribution revenue		628	559
Electricity sales		3,023	3,488
Other revenue	22	183	115
		3,834	**4,162**
Expenses			
Cost of power		3,092	3,489
Operating expenses	21	359	328
Depreciation and amortization	8,9,10	182	165
		3,633	**3,982**
Income from operating activities		**201**	**180**
Finance income		—	1
Finance costs		74	75
Net finance costs		**74**	**74**
Gain on derecognition of property, plant, and equipment		11	1
Change in fair value of contingent consideration	26	3	—
Income before income taxes		**141**	**107**
Income tax expense	24	36	28
Net income		**105**	**79**
Other comprehensive income (loss)			
Items that may be subsequently reclassified to income			
Reclassification to net income, loss on bond forward		2	2
Items that will not be subsequently reclassified to income			
Remeasurement of defined benefit obligation	16	7	(7)
Tax impact on remeasurement of defined benefit obligation		(2)	1
Total other comprehensive income (loss)		**7**	**(4)**
Total comprehensive income		**112**	**75**

See accompanying notes to the consolidated financial statements.

ALECTRA INC.

Consolidated Statement of Changes in Equity
(in millions of Canadian dollars)
for the years ended December 31, 2021 and 2020

	Notes	Share capital	Contributed surplus	Accumulated other comprehensive loss	Retained earnings	Total
Balance, January 1, 2020		1,000	599	(23)	171	1,747
Net income		—	—	—	79	79
Other comprehensive loss		—	—	(4)	—	(4)
Return of capital	17	(4)	—	—	—	(4)
Dividends paid	17	—	—	—	(82)	(82)
Balance, December 31, 2020		**996**	**599**	**(27)**	**168**	**1,736**
Net income		—	—	—	105	105
Other comprehensive income		—	—	7	—	7
Return of capital	17	(2)	—	—	—	(2)
Dividends paid	17	—	—	—	(77)	(77)
Balance, December 31, 2021		**994**	**599**	**(20)**	**196**	**1,769**

See accompanying notes to the consolidated financial statements.

ALECTRA INC.
Consolidated Statement of Cash Flows
(in millions of Canadian dollars)
for the years ended December 31, 2021 and 2020

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	Notes	2021	2020
Cash provided by (used in)			
Operating activities			
Net income		105	79
Add (deduct) non-cash items:			
Depreciation of property, plant, and equipment	8	152	140
Depreciation of right of use assets	9	4	3
Amortization of intangible assets	10	26	22
Amortization of deferred revenue	23	(14)	(12)
Gain on derecognition of property, plant, and equipment		(11)	(1)
Change in fair value of contingent consideration		(3)	—
Income tax expense	24	36	28
Net finance costs		74	74
Capital contributions received	23	72	85
Net change in non-cash operating working capital	25	111	(40)
Net change in non-current assets and liabilities		20	7
Decrease in restricted cash	7	—	1
Cash generated from operating activities		**572**	**386**
Income taxes paid	24	(9)	(5)
Income taxes refunded	24	—	4
Cash provided by operating activities		**563**	**385**
Investing activities			
Decrease (increase) in restricted cash	7	75	(80)
Consideration paid for investment in a business, net of cash acquired	6	(74)	(7)
Purchase of property, plant, and equipment	25	(378)	(343)
Purchase of intangible assets	10	(21)	(20)
Proceeds from disposal of property, plant and equipment		31	33
Cash used in investing activities		**(367)**	**(417**
Financing activities			
(Decrease) increase in short term debt	13	(220)	235
Repayment of long-term loans and borrowings	15	(110)	(40)
Issuance of long-term loans and borrowings, net of debt issuance costs	15	298	—
Repayment of lease obligations	18	(4)	(2)
Interest received		—	1
Interest paid		(75)	(79)
Return of capital	17	(2)	(4)
Dividends paid	17	(77)	(82)
Cash (used in) provided by financing activities		**(190)**	**29**
Net cash inflow (outflow)		**6**	**(3)**
Cash, beginning of year		**26**	**29**
Cash, end of year		**32**	**26**

See accompanying notes to the consolidated financial statements.

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").

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 three subsidiaries: Util-Assist Inc. ("UA"); Alectra Microgrid Master Limited Partnership ("AMSP") and Alectra Microgrid Master General Partnership; and HPS Holdings Inc. ("HPS"). UA has one subsidiary: Util-Assist Corp. HPS has two subsidiaries: Holland Power Services Inc. ("HPSI") and Holland New England ("HNE").

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 - provides wholesale metering and sub-metering services for condominium and commercial properties;
- APSI - provides street lighting services including design, construction, and maintenance;
- HPSI and HNE - provide emergency restoration services to utilities primarily located along the eastern seaboard of the United States and Canada; and industrial electrical services to utilities and industrial clients;
- UA - provides consulting services with respect to: advanced metering systems procurement and implementation; customer information systems procurement and implementation; billing and meter data exception management services; an outage management call centre (PowerAssist); and other smart grid applications and services; and
- AMSP - provides energy management services which includes installing, owning and operating an industrial energy storage battery and gas system with a third party.

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 4, 2022.

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. Amounts are rounded to the nearest million, unless otherwise stated.

(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.

The areas which require management to make significant estimates and assumptions are as follows:

- Note 4(b) – valuation of identifiable net assets acquired in a business combination;
- Note 4(c)(ii) – recognition and measurement of unbilled revenue;
- Note 4(d)(iii) – recognition and measurement of expected credit losses on trade and other receivables;
- Note 4(i) – impairment of goodwill and other indefinite life intangible assets: key assumptions underlying recoverable amounts; and
- Note 4(k) – measurement of employee future benefits – actuarial assumptions.

2. Basis of Preparation

(c) Use of estimates and judgments (continued)

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

The areas which require management to make significant judgments are as follows:

- Note 4(d)(i) – measurement of financial instruments at fair value;
- Note 4(g) and (h) – determining the useful lives of property, plant and equipment and finite life intangible assets;
- Note 4(i) – impairment of goodwill and other indefinite life intangible assets: key judgements include identification of cash generating units and inputs used for determining the recoverable amount;
- Note 4(j) – recognition and measurement of provisions and contingencies, determining whether a present obligation exists and assessing the probability, timing, and amount of any future outflows;
- Note 4(n) – lease term: determining whether the Corporation is reasonably certain to exercise a lease extension option; and
- Note 4(o) – recognition of deferred tax assets and liabilities.

The COVID-19 pandemic and resulting economic environment continued to evolve during the year. However, the momentum of global economic recovery has slowed down due to uncertainty regarding the extent and duration of the impacts of the COVID-19 pandemic. Such uncertainty could generate, in future periods, a risk of adjustments to the carrying amounts of balances subject to estimates and judgments.

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 27).

(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 Ontario Energy Board Act, 1998 (Ontario)* ("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 local distribution companies ("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").

3. Regulation (continued)

(a) Rate Setting (continued)

Price Cap IR

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

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

Custom IR

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

Annual IR

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

(b) Rate Applications

2021 Rate Application

On August 17, 2020, Alectra Utilities filed an application for all five predecessor utilities 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 is 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 is 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 is an increase of approximately 57 cents or 1.95%;

3. Regulation (continued)

(b) Rate Applications (continued)

2021 Rate Application (continued)

- 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 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 is an increase of approximately 71 cents or 2.40%.

(c) 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. The Minister issued a subsequent directive, dated December 9, 2021, to the IESO and further extended the deadlines by an additional six months to offset disruptions caused by the COVID-19 pandemic.

Alectra Utilities is now expected to have customer incentives paid upon project completion, which must be no later than August 31, 2022. Also, most customer incentive payments must be made by December 31, 2022.

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 trade and other payables. 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 trade and other payables.

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.

4. 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 (within one year of 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.

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

(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.

4. Significant Accounting Policies (continued)

(c) Revenue from contracts with customers (continued)

(i) Distribution revenue and electricity sales (continued)

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 is recognized in the period in which electricity is generated and delivered, based on regular meter readings, and is measured at the fair value of the consideration received or receivable, net of sales tax.
- IESO funding from CDM programs is recognized on a net basis when there is reasonable assurance that the funding will be received and the related conditions are met. "Net Basis" is used when the funding relates to an expense item, and, as such, the operating expenses are netted against other revenue. 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 on a monthly basis over the term of corresponding service agreements as the services are provided to the customer. AESI has determined that it is acting as an agent for its meter billing service and, as such, the revenue is recognized on a net basis.
- Revenue from consulting services is recognized using a time and materials basis which is measured monthly based on input measures, such as hours incurred to date, with consideration given to output measures, such as contract milestones when applicable. Certain service revenues, such as upfront conversion revenue, are recognized at a point in time.

4. Significant Accounting Policies (continued)

(c) Revenue from contracts with customers (continued)

(ii) Other revenue (continued)

- Revenue from power restoration services provided to utilities during storm events and industrial services including installation, maintenance and repairs to power infrastructure utilities and industrial clients is recognized as services are rendered.

- 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, water, gas and thermal delivered to customers but not yet billed. These accrued amounts are presented as unbilled revenues under IFRS 15, *Revenue from Contracts with Customers*. The Corporation assesses unbilled revenue for impairment in accordance with IFRS 9, *Financial Instruments*.

(d) Financial instruments

Financial assets and liabilities include cash, trade and other receivables, trade and other payables, customer deposits liability, and loans and borrowings. All financial assets and liabilities, except trade and other receivables, are initially recognized at fair value plus transaction costs. Trade and other receivables 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 Consolidated 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, judgement is 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.

4. Significant Accounting Policies (continued)

(d) Financial instruments (continued)

(ii) Derivative Financial Instruments and Hedge Accounting (continued)

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.

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 trade receivables 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 trade receivables is based on management's estimates and assumptions. 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. Trade receivables are written-off against the allowance when they are deemed uncollectible.

(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.

4. Significant Accounting Policies (continued)

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

Land is measured 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.

Items of PP&E acquired in a non-monetary exchange transaction are measured at the fair value of the asset given up unless the fair value of the asset given up is not reliably measurable or the exchange transaction lacks commercial substance. Where the fair value requirement is not met, the asset obtained is measured at the carrying value of the asset given up.

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

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

When items of PP&E are 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 useful life of each component. The assessment of the useful lives of PP&E is based on management's judgment and are reviewed at each financial year-end and adjusted prospectively. The method of depreciation and estimated useful lives for each category of PP&E are as follows:

Buildings	Straight-line	10 to 52 years
Distribution assets	Straight-line	10 to 70 years
Other assets	Straight-line	3 to 25 years

(h) Goodwill and other intangible assets

Intangible assets include: goodwill; land rights; computer software; capital contributions; customer relationships; non-compete agreements; and other intangible assets.

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. Goodwill has been assessed as having an indefinite useful life as it cannot exist independently of the business, nor it can be sold or transferred separately.

4. Significant Accounting Policies (continued)

(h) Goodwill and other intangible assets (continued)

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.

Computer software, capital contributions, customer relationships, and other intangible assets is measured at cost less accumulated amortization and any applicable impairment losses. Amortization begins when the asset is available for use and is measured on a straight line basis.

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

Non-compete agreements acquired as a part of the business combination are recorded at their fair value at the date of acquisition and amortized on a straight line basis over the life of the asset.

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

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

The assessment of the useful lives of intangible assets is based on management's judgment and are reviewed at each financial year-end and adjusted prospectively. The useful lives and amortization methods are as follows:

Goodwill	Not amortized	Indefinite
Land rights	Not amortized	Indefinite
Computer software	Straight-line	4 to 10 years
Non-compete agreements	Straight-line	2 to 10 years
Capital contributions	Straight-line	10 to 70 years
Other assets	Straight-line	10 to 35 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 cash generating units ("CGUs"). Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

4. Significant Accounting Policies (continued)

(i) Impairment of non-financial assets (continued)

Goodwill and intangible assets with indefinite lives are tested for impairment annually and when circumstances indicate that the recoverable amount of an asset or CGU may be below its 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. 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 if the carrying amount of an asset or CGU exceeds its recoverable amount, and are recognized in net income. Impairment losses relating to CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGUs and then to reduce the carrying amounts of the other assets in the CGUs on a pro rata basis.

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

(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 expected outcome 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, third-party contracts and other events, requires management's judgment as to the probability of a loss occurring. Actual results may differ from those estimates.

4. Significant Accounting Policies (continued)

(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.

(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.

4. Significant Accounting Policies (continued)

(l) Customer deposits liability

Customer deposit liability is comprised 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 deposit liability in excess of unpaid account balances are refundable to individual customers upon termination of their electricity distribution service. These customer deposits are classified as a current liability as they are refundable on demand once a customer establishes a good payment history in accordance with the policies of the Corporation. This liability includes related interest amounts owed to the customers with a corresponding amount charged to finance costs.

(m) 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). Non-monetary items designated in foreign currency which are measured at historical cost are translated using the exchange rate at the date of initial transaction. 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 Consolidated Statement of Income and Comprehensive Income.

Gains or losses on investment in associate are translated using the average rate for the year. Any gain or loss on translation is recognized in the Consolidated Statement of Income and Comprehensive Income.

Closing net assets of foreign operations are translated into functional currency of the Corporation using the year-end exchange rate. Gains or losses arising on the translation of foreign operations are recognized in Other Comprehensive income.

(n) 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 obligation, 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 obligation 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 obligation.

Lease obligations 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 obligation 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.

4. Significant Accounting Policies (continued)

(n) Leases (continued)

The Corporation, depending upon the nature of the lease agreement, 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 obligations 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 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.

(o) Income taxes

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

AESI, HPS and UA are subject to the payment of tax under the Tax Acts. Other than AESI, HPS 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 ("OEFC"). These payments are calculated in accordance with the Tax Acts. These amounts are applied to reduce certain debt obligations of the former Ontario Hydro continuing in OEFC.

PILs comprise current and deferred payments in lieu of income tax. PILs is recognized in 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.

4. Significant Accounting Policies (continued)

(o) Income taxes (continued)

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, HPS 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.

(p) 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.

(q) Advance payments

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

5. Future Accounting Changes

Certain new accounting standards and interpretations that have been published but are not effective as at December 31, 2021 have not been early adopted in these financial statements.

(a) Effective January 1, 2022

Management has assessed the financial statement impact of adopting the following amendments to existing accounting standards and have determined that the impact is insignificant.

- Proceeds before intended use (Amendments to IAS 16, *Property Plant & Equipment*);
- Fee in the "10 per cent" test for derecognition of financial liabilities (Amendments to IFRS 9, *Financial Instruments*);
- Onerous contracts, cost of fulfilling a contract (Amendments to IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*); and
- Reference to conceptual framework (Amendments to IFRS 3, *Business combinations*).

(b) Effective January 1, 2023

Management is currently assessing the financial statement impact of adopting the following amendments to existing accounting standards:

- Disclosure of Accounting Policy (Amendments to IAS 1 and IFRS Practice Statement 2);
- Definition of Accounting Estimate (Amendments to IAS 8); and
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1).

6. Business Combinations

On January 4, 2021 ("acquisition date"), the Corporation acquired 100% of the shares of Holland Power Services Inc. ("HPSI"), a private company specializing in providing storm restoration services in Eastern Canada and the United States. The acquisition was recognized as a business combination in accordance with IFRS 3 - *"Business Combinations".* The acquisition of HPSI supports the strategic growth objectives of the Corporation through the logical extension and diversification of its utility services. The consolidated financial statements include the fair value of identifiable net assets of HPSI and its subsidiaries as at January 4, 2021. Goodwill arising from the acquisition of $16 relates to the expected growth, cost synergies and the value of the acquiree's workforce which cannot be separately recognized. Goodwill is not deductible for income tax purposes.

The aggregate 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. Refer to note 26 for details.

In addition to the initial share consideration, the Corporation paid $30 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”).

(in millions of Canadian dollars)

6. Business Combinations (continued)

The following table summarizes the recognized amounts of assets acquired and liabilities assumed at the date of acquisition:

	HPSI
Cash	3
Trade and other receivables	42
Prepaid expenses	1
Property, plant, and equipment	8
Right of use assets	1
Intangible assets	30
Trade and other payables	(2)
Lease obligations	(1)
Deferred tax liability	(9)
Fair value of identifiable net assets acquired	73
Goodwill	16
Aggregate settlement	89
Represented by:	
Initial share consideration	52
Working capital adjustment	30
Contingent consideration payable	7
Aggregate settlement	89

Net cash outflow of $74 at the closing date includes aggregate settlement of $89 reduced by: (i) the contingent consideration payable $7; (ii) the holdback payable of $5; and (iii) the cash acquired from the acquisition of HPSI $3.

The holdback payable is an amount held in an escrow account related to the initial purchase price and is presented as restricted cash on the consolidated statement of financial position. Refer to note 7 for details.

The assets acquired and liabilities assumed were valued based on discounted expected future cash flows using market risk adjusted rates of return.

HPSI contributed revenue and net income of $61 and $10 respectively since the acquisition date.

7. Restricted Cash

Restricted cash includes $5 (2020 - $80) held in an escrow account related to the settlement in respect of the acquisition of HPSI. Holdback amount in 2020 relates to the future settlement of the initial share consideration and final working capital adjustment. During the year, the holdback amount relates to the amount retained from the total purchase price of HPSI to indemnify the Corporation from future third party claims if any. The holdback amount will be released after meeting certain conditions as set out in the escrow agreement. Refer to note 6 for details.

(in millions of Canadian dollars)

8. Property, Plant, and Equipment

	Notes	Land and buildings	Distribution assets	Other assets	Work-in-progress	Total
Cost						
Balance at January 1, 2020		217	3,421	226	111	3,975
Additions / transfers	25	10	264	27	40	341
Disposals		(29)	(7)	(12)	(1)	(49)
Balance at December 31, 2020		198	3,678	241	150	4,267
Additions through acquisition	6	2	—	6	—	8
Additions / transfers	25	6	292	45	29	372
Disposals		(13)	(11)	(6)	—	(30)
Balance at December 31, 2021		193	3,959	286	179	4,617
Accumulated depreciation						
Balance at January 1, 2020		24	462	87	—	573
Depreciation		6	116	18	—	140
Disposals		(4)	(2)	(11)	—	(17)
Balance at December 31, 2020		26	576	94	—	696
Depreciation		6	122	24	—	152
Disposals		(3)	(4)	(4)	—	(11)
Balance at December 31, 2021		29	694	114	—	837
Carrying amounts						
December 31, 2020		172	3,102	147	150	3,571
December 31, 2021		164	3,265	172	179	3,780

Other assets include solar panels, meters, vehicles, furniture and equipment, behind-the-meter distributed energy generation resources, computer equipment, and leasehold improvements.

During the year, the Corporation entered into a sale and leaseback arrangement for one of its properties. Refer to Note 9 and 18 for further details.

During the year, borrowing costs of $4 (2020 - $5) were capitalized as part of the cost of PP&E and intangible assets. An average capitalization rate of 2.67% (2020 - 3.04%) was used to determine the amount of borrowing costs to be capitalized with respect to the Corporation.

(in millions of Canadian dollars)

9. Right of Use Assets

	Note	Buildings	Rooftop	Total
Cost				
Balance at January 1, 2020		20	12	32
Additions		4	—	4
Balance at December 31, 2020		24	12	36
Additions through acquisition	6	1	—	1
Additions		1	—	1
Balance at December 31, 2021		26	12	38
Accumulated depreciation				
Balance at January 1, 2020		3	1	4
Depreciation		2	1	3
Balance at December 31, 2020		5	2	7
Depreciation		3	1	4
Balance at December 31, 2021		8	3	11
Carrying amounts				
December 31, 2020		19	10	29
December 31, 2021		18	9	27

During the year, the Corporation sold one of its properties and leased it back for 22 months. The Corporation has an option to extend the lease term and is expected to exercise this option for an additional six months. A net gain of $14 on the sale and lease back transaction with a related party was recognized and is included in the gain on disposal of property, plant, and equipment in the Consolidated Statement of Income and Comprehensive Income.

(in millions of Canadian dollars)

10. Goodwill and Other Intangible Assets

(a) Goodwill and intangible assets

	Notes	Goodwill	Land rights	Computer software	Capital contributions	Work in progress	Other assets	Total
Cost or deemed costs								
Balance at January 1, 2020		761	4	142	93	36	14	1,050
Additions		—	—	25	—	(12)	7	20
Write off / Disposals		—	—	(2)	—	—	—	(2)
Balance at December 31, 2020		761	4	165	93	24	21	1,068
Additions through acquisition	6	16	—	—	—	—	30	46
Additions		—	—	13	5	(2)	5	21
Impairment / Disposals		—	—	(8)	—	—	(1)	(9)
Balance at December 31, 2021		777	4	170	98	22	55	1,126
Accumulated amortization								
Balance at January 1, 2020		—	—	37	12	—	3	52
Amortization		—	—	18	3	—	1	22
Write off / Disposals		—	—	(2)	—	—	—	(2)
Balance at December 31, 2020		—	—	53	15	—	4	72
Amortization		—	—	17	4	—	5	26
Write off / Disposals		—	—	(8)	—	—	—	(8)
Balance at December 31, 2021		—	—	62	19	—	9	90
Carrying amounts								
December 31, 2020		761	4	112	78	24	17	996
December 31, 2021		777	4	108	79	22	46	1,036

Other assets include customer relationships, brands and non-compete agreements.

Borrowing costs capitalized in intangible assets and PP&E during the period is included in Note 8.

(in millions of Canadian dollars)

10. Goodwill and Other Intangible Assets (continued)

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

Goodwill with a carrying amount of $777 (2020 - $761) and land rights with a carrying amount of $4 (2020 - $4) have been allocated to the Corporation's CGUs. Carrying value of goodwill allocation is as follows:

	Goodwill		Land rights	
	2021	2020	2021	2020
AUC	755	755	4	4
AES excluding HPS	6	6	—	—
HPS	16	—	—	—

The Corporation tested goodwill and land rights for impairment as at September 30, 2021 and September 30, 2020. 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.

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	
	2021	2020	2021	2020
AUC	1.50%	1.50%	3.33%	3.10%
AES excluding HPS	1.75%	1.50%	9.17%	8.90%
HPS	1.75%	—%	21.28%	—%

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 aware of any reasonably possible changes to the noted key assumptions that would cause a CGU's carrying amount to exceed its recoverable amount.

(in millions of Canadian dollars)

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11. Trade and other payables

	Note	2021	2020
Trade payables - energy purchases		229	237
Accrued liabilities		97	81
Customer receivables in credit balances		50	26
Due to related parties	12	46	49
Trade payables - other		28	25
Interest payable		16	15
		466	433

12. Related Party Balances and Transactions

(a) Balances and transactions with related parties

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

2021				
	Revenue	Expenses	Due from related parties	Due to related parties
City of Barrie	6	1	—	—
City of Guelph	8	—	—	6
City of Hamilton	30	2	2	20
City of Markham	7	1	2	9
City of Mississauga	17	1	2	—
City of St. Catharines	3	—	1	—
City of Vaughan	10	1	2	11
	81	6	9	46

2020				
	Revenue	Expenses	Due from related parties	Due to related parties
City of Barrie	6	—	2	—
City of Guelph	11	1	—	5
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	49

(in millions of Canadian dollars)

12. Related Party Balances and Transactions (continued)

(a) Balances and transactions with related parties (continued)

Services provided to related parties include electricity distribution, street lighting, road projects, 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 18. Refer to Note 15 for related party loans and borrowings.

The Corporation paid dividends to shareholders during the year. Refer to Note 17.

(b) Key management personnel compensation

Key management personnel includes 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:

	2021	2020
Salaries and current employment benefits	13	14
Employee future benefits	1	1
Termination benefits	1	1
	15	16

13. Short term Debt

	2021	2020
Commercial paper program	195	415

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 $500 and was supported by the Corporation's $700 committed credit facility with $100 expansion option subject to mutual agreement; and

(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, 2021 and 2020 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, 2021 was $195 (2020 - $415).

For the year ended December 31, 2021, the average annual outstanding borrowings under the Corporation's revolving credit facility, working capital facility, and CP was $204 (2020 - $266) with a weighted average interest rate of 0.26% (2020 - 0.70%). Refer to Note 19(b)(iii) for details on the facilities.

(in millions of Canadian dollars)

14. Other Liabilities

	Notes	2021	2020
Current			
Advance payments		49	39
Income tax payable		14	3
Holdback payable		3	2
Other		6	1
		72	45
Non-current liabilities			
Expansion deposit		20	16
Contingent consideration	26	4	—
Holdback payable	6	3	—
Transition cost liability		1	2
Notes payable to the province of Ontario		1	1
		29	19

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.

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.

Included in the holdback payable is $5 (2020 - $nil) retained by the Corporation from the total purchase price of HPSI and $1 (2020 - $2) related to several other asset purchase and subcontractor agreements. The holdback is payable to the seller based on the terms and conditions in the agreements.

(in millions of Canadian dollars)

15. Loans and Borrowings

	2021	2020
Debentures[1]		
4.521% Debentures due 2021	—	110
3.033% Debentures due 2022	150	150
3.239% Debentures due 2024	150	150
2.488% Debentures due 2027	675	675
5.264% Debentures due 2030	65	65
1.751% Debentures due 2031	300	—
5.297% Debentures due 2041	210	210
3.958% Debentures due 2042	200	200
4.121% Debentures due 2045	30	30
3.458% Debentures due 2049	200	200
Less: Unamortized debt issuance costs	(9)	(8)
	1,971	1,782
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	2,137	1,948
Less: Current portion of loans and borrowings	(150)	(110)
Long-term loans and borrowings	1,987	1,838

[1]Debentures issued are senior unsecured debentures.

The debentures rank pari passu with all of the Corporation's other senior unsubordinated and unsecured obligations. Interest expense on these debentures was $63 (2020 - $63).

The 4.521% debenture due 2021 was repaid during the year.

On February 11, 2021, the Corporation issued 1.751% senior unsecured debenture for $300 maturing in 2031 and incurred a debt issuance cost of $2.

The debentures are subject to financial covenants. These covenants require that neither the Corporation nor any designated subsidiary may incur any funded obligation (other than 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, 2021 and 2020.

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 (2020 - $7).

(in millions of Canadian dollars)

16. Employee Future Benefits

(a) Multi-employer defined benefit pension plan

The Corporation provides a pension plan for its employees, except those in UA and HPS, 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, 2021, the Corporation made employer contributions of $18 (2020 - $17) to OMERS. These contributions have been recognized as an expense net of the amount capitalized in assets. The expected payment for 2022 is $20.

As at December 31, 2020, and subject to the estimates, assumptions and valuations of OMERS, the plan obligations are 97% (2019 - 97%) 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, excluding UA and HPS, 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.

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:

	2021	2020
Defined benefit obligation, beginning of period	105	95
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 (gain) loss arising from changes in financial assumptions	(7)	7
Amounts recognized in other comprehensive income	(7)	7
Payments from the plans	(3)	(2)
Defined benefit obligation, end of year	100	105

The main actuarial assumptions underlying the valuation are as follows:

	2021	2020
Discount rate	3.10%	2.70%
Medical benefits costs escalation	4.43%	4.22%
Dental benefits costs escalation	4.71%	4.50%

(in millions of Canadian dollars)

16. Employee Future Benefits (continued)

(c) Sensitivity analysis

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

	2021	2020
Discount rate		
1% increase	(13)	(15)
1% decrease	17	18
Medical and dental benefits costs escalation		
1% increase	13	13
1% decrease	(11)	(11)

17. 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:

	2021		2020	
	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	41	99,999	43
Total share capital	10,584,999	994	10,584,999	996

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

17. Share Capital (continued)

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 the year, the Board of Directors approved a return of capital to the Class S shareholders in the amount of $2 (2020 - $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 approved by the Board of Directors through a resolution.

During the year, the Corporation declared and paid dividends as follows:

- Common share dividends aggregating $75 or $7.15 per share (2020 - $80 or $7.60 per share); and
- Class S share dividends aggregating $2 or $16.24 per share (2020 - $2 or $25.32 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.

(in millions of Canadian dollars)

18. Lease Obligations

The Corporation leases many assets including properties for its various offices and operation centre, building rooftops for installing and operating solar panels projects, vehicles, and equipment. Property leases which include both land and building elements, of which the land portion does not qualify as a lease is not included in the lease liability. The Corporation expensed the land portion of the operations centre lease.

The Corporation has different lease terms and bargain purchase options at the end of lease term for different property leases. The Corporation has assessed that it is not likely to exercise the purchase options. For property and building rooftop leases that includes extension options, the Corporation has assessed that it is not likely to exercise these options and is not included in the lease liability.

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 obligations are recognized for these leases.

Refer to Note 9 for details on RoU assets.

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

	2021	2020
Less than one year	7	5
Between one and five years	16	16
More than five years	22	26
Total undiscounted lease obligations	45	47

During the year, $3 (2020 - $4) was added to lease obligations related to the sale and leaseback transaction and $1 related to acquisition of HPS.

	2021	2020
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	2	1

	2021	2020
Amounts recognized in the Statement of Cash Flows		
Payments for the principal portion included within financing activities	4	2
Payments for the interest portion included within financing activities	2	2
Variable lease payments included within operating activities	2	1
Total cash outflow for leases	8	5

(in millions of Canadian dollars)

19. Financial Instruments and Risk Management

(a) Fair value of financial instruments

The carrying amount of cash (including restricted cash), trade and other receivables, customer deposits, trade and other payables, 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 $2,173 (2020 - $2,161).

		2021		2020	
	Maturity Date	Carrying Value[1]	Fair Value[2]	Carrying Value[1]	Fair Value[2]
Loans and borrowings					
Notes issued in 2002	2024	166	179	166	188
Debentures issued in 2010	2030	65	81	65	87
Debentures issued in 2011	2041	210	284	210	303
Debentures issued in 2012[3]	2022	—	—	150	158
Debentures issued in 2012	2042	200	233	200	249
Debentures issued in 2014	2024	150	157	150	165
Debentures issued in 2015	2045	30	36	30	38
Debentures issued in 2017	2027	675	696	675	735
Debentures issued in 2019	2049	200	220	200	238
Debentures issued in 2021	2031	300	287	—	—
Total loans and borrowings - long-term portion		1,996	2,173	1,846	2,161
Less: issuance costs		(9)	—	(8)	—
		1,987	2,173	1,838	2,161

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 2021, 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 trade and other receivables results from customers failing to discharge their payment obligations for electricity consumed and billed, as they come due.

The carrying amount of trade and other receivables 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 trade and other receivables previously recorded as impaired are credited to net income.

(in millions of Canadian dollars)

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19. 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 trade and other receivable balances. During the years ended December 31, 2021 and 2020, given the uncertainty caused by the COVID-19 pandemic, management revised the estimates and judgments used in the preparation of the ECL allowance on its trade and other receivable balances, which were 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.

As at December 31, 2021 and 2020, there was no significant concentration of credit risk with respect to any financial assets.

Trade and other receivables and respective aging is provided as follows:

	Note	2021	2020
Trade receivables		365	328
Unbilled revenue		230	260
IESO receivable		—	33
Due from related parties	12	9	15
Other		9	9
		613	645
Less: expected credit losses		(45)	(51)
Total trade and other receivables, net		568	594

		2021	2020
Less than 30 days		523	566
30 - 60 days		27	16
61 - 90 days		10	8
Greater than 90 days		53	55
		613	645
Less: expected credit losses		(45)	(51)
Total trade and other receivables, net		568	594

(in millions of Canadian dollars)

19. Financial Instruments and Risk Management (continued)

(b) Financial risks (continued)

(i) Credit risk (continued)

	Expected credit losses
Balance, January 1, 2020	(33)
Additional provision	(28)
Write-offs	10
Balance, December 31, 2020	(51)
Additional provision	(21)
Write-offs	27
Balance, December 31, 2021	(45)

ECLs are sensitive to the inputs used in internally developed models, the macroeconomic variables in the forward-looking forecasts, and other factors considered when applying judgments. A 1% increase or decrease in these inputs, assumptions, and judgments would not have significant effect on the assessment of credit risk and the measurement of ECLs.

(ii) Interest rate risk

The Corporation is exposed to fluctuations in interest rates for the valuation of its post-employment benefit obligations (Note 16). The Corporation is also exposed to short term interest rate risk on short term debt under its credit facility and CP program (Note 13). 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, 2021, 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 13 and 15).

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 $1 to annual finance costs.

(in millions of Canadian dollars)

19. Financial Instruments and Risk Management (continued)

(b) Financial risks (continued)

(iii) Liquidity risk

Liquidity risk is the risk associated with the Corporation's inability to meet its financial obligations as they fall due. Liquidity risk associated with financial liabilities using undiscounted cash flows is as follows:

	2021			
	Due within 1 year	Due between 1 and 5 years	Due past 5 years	Total
Trade and other payables	466	—	—	466
Commercial paper issuance	195	—	—	195
Customer deposits liability	56	—	—	56
Other liabilities	72	29	—	101
3.033% Debentures due 2022	155	—	—	155
4.410% Promissory note due 2024	4	84	—	88
4.410% Promissory note due 2024	3	73	—	76
4.410% Promissory note due 2024	1	21	—	22
3.239% Debentures due 2024	5	160	—	165
2.488% Debentures due 2027	17	67	683	767
5.264% Debentures due 2030	3	14	79	96
1.751% Debentures due 2031	5	21	324	350
5.297% Debentures due 2041	11	44	371	426
3.958% Debentures due 2042	8	32	327	367
4.121% Debentures due 2045	1	5	53	59
3.458% Debentures due 2049	7	27	356	390
Lease obligations	7	16	22	45
	1,016	593	2,215	3,824

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

(in millions of Canadian dollars)

19. Financial Instruments and Risk Management (continued)

(b) Financial risks (continued)

(iii) Liquidity risk (continued)

2020				
	Due within 1 year	Due between 1 and 5 years	Due past 5 years	Total
Trade and other payables	433	—	—	433
Commercial paper issuance	415	—	—	415
Customer deposits liability	57	—	—	57
Other liabilities	45	19	—	64
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
	1,132	729	1,942	3,803

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

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:

- $900 in aggregate revolving unsecured credit facilities comprising: (i) $700 committed revolving facility with four banks maturing August 31, 2026 ("Revolving Facility"); (ii) $100 uncommitted facility with a bank which is callable by the bank; and (iii) an additional credit facility to support Letters of Credit of up to $100.
- The committed facility is also used to support outstanding commitments under the CP program by way of same day market rate advances.
- Issuance of senior unsecured debentures with various maturity dates under established Trust Indentures.

19. Financial Instruments and Risk Management (continued)

(b) Financial risks (continued)

(iii) Liquidity risk (continued)

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 to August 2026; 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.

(iv) *Currency Risk*

The Corporation's transactions are mainly carried out in $CAD which is the functional currency of the Corporation. Exposure to currency exchange risk arises from bank accounts and the investment in associate which are designated in $USD and where there is a mismatch between the currencies in which revenue, purchases, receivables, payables and cash balances are denominated in the functional currency of the Corporation. To mitigate the Corporation's exposure to foreign currency risk, non-$CAD cash flows are monitored in accordance with the Corporation's risk management policies.

A 1% increase or decrease in the $USD to $CAD exchange rate would not have a significant impact on the Corporation's financial statements.

20. Capital Structure

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

- ensure ongoing cost effective access and 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 15).

(in millions of Canadian dollars)

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21. Operating Expenses

	2021	2020
Labour	201	174
Contract and consulting	56	52
Office expenses	25	23
Provision for ECL	21	28
Repairs and maintenance	20	14
Information and technology	15	14
Business taxes and fees	9	10
Facility expenses	5	5
Other	7	8
	359	328

22. Other Revenue

	2021	2020
Power restoration and industrial services	61	—
Consulting	19	21
Solar generation	16	17
Regulatory service charges	16	10
Amortized deferred revenue	14	12
Sub-metering and metering services	12	10
CDM performance incentive revenue	12	—
Water and waste water billing and customer charges	11	11
Street lighting	9	23
Pole and other rental income	7	7
Other	6	4
	183	115

23. Deferred Revenue

	Note	2021	2020
Deferred revenue, beginning of year		494	421
Capital contributions received		72	85
Amortization	22	(14)	(12)
Deferred revenue, end of year		552	494
Less: Current portion of deferred revenue		17	15
Non-current portion of deferred revenue		535	479

(in millions of Canadian dollars)

24. Income Taxes

(a) Income tax expense

Income tax recognized in net income comprise the following:

	2021	2020
Current tax expense	18	6
Deferred tax expense	18	22
Income tax expense	36	28

Income taxes paid and refunded during the year were $9 (2020 - $5) and $nil (2020 - $4) respectively.

(b) Reconciliation of effective tax rate

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:

	2021	2020
Income before taxes	141	107
Statutory Canadian federal and provincial income tax rates	26.5 %	26.5 %
Expected tax provision on income at statutory rates	37	28
Decrease in income taxes resulting from:		
Permanent differences	(3)	—
Adjustments in respect of prior years	1	—
Deferred tax assets write-down	1	—
Total income tax expense	36	28
Effective income tax rate	26.0 %	25.9 %

The statutory income tax rate for the current year comprises a combined 15% (2020 - 15%) federal corporate tax rate and 11.5% (2020 - 11.5%) Ontario corporate tax rate.

(in millions of Canadian dollars)

24. Income Taxes (continued)

(c) Deferred tax balances

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

	2021	2020
Deferred tax assets		
Non-capital loss carryforwards	5	7
Non-deductible reserves	1	1
PP&E and intangible assets	(4)	(3)
Debt issuance costs	—	(2)
	2	3
Deferred tax liabilities		
PP&E and intangible assets	153	120
Debt issuance cost	2	—
Non-capital loss carryforwards	(3)	(2)
Tax credit carryovers	(7)	(12)
Non-deductible reserves	(4)	(2)
Energy variances	(18)	(8)
Employee future benefits	(26)	(28)
	97	68

25. Net Change in Non-cash Operating Working Capital

	2021	2020
Trade and other receivables	74	(41)
Trade and other payables	32	18
Other liabilities	9	(3)
Customer deposits liability	(1)	(12)
Inventories	(3)	(2)
	111	(40)

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

	Note	2021	2020
Purchase of PP&E, cash basis		378	343
Accruals		(6)	(2)
Total additions to PP&E	8	372	341

26. Commitments, Contingencies, and Guarantees

(a) Commitments

(i) Leases

Lease commitments have been disclosed in Note 18.

(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 (2020 - $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. 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.

(ii) Insurance

The Corporation, excluding HPS, is a member of a reciprocal insurance exchange. The reciprocal insurance exchange 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. HPS is insured through a separate insurer. As at December 31, 2021, no assessments have been made.

(iii) Earnout payments

The Corporation is required to make earnout payments with respect to its acquisition of HPSI. The contingent consideration is dependent on exceeding an agreed upon target earnings level for the year ending 2022. The fair value of the contingent consideration recognized on the acquisition date was determined using the Monte Carlo Simulation approach for estimating earnings. The distribution of earning was determined to follow the Geometric Brownian Motion model. The contingent consideration is measured at fair value at each reporting date and changes in fair value are recognized through profit and loss.

The fair value of the contingent consideration is based on the estimation of future EBITDA using the historic information, relevant market variables and payment date outlined in the business acquisition agreement. As at December 31, 2021, the Corporation estimated the fair value of the contingent consideration at $4 (2020 - $nil) which is included in other liabilities (note 14) on the consolidated statement of financial position. The change in the estimated fair value of $3 (2020 - $nil) is recognized as a change in fair value of contingent consideration on the consolidated statement of income and comprehensive income.

26. Commitments, Contingencies, and Guarantees (continued)

(c) Guarantees

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

(i) The Corporation has provided indemnities under lease agreements for the use of certain operating facilities. Under the terms of these agreements, the Corporation agrees to indemnify the counterparties for various matters including, but not limited to, all liabilities, loss, suits, and damages arising during, on or after the term of the agreement. The maximum amount of any potential future payment cannot be reasonably estimated.

(ii) The Corporation has agreed to indemnify the directors and/or officers of the Corporation for various matters including, but not limited to, all costs to settle suits or actions due to association with the Corporation, subject to certain restrictions. The Corporation has purchased directors' and officers' liability insurance to mitigate the cost of any potential future suits or actions. The indemnified period is not explicitly defined, but it is limited to the period over which the indemnified party served as a director or officer of the Corporation. The maximum amount of any potential future payment cannot be reasonably estimated.

(iii) In the normal course of business, the Corporation has entered into agreements that include indemnities in 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, consequently no provision has been made in the Statement of Financial Position with respect to these agreements. The Corporation is unaware of any breaches that would result in an indemnity claim against it.

27. Divisional and Regulatory Information

Alectra Inc., through its subsidiaries, consists primarily of two operating divisions: regulated operations and competitive operations. Regulated operations are comprised of Alectra Utilities. Competitive 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.

(in millions of Canadian dollars)

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27. Divisional and Regulatory Information (continued)

	2021			
	Regulated	Adjustment for regulated activities	Competitive activities	Total
Revenue				
Distribution revenue	587	41	—	628
Electricity sales	3,092	(69)	—	3,023
Other revenue	57	16	110	183
Total revenue	**3,736**	**(12)**	**110**	**3,834**
Expenses				
Cost of power	3,092	—	—	3,092
Operating expenses	277	—	82	359
Depreciation and amortization	151	15	16	182
Total expenses	**3,520**	**15**	**98**	**3,633**
Income from operating activities	**216**	**(27)**	**12**	**201**
Finance income	1	(1)	—	—
Finance costs	70	—	4	74
Net finance costs	**69**	**1**	**4**	**74**
Gain on derecognition of property, plant, and equipment	12	(1)	—	11
Gain on fair value of contingent liability	**—**	**—**	**3**	**3**
Income before income tax	**159**	**(29)**	**11**	**141**
Income tax expense	18	14	4	36
Net income	**141**	**(43)**	**7**	**105**
Other comprehensive income				
Reclassification to net income, loss on bond forward	—	—	2	2
Remeasurement of defined benefit obligation	4	3	—	7
Tax impact on remeasurement of defined benefit obligation	—	(2)	—	(2)
Total other comprehensive income	**4**	**1**	**2**	**7**
Total comprehensive income	**145**	**(42)**	**9**	**112**

ALECTRA INC.
Notes to the Consolidated Financial Statements
(in millions of Canadian dollars)
for the years ended December 31, 2021 and 2020

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27. Divisional and Regulatory Information (continued)

2020	Regulated	Adjustment for regulated activities	Competitive activities	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
Total expenses	**3,909**	**17**	**56**	**3,982**
Income from operating activities	**184**	**(15)**	**11**	**180**
Finance income	2	(2)	1	1
Finance costs	74	(1)	2	75
Net finance costs	**72**	**1**	**1**	**74**
Gain on derecognition of property, plant, and equipment	1	—	—	1
Income before income tax	**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**

(in millions of Canadian dollars)

27. Divisional and Regulatory Information (continued)

2021	Regulated	Adjustment for regulated activities	Competitive activities	Total
Assets				
Current assets				
Cash	—	—	32	32
Restricted cash	—	—	5	5
Trade and other receivables	524	—	44	568
Inventories	33	—	1	34
Other assets	14	—	4	18
Total current assets	**571**	**—**	**86**	**657**
Non-current assets				
Property, plant, and equipment	3,076	563	141	3,780
Right of use assets	13	—	14	27
Goodwill and other intangible assets	949	5	82	1,036
Investment in associate	—	—	6	6
Regulatory assets	293	(293)	—	—
Deferred tax asset	—	—	2	2
Other assets	4	—	(4)	—
Total non-current assets	**4,335**	**275**	**241**	**4,851**
Total assets	**4,906**	**275**	**327**	**5,508**
Liabilities and Shareholders' Equity				
Current liabilities				
Bank indebtedness	3	—	(3)	—
Trade and other payables	449	—	17	466
Customer deposits liability	56	—	—	56
Short term debt	170	—	25	195
Loans and borrowings	150	—	—	150
Lease obligations	4	—	2	6
Deferred revenue	—	17	—	17
Other liabilities	64	—	8	72
Total current liabilities	**896**	**17**	**49**	**962**
Non-current liabilities				
Loans and borrowings	1,808	—	179	1,987
Deferred revenue	—	535	—	535
Employee future benefits	100	—	—	100
Lease obligations	15	—	14	29
Regulatory liabilities	56	(56)	—	—
Deferred tax liabilities	119	(48)	26	97
Other long-term liabilities	22	—	7	29
Total non-current liabilities	**2,120**	**431**	**226**	**2,777**
Total liabilities	**3,016**	**448**	**275**	**3,739**
Shareholders' equity				
Share capital	683	—	311	994
Contributed surplus	839	(13)	(227)	599
Accumulated other comprehensive loss	(14)	1	(7)	(20)
Retained earnings	382	(161)	(25)	196
Total shareholders' equity	**1,890**	**(173)**	**52**	**1,769**
Total liabilities and shareholders' equity	**4,906**	**275**	**327**	**5,508**

ALECTRA INC.
Notes to the Consolidated Financial Statements
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27. Divisional and Regulatory Information (continued)

2020	Regulated	Adjustment for regulated activities	Competitive activities	Total
Assets				
Current assets				
Cash	17	—	9	26
Restricted cash	—	—	80	80
Trade and other receivables	584	—	10	594
Inventories	30	—	1	31
Other assets	17	—	2	19
Total current assets	**648**	**—**	**102**	**750**
Non-current assets				
Property, plant, and equipment	2,961	498	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	**4,163**	**272**	**170**	**4,605**
Total assets	**4,811**	**272**	**272**	**5,355**
Liabilities and Shareholders' Equity				
Current liabilities				
Trade and other payables	424	—	9	433
Customer deposits liability	57	—	—	57
Short term debt	318	—	97	415
Loans and borrowings	110	—	—	110
Lease obligations	3	—	1	4
Deferred revenue	—	15	—	15
Other liabilities	42	—	3	45
Total current liabilities	**954**	**15**	**110**	**1,079**
Non-current liabilities				
Loans and borrowings	1,757	—	81	1,838
Deferred revenue	—	479	—	479
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	19	—	—	19
Total non-current liabilities	**2,036**	**391**	**113**	**2,540**
Total liabilities	**2,990**	**406**	**223**	**3,619**
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	**4,808**	**275**	**272**	**5,355**

(in millions of Canadian dollars)

27. Divisional and Regulatory Information (continued)

Alectra Utilities derecognizes all rate-regulated debit and credit balances that do not qualify for recognition under IFRS. The table below presents a summary of rate-regulated debit and credit balances as prescribed by the OEB irrespective of their recognition under IFRS.

	2021	2020
Regulatory Deferral Debit Balances		
Deferred income tax asset[m]	147	116
Retail settlement variance accounts (RSVA's)[a]	84	59
Lost revenues adjustment mechanism variance account (LRAMVA)[b]	25	25
Large commercial interval meter recovery[d]	14	10
OEB cost assessments deferral[g]	7	6
Collection of account lost revenue[k]	6	3
Re-measurements of post-employment benefits[f]	4	6
Renewable generation capital and operating cost deferral[c]	4	3
Other[e]	2	3
	293	**231**
Regulatory Deferral Credit Balances		
PILs and tax variance[l]	22	15
Retail settlement variance accounts (RSVA's)[a]	15	26
Capitalization policy[h]	9	5
Pole rental variance account[j]	8	6
Net refund of regulatory balances	—	2
Other[h,i]	2	2
	56	**56**

(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 net income for net changes in regulatory movement on Consolidated Statement of Income for these variances with corresponding assets or liabilities. Under IFRS, Alectra Utilities 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. Under IFRS, Alectra Utilities recognizes this difference in future periods as an increase or decrease to distribution revenue, when this difference is settled with customers.

27. Divisional and Regulatory Information (continued)

(c) The OEB approved four deferral accounts to record qualifying incremental capital investments, operating, maintenance and administration expenses, and funding adders approved by the OEB related to the connection of renewable generation or the development of smart grid. Under IFRS, Alectra Utilities capitalizes or expenses these items as incurred and recognizes revenue when funding is received.

(d) The OEB approved a deferral account to record costs associated with replacing interval meters for its large commercial customers in order to meet amendments made to its Distribution System Code. Under IFRS, Alectra Utilities capitalizes or expenses the amounts in the period they were incurred.

(e) The OEB requires Alectra Utilities to accrue interest on regulatory assets and liabilities balances. Under IFRS, Alectra Utilities recognizes the net interest on these balances in future periods as an increase or decrease to distribution revenue once approved for recovery or refund by the OEB.

(f) The OEB approved a deferral account to record any re-measurements of the post-employment net defined liability including actuarial gains or losses. Under IFRS, Alectra Utilities recognizes any re-measurements of the post-employment net defined liability in other comprehensive income.

(g) The OEB established a variance account for electricity distributors to record any material differences between OEB cost assessments currently built into rates and cost assessments that will result from the application of a new cost assessment model effective April 1, 2016. Under IFRS, Alectra Utilities recognizes these costs under operating expenses in the period they were incurred.

(h) The OEB approved four variance accounts to record the cumulative difference between the PP&E calculated using pre-merger capitalization policies and the PP&E calculated using Alectra Utilities' capitalization policy. Under IFRS, Alectra Utilities 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, 2021, 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. In 2020, the OEB mandated that collection of account charges are part of normal business activities where customers are not to be charged. 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 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.

27. Divisional and Regulatory Information (continued)

(m) Deferred tax assets and liabilities, which represent temporary differences between accounting and tax basis, are recovered or settled in future rate applications when the temporary differences reverses. The regulatory deferred tax asset represents the expected future electricity distribution rate impact to customers arising from the future reversal of the deferred tax liability (Note 24). Under IFRS, the temporary differences that generate the deferred tax liability are recorded as income tax expense and not as a regulatory deferred tax asset.

(n) On March 25, 2020, the OEB established a deferral account for distributors to track incremental costs and lost revenues arising from the COVID-19 pandemic. On June 17, 2021, the OEB issued the *Report of the Ontario Energy Board: Regulatory Treatment of Impacts Arising from the COVID-19 Emergency* (the "Report"). In the Report, the OEB determined that recovery of any balances recorded in the Account should be subject to evidence that any costs arising from the COVID-19 pandemic are reasonable and necessary for the utility to maintain its opportunity to earn a fair return over the long run. The Report outlines two categories of costs eligible for recovery: an "Exceptional Pool", at 100% recovery rate; and a "Discretionary Pool", at 50% recovery rate. The Exceptional Pool of costs are defined as any prudently incurred and material costs necessary to comply with government or OEB actions or orders. This relief may be sought if utilities have not earned greater than 300 basis points ("bps") over the regulated Return on Equity ("ROE"). For all other costs (i.e., the Discretionary Pool), a 'means' test based on a utility's achieved ROE compared to the OEB-approved ROE less 300 bps will be used to measure the need for cost recovery. Costs eligible for future recovery may include incremental bad debt expense, late payment charges waived and expenses incurred on various COVID-19 relief programs. Alectra Utilities has not deferred any incremental costs or lost revenues arising from the COVID-19 pandemic due to the uncertainty of recovery. The recovery of any potential COVID-19 pandemic related impacts may be included in a future rate application.

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.

Alectra Inc.
Management's Discussion and Analysis
Consolidated Financial Results
Year Ended
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GLOSSARY of ACRONYMS and ABBREVIATIONS

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
AI	Alectra Inc.
AMI	Advanced Metering Infrastructure
AMSP	Alectra Microgrid Services Master Limited Partnership
APS	Alectra Power Services Inc.
ASP	Alectra Solar Partnership
AUC	Alectra Utilities Corporation
BA	Banker's Acceptance
BU	Business unit
CAGR	Compound Annual Growth Rate
CCA	Capital Cost Allowance
CCRA	Connection Cost Recovery Agreement
CC&B	Customer Care and Billing
CDM	Conservation & Demand Management
CIA	Customer Insights and Acquisitions, Connection Impact Assessment
CIS	Customer Information System
CP	Commercial Paper
COVID-19	Coronavirus Disease 2019
DER	Distributed Energy Resources
DSP	Distribution System Plan
DTA	Deferred Tax Asset
DVA	Deferral & Variance Accounts
EDR	Electricity Distribution Rate
ERP	Enterprise Resource Planning
FCR	Full Cost Recovery
FIT	Feed-In-Tariff
FX	Foreign Exchange
GIS	Geographic Information Systems
GP	General Partnership
GRE&T	Green Energy & Technology Center
GS	General Service
GSL	General Service and Large Use
GTAA	Greater Toronto Airport Authority
GWh	Gigawatt Hours
HPS	HPS Holdings Inc.
HST	Harmonized Sales Tax
HaLRT	Hamilton Light Rail Transit
HONI	Hydro One Networks Inc.
HuLRT	Hurontario Light Rail Transit
ICI	Industrial Commercial and Institutional customers
ICM	Incremental Capital Module
IESO	Independent Electricity System Operator
IFRS	International Financial Reporting Standards
IR	Incentive Rate
IST	Information Systems & Technology
IT	Information Technology

kV	Kilovolts
kW	Kilowatt
kWh	Kilowatt Hours
LAN	Local Area Network
LC	Letters of Credit
LDC	Local Distribution Company
LED	Light-Emitting Diode
LP	Limited Partnership
LRAMVA	Lost Revenue Adjustment Mechanism Variance Account
M&A	Mergers and Acquisitions
MAR	Miscellaneous Accounts Receivable
MD&A	Management Discussion & Analysis
MIFRS	Modified International Financial Reporting Standards
MIST	Meter Inside the Settlement Timeframe
MS	Municipal Station
MSP	Meter Service Provider
NWA	Non-Wires Alternative
OCI	Other Comprehensive Income
ODS	Operational Data Store
OEB	Ontario Energy Board
OM&A	Operations, Maintenance and Administration
OMERS	Ontario Municipal Employees Retirement System
OMS	Outage Management Systems
OMSF	Operating Maintenance Storage Facility
P4P	Pay For Performance
P6	Oracle Primavera P6 Software
PACE	Power Assist Call Engine
PILC	Paper Insulated Lead Conductor
PILs	Payments in Lieu
PP&E	Property, Plant, & Equipment
PUCC	Public Utilities Coordinating Committee
RGCRP	Renewable Generation Connection Rate Protection
RFP	Request for Proposal
RFSP	Ring-Fenced Solar Portfolio
RPA	Robotic Process Automation
RPP	Regulated Price Plan
SCADA	Supervisory Control and Data Acquisition
Shared	Excludes RFSP
SLA	Service Level Agreement
SPA	Share Purchase Agreement
T	Temporary
TOU	Time of Use
TS	Transformer Station
UA	Util-Assist Inc.
URD	Underground Residential Development
USD	United States Dollar
VDI	Virtual Desktop Infrastructure
WA	Weighted Average

PREAMBLE

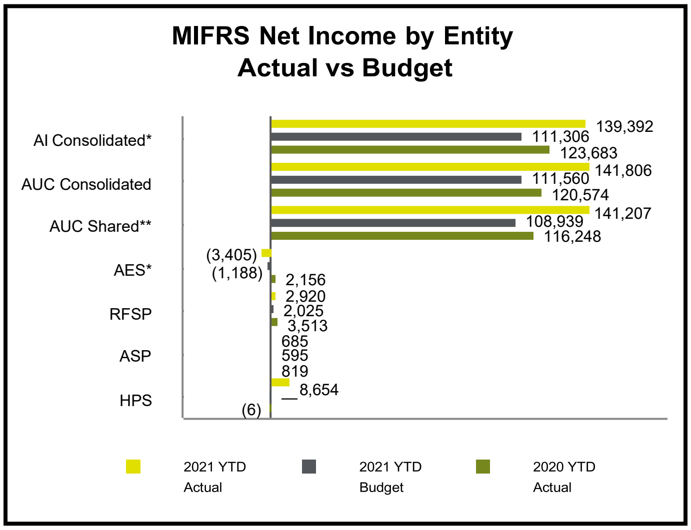
The acquisition of Holland Power Services Inc. by HPS Holdings Inc. (HPS) was not finalized at the time the 2021 budget was approved by Alectra's Board of Directors. Therefore, the consolidated variance analysis contained in this report is presented without HPS, except where otherwise noted.

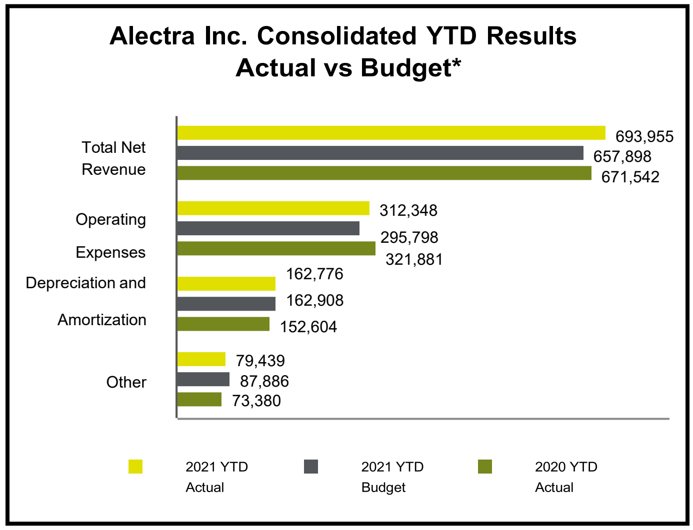
Executive Summary

ALECTRA INC. CONSOLIDATED RESULTS (MIFRS)

Alectra Inc. consolidated net income was $148,046 or $36,740 favourable to the budget of $111,306

Alectra Inc. consolidated net income (excluding HPS) was $139,392 or $28,086 favourable to budget of $111,306. The following Revenue, Expense and Other analysis excludes HPS.





*Excluding HPS **Excluding ASP

REVENUE

Revenue, net of cost of power, was $693,955 or $36,057 favourable to the budget of $657,898. The variance is principally explained by:

- higher other revenue ($24,691) primarily due to: (i) payment of performance incentives under energy conservation agreements with the IESO ($12,000), (ii) higher late payment charges due to an increase in overdue accounts receivable as a result of the COVID-19 pandemic ($4,782), (iii) higher revenue in UA due to an increase in scope for consulting services ($4,634), (iv) higher third-party damage claims ($1,581), and (v) cancellation of stale-dated cheques ($1,022); and
- higher distribution revenue ($11,366) principally due to: (i) higher than budgeted rates ($3,509), (ii) higher LRAMVA revenue attributable to CDM ($3,496), (iii) higher demand in the large commercial GS>50kW customer class ($3,365), (iv) higher customer growth ($684), (v) regulatory variance account adjustments ($301), and (vi) higher ICM revenue ($138), partially offset by (vii) lower consumption in the GS<50kW customer class ($127).

EXPENSES

Expenses were $475,124 or $16,418 unfavourable to the budget of $458,706. The variance is primarily explained by:

- higher provision for credit losses in AUC due to higher aged receivables and revised provision rates ($9,381);
- higher labour costs ($5,161) mainly due to: (i) higher overtime costs to maintain service levels in Network Operations and Customer Service due to vacancies ($4,398), (ii) higher employee benefits expense ($4,168), and (iii) higher labour costs as a result of increased consulting projects in Util-Assist ($3,692), partially offset by (iv) lower base payroll costs and savings from vacancies in AUC ($3,112), (v) higher AUC allocation to capital programs ($2,127), and (vi) lower costs due to vacancies ($1,054) in AES, and
- higher repairs and maintenance expenditures in AUC ($3,857) primarily due to incremental vehicle washing and disinfecting due to the COVID-19 pandemic;
- unbudgeted provision in AUC for contingent revenue adjustments ($3,500); partially offset by
- lower consulting activities in AUC ($3,164) mainly due to project cancellations and deferrals; and
- lower training and development in AUC as a result of the COVID-19 pandemic ($1,827).

Executive Summary (cont'd)

OTHER

Derecognition of property, plant, and equipment was $18,724 favourable to budget, principally due to the gain on the sale and leaseback of the Mavis operations centre ($13,750) and the exchange of vacant land with a third party ($3,384). The initial term of the sale and leaseback agreement for Mavis is two years with a maximum of five extension options of three months each,

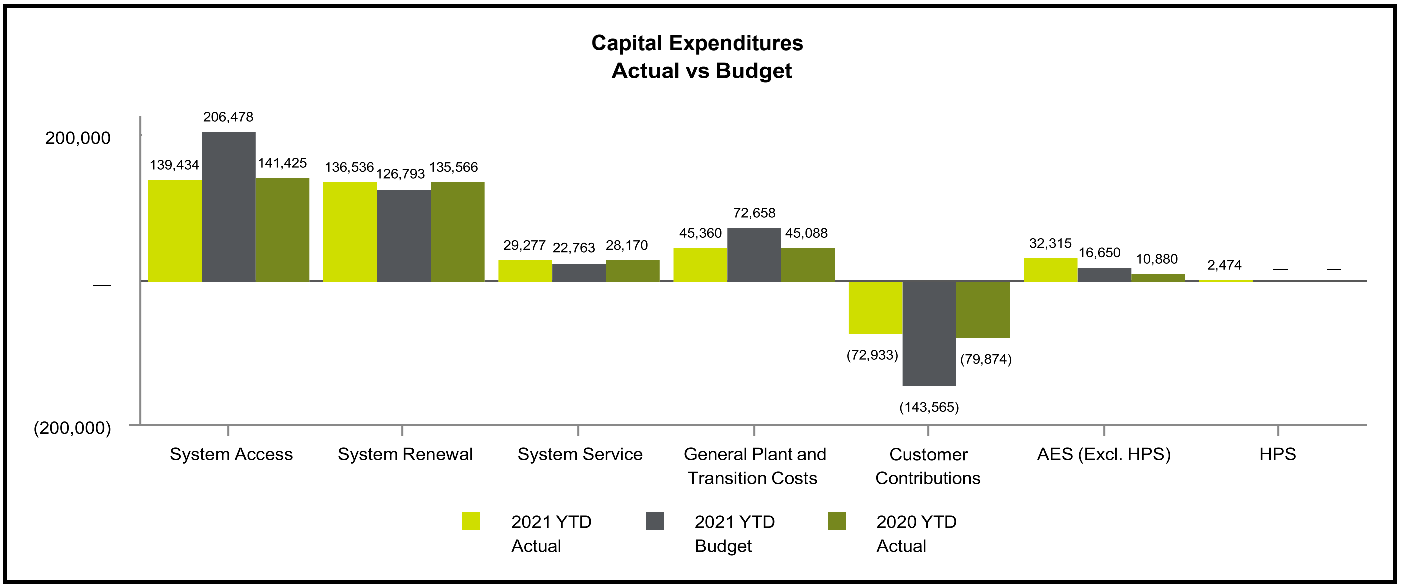
Net finance costs were $4,322 favourable to the budget, principally attributable to: (i) intercompany interest income on the HPS loan ($2,026), (ii) lower long-term borrowing costs primarily due to a lower interest rate on the new debenture issuance ($2,003), (iii) lower net short-term borrowing costs ($963), (iv) lower facility costs due to the renegotiation of the credit facility pricing ($670), and (v) lower interest on customer deposits ($516), partially offset by (vi) lower capitalized interest on projects under construction ($1,420), and (vii) lower regulatory interest income ($436).

Income tax expense was $14,309 unfavourable to budget primarily due to higher net income before tax and lower CCA deductions, partially offset by the non-taxable portion of capital gains primarily from the sale of the Mavis facility.

HPS

HPS net income was $8,654 and is primarily comprised of: (i) revenue from storm restoration services ($60,951), and (ii) a gain on the fair value remeasurement of a contingent liability ($2,883), partially offset by (iii) cost of services rendered for storm related activities ($31,082), (iv) indirect operating expenses ($14,465), (v) depreciation and amortization expense ($4,803), (vi) income tax expense ($2,319), (vii) net finance costs ($1,959), and (viii) loss on derecognition of an intangible asset ($597).

CAPITAL EXPENDITURES



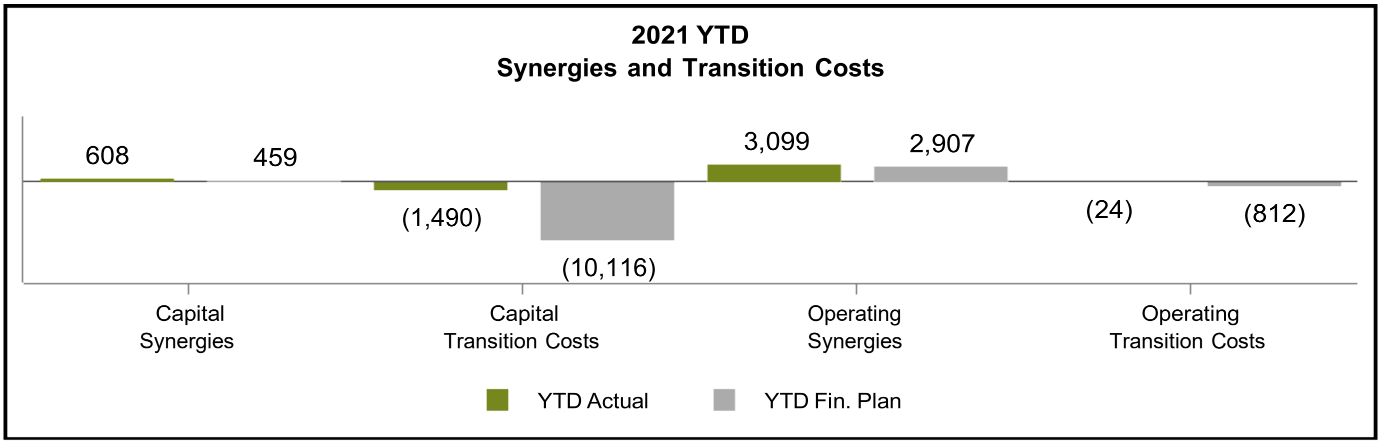
Capital expenditures (excluding HPS) are $309,989 or $8,212 higher than the budget of $301,777. The variance is primarily due to:

- lower customer contributions mainly due to lower emerging customer, transit and road authority work ($70,632);
- higher expenditures in AES primarily due to a change in the ownership structure of a natural gas generator acquired by Alectra Microgrid Services, the carryover of metering hardware purchases planned in 2020 and higherthan anticipated Sub-metering customer contracts ($15,665);
- higher System Renewal expenditures primarily due to reactive expenditures and underground asset renewal work partially offset by lower overhead asset replacement work ($9,743); and
- higher System Service expenditures mainly due to the land purchase for the new Webb MS sub-station and distribution automation projects ($6,514), partially offset by
- lower System Access expenditures primarily due to project deferrals and scope changes for transit projects, road authority projects and transmitter related upgrades ($67,044); and
- lower General Plant and Transition costs primarily as a result of delays in the Kennedy Rd, Guelph ERP, CIS and other IT transition projects, partially offset by unbudgeted expenditures for Derry Road renovations ($27,298).

HPS capital expenditures of $2,474 mainly relate to the purchase of trailers, light trucks and bucket trucks.

Executive Summary (cont'd)

GUELPH MERGER SYNERGIES AND TRANSITION COSTS



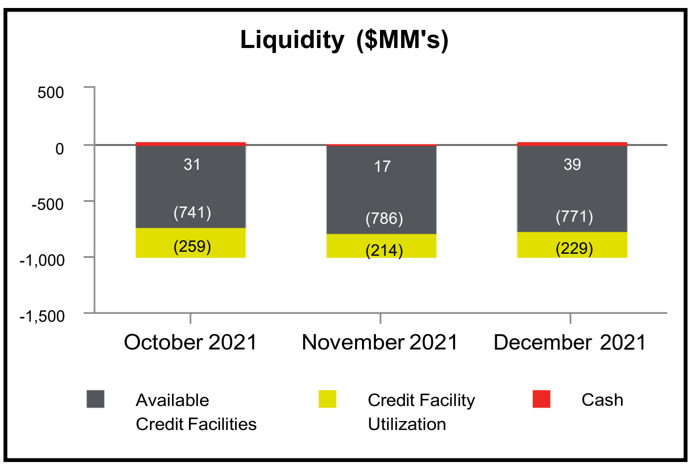
Capital synergies for the Guelph Hydro merger were $608, or $149 favourable to the budget of $459, principally due to lower IT capital expenditures ($183).

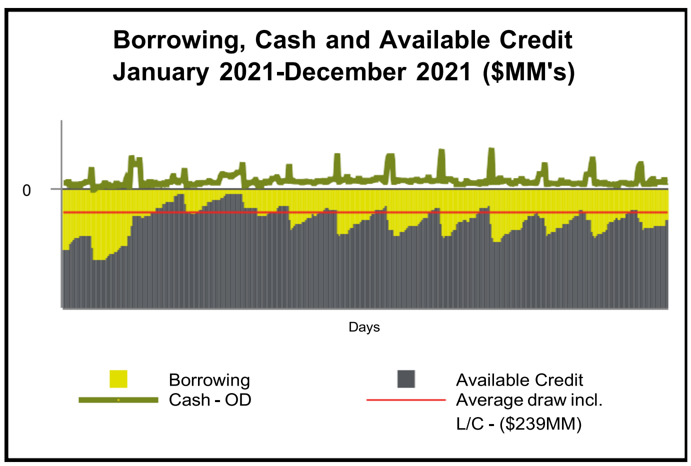
Operating synergies for the Guelph Hydro merger were $3,099, or $192 favourable to the budget of $2,907, primarily due to higher labour synergies achieved.

Guelph capital transition costs were $1,490, or $8,626 favourable to the budget of $10,116. The variance is principally attributable to: (i) a delay in the CIS Convergence project from 2021 to 2022 and 2023 ($3,551); (ii) a delay in the GIS/OMS Integration project from 2021 to 2023 ($1,571); (iii) delays in other IT integration projects ($1,462; (iv) later than planned start of the ERP integration project and lower than anticipated internal labour cost allocation ($950); and (v) a delay in the Data Centre Consolidation project from 2021 to 2023 ($771).

Guelph operating transition costs were $24, or $788 favourable to the budget of $812. The variance is principally attributable to (i) a delay in the start of the CIS and ERP projects ($511); (ii) lower branding costs ($104); and (iii) a delay in the Single Platform Website project from 2021 to 2022 ($50).

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; $100MM uncommitted letter of credit facility; and a $100MM uncommitted revolving overdraft facility.

As at December 31, 2021, $196MM of the $700MM credit facility was utilized through $195MM of CP issuance and $1MM of LC issuance. $33MM of the $100MM letter of credit facility was utilized. The $100MM overdraft facility was unutilized as at December 31, 2021.

(in thousands of dollars)

Alectra Net Income By Entity

	Year Ended December 31 2021			Year Ended December 31 2020	
	Actual	Budget	Variance	Actual	YoY Variance
Alectra Inc. Consolidated					
Alectra Utilities Shared*	141,207	108,939	32,268	116,248	24,959
Alectra Energy Solutions**	(3,405)	(1,188)	(2,217)	2,156	(5,561)
HPS Holdings	8,654	—	8,654	(6)	8,660
Alectra Solar Partnership	685	595	90	819	(134)
Alectra Inc. Unconsolidated***	(2,015)	935	(2,950)	947	(2,962)
Alectra Inc. Shared Consolidated	**145,126**	**109,281**	**35,845**	**120,164**	**24,962**
Alectra RFSP	2,920	2,025	895	3,513	(593)
Alectra Inc. Consolidated MIFRS net income	**148,046**	**111,306**	**36,740**	**123,677**	**24,369**
IFRS adjustments	(43,059)	1,635	(44,694)	(44,213)	1,154
Alectra Inc. Consolidated IFRS net income	**104,987**	**112,941**	**(7,954)**	**79,464**	**25,523**

* Excludes Alectra Solar Partnership

** Excludes HPS

*** Includes elimination entries

IFRS Adjustments

The IFRS adjustments amount to $43,059. The adjustments relate to the following items:

- higher energy cost compared with energy revenue principally attributed to timing differences with respect to billing global adjustment charges as customers are billed based on accrued estimates ($68,776);
- regulatory assets/liabilities representing differences between deferred taxes under MIFRS and IFRS ($13,628);
- other variances ultimately settled in rate applications to the OEB ($1,595); offset by
- approved regulatory variance accounts dispositions that are being recovered through rate riders ($40,940).

(in thousands of dollars)

Financial Metrics

	2021 Actual	2021 Budget
Current Ratio	0.69	0.74
Debt / Capitalization	55.7%	55.6%
Debt / Capitalization (excluding valuation adjustments)	62.8%	62.8%
AFFO / Debt (S&P Global)	12.8%	13.8%
AFFO / Debt (DBRS Morningstar)	16.3%	14.5%
AFFO / Interest	6.1	5.0
EBITDA / Interest	5.3	4.2
Return on closing equity (unadjusted)	7.6%	5.9%

Note: The calculations in the above table include HPS.

IFRS Equity Reconciliation
Alectra Inc.

($000s)	Alectra Inc. Shared Consolidated*	Alectra RFSP	Alectra Inc. Consolidated*
Shareholders' equity as at January 1, 2021	**1,725,552**	**10,395**	**1,735,947**
Net income	102,067	2,920	104,987
Dividends paid / return of capital	(74,929)	(4,060)	(78,989)
OCI changes	6,223	—	6,223
Shareholders' equity as at December 31, 2021	**1,758,913**	**9,255**	**1,768,168**

* Including HPS

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QUARTERLY REPORT TO SHAREHOLDERS

Date of Report	March 04, 2022
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

Commencing in April 2022, Alectra plans to gradually return employees to the office, with a target of reaching full capacity by the end of June. Alectra is continually monitoring the provincial COVID-19 case counts and trends, and, as necessary, making adjustments to processes and protocols to ensure that the well-being and safety of its employees is not compromised.

Impact on Financial Results

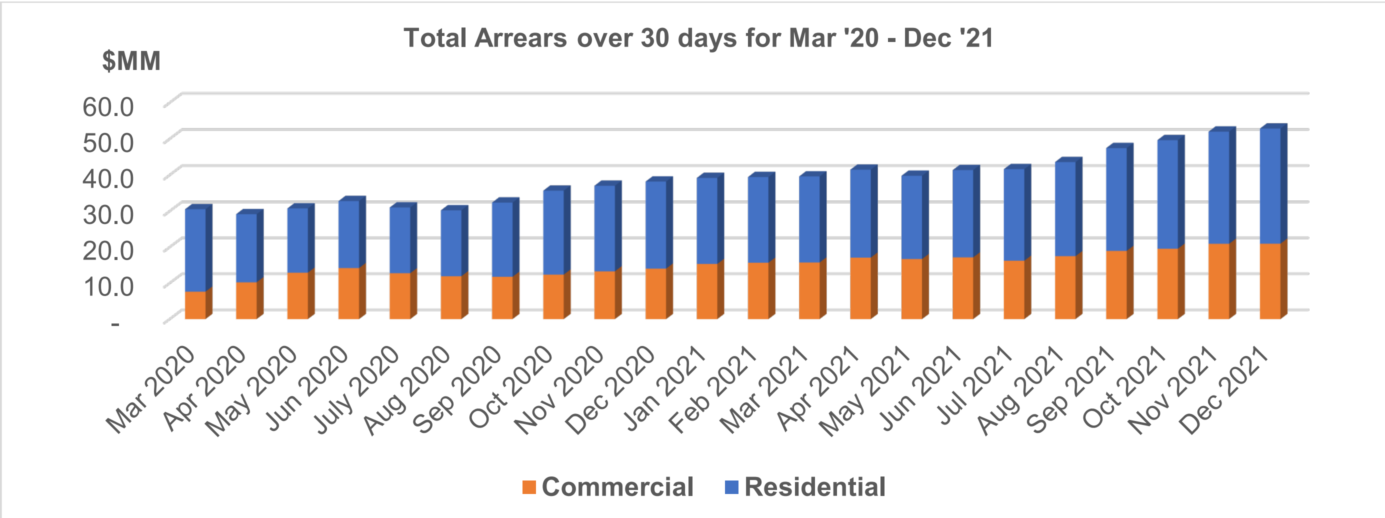
Please carefully review the accompanying Financial Review of Modified IFRS Consolidated Financial Results ("Financial Review") for the implications of the Pandemic on financial results.

Financing and Cash Flow Implications

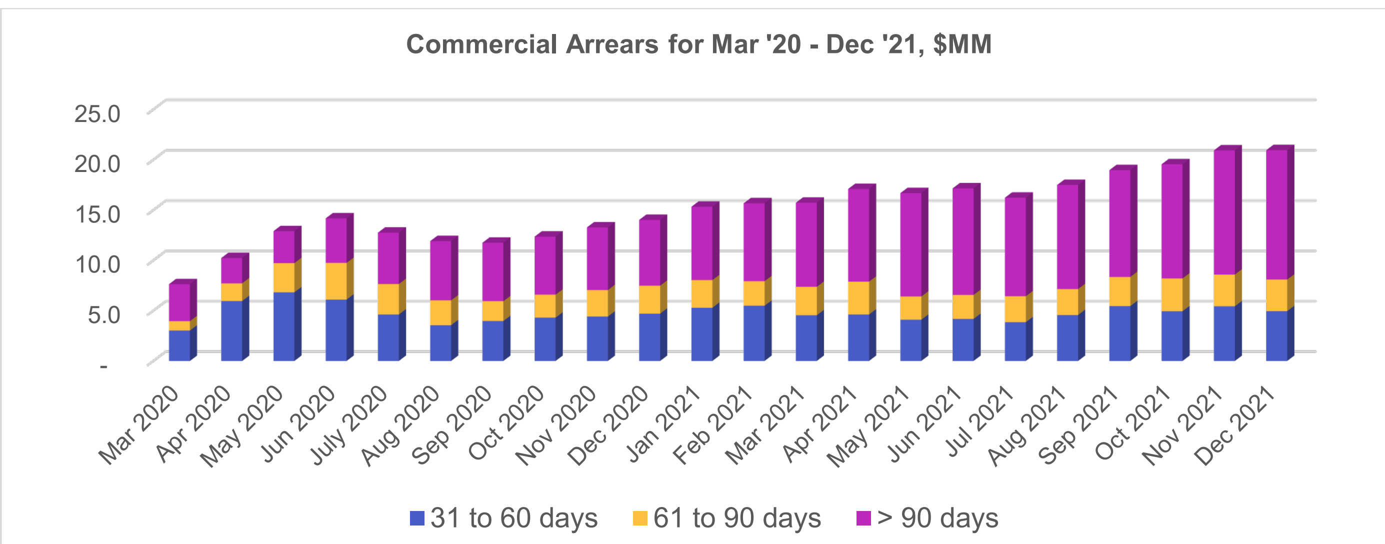
The Pandemic continues to create an increasingly uncertain economic situation, thus impacting the general economy and the ability of customers to pay their energy bills. With $900MM of available short-term liquidity, Alectra believes it has sufficient liquidity to support its operations and meet its financial obligations for the foreseeable future.

Customer Arrears

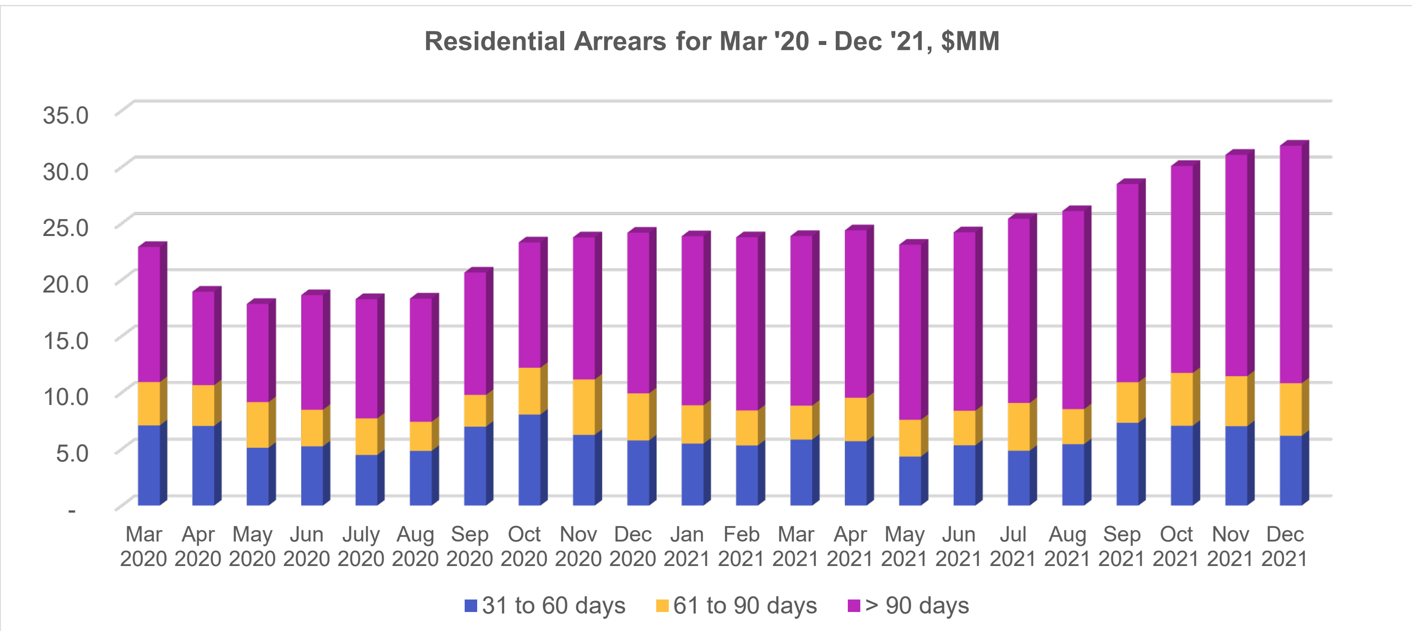
The following graph provides a trend of Alectra Utilities arrears since the onset of the Pandemic.



Total Accounts Receivable > 30 days as of December 31, 2021 is $52.8MM or 82% higher since the pandemic began, with 58% of the $23.8MM increase attributable to growth in commercial arrears.



Commercial arrears have more than doubled in the same period with the growth spread across all durations of delinquency, but mainly in 91+ category. Within the 91+ category, 3,700 commercial customers are in arrears greater than 90 days. The number of customers in arrears within this category increased by 12% over the course of the last twelve months, with the average balance owing doubling to $3,900 compared to $2,000 in December 2020. This 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. Given 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. Alectra has not disconnected any commercial customers for non-payment of accounts since March 2020.



Residential arrears have been relatively stable since the commencement of the Pandemic, but with an increasing trend, particularly, starting in late fall 2021. Residential arrears >30 days are $10MM (42%) higher across all aging categories as compared to March 2020. Residential arrears within 31 to 90 days is trending consistently at approximately $9-10MM, while arrears > 90 days of $21MM is $10MM higher than in March 2020.

Residential accounts have not been subject to disconnection since October 2019 based on various OEB and provincial orders as well as ongoing grace provided by Alectra. The number of customers in arrears has slightly increased over the last year (approximately 27,000 as of December 2021, compared to 25,200 in 2020), and the average arrears balance per customer for accounts > 90 days has increased by 39% (2021-$780, 2020-$560). Alectra Utilities anticipates residential arrears > 90 days will continue to increase. Alectra Utilities continues to voluntarily refrain from issuing Disconnection Notices for residential customers to allow customers and communities to stabilize as Ontario re-opens. Alectra Utilities continues to utilize a multi-channel approach to collections activities which includes letters, emails, outbound agent telephone calls, auto-dialer reminders, and Contact Centre support. Alectra Utilities also continues to offer flexible payments, supporting customers and communities.

Given the high degree of uncertainty caused by the COVID-19 Pandemic, Management has made additional estimates and judgments in the estimation 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 prior to the COVID-19 Pandemic. These increased provision rates have been applied, respectively, to commercial, industrial and residential customers. Alectra Utilities expected credit losses at year-end are higher than budget by $8.5MM. At year-end, Alectra Utilities had an allowance for doubtful accounts in respect of customer receivables of $42MM, a 45% increase over 2020 and representing 7.6% of 2021 customer receivables.

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